



# CHAPTER III

## FINANCIAL MANAGEMENT



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The fund sharing pattern among Government of India, Government of Kerala and the mission cities was in the ratio 50:30:20. GoI had released ₹1161.17 crore as project fund during 2015-2024. Apart from project fund, GoI released ₹102.95 crore towards administrative and office expenses, reform incentive, preparation of GIS based master plan and Local Area Plan/Town Planning Schemes.

There was delay ranging from 43 days to 15 months in release of GoI funds by GoK to SMMU. The GoI released ₹1161.17 crore against which the State Government released only ₹691.85 crore in lieu of ₹696.70 crore, resulted in a short release of ₹4.85 crore. Due to slow pace in utilisation, State had not received GoI funds during 2018-19 and 2022-23. Audit noticed rush of expenditure during the last quarter of 2023-24 to show mandatory utilisation for obtaining final instalment and parking of ₹204.47 crore with KWA in violation of the GoI instructions. Road restoration charges of ₹76.07 lakh remitted by Kozhikode Corporation to PWD in respect of two works, which were subsequently cancelled due to public protest, were not refunded to the project fund. SMMU retained reform incentive fund of ₹7.08 crore in contravention of the scheme guidelines and scheme funds of ₹15.04 crore was expended towards inadmissible projects. Kollam Corporation alone published GIS based master plans as of March 2024.

According to the Mission guidelines, 50 *per cent* of the total project cost was the central share and the balance amount was to be met by the State and ULBs. Government of Kerala received ₹1161.17 crore<sup>20</sup> towards central share for the implementation of AMRUT during the period 2015-16 to 2023-24. Apart from project fund, GoI released funds towards preparation of GIS based master Plan, preparation of Local Area Plan/Town Planning Scheme and Administrative and Office Expenses (A&OE). GoK also received Reform Incentive funds for achieving the prescribed set of milestones.

Funds received from Government of India for the scheme during mission period is detailed in **Table 3.1**.

**Table 3.1: Fund released by GoI during 2015-2024**

					<i>(₹ in crore)</i>
Project fund received from GoI	A&OE	Reform Incentive	GIS based Master Plan	LAP/ TPS	Grand Total
1161.17	36.81	59.82	5.12	1.20	1264.12

*(Source: Data furnished by SMMU)*

Guidelines of the scheme provide for matching contributions from State/ULB only towards the project fund and fund for other components were to be fully borne by Government of India.

<sup>20</sup> Includes ₹8.09 crore adjusted by GoI towards interest accrued on funds released

Audit analysis of receipt and utilisation of funds under all the sub-schemes are detailed in succeeding paragraphs.

### 3.1 Project Fund

GoI approved Central Assistance of ₹1161.17 crore i.e., 50 per cent of the total project cost for the implementation of the scheme in the State. Remaining project cost was to be shared in the ratio 30:20 between State Government and Urban Local Bodies (ULBs) respectively. Against the central assistance of ₹1161.17 crore, projects for ₹2357.69 crore were approved in three SAAPs. Year-wise receipt and utilisation of funds as of 31 March 2024 are given in **Table 3.2**.

**Table 3.2: Year-wise receipt and utilisation of funds**

(₹ in crore)

Year	Opening Balance	Fund released			Total Fund available	Expenditure	Balance
		GoI	State	ULB*			
2015-16	0	57.60	0	0	57.60	0	57.60
2016-17	57.60	77.28	85.21	0	220.09	0	220.09
2017-18	220.09	97.36	36.40	2.42	356.27	12.09	344.18
2018-19	344.18	0	40.07	84.37	468.62	421.87	46.75
2019-20	46.75	200.23	86.53	63.09	396.60	315.46	81.14
2020-21	81.14	401.85	127.76	72.06	682.81	360.29	322.52
2021-22	322.52	119.62	119.77	44.79	606.70	223.96	382.74
2022-23	382.74	0	71.77	51.59	506.10	257.96	248.14
2023-24	248.14	207.23	0 <sup>21</sup>	63.00	518.37	315.01	203.36
<b>Total</b>		<b>1161.17</b>	<b>567.51</b>	<b>381.32</b>		<b>1906.64</b>	

\*Amount contributed by ULBs at the time of making payments relating to projects  
(Source: Data furnished by SMMU)

#### 3.1.1 Delay in release of funds by GoK

To ensure timely availability of funds with SMMU for implementation of the projects, GoI had stipulated that State Government shall release within seven days (this was changed to one month vide directions dated 28 February 2018) the central assistance received along with State share to the SMMU. However, there was delay ranging from 43 days to 15 months in release of GoI share along with State share to SMMU. Audit noticed that final instalment of GoI share amounting to ₹207.23 crore released to the State on 28 March 2024 was released to SMMU only on 25 June 2024. Details are shown in **Appendix 3.1**.

During Exit Conference (September 2024) Principal Secretary, LSGD stated that there was delay in release of funds from Finance Department due to financial exigencies which occurred at that time. It was also stated that the department is trying to adhere to the GoI instructions.

<sup>21</sup> State share of ₹124.34 crore was released in June 2024

### 3.1.1.1 Short release of State Government share

Funds released by Government of India were to be transferred to the State/City Mission Management Unit(s) along with State/ULB share and the amount was to be kept in the Single Nodal Agency (SNA) Account maintained by SMMU. As the interest accrued on the deposits available in these bank accounts was treated as mission fund, GoI adjusted an amount of ₹8.09 crore interest accrued from the second and third instalment of central assistance released<sup>22</sup>. Against the GoI release of ₹1161.17 crore (including adjusted interest portion of ₹8.09 crore), State Government should have released state share of ₹ 696.70 crore. However, State Government released only ₹691.85 crore<sup>23</sup>, resulting in a short release of ₹4.85 crore.

