Chapter 10

Commercial Utilisation of Land and Other Topics of Interest

10.1 Commercial utilisation of land

The task force set up by the Planning Commission suggested (October 2001) an increase in the share of airport revenue from non-aeronautical services for making the airports viable and for generating surplus for further expansion. Audit observed that the Authority did not make optimal commercial utilisation of land to achieve higher non traffic revenue.

10.1.1 Non finalisation of land/space lease policy

Until April 1995, the erstwhile International Airports Authority (IAA) and National Airports Authority (NAA) were following separate bases for fixing rates of land leased and space allotted at airports under their control. Upon formation of the Authority by merger of IAA and NAA in April 1995, the practice of adhoc annual escalation of ten *per cent* per annum was followed pending finalisation of the land lease policy. Committees were formed in this respect in both IAD and NAD. The Committee reports were received by the Authority in July 1997 and September 1997 respectively. The policy was however not finalised and it was decided to appoint a consultant in the matter. The consultant, M/s Colliers Jardine gave its final report (June 1999) and recommended fixation of land/space rental on the basis of categorisation of airports into five categories based on traffic and escalation of licence fee annually by eight *per cent* instead of the prevalent ten *per cent*. The consultant also recommended revision of land lease policy and licence fee every six years. The licence fee/rental for land was worked out on the basis of 3.33 *per cent* return per annum on the total cost of land which included infrastructure development. The report was discussed by the Board (March 2000) but no uniform land lease policy was finalised. Pending finalisation of a uniform methodology, adhoc revisions were effected in lease rentals from time to time. In September 2005, another consultant was appointed to advise the Authority regarding ways and means of fully exploiting the potential for increasing non traffic revenue and also the methodology to be adopted for fixation and revision of land/space rental. The consultant submitted his draft report which was yet to be deliberated upon by the Board (March 2006). Audit thus observed that despite a lapse of more than ten years from the formation of the Authority, it had not been able to firm up a uniform land/space lease policy. Different periods and rates of adhoc annual escalation were being applied by the IAD and the NAD resulting in non scientific fixation of lease rentals without any relation to market rates, cost of land/space and potential of the airport depending upon the traffic handled. The Management stated (August 2006) that efforts were on to have a unified policy for fixation of lease rentals as well as revision and annual escalation thereof.

10.1.2 Revenue loss on account of withholding of commercial contracts at metro airports

The Ministry instructed (April 2002) the Authority not to initiate any new major commercial activities at Delhi, Mumbai, Kolkata and Chennai airports including leasing of land, ground handling, duty free shops etc. while the process of restructuring of these airports through long term leasing was on. It was further directed to put on hold any activity already initiated in this regard. As a result of the above directive, the Authority could not invite fresh tenders for major commercial contracts at the four airports when the existing contracts expired. As regards advertisement contracts and duty free shops which form the major chunk of non traffic revenue at the four airports, no fresh tenders were invited after December 2002 and adhoc extensions were given from time to time on the existing terms and conditions. The Management stated (August 2006) that the Authority continued to get the licence fee with ten *per cent* compound escalation applicable and hence there was no loss. However, the Authority was deprived of the benefits of inviting fresh tenders which would have resulted in additional non traffic revenue through competitive quotations.

10.1.3 Loss of revenue due to non execution of agreements and non revision of rates

Prior to the formation of NAA (June 1986), the Director General of Civil Aviation (DGCA) leased land/ hanger space to seventeen entities at a nominal rate of Re. one per annum. These were mainly Government subsidised flying clubs. Between June 1992 and April 1998, eight more flying clubs were also allotted space at a license fee varying from Rs.390 to Rs.4044 per sqm. As on 31 March 2004, 24 flying clubs were operating from the Authority's land. Due to the inequality in licence fee charged, the private flying clubs demanded parity. The Board discussed (March 2003) the proposal to charge licence fee at current market rates with ten per cent annual increase from all the entities operating at the airports. It decided to conduct a survey to identify those flying clubs which were undertaking flying as well as non-flying activities and those flying clubs undertaking only commercial activities to consider the matter further. However, no such survey was conducted. Audit observed that the Authority did not enter into fresh agreements with the subsidised entities and did not raise revised licence fee bills at current space rental rates on the flying clubs which were undertaking purely commercial activities. The Management stated (August 2006) that a policy paper was being prepared and would be put up to the Board for consideration and approval so that inequity in licence fee could be eliminated.

