

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC ACCOUNTS
(2019-2021)**

FIFTIETH REPORT

(Presented on 26th June, 2019)



**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM**

2019

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FIFTIETH REPORT

On

**Action Taken by Government on the Recommendations contained in the
36th Report of the Committee on Public Accounts (2001-2004)**

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COMMITTEE ON PUBLIC ACCOUNTS (2019-2021)

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Smt. Manju Varghese, Joint Secretary

Shri R. Venugopal, Deputy Secretary

Smt. Chitra K. I., Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Accounts, having been authorised by the Committee to present this Report, on their behalf present the Fiftieth Report on Action Taken by Government on the Recommendations contained in the 36th Report of the Committee on Public Accounts (2001-2004).

The Committee considered and finalised this Report at the meeting held on 24th June 2019.

Thiruvananthapuram,
24th June, 2019.

V. D. SATHEESAN,
Chairman,
Committee on Public Accounts.

REPORT

This Report deals with the Action Taken by Government on the recommendations contained in the Thirty Sixth Report of the Committee on Public Accounts (2001-2004).

The 36th Report of the Committee on Public Accounts (2001-2004) was presented to the house on 29th January, 2003. The report contained 9 recommendations relating to Finance, Co-Operation, Housing, Industries, Local Self Government, Power and Food, Civil Supplies and consumer affairs Departments. The report was forwarded to Government on 5-2-2003 to furnish the statement of Action Taken on the recommendations contained in the report and the final reply were received on 28-1-2014.

The Committee examined the statements of Action taken received from the government at its meetings held on 20-8-2003, 3-9-2003, 3-9-2005, 14-5-2008, 14-10-2009, 22-9-2010, 2-1-2013 & 28-1-2015.

The Committee was not satisfied with the reply received from the Government on the recommendations in para no. 19 (Finance department) and para nos. 20, 23 & 25 (Housing department) and decided to pursue them further. These recommendations, replies furnished there on and further recommendations of the committee are included in Chapter I of the Report.

The Committee decided not to pursue further action on the remaining recommendations in the light of the replies furnished by Government. Such recommendations of the Committee and the Action Taken by Government are included in Chapter II of this Report.

CHAPTER I

Recommendations in respect of which action taken by Government are not satisfactory and which require reiteration:

FINANCE DEPARTMENT Recommendation

(Sl.No. 1, Para No. 19)

1.1 The Committee find that the State Government has been and is giving guarantees on funds raised by Statutory Corporations, public Sector Undertakings,

Government Companies, Local Bodies etc., from financial institutions and open market. Institutions on behalf of whom guarantees are given by Government are required to pay guarantee commission at the rates prescribed by the Government from time to time. Although Article 293 of the Constitution of India extends to the State Government the power to give guarantees on the security of the Consolidated Fund of the State within such limits as maybe prescribed by the State Legislature, no such enactments has been passed by the Kerala Legislature till date. As a result, the provision to award guarantees is found to be extensively and indiscriminately resorted to by government, thereby diminishing the chances of achieving the goals envisaged by the grant of guarantees. The Committee understand that steps are being taken to initiate legislation in this regard in Kerala as well. The Committee hope that this would enable the Government in exerting better control and legal responsibility in the award of guarantees.

Action Taken

1.2 The Kerala Legislature had passed The Kerala Ceiling on Government Guarantees Act, 2003 (30 of 2003) which came into force on 5th December 2003. Since the implementation of the Act, guarantee commission @ 0.75% is charged and this amount is not waived under any circumstances.

Further Information Sought

1.3 The Committee opined that the Guarantee Commission @ 0.75% is exorbitant and therefore decided to recommend that the relevant provisions of the Kerala Ceiling on Government Guarantees Act, 2003 may be amended, so that an incentive @ 0.25% can be given to those firms which are making prompt payment of Guarantee Commission.

Action Taken

1.4 The Guarantee Commission @ 0.75% now been levied by Government of Kerala is not exorbitant compared to the rates of guarantee Commission being levied by some other States. Since the rate is not exorbitant, there is no need to give incentive for prompt remittance. Therefore it is not considered necessary to amend the Kerala Ceiling on Government Guarantees Act 2003.

