FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

# COMMITTEE
# ON
# PUBLIC UNDERTAKINGS
# (2016-2019)

## FORTY SIXTH REPORT

(Presented on 23rd May, 2017)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2017

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

# COMMITTEE
# ON
# PUBLIC UNDERTAKINGS
# (2016-2019)

**FORTY SIXTH REPORT**

**On**

**The Action Taken by Government on the Recommendations contained in the Thirty Sixth Report of the Committee on Public Undertakings (2011-2014) relating to Kerala Tourism Development Corporation Limited based on the Report of the Comptroller and Auditor General of India for the years ended 31 March, 2004 and 31 March, 2008 (Commercial)**

1114/2017.

CONTENTS


| | | Page |
|---|---|---|
| Composition of the Committee | .. | v |
| Introduction | .. | vii |
| Report | .. | 1 |
| Replies furnished by Government on the recommendations of the committee which have been accepted by the committee | .. | 2 |

## COMMITTEE ON PUBLIC UNDERTAKINGS (2016-2019)

### Composition

*Chairman* :

Shri C. Divakaran.

*Members* :

Shri T.A. Ahammed Kabeer

„ K. B. Ganesh Kumar

„ C. Krishnan

„ S. Rajendran

„ Thiruvanchoor Radhakrishnan

„ P. T. A. Rahim

„ Raju Abraham

„ Sunny Joseph

„ C. F. Thomas

„ P. Unni.

*Legislature Secretariat* :

Shri V. K. Babu Prakash, Secretary

Smt. P. K. Girija, Additional Secretary

Shri P. B. Suresh Kumar, Deputy Secretary

Smt. Deepa. V., Under Secretary.

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Forty Sixth Report on the Action Taken by Government on the recommendations contained in the Thirty Sixth Report of the Committee on Public Undertakings (2011-2014) relating to Kerala Tourism Development Corporation Limited based on the Report of the Comptroller and Auditor General of India for the years ended 31 March, 2004 and 31 March 2008 (Commercial).

The statement of Action Taken by the Government included in this report were considered by the Committee constituted for the year (2016-2019).

This Report was considered and approved by the Committee at the meeting held on 2-5-2017.

The Committee place on record their appreciation for the assistance rendered to them by the Accountant General (Audit), Kerala during the examination of the Action Taken Statements included in this Report.

C. DIVAKARAN,
*Chairman,*
*Committee on Public Undertakings.*

Thiruvananthapuram,
2nd May, 2017.

## REPORT

This Report deals with the Action Taken by Government on the recommendations contained in the Thirty Sixth Report of the Committee on Public Undertakings (2011-2014) relating to Kerala Tourism Development Corporation Limited based on the report of the Comptroller and Auditor General of India for the years ended 31 March, 2004 and 31 March, 2008 (Commercial).

The Thirty Sixth Report of the Committee on Public Undertakings (2011-2014) was presented to the House on 28th January, 2014.

The Report contained four recommendations in para numbers 8, 14, 15 and 16 and the Government furnished Action Taken Statements to all of them on 1-1-2016. The Committee (2016-2019) considered and approved these statements at its meeting held on 30-11-2016. These recommendations of the committee and their replies furnished by the Government are included in this Report.

1114/2017.

REPLIES FURNISHED BY GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE WHICH HAVE BEEN ACCEPTED BY THE COMMITTEE

| *Sl. No.* | *Para No.* | *Department concerned* | *Conclusions/ Recommendations* | *Action Taken by the Government* |
|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) |
| 1 | 8 | Tourism | The Committee notices that KTDC deposited funds amounting to Rs.49 lakh as interest free deposit without verifying all the aspects and viability of the project for the construction of a four star hotel on the land to be provided by CIAL. KTDC had neither conducted a proper study not made a clear planning before making the interest free deposit. The Committee observes that steps should have been taken much earlier to get back the interest free deposit from CIAL, so that the interest loss on the same could have been averted. Hence care should be taken to avoid such instances in future. The Committee also views that in the back drop of the improvement in the | As it was thought that it would be beneficial to the growth of KTDC if one Hotel project is established nearby the Cochin International Airport, the KTDC participated in the process of obtaining land on long-term lease from CIAL. TO get the land on lease, it was an essential criterion to made interest free deposit of Rs. 49 lakhs. With good intention, Rs. 49 lakhs was deposited as interest free deposit with CIAL. During 2000-2001 periods the operational result of the CIAL was not positive, may be because of the low air traffic through that terminal. Realised the fact that if the CILL's performance is not good, definitely a Hotel project at there would be risky, hence decided to execute the project as joint |

