

**TWELFTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC ACCOUNTS  
(2006-2008)**

**THIRTY FIRST REPORT**

(Presented on 25th July, 2007)



**SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM**

2007

TWELFTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE  
ON  
PUBLIC ACCOUNTS  
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**On**

**Paragraphs relating to Local Self Government (Urban) Department, contained in the Reports of the Comptroller and Auditor General of India for the years ended 31st March 1994 No. 2 (Civil), 31st March 1999 No. 3 (Civil), 31st March 2000 (Civil), 31st March 2001 (Civil) and 31st March 2003(Civil)**

859/2006.

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COMMITTEE ON PUBLIC ACCOUNTS (2006-2008)

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- Smt. A. Achamma, Under Secretary

## INTRODUCTION

I, the Chairman, Committee on Public Accounts, having been authorised by the Committee to present this Report on their behalf present the Thirty First Report on paragraph relating to Local Self Government (Urban) Department contained in the Report of the Comptroller and Auditor General of India for the years ended 31st March 1994 No. 2 (Civil), 31st March 1999 No. 3 (Civil), 31st March 2000 (Civil), 31st March 2001(Civil) and 31st March 2003 (Civil)

The Report of the Comptroller and Auditor General of India for the years ended 31st March 1994 No. 2 (Civil), 31st March 1999 No. 3 (Civil), 31st March 2000 (Civil), 31st March 2001 (Civil) and 31st March 2003 (Civil) were laid on the table of the House on March 31, 1995, March 31, 2000 July 2, 2001, July 8, 2003 and June 28, 2004 respectively.

The Committee considered and finalised this Report at the meeting held on July 18, 2007.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General in the examination of the Audit Report.

ARYADAN MUHAMMED,

Thiruvananthapuram,  
25th July, 2007.

*Chairman,  
Committee on Public Accounts.*

## **REPORT**

### **LOCAL SELF GOVERNMENT (URBAN) DEPARTMENT**

#### **AUDIT PARAGRAPH**

#### ***Diversion of grant***

In pursuance of State Government's announcement in the Budget speech for 1991-92 that a sum of Rs. 1 crore would be provided for the development and beautification of the capital city of Thiruvananthapuram under 'Capital Development Programme', Thiruvananthapuram Development Authority (TRIDA) submitted (December 1991) a scheme involving a capital outlay of Rs. 2.50 crores for acquisition of about 30 acres of land by the side of National Highway by-pass near Manacaud and development of a maidan for recreational purposes. Government accepted the proposal and released Rs. 90 lakhs as grant-in-aid to TRIDA in March 1992. Action for acquisition of the proposed land was initiated only in April 1993 by TRIDA. Of the amount released, TRIDA utilised (March 1992) Rs. 50 lakhs for repayment of a loan availed of by it from Kerala Urban Development Finance Corporation and the balance (Rs. 40 lakhs) towards expenditure on another scheme (Detailed Town Planning Scheme, Palayam in Thiruvananthapuram) sanctioned in August 1978. Thus, money drawn from the Consolidated Fund of the State much in advance of actual need was utilised for a purpose other than the one for which it was sanctioned.

Government stated (February 1994) that as the proposed land for the scheme was later required by the Kerala State Road Transport Corporation, TRIDA could not carry out the project and was on the look out for a suitable land for the purpose. Government further added that the acquisition of land for the overall development and beautification of Palayam area and the construction of shopping-cum-office complex under the Detailed Town Planning Scheme were legitimate activities for city beautification.

However, the fact remains that the purpose for which the grant-in-aid was released could not be achieved even after a lapse of two and a half years.

[Paragraph 7.11 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1994 No. 2 (Civil)]

Government notes received are included in Appendix II.

The Secretary, LSG(Urban) Department informed the Committee that a sum of Rs. 1 Crore was provided for the development and beautification of the Capital city of Thiruvananthapuram under Capital Development Programme in the Budget for 1991-92. The scheme of development of maidan for recreational KNPP. 859/2007.

purpose by the side of National High way by-pass near Manacaud proposed by the TRIDA was accepted by the Government and Rs. 90 lakhs was released to TRIDA. Since the proposed land for the scheme was already acquired by the K.S.R.T.C, TRIDA could not carryout the project. The amount received had been spent on the Palayam Urban Renewal Project which was also a part of beautification and Development of the capital city. Out of Rs. 90 lakhs, TRIDA used Rs. 50 lakhs for repayment of a loan taken from KUDFC for land acquisition and Rs. 40 lakhs for the project. The witness further said that there was no diversion of funds since the whole amount was utilised for the same purpose. The Committee observed that though there was no misutilisation of funds there was diversion. When enquired whether the diversion resulted in loss of Central assistance, the witness replied in the negative and informed that the scheme had no Central assistance. On being asked about the Government sanction for the diversion of funds, the Committee was informed that the department had not obtained the same. The Committee was of the view that the findings of the audit was absolutely correct and required serious attention since money voted by Legislature for a specific programme was diverted to another programme without authorisation eventhough the two programmes were part of a bigger scheme.

#### **Conclusions/Recommendations**

**2. The Committee understands that though the Government had released an amount of Rs. 90 lakhs to TRIDA under the Scheme of Development and beautifications of capital city of Thiruvananthapuram with a Budgetory support of Rs. 1. crore, the Authority could not carry out the proposed project because TRIDA diverted the amount for other purpose—ie Rs.50 lakhs for repaying a loan taken from KUDFC and Rs. 40 lakhs spent on the Palayam Urban Renewal Project not for which the Grant-in-aid was sanctioned.**

**3. The Committee considers that the contention of the Government that the Palayam Urban Renewal Project was also a part of the Capital Development and Beautification Programme and hence the fund utilized for the purpose could not be treated as diversion is however not tenable since the action is not supported by any authorisation. The Committee agrees with the finding of audit that the money voted by the Legislature for a specific purpose is diverted to another purpose without any authorisation.**

**4. The Committee recommends that Government should take appropriate steps to make sure that the budgetary allocation passed by the Legislature and the amount earmarked for a specific purpose are utilised for the intended purpose.**

## AUDIT PARAGRAPH

***Infructuous expenditure on an environmentally sensitive project***

In May 1994, Government constituted a special authority, viz. Goshree Islands Development Authority (GIDA) for the integrated development of five islands 4 in the backwaters of Ernakulam. The Goshree project approved by GIDA in July 1994 envisaged construction of four bridges linking the five islands in the backwaters thereby connecting Vypeen Island with the main land (Ernakulam) and other communication facilities including infrastructural facilities. The project estimated to cost Rs. 506 crore was to be implemented through self financing basis using reclaimed land as resource. City and Industrial Development Corporation of Maharashtra Limited (CIDCO), a public sector undertaking, was appointed in February 1994 as prime consultants to implement the project on a turn key basis. A Memorandum of Understanding (MoU) was executed in July 1994. Government released (March 1995) a grant of Rs. 2 crore to GIDA to meet its preliminary expenses. Besides incurring miscellaneous expenditure of Rs. 60.82 lakh, GIDA paid CIDCO Rs. 70 lakh in November 1994 and May 1995 as consultancy fees.

The project was opposed (May 1994) by environmentalists on the ground that it would jeopardize the hydrological and aquatical eco-system in the ecologically fragile Vembanad lake and estuary and that it violated provisions of the Environmental Protection Act, 1986 and Coastal Regulation Zone (CRZ) notifications as amended in July 1997. An alternative project (estimated cost Rs. 68 crore) was proposed by GIDA restricting reclamation of land from backwaters to 25 hectares near the Marine Drive in Ernakulam main land in continuation of the existing water front abutting it as against land reclamation of 250 hectares proposed in the original project.

In January 1998, the High Court of Kerala dismissed various petitions filed by the public and non-Governmental organisations against the original project since given up and directed Government to start work on the new project in March 1998. GIDA decided (March 1998) to conduct a detailed topographical and hydrological survey by Cochin Port Trust and sub soil investigation by the Centre for Earth Science Studies (CESS). Thus, consequent on abandonment of the original project, expenditure of Rs. 70 lakh incurred on consultancy charges proved to be infructuous.

Government stated (July 1999) that the consultancy charges of Rs.70 lakh paid was not infructuous as most of the data derived by the earlier studies by CIDCO had been found valuable for rescheduling of the project. The contention is not tenable in view of the decision to conduct detailed

4. Vypeen, Vallarpadam, Mularakkad, Thanthonnithuruthu and Kadmakudy

topographical and hydrological survey by Cochin Port Trust and sub soil investigation by the CESS.

[Paragraph 6-15—contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1999 No. 3 (Civil)].

5. The Secretary, LSG (Urban) Department informed that the Goshree project envisaged construction of four bridges linking the five islands in the backwaters there by connecting Vypeen islands with the mainland Ernakulam and reclamation of 250 acres of land, with an estimated cost of Rs. 506 crore. The project could not be proceeded with due to stay by the High Court. The project was then revised restricting reclamation of land to 25 hectares and construction of three bridges. An amount of Rs. 70 lakh was paid as consultancy charges. The data obtained from the studies could properly be used. When the Committee asked why City and Industrial Development Corporation of Maharashtra (CIDCO) was selected as consultants to implement the scheme, the witness, the Project Engineer, GIDA answered that it required those consultant which had enough experience in marketing and selling. As far as GIDA was concerned, the objective had been achieved as per the revised project. When the Committee wanted to know whether the report was submitted, the Project Engineer, GIDA replied in the affirmative. All the initial studies had been conducted. Preliminary Soil investigation, socio-economic survey, land use survey, hydraulic model study etc. had also been conducted. It was as per the surveys the project was revised. With regard to the question on the delegation of works to other agencies like Cochin Port Trust by CIDCO, the Project Engineer, GIDA informed that CIDCO was a Development authority and might not have all in-house facilities required to implement the scheme. Hence, they might use the facilities available in other sources. He further said that there was no irregularity in this regard. The Committee accepted the reply of the witnesses.