Further Recommendation

1.5 The Committee expressed displeasure over the reply furnished by the department and opined that the reply furnished is against the recommendation for amendment to Kerala ceiling on Government Guarantees Act 2003. Therefore committee reiterate its earlier recommendation that steps should be taken to initiate legislation regarding the provision to award guarantee on the security of the Consolidated Fund and also directs to provide incentive to the institutions which were prompt in remitting the guarantee commission.

HOUSING DEPARTMENT

Recommendation

(Sl.No.2, Para No.20)

1.6 The Committee was informed during evidence that the facility of guarantee given by Government is being extended to even those institutions run by private individuals or groups. The Committee also understand that no control or check is being exercised by the government departments regarding the functioning of these institutions. The Committee strongly recommend that the benefit of guarantee shall be extended only to those institutions where the state government share is above 50% except in the case of co-operative societies registered under the statute.

Action Taken

1.7 The benefit of guarantee given by Government is extended to Kerala State Housing Board and Kerala State Co-operative Housing Federation.

Further Recommendation

1.8 The Committee directs to furnish details of conditions specified for Govt guarantee and about the guidelines or rules by Government of India regarding guarantee by Government.

Recommendation

(Sl.No.5, Para No.23)

1.9 The Committee notice that the guarantees accounted for a major share of the consolidated fund of the State and in cases where the principal debtors failed to repay the loans, thereby invoking guarantees, the burden of contingent

liability fell on the State Government. The Committee recommend that a policy be evolved at the earliest to ensure accountability of firms or institutions while implementing schemes or projects that involve loan guaranteed by Government. The Committee also urge the government to realise all arrears of guarantee commission on both principal and interest and to set up a fund or provision for discharging contingent liability, where guarantees are invoked.

Action Taken

1.10 The outstanding position of guarantee commission in respect of Kerala State Housing Board as on 31-3-2002 is Rs. 2,81,28,215. The Board is entitled to a rebate of Rs. 25,00,750 towards the prompt payment of guarantee commission for the year 2000-2001 which is yet to be refunded.

As regards Kerala State Co-operative Housing Federation the Federation is remitting properly guarantee commission at 0.75% on actual loan outstanding at the end of each financial year and as well as for its interest.

Arrears of Guarantee commission for the interest portion 1991-1992 to 1996-1997 which was pointed out in the report has been remitted vide chalan No.44 dated 26-9-2001 at the Sub Treasury, State Bank of India Ernakulam. There is no guarantee commission remittance pending by Federation.

Further Recommendation

1.11 The Committee expressed its dissatisfaction on the reply as it was not specific about the recommendations and directs that a fund or provision should be setup for discharging contingency liability when guarantee are invoked.

Recommendation

(Sl.No. 7, Para No.25)

1.12 One of the most disappointing fact that came to the notice of the committee was that an amount of Rs. 433 crores availed by Kerala State housing Board as loans have been diverted for other purposes by the Board. The Secretary, Kerala State Housing Board was not aware of the details of utilisation of the loan and the Committee is not convinced with the reasons adduced for its diversion. The Committee recommend that immediate action be taken to probe into these affairs and realise the amounts that were diverted for other purposes instead of construction of houses. Those found guilty must be suitably punished.

Action Taken

1.13 Orders were issued in G.O.(Rt) No.47/2003/Hsg. dated 18-6-2003 entrusting M/s. Dhan & Company, Chartered Accountants Kuravankonam with the work of Special Audit of accounts for the detection of diversion of funds.

Further Recommendation

1.14 The Committee expressed its displeasure on the reply furnished as it were not in the conformity with the recommendations. The committee recommends to furnish the reasons for not conducting the probe on the diversion of funds of Rs. 433 crores and also directs to submit the details of audit conducted by the Local Fund Audit Department. The Committee also wanted to know whether the C.A firm was entrusted with special audit in the light of the recommendation of the Committee.

CHAPTER II

Recommendation in respect of which the Committee does not pursue further action in the light of the replies furnished by Government.

Recommendation

(Sl.No. 2, Para No.20)

2.1 The Committee was informed during the evidence that the facility of guarantee given by Government is being extended to even those institutions run by private individuals or groups. The Committee also understand that no control or check is being exercised by the Government departments regarding the functioning of these institutions. The Committee strongly recommend that the benefit of guarantee shall be extended only to those institutions where the State Government share is above 50% except in the case of co-operative societies registered under the statute.

