# Chapter II

# Performance Audits relating to Public Sector Undertakings

## West Bengal Power Development Corporation Limited and The Durgapur Projects Limited

## 2.1 Project Management of New Thermal Power Units in West Bengal

### Executive Summary


***Introduction***

***Government of West Bengal (GoWB) planned to set up 14 thermal power generating units in the tenth (2002-07) and eleventh (2007-12) plan periods, through West Bengal Power Development Corporation Limited (WBPDCL) and the Durgapur Projects Limited (DPL). While no unit was commissioned in the tenth plan, WBPDCL and DPL commissioned seven units between 2008-12.***

***Financial Position***

***While WBPDCL had earned profit in all these years, DPL incurred losses in all the five years.***

***Planning***

***Given the long gestation period for thermal power stations, planning for capacity addition was not taken up sufficiently in advance. This led to mismatch between demand and availability of power and additional cost of ₹ 3,125.15 crore on purchase of power. Besides, there were deficiencies in detailed project reports.***

***Project implementation and execution***

***Both WBPDCL and DPL had not laid down a detailed project implementation schedule (PIS) or set up a dedicated project implementation team (PIT). This led to delays in completion ranging from 12 to 24 months and performance of the projects was not satisfactory. Work was held up on account of non-completion of pre-tender formalities on time, awarding works without considering manufacturing capacity and order position of vendor and belated release of mobilisation advance which were of controllable nature.***

***Projects were commissioned with incomplete components leading to loss of generation, avoidable expenditure and problems in operation. Besides, poor execution of projects had led to forced shutdown and consequent loss of generation. Other deficiencies included consumption of auxiliary energy and oil in excess of regulatory norms, leading to disallowance of fuel costs aggregating to ₹ 394.61 crore by the regulator.***

***WBPDCL and DPL had not closed the project contracts and the regulator had withheld admitted project costs of ₹ 416.19 crore.***

***At all seven units, plant availability factor (PAF) was below norm in one or more years.***

***Environment management***

***Both WBPDCL and DPL had failed to achieve many parameters for air, water and noise pollution. West Bengal Pollution Control Board had observed on multiple occasions non-compliance of the parameters and failure to implement ameliorative measures. Consequently, both PSUs had forgone rebate and incurred additional expenditure of ₹ 1.99 crore on water cess. Moreover, while first energy audit at two units had not been taken up within mandated period, in the remaining five units it had not been done within the statutory three years. Moreover, all recommendations had not been implemented by WBPDCL.***

***Internal control and monitoring***

***WBPDCL had belatedly constituted a Project Appraisal and Monitoring Committee (PAMC) in November 2009, while DPL had no such committee. PAMC had observed need for a robust monitoring mechanism that would indicate individual responsibility and accountability. WBPDCL of late had taken steps to implement this mechanism.***

***Conclusion***

***Both WBPDCL and DPL did not have a framework for project planning and execution to implement these projects on time. Further, WBPDCL and DPL did not have an adequate monitoring mechanism with well-defined accountability structure. Pollution parameters were also not met leading to forgoing rebate of ₹ 1.99 crore on accounts of water cess. All these factors led to the units not being commissioned within the scheduled time and performance and environmental standards remained unachieved.***

***Recommendations***

***There are three recommendations - WBPDCL put in place a cost control mechanism to ensure that the expenses it incurs do not exceed the regulatory norms, projects be commissioned only after they are complete in all aspects and quality requirements have been duly met prior to such acceptance and WBPDCL needs to adhere to the suggestions of PAMC and develop a strong project monitoring mechanism. DPL also needs to develop a similar mechanism.***

## 2.1.1 Introduction

The National Electricity Policy of India aimed to provide per capita availability of 1,000 units of electricity by 2012. The demand and availability of power in West Bengal forecast in January 2003 showed shortage of 5,171 GWH in 2002-03 which would rise to 8,475 GWH in 2011-12. Considering this shortage of power, Government of West Bengal (Government) planned to set up six[1] and eight[2] thermal power generating units in the tenth plan (2002-07) and eleventh plan (2007-12) respectively, through West Bengal Power Development Corporation Limited (WBPDCL) and The Durgapur Projects Limited (DPL). Between 2008-12 six[3] units of WBPDCL and one[4] unit of DPL were commissioned. Of these, five units of WBPDCL and one unit of DPL were to come up during the tenth plan, while one unit of WBPDCL was scheduled during the eleventh plan period. WBPDCL and DPL had not commissioned any unit in the tenth plan.

A Performance Audit on "Project management of new thermal power units in West Bengal" commissioned during 2008-12 was taken up to evaluate whether the objectives of constructing and commissioning of the new units were achieved.

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[1]**WBPDCL**:Sagardighi I & II (250 MW x 2) =500 MW, Bakreswar: IV & V (210 MW x 2) = 420 MW, STPS V (250 MW x 1), **DPL**: Unit VII (250 MW x 1).

[2]**WBPDCL**:Sagardighi III & IV (660 MW x 2) =1320 MW, Bakreswar: VI (660 MW x 1) = 660 MW, Katwa I & II (660 MW x 2) =1320 MW, Santaldih: VII (660 MW x 1) =660 MW. STPS VI (250 MW x 1), **DPL**: Unit VIIA (300 MW x 1).

[3]**WBPDCL:**Sagardighi TPS–I and II (September 2008/ November 2008), Santaldih TPS-V and VI (April 2009/ September 2011) and Bakreswar TPS-IV and V (March 2009/ June 2009).

[4]**DPL:**Unit VII (April 2008).

### 2.1.2 Organisational Structure

Management of both WBPDCL and DPL is vested in their Boards of Directors (BOD) comprising nine and seven Directors respectively. The Chairman and Managing Director of WBPDCL and the Managing Director of DPL are the Chief Executives. Director (Projects) and Director (Operations) of WBPDCL and General Manager (Projects) and General Manager (Power Plants) of DPL are responsible for the development as well as operation of the power generating units.

### 2.1.3 Audit Objectives

The performance audit was undertaken to assess whether:

- Planning of projects was adequate and effective;
- Projects were executed economically and efficiently;
- Environment management system was efficient; and
- Internal control and monitoring was operational and adequate.

### 2.1.4 Scope and methodology of audit

The Performance Audit was conducted from February 2014 to June 2014 and covered construction, commissioning and performance of six[5] new units of WBPDCL and one[6] new unit of DPL. These seven new thermal power generating units were selected since they became operational between April 2008 and September 2011.

Records were examined at Head Offices of WBPDCL and DPL, Power and Non-Conventional Energy Sources Department (Department) and four project offices implementing six units of WBPDCL and one unit of DPL for the period from 2009-10 to 2013-14.

An Entry Conference was held on 21 March 2014 and attended by the Chairman and Managing Director, WBPDCL, the Managing Director, DPL, the Chief Controller of Audit and *ex-officio* Joint Secretary of the Department and members of Senior management, where objectives, criteria and methodology of audit were explained. The Exit Conference was held on 17 December 2014, which was also attended by the Chairman and Managing Director, WBPDCL, the Managing Director, DPL, the Chief Controller of Audit and *ex-officio* Joint Secretary of the Department and other members of the Senior management. The views expressed by the audited entities have been considered while finalising the Performance Audit.

[5]**WBPDCL**- Sagardighi Thermal Power Station (SgTPS) - I&II, Bakreswar Thermal Power Station (BkTPS) - IV&V and Santaldih Thermal Power Station (STPS) -V&VI.
[6]**DPL**- Unit VII.

## 2.1.5 Audit Criteria

The audit criteria adopted for assessing achievement of audit objectives were:

- Electricity Act, 2003 and National Electricity Policy 2005;
- West Bengal Electricity Regulatory Commission (WBERC) Regulations relating to fixation of tariff as applicable from time to time;
- Guidelines for Power sector from Planning Commission (PC);
- Perspective Plan 2030, Government of West Bengal (GoWB);
- Reports of Central Electricity Authority (CEA) and
- Environmental statutes, rules and regulations.

## Audit Findings

The audit findings are discussed in subsequent paragraphs.

## 2.1.6 Financial position and working results

The key financial results of WBPDCL and DPL from 2009-10 to 2013-14 are shown in **Table 2.1.1** below:

***Table 2.1.1: Showing some key financial parameters***

| Particulars | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| | (₹ in crore) | | | | |
| **WBPDCL** | | | | | |
| Equity Capital | 3,961.33 | 3,961.33 | 3,961.33 | 4,113.33 | 5,152.33 |
| Long Term Borrowings | 6,277.68 | 6,534.60 | 5,922.70 | 7,867.08 | 7,030.47 |
| Debt Equity Ratio | 1.58:1 | 1.65:1 | 1.50:1 | 1.91:1 | 1.36:1 |
| Profit/(Loss) | 10.79 | 65.40 | 380.30 | 131.66 | 78.43 |
| **DPL** | | | | | |
| Equity Capital | 1,001.00 | 1,046.00 | 1,088.00 | 1,132.00 | 1,165.00 |
| Long Term Borrowings | 1,080.35 | 1,156.69 | 1,297.91 | 1,807.26 | 2,113.23 |
| Debt Equity Ratio | 1.08:1 | 1.10:1 | 1.15:1 | 1.60:1 | 1.81:1 |
| Profit/(Loss) | (172.57) | (183.50) | (87.49) | (68.03) | (226.16) |

*Source: Annual Accounts and Audit Reports.*

Table 2.1.1 reveals that WBPDCL's debt-equity ratio has increased from 1.58 in 2009-10 to 1.91 in 2012-13 due to increasing borrowings to finance projects. The decline in debt-equity ratio in 2013-14 was due to increase in equity contribution from Government. The profit in 2011-12 had increased due to realisation of monthly fuel cost variations allowed as per WBERC tariff regulation, recovery of which was subsequently discontinued by WBPDCL. In case of DPL too, the debt-equity ratio increased from 1.08 in 2009-10 to 1.81 in 2013-14 due to increases in debt to finance projects. While WBPDCL had earned profit in all years, DPL incurred losses in all the five years due to its inability to generate sufficient revenue to cover non-cash losses.

***Project transferred due to shortage of fund***

The Government had entrusted (August 2005) WBPDCL to plan and execute a thermal power project of 1,000 MW at Katwa at the cost of ₹ 3,911 crore. The project was to be funded by WBPDCL from its own resources. WBPDCL, however, could not mobilise fund required for the project from its own resources and the project was ultimately offloaded (April 2012) to National Thermal Power Corporation Limited. It was observed during audit that shortage of resources had arisen from two events *viz.* disallowance of cost by WBERC and delayed submission of tariff petitions by WBPDCL to WBERC. Audit observed (from the Annual Performance Reviews and Fuel and Power Purchase Cost Adjustment orders of WBERC) that the new thermal power generating units had not met the prescribed operational parameters such as plant availability, thermal efficiency, auxiliary energy consumption *etc.* Consequently, WBERC had disallowed (2011-12) recovery of ₹ 1,260.84 crore towards fixed and fuel costs.

Further, WBPDCL was required to apply for fixation of tariff within 130 days from synchronisation[7] of the new thermal power units. Audit observed that WBPDCL had applied[8] after 19 to 35 months of synchronisation of the five new units. WBERC admitted ₹ 1,853.54 crore; but permitted recovery over 72 monthly instalments to avoid high increase in power tariffs.

This indicates the absence of systematic financial planning to generate necessary funds by WBPDCL.

## 2.1.7 Planning

### 2.1.7.1 *Demand and availability of power*

Thermal power stations (coal fired) have a long gestation period of several years from inception to commissioning. Therefore, planning for capacity addition is required to be undertaken sufficiently in advance. Audit observed that WBPDCL and DPL had taken up to 12.5 years for planning the power projects from 'in-principle' approval to issue of 'letter of award' to vendor. As a result, there was a mismatch between demand and availability for power as discussed below.

The year wise demand of energy (in MU[9]), availability of energy (in MU) and sources from which shortfall (in MU) was met during the period from 2009-10 to 2013-14 is given in **Table 2.1.2.**

[7]Synchronisation in this context means the process by which a thermal power plant is connected to the national grid and starts providing energy into the grid.
[8]Date of publication of gist of tariff application in newspapers *i.e.* May 2010 to April 2012.
[9]Millions of units.

***Table 2.1.2:Statement of actual demand, availability and shortfall for energy***

| Year | Actual Demand (MU) | Availability (MU) | Shortfall (MU) (*percentage of shortfall to demand*) | Source of meeting up power shortfall (MU) | | | |
|---|---|---|---|---|---|---|---|
| | | | | Power Purchase Agreement (Long term) | Power Purchase Agreement (Short term) | Other Purchases[10] | Load shedding |
| **2009-10** | 39,038.46 | 37,445.85 | 1,592.61 (*4.08*) | 461.57 | 273.67 | Nil | 857.36 |
| **2010-11** | 41,396.08 | 38,453.51 | 2,942.57 (*7.11*) | 1,375.86 | 354.99 | 470.34 | 741.39 |
| **2011-12** | 42,349.80 | 38,825.72 | 3,524.08 (*8.32*) | 1,727.76 | 1,073.61 | 211.80 | 510.90 |
| **2012-13** | 46,437.52 | 39,952.80 | 6,484.72 (*13.96*) | 4,694.90 | 855.41 | 544.81 | 389.60 |
| **2013-14** | 47,371.64 | 37,992.50 | 9,379.14 (*19.80*) | 7,388.06 | 1,012.97 | 761.26 | 216.86 |
| **Total** | **2,16,593.50** | **1,92,670.38** | **23,923.12** | **15,648.15** | **3,570.65** | **1,988.21** | **2,716.11** |

***Source:*** *Data provided by SLDC excludes Damodar Valley Corporation and DPSC Limited, Perspective Plan.*

To meet the shortfall, West Bengal State Electricity Distribution Company Limited[11] (WBSEDCL) had to purchase power through short-term agreements at higher rates from various sources[12] other than WBPDCL and at rates that were higher than the WBPDCL's rates. This resulted in additional cost of ₹ 3,125.15 crore for energy during the period 2009-14.

