

Chapter-IV
Acquisition, Development
and allotment of land for
Industrial purpose by PSUs

CHAPTER-IV: ACQUISITION, DEVELOPMENT AND ALLOTMENT OF LAND FOR INDUSTRIAL PURPOSE BY PSUs

4.1. Introduction

Industrial Policy, 2007 of Government of Kerala (GoK) envisaged a strategy to develop world class industrial infrastructure and balanced regional development in the State through Kerala Industrial Infrastructure Development Corporation (KINFRA), Kerala State Industrial Development Corporation Limited (KSIDC) and Directorate of Industries and Commerce (DIC)¹. The Information Technology (IT) Policy, 2007 of GoK envisaged a ‘Hub and Spoke²’ model of development for widening the IT industrial base within the State through Kerala State Information Technology Infrastructure Limited (KSITIL).

To achieve the above objectives, the Public Sector Undertakings (PSUs) acquire land, creates basic infrastructure facilities and allots land to entrepreneurs as per their requirement. Land acquisition was done as per the provisions of the Land Acquisition Act, 1894 (LA Act) through normal and Fast Track procedure (FTP) where a District Level Purchase Committee (DLPC) undertakes negotiation with landowners and suggests a price for Government approval. Land was also obtained as transfer from GoK. The area of land and the location for each project is determined as per directions of GoK.

Land being scarce and considering the cost involved, Audit reviewed the acquisition, development and allotment of land for industrial purpose by these PSUs viz. KINFRA, KSIDC and KSITIL during 2008-13. The three PSUs have acquired 5003.78 acres of land up to March 2013 and incurred ₹ 763.74 crore (acquisition ₹ 556.51crore and development ₹ 207.23 crore). From the total area, land used for development of infrastructures such as internal road, power supply facilities, drainage, water supply system, etc., is deducted to arrive at the allottable area. The land is allotted to entrepreneurs on lease, based on their project report and availability of land.

Particulars of land available/allotted as of March 2013 were as shown below:

Entity	Total area (acres)	Allottable area (acres)	Allotted area (acres)	Percentage of allotment	No. of allottees
KINFRA	3283.47	2292.49	1842.12	80.35	489
KSIDC-IGC	1096.12	1009.78	447.14	44.28	68
Mega projects/ other projects	219.29	Not estimated	-	-	-
KSITIL	404.90	Partly estimated	1.00	-	01
Total	5003.78		2,290.26		558

Irregularities noticed by Audit in the process of acquisition, development and allotment of land by the three PSUs are discussed in the following paragraphs:

¹ Government Department.

² Technopark in Thiruvananthapuram and Infopark in Ernakulam would be hub around which smaller IT parks in other districts would operate.

Kerala Industrial Infrastructure Development Corporation

KINFRA was established in February 1993 as a Statutory Corporation under the Kerala Industrial Infrastructure Development (KIID) Act, 1993 to promote and assist in rapid and orderly establishment, growth and development of industries in the State. It acquires land as per LA Act/transfer by GoK and allots to entrepreneurs on long term lease and helps in establishing industries.

4.2 Irregularities in acquisition of land

KINFRA acquired (December 1995 - March 2013) 3283.47 acres of land at a cost of ₹ 275.82 crore. About 68.55 *per cent* of total acquisition was in three districts³, 27.47 *per cent* in six districts⁴ and 3.98 *per cent* in four districts⁵. Thus, regional balance was not maintained, derailing the concept of balanced industrial development envisaged in Industrial Policy, 2007.

The category- wise acquisition and allotment of land are as given below:

Sl. No.	Category	No. of parks	Total area (acres)	Allotted area (acres)	No. of allottees
1	Small Industries Park	8	587.49	436.28	316
2	Industrial and Textile Park/ Textile Centre	2	899.05	659.89	71
3	Food Processing Park	2	122.00	41.00	38
4	Other Parks	5	899.84	540.73	63
5	Land not forming part of any park		775.09	164.22 ⁶	01
	Total	17	3,283.47	1,842.12	489

As per system in vogue, the land is identified by the Technical Team⁷ (TT) constituted by KINFRA. Based on the recommendations of TT, Government accorded sanction for acquisition of the identified land. Audit noticed the following irregularities in the acquisition of 124.62 acres of land at a cost of ₹ 69.81 crore.

4.2.1 Wasteful expenditure due to acquisition of land not suitable for industrial purpose

GoK accorded (July 2007) sanction for acquisition of 80 acres of land for setting up a Knowledge Park at Ramanattukara in Kozhikode District and the Land Acquisition Officer (LAO)⁸ issued (December 2007) notification for acquisition. KINFRA acquired (April to October 2010) 77.78 acres of land

³ Ernakulam, Palakkad and Kannur.

⁴ Kasargode, Kozhikode, Malappuram, Pathanamthitta, Thiruvananthapuram and Thrissur

⁵ Idukki, Kollam, Kottayam and Wayand.

⁶ Allotted to Indian Coast Guard.

⁷ Consisting of Technical Advisors –Land Management, Civil and Electrical; Dy. Manager (Technical); Manager (Technical); GM (Projects).

