CHAPTER II

PLANNING AND FINANCIAL MANAGEMENT

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In all the seven sampled smart city proposals, element of greenfield development was not included resulting in needs of expanding population remaining unaddressed. Non-adherence to SCM guidelines in the preparation of Dindigul SCP in the first instance had denial of opportunity to develop another smart city in the State. 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. Alternatively, 44 projects valuing ₹623.86 crore though not originally planned were implemented. Further, 70 projects involving an expenditure of ₹655.43 crore were executed outside ABD area.

Five of the seven sampled cities had planned projects exceeding available 96.50 *per cent* of the total SCM grant for each city. There was a delay in release of funds by GoTN to Mission Directorate, the delay ranging between two and 714 days and from TUFIDCO to respective SCLs ranging between 15 and 960 days. Though convergence and PPP models for water supply, sewage was 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. Audit also noticed that there was diversion of fund for ineligible project as well as to meet ULB's revenue expenditure.

2.1 Planning

The selection of Smart Cities involves two stages of competition. The first is an Intra-State short listing of cities and the second is selection at the national level based on evaluation by a panel of experts. In the first stage of the competition the potential cities compete on the conditions precedent[1] and scoring criteria[2] laid out in the MoUD guidelines[3]. The potential cities are to be short listed based on the highest scores obtained, scrutinised by the Mission Directorate and forwarded by the State to MoUD. The MoUD declares the list of 100 Smart Cities for participating in the second stage of competition.

The following discrepancies were noticed in the Intra-State stage:

[1] (i) State undertaking to make the City smart, (ii) Inter-departmental task force consisting of parastatal bodies, ULB, organisations, urban development authorities to be constituted, (iii) Elected City Council`s Resolution and (iv) Consultations held with residents on city development priorities.

[2] (i) Existing service levels, (ii) Institutional systems/capabilities, (iii) Self-financing and (iv) Past track record and reforms.

[3] Annexure 3 to Clause 9.1.1 of MoUD Guideline.

2.1.1 Preparation of Smart City Proposals

Each of the potential Smart Cities prepare Smart City Proposals (SCPs) which shall contain the vision, plan for mobilisation of resources and intended outcomes in terms of infrastructure up-gradation and smart applications. The SCP is prepared using the principles of the strategic planning process containing area-based development plans and Pan-city initiatives as defined under Clause 5 of the Guidelines. It encapsulates either a retrofitting or redevelopment or greenfield development model, or a mix thereof and a Pan-city feature with smart solution(s).

Clause 5.1.3 envisages that greenfield developments are required around cities to address the needs of the expanding population. Unlike retrofitting and redevelopment, greenfield developments could be located either within the limits of the ULB or within the limits of the local Urban Development Authority.

Audit noticed that in all the seven sampled Smart City Missions in Tamil Nadu, elements of greenfield Development were not included in the projects proposed in its SCP. It was proposed to Retrofit and/or Redevelop the ABD Area. The possibility of exploring the greenfield development in any of the smart cities was not initiated.

The Government replied (May 2025) that the reasons for not initiating Greenfield development was due to absence of large, contiguous undeveloped land parcels within the municipal jurisdiction/land acquisition challenges and given the unique spatial, regulatory and socio-economic conditions, retrofit redevelopment hybrid models was considered feasible.

The reply is not tenable since considering the increasing urbanisation, urban population and its impact on environment, implementation of greenfield strategies like construction of housing communities with parks and playgrounds along with other amenities as a separate Greenfield Township would have been an ideal solution for developing smart cities.

Recommendation 1: The Government should in future consider the greenfield development strategy to address the housing needs of expanding urban population.

2.1.2 Deficiency in preparation of SCP for Dindigul City - Opportunity lost to develop the city as Smart City

The Government of India had selected 100 cities[4] throughout India to develop as 'Smart Cities' by upgrading infrastructure and smart applications. Accordingly, the number of potential Smart Cities allocated for Tamil Nadu was capped at 12 which included Dindigul.

[4] 100 cities distributed among the States and UTs based on an equitable criterion of urban population and statutory towns.

GoI had observed (July 2017) the following in respect of the SCP of Dindigul forwarded by GoTN in December 2015:

- The 8.51 sq.km area covering contiguous 28 wards for smart city loses linkages with strategy for converting it to the most livable cities in Tamil Nadu, by conserving local culture and heritage.
- The risk of unavailability of perennial water source highlighted as major risk to be mitigated through subsequent smart city plans.
- The proposal ended up to use smart city funds to meet infra gaps in 28 wards.
- No approvals/resolutions/Annexure.