Action Taken

FINANCE DEPARTMENT

2.2 Since the implementation of the Kerala Ceiling on Government Guarantees Act, 2003, no Government guarantee is given in respect of a loan of any private individual, institution or Company.

CO-OPERATION DEPARTMENT

2.3 As far as Department of Co-operation is concerned the facility of guarantee given by Government is being extended to the Co-operative institutions only, which are registered and functioning under the Co-operative Societies Act and Rules of 1969. No private institutions or individuals come under the purview of Co-operative Societies Act and Rules.

FOOD & CIVIL SUPPLIES DEPARTMENT

2.4 The share of the State Government in Kerala State Civil Supplies Corporation is 100% and the state Government is having control over the functioning of the Co-operation.

INDUSTRIES DEPARTMENT

2.5 No guarantee is given to institutions run by private individuals or groups.

LOCAL SELF GOVERNMENT DEPARTMENT

2.6 In this regard Local Self Government Department had constituted a State Level Monitoring Committee vide G.O.(Rt) 302/2012/LSGD dated 28-1-2012 to oversee and take appropriate measures.

Recommendation

(Sl.No. 3, Para No. 21)

2.7 The Committee understand that the Finance Department issued Circulars in 1987, 1989 and 1994, regarding levy and accounting of guarantee commission and for the maintenance of necessary registers for this purpose. However, the Committee find that almost all the departments and many of the beneficiary institutions have not yet been complied with these instructions. As a result, departments could not assess commission due to Government on guarantees given to institutions and watch their realization. The Government was also not in a position to assess the actual amount of guarantee commission due each year and the guarantee commission including arrears, if any, realizable from each institution. Therefore, the Committee recommend that Registers must be properly maintained and guarantees given to institutions be watched and monitored by heads of departments concerned with great vigil. Strict instructions may once

again be issued to all administrative departments for observing the guidelines contained in the earlier government Circulars in this regard.

Action Taken

FINANCE DEPARTMENT

2.8 Strict instructions have been given from time to time to Administrative Departments to maintain guarantee commission registers and watch the prompt payment of Guarantee Commission. The remittance of guarantee commission arrears is insisted upon before extending government guarantees to institutions. There has been a substantial increase in the total amount collected as guarantee commission.

Additional Information Sought

2.9 The Committee noticed the Finance Department has not given strict instructions with regard to levy and Guarantee Commission to all Departments as recommended. The Committee viewed this as a serious matter. Hence the Committee decided to recommend once again to implement the recommendations of the Committee strictly.

Action Taken

2.10 Finance department had given instructions to all departments and institutions concerned, regarding the levying and accounting of Guarantee Commission. As per Orders in G.O. (Ms) No. 487/04/Fin. dated 16-10-2004, (copy enclosed) strict instructions were given regarding levy of Guarantee Commission in case of term loan, cash credit, Over Draft, Working Capital, Bonds, Fixed Deposits with interest, Fixed deposits with interest paid in lump etc. Instructions were also issued in the Circular No. 15/2009/Fin. Dated 24-2-2009 (annexure) regarding the accounting, monitoring and remittance of Guarantee Commission.

INDUSTRIES (COIR) DEPARTMENT

2.11 The necessary register has been maintained.

INDUSTRIES (D) DEPARTMENT

2.12 Director of Industries and Commerce has taken steps to update the Guarantee Commission Register. The details of Government Guaranteed loan

availed by the Public Sector Undertakings and the extension of guarantee period are not available in the Directorate of Industries and Commerce. It makes problems to calculate the actual Guarantee Commission and dues of the Public Sector undertakings. The Director of Industries and Commerce has given instructions with proforma to all public Sector undertakings to furnish the details of Government Guarantee availed by Public Sector Undertakings for updating Guarantee Commission Register.

LOCAL SELF GOVERNMENT DEPARTMENT

2.13 Local Self Government Department had constituted a State Level Monitoring Committee vide G.O.(Rt) 302/2012/LSGD dated 28-1-2012 to monitor and observe the guidelines issued by the Finance department.