⁸ Officer specially appointed by Government under Section 3 (c) of LA Act to perform functions of a Collector.

incurring an expenditure of ₹ 24.24 crore, which included 69.67 acres (90 per cent) of wet land. The Kerala Conservation of Paddy Land and Wet Land Act, 2008 (the Act) enacted in August 2008 prohibits conversion of paddy land for other purposes and Section 10 (1) of the Act, empowers the Government to grant exemption from the above provision. Though KINFRA requested for granting exemption, Government rejected (November 2011) the request based on the recommendation of State Level Committee⁹. Audit noticed that at the time of enactment (August 2008) of the Act, survey and hearing of objections from land owners¹⁰ in the case referred was in progress and KINFRA could have discontinued the acquisition process. KINFRA, however, continued with the acquisition process and the expenditure of ₹ 24.24 crore incurred became wasteful. On this being pointed out by Audit, the Management stated (January 2014) that KINFRA had filed fresh application for exemption as per Section 10 (1).

4.2.2 Acquisition of land at exorbitant price

KINFRA requested (June 2009) GoK for sanction to acquire 200 acres of unoccupied dry land at Thalassery in Kannur District under the FTP for setting up an industrial park. On receipt of Government Sanction (April 2010), land to be acquired was assessed as 139.68 acres with estimated cost of ₹ 68.31 crore after survey and demarcation. Based on the nature (occupied/unoccupied dry land, garden land), accessibility to road, etc., land was classified into three categories and acquisition value under FTP was assessed by the DLPC at ₹ 60,000, ₹ 50,000 and ₹ 45,000 for a cent of A, B and C categories respectively as against ₹ 19,713, ₹ 16,428 and ₹ 13,142 for a cent fixed under LA Act. The fair value of land fixed (April 2010) by the Government in the same area was only ₹ 6,070 for a cent. KINFRA acquired 46 acres of land under FTP. This resulted in excess expenditure of ₹ 11.63 crore¹¹. On this being pointed out, the Management stated (January 2014) that KINFRA could not be held responsible for the negotiated land value fixed by the DLPC and approved by State Cabinet. Since the negotiated price was high, KINFRA could have explored the possibility of acquiring of alternate and cheaper lands through normal LA procedure instead of the costly FTP route. This assumes significance as the lands are yet to be developed and allotted by KINFRA to entrepreneurs.

The matter was reported (November 2013) to Government, their response is awaited (May 2014).

4.2.3 Extra expenditure on land acquired for setting up Common Facility Centre

The Ministry of Micro Small and Medium Enterprises (MSME), New Delhi accorded (January 2009) sanction for setting up a Common Training Centre as

⁹ Constituted under Section 8 of the Act consisting of Agricultural Production Commissioner, Commissioner of Land Revenue, an expert in the field of environment and a scientist in the field of paddy cultivation.

¹⁰ LA Act - Section 5(A) enquiry.

¹¹ Computed at the difference between minimum value as per FTP and maximum value as per LA Act.
(₹ 45000 – ₹ 19713) x 4600 cents = ₹ 11.63crore; (1 acre = 100 cents).

Common Facility Centre (CFC) in 50 cents of land by Kottayam Jilla Mahila Thazhappaya Vikasana Federal Samithy- the Special Purpose Vehicle (SPV) for providing training on processing and manufacturing of natural fiber & allied products, etc.

The SPV entered into (May 2009) an agreement with land owner for purchase of 83.875 cents of land at a price of ₹ 75,000 for a cent and requested (May 2009) Government to procure the land through a Government agency. As per Government direction (May 2009), KINFRA purchased (July 2010) 83.875 cents of land (Vaikom Taluk, Kottayam District) as against 50 cents required, at a cost of ₹ 62.91 lakh. The land was leased (December 2010/April 2011) to SPV for 30 years at a nominal lease rent of ₹ 100 *per annum* with stipulation that the land should be used within a period of two years from the date of handing over possession.

Audit noticed that ₹ 75,000 for a cent agreed upon by the SPV with the land owner was far above the average price of ₹ 21,109 for a cent fixed by Revenue Authorities in this area plus solatium. This has resulted in extra expenditure of ₹ 49.19 lakh¹². Further, neither KINFRA nor the intended beneficiaries could benefit from the investment made as the leased land has not been utilised for the purpose (March 2013).

On this being pointed out (November 2013), the Management stated (January 2014) that the land was purchased and leased out as per specific orders of Government, the compliance of which were mandatory as per Section 11 of KIID Act, 1993.

Audit found that the land was not utilized within two years for the purpose for which it was acquired. The matter was reported (November 2013) to Government, their response is awaited (May 2014).

4.3 Non- utilisation of allotted land

Lease premium can be paid in lump sum or in installments. For lumpsum payment of premium, lease deed is executed and for installment payment of premium, licence agreement is executed with KINFRA. As per the licence agreements, commercial production should commence within two years from the date of the licence agreement. Non-compliance of this provision would result in cancellation of allotment and resumption of plot¹³. Test check of utilisation of plots allotted revealed that 39 allottees holding 176.51 acres of land in eight parks did not use the allotted land even after expiry of two years violating the licence agreement. The period of non utilisation ranged from two to seven years.

The Management stated (January 2014) that it had cancelled allotments and resumed 154.30 acres. The reply is not correct since the unutilised area of 176.51 acres pointed out by Audit is over and above the area mentioned by the management as already resumed.