#### **Conclusions/Recommendations**

**6. The Committee learns that the Goshree project envisaged to construct 4 bridges linking the five islands in Vypeen with Ernakulam by reclaiming 250 acres of land with an estimated cost of Rs. 506 crore. Later the project had been revised restricting reclamation of 25 hectares of land and construction of 3 bridges. The Accountant General's objection was that payment of Rs. 70 lakhs as consultancy charges for the revised project was infructuous. But the Committee accepts the arguements of the department with no comments.**

AUDIT PARAGRAPH

#### ***Injudicious purchase of land***

Greater Cochin Development Authority (GCDA) constructed between January 1998 and August 1998, 95 houses under the Edathala Housing

Scheme–Stage I involving an outlay of Rs. 276.36 lakh. Owing to poor demand, only 16 houses could be allotted as of September 1999. Work on Stage II of the scheme was not commenced till December 1998. Ten thousand cubic metres of cut earth obtained while preparing the site for construction of houses under Stage I was to be removed. In March 1998, GCDA decided to purchase 4.40 acres of additional land with the twin objective of removal of earth dumped in open space near the Stage I site and disposal of the newly acquired land after developing it. Government in October 1998, approved the proposal and the land was purchased in December 1998 for Rs. 51.19 lakh.

Acquisition of additional land involving expenditure of Rs. 51.19 lakh for depositing cut earth was not justified in the backdrop of poor demand for houses/plots under Stage I. In view of poor response to the scheme, the cut earth could have been disposed of by auction sale.

The matter was referred to Government in February 1999; reply has not been received (September 1999).

[Paragraph 6.16 – contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1999 No. 3 (Civil)].

Notes received from Government are included in Appendix II.

7. The Secretary, LSG (Urban) Department informed that the 4.73 acres of land purchased in 1998, at Edathala by GCDA for Rs. 51.19 lakh for a housing scheme was sold in 2002 for Rs. 91.28 lakh and hence there was no loss as such. When asked how many houses had been allotted out of the 95 houses constructed under Stage – I, the witness replied that all the houses were allotted. The Secretary added that the decision to construct houses was taken because GCDA had got 1200 application for houses. But when houses were completed only 50% of them could be allotted, 20% of the houses were sold out on payment being made in instalments. Regarding the 2nd stage the Secretary LSGD informed that only the design estimate was completed. By the time the estimate was finalised, GCDA had revised the schedule of rates and hence only after the estimate was revised the work could be tendered.

#### **Conclusions/Recommendations**

**8. The Committee observes that the Greater Cochin Development Authority had purchased 4.40 acres of land in December 1998 for Rs. 51.19 lakh with the twin objective of removal of earth dumped in open space near Edathala Housing Scheme and disposal of newly acquired land after developing it. Audit para was about the injudicious purchase of land spending Rs. 51.19 lakhs for depositing cut earth. Committee observes that**

**the said land was sold in 2002 for Rs. 91.28 lakhs and hence there was no loss. Even though the argument of the department that there was no loss the Committee is of the opinion that the purchase of additional land for Rs. 51.19 lakhs for depositing the cut earth obtained from Stage I cannot be justified especially in the backdrop of poor demand for houses. The cut earth could have been disposed of by way of auction and thus the purchase of the land at a cost of Rs. 51.19 lakh could have been avoided. The Committee urges the department to furnish a detailed report of the current status of the housing scheme implemented by the GCDA at Edathala.**

AUDIT PARAGRAPH

***Undue favour to contractors***

***Undue benefit to a lessee***

On the basis of tender-cum-auction in October 1994, Greater Cochin Development Authority (GCDA) allotted three acres of land at Marine Drive, Kochi in its possession to an individual 'A' on lease for 99 years at Rs. 6.25 crore per acre for a hotel project. The bidder remitted Rs. 9.38 crore (50 per cent of lease rent) in November 1994 and four instalments of Rs. 6.25 crore with interest and penal interest of Rs. 96.50 lakh by August 1995. In compliance with the request of the bidder GCDA changed the allotment in the name of a company 'B' in April 1995 and subsequently to another company 'C' in April 1996, both the companies being floated by 'A'. Again at the request of the bidder in August 1997, GCDA bifurcated and transferred the allotment of 1.25 acres in the name of a company 'D' and retained the remaining extend of 1.75 acres in the name of the former company 'C'. GCDA adjusted Rs. 8.84 crore towards lease rent of the said 1.25 acres including interest and penal interest thereon from the total remittance of Rs. 16.59 crore. GCDA reckoned the balance amount of Rs. 7.75 crore as advance towards lease rent of 1.75 acres and interest and penal interest. GCDA also waived the interest of Rs. 1.35 crore for the period from August 1996 to July 1997, during which construction was banned in the Marine Drive based on the direction of the Honourable High Court. Audit scrutiny revealed the following.

In June 1987, GCDA resolved to levy transfer fee at 10 per cent of the lease amount on transfer of allotment of plots. But GCDA did not levy any transfer fee on transfer of allotment of plot of 1.25 acres to company 'D' on the plea that bidder was holding the post of Director in both the companies. As both the companies were incorporated under the Companies Act and had separate legal entities with different objectives as per their Memorandum of Association, transfer fee should have been levied, resulting in loss of Rs. 78.13 lakh.

The High Court had stayed construction activities in the Marine Drive from 22 August 1996 to 16 July 1997. While working out the interest eligible for waiver on account of ban by the High Court, GCDA erroneously allowed Rs.1.35 crore, being the interest from 1995 to 1997 against the admissible amount of Rs. 57.62 lakh due from 22 August 1996 to 16 July 1997 resulting in undue benefit to the bidder to the tune of Rs. 77.58 lakh.

The tender conditions stipulated automatic cancellation of allotment in case of failure to remit the bid amount in time. But GCDA had not initiated any action to cancel the allotment of 1.75 acres on which lease rent, interest and penal interest of Rs. 13.36 crore were due as of March 2003.

While inviting tenders for the sale of plots having small areas, GCDA fetched higher value of Rs. 9.32 crore and Rs. 11.75 crore per acre in July 1994 and September 1994 respectively. Reckoned with respect to the lower value of Rs. 9.32 crore per acre, loss on this deal finalised in October 1997 amounted to Rs. 9.21 crore.

The matter was referred to Government in April 2003, reply has not been received (December 2003).

[Paragraph 4.3.1—contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2003 (Civil)].

9. The Secretary, LSG (Urban), stated that the GCDA allotted in auction 300 cents of land to a lessee on lease for 99 years subject to the condition that 50% of the lease rent should be remitted in advance and the rest in four instalments including interest and penal interest. Though he had remitted major portion of the amount, he could not carry out any work in the site due to various reasons including stay orders of High Court and Supreme Court. Since construction works could not be carried out by the lessee because of no fault of his, he requested Government to return the interest and penal interest paid by him. His plea was not accepted by Government and aggrieved by this he approached the Court. The Court asked Government to consider his request. Court issued orders to waive the interest and penal interest paid by the bidder during stay orders. The Committee observed discrepancies in the Government order in which the bidder was allowed waiver of interest. The Deputy Accountant General pointed out that GCDA erroneously allowed Rs. 1.35 crore being the interest from 1995 to 1997 against the admissible amount of Rs. 57.62 lakh due from August 1996 to July 1997 during which the stay orders were in force. The witness maintained that the intention of the Government was to waive interest for the period from 1995 to 1997, but the period was erroneously shown. But, the Audit was of the view that the period shown in the

Government Order was correct and error was in the calculation of the interest amount. The Committee understood that the amount shown in the Government Order did not agree with the period as pointed out by the Audit. In the circumstances, the Committee urged the department to take steps to rectify the anomaly in the order and to inform the Committee about the action taken in this regard.

10. The Committee wanted to know why transfer fee was not levied at the time when 125 cents of land was transferred to the new company formed by the same bidder. The Secretary, LSG (Urban) submitted that, the cost of land fixed at the time of auction of 300 cents was Rs. 6.25 lakh per cent. But, while transferring 1.25 acres of land the cost had escalated to Rs. 7.25 lakh per cent. Since the escalated cost was more than 10% of the original cost fixed earlier, transfer fee was exempted. The Secretary GCDA maintained that the cost of the land was fair compared to the cost of adjacent land sold during that time. The GCDA could not dispose the land at a higher value. The Audit objected the view of the witness. The Committee opined that the decision of GCDA to exempt transfer fee was against the earlier decision of GCDA executive and wanted to know the reasons for such an exemption. The witness could not offer a convincing reply. The Committee deprecated the inability of the witness to offer proper answers to the queries of the Committee and urged to furnish a detailed report regarding circumstances which led to the exemption of the transfer fee. The Committee also wanted the Government to rectify the mistakes in the G.O. issued for exemption of payment of interest and penal interest by the bidder.

