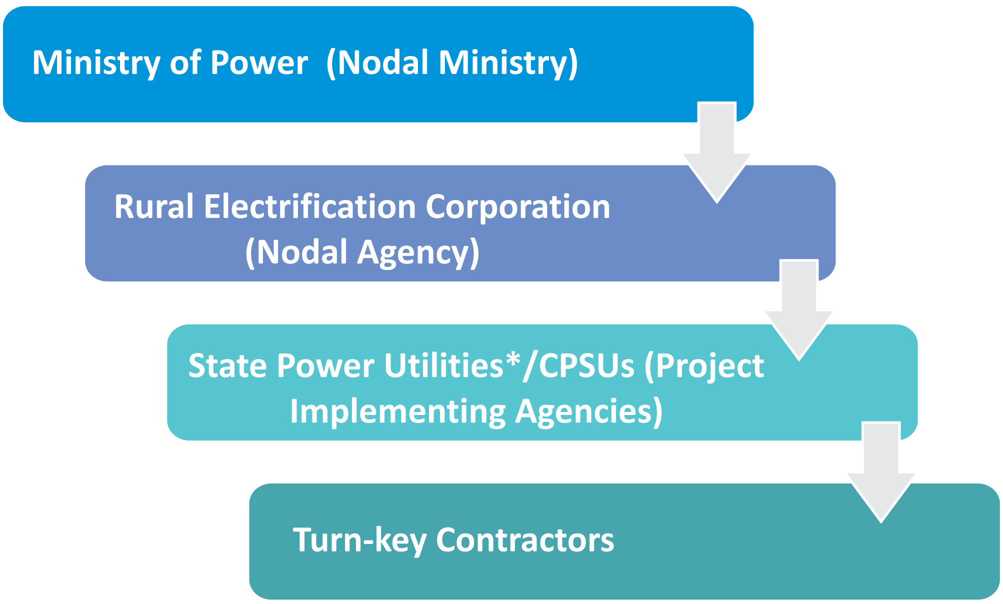
Chapter 4:

Financial Management

4.1. Funds flow

Rural Electrification Corporation (REC) is the nodal agency for implementation of RGGVY at the all-India level. Hence, PIAs were to place their demands for funds on REC. In turn, REC would place a demand on MOP which would release requisite funds against the capital subsidy (90 *per cent* of project cost excluding the amount of State or local taxes) to REC for onward release to States/ PIAs. Remaining 10 *per cent* of the project cost was to be provided by the respective State Governments out of their own resources or loan from financial institutions including REC. The flow chart of funds is in **Figure 4**.



**State Power Departments, State Electricity Boards, State Distribution Companies (DISCOMs)*

Figure 4: Flow chart of funds

Guidelines prepared by REC provided for release of funds to the Project Implementing Agencies (PIAs) in two parts (1) Project cost including proportionate service charges and statutory levies but excluding BPL connection cost and (2) BPL connection cost. The method of release for the first part was as follows:

a) First Installment: 30 *per cent* of sanctioned project cost subject to submission of loan documents[20] and fulfillment of all requirements, including requisite legal formalities by State Government/State Power Utilities as per the sanction letter of the project.

b) Second Installment: 30 *per cent* of the sanctioned project cost subject to submission of the expenditure details to REC by PIA after obtaining necessary concurrence of State Government for 80 *per cent* expenditure of first installment.

c) Third Installment: 30 *per cent* of the sanctioned project cost subject to submission of the expenditure details to REC by PIA after obtaining necessary concurrence of State Government for 80 *per cent* expenditure cumulatively of the first and the second installment.

d) Fourth and Final Installment: 10 *per cent* of the sanctioned project cost within 30 days from submission of the expenditure details and completion details to REC by PIAs after obtaining necessary concurrence of State Government and after final monitoring by REC.

