FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)

SEVENTY FOURTH REPORT

(Presented on 4th December 2018)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2018

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SEVENTY FOURTH REPORT

On

KERALA INDUSTRIAL INFRASTRUCTURE DEVELOPMENT CORPORATION

(Based on the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2014)

34/2019.

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COMMITTEE ON PUBLIC UNDERTAKINGS (2016-2019)

Composition of the Committee

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Shri K. Suresh Kumar, Joint Secretary

Shri G. Harish, Deputy Secretary

Smt. Deepa V, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2016-2019) having been authorised by the Committee to present the Report on their behalf, present this Seventy Fourth Report on Kerala Industrial Infrastructure Development Corporation based on the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2014 relating to the Public Sector Undertakings of the Government of Kerala.

The aforesaid Report of the Comptroller and Auditor General of India for the year ended 31st March, 2014 was laid on the Table of the House on 23-3-2015. 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 2016-2019 at its meetings held on 25-10-2017 and 9-11-2017.

This Report was considered and approved by the Committee (2016-2019) at its meeting held on 19-11-2018.

The Committee places on record its appreciation for the assistance rendered by the Accountant General (Audit), Kerala in the examination of the Audit Paragraphs included in this Report.

The Committee wishes to express its thanks to the officials of the Industries Department of the Government Secretariat and Kerala Industrial Infrastructure Development Corporation for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government, Industries and Finance Department and the officials of the Kerala Industrial Infrastructure Development Corporation who appeared for evidence and assisted the Committee by placing their views before it.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
19th November, 2018.

Report

on

Kerala Industrial Infrastructure Development Corporation (KINFRA)

Audit Paragraph 3.7 (2013-14)

Government of India (GoI) launched (March 2002) 'Textile Centres Infrastructure Development Scheme (TCIDS)[36] in line with National Textile Policy 2000. The scheme envisaged creation of infrastructure facilities like construction of roads, common effluent treatment plant, strengthening of power supply, improving water supply etc. for which maximum central assistance of ₹ 20 crore for each centre was to be given on reimbursement basis. Government of Kerala (GoK) entrusted (August 2003) Kerala Industrial Infrastructure Development Corporation (KINFRA) the work to implement TCIDS project at Kannur[37] and the Empowered Committee[38] (EC) approved (February 2004) the project to be implemented in 168 acres within a period of 18 months at a total cost of ₹ 30.15 crore.

KINFRA authorized (July 2004) Kinfra International Apparel Parks Limited[39] (Company) to execute the project. The major decisions in the implementation of the project were taken by KINFRA[40] and execution and supervision were done by the Company.

The implementation of the project was commenced in November 2004. The Company incurred ₹ 50.31 crore on the project upto March 2014 and received financial assistance of ₹ 28.85 crore under TCIDS (₹ 19.85 crore) and ASIDE Scheme (₹ 9 crore). The Company, however, allotted only 13 per cent of allottable land upto March 2014 and there were no takers for the built-up space in the building constructed. Audit, therefore, decided to conduct a study to assess deficiencies in the implementation of the project with reference to the guidelines issued by GoI.

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36 A scheme for improving infrastructure facilities at potential textile growth centres and to remove bottlenecks in exports so as to achieve the target of textile and apparel export of US $ 50 billion by 2010 as envisaged in the National Textile Policy 2000.

37 Earlier known as Canannore.

38 Committee for sanctioning projects under TCIDS.

39 A fully owned subsidiary of KINFRA formed for creating infrastructure facilities in the State for apparel industries.

40 Projey KINFRA for the implementation of the Projects.

Audit findings

Delay in obtaining approval

3.7.2 GoI suggested (August 2001) GoK to prepare and furnish project report for getting assistance for development of Textile Centre at Kannur under TCIDS. KINFRA, however, submitted (October 2001) the project proposal for improvement of infrastructure facilities at the existing Apparel Park at Thiruvananthapuram. The proposal was returned (September 2002) by GoI stating that the scheme was meant for development infrastructure at established textile centres like Kannur and not at existing parks. KINFRA submitted (October 2003) a new project proposal for setting up textile centre in 168 acres of land at Kannur and the EC approved (February 2004) the project. Non adherence to the directions of GoI regarding the project location resulted in avoidable delay of two years in obtaining approval for the project.

The Management stated (October 2014) that there was no delay in submission of application or preparation of the reports. The reply is not acceptable as approval of EC for the project was obtained only in February 2004 after a delay of two years.

Change of project site to an unsuitable location

3.7.3 As the transfer of 168 acres of land identified for implementing the project was delayed and the implementation of the project was to be started within three months after the date of sanction, the project was shifted to another location having a total area of 124 acres in Thaliparamba taluk of Kannur district without conducting any feasibility study. The land at new site was scattered in different locations spreading across 1.5 kilometers away from each other. The strata in almost all places were medium rock (narikkal) excavation of which was extremely difficult and time consuming.

Since the availability and suitability of land for the proposed textile centre was not ensured well in advance, the project was hastily shifted to an unsuitable location. The project report was not revised considering the features of the new project site.

The Management stated (October 2014) that the land identified earlier was notified as Coastal Regulation Zone, water was found to be saline in nature and was partially water logged. The reply indicated that the selection of original site was wrong and the DPR based on that was not revised to suit the new site.

Award of contract to the consultants

3.7.4 As per guidelines issued (December 2004) by Central Vigilance Commission (CVC), a firm engaged by the PSU to provide goods or works for a project will be disqualified for providing consulting services for the same project and a firm hired to provide consulting services for a project will be disqualified from providing goods or for undertaking works related to the same project.