The above reveals that the initial proposal for Dindigul was not presented in a structured way as per the SCM guidelines containing description of probable sector-wise list of projects to be included in ABD along with Pan-city coverage.

Though the revised proposal including areas such as Urban Engineering, Traffic and Transportation, Urban planning, PPP, Water supply and Sewerage Engineering was forwarded (November 2017), GoI did not consider the proposal and Dindigul was not selected for implementation of Smart City Mission. Thus, non-adherence to SCM guidelines in preparation of the SCP in the first instance had resulted in denial of opportunity to develop another Smart City in the State.

The Government in its reply (May 2025) explained about the process involved in the preparation of SCP. However, the reply is silent about non-adherence to the SCM guidelines in the preparation of the SCP during the initial stage (first proposal) itself.

2.1.3 Non-Implementation of projects proposed in the SCP

The SCLs of the cities engaged the Project Management Consultant (PMC) for the preparation of SCP within the core sector for ABD Area and Pan-city solution. The SCPs (sampled seven cities) had initially proposed 243 projects worth ₹10,035.58 crore for implementation out of grants, PPP, convergence and own/borrowed funds of ULBs. MoHUA Advisory (Number 13 issued in September 2018 and January 2019) provided that dropping/deletion of projects is permissible only in exigent circumstances and cities will have to give a clear reasoning for not undertaking the work.

A total of 52 projects costing ₹1,602.20 crore were not considered for implementation, which was 15.97 *per cent* of planned projects.

City-wise details of non-implementation of projects proposed in the SCP are given in the **Table 2.1** and **Appendix 2.1**.

Table 2.1: Non-implementation of projects proposed in the SCP

(₹ in crore)

Sl. No.	Name of the City	Total number of projects planned	Value	Projects not implemented	Value
1	Chennai	48	1,366.25	8	279.03
2	Coimbatore	45	1,570.28	9	249.92
3	Erode	21	1,543.52	1	250.00
4	Madurai	22	1,342.00	10	236.55
5	Salem	27	1,740.00	0	0.00
6	Tirunelveli	34	1,217.80	14	389.95
7	Tiruppur	46	1,255.73	10	196.75
	Total	**243**	**10,035.58**	**52**	**1,602.20**

(Source: Details furnished by sampled smart cities)

- Only Salem SCL have implemented all the projects proposed.
- There was no specific justification on record for not considering the projects.
- The Tirunelveli SCL proposed 34 projects valuing ₹1,217.80 crore but did not take up 14 projects worth ₹389.95 crore which accounted for 32.02 *per cent* being the highest among the sampled seven cities.
- The funds earmarked for the projects not taken up totalled ₹1,602.20 crore. Out of this, an amount of ₹623.86 crore have been utilised for projects which were not included in the SCP (Unplanned projects).

Some of the major projects not implemented in the selected cities are given below in **Table 2.2.**

Table 2.2: Major projects not implemented in the selected cities

Sl. No.	Name of the Smart City	Name of the project not implemented	Amount (₹ in crore)
1	Chennai	Street light monitoring system	248.47
2	Coimbatore	Drains development	120.34
3	Erode	e-Health	250.00
4	Madurai	Solar energy, Solar rooftop	80.00
5	Tirunelveli	Smart sky walk and Underground electric duct	159.00
6	Tiruppur	Fibre optic network and city communication and smart school	54.00

(Source: Details furnished by sampled smart cities)

The non-implementation of the projects as per the SCP tantamount to violation of guidelines and deprival of envisaged economic growth in the ABD areas besides denial of benefits arising out of the above projects which were taken up after citizen participation.

The Government replied (May 2025) that generally the decisions were taken in accordance with the directions of the SCL Boards and some projects were implemented with modifications through other schemes or by the respective Corporations out of their funds.

The reply is not acceptable since the projects have been proposed based on the city requirement and discussion with the citizens/stakeholders. The non-implementation will reflect on the failure in assessing during the planning stage itself.

2.1.4 Execution of Unplanned Projects

The Advisory[5] issued in regard to Project Management and Monitoring stipulated the conditions under which addition of new projects is permissible as given in **Table 2.3**.

Table 2.3: Permissibility condition for projects

Category	Permissibility
Addition of new projects in SCP	Permissible subject to SCM Guidelines and/or modifications issued from time to time and clear fund availability
Addition outside ABD	Not permissible unless provided in the Guidelines
Non-ICT Projects as Pan-city initiative	Not permissible.
Partially outside ABD	Permissible provided a. significant portion of the project should be within ABD geographic area. For such cases, the proportional cost of the part of project inside the ABD can be considered under SCM. b. the purpose of the work is for first mile/last mile connectivity

(Source: Advisory issued by MoHUA)

The Mission guidelines in paragraph 7 to Annexure 1 is very specific about the citizen's participation in the Mission. The proposals are citizen-driven from the beginning and are achieved through citizen consultations. However, Audit noticed that 44 projects amounting to ₹623.86 crore was executed though they were not included in the original proposal.