The method of release for the second part was as follows:

- 50 *per cent* of the cost of BPL households **(BPL1)** in accordance with the list certified by State/appropriate agency of the State to be released subject to prior submission of such list by the PIA.
- The balance 50 *per cent* **(BPL2)** was to be released as final installment of the project after the receipt of village/habitation-wise certified list of BPL household connections provided under the project, clearly indicating the name of such BPL household consumer.

REC, in August 2009, issued revised guidelines for release towards charges for BPL household connections as under:

- **First installment** *i.e.* 50 *per cent* of BPL amount (**BPL1**) as advance on the request of PIAs.
- **Second installment** *i.e.* 40 *per cent* of BPL amount (**BPL2**) based on field survey report considering actual number of connections proposed to be released or sanctioned number of households, whichever is less. Release of the second installment was also subject to an undertaking by the PIA that the expenditure

[20] Loan documents for 10 *per cent* of the project cost that is not covered by the capital subsidy which is limited to 90 *per cent* of the project cost as per scheme.

incurred was more than 80 *per cent* of amount released as advance against BPL households.

- The **final installment** *i.e.*10 *per cent* amount was to be considered for release after receipt of village/habitation-wise list of BPL households connections provided under the project, clearly indicating the name of such BPL household consumer.

4.2. Release of funds

4.2.1. Time taken in release by REC

Analysis of 169 selected projects based on information furnished by REC revealed that inordinate time was taken in release of all installments by REC as shown in **Table 10**.

Table 10: Cases of additional time taken in release of fund

Install-ment	Time to be taken	No. of projects in which additional time taken noticed	Range of time taken for release of funds	Summary of Actual Time Taken			
				16-29 days	30-60 days	61-90 days	>90 days
I	Within 15 days from the date of execution of loan documents and fulfillment of all requirements	71	16 to 162 days	39	13	11	8
II	Within 15 days from submission of the expenditure details to REC by implementing agency	64	16 to 182 days	27	18	11	8
III	Within 15 days from submission of the expenditure details to REC by implementing agency	86	16 to 209 days	52	23	2	9

BPL 1*	No specified time	56	1 to 255 days	35	19	1	1
BPL 2*	No specified time	41	1 to 131 days	26	11	2	2

* Delay has been calculated taking 15 days as minimum time of release

(Source: MOP reply dated August 2013)

Examination in audit in the States revealed that both PIAs as well as REC were responsible for delays which impacted execution and project schedules. A few illustrative cases are given below.

- In **Andhra Pradesh**, the PIAs, namely EPDCL, SPDCL and NPDCL delayed[21] submission of certain documents, mandatory as per Tripartite Agreement[22] even after award of contract, to REC, resulting in non-release of the first installment by REC for the intervening period. Thereafter, REC delayed the release of funds by a period of six months to one year in the case of projects like Guntur and Srikakulam respectively[23].

- In six[24] projects of **Jharkhand**,
  - In contravention of the tripartite agreement according to which the contract for execution of the project was to be awarded within one week from the date of release of first installment by REC, the latter belatedly released funds to Jharkhand State Electricity Board (JSEB) towards first installment[25], two to three months after award of contracts[26], which resulted in delay in payment of advances to contractors[27] thereby delaying the project. Further, there were delays in revising the sanctioned cost estimates for these projects by REC which, in turn, led to delayed release of differential amount of funds subsequently.
  - PIA in East Singhbhum project, claimed[28] the differential amount after a lapse of eight months in respect of the second revised cost estimate.
  - Release of BPL installment was delayed as the Jharkhand State Electricity Board delayed its claim by 27 months.

In addition, a few illustrative cases of inconsistency in release of funds are detailed in **Box 5**.