KINFRA appointed (November 2004) FACT Engineering and Design Organization (FEDO) as Project Management Consultant (PMC) for technical evaluation of tenders, planning, scheduling and monitoring of projects and supervision of construction activities including certification of bills, etc. at a professional fee of five per cent of the value of the total work executed at site. The initial contract for a period of 24 months was extended upto 31 December 2008. Thereafter, FEDO discontinued the services and Kerala Industries and Technical Consultancy Organization Limited (KITCO) was engaged (December 2008) for the balance works at a fee of 4.50 per cent of the actual value of the work. The Company had incurred ₹ 1.82 crore towards PMC charges so far (March 2014).

With a view to availing TCIDS grant before the expiry of the 10th plan scheme, ie. by March 2007, KINFRA awarded (January 2007) the work of installation of Raw Water Pumping Pipeline to FEDO on deposit scheme basis at a fee of three per cent of the actual cost in addition to the PMC fee of five per cent. The work of construction of water treatment plant, overhead storage tanks and distribution pipelines was awarded (January 2007) to KITCO at a fee of 5.50 per cent on the actual cost of work on deposit scheme basis. As the grant was released on reimbursement basis, KINFRA paid the estimated cost of the works amounting to ₹ 3.01 crore and ₹ 3.64 crore respectively to FEDO (March 2007) and KITCO (July 2007) immediately after award of the works so as to claim reimbursement from GoI. FEDO subsequently awarded (February 2008) the contracts to sub contractor and the work was actually completed in March 2011. Award of works contracts to firms providing consultancy service for the projects was irregular.

The Management stated (October 2014) that certain portion of the work was awarded as deposit work to Government agencies like FEDO and KITCO to speed up the project and consultancy work and awarded contracts were different. The reply is not acceptable since the deposit work was also part of the project and therefore, awarding of this work to the consultant was in violation of CVC guidelines.

Award of contract without tendering

3.7.5 As per Rule 179 of the Kerala Financial Code, open tenders were to be called for execution of work on contract basis if the value of works exceeded ₹ 10,000 or more. KINFRA originally approved (July 2005) an estimate of ₹ 6.13 crore for the work of construction of Standard Design Factory (SDF) building specifying cement flooring and awarded the work accordingly. The flooring was subsequently changed to ceramic tiles as per the request from Bombay Rayons Fashions Limited. KINFRA entrusted (March 2010) this work to Silpi Construction Contractors at ₹ 725 per square metre without tendering for completing the entire work within three months by June 2010. But the flooring work was completed only in December 2010 with a delay of six months incurring ₹ 0.73 crore.

The Management stated (October 2014) that the competitiveness of the rate was reasonably ensured and the work was awarded for the sake of project. The reply was not acceptable as work was awarded without resorting to tendering. Moreover, the work was not completed in time and the competitiveness of the rates not ensured.

Delay in implementation

3.7.6 As per the Project Report, the project was to be implemented within 18 months at a total cost of ₹ 30.15 crore. Though the project was approved in February 2004, Audit noticed delays at every stage of implementation leading to cost overrun of ₹ 20.23 crore as shown below:

Table 3.7: Details of projected and actual cost

Sl. No.	Particulars	Projected Cost[42]	Expenditure incurred upto March 2014	Excess cost	Delay (in months)	Remarks
		(₹ in crore)				
1	Land and Land Development	5.75	13.31	7.56	13-35	Included deposit work by PWD
2	Civil Works	8.00	11.98	3.98	43	Original contract terminated
3	Electrical Installations	3.20	2.37	NA	20	Included deposit work by KSEB
4	Water Supply	3.00	9.47	6.47	26	Included deposit works by FEDO and KITCO
5	Effluent Treatment Plant	3.50	3.07	NA	7-62	Guaranteed test run and final bill pending
6	Others	3.20	5.42	2.22	3-14	Civil and electrical works of Pilot Plant
	Total	**26.65**	**45.62**	**20.23**		

42 Excluding Testing, R & D and Training (₹ 3.50 crore)

The Management stated (October 2014) that there was no unjustifiable delay as the time frame was kept compressed to pressurise the contractors and the cost overrun was due to execution of certain works not included in the initial project. The reply substantiates the audit observation regarding wrong estimation and DPR.

Irregular payment for excavation in medium rock

3.7.7 The work relating to the construction of roads and development works was awarded (October 2005) to a local PWD contractor (Shri.O.V. Sreedharan) for an agreed PAC of ₹1.67 crore i.e, 4.5 per cent above estimate with eight months' time for completion. The agreement was executed on 20 October 2005 and the work was to be completed by 20 June 2006. As per para 1.17 of the terms and conditions of tender, the contractor had to inspect the site and assess the soil conditions before quoting the rates. After commencement of the work, the contractor, however, requested (November 2005) the Company to sanction higher rates for earth work excavation stating that soil strata was " narikkal" (medium rock). KINFRA agreed to the same and sanctioned the rate of ₹204.11 per cubic meter (m^3) as against ₹ 54.56 per m^3 as per the work order. Accordingly, KINFRA paid ₹ 0.75 crore for the earth work of 35039 m^3 including tender excess of 4.5 per cent. As the contractor had to inspect the site and assess the soil condition before quoting the rates, enhancement of rates after award of contract as requested by the contractor was irregular.

The Management stated (October 2014) that estimate was prepared for medium rock that did not require blasting and chiselling, but later the rock was found to be harder and hence rate applicable for " narikkal" (CPWD schedule) was paid. The reply was not acceptable since presence of " narikkal" in the site was already known to the Management and as per Paragraph 1.17 of the terms and conditions of tender, survey was required to be done. Thus, the action of KINFRA to sanction higher rates was irregular.

Procurement of machineries based on limited tender

3.7.8 As per Rule 179 of the Kerala Financial Code, open tenders were to be called for execution of work on contract basis if the value of works exceeded ₹10000 or more.

