

To  
**Chairman,**  
**Kolkata Port Trust**

Sub. : **The Paradox of Estate Billing: Lessons from Exploratory Data Analysis (EDA) of "Estate" & "BR" Module.**

The Estate Module, despite its many shortcomings, is still a veritable source of information for Estate Division, which manages vast swathes of land and structures owned by the Port. The database behind this module had been created sometime during the Year 2003-04 with considerable effort. It contains information on land & structures licensed/leased by Kolkata Port Trust (called "Plates") dating back to even 1950s & 60s. The billing history of all plates under operation had been fed into the BR Module, at the time of its creation, to enable the Port to generate computerized bills to tenants and record payment received from them, from time to time. It is also from these modules that outstanding dues against a plate/tenant are certified by Estate Division for determining whether or not a tenant is in default/arrears, at any given point of time.

Unfortunately, no comprehensive analysis of the data accumulated in these Modules over years has ever been undertaken since their creation. Let alone conducting analysis of accumulated data, most Tenancy Officers, including those serving there as frontline executives since years, were found, during an inspection by CVO, to be totally unfamiliar with the information already existing in these modules. It may be recalled here that when some elementary information on the latest status of the plates were sought from Tenancy Officers, who form the backbone of Estate Management, they were unable to provide the same, even after lapse of 6 months. When another inspection was undertaken, to ascertain the reason for such inability, those present could not commit any probable date for providing the requested information.

**Keeping the above aspects in view and in pursuance of the primary goal of this department to assist and advise Port Management through meaningful, targeted preventive efforts,** I decided to carry out an "Exploratory Data Analysis" on Estate Module and BR Module – the modules that presently function as Executive Support System for Estate Division. EDA is a process to analysis data sets, summarise their main characteristics and to see what they can tell us beyond formal modelling or hypothesis testing. Such analysis refers to breaking the whole into its separate components, for individual examination, after obtaining raw data and converting it into information useful for decision-making by users.

Initially, while undertaking the aforesaid EDA, it was felt that a comprehensive report on the current "State of Estate", containing required system improvements, could be done at one go. But, as the exercise progressed, several aspects continued to manifest themselves, making this exercise extend to ever more unexplored areas of Estate Management, such as PP Court Procedure, Eviction Process and Litigation handling. It may be noted that the said EDA exercise has already yielded several useful suggestions, complete with specific eye-opening case studies. Examples in recent past include two such studies on "**Undelivered Bills and Missing Tenants**" and "**Tenants with Outstanding Dues facing Bankruptcy**"





However, certain aspects which have now come to notice, during the EDA exercise, are so important and revenue sensitive in nature that they cannot be made to wait till the completion of the ongoing preventive exercise in Estate functioning and need to be brought to the notice of the Chairman forthwith. Therefore, it was decided to release the findings from the said EDA in subject-wise tranches, to facilitate their immediate implementation and timely prevention of revenue leakage. The first of these tranches is about the estate billing process, as described below:

The EDA of Estate Module tells us that as on 28-11-2018, a huge amount - ₹ 2,649 Crores - is lying pending against these 3808 plates as "outstanding dues" to be recovered (₹ 1,328 Crores as Rent and Compensation dues + Interest ₹ 1,321 Crores). This amount (after excluding tax elements of roughly 30% of billed amount) is more than 10 times the annual income from Estate Rental (₹ 185 Crores) reflected in the Revenue Account for the year 2017-18.

Out of 3002 "live" plates (not considering way leave permissions and "closed" plates), **there are 436 plates against whom not even a single instance of payment is recorded. These 436 "never paid plates" are held by 356 tenants, who have a total outstanding of Rs. 106.74 Crore, without interest (Rental = Rs. 51.63 Crores + Compensation = Rs. 55.11 Crores),** as on 28-11-2018, i.e., the date of analysis. **These plates occupy a total area of 367 Acres land, 87% of which are in prime areas of Kolkata and Howrah.** Going by the database, it is, indeed, an enigma how these tenants have been enjoying such vast tracts of prime urban land, without paying anything right since they got the land leased/licensed from KoPT. Almost all these plates (excluding just 4) are under various types of short term licenses – those which are supposed to be for a few months to a maximum of 11 months and need to be specifically renewed after expiry, for legal validity.

But, a far more damaging revelation from the EDA exercise is the fact that not only KoPT has never received any income from the above 436 Plates, but they have also incurred huge additional expenditure by way of Service Tax/GST. It may be recalled that after the "**Point of Sales Taxation**" system came into being in July 2011, Ports had to pay Service Tax at a rate of 15% on the "billed amount" the instant such a bill got generated, whether or not KoPT received payment against the bill. However, there was a small relief as far as "compensation" billing was considered, as the Port paid Service Tax only on the compensation amount actually realized from a tenant. All these changed when GST was introduced in estate billing in February 2017. Thereafter, GST was needed to be paid, at the time of billing itself, on the "billed amount", whether the bill was for rent or compensation.

In contrast to the above backdrop, it was found that rental and compensation bills **worth Rs. 35 Crores** have been raised by KoPT against these "never-paid-plates" since July 2011 till November 2018 (the reference database for EDA). After raising these bills, KoPT instantly paid nearly Rs. 13 Crores of GST and delineated Rs. 2 Crores of Municipality Tax, without receiving a single rupee from the tenants of such plates. **This amount of Rs. 13 Crores represents a loss caused to KoPT because of completely irrational billing, which could have easily been averted, had the available database been even cursorily scanned to identify cases of never-paying tenants.** Needless to say, there can be no earthly reason behind sending a bill to a tenant who has not paid to the Port even once.

A list of such "never-paid plates" and their privileged tenants is enclosed for immediate circulation to Estate Wing, so that their billing from now onwards can be halted.

At present, in every estate bill, the Port pays nearly 20% of Rent/Compensation charged as Municipality Tax and then GST @ 18% over Rent plus Municipality Tax. Further, 30% of this "billed rent" also goes out as Income Tax. Thus, if a tenant does not pay or partially pays against a rental/compensation bill, then outgo from KoPT by way of mandatory taxes might exceed the incoming payment, **creating a peculiar inversion in economic logic of sending the estate bill.**



For instance, a comparison of bills raised with the actual receipt from tenants was made for all bills sent out by Estate during the Post-GST period, from February 2018 to November 2018. This period was chosen because for compensation billing, it was only in February 2018 that GST got implemented. It reveals that during these 10 months, estate division generated and sent **compensation bills** worth **Rs. 237.79 Crores, which includes Rs. 36.27 Crores of immediate payment towards GST and another Rs. 30.51 Crores for Municipality Tax. But, all these Compensation bills sent out to various tenants fetched an actual payment of only Rs. 43.35 Crores, i.e., a paltry realization of 18.23%. This actual receipt of Rs. 43.35 Crores is inadequate to meet even the Tax component of the Compensation bills sent out to tenants.** Similar analysis of rental bills sent during the above Post-GST period shows the **realisation against Rent bills to have been hardly 49%.**

This is in sharp contrast to the realization that prevailed prior to implementation of GST. The average realization during the 4 preceding years (2013-14 to 2017-18) have been 91.59% against "Rent Bills" and 32.16% against Compensation Bills (Overall Realization 63%). In fact, given a particular taxation-matrix, it can be shown that there are distinct thresholds for rental-realization and compensation-realization below which the very act of generating bills can lead to financial loss. The enclosed analysis calculates the realization-threshold for rent and compensation and shows that the present billing operation to be operating below such critical levels. **Under such alarming situation, whether to bill or not to bill has itself become a pertinent question,** requiring careful scrutiny of payment history of each plate, especially the "**Never-Paid**" & "**Non-Responsive**" ones and those belonging to the recently detected category of "**Postally Untraceable**" tenants.

