TWELFTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2006-2008)

FIFTH REPORT

(Presented on 17th October, 2006)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2006

TWELFTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
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FIFTH REPORT

On

Kerala State Drugs and Pharmaceuticals Ltd. based on the Report of the Comptroller and Auditor General of India for the year ended 31-3-2003 (Commercial)

961/2006.

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2006-2008), having been authorised by the Committee to present the Report on their behalf, present this Fifth Report on Kerala State Drugs and Pharmaceuticals Ltd. based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2003 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the year ended 31st March 2003 was laid on the Table of the House on 28-6-2004. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2004-2006.

This Report was considered and approved by the Committee at the meeting held on 9-10-2006.

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

The Committee wish to express their thanks to the officials of the Industries Department of the Secretariat and Kerala State Drugs and Pharmaceuticals Ltd. for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Industries Department and Finance Department and the officials of the Kerala State Drugs and Pharmaceuticals Ltd. who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
17th October, 2006.

Chairman,
Committee on Public Undertakings.

REPORT

KERALA STATE DRUGS AND PHARMACEUTICALS LIMITED

AUDIT PARAGRAPH

Wasteful expenditure:

Payment of incentive to employees without ensuring the stipulated increase in productivity resulted in wasteful expenditure of Rs. 68.82 lakh.

The Company which was engaged in the manufacture and trading of drugs and pharmaceuticals had been incurring losses since 1995-96. With a view to improving the productivity and achieving the break even sales of Rs. 18 crore, the Government conducted (February 2000) tripartite discussions with the representatives of the management and the trade unions. A Memorandum of Settlement was signed (April 2000) between the Company and the workers. As per the settlement, the productivity was to increase by 70 per cent for which an incentive of 25, 10 and 7 per cent of basic pay plus DA was to be paid to the employees of category A, B and C respectively. However, as per the concurrence given (April 2000) by the Government, forming part of the settlement, tying up of sale orders and achievement of performance was not to be made pre-conditions for payment of incentive.

It was noticed in Audit that the Company recorded a sales performance of Rs. 18.62 crore in 1997-98 with the then existing work norms. However, after introducing (April 2000) the incentive scheme with revised work norms involving 70 per cent increase in productivity, the sales recorded during the two years, ie., 2000-01 and 2001-02 were only Rs. 8.52 crore and Rs. 4.74 crore respectively. The actual production also came down from Rs. 14.50 crore in 1997-98 to Rs. 3.69 crore in 2002-03 indicating that incentive scheme did not yield any result. Without ensuring performance, the Company paid to its employees incentive of Rs. 21.30 lakh, Rs. 23.16 lakh and Rs. 24.36 lakh respectively during the three years ended 31 March, 2003.

Thus, the payment of incentive to employees without ensuring the production performance stipulated in the settlement resulted in wasteful expenditure of Rs. 68.82 lakh.

Government stated (September 2003) that the scope of discontinuing the incentive for higher production was being examined and a final decision would be intimated. However, the reply is silent about the recovery of incentive already paid to the employees.

KNPP. 961/2006.

[Para 4.1—Contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2003 (Commercial)]

The notes furnished by Government on the para is given in Appendix II.

1. The Committee found that incentive to employees amounting to Rs. 68.82 lakh was paid without ensuring the pre-conditions of improving productivity and achieving break even sales stipulated in the agreement. In the light of the concurrence given by the Government the pre-conditions forming part of the settlement that tying up of sales orders and achievement of performance were not considered for payment of incentive. The Committee enquired why sales and production came down from Rs. 18.62 crore to Rs. 4.74 crore and from Rs. 14.50 crore to Rs. 3.69 crore respectively.

The witness informed that the above situation was due to the shortage of working capital. As per the work study conducted by the productivity council, the attainable production of Rs. 23 crore. However the production steadly declined from next years onwards. The Committee enquired whether there was any understanding to pay enhanced wages to the employees on the basis of work study conducted. The witness informed that a discussion was held at the chamber of the then Minister for Industries and on the basis of the discussion, a decision was taken for implementing the wage rise.