City-wise details of unplanned projects taken up for implementation (March 2024) is given in the **Table 2.4** and **Appendix 2.2.**

5 Advisory No. 13 issued on 08/09/2018 and 21/01/2019 by MoHUA.

Table 2.4: Execution of unplanned projects

(₹ in crore)

Sl. No.	Name of the City	Number of Planned Projects	Value	Execution of Unplanned Projects[6]	Value
1	Chennai	48	1,366.25	20	189.66
2	Coimbatore	45	1,570.28	4	20.28
3	Erode	21	1,543.52	0	0
4	Madurai	22	1,342.00	3	60.00
5	Salem	27	1,740.00	0	0
6	Tirunelveli	34	1,217.80	15	314.62
7	Tiruppur	46	1,255.73	2	39.30
	Total	**243**	**10,035.58**	**44**	**623.86**

(Source: Details furnished by sampled smart cities)

Audit scrutiny revealed that out of 44 unplanned projects, 21 projects were executed outside ABD area. Further, three projects were executed in all the zones of the city.

Audit further observed the following:

The unplanned projects (44 numbers) worked out to around 18.11 *per cent* of the planned projects. Out of 44 projects, five projects[7] costing ₹21.42 crore was of routine in nature and should have been implemented by the Corporation concerned out of their own funds. Further, analysis of the unplanned projects revealed that out of 44 projects, 21 projects involving ₹184.71 crore was entirely executed outside ABD area which indicates that the Corporations had utilised the mission funds for the projects which are to be executed by them out of their own funds.

The 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.

"Illustrative cases of projects though not included in the original proposal but were subsequently taken as unplanned projects are green building in GCC campus at Chennai, flood lighting in Nehru Stadium at Coimbatore, construction of guest house in Tirunelveli and convention centre at Madurai".

These projects were taken up in violation of the above advisory and without undertaking citizen consultation.

6 As per SCP in respect of the Sampled Cities, the total number of projects was 243. However, number of projects not executed was 52 and total unplanned projects executed was 44. Further, projects included in the SCP as a single project has been subsequently split into more than one during execution. In view of this, the number of projects executed was 414.

7 (i) Modernisation of Kannammapettai Crematorium, Chennai, (ii) Procurement of Dual desks for Chennai Schools, Chennai (iii) Flood Lighting at Nehru Stadium, Coimbatore, (iv) Construction of Pump House at Ukkadam, Coimbatore and (v) Construction of Washerman Ghat in Tirunelveli Corporation (3 locations).

The Government replied (May 2025) that the projects reflected the immediate and long-term needs of the city, particularly in areas experiencing environmental stress and urban challenges.

The reply is not tenable since the unplanned projects, included, projects which should have been executed by the Corporation out of their own funds instead of executing them under Smart City Fund.

2.1.5 Projects implemented outside the ABD area

The projects should necessarily be implemented in the ABD area to fulfil the aspirations of the citizens of the selected ABD area, which was also reiterated in the MoHUA's Advisory Number 13. Addition of projects which are partially outside ABD location is permissible if significant portion of the project is within ABD geographic area. Further, projects having some portion outside the ABD can also be considered, provided the purpose of the work is for first mile/last mile connectivity. e.g., storm water drainage, water supply, electricity, etc. However, the connectivity portion of such projects cannot be a significant part of the project cost.

In the seven sampled cities, Audit noticed that 70 Projects costing ₹655.43 crore were implemented outside the approved ABD area which was in contravention to the Mission guidelines.

The city-wise details of projects implemented outside the approved ABD Area is given in the **Table 2.5**.

Table 2.5: Projects implemented outside the ABD area

Sl. No.	Name of the City	Projects implemented outside ABD area	Expenditure as on March 2024 (₹ in crore)
1	Chennai	13	76.32
2	Coimbatore	2	67.89
3	Erode	4	90.57
4	Madurai	19	71.54
5	Salem	23	178.39
6	Tirunelveli	4	41.60
7	Tiruppur	5	129.12
	Total	**70**	**655.43**

(Source: Details furnished by sampled smart cities)

Audit noticed the following:

- Of the 70 projects, though the SCLs stated that only 26 projects were executed outside ABD area fully, Audit scrutiny revealed that 34 projects were implemented in outside ABD area fully.
- Salem SCL implemented 23 projects costing ₹178.39 crore being the maximum projects implemented outside ABD area.
- Bio-mining and Solar Power Plants projects had been invariably implemented outside ABD Area.