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[21] DISCOMs awarded contracts during March 2006 to May 2006, whereas requisite documents mandatory for release of funds were submitted in March/June 2006.
[22] Tripartite Agreement was entered into amongst the parties in August 2005.
[23] Projects not in the selected sample
[24] East Singhbhum, Garhwa, Latehar, Palamau, Saraikela and West Singhbhum
[25] March 2007
[26] December 2006 / January 2007
[27] April / May 2007
[28] Revised cost estimate was sanctioned in May 2010 but PIA claimed in January 2011

Box 5: Inconsistency in release of funds

Case 1 - Early release

REC, contrary to its own guidelines, released 1st installment amounting to ₹26.39 crore as many as 11 months before the date of execution of loan documents in respect of Kupwara and Anantnag projects in **Jammu and Kashmir.**

Case 2: Funds withheld

- In **Assam and Arunachal Pradesh**, REC withheld parts of installments to be released or adjusted penal interest from subsequent installments to PIAs on account of default in repayment of loan and interest which was the responsibility of respective State governments.
- In **Tamil Nadu**, REC short-released installment to the Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) by ₹13.87 crore. The short released amount had not been released till March 2013.

MOP, while accepting the audit comments mentioned (August 2013) the following as reasons for delays:

- *non submission of requisite documents by PIAs along with claims,*
- *delay/non verification of expenditure by State Governments,*
- *delay in submission of acceptance of terms and conditions of revised sanctioned letter by concerned State Government, delay in issue of certification by States etc.*

The fact remains that there is a need for continuing vigil in areas of compliance by REC/State Governments/PIAs with stipulated conditions, for ensuring prompt release of funds.

4.3. Utilization of funds

4.3.1. Ministry of Power (MOP) and REC

As discussed in para 1.5 *supra*, CCEA approved ₹ 5,000 crore and ₹ 28,000 crore for RGGVY for X and XI Plans respectively. Details of funds allocated for RGGVY to MOP through Budget estimates (BE)/Revised estimates (RE), funds released by MOP to REC for implementation of scheme and by REC, in turn, to PIAs during 2004-05 to 2011-12 are given in **Table 11**.

Table 11: Plan-wise Releases of capital subsidy

(Amounts in ₹ in crore)

Year	Amount allocated to MOP (BE)	Amount allocated to MOP (RE)	Amount Released by MOP to REC	Amount released by REC to PIAs
X Plan				
2004-06	1,500.00	1,500.00	1,500.00	1,402.60
2006-07	3,000.00	3,000.00	3,000.00	3,014.37
Total	**4,500.00**	**4,500.00**	**4,500.00**	**4,416.97**
XI Plan				
2007-08	3,983.00	3,944.56	3,913.45	3,368.30
2008-09	5,055.00	5,500.00	5,500.00	5,109.58
2009-10	6,300.00	5,000.00	5,000.00	5,987.43
2010-11	5,500.00	5,000.00	5,000.00	3,997.87
2011-12	6,000.00	3,544.00	2,237.31	2,772.22
Total	**26,838.00**	**22,988.56**	**21,650.76**	**21,235.40**
Grand total	**31,338.00**	**27,488.56**	**26,150.76**	**25,652.37**

The above indicates that:-

- Against the approved outlay of ₹ 5,000 crore only ₹ 4,500 crore was allocated and released by MOP in X Plan. REC, in turn, released ₹ 4,416.97 crore to PIAs.
- Further, against the allocation of ₹ 26,838 crore during XI Plan which was revised to ₹ 22,988.56 crore MOP released ₹ 21,650.76 crore up to March 2012 leaving balance of ₹ 1,337.80 crore unutilised. REC in turn, released ₹ 21,235.40 crore up to March 2012 to PIAs.
- MOP did not utilise ₹ 28,000 crore, approved by CCEA for **first two years** of XI Plan (2007-08 and 2008-09), even in five years and did not obtain the projected balance outlay (₹ 13,812 crore[29]).
- Against the funds of ₹ 26,150.76 crore released by MOP to REC over the period 2004-12, REC released funds amounting to ₹ 25,652.37 crore to PIAs. After adjusting one *per cent* service charges amounting to ₹ 226.37 crore payable to REC under the provisions of RGGVY, the difference of ₹ 272.02 crore (₹ 26,150.76 crore less