The Company issued 15 orders for supply and commissioning of machineries for a total amount of ₹3.10 crore and incurred an amount of ₹ 2.87 crore so far (March 2014). Out of this, only three orders for machineries[43] costing ₹0.50 crore were placed against open tenders. The remaining 12 orders were issued based on limited tenders considering the commencement of land allotment in the park in June 2009 and urgency in commissioning the machineries. The procurement of machineries by resorting to limited tender without ensuring competitiveness citing urgency lacked justification and violation of store purchase manual as none of the machineries was commissioned as scheduled and delay ranged from 4 to 24 months **(Annexure-15)** which calls for fixing of responsibility for violation of basic rules. Further, High Temperature High Pressure (HTHP) vertical dyeing machines and Hydro Extractor & Cheese Pressing Device costing ₹0.86[44] crore scheduled to be commissioned by February 2010 have not been commissioned so far (October 2014)

The Management replied (October 2014) that the manufacturers of textile machineries were less and they were not willing to take up the work as they were pre-occupied with works since the industry was flourishing and enough orders were there. The replay was not acceptable since it contradicts the reply to Paragraph 3.7.10 where it was stated that the global melt down which started by 2007 end, made the industry lose many orders and was facing acute cash crunch and still the industry has not recovered from the setbacks. Thus, the reply was not correct.

Idling of infrastructure created

3.7.9 The infrastructure facilities created at the textile centre, Kannur by incurring ₹50.31 crore[45] have been idling as detailed below:

Land

3.7.10 The developed land in the textile centre consisted of six plots with a total area of 124 acres having an allottable area of 94.80 acres as given in the following table:

43 Cabinet dyeing machine, Soft winding & rewinding machines and Laboratory equipments

44 ₹ 0.60 crore paid so far

45 Actual cost incurred up to March 2014 for implementation of project (₹45.62crore); cost of machineries (₹2.87 crore) and consultancy charges (₹ 1.82 crore)

Table:3.8: Details of plot -wise available, allotted and vacant area

Sl No	Plot	Total area	Common area	Allottable area	Allotted area	Vacant area
(1)	(2)	(3)	(4)	(5)=(3-4)	(6)	(7)=(5-6)
1	A	40.18	9.05	31.13	5.75	25.38
2	B	5.10	1.15	3.95	0.00	3.95
3	C	33.76	7.69	26.07	0.00	26.07
4	D	9.70	0.05	9.65	0.00	9.65
5	E	4.41	0.41	4.00	0.00	4.00
6	F	30.84	10.84	20.00	6.70	13.30
	Total	**123.99**	**29.19**	**94.80**	**12.45**	**82.35**

KINFRA commenced action for allotment of developed land in June 2009 and issued (June 2009 to December 2011) letters of intimation (LoI)[46] for allotment to all the 42 applicants for 39.05 acres till March 2012. As major portion of the land was lying vacant, KINFRA decided (March 2012) to allot the land in Plots C,E and F to entrepreneurs from general industrial sector also. As a result, 20 applications including 19 for general industries were received during April 2012 to March 2014 and KINFRA issued LoI to all.

Despite this, only 15 applicants (eight for textile industry and seven for general industry) remitted EMD and executed license agreement and only 12.45 acres (8.15 acres for textile and 4.30 acres for general) of land in Plots A and F was allotted so far (March 2014) for a total lease premium of ₹ 1.64 crore. Out of the land allotted to textile industry (8 allottees), two allottees commenced their commercial operation and the projects of other allottees were under various stages of implementation. However, even after alloting the land to general industries, deviating from the main objective behind setting up of the textile centre, major portion *(87 per cent)* of the allottable area is lying vacant.

46 Land Allotment Committee constituted by GoK for KINFRA considers the application of investors and on its approval, KINFRA issues LoI to the party informing the lease premium payable. On payment of the required lease premium by the party, KINFRA issues Allotment Letter to the party.

The Management stated (October 2014) that at the time of starting the project, the textile industry was booming and the global melt down which started by 2007 end had adversely affected the industry. The reply was not acceptable as the scheme was introduced to boost the textile industry as envisaged in the National Textile Policy 2000 but KINFRA failed to achieve this objective since only *13 per cent of* the land could be allotted even after five years of commencement of allotment.

Built-up space in Standard Design Factory lying vacant

3.7.11 The project envisaged construction of a Standard Design Factory (SDF) having a total built up area of 1,20,000 square feet (sq.ft.) which could be leased out to units in modules of 5,000 sq.ft. each or more. KINFRA approved (July 2005) an estimate of ₹ 6.13 crore for construction of SDF building at KINFRA Textile Centre (KTC), Kannur. The construction of SDF building in Plot D was completed in December 2010 incurring ₹ 11.98 crore. The total allottable space of 1,33,891 sq.ft. in three modules[47] in SDF building has been lying vacant except partial occupation of two modules for a short period during October 2010 to December 2012 by Bombay Rayons Fashions Ltd (BRFL).

The Management stated (October 2014) that the whole area of SDF was allotted to BRFL by October 2010. However, the entire allottable space remains vacant since January 2013. Audit noticed that allotment of whole area to a single party was against the envisaged scheme of leasing out to units in modules of 5,000 sq. ft. each.

Dyeing and Winding Plant

3.7.12 KINFRA decided (May 2006) to set up a comprehensive pilot plant consisting of dyeing plant, winding plant, its ancillary machines and bonded warehouse in order to make KTC a world class destination for Textile/garment manufacturers and exporters. The work of construction of pilot plant building in Plot A was awarded in December 2006 and completed in July 2008 by incurring ₹ 3.49 crore. Meanwhile, it was decided (July 2007) to procure the machineries for dyeing, winding and rewinding availing subsidy under ASIDE Scheme of GoI.

47 Module 1-44419 sq.ft.; module 2-43867 sq.ft. and module 3-45605 sq.ft.

The State Level Empowered Committee of GoK sanctioned (April 2009) ₹ 9 crore and released the entire amount during 2009-10 as grant for procuring these machineries under ASIDE Scheme for providing cost effective amenities to small textile exporting units in the textile centre. The additional export revenue and generation of direct employment to 1000 persons and indirect employment to 2000 persons were the benefits expected from this plant.