| (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|
| | | | financial position of KTDC and the decision of CIAL that starting of the hotel project would come only in the second phase of the land utilisation plan, any move on the part of KTDC in this direction would consider to be a positive approach. Therefore the Committee want to know the present position of the project. The Committee recommends that the Corporation should conduct a study on the feasibility and viability of the project before venturing into it. The Committee also recommends to be submitted with a report regarding details of the land allotted for the construction of hotel and present stage of the implementation of the project. | venture through TRKL. During that period KTDC had before its numbers of its own projects to be completed. In order to continue the CIAL project in joint venture KTDC handedover the project to Tourist Resorts Kerala Limited (TRKL) and got the deposit Rs. 49 lakhs released from TRKL.<br><br>The inordinate delay in allotting the Land and also the stringent terms and condition fixed by CIAL forced TRKL also to withdrawn from the project. During 2007 itself TRKL had requested the CIAL to refund the deposit amount of Rs.49 lakhs with interest of 12% per annum from the date of deposit. TRKL followed up the matter and subsequently in 2008 the amount without interest was got refunded from CIAL.<br><br>Here the action of KTDC with good intention had not allowed any private individual to make unjust enrichment. Every new business venture has unexpected risk. The loss |

| (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|
| | | | | reported by the audit was purely based on the hypothetical analysis. Actually if the KTDC decided to continue the project, the situation would be further worse and drastic.<br><br>As promised in the earlier reply, now KTDC is taking utmost care while venturing into new projects. Only after carrying out commercial viability KTDC is taking up new projects. Since the completion of Mascot Hotel Project in 2005 another new project that the KTDC took up was the Rain Drops at Chennai. The property is doing well. The performance of the unit for the financial year 2014-15 income Rs. 490.18 lakhs, expenditure Rs. 427.67 lakhs resulted in an operational profit of Rs. 62.51 lakhs. In anvil KTDC have a hotel project near Vandiperiyar and also one at Munnar. Final decision on that would be taken only after assessing the feasibility of the project. |

| (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|
| | | | | Considering all aspects of the issue and also the fact that KTDC has not indulged in any purposeful act to incur financial loss to the Government, the committee may kindly drop the para. |
| 2 | 14 | Tourism | The Committee finds that KTDC paid service tax amounting to Rs. 55.53 lakh as claimed by the cleaning contractors against contractual provision. The Committee understands that KTDC had been paying service tax for cleaning staff from April 2004 to January 2008 owing to non separation between security staff and cleaning staff since the tax was applicable only for supplying security manpower. | The payment of Service Tax to the cleaning contractor for the engagement of labours was in accordance with the provisions of Service Tax Rules and that payment was not an avoidable expenditure. A brief history about how the corporation had been operating its business and under which situation it was forced to hire labours on contract through cleaning/security agencies is given below. |
| 3 | 15 | Tourism | The Committee observes that having remitted service tax as claimed by contractors, KTDC gave undue favour and allowed the contracting agency to escape from their responsibility. The Committee finds that KTDC had not even served a notice to the contractor for refund. | The core business activity of KTDC is running of Hotels, Resorts and way side amenities which is highly labour intensive. The requirements of labour depends on the volume of sales/services and the area of the property. KTDC properties have been categorized in to six. |

| (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|
| 4 | 16 | Tourism | The Committee is not satisfied with the reply of KTDC that if they had got it refunded, the contractor would have taxed on the labourers and opined that any concession given to such private entrepreneurs would not reach in the hands of ordinary workers. As such private agencies would always try to exploit ordinary workers. The Committee therefore comes to the conclusion that KTDC, fully owned by Government, having remitted the tax on behalf of the private contractors has allowed them to escape from their liability to pay the service tax. The Committee recommends that whenever notifications are issued for selecting manpower supply agencies. The Company has to ensure the provision to envisage all the items like service tax, EPF, ESI and other statutory labour welfare measures included in the term "all inclusive" in the | (1) Premium Hotels, (2) Budget Hotels, (3) Yatri Nivases (Present name Tamarinds), (4) Motel Araams, (5) Restaurants and Beer Parlours and (6) Boating and other miscellaneous outlets. For the smooth operation of premium properties the average number of labour per room is around 3. The strength may increase further if the unit is Bar attached and the area of premise to be maintained and up-keep is large. The VIP movements also a deciding factor of engaging the labour strength. For the Budget Hotels and Yatri Nivases it is 2.25 labour per room plus additional employees for other facilities. For the operation of small units like Restaurant and Beer Parlours the staff strength may vary from 17 to 30.<br><br>Number of units which was 36 in 1993 was increased to 77 during 1999. The turnover also increased commensurate with the increase in number of units. Turnover which was |

