



THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2011-2014)**

TWENTY FIRST REPORT

(Presented on 2nd April, 2013)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2013

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On

**Bekal Resorts Development Corporation Limited based on the
Report of the Comptroller and Auditor General of India
for the year ended 31st March, 2007 (Commercial)**

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Smt. Lima Francis, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2011-2014) having been authorised by the Committee to present the Report on their behalf, present this Twenty first Report on Bekal Resorts Development Corporation Limited based on the Reports of the Comptroller and Auditor General of India for the years ended 31st March 2007 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the year ended 31-3-2007, was laid on the Table of the House on 26-2-2008. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2008-2011.

This Report was considered and approved by the Committee at the meeting held on 7-11-2012.

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

The Committee wish to express their thanks to the officials of the Tourism Department of the Secretariat and Bekal Resorts Development Corporation Limited for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Tourism and Finance Department and the officials of Bekal Resorts Development Corporation Limited who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

Thiruvananthapuram,
2nd April 2013.

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

REPORT

BEKAL RESORTS DEVELOPMENT CORPORATION LIMITED

Audit Paragraph

Undue benefit due to under recovery of land cost

The Company acquired (1998-2001) 198.15 acres of land utilising funds provided by the State Government at a cost of ₹ 19.86 crore. The land comprising six prime resort sites were to be licensed and leased out for setting up star/deluxe hotels, subject to payment of annual lease rent fixed by the Company. The Government fixed (May 2002) the land value of these sites at 125 per cent of land acquisition cost and decided to recoup the cost from the lessees annually at minimum eight per cent of the land value. The land acquisition cost was to include compensation paid/payable to the land owners, survey expenses, publication and establishment charges paid to the revenue authorities for the acquisition of land. Accordingly, the Company allotted (2004-2007) six sites with basic infrastructure facilities initially for a period of 30 years (including two years for the construction of buildings) at the quoted annual lease rent ranging from 8 to 9.94 per cent of the land value. As per bid document of licence/lease agreement if additional compensation becomes payable as a result of any court judgment, the lessee was liable to pay enhanced rent.

Scrutiny (November 2006) revealed that the Company had developed the land by creating infrastructure facilities at a cost of ₹ 52 lakh up to April 2007. While fixing/approving the land value, the development cost was neither considered for computing the land value nor a provision included in the lease agreement for subsequent recovery of this amount, as in the case of additional land compensation payable to the land owners. Aggregate lease premium being forgone due to non-inclusion of development cost of ₹ 65 lakh (125 per cent of ₹ 52 lakh) in the land cost worked out to ₹ 1.56 crore* for the annual lease rent for the lease period of 30 years.

The Management stated (June 2007) that the mark up value of 25 per cent reckoned for computation of cost of land would cover the development cost and the land valuation was done strictly in accordance with the guidelines issued by the Government. The reply is not tenable. The mark up is intended to cover money value for the entire lease period of 30 years and non-inclusion of development cost in the cost of land is against the spirit of valuation of land. Further, the Company did not bring to the notice of the Government the land development cost for purpose of inclusion in the land cost for its valuation.

* ₹ 65 lakh x 8 per cent x 30 years.

The matter was reported to the Government (June 2007); the reply had not been received (August 2007).

[Audit Paragraph 4.11 contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2007 (Commercial).]

Notes on the Audit Paragraph furnished by Government is given in Appendix II.

1. The witness was asked to explain the reason for the non-inclusion of development cost while fixing/approving the land value which led BRDC Ltd. to forgo an aggregate lease premium of ₹ 1.56 crore for 30 years. The witness replied that when land was acquired for Bekal Tourism Project the Government had fixed the land value at 125% of the cost of acquisition of land. The annual lease rent was fixed at 8% of the land value. The main reason for fixing 125% of land cost as land value was to meet the additional expenditure incurred on land for development of land such as for construction of compound wall or measures for protection of land or to improve access facilities to the acquired land and the main intention was to protect the acquired land. By doing all this the company doesn't provide any additional facilities to the lessee. Moreover developmental expenses contribute to a very small percentage of land cost. For these reasons, to decide lease amount, the company didn't incorporate any provision for such expenses above 125% of the land acquisition cost. The agreement also contained provision for the revision of lease rent, for any escalation in land acquisition.

2. The witness reiterated that 125% escalation was a condition to cover any contingent expenditure incurred during land disposal for BRDC and was not meant for any specific expense. So the company didn't create any separate head for development cost.

3. To another query, the witness replied that land acquisition cost included compensation paid or payable to land owners, service expenses, LA publication charges and LA establishment charges paid to Revenue authorities, which would altogether amount to hardly 1% to 5% of land value. Though development expenses were not specifically stated, they could be very well taken care of by the 125%.

4. The witness further clarified that the land acquisition notification charges as well as revenue charges related to land acquisition. It was also added that as these developmental requirements varied from place to place, the Company couldn't anticipate the expenditure for the development of infrastructure facilities. Moreover, 100% land acquisition cost as well as other publication charges were not borne by the bidder in any system and it has to be borne by the acquiring authority itself.

Conclusion/Recommendation

5. No Comments.

Thiruvananthapuram,
2nd April, 2013.

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

APPENDIX I

SUMMARY OF MAIN CONCLUSION/RECOMMENDATION

<i>Sl. No.</i>	<i>Para No.</i>	<i>Department</i>	<i>Conclusion/Recommendation</i>
1	5	Tourism	No Comments

APPENDIX II

NOTE FURNISHED BY THE GOVERNMENT ON AUDIT PARAGRAPH

<i>Audit Para No.</i>	<i>Reply furnished by the Government</i>
4.11	<p>The land acquired for Bekal Tourism Project was leased out to Hotel Groups vide Government Order G.O. (Ms.) No.144/2002/GAD dated 20-2-2002. The Land Valuation Committee and meeting of the Board of Directors of BRDC held on 10-1-2002 had approved the lease. The land value was decided at 125% of the cost of land (Expenses incurred for acquiring the land + 25% thereon) as adopted in the case of land leased out for construction of park in Veli at Thiruvananthapuram. Annual Lease rent was fixed at 8% of the above land cost. The agreement contained provision for the revision of lease rent by incorporating the additional liability arising out of the decisions of court on LAR cases. The Government norm of 125% of land cost includes the expenses on infrastructure of facilities such as water, electricity, roads etc. Lease rent revised on the basis of the decision of the court on LAR cases is annexed.</p> <p>As such the private entrepreneurs will not get any undue benefit.</p>