[29] ₹ 46,812 – ₹ 33,000 crore = ₹ 13,812 crore

₹ 25,652.37 crore less ₹ 226.37 crore) was held by REC. Interest on surplus funds earned and deposited into Government account by REC is discussed in para 4.5 *infra.*

The Standing Committee on Energy (2008-09), 14th Lok Sabha in its 31st Report made an observation on the slow utilization of funds and recommended that MOP make sincere efforts to prevail upon the Ministry of Finance (MOF) and Planning Commission to get adequate funds allocation of the programme. It is pertinent to mention that in August, 2004, MOF had stated that "*the scheme has not taken into account the absorptive capacity of various SEBs with respect to these huge quantum of funds. It is unlikely that in a span of five years, they would be able to absorb such amounts. In that sense, the scheme has been loosely contemplated*". The audit findings mentioned above only confirm these views.

MOP, in its reply, stated (June 2013) that, *"main constraint in slow progress of implementation of RGGVY is not the release of funds by the MOP to REC. Reasons for non-drawal of allocated budget included…….. lack of experience in award and execution of projects on turnkey mode by the State Utilities, lack of dedicated manpower at the State power utilities, delay in award of projects, non availability of BPL list in time, issue of clearances etc."*

MOP, further, stated (August 2013) that *"outlay of ₹28,000 crore was for the entire XI Plan period and not for only 2007-08 and 2008-09."*

The reply needs to be viewed against the fact that the note submitted (December 2007) by MOP for seeking approval of CCEA to continue RGGVY in XI Plan had sought ₹ 28,000 crore for the first phase of XI Plan to achieve Bharat Nirman target[30] by 2009. While commenting on poor utilization of approved outlay in the implementation of RGGVY, the 31st Standing Committee on Energy also observed that ₹ 28,000 crore was the approved outlay for first two years of XI Plan. There is, therefore, a contradiction in the reply of MOP and their proposal to CCEA. More important, actual utilization did not reach the level of funding sought in five years of XI Plan as well, which points to infirmities in the proposals of a major scheme which did not capture ground realities properly.

4.3.2. Project Implementing Agencies (PIAs)

REC released ₹ 25,652.37 crore to PIAs from April 2004 to March 2012 as capital subsidy for implementation of the scheme against which the PIAs reported utilisation of ₹ 22,510.14 crore (up to 20 May 2012). As on 28 February 2013 there were unutilized balances ranging from ₹ 1.47 crore to ₹ 375.07 crore against the capital subsidy released to PIAs in 19 States, whereas PIAs reported excess utilization ranging from ₹ 3.64 crore to ₹ 115.13 crore against the capital subsidy released to eight States, as shown in **Table 12.**

[30] Bharat Nirman target included electrification of over one lakh un-electrified villages and connection to 2.34 crore rural households.

Table 12: State-wise release of capital subsidy by REC to PIAs vis-à-vis utilization[31] (as on 28 February 2013)

(₹ in crore)

Sl. No	Name of State	Subsidy released	Subsidy utilized	Subsidy unutilized
1	Andhra Pradesh	722.86	797.72	(-) 74.86
2	Arunachal Pradesh	708.22	598.30	109.92
3	Assam	2,170.59	2,192.37	(-) 21.78
4	Bihar	3,496.81	3,121.74	375.07
5	Chhattisgarh	823.87	669.20	154.67
6	Gujarat	259.17	272.04	(-) 12.87
7	Haryana	158.94	176.55	(-) 17.61
8	Himachal Pradesh	261.36	265.00	(-) 03.64
9	Jammu and Kashmir	705.51	672.12	33.39
10	Jharkhand	2,756.54	2,443.76	312.78
11	Karnataka	658.37	773.50	(-) 115.13
12	Kerala	85.66	73.33	12.33
13	Madhya Pradesh	1,313.04	1,096.68	216.36
14	Maharashtra	517.51	564.27	(-) 46.76
15	Manipur	266.49	254.56	11.93
16	Meghalaya	347.60	275.85	71.75
17	Mizoram	214.26	208.32	05.94
18	Nagaland	203.65	196.09	07.56
19	Odisha	2,983.21	2,686.80	296.41
20	Punjab	54.44	39.06	15.38
21	Rajasthan	992.07	982.93	09.14