- Projects like Street lights, Under Ground Sewerage System (UGSS), water supply works and Micro Compost Centres which should have been implemented only in ABD area was executed in both ABD and outside ABD Areas.

The list of projects implemented outside the approved ABD Area is given in **Appendix 2.3**.

As such the projects implemented outside ABD area violated the Guidelines and did not address the mission objective of developing the selected compact area and creating a replicable model within and outside the Smart City besides resulting in thin spreading of resources and denial of envisaged benefits to the citizens of the selected ABD Area.

The Government replied (May 2025) that (i) due to non-availability of land parcel inside ABD area, projects like solar power plants were executed outside ABD area, (ii) due to extension of the ABD area in respect of Salem (2017), the projects were executed in extended ABD area and (iii) in Madurai all the projects were successfully implemented within the ABD area of 12.9 square kilometres.

The reply is not tenable since in respect of Madurai, as per the original proposal the ABD area covers only 1305 acres (when converted it is only 5.28 square kilometres) and further it was replied in June 2024 that projects were implemented in the extended ABD area. Further, projects like Micro compost centre, convention centre and library should have been implemented out of Corporation funds if implemented outside ABD area but the same has been executed out of SCM funds.

Recommendation 2: The Government should ensure that the 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.

2.2 Financial Management

2.2.1 Grant component of proposal

As per Paragraph 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. The SCP envisaged resource mobilisation from Grant (Smart City Mission), Public Private Partnership (PPP), convergence (Central/State Government schemes), funds of ULBs and borrowings of ULBs. The Central Government proposed to give financial support to the Mission to the extent of ₹5,500 crore over five years i.e., on an average ₹100 crore per city per year and the State/ULB would contribute an equal amount. The fund distribution for SCM is detailed in **Table 2.6**.

Table 2.6: Distribution of funds under SCM

(₹ in crore)

Fund Type	GoI	GoTN	Total	Purpose
Project fund	465 (93 *per cent*)	500 (100 *per cent*)	965	Project
A&OE (MoUD) fund	10 (2 *per cent*)	0	10	Mission Directorate and connected activities/structures, Research, Pilot studies, Capacity Building and concurrent evaluation
A&OE (State/ULB) fund	25 (5 *per cent*)	0	25	Towards preparation of SCPs and for PMCs, Pilot studies connected to area-based developments and deployment and generation of Smart Solutions, capacity building as approved in the challenge and online services
Total	**500**	**500**	**1,000**	

(Source: SCM Guidelines)

The funds provided by the GoI are in the form of tied grants, to be kept in a separate Grant fund[8] and utilised only for the purposes for which the grants were given, subject to fulfilment of the conditions laid down by the MoHUA.

Audit scrutiny revealed that though guidelines had stipulated only 96.50 *per cent* of the grant to be allocated as project cost, five of the seven sampled cities had planned projects exceeding 96.50 *per cent* of the total grant for each city.

Further, though the demographic profile **(Table 2.7)** and the population differ with regard to each city, the fund allocated was ₹1,000 crore for each of them.

Table 2.7: Sampled Smart Cities – Demographic details

Sl. No.	City	Year of formation	Total value of the projects proposed from SCM grant (₹ in crore)	Total Area (in Sq.km.)	Total population (in lakh)	ABD area (in Sq.km)	ABD area population (in lakh)
1	Chennai	1688	976.00	426.00	66.80	6.95	2.26
2	Coimbatore	1981	974.00	257.00	16.02	17.00	2.25
3	Erode	2008	998.00	109.52	5.15	9.11	1.10
4	Madurai	1971	1,000.00	148.00	14.71	5.28	2.61
5	Salem	1994	1,000.00	91.34	8.35	2.50	0.71
6	Tirunelveli	1994	964.00	108.65	4.75	3.67	0.46
7	Tiruppur	2008	919.00	159.35	8.77	11.33	2.07

(Source: Details furnished by Seven Smart Cities)

From the above **Table 2.7**, it could be noticed that five out of seven sampled cities have planned projects exceeding the prescribed percentage (96.50 *per cent* i.e., ₹965 crore) out of the SCM grant for each city. Further, the preparation of the SCPs was not given much significance with regard to the extent of the area

[8] Annexure 5 Smart City Mission Guidelines, June 2015.

vis-à-vis the population it proposes to cater with the available smart city funds as the population of the ABD area varied from 0.46 lakh to 2.61 lakh, even though the fund allotted was equal.