The dyeing and winding plant was lying idle as the Company did not find any operating agency for taking over and running the plant. A newly formed (November 2011) 'Kannur Textile Processing Society' was engaged (January 2012) as operating agency for running the plant on a trial basis for a period of four months. During the trial run, the operating agency pointed out (June/August/November 2012) several technical complaints on the functioning of the machines and stopped the trial operations in November 2012. Further, they raised doubts (December 2012) about chances of operating HTHP dyeing machines as they were lying non-commissioned for long periods.

Management stated (October 2014) that no technical complaints were noted by the operating agency and the plant was allotted to Hindustan Textiles, Kannur. The Management further replied that the payment of HTHP machines was not made and the scope of the supplier to operate the machinery was still open.

The correspondence between the operating agency and the Company, however, indicated that there were several technical defects which were yet to be rectified. Though the plant was stated to be allotted, the letter issued (13 October 2014) to Hindustan Textiles was only an acceptance of their Expression of Interest and execution of agreement was yet to take place.

Audit analysed the major reasons for idling the infrastructure facilities and observed the following:

Non-obtaining of firm commitment

3.7.13 KINFRA intimated (September 2003) the Director (Exports Division), Ministry of Textiles, GoI that they had held series of meetings with exporters and textiles manufacturers of Kannur area to find out the deficit in infrastructure in that region and forwarded a project report for a total cost of `30.15 crore. Audit noticed that there were only a few takers for the project on its completion. On being pointed out this in Audit, KINFRA stated (October 2014) that slow down in the textile sector and non-availability of manpower were the reasons for the low demand for land and space in SDF. Failure of KINFRA to obtain firm commitment from potential allottees by way of advance identification of beneficiaries/booking/sale of plots as pointed out by the Additional Secretary & Financial Advisor (Textile & Commerce) in the EC meeting held in February 2004 and inordinate delay in implementing the project resulted in idling of 87 per cent of the developed plot and the entire built-up space.

The Company stated (October 2014) that major portion of the land would be allotted within a reasonable period as the market was improving.

The reply of Management was not acceptable as delayed allotment of land was mainly due to failure of KINFRA to obtain firm commitment from potential allottees by way of advance identification of beneficiaries/booking/sale of plots as pointed out by the Additional Secretary & Financial Advisor (Textile & Commerce) in the EC meeting held in February 2004.

Conclusion

The project approved (February 2004) with the delay of two years for a total cost of ₹ 30.15 crore to be implemented in 18 months in 168 acres of land was actually implemented at another location in 124 acres of land incurring ₹ 50.31 crore. KINFRA had also not revised the DPR while shifting the project to the new location and incurred an excess expenditure of ₹ 20.10 crore compared to the project cost. The entire space of 1,33,891 sq. ft., available for allotment in the SDF, 87 per cent of allottable area in the developed land (82.35 acres) and the dyeing and winding plant were idling.

Thus, the inordinate delay in implementation, shifting the project to an unsuitable location and non-obtaining of firm commitment from prospective entrepreneurs led to idling of the infrastructure facilities created without realising any of the benefits of the centrally funded scheme.

[Audit Paragraph 3.7.1 to 3.7.13 contained in the Report of the C&AG of India for the year ended 31 March, 2014]

The Notes furnished by the Government on Audit Paragraphs are given in Appendix- II.

Discussion and Findings of the Committee

The Committee sought explanation for delay of 2 years on the part of KINFRA in obtaining approval from the Government of India for the project proposal for the development of Textile Centre at Kannur under 'Textile Centres Infrastructure Development Scheme'(TCIDS). It was revealed that the delay occurred due to the selection of a wrong project site as the existing park in Thiruvananthapuram which was rejected by Government of India. As a result a new proposal for setting up textile park in Kannur had been subsequently submitted. The Committee also wanted to know why the location was first proposed in Thiruvananthapuram while Government of India had suggested a location at Kannur. The Committee was perplexed by a vague reply given that there is currently more clarity in the government regarding implementation of projects and sought to know what exactly the Corporation meant in that remark.

The witness replied that after submitting project report to Government of India the project had initially been entrusted to the Director of Handloom and Textiles but later it was entrusted with KINFRA and that caused the delay. He explained that out of 94.8 acres of land allotted for the implementation of the project, 32 acres were received and 45 units were functioning there at present. A Standard Design Factory(SDF) spanning an area of 1.33 lakh sq.ft. was also constructed as part of the project and a 33,000 sq.ft. area within it were allotted to various units. KINFRA could not attain 100% utilisation of its allottable area owing to a decline in market for the textile industry. Hence, at present Government has made decisions to earmark 50% of land allotted to KINFRA for the general industry and accordingly, decision has been made to allot 10 acres of land for the general industry.

The Committee remarked that such delay when occurs in implementation of major projects, it is the common man who is ultimately affected, and severely criticized the officials for justifying the delay in a situation when no timely action was seen taken.

The Committee enquired whether there were any projects functioning at present in the 168 acre area allotted to the Corporation in Kannur. The officials replied in the affirmative.

The Committee was not convinced by the explanation given by the witness. The Committee noted that the delay in getting approval from Government of India(GoI) for the project occurred due to non-adherence to the directions of GoI in selecting the project location. The officials admitted the fault. The Committee pointed out that the company could have negotiated with officials of GoI in order to avoid the delay.

The Committee noted that KINFRA has been seen to have hastily shifted the project location from its proposed site, to another location in Thaliparamba Taluk of Kannur District, without conducting any feasibility study. The Committee was surprised to note that when it was evident that water is an inevitable necessity for handloom, KINFRA had selected a rocky arid region which faces water scarcity, scattered in different locations spreading across 1.5 km away from each other and rebuked the Corporation for executing projects and thus spending government fund according to their preferences in an irresponsible manner.