¹² (₹ 75,000 x 83.875 cents) – (₹ 27,442 x 50 cents)

¹³ Regulation 26(5)

4.4 Lease premium

4.4.1 Extension of undue benefit by way of unjustified moratorium for repayment of lease premium

As per clause 9 of the Regulations, the allottee has to pay a specified *per cent* of lease premium as down payment within 15/30 days of letter of allotment and the balance, if any, in installments within a period of 10 years with interest as decided by KINFRA. If the allottees fail to remit lease premium within the due date, the allotment is liable to be cancelled and KINFRA can allot such land by collecting the revised lease premium.

Audit scrutiny revealed that in the case of Care Keralam – a private limited company, the Board allowed (April 2008) the allottee to make payment of premium in 10 equal annual installments with moratorium of two years from December 2009.

The moratorium was extended (October 2011) by another eight years (total 10 years) for payment of premium without levying interest. The extension of the undue benefit in violation of the Regulations resulted in loss of interest of ₹ 2.72 crore. On being pointed out, the Management stated (January 2014) that KINFRA had equity contribution of ₹ 1.10 crore in Care Keralam and hence no undue benefits were extended. The reply was not acceptable as the regulation did not permit moratorium without interest even to a company where KINFRA had equity contribution.

4.4.2 Short collection of lease premium due to incorrect fixation

Allotment of land in the Industrial Parks by KINFRA is regulated by the provisions of The Disposal of Land Regulations, 1995 (Regulations). KINFRA allots undeveloped, partially developed and fully developed land to entrepreneurs. The Board of Directors (BoD) of KINFRA approved (September 1999) the basis and guidelines for fixation of lease premium of land. For land, lease premium is fixed based on cost incurred plus overhead at the rate of 15 *per cent*. Apart from this, for developed land, development cost incurred along with five *per cent* over head is also considered for fixing lease premium.

Audit noticed instances of non compliance of above provisions in allotment of 104.71 acres (2007-13) of land to 14 allottees in two parks which resulted in short collection of lease premium of ₹ 12.83 crore as detailed below:

Sl. No	Name of park	No. of parties/ Period of allotment	Area (acres)	Lease premium (₹ in crore)			Remarks
				Due	Collected	Short collection	
1	Hi-techpark, Kalamassery	6 (2007-09)	94.21	68.28	59.37	8.91	15 <i>per cent</i> overhead was not considered for fixing premium
2	Hi-techpark, Kalamassery	3 (2010-13)	4.90	7.35	5.96	1.39	Error in charging overhead and non

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Sl. No	Name of park	No. of parties/ Period of allotment	Area (acres)	Lease premium (₹ in crore)			Remarks
				Due	Collected	Short collection	
							apportionment of cost of land used for road
3	Hi-techpark, Kalamassery	4 (2012-13)	3.60	7.31	5.97	1.34	Overhead at 15 per cent and expenditure incurred on land acquired for road from Seaport Airport road to High tech park were not considered
4	Apparel Park (KIAP), Thiruvananthapuram	1 (2010-11)	2.00	1.19	Nil	1.19	Non-revision of lease premium at the appropriate time
		14	104.71			12.83	

The Management stated (January 2014) that the land was assigned free of cost by Government to KINFRA and hence overhead at the rate of 15 per cent was not collected. The lease premium of land in Kalamassery park was fixed based on value fixed by District Collector. KINFRA should have made provision in the pricing policy for charging overhead in such cases, based on the price fixed by District Collector.

In case of non inclusion of cost of land acquired for road, the Management stated (January 2014) that the Board meeting held in December 1996 decided not to consider cost of external infrastructure for fixing land price. This was not acceptable as the decision to exempt cost of land for road was not in line with the subsequent pricing policy of September 1999.

4.4.3 Undue relaxation of Rules and extension of concessions to RUBCO group

KINFRA allotted (November 1999 - March 2001) 23.435 acres (including additional land of 3.605 acres) of land in Small Industries Park, Thalassery to RUBCO group of companies¹⁴. As per Regulations, the allottees can take possession of the allotted land only after payment of first installment of lease premium and execution of licence agreement. Further, as per the lease deed, payments made towards additional compensation to land owners consequent to settlement of Court cases were to be recovered from allottees in proportion to their land holdings. The Lease deed also provided for utilisation of land within a period of two years failing which the lesser shall be entitled to repossess the entire land and payment of all rates, taxes, charges in time.

¹⁴ RUBCO is a Society registered under Kerala Co-operative Societies Act, 1969 and its group companies are RUBCO Sales International Ltd., RUBCO Huat Woods Private Ltd.

Review of the allotments revealed extension of undue concessions as detailed below:

- RUBCO group, took possession of additional land of 3.605 acres (August 2000) before remittance of first installment of lease premium and execution of licence agreement. Though the premium of ₹ 44.98 lakh still remains unpaid (March 2013), KINFRA has not initiated any action to resume the land (March 2014);
- KINFRA demanded (January 2012) additional premium of ₹ 96.01 lakh on account of additional compensation paid to land owners for the area allotted to them. However, the firms have not remitted the additional premium of ₹ 96.01 lakh ;
- RUBCO failed to remit the common facility charges, water charges and annual licence fee amounting to ₹ 52.80 lakh for the period up to December 2012 ;
- RUBCO sales unit to which five acres of land was allotted (December 2000 - March 2001) has not yet commissioned the unit (March 2013).