Encl.: "**Analytical Study (Pages 1 - 9) & System Improvement Suggestions (Pages 10 - 13)**" on the above subject.



( S. K. Sadangi )  
CVO

Copy forwarded to:

**Dy. Chairman, KDS / Secretary / FA&CAO / Estate Manager**

# **“Whether to Bill or not to Bill?” : *An Analytical Study on Estate Billing Process of KoPT with suggestions for improvement.***

## **1.0 Background:**

‘Estate Rentals’ forms an important part of revenue earned by a Port like KoPT, which has vast swathes of land in possession, not only in areas where Port operations take place, but also in various prime locations of Kolkata and Howrah. As per the revenue account for the year ending 31<sup>st</sup> March, 2018, “Estate Rentals” from KDS amounted to ₹ **185.93 Crores**, comprising 4 sub-streams of revenue (i) Rent collected from land (₹ 102.2 Crs.), (ii) Rent for buildings, sheds and godowns (₹ 50.2 Crs.), (iii) Premium on leased land (₹ 13.4 Crs.) and (iv) Miscellaneous (₹ 20.2 Crs.).

Estate Division raises periodic bills against tenants who have been awarded leases / licences by KoPT. A bill against a tenant who is legally authorised to occupy KoPT’s premises is called “Rental Bill”, while bills sent to tenants who are in unauthorised occupation of KoPT’s premises (due to various reasons) are called “Compensation Bills”. Till the unauthorised tenant gets actually evicted and KoPT repossesses the land, compensation bills at three times of the normal rental amount are to be sent, according to latest land policy.

It needs to be pointed out that the amount shown against “Estate Rental” in KoPT’s Annual Account represents the amount “billed” to various **tenants towards “Rent” and not the amount “actually collected”** from such tenants. Further, this figure does not reflect the various type of Taxes included in the bills generated by Estate. It also does not include the amount billed to/ received from unauthorised occupants as “compensation” (*Such component is currently being shown under “Capital Reserve” head of Revenue Account*).

The actual realisations against bills raised by the Estate Wing, for rent as well as compensation taken together, in the last four years, have **averaged 63%** (it was 61.3% for the year 2017-18). Thus, the real “estate rental income” to KoPT is much lower than what is reflected in its books of account.

## **2.0 Scope of Study and Methodology:**

**2.1** The Estate Module, despite its many shortcomings, is still a veritable source of information for Estate Division, which manages vast swathes of land and structures owned by the Port. The database behind this module had been created sometime during the Year 2003-04 with considerable effort. It contains information on land & structures licensed/leased by Kolkata Port Trust (called “Plates”) dating back to even 1950s & 60s. The billing history of all plates under operation had been fed into the BR Module, at the time of its creation, to enable the Port to generate computerized bills to tenants and record payment received from them, from time to time. It is also from these modules that outstanding dues against a plate/tenant are certified by Estate Division for determining whether or not a tenant is in default/arrear, at any given point of time.

**2.2** Unfortunately, no comprehensive analysis of the data accumulated in these Modules over years has ever been undertaken since their creation. Let alone conducting analysis of accumulated data, most Tenancy Officers, including those serving there as frontline executives since years, were found, during an inspection by CVO, to be totally unfamiliar with the information already existing in these modules. It may be recalled here that when some elementary information on the latest status of the plates were sought from Tenancy Officers, who form the backbone of Estate Management, they were unable to provide the same, even after lapse of 6 months.



2.3 It is in the above backdrop that an “**Exploratory Data Analysis**” [EDA] on Estate Module and BR Module - the modules that presently function as Executive Support System for Estate Division - was undertaken. EDA is a process to analyse data sets, summarise their main characteristics and to see what they can tell us beyond formal modelling or hypothesis testing. Such analysis refers to breaking the whole into its separate components, for individual examination, after obtaining raw data and converting it into information useful for decision-making by users. In addition, several rounds of discussion were held personally by CVO with Tenancy Officers, Officials who are associated with various billing functions, Resolution Officers, Legal Wing and of Estate Division as well as the Software professionals who maintain these modules. Customized queries were designed and data sets extracted from various tables as prevailing on 28-11-2018 to examine unusual trends/patterns in the area of Estate billing, which forms the first part of this study.

### 3.0 **FINDINGS:**

- 3.1 The Estate Module contains information on 5475 land parcels (known as “Plates”), measuring a total area of 2816 Acres, awarded to 2207 tenants, under various type of short term licenses, long term leases and way leave permissions. Excluding way leave permission plates, which entail a very small area, the population of plates reduces to 3808 number, encompassing 2805 Acres of land, in possession of 2126 tenants.
- 3.2 As on 28-11-2018, a huge amount - ₹ 2,649 Crores - is lying pending against these 3808 plates as “outstanding dues” to be recovered (₹ 1,328 Crores as Rent and Compensation dues + Interest ₹ 1,321 Crores). However, this figure is a conservative one, since the compensation amount, which should have been charged at a rate of 3 times the SoR after implementation of 2010 Land Policy against unauthorized occupants, has been applied only for 31 months out of an applicable duration of at least 88 months). Even considering such leniency in compensation billing shown to unauthorized occupants, the amount of dues currently outstanding [excluding GST and Municipality Tax component which is roughly 30% of the billed amount - elaborated in more detail at Para 4.7] is more than 10 times the annual income from Estate Rental (₹ 185 Crores) reflected in the Revenue Account for the year 2017-18.
- 3.3 Out of 3808 plates, 806 plates have been declared as “closed” and no bills are currently being generated and sent against them. These tenants occupy 463 acres of land in prime locations of Kolkata and Howrah, with nearly ₹ 123 Crores of pending dues (without interest). Vigilance was given to understand bills have been stopped because such tenants might have left the licensed premises at some point of time after clearing their dues and KoPT may be in possession of them. But there is no such plate-wise-possession-list maintained in Estate Division from which it could be verified whether these plates are really free and ready for fresh tendering. On the other hand, the EDA revealed that 26 of these “closed-plate-tenants” owe dues more than ₹ 1 Crore (without interest) to KoPT with just the top two of them accounting for nearly ₹ 30 Crores. No comprehensive information is available in Estate Division as to the reason for treating plates with such huge outstanding dues as “closed”. Only a painstaking “plate-by-plate-file-search” can reveal the true reason – if such files are physically available in the Division. Random check by Vigilance on a few of these “closed” plates revealed that they are still in possession of “unauthorized” occupants. The bottom line is no one is clear as to what precise reasons lie behind not sending bills in so many cases and whether a decision has been taken at any level to waive such dues. This would be known only when files for each of these plates are examined thoroughly provided such files are not missing – a not-so-rare occurrence in Estate Division (*For instance, last year, in connection with an investigation on allegation of unauthorized occupation, when Vigilance requested lease documents concerning two godowns located right within the KoPT’s own official complex, where the Vigilance Department is located, it was told by the Estate Wing that the concerned files were missing.*). A list [List-4] of 23 Tenants with respect to 26 such “closed” Plates, where the total outstanding is more than ₹ 1 Crore (without interest) in each case, is enclosed.



