



AUDIT  
OFFICE



REPUBLIC  
OF CYPRUS

# MANAGEMENT OF GOVERNMENT LAND LEASES

## Executive Summary



**AUDIT OFFICE OF THE REPUBLIC**  
**SPECIAL REPORT no. TKX/01/2023**

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# **MANAGEMENT OF GOVERNMENT LAND LEASES**

## **Executive Summary**

### **AUDITED ENTITY**

**Department of Lands and Surveys**

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The present value for money and compliance audit was aimed at evaluating the management procedures of government land leases, as well as compliance with the provisions of the existing laws and regulations.

The audit focused on evaluating the adequacy and effectiveness of the actions taken by the Department of Lands and Surveys (DLS) for the following:

- ◆ Compliance with the principles of transparency, equal treatment and non-discrimination regarding the leasing of government land.
- ◆ Safeguarding the Republic's revenues.
- ◆ Compliance with the legislative framework.
- ◆ The achievement of the goal set in the Citizen's Rights Charter to complete the procedures for the leasing of government land within 12-18 months.
- ◆ The verification of the compliance of the lessors with the conditions specified in the Contracts concluded.
- ◆ Identifying any weaknesses in the existing legal framework for the leasing of government land.

The most significant audit findings are outlined below:

- ◆ The process of granting government land for lease is completely opaque and is not done in an economic, effective and efficient way. In cases where land is granted for industrial, tourist, or other commercial purposes, and especially when it is of significant value, the grant should be made through a transparent and competitive process.
- ◆ The DLS does not adequately monitor government land leases. We observed delays in the review of rents and in informing the lessees, non-compliance of the lessees with the relevant terms of the Contracts, delay in processing the examination of the cases, delay in taking measures to collect the rents as well as weaknesses in the internal control systems regarding the procedures which were followed for the leasing of government land.
- ◆ The DLS is significantly late in examining applications for leasing government land. Pending applications on 23.11.2021, according to the Register of Applications, amounted to 8.178, with the first dating back to 1980.
- ◆ The average completion time of the review process for the cases we examined was 72 months instead of 12-18 months as stated in the Citizen's Rights Charter.
- ◆ The DLS is significantly delaying to collect the arrears of rent and to promote the taking of legal measures against the debtors and/or to cancel the Contracts, according to the relevant terms included in them. It also does not follow the procedures established by the Accountant General's Circular for the collection of Government revenues, resulting in an increase in the risk of loss of revenues.
- ◆ Uncollected rents on 31.12.2021 amounted to €8.5 million, while €5.4 million, according to the Registry on 23.11.2021, were owed by only ten lessees.

- ◆ The DLS has not recorded the government land available for lease, which is a weakness in planning policy and monitoring how it is used for public interest purposes.
- ◆ There is no easy and direct access to the Registry of Leases to monitor leases.
- ◆ The DLS legalises, without the imposition of penalties, the illegal use of government land that precedes the lease.
- ◆ The DLS does not renew in time the Contracts that are expiring and for which a new application was made by the existing lessees for the re-lease of the same plots, with the result that the land continues to be used by the existing lessees in essence illegally, without paying any rent.
- ◆ The DLS leases government land for public interest purposes against "nominal rent" a term that is not mentioned in the legislative framework nor is it shown how it is calculated. The "nominal rent" imposed in most of the cases we examined is too low, without even covering the administrative costs of the DLS for examining and processing the application and without being able to relate to the type of Contract, the extent of land, the purpose of its lease, etc.
- ◆ The Cyprus Commissioner of State Aid Control issued an opinion in a circular dated 26.2.2014 that if by leasing government land the Local Authority will be involved in the exercise of economic activities, the rules of state aid control and competition, i.e. the imposition of market rent, will apply. The DLS does not appear to consider potential economic activity of applicants to lease government land for purposes of public interest so that a market rent is imposed. We have identified cases where there may be economic activity by the lessee and cases where the land has been sublet to a private individual with multiple rents without the lease having been properly structured.
- ◆ In some cases that we examined the leasing of government land it was done in opposition to specific provisions of the Regulations.
- ◆ The Council of Ministers, in some of the cases we examined, modified its initial Decision, in favor of the lessee, without sufficient justification and without having differentiated the facts of each case, which, in our opinion, refers to preferential treatment of the applicants.
- ◆ The DLS does not carry out sufficient and systematic checks to ascertain both the compliance of the lessees with the conditions included in the Contracts and the implementation of the Decisions of the Council of Ministers. We found several cases of non-compliance by the tenants that the DLS did not detect and deal with in time, as well as cases of illegal use of government land after the end of the Contract.
- ◆ We found that the government farms in Paphos are not properly managed, in accordance with the procedure provided for in the Regulations, resulting in the loss of revenue.
- ◆ The Regulations (ΚΔΠ 173/1989), on the basis of which the leasing Contracts for the government land are examined and approved by the Council of Ministers contain ambiguities and gaps, as a result of which they do not ensure the observance of the principles of good administration, transparency and equal treatment as well as the objective, fair and uniform examination of all requests.
- ◆ We noted that very long-term agreements between the Government and private entities, especially those that include provisions that make it impossible to modify them without the

lessee's consent, lock the Republic into agreements that do not serve the public interest. We identified such Contracts with significant unpaid amounts and excessively low rents.

Specific recommendations were submitted for the above issues by our Office, which, together with the comments of the DLS, are presented in this Report.

We also found cases where the DLS, although it should be the custodian and protector of government land, nevertheless blatantly tolerates illegal encroachments and covers up the encroachments. For one incident identified we forwarded a complaint to the Independent Anti-Corruption Authority. For a second incident we will forward a complaint as soon as we receive the requested comments from relevant Services.