On being pointed out, the Management stated (January 2014) that revenue recovery proceedings had been initiated to recover the dues.

A similar undue benefit of ₹ 3.13 crore extended to RUBCO by KSIDC noticed in audit is mentioned in para 4.7.

Kerala State Industrial Development Corporation Limited

KSIDC was established in July 1961 under the Companies Act, 1956 to promote, establish and execute medium and large scale industries. It acts as an implementing agency of Government for acquisition, development and allotment of land at Industrial Growth Centres (IGCs)¹⁵. Decisions about acquisition, development and allotment are taken by Project Implementation Committee¹⁶ (PIC) of Government. It also implements the Mega projects announced by GoK.

For industrial development of backward areas in the country, Government of India (GoI) launched (1988) a scheme for establishment of IGCs. The scheme envisaged development of infrastructure facilities in backward areas and leasing on long term basis to entrepreneurs for setting up industrial units. As per the scheme, GoK entrusted (1995) KSIDC, the task of development and management of IGCs. KSIDC acquired (1998-2000) 1,096.12 acres of land in four districts¹⁷ for which KSIDC received ₹ 136.77 crore from Government and incurred an expenditure of ₹ 143.05 crore (acquisition ₹ 82.54 crore and development ₹ 60.51 crore) up to March 2013. Out of ₹ 53.89 crore receivable

¹⁵ Centres established under the scheme of Government of India for industrial development of backward areas.

¹⁶ Consisting of Principal Secretary (Industries) as Chairman, Managing Directors of KSIDC and KINFRA, Additional Secretary (Investment promotion), Director of Industries and Commerce, General Manager/Deputy Manager KSIDC and Additional Secretary (Finance).

¹⁷ Alappuzha (Cherthala): 278.80 acres, Malappuram: 258 acres, Kozhikode: 308.27 acres and Kannur: 251.05 acres.

as lease premium from the allottees, ₹ 25.91 crore was outstanding as of March 2013.

KSIDC also acquired (2008-13) 219.29 acres of land identified either by it or transferred by GoK by incurring expenditure of ₹ 85.97 crore for mega projects. The allottable area of land under mega projects has not been estimated so far (March 2013).

4.5 Delayed development of land in IGCs

IGC Scheme envisaged creation of infrastructure facilities like access roads, water supply system, effluent treatment system, telecommunication system, distribution net work for power, banking etc. KSIDC executed developmental works incurring expenditure of ₹ 60.51 crore. Audit noticed that there was delay in developing required infrastructure facilities in IGCs covering area of 1096.12 acres acquired during 1998-2000. Construction of compound walls and street lighting were not completed in any of the IGCs. Supply of power in IGC Kozhikode was provided in 2011 only, water supply system was not operational and Effluent Treatment Plant not yet constructed. Further no infrastructural facilities were developed in IGCs Alappuzha and Malappuram. Consequently, the response from entrepreneurs was poor. On being pointed out, the Management stated (March 2014) that delay in development of land in IGCs was due to non allocation of sufficient fund from Government.

4.6 Undue benefit to a private sector company, INKID

4.6.1 Unusual Joint Venture (JV) arrangements leading to transfer of land to private hands

Infrastructures Kerala Ltd (INKEL) is a company registered (March 2007) under the Companies Act, 1956 stated to be formed for bringing together Government agencies and prominent global investors and NRI industrialists and businessmen for large scale private investment in infrastructure development. The share of Government and PSUs in INKEL was 38.16 per cent.

To create basic infrastructure in the State, Industries Department, GoK issued (July 2008)¹⁸ orders for signing MoU with Public Sector Undertakings for forming JV with INKEL. KSIDC executed (January 2010) a JV agreement with INKEL and registered (February 2010) a JV Company by name INKEL – KSIDC Projects Ltd. (INKID) under the Companies Act, 1956. The Share holding of INKEL and KSIDC in the JV was 74 per cent and 26 per cent respectively.

KSIDC leased out (September 2010) 243.79 acres¹⁹ of land at IGC, Malappuram to INKID for a period of 90 years at a lease premium of ₹ 36.52 crore to be paid in three installments within 24 months along with interest. Out of the above, INKID surrendered 75 acres to KSIDC for onward transfer to English and Foreign Language University²⁰, Hyderabad (EFLU) as per Government Order (February 2013). The lease premium for the balance

¹⁸ GO (Ord.) No. 836/2008/IND dated 26.07.2008

¹⁹ Out of the allottable area of 251.29 acres held by KSIDC at IGC, Malappuram, it had allotted 7.50 acres (July-October 2005) and remaining land held was 243.79 acres.

²⁰ A Central University.

allotted land (168.79 acres) was fixed at ₹ 25.28 crore (at the rate ₹ 14,979 for a cent).