- 3.4** The plates which are under effective billing process (excluding way leave cases) number **3002**, encumbering an area of **2342 acres**, represented by **1764 lessees** and licensees. These are termed as **“open” or “live” plates**. They have outstanding dues of **₹ 1,205 Crores** against them (without interest and without applying full compensation rate i.e. 3 SoR for most of the times during last 7 years). **The EDA of the Modules done in this analytical study mostly concerns these 3002 “live plates”, for which bills are being generated at pre-determined frequency.**
- 3.5** An astounding 80% of outstanding dues against “live plates” are accounted for by plates which are under **“unauthorized occupation”** on some ground or other. In terms of occupied area, the extent of “unauthorized” occupation is 35% (813 Acres out of 2342 Acres), while in terms of number of tenants, it is 45% (796 out of 1764 live-tenants).
- 3.6** Viewed from the perspective of “type of tenancy”, another shocking fact emerges. Almost all of these unauthorized occupied plates fall into the category of **short-term “Monthly Licenses”**. Monthly licenses are allotted to a tenant for a few months duration, with rent decided primarily at prevailing Schedule of Rent (SoR) notified by TAMP. In contrast, a long term lease is for a duration exceeding 1 year and is awarded generally on tender/auction basis.

		Number	Area (Acre)	Rent Outstanding (Cr.)	Compensation Outstanding (Cr.)	Total Outstanding (Cr.)	No of Tenants
1	Plates Under Lease/License	5475	2816	358	988	1346	2207
2	Plates W/O Way Leave and Tax	3808	2805	343.75	984.62	1328.37	2126
<b>2(i)</b>	<b>Live Plates</b>	<b>3002</b>	<b>2342</b>	<b>305.99</b>	<b>899.4</b>	<b>1205.39</b>	<b>1764</b>
2(ii)	Closed Plates	806	463	85.21	37.76	122.97	518
<b>2(i)(a)</b>	<b>Under Compensation</b>	<b>1329</b>	<b>813</b>	<b>82.28</b>	<b>890.27</b>	<b>972.55</b>	<b>796</b>
<b>2(i)(b)</b>	<b>Under Regular Rent</b>	<b>1673</b>	<b>1529</b>	<b>223.71</b>	<b>9.13</b>	<b>232.84</b>	<b>1077</b>
<b>2(i)(a)(1)</b>	<b>Under Compensation (Monthly)</b>	<b>1316</b>	<b>794</b>	<b>82.1</b>	<b>890.27</b>	<b>972.37</b>	<b>787</b>
2(i)(x)	Never Paid Live Plates	436	367	51.63	55.11	106.74	356
2(i)(y)	Never Billed Live Plates	<b>33</b>	<b>20.26</b>	<b>6.53</b>	<b>14.14</b>	<b>20.26</b>	<b>24</b>

\*Outstanding amount shown are without interest and without full application of compensation rates as envisaged in SoR-2010.

- 3.7 Free-for-All Plates?** The EDA of Estate Module tells us that out of 3002 “live” plates (not considering way leave permissions and “closed” plates), there are **436 plates against whom not even a single instance of payment is recorded**. These **436 “never paid plates”** are held by **356 tenants**, who have a total outstanding of **₹ 106.74 Crores**, without interest (Rental = ₹ 51.63 Crores + Compensation = ₹ 55.11 Crores), as on 28-11-2018, i.e., the date of analysis. These plates occupy a total area of **367 Acres land**, **87% of which are in prime areas of Kolkata and Howrah**. Going by the database, it is, indeed, an enigma how these tenants have been enjoying such vast tracts of prime urban land, without paying anything right since they got the land leased/licensed from KoPT. Almost all these plates (excluding just 4) are under various types of short term licenses – those which are supposed to be for a few months to a maximum of 11 months and need to be specifically renewed after expiry, for legal validity [List-1A enclosed]. Also most of the 357 tenants who have been enjoying these premises are private companies or proprietary entities.

#### Some example of Private Companies who “never paid”

Tenant Name	Plates	Total Area under occupation (m <sup>2</sup> )	Rent Outstanding (Cr.)	Compensation Outstanding (Cr.)	Total Outstanding (w/o interest) (*)
MACHINERY MANUFACTURERS	3	53821.82	7.19	0.00	7.19 Crores
INDIAN ROADWAYS CORPORATION	1	3864.95	0.00	6.28	6.28 Crores

\*Source: Estate Module Database (as on 28-11-2018)



## 4.0 ANALYSIS:

4.1 **Self-inflicted Financial Injury by Billing Never-Paying Tenants:** The above EDA exercise has revealed that not only KoPT has never got any payment from the above 436 Plates, but it has also incurred huge additional expenditure by way of Service Tax/GST. It may be recalled that after the “**Point of Sales Taxation**” system came into being in July 2011, Ports had to pay Service Tax at a rate of 15% on the “billed amount” the instant such a bill got generated, whether or not KoPT received payment against the bill. However, there was a small relief as far as “compensation” billing was considered, as the Port paid Service Tax only on the compensation amount actually realized from a tenant. **All these changed when GST was introduced in Estate billing in July 2017. Thereafter, GST was needed to be paid, at the time of billing itself, on the “billed amount”, whether the bill was for rent or compensation.**

4.2 In contrast to the above backdrop, it was found that rental and compensation bills worth ₹ 35 Crores have been raised by KoPT against these “never-paid-plates” since July 2011 till November 2018 (the reference database for EDA). After raising these bills, KoPT instantly paid nearly ₹ 13 Crores of GST and delineated ₹ 2 Crores of Municipality Tax, without receiving a single rupee from the tenants of such plates. **This amount of ₹ 13 Crores represents a loss caused to KoPT because of completely irrational billing, which could have easily been averted, had the available database been even cursorily scanned to identify cases of never-paying tenants.** Needless to say, there can be no earthly reason behind sending a bill to a tenant who has not paid to the Port even once. A list of such “never-paid plates” and their privileged tenants is enclosed [List-1B] for immediate circulation to Estate Wing, so that their billing from now onwards can be halted. (Such loss could have been much larger but was prevented, at least after April-May 2018 when the present Estate Manger decided to stop compensation billing for nearly 300 odd plates after GST implementation for compensation billing came to be effected in Feb-2018.)