2.2.2 Status of Projects

The GoI and GoTN released an amount of ₹6,930 crore to all the seven cities for implementing SCM projects, including the funds meant for meeting out the Administrative and Office Expenses (A&OE). From the overall release of ₹6,930 crore, the Mission Directorate (TUFIDCO) had released an amount of ₹6,923 crore (₹989 crore each smart city). Out of the total release by TUFIDCO, expenditure to the tune of ₹6,341.81 crore had been incurred by the smart cities (31 March 2024).

The number of projects planned as per the SCP for execution by the sampled seven cities was 243[9] involving ₹10,035.58 crore. However, as against this, the total projects taken up for implementation was 414, out of which 387 were completed as on March 2024 which is given in **Appendix 2.4.**

Deficiencies noticed in managing the finance of SCM have been discussed in the ensuing paragraphs and in the selection and implementation of projects are discussed in **Chapter III**.

The Government replied (May 2025) that only nine projects valuing ₹793.83 crore is pending to be completed.

2.2.3 Delay in release of funds and incorrect remittance of interest

As per Paragraph 2 (iii) of the fund Release Order of GoI, the amount released by the GoI should be transferred electronically to the bank account of the SCL, along with the equal amount on matching basis contributed by the State, within seven days of receipt.

As per extant rules and directions of GoI[10], a Single Nodal Agency should ensure that interest earned from the funds released should be mandatorily remitted to the Consolidated Fund of India (CFI) and the Consolidated Fund of the State (CFS) on pro-rata basis and as per the approved funding pattern[11].

Audit noticed the following discrepancies in the release of funds and with regard to remittance of interest by the Single Nodal Agency:

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9 As per SCP in respect of the Sampled Cities, the total number of projects was 243. However, number of projects not executed was 52 and total unplanned projects executed was 44. Further, projects included in the SCP as a single project has been subsequently split into more than one during execution. In view of this, the number of projects executed was 414.

10 Rule 230(8) of GFR, 2017 and GoI instructions dated 23-03-2021.

11 GoI instructions dated 30-06-2021.

(a) There was delay in the release of GoI share by the GoTN and GoTN share to Mission Directorate (TUFIDCO), the delay ranged between two and 714 days **(Table 2.8)**.

Further, the TUFIDCO also released the funds to the respective SCLs belatedly, the delay ranged between 15 and 960 days **(Table 2.8)** from the date of receipt of funds from the Government.

Table 2.8: Delay in release of funds

Delay in release of share by GoTN to TUFIDCO (No. of Days)	Number of cases	Amount (₹ in crore)	Delay in release of share from TUFIDCO to SCL (No. of Days)	Number of cases	Amount (₹ in crore)
02 days to 30 days	31	2,717.60	15 days to 30 days	11	599.00
31 days to 180 days	57	3,325.57	31 days to 180 days	55	3,785.24
181 days to 365 days	08	455.10	181 days to 365 days	08	553.43
366 days to 714 days	09	209.48	366 days to 730 days	12	642.24
			731 days to 960 days	05	30.38
Total		**6,707.75**			**5,610.29**

(Source: Details furnished by TUFIDCO)

As per GoI letter dated 23 March 2021, State Government should designate a Single Nodal Agency and open a Single Nodal Account for implementing each Centrally Sponsored Schemes (CSS) with a condition that the central share shall not be diverted to the Personal Deposit account or any other account by the State Government. Audit noticed that in eight occasions through Government Orders, the State government had diverted (between July 2021 and October 2021) the GoI share amount of ₹1,127 crore to the Personal Deposit account in violation of the guidelines issued by the Ministry of Finance.

(b) Audit scrutiny revealed that interest to the tune of ₹239.40 crore was earned by five cities. However, it was noticed that only an amount of ₹149.01 crore *viz*., ₹62.09 crore and ₹86.92 crore was apportioned into CFI and CFS respectively. Thus, there was short remittance to the tune of ₹57.61 crore and ₹32.78 crore to the CFI and CFS respectively as detailed in the **Table 2.9.**

Table 2.9: Short remittance of interest by sampled Smart Cities

Sl. No.	City	Total Interest Earned (₹ in crore)	Remittance (₹ in crore)					
			GoI			GoTN		
			To be remitted	Remit-ted	Short Remittance	To be remitted	Remit-ted	Short Remittance
1	Chennai	82.51	41.26	14.66	26.60	41.26	Nil	41.25
2	Coimbatore	76.79	38.39	28.95	9.44	38.39	39.26	(-) 0.87
3	Madurai	48.43	24.21	9.70	14.52	24.21	31.19	(-) 6.97
4	Tirunelveli	14.42	7.21	2.40	4.81	7.21	9.10	(-) 1.89
5	Tiruppur	17.25	8.63	6.38	2.24	8.63	7.37	1.25
	Total	**239.40**	**119.70**	**62.09**	**57.61**	**119.70**	**86.92**	**32.78**

(Source: Details furnished by Smart Cities)

(c) TUFIDCO had retained a sum of ₹11 crore without any specific authorisation from the GoTN/GoI which is against the Mission guidelines and objective since the funds are meant only for the implementation of project under SCM by the cities. No specific reason was offered by TUFIDCO for the retention of mission funds.