2. The Committee observed that an agreement was made for enhancing the production by 70 per cent for which an incentive of 25, 10 and 7 per cent of the basic pay plus DA had to be paid to the employees of category A, B & C respectively. However without enhancing production, incentive to the tune of Rs. 21.30 lakh, Rs. 23.16 lakh and Rs. 24.36 lakh respectively was paid to the employees during the three years ending 31st March, 2003. The witness stated that as per the Government clarification, the tying up of orders and achievements of performance need not be taken into account as a pre-condition for payment of incentive to employees. The Committee observed that there was no relation between sales and salaries of employees.

3. The Managing Director, KSDP also stated that actually it was a wage revision even though it was given as an incentive to employees. The Committee did not agree with the arguments of the witness and pointed out that it was only an incentive scheme and not a wage enhancement agreement, since it stipulated for 70% enhancement of production.

4. The Committee wanted to know how the production and sale of medicines came down even after getting assistance from Government. The witness replied that it was due to shortage of working capital. The Principal Secretary, Industries department disclosed that Health Department usually

purchased medicine from KSDP only after inviting tenders and not by price negotiation process. He added that KSDP was supplying medicines to Government incurring heavy loss since it could not compete with private companies owing to its high cost of production. The witness informed that the production declined when the company had to spend working capital for other purposes. It was also stated that when the Productivity Council had studied the various measures for increasing productivity, the employees union's demanded wage increase. He added that when it was found that the production did not reach the expected level, the payment of incentive was withdrawn and began to effect recovery from the employees. The Committee wanted to know the details of the amount recovered so far. The witness stated that eight months salary was in arrear and when it would be paid the recovery would also be effected from the salary of the employees.

5. To a specific question regarding the present position of the company, the Principal Secretary, Industries Department, stated that production had come to a stand still and therefore, a decision was taken to hand over the Company to Hindustan Latex Limited as they were willing to take over it voluntarily.

6. Enquired about the possibility of reviving the Company, the witness informed that 214 persons were employed in the Company at present and 170 workers were retired under the Voluntary Retirement Scheme. An amount of Rs. 7 crore had been spent for it and Rs. 18 crore was needed for the revival of the Company. The witness informed that as per the policy of Government one time Assistance was given to all the Public Sector undertakings which could be revived after receiving the one time Assistance. The Government was also contemplating and discussing about the revival of the sick public sector undertakings in the state. The Government was considering the rehabilitation proposal submitted by Kerala State Drugs and Pharmaceuticals Limited. As per the proposal, Rs. 18 crore was needed for the payment of outstanding liabilities of the Company and the working capital should also be provided. Over and above, Government should also ensure that they would buy all the 17 items of life saving medicines manufactured by the Company after price negotiation, since it could not compete with the other private companies due to high cost of production.

7. The Committee pointed out that the present and the previous Government were buying medicines from the Company on the basis of open tender and if the Government continued to buy medicines from the Company, the Health Department would have to spend a huge amount from Government allocation for buying medicines from the Company and it would result in shortage of fund for buying other medicines. The Committee opined that the

proposal was not viable and was strictly against the policies of both Central and State Governments to sustain companies by giving subsidies. The Committee also opined that it was a policy to be decided by the Government and it was impossible to provide a huge amount of Rs.18 crore for the revival of the Company and to buy the medicines from them at the rate fixed by the Company.

8. The Committee decided to recommend that the incentive paid to the employees without increasing the productivity up to the desired level should be recovered from them.

Conclusion/Recommendation

9. The Committee find that Rs. 68.82 lakh was paid to the employees without fulfilling the pre-conditions of enhancing the production by 70% as stipulated in the agreement for payment of incentive. The Committee understands that Rs. 18 crore is needed for the payment of outstanding liabilities of the company and besides that the working capital has also to be provided for the revival of the Company. The Committee opined that it is impossible to provide a huge amount for the revival of the Company and also to buy the medicines from them at the rate fixed by the Company. The Committee recommend that the incentive paid to the employees, without any increase in the production level, should be recovered from them and the details be informed to it.