### 4.3 **Billing against “Non-responsive Plates” : Increasing the loss further:**

The above scenario of purposeless billing against “Never-Paid-Plates” worsens when we take into account bills generated for those plates where no payment has been made by the concerned tenant in the previous 1000 days preceding such billing. Had the payment behaviour in such plates been analysed, KoPT could have taken a more nuanced decision to raise or not to raise a bill against such confirmed “non-responsive” tenants (*after all the contractual obligation of the lessee/licensee to pay the required fee does not extinguish whether or not KoPT sends them a bill in a particular frequency*). It is obvious that there is very low probability of being paid by a tenant who has been ignoring KoPT’s bills for the previous 3 Years, while it is certain that KoPT has to make instant payment to various taxation authorities’ right at the moment they raise a bill.

The extent of such self-defeating billing, if one takes into account such non-responsive tenants [those who had made no payment (for whatever reasons) against the concerned Plate in the previous 1000 days], is truly substantial, as revealed from the following table.



**Table-1 : Extent of Infructuous Billing**

	PERIOD FOLLOWING "POINT OF TAXATION RULE" OF GOI FOR SERVICE TAX ( JULY 2011 TO NOVEMBER 2018 )				PERIOD FOLLOWING IMPLEMENTATION OF GST ( JULY 2017 TO NOVEMBER 2018 )			
	Plates	Tenants	Bills raised (Crores)	Area under occupation (Acres)	Plates	Tenants	Bills raised (Crores)	Area under occupation (Acres)
<b>Never-paid-Plates</b>	317	263	34.97	327.29	292	243	7.45	321.57
<b>Bills raised although no payment had been made against the Plate in previous 1000 days (3 years).</b>	606	421	248.22	163.31	593	413	50.54	160.66
<b>Total</b>	<b>923</b>	<b>(665*)</b>	<b>283.19</b>	<b>490.60</b>	<b>885</b>	<b>(640**)</b>	<b>57.99</b>	<b>482.23</b>

\* There are 19 common tenants between the 2 (two) groups. (\*\*) There are 16 common tenants between the 2 (two) groups.

The table above shows that these tenants had been billed a staggering ₹ 248 Crores, despite their no-payment-for-previous-1000 days-history and causing huge loss to KoPT through avoidable tax outgo [**List-2 enclosed**].

Moreover, tenants of "Never-Paid-Plates" had been billed a whopping ₹ 7.45 Crores, after implementation of GST, fully knowing that such tenants had never, even for once, paid anything to KoPT against their respective plates. A list [**List-3**] of such tenants is enclosed herewith.

#### **4.4 Raising bills against those whose correct address is unknown:**

Recently, a peculiar phenomenon of numerous bills (both rental and compensation) being returned back by Postal authorities undelivered was noticed by Vigilance. In most cases, the bills were not even reaching the desired tenants, because the tenant was simply no more existing in that address and might have parted with possession to third parties for unknown sums of money.

*One such example accidentally came to Port's records, when an enquiry committee was investigating a major fire on 06.01.2006 that devastated the "Sale Tea Warehouse" comprising a total godown space of 23,525 m<sup>2</sup>. The ground floor of this warehouse had been licensed to one LMJ International Limited. The enquiry committee found to their surprise that the licensee, LMJ International Limited had parted possession of 930.98 m<sup>2</sup> at ground floor (license given by KoPT @ Rs. 26.54 per sq. ft. in the year 2001 for 6 months) to one LMJ Logistics Limited, who, in turn, re-licensed it to Jupiter International Limited, without ever obtaining permission of KoPT. By chance, the committee got hold of a secret agreement, which showed how KoPT premises had changed hands from LMJ Logistics Limited to Jupiter International Limited, albeit at a rate 3 times than the rate at which KoPT had originally licensed the land. The enquiry committee noted in its report that the devastating fire had originated from the portion occupied by this unauthorized tenant, which destroyed the building, leading to an estimated Rs. 30.55 Crore loss to KoPT's structure. Even after lapse of 12 years, the licensed land has not come into the possession of KoPT, with not only the assessed damage of Rs. 30.55 Crores, but even an outstanding due of Rs. 74.08 Lakh remaining unpaid.*

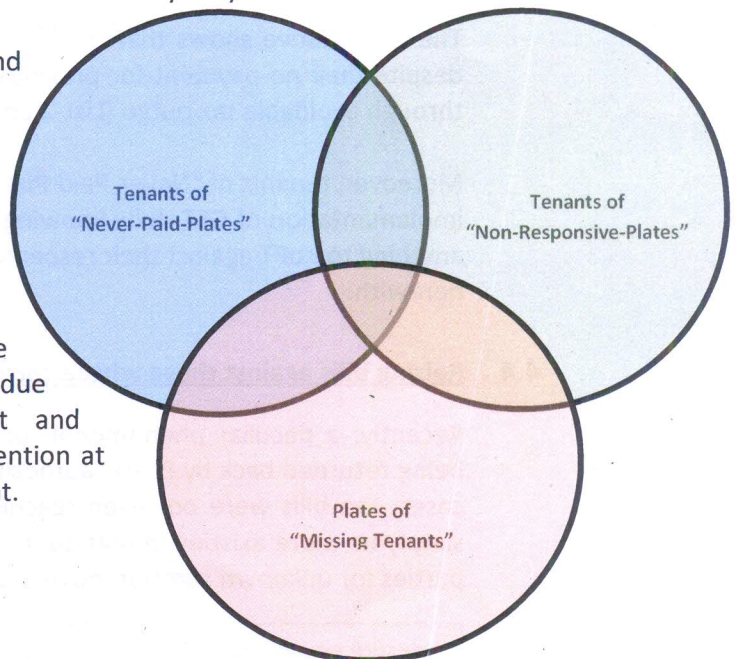


The sheer number of these undelivered bills surprised Vigilance, prompting them to inform such happening to Management immediately. Sending bills to a tenant that is not even reaching him and incurring GST and Municipal Tax on the billed amount can only be termed as bizarre. A Software utility has been created under guidance of Vigilance having a separate database for entering all such "returned" bills that have been accumulating in various corners of Estate Wing since months. From the entries made into the said Software utility has so far unearthed **368 different plates (belonging to 268 tenants)** [List-5 enclosed] against whom bills in the recent past have been returned back by Postal authorities with mainly the following categories of remarks:

- |                                      |                         |
|--------------------------------------|-------------------------|
| i) <i>Addressee not known</i>        | v) <i>Wrong address</i> |
| ii) <i>Addressee moved</i>           | vi) <i>Refused</i>      |
| iii) <i>Continuously door closed</i> | vii) <i>Left</i>        |
| iv) <i>Insufficient address</i>      | viii) <i>Deceased</i>   |

An interesting reason for returned bills was the addressee "refusing to accept the bill", such as William Jacks & Co. Pvt. Ltd., West Bengal Education Department, Bengal Jute Mills & Co., Nabarang Estate Pvt. Ltd., Howrah Municipal Corporation. Further, the above list of apparently Postally untraceable tenants is not yet complete and even so, a number of 368 is a huge figure given the total population of live plates being only 1764. It is a known fact that in the past, whenever any communication is sought to be disseminated to the entire tenant population or any trade meet called by Port authorities, no more than 100 – 150 tenants have assembled. This is baffling, although there are supposed to be 1764 nos. of distinct tenants recorded in the database against 3002 live plates. The ambiguity and uncertainties hanging over the basic physical existence/whereabouts of all the tenants could well be the reason behind this mystery.

