

# **CHAPTER-III**

**Detailed Compliance Audit on  
Implementation of projects  
under the Smart City Mission  
in Odisha**



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### Bhubaneswar Smart City Limited and Rourkela Smart City Limited

#### Detailed Compliance Audit on Implementation of projects under the Smart City Mission in Odisha

##### 3.1 Introduction

The Government of India (GoI) launched the Smart Cities Mission (SCM) in June 2015, with the objective of promoting sustainable and inclusive cities that would provide core infrastructure and ensure a reasonable quality of life to their citizens, as well as a clean and sustainable environment, by enabling local area development, harnessing technology and application of ‘Smart Solutions’. The SCM was a Centrally Sponsored Scheme (CSS), in which the GoI was to give financial support, to the extent of ₹500 crore, over five years, *i.e.*, ₹100 crore every year, with an equal amount of matching grant to be contributed by the State/Urban Local Body (ULB), for each city. The Mission covered 100 cities, with a duration of five years, from FY 2015-16 to FY 2019-20. This duration was extended (August 2021) upto June 2023. The strategic components of Area Based Development (ABD) in the SCM are city improvement (retrofitting), city renewal (redevelopment) and city extension (Greenfield development) plus a Pan City initiative, in which Smart Solutions are applied, covering a larger part of the city. The aforesaid development was to be achieved through the provisioning of basic infrastructure, with corresponding smart solutions, which included:

- Adequate water supply, with quality monitoring;
- Assured electricity supply, with smart metering;
- Sanitation, including solid waste management, by conversion of waste to energy;
- Efficient urban mobility and public transport, with smart parking;
- Affordable housing for the poor;
- Health and education, with telemedicine and smart class rooms;
- Robust IT connectivity and digitalisation for electronic service delivery *etc.*; and
- Sustainable environment.

Based on the Smart City Proposal (SCP) of the Government of Odisha (GoO), two cities *viz.*, Bhubaneswar and Rourkela, were selected (January/September 2016), by the Ministry of Housing and Urban Affairs (MoHUA), to be developed as Smart Cities, under SCM. For implementation of the SCP, SCM envisaged creation of Special Purpose Vehicles (SPVs), outside the purview of the ULBs, to ensure greater operational independence and autonomy in decision making. Accordingly, two SPV companies *viz.*, Bhubaneswar Smart City Limited (BSCL) and Rourkela Smart City Limited (RSCL), were incorporated (March/December 2016), under the Companies Act, 2013, for

implementation of the SCM programme. The SPVs were required to plan, appraise, approve, manage, operate, monitor and evaluate the smart city development projects and release funds for the purpose. Government contributions for Smart Cities were to be used only to create infrastructure that had public benefit outcomes. The execution of projects was to be done through joint ventures, subsidiaries, public-private partnerships (PPPs), turnkey contracts *etc.*, suitably dovetailed with revenue streams. The shareholding pattern, among the Housing and Urban Development Department (H&UD), Urban Local Bodies<sup>35</sup> and Development Authorities<sup>36</sup>, is in the ratio of 45:45:10. The organisation structures of the two SPVs are as below:

Chart 3.1: Organisation structure of BSCL

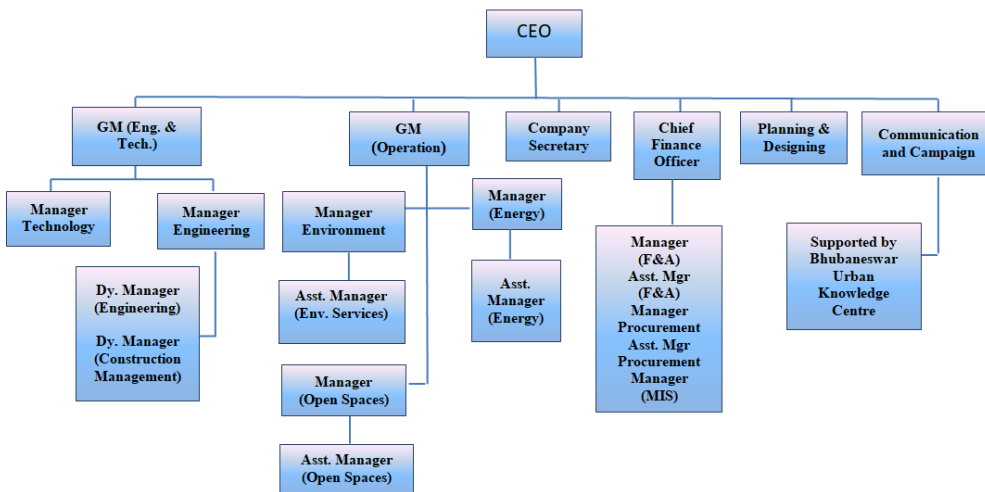
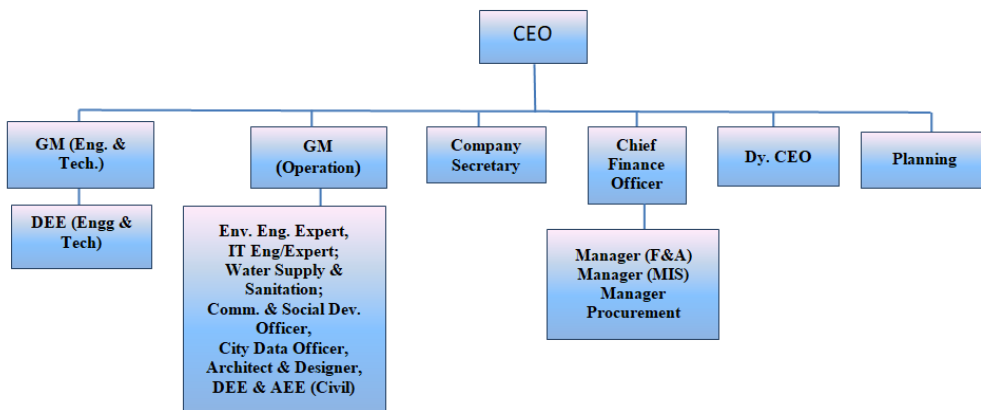


Chart 3.2: Organisation structure of RSCL



### 3.2 Audit Objectives

The Detailed Compliance Audit, on the implementation of projects under SCM, by the SPVs, was taken up with the objectives of assessing whether:

- the planning and execution of projects were in consonance with the SCM objectives, for comprehensive area development;

<sup>35</sup> Bhubaneswar Municipal Corporation and Rourkela Municipal Corporation  
<sup>36</sup> Bhubaneswar Development Authority and Rourkela Development Authority

- the adequacy of funding, for the projects sanctioned, had been ensured and financial controls were present; and
- the institutional mechanism, as envisaged in the Mission guidelines, was in place and the monitoring mechanism was effective.

### **3.3 Audit Criteria**

The criteria adopted for assessing the achievements of the audit objectives were: (i) Smart Mission Guidelines, issued by GoI (ii) Norms and standards, fixed for different activities, in execution of projects (iii) Perspective plan and annual budget (iv) Works manual, financial manual and HR policy (v) Orders, instructions and advisories, issued from time to time, by GoI and the Board of Directors of SPVs and (vi) Progress reports on the execution of projects and all other prescribed reports and returns.

### **3.4 Scope of Audit**

The Detailed Compliance Audit was conducted from May 2022 to August 2022, covering the period from FY 2016-17 to FY 2021-22. The DCA covered the overall working of the SPVs, in the implementation of the project, as per the SCM guidelines, by test-check and general examination of records and transactions, relating to the period covered under audit.

### **3.5 Audit Methodology**

The audit methodology adopted comprised analysis of data/information, from project planning to project handing over, including scrutiny of Board Meetings/agenda notes; Detailed Project Reports (DPRs); proposals/estimates of projects; schedules of rates and estimates of the projects; committee and consultant's reports, tendering and award of projects; physical and financial targets and achievements; records of the Project Management Consultant; Joint Inspection, to verify the present status of projects; project completion and handing over reports; and correspondence with the administrative department/other agencies.

An Entry Conference was held with the Principal Secretary (H&UD), wherein the audit scope, coverage, criteria and methodology, were discussed. Similarly, on completion of audit, audit findings were discussed in the exit conference with the Principal Secretary to Government of Odisha, H&UD Department on 22 March 2023. The response of the Government had been duly considered for finalising this report.