POWER DEPARTMENT

2.14 Kerala Power Finance Co-operation coming under the Power Department has been remitting guarantee commission to Government promptly till date and has also enjoyed rebate for prompt payment of guarantee commission from Government. There is no outstanding amount due to government from Kerala Power Finance Corporation in respect of guarantee commission and the institution is maintaining a Register of Guarantee Commission as stipulated in the Circular issued by Government in Finance Department.

The Statement of loans availed and the guarantee commission paid to Government are enclosed in annexure.

HOUSING DEPARTMENT

2.15 Register for accounting the guarantees given to Kerala State Housing board and Kerala State Co-operative housing federation will be maintained in future.

FOOD & CIVIL SUPPLIES DEPARTMENT

2.16 The Director of Civil supplies and the chairman and managing director, Kerala State Civil Supplies Corporation are maintaining registers to record the details of Guarantee commission due from Kerala State Civil supplies corporation.

Recommendation

(Sl.No. 4, Para No. 22)

2.17 The Committee is constrained to note that the Finance Department does not have a scientific system for working out the budget estimates of guarantee commission. The Committee also find no justification for the huge variations ranging from 32.8% and 1335.40% between budget estimates and actuals from 1992-93 to 1997-98. The committee desire to be furnished with the reasons for low estimates from 1995-96 to 1997-98 and the details of estimates and actuals from 1998-99 to 2000-2001. The Committee urge the department to adopt a systematic procedure whereby, estimates can be worked out in keeping with the actuals. The Committee desire that the details of corrective steps in this regard and all other information sought by the Committee be furnished to the committee within two months of the presentation of this report.

Action taken

FINANCE DEPARTMENT

2.18 Till the introduction of the Kerala Ceiling on Government Guarantees Act, 2003, certain PSUs were exempted from Guarantee Commission, some were given rebate, some were given deferments of payment and so on. Hence the projected budget estimates could vary. But since the introduction of the Act, all exemptions are revoked and all institutions which enjoy the benefit of Government Guarantee have to pay 0.75% Guarantee Commission. Thus the present estimate does not vary much with the actuals.

Additional Information Sought

2.19 The Committee recommended that a scientific system may be worked out on both Revenue Receipts and Revenue Expenditure sides while preparing the State Budget.

Action Taken

2.20 In order to monitor the outstanding figures of government guarantee and Guarantee Commission, Finance Department is consulting with National Informatics Centre, for developing a fool proof automated system. Once the

scientific system is implemented, the budget estimates on revenue receipts and revenue expenditure sides can be worked out in keeping with the actuals.

Recommendation

(Sl.No.5, Para No.23)

2.21 The Committee notice that the guarantees accounted for a major share of the Consolidated Fund of the State and in cases where the principal debtors failed to repay the loans, thereby invoking guarantees, the burden of contingent liability fell on the State Government. The Committee recommend that a policy be evolved at the earliest to ensure accountability of firms or institutions while implementing schemes or projects that involve loans guaranteed by the government. The Committee also urge the government to realize all arrears of guarantee commission on both principal and interest and to set up a fund or provision for discharging contingent liability, where guarantees are invoked.

Action Taken

FINANCE DEPARTMENT

2.22 Presently all the proposals for government guarantee are examined by Finance Department and only viable proposals are entertained.

In order to meet the contingent liability arising from the invocation of guarantees, a Guarantee Redemption Fund is envisaged in The Kerala Ceiling on Government Guarantees Act, 2003. The rules relating to the Guarantee Redemption Fund is under the process of finalisation.

Additional Information Sought

2.23 The Committee recommended that draft of the guarantee redemption funds Rules must be placed before the concerned subject committee for approval.

Action Taken

2.24 The ATR for para 23 could not be furnished because the same was not vetted by the Accountant General and the Accountant General is insisting the draft Guarantee Redemption Fund (GRF) rules must be placed before the subject Committee for approval. In this context, the following points may kindly be noted:

(i) Even though Government have almost finalized the draft of GRP rules as envisaged in the Kerala Ceiling on Government Guarantees Act 2003, the same could not be forwarded to the Accountant General for vetting before placing in the subject Committee, as Government has since decided to amend the Kerala Ceiling on Government Guarantees Act, 2003 for facilitating to provide Government guarantee to priority sector lending institutions with one time guarantee commission. It has also been decided to frame the Guarantee Redemption Fund Rules based on the proposed amendments to the Act. Hence, the Guarantee redemption Fund rules can be formulated only after the amendment of the Act (the file in this regard is under process). It appears that it will take some more time for making the amendments, in compliance of all the required formalities.