**4.5** It is imperative that the tenants and plates belonging to the above 3 categories - Never Paid Plates, Non-Responsive Plates & Plates of apparently missing tenants - must be scrutinized before the next billing cycle to prevent Crores of Rupees loss to KoPT by way of infructuous Tax payment. The alarming situation, even otherwise, due to poor realization against rent and compensation needs immediate attention at the very highest level of Management.



**4.6 Is KoPT inflicting loss upon itself by raising rental / compensation bills?**

A comparison of bills raised with the actual receipt from tenants was made for all bills sent out by Estate during the Post-GST period, from February 2018 to November 2018. This period was chosen because although GST in estate "rental" billing has been in effect since July-2017, it was applied for compensation billing only since February 2018. As depicted in the Table below, it reveals that during these 10 months, Estate Division generated and sent **compensation bills worth ₹ 237.79 Crores, which includes ₹ 36.27 Crores of immediate payment towards GST and another ₹ 30.51 Crores for Municipality Tax. But, all these Compensation bills sent out to various tenants fetched an actual payment of only ₹ 43.35 Crores, i.e., a paltry realization of 18.23%. This actual receipt of ₹ 43.35 Crores is inadequate to meet even the Tax component of the Compensation**



**bills sent out to tenants.** Similar analysis of rental bills sent during the above Post-GST period shows the **realisation against Rent bills to have been hardly 49%.**

**Table 2 : REALIZATION OF ESTATE BILLS DURING THE POST-GST PERIOD FROM FEBRUARY 2018 TO NOVEMBER 2018**

<u>RENT</u>	DETAILS OF ESTATE BILLS RAISED				DETAILS OF PAYMENT RECEIVED				REALIZATION CO-EFFICIENT (%)
	MONTH	RENT (Cr.)	MT (Cr.)	GST (Cr.)	GROSS (Cr.)	RENT (Cr.)	MT (Cr.)	GST (Cr.)	
Feb-18	9.73	1.47	2.01	13.21	6.22	0.94	1.29	8.44	63.92
Mar-18	13.56	2.46	2.88	18.90	10.11	1.83	2.15	14.09	74.54
Apr-18	12.06	2.35	2.59	17.00	6.73	1.31	1.44	9.48	55.74
May-18	5.34	1.22	1.17	7.73	3.32	0.76	0.73	4.81	62.14
Jun-18	10.56	2.49	2.35	15.40	7.45	1.75	1.68	10.88	70.65
Jul-18	18.56	3.55	3.98	26.09	5.49	1.05	1.17	7.72	29.58
Aug-18	13.91	2.59	2.97	19.47	8.99	1.68	1.92	12.58	64.58
Sep-18	13.27	2.45	2.83	18.55	5.60	1.03	1.19	7.82	42.16
Oct-18	19.48	4.72	4.35	28.55	7.74	1.88	1.73	11.35	39.74
Nov-18	11.11	2.32	2.42	15.84	2.23	0.47	0.48	3.18	20.05
<b>TOTAL (Crore)</b>	<b>127.59</b>	<b>25.61</b>	<b>27.55</b>	<b>180.75</b>	<b>63.87</b>	<b>12.69</b>	<b>13.77</b>	<b>90.33</b>	<b>49.98</b>

<u>COMPENSATION</u>	MONTH	COMPENSATION (Cr.)	MT (Cr.)	GST (Cr.)	GROSS (Cr.)	COMPENSATION (Cr.)	MT (Cr.)	GST (Cr.)	GROSS (Cr.)	REALIZATION CO-EFFICIENT (%)
Feb-18	10.01	1.49	2.07	13.57	1.70	0.25	0.35	2.30	16.95	
Mar-18	54.83	11.37	11.92	78.11	14.55	3.02	3.17	20.74	26.55	
Apr-18	18.87	3.05	3.95	25.86	2.07	0.33	0.44	2.84	10.99	
May-18	18.95	3.32	4.01	26.28	2.16	0.38	0.46	3.00	11.41	
Jun-18	18.13	2.81	3.77	24.71	2.08	0.32	0.43	2.84	11.48	
Jul-18	9.35	1.70	1.99	13.04	1.77	0.32	0.38	2.47	18.92	
Aug-18	12.26	1.68	2.51	16.44	3.86	0.53	0.79	5.18	31.50	
Sep-18	9.86	1.78	2.10	13.74	1.57	0.28	0.33	2.19	15.96	
Oct-18	9.89	1.73	2.09	13.71	1.73	0.30	0.37	2.40	17.50	
Nov-18	8.87	1.58	1.88	12.34	1.34	0.24	0.29	1.87	15.15	
<b>TOTAL (Crore)</b>	<b>171.01</b>	<b>30.51</b>	<b>36.27</b>	<b>237.79</b>	<b>32.84</b>	<b>5.98</b>	<b>7.00</b>	<b>45.82</b>	<b>19.27</b>	

<b>Grand Total (Crore)</b>	<b>298.60</b>	<b>56.12</b>	<b>63.83</b>	<b>418.55</b>	<b>96.71</b>	<b>18.67</b>	<b>20.77</b>	<b>136.15</b>	<b>32.53</b>
----------------------------	---------------	--------------	--------------	---------------	--------------	--------------	--------------	---------------	--------------

**Table-3**

	GST PAID BY KoPT	GST REALIZED BY KoPT
W.R.T RENT BILLS	27.55	13.77
W.R.T COMPENSATION BILLS	36.27	7.00
<b>TOTAL</b>	<b>63.83</b>	<b>20.77</b>



**Table -4 : REALIZATION OF ESTATE BILLS ON LAND DURING THE PERIOD  
FROM 2014-15 TO 2017-18**

Year	Rent Bill raised (₹)	Rent received (₹)	Percentage Realization (%)	Compensation Bill raised (₹)	Compensation received (₹)	Percentage Realization (%)	Total Bill raised (₹)	Total payment received (₹)	Percentage Realization (%)
2014-15	129.06	114.27	88.54	121.11	54.14	44.71	275.71	193.45	70.17
2015-16	138.02	137.33	99.50	141.15	55.10	39.04	316.23	228.37	72.22
2016-17	170.00	153.36	90.22	267.88	68.30	25.50	465.25	250.57	53.86
2017-18	167.10	148.43	88.83	173.59	48.75	28.08	375.13	229.98	61.31
<b>Total (Crore)</b>	<b>604.18</b>	<b>553.39</b>	<b>91.59</b>	<b>703.72</b>	<b>226.29</b>	<b>32.16</b>	<b>1432.31</b>	<b>902.37</b>	<b>63.00</b>

		Rent	Compensation	Total
Realization Co-efficient (%)	Pre-GST	91.59	32.6	63
	Post GST	49.98	19.27	32.53

**Pre-GST :** Realization Co-efficient calculation takes average of raised vs realized Estate dues for 4 (four) years from 2014-15 to 2017-18.