Further it may be seen from the table, that shortfall in generation could not be fully covered by purchasing power from different sources, leaving 1.25 *per cent* of the demand unmet which was met by power cuts.

### *2.1.7.2 Deficiencies in detailed project reports*

Planning for implementation of projects is a pre-requisite for timely and successful execution. It was noticed that detailed project reports (DPR) of the seven selected projects did not follow the guidelines[13](April 1992) as detailed below -

- Implementation Plan did not indicate activity-wise phasing of construction (bar chart or a master control network). Further, no quantitative information on phasing of materials and labour requirement during construction or timing of deliveries of imported and indigenous equipment was specified in the DPR.

[10]Drawal from Grid as Unscheduled Interchange.

[11]WBSEDCL purchases entire generation of WBPDCL while DPL sells surplus power not saleable within its distribution area to WBSEDCL.

[12] NTPC, DVC and private power traders.

[13]"Guidelines for the preparation of the feasibility reports for power projects" by the Planning Commission, Government of India.

- The DoE[14] specified (May 2003) that DPR should address sustainability to ensure operation and maintenance of assets after project completion. Power projects are sustainable if they are assured of regular supply of coal of the quality for which the plant was designed. Further, according to planning commission guidelines, the DPR should include the year wise production programme for coal at the mines linked to the specific power plant to assess whether the quantum of coal needed would be available. This would help to assess that there would not be any shortage of coal for the project when it is put to operation. Since the DPR prepared by WBPDCL and DPL did not address this fact, completed projects suffered from shortages of coal.

- DPR of DPL (November 2003) and Management of SgTPS stated (July 2004) that coal with average gross calorific value (GCV) of 5,129.33 and 4,100 kcal/kg would be available from the coal companies. Based on these data, boilers were designed for coal of 4,100 kcal/kg heat value. An inspection (September 2008) by Central Electricity Authority showed that SgTPS had received coal with GCV of 2,300 kcal/kg, which was below the lowest grade of coal (heat value 3,200 kcal/kg) required for power plants and therefore not fit for boilers at SgTPS I and II of WBPDCL and unit VII of DPL.

- Detailed studies, promotional activities and investigations in respect of fly ash disposal had not been carried out. Consequently environmental norms were not met.

The aforesaid issues are discussed subsequently.

### 2.1.8 Project implementation and execution

The State Government had set (June 2006) a target for aggregate capacity addition for generation of 5,120 MW thermal power during 2007-12. This was subsequently revised[15] to 3,670 MW. As of 31 March 2014, the State Government could add 1,820 MW. The works related to the balance 1,850 MW were in progress (March 2014).

Audit observations relating to implementation of projects can be categorised under the following areas:

1. There were delays in completion of projects which could have been controlled by the management. The delays led to several financial benefits which had to be forgone by both WBPDCL and DPL.
2. The projects were commissioned without all of its components being completed. This also led to outages of the units.

[14] Department of Expenditure, Ministry of Finance, Government of India

[15] BkTPS unit VI (500 MW) revised to 600 MW in May 2007; DPL unit VIIA (300 MW) was dropped and DPL unit VIII (250 MW) was taken up in June 2006; Katwa power plant (1000 MW) handed over to NTPC in April 2012.

3. There were instances of deficiencies in execution of projects. This resulted in outages, excess auxiliary power consumption and lower thermal efficiency.
4. The outcome of these projects with respect to operational benchmarks was below WBERC norms *etc*.

### *2.1.8.1 Controllable delays*

WBPDCL and DPL did not fix any norm for scheduled time to be allowed in each stage for implementing a power project. They had taken between nine to 132 months to prepare a Detailed Project Report. Thereafter, they had taken upto 29 months in advertising a notice inviting tender (NIT). The commissioning of the power plants was delayed by one to two years from their scheduled completion date.

The work for any thermal power project includes design, supply, installation and commissioning of the main plant (boiler and turbogenerator) and the auxiliaries (*i.e.* coal handling plant, water treatment plant, ash handling plant (AHP)).

In case of the seven plants under review, project design, supply, erection and commissioning works for six[16] units were awarded through international competitive bidding. For STPS Unit VI, WBPDCL awarded the work on nomination basis. The works for all the seven units were awarded to contractors which were both domestic companies in the public and as private sector as well as to foreign companies. Projects were to be accepted finally only after performance guarantee (PG)[17] tests are completed (*i.e.* within four months from synchronisation[18] of units) satisfactorily. In the event of delays in project completion attributable to the contractors or non-fulfillment of guaranteed performance parameters, WBPDCL and DPL would recover liquidated damages upto maximum of five *per cent* of contract value. The key milestones against these seven selected projects are mentioned in the **Table 2.1.3** below.

***Table 2.1.3: Key milestones in project lifecycle of each unit***

| Name of the units<br>A | In-principle clearance by State Government<br>B | Time taken in preparation of DPR (from B)<br>C | Time taken in inviting NIT (from C)<br>D | Time taken to Award Letter of Award (from D)<br>E | Scheduled date of commissioning<br>F | Time taken beyond scheduled date of commissioning<br>G |
|---|---|---|---|---|---|---|
| | | **Figures in months** | | | | |
| SgTPS I | 1991 | 132 | 15 | 4 | 26 April 2007 | 16 months |

[16]WBPDCL : BkTPS IV and V, SgTPS I and II, STPS V; DPL : Unit VII

[17]Performance tests on a plant are carried out to determine that the plant will deliver the guaranteed results of performance on different parameters such as maximum generation, thermal efficiency, auxiliary energy consumption etc. with reasonable reliability of operations.

[18]Date of first commissioning of a unit for commencement of trial run prior to commercial operation.

| Name of the units<br>A | In-principle clearance by State Government<br>B | Time taken in preparation of DPR (from B)<br>C | Time taken in inviting NIT (from C)<br>D | Time taken to Award Letter of Award (from D)<br>E | Scheduled date of commissioning<br>F | Time taken beyond scheduled date of commissioning<br>G |
|---|---|---|---|---|---|---|
| | | Figures in months | | | | |
| SgTPS II | 1991 | 132 | 15 | 4 | 26 July 2007 | 15 months |
| STPS V | April 2002 | 9 | 15 | 4 | 26 April 2007 | 23 months |
| STPS VI | November 2005 | 1 | No tender was floated. | | 22 September 2009 | 24 months |
| BkTPS IV | March 1993 | 96 | 29 | 15 | 29 July 2007 | 19 months |
| BkTPS V | March 1993 | 96 | 29 | 15 | 29 October 2007 | 20 months |
| DPL VII | September 2002 | 15 | 5 | 3 | 26 April 2007 | 12 months |

***Source:*** *Records of WBPDCL and DPL.*

It was WBPDCL's and DPL's responsibility to ensure that the projects were executed within the contractual timeframe. This needed careful monitoring of progress of the projects and execution of work by contractors. Besides, quality control should have been exercised to ensure that the various components perform correctly, meet safety requirements and achieve designed operational parameters. Shortcomings in project implementation noticed during audit are discussed below.

***Non-adherence to Government directions on Project Management***

DoE had directed (August 1997) that every project proposal should indicate in detail the Project Implementation Schedule (PIS) giving all important milestones following the approval such as various clearances, preparation of DFR, calling and approval of tenders, major construction works, procurement and installation of plant and machinery *etc*. The PIS should be consistent with the projected phasing of expenditure. Audit observed that WBPDCL and DPL had not laid out the PIS.

Further, DoE had also directed (August 1997) that for all major projects, a project implementation team (PIT) should be established and it should be held fully responsible for project execution within the approved time and cost. The team should not have any concurrent responsibility and its continuity during the project implementation period must be ensured. Audit observed that neither WBPDCL nor DPL had a dedicated PIT during the period under review.

In the absence of a laid out PIS and a dedicated PIT, the approach of both the PSUs to projects was *ad hoc,* as observed by audit in the following paragraphs (Paragraphs 2.1.8.2 to 2.1.8.4). Consequently, WBPDCL and DPL could not complete the projects as scheduled or ensure their satisfactory performance.

Test check revealed that following reasons for delay of projects which could have been controlled by the management:

### *Non completion of pre-tender formalities on time*

Need for topographical survey was also emphasised in the guidelines[19] (April 1992) for preparation of feasibility reports for power plants. However, Audit observed that WBPDCL did not undertake the necessary topographical survey prior to award of contract for SgTPS. Consequently actual execution of work was delayed for one month. The discharge point for draining rain water during the monsoons could not be ascertained by the construction agency. This led to water logging at the plant site.

### *Award of work without consideration of manufacturing capacity and order position*

- WBPDCL has been setting up power projects in West Bengal through various agencies selected through tenders. In order to ensure timely completion of work, it is desirable that WBPDCL select agencies taking into account their manufacturing/ fabrication capacity, other orders on hand *etc.*

  WBPDCL invited (September 2003/ March 2004) international competitive bidding for BkTPS units IV, V (single work) and STPS unit V and awarded (November 2004/ July 2004) both works to BHEL[20], the sole responsive bidder. As per the contracts, both works were to be completed by October 2007 and April 2007 respectively. However, BHEL completed these works after delays of 20 and 23 months respectively. WBPDCL attributed the delay in completion to late supply of materials as BHEL was overbooked and with limited manufacturing capacity, besides delays in submission of design/ drawings, inadequate manpower, belated placement of order with sub-vendors *etc.*

  Had WBPDCL taken into the manufacturing capacity and order booking position of the vendors at the time of selection, the delay in completion of work could have been reduced.

### *Delay in releasing Mobilisation Advance*

DPL had issued letter of award (LOA) for DPL VII in July 2004. As per LOA, mobilisation advances should have been released by September 2004. However, DPL released mobilisation advance (₹ 76.03 crore) only in March 2005. The delay in release of mobilisation advance led to delays (six months) by the contractor in ordering of bought out items and arranging construction materials which adversely affected the progress of work. This was due to failure of DPL to obtain prior clarification regarding deduction of income tax at source from mobilisation advances.

[19] "Guidelines for the preparation of the feasibility reports for power projects" by the Planning Commission, Government of India.
[20] Bharat Heavy Electricals Limited.

In Exit Conference, Managements of WBPDCL and DPL had confirmed these facts (December 2014).

***Benefits forgone due to delay in completion of projects/ cost overrun***

WBPDCL and DPL had commissioned seven generation units during 2008-14 at total investments of ₹ 8,934.49 crore as shown in **Table 2.1.4.**

***Table 2.1.4: Details of seven thermal power generating units commissioned between April 2008 and March 2014***

| Name of the units | Capacity (MW) | Approved outlay (₹ in crore) | Actual expenditure (₹ in crore) | Scheduled date of completion | Actual date of commercial operation |
|---|---|---|---|---|---|
| Sagardighi (Unit – I) (SgTPS) | 300 | 2,750.00 | 2,639.54 | 26 April 2007 | 07 September 2008 |
| Sagardighi (Unit – II) (SgTPS) | 300 | | | 26 July 2007 | 06 November 2008 |
| Santaldih (Unit – V) (STPS) | 250 | 1,061.70 | 1,539.33 | 26 April 2007 | 01 April 2009 |
| Santaldih (Unit – VI) (STPS) | 250 | 1,090.08 | 1,080.93 | 22 September 2009 | 30 September 2011 |
| Bakreswar (Unit – IV)(BkTPS) | 210 | 2,100.00 | 2,316.89 | 29 July 2007 | 06 March 2009 |
| Bakreswar (Unit – V) (BkTPS) | 210 | | | 29 October 2007 | 27 June 2009 |
| DPL (Unit – VII) | 300 | 1,350.00 | 1,357.80 | 26 April 2007 | 30April 2008 |
| Total | | **8,351.78** | **8,934.49** | | |

***Source**: Records of WBPDCL and DPL*

It was observed from above table, that none of the units were completed within the scheduled time. Consequently benefits worth ₹ 10.69 crore on account of rebate (₹ 2.74 crore) on loans from Rural Electrification Corporation Limited and subsidy (₹ 7.95 crore) available under Accelerated Generation and Supply Programme of the Government of India, had to be forgone. Moreover there was cost overrun of ₹ 582.71 crore on these projects.

Further, when a power generating unit is proposed, estimated cost together with revisions, if any, are required to be intimated to WBERC. Final project cost is also required to be intimated to WBERC for determination of admissible project cost and fixation of tariff. In respect of seven generating units reviewed by audit, WBERC had disallowed capital expenditures of ₹ 165.36 crore because WBPDCL and DPL could not restrict controllable cost. Audit observed that WBPDCL and DPL had not put in place a mechanism to monitor/ control costs as underlined by Planning Commission.

Again, because of the delays, WBPDCL and DPL incurred ₹ 453.90 crore in excess interest on loans taken to finance the projects. This interest incurred during construction period was capitalised as part of project costs.

### 2.1.8.2 *Commissioning of projects with incomplete components*

Despite directions from both Planning Commission (PC) and DoE (April 1992/May 2003) neither WBPDCL nor DPL had prepared the PERT/ CPM models for any of their projects. In December 2011, WBERC had noted that certain capital construction works were on during the commercial operation period. Test check by audit also revealed the same as discussed below:

- STPS unit V of WBPDCL was commissioned (April 2009) without chlorination plant required as per CEA's direction. This led to algae formation in cooling tower. The cooling tower is used in a power plant to remove excess heat generated in the plant. Algae formation in the cooling tower led to choking of tubes and affected condenser performance of the cooling tower. To clean the tubes in cooling tower, STPS unit V also has to be shut down for one[21] month resulting in loss of generation of 175.36 MU of energy resulting in loss of ₹ 21.86 crore.