(ii) Finance Department have prepared ATR, in respect of the recommendation of the PAC vide para 23 of its report, pointing out the above position, with the approval of Minister (Finance) and forwarded the same to the Accountant General. But the Accountant general has again returned the same without vetting stating that the action called for by PAC have not been complied with copies of the ATR not vetted by the Accountant General is enclosed herewith in favour of information and necessary action.

The Constitution of Guarantee Redemption Fund is to be done within section 6 (1) of the Kerala Ceiling on Government Guarantees Act 2003. Now government have decided to amend certain provisions of the Kerala Ceiling of Government Guarantees Act 2003, and be finalization of the Guarantee Redemption Fund Rules, keeping in view the amended provisions of the Act the same will be placed before the Subject Committee.

CO-OPERATION DEPARTMENT

2.25 Action taken Statement has already been furnished by the Finance Department and the Committee considered the matter on its Meeting held on 4-5-2008 and issued further direction that Draft of the Guarantee redemption Fund Rules (GRF- Rules) must be placed before the concerned Subject Committee for approval. The finance Department has also informed that, the draft GRF rules has been formulated and forwarded to the principal Accountant General (Audit) for vetting.

INDUSTRIES DEPARTMENT

2.26 Due to the inherent nature of market fluctuations, many times the Corporation had suffered cash loss and all the time, the Government has intervened and taken over the liability to the financing institutions. The Government assistance was in the form of interest bearing loan to the corporation and the corporation has to pay interest to the Government on these loans. So far no financial institutions have invoked the guarantee in the case of KSCDC. The non-payment of guarantee commission is due to the weak financial position of the corporation. The Government vide Order No. (Ms) 44/04/ID dated 19-04-04 has now directed the Corporation to remit the arrears of guarantee commission as on 31-3-03 amounting to Rs. 2.84 crores in 10 monthly installments commencing from 06/04.

LOCAL SELF GOVERNMENT DEPARTMENT

2.27 In this regard Local Self Government Department had constituted a State Level Monitoring Committee vide G.O.(Rt) 302/2012/LSGD dated 28-1-2012.

POWER DEPARTMENT

2.28 Kerala Power Finance Corporation coming under the power Department has been remitting guarantee commission to Govt. promptly till date and has also enjoyed rebate for prompt payment of guarantee commission from government. There is no outstanding amount due to Government from Kerala Power Finance Corporation in respect of guarantee commission and the institution is maintaining a register of guarantee Commission as stipulated in the Circular issued by Government in finance Department.

The Statement of loans availed and the guarantee commission paid to Government enclosed in annexure.

FOOD & CIVIL SUPPLIES DEPARTMENT

2.29 Working capital requirement of KSCSC for Rs 1500 Lakhs is availed from a consortium of 5 banks and government have issued guarantee to these banks. There is no default in the repayment of loan or interest. The banks have not invoked the guarantee and no liability caused to the Government due to this.

Payment of Guarantee Commission is deferred until the working of the corporation becomes profitable vide G.O. (Ms) No. 34/99/F, CSD dated 24-6-99 and G.O. (Ms) No. 49/99/F, CSD dated 31-8-99.

Recommendation

(Sl.No.6, Para No. 24)

2.30 The Committee find numerous instances where guarantees were given by Government for loans even to private sector institutions without any form of scrutiny by the Finance Department regarding the financial discipline or capability to share risks of those institutions. The Committee recommend that the Finance Department should effectively co-ordinate and monitor the proposals for guarantees and that the present system be suitably amended to include the condition that the guarantees would not be extended without realising the guarantee commission. The Committee recommend that the present system be examined in detail and its short comings rectified to render the system, an effective instrument for facilitating flow of funds to priority sectors and to meet the growing demand on the State Government to be the guarantor -on beneficial and prospective schemes.

