# Chapter - 3
# Project Management

## 3.1 Change in Major Development Plan and increase in Ground Floor Area

Article 8.3 of OMDA required DIAL to prepare a Master Plan for the airport setting out the proposed development for the entire Airport over a 20 year horizon aligned with the traffic forecasts. It was required to provide for identifiable traffic triggers for undertaking specific capital expenditure projects. Clause 3.5 of the State Support Agreement provided that the Master Plan so prepared should be submitted to the Government of India. Within 30 days of the submission, the GOI was to provide in writing to the JVC its comments or suggested changes. If no comments were provided within the prescribed time limit, it was to be deemed that Government had no comments or changes to suggest and the submitted Master Plan was to be treated as the final Master Plan. Ministry of Civil Aviation did not suggest any changes to or provide any comment when the Master Plan was submitted by DIAL.

As per Article 8.3.7 of OMDA, DIAL was to develop the airport in accordance with the applicable Master Plan. Further Article 8.4.2 required DIAL to submit the Major Development Plans relating to the design, development and construction of terminal buildings and parallel runways at the airport.

As per the Major Development Plans prepared by M/S Mott MacDonald, consultant, the ground floor area of the Terminal T3 was estimated to be 451644 square metres, which was revised and the estimated area at the time of financial closure in January 2008 was 470179 square metres. Eventually, the area constructed by DIAL was 553887 square metres. Thus the actual built up ground floor area for T3 Terminal at IGI airport exceeded the major development plan by nearly 83,708 square metres (17.80 *per cent*).

In response to the audit observations, MOCA sought comments from DIAL and forwarded the same to Audit. "*DIAL commented that the finalized Major Development Plan provided that:*

*(i)* *A "theoretical floor area schedule" methodology was to be used*

*(ii)* *An approximate gross floor area was to be calculated*

*(iii)* *Upon amalgamation of individual areas, there will be a requirement for further floor area*

*(iv)* *The finalized floor area will be evident at the stage of actual floor layout plans*

(v) *The detailed space requirement upon conclusion of stakeholder consultation process will have to be taken into account.*"

It would be noted that Ministry neither did offer any comments on the Plans that were submitted to them by DIAL, nor did they offer comments when the above deviation was brought to their notice by Audit. They forwarded the comments of DIAL to Audit.

The financial auditors (M/S KPMG Advisory Services Private Limited) appointed by AAI to verify the final project cost submitted by DIAL, reported that the ground floor area for peak hour passenger at T3 was higher than most of the leading airports in the Asia Pacific region. M/S Engineers India Limited, the technical auditor appointed by AAI also opined in August 2010 that "*due to this increase in area, all other items of the project have increased proportionately.*" Neither MOCA nor AAI took any action for such gross violation of the Master Plan and the consequent increase in the project cost.

MoCA replied (March 2012) that the increased area has generated additional revenue for DIAL which has also benefited AAI.

The reply missed the point that the additional floor area was in violation of the Master Plan and hence in violation of OMDA and SSA. Apart from the fact that this violated the bidding process, the financial arrangements would also indicate that such additions also increased the project cost of the airport and had to be financed through Development Fees charged on the passengers.

## 3.2 Actual Project Cost vis-a-vis Original Project Cost increased by ₹ 3882 crore

As per the Business Plan the original project cost approved by DIAL and communicated to AAI on 18 January 2008 was ₹ 8975 crore. Actual project cost as on 20 July 2010 as claimed by DIAL was ₹ 12857 crore. The final project cost adopted by Airports Economic Regulatory Authority (AERA) for arriving at the Regulatory Asset Base (RAB) was ₹ 12502.86 crore. The variation between the approved project cost and the final project cost was ₹ 3882 crore, i.e., 43.25 *per cent* higher than the original project cost.

It was noted in audit that at the time of financial closure in January 2008 levy of Development Fee was not contemplated. Large part of the enhanced project cost was subsequently recovered by DIAL from the passengers using the airport through levy of DF.

The following table will indicate the cost estimates at the time of financial closure of the project and the actual cost and the source of funding of the project:

### Table 1 - The components adopted by DIAL to finance the project cost

**(₹ crore)**

| Funding (1) | Cost as per estimates in January 2008 (2) | | Final cost in March 2010 adopted by AERA (3) | | Cost Escalation ( Percentage) 3(b) -2(b) |
|---|---|---|---|---|---|
| | Amount (a) | % of total cost (b) | Amount (a) | % of total cost (b) | |
| Equity | 1202 | 13.39 | 2300 | 18.40 | 5.01 |
| Loans | 4986 | 55.55 | 5266 | 42.11 | (-) 13.44 |
| Security deposits | 2738 | 30.51 | 1471.51 | 11.77 | (-) 18.74 |
| Internal accruals | 49 | 0.55 | 50 | 0.40 | (-) 0.15 |
| DF | Not Envisaged | Not Envisaged | 3415.35 | 27.32 | 27.32 |
| Total | 8975 | 100 | 12502.86 | 100 | |

From the above it is clear that as per the original estimates the entire funding was to be through equity, debt, security deposits and internal accruals. However, as is seen above, this was reduced to 72.68 *per cent* of the total fund requirements of the actual project cost. This financial gap was mainly filled by levy of DF which constituted 27.32 *per cent* of the total capital outlay. OMDA did not envisage the funding of project cost through levy of DF from passengers since the entire funding was to be through debt and equity only. Thus the inability of the shareholders of DIAL to bring in additional funds to the project through additional debt from financial institutions led to levy of DF on passengers.