- Construction of the AHP to evacuate dry fly ash generated from burning of coal in the plant has to be synchronised with the main plant, as a part of the plan. Dry fly ash can be given away to cement manufacturers and brick industry who use it in their products. Unit VII of DPL was commissioned (April 2008) without an AHP. Consequently, the dry ash generated was mixed with water and the resultant slurry pumped into ash pond. The wet ash deposited into ash pond was later removed from the pond by engaging contractors who had to be paid for removal of wet ash. The AHP to evacuate dry ash was commissioned in December 2009 *i.e.* after lapse of 19 months from commissioning of the Unit. Test check showed that between April 2009 to December 2009, DPL had paid ₹ 1.35 crore to contractors for excavation from ash pond of the wet ash generated by its unit VII and deposited as slurry in the ash pond. This also had serious environmental consequences.

- Again, at Unit VI of STPS, WBPDCL had put the incomplete AHP to use at the time of commissioning of the unit in September 2011. Since the AHP was not able to evacuate the dry fly ash from the plant, it led to collapse of AHP in October 2011. Consequently, WBPDCL could not dispose fly ash from unit VI. Besides, non-utilisation of fly ash also led to environmental degradation. It was observed by Audit that the contractor had not installed some components in the AHP and it remained unnoticed as WBPDCL did not verify it during takeover of

[21]From 14 November 2009 to 14 December 2009.

the plant. Failure to evacuate ash led to shut down of the Unit for 142.47 hours with consequential loss of ₹ 5.65 crore.

During Exit Conference (December 2014), DPL stated that there were few Original Equipment Manufacturers (OEM) for appropriate Ash Handling System. Consequently, design and construction of ash handling system were delayed, leading to time overrun in execution of projects.

The reply is not acceptable since LOA issued by DPL for the main plant to the agency was through international competitive bidding. The LOA also included contract for supply, erection and commissioning of all the components including AHP. Therefore, separate OEM for AHP was not required.

- Any power station should have adequate transmission capacity to evacuate generated power. According to the Manual on Transmission Planning Criteria 1994, the transmission system should be so designed that even if one transmission line is not available, there would exist alternate transmission lines through which power could be evacuated.

  While the work order for SgTPS of WBPDCL was awarded in July 2004, the contract for transmission line required to evacuate power from the unit was awarded only in February 2006. SgTPS unit I and II were commissioned in September and November 2008 respectively without adequate power transmission line capacity as stipulated in Manual on Transmission Planning Criteria 1994.

  In May 2010, SgTPS could not evacuate power for 758.40 hours due to non-availability of alternate power evacuation lines as the existing transmission line (Farakka-Subhashgram 400 KV line) was not available. This led to loss of generation of power of 227.40 MU and loss of ₹ 26.42 crore.

### *2.1.8.3 Poor execution of projects*

**Digital Control System (DCS)**

Before accepting a project, it is Management's responsibility that the project has been completed in all aspects and is of appropriate quality. Audit observed that DPL had taken over project without ensuring these.

The power plants maintain highly computerised Digital Control System (DCS) to monitor various parameters relating to their smooth and safe day to day operations. The functioning of DCS is configured in such a way that some of their operations are done automatically. DCS is maintained in the control room of the plants where professionals monitor it for 24 hours.

An instance of poor execution of projects which led to forced shutdown and consequent loss of generation is discussed below:

- Unit VII of DPL was under forced shut down due to damage to wind box since the pressure in the furnace of the boiler had crossed the permissible limit. As per Design, Operation and Maintenance Manual for the Unit when furnace pressure exceeds the permissible limit, the control mechanism shall automatically cut off fuel to the furnace and thereby shut down the plant. Audit observed from internal memos that the matter was subsequently investigated by DPL and it was found (November 2012) that the defect lay in the DCS, which led to damage (July 2012) in the wind box.

  It was also observed in audit that although the plant was commissioned in April 2008, performance guarantee (PG) tests had not been conducted by the contractor till January 2015. Consequently, the Management could not determine whether all parameters guaranteed in the contract were achieved. As a result of the above breakdown, the plant had to be shut down for 1,066.60 hours from 26 July 2012 to 09 September 2012 for repairs. Since the plant did not operate, DPL could not generate energy for that period and suffered loss of ₹ 45.11 crore. Since PG tests were not conducted, Management could not claim any damage.

***Auxiliary Energy Consumption (AEC)***

Quantum of energy consumed by auxiliary equipment of the generating station and transformer losses within the generating station is called auxiliary power consumption. As per WBERC norms, AEC should be limited to nine *per cent* and 8.5 *per cent* of gross energy generated by WBPDCL and DPL respectively for the units under review.

Audit observed that actual AEC exceeded norms ***(Annexure 2.1)*** by 0.53 to 3.51 *per cent* for WBPDCL and 1.73 to 4.46 *per cent* for DPL. As per WBERC tariff regulation, such inefficiencies are penalised and WBERC disallowed recovery of fuel cost of ₹ 184.34 crore from tariff of WBPDCL and DPL.

During PG test at SgTPS (WBPDCL), the contractor achieved 11.64 *per cent* AEC instead of the contractual requirement of 8.49 *per cent*. Audit has found from the energy audit report, station log books, and unit outage reports that the main reasons for inefficiency at SgTPS were defects in control design and engineering. These defects led under-utilisation of high capacity motors.

***Thermal Efficiency***

Thermal efficiency (TE) of a thermal power station indicates the efficiency of converting thermal energy into electrical energy and is the aggregate of the boiler and the turbine efficiencies. It is measured with reference to station heat rate and ratio of conversion of chemical energy to electrical energy. **Table 2.1.5** below shows the TE of the seven units as WBERC norms and actual performance there against during 2009-14.

***Table 2.1.5 Thermal efficiency of seven units***

| Sl. No. | Name of the unit | Thermal Efficiency *(Figures in per cent)* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2009-10 | | 2010-11 | | 2011-12 | | 2012-13 | | 2013-14 | |
| | | Actual | Norm | Actual | Norm | Actual | Norm | Actual | Norm | Actual | Norm |
| 1 | BkTPS-IV | 33.86 | 33.59 | 22.28 | 33.99 | 35.21 | 34.40 | 36.66 | 34.61 | 36.40 | 34.82 |
| 2 | BkTPS-V | 32.29 | 33.59 | 34.73 | 33.99 | 35.70 | 34.40 | 35.73 | 34.61 | 36.40 | 34.82 |
| 3 | STPS-V | 32.11 | 36.60 | 36.55 | 36.60 | 33.90 | 35.46 | 33.62 | 35.46 | 35.57 | 35.46 |
| 4 | STPS-VI | NA | NA | NA | NA | 32.15 | 35.46 | 36.97 | 35.46 | 34.18 | 35.46 |
| 5 | SgTPS-I | 33.19 | 37.80 | 37.01 | 37.80 | 32.40 | 36.67 | 35.77 | 36.67 | 36.70 | 36.67 |
| 6 | SgTPS-II | 33.31 | 37.80 | 36.46 | 37.80 | 32.98 | 36.67 | 36.71 | 36.67 | 36.46 | 36.67 |
| 7 | DPL-VII | 30.17 | 37.80 | 29.58 | 37.80 | 33.55 | 36.67 | 32.98 | 36.67 | 29.02 | 36.67 |

Source: Based on WBERC Regulations and records of WBPDCL/ DPL.

It would be evident from the table that BkTPS Unit IV and V had failed to achieve the target only in one (2010-11 and 2009-10 respectively) out of the above five years. STPS V & VI has failed in four (2009-10 to 2012-13) and two (2011-12 and 2013-14) years respectively. SgTPS I & II have failed to achieve targets in four years each (i.e. 2009-10 to 2012-13 and 2009-10, 2011-12 with 2013-14 respectively). DPL Unit VII had failed to achieve the target in all five years. Because of lower TE, there was excess consumption of oil as discussed in the following paragraphs.

***Excess consumption of fuel oil***

WBERC specified norms of one to 1.5 ml/kWh of fuel oil in respect of seven selected units. It would be observed from ***Annexure 2.2*** that actual consumption of oil was in excess of norm by 46,804.22 Kl. Due to this, the PSUs sustained loss of ₹ 210.27 crore for these seven units during the period 2009-2014.

***Non closure of contracts***

The seven units under review were completed during April 2008 to September 2011. However, except for BkTPS (March 2014) no contract had been closed. WBERC had withheld ₹ 416.19 crore from admitted costs of all the seven units for non-closure of contracts.

Audit observed that for DPL VII, the contracts could not be closed because PG tests which were to be completed by July 2008[22], were not yet done. At WBPDCL's SgTPS I and II units, contracts with the agency were under arbitration, while STPS unit V and VI had not been closed due to non-rectification of vibration problems in turbines by BHEL.

[22] In terms of WBERC Regulations, four months from synchronisation in March 2008.

### *2.1.8.4 Project outcomes*

The project outcomes reflect the achievement of objectives for which these units were set up. The parameters to which the outcomes have been benchmarked by WBERC are plant availability factor, demonstration of capacity and plant load factor, as discussed below:

***Plant Availability Factor (PAF)***

Plant Availability Factor is the ratio of actual hours available to maximum possible working hours (excluding normative auxiliary energy consumption) during a specified period of time. Recovery of capacity charges through tariff mechanism depends on PAF. As per WBERC norms, PAF should be 85 *per cent* of possible working hours (excluding normative auxiliary energy consumption) in a year for the selected units. Shortfall in PAF against the norms results in loss of capacity charges.

It would be evident from ***Annexure 2.3*** that there was deficit of 2.69 *per cent* to 41.32 *per cent* for WBPDCL and 10.33 *per cent* to 73.70 *per cent* for DPL. Due to shortfall in PAF both the PSUs had incurred loss of ₹ 1,340.02 crore (WBPDCL ₹ 826.62 crore for six units and DPL ₹ 513.40 crore for one unit). Main reasons for shortfall in the PAF were excess AEC and forced outages.

During Exit Conference (December 2014), WBPDCL and DPL have agreed with the audit observation.

***Demonstration of capacity***

As per WBERC Tariff Regulation, every power plant is required to declare their capacity to generate electricity in each of the 96 blocks in a day. The plants are required to declare the capacity after factoring in their ability with regard to any constraints that they may have. Once capacity has been declared, the regulations provide that State Load Dispatch Center (SLDC) may ask the units to demonstrate that the declared capacity (DC) can be achieved. In the event of the generating station failing to demonstrate DC, capacity charges due to the generating station shall be reduced as a measure of penalty. It was observed from the available records that during 2009-14, SLDC conducted demonstration test 69 times for six units[23] which failed to demonstrate DC on 15[24] occasions. Consequently, SLDC levied penalty of ₹ 23.80 crore on WBPDCL.

WBPDCL observed (December 2011) that the main cause of failure of demonstration of SgTPS was due to mismatch between time synchronisation of all energy meters in the power station and the energy meter of outgoing feeders. This indicates that at the time of commissioning of the units, the time of the energy meters in the power station had not been synchronised with the time of the energy meters on outgoing feeders.

[23] All of WBPDCL.

[24] SgTPS nine cases, STPS three cases and BkTPS three cases.

During Exit Conference (December 2014), WBPDCL further stated that when the concept of 'demonstration of declared capacity' was introduced in the WBERC regulations, they could not understand the regulation requirements. But WBERC Tariff Regulation was effective from February 2007 and audit observation is for the period 2009-14.

***Plant Load Factor (PLF)***

PLF means total energy generated during a given period by a generating station expressed as percentage of energy corresponding to installed capacity in that period. PLF for the selected units is fixed at 80 *per cent by* WBERC. PLF was below the norms as is evident from ***Annexure 2.4*** and the shortfall in achieving PLF varied from 1.77 to 35 *per cent* for WBPDCL and from 21.62 to 70.93 *per cent* for DPL. Lower PLF indicates under-utilisation of capital investment.

## 2.1.9 Environment Management

**2.1.9.1** Government of India notified limits for air, noise and water pollution under Environment (Protection) Act 1986 and rules made there under to protect the environment from pollutants arising out of the operation of plants.

The table below shows the compliance with various environmental parameters at the TPS covered in audit:

***Table 2.1.6**: Compliance with various environmental parameters at the thermal power stations*

| Name of the unit | Actual no. of readings | No. of readings beyond norm | Percentage[25] of failure | Max. beyond norm | Minimum beyond norm |
|---|---|---|---|---|---|
| ***Air Pollution (Stack emission monitoring)-Suspended Particulate Matter (SPM) -Norms 150 milligrams/cubic metre (mg/Nm³)*** | | | | | |
| DPL-VII | 76 | - | NA | NA | NA |
| BkTPS-IV&V | 51 | 2 | 3.92 | 193.48 | 193.00 |
| STPS-V&VI | Not Available | | | | |
| SgTPS-I&II | 123 | 10 | 8.13 | 324.00 | 164.14 |
| ***Air Pollution (ambient air quality)-Suspended Particulate Matter (SPM) -Norms 100 milligrams/cubic metre (mg/Nm³)*** | | | | | |
| DPL | 52 | 35 | 67.30 | 431.30 | 103.00 |
| BkTPS | 87 | 39 | 44.83 | 157.00 | 106.00 |
| STPS | Not Available | | | | |
| SgTPS | 161 | 50 | 31.06 | 360.73 | 106.36 |
| ***Noise Pollution-Decibel-Norms maximum 75 db(A)*** | | | | | |
| DPL | 42 | 22 | 52.38 | 97.10 | 75.63 |
| BkTPS | 17 | 6 | 35.29 | 93.73 | 77.20 |
| STPS | Not Available | | | | |
| SgTPS | 21 | 17 | 80.95 | 91.40 | 78.00 |
| ***Water pollution-pH-Norms-6.5pH-8.5pH*** | | | | | |
| DPL | 54 | 2<br>1 | 5.56 | 8.60/<br>6.38 | 8.60/<br>N.A. |

[25] (Total no. of failure ÷ total no. of tests) × 100.

| Name of the unit | Actual no. of readings | No. of readings beyond norm | Percentage of failure | Max. beyond norm | Minimum beyond norm |
|---|---|---|---|---|---|
| BkTPS | 29 | - | NA | NA | NA |
| STPS | Not Available | | | | |
| SgTPS | 50 | 2<br>6 | 16 | 12.00/<br>3.20 | 9.00/<br>6.41 |
| ***Water pollution-Total Suspended Solids (TSS) -Norms-100 mg/litre*** | | | | | |
| DPL | 54 | 4 | 7.41 | 220.00 | 120.00 |
| BkTPS | 29 | 1 | 3.45 | 174.00 | NA |
| STPS | Not Available | | | | |
| SgTPS | 50 | 2 | 4 | 194.00 | 154.00 |

*Source: Monthly/ Annual Environment Management reports for each TPS*

From the above, it is seen that the percentages of failure to adhere to the environmental parameters were very high in respect of air pollution caused by suspended particulate matter (SPM) and noise pollution by various units. It was noticed in audit that failure to meet particulate emission and TSS norms by DPL was repeatedly pointed out by WBPCB on several occasions between October 2012 and January 2014. Similarly, at STPS, WBPCB had reiterated (September 2014) that WBPDCL had not complied with the directions issued (February 2014) to ensure that pollution equipment were functional, urging it take steps to minimise ash slurry discharge control. But no instances of any corrective action taken by both PSUs were found on record by Audit.