### **Audit Finding**

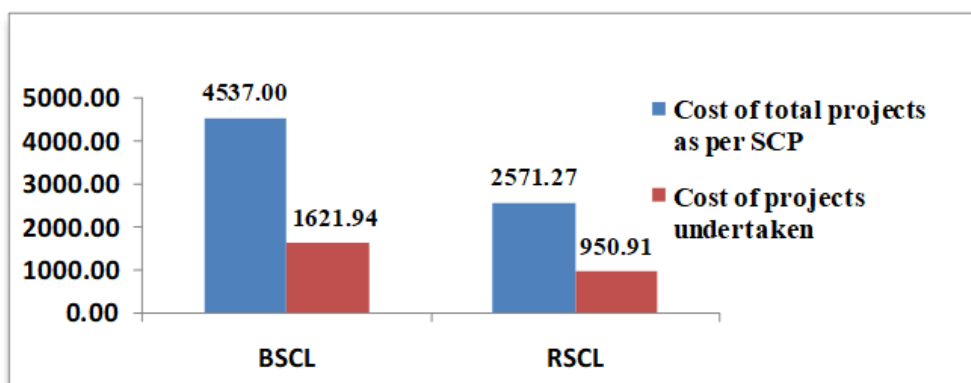
#### **3.6 Planning and Execution of Smart City Proposal Projects**

##### **3.6.1 Smart City Proposal**

Under the SCM, Bhubaneswar Municipal Corporation (BMC) and Rourkela Municipal Corporation (RMC) were required to prepare their SCPs, which were appropriate to their local context, resources and levels of ambition. The SCP should contain the vision, plan for mobilisation of resources and intended

outcomes, in terms of infrastructure upgradation and smart applications. The Bhubaneswar SCP consisted of 57 projects, with an estimated project cost of ₹4,537 crore (which included ₹4,095 crore for 56 Area Based Development<sup>37</sup> (ABD) projects and ₹442 crore for one Pan City<sup>38</sup> project). Similarly, the Rourkela SCP consisted of 31 projects, with an estimated project cost of ₹2,571.27 crore (which included ₹1,702.24 crore for 30 ABD projects and ₹869.03 crore for one Pan City project). As against the above plan, the cost of projects approved and undertaken by the two SPVs, are detailed in chart 3.3 below:

**Chart 3.3: Cost of projects approved and actual cost of projects undertaken**



(Source: Approved SCP and SPV data)

It could be seen from the above that BSCL and RSCL had undertaken (March 2022), only 36 per cent and 37 per cent, respectively, of the projects approved as per their SCPs.

Government stated (March 2023) that number of projects were curtailed to adjust the availability of funds. All the departments were requested to deposit their resources but as per their financial procedures funds were managed at their level. The reply was not acceptable because as stated in Para 3.6.2.4 infra, the SPVs were responsible for timely mobilisation of resources from internal and external means for timely implementation of the smart city proposals.

### 3.6.2 Planning

As per the SCM guidelines, for implementation of SCPs, the SPVs are required to plan, appraise, approve and release funds for the projects. The SCP, as approved by the MoHUA, contained projects valuing ₹4,537 crore for BSCL and ₹2,571 crore for RSCL. The said funds were to be mobilised from various sources, including ₹2,578 crore and ₹334 crore, respectively, from PPPs. However, no planning was made to tap these sources. As a result,

<sup>37</sup> ABD consists of city improvements (Retrofitting), city renewal (Redevelopment) and City extension (Greenfield), in earmarked areas, to make the existing areas more efficient and liveable, through a large number of smart applications/solutions

<sup>38</sup> Pan city development envisages application of Smart Solutions to the existing city-wide infrastructure, through technology, information and data, to make the infrastructure and services better

against the required funds of ₹7,108 crore, the SPVs had mobilised only ₹1,817 crore, till March 2022. Finally, BSCL and RSCL significantly reduced their project size, by dropping their ABD projects, as below:

**Table 3.1: Comparison between the number of projects originally planned and executed**

Particulars	BSCL		RSCL	
	Number	Value (₹ in crore)	Number	Value (₹ in crore)
Original ABD projects	56	4,095.00	30	1,702.24
Original Pan City projects	01	442.00	01	869.03
<b>Total</b>	<b>57</b>	<b>4,537.00</b>	<b>31</b>	<b>2,571.27</b>
Revised ABD projects	33	939.85	59	844.49
Revised Pan City projects	4	682.09	01	106.42
<b>Total</b>	<b>37</b>	<b>1,621.94</b>	<b>60</b>	<b>950.91</b>

(Source: Information received from BSCL and RSCL)

As may be observed from the above, there was a substantial reduction in the number of ABD projects (41 *per cent*), in case of BSCL. In case of RSCL, although the number of ABD projects increased from 30 to 59, the corresponding investment was reduced from ₹1,702.24 crore to ₹844.49 crore (*i.e.*, by 50 *per cent*). In this regard, it was noticed that small projects<sup>39</sup>, with lesser area coverage, were proposed to be undertaken. This aspect has been analysed in detail, in Para 3.6.2.4 of this report.

Government stated (March 2023) that, there was substantial reduction in ABD projects due to non-availability of fund, encroachment free land *etc.* The reply was not acceptable as SPVs were responsible for mobilising funds and co-ordinate with other department for related issues.

The following specific cases of lack of planning were also observed, in audit:

### 3.6.2.1 Unplanned procurement led to idle expenditure of ₹3.09 crore, by BSCL

BSCL awarded (December 2017) the contract for Smart Solution projects<sup>40</sup>, to M/s Honeywell Automation India Limited (HAIL), with scheduled completion *i.e.*, Go-Live of all systems, by January 2020. As per the contract agreement (Section-5: Technical requirement), it was the responsibility of BSCL to: (i) provide basic infrastructure, like power, space and access, for installation of equipment (ii) facilitate necessary permits or permissions, for any activities requiring outside authorisation and (iii) assign a project manager, with authority to make decisions on behalf of BSCL. Further, as per the Standard Operating Procedure (SOP) of BSCL, the Project Implementation Committee (PIC) would be the single point for the purpose of bringing about

<sup>39</sup> Spraying of disinfectant through drone (₹5 lakhs), provision for line, diversion for Rourkela one project (₹1 lakh), installation of GPS devices in city buses (₹6 lakh), computer hardware and peripherals (₹18 lakh), power supply to Netaji Subash Park (₹3 lakh), baby feeding and diaper changing units at four public spaces (₹6 lakh) *etc.*

<sup>40</sup> City-wide wifi system, Automatic Traffic Counter and Classifier, Smart Response and Incident Management System *etc.*

overall co-ordination between different agencies, during the implementation of various projects.

Based on dispatch clearance from BSCL, several equipment, for the smart solution project, were dispatched by the agency, between September to December 2018. The installation of some of these items was also subject to completion of civil projects executed by other agencies. Audit observed that, even after supply of material for more than three years, the material, viz., Automatic traffic counter and classifier, City-wide wi-fi system, Command and control centre, Smart response and incident management system, Smart tracking system and Solid waste management system, could not be installed, due to non-availability of clear work site, right of way/power issues, pending approvals from competent authorities *etc.* Against the above material supplied, an amount of ₹3.09 crore (30 *per cent* of the cost) had been released (December 2018) to the agency but could not be installed for a period of over three years. Consequently, the aforesaid smart solution modules could not be completed and the related equipment remained unutilised. Thus, BSCL failed to provide necessary facilities and approvals as per section 5 of the contract agreement for which the city dwellers were deprived of the benefit of aforesaid smart solutions, rendering the expenditure idle for three years, with consequential loss of interest of ₹0.57 crore (at 5.30 *per cent*<sup>41</sup> per annum, upto June 2022).

Government, in its response, stated (March 2023) that some of the equipment stated in the observations had been installed and the remaining was yet to be installed. Reply was not acceptable because BSCL failed in providing necessary facilities to the HAIL as per the contract agreement due to failure in co-ordination with different agencies during implementation of the project. As a result intended benefits could not be served to citizens for more than three years.

### **3.6.2.2 Delay in award of work orders, in the initial period of the smart city mission, resulted in excess expenditure of ₹27.73 crore**

The SCM guidelines envisaged the duration of the Mission as being five years, from FY 2015-16 to FY 2019-20. The SCP of Rourkela and Bhubaneswar were sent to MoHUA, in December 2015. Based on the SCP, Rourkela was selected for being developed as a Smart City, in September 2016. Accordingly, RSCL was incorporated as the SPV Company, in December 2016, for implementing the projects, as per the SCM. Its responsibility was to approve and sanction the projects (including carrying out their technical appraisal) and ensure timely completion of projects.