The witness explained that KINFRA got the scheme(TCIDS) in 2004 and initially decided to execute the project in Irinavu in Kannur District in the vicinity of the Kannur Power Project which was non-functional at that time.. But later it was decided to revive Kannur Power Project; however the proposed area was not allotted and instead 24 acres of land in the possession of District Collector was transferred. In order to prevent loss of the project KINFRA shifted the project to the new site. The witness tried to justify the action by submitting that the Corporation had taken the maximum possible efforts to resolve the hindrances of the project site.

The Committee observed that KINFRA had not revised the DPR considering the features of the new project site selected. The Committee remarked that the fund allotted to KINFRA for implementing the Project has been utilized in a very unfruitful way by providing only infrastructure facilities and besides no proper reply was furnished in this regard.

The Committee reprimanded severely that KINFRA was functioning like it was conducting a real estate business by abstaining from its objective of developing industries within Kerala. The replies furnished by the department was also not felt tenable, with the result that, the Committee expressed its strong discontent.

The Committee noted that KINFRA had appointed FACT Engineering and Design Organisation (FEDO) as Project Management Consultant(PMC) in 2004 with a professional fee fixed as 5% of the value of total work executed at the site. Later KINFRA awarded work contract for installation of Raw Water Pumping Pipeline in 2007 to FEDO at a fee of 3% of actual cost, in addition to the PMC fee of 5% already sanctioned, and balance work to KITCO in the same year at a fee of 5.5% on the actual cost of work.

The Committee sought explanation for awarding work contracts to firms providing consultancy service for the project and thereby violating the Central Vigilance Commission's guidelines.

The witness explained that FEDO had discontinued their consultancy due to internal problems, and that the issue of conflict of interest or violation of CVC guidelines did not arise as it was the estimate prepared by FEDO which was executed by KITCO. The issue of conflict of interest arises only if the consultancy services and work execution are both carried out by the same agency. He assured that changes had been made in the whole system from this year onwards. The Committee remarked that these were not indicated in the reply. The Committee also remarked that it strongly felt that KINFRA has not functioned properly and expressed strong displeasure at its mode of functioning.

The Committee expressed astonishment over entrusting works to companies without resorting to tendering and demanded an explanation on awarding the works to Silpi Constructions which delayed works for six months thus incurring ₹ 0.73 crore.

The witness explained that the work of tiling the floors of the SDF building was initially entrusted to Kerala State Construction Corporation on risk and cost basis, which failed to complete the entrusted work within the time limit. They had to be terminated and the work was then entrusted to Silpi Constructions which had already participated in the tender with lowest tender. The witness added that works were awarded to the agency without tendering in order to ensure speedy completion of project.

The Committee noted that there was deliberate delay on the part of KINFRA in every stage of implementing the 'Textiles Centres Infrastructure Development Scheme(TCIDS) at Kannur that led to a cost overrun of ₹ 20.23 crore and sought explanation. The witness replied that delay was on the part of Kerala State Construction Corporation which was entrusted to complete the work. Since they did not complete the work in time it was rearranged at risk and cost. The Committee ruled out the reply of the witness and expressed its dissatisfaction over the reply furnished by the department, stating that " necessary directions may be issued to ensure the guidelines and conduct proper feasibility study while preparing and forwarding estimates and DPR to Government" . The KINFRA official had admitted the delays and cost overruns occurred in the execution of the project and confessed alongwith that a lapse in supervision on the part of KINFRA and also delay had indeed occurred from side of the contractor to complete the work.

The Committee enquired whether the amount due from Kerala State Construction Corporation Limited (KSCC) as risk and cost claim of KINFRA against them for the work had been paid by KSCC. The KINFRA official replied that the amount had not been paid so far by KSCC and the matter had been submitted for the consideration of the High-Power Committee of the Corporation.

The Committee noted that the PWD contractor entrusted with the work relating to the construction of roads and development works for the project, had requested rates in excess of that provided in the work order for earth work excavation, post commencement of the work, stating that soil strata in the project site was 'medium rock'. The Committee also noted that KINFRA had acceded to the request and sanctioned higher rates to the contractor for the work. The Committee observed that this was in violation of the terms and conditions of tender which provided that the contractor had to inspect the site and assess soil conditions before quoting rates. The Committee enquired about the authority entrusted with the task of categorizing whether the soil strata of the project site was hard rock or not.

The witness explained that the consulting agency for the project, FACT Engineering and Design Organisation(FEDO) was entrusted with the task, and the authority to identify the strata of rock was the geologist who failed to conduct soil testing on the site before the commencement of tender for the work.

The Committee observed that KINFRA could allott only 13% of its developed land in the Kannur Textile Centre even after 5 years of commencement of allotment; thereby failing to achieve the objective of the Corporation. The Committee enquired about the present position of allottment of land by the Corporation.

The witness replied that KINFRA had allotted 47 units including 9 textile units. 23.42 acres of land had been allotted so far out of 90 acre allottable area with an investment of ₹3545 crore and employment has been provided to about 1300 people.

To a query of the Committee, the witness replied that KINFRA had availed central government grant worth ₹ 29 crore. The witness explained that at the time of sanctioning of the project in 2007 there was high scope for the textile industry. However global meltdown occured after acquiring the land and making investment, which led to severe decline in the textile industry.

The Committee refuted the reply and severely criticized the Corporation for non-utilisation of Central Government funds allotted to the Corporation. The Committee remarked that the Corporation is seen to have diverted its activities from the objective of developing the textile industry in the State and instead allotted the major portion of its land to general industry. The Committee voiced that the Corporation is not functioning properly and also the reply received from the department concerned was ambiguous.