Audit also observed that the PSUs were paying water cess at higher rates and forgoing rebates thereon for their failure to adhere to the environmental norms, as discussed in the following paragraph.

### 2.1.9.2 *Water Cess*

Water is required at Thermal Power Stations mainly to generate steam. Plants usually collect water from natural sources and pay water cess to West Bengal Pollution Control Board (WBPCB).

Under Water Cess Act, 1977, power stations are entitled to rebate of 25 *per cent,* if their discharged pollutants are within norms. Failure to maintain norms leads to loss of rebates.

As none of the two PSUs met the norms as laid down by WBPCB, they had to forgo the rebate and incurred additional expenditure on water cess aggregating to ₹ 1.99 crore[26] during the last five years ending March 2014.

### 2.1.9.3 *Energy Audit*

As per provisions of Energy Conservation Act, 2001, all energy intensive industries should get their units audited by accredited energy auditors. The

[26] SgTPS : ₹ 38.19 lakh, STPS : ₹ 33.77 lakh , BkTPS : ₹ 49.28 lakh and DPL : ₹ 77.76 lakh.

energy audit is meant for verification, monitoring and analysis of use of energy which includes submission of technical reports containing recommendations for improving energy efficiency with cost benefit analysis and an action plan to reduce the energy consumption. Since 28 April 2010, every designated consumer shall have to conduct its first energy audit within 18 months and subsequent energy audits should be conducted at intervals of three years from the previous report. Status of energy audit of the units is given in ***Annexure 2.5***.

Although DPL Unit VII and STPS Unit VI were in operation since April 2008 and September 2011 respectively, no energy audit had been conducted for these two units so far (March 2014) in violation of the Energy Conservation Act, 2001.

While the first energy audits of the remaining five units test checked were completed within the specified period, the subsequent energy audits due after three years had not been taken up for any of the five units (January 2015).

It would appear from the annexure that out of total 51 recommendations in respect of five units, 24 recommendations were implemented (June 2014) by WBPDCL. These recommendations, if implemented, are expected to bring down auxiliary energy consumption and improve thermal efficiency (Paragraph 2.1.8.3).

During Exit Conference (December 2014) WBPDCL and DPL accepted the audit observations on environmental issues and energy audit.

## 2.1.10 Internal Control and Monitoring

Internal control and monitoring are pre-requisites for effective project management. As mentioned at Paragraph 2.1.8.1, in the absence of PIS and dedicated PIT, project monitoring was adhoc, leading to delays in implementation and poor quality of execution.

WBPDCL had formed a committee of its Board of Directors (BoD) *viz.* Project Appraisal and Monitoring Committee (PAMC) only in November 2009 when the last unit (STPS Unit VI) under review was scheduled to be completed by September 2009. At DPL, there was no PAMC till date (March 2014).

Even when the PAMC had been formed, the instructions issued (November 2009) by PAMC was not followed till April 2010. The PAMC had repeatedly attributed (November 2009 to April 2010) delays to poor monitoring. However, comprehensive corrective actions were not forthcoming. An instance of non-compliance of the directions of the WBPDCL's Board of Directors (BoD) is given below:

- In February 2012, the BoD of WBPDCL had given in-principle clearance for conducting a residual life assessment (RLA) of its units at Kolaghat and Bakreswar. The BoD also directed to engage an agency to conduct RLA through tendering process. WBPDCL appointed

(May 2012) an agency without following tendering procedure, to undertake a Robotics Inspection of water wall tubes of the boiler as part of RLA at SgTPS Unit I instead of Kolaghat and Bakreshwar. This agency was paid ₹ 0.97 crore for the work. Audit observed that this RLA for SgTPS Unit I was not necessary since as per Indian Boiler Regulation-1950, RLA of boilers is required after 15 years or 1,00,000 hours of operation. SgTPS I was a new unit commissioned in September 2008 and had operated for 35,000 hours only. Besides SgTPS unit I had to be shut down for six days for robotics inspection resulting in loss of ₹ 4.13 crore due to loss of generation. No responsibility was fixed for the deviation from the BoD's directions. The facts were never placed before the BoD for *post facto* approval.

WBPDCL stated (May 2013) that the point was noted and in future every precaution would be taken to avoid such incidents.

- In April 2010, the Principal Secretary of the Department (as a Director of the Board for WBPDCL) had stressed that a robust monitoring mechanism should be put in place which will ensure timely completion of all the projects right from the planning stage and that monitoring should be done at different levels starting from the senior-most person at the site level up to the level of the Managing Director. He had further stressed that the monitoring system should hold the person responsible for performance and accountability for each person involved in the process should be fixed including the accountability of the vendors and contractors. In July 2010, he had further suggested that a certificate from the General Manager should be obtained regarding the commitment they have made in respect of completion of the respective project activity as intimated by them.

Despite the urgency of acting upon these suggestions in view of observed deficiencies in every aspect of the project management, no such steps were instituted by WBPDCL (March 2014).

During Exit Conference (December 2014), WBPDCL stated that in order to augment project monitoring for SgTPS III and IV, a separate General Manager (Project) has been posted (July 2014) to tackle the issues of time and cost overrun of the projects.

### 2.1.11 Acknowledgement

Audit acknowledges the cooperation extended to them by the Management of WBPDCL and DPL as well as the Government.

However, Management/ Government could not provide Audit with certain essential documents needed for conducting this Performance Audit. Base records relating to scheduled and actual dates of delivery of equipment were not produced, despite being called for in audit, time overrun in respect of each activity of a project and consequent cost overrun could not be quantified in audit.

## 2.1.12 Conclusion and Recommendations

***Conclusion***

**WBPDCL had lost an opportunity to execute new projects due to fund shortage. With regard to implementation of projects in time, WBPDCL and DPL did not have a framework for efficient project planning and execution to avoid delays. Both WBPDCL and DPL failed to put in place an adequate project monitoring mechanism with a well-defined accountability structure. Pollution parameters were also not met leading to forgoing of rebate of ₹ 1.99 crore on account of water cess. All these factors led to the units not being commissioned within the scheduled time and performance and environmental standards remained unachieved.**

***Recommendations***

***Audit recommends for consideration that –***

1. ***WBPDCL put in place a cost control mechanism to ensure that the expenses it incurs do not exceed the WBERC norms.***

2. ***Projects be commissioned only after they are complete in all aspects and quality requirements have been duly met prior to such acceptance.***

3. ***DPL and WBPDCL adhere to the suggestions of PAMC and develop a strong project monitoring mechanism.***

# West Bengal Industrial Development Corporation Limited and West Bengal Industrial Infrastructure Development Corporation

## 2.2 Development of Industrial Parks/ Growth Centres and allotment of land

### Executive Summary


***Introduction***

***West Bengal Industrial Development Corporation Limited (WBIDC) (incorporated in 1967 under the Companies Act 1956) and West Bengal Industrial Infrastructure Development Corporation (WBIIDC) (incorporated in November 1973 under the West Bengal Industrial Infrastructure Act 1974) were established under Commerce and Industries Department (C&I), Government of West Bengal (GoWB) to provide necessary infrastructure for development of industries.***

***Financial position and working results***

***Both PSUs were earning overall profits mainly from their non-project activities like lending and interest income. However, their infrastructure development activities were incurring losses.***

***Industrial Policy and Planning***

***Between 2009-10 and 2013-14, WBIDC disbursed incentives of ₹ 949.45 crore on behalf of GoWB. It took more than a year to disburse incentives arising from excessive documentation while applying for incentives by entrepreneurs.***

***WBIDC prepared a Strategic Plan and a Mission-Vision Statement. WBIDC's Board deliberated (September 2011) on suggested strategies for implementation but took no further action. WBIIDC had not prepared mandatory overall and schematic budgets and programmes of work.***

***Acquisition of land***

***WBIDC had paid ₹ 2.03 crore in excess on purchase of land through two intermediaries in deviation of its own practice. Besides, it did not maintain complete records of land acquisition proposals or followed them up. Consequently, six proposals had lapsed leading to blocking up of ₹ 13.58 crore. Similarly, WBIIDC had not followed up for one proposal resulting in blocking up of ₹ 1.36 crore.***

***Moreover, selection of sites by WBIDC and WBIIDC was not appropriate with industrial parks (IPs) and growth centres (GCs) being set up on acquired land that was non-contiguous or at locations where there was no demand for industrial land.***

***Development of infrastructure and its maintenance***

***Delays in preparation of master plans and awarding of contracts led to cost overrun. At four IPs, WBIDC had short recovered operation and maintenance charges of ₹ 1.36 crore. WBIIDC had not realised dues of ₹ 4.46 crore from various units.***

***Allotments and monitoring***

***WBIDC allotted land to projects without appraisal or appraisals were done after approval. Besides, four new integrated steel plant projects were approved prior to appraisal. Consequently, many projects had not taken off and 5,625 acres land remained idle.***

***Shortcomings in determination of prices for allotment of land and modules led to under-recovery of cost, discriminative pricing and allotment below prevailing market rates.***

***Project implementation***

***Both PSUs had allotted land for projects that had not commenced any activity for 14 months to 38 years beyond scheduled dates of implementation. Even after grant of extension, many units had not commenced operation.***

**Conclusion**

***Infrastructure development activities were yet to become profitable for both WBIDC and WBIIDC. Besides, in case of both the PSUs, close follow up of acquisition proposals was often lacking resulting in lapsed proposals and blocking of funds. Further PSUs failed to ensure distribution of Rehabilitation and Resettlement benefits to the land givers. Despite mega steel projects being non-starters; 5,625 acres of land allotted to them by WBIDC could not be reclaimed due to faulty development agreements. Moreover, the internal control processes were weak.***

**Recommendations**

***There are three recommendations - PSUs may develop land bank/ database on unused land available with other Departments for industrial use, strengthen their appraisal and monitoring mechanism to see that the land in IPs/ GCs is effectively utilised and ensure effective internal control in the areas of land acquisitions, appraisal of projects and allotment of land to entrepreneurs as well as to oversee functioning after the projects are implemented***

## 2.2.1 Introduction

Development of industry is a priority area of the Government of West Bengal (GoWB). Two Public Sector Undertakings (PSUs), West Bengal Industrial Development Corporation Limited (WBIDC) (incorporated in 1967 under the Companies Act 1956) and West Bengal Industrial Infrastructure Development Corporation (WBIIDC) (incorporated in November 1973 under the West Bengal Industrial Infrastructure Act 1974[27]) were established under Commerce and Industries Department (C&I) to provide necessary infrastructure for development of industries.

The functions of WBIDC and WBIIDC include acquiring land for setting up Industrial Parks (IPs) and Growth Centres[28] (GCs), development of those plots, built-up industrial sheds and common facilities and allotting of plots/ sheds for industrial/ commercial purposes.

As of March 2014, WBIDC had completed 18[29] IPs in 7,443.66 acres of land; six other projects[30] covering 596.81 acres of land were in various stages of progress. Similarly, WBIIDC had completed 15[31] Growth Centres (GCs) in 2,246.50 acres of land and had acquired 189.50 acres[32] for two[33] Public Private Partnership (PPP) projects at Jalpaiguri and Kharagpur and 192.86 acres at Jhargram, Paschim Midnapur for development of three new GCs.

[27] Under an ordinance in 1973 that was replaced by the Act in 1974.
[28] WBIDC uses the term Industrial Park where as WBIIDC uses the term Growth Centre.
[29] Includes 10 IPs developed prior to 2009-10.
[30] Zari hub, Food Park III, Barjora III, Ankurhati, Kharagpur Tata Metallic and Haldia IP.
[31] Developed prior to 2009-10.
[32] Auto Park at Kharagpur (192.785 acres) and Logistic hub at Fatapukur, Jalpaiguri (124.5 acres).
[33] Integrated Industrial Hub at Fatapukur and Auto park at Paschim Midnapur (Bengal Intt Auto Park).

### 2.2.2 Organisational structure

The management of both WBIDC and WBIIDC is vested in their respective Boards of Directors, each headed by a Chairman. The Managing Director (MD) and the Chief Executive Officer (CEO) are the executive heads of WBIDC and WBIIDC respectively. The Managing Director of WBIDC is assisted by two Executive Directors. The CEO of WBIIDC is assisted by the Secretary, the Chief Accounts Officer and two Superintending Engineers. As of March 2014, the Boards of WBIDC and WBIIDC consisted of 12 and 11 members respectively including the MD/ CEO and the Chairman.