MANKODE RADHAKRISHNAN,

Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
17th October, 2006.

APPENDIX I

Summary of main Conclusion/Recommendation

Para No.	*Department concerned*	*Conclusion/Recommendation*
9	Industries	The Committee finds that Rs. 68.82 lakh was paid to the employees without fulfilling the pre-conditions of enhancing the productions by 70% stipulated in the agreement for payment of incentive. The Committee understands that Rs. 18 crore is needed for the payment of outstanding liabilities of the company at and besides that the working capital has so be provided for the revival of the Company. The Committee opined that it is impossible to provide a huge amount for the revival of the Company and to buy the medicines from them at the rate fixed by the Company. The Committee recommends that the incentive paid to the employees without increasing the production upto the desired level should be recovered from them and the detail be informed to it.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON AUDIT PARA

Report of the C & AG for the year ended 31-3-2003 (Commercial)

Chapter IV—Para 4.1—Statement of remedial Action Taken

Para No.	*Audit Para*	*Action Taken*
(1)	(2)	(3)
4.1	*Wasteful expenditure* Payment of incentive to employees without ensuring the stipulated increase in productivity resulted in wasteful expenditure of Rs. 68. 82 lakhs. The Company which was engaged in the manufacture and trading of drugs and Pharmaceuticals had been incurring losses since 1995-96. With a view to improving the productivity and achieving the break even sales of Rs. 18 crore, the Government conducted (February 2000) tripartite discussions with the representatives of the management and the trade unions. A Memorandum of Settlement was signed (April 2000) between the Company and the workers. As per the settlement, the productivity was to increase by 70 per cent for which an incentive of 25 and 7 per cent of basic pay plus D. A. was to be paid to the employees of category A, B and C respectively. However, as per the concurrence given (April 2000) by the Government, forming part of the settlement, tying up a sale orders and achievement of performance was not to be made pre-conditions for payment of incentive. It was noticed in Audit that the Company Recorded a sales performance of Rs. 18. 62	Revision of worknorms and payment of incentive were implemented as per the agreement signed between the Trade Unions and Management, in the light of work study conducted by M/s. Kerala State Productivity Council and also the discussions conducted in the Chamber of the then Hon'ble Minister for Industries. It is true that in the Minutes of the Meeting there was stipulation that the Incentive will be available only after getting orders for achieving a turnover of about Rs. 18 crores in the year 2000-01 and tying up adequate working capital. But subsequently Government had given concurrence vide letter No. 9850/D2/2000/ID dated 6-4-2000 that the tying up of orders and achievements of performance need not be made preconditions for payment of incentive to workmen. It was only after

(1)	(2)	(3)
	crore in 1997-98 with the then existing work norms. However, after introducing (April 2000) the incentive scheme with revised worknorms involving 70 per cent increase in productivity, the sales recorded during the two years, ie., 2000-01 and 2001-02 was only Rs. 8.52 crore and Rs. 4.74 crore respectively. The actual production also came down from 14.50 crore in 1997-98 to Rs. 3.69 crore in 2002-03 indicating that incentive scheme did not yield any result. Without ensuring performance, the Company paid to its employees incentive of Rs. 21.30 lakh, Rs. 23.16 lakh, and Rs. 24.36 lakh respectively during the three years ended 31 March 2003. Thus the payment of incentive to employees without ensuring the production performance stipulated in the settlement resulted in wasteful expenditure of Rs. 68.82 lakhs. Government stated (September 2003) that the scope of discontinuing the incentive for higher production was being examined and a final decision would be intimated. However the reply is silent about the recovery of incentive already paid to the employees.	getting the above concurrence, that Management and Trade Unions signed the agreement on 12th April 2000. However, Government have examined the matter in consultation with the Labour Department and decided to discontinue the incentive and to recover the amount already paid, from the employees as and when they start getting regular salary.