[31] Source-information received from REC

22	Sikkim	155.59	116.11	39.48
23	Tamil Nadu	285.18	344.31	(-) 59.13
24	Tripura	158.37	123.89	34.48
25	Uttar Pradesh	3,064.80	2,998.57	66.23
26	Uttarakhand	617.59	616.12	01.47
27	West Bengal	2,052.95	1,988.39	64.56
	Total	**26,034.65**	**24,547.58**	

Contrary to the conditions stipulated in sanction letters issued by MOP, REC did not link the terms of release of funds with achievement of physical targets[32] set under approved projects. This led to release of significant portion of the project cost to PIAs/contractors which was disproportionate to physical achievements against released funds.

Some such instances are given below:-

In **Assam,** cost of supplies (including freight and insurance) ranged between 84.71 *per cent* and 90.78 *per cent* and cost of erection between 9.22 *per cent* and 14.37 *per cent* of the award cost. The terms of payment to contractor were such which could fetch first three installments, totaling 90 *per cent* of the approved project cost, though physical achievement was less than 10 *per cent*.

In **Jammu and Kashmir,** 67 *per cent*[33] of awarded cost was released to contractor merely for supply of materials.

In **Mizoram**, letters of award were amended deleting crucial stipulations regarding submission of certain documents required for ascertaining the status of delivery of materials at site. This deletion gave liberty to contractors to raise bills and receive payments for materials/ equipments before actual receipt of materials/ equipment by the Power and Electricity Department. Also, the contractors received, in July 2011 and March 2012, payments against invoices of ₹ 143.22 crore representing 70 *per cent* of ₹ 204.60 crore worth materials stated to have been dispatched by them. Out of the materials reported to have been dispatched, materials worth ₹ 26.89 crore were not received at site. Works remained partially suspended from June 2011 due to shortage of materials.

MOP replied (August 2013) that, "*the present unspent balance with the PIAs which is only seven per cent as on 31May 2013 of funds received by them was to keep up the momentum of the scheme. Also, the release of 3rd installment is linked to completion of work in at least 10 per cent UE villages and release of connection to at least 10 per cent BPL connections.*"

[32] The MOF, in December 2007, also emphasized linking the spending of funds with the achievement of physical targets so that effectiveness of the scheme may be ensured.

[33] Including mobilization and erection advance

Audit appreciates the efforts to reduce the unspent balances with PIAs. However, as up to 90 *per cent* of the project costs (up to 3rd installment) could still be released on completion of electrification work in only 10 *per cent* villages and BPL households, there is thus, a need for strengthening the linkage between financial release and physical progress by devising appropriate formats of reports for monitoring the same.

Box 6: Manipur - Non-accountal of transactions in Cash Book

It is a matter of prudent financial practice as also mentioned in Rule 77-A (ii) of the Central Treasury Rules that all monetary transactions are entered in the cash book as soon as they occur and attested by the Head of the Office.

Executive Engineer (Electrical), Bishnupur division had released ₹ 1.75 crore on 30 August 2012 and 31 August 2012 for implementation of RGGVY in Bishnupur district. All transactions from 28 August 2012 to November 2012 were not accounted in the departmental cash book.