### 2.2.3 Audit objectives

This Performance Audit was undertaken to assess whether WBIDC and WBIIDC had:-

- formulated plans in accordance with the prevalent industrial policies of the State;
- acquired land, developed requisite infrastructure and allotted the land to industries in an efficient and economic manner,
- implemented projects successfully and contributed towards industrialisation in the State, and;
- internal controls were operational and adequate.

### 2.2.4 Scope and methodology of audit

The Performance Audit was undertaken between February and May 2014. It covered the activities of WBIDC and WBIIDC on development of IPs/ GCs during 2009-10 to 2013-14. Audit had conducted test check of records of Head offices of WBIDC and WBIIDC, Commerce and Industries Department (C&I) and 14[34] IPs/ GCs. Selection of IPs/ GCs was done on the basis of purposive sampling based on size and location of the IP/ GC. Audit methodology involved scrutiny of records maintained at the Head offices and IPs/ GCs as well as C&I.

In 2002-03, a Comprehensive Appraisal of "West Bengal Industrial Infrastructure Development Corporation", was incorporated in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Commercial) GoWB, where the entire working of WBIIDC was reported. A Performance Audit of "Loan management of WBIDC" was incorporated in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2005 (Commercial), GoWB.

[34]**WBIDC** : *Industrially backward* - Raghunathpur (Purulia), Salboni (Paschim Midnapur), Vidyasagar (Paschim Midnapur); *Industrially developed* - Panagarh (Burdwan), Rishi Bankim (North 24-Parganas), Foundry Park (Howrah), Garment Park (Kolkata); **WBIIDC** : *Industrially backward* - Cooch Behar (Cooch Behar), Dabgram (Jalpaiguri), Rani Nagar (Jalpaiguri), Malda (Malda), Bolpur Shilpaniketan (Birbhum); *Industrially developed* - Falta (South 24-Parganas) and Haldia (Purba Midnapur).

An Entry Conference was held in March 2014, where the objectives, scope and methodology of the Performance Audit was explained to the Managing Director, Chief Executive Officer and senior management of WBIDC and WBIIDC. The Exit Conference was held on 26 December 2014, attended by the Managing Director, Chief Executive Officer and other senior management of WBIDC and WBIIDC. The views expressed by them have been considered while finalising this Performance Audit. Audit findings are discussed in the subsequent paragraphs.

## 2.2.5 Audit criteria

Audit adopted criteria sourced from the following, for assessing the performance of WBIDC/ WBIIDC:

- Industrial policy of GoWB and directives issued from time to time by GoWB;
- Resolutions of Boards of Directors;
- Procedures prescribed for acquisition of land and payment of compensation to land owners;
- Laid down procedures of WBIDC/ WBIIDC for allotment and transfer of land;
- Rules framed for fixation of allotment price, levy of penalty, recovery of dues *etc*.

**Audit Findings**

Audit findings are discussed in the succeeding paragraphs.

## 2.2.6 Financial position and working results

### *2.2.6.1 Profitability analysis*

Summarised financial position and working results of WBIDC and WBIIDC are given at ***Table 2.2.1***. It would appear from the table that both PSUs were profit earning organisations, but profit mainly came from their non-project activities, like lending and interest income. The infrastructure development activities were earning losses for both the PSUs. The losses for WBIDC were reduced between 2010-11 and 2012-13, but increased again in 2013-14. Proportion of turnover in their total turnover also behaved similarly during this period. For WBIIDC, the losses from infrastructure development activities increased from 2009-10 to 2011-12 after which they reduced in 2012-13 before registering a marginal increase. The proportion of profit from infrastructure development activity also showed similar trend. Thus it is observed that infrastructure development activities are yet to become profitable for both the PSUs.

**Table 2.2.1: Financial Results of WBIDC and WBIIDC**

**(Amount : ₹ in crore)**

| **WBIDC** | | | | | |
|---|---|---|---|---|---|
| | **2009-10** | **2010-11** | **2011-12** | **2012-13** | **2013-14** |
| Profit/ (Loss) from lending activity | 2.23 | 16.26 | (22.10) | (0.65) | (17.46) |
| Profit/ (Loss) from infrastructure development activity | (11.19) | (27.89) | (16.47) | (3.07) | (8.58) |
| Other Profit | 13.13 | 22.25 | 42.01 | 41.49 | 36.38 |
| Net Profit Before Tax | **1.75** | **11.21** | **3.43** | **37.77** | **10.33** |
| Percentage of turnover from lending activity to total turnover | 62 | 51 | 21 | 12 | 20 |
| Percentage of turnover from infrastructure development activity to total turnover | 4 | 8 | 31 | 38 | 15 |
| Percentage of turnover from investing activity to total turnover | 20 | 27 | 38 | 37 | 36 |
| Percentage of profit from infrastructure development activity to total profit | (-)268 | (-)263 | (-)480 | (-)8 | (-)83 |
| **WBIIDC** | | | | | |
| | **2009-10** | **2010-11** | **2011-12** | **2012-13** | **2013-14** |
| Profit from infrastructure development activity | (3.89) | (5.36) | (6.20) | (4.35) | (4.60) |
| Profit from other activity (Deposit Works and interest income) | 10.38 | 9.21 | 12.87 | 21.36 | 19.52 |
| Net profit before tax | **6.49** | **3.85** | **6.68** | **17.01** | **14.92** |
| Percentage of turnover from infrastructure development activity to total turnover | 25 | 19 | 22 | 17 | 17 |
| Percentage of turnover from investing activity to total turnover | 56 | 54 | 59 | 73 | 73 |
| Percentage of profit from infrastructure development activity to total profit | (-)60 | (-)139 | (-)93 | (-)26 | (-)31 |

In Exit Conference, WBIDC stated that fall in income during 2013-14 was due to provisions made against non-performing assets. WBIDC assured that segment reporting would be followed in subsequent accounts.

### *2.2.6.2 Non-charging of depreciation and non-amortisation of land premium*

WBIDC treats cost of developing IPs as inventory and recognises profit on sale of land/ plots by deducting expenditure incurred for procurement of land and infrastructure development cost from lease premium received from entrepreneurs. WBIIDC accounts for cost of its GCs as fixed assets and lease premia received as current liabilities. As infrastructure cost of GCs is treated as fixed assets, such cost is subject to depreciation. Depreciation is an allowable expenditure for calculation of taxable income. However, WBIIDC did not charge depreciation and avail tax benefit on infrastructural cost of GCs which were operationalised. Test check of infrastructure cost of four[35] GCs *viz.* Haldia, Kalyani, Uluberia and Kharagpur, which were operationalised prior to 2002, revealed that depreciation of ₹ 12.65 crore was not charged on cost of such assets valuing ₹ 20.04 crore which led to higher incidence of income tax[36] by ₹ 4.30 crore.

In its reply, WBIIDC accepted (December 2014) the observation.

## 2.2.7 Formulation of plans in line with Industrial Policies of the State

### *2.2.7.1 State Industrial Policy*

In accordance with the Industrial Policies of 1994 and 2013, WBIDC had set up industry specific IPs *viz.* food park, gems and jewellery park *etc.* WBIIDC had allotted (December 2013) land in Bolpur GC for establishment of *Biswa Khudra Bazar* for MSMEs.

For promotion of industries and in accordance with its Industrial Policies, State Government announces incentive schemes[37] from time to time to extend financial support in the form of part reimbursement of expenditure towards plant and machinery (fixed capital subsidy), power, interest on loans, sales tax/ Value Added Tax *etc.* On behalf of GoWB, WBIDC disburses these incentives to establish new units and expand existing units in the State, only after commencement of commercial production. During 2009-10 to 2013-14, WBIDC had disbursed incentives of ₹ 949.45 crore. A study[38] pointed out it took more than a year to avail incentives arising from excessive documentation while applying for incentives, need for multiple visits to concerned departments and manual processing of applications.

WBIDC however, had no policy to oversee the functioning of these assisted units after expiry of the periods of entitlement of incentives, so as to evaluate the effectiveness of providing such incentives. Moreover, the Board had expressed (February 2011) that incentive schemes need to be looked into afresh as most of investors felt that infrastructure was more essential for attracting investment than incentives.

WBIDC in its reply stated (January 2015), that as all kinds of incentives are now directly/ indirectly attributable to performance output thus there was built-in mechanism to review the effectiveness. However, the reply does not address the issue to overseeing the functioning of the unit during post entitlement period of the incentives. Also the concern expressed by the Board to obtain the view of the investors remained unaddressed.

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[35] Selected as these were developed without Government grant.
[36] Being 33.99 *per cent* of depreciation.
[37] Incentives in form of fixed capital subsidy, power subsidy, interest subsidy, employment generation subsidy *etc.* under WBSIS 2000, 2004, 2008 and WBSIS Power Subsidy 2005.
[38] for Planning Commission, Government of India (March 2014).

### *2.2.7.2 Planning*

WBIDC and WBIIDC had to prepare perspective plans defining both short-term and long-term targets in harmony with the prevalent state industrial policies, for development of industrial infrastructure in the State.

In November 2010, WBIDC decided to prepare a Strategic Plan and a Mission-Vision Statement at a cost of ₹ 43.01 lakh. Mission of WBIDC was 'to promote industrial investment and be the single point of contact for providing quality industrial infrastructure and promote investment approvals to potential investment in West Bengal'.

WBIDC's Board deliberated (September 2011) on suggested strategies for implementation but took no further action. Thus expenditure of ₹ 43.01 lakh on a report commissioned by it, proved unfruitful. At the Exit Conference, WBIDC stated that some of the recommendations are under consideration without indicating any specific proposal.

WBIIDC Rules 1978 require preparation of overall and schematic budgets and programmes of work (physical and financial) annually before commencement of financial year for submission to GoWB. However, the same was not prepared so far (May 2014). In its reply, WBIIDC has accepted (December 2014) the observation.

### *2.2.7.3 Effectiveness of Single Window Policy*

In November 2011, WBIDC established a cell under Single Window Scheme (SWS) by the name of 'Silpa Sathi' (SS), wherein the officials of major departments[39] connected with providing licenses/ registration (required to start a business in the State) would meet on designated days of the week with a view to ease the process of doing business by reducing time lags in obtaining requisite approvals, 'no-objection' certificates, power and water connections etc.

An analysis of the activities and achievement of SWS since its formation revealed the following:

- It was observed that there was feeble response from the entrepreneurs to seek assistance from SWS for setting industries as only 18 applications so far (November 2014) were received since formation of this cell. Though 34 entrepreneurs were allotted land or modules in IPs of WBIDC between November 2011 and March 2014, none of those entrepreneurs had sought assistance of SWS to set up their units.

[39] Pollution Control Board, Water & Irrigation, Directorate of Factories, Power, L&LRD etc.

- Attendance of departmental participants at SWS revealed that none of them were regular in attendance and there were no occasions wherein there was full quorum of participants.

At the Exit Conference, WBIDC agreed that SWS was not effective. GoWB had, however, set up a Task Force in November 2013 to assist the entrepreneurs.

## 2.2.8 Acquisition of land

Requests for land to set up large factories by reputed industrial houses or for establishment of industrial estates by WBIDC/ WBIIDC are decided by the State Cabinet. Implementation of infrastructure projects begins with selection and procurement of land for IPs. GoWB appoints WBIDC/ WBIIDC as the requiring body (RB) under the Land Acquisition Act 1894[40] (Act) to initiate land acquisition proposals for setting up IPs/ GCs which are placed with Land and Land Reforms Department (L&LRD), GoWB/ District Magistrates through the C&I. Funds are released by WBIDC/ WBIIDC to the Land Acquisition (LA) collector as per demand. Besides, WBIDC/ WBIIDC also directly purchase land from the owners.

During 2009-14, WBIDC and WBIIDC had acquired 4,333.25 acres and 257.675 acres of land respectively, in five districts including two[41] backward districts for development of IPs/ GCs.

The audit observations on the process of land acquisition and management thereof are given in the following paragraphs:

### *2.2.8.1 Payment of excess price on direct procurement of land through private agents*

Based on offers from the land owners offering land suitable for industrialisation purpose, WBIDC also purchases land directly from them. Normally, WBIDC requests District Magistrates to appoint a committee for conducting direct purchase of land and fixation of rates from private owners. In the following case, WBIDC appointed private agents to purchase land directly from the cultivators/ owners which resulted in excess payment over the market value as mentioned below.

For setting up third phase of Plasto Steel Park at Barjora, WBIDC appointed (April 2009) two private limited companies to act as intermediaries for purchase of land from the land owners directly, for subsequent sale to WBIDC at their procurement cost. In return the two companies were to be allotted about 20 acres of land at WBIDC's procurement cost. Records revealed that WBIDC had paid ₹ 4.42 crore at the average rate of ₹ 7.84 lakh/ acre to these intermediaries without verifying from sale deeds, the procurement cost paid by

[40] A new act *viz.* Land Acquisition, Rehabilitation and Re-settlement Act 2013, w.e.f. September 2013. However, both PSUs had not acquired any land under this Act.

[41] Purulia and Paschim Midnapur.

them to land owners. Based on average cost of the land purchased by these companies from the erstwhile landowners, the amount payable to intermediaries worked out to ₹ 2.39 crore at rates varying from ₹ 2.43 to ₹ 9.00 lakh/ acre. Thus, WBIDC failed to ascertain actual procurement price the two companies had paid to the landowners while procuring the land directly from them, and had paid excess amount of ₹ 2.03 crore (₹ 4.42 crore - ₹ 2.39 crore) to two intermediaries. In the first place, allowing these companies to procure land was exception in itself and was against WBIDC's own practice. However, the both companies did not seek allotment subsequently.

In reply WBIDC stated (January 2015), that no excess payment was made as the same was made as per the agreement. But agreement with the intermediaries did not stipulate the price at which WBIDC would buy the land. Consequently, WBIDC decided to pay them at procurement cost.