The Committee noted that KINFRA had allotted the entire area of the Standard Design Factory (SDF), constructed as part of KINFRA's Kannur project, to a single company, Bombay Rayons Fashions Ltd.(BFRL), in 2010, but BFRL had vacated that space in 2013 and which continues to remain vacant since then and sought explanation.

The witness replied that owing to the global meltdown, there was huge decline in the market for the textile industry and consequently, BFRL vacated the space allotted to it inside the SDF building.

The Committee criticized the action on the part of KINFRA in alloting of the entire SDF building to BFRL by violating the government policy of allotting the total available space in the SDF building to units in module of 5000 sq.ft. each

The Committee enquired whether KINFRA availed government sanction for allotting the entire building to a single company.

The witness replied that initially the SDF building was leased out to 3 units Bombay Rayons Fashions Ltd., Textile for Industries Company in Kannur and another small scale industry. Later, the other two companies backed out citing disinterest in the SDF building. Consequently, BFRL was allotted the entire area within the building. The Committee wanted to know the current position regarding the utilization of the building. The witness replied that currently, 18000 sq. ft. area inside the building was being utilized and that only one building was lying vacant.

The Committee sought to know whether it is possible to take penal action against those who vacate after three years of allotment. The witness replied that KINFRA had forfeited Earnest Money Deposit(EMD) furnished by those Companies.

Recommendations

1. The Committee recommends that KINFRA should strictly adhere to the directions of Government of India(GoI) in selecting project sites and for availing Central Government fund, and should negotiate with the officials of GoI inorder to attain approval for the projects without delay.

2. Expressing strong displeasure at the continuous violation of Central Vigilance Commission (CVC) guidelines by KINFRA, the Committee wants KINFRA to strictly adhere to CVC guidelines while awarding contracts to prospective firms. The Committee wants Government to examine whether KINFRA is following the CVC guidelines in their present ventures and inform the Committee.

3. The Committee reprimands KINFRA for awarding tiling works of the Standard Design Factory (SDF) building to Silpi Construction Contractors without

tendering; thereby violating Rule 179 of the Kerala Financial Code. The Committee strongly recommends that KINFRA should refrain from the practice of awarding works to private firms without tendering.

4. The Committee recommends to take stringent action against the officials responsible for the deliberate delay noticed in every stage of implementing the TCIDS(Textiles Centres Infrastructure Development Scheme) project at Kannur, that had led to a cost overrun of ₹ 20.23 crore to the company.

5. The Committee directs that KINFRA should expedite measures to realise the amount due to KINFRA, as risk and cost claim from Kerala State Construction Corporation Limited(KSCL), on account of delay in completion of the TCIDS Project.

6. The Committee recommends that KINFRA should entrust only competent authorities in future for inspecting nature of the soil and for assessing soil conditions at its proposed project sites before the commencement of tender related to earth work excavations.

7. The Committee condemns the non-utilisation of Central Government funds allotted to KINFRA for the purpose of developing textile industry within the state and directs the company to make full utilization of funds allotted by the Central Government in the future.

8. The Committee directs that KINFRA should furnish a detailed report to the Committee regarding the forfeiture of Earnest Money Deposit(EMD) from the companies which had backed out of the lease agreement with KINFRA and vacated the space allotted within the SDF building at the KINFRA Textile Centre(KTC), Kannur.

9. The Committee views the wrong selection of land as main reason for undue delay in initiating the Kannur Textile Centre and recommends that KINFRA should select project sites only after conducting proper feasibility studies, and that DPRs (Detailed Project Reports) should be prepared according to the project site selected.

10. The Committee suggests that KINFRA should conduct proper market studies and market analysis on current trends before embarking on a new project or developing industrial infrastructures.

11. In the light of decline in Textile Industry in Kerala, the Committee recommends that KINFRA should focus on profitable industrial projects other than textiles for the empowerment of industrial sector in the state.

12. The Committee observes that KINFRA took more than five years to allot developed plots in several industrial parks. Hence, the Committee wants to be informed of the present position of allotment of developed plots as well as utilization of buildings in various industrial parks under KINFRA.

13. The Committee insists that KINFRA should take corrective measures to rectify various shortcomings of the Company that have led to deviation from its stated objectives of developing industrial infrastructure and providing employment within Kerala.

14. The Committee recommends to conduct a detailed evaluation of KINFRA's activities over the years and to develop a comprehensive strategy aimed at its renovation. A detailed report about the action taken in this regard is to be forwarded to the Committee.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
19th November 2018.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS /RECOMMENDATIONS

Sl. No	Para No.	Department Concerned	Conclusions/Recommendations
(1)	(2)	(3)	(4)
1	1	Industries	The Committee recommends that KINFRA should strictly adhere to the directions of Government of India(GoI) in selecting project sites and for availing Central Government fund, and should negotiate with the officials of GoI in order to attain approval for the projects without delay.
2	2	Industries	Expressing strong displeasure at the continuous violation of Central Vigilance Commission (CVC) guidelines by KINFRA, the Committee wants KINFRA to strictly adhere to CVC guidelines while awarding contracts to prospective firms. The Committee wants Government to examine whether KINFRA is following the CVC guidelines in their present ventures and inform the Committee.
3	3	Industries	The Committee reprimands KINFRA for awarding tiling works of the Standard Design Factory (SDF) building to Silpi Construction Contractors without tendering; thereby violating Rule 179 of the Kerala Financial Code. The Committee strongly recommends that KINFRA should refrain from the practice of awarding works to private firms without tendering.
4	4	Industries	The Committee recommends to take stringent action against the officials responsible for the deliberate delay noticed in every stage of implementing the TCIDS(Textiles Centres Infrastructure Development Scheme) project at Kannur, that had led to a cost overrun of ₹ 20.23 crore to the company.