Out of the released amount of ₹ 1.75 crore, two cheques amounting to ₹ 44.99 lakh were drawn by Executive Engineer (Electrical), Bishnupur division through self cheques. Payment vouchers and Actual Payee Receipts (APRs) (invoice and delivery challan *etc.*) of ₹ 44.99 lakh were not produced to audit.

Status of utilisation of the amounts drawn vide the above cheques could not be verified in audit due to non-availability of payment vouchers, APRs and non-accountal of transactions in cash book. Consequently, misappropriation of these amounts could not be ruled out.

4.4. Maintenance of separate interest-bearing accounts by PIAs

In order to track and monitor funds released under RGGVY and also ensure their proper utilization, guidelines of REC required that PIAs open separate interest-bearing bank accounts for funds received. Guidelines of RGGVY also stipulated that any interest earned on funds received should be accounted as part of scheme funds. Final installment was to be reduced to the extent of interest earned on unutilized funds at the time of closure of project.

Review of management of RGGVY funds revealed that PIAs in two States did not immediately open separate bank accounts as required after receiving first installment of capital subsidy under RGGVY. Delay in opening separate bank account was 24 months in **Himachal Pradesh**[34] and 34 to 46 months in **Rajasthan**[35]**.**

[34] In HP, HPSEB received fund in March 2007 whereas it opened the account in March 2009

[35] In Rajasthan, AVVNL, JVVNL, JDVVNL received fund in April 2006, March 2005 and March 2006 respectively whereas they opened separate accounts from January 2009 to February 2009

Four States had opened non-interest bearing bank accounts. Non-maintenance of interest bearing account for funds received under the Scheme resulted in loss of ₹ 7.10 crore as detailed in **Table 13** which could have been used for furthering the cause of RGGVY.

Table 13: Interest lost due to funds being kept in non-interest bearing account

(₹ in crore)

Sl. No	Name of State	Nature of Bank Account in which funds were kept	Interest Lost[36]
1.	Chhattisgarh	Non-interest bearing	0.29
2.	Himachal Pradesh	Non-interest bearing	2.29
3.	Tamil Nadu	Non-interest bearing	3.37
4.	Uttar Pradesh[37]	Non-interest bearing	1.15
		Total	**7.10**

Further, in two States, though interest was earned by DISCOMs, interest amounting to ₹ 49.83 crore (**Table 14**) was treated as part of their own income and/or utilized for other purposes.

Table 14: Interest earned and reflected as own income

(₹ in crore)

Sl. No	Name of State	Amount
1.	Arunachal Pradesh	47.95
2.	Tripura	01.88
	Total	**49.83**

Availability of these funds of ₹ 56.93 crore (₹ 7.10 crore and ₹ 49.83 crore) for RGGVY would have enabled electrification of approximately 643 un-electrified villages[38] and contributed towards promoting the cause of the scheme.

[36] The amount represents loss of interest calculated for different periods during which irregularity prevailed, at rates ranging between four and eight *per cent* on a case to case basis.

[37] Nodal officers of Aligarh, Jaunpur and Mirzapur retained substantial amount in non-interest bearing current accounts

[38] Calculated at the rate of ₹ 8.86 lakh per village taken as benchmark for electrification of un-electrified villages in note of MOP to Committee of Secretaries.

Box 7: Incorrect treatment of recovery as own income

In **Andhra Pradesh,** Eastern Power Distribution Company Limited (EPDCL) recovered an amount of ₹ 35.53 lakh from payment of work bills for poor quality of works carried out by the contractor and treated the same as its income instead of utilizing it on RGGVY projects.

In **Punjab**, the Punjab State Power Corporation Limited (PSPCL) (erstwhile Punjab State Electricity Board) placed (28 August 2008) 17 work orders for execution at an aggregate cost of ₹ 132.12 crore on KLG Systel Limited, Gurgaon (firm). The firm provided a bank guarantee of ₹ 6.61 crore. As per the contracts, the works were to be completed within one year. The firm failed to complete the work despite grant of extension for the period from September 2009 to January 2011. PSPCL cancelled (March 2011) all work orders, encashed (November 2011) the bank guarantee of ₹ 6.61 crore furnished by the firm and kept it in PSPCL account instead of crediting the same to RGGVY bank account. This also resulted in loss of interest of ₹ 30.56 lakh (worked out @ 4 *per cent* per annum for the period from November 2011 to December 2012).