#### **Conclusions/Recommendations**

**11. The Committee understands that GCDA allotted 300 cents of land in auction to a person on lease for 99 years subject to the condition that 50% of the lease rent should be remitted in advance and the rest in four instalments including interest and penal interest. But the lessee could not carry out any work in the site due to stay orders from court. The aggrieved lessee obtained orders from court to waive the interest and penal interest paid by him during the period of stay orders. The Committee realises that the amount shown in the Government order did not agree with the period pointed out by the audit. The audit pointed out that while working out the interest eligible for waiver on account of ban by the High Court, GCDA erroneously allowed Rs. 1.35 crores being the interest from 1995 to 1997 against the admissible amount of Rs. 57.62 lakh due from 22 August, 1996 to 16 July 1997 resulting in undue benefits to the lessee to the tune of Rs. 77.58 lakh. That the clarifications that the intentions of the**

Government was to waive interest for the period from 1995 to 1997 and the period shown was a mistake was not acceptable to Accountant General who remarked that the period shown in the Government Order was correct and the error was in the calculation of the interest amount. So the Committee urges the department to take steps to rectify the anomaly in the Government Order issued for exemption of payment of interest and penal interest by the bidder and to inform the Committee about the action taken in this regard.

12. The Committee expresses its displeasure over the inability of the representative of the GCDA who attended the meeting to answer the queries of the Committee. The Committee opines that the officers must be well prepared to clarify each and every point raised by the Committee. The witness could not offer a convincing reply regarding the decision of GCDA to exempt the transfer fee against the earlier decision of GCDA Executive Committee. The Committee urges the Government to furnish a detailed report regarding the circumstances which led to the exemption of the transfer fees.

*AUDIT PARAGRAPH*

*Non-completion of projects*

Government of India released Rs.1.05 crore to State Government in March 1993 (Rs. 25 lakh) and March 1998 (Rs.80 lakh) for implementation of two projects in Alappuzha town under the Centrally Sponsored Scheme of Integrated Development of Small and Medium Towns (IDSMT). The details are given in the table below:

<i>Name of project</i>	<i>Estimated cost</i>	<i>(Rs. in lakh)</i>			<i>Expenditure incurred as of November 2000</i>
		<i>Assistance received</i>			
		<i>Central share (Loan)</i>	<i>State's matching share (grant)</i>	<i>Total</i>	
Construction of Municipal bus stand	35.00	25.00	16.67	41.67	13.67
Improvement of Shedamony drain	52.50	80.00	53.33	133.33	0.11
Total	87.50	105.00	70.00	175.00	13.28

State Government released the assistance to Alappuzha Municipality in March 1994 (Rs. 41.67 lakh) and March 1998 (Rs. 133.33 lakh). It was noticed that only Rs. 13.28 lakh (8 *per cent*) of the assistance was utilised by the municipality on these projects as of November 2000. In the case of the first project, only yard development and electrification of temporary canteen, waiting shed, etc., have been completed. For the second project, no work had commenced (October 2000). The delay in completion of the projects was attributed by the municipality to delay in approval of the structural design of the building for the municipal bus stand by Chief Engineer (CE), Buildings and Local works for the first project and non-finalisation of tenders for the second project. Audit scrutiny, however, revealed that the detailed designs forwarded by the Municipal Commissioner to CE in February 1994 were not accompanied by detailed structural drawing of the beams and columns, soil investigation report and design of foundations. Though CE called for the details in February and May 1994, Municipality had not furnished these details even as of June 2000. Regarding the second project, works in reaches III to V were tendered in April 2000 and no work had commenced as of June 2000.

The Secretary, Alappuzha Municipality credited the funds to personal deposit account in disregard of GOI guidelines in this regard. The municipality opened a separate account at District Treasury, Alappuzha only in February 2000 and transferred the available balance amount of Rs. 46 lakh to it.

Thus, the two projects approved by Government of India in March 1993 for implementation under IDSMT had not been completed as of November 2000 though assistance twice the estimated cost (Rs. 87.50 lakh) of the projects was received in March 1993/March 1998.

[Paragraph 7.19—contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2000 (Civil)].

13. The Committee noticed that though an amount of Rs. 133 lakh had been received from the Government for the implementation of Two projects construction of a Municipal Bus stand and improvement of Shedamony drain in the Alappuzha Municipality the Projects were only partially completed and the full amount was not utilised. The Committee enquired the reasons for the non completion of the projects even when sufficient fund was available for the projects.

14. The witness, the Municipal Secretary, Alappuzha informed that the construction of Shedamony drain, had been completed as per the project. Though the yard was completed in an area of 2 ½ acres spending Rs. 13.17 lakh and the construction of bus station had been partially completed it was

decided to shift the location because of the reluctance of the bus owners to utilise the bus stand on the plea that the operation upto the bus stand would not be profitable. Near by to the bus stand there was a lorry stand and it was decided to shift the bus stand to the lorry stand and vice versa and develop the lorry stand into bus stand by acquiring the adjacent 86 cents of land also. To a question of the Committee as to why the amount sanctioned by GOI for the scheme was transferred to PD Account flouting the guidelines of GOI, the witness could not give a satisfactory answer.

15. Enquired about the improvement of Shedamony drain, the Municipal Secretary, Alappuzha, informed the Committee that the original estimate was for Rs. 55 lakh. But the expenditure had only come to Rs. 52.5 lakh. The work had been completed and the payment made.

16. The Committee pointed out that the central assistance for the improvement of the Shedamony drain was Rs. 133 lakh and the actual expenditure on the work came to only Rs. 52.5 lakh. The Committee wanted to know why such an inflated estimate of Rs. 133 lakh was proposed for assistance and asked whether the municipality had enquired about the reason for such a huge difference between the actual expenditure and the original assistance sanctioned. The witness answered in the negative.

17. The Committee wanted to know about the proposal of the Municipality to utilise the balance amount sanctioned for the Shedamony drain. The Secretary, Alappuzha Municipality, informed that a proposal for improvement to the last reach of the drain was submitted to CTP.

18. Enquired whether utilisation certificates were furnished to the GOI the witness answered in the affirmative.

#### **Conclusions/Recommendations**

**19. The Committee observes that the action of the Municipal Secretary in withdrawing the central assistance and keeping it in PD Account contrary to the guidelines of GOI was irregular. The Committee desires that such tendencies should be curbed and any repetition of similar action should be dealt with severely.**

**20. The Committee finds that absence of proper planning and inordinate delay had occurred in the execution of projects under the scheme, Integrated Development of Small and Medium Town, on the part of the Alappuzha Municipality. Moreover, the projects were drawn up without proper study/survey. This is manifested in the project for construction of Bus stand. In the case of Shedamony drain the Committee**

found that the work was only partially completed and in the case of the completed portion the estimate was not realistic. The Committee points out that the two cases are examples of utter mismanagement of central assistance.

**21. The Committee would like to point out that the money released as central assistance for such projects are loans for which interest also has to be paid. The Committee, therefore recommends that utmost care should be bestowed while drawing up plans for projects implemented through Central assistance so that money is not excessively drawn or locked up in such projects.**

AUDIT PARAGRAPH

***Infructuous expenditure on a World Bank aided Project***

In October 1988, Government of Kerala set up a World Bank Project Cell in the Headquarters Office of Town Planning Department, Thiruvananthapuram for finalisation and implementation of the Urban Development Projects with World Bank (WB) assistance. The Kerala Urban Development Project (KUDP) was approved by Government in December 1988, for improvement in water supply, transportation, drainage, sewerage and sanitation, solid waste management etc. in three cities of Thiruvananthapuram, Kochi and Kozhikode with assistance from WB. In December 1992 WB cell was converted into an independent office declaring the Director. KUDP as an independent head of the Department.

The preparation of the project reports, feasibility studies and detailed engineering and environmental assessment of the various components of the projects and preparation of Annual Accounts of the three Municipal Corporations were entrusted by Government to ten Consultant firms/Chartered Accountants during February 1990 to March 1994 at a total cost of Rs. 6.19 crore. The assistance of Rs.3.60 crore received from WB through Kerala Water Authority during January 1990 to March 1994 was credited to Treasury Public Account maintained by the Director of KUDP.

The firms finalised the studies between June 1992 and March 1997 and Rs. 5.69 crore was paid to them as of May 2000. Expenditure over and above the WB assistance of Rs. 3.60 crore was met from the budgeted funds.

In March 1994, World Bank dropped KUDP from their lending programme. However, Government proposed (August 1995) the implementation of the project with external assistance from agencies like OECF (Japan), ADB etc. But Government failed to ensure the implementation of the Project. The KUDP office was continued with a reduced staff strength (from 16 to 11) and Rs.1.98 crore was spent on them during 1994-2000. The data, drawings and

assessments obtained from the studies conducted by the consulting firms have become obsolete with the passage of time and have not been put to any use. The entire expenditure was thus a waste.

Government's inaction after World Bank stopped assistance, rendered the expenditure of Rs.5.69 crore on the project reports, drawings and feasibility studies infructuous. Besides, continuance of the office for six years with 11 staff without any projects in hand led to avoidable establishment expenditure of Rs.1.98 crore during 1994-2000.