In this connection, Audit observed the following:

- INKID decided in May 2010 ie. before execution of lease deed with the KSIDC (September 2010) to sublease 25 *per cent* (60.95 acres) of land to the JV partners (INKEL and KSIDC) for 89 years, in proportion to their share holdings, (74:26) for a lease premium of ₹18,129 for a cent as against ₹ 14,979 for a cent paid to the KSIDC. As the land offered to the KSIDC was not accepted, the total 60.95 acres was taken possession of by INKEL. Thus, one of the JV partners (INKEL) got possession of 60.95 acres of Government land through a sub-leasing route that was not contemplated while forming the JV. On being pointed out by Audit, the Management stated (March 2014) that it was an internal matter of INKID. The reply was not acceptable because the unusual JV arrangements of INKEL and KSIDC has resulted in transfer of Government land to a private party. Further there was no provision in lease deed executed with INKID for subleasing land to promoters.
- As per the pricing policy for land adopted by KSIDC, lease premium to be collected for 168.79 acres was ₹ 34.03 crore (₹ 20,15,944 per acre) against ₹ 25.28 crore received. Thus, there was short recovery of lease premium by ₹ 8.75 crore.
- Though the lease deed provided for payment of interest by INKID for the installments, interest amounting to ₹ 3.16 crore (for the period from September 2010 – April 2013) was not paid by INKID. On being pointed out by Audit, the Management stated (March 2014) that the matter had been taken up with Government. As interest was to be collected as per lease deed, the decision to take up the matter with Government lacked justification.
- The then Additional Chief Secretary (Industries Department) to GoK involved in the decision making relating to the transfer of land to INKID was the Managing Director of INKEL, a post he continued to hold even after his superannuation as well as Chairman of INKID, as a nominee of INKEL, indicating conflict of interest.
- As KSIDC did not create the required infrastructure for attracting industries, 97.02 *per cent* of the allottable area (251.29 acres) remained vacant for 12 years.

Thus, the aim of GoI to create facilities for attracting industries to backward areas was not achieved.

4.6.2 Allotment of land at low premium/holding of leased out land on sublease at higher premium

GoK transferred (August 2009) 30 acres of land at Angamali to KSIDC for infrastructure development and as per the order, the land was leased (August 2010) to INKID for 90 years for promoting projects in the land. The land was

transferred to the JV at a lease premium of ₹ 27.86 crore (at the rate of ₹ 92,914 for a cent). INKID sub leased (November 2010) 5.55 acres to INKEL and 1.95 acres to KSIDC at a lease premium of ₹ 1.12 lakh for a cent.

Audit observed the following:

- The land was transferred (August 2010) to INKID in which controlling stake was held by INKEL at a lease premium of ₹ 92,914 for a cent as fixed by the District Collector (October 2009). The fair value of land with effect from April 2010 was ₹ 4.67 lakh for a cent. Thus, land located at prime area was transferred to INKID, a private sector company at price far below the fair value suffering loss of ₹ 112.35 crore²¹. Due to under valuation of the land, Government suffered additional loss of ₹ 11.23 crore towards stamp duty and registration fee. Further, 5.55 acres of the above land was sub leased to INKEL exclusively for its use at the rate of ₹ 1.12 lakh for a cent against the fair value of ₹ 4.67 lakh for a cent. Thus INKEL got exclusive possession of 5.55 acres of Government land at low price indirectly
- Though the lease deed provided for payment of interest by INKID for instalments of premium till payment was completed, interest amounting to ₹ 1.47 crore (from August 2010 – September 2012) was not paid by INKID.
- INKID subleased 1.95 acres of land to KSIDC for a lease premium of ₹ 2.18 crore (at the rate of ₹ 1.12 lakh for a cent) thus incurring avoidable expenditure of ₹ 82.77 lakh. The purpose for which same was taken on sub lease was also not on record and KSIDC has not yet utilised the land (March 2013). In effect KSIDC took back its own land at higher price.

The Management stated (June 2013) that this was an industrial land and not a commercial land, the losses shown were not realistic and that GoK held 26 *per cent* stakes in INKEL where the Chairman and Managing Director were appointed by GoK. The reply was not acceptable since no condition was put in the lease agreement to guard that the land was used only for industrial purpose and the objectives of INKID included operation, maintenance and selling of commercial complexes. Further, taking back Government land from a private party by paying more is undue favour at cost of public money.

4.7 Undue favour to RUBCO

KSIDC leased out four pieces of land measuring 13.06 acres at IGC, Kannur to RUBCO (lessee) for establishing manufacturing units and executed (January 2003) four lease agreements and handed over possession during 1998-2002. The ten year lease period was to expire between May 2008 and September 2012. As per the lease deed, the lessee was liable to pay ₹ 360.20 lakh (initial deposit of ₹ 52.24 lakh, lease rent of ₹ 212.62 lakh and service charges of ₹ 95.34 lakh) over a period of ten years. The lessee remitted (June 1998 to January 2003) only the initial deposit of ₹ 52.24 lakh. Towards the end of lease period, the lessee requested (2008) KSIDC to convert the period

²¹ (₹ 4,67,422 – ₹ 92,914) X 3,000 cent = ₹ 112.35 crore.

of lease to 90 years to help them for availing a loan by mortgaging the lease hold land. The proposal was accepted and four revised lease deeds for 90 years were executed (October 2008).