MOP/REC stated in the Exit conference (September 2013) that they had since issued directions for opening separate dedicated accounts and assured adjustment of these funds at the time of release of final installment.

4.5. Adjustment of interest earned in the last installment

As discussed in para 4.3 *supra*, substantial funds remained unutilized with REC/States. Sanctions issued by MOP, *inter-alia*, stipulated that *'the interest earned (on RGGVY funds) has to be accounted for and used for cost of the project by way of adjustment in the last installment.'* As no project had been closed and last installment has not been released, PIAs and REC earned and retained ₹ 744 crore (PIAs ₹ 668 crore and REC ₹ 76 crore) as interest on capital subsidy received under RGGVY as on 31 March 2012.

REC informed MOP (June 2009) that in view of the specific provision for adjustment of interest only in last installment, PIAs were unable to use the interest earned during the execution of project. Accordingly, REC requested MOP to allow PIAs to use interest earned even during the execution of the project subject to adjustment while releasing 2nd and 3rd installments.

Decision on the issue was pending in MOP. However, subsequent to the issue being pointed out by Audit in November 2012, MOP directed REC, in December 2012, that "*the amount of interest earned should be remitted to the Govt. Account by REC immediately*". MOP stated (August 2013) that "*an amount of ₹ 407 crore had since been remitted to MOP account*".

The reply is to be viewed against the fact that an amount of ₹ 337 crore (₹ 744 crore less ₹ 407 crore) remained to be remitted to the Government account and funds to this extent remained with PIAs, which did not further the cause of RGGVY.

4.6. Irregular Service Charges / fee paid to State Utilities / CPSUs

RGGVY guidelines issued by MOP (6 February 2008) laid down that SPUs and CPSUs be provided eight *per cent* and nine *per cent* respectively of the project cost as service charges for implementing the scheme and also for meeting additional expenditure in XI Plan. In the note of MOP to CCEA for X Plan as well as RGGVY guidelines (March 2005) there was no provision of service charges. However, SPUs and CPSUs were paid service charges of ₹ 1,099 crore at the rate of 10 *per cent* and 12 *per cent* respectively of the project cost for implementation of projects in X Plan.

MOP replied (August 2013) that, *"As per RGGVY guidelines for DPR formulation 12 per cent service charges of the total project cost for CPSUs and 10 per cent overhead charges to State Power Utilities are payable for overall implementation of the project. It has been mentioned in the note for XI plan for the approval of CCEA that the agency charges paid to State utilities and CPSUs, presently 10 and 12 per cent respectively was proposed to be revised to 8 and 9 per cent respectively."*

The reply of MOP does not establish that there was a provision for the payment of service charges to PIAs either in the CCEA note for X Plan or the scheme guidelines or tripartite/quadripartite agreement. No explicit approval was obtained from CCEA for the same for X Plan.

4.7. Temporary diversion of RGGVY funds for non-RGGVY purposes

Instances were noticed where RGGVY funds amounting to **₹ 157.78 crore** were mixed with general funds of DISCOMs leading to their diversion for other purposes, as follows:

- In **Haryana**, DISCOMs[39] diverted (July 2012) RGGVY funds to the extent of ₹ 3.14 crore[40].
- In **Himachal Pradesh**, funds received as 1st installment for Chamba district project amounting to ₹ 7.48 crore were utilized by the DISCOM for meeting its own day-to-day requirements.
- In **Karnataka,** DISCOMs[41] diverted ₹ 128.43 crore for purposes other than RGGVY e.g. power purchase, salary payments, payment of contractors' bills of other works, repayment of borrowings *etc*.