The matter was reported to the Government in June 2001; reply has not been received (October 2001).

[Paragraph 3.17 – Contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2001 (Civil)].

22. From the audit observation the Committee understood that the Kerala Urban Development project, a project with World Bank assistance for the infrastructural development of three cities in Kerala had not materialised even after Rs.5.69 crore were spent on the project. The Committee sought explanation from the witness about the wasteful expenditure on the project.

23. The witness the Municipal Secretary, Alappuzha submitted that an amount of Rs. 5.69 crore was spent for conducting feasibility study of the project. The World Bank dropped the project subsequently. After that another project called the Kerala Sustainable Urban Development Project with ADB assistance was started. The money spent on the project could not be stated as a waste since the report prepared for the same was being utilised for the new project.

24. The Committee enquired as to why outside agencies should be engaged to prepare a fresh project report when the Department had already prepared a detailed project report on the development of the three cities spending an amount of Rs.6 crore. The witness answered that if ADB loan was to be availed then technical support also should be accepted.

25. The Committee observed that 33% of the project cost was being spent again for preparation of fresh project report whereas the team that would be preparing the fresh project report would be utilising the old report as their basis. The witness explained that 33% of the project cost was for administration and detailed project design.

26. Enquired whether offers for project design could be obtained through international bidding, the witness stated that as per the assistance programme it was mandatory that the project design should be prepared by the funding agency.

27. The Committee wanted to know whether the LSGD had explored the possibility of realising any royalty, commission or consultancy charges for the basic report prepared by spending Rs. 6 crore for the World Bank Project from the ADB. The witness agreed to look into the matter. The Committee opined that since the ADB was functioning as a commercial entity they would not object to such a condition if imposed.

#### **Conclusion/Recommendation**

**28. The Committee observes that Kerala Urban Development Project (KUDP) was approved by Government in 1988, for improvement in water supply, transportation, drainage, sewerage and sanitation, solid waste management etc. in Thiruvananthapuram, Kochi and Kozhikode with assistance from World Bank. After spending 5.69 crores as consultancy fees for project report, the project was dropped. The Committee understand that now another project called Kerala Sustainable Urban Development Project with ADB assistance is proposed to be undertaken and a fresh project report is going to be prepared.**

**29. The Committee remarks that it is surprising to know that 33% of the project cost was being spent again for preparing fresh project report. The Committee expresses its displeasure upon the statement “as per the assistance programme, it is mandatory that the project design should be prepared by the funding agency”. The Committee understands that the project report already prepared would be utilised for the new project. The Committee therefore opines that since ADB is functioning as a commercial entity, they would not have any objection in paying royalty/commission/consultancy charges for the basic report prepared by spending Rs. 6 crores for the World Bank Project. The Committee, therefore, recommends that discussion should be held with the ADB on the matter and a positive decision in favour of the Government should be obtained. The result of action taken in this regard should be furnished to the Committee.**

#### AUDIT PARAGRAPH

##### ***Kottayam Municipality***

Blocking of Capital due to delay in setting up software technology park Kottayam Municipality provided Rs. 45 lakh in its Annual plans 1998-99 (Rs. 30 lakh) and 1999-2000 (Rs. 15 lakh) for starting a Software Technology Park at the Municipal Guest house premises. The park to be set up at a cost of Rs. 50 lakh was to turn out 8000 ‘knowledge workers’ as part of the Integrated Information Technology centres being implemented by local bodies under People’s Plan Campaign. The Municipality entered into an agreement with the Software Technology Park of India (STPI) to establish the park and paid Rs. 15 lakh to STPI in March 1999.

Municipality spent Rs. 4.80 lakh on remodelling/maintenance of its three storied guest house building to locate the park but it was not completed as of August 2001. It also spent Rs. 4.95 lakh to provide ancillary facilities like D.G set (Rs. 3.20 lakh), EPABX (Rs. 0.67 lakh) and Xerox machine (Rs.1.08 lakh). However, estimates for electrification (Rs. 15.90 lakh) was not approved as of August 2001. Consequently, the park proposed to be commissioned in January 1999 could not be set up even as of August 2001. Thus, Rs. 24.75 lakh spent on it, turned out to be unproductive.

The matter was referred to Government in July 2001; reply has not been received (October 2001)

[Paragraph 7.19—contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2001 (Civil)].

Notes received from Government are included in Appendix—II.

30. The Secretary Local Self Government Department informed the Committee that Kottayam Municipality, could not set up the software technology park not only due to the non-electrification of the buildings but also due to the backing out of the entrepreneurs who had requested for space in the STPI. After spending Rs. 32,86,000 for development works the municipality had several times sent intimation to the applicants regarding the availability of rooms. But they had not responded. Advertisements were also given in newspapers six times but nobody responded. Hence permission to utilise the rooms for other purpose was sought from Government and Government had finally given the sanction. Regarding the action taken by the STPI, the witness informed that the agency purchased equipments for the park and had got done the wiring works. The STPI had spent Rs. 12 lakh out of Rs. 15 lakh paid to them. Steps were taken to get back the balance amount. The equipments purchased were kept idle. The municipality spent Rs. 3,20,000 for the purchase of a generator, Rs. 67,000 for ETDF, Rs. 1,08,000 for photocopier. Besides, Rs. 4,35,000 was expended for installing a transformer and Rs. 7,97,000 for maintenance of the buildings. As such the total expenditure incurred in connection with the scheme was Rs. 31,86,820.

31. The Committee noticed that the Municipality, Kottayam decided to set up the technology park without ensuring the infrastructure facilities. There were lapses on the part of the STPI also. The laxities led to wastage of the entire amount of Rs. 32 lakhs spent on the scheme. The Committee understood that the implementing officer was the Industrial Extension Officer and that he was not an IT specialist. On being asked whether any explanation had been sought the witness did not reply. He added that discussions were under way for

utilising the facilities provided in the building. The Municipal Chairman had held several discussions and had met the STPI authorities. But since the project could not be implemented as envisaged and was pending for the last several years it had become impossible to revive it. The matter had been brought to the notice of Government. The Secretary LSGD informed that the permission to utilise the space for other purpose could be granted only by Government. The Committee opined that the project could not be implemented because of total mismanagement and STPI was also partially responsible for this state of affairs. The Committee was of the view that though the Municipality could not be treated as an income source, the assets created for generating employment could have been utilised in a better way. The Committee suggested that the municipality should consider the alternative of allotting the rooms to Kudumbasree units for running their IT projects since the Kudumbasree units were at present housed in rented building.

32. The Committee also opined that there was lack of follow up action on the part of the department. The Secretary, Local Self Government (Urban) Department stated that no legal agreement had been executed with the STPI for want of GOI directives. The Committee urged that it is high time to frame proper guidelines for the implementation of schemes related to Information Technology Parks and Groups implemented through local bodies.

#### **Conclusion/Recommendation**

**33. The Committee observes that the scheme to set up software technology park by the Kottayam Municipality was an ill conceived one. Nobody turned up to avail of the facilities offered by the Municipality to set up software technology park. It is surprising to note that the Municipality had ventured out with the scheme and spent Rs. 32 lakh without ensuring the feasibility of such a project.**

**34. The Committee points out that the project could not be implemented as envisaged because of mismanagement and due to the lack of experience of the implementing officer in IT field as he was not an IT expert.**

**35. The Committee was informed that STPI has spent 12 lakh, for purchasing equipment for the park and for wiring works, out of Rs. 15 lakhs paid to them and the balance Rs. 3 lakh was idling with them. The Committee recommends that steps should be taken to recover the balance amount without any further delay.**

**36. The Committee is of the view that though the municipality could not be treated as an income source, the assets could have been utilised in a better way for generating employment. The Committee desires that as an alternative the municipality should examine whether the rooms could be allotted to Kudumbasree units for running their IT projects.**

**37. The Committee observes that there was no proper guidelines for executors of such projects in the LSGD. The Committee is of the opinion that it is high time to frame proper guidelines for the implementation of schemes related to IT parks and groups implemented through local bodies. The Committee may be furnished with the details of remedial measures taken in this regard.**

AUDIT PARAGRAPH

***Futile expenditure on modernisation of slaughter house***

Government accorded (March 1999) sanction to the Palakkad Municipal Council (PMC) for modernisation of the existing slaughter house located in 4.66 acres of land, title of which was vested with Revenue Department. The project consisted of two phases, the first phase consisting of construction of bio-gas plant, effluent treatment plant, overhead tank, etc., at a cost of Rs. 27.09 lakh and second phase consisting of civil and structural work at a cost of Rs. 98.44 lakh. PMC entrusted (March 1999) the work to Steel Industrials Kerala Limited (SILK), a State Government Company with due date of completion for first and second phase as September 1999 and November 2000 respectively. PMC also incurred an expenditure of Rs. 2.92 lakh for construction of compound wall and development of site.

As the Revenue Department transferred the right over 3.66 acres of land to Sainik Welfare Department (10 cents) and Jails Department (3.56 acres) in December 1997 and November 1999 respectively the work remained static. PMC, however, went ahead with the payment of second and third instalments (Rs. 31.85 lakh and Rs. 30 lakh) to SILK during 2000-01, though the Revenue Department had already transferred major portion of the land to Jails Department and no work had commenced. In all, Rs. 88.94 lakh was paid to the SILK.