Audit observed that RSCL had appointed the consultant for ABD projects in its 4<sup>th</sup> BoD meeting, held on 23 September 2017, for consultancy services, for execution of SCM projects. RSCL issued work orders for only 13 projects, during FYs 2016-17 to 2019-20. Subsequently, it issued work orders for 47 projects during FYs 2020-21 and 2021-22. Since the Mission was envisaged to be implemented during FYs 2015-16 to 2019-20, these projects should have

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<sup>41</sup> Being the lowest deposit interest rate of SBI from December 2018 to June 2022



been awarded at the early phase of the Mission period. Due to delay in award of the projects, RSCL had to incur additional project cost of ₹27.73 crore, due to increase in the rate of GST, from 12 to 18 *per cent*, with effect from 1 January 2022.

Government stated (March 2023) that, though Covid-19 pandemic affected the progress of work, yet the executions were expedited and works were under execution. The reply was not acceptable, because the impact of the Covid-19 pandemic had started in FY 2020-21 and RSCL had awarded 47 projects, during FY 2020-21 and 2021-22. Further, despite incorporation of the SPV in December 2016, only 13 projects (22 *per cent*) had been awarded during FYs 2016-17 to 2019-20. Thus, despite approval of the MoHUA in 2016, RSCL had failed to ensure timely initiation of the SCM projects, which had resulted in additional expenditure of ₹27.73 crore, besides depriving the citizens of the intended benefits from the projects.

### 3.6.2.3 Engagement of consultant without finalising and synchronising the scope of work

(i) BSCL awarded (September 2016) a consultancy contract to M/s Egis India Consulting Engineers Private Limited (EGIS), at a contract price of ₹23.30 crore, for undertaking 22 ABD projects. The contract price comprised two components *i.e.*, Programme support team remuneration, amounting to ₹6.99 crore and Milestone-based deliverables, amounting to ₹16.31 crore. Audit observed that, as of March 2023, out of the 22 ABD projects, only seven projects (32 *per cent*) had been executed, two projects had been de-scoped and the remaining 13 projects had not been taken up by BSCL. Such dropped/not taken up projects included smart waste management, water recycling and decentralised STP *etc.*, which were essential for improvement in the quality of life in the city. However, the consultant had executed milestone activities<sup>42</sup> for all these 22 projects against which ₹4.50 crore had been paid. Thus, due to dropping of these 13 important projects<sup>43</sup>, ₹2.17 crore, spent for preparation of above milestone activities by the consultant, remained unfruitful, while the city remained deprived of the envisaged benefits.

Government stated (March 2023) that, the projects had been dropped due to various reasons, like non-availability of funds, encroachment-free land, legal issues, forest clearance *etc.* and the expenditure incurred for consultancy would be utilised by different Government agencies, as a reference for execution of these dropped projects. The reply was not acceptable, as it indicated poor planning in selection of projects, which had resulted in taking up of only 32 *per cent* of the total projects earlier envisaged. Moreover, use of old consultancy reports, for future projects, appears impractical, as there are no such plans in the pipeline.

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<sup>42</sup> Like preparation of inception reports, situation analysis, feasibility reports and DPRs

<sup>43</sup> City Gas, 24x7 water supply, Energy supply, URBS, Water recycling project, Sewage treatment plant, underground electric wiring, city fiber, Smart energy meter, Smart water meter, Smart waste management, Cycle highway and Janpath housing

(ii) RSCL appointed (October 2017) M/s Delloite Touche Tohmatsu India, as its consultant for preparation of the feasibility report and overall supervision of the implementation of the Smart Solution project<sup>44</sup>, at total cost of ₹10.28 crore. As per the feasibility report of the consultant, two distinct activities *viz.*, construction of a new building in which an Integrated Command and Control Centre (ICCC) was to be established and procurement, as well as installation of a system for the smart solution application to be installed therein, by an agency to be selected by the consultant by October 2018. However, Audit noticed that, the second activity was abnormally delayed by 13 months due to delay in finalisation of tender for selection of an agency. The delay was attributable to re-tendering due to change in tender conditions and specifications. Moreover, the tender finalised (November 2019) had also been cancelled (June 2020), due to delay in award and construction work of the Command and control centre building (January 2020).

Audit observed that the work order, for construction of the building for ICCC had been issued in January 2020, with scheduled completion in January 2022. The work was, however, still going on (as of October 2022). Consequently, the tender, for selection of an agency, for the second activity *i.e.*, implementation of the smart solution, was cancelled. However, by that time, the consultant M/s Delloite Touche Tohmatsu India had already been paid ₹1.74 crore, for such tendering, as its dues for selection of an agency, during the period from November 2018 to June 2020. Hence, improper planning, in the implementation of two elements of a job, resulted in unfruitful expenditure of ₹1.74 crore.

Government stated (March 2023) that, the tender for selection of an agency, for implementation of Smart Solutions, had been cancelled due to delay in completion of the ICCC building although M/s Deloitte had executed its job, as per the assignment. The fact remained that the man-month remuneration, paid to M/s Deloitte, for the period from November 2018 to June 2020 amounting to ₹1.74 crore, for selection of contractor, had been unfruitful.

#### **3.6.2.4 Slow financial and physical progress in projects, due to improper planning**

The overall physical and financial progress of projects, implemented by the SPVs, for the period from FY 2016-17 to FY 2021-22, is summarised below:

##### **a) Financial progress**

As per Clause 11.2 of the SCM guidelines, the project cost of each Smart City proposal will vary, depending upon the level of ambition, model and capacity to execute and repay. Substantial funds will be required to implement the Smart City proposal and, for this purpose, Government grants, of both the Centre and the State, will be leveraged, to attract funding from internal and

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<sup>44</sup> Through Smart Solution project, the city activities like Solid waste management, Traffic and transport management, City governance, Safety and surveillance, Health, Environment and Education, City network backbone *etc.* are to be governed through various smart solutions which would be monitored and administered through a Central command and control centre

external sources. It was also envisaged in the SCM that, smart city SPVs would take necessary measures for timely mobilisation of resources from internal and external sources, for timely implementation of the smart city proposals. The actual funds, mobilised by both SPVs, as of March 2022, are as detailed below:

**Table 3.2: Fund mobilisation by the SPVs, as of March 2022**

(₹ in crore)

Fund resource	BSCL			RSCL		
	Proposed	Actual	Percent	Proposed	Actual	Percent
Convergence State Schemes	227	20	9	0	0.5	0
Convergence National Schemes	298	0	0	571.34	0	0
Mission Funds	950	932	98	997.35	465	47
Public Private Partnerships	2,578	375.3	15	334.34	0	0
Loan Program	210	12.52	6	128.09	0	0
Pooled Municipal Debt and CB	90	1	1	0	0	0
Others, including CIDE, OUIDF	184	10.93	6	195	0	0
State Government and CSR	0	0	0	345.16	0	0
<b>Total</b>	<b>4,537</b>	<b>1,351.75</b>	<b>30</b>	<b>2,571.28</b>	<b>465.5</b>	<b>18</b>

(Source: Information received from BSCL and RSCL)

From the above table, it is evident that, even after completion of more than six years of the mission period, only 30 per cent and 18 per cent of the total funds, as envisaged in the SCPs, could be mobilised, by BSCL and RSCL, respectively. It was also observed that BSCL had been able to mobilise only ₹1 crore, through municipal debt, against the proposed amount of ₹90 crore.

Audit analysed this issue and it was found that:

- (i) ULBs were required to raise funds, by issuing bonds with proper credit rating. However, even though, the credit rating of Bhubaneswar ULB was stable for investment purposes, during 2017, it had failed to raise any Municipal bonds for the Smart City projects, as envisaged in the SCP.
- (ii) It has also been observed that both the SPVs failed to mobilise funds through PPP arrangements for no reasons on records.

Thus, due to poor mobilisation of funds, important projects, including ‘Railway station Multi-modal hub’ and ‘Janpath government housing redevelopment project’ etc., had not been taken up, defeating the envisaged goal of improvement in the quality of life in the city.

Government stated (March 2023) that, BSCL could not take up certain important projects due to poor mobilisation of resources. However, they would fill the gap in future.