### *2.2.8.2 Lapsed proposal*

While placing proposal for acquisition, Requiring Body (RB) was required to place advance amounts with the Land Acquisition Collector (LAC) *viz.* District Magistrate. L&LRD issues preliminary notification under section 4(1) of Land Acquisition Act, 1894 (Act) stating that land was needed for public purpose, followed by final declaration of intended acquisition under section 6, within a year from the date of notification under section 4(1) and making of award[42] under section 11 of the Act within two years from date of declaration. Failure to adhere to the time frame shall allow the proposal to lapse.

WBIDC did not maintain complete records on status of land acquisition proposals and the follow up measures taken. Test check of records revealed the following:-

- Six proposals for acquisition of land for five[43] IPs had not been completed even after periods ranging from 30 to 47 months after completion of two years from date of declaration. Thus, due to absence of persuasion by WBIDC these proposals had lapsed. Such lapsed proposals resulted in blocking up of fund of ₹ 13.58 crore along with loss of interest of ₹ 6.20 crore.
- Proposals made for setting up Raghunathpur IP in Purulia district revealed that between August 2007 and February 2012, WBIDC had paid advance of ₹ 86.27 crore to LAC for acquisition of 3,510 acres of land, out of which, 1,897.44 acres of land was acquired till November 2009, worth ₹ 77.55 crore. Of balance amount of ₹ 8.72 crore, ₹ 0.70 crore was refunded and ₹ 8.02 crore were still lying with LAC (May 2014), when the cases of land acquisition proposals had already lapsed in April 2012. The Company had not

[42] 'Award' of land as per the LA Act, 1894 (Section 11), means declaration made by the Land Collector on the area of land to be acquired and its compensation.
[43] Panagarh, Rishi Bankim (Naihati), Raghunathpur I &II, Kharagpur.

followed up with the L&LRD for refund of the balance amount and thus blocked funds of ₹ 8.02 crore, losing interest of ₹ 2.08[44] crore.

- WBIIDC had deposited (April 2010) 10 *per cent* of land cost of ₹ 1.36 crore in April 2010 to LAC for acquisition of 251.255 acres to set up GC at Kharagpur (Phase II). Although notification under Section 4 of LA Act was issued in August 2010, acquisition could not be completed within three years from the date of notification and accordingly, acquisition proposal had lapsed in August 2013. WBIIDC neither sought refund nor submitted fresh proposal which had resulted in blockade of ₹ 1.36 crore resulting in loss of interest[45] of ₹ 58.48 lakh from August 2013 to March 2014.

WBIIDC in its reply, stated (December 2014) that proposal seeking refund was initiated in October 2014.

At the Exit Conference, WBIDC agreed that it had not sought refund of the excess amount with LAC, in anticipation of future land acquisition in those districts. The reply is not acceptable as any future acquisition would require fresh LA proposals and non-seeking of refund for such lapsed proposals would only result in blocking up fund and consequent loss of interest. Further in its reply (January 2015) WBIDC stated that they have initiated claims for refund against the lapsed proposal. However, it was observed (February 2015) that except in one IP, no claim was made for refund and no amount has been recovered so far (January 2015).

### *2.2.8.3 Land availability and land use in the State*

The PSUs did not maintain records for land availability suitable for setting up of potential IPs/ GCs in the State. To meet the growing need for land for urbanisation and industrialisation, GoWB constituted State Land Use Board (SLUB) in October 2006 to frame a policy on land use. SLUB was informed by the District Magistrates of Purulia, Bankura, Paschim Midnapur, Burdwan and Birbhum, about availability of 35,405.91[46] acres vested non-agricultural land in these districts. However, there was no persuasion by either C&I department or by WBIDC/ WBIIDC to develop such land for industrial use. The two PSUs could have tapped SLUB for development of industries within the State.

WBIDC in its reply stated (January 2015) that it was in constant touch with L&LR Department, GoWB for development of Land Bank. It further stated that handing over of land at Goaltore, Paschim Medinipur and Haringhata, Nadia was under process.

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[44]Since April 2012 to March 2014 on ₹ 8.02 crore at 13 *per cent per annum*.
[45] At 13 *per cent per annum* on ₹ 1.36 crore.
[46]Birbhum : 2,135 acres, Burdwan : 12,000 acres and 1,840 acres vested land, Purulia : 918 acres, Paschim Midnapur : 13,500 acres, Bankura : 512.91 acres and 4,500 acres.

### *2.2.8.4 Selection of sites*

Both PSUs did not frame any criteria, for selection of sites viz. contiguous tracts of land, proximity to raw materials, good connectivity etc for development of IPs/ GCs. No preliminary study was conducted for assessing the demand for industrial land so that there was minimal lag between site being made ready for allotment and actual allotment of the same. A test check revealed the following:

- ***Setting up of parks on non contiguous land***

During April 2005 to March 2012, WBIDC has acquired non-contiguous land of 555.29 acres separated by several patches of private / Kolkata Port Trust land in three parks at Haldia, Barjora Plasto Steel Park III and Kharagpur at a cost of ₹ 69.16 crore. For want of an extended piece of contiguous land, WBIDC could neither draw up infrastructural development plan for the IPs nor allot on as-is-where-is basis for industrial units. Consequently, entire land remained unutilised resulting in blocking up of fund of ₹ 69.16 crore (May 2014).

In its reply (January 2015), WBIDC stated that this issue came up during the acquisition process and steps had been taken to make the land contiguous. The reply itself indicated that no preliminary assessment was conducted to ascertain willingness of land owners to sell their land. As a result, no land could be allotted.

- ***Loss of interest due to selection of sites without assessing demand***

During 2003-04 to 2007-08, WBIIDC acquired 127.125 acres of land for construction of GC at Fatapukur in Jalpaiguri district at a cost of ₹ 5.29 crore. Although there was no specific demand for setting up of industry in the GC as assessed by the Board in May 2007, it went ahead with further acquisition of 77 acres of land in the same location and deposited the entire estimated cost of ₹ three crore for acquisition to Land Acquisition Collector (LAC) during December 2008 to July 2010. In November 2011, the District Magistrate, Jalpaiguri informed that during hearing, land owners had opposed and filed mass petition on the grounds that the multi-crop land of 127 acres, acquired previously, was still unutilised. WBIIDC had sought (January 2012) refund of fund of ₹ three crore, which is yet to be received. This had resulted in loss of interest of ₹ 88[47] lakh on the blocked up fund.

WBIIDC in its reply, stated (December 2014) that at the time of sending the land acquisition proposal, it had expected that the implementation of the JV project would be successful. Since the Management was aware of feeble demand in May 2007, further placement of fund for LA proposal was not convincing.

[47] At 13 *per cent per annum* on ₹ three crore for the period January 2012 to March 2014 based on internal rate of return adopted by WBIIDC.

### *2.2.8.5 Implementation of Rehabilitation & Resettlement Package*

The Board of Directors of WBIDC framed (February 2011) a Resettlement and Rehabilitation (RR) package which envisaged compensation in form of land / annuity amount depending upon land holdings held by the land givers. However, WBIIDC did not frame any such policy.

Even after passage of three years, WBIDC did not estimate its liability payable to land-givers of its Industrial Parks (IP) in respect of annuity/ development of compensatory plots of land, except for Panagarh IP where the estimated amount of annuity payable to 3,534 land givers was ₹ 14.96 crore and compensatory plots of 41.76 acres land under 'Land for Land' scheme to 1,147 land givers. However the benefits have not yet been distributed to the land givers.

In none of the IPs, did WBIDC conduct any study to oversee the alternate employment opportunity created for the land givers.

At the Exit Conference, WBIIDC stated that WBIIDC Act had no provision for RR. However, the same is now under preparation in compliance of Land Acquisition, Rehabilitation and Resettlement Act, 2013.

Further, to ensure food security, SLUB decided (September 2009) that, before allotting any multi-crop land for industrial purpose, it is required to develop equal area of double/ multi-crop land or convert mono-crop land to multi-crop land. WBIDC and WBIIDC did not keep complete records of details of cropping patterns of land acquired for industrial use. Test check revealed that in respect of four IPs of WBIDC, out of 4,773 acres of land acquired, 1,227 acres comprised double crop land. But no action was taken to carry out compensatory development of double crop/ multi crop agricultural land to ensure food security.

WBIDC in its reply stated (January 2015) that implementation of RR schemes had been included in the terms and conditions of Lease Deeds with allottees and it has been regularly monitoring the implementation of the same.

## *2.2.9 Development of infrastructure and maintenance of IPs/GCs*

Development of infrastructure facilities in IPs/ GCs includes construction of roads, water supply, sewerage and facilitation of power *etc*. Such works are undertaken by the PSUs (WBIDC/ WBIIDC) through engagement of contractors or under Public-Private Partnership (PPP) to facilitate private investment in infrastructure. Before undertaking developmental activities, PSUs are required to prepare a master plan/ project report indicating facilities to be provided with cost estimates, allottable area, design and drawings etc. Requirement of water is mostly met from ground water. None of the IPs/ GCs have rain water harvesting systems, common effluent treatment plant, support amenities *viz*. schools, banks[48] etc. In this connection, following observations are made:

[48] Except Raninagar.

During 2009-10 to 2013-14, WBIDC undertook development of 16 IPs (8,978.09 acres) out of which land in seven IPs (5,675.90 acres) was allotted on as-is-where-is basis and undertook constructional activities in three IPs (2,705.38 acres). No development of infrastructural works were undertaken in balance six IPs (596.81 acres). But, WBIIDC did not undertake any infrastructural development work for construction of any new GCs during the period 2009-10 to 2013-14.

### *2.2.9.1 Delay in preparation of Master Plans/ award of contract*

During 2009-10 to 2013-14, WBIDC envisaged development of infrastructure on 2,705.38 acres of land in three IPs *viz.* Panagarh Industrial Park (PIP), Rishi Bankim Silpaudyan (RBS) and Vidyasagar Industrial Park (VIP). WBIDC did not fix any time frame for preparation of master plans after getting possession of land. However it was observed that in case of PIP, the master plan was prepared within three months while in case of VIP and RBS, the same were prepared after seven and 17 months respectively, from the date of possession of land. Further, while the plan of VIP did not stipulate the start date and construction period, the plans for PIP and RBS specified the same. At PIP and RBS, there were further delays of 10 and 24 months respectively from the scheduled dates as envisaged in the master plans for appointment of contractor. As a result, these two projects had already suffered time over-run of six to 18 months (May 2014) from the scheduled date of completion. This led to cost overrun as indicated in one test checked case as discussed below.

***Cost over-run due to delays in invitation of tender and award of contract***

As per estimates of master plan prepared (October 2011) by consultant for construction of 39,072 square metres (sq mtrs) of road at Rishi Bankim IP at Naihati, the cost per sq mtrs of road work was ₹ 1.41 thousand with commencement of the work in July 2011 and completion by December 2012. However, WBIDC floated tender in August 2012, after delay of more than 13 months. Though the selected contractor had quoted (February 2013) at 58 *per cent* above estimated price, it did not turn up to execute the contract as quantum of work was reduced to 21,393 sq mtrs. WBIDC cancelled the tender in May 2013 and in March 2014, after delay of 10 months invited and awarded work of construction of 21,393 sq mtrs of road at a rate of ₹ 2,570 per sq mtr *i.e.* 82 *per cent* above estimated cost. Thus, delay in inviting tenders and awarding of contract resulted in cost overrun of ₹ 2.48[49] crore.

WBIDC in its reply stated (January 2015) that the delay was attributable to inviting of fresh tender as the earlier contractor appointed for construction of road did not respond. However WBIDC delayed invitation of tenders by 13 and 10 months respectively.

[49] 21,393 sq mtrs × (2.570-1,410) ÷ 1000.

### *2.2.9.2 Development of Growth centres under PPP Model*

WBIIDC entered into agreements (November 2008 and October 2007) with two[50] private companies for setting up joint venture companies (JVC) to develop of two GCs at Fatapukur, Jalpaiguri district and Guptamani, West Midnapur. According to the agreements, WBIIDC would receive lease premium of ₹ 20.18 crore from the JVC for the project at Fatapukur and 10 *per cent* of the total cost of land acquisition made by WBIIDC for the project at Guptamani. Further, the GC at Fatapukur was to be set up by July 2014, but no time frame was stipulated in the agreement for setting up the project at Guptamani.

Scrutiny of records revealed that both JVCs had not set up the GCs till date of audit. Further, in case of Fatapukur GC, the JV partner defaulted in payment of lease premium of ₹ 8.64 crore.

Since, there was no progress in both projects, WBIIDC got the terms, conditions and financial implication of the agreements re-examined (January 2011/ March 2011) by a consultant. On the basis of report of the consultant, WBIIDC requested (March 2012) both JVCs to suspend all activities. WBIIDC also decided (April 2013) to opt out of the JVC agreements, but it could not do so in the absence of any favourable exit clause for WBIIDC. WBIIDC had incurred aggregate expenditure of ₹ 13.06 crore on these two GCs.

At the Exit Conference, WBIIDC accepted the observation and stated that they were seeking legal assistance to exit from the PPP contracts.

### *2.2.9.3 Non recovery of Operation &Maintenance (O&M) charges*

Maintenance of common facilities and services at an IP was undertaken initially by WBIDC through an O&M contractor. Allottees were to pay O&M charges based on actual expenses. Subsequently, maintenance was to be handed over to a duly formed body of allotees when allotment of majority of plots/ modules was completed. By March 2014, WBIDC had handed over maintenance work to the bodies constituted by the allotees at four IPs. However, it failed to handover O&M in respect of two[51] IPs where more than 90 *per cent* of space has been allotted.

***Short recovery of O & M Charges — WBIDC***

WBIDC neither raised periodic bills for O&M charges on allottees, nor did it maintain records of amounts outstanding from them at six IPs. From a scrutiny of O&M cost incurred and amounts realised thereagainst, it was

[50] Shristi Infrastructure Development Corporation Ltd. (SIDCL) and Bengal SREI Infrastructure Development Ltd (BSIDL).