(d) GoI had released an advance amount of ₹24 crore[12] to the GoTN at the rate of ₹2 crore per smart city for 12 smart cities as part of GoI funds for A&OE for preparation of SCP and based on the GoI release, GoTN released the amount to TUFIDCO for further release to 12 cities[13]. Since, Dindigul City was not selected under the mission, the amount (₹2 crore) advanced should have either been released to Dindigul SCL or should have remitted back to the Government. Instead, TUFIDCO retained the amount which is not in order.

The Government replied (May 2025) (i) that after the SNA was opened in January 2022, no funds were credited to PD Account, (ii) the actual expenditure incurred by TUFIDCO will be adjusted against ₹11 crore, and any balance will be refunded or released to the respective cities after final reconciliation and (iii) the outstanding balances in the arrears of interest payable to both GoI and GoTN will be cleared expeditiously and (iv) action has already been initiated by TUFIDCO to refund ₹2 crore.

The reply is not tenable in respect of opening of PD Account since the account was opened in January 2022 only even though it was instructed to do so in March 2021 itself and further that the reply is silent about the delay in release of funds.

12 Ministry of Urban development release order K-15017/01/2015-SC-1 Dt.01-09-2015.
13 G.O.(D)No.671 MAWS (MA 2) department, dated 12-01-2015.

2.2.4 Mobilisation of funds

As per Clause 11.3 of Mission Guidelines, the cities were expected to mobilise funds and plan accordingly in addition to the funds being made available by State and Central Governments. The financing options such as convergence with Central and State Governments schemes, generating own resources, proposing Public Private Partnership (PPP) projects, market borrowings, loans and even by inviting equity partners for the projects and States/ULBs own resources from collection of user fees, beneficiary charges and impact fees, land monetisation, debt, loans, must be explored for the sustainability of the SCLs. The city wise resource mobilisation is depicted in the **Table 2.10**.

Table 2.10: Resource Mobilisation

(₹ in crore)

Sl. No.	City	Grant		PPP/Convergence/Own source/Debt		Total	
		Planned	Executed	Planned	Amount involved	Planned	Executed
1	Chennai	976.00	929.61	390.24	16.57*	1,366.24	946.18
2	Coimbatore	974.00	919.37	596.00	180.94	1,570.00	919.37
3	Erode	998.05	879.44	545.46	159.43	1,543.51	879.44
4	Madurai	1,000.00	953.87	342.00	121.54	1,342.00	953.88
5	Salem	1,000.00	897.22	932.60	0.00	1,932.60	897.22
6	Tirunelveli	964.00	858.29	257.05	114.50	1,221.05	858.29
7	Tiruppur	918.60	887.43	337.11	258.49	1,255.71	887.43
	Total	**6,830.65**	**6,325.23**	**3,400.46**	**851.47**	**10,231.11**	**6,341.81**

* Amount received from other sources for PPP projects.

(Source: SCP of smart cities and data furnished by the respective cities)

Audit scrutiny revealed that as against ₹1,630.03 crore was planned, only four projects involving ₹16.57 crore was executed under PPP mode. Further, the remaining amount of ₹834.90 crore (out of ₹851.47 crore) was transferred from SCM funds for execution under convergence scheme in violation of SCM guidelines.

Audit analysis of funds mobilised revealed that though the SCPs for Smart Cities envisaged convergence models for water supply, sewerage, housing schemes etc., none of the sampled Smart Cities mobilised funds from other existing schemes for implementation of projects envisaged in the SCPs. Instead, the SCM grants have been transferred for execution of such projects through other schemes and agencies *viz*., AMRUT, TWAD Board, Tamil Nadu Housing Board, etc., as illustrated in the following instances:

Water supply/Sewerage schemes: As per the SCP of Coimbatore Smart City, water supply scheme in Coimbatore Corporation was under implementation through JNNRUM and hence no amount was allocated for water supply scheme. However, SCM fund amounting to ₹150.73 crore was transferred as convergence fund for the ongoing 24x7 Water supply taking into account the ABD area proportionate development cost. Similarly, Erode, Tirunelveli and Tiruppur SCLs had also implemented these projects through transfer of SCM funds to TWAD Board/City Municipal Corporation.