As regards RSCL, it had failed to mobilise any funds from sources other than the Mission funds (excepting ₹50 lakh, under the convergence scheme). As a result, it had failed to take up important projects, like provision for EWS housing and transit units under Integrated Informal Settlement, development

of 'Brahmani riverfront', 'Smart powergrid', solar panels in public buildings etc.

Out of the total funds mobilised by BSCL and RSCL, 69 per cent and 100 per cent respectively, were from the Smart City Mission grant. Thus, the failure of SPVs, to mobilise resources in time, had led to non-execution of major projects, as envisaged in the approved smart city proposal. This resulted in non-achievement of envisaged objective of making the existing areas more efficient and livable for citizens.

Government stated (March 2023) that, various projects of RSCL were taken up with different departments, for development through convergence. The reply was non-specific as out of proposed convergence funds from national schemes of ₹571 crore, RSCL had not yet (March 2023) mobilised any fund. Further, out of the total proposed mobilisation of ₹2,571 crore, RSCL could receive only the SCM grant of ₹465 crore.

## b) Physical Progress

Details of project execution of both SPVs, as on March 2022, are shown in the table below:

**Table 3.3: Project execution by the SPVs, as of March 2022**

Sector	No. of Projects		Project Cost (₹ in crore)		Completed		Ongoing		To be taken up	
	BSCL	RSCL	BSCL	RSCL	BSCL	RSCL	BSCL	RSCL	BSCL	RSCL
Urban mobility and public transport	10	11	250.28	184.35	2	3	4	8	4	0
Assured electricity supply	1	7	20.00	0.95	1	6	0	1	0	0
Sustainable environment	11	28	230.20	653.34	7	5	2	23	2	0
Robust IT connectivity and digitalisation	5	4	693.12	108.23	3	2	0	1	2	1
Adequate water supply	1	4	25.00	2.25	0	0	0	4	1	0
Sanitation and solid waste management	2	0	37.52	00	2	0	0	0	0	0
Affordable housing for poor	5	0	362.82	00	1	0	4	0	0	0
Health and education	2	6	3.00	1.79	0	5	0	1	2	0
<b>Total</b>	<b>37</b>	<b>60</b>	<b>1,621.94</b>	<b>950.91</b>	<b>16</b>	<b>21</b>	<b>10</b>	<b>38</b>	<b>11</b>	<b>1</b>

(Source: Information received from BSCL and RSCL)

In BSCL, out of 37 projects, only 16 projects (43 per cent) had been completed, as of March 2022, with delays in 10 projects, ranging from 41 days to 963 days. Another 10 projects were still in progress. Further, BSCL was yet to taken up 11 projects<sup>45</sup>.

Similarly, in case of RSCL, out of 60 approved projects, 21 projects (35 per cent) had been completed, with delays in 11 projects, ranging from 4 days to

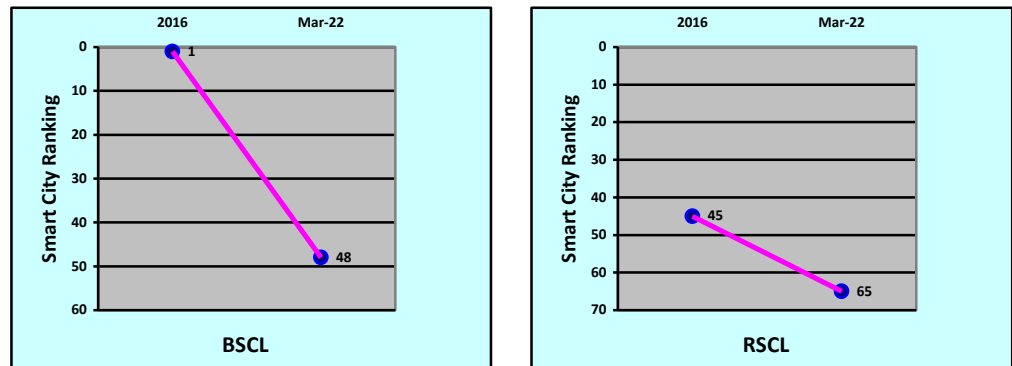
<sup>45</sup> Drink from tap, E-Rickshaw, Digital door numbering, Development of new road, Floor work of new BMC building, Bamboo fencing at Janpath, Skill development centre, Mo Seva Kendra, City surveillance system, Development of new road zone II and Redesigning of traffic post

732 days, while another 38 projects were in progress. Further, one project was yet to be taken up by RSCL.

Audit observed that, due to poor planning in the case of RSCL, work orders for 47 projects had been awarded in the last leg of the Mission period *i.e.*, during FYs 2020-21 and 2021-22. That resulted in negligible project expenditure (₹1.92 crore) by RSCL during FYs 2016-17 to 2018-19. Due to less project expenditure, RSCL had not received the remaining SCM grant of ₹496 crore (as of March 2022). Moreover, out of the total mission funds received<sup>46</sup>, ₹670 crore (72 per cent) and ₹376 crore (81 per cent) had been expended by BSCL and RSCL, respectively, for implementation of projects.

Audit observed that, ranking of Smart cities are done through Geospatial Management Information System (GMIS), a Management Information System, developed by MoHUA, on the basis of basic parameters like physical progress of work and various outcomes and impacts being generated by them. Due to less physical and financial progress in SCM projects, the smart city rankings of both the cities had reduced, from 1 to 48 and 45 to 65, respectively, for BSCL and RSCL, as of March 2022.

Chart 3.4: Reduction in Ranking of BSCL and RSCL in the last five years



Government stated (March 2023) that, there was an initial delay due to different issues, but sincere efforts had been made, in monitoring and supervision of the works and it was expected that, all the projects would be completed, before scheduled date. The reply was not acceptable for being non-specific.

### 3.6.3 Execution of Projects

Proper planning and efficient execution through proper contract management are of utmost importance for achievement of the desired outcomes from projects. In this regard, it was noticed that the desired outcomes had not been achieved, not only due to the scaling down of the project size (on account of the inability to mobilise funds), but also due to lapses in the execution of the projects as illustrated below:

<sup>46</sup> BSCL: ₹932 crore and RSCL: ₹465 crore

### **3.6.3.1 Lack of coordination between different agencies, resulted in avoidable expenditure**

BSCL awarded (October 2017) the contract for redevelopment of Janpath road, at a contract price of ₹79.56 crore, to M/s RKD Constructions, for scheduled completion by November 2019. As per the contract agreement, Right of Way<sup>47</sup> (ROW), for 40 per cent of the length, was to be provided by BSCL, within 15 days of the date of the contract agreement and the remaining 60 per cent (at 20 per cent three times), within 105 days, 195 days and 285 days, from the date of the agreement.

However, only 35 per cent of the work was completed within the scheduled completion period, due to non-availability of work front, as multiple agencies, like Bharat Sanchar Nigam Limited, Gas Authority of India Limited, Water Corporation of Odisha and Tata Power Central Odisha Distribution Limited, were working simultaneously, on their respective works, on the Janpath road. Extension of Time (EoT) was granted three times, for cumulative 674 days, upto 30 September 2021, without levy of damages and without monetary compensation on both sides. Despite three extensions, the work could not be completed by March 2022 and the agency had already been paid price escalation of ₹5.42 crore, for the extended period.

Audit observed that a Project Implementation Committee (PIC) had been constituted, as per the SOP, for the purpose of bringing above overall co-ordination between different agencies, during the implementation of various projects. The Committee was also responsible for overall contract management, including extension of time, approval of the implementation plan *etc.* No mention was, however, available on records, to show that any steps had been taken by the PIC, for ensuring better coordination between different agencies. Consequently, BSCL failed to provide a clear site, as well as assistance for shifting of any utilities, for carrying out the work. Thus, lack of proper co-ordination among multiple agencies and the failure of BSCL to provide a clear site, as per the agreement, resulted in avoidable delay and avoidable expenditure of ₹5.42 crore.

Government stated (March 2023) that, the additional amount had been paid to the contractor, as price adjustment, as per the contract agreement. The reply of the Government was not relevant, as the circumstances causing the additional payment to the contractor, had arisen because BSCL had failed in ensuring coordination with the different agencies engaged in different works on the Janpath road, for providing the required work front, as per the contract, for timely execution of the work.