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[39] Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL)-₹ 1.84 crore (forfeited Bank Guarantee not credited to the Bhivani project funds), Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL)-utlised ₹1.30 crore for making interest payment to REC

[40] An amount of ₹ 1.83 crore was returned, as per Ministry of Power, after audit (July 2013).

[41] Bangalore Electricity Supply Company Limited (BESCOM)- ₹57.08 crore and Gulbarga Electricity Supply Company Limited(GESCOM) ₹ 71.35 crore

- In **Maharashtra,** a DISCOM transferred funds to its Cash Credit Account availed for meeting working capital requirements immediately after receipt from REC.

- In **Rajasthan**, one DISCOM[42] used RGGVY funds for making payments to contractors through its common account, till opening of a separate account. Another DISCOM[43] procured Fixed Deposit Receipts of ₹12.60 crore from RGVVY funds in April 2009/February 2010 and used the balance RGGVY funds for servicing cash credit**.**

- In **Sikkim,** Energy and Power Department (EPD) utilised ₹ 0.13 crore for procurement of two vehicles.

- In **Uttar Pradesh**, DISCOM[44] diverted (September 2012) ₹ 6 crore to Sonebhadra project from Kaushambi and Fatehpur Projects of Purvanchal Vidyut Vitaran Nigam Limited (PuVVNL), against the directives of REC.

- Further, in **Andhra Pradesh and Gujarat**, the DISCOMs transferred RGGVY funds to their general accounts/ holding company[45] immediately after receipt leaving only minimum balance in the special account opened for RGGVY funds and kept using RGGVY funds for their own purposes.

4.8. Irregular charging of State and local taxes to RGGVY fund

Guidelines issued (February 2008) by MOP stipulated that capital subsidy would be provided towards overall cost of projects under the Scheme, excluding the amount of State or local taxes. Such taxes were to be borne by the concerned State/SPU. Further, REC also directed (August 2010) PIAs to claim State or local taxes incurred by the latter from the State Government and not to include the same in the project cost.

In **eight States**[46], an amount of **₹ 59.75 crore (Annexe 8)** was paid from RGGVY funds towards State/local taxes which ought to have been borne by the concerned State/SPU.

MOP stated (August 2013) that, "*REC has already requested all PIAs to segregate State tax component from project cost. Most of the PIAs have shown their inability to segregate such taxes till completion of project and have requested to retain an amount @1.5 per cent of project cost for all ongoing XI plan projects, till such details are made available. In view of this, REC has retained an amount of ₹ 62.86 crore (in respect of 8 States) to the extent of 1.5 per cent of project cost. In respect of the States wherever details of actual tax are available, the same have not been released to PIAs. The tax so retained or any due tax as per actual shall be adjusted/recovered while releasing final installment.*"

[42] Jaipur Vidyut Vitran Nigam Limited (JVVNL)
[43] Jodhpur Vidyut Vitran Nigam Limited (JdVVNL)
[44] Uttar Pradesh Power Corporation Limited
[45] Gujarat Urja Vikas Nigam Limited (GUVNL) in Gujarat
[46] Bihar, Himachal Pradesh, Jammu and Kashmir, Karnataka, Maharashtra, Mizoram, Punjab and Sikkim

The fact remains that RGGVY funds were burdened with avoidable additional liability that was required to be borne by States, depriving proportionate benefits from reaching the intended beneficiaries.

Recommendations

R3: MOP may consider instituting an accounting mechanism at all levels (MOP, REC and PIAs) that ensures real-time watch over the actual release and receipt of funds and interest accounted on unspent balances.

R4: MOP and the nodal agency, REC may take immediate action to recover / adjust the interest earned by PIAs on capital subsidy kept in banks and RGGVY funds that were utilized for payment of State / local taxes, against project costs.