10.1.4 Loss of revenue due to delay in utilisation of flight kitchen premises

Proposals were initiated (May 2003) to lease the temporary flight kitchen premises (about 7900 sqm) vacated by M/s Taj Flight Caterers in Delhi. Two enquiries were also received by that time. No further action was taken on the proposals and the premises had not been let out so far (March 2006). The rental revenue value of the area worked out to Rs.7.68 lakh per month. The Management replied (August 2006) that the Authority wanted to use this land for various purposes[♣] which could not materialise and there was no loss as the land was within the airport complex and for the structure taken over from M/s Taj Flight Caterers, no compensation was paid. The reply was not acceptable as the Authority itself initiated action in May 2003 to lease the above structure but the area had neither been leased out (March 2006) nor used by the Authority for its own purpose.

[♣] ***viz. accommodating CISF personnel in the said structure etc.***

Other Topics of Interest

10.2 Cochin International airport

Cochin International airport is a Government of Kerala sponsored project with public participation from Non Resident Indians. The project of new airport for Cochin envisaged to overcome the operational shortcoming of the then existing Naval airport. At a meeting held in October 1991, with representatives from the State Government, the then National Airports Authority, Defence, Railways and Port Trust decided to pursue the project for construction of a new airport instead of expanding the existing airport. The airport started functioning from June 1999. An MoU was signed between the Authority and Cochin International Airport Limited (CIAL) for treating the value of CNS equipment installed at the airport (Rs.7.78 crore) as the Authority's equity. However the MoU had not been ratified by the CIAL Board with the result that the equipment continued to be shown as Authority's assets in its books. An amount of Rs.21.75 crore was also due from CIAL as on 31 March 2006 towards ATM services rendered by the Authority. The matter regarding payment of this amount was also undecided. The Management replied (August 2006) that the issue of non payment of dues had been regularly intimated to the Ministry with a request to intervene and sort out the pending issues.

10.3 Non Operated/ Meagrely Operated Airports

During 2005-06, the airports handled 8.38 lakh aircraft movements in all, out of which 36 airports handled only 0.26 lakh movements (3.10 per cent) which indicated that these airports were almost non operational **(Annexure VI)**. The Authority incurred substantial expenditure in creating and augmenting infrastructure in some of these airports like Gaya, Khajuraho, Bhuntar and Gaggal during the period 2000-01 to 2005-06. Further, four airports handled only non commercial movements and 44 airports did not have any operation at all during 2005-06. Land available in these airports was also not commercially exploited. Audit observed that in addition to substantial investments already made in developing these airports, the Authority continued to incur revenue expenditure relating to salaries to staff, electricity charges etc. in respect of these airports. Audit test checked 20 airports **(Annexure VII)** and it was noticed that these airports suffered cash losses amounting to Rs. 50.38 crore during the four years ending 2005-06 and the Authority was not able to recoup the expenditure incurred on staff, repairs and maintenance etc. The Management replied (August 2006) that these airports were required to be maintained on social and economic considerations to provide connectivity to inaccessible areas.

Recommendations

- The Authority should formulate land/space lease policy to ensure optimal commercial utilisation of land to achieve higher non traffic revenue.
- Wherever land/space is available for rent, these should be allotted immediately to avoid loss of revenue.

- Agreements should be finalised with the flying clubs early and a decision on bringing parity in the lease rentals charged from various flying clubs should be expedited.
- The matter regarding non recognition of MoU by CIAL and non recovery of ATM dues should be followed up through the Ministry for an early settlement.
- The possibility of making the non operational airports functional should be explored.

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