[51] Shilpangan & Manikanchan IPs.

revealed that WBIDC had recovered ₹ 6.52 crore against expenditure of ₹ 7.88 crore on O&M charges at four[52] IPs during 2009-10 to 2013-14, thus there was excess expenditure ₹ 1.36 crore. Although lease terms provide for cancellation of lease agreement for non-clearance of O&M dues, no action had been taken by WBIDC in absence of records (May 2014).

WBIDC in its reply stated (January 2015) that the maximum of the outstanding dues has been recovered and it has also transferred the maintenance of Shilpangan IP to the SPV[53] formed by the entrepreneur's association. However, scrutiny of records revealed that only ₹ 0.06 crore (4.41 *per cent*) was recovered in four IPs (during April 2014 to December 2014) and the reply did not address the delay in handing over of Shilpangan's maintenance to the SPV.

***Recovery of dues towards water and service charges — WBIIDC***

WBIIDC raises quarterly bills of water and service charges. However, audit observed that, it did not monitor timely realisation of dues from entrepreneurs which resulted in accumulation of arrears of ₹ 4.46 crore at 12 GCs up to March 2014. Out of the total outstanding amounts, ₹ 3.21 crore were due from allottees of 123 operational units/ executed projects. Although WBIIDC has unit offices at every GC, it failed to take effective steps for recovery of dues. In the absence of details of bill-wise dues, the age of the realisable amount could not be assessed in audit.

WBIIDC did not maintain GC-wise cost data to ascertain viability of offering services to the allottees. Records revealed that rates of water charges were last revised in May 2007. A review of electricity charges, which is directly related to supply of pumped water to the allottees, revealed that during February 2010 to May 2014 the electricity rate increased by 81 *per cent* from ₹ 3.07/unit to ₹ 5.57/ unit. But there has been no corresponding revision in water charges after May 2007.

At the Exit Conference, both PSUs stated that the process of recovery of dues was ongoing.

## *2.2.10* Allotment and monitoring of units in IPs/GCs

Allotment of plots/ modules to industrial units is made simultaneously with undertaking infrastructure developmental activities in IPs. The two PSUs also allot land on as-is-where-is basis. After appraising projects, allotments are made on long term lease not exceeding 99 years with option to mortgage and renew the lease for further like term not exceeding 99 years. On receipt of land premium (LP), possession of land is being handed over and lease agreement entered into with the entrepreneur.

[52] Food Park II, Manikanchan, Shilpangan and Poly Park.
[53] Special Purpose Vehicle

As of March 2014, out of 6,967.47 acres of land and 9.57 lakh square feet of allotable module space[54], WBIDC had allotted 4,532.12 acres and 8.85 lakh square feet to 374 units in its 18 IPs and, 2,435.35 acres of land and 0.67 lakh square feet of module space remained vacant.

As of March 2014, out of 1,951.50 acres allotable land, WBIIDC had allotted 1695.46 acres at 15 GCs and 158.56 acres of land on as-is-where-is basis to 454 units.

Audit observation on allotment process is discussed in the following paragraphs:-

### *2.2.10.1 Appraisal of projects*

WBIDC allots land based on project proposals submitted by the investors along with financial data and future projections. However, no independent assessment to ascertain the viability of the project was undertaken by WBIDC. WBIIDC also did not frame any appraisal mechanism for assessment of project viability before allotment of land.

Inadequate appraisal leads to failure in implementation of the project which renders the land idle. Following points were noticed during test audit.

### *2.2.10.2 Allotment of land without appraisal*

Test check revealed that in case of 12 units, land measuring 127.84 acres has been allotted without appraisal of the projects by WBIDC. Further out of these 12 units, five allottees (113.05 acres) had not implemented their projects (May 2014). Consequently the allotted land remained idle. No action has been taken to repossess the land by WBIDC against these five allottees.

WBIDC in its reply stated (January 2015) that in case of one unit, land (104.5 acres) was allotted without appraisal as the allottee was a renowned industrialist. However, the appraisal policy of the Company does not stipulate any exclusion on this ground.

### *2.2.10.3 Appraisal of projects after allotment/ handing over of land*

Scrutiny of appraisal memos revealed that in case of four allotments comprising 23 acres of land and a module space of 325 sq mtrs, appraisal was done by WBIDC after periods ranging between two to 69 months subsequent to allotment of land.

It was observed in one case that land measuring 10 acres was allotted to one unit, but the appraisal division did not recommend the same due to incomplete application submitted by the party. For other three allottees, appraisal recommendations were favourable. But, none of the above projects has been

[54]Within the IPs/GCs, the PSUs construct factory buildings providing flats with built-up space, which is termed as 'modules'.

implemented till date (May 2014) even after lapse of 39 to 83 months, since the date of allotment of land. Reasons for non-implementation of these projects were not on record.

WBIDC in its reply stated (January 2015) that it had cancelled allotment of one unit. But the same was not repossessed so far (January 2015) and the land remained unutilised.

***2.2.10.4 Appraisal of major steel projects***

In view of limitation in the availability of land, power, coal and water, GoWB constituted (May 2008) an 'Expert Committee on Steel and Allied Industry' (ECSAI[55]) for appraisal and recommendations on proposals for setting new or under-expansion schemes for steel and allied industry projects.

Test check of allotment based on ECSAI recommendations revealed the following:

***Approval of proposals prior to Appraisal***

ECSAI carried out appraisal of four new integrated steel plant projects and identified various shortcomings like information gaps, absence of clarity in process route, product mix, layout *etc.* in these projects. It was noticed in audit that land was allotted to all four projects based on government approvals (January/August 2007) moved by C&I prior to appraisal. Moreover, in one out of these four projects, allotment of 3,835.16 acres land was completed prior to appraisal. Further, after appraisal, WBIDC had allotted 505.72 acres, 1,094.32 acres and 600 acres of land to the remaining three proposed integrated steel plants. However, the project that was allotted land of 600 acres had surrendered the same to WBIDC and left. The remaining three projects had not been implemented so far.

While considering the proposals, the State Cabinet observed that since the State has no iron ore reserves, implementation of these projects would depend on iron ore linkage with mines located in neighbouring States which were to be sourced by allottees. WBIDC and GoWB allotted land to these units without verifying whether they were able to secure firm commitments of iron ore linkage. These units failed to establish their raw material requirements. The projects had projected investment of ₹ 59,430 crore and employment opportunity to 48,945 persons. None the projects could be implemented so far with practically no investments ever made.

An illustrative example of deficiencies in agreement for allotment of land to one of the four projects and appraisal thereof is given below:

In terms of development agreement entered in January 2007, the State Government and WBIDC provided 3,835.1586 acres and 189.6274 acres of

[55]The Committee comprised of technical persons from steel industry, Geological Survey of India as well as Departments of Power and Non-Conventional Energy Sources and Irrigation and Waterways.

vested[56] (January 2007[57] and January 2008) and acquired (June 2010) land respectively to a large joint venture company (JVC) in Paschim Medinipur district, for setting up an integrated steel plant with annual production capacity of three million tonnes of steel along with a captive power plant in its first phase. Further in compliance with the agreement, GoWB also ensured water from Rupnarayan river and coal linkage through West Bengal Mineral Development and Trading Corporation Limited (WBMDTC). The agreement provided that the JVC would arrange iron ore linkage. However, failure to arrange iron-ore linkage would not constitute default in agreement. The JVC failed to source iron ore linkage which was an essential pre-requisite for the project and had instead proposed (December 2013) to set up one 660 MW thermal power plant on the land which featured in the negative list of industries of GoWB, the only exception being captive generation of power for projects. No revised appraisal was made about requirement of land in the changed situation; neither could the allotment be cancelled as the agreement did not stipulate automatic cancellation of allotment of land in the event of failure of the JVC partner to establish iron ore linkage. Thus 4,024.79 acres of land allotted to JVC had remained idle since 2007.

### *2.2.10.5 Determination of price of land /modules*

WBIDC framed pricing policy for land/modules in December 2008. The policy states that land premium (LP) consists of cost of land, infrastructure cost, cost of re-settlement/ rehabilitation, cost of borrowed funds and recovery of administrative charges at 10 per cent of land cost. However, rate of recovery of administrative charges was fixed on *ad-hoc* basis. LP is revised every year by adding at a fixed rate of 13 *per cent* over the previous rate.

LP for WBIIDC, however, includes cost of land, cost of infrastructure facilities plus 12.5 *per cent* thereon towards administrative overhead. LP is annually enhanced by 13 *per cent* over previous rate.

In order to introduce uniformity, and to ensure transparency in dealing with public assets, State Government announced a land allotment policy in December 2012. Consequently, the PSUs had been maintaining in the public domain, data relating to availability of land in their IPs/ GCs and also had been auctioning land for allotment to the highest bidder after considering the reserve price fixed.

Audit observation on pricing for allotment of land/module is discussed below:

### *2.2.10.6 Under recovery of costs*

The terms of allotment provided that if cost of procurement of land plot/ module increases at any point in time, due to an order of a Court of competent jurisdiction, then only such increased cost of procurement shall have to be reimbursed by allottees. A test check revealed the following:

[56] Vested land means State owned land.
[57] 869.67 acres in January 2007.

WBIDC allotted 498.49 acres and 60 acres of land to two companies in June/April 2011 at Panagarh IP. Allotment price was arrived at by considering land cost at ₹ 157.20 crore which was incurred up to April 2011. Scrutiny revealed that WBIDC had omitted part of land acquisition cost (April 2008) of ₹ 2.60 crore and compensation (February 2011) of ₹ 1.17 crore to *bargadars*, which resulted in under pricing of land premium by ₹ 2.17 crore for two companies. Further, in case of one unit, administrative cost charged by WBIDC was five *per cent* against the norm of 10 *per cent* which also resulted in under realisation of administrative cost further by ₹ 4.05 crore.

WBIDC in its reply stated (January 2015) that the under-recovered cost of ₹ 2.17 crore will be recovered by charging in the present land price of the un-allotted plots. Further, it stated that there was no standard practice to recover administrative cost at 10 *per cent.* The reply is not correct as WBIDC's own pricing policy (December 2008) stipulates recovery of administrative cost at 10 *per cent.*

WBIDC had allotted 10 acres land to five units during May 2011 to February 2013 in Rishi Bankim IP, Naihati. As infrastructure work in the IP was pending at that time, allotment price was based on land cost incurred and tentative estimate for infrastructure cost for allotable area of project *i.e.* 77.90 acres. However, taking actual land cost, tentative infrastructure cost, administrative cost and cost of funds, it was found that LP of ₹ 10.06 crore should have been charged against which ₹ 6.83 crore actually charged. This has resulted in under-recovery of LP of ₹ 3.23 crore.

WBIDC stated (January 2015) that such plots were allotted at prevailing land pricing policy. Under recovery of lease premium was based on the same policy.

However, the land policy did not permit under recovery of lease premium unless the same is reimbursed by GoWB. Moreover, WBIDC did not approach GoWB for prior approval and reimbursement of the amount.

### *2.2.10.7 Discriminative pricing for infrastructure cost*

WBIDC undertakes various infrastructure works at its IPs and costs incurred there against is apportioned among allottees on the basis of land allotted. Although anchor[58] investors utilise the same common infrastructure amenities, WBIDC did not frame a uniform policy of extending benefit to anchor investors or large investors for standardisation and transparency. It was observed that WBIDC had forgone charging of infrastructure development cost from two[59] anchor units at PIP and VIP resulting in short recovery of infrastructure cost incurred and leading to undue benefit of ₹ 77.35 crore to these units.

Further evidence of the discriminatory approach of WBIDC in pricing for

[58] An investor whose presence would act as a magnet for other investors.
[59] MFCL (PIP), TELCO(VIP)

infrastructural cost by charging less for infrastructure cost from one unit and more from the other, is illustrated below:

i) A Company proposed allotment of land in Vidyasagar IP for setting up their plant. Considering land cost budget of the Company, WBIDC brought down allotment price from ₹ 32.68 lakh/acre to ₹ 27.08 lakh/ acre, on the plea that the Company was allotted 110 acres of land in one chunk and it was not required to do any infrastructural work in the allotted area.

However, as per the approved pricing policy of Vidyasagar IP, five *per cent* discount was allowable to units procuring land in excess of 50 acres at the park. Considering the same, maximum discount of ₹ 1.63 lakh/ acre (being five *per cent* of total applicable price of ₹ 32.68 lakh/ acre) was allowable instead of ₹ 5.40 lakh/ acre actually allowed. This resulted in under charging of land premium of ₹ 4.15 crore[60].

WBIDC in its reply stated (January 2015) that no undue benefit was given to the anchor units and it would recover the under charged development cost, incurred for development of common infrastructure from the other plot holders. But under recovery of such cost would lead to discriminatory pricing and put additional burden on the smaller allottees in the IPs.

ii) In another instance, WBIDC decided (February 2010) to allow payment of infrastructure cost in two instalments for allotment at Vidyasagar IP where the last instalment could be paid by the allottee within one year from the first instalment. Against one-time payment of infrastructure cost of ₹ 11 lakh/ acre, the instalment facility provided payment of ₹ 6.50 lakh/ acre in two yearly instalments. Such additional charge of ₹ two lakh/ acre were attributable to interest. As LP policy suggests yearly increase of 13 *per cent* over the previous price, the second instalment which falls due within one year should have been ideally fixed at ₹ 5.08 lakh/ acre. This had resulted in over charging of ₹ 1.42 lakh/ acre from the allottees. Test check revealed that during 2010-2011, WBIDC allotted 68 acres to five units and over-charged ₹ 96.56 lakh.

In case of transfer of bulk land to anchor industry at a reduced price by WBIDC, the gap was to be borne by GoWB. Although, WBIDC had given price relaxation to its anchor investors it had not sought contribution from GoWB so far for recovering the price differentials (May 2014).