Action Taken

FINANCE DEPARTMENT

2.31 Presently the renewal of existing guarantee and sanctioning of fresh guarantees to any institutions are considered only on condition that all the arrears of guarantee commission with penal interest are paid up-to-date. This condition is included in the Act also. Also private individuals, institutions and companies cannot be granted government Guarantee.

Recommendation

(Sl.No.8, Para No.26)

2.32 The Committee is unhappy to note that there has been no sincere effort on the part of the Co-operative Department to furnish the details of loans availed by the Kerala State Co-operative Marketing Federation Limited, for copra

procurement, which was diverted for Cashew procurement. The Committee urges that the irregular practice of diverting loans for purpose other than the intended should be discouraged. The Committee desire to be furnished with the details of amount diverted for Cashew procurement within two months of the presentation of this report.

Action Taken

CO-OPERATION DEPARTMENT

COPRA PRICE SUPPORT SCHEME 1985

2.33 The Kerala State Co-operative Marketing Federation under took the Copra Price Support Scheme 1985 as per G.O. (Ms.)211/85/AD dated 4-7-85. Government had arranged special cash credit facility of Rs.5 crores each from State Bank of India and Kerala State Co-operative Bank for the implementation of above Scheme vide G.O.(MS.) No. 270/85/ID dated 8-10-1985. Besides, Rs. 4.50 crores was sanctioned to Federation from Government for this Scheme. Total investment of Federation in the Copra price Support Scheme 1985 was more than 17 crores, excluding the cash credit facility from State Bank of India.

After the closure of Copra PSS 1985, federation had preferred loss reimbursement claim with the Government as on 31-12-1986 amounting to Rs. 5.13 crores Federation had received Rs. 5 crores from Government vide G.O. (Ms.) No.57/94/Coop. dated 30-3-94 being the financial assistance pending settlement of the claims of the Federation for loss reimbursement and for the rehabilitation of the Federation. Out of the 5 crores, Rs. 4.56 crores was paid towards the settlement of outstanding dues to different banks since 1990 consequent on the implementation of the Copra PSS 1985 and the resultant non-settlement of the Federation's claim with the Government. The balance amount of Rs.44 lakhs was utilised by the Federation to meet its working capital requirement. The claim of the Federation after adjusting the amounts already received from Government was settled recently by Government vide G.O.(Ms.)No. 191/03/Coop dated 7-10-03. From the above it can be seen that Federation had not diverted any amount sanctioned for Copra PSS 1985 for any other purposes.

MONOPOLY CASHEW PROCUREMENT 1992

Government entrusted the monopoly procurement of raw cashew nut in 1992 season vide notification No.44353/K3/91/ID dated 15-1-1992. Government had arranged special cash credit facility for Rs. 30 crores from the Kerala State Co-operative bank Limited, Thiruvananthapuram. For the above operation, funds from the above special cash credit was transferred to separate current account opened in District Co-operative banks kannur, Kottayam and Thiruvananthapuram, the District which were allotted to Federation for cashew procurement. Withdrawal of funds from the above District Co-operative Banks were done by federation by issuing payment orders addressed to agent societies only. Being the settlement of value of raw material, commission, transportation charges and value of gunny charges payable etc. All the special accounts opened in the above banks for the monopoly procurement of cashew 1992 season were closed as well. Thus the Federation reported that it had not diverted any funds arranged for cashew procurement 1992 season for any other purpose.

MONOPOLY CASHEW PROCUREMENT 1994

Federation was entrusted with the monopoly procurement of raw cashew in 1994 season vide G.O. (Ms.) No. 56/94/ID dated 4-3-1994. Government had arranged special cash credit of Rs. 25 crores with Kerala State Co-operative Bank Limited, Thiruvananthapuram. Like in the cashew procurement 1992 season, funds from the Kerala State Co-operative Banks were used for paying dues to the societies (value of nuts, commission, transportation charges and value of gunnies etc.)

All the special accounts opened in the above banks for the monopoly procurement of cashew 1994 were closed as well. Federation reported that it had not diverted any funds arranged for cashew procurement 1994 season's for any other purpose.

Recommendation

(Sl.No. 9, para No. 27)

2.34 The Committee suggest that the probability of accepting loans by institutions with relatively lesser rate of interest in order to clear the loans which

necessitate payment of thousands of crores of Rupees as interest be considered by Government. The Committee also recommended that the Government should find out ways to settle the existing loans at an early date by resorting to cheaper loans and to encourage institutions and firms for greater dependence on grants from Government of India, rather than loans from financial institutions.

