EXECUTIVE SUMMARY

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Smart Cities Mission (SCM) was launched by Government of India in 2015 in order to meet the changing needs of the cities catering to 63 *per cent* of the population as per Census 2011 and achieve comprehensive development of physical, institutional, social and economic infrastructure of the cities. The Scheme proposes to cover 100 cities. The Central Government proposed to give financial support to the Mission for the selected 11 cities in Tamil Nadu to the extent of ₹5,500 crore over five years i.e., on an average ₹100 crore per city per year and the State/Urban Local Body would contribute an equal amount.

The main objective of the Mission was to promote cities that provide core infrastructure like water supply, electricity, sanitation, health etc., clean and sustainable environment and give a decent quality of life to their citizens through the application of 'smart solutions'.

The selection process involved two stages. Stage-1: Intra-state and Stage-2: City Challenge, based on the idea of competitive and cooperative federalism. Under Stage-1, cities furnish information for scrutiny by the State Level High Powered Steering Committee which then recommend selection for development as smart city. Under Stage-2, the potential cities prepare the proposals with details of consultations with Citizens, stakeholders etc., financing model including revenue generation which is evaluated by a committee involving national and international experts. The winners are announced by the Ministry of Housing and Urban Affairs (MoHUA).

The implementation of SCM is being done through a Special Purpose Vehicle (SPV) created for the purpose. The smart cities should have a minimum paid-up capital of ₹200 crore with a full time Chief Executive Officer who is appointed with the approval of MoHUA. As per the SCM guidelines, the smart cities should be ensured operational independence and autonomy in decision making and mission implementation. Further, the SCM guidelines also ensures that a dedicated and substantial revenue stream is made available to the SPV to make itself sustainable and credit worthiness for raising additional resources. The Smart City Proposal (SCP) included the financial plan including revenue inflows for the complete life cycle of the projects which included the capital expenditure, operation and maintenance cost and the revenue from the Smart City projects.

The mission aimed to achieve its objectives by focusing on compact areas and creating a replicable model which will act like a lighthouse to other aspiring cities. Strategic components of the mission included components of Area-based development (ABD) which includes retrofitting, redevelopment and greenfield development plus a Pan-city initiative involving application of Smart Solutions covering larger parts of the city. Though, the initial period was five years, the mission period was extended up to March 2025.

Considering the importance of the mission, Audit selected seven out of 11 cities for a performance audit which was conducted in order to assess whether vision, mobilisation of resources and intended outcomes were as per the Mission objectives, funds were released as per Schedule, projects were executed effectively to achieve the intended objective and internal control mechanism was adequate.

Major Audit findings

Out of 12 cities earmarked for Tamil Nadu, only 11 cities were selected for development as 'Smart Cities'. Dindigul which was also initially considered was not selected due to non-submission of the proposal in a structured manner as prescribed in the SCM guidelines containing description of probable sector-wise list of projects to be included in ABD along with Pan-city coverage. The non-adherence to the guidelines had resulted in denial of opportunity to develop another Smart City in the State.

The paid-up capital of the SPVs created was kept at ₹10 lakh (instead of ₹200 crore) to avoid statutory provision as provided in the Companies Act, 2013 and a full-time Chief Executive Officer was not appointed in the six sampled cities except Chennai. SPVs activities were restricted to initial project sanction (based on Urban Local Bodies (ULBs) proposal) and fund disbursement. Further, the revenue sharing model also failed since, revenue of ₹57.72 crore realised on account of deposit, lease-rent, parking/user charges were received by ULBs only and not transferred to SPVs.

Five out of the seven sampled cities had planned projects exceeding SCM grant portion for each city. There was a delay in release of funds by Government of Tamil Nadu (GoTN) to Mission Directorate and from Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited (TUFIDCO) to respective SPVs.

Though, convergence and Public Private Partnership (PPP) models for water supply, sewage were planned in the SCPs, the SCM grants were transferred to other departments for the execution of such projects resulting in denial of usage of valuable financial resources. For instance, an amount of ₹150.73 crore was transferred as convergence fund for the ongoing 24x7 Water supply work. Only four projects amounting to ₹16.57 crore was executed by Chennai and Coimbatore SCLs under PPP mode though a total of ₹1,630.03 crore under PPP was planned. No funds were mobilised from other sources such as market borrowings, ULB contribution etc. Thus, non-mobilisation of other sources of funds and lack of operational independence of SCLs, the implementation of projects were solely dependent on Government grants leading to non-implementation of all projects included in the SCPs.

In all the seven sampled smart city proposals, element of Greenfield development was not included thereby denying creation/construction of housing communities with parks and playgrounds along with other amenities as a separate Greenfield Township forever expanding urban population.

Further, 52 projects valuing ₹1,602.20 crore (15.97 *per cent* of the planned projects) though included in the proposal of the sampled seven cities were not implemented depriving the envisaged economic growth in the ABD areas thereby denying benefits. However, 44 projects valuing ₹623.86 crore though not originally planned were implemented in violation of the mission guidelines as the projects included in the original proposal were made after citizen's consultation. Out of these 44, five projects were of routine in nature and should have been implemented by the Corporation concerned and 21 projects were implemented outside ABD area indicating the usage of Mission funds for projects which are to be executed by the Corporation out of their own funds. Tirunelveli SCL implemented 15 unplanned projects of ₹314.62 crore which accounted for 25.84 *per cent* being the highest among the sampled seven cities.

Further, 70 projects involving an expenditure of ₹655.43 crore were executed predominantly outside ABD area.

Out of 414 projects taken up for implementation, 405 projects have been completed as of May 2025. Out of 69 projects costing ₹780.77 crore implemented under Pan-city, only 22 projects involving ₹209.24 crore are eligible as per the Pan-city definition given in the guidelines.