### *2.2.10.8 Allotment of land below prevailing market price*

As per GoWB norms for allotment of land on long term lease (i.e. for 99 years or more), the applicable rate of lease premium is 95 *per cent* of market value. However, WBIDC/WBIIDC has adopted its own pricing policy wherein there is no scope for fixing the allotment price based on the prevailing market value of the allotable land. A test check of such under-pricing is given below:

[60] ₹ (5.40-1.63) x 110 acres

In March 2010, WBIDC allotted land of 35.16 acres at the Uluberia IP, Howrah to a unit at a price of ₹ 14.10 lakh/ acre and 18.11 acres to another unit at a higher price of ₹ 21 lakh/ acre. Based on rate of ₹ 21 lakh/ acre charged to the second unit, WBIDC had given benefit of ₹ 2.43 crore[61]to the first unit by charging ₹ 14.10 lakh/ acre without any recorded justification. Moreover, the prevailing market rate in March 2010 was ₹ 45.90 lakh/ acre as determined by ADSR[62]. Considering this rate of ₹ 45.90 lakh/ acre, WBIDC had further undercharged ₹ 12.04 crore (₹14.47[63] crore less ₹ 2.43 crore) from both the units. However, despite extending benefit of low pricing, both the units were not operational till date (May 2014) even after four years of allotment.

### *2.2.10.9 Execution of lease deed*

Allotment terms provide that lease deed was required to be executed within 30 days after full payment of LP. As of March 2014, out of 6,427 acres land and 8.84 lakh sq ft module space allotted to 377 units, WBIDC had entered lease deed with 278 units possessing 2,049 acres land and 8.15 lakh sq ft modules. However, WBIIDC did not maintain complete database for lease deed executed with allottees.

Test check of records at 15 IPs of WBIDC and six GCs of WBIIDC, revealed that both the PSUs failed to execute lease deeds even after a lapse of more than one year from the date of allotment. The Table (***Table 2.2.2***) below indicates the periodicity of such delays:

**Table 2.2.2 : Table showing non-execution of lease deeds after expiry of one year of the date of allotment**

| Range of Delay | WBIDC | | | | WBIIDC | |
|---|---|---|---|---|---|---|
| | No of allotees | Area in acres | No of allotees | Area in Sq. ft | No of allotees | Area in acres |
| 12 months to 24 months | 4 | 29.02 | 3 | 14,519.28 | 1 | 0.29 |
| 24 months to 36 months | 3 | 110.00 | 1 | 5,607.52 | 5 | 4.68 |
| 36 months to 48 months | 4 | 1,444.13 | 8 | 34,420.07 | 5 | 1.57 |
| 48 months to 60 months | 3 | 512.83 | 4 | 15,509.48 | 6 | 10.65 |
| In excess of 60 months | 5 | 23.80 | 50 | 2,10,567.33 | 78 | 192.48 |
| **TOTAL** | **19** | **2,119.78** | **66** | **2,80,623.68** | **95** | **209.67** |

*(Source: PSUs' databases)*

WBIIDC in its reply stated (December 2014) that lease deeds with entrepreneurs were executed only after certain progress of implementation of

[61] {(21.00-14.10) * 35.16}.
[62] Additional Sub Registrar.
[63] [ (0.95x 45.90) – 14.10] x 35.16 acres *plus* [ (0.95x 45.90) – 21] x 18.11 acres.

the project was made by the allottees. Further, it also stated that resumption of land for non-implementation of project would be more arduous if the lease deed were executed at the time of allotment. However, allotment of land without executing lease deed is not tenable in law[64].

In its reply, WBIDC accepted (January 2015) the audit observation.

#### *2.2.10.10 Renewal of lease without applying due diligence*

The Kharagpur GC of WBIIDC contained five plots measuring 49.88 acres of leasehold land obtained from State Government during 1976 to 1991. Of these, lease period of 31.99 acres of land against four plots had expired during March 2006 to May 2013. WBIIDC had renewed lease period for two plots measuring 20.01 acres of land for further period of 30 years in September 2010 (18.35 acres) and July 2011 (1.66 acres). For this WBIIDC had paid ₹ 40.06 lakh. However as no lease deed has been made with the allottees by WBIIDC the funds of ₹ 40.06 lakh remained blocked. Lease for the balance land of 11.98 acres had not been renewed, whose lease tenure has already expired.

While accepting the observation, WBIIDC stated (December 2014) that after resolving the issue of subsequent transfer of the land, the realisation of salami and rent along with interest will be made.

### *2.2.11* Project implementation and contribution towards industrialisation

#### *2.2.11.1 Implementation of assisted units*

As per terms of allotment of WBIDC, allottees had to start commercial production within three years for mega projects, 18 months for other projects in case of allotment of land and six months from the date of physical possession for modules. Similarly, allotment terms of WBIIDC provide for commencement of commercial production within 30 months from physical possession. However, in case of failure to implement the project within the specified time frame, WBIDC has the right to cancel the allotment and repossess the land after forfeiting 10 *per cent* of the deposited amount, whereas WBIIDC has the right to cancel and repossesses the land without imposing any forfeiture of LP.

A summary of project implementation in the IPs/ GCs of WBIDC and WBIIDC is given in ***Annexure 2.6.***

Review of implementation status of the projects revealed the following:

***Implemented Projects***

As of March 2014, in case of WBIDC, 110 units having 29 *per cent* of total allotted area had commenced production. However, the corresponding figure

[64] According to Section 17 of the Indian Registration Act 1908.

for modules is considerably higher at 86 *per cent*, showing that built-up spaces helped in minimising downtime for commencing production. However, in case of WBIIDC, 301 units holding 63 *per cent* of total allotted area had implemented their projects.

***Land/ modules allotted to projects not yet implemented***

- Land measuring 262.67 acres allotted by WBIDC to 45 units were still not implemented, of which 10 units (December 2014) occupying 93.64 acres of land had completed construction. The remaining 35 units occupying 169.03 acres land did not commence any activity on their allotted plots for periods ranging from 14 to 103 months beyond scheduled dates of implementation. WBIDC has only issued a routine cancellation/ termination notice to all allottees, but till (December 2014), allotment to none of the units was terminated/ cancelled.

- In 19 units, with allotted module space of 0.73 lakh sq.ft, their projects had not been implemented till December 2014. Of these, three units occupying 0.11 lakh sq.ft module space had completed construction but had failed to commence operations for reasons not on record. Moreover, 16 units occupying 0.62 lakh sq.ft module space did not commence construction for periods ranging from 47 to 122 months. WBIDC had issued cancellation/ termination notices to all 19 allottees, but till date it has been able to re-possess only 8,461 sq. ft module space from three units. Four allottees (25,009 sq. ft) opted for litigation. Land was allotted on as-is-where-is basis to five units (1,842.94 acres) for projects to be made operational by 2010. None of the projects had been implemented till (December 2014). No action was taken to cancel or terminate the allotments (December 2014).

- Similarly, in case of WBIIDC, it was observed that 483.10 acres of land were allotted to 125 projects that were yet to be implemented (December 2014). While 40 allottees possessing 84.09 acres land had completed construction they failed to commence commercial production, 27 allottees possessing 59.94 acres land had started construction but abandoned work subsequently. The balance 339.06 acres land allotted to 58 units remained unutilised for periods ranging from three to 38 years (December 2014).

***Implementation of amnesty scheme***

Further, WBIDC has adopted (February 2010) an amnesty scheme for extension of implementation periods against payment of 50 *per cent* of lease premium as penalty for failure to implement projects within specified implementation period. Audit observed that out of 18 IPs, WBIDC applied the scheme to 20 defaulting units holding 19.27 acres land in Food Park I & II and Poly Park only. The scheme was not applied to nine units holding 12.77 acres in those three IPs. Reasons for adopting discriminatory approach were not on record.

***Outcome of amnesty scheme — WBIDC***

Out of 20 units brought under this scheme, three units did not agree to pay penalty and moved the court. One unit was repossessed by WBIDC. Of the balance, 16 units that had accepted the amnesty scheme, 13 units started operations and three units could not implement their projects. WBIDC has terminated allotment of only one such unit in March 2014.

***Delays in applying amnesty scheme and non levy of penalty — WBIDC***

Besides, WBIDC had delayed in applying the amnesty scheme by 13 to 47 months. Test check revealed that WBIDC had granted undue favour to nine units by allowing time extension without charging penalty of ₹ 3.10 crore under the scheme. Moreover, in respect of 16 allottees holding land in excess of two acres each, WBIDC did not levy penalty of ₹ 100 crore for non-implementation of projects.

***Results of extension of project implementation period — WBIIDC***

Similarly, WBIIDC may allow further extension of implementation period by imposing penalty of 10 *per cent* of the total land premium. In June 2011, WBIIDC had issued show cause notice to 87 units at ten GCs covering 377 acres of land, which had either failed to start operations or had discontinued operations. It was noticed that 76.48 acres land allotted to 27 units were mortgaged with financial institutions. Further, WBIIDC had neither extended the periods of implementation nor imposed any penalty of ₹ 1.29 crore, on three mega units holding 197.75 acres of land at Falta and Malda for reasons not on record. Further, out of 26 units who were granted extensions, six units holding 11.11 acres of land failed to commence operation even within the extended period of one year.

During the Exit Conference, WBIDC stated that the scheme was restricted to those three IPs where the defaulting allottees had sought extension of time for implementation against payment of penalty.

***2.2.11.2 Addition to industry in the State and contribution of the IP/ GCs thereto***

The number of new medium and large-scale units which commenced production during 2009 to 2013 in the State and in the IPs of WBIDC/ WBIIDC with their investment is given in ***Table 2.2.3***.

**Table 2.2.3: Industrial investment (number of units set up) in the State *vis-à-vis* industrial investment generated by WBIDC/ WBIIDC's units**

***(₹ in crore)***

| Year | TOTAL (in the State) | WBIDC | WBIIDC | WBIDC: (percentage) | WBIIDC: (percentage) |
|---|---|---|---|---|---|
| 2009 | 8,493.43 (105) | 649.26 (10) | 92.73 (2) | 8 (10) | 1 (2) |
| 2010 | 15,052.23 (199) | 785.76 (8) | 188.50 (17) | 5 (4) | 1 (9) |
| 2011 | 658.17 (74) | 144.67 (31) | 188.50 (12) | 22 (42) | 29 (16) |

| Year | TOTAL (in the State) | WBIDC | WBIIDC | WBIDC: (percentage) | WBIIDC: (percentage) |
|---|---|---|---|---|---|
| 2012 | 1,140.66 (51) | 161.27 (22) | 5.71 (3) | 14 (43) | 1 (6) |
| 2013 | 2,806.40 (61) | 136.42 (15) | 241.74 (4) | 5 (25) | 9 (7) |
| **TOTAL** | **27,658.26 (490)** | **1,877.38 (86)** | **717.18 (38)** | **7 (18)** | **3 (8)** |

*(Figures in parenthesis represent number of units or percentage of units implemented)*

***Source***[65]*: Data from Annual Report of C&I Department, GoWB (2009& 2010) Department of Industrial Policy and Promotion, Government of India (2011 to 2013) and WBIDC/ WBIIDC database*

It would be evident from above table that during the last five years ending 2013, WBIDC and WBIIDC facilitated implementation of 18 and eight *per cent* of the State's new units, but in terms of investment it was only seven and three *per cent* respectively of the total investment.

## *2.2.12* Internal Control

Effective internal controls are pre-requisite for any successful organisation and are essential for good governance. As discussed in preceding paragraphs, there were shortcomings in monitoring and internal control by both WBIDC and WBIIDC over acquisition of land, implementation of rehabilitation and resettlement of land givers, appraisal of projects, maintenance of IPs/ GCs and allotment of land to entrepreneurs.

### *2.2.12.1 Management Information System*

WBIDC had engaged (May 2009) M/s Price Waterhouse Coopers Pvt. Ltd to implement an Oracle ERP package integrating financial, loans, property manager, HR, payroll functions at a cost of ₹ 86.65 lakh, besides infrastructure costs and costs of maintenance. Although the project was due to be completed by March 2011, it is yet to have all functional modules implemented.

At the Exit Conference, WBIDC stated that the uninstalled modules would not be implemented. Further, it added (January 2015) that all modules have now been considered for implementation.

### *2.2.12.2 Internal Audit*

WBIDC and WBIIDC undertake internal audit through firms of Chartered Accountants. The scope of internal audit at WBIDC did not include verification of transactions relating to land acquisition, development of estates, civil engineering works and statutory compliances by WBIDC. Internal audit observations and suggestions are submitted to the Company Secretary and Deputy General Manager (Corporate Affairs) instead of to the Board of Directors (BoD) of WBIDC for their appraisal and appropriate action wherever required.

[65] Data available as per calendar year.

## 2.2.13 Conclusion and Recommendations

***Conclusion:***

***Infrastructure development activities were yet to become profitable for both WBIDC and WBIIDC. Besides, in case of both the PSUs, close follow up of acquisition proposals was often lacking resulting in lapsed proposals and blocking of fund. Further PSUs failed to ensure distribution of Rehabilitation and Resettlement benefits to the land givers. Despite mega steel projects being non-starters; 5,625 acres of land allotted to them by WBIDC could not be reclaimed due to faulty development agreements. Moreover, the internal control processes were weak.***

***Recommendations:***

***Audit recommends for consideration that :-***

1. ***In consultation with other Departments, the PSUs develop land bank/ database on available land lying unused with other Departments for industrial use.***

2. ***Appraisal and monitoring mechanism be strengthened to see that the land in IPs/ GCs is effectively utilised.***

3. ***PSUs ensure effective internal control in the areas of land acquisitions, appraisal of projects and allotment of land to entrepreneurs as well as to oversee functioning after the projects are implemented.***