**Post-GST :** In Post-GST period, Rental Bills were started from July-17 but Compensation Bills started from Feb-18. Hence, the period of Post-GST analysis has been made for 10 (ten) months, i.e., Feb-18 to Nov-18.

#### **4.7 Determination of Threshold Realization Co-efficient for viable Estate Billing:**

From the above examples, it is evident that merely generating rent and compensation bills to various tenants, in itself, does not guarantee net financial benefit to KoPT and depends on the extent of realization. Given a particular Tax structure, there are distinct threshold below which the bill-raising exercise assumes a self-defeating character. The following section attempts to derive these limiting realization co-efficients for rent and compensation billing, under the present Tax regime.

	In terms of R		In terms of B	Actual Payment Received from tenants with $\mu$ as Realization Factor	
RENT ( R )	R	R	0.706 B	$\mu R$	Remarks
MUNICIPALITY TAX ( MT )	20% of R	0.20 R	0.141 B	0.20 $\mu R$	@ , #
GOODS & SERVICES TAX ( GST )	18% of (R + MT)	0.216 R	0.153 B	0.18 ( $\mu R + 0.20 \mu R$ ) = 0.216 $\mu R$	*
<b>GROSS BILLED AMOUNT</b>	<b>B</b>	<b>1.416 R</b>	<b>1.00 B</b>	<b>1.416 <math>\mu R</math></b>	

INCOME TAX ( I ) [Paid only on Rental component]	30% of R	0.30 R	0.211 B ( 30% of 0.706 B )	Only applicable for Rental Billing amount and not for Compensation Collection as they go to Capital Reserve Account of KoPT.	
---	----------	--------	-------------------------------	--	--

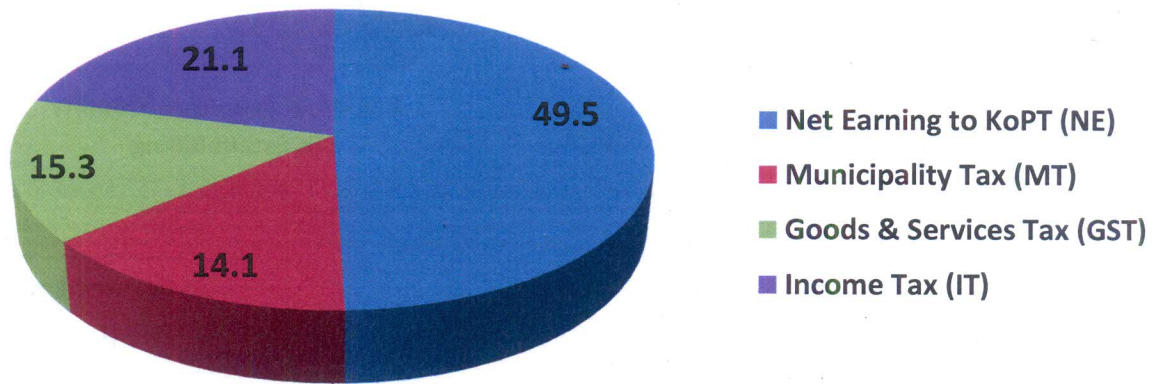
(@) Municipality Tax varies according to plate location. It is 20.25% for Kolkata Area, 20.15% for Howrah and Nil for land located outside. For simplicity, it has been assumed to be 20% of Rent.

( # ) An additional 20.25% has been demanded by KMC as KoPT's share of Municipality Tax to be paid to them. The issue is under active dispute since and hence not considered above.

( \* ) GST was implemented in Estate billing since July 2017 for Rent billing and February 2018 for Compensation billing. Prior to GST regime, Service Tax at a rate of 15% of the Rent charged was prevalent since 01-07-2011.



## What KoPT gets from an Estate Rent Bill of ₹ 100



When either a Rent Bill or a Compensation Bill is sent to a tenant, KoPT immediately incurs various Tax liabilities on the full Rental component mentioned in the bill. GST is paid right at the point of generation, while Income Tax might be paid quarterly/yearly. However, the tenant may pay the charged Rent in full, in part or even none at all. If he pays a part of the charged rent, then he allocates GST and MT on that part only. In case of no payment being made by the tenant, the entire Tax amount mentioned in the despatched bill becomes a net loss to KoPT simply because of raising a bill. Thus, the revenue effectiveness of the billing exercise depends on how much KoPT charges in their bills vis-à-vis how much is actually paid. This can be termed as “**Realization Co-efficient**” for billing to break even.

### Determination of Realization Co-efficient for Break-even Billing:

**For Rent Bills:** Total Tax Outgo on Rental Bill (TTOR) = MT + GST + I =  $0.2R + 0.216R + 0.30R = 0.716R$ .

For Break-even Rental Billing, “Amount actually received from all tenants against whom bills get raised” must at least be equal to Taxes incurred by KoPT.

In other words:  $1.416 \mu_r R \geq 0.716R$  where “ $\mu_r$ ” is the **Realization Co-efficient**.

This implies  $\mu_r \geq 0.716/1.416$  or **0.505** or **50.5%**

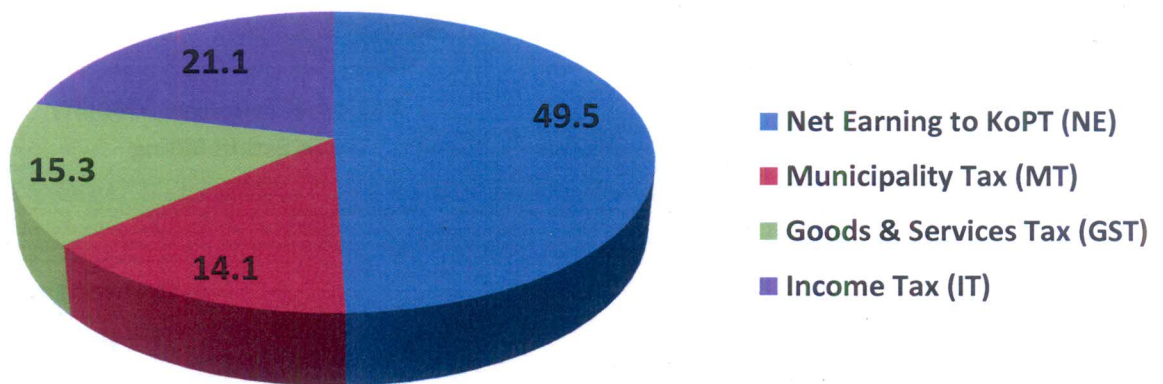
**For Compensation Bills:** For Compensation Billing, there is no outgo towards Income Tax. Hence, for Break-even Compensation Billing, TTOR = MT + GST =  $0.416R$ . Therefore, for Break-even Compensation Billing, amount actually received against Compensation Bills must exceed at least the total Tax component of such bills raised by Estate.

In other words:  $1.416 \mu_c R \geq 0.416R$  where “ $\mu_c$ ” is the **Realization Co-efficient**.