Thus, award of the work of modernisation and construction of compound wall without ensuring title of the land and payment of Rs 88.94 lakh in advance resulted in failure of the project and retention of Rs 88.94 lakh with the contractor (SILK) and infructuous expenditure of Rs. 2.92 lakh. Besides, action of PMC in making payment of Rs. 61.85 lakh even after the transfer of land by Revenue Department to other agencies was not justifiable and injudicious.

The matter was referred to Government in March 2003; reply has not been received (December 2003).

[Paragraph 4.5.4—contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2003(Civil)]

859/2007.

38. The Secretary, Local Self Government (Urban) Department submitted that the Palakkad Municipal Council could not implement the scheme of modernisation of slaughter house due to a dispute with the Revenue Department about the ownership of land where the slaughter house was proposed to be built. By claiming the ownership of 3.66 acres of land out of 4.66 acres, the Revenue Department transferred 3.56 acres of land to Jails Department and 10 cents to Sainik Welfare Department. He added that discussions with Revenue Department were being held to find out a solution to the impasse. The Committee understood that the jails department intended to construct buildings for jail in the land. When asked whether it was permissible to construct slaughter house near other institutions, the Director, Industries and Commerce replied that a slaughter house had been functioning there. The Committee was informed that the project was sanctioned in 1998-99 and the SILK was entrusted to execute the work. The SILK could not commence the project for want of sufficient area. The SILK did not carry out any work even in the land owned by the Municipality though requested many times. It was also informed that SILK had utilised the fund for payment of salary to its employees as SILK was in financial crisis.

39. The Committee noticed that the work was awarded to SILK without ensuring title of land and wanted to know the persons responsible for the lapse. The Director, Industries and Commerce answered that the land was in the possession of Municipality for more than hundred years. The Secretary, LSGD (Urban) stated that the lapse was due to absence of maintaining proper registers. The Committee understood that modernisation of slaughter houses in the State was at a standstill except in Thrissur. To a question regarding the agency executing the work, the witness informed that there were various agencies in the field. When enquired about the details of central assistance for modernisation of slaughter houses in the State, the Secretary, LSG (Urban) Department answered that he would furnish the information later after collecting the data. The Committee also desired to be furnished with a detailed report with regard to the financial assistance received for the modernisation of slaughter houses, percentage of assistance, name of implementing agency, date of implementation, present position of each scheme etc. The Secretary, LSG (Urban) Department intimated that it was necessary to establish more than one slaughter house in a town.

#### **Conclusion/Recommendation**

**40. The Committee understands that for the modernisation of slaughter house located in 4.66 acres of land of which 3.66 acres is owned by Revenue Department, the Palakkad Municipal Council had incurred an expenditure**

of Rs. 92 lakhs. At the time of examination of audit paragraph the Committee was informed that SILK was entrusted to execute the work and the estimated amount had been transferred to its account. But SILK did not carry out any work even in the land owned by the Municipality. Instead, SILK misutilized the amount for the payment of salary to its employees. The Committee remarks that the action of SILK is highly irregular. The Committee desires to be informed about the reason for transferring the whole money without ensuring ownership of the land. The Committee also wants to be informed as to who was the person responsible for the irregular transfer of money without safeguarding the interest of the municipality.

41. The Committee remarks that the scheme of modernisation of slaughter house is an agenda of the Clean Kerala Project. The Committee is surprised to note that except in Thrissur, modernisation procedure of slaughter houses in the whole state was a failure. The Committee urges to furnish a detailed report on the action taken to modernise slaughter houses in the State, the number of municipalities that are getting central assistance, percentage of assistance, name of implementing agency, date of implementation, present position of each project etc.

42. The Committee realises that even if the modernisation of slaughter houses are completed it would not be sufficient to meet the demand. So the Committee recommends that necessary steps be initiated to prepare a need based report and to take action to establish more slaughter houses in places where the demand is high.

#### AUDIT PARAGRAPH

#### *Avoidable liability on interest leading to heavy debt burden*

Neyyattinkara Municipal Council (NMC) had taken up (October 1994) construction of a Commercial Complex at Neyyattinkara with financial assistance of Rs. 3.95 crore from HUDCO. The project visualised receipt of deposit of Rs. 5.48 crore from prospective customers and a rent of Rs. 0.37 crore per month on leasing out the shopping complex. The project, originally scheduled to be completed in January 1997 at an estimated cost of Rs. 2.29 crore, could eventually be completed only in February 2001 at a cost of Rs. 3.63 crore.

Out of 84 rooms available in this Shopping Complex, only 42 rooms were leased out as of April 2003 for which security deposit of Rs. 1.54 crore was realised and rent of Rs. 96119 per month was realisable. This indicates that demand was not properly assessed before undertaking the project. As a result, NMC could not repay its loan.

On scrutiny of records, it was found that NMC availed (Between July 1995 and August 1998) the loan of Rs. 3.95 crore from HUDCO to be repaid with interest in nine quarterly instalments commencing from June 1997 to June 1999. In the case of default of repayment, NMC was liable to pay penal interest at 2.5 per cent. Due to non-completion of the project within the stipulated period NMC could not abide by the schedule of repayment of loan resulting in accrual of dues of Rs. 7.26 crore as of December 2000. In spite of the remittance of Rs. 1.19 crore towards interest between February 1996 and July 1998.

Resultantly, NMC entered (March 2001) into an agreement with Kerala Urban Development Finance Corporation (KUDFC) for availing a loan of Rs. 10.26 crore at 14 per cent interest to discharge all obligation to HUDCO (Rs. 7.26 crore) and KUDFC (Rs. 3 crore) under One Time Settlement under which HUDCO in a meeting convened by the Secretary to Government, Local Self Government Department, agreed to waive the penal interest for the period from December 1995 to December 2000. After receiving Rs. 7.26 crore from KUDFC on behalf of NMC, HUDCO took the stand that NMC defaulted the loan for prolonged period and that the payment was effected through substitution of liability and hence was not eligible for waiver of penal interest for the period from December 1995 to December 2000. Failure of NMC and the Government to persuade HUDCO to abide by the consensus arrived at in the conference convened by Secretary to Government, Local Self Government Department on waiver of penal interest resulted in extra liability of Rs. 1.24 crore.

Thus, due to faulty project appraisal, inordinate delay in completion and delayed response of NMC for addressing the mounting repayment liability, the project has become economically unviable.

The matter was referred to Government in May 2003; reply has not been received (December 2003).

[Paragraph 4.6.5—contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2003 (Civil)].

43. The Secretary, Local Self Government (Urban) Department informed that the Neyyattinkara Municipal Council availed a loan of Rs. 3.95 crores from HUDCO for the construction of shopping complex at Neyyattinkara. Though the project was completed the rooms were lying vacant for want of demand. Later the Kerala Urban Finance Corporation took over the complex and they cleared the loan with HUDCO. The Municipality was not able to settle the liabilities till date. A meeting to discuss the issues with the officials of HUDCO and KUDFC was being fixed on 12-1-2005 by the Minister.

44. The Municipal Secretary, Neyyattinkara submitted that out of the 84 rooms and a hall, a limited number of rooms were only occupied. Due to low occupancy of rooms even the incumbents who had occupied the rooms earlier were vacating the rooms. He maintained that the design of the shopping complex was not suitable for such a small town. The Committee found that the shopping complex was situated near the K.S.R.T.C. Bus Station which was a prime area in the town. Hence, it did not agree with the argument of the Municipal Secretary. Besides, the Committee understood that such schemes were running in profit in other parts of the State. The Secretary LSG (Urban) Department deposed that there were instances of incurring loss also. When enquired whether any evaluation/comparative study had been conducted in this regard, the witness replied that in most of the cases construction of shopping complex was undertaken without any foresight. Instead it was taken up with vested interest. The Committee understood that the rate of rent for rooms in the shopping complex was higher than that of the rooms provided by private parties and desired to know the reasons for such difference. The witness answered that the rent was comparatively high. The rate of rent and deposit was fixed on the basis of loan repayment. There was an issue of penal interest of Rs. 1.25 crore payable to HUDCO. Though it was agreed upon to waive the penal interest the condition had not been fulfilled. The Committee desired to be furnished with a note detailing the outcome of the meeting held on 12-1-2005.

