

OVERVIEW

1. Overview of Government companies and Statutory corporations

As on 31 March 2001, the State of Karnataka had 76 Public Sector Undertakings (PSUs) comprising 70 Government companies and six Statutory corporations as against 77 PSUs during the last year. The number of non-working Government companies, as on 31 March 2001 were 13, which were the same during last year also. In addition, there were three companies under the purview of 619-B of the companies Act, 1956 as on 31 March 2001.

The total investment in working PSUs increased from Rs.16,570.72 crore as on 31 March 2000 to Rs.19,216.77 crore as on 31 March 2001. The total investment in non-working PSUs also increased from Rs.71.42 crore to Rs.77.90 crore during the same period.

The budgetary support in the form of capital, loans, grants and subsidy disbursed to the working PSUs increased from Rs.1,717.37 crore in 1999-2000 to Rs. 3,974.18 crore in 2000-2001. The State Government also contributed Rs.2.92 crore in the form of loans to 5 non-working companies during 2000-2001. The State Government guaranteed loans aggregating Rs.610.19 crore during 2000-2001. The total amount of outstanding loans guaranteed by the State Government increased from Rs.5,299.61 crore as 31 March 2000 to Rs.7,993.95 crore as on 31 March 2001.

Twenty-six working Government companies have finalised their accounts for the year 2000-01. The accounts of remaining Government companies and six working Statutory corporations were in arrears for periods ranging from one year to 4 years as on 31 March 2001. The accounts of 6 non-working Government companies were in arrear for periods ranging from one year to 3 years as on 31 March 2001.

According to latest finalised accounts, 14 working PSUs (11 Government Companies and 3 Statutory corporations) earned aggregate profit of Rs.65.64 crore, out of which only 3 working Government companies and one statutory corporation declared dividend of Rs. 3.80 crore and Rs.0.26 crore respectively. 26 working PSUs (24 Government companies and 2 Statutory corporations) incurred aggregate loss of Rs. 388.39 crore as per the latest finalised accounts. Of the loss incurring working Government companies 13 companies had accumulated losses aggregating to Rs.341.80 crore which exceeded their aggregate paid up capital of Rs.132.04 crore by more than two times. Loss incurring Statutory corporations had accumulated loss of Rs.470.18 crore, which exceeded its paid up capital of Rs.395.01 crore.

In Karnataka State Warehousing Corporation the average expenses per tonne per year increased sharply from Rs.158.81 in 1999-2000 to Rs.238.75 in 2000-01.

Even after completion of 5 years of their existence, the turnover of 13 Government companies has been less than Rs.5.00 crore during the last five years as per latest finalised accounts. Similarly two Government companies had been incurring losses for five consecutive years as per their latest finalised accounts; leading to negative net-worth. In view of poor performance and continuous losses, the Government may either improve performance of these companies or consider their closure.

(Paragraph No.1,1.2,1.3,1.7 and 1.10)

2 Reviews relating to Government companies

2.1 Review on Power purchase from private power producers by Karnataka Power Transmission Corporation Limited.

With a view to tackling the power crisis in the State the Government of Karnataka decided in June 1992 to encourage private participation in power generation / distribution by (i) promoting power projects (large, medium, mini and micro) in private sector, (ii) providing the facility of wheeling and banking by making use of transmission and distribution system of Board, (iii) providing incentives for installation of captive power generating units and (iv) allowing private participation in power generation

During the last 10 years, 57 private power producers established power plants having a capacity of 1142 MW. The company has signed 37 power purchase agreements with private power producers for purchase of power, against which 14 projects were commissioned as on 31 March 2001. The Board had extended undue benefits to the private power producers by agreeing to higher tariff rates due to shorter agreement period and by providing excess time for switching over to combined cycle etc., Some of the clauses in the power purchase agreement dealing with variable cost, incentives, deemed generation and payment terms were detrimental to the interest of the Board. This has increased the cost of power purchased from private power producers, which would ultimately burden the consumers. Some of the important points included in the review are given below:

- Tannir Bavi Power Company, Tata Power Company and Sree Rayalaseema Alkalies and Allied Chemicals established power plants under bid route with a proposed tariff of Rs.2.62, Rs.2.79 and Rs.2.57 per unit respectively, whereas, the actual tariff on the basis of March 2001 prices of fuel worked out to Rs.5.16, Rs.4.59 and Rs.4.66 per unit respectively.

(Paragraph 2A.5.1)

- Acceptance of increase in capacity from 246.8 MW to 301.3 MW of two IPPs, the Company was burdened with an additional liability of Rs.78.88 crore per annum towards fixed charges.

(Paragraph 2A.5.2.2)

- Inclusion of escalation clause in “Other Fixed Charges” in power purchase agreements with Tannir Bavi Power Company and Tata Power Company resulted in additional burden of Rs.160.07 crore.

(Paragraph 2A.5.5.2)

- Agreeing to bear the actual fuel cost instead of fixed fuel cost in the first year in the power purchase agreement with Tannir Bavi Power Company resulted in additional burden of Rs.224.42 crore during the first year.