Tirunelveli SCL implemented unplanned SCADA (Supervisory Control and Data Acquisition) system at an estimated cost of ₹46.67 crore. Out of the four, one energy meter affected in floods was not working since December 2023. Moreover, remote terminal units and control points for data collection and monitoring flow of water were also not provided. Salem SCL implemented Optimising and Revamping of Existing Network with SCADA system - Water supply System 24x7 at a cost of ₹74.88 crore. However, the same was not completed even after two years from the projected date of completion. Further, Madurai SCL implemented 'Improvement of Water Supply Distribution System' at a cost of ₹79.93 crore. However, the project is still under progress even after 42 months from the projected date of completion.

In four sampled cities[1], 70 Micro Composting Centres (MCCs) were constructed at a cost of ₹48.59 crore, out of which 23 MCCs were not functioning thereby not achieving the intended objectives fully.

Absence of timely maintenance of Battery Operated Vehicles (BOVs) resulted in 129 BOVs of Salem SCL and 82 BOVs of Madurai SCL becoming unserviceable for more than three to five years rendering the vehicles non-usable for the intended purpose.

In four sampled cities[2] Multi level car parking (MLCP) along with commercial complex planned at a cost of ₹115.92 crore could not be put to use due to non-completion of supplemental items of work like automation facility, lift, plumbing works etc. MLCPs created could not be put to use from the targeted time and as such the intended objective of parking facility and revenue generation from the assets created could not be fully achieved.

In Tirunelveli SCL, instead of the original proposal of ₹8.25 crore to take up e–vehicle projects like e-rickshaws and e-buses through PPP mode, the SCL diverted the funds and procured Street sweeping machine, jet rodding machine,

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1 Coimbatore, Madurai, Salem and Tiruppur.
2 Coimbatore, Erode, Salem and Tiruppur.

Hydraulic mounted machine and BOVs for Solid Waste Management for a value of ₹16.50 crore which do not come under the definition of e-vehicle for Smart urban mobility and should have been incurred from Corporation funds. This resulted in non-achievement of objectives besides diversion of SCP funds of ₹16.50 crore to Tirunelveli Corporation from Tirunelveli SCL.

Integrated Command and Control Centre (ICCC) was proposed in Madurai and Tirunelveli at a cost of ₹24.81 crore. However, in Madurai as against integrating all the modules of municipal functions, only grievance redressal and vehicle tracking were integrated. Further, ULB share of ₹9.86 crore is yet to be received by the SCL. In Tirunelveli, infrastructure like surveillance camera, etc., were not provided.

Madurai SCL constructed Tourism plaza at a cost of ₹2.62 crore which was neither put to use nor maintained resulting in idling of the asset created for more than three years.

Deficiencies such as delay in completion, idling and non-maintenance of assets created were also noticed in the execution of core infrastructure projects envisaged in the SCPs.

Further, 93 projects which require clearances/approvals in accordance with various governmental regulations *viz*. Pollution control Board, Directorate of Town and Country Planning (DTCP) and Public Works Department (PWD) were commenced without obtaining such clearances.

City Level Advisory Forum though formed in all the sampled cities were convened after a delay of two years and meetings for collaborating with various stakeholders were not conducted periodically.

We conclude that though the projects taken up for implementation were nearing completion, there was overall deficiency in operational independence culminating in non-sharing of assets and revenue; execution of projects out of SCM funds without effective exploration of other modes viz. convergence and PPP.

Further, projects were executed outside ABD area and ineligible projects were taken up under Pan-city. There were also instances of projects implemented with delay and kept idle after completion. Some projects were also commenced without mandatory clearances and suggestions emanated from the City Level Advisory Forum meetings were also not complied with. The above deficiencies largely contributed to the non-achievement of the intended objectives comprehensively.

What we recommend?

Audit recommends the following:

Planning and Financial Management:

- The Government should in future consider the greenfield development strategy to address the housing needs of expanding urban population.

- The Government should ensure that the Smart City Limited (SCLs) are transparent to the citizens in issues relating to dropping of proposed projects or taking up unplanned projects in future for implementation and also with regard to the projects that are in progress.
- The Government should consider seeking financial assistance under convergence/PPP mode to augment its revenue resource besides ensuring contributions from ULBs, borrowings from financial institutions etc., to make the SCLs financially viable to expand its activities for the betterment of the citizens.

Implementation and Monitoring:

- The Government should ensure that it contributes the paid-up capital in the SPV as per the limit prescribed in the SCM guidelines. It should also address the ULBs to contribute its shareholding in the SPVs to strengthen SPVs equity base not only for its sustainability but also to mobilise resources from the market/financial institution for implementing future projects and to cover the Operation and Maintenance cost.
- The Government should appoint full time CEOs in the SPV to manage the affairs of the SPVs so that it can function as head of implementing agency for effective and timely completion of the projects.
- The Government should empower the SPVs to follow the best practice with operational freedom to deliver the functions as envisaged in the mission guidelines.
- The Government should formulate a revenue sharing mechanism between the ULB and SPV for the financial sustainability of the SPV.
- The Government should direct the SCLs to obtain necessary statutory approvals from the concerned authorities before commencement of projects in future so as to complete the project in time and ensure its usage as it have a direct impact on the environment.
- The Government should direct the SCLs to follow the time frame stringently so as to complete the ongoing projects at the earliest and to utilise effectively the assets created.
- The Government should ensure that the provisions of the Tamil Nadu Transparency in Tenders Act (TNTTA) are followed scrupulously in future.
- The Government should instruct the SCLs to conduct City Level Advisory Forum (CLAF) meetings at frequent intervals to ensure adequate citizens participation and also ensure implementation of the suggestions given in those meetings.