#### **Conclusion/Recommendation**

**45. The Committee understands that in the construction of the commercial shopping complex near the KSRTC Bus stand, Neyyattinkara Municipal Council had incurred a heavy debt burden of Rs. 7.26 crore. The Committee notes that eventhough the shopping complex is situated in a prime location, the municipality has not been able to rent out the rooms in the complex. The Committee understands that the rent fixed by the municipality is high when compared to that of the rooms available in other private buildings there.**

**46. The Committee is concerned to note that inability of the Municipality in renting out the rooms had resulted in idling of the shopping complex for which the localbody had availed a loan of Rs. 7.26 Crores resulting in default in repayment of loan instalments and payment of penal interest @ 2.5%.**

**47. The Committee desires to know how the rent can be fixed at such a high rate and wants to be informed whether any comparative study was done before fixing the rent. The Committee also wants to be furnished with a comparative statement containing actual rate of rent levied by the Municipality and by private parties.**

**48. During the examination of audit para, the Committee was informed that HUDCO had earlier agreed to waive penal interest but later backed out from the agreement. The Committee would like to be informed about the reason for the failure of the Neyyattinkara Municipality as well as the Government in persuading HUDCO to abide by the agreement. A detailed report should be furnished to the Committee in this regard. The Committee recommends to be furnished with the outcome of the meeting held on 12-1-2005 between KUDFC and HUDCO in this regard.**

AUDIT PARAGRAPH

***Diversion of Plan funds by local bodies***

On introduction of Panchayati Raj Act, 1994, Local Self Governments (LSGs) are empowered to formulate schemes of their own and to implement such schemes duly approved by District Planning Committees. The Legislature appropriates about 40 percent of the State Plan funds to the LSGs as grants for this purpose. Contrary to the concept of utilisation of grants appropriated by Legislature for implementation of schemes formulated by the LSGs, Government *suo motu* granted permission to LSGs to divert the unspent balance of Plan funds to repay the dues on loans availed of from Kerala Urban Development Finance Corporation (KUDFC) by credit to infrastructure component. A test check of records of 28 urban LSGs revealed that the LSGs diverted the grant aggregating Rs.14.26 crore (vide Appendix XXVI of Comptroller and Auditor General Report included as APPENDIX III) for repayment of loan dues to KUDFC during 1997-2002. The action of Government in permitting the LSGs to repay their earlier loan dues to KUDFC from the grant earmarked for developmental activities was against the spirit of appropriation passed by the Legislature.

Government justified (December 2003) their action stating that the untied grants released to the local bodies were not earmarked for specific projects by Legislature and the local bodies were to utilise them according to priorities. The reply of the Government is not tenable as untied grants were to be utilised for implementing developmental schemes formulated by local bodies and approved by District Planning Committees, but the grants were utilised for

- (i) recoupment of Municipal fund from which loan to KUDFC was repaid;
- (ii) redemption of liability of Development Authority, assets and liabilities of which were transferred to Municipal Council; and
- (iii) redemption of loan for house upgradation under Nehru Rozgar Yojana.

[Paragraph 4.6.6 – contained in the Report of Comptroller and Auditor General of India for the year ended 31 March, 2003 (Civil)].

Notes received from Government are included in Appendix-II.

49. The Committee understood that the local bodies (Municipalities and Corporations) repaid their earlier loans dues to KUDFC from the plan funds and wanted to know whether Government sanction was obtained for the diversion of the grant. The Secretary, LSG (Urban) Department replied that permission was granted for diversion of funds upto 30% for the repayment of loan dues. Permission was granted with a view to avoid revenue recovery proceedings. The orders sanctioning the diversion of funds for repayment of loan was in operation during the current year also.

50. To a question on the non-submission of notes on remedial measures taken on the audit paragraph the witness assured that it would be forwarded without any further delay.

#### **Conclusion/Recommendation**

**51. Regarding the diversion of plan funds for the repayment of loan dues, the Committee accepts the explanation. But the Committee is displeased with the placid attitude of the LSGD in furnishing notes showing remedial measures on the audit paragraph. The notes have not been made available to the Committee even at the time of the meeting. The Committee points out that this sort of approach cannot be tolerated and desire that the Chief Secretary should look into the matter and issue necessary instructions to all concerned to adhere to the directions contained in the Hand Book of Instruction issued by the Finance Department in furnishing notes to the Public Accounts Committee.**

ARYADAN MUHAMMED,

Thiruvananthapuram,  
25th July, 2007.

*Chairman,*  
*Committee on Public Accounts*

## APPENDIX I

## SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

<i>Sl. No.</i>	<i>Para. No.</i>	<i>Department Concerned</i>	<i>Conclusions/Recommendations</i>
(1)	(2)	(3)	(4)
1	2	Local Self Government (Urban)	The Committee understands that though the Government had released an amount of Rs. 90 lakhs to TRIDA under the Scheme of Development and beautifications of capital city of Thiruvananthapuram with a Budgetary support of Rs. 1 crore, the Authority could not carry out the proposed project because TRIDA diverted the amount for other purpose i.e. Rs. 50 lakhs for repaying a loan taken from KUDFC and Rs. 40 lakhs spent on the Palayam Urban Renewal Project not for which the Grant-in-aid was sanctioned.
2	3	„	The Committee considers that the contention of the Government that the Palayam Urban Renewal Project was also a part of the Capital Development and Beautification Programme and hence the fund utilized for the purpose could not be treated as diversion is however not tenable since the action is not supported by any authorisation. The Committee agrees with the finding of audit that the money voted by the Legislature for a specific purpose is diverted to another purpose without any authorisation.
3	4	„	The Committee recommends that Government should take appropriate steps to make sure that the budgetary allocation passed by the Legislature and the amount earmarked for a specific purpose are utilised for the intended purpose.
4	6	„	The Committee learns that the Goshree project envisaged to construct 4 bridges

(1)	(2)	(3)	(4)
			linking the five islands in Vypeen with Ernakulam by reclaiming 250 acres of land with an estimated cost of Rs. 506 crore. Later the project had been revised restricting reclamation of 25 hectares of land and construction of 3 bridges. The Accountant General's objection was that payment of Rs. 70 lakhs as consultancy charges for the revised project was infructuous. But the Committee accepts the arguments of the department with no comments.
5	8	Local Self Government (Urban)	The Committee observes that the Greater Cochin Development Authority had purchased 4.40 acres of land in December 1998 for Rs. 51.19 lakh with the twin objective of removal of earth dumped in open space near Edathala Housing Scheme and disposal of newly acquired land after developing it. Audit para was about the injudicious purchase of land spending Rs. 51.19 lakhs for depositing cut earth. Committee observes that the said land was sold in 2002 for Rs. 91.28 lakhs and hence there was no loss. Even though the argument of the department that there was no loss the Committee is of the opinion that the purchase of additional land for Rs. 51.19 lakhs for depositing the cut earth obtained from Stage I cannot be justified especially in the backdrop of poor demand for houses. The cut earth could have been disposed of by way of auction and thus the purchase of the land at a cost of Rs. 51.19 lakh could have been avoided. The Committee urges the department to furnish a detailed report of the current status of the housing scheme implemented by the GCDA at Edathala.

(1)	(2)	(3)	(4)
6	11	Local Self Government (Urban)	<p>The Committee understands that GCDA allotted 300 cents of land in auction to a person on lease for 99 years subject to the condition that 50% of the lease rent should be remitted in advance and the rest in four instalments including interest and penal interest. But the lessee could not carry out any work in the site due to stay orders from court. The aggrieved lessee obtained orders from court to waive the interest and penal interest paid by him during the period of stay orders. The Committee realises that the amount shown in the Government order did not agree with the period pointed out by the audit. The audit pointed out that while working out the interest eligible for waiver on account of ban by the High Court, GCDA erroneously allowed Rs. 1.35 crores being the admissible amount of Rs. 57.62 lakh due from 22 August, 1996 to 16 July 1997 resulting in undue benefits to the lessee to the tune of Rs. 77.58 lakh. That the clarifications that the intentions of the Government was to waive interest for the period from 1995 to 1997 and the period shown was a mistake was not acceptable to Accountant General who remarked that the period shown in the Government Order was correct and the error was in the calculation of the interest amount. So the Committee urges the department to take steps to rectify the anomaly in the Government Order issued for exemption of payment of interest and penal interest by the bidder and to inform the Committee about the action taken in this regard.</p>
7	12	,,	<p>The Committee expresses its displeasure over the inability of the representative of the GCDA who attended the meeting to answer the queries of the Committee. The Committee</p>

(1)	(2)	(3)	(4)
			opines that the officers must be well prepared to clarify each and every point raised by the Committee. The witness could not offer a convincing reply regarding the decision of GCDA to exempt the transfer fee against the earlier decision of GCDA Executive Committee. The Committee urges the Government to furnish a detailed report regarding the circumstances which led to the exemption of the transfer fees.
8	19	Local Self Government (Urban)	The Committee observes that the action of the Municipal Secretary in withdrawing the central assistance and keeping it in PD Account contrary to the guidelines of GOI was irregular. The Committee desires that such tendencies should be curbed and any repetition of similar action should be dealt with severely.
9	20	,,	The Committee finds that absence of proper planning and inordinate delay had occurred in the execution of projects under the scheme, - Integrated Development of Small and Medium Town, on the part of the Alappuzha Municipality. Moreover, the projects were drawn up without proper study/survey. This is manifested in the project for construction of Bus stand. In the case of Shedamony drain the Committee found that the work was only partially completed and in the case of the completed portion the estimate was not realistic. The Committee points out that the two cases are examples of utter mismanagement of central assistance.
10	21	,,	The Committee would like to point out that the money released as central assistance for such projects are loans for which interest also has to be paid. The Committee, therefore

(1)	(2)	(3)	(4)
			recommends that utmost care should be bestowed while drawing up plans for projects implemented through Central assistance so that money is not excessively drawn or locked up in such projects.
11	28	Local Self Government (Urban)	The Committee observes that Kerala Urban Development Project (KUDP) was approved by Government in 1988, for improvement in water supply, transportation, drainage, sewerage and sanitation, solid waste management etc. in Thiruvananthapuram, Kochi and Kozhikode with assistance from World Bank. After spending 5.69 crores as consultancy fees for project report, the project was dropped. The Committee understand that now another project called Kerala Sustainable Urban Development Project with ADB assistance is proposed to be undertaken and a fresh project report is going to be prepared.
12	29	,,	The Committee remarks that it is surprising to know that 33% of the project cost was being spent again for preparing fresh project report. The Committee expresses its displeasure upon the statement “as per the assistance programme, it is mandatory that the project design should be prepared by the funding agency”. The Committee understands that the project report already prepared would be utilised for the new project. The Committee therefore opines that since ADB is functioning as a commercial entity, they would not have any objection in paying royalty/commission/consultancy charges for the basic report prepared by spending Rs.6 crores for the World Bank Project. The Committee, therefore, recommends that discussion should be held with the ADB on the matter and a positive decision in favour of the Government should be obtained. The result of action taken in this regard should be furnished to the Committee.