Housing schemes: One of the features outlined in the SCM guidelines for a comprehensive development in Smart Cities was affordable housing especially for the poor. Though Coimbatore, Erode and Tiruppur SCLs had envisaged housing projects valued at ₹290.45 crore, the implementation was carried out through transfer of SCM funds amounting to ₹48.46 crore[14] to Tamil Nadu Housing Board/Tamil Nadu Urban Habitat Board. Further, though Chennai SCP did not envisage any housing projects, an amount of ₹15.22 crore of SCM fund was transferred to the Tamil Nadu Urban Habitat Board towards beneficiary cost for resettlement of 268 slum families as part of a project undertaken for restoration of Villivakkam pond.

Under PPP, though it was planned to mobilise funds to the extent of ₹1,630.03 crore by sampled cities, only four projects (₹16.57 crore) by Chennai and Coimbatore SCLs had been executed.

Similarly, no funds were mobilised from other sources such as own funds, market borrowings, ULB contribution etc., to implement the projects.

The financial plans projected in the SCPs were viable in the event of envisaged mobilisation of funds and SCLs functioning independently. However, non-mobilisation of other sources of funds and lack of operational independence of SCLs as discussed in **Paragraph 3.1.4**, the implementation of projects were solely dependent on Government grants leading to non-implementation of all projects included in the SCPs.

It is pertinent to mention that GoI schemes *viz*., Street Light National Programme; Solar Subsidy of MNRE; Lake Restoration Programme; River Restoration Programme and Integrated Power Development Scheme (Smart Metering) were available for the SCLs to implement their projects through convergence. However, the same was not explored since they were not considered in their proposals. Further, similar projects such as street LED lights, lake restoration works etc. were executed using SCM funds.

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[14] Coimbatore - ₹30.21 crore, Erode - ₹14.10 crore and Tiruppur - ₹4.15 crore.

The Government replied (May 2025) that despite earnest attempts, several Smart Cities faced significant challenges in fully realising funds through these alternate sources due to various factors like limited investor interest, procedural complexities, market readiness, and administrative constraints, affected the successful materialisation of expected resources.

Recommendation 3: 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.

2.2.5 Diversion of A&OE Funds

As per Clause 11.4 of SCM guidelines, five *per cent* of grant of GoI grant is allocated for Administrative and Office Expenses (A&OE) funds for State/ULB which shall be utilised towards preparation of SCPs and for Project Management Consultants, Pilot studies connected to area-based developments and deployment and generation of Smart Solutions, capacity building as approved in the challenge and online services. Further, as per GoI instructions[15], the fund allocated for A&OE should not be utilised for purchase of vehicles and equipment, construction and maintenance of buildings, creation of posts and any other expenditure of capital nature etc. However, Audit observed that an amount of ₹23.83 crore had been diverted by six cities[16] for the purposes of meeting project related expenses, procurement of cars, purchase of computers, legal charges etc., as detailed below:

In Chennai SCL ₹66.58 lakh was paid for advertisement expenditure of the GoTN, ₹18.44 lakh to consultants for projects not related to Smart City, ₹5.14 lakh for expenses like workshop expenses and printing expenses and ₹15.33 crore for expenses relating to shifting/resettlement of families.

In Tiruppur SCL, ₹31.39 lakh was paid for ULBs Conference hall renovation, 110 inch LED TV etc. Similarly, ₹56.76 lakh was paid for purchase of 60 numbers of computers and printers and ₹18.45 lakh towards purchase of furniture to ULBs main and zonal offices.

In Coimbatore SCL, an amount of ₹25.79 lakh was paid for refund of Earnest Money Deposit to Contractors and an amount of ₹25.33 lakh was paid for removal of hyacinth weeds and jungle clearance at Singanallur Lake which is situated outside ABD area.

In Erode SCL, ₹2.59 crore was paid as staff salary of UGSS section of Erode Corporation from A&OE funds.

15 Paragraph 2.V of MoUD, Lr.No.K-15016/152(12)/2015-SC-I dated 04-01-2017.
16 Chennai, Coimbatore, Erode, Madurai, Salem and Tiruppur.

In Salem SCL, an amount of ₹2.95 crore was transferred from A&OE funds which includes ₹1.95 crore to Accounts Officer, CMA and ₹1 crore to Urban Administration Building Society.

An amount of ₹48.36 lakh was paid from A&OE funds for payment to contractor in the ICCC Project of Madurai Smart City.

As such, Smart cities had violated the GOI directions and the mission guidelines.

The Government justified (May 2025) that the expenditure were incurred in order to support the smooth functioning of administrative and project-related activities and also replied that action is also being taken to refund the amount in Salem and Coimbatore. The reply, however, is silent about the action taken to refund the amount pertaining to other cities pointed out by Audit.