This implies  $\mu_c \geq 0.416/1.416$  or **0.293** or **29.3%**



## What KoPT gets from an Estate Rent Bill of ₹ 100



When either a Rent Bill or a Compensation Bill is sent to a tenant, KoPT immediately incurs various Tax liabilities on the full Rental component mentioned in the bill. GST is paid right at the point of generation, while Income Tax might be paid quarterly/yearly. However, the tenant may pay the charged Rent in full, in part or even none at all. If he pays a part of the charged rent, then he allocates GST and MT on that part only. In case of no payment being made by the tenant, the entire Tax amount mentioned in the despatched bill becomes a net loss to KoPT simply because of raising a bill. Thus, the revenue effectiveness of the billing exercise depends on how much KoPT charges in their bills vis-à-vis how much is actually paid. This can be termed as “**Realization Co-efficient**” for billing to break even.

### Determination of Realization Co-efficient for Break-even Billing:

**For Rent Bills:** Total Tax Outgo on Rental Bill (TTOR) = MT + GST + I =  $0.2R + 0.216R + 0.30R$   
= **0.716R.**

For Break-even Rental Billing, “Amount actually received from all tenants against whom bills get raised” must at least be equal to Taxes incurred by KoPT.

In other words:  $1.416 \mu_r R \geq 0.716R$  where “ $\mu_r$ ” is the **Realization Co-efficient**.

This implies  $\mu_r \geq 0.716/1.416$  or **0.505** or **50.5%**

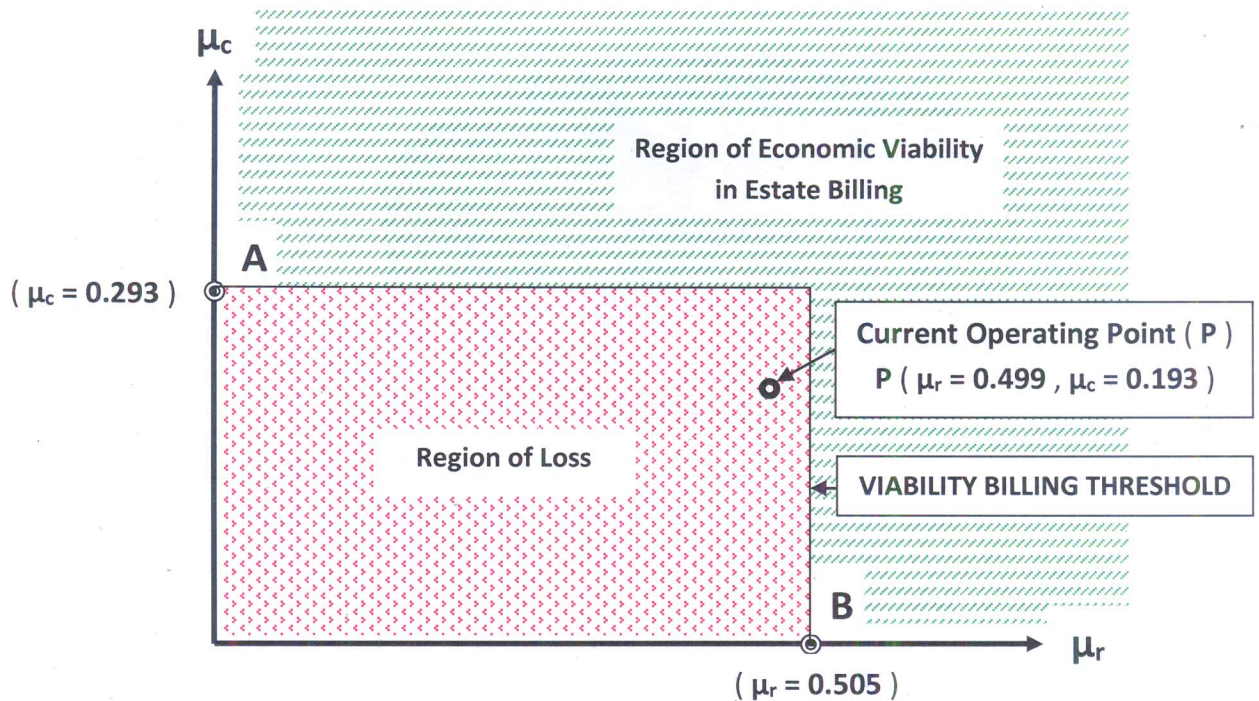
**For Compensation Bills:** For Compensation Billing, there is no outgo towards Income Tax. Hence, for Break-even Compensation Billing, TTOR = MT + GST =  $0.416R$ . Therefore, for Break-even Compensation Billing, amount actually received against Compensation Bills must exceed at least the total Tax component of such bills raised by Estate.

In other words:  $1.416 \mu_c R \geq 0.416R$  where “ $\mu_c$ ” is the **Realization Co-efficient**.

This implies  $\mu_c \geq 0.416/1.416$  or **0.293** or **29.3%**



## THE CURRENT STATE OF ESTATE BILLING



### 5.0 SUGGESTIONS TO IMPROVE ESTATE BILLING PROCESS:

- 5.1 The fact that dozens of bills being sent to tenants only to be returned back by Postal authority undelivered (as described in the case study "Undelivered Bills and Missing Tenants") is an ample proof that there is severe lack of oversight on the billing processes in Estate. As has been deduced in the analysis above, the very act of bill generation turns out to be a self-defeating & loss-making exercise and sending such bills becomes a self-defending exercise, if realization against these bills falls below certain threshold limit, because of instant incurrence of Tax liability. **Since the billing operation is presently operating below such critical thresholds, great care needs to be exercised and previous payment history of each plate analyzed by the Tenancy Officers before contemplating to generate either a rent or a compensation bill.**
- 5.2 Billing against the "Never-Paid-Plates" should be immediately halted and undertaken only after reason(s) for their continued non-payment since inception is/are found out. List of such plate codes are enclosed as List-1A for ready reference.
- 5.3 Billing against *plates whose tenants are not traceable* and against which despatched bills are being returned back from Postal authority should be halted, till the whereabouts of actual tenant are found out. The returned bills are currently being entered into a separately developed utility. The entries made so far are enclosed for ready reference.
- 5.4 In a similar manner, plates against which no payment has been made since one year (*Non-responsive Plates*) should be examined before contemplating to send a bill. A list of such Non-responsive Plates where bills had been generated, even though no payment had been made against them 1000 days prior to raising the bill, is enclosed [List-2] for immediate scrutiny and action by Estate Department. If a bill is required to be sent to such tenants, despite their non-payment history, then reasons should be recorded for the same, on file, at least at the level of Tenancy Officer.