In this connection, Audit observed that:

- The lessee was allowed to convert the period of lease to 90 years commencing from the date of original allotment, instead of from the date of executing the revised lease deed. As per the revised deeds, the lessee was to pay ₹ 66.48 lakh (₹ 5.09 lakh per acre) as lease premium for the entire lease period of 90 years and ₹ 100 per acre per annum as lease rent. KSIDC adjusted (2008) the deposit of ₹ 52.24 lakh paid under the original lease deed against the revised lease premium and received (August 2008) the balance amount of ₹ 14.24 lakh. This action resulted in foregoing the receivables from the lessee as per the existing agreements. Outstanding lease rent and service charge as on date of revision was ₹ 2.41 crore. In effect, the lessee was given benefit of extended lease period of 90 years as against 10 years by accepting a meagre amount of ₹ 14.24 lakh and also lease rent of ₹100 per acre *per annum*.
- The Project Implementation Committee revised (April 2008) the lease premium of IGC Kannur from ₹ 5.09 lakh per acre to ₹ 10.64 lakh per acre. But KSIDC collected only ₹ 5.09 lakh per acre while executing revised lease deeds in October 2008. Collection of lease premium at the rate of ₹ 5.09 lakh per acre for 13.06 acres of land resulted in extending undue benefit to the lessee and loss to KSIDC by ₹ 72.48 lakh.
- Though one plot measuring 3.06 acres (allotted in September 2002) had remained idle for more than ten years, KSIDC did not resume the land.

On being pointed out, the Management stated (March 2014) that as per the new lease agreement, the land was not transferred to the party whereas the original agreement envisaged transfer of land to the party after 10 years. The reply was not acceptable as the allottee violated the terms of agreement by not remitting the annual lease rent and service charges as per original agreement. Thus, waiver of rent and service charges for the period under the possession of the lessee lacked justification. Giving land on lease for 80 years at ₹ 14.24 lakh and lease rent of ₹ 100 per acre tantamount to giving land almost free of cost and undue favour shown to a private party. Further, the KSIDC did not resume the land which remained idle for a very long period.

Kerala State Information Technology Infrastructure Limited

KSITIL was established in January 2008 under the Companies Act, 1956 to develop infrastructure and establish Information Technology Parks in places other than Ernakulam and Thiruvananthapuram. KSITIL is engaged in acquisition, development and allotment of land for IT industries and establishment of techno lodges²².

Considering the huge potential of IT Sectors to generate employment and urgent need for setting up Special Economic Zone (SEZ) based IT parks, GoK

²² Small IT industrial units in rural areas.

accorded (March 2008-January 2009) sanction for setting up seven parks²³. KSITIL acquires land, creates basic infrastructure suitable for use by IT Companies and allots to entrepreneurs on lease for setting up IT industries. The lease premium is fixed based on the cost incurred for acquisition and development and adding three *per cent* overhead and ten *per cent* return on investment. The development work done through co-developers²⁴ is decided by GoK on terms and conditions fixed by Government. KSITIL acquired (2008-13) 404.90 acres of land for the above parks at a total cost of ₹ 112.46 crore.

4.8 Wasteful expenditure due to acquisition of submerged land

GoK accorded sanction (June 2008) to set up IT park at Ambalapuzha in Alappuzha District in about 100 acres of land. Out of this, 80.58 acres was transferred by Forest Department. For acquisition of 19.77 acres, KSITIL transferred (December 2009/January 2010) ₹ 2.50 crore to Infopark (co-developer) and acquired (January-July 2010) 11.73 acres of submerged land from private parties at a cost of ₹ 17.82 lakh. Meanwhile, the Bio Diversity Board²⁵ informed (December 2010) the Government that the land was not suitable for IT Park as it was Ramsar site²⁶ and reclamation of wet land would be violative of Kerala Conservation of Paddy Land and Wet Land Act, 2008. Hence, GoK decided (November 2012) to abandon the project. Thus, the expenditure of ₹ 17.82 lakh incurred for acquisition became wasteful and the balance ₹ 2.32 crore was blocked up with co-developer without earning any interest.

The Management stated (July 2013) that since the land was owned by the GoK, no action was taken to obtain statutory clearance in good faith and that major part of Alappuzha district was below sea level and hence no special importance was given to the fact that the area was submerged. The reply was not acceptable as KSITIL, formed for acquisition of land and development of infrastructure, should have been aware of the prevailing environmental laws and assessed the suitability of land for use by IT companies before acquisition.

4.9 Ineffective pre acquisition survey/defective asset management/deficiencies in safeguarding revenue interests of KSITIL

GoK entrusted (June 2008) the development of IT Parks in the land owned by the KSITIL to co-developers at their cost. In lieu of development, the co-developers were to be allotted 10 *per cent* of land in the parks free of cost for their own development. The co-developers were to:

- construct IT buildings suitable for use by IT companies for setting up their offices as per IT norms and common facility centres, etc.;

²³ At Ambalapuzha, Cherthala, Kannur, Kasargod, Kollam, Koratty and Kozhikode.

²⁴ Technopark, Infopark and Cyberpark who are entrusted the work of developing infrastructure in park.

²⁵ Established for conservation of biodiversity and sustainable utilisation of biological resources-an autonomous body.

²⁶ Land coming under International treaty for conservation and sustainable utilisation of wet land.