### **3.6.3.2 Excess financial burden towards construction of new Bus Queue Shelter, due to inclusion of project not in conformity with the SCM guidelines**

As per the SCM guidelines (Section 5.1.4), Pan City development envisages application of selected smart solutions to the existing city-wide infrastructure.

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<sup>47</sup> Right of way is the legal right of someone to pass over another's land, acquired by grant or by long usage

Further, the advisory (January 2019) of MoHUA stipulated that addition of non-Information and Communication Technology (ICT) related works, under Pan City development initiatives, was not permissible. Only projects that followed the guidelines prescribed under Section 5.1.4 of the Mission guidelines and having clear funds availability, could be included in Pan City initiatives.

Scrutiny of records revealed that, in order to strengthen the city bus service in Bhubaneswar, Capital Region Urban Transport<sup>48</sup> (CRUT) had forwarded (September 2018) a proposal to BSCL, for construction of new Bus Queue Shelters (BQSs) and requested (August 2018/March 2019) BSCL to release funds for the purpose, amounting to ₹29.32 crore. BSCL had approved (September 2018) the proposal of CRUT, under the Pan City development head. The requested funds were released to CRUT (September 2018/March 2019) and the work was executed by CRUT. The project was not included in the SCP submitted to MoHUA and hence, was not approved by MoHUA. As these BQSs had been newly constructed and were not in consonance with the SCM guidelines, they were not eligible for execution under Pan City initiatives, out of the SCM fund.

Thus, in the absence of clear fund sources for the CRUT project, expenditure of ₹29.32 crore was incurred, deviating from the SCM guidelines, which resulted in excess financial burden on the BSCL, even though it was unable to take up its earlier planned projects, due to funds constraints.

Government stated (March 2023) that, bus service is a Pan City project, which is to be installed across the city, and the expenditure, for installation of BQSs, had been made accordingly. The reply was not acceptable, because SCM guidelines envisaged that: (i) Pan City development was to be made to the existing infrastructure and (ii) Non-ICT development was not permissible under Pan City development. Since construction of BQSs constituted creation of new infrastructure, it had not been approved by MoHUA.

### **3.6.3.3 Unfruitful expenditure of ₹1.15 crore, due to absence of agreement and terms of reference, towards consultancy charges, for implementation of the CITIIS project**

City Investments to Innovate, Integrate and Sustain (CITIIS) challenge (a program to fund Smart City project) initiated by MoHUA to foster sustainable, innovative and participatory approaches to build projects by providing funds financed by French Development Agency<sup>49</sup> (AFD). BSCL was one of the 12 finalists shortlisted under the scheme. BSCL received ₹7.93 crore (June 2019), being 10 *per cent* of the total project grant of ₹79.30 crore, out of the total project cost of ₹99.13 crore by the AFD, for development of B-active projects<sup>50</sup> under CITIIS challenge. As per the related guidelines, the projects were to be

<sup>48</sup> A Special Purpose Vehicle (SPV), created by the Housing and Urban Development (H&UD) Department, GoO, for providing public transport services in capital region areas

<sup>49</sup> The French Development Agency (AFD) Group funds, supports and accelerates the transition to a fairer and more sustainable world. In this way, they contribute to the commitment of France and French people to support the Sustainable Development Goals (SDGs).

<sup>50</sup> B-active projects include: (i) water assets (ii) parks and open spaces and (iii) sports and playground assets

implemented in two stages *i.e.*, Maturation phase and Implementation phase. The maturation phase consists of development of DPR, Environmental and Social management plan and Procurement plan for the project.

BSCL appointed (December 2019), the Bhubaneswar Urban Knowledge Center (BUKC), a private agency working for Bhubaneswar Development Authority, as the Project Management Consultant (PMC), for preparation of DPRs, Environment and Social compliance, procurement and tendering compliance and other documents listed under the maturation phase. The duration for completion of the maturation phase was six months.

Scrutiny of records revealed that BSCL presented its maturation deliverables for the project and AFD accorded final approval in October 2021. The completion certificate, in regard to all maturation phase deliverables, by BUKC, was issued by BSCL, in February 2022. Audit observed the following in this regard:

- As per the guidelines (November 2018) of the Finance Department, GoO, for engagement of consultant, the Terms of Reference (ToR) for engagement of consultant should include the precise statement of objectives of the consultancy assignment, outline the task to be carried out, schedule for completion of tasks, data to be provided by the competent authority to facilitate the consultancy and the final outputs, in quantifiable/comprehensible terms, that will be required of the consultant. However, Audit found that, BSCL had not signed any such agreement with the PMC.
- For moving into the Implementation phase, BUKC expressed its lack of technical know-how and experience for ensuring successful implementation of the project. BUKC neither provided the concerned project implementation agency with Good-for-Construction (GFC)<sup>51</sup> drawings, nor did it possess the technical expertise required for implementation of the water asset projects. Without detailed technical drawings, the water asset projects could not be taken up immediately. An amount of ₹1.44 crore had been paid towards consultancy fees of BUKC so far (as of March 2023) for the whole B-active projects.
- Since BUKC did not provide the required Construction drawings, BSCL issued Request for Proposal, for selection of consultant, for preparation of DPR, for undertaking the Water asset projects, in June 2022. Thus, engagement of consultant, without agreement and clear ToRs, regarding technical competence, resulted in delay in taking up of the Water asset projects, apart from unfruitful expenditure, amounting to ₹1.15 crore<sup>52</sup>, paid specifically towards consultancy for the project.

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<sup>51</sup> The drawing helps the executing agency to see the elements and the measurement mentioned in the drawing sheet

<sup>52</sup>  $\frac{\text{Water asset project cost: ₹79.86 crore}}{\text{Total project cost: ₹99.13 crore}} \times (\text{₹1.44 crore})$



Government, while accepting the audit observation, stated (March 2023) that though BUKC had prepared the broad DPR in respect of all Water projects, it had not prepared the detailed tender drawing and item-wise budget, for moving into the Implementation phase, for execution of the projects. Accordingly, fresh tenders had been invited (June 2022), for engagement of an agency, for preparation of the DPR and tender document.

#### **3.6.3.4 Undue favour of ₹5.91 crore to contractor, despite non-achievement of operational acceptance of various modules**

BSCL awarded (December 2018) the Smart Solution project to M/s HAIL, as the Master System Integrator (MSI), with the scheduled completion of the project being January 2020. Various modules of the project included Smart traffic management system, Smart parking management system *etc.* The BoD extended (November 2019) the completion period upto October 2020, due to delay in completion of work because of general elections, cyclone *etc.* BoD, further directed phase-wise operationalisation of the Smart solutions, in prioritised corridors, at the sub-system level. The work was further delayed due to the Covid-19 pandemic and the Board again extended (October 2020) the completion period upto May 2021, with the condition that operational acceptance of various modules be achieved between November 2020 and February 2021. BoD, during December 2020, while reviewing the progress on Smart Solution projects, directed the CEO, BSCL that, in case of delay in project implementation, necessary penalty provisions, as per the contract, may be invoked against MSI.

Audit observed that MSI could not achieve operational acceptance of the system/sub-system within the extended timeline and could achieve only partial operational acceptance, at the sub-system level, for the smart traffic management system, smart tracking system *etc.* PMC, in accordance with the contract agreement<sup>53</sup>, analysed the delay attributable to various elements and recommended (April 2021) liquidated damages (LD) of ₹5.91 crore, for non-achievement of operational acceptance within the extended timeline. However, no such LD, as per the provisions of the contract, were recovered by BSCL. Despite provisions in the contract agreement and PMC recommendations, non-imposition of LD resulted in undue favour of ₹5.91 crore, to the contractor.

Government stated (March 2023) that, due to the Covid-19 pandemic, projects had been delayed, the delay had been approved by BoD and extension of time had been granted for execution of project. The reply was not acceptable, because BoD, while reviewing the progress in December 2020, had directed that, in case of delay in project implementation, necessary penalty provisions, as per the contract, may be invoked against the agency. Accordingly, PMC had also recommended levy of LD, for the delay attributable to MSI, which was not adhered to.

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<sup>53</sup> Clause 55 of the General Conditions of Contract and Clause 55.2 and 55.3 of the Special Conditions of the contract agreement

### **3.6.3.5 Delay in completion of Smart classroom project, by BSCL**

As a part of the Smart Solution project, the Education and Healthcare Management System was implemented by the MSI appointed by BSCL. Under this module, smart class rooms, having major infrastructure like smart class solutions, digital content for students, CCTVs for monitoring, digital smart boards, attendance management system *etc.*, were to be installed in Government schools. The objective was to provide a comprehensive solution to assist teachers in meeting their day-to-day needs, enhancing students' reachability and monitoring academic performance, with simple, meaningful and practical use of technology.