- 5.5 Since raising a bill instantly attracts GST, whether the firm pays against such bill or not, it results in loss in case of unpaid compensation bills. **Expert legal/taxation opinion must be taken as to how such cases of GST-outgo against unpaid bills should be dealt with. It should also be examined whether the non-paying tenants are claiming such GST through any fraudulent means, which are being/had been credited by KoPT.**
- 5.6 In most license offer/lease agreements, the licensee/lessee is directed to make his payment, whether or not KoPT sends him a bill. It is important to stress here that if Port does not send a bill to a lessee/licensee, it does not extinguish his liability to pay. Payment (in the form of Rent or Compensation) against a licensed/leased Plate flows automatically from the contract that governs the license/lease document (*In fact, this is unambiguously stipulated in the last sentence of Clause No. 16 of SoR notification.*). **Therefore, sending bills in the form of demand letter or any other alternative format, in a lawful manner, especially in compensation cases, should be explored, as is reportedly done in some other Ports like Paradip and Haldia.**
- 5.7 It is understood that in cases of Marine billing, Cargo billing, Railway billing as well as short term land licensing in Haldia Dock Complex (HDC), the concerned party is required to maintain a PCAN (for the first three cases) / LCAN (for short term land licensing) Account [which is, in effect, a Revolving Deposit Account] with HDC. The party is required to maintain requisite amount of money in such account, in order to be eligible for receiving the corresponding Port services from HDC. Bill(s) is/are generated by HDC, for a particular service or allotment of land for a particular period, only upon availability of corresponding adequate balance in such account. **The viability of introducing such system in Estate billing in KDS may also be explored.**
- 5.8 It is also seen that billing exercise is undertaken by a Section called "Rent Section" of the Estate Department. At present, only 1 (one) Official, at Clerical level, is familiar with the full details of billing operation and the calculation logic that governs Rent/Compensation. No one else in the entire Estate Department knows these details. No Tenancy Officer makes any kind of post-billing checks on the Plates under his jurisdiction. In fact, a definite Circular from Estate Manager, allocating specific responsibility to Tenancy Officers to check the bills sent against the Plates under their jurisdiction, came as recently as on 08.11.2017 [Ref.: Point No. 2.(iv) of Estate Manager's Office Order no. Lnds.3030/Office Order/17/3644 dated 08.11.2017]. Even this instruction from Estate Manager seems to have not been observed by various Tenancy Officers, else infructuous billing to non-paying/non-responsive tenants could have easily been detected. Some Tenancy Officers have plainly admitted to Vigilance, during their interaction, that they do not have the time to make such checks, i.e., whether KoPT is really earning something from the bills raised. It is pertinent to note that exactly 6 years back, an internal audit undertaken for the purpose of ISO certification had clearly pointed out these aspects in the following words "*For the sake of revenue generation, the major steps comprise (a) allotment of space/shed, etc., (b) raising of bills, (c) receipt of payments from lessees and licensees, and (d) follow up for default in payment by lessees and licensees. As per existing system, the calculation for raising bills is done by individual staff, without any system for auditing of correctness of the billed amount. In the interest of KoPT, there is scope for introduction of a system for auditing of bills to ensure correctness of bill amount and clearly defining the accountability within the Estate Department.*" It is tragic that the advice of the audit team has so thoroughly been ignored for such long period to the financial detriment of KoPT, as has been pointed out in various Tables of this report. **Therefore, Chairman may kindly enforce scrutiny of the bills pertaining to the unusual plates described in the various Lists enclosed with this report by the respective Tenancy Officers.**





5.9 The programming code behind the present Estate Module, at its present state, suffers from a peculiar deficiency in respect of generation of “arrear bills”. As is well known, occasions for arrear billing arise when the Schedule of Rent (SoR) undergoes revision, to be made effective from a date prior to the date of notification. For instance, the latest SoR revision that got notified by TAMP on 31.05.2017 is required to be applied to all plates with effect from 07.04.2016. The peculiarity stems from the fact that although the revised rates have been applied for current billing of rent (since July 2017) and compensation (since February 2018), the Estate Module is not able to generate arrears bills for the same plates for the prior period starting from the date the revised SoR took effect i.e., 07.04.2016. Once the rate against a plate gets revised and the module is able to generate monthly bills at revised rate, the task of applying the same to any previous period and auto-generate arrear bills should have been an extremely easy Computer task. But, that is not the case at present. Even the Software Maintenance Vendor stated that the programming block has been patched up so many times in the past that it has been practically rendered inscrutable for arrear billing purpose. Such conditions have reduced the arrear-bill-generation process to a manual, plate-by-plate data-entry process, necessitating engagement of extra personnel supervised by the same single official and payment of significant amount of overtime to them, whenever the need to send arrear bills arose in the past. **The aforesaid augmentation for arrear billing must be taken care of in the ongoing Software augmentation / ERP effort.**

5.10 As on date, there is 37 months billing for rent and compensation pending as arrears, as depicted in the table below.

Table – X	Pendency of Arrear Billing		
	From	To	Period
Rent Billing	April 2016	June 2017	15 months
Compensation Billing	April 2016	January 2018	22 months

**As and when it is decided to generate such arrear bills, it should not be done without undertaking a plate-by-plate analysis of previous payment history.**

5.11 Putting responsibility of bill generation and ensuring their correctness on the shoulder of a single individual, with no one else being aware of it (not even the Software Maintenance Vendor), not only is an improper and illogical allocation of duty, but is fraught with other dangerous vulnerabilities. For instance, in exercises like arrear billing, which currently follows a Plate-by-Plate manual processing, unintentional mistakes can wreak havoc, both for tenant and landlord. **In absence of anyone else knowing about the nuances of billing, the policy of rotational transfer for such a sensitive post cannot be implemented.** No wonder the PP Court proceedings are often marred by arguments and counter arguments regarding the correctness of billing by KoPT, dragging the process through an interminable number of hearings on such a simple matter. Similarly, there are dozens of cases of overstating the billing amount and then correcting / reversing the same through Credit Notes.

5.12 **Billing is a critical process and there is no doubt that there should be more than just a single employee who should be familiar with it.** An Officer, who had been in Estate for a considerable number of years and was associated with the computerization exercise of 2003-04, lamented before Vigilance about KoPT being unable to train and develop at least 1 (one) more person who understood the complete billing logic.

a. *It is high time that at least 2 (two) Supervisors, drawn from other Departments (preferably from Finance Wing), should be fully trained in the entire gamut of processes involved in Estate billing, such as Rent / Compensation calculation, bill generation and bill reconciliation.*



- b. *Chairman may kindly constitute a multi-departmental-team of senior Officers, who would immediately undertake a targeted, Plate-by-Plate audit of all bills despatched and realization against them.*
- c. *At present, there is nearly **Rs. 33.78 Crores** worth un-reconciled TDS, which the concerned tenants had deducted from their license/lease fee, claiming TDS credit. Finance should immediately verify whether the said tenants have deposited such amounts to the concerned tax authority.*
- d. *Currently, jurisdiction of Tenancy Officers is based on geographical location of plates. Instead, it may be prudent to create a distinct group of high-value tenants and allocate the same to various Tenancy Officers for closer scrutiny and monitoring.*

**5.13** The Shipping Ministry has recruited experienced IIM Graduates to infuse fresh, innovative and cutting-edge management expertise into Port Sector. Some of them are also currently assigned to KoPT and working in various capacities for a period of two years. **It will be highly beneficial to KoPT if one or two of them are entrusted with the targeted implementation of the specific system improvements gleaned from the aforesaid analytical study and build on it further.**



\*\*\*\*\*