| (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|
| | | | agreement with the contractors. The Committee remarks that while outsourcing the works of the Corporation to contractors, the administrative department should supervise that the works are being executed as per the existing labour laws. | Rs. 967 lakhs in 1993 was increased to Rs. 3643 lakhs in 1999. Increase in number of units and also the increase in volume of sales/service demanded more man powers say around 2500. But the permanent employees engagement had not been increased matching with the increase in volume of total sales/service which forced us to engage employees by different way say security contract, cleaning contract etc. The objective behind that engagement was to reduce the cost of labour and also to avoid the legal complication of regularizing the contract employees into the permanent rolls of the corporation.<br><br>The Hotel industry could survive only by engaging skilled and unskilled labour through outsource at reduced rate. This practice had been following since many years back. When KTDC came to know that the contractors are not remitting the EPF and ESI contribution, the |

| (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|
| | | | | appointment order to them was modified by incorporating the word inclusive of all. Here the KTDC management and the contractor had the clear understanding that the word inclusive of all means inclusive of all labour social welfare measures and not any tax element as no such tax was existing at that time. The invitation of tender and its analysis was carried out and selection of contract was made with the same understanding that the inclusive of all means inclusive of all statutory labour measures and not any tax.<br><br>The daily wage rate of unskilled labour during 2000 was Rs. 140 per day and during 2008 it was RS. 170 per day. In addition to that rate the employer contribution of EPF and ESI and also the Bonus and other benefits has to be extent to them. But through that contract engagement KTDC spent around Rs. 75 per day per employee only and that included the EPF and ESI |

| (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|
| | | | | contribution part also. When compared to the minimum wages rate fixed by the Government for various category, the so called rate quoted by the contractor was very low and further penalizing them by way of service tax, which the contractor and the KTDC had not included in the rate quote would definitely affect the wages to the labour engaged and hence the service tax which was not considered in the quote and also in the decision making of KTDC was paid to the contractor. As per the information available to KTDC the contractor had remitted the service tax to the Central Government Account by complying with the provisions. The Committee may kindly be noted that here there is no extra payment has been made to the contractor. There is already a guidance that when any labour outsource engagement is made through tender process the tender amount quoted should be above the minimum wages to be paid |

| (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|
| | | | | to such category of labour. In this case, during that period the quoted amount was much below the minimum wages to be given. The decision of KTDC to admit the service tax was just and equitable as the KTDC being a Government agency cannot exploit the labour too much. Reduced payment to the contractor means reduced disbursement of wages to the employees engaged by them, which ultimately lead to poor service by employees which adversely affect our business. During that time the average wages of an employee of KTDC at the lower grade was around Rs. 12,500 per month. It was excluding other long-term service benefits. When compare to the total commitment that may incur while engaging permanent employees to the outsource engagement through the contractor, it can be seen that there had been huge savings to the Corporation under labour engagement. The intention of KTDC was |

| (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|
| | | | | not to incur additional commitment, but to reduce the labour cost by complying with various provisions of law existing then.<br><br>As promised in the previous replies now the KTDC is more specific in giving the details of various elements included in the work order. Now to get more transparency, the service charge amount the agency require to supply and administer the required number of various labours is quoted in the tender invitation. Here KTDC insists that they have not made any extra payment to the contractors, but since the tender amount quoted by the contractors for the labourers was much below the minimum wages KTDC had admitted the service tax which was just and equitable as they cannot exploit the labour too much and hence requested the Committee to drop the paras in consideration of the situation prevailing during that time. |

C. DIVAKARAN,

*Chairman,*

*Committee on Public Undertakings.*

Thiruvananthapuram,

2nd May, 2017.

KERALA NIYAMASABHA PRINTING PRESS.