Based on the survey by BSCL, 13 Government schools were shortlisted in Bhubaneswar. All material for the project was made available, in October 2020, for installation at the selected schools. The complete system was to be handed over by March 2021.

Scrutiny of records revealed that, as of October 2022, out of 13 schools, only five smart classrooms, which had achieved 'Go-live' status, had been installed by the MSI. Installation of Smart classroom material valuing ₹4.85 crore<sup>54</sup> at the remaining eight schools was still pending (as of March 2023). This is indicative of lack of co-ordination between BSCL and Education Department resulting in denial of benefit of the project to the student community.

Government stated (March 2023) some schools, chosen under the SCM, had also been selected under GoO's 5T program for transformation. Accordingly, survey had been conducted for selection of other schools. However, in most schools, the infrastructure was not adequate, for implementation of the equipment. The reply itself is indicative of the fact that the selection process of the schools, for implementation of Smart class rooms, was flawed, owing to which Smart Solution material, worth ₹4.85 crore, remained idle till date (March 2023).

### **3.6.3.6 Non-achievement of the outcome of reduction in vehicular emissions**

BSCL decided to introduce 2,000 bicycles, under the Public Bicycle Sharing (PBS) system, under the Smart City project, to reduce vehicular emissions, management of traffic congestion and to provide last mile connectivity to people. The project was awarded to three agencies, for supply of 2,000 bicycles, at the cost of ₹25,000 per bicycle, for deployment, and ₹5,000 per year per cycle, for repair and maintenance, for five years.

Audit observed that, the usage of different mobile applications by the three agencies, had made it cumbersome for customers to download different applications. Hence, it was decided (August 2019) to create a dedicated application for use of the bicycles. Despite the lapse of over three years, no such dedicated application had been developed by BSCL (as of March 2023).

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<sup>54</sup> Being the value of material for eight schools (Total material cost: ₹7.88 crore, for 13 schools)

In the absence of such a dedicated application, utilisation of the bicycles was very low and stood at monthly average of 16 *per cent*, as of March 2022. Thus, despite spending ₹4.80 crore for deployment and ₹1.60 crore for repair and maintenance, the intended outcome on the life of citizens was not achieved. The financial irregularities in this transaction are reported separately vide Paragraph 4.12 *ibid*.

Government, while accepting the audit observation, stated (March 2023) that, due to technical challenges, a single application for users had not yet been developed.

### **3.6.3.7 Non-fulfilment of objectives due to non-utilisation of space for economically weaker sections**

The Project “Social Equity Centre” (SEC)<sup>55</sup>, was a 200 bedded housing facilities envisaged under the rental housing scheme of Smart City project for economically weaker sections (EWS), construction workers and the urban homeless, at Bhubaneswar. The construction work was awarded (April 2017) to M/s Sai Smruti Infrastructure Private Limited at a project cost of ₹5.41 crore, with the scheduled completion by April 2018. Under this project, the SEC, of 35,619 sqft built up area, was to be constructed. The key features of the building included ‘Aahar Center’ for 140 persons, rental accommodation of 200 dormitory beds, 12 family rooms and shelter for 100 urban homeless. It was proposed that the rent charged from the residents would be spent towards the Operation and Maintenance (O&M) of the building. The work was in convergence with the Odisha Urban Housing Mission, under the H&UD Department. The scheme envisaged that up-keep of the asset would be carried out by the Bhubaneswar Municipal Corporation (BMC).

The project was inaugurated by the Chief Minister, Odisha, in March 2019. The ground floor was handed over to BMC in November 2019. As of March 2022, BSCL had spent ₹6.12 crore, towards execution of the project. Audit observed, in this regard, that:

- Though the three storied building under the project had been inaugurated (March 2019), only the ground floor had been handed over (November 2019) to BMC, for the Aahar Center and accommodation for the urban homeless. The first floor<sup>56</sup>, though not handed over, formally to BMC, was being utilised for the targetted beneficiaries, and BMC collected revenue therefrom, amounting to ₹2.67 lakh. However, the O&M expenses were being met by BSCL as stated below.
- The second and third floors, together having a plinth area of 17,428.40 sqft, were not in operation and BSCL had spent ₹4.75 lakh, towards maintenance, for the period from March 2019 to March 2022, due to non-handing over of the complete building, as shown in the photograph below:

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<sup>55</sup> A building providing space for accommodation to EWS people like, migrant workers for various construction works and urban homeless citizens

<sup>56</sup> The first, second and third floors were intended for dormitories and family rooms

**Photograph No. 3.1: Images showing the unutilised facilities in the SEC Building**



Thus, non-handing over of the complete building, even after a lapse of more than three years, had resulted in non-utilisation of space of 17,428.40 sqft, valuing ₹2.99 crore<sup>57</sup>, thereby leading to non-fulfillment of the desired objective of providing shelter to EWS. Further, media reports had also highlighted (November 2022) that migrant labourers and homeless were taking shelter at different public places, under the open sky, in the peak of winter, which was indicative of failure to provide basic shelter to the intended beneficiaries.

**Photograph No. 3.2: Images showing people sleeping under open sky in Bhubaneswar**



*Source: The Samaja Newspaper, Date: 9 November 2022*

Government stated (March 2023) that the ground floor has been utilised for BMC, as the Aahar centre and ward office and the remaining floors for migrated labour. For operation of the SEC, one agency has been appointed (June 2022), by BSCL. However, the reply is silent regarding non-utilisation of the SEC facility for the period from March 2019 (date of inauguration) to June 2022.

### **3.7 Project funding and Financial Management**

#### **Financial Management and Control**

Non-availability of required funds was a major constraint in the implementation of projects by SPVs, as per SCPs. This required rational

<sup>57</sup> (₹6.12 crore/35,618.72 sqft x 17,428.40 sqft)

management of available funds, for deriving maximum value for money. There were, however, lapses on this front, as illustrated below:

### **3.7.1 Non-adherence to MoHUA guidelines in execution of projects, resulted in blockage of funds and loss of interest of ₹0.68 crore**

As per the Advisory (January 2019) of MoHUA, wherein smart city projects were to be executed through Government Departments/Agencies, the Smart City SPV (*i.e.*, RSCL) was to enter into a Tripartite Agreement with the Government Line Department/Agencies and the selected bidder for the project. Further, the SPV was not to transfer funds to the Government Departments/Agencies and payments were to be disbursed directly by the SPV, to the contractor, on completion of each milestone, as per the terms of the tender. The Government Line Department was to check and verify the contractor's bills and submit them to the SPV, for payment.

RSCL decided (December 2019) to develop a recreation park at Koelnagar, Rourkela, through the Odisha Forest Development Corporation (OFDC), a GoO undertaking. Based on the estimates of OFDC, RSCL signed (July 2020) an agreement with OFDC, for construction of a recreation park, at a cost of ₹12.93 crore, alongwith ₹2.40 crore for the boundary wall and gate of the recreation park. RSCL had, accordingly, released ₹8.00 crore, in three instalments, till September 2021.

Audit observed that RSCL, without having entered into a tripartite agreement with OFDC, had released funds directly, in deviation to the MoHUA advisory. This indicated casual approach of RSCL in execution of the project. The work was scheduled to be completed by October 2021. However, the work could not be completed, due to encroachment of some area by the local people. The casual approach of RSCL was further amplified by the fact that despite being aware (June 2020) of the encroachment, RSCL had released ₹8.00 crore, out of which only ₹4.71 crore had been spent till July 2022 without yielding the desired results. This has resulted in blockage of funds and loss of interest, amounting to ₹0.68 crore<sup>58</sup> (as of September 2022).

Government stated (March 2023) that, the tripartite agreement was inadvertently skipped. However, OFDC being a Government undertaking, the project was implemented through them and funds were released to them for execution of work. Further, RSCL was not aware of the encroachment issues. Reply was not acceptable, because RSCL was aware about the encroachment issues in June 2020 before release of fund in July 2020.