2.2.6 Diversion of funds

(i) To ineligible project

Clause 2.4 of SCM Guidelines broadly categorises the projects to be implemented under core infrastructure elements and 'construction of guest house' was not specified in the above categorisation.

Scrutiny of records of Tirunelveli SCL revealed that consent of Board was accorded (06 September 2021) to utilise SCM funds for 'Construction of Guest House' at Palayamkottai ward office in Tirunelveli Corporation at a project cost of ₹0.86 crore[17]. The work had been completed (31 March 2023) at a cost of ₹0.88 crore. However, based on Audit observation the Board subsequently (June 2023) changed the project name as 'Construction of Training center'.

During the field visit, Audit noticed that no physical changes (Training related structure, infrastructure etc.) have been carried out to utilise the building as a training center and the building was not put to use till date (July 2024). The creation of the above asset out of Smart City Fund was in contravention to SCM Guidelines and further the created asset was kept idle without usage.

The Government replied (May 2025) that subsequent to the audit observation, Tirunelveli SCL has taken the necessary steps to formalise this change by obtaining all required approvals from the Tirunelveli Smart City Board and ensures that the project aligns with the strategic objectives of the Smart City Mission and effectively serves its intended beneficiaries. However, details of training programmes conducted, including participants, themes, and outcomes stated to have been enclosed has not been furnished to Audit.

(ii) To meet ULB's revenue expenditure

The shops, public toilet, street lights, bore well etc., in the old bus stand complex functioned under the control of Tiruppur City Municipal Corporation (TCMC) was demolished to implement the project of 'Re-development of old bus stand

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[17] Administrative sanction accorded by the Commissioner of Municipal Administration on 05-10-2021 and Technical sanction given by the CE, CMA on 25-10-2021.

under SCM'. When the project was nearing completion, TCMC approached the TANGEDCO for obtaining new EB service connection for the newly constructed Bus stand. However, the TANGEDCO insisted payment of old EB dues to be remitted by the TCMC to the tune of ₹15.52 lakh in order to consider the request of TCMC.

Audit noticed that, EB dues was remitted to TANGEDCO (27 May 2022) by TCMC from the Smart City Mission fund as part of the SCM project. Action on the part of Managing Director, SCL, Tiruppur to divert SCM funds to settle the dues of TCMC out of the Smart City funds was against the mission guidelines since the grant was meant for implementing the sanctioned projects under the mission and not for meeting the routine general expenses of the Corporation.

The Government replied (May 2025) that subsequent to the audit observation the payment has been recouped.

2.2.7 Centage charges

Under Smart City Mission programme, estimate for the projects are being prepared and submitted for the Board's approval. The approved project is being forwarded by the respective cities (except Chennai SCL) to the Commissioner of Municipal Administration (CMA) for obtaining Administrative and Technical sanctions. After scrutiny, the Chief Engineer, CMA approves the estimates and accords Technical Sanction (specifying conditions to be fulfilled). One such condition is that the SCLs should remit the centage charges at 2.5 *per cent* of estimate in connected Head of account as per extant orders[18] and the challan in proof of remittance should be sent to the CMA office. This forms part of the project cost and is to be met out from the project component of the grant. The details of centage charges for the projects implemented by the sampled cities and the status of remittance are detailed in **Table 2.11**.

Table 2.11: Status of Centage charges remittance

Sl. No.	Name of the City	Centage (₹ in crore)	Remittance (₹ in crore)
1	Chennai	No Centage charges applicable	
2	Coimbatore	12.87	Nil
3	Erode	2.91	2.73
4	Madurai	3.32	Paid
5	Salem	16.67	Paid
6	Tirunelveli	17.50	Paid
7	Tiruppur	12.97	Paid

(Source: Details furnished by Seven Smart Cities)

Audit noticed that there was pendency in the remittance of centage charges by Coimbatore and Erode SCLs for the completed projects as of March 2024. Further, no liability was created in their books of accounts for making future payments towards the same.

18 G.O.No. 213 dated 22 September 1999.

As the Smart Cities have not created any liability towards centage charges, it would be difficult on the part of Coimbatore and Erode smart cities to pay the same to CMA as the amount released to the SCLs have been spent on projects and hence no separate amount would be available with them to pay the centage charges from the funds of both the SCLs.

The Government replied (May 2025) that with reference to the Audit Observations, in respect of Erode the entire amount of ₹0.18 crore has since been remitted and for Coimbatore an amount of ₹3.47 crore has been remitted and the outstanding balance amount will be settled upon reconciliation of accounts.