(Paragraph 2A.5.5.5)

- Non-adoption of two-part tariff for purchase of power from Jindal Tractabel Power Company Limited as suggested by consultant resulted in additional liability of Rs.355.07 crore.

(Paragraph 2A.6(iii))

2.2 Working of Karnataka State Small Industries Development Corporation Limited.

The company was incorporated in April 1960 with a view to assist, finance, protect and promote the interest of small-scale entrepreneurs for the overall development of small-scale industries in the State. The company had acquired land and formed industrial estates without conducting proper demand survey resulting in vacancy of plots and sheds. The company disregarded Board guidelines and fixed higher cost for sheds defeating the very purpose of encouraging small-scale industries in the State. The profitability of trading activities was not worked out and the recovery of dues has shown a declining trend leading to accumulation of arrears.

Some of the important points included in the review are as follows.

- The company has acquired 2619 acres of land of which only 1613 acres (61.60 per cent) were utilised for the development of plots/construction of industrial sheds. Further, out of 3285 plots developed by the company, 961 plots remained vacant as on 31 March 2001, which includes 639 plots vacant for more than 10 years.

(Paragraph 2B.7 and 2B.8)

- The Company constructed 3981 sheds in 76 industrial estates, of which 314 sheds (cost Rs.13.41 crore) were lying vacant. Out of 314 sheds 87 sheds were vacant for more than 5 years resulting in locking of funds to the extent of Rs.3.31 crore.

(Paragraph 2B.9.2)

- Delay in providing electricity from the date of completion of civil works led to locking up of Rs.13.53 crore from 4 to 64 months and consequential loss of interest of Rs.5.01 crore.

(Paragraph 2B.9.3)

- Non-working of interest on outstanding dues towards sale of IPCL materials, failure to debit customers accounts for cheques dishonoured, crediting of amounts received from customers to other accounts and irregular extension of cash discounts led to undue favour of Rs.4.51 crore.

(Paragraph 11.2 (b))

3 Reviews relating to Statutory Corporations

Working of Karnataka State Financial Corporation.

The corporation was established in March 1959 for extending financial assistance to entrepreneurs for setting up of tiny, small and medium scale industrial units in the state. Most of the units had become sick or unviable. The non performing loans constituted 48 per cent of the total dues outstanding as on 31 March 2001, this was mainly due to failure of appraisal, follow-up. The net-worth of the corporation was eroded during 1998-99. Some of the important points noticed in the review are as under

- The gap between the borrowings and net outstanding loans increased from Rs.297 crore in 1996-97 to Rs.1,327.08 crore in 2000-01 and the Corporation had not evolved asset liability management system to avoid fresh borrowings to repay earlier loans.

(Paragraph 3.7)

- The targets fixed for recovery of term loans ranged from 48.04 per cent to 58.34 per cent during 5 years ending 31 March 2001 and the recovery percentage declined from 55 per cent in 1996-97 to 36 per cent in 2000-01. Net recoverable has increased from Rs.979.18 crore in 1996-97 to Rs.1,280.25 crore in 2000-01.

(Paragraph 3.8.2)

- The non-performing assets of subscription to non-convertible debentures and factoring services was 66 per cent and 92 per cent respectively as on 31 March 2001. In respect of cases test checked in Audit an amount of Rs.47.23 crore has become bad/doubtful due to weak appraisal and post disbursement monitoring.

(Paragraph 3.9.1, 3.9.2 and Annexure 18)

4 Besides the reviews mentioned above, test check of the records of Government companies and Statutory Corporations in general disclosed the following irregularities

- Payment of daily allowance in excess of prescribed limits, for hotel accommodation charges without submission of vouchers, lumpsum allowance and out of pocket expenses which were not admissible and payment of entertainment expenditure without submission of vouchers to the **officials of Companies and officers of the Government of**

Karnataka led to excess/irregular payment of US\$ 1,29,524 (Rs.55.36 lakh).

(Paragraph 4A.1.1)

- Purchase of conductors by **Karnataka Power Transmission Corporation Limited** at higher rates under international competitive bidding when compared to rates paid under local competitive bidding resulted in additional expenditure of Rs.8.17 crore.

(Paragraph 4A.2.1)

- Failure of **Karnataka Power Transmission Corporation Limited** to exclude the element of entry tax which was not payable in computation of free on road destination prices resulted in extra expenditure of Rs.6.30 crore.

(Paragraph 4A.2.2)

- **Karnataka Power Transmission Corporation Limited** incurred extra expenditure of Rs.1.86 crore due to direct entrustment of work based on schedule of rates instead of working out data rates for mechanical excavation.

(Paragraph 4A.2.5)

- Payment of advances by **Visveswaraya Vidyuth Nigam Limited** under old system after switching over to a new system resulted in locking up of funds and consequential loss of interest of Rs.1.45 crore.

(Paragraph 4A.3.1)

- Payment at higher rates for construction of distributories by **Krishna Bhagya Jala Nigam Limited** resulted in additional expenditure of Rs.1.93 crore.

(Paragraph 4A.4.1)