- develop necessary basic infrastructure for the whole campus such as road network, street lighting, car parking areas, landscaping, infrastructure of power and water supply, sewage collection, treatment and recycling facilities, land development, etc. and run and manage the same;
- make best efforts for marketing of land and the space within the park.

Audit observations on developments undertaken by the co-developers are discussed below:

4.9.1 Issues in IT park, Kozhikode

KSITIL acquired (February 2009-March 2011) 44.39 acres land for IT park (at Nellicode/Pantheeramkavu Villages in Kozhikode District) at a cost of ₹ 40.63 crore and entered into (November 2011) a lease agreement with Cyberpark, Kozhikode²⁷ for infrastructure development. Audit noticed the following lapses in this regard:

- As per the lease agreement, five acres of land out of available area of 41.89 acres²⁸ was leased free of cost to Cyberpark against the eligibility of 4.20 acres (10 *per cent*). Thus leasing out 0.80 acre free of cost in excess resulted in loss of ₹ 1.53 crore (₹ 1.91 crore per acre x 0.80 acre) to KSITIL.
- As per agreement, co-developer has to bear the expenditure for developmental activities. However, KSITIL bore the burden of ₹ 9.16 crore up to March 2013 for land development and road works contrary to agreement conditions.
- KSITIL allotted (January 2013) one acre of land to Centre for Research and Education for Social Transformation, an autonomous body formed in 2008 at a lease premium of ₹ 1.91 crore without considering the cost of development to be incurred for road works, etc.
- KSITIL was constructing a road from National Highway to the project site partly through the property of a private firm²⁹ to whom the work of construction of road and retaining wall was awarded. KSITIL had acquired parcels of land scattered and surrounded by properties of the firm and other private parties which cannot be used productively and hence proposed to exchange 408.97 cents with the land owned by the firm for construction of the road. Though the road will be commonly used by the KSITIL and the firm, no agreement has been executed for sharing expenditure on construction of road including cost of land.

On being pointed out in Audit, the Management stated (December 2013) that lease premium would be collected from Cyberpark as decided by the BoD; premium was fixed at ₹ 1.91 crore as per direction from Government; and when swapping of land was approved by Government, sharing of expenditure

²⁷ A society registered under Societies Registration Act, 1860.

²⁸ 44.39 acres less land for rehabilitation 2.50 acres.

²⁹ Uralungal labour contract co-operative society Ltd.

on road with the private firm would be solved. No response was received regarding allotment of excess land to Cyber park.

4.9.2 Issues in IT park, Koratty

GoK transferred (January 2009) 30 acres of land at Koratty in Thrissur district for setting up IT park. Infopark, Kochi undertook development of infrastructure in lieu of which 10 *per cent* of land (three acres) was reserved for their own development.

Audit scrutiny revealed the following:

- Infopark earmarked 4.50 acres of land for own development without fixing lease premium for 1.50 acres taken in excess of eligible area of three acres. Based on the land cost fixed by Government plus three *per cent* overhead and ten *per cent* return on investment, the undue favour extended to Infopark worked out to ₹ 1.70 crore³⁰.
- KSITIL disbursed (March-November 2012) ₹ 6.28 crore to Infopark for development activities without fixing any conditions for repayment.
- Infopark unauthorisedly allotted already existing buildings owned by KSITIL after renovating it and collected (January 2010 to March 2013) floor rent of ₹ 3.22 crore. The amount was not transferred to the KSITIL and Infopark treated it as their income.

The Management stated (December 2013) that agreement would be executed with Infopark for the land taken by them. As regard renting out of existing buildings by Infopark they stated that since KSITIL did not spend any money on renovation, there was nothing wrong in Infopark collecting rentals. The fact remains that leasing out was done unauthorisedly and the income therefrom was appropriated by Infopark without knowledge of KSITIL.

4.9.3 Issues in IT park, Cherthala

GoK transferred (June 2008) 66.20 acres of land at Cherthala to KSITIL to set up an IT Park and KSITIL executed (December 2009) a lease deed with Infopark, Kochi for development of the land. As per the agreement, 6.60 acres of land was leased free of cost and 2.4 acres at a premium of ₹ 115.20 lakh (being 80 *per cent* of lease premium fixed ₹ 144 lakh) to Infopark. Against this, Infopark remitted (December 2009) ₹ five lakh only. The balance amount of ₹ 110.20 lakh was to be paid within five years after commissioning of IT building or the first transaction of land by KSITIL with co-developers whichever was later. Infopark completed (March 2013) construction of IT buildings and leased out built up space in the ground floor.

Audit observed the following deficiencies:

- While an amount of ₹ 110.20 lakh was due from Infopark, KSITIL paid ₹ five crore to Infopark (March 2013) without fixing any conditions for repayment.

³⁰ (₹ 1.03 crore per acre (including overhead of 3 per cent) x 1.50 acre) x 1.10 = ₹ 1.70 crore

- KSITIL also leased out (June 2009) 60 cents of land for 90 years to Infopark for constructing a working women's hostel at a nominal lease rent of ₹ one for a cent per year and annual maintenance rent of ₹ 100 per year. Leasing out land to Infopark for construction of women's hostel without collecting lease premium resulted in foregoing premium of ₹ 36 lakh³¹. Further, the land allotted for construction of hostel had been kept vacant since June 2009.
- There was no condition in the lease deed for payment of interest on the balance unpaid amount (₹ 110.20 lakh) of lease premium for excess land allotted. Loss of interest on the blocked fund worked out to ₹ 109.89 lakh³² from December 2009 to March 2018.
- The reason for waiver of 20 *per cent* lease premium on the allotted land was not on record.
- Though construction of IT building was completed, the rest of the land had not been allotted to any entrepreneurs.