Action Taken

FINANCE DEPARTMENT

2.35 Circular No.11/W &M IIR/06/Fin. Dated 21-2-2006, suggesting debt swap to bring down the burden on interest payment, was issued to all Public Sector Undertakings (PSUs) and Autonomous Bodies having loans outstanding with financial institutions. Regarding the outstanding high cost debt of the State Government, Finance Department took action to reduce the burden on interest payment by swapping the high cost outstanding borrowings bearing interest rate ranging from 10% to 17% with loans carrying lower rate of interest as a measure of bringing down the expenditure on interest payments. Accordingly, the outstanding loans of Rs. 2606 crore due to Government of India, Rs.150 crore due to NCDC, Rs.305 crore due to NABARD, Rs. 217 crore due to GIC and Rs. 2595 crore due to LIC have all been swapped so far. In addition to this, Finance Department has availed the facility of Debt Consolidation and Reschedulement offered by Government of India. In this way an amount of Rs. 4176.69 crore outstanding as on 31-3-2005 has been rescheduled for 20 years with the interest rate of 7.5%.

CO-OPERATIVE DEPARTMENT

2.36 Direction has been given to encourage Co-operatives to avail assistance from institutions with relatively low rate of interest and also to initiate action to create awareness about various schemes of Government of India for availing grants under such schemes.

HOUSING DEPARTMENT

2.37 The following steps were taken by the Kerala State Housing Board to reduce the interest burden.

1. The loan outstanding of Rs. 863.25 lakhs availed from HDFC at an interest rate ranging from 14.5% to 17% have been closed by availing loan from union Bank of India @ 13% interest.

2. A loan of Rs.25 crores has been availed from Federal bank Ltd. @ 10% for the foreclosure of loan of the same amount at higher interest (13.95%) availed from HUDCO.

3. HUDCO has transferred an amount of Rs. 410.675 crore (@ 13.95%) to HUDCO Nivas, at interest rate of 10%.

4. Union Bank of India has reduced the rate of interest on the existing loan of Rs. 500 lakhs from 15% to 13%.

5. Federal Bank has reduced the rate of interest on the existing loan of Rs. 800 lakhs from 13.25% to 12.5%.

Additional Information Sought

2.38 The Committee wanted to know whether the benefit obtained by KSHB had been passed on to the lonees also.

Action Taken

2.39 Presently the Kerala State Housing Board is not implementing any project by availing loans from HUDCO and other financial institutions on the strength of Government Guarantee. While putting up suggestion for implementing projects the Board approached the union Government for grants through the State Government rather than loans from financial institutions.

INDUSTRIES DEPARTMENT

2.40 The Co-operation is availing working capital loans from a consortium of banks through Export packing Credit facility at a relatively lesser rate of interest only.

LOCAL SELF GOVERNMENT DEPARTMENT

2.41 This will be looked after by the Committee constituted vide G.O.(Rt) 302/2012/LSGD dated 28-1-2012.

POWER DEPARTMENT

2.42 The KSE Board had taken measures to replace the loans availed from various Financial Institutions and Commercial banks at higher rate of interest by loans with lower rate of interest from such institutions. Due to such swapping of loans of Rs. 1031 crores the Board could derive a total net gain of Rs. 63.64 crores with an annual savings of Rs. 7.15 crores (vide Annexure). The details are given below:

(1) Power Finance Corporation

In the past, the KSE Board had drawn loans from the Power Finance Corporation, New Delhi at interest rate varying from 15% to 17%. PFC has since agreed to swap Rs.100 Crores out of Rs. 119.17 Crores outstanding as on 31-12-2002 at an interest rate of 8.5% to 10% per annum provided Board remits prepayment premium to share the loss incurred by Co-operation due to such swapping. The Board had remitted the prepayment premium of Rs. 8.55 Crores and consequently the rate of interest of the restructured loans from PFC now ranges between 8.5% to 10%. The estimated total net gain on this account is Rs. 8.73 Crores with an annual savings of Rs. 0.97 crores.