### **3.7.2 Release of funds, amounting to ₹84.59 crore, to line departments, violating the MoHUA advisory**

The Board of Directors of BSCL, during March 2016, authorised the Executive Committee, to initiate action for entering into contractual arrangements, with BMC, BDA, WATCO, IT Department and with any other authority, as and when required, for execution of SCM projects. Further, as

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<sup>58</sup> Loss of interest was calculated at 5.10 *per cent* of SBI rate of interest for fixed deposits during that period

stated in paragraph 3.7.1, the MoHUA advisory (January 2019) had also stipulated entering into tripartite agreements for execution of SCM projects. The aforesaid advisory had also stipulated non-transfer of funds directly to the Government Line Departments/Agencies.

(a) Audit observed that, without entering into tripartite agreements, as stipulated in the advisory mentioned above and, without adhering to the instructions of the BoD, BSCL had released funds to different entities, during the period from FY 2016-17 to FY 2022-23, amounting to ₹64.32 crore<sup>59</sup>. Further, in the absence of any agreement with the Line Departments, BSCL failed to exercise its power to supervise the overall physical and financial progress of the projects. In the absence of the bills of contractors being routed through the SPVs and non-submission of UCs by BMC, Audit could not ascertain whether the funds were actually utilised for the purposes which they had been sanctioned.

Government stated (March 2023) that, the funds had been transferred, as per decision of the BoD/Executive Committee of BSCL. Reply was not acceptable because, transfer of funds directly to Government line departments/agencies was not permissible, under the MoHUA advisory.

(b) Similarly, for efficient traffic management, by improvement of road infrastructure, RSCL decided to up-grade and improve the roads in Rourkela, under SCM, through the Superintending Engineer, Rourkela (R&B). RSCL released ₹20.27 crore to the Rourkela R&B Division, during November 2021 to February 2022 with the scheduled date of completion being June 2022. Audit observed that RSCL had not entered into tripartite agreements among RSCL, SE, Rourkela (R&B) and the Contractors, as envisaged in the MoHUA advisory, for execution of these works. Further, no utilisation certificate had been submitted by the Rourkela (R&B) Division till date (March 2023). In the absence of such agreements, RSCL could not enforce any terms for timely completion of the projects.

RSCL stated (October 2022) that Rourkela (R&B), being a Government agency, funds had been released to it, for implementation of the projects. The reply was not acceptable because MoHUA advisory prohibited release of funds directly to Government agencies. Funds were instead, to be paid to the concerned contractors, through running account bills, by entering into tripartite agreements. The MoHUA advisory had aimed at reducing the time lag in issuing tenders and supervision, thereby facilitating faster and sustainable implementation of projects. However, in the above case, this was not adhered to.

### **3.7.3 Diversion of ₹22.73 crore from project funds towards Administrative and Office Expenditure of SPVs**

As per the SCM guidelines (Clause 11.4), out of the total mission fund, 93 *per cent* would be earmarked as project fund. Out of remaining seven *per cent*, five *per cent* earmarked for Administrative and Office Expenditure (A&OE), for State/ULB, for preparation of SCP and payment for Project Management

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<sup>59</sup> ₹29.32 crore to CRUT for construction of BQS; ₹25 crore to BMC for 'waste-let us recycle'; ₹10 crore to the Water Corporation of Odisha, for drink from tap projects

Consultancy; and two *per cent* towards A&OE, for MoHUA, GoI. Accordingly, ₹50 crore was earmarked for A&OE, in respect of BSCL. In respect of RSCL, ₹29 crore was envisaged till March 2022, as the SPV had not yet received the full mission grant (March 2022). Audit observed that, as of March 2022, BSCL and RSCL had incurred ₹62.57 crore and ₹39.16 crore, respectively, as A&OE expenditure. Thus, there was excess utilisation of ₹12.57 crore<sup>60</sup> (6.32 *per cent*) and ₹10.16 crore<sup>61</sup> (7.92 *per cent*) towards A&OE, in regard to BSCL and RSCL, respectively. Thus, excess expenditure of ₹22.73 crore towards A&OE, without availability of funds for the same, had resulted in diversion of the project funds.

Government stated (March 2023) that necessary adjustment entry would be made while finalising the accounts for 2022-23. The reply was not acceptable because the observation is on excess expenditure on A&OE which was in violation of the SCM guidelines.

### 3.7.4 Delay in completion of revenue earning projects, led to loss of revenue, amounting to ₹11.60 crore

The SCP of BSCL had proposed to mobilise required funding through two sources of revenues *i.e.*, project specific revenue sources and general revenue sources. In this connection, it is observed in audit that two revenue generating projects *i.e.*, Multi Level Car Parking (MLCP) at Rajmahal and Saheednagar, were taken up by BSCL, under the SCM. The annual revenue generation and annual operation and maintenance, as envisaged in the SCP were as below:

**Table 3.4: Annual revenue generation and operation and maintenance**

(₹in crore)

Project	Annual O&M cost	Annual Revenue	Annual Income	Status (March 2023)
MLCP, Rajmahal	1.2	7	5.8	Complete
MLCP, Saheednagar	1.2	7	5.8	Complete

(Source: SCP of BSCL)

Audit observed that the scheduled completion dates, of MLCP, Saheednagar and Rajmahal, were December 2018 and June 2019, respectively. MLCP, Saheednagar and Rajmahal, had provision for parking of vehicles, as well as for commercial establishments. However, the projects could not be completed within the schedule period, due to failure on the part of BSCL, in handing over the clear site and work front. Thus, lack of proper planning in execution of the projects, resulted in failure to earn annual income, amounting to ₹11.6 crore, as envisaged, affecting the financial position and credit worthiness of BSCL.

<sup>60</sup> BSCL: ₹62.57 crore - ₹50 crore = ₹12.57 crore

<sup>61</sup> RSCL: ₹39.16 crore - ₹29 crore = ₹10.16 crore

**MLCP, Saheednagar**



**MLCP, Rajmahal**



Government stated (March 2023) that the two MLCPs had recently been completed and both were functional at the moment. The reply did not address the delay in completion of the respective projects and the revenue loss suffered.

### **3.7.5 Irregular expenditure from the SCM fund, for operational and maintenance costs of handed over projects**

RSCL had redeveloped six citizen friendly parks, in Rourkela, at a total cost of ₹6.26 crore. As per the SCM guidelines, Smart City project funds were to be used only to create infrastructure, that has public benefit outcomes. Hence, there was no fund provisions in the SCM guidelines for O&M, after completion of the work. Audit observed that the above six parks had been completed and handed over (January 2021) to the Rourkela Municipal Corporation (RMC), for public use and subsequent maintenance. However, there was no formal agreement with the RMC for such maintenance. In absence of such formal agreement, Audit noticed that despite handing over of projects, the maintenance of the parks was being carried out by RSCL and an amount of ₹0.34 crore (till May 2022) had been incurred, from the SCM fund, in this regard. Expending from the SCM fund, for operation and maintenance in regard to completed projects, resulted in depletion of the SCM fund, which would otherwise had been used for carrying out further capital projects.

Government stated (March 2023) that the maintenance of the parks, by RMC, was not adequate. Hence, the parks were being maintained by RSCL, by appointing an agency, through tendering. The reply was not acceptable, because SPVs are having specific operational life till the completion of the project. Hence, permanent arrangement is required to take up O&M activities even after they cease to exist.

## **3.8 Institutional mechanism for Monitoring and Control**

### **Monitoring**

#### **3.8.1 Non-delegation of powers to the Smart City SPVs**

As per the SCM guidelines, one of the primary reasons for creation of an SPV was to ensure operational independence and autonomy in decision making and mission implementation. SCM encourages State Governments and ULBs to



adopt the following practices for creating empowered SPVs, to the extent and as provided under the Municipal Act.

- Delegating the rights and obligations of the municipal council, with respect to the smart city project of the SPV; and
- Delegating the decision making power, available to the ULB under the Municipal Act, to the Chief Executive Officer (CEO) of the SPV.

Further, the SCM envisaged key roles and responsibilities for the SPVs, which included:

- determination and collection of user charges, as authorised by the ULB; and
- collection of taxes, surcharges *etc.* as authorised by the ULB.

It was, however, seen that the H&UD Department, vide notification dated 25 November 2017, had delegated the powers to accord administrative approvals and approvals for tenders, to SPVs, for the smart city projects. The notification did not have any reference to the powers of ULBs which were being delegated. The ULBs also had not made any such delegation on their own. Further, the powers of the Municipal Councils in regard to determination and collection of user charges, taxes and surcharges, with respect to the Smart City projects, had not been conferred to the SPVs wholly, as envisaged in the SCM guidelines. These powers were being exercised by the ULBs themselves. This added to the resource constraint already faced by the SPVs.