(1)	(2)	(3)	(4)
13	33	Local Self Government (Urban)	The Committee observes that the scheme to set up software technology park by the Kottayam Municipality was an ill conceived one. Nobody turned up to avail of the facilities offered by the Municipality to set up software technology park. It is surprising to note that the Municipality had ventured out with the scheme and spent Rs.32 lakh without ensuring the feasibility of such a project.
14	34	”	The Committee points out that the project could not be implemented as envisaged because of mismanagement and due to the lack of experience of the implementing officer in IT field as he was not an IT expert.
15	35	”	The Committee was informed that STPI has spent 12 lakh, for purchasing equipment for the park and for wiring works, out of Rs.15 lakhs paid to them and the balance Rs. 3 lakh was idling with them. The Committee recommends that steps should be taken to recover the balance amount without any further delay.
16	36	”	The Committee is of the view that though the municipality could not be treated as an income source, the assets could have been utilised in a better way for generating employment. The Committee desires that as an alternative the municipality should examine whether the rooms could be allotted to Kudumbasree units for running their IT projects.
17	37	”	The Committee observes that there was no proper guidelines for executors of such projects in the LSGD. The Committee is of the opinion that it is high time to frame proper guidelines for the implementation of

(1)	(2)	(3)	(4)
			schemes related to IT parks and groups implemented through local bodies. The Committee may be furnished with the details of remedial measures taken in this regard.
18	40	Local Self Government (Urban)	The Committee understands that for the modernisation of slaughter house located in 4.66 acres of land of which 3.66 acres is owned by Revenue Department, the Palakkad Municipal Council had incurred an expenditure of Rs.92 lakhs. At the time of examination of audit paragraph the Committee was informed that SILK was entrusted to execute the work and the estimated amount had been transferred to its account. But SILK did not carry out any work even in the land owned by the Municipality. Instead, SILK misutilized the amount for the payment of salary to its employees. The Committee remarks that the action of SILK is highly irregular. The Committee desires to be informed about the reason for transferring the whole money without ensuring ownership of the land. The Committee also wants to be informed as to who was the person responsible for the irregular transfer of money without safeguarding the interest of the municipality.
19	41	..	The Committee remarks that the scheme of modernisation of slaughter house is an agenda of the Clean Kerala Project. The Committee is surprised to note that except in Thrissur, modernisation procedure of slaughter houses in the whole state was a failure. The Committee urges to furnish a detailed report on the action taken to modernise slaughter houses in the State, the number of municipalities that are getting central

(1)	(2)	(3)	(4)
			assistance, percentage of assistance, name of implementing agency, date of implementation, present position of each project etc.
20	42	Local Self Government (Urban)	The Committee realises that even if the modernisation of slaughter houses are completed it would not be sufficient to meet the demand. So the Committee recommends that necessary steps be initiated to prepare a need based report and to take action to establish more slaughter houses in places where the demand is high.
21	45	,,	The Committee understands that in the construction of the commercial shopping complex near the KSRTC Bus stand, Neyyattinkara Municipal Council had incurred a heavy debt burden of Rs. 7.26 crore. The Committee notes that eventhough the shopping complex is situated in a prime location, the municipality has not been able to rent out the rooms in the complex. The Committee understands that the rent fixed by the municipality is high when compared to that of the rooms available in other private buildings there.
22	46	,,	The Committee is concerned to note that inability of the municipality in renting out the rooms had resulted in idling of the shopping complex for which the local body had availed a loan of Rs. 7.26 crores resulting in default in repayment of loan instalments and payment of penal interest @ 2.5%
23	47	,,	The Committee desires to know how the rent can be fixed at such a high rate and wants to be informed whether any comparative study was done before fixing the rent. The Committee also wants to be furnished with a comparative statement containing actual rate of rent levied by the Municipality and by private parties.

(1)	(2)	(3)	(4)
24	48	Local Self Government (Urban)	During the examination of audit para, the Committee was informed that HUDCO had earlier agreed to waive penal interest but later backed out from the agreement. The Committee would like to be informed about the reason for the failure of the Neyyattinkara Municipality as well as the Government in persuading HUDCO to abide by the agreement. A detailed report should be furnished to the Committee in this regard. The Committee recommends to be furnished with the outcome of the meeting held on 12-1-2005 between KUDFC and HUDCO in this regard.
25	51	,,	Regarding the diversion of plan funds for the repayment of loan dues, the Committee accepts the explanation. But the Committee is displeased with the placid attitude of the LSGD in furnishing notes showing remedial measures on the audit paragraph. The notes have not been made available to the Committee even at the time of the meeting. The Committee points out that this sort of approach cannot be tolerated and desire that the Chief Secretary should look into the matter and issue necessary instructions to all concerned to adhere to the directions contained in the Hand Book of Instruction issued by the Finance Department in furnishing notes to the Public Accounts Committee.

## APPENDIX II

**Local Administration (G) Department**STATEMENT OF ACTION TAKEN ON AUDIT PARA 7.11 ON THE  
REPORT OF THE C& AG OF INDIA FOR THE YEAR  
ENDED 31-3-1994 No.2 (CIVIL)

<i>Sl. No.</i>	<i>Para No</i>	<i>Subject</i>	<i>Action taken report</i>
(1)	(2)	(3)	(4)
2	7.11	In pursuance of State Government's announcement in the Budget speech for 1991-92 that a sum of Rs. 1 crore would be provided for the development and beautification of the capital city of Thiruvananthapuram under capital Development Programme. Thiruvananthapuram Development Authority (TRIDA) submitted (December 1991) a Scheme involving a capital outlay of Rs. 2.50 crores for acquisition of about 30 acres of land by the side of National Highway by pass near Manacaud and Development of maidan for recreational purposes. Government accepted the proposed and released Rs. 90 lakhs as grant-in aid to Thiruvananthapuram Development Authority in March 1992. Action for acquisition of the proposed land was	In the Budget Speech for 1991-92, a sum of Rs. 1 crore was provided for the development and beautification of the capital City of Thiruvananthapuram under the capital city Development programme.  Vide G. O (Rt.) No. 2027/92/LAD dated 26-3-1992 the Government sanctioned Rs. 90 lakhs to Thiruvananthapuram Development authority for the beautification and development of Thiruvananthapuram. TRIDA has proposed a scheme for acquisition of 25 acres of land of Muttathara village for construction of a sports complex and Government sanction was accorded by G. O. (Rt) No. 1792/LAD dated dated 24-4-1996. As the land cost was very high Thiruvananthapuram Development Authority has not moved for acquisition.  Thiruvananthapuram Development Authority has constituted an expert group with the then Chairman, Shri Thalekkunnil Basheer Chairman and M/s M. K. Joseph, I. P. S. (Retired) K. Ramachandran, I. A.S

(1)	(2)	(3)	(4)
		<p>initiated only in April 1993 by Thiruvananthapuram Development Authority of the amount released, Thiruvananthapuram Development Authority utilised (March 1992) Rs. 50 lakhs for repayment of loan availed of by it from Kerala Urban Development Finance Corporation and the balance (Rs. 40 lakhs) towards expenditure on another scheme (Detailed Town Planning Scheme, Palayam in Thiruvananthapuram) Sanctioned in August 1978. This money drawn from the consolidated Fund of the State much in advance of actual need was utilised for a purpose other than the one for which it was sanctioned.</p>	<p>(Retired) and others to study the possibility for developing a recreational ground. The above Committee did not finalise its proposals. The expert group however recommended the construction of a cricket ground and a club House and it was estimated that the expenditure would be anything above Rs. 15.00 crores. The Thiruvananthapuram Development Authority could not afford to take up such a project with Rs. 90 lakhs sanctioned by Government.</p>
		<p>Government stated (February 1994) that as the proposed land for the scheme was later required by the Kerala State Road Transport Corporation. Thiruvananthapuram Development Authority could not carry out the project and was on the look out for a suitable land for the purpose. Government further added that the acquisition of</p>	<p>Meanwhile the Palayam Urban Renewal Project was undertaken by Thiruvananthapuram Development Authority in the Central Part of the City. Thiruvananthapuram Development Authority has acquired nearly 6 acres of land and has started constructing a shop-cum-Office building with about 80,000 sq.feet of built up area. Thiruvananthapuram Development Authority repaid a loan of Rs. 50 lakhs taken from the Kerala Urban Development Finance Corporation from the Government grant, since this amount was spent on land Acquisition at Palayam. The balance of Rs. 40 lakhs was also spent on the Palayam Urban renewal project a part of beautification and Development of the capital city of Thiruvananthapuram.</p> <p>Hence there is no diversion of funds since the whole amount was utilised for the same purpose.</p>