On being pointed out, the Management stated (December 2013) that agreement would be modified with interest on deferred payments and 20 *per cent* discount was allowed as early bird discount. The reply was not acceptable. The chance for realisation of interest is remote as there is no provision in lease deed for payment of interest. Also early bird discount was meant for attracting new entrepreneurs and not for the co developer.

4.9.4 Issues in IT park, Kollam

GoK transferred (March 2009) 44.48 acres of land in Kollam District (out of which 31 acres of land comes under the category of *kayal poramboke* where construction is not possible within 100 meters from the boundary of kayal) to KSITIL. The development of the IT Park was entrusted (September 2009) to Technopark, Thiruvananthapuram. Audit observed the following:

- The *kayal poramboke* land is not marketable and hence affects the prospects of the project.
- Technopark is constructing IT building without executing lease deed with KSITIL for the land taken for development and thus KSITIL has failed to safeguard its assets.
- KSITIL paid (December 2011 – March 2013) ₹ five crore to Technopark for furnishing of IT building without specifying any conditions for repayment.

On being pointed out, the Management stated (December 2013) that lease deed would be executed with Technopark and on receipt of clear guidelines from Government on conditions related to disbursement of funds, required actions could be taken.

³¹ At the rate of ₹ 60 lakh per acre.

³² At the rate of 12 *per cent* being charged as per Section 23 (1A) of L.A. Act.

4.10 Impact of Audit

The financial impact of audit is given below:

Sl. No.	Para No.	Para	Amount (₹ in crore)
Kerala Industrial Infrastructure Development Corporation			
1	4.2.1	Wasteful expenditure due to acquisition of land not suitable for industrial purpose	24.24
2	4.2.2	Acquisition of land at exorbitant price	11.63
3	4.2.3	Extra expenditure on land acquired for setting up Common Facility Centre	0.49
4	4.4.1	Extension of undue benefit by way of unjustified moratorium for repayment of lease premium	2.72
5	4.4.2	Short collection of lease premium due to incorrect fixation	12.83
6	4.4.3	Undue relaxation of Rules and extension of concessions to RUBCO Group	1.94
Total			53.85
Kerala State Industrial Development Corporation Limited			
7	4.6	Undue benefit to a private sector company, INKID	137.79
8	4.7	Undue favour to RUBCO	3.13
Total			140.92
Kerala State Information Technology Infrastructure Limited			
9	4.8	Wasteful expenditure due to acquisition of submerged land	0.18
10	4.9.1	Issues in IT Park, Kozhikode	10.69
11	4.9.2	Issues in IT Park, Koratty	4.92
12	4.9.3	Issues in IT Park, Cherthala	1.46
Total			17.25
Grand total			212.02

4.11 Conclusion

Audit found that

- KINFRA was not complying with the provisions of the Act/Rules/Regulations scrupulously. Further, there was no system prevailing in the entity for post allotment verification to see that the allotted land is used for specified purpose, within the period stipulated and for resumption of land in cases of violation of conditions of allotment.
- KSIDC showed undue favour to private parties by transferring Government land to them at throw away prices. It also could not achieve the objective of setting up IGCs due to poor infrastructure. There was no system for assessing the actual requirement of land before allotment and to assess the lease premium correctly based on the market value. It failed to incorporate necessary conditions in lease deeds to have control over the land allotted.
- KSITIL did not have an effective system to ensure that the land was suitable for utilisation before the acquisition and to see that the land allotted free of cost are strictly in accordance with Government orders. Asset management of KSITIL was not effective and decisions on fixation of lease premium were taken without protecting the interests of KSITIL.

- KSIDC acted as an implementing agency of Government for acquisition, development and allotment of land for industrial purpose. Establishing KINFRA and KSITIL with more or less same objectives led to multiplicity of agencies, adversely affecting the balanced and uniform activity and resulting in inefficiency and leakage of revenue.

4.12 Recommendations

Audit recommends that

- KINFRA should acquire/allot land strictly in accordance with provisions of the Act/Rule/Regulation. Cases of non-compliance be inquired into and responsibility fixed. Further, inspection may be conducted to see that the allottees are using the land for intended purposes, that also within the stipulated period and in case of violation of conditions; effective action should be taken to resume the land.
- KSIDC may provide sufficient infrastructure facilities so as to achieve the intended objectives in a timely manner. KSIDC should have a system for assessing the actual requirement of land to the entity before allotting the land. Necessary conditions should be provided in the lease deeds to get control over the land allotted and to safeguard the interests of the KSIDC. Action should be initiated against officials who transferred Government land at throw away prices to private parties.
- KSITIL should satisfy before acquisition that the land is suitable for intended purposes. Asset management should be more effective to check the cases of unauthorised utilisation of its assets and to detect non collection of revenue from co-developers. It should be ensured that interests of KSITIL are safeguarded while executing lease deeds.