Government, accepting the observation stated (March 2023) that, necessary steps to be taken for delegation of municipal powers to the SPVs.

### **3.8.2 Human Resources of SPVs**

MoHUA, in November 2018, had framed the HR policy for the SPVs under SCM. The guidelines provided a framework to be put in place, with regard to appointment of staff, salary, leave, pension *etc.*, and its compliance with Companies Act, 2013. MoHUA instructed (November 2018) that all Smart Cities should have approved HR policies, before 15 December 2018.

Scrutiny of records revealed that no HR policy had been framed by RSCL as of March 2023. In the absence of an HR policy, the functioning of the SPV had been affected, due to non-filling of several vacant posts<sup>62</sup> (41 *per cent*), resulting in non-adherence to the guidelines issued by GoI. It was observed that some government employees had been deputed in the SPV, with additional charges, while the remaining employees had been appointed on contractual basis. Although its impact on performance of RSCL cannot be correlated in audit, it is observed that delay in initiation of project works, poor mobilisation of funds, reduction in project size were attributable to it.

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<sup>62</sup> Out of 22 posts, the posts of AEE (Civil) and Manager (Procurement) had remained vacant since December 2016, three posts had been vacant since 2019, one post had been vacant since 2020, two posts since 2021 and one post since June 2022

Government stated (March 2023) that HR policy prepared by RSCL was under examination. The fact remained that, even after five years of implementation of SCM projects, HR policy had not yet been approved.

### **3.8.3 Non-appointment of a full-time Chief Executive Officer, without adhering to the SCM guidelines**

The SCM guidelines stipulated (Clause 10.1) that the implementation of the Mission, at the city level was to be done by an SPV created for the purpose. The SPV was required to plan, appraise, approve, release funds, implement, manage, operate, monitor and evaluate the Smart City development projects. Each SPV was to be headed by a full-time CEO. MoHUA also directed (October 2018) SPVs to appoint full-time CEOs, in order to facilitate quick decision making and better results, in terms of frequent Board meetings and faster rates of project implementation.

Thus, specific instructions had been issued by MoHUA, to appoint full-time CEOs, as part time CEO may not be in a position to give complete attention to the functioning of the SPVs. However, Audit observed that both SPVs did not have full-time CEOs, on a regular basis, and both posts were held by officers of H&UD as additional charges.

Government stated (March 2023) in respect of RSCL that, posting of CEO was made by GoO. In respect of BSCL, Government stated (March 2023) that, in the SCM project, involvement of BMC and BDA is highly essential, as the areas of operation fell within the jurisdiction of the BMC and BDA. Accordingly, Commissioner, BMC, had been appointed as the CEO of BSCL, as an additional charge. Reply was not acceptable because SCM guidelines and instructions of MoHUA specifically stated for appointment of fulltime CEO for quick decision making and faster project implementation.

### **3.8.4 Smart City Advisory Forum**

As a monitoring mechanism, the SCM guidelines stipulated creation of a Smart City Advisory Forum (SCAF), at the city level, for proper mission monitoring. The SCAF was to be established at the city level, for all smart cities, for rendering advice and enabling collaboration among various stakeholders. It was expected to include the District Collector, MP, MLA, Mayor, local youth, technical experts, citizen representatives and members of NGOs. The CEO of the SPV was to be the convener of the SCAF.

In accordance with the Mission guidelines, the SCAFs for BSCL and RSCL, were constituted during July 2017 and November 2017, respectively. MoHUA, during January 2018, impressed constitution of city advisory forums and instructed that meetings be held once in a month, for better monitoring. However, Audit observed that only six meetings of the SCAFs (in case of RSCL) and four meetings (in case of BSCL) had been held till March 2022 against the required number of 52 meetings, which was likely to have hampered the process of formal co-ordination and monitoring of the Smart City projects.

Government stated (March 2023) that there was no provision in MoHUA guidelines for holding monthly meeting. The reply was factually incorrect as MoHUA has specifically instructed (January 2018) H&UD to hold at least one meeting in a month.

### 3.8.5 Internal Control

To implement the Smart Solutions project in Bhubaneswar and Rourkela, BSCL and RSCL had appointed PMCs. As part of the agreements entered into, it was the responsibility of the PMCs to provide technical support teams, to monitor and provide post-implementation support to the Smart Solution projects.

In this regard, Audit observed that:

- In case of BSCL, the contract with the PMC had been closed in January 2022. However, the smart solution project, being implemented by the MSI, had not yet been fully handed over to BSCL. In the absence of technical support from the PMC, the running bills of MSI were being processed, based on undertakings provided by the MSI with regard to the bills of quantity, as per the contract. Further, testings of various items of equipment was still in process. In the absence of the technical support of the PMC, there was no assurance that proper quality checks were being ensured and internal control was being properly exercised.
- In case of RSCL, the contract with PMC had been closed in October 2021. The work order for implementation of the Smart Solution project in Rourkela, amounting to ₹90.18 crore, was issued to M/s Bharat Electronics Limited (BEL) and the project was to be implemented within six months *i.e.*, by December 2022. Only one IT expert had been engaged, on contractual basis, in RSCL. No third party consultant had been appointed, for monitoring the project implementation and Go-Live activity of the project. Further, in the absence of any consultant, there was no assurance that processing of bills and testing of equipment, as per project requirements was being carried out in a proper manner and internal control was being duly exercised.

Government stated (March 2023) that, the SPVs have now constituted committees for examination of technical issues. The reply was silent about absence of internal control mechanism for previous events as pointed out in the para.

### Conclusion

**City development is primarily the responsibility of the ULBs operating under State Governments. To assist ULBs and State Government, the Central Government, however, sponsored the SCM for this purpose with part funding thereof to provide better infrastructure with smart solutions to improve the quality of life in the cities. The State Governments submitted their smart city proposals to MoHUA for their selected cities. For the State of Odisha, two cities Bhubaneswar and Rourkela were selected on the basis of proposals of the State Government. With a view to ensuring greater autonomy in funds**

mobilisation and implementation of the projects outside the ULBs, the SCM envisaged creation of SPVs. The proposals involved execution of projects valuing to the tune of ₹4,537 crore for Bhubaneswar and ₹2,571.27 crore for Rourkela through mobilisation of funds from various sources.

As observed in audit, although SPVs were created as envisaged in SCM guidelines, they could not succeed in achieving their intended objectives as projects valuing only ₹1,621.94 crore and ₹950.46 crore were taken up by the SPVs for Bhubaneswar and Rourkela respectively against the target for ₹4,537 crore and ₹2,571 crore. In other words, substantial components of the projects *i.e.*, 64 *per cent* in case of BSCL and 63 *per cent* in case of RSCL could not be taken up depriving the city dwellers of the envisaged benefits. As a consequence, both the cities lost their ranking as smart city drastically as stated *supra*. This is mainly attributable to the following:

- Non-delegation of required ULB powers to the SPVs with respect to SCM projects.
- Failure to mobilise the required funds as was envisaged in the SCP.
- Non-adherence to the guidelines of MoHUA while entering into contracts for execution of the projects and disbursement of funds to the executing agencies.
- Lack of monitoring mechanism and internal control.
- Lack of adequate manpower with the SPVs.

#### Recommendations

- To achieve financial sustainability, SPVs may develop strategic plans for mobilisation of the envisaged resources, *i.e.*, through convergence from national/state schemes, PPP, loan and others, in co-ordination with the State Government.
- The organisational structure of SPVs should be strengthened with the appointment of full-time executives and other functionaries.
- GoO may ensure delegation of decision making powers, available to the ULBs under the Municipal Act, as well as project approval powers, available to the Housing and Urban Development Department, to the SPVs, for effective implementation of the smart city projects.
- SPVs may ensure effective functioning of the SCAF, for desired monitoring and control, through regular meetings.
- SPVs may ensure adherence to the MoHUA guidelines/advisories, for better contract management.
- SPVs may recover liquidated damages from contractors, as per the provisions of the contract agreements.
- SPVs may develop an effective digital monitoring mechanism, like Gatishakti, for early completion of projects and handing over of the completed assets and their maintenance thereafter.
- SPVs may ensure that funds are utilised as per the terms and conditions of the SCM guidelines.