(1)	(2)	(3)	(4)
		<p>land for the overall development and beautification of Palayam area and the construction of shopping-cum-office Complex under the Detailed Town Planning Scheme were legitimate activities for city beautification.</p> <p>However, the fact remains that the purpose for which the grant-in-aid was released could not be achieved even after a lapse of two and a half years.</p>	
		<p>Remedial Measures Taken Statement on Para 6.16 "Injudicious Purchase of land in the report of the Comptroller &amp; Auditor General (Civil) for the year ended 31-3-1999</p>	
	<i>Audit para No.</i>	<i>Remedial Measures Taken</i>	
	<p>6.16—Injudicious purchase of land — Despite lack of demand for houses/plots, GCDA purchased land for Rs. 51.19 lakh leading to blocking of scarce funds.</p>	<p>The additional land acquired at Edathala at a cost of Rs. 51.19 lakhs has already been disposed of at Rs. 91.28 lakhs to M/s. Central Warehousing Corporation. As the authority has sold the land at a higher price fetching profit, the objection raised may kindly be dropped.</p>	

STATEMENT OF ACTION TAKEN ON THE AUDIT PARA CONTAINED  
IN THE C & AG REPORT (CIVIL) FOR THE YEAR ENDED 31-3-2002

Name of Department : **Local Self Government (PA) Department**

<i>Sl. No.</i>	<i>Paragraph No &amp; Audit Para</i>	<i>Action taken report</i>
(1)	(2)	(3)
1	7-19 Blocking of capital due to delay in setting up Software Technology park in Kottayam Municipality	<p>The project work started during 1998-99 and an amount of Rs. 15 lakhs was disbursed to the Director, Software Technology Park of India (STPI), Thiruvananthapuram as per cheque No. 304102 dated 29-3-1999 for setting up their unit at one room in the Kottayam units. Infrastructural facilities like Xerox Machine, O.G. Set and EPABX System etc. have been provided. The estimated amount for the maintenance, repair and alteration of the buildings for this purpose is Rs. 7,92,150. This work was held up for want of Electric connection.</p> <p>The main facility, Electricity, has to be provided. An estimate for electrical wiring duly prepared by the Assistant Executive Engineer (PWD—Electrical Wing), Sub-division, Kottayam has been forwarded to the Executive Engineer, PWD Electrical Division, Thiruvananthapuram. The estimated amount is Rs. 15,90,000 and budget provision for the amount has been provided under 2001-2002 years proposal, duly approved by the Council.</p> <p>The main reason for not starting the project is due to the delay in maintenance of the Technopark Building which was held up for want of electric connection and hence the delay in installing the accessories acquired. Now the maintenance work is over and the accessories will be installed shortly.</p> <p>The applicants were interviewed. The Municipal Council held on 29-4-2002 has fixed the rent of the rooms, security etc. The applicants will be called for and rooms will be allotted to them. It has been decided to entrust Electrical wiring to the allotted person. The Municipality will take steps for</p>

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(1)	(2)	(3)
		<p>Electrical wiring up to a main panel Board and it is the responsibility of the applicants to carry out the rest of the wiring works, as per their requirement. The decision is taken accordingly because the applicants can carry out the wiring works as per their needs and requirements.</p> <p>The Chief Engineer, PWD Buildings and Local Works, Thiruvananthapuram has finalised the estimate for Rs. 21,71,975. As the estimate is over and above the amount of Rs. 15.90 lakhs approved by the District Planning Committee, the matter was discussed with the Kerala State Electricity Board and requested to prepare and submit an estimate for electrification up to a main board. The electrification will be done on receipt of the estimate. The decision for electrification up to the main board was taken to save an amount of Rs. 15 lakhs. It is expected that the park will start functioning within 3 months.</p>

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STATEMENT OF ACTION TAKEN ON THE AUDIT PARAGRAPH  
CONTAINED IN THE COMPTROLLER & AUDITOR GENERAL OF  
INDIA REPORT (CIVIL) FOR THE YEAR ENDED 31ST MARCH 2003

*Name of Department :* **Local Self Government (DP) Department**

<i>Paragraph No &amp; Audit Para</i>	<i>Action taken report</i>
(1)	(2)
<p>4.6.6 :-<u>Diversion of Plan funds by local bodies</u> : On introduction of Panchayati Raj Act, 1994 Local Self Governments (LSGS) are empowered to formulate schemes thereon and to implement such schemes duly approved by District Planning Committees. The Legislature appropriates about 40% of the State Plan Funds to the LSGs as grants for this purpose. Contrary to the concept of the utilisation of grants appropriated by legislature for implementation of schemes formulated by the LSGs Govt. suo motu granted permission to LSGs to divert the unspent balance of Plan funds to repay the due on loans availed of from Kerala Urban Development Finance Corporation (KUDFC) by credit to infrastructure component. A test check of records of 28 Urban LSGs revealed that the LSGs diverted the grant aggregating Rs. 14.26 crore (Vide Appendix XXVI) for repayment of loan dues to KUDFC during 1997-2002. The action of Government in permitting the LSGs to repay their earlier loan dues to KUDFC from the grant</p>	<p>The Plan Grant-in-Aid developed to local Governments is meant for formulation and implementation of development activities including creation of capital assets. The loan availed by Grama Panchayats from Rural Development Board and the Urban Local Governments from KUDFC are utilised for a creation of capital assets. Therefore as a policy Govt. have allowed Grama Panchayats and Urban Local Governments to repay only the principal amount of the loan from the plan grant subject to the condition that the amount so repaid in a year will not exceed <math>\frac{1}{3}</math> of the fund that can be spent for infrastructure sector.</p> <p>The amount thus recouped to the account of RDB and KUDFC will again be available for future lending to local governments, who in turn can utilise the amount for creation of capital assets. Further the plan grant can be spent by local governments subject to the conditions as may be laid down from time to time by the Government. The Grama Panchayat and Urban Local</p>

(1)	(2)
<p>earmarked for developmental activities was against the spirit of appropriation passed by the Legislature.</p>	<p>Governments were allowed to repay the principal amount of their earlier dues as decided by the State Level Co-ordination Committee for Decentralised Planning. As such the decision of Government in permitting the local governments to repay the principal amount of their earlier dues serves a development purpose.</p>
<p>Government justified (December 2003) their action stating that the unpaid grants released to the local bodies were not earmarked for specific projects by legislature and local bodies were to utilise them according to priorities. The reply of the Government is not tenable as untied grants were to be utilised or implementing developmental schemes formulated by local bodies and approved by District Planning Committees, but the grants were utilised for—</p>	
<ul style="list-style-type: none"> <li>(i) recoupment of Municipal Fund from which loan to KUDFC was repaid;</li> <li>(ii) redemption of liability of Development Authority, assessments and liabilities of which were transferred to Municipal Council, and</li> <li>(iii) redemption of loan for house upgradation under Nehru Rozgar Yojana</li> </ul>	

## APPENDIX III

STATEMENT SHOWING THE DETAILS OF REPAYMENT OF  
LOAN TO KUDFC MET FROM PLAN FUNDS

(Reference : Paragraph 4.6.6)

*(Rupees in lakh)*

<i>Name of Institution</i>	<i>Period of Payment</i>					<i>Total</i>
	<i>1997-98</i>	<i>1998-99</i>	<i>1999-2000</i>	<i>2000-01</i>	<i>2001-02</i>	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>Corporations</b>						
Kollam	..	..	..	..	14.74	14.74
Thiruvananthapuram	..	95.34	35.87	28.93	15.75	175.89
Kozhikode	16.53	106.63	11.42	29.66	56.14	220.38
<b>Municipalities</b>						
Kayamkulam	..	12.26	20.00	50.29	50.92	133.47
Manjeri	..	..	..	..	2.34	2.34
Kodungallur	..	..	21.50	..	..	21.50
Aluva	..	2.91	8.65	19.23	..	30.79
Kannur	..	28.00	..	..	..	28.00
Guruvayoor	..	15.11	..	..	..	15.11
Chengannur	..	3.08	15.27	..	..	18.35
Kasaragod	..	..	..	26.55	23.00	49.55
Neyyattinkara	..	10.00	..	..	70.00	80.00
North Paravur	..	..	..	22.00	28.96	50.96
Malappuram	7.95	22.58	22.02	10.74	27.93	91.22
Chittur Thattamangalam	..	..	..	..	22.67	22.67
Tirur	4.00	4.50	2.22	..	..	10.72
Kunnamkulam	..	..	..	..	20.41	20.41

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Alappuzha	..	..	..	..	32.79	32.79
Thalassery	..	18.99	..	16.88	15.34	51.21
Changanacherry	..	..	13.80	13.80	..	27.60
Irinjalakuda	..	..	..	..	16.82	16.82
Shornur	..	..	..	6.58	..	6.58
Ponnani	5.06	..	5.50	..	6.69	17.25
Palakkad	..	..	..	71.91	..	71.91
Ottappalam	2.29	..	2.18	2.17	8.65	15.29
Payyanur	..	..	..	5.14	12.35	17.49
Chavakkad	..	..	..	..	177.25	177.25
Kanhnagad	..	..	..	2.78	2.57	5.35
<b>Total</b>	35.83	319.40	158.43	306.66	605.32	1425.64