5	5	Industries	The Committee directs that KINFRA should expedite measures to realise the amount due to KINFRA, as risk and cost claim from Kerala State Construction Corporation Limited (KSCL), on account of delay in completion of the TCIDS Project.
6	6	Industries	The Committee recommends that KINFRA should entrust only competent authorities in future for inspecting nature of the soil and for assessing soil conditions at its proposed project sites before the commencement of tender related to earth work excavations.
7	7	Industries	The Committee condemns the non-utilisation of Central Government funds allotted to KINFRA for the purpose of developing textile industry within the state and directs the company to make full utilization of funds allotted by the Central Government in the future.
8	8	Industries	The Committee directs that KINFRA should furnish a detailed report to the Committee regarding the forfeiture of Earnest Money Deposit(EMD) from the companies which had backed out of the lease agreement with KINFRA and vacated the space allotted within the SDF building at the KINFRA Textile Centre(KTC), Kannur.
9	9	Industries	The Committee views the wrong selection of land as main reason for undue delay in initiating the Kannur Textile Centre and recommends that KINFRA should select project sites only after conducting proper feasibility studies, and that DPRs(Detailed Project Reports) should be prepared according to the project site selected.

10	10	Industries	The Committee suggests that KINFRA should conduct proper market studies and market analysis on current trends before embarking on a new project or developing industrial infrastructures.
11	11	Industries	In the light of decline in Textile Industry in Kerala, the Committee recommends that KINFRA should focus on profitable industrial projects other than textiles for the empowerment of industrial sector in the state.
12	12	Industries	The Committee observes that KINFRA took more than five years to allot developed plots in several industrial parks. Hence, the Committee wants to be informed of the present position of allotment of developed plots as well as utilization of buildings in various industrial parks under KINFRA.
13	13	Industries	The Committee insists that KINFRA should take corrective measures to rectify various shortcomings of the Company that have led to deviation from its stated objectives of developing industrial infrastructure and providing employment within Kerala.
14	14	Industries	The Committee recommends to conduct a detailed evaluation of KINFRA's activities over the years and to develop a comprehensive strategy aimed at its renovation. A detailed report about the action taken in this regard is to be forwarded to the Committee.

APPENDIX II

Notes furnished by Government on the Audit Paragraphs

Para No.	Reply
3.7.1	**3.7.1.** No comments.

3.7.2

3.7.2. Delay in obtaining approval

It is admitted that there was delay in obtaining approvals for the project. Initially, the Director of Handloom & Textiles was entrusted with the project. KINFRA took over the project in August, 2003.

There is now more clarity in the Government regarding implementation of such projects, so that we are confident that such delays will not occur in future.

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3.7.3

3.7.3 Change of project site to an unsuitable location

A legitimate consideration in locating industrial parks is the development of under-developed regions, such as North Kerala. Compared to Industrial Parks in developed areas, it is natural that the offtake of sites in Industrial Parks in less developed areas will not be as fast.

However, Government acknowledges that in the instant case, the site of the Nadukani Park should have been contiguous. Part of the problem was that the Nadukani site was not the area where the Park was initially planned. The site with its deficiencies was accepted so as to prevent the loss of the project for Kerala.

To avoid recurrence of wrong site selection, Government have now issued orders constituting a District Level Site Selection Committee for proper site selection.

3.7.4

KINFRA engaged FEDO and later, KITCO as Project Management Consultants for managing the project. They in turn tendered the works assigned to them. KINFRA paid the subcontractors only at actuals and the project management fee on the actual expenditure was given as centage to FEDO and KITCO. As such, there is no issue of conflict of interest or violation of CVC guidelines. In fact, the Finance Department has since issued orders empaneling a number of consultants and prescribing terms and conditions for their engagement, and KINFRA has not violated any of those conditions.

3.7.5

The original work of the SDF had been entrusted to Kerala State Construction Corporation, who had to be terminated. Silpi Construction was inducted through tender in their place.

When the building was offered to Garment Unit they insisted on tiling. This additional work was arranged through Silpi Constructions at the rate originally quoted by Construction Corporation, which was lower than the rate offered by Silpi Constructions. As such, the arrangement was faultless.

3.7.6

It is admitted that there have been delays and cost overruns in the execution of this project. However, it may be noted that the Kerala State Construction Corporation Ltd., which was assigned the construction of the SDF had to be terminated and the work rearranged at risk and cost. This added to the delays. Furthermore, an amount of Rs.3.36 crores is due from KSCC being the risk and cost claim of KINFRA against them for this work.

An amount of Rs.4.19 crores being the cost of approach road to the Industrial Park needs to be excluded as it was entirely funded by the State Government under their anti-Recessionary package.

The cost of dyeing and winding plant of Rs.2.42 crores was also entirely funded under ASIDE.

Part of the delay in executing the work was on account of the termination of the first contractor for the water supply scheme and rearrangement of the same; here again, the amount owed to KINFRA by way of risk and cost from the first contractor is Rs. 99 lakhs, of which Rs.55.30 lakhs has been already received.

The above expenditures need to be excluded if the assessment is of the extent of cost overrun. When these amounts are excluded, the cost overrun comes to Rs.9.97 crores as against Rs.20.23 crores as stated by Audit.

Necessary directions may be issued to ensure the guidelines and conduct proper feasibility study while preparing and forwarding estimates & DPR to Government.

3.7.7

The audit has pointed out that the contractor is supposed to visit the site and acquaint himself about the site condition of substrata. But the contractors are not expected to conduct detailed soil investigations at the site (which was not handed over to him for execution of work prior to tender). Estimates are based on trial pit sections/previous records at site and accordingly provision has been made in the tender for ordinary soil and hard rock. During execution, it was found that the rock met-with could not be classified under hard rock as hard laterite (Narikkal)
is normally classified as an ordinary rock. Therefore, the rates payable has been worked out as `204.11 per $m^3$ against `349.54 per m^3 estimated under hard rock. Thus, by proper assessment of the rock met-with as ordinary rock and rates paid has been much lesser

than for the hard rock as per the Agreement provisions. KINFRA has taken special efforts to see that the actual payment made to the contractor is restricted to `204.11 per $m^3$ for ordinary rock (narikkal) as an extra item as against `349.54 per m^3, had it been paid under hard rock category. Care and meticulous interpretation of the contract clause and specification has in fact restricted the payment to Rs.74.73 lakhs in place of Rs.127.97 lakhs payable to the contractor had the strata been considered as hard rock as provided in the contract.