MoCA replied (March 2012) that "*under none of the transaction document, the value of the contract was contemplated. The OMDA only provides that JVC would set up world class infrastructure to cater to traffic requirement and revise its Master Plan from time to time.*"

Ministry further stated that DIAL had initially submitted the original project cost of ₹ 8975 crore and that was an estimate based on provisional drawings. It was also stated that since the initial cost was not based on finalized drawings, ₹ 12857[11]crore is not an escalation in the project cost but a finalization of the project cost post award of contracts. The AERA after due consideration has approved the final project cost of ₹ 12502.86 crore. The increase in cost was not only due to increase in area

[11] The actual project cost submitted by DIAL for consideration of levy of DF

but also due to price variation, increase in scope of work, new ATC tower, payment to Delhi Jal Board etc.

The reply of the Ministry was misleading. None of the transaction documents provided for levy of development fees for meeting the project expenditure. **Though the airport at Delhi was visualized as a world class airport, yet the total project cost involved was not approved and monitored by any government agencies. However, DF was levied to finance the funding gap on account of increased project cost.**

The Ministry also replied that the increase in project cost was on account of increase in scope of work like new ATC tower, rehabilitation of runway 10/28, payment to Delhi Jal Board etc. These were significant additions to the airport not envisaged in the plans proposed by DIAL for review and comments of MoCA/AAI.

### Transfer Assets on expiry of OMDA

As per Article 19.6 of OMDA, in the event of AAI acquiring the transfer / non-transfer assets of DIAL while terminating the contract, the same shall be valued by a valuer appointed by AAI to ascertain the fair market value. Transfer assets include aeronautical and non-aeronautical assets existing as on the date of transfer.

All the assets categorized as transfer assets shall necessarily be acquired by AAI on the expiry of the term of OMDA. These will include assets created by the Development Fees as well. In other words, it would mean that AAI and indirectly Government of India will have to pay for the assets created with the money collected from the travelling public as development fees.

MoCA stated (March 2012) that the provisions of Article 19.6 of OMDA are procedural in nature, the rights of parties upon termination by AAI are covered in Article 17.3.1 of OMDA and DF is utilized only for creation of transfer assets and not in relation to non-transfer assets. The amount was subtracted from total admissible CAPEX and, therefore, does not confer any pecuniary benefit to the airport operator.

The reply of the Ministry was incorrect as Article 17.3.1 was not relevant here as it provides for valuation of assets at the time of termination of contract in the event of default by DIAL. However, the relevant Article 19.6 of OMDA clearly provides valuation of transfer/non-transfer assets in the event of cessation of contract. Audit observed that the assets created using DF would be valued at fair value to be paid by AAI to DIAL in the event of cessation of agreement.

## 3.3 Mandatory Capital Projects

As per the Article 8.2 of Chapter VIII of OMDA, DIAL shall commence, carry out and complete the Mandatory Capital Projects (MCPs), latest by 31 March 2010, as set out under schedule 7 of OMDA. In terms of OMDA and the schedule, DIAL was required to complete all 33 MCPs by 31 March 2010 out of which 15 MCPs were to be completed within a period of 24 months of signing of OMDA i.e. by 3 April 2008. Out of these 15 MCPs to be completed by 3 April 2008, 11 MCPs were delayed for the period ranging from 87 days to 236 days.

As per the clause 1 of Schedule 6 of SSA on determination of aeronautical charges, a nominal increase of ten (10) *per cent* over the base airport charges was to be allowed for calculating aeronautical charges for the third year after the effective date as an "Incentive" provided DIAL duly completed and commissioned the MCPs required to be completed during the first two years from the effective date.

In terms of the above mentioned provisions of SSA, DIAL was not entitled for any incentive in respect of base airport charges as 11 MCPs were not completed as per schedule. However, MoCA approved (February 2009) 10 *per cent* increase in the aeronautical charges including landing, parking, passenger service fee (facilitation component only), X-Ray Baggage and Housing Charges at IGI airport, New Delhi w.e.f 16 February 2009 as an incentive to DIAL.

MoCA replied (March 2012) that the delay in completion of MCPs was attributable to circumstances and situations beyond the control of DIAL since the works being carried out in an operational airport involved the co-ordination with various external agencies such as airlines, security, immigration etc.