(2) Rural Electrification Corporation

The Outstanding liability on long-term loans from Rural Electrification Corporation as on 1-4-2003 is Rs. 1037.04 Crores. The loans were extended by Rural Electrification Corporation under more than 1300 schemes with rates of interest varying from 7% to 16%. Out of these schemes, Rural Electrification Corporation has agreed to swap certain schemes, which are considered as high cost loans, (rate of interest 13% to 15%) worth Rs. 649.43 Crores. Due to the swapping of loans amounting to Rs. 649.43 crores the interest rate is brought down to 10% - 11.25% per annum. The prepayment premium in this regard is Rs. 20.21 Crores. The estimated total net gain in this regard is Rs. 31.85 Crores with an annual savings of Rs. 3.98 Crores.

(3) Loans from Commercial banks

The Board has borrowed an amount of Rs. 125 crores from the consortium of banks led by the State bank of Travancore for the Kozhikode Diesel Power Project. The rate of interest applicable to the above loan was 13.75%. The Consortium has agreed to reduce the interest to 11.25%. In this connection, it may be noted that the Consortium of Banks have not demanded any prepayment premium and the total net gain is Rs. 8.79 crores with an annual savings of Rs. 1.10 crores.

(4) Life Insurance Corporation of India

The Life Insurance Corporation of India has agreed to reduce the interest rate from 14% per annum to 11% per annum on the loan amount of Rs. 157.40 crores subject to the condition that KSE Board pay 50% of the loss of interest to the LIC in this regard. The prepayment premium paid comes to Rs. 7.80 crores. There is a total net gain of Rs. 14.27 crores with an annual savings of Rs. 1.10 crores.

(5) Exercising Call option on Non-SLR Bonds.

Out of the ten series of Non-SLR Bonds issued by the KSE Board, the Series VI Bonds were issued with a put and call option condition exercisable at the end of fifth year. Put option means if the rate of interest in the market goes up further, the investor has the option to redeem the Bonds so that he can take advantage of the higher rate of interest in the market. Similarly if the rate of interest comes down the market, the borrower has the option to redeem the Bonds. Now because the overall interest rates are coming down and since the VI Bond issue worth Rs.300 Crores bears an interest rate of 15.25% per annum, the Board can exercise call option on 31-3-2004 as per the conditions of the issue. In this connection the Board is negotiating with commercial banks and PFC/REC etc. for arranging loans at the prevailing lower rate of interest so as to reduce the debt-servicing commitments.

With a view to avail maximum benefits from Government of India, the Board is already implementing the APDRP Scheme worth Rs.350 crores and has requested the Government of India to release grant admissible to the state on account of reduction in revenue deficit.

FOOD & CIVIL SUPPLIES DEPARTMENT

2.43 The Kerala State Civil Supplies Corporation is availing loan from the consortium of banks and is trying to get the interest rates reduced to the minimum. Present rate of interest is 13.25% to 15%.

Thiruvananthapuram,
24th June, 2019.

V. D. SATHEESAN,
Chairman,
Committee on Public Accounts.

APPENDIX-I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Department Concerned	Conclusion/Recommendations
1	2	3	4
1	1.5	Finance Department	The Committee expressed displeasure over the reply furnished by the department and opined that the reply furnished is against the recommendation for amendment to Kerala ceiling on Government Guarantees Act 2003. Therefore committee reiterate its earlier recommendation that steps should be taken to initiate legislation regarding the provision to award guarantee on the security of the Consolidated Fund and also directs to provide incentive to the institutions which were prompt in remitting the guarantee commission
2	1.8	Housing Department	The Committee directs to furnish details of conditions specified for Govt guarantee and about the guidelines or rules by Government of India regarding guarantee by Government
3	1.11	Housing Department	The Committee expressed it dissatisfaction on the reply as it was not specific about the recommendations and directs that a fund or provision should be setup for discharging contingency liability when guarantee are invoked

	1.14	Housing Department	The Committee expressed its displeasure on the reply furnished as it were not in the conformity with the recommendations. The committee recommends to furnish the reasons for not conducting the probe on the diversion of funds of Rs. 433 crores and also directs to submit the details of audit conducted by the Local Fund Audit Department. The Committee also wanted to know whether the C.A firm was entrusted with special audit in the light of the recommendation of the Committee.
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