3.7.8

Audit is very unfair in having made this comment as two open tenders, one in August 2007, and the second in August 2009 were attempted before the procurement of some machinery was done through limited tenders.

Open tenders were invited for the entire machines as per Rule 179 of Kerala Financial Code. Tender notice was released vide advertisement in Indian Express and Deshabhimani on 02.08.2007, but there was no response to this open tender. Open tenders were again called for each machine separately with wide publicity through advertisement in Hindu (All India editions), Malayala Manorama (All Kerala edition) and Economic Times (Delhi, Chennai, Bombay editions) on 26.08.2009. Tenders received only for three types of machines and work was awarded to them. As there was no response for tender for other machines, the PIC headed by the Principal Secretary (Industries) decided to call limited tenders after market enquiries of prospective suppliers and short-listing manufacturers for limited tenders. PMC, M/s KITCO Ltd., had conducted the market enquiry and recommended short-listed vendors, for limited tender. This was approved and limited tenders were called for. Tenders were received and work awarded.

The limited tendering system was resorted to after conducting a detailed study with the assistance of KITCO.

3.7.9

Government admit that there has been idling of the resources created.

It is a fact that the Global meltdown

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3.7.10

had affected the offtake of space in this Park, as readymade garments which is the focus activity in this Park, is primarily meant for export. Government have made special efforts to retrieve the situation by improving the eco-system for readymade garments in the area by even starting a NIFT Campus in Kannur close to the Park.

Special efforts are now being mounted to fully allot the developed plots and built up space in a time-bound manner.

3.7.11

Once an infrastructure is created, the objective must be to ensure its fullest utilization in the shortest possible time. BRFL offered the possibility of full utilization and hence were given the space. Now that they have vacated space is now available for allotment in smaller modules to potential users.

3.7.12

D&W Plant is an integral part in wet processing. For helping out the dyeing houses, the project was conceptualized. After completion of stage 1 works, the pant was allotted to a society formed

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by the exporters. But due to their own problems, they could not operate the facility form more than 4 months. No lapse is there from the part of KINFRA in allotting the facility.

Subsequent to the withdrawal by the Society, the facility has been allotted to M/s.Hindustan Textiles from Kannur. The plant is operational from 1st June 2015 onwards and the commissioning of HTHP machines will also be completed shortly and all other machines are running smoothly.

3.7.13 The objectives of Government in planning & executing this project in Kannur, which is known for its textile exports, cannot be found fault with. Government wanted to provide infrastructure to enhance the production capabilities of the units in Kannur. Several rounds of meetings were held with the Kannur exporters and promises of investment obtained before the project was given a final shape and taken up for implementation. However, the impact of the global meltdown and the disappearance of markets made these prospective investors go back on their promises, which led to the poor occupancy.

Annexure-15

(Referred to in paragraph 3.7.8)

Statement showing delay in completion of civil works & commissioning of machineries in implementation of textile park in Kerala Industrial Infrastructure Development Corporation.

Sl. No.	Name of component	Cost (₹ in crore)	Date of order	Stheduled date of completion	Actual date of completion	Delay (Months)
1.	Pilot Plant Bldg., Security Cabin, Bonded Warehouse, Creche & Dispensary	3.49	6.12. 2006	12.8. 2007	15.7. 2008	11
2.	Civil works	0.83	24.2.2010	16.4.10	28.2. 2011	9
3.	Electrical works	0.30	18.3. 2010	15.6. 2010	12.8. 2011	14
4.	Primary Treatment Plant	0.70	18.9. 2012	23.1. 2013	28.8. 2013	7
5.	Fire Detection & Fire Fighting works	0.49	15.11. 2010	22.1. 2011	21.7. 2011	6
6.	Cabinet Dyeing Machine	0.16	18.11.2009	18.1.2010	9.3.2011	14
7.	Soft Winding & Rewinding Machine	0.28	18.11.2009	18.1.2010	28.1.2012	24
8.	Laboratory Equipments	0.06	18.11.2009	18.1.2010	28.4.2011	15
9.	RF Drier	0.26	16.12.2009	16.2.2010	20.1.2012	23
10.	EOT Crane	0.09	1.1.2010	1.3.2010	27.9.2011	18
11.	Air Compressor	0.10	10.2.2010	20.3.2010	26.8.2011	17
12.	Commissioning of Air Compressor	0.0065	10.2.2010	20.3.2010	26.8.2011	17
13.	HTHP Vertical Dyeing Machine	0.54	16.12.2009	16.2.2010	Not commissioned	
14.	Hydro Extractor & Cheese Pressing Device	0.06	16.12.2009	16.2.2010	Not commissioned	
15.	Platform for HTHP Vertical Dyeing Machine	0.0067	26.3.2010	26.6.2010	16.11.2010	5
16.	Boiler & Accessories	0.44	11.12.2009	21.3.2010	24.6.2011	15
17.	Cabinet Dyeing Machine with micro processor controller	0.50	22.12.2009	22.2.2010	9.3.2011	12
18.	Pneumatic Pipeline	0.0095	7.10.2010	27.10.2010	19.11.2010	-
19.	Supply of Steam Lines	0.26	4.2.2011	18.2.2011	24.6.2011	4
20.	Erection and Commissioning of Steam Lines	0.10	4.2.2011	4.3.2011	24.6.2011	4
Total		**8.68**				

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