### 3.1.1.2 Delay in release of central share due to slow pace in utilisation

According to the scheme guidelines, the agreed GoI share would be released in three instalments of 20:40:40. Upon approval of the SAAP by the Apex Committee the first instalment (20 per cent) of the Central Assistance was to be released. The second and the third instalments of 40 per cent each of the approved cost were to be released quarterly, after utilization of 75 per cent of the previously received instalments in each SAAP. Further, balance amount available with SNA Account should be less than 25 per cent of the amount claimed.

Audit noticed that after receipt of first instalment of the approved SAAPs (I, II and III) in December 2015 (₹57.60 crore), September 2016 (₹77.28 crore) and February 2018 (₹97.36 crore), timely receipt of second instalment from GoI was hindered due to under-utilisation of funds received. Audit noticed that as of March 2018 only 2.61 per cent (₹6.05 crore) of the central fund received could be utilised. Due to slow pace in utilisation, the State had not received GoI funds during 2018-19 and 2022-23. This further affected release of final instalment, which was released only towards the end of the extended project period (28 March 2024). Audit noticed that ULBs could utilise ₹1906.64 crore (March 2024) from the available fund of ₹2110 crore<sup>24</sup> and ₹203.36 crore remained unutilised.

### 3.1.1.3 Parking of funds with KWA

To ensure effective cash management and transparency in public expenditure, GoI directed (March 2021) the State to open a SNA Account at the State level for utilization of funds under Centrally Sponsored Schemes. It was directed that drawal of funds from the SNA Account should be on real time basis as and when payments are to be made to beneficiaries, vendors; etc.

On verification of the transactions in the SNA Account maintained for implementation of the scheme it was noticed that utilisation for the year 2023-24 (up to December 2023) was ₹56 crore and ₹338.14 crore was available in the SNA account as of 31 December 2023. However, the outflow from the

<sup>22</sup> As per GoI orders dated 28 August 2019 (₹5.49 crore) and 18 September 2020 (₹2.6 crore)

<sup>23</sup> Includes State share of ₹124.34 crore released (25 June 2024) against the GoI share released on 28 March 2024

<sup>24</sup> ₹2110 crore = ₹1161.17 crore + ₹567.51 crore + ₹381.32 crore

SNA account for the last three months of 2023-24 was ₹260.68 crore<sup>25</sup>, thereby reducing the SNA account balance to ₹77.46 crore. Rush of expenditure during the last quarter was analysed in audit and it was noticed that an amount of ₹204.47 crore<sup>26</sup> remained parked (March 2024) with KWA in violation of the GoI instructions.

Audit noticed irregular release of ₹3.87 crore in February 2024 for meeting the expenditure relating to trial run and commissioning of WTP at Vasoorchira (₹2.19 crore) and STP at Kureepuzha (₹1.68 crore). WTP was expected to be commissioned only in December 2025 as work relating to raw water pumping to the WTP was blocked up due to non-availability of permission from NHAI. Further, the STP could not be made operational due to non-laying of sewer lines. Release of the amounts, which was due only after successful commissioning of the projects, in advance, was irregular and the amount would remain parked with KWA till commissioning of the plant.

GoK in March 2024 sanctioned, on the recommendation of thirty fifth SHPSC, transfer of 41 projects in AMRUT 2.0 to AMRUT 1.0 and Thiruvananthapuram, Kollam and Kochi Corporations released advance of ₹20.80 crore to KWA towards 29 projects. Audit noticed that these projects were already commenced and first part bills were paid. As such there was no requirement of payment of advance to KWA towards these projects. Further, against the 20 per cent advance, stipulated in tripartite agreement, Secretary, Thiruvananthapuram Corporation transferred 40 per cent of the project cost in advance in respect of 16 projects.

The above instances indicate that funds were parked with KWA only to show utilisation of the GoI funds and to obtain release of central share.

Principal Secretary, Local Self Government Department (LSGD) during exit conference (September 2024) stated that the amount was transferred to KWA so as not to lose final tranche of funds from GoI. The reply is not tenable as parking of funds with implementing agencies is against financial principles and also defeated the very purpose of opening the SNA account.

### **3.2 Administrative and Office Expenses**

Funds for making institutional arrangements that support Mission implementation form part of administrative and office expenses. Ongoing Comprehensive Capacity Building Programme (CCBP), Independent Review and Monitoring Agencies (IRMA), etc., are also funded from this allotment. Audit scrutinised records relating to release of A&OE funds by GoI and subsequent release by State Government to SMMU. Details of fund received and expenditure incurred are given in **Table 3.3**.

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<sup>25</sup> Includes A&OE, GIS and reform incentive funds.

<sup>26</sup> Includes interest accrued ₹6.22 crore (not accounted for by SMMU towards the project).

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**Table 3.3: Administrative and office expenses - Funds released***(₹ in crore)*

Year	GoI Fund		Amount released by GoK to SMMU	Expenditure
	Due from GoI	Amount released		
2015-16	2.25	2.25	2.25	1.08
2016-17	10.30	5.15	5.15	1.03
2017-18	-	0	0	8.39
2018-19	15.49	15.49	15.49	9.14
2019-20	18.62	9.31	9.31	5.08
2020-21	-	0	0	4.79
2021-22	18.45	4.61	4.61	4.66
2022-23	-	0	0	2.08
2023-24	-	0	0	0.02
<b>Total</b>	<b>65.11</b>	<b>36.81</b>	<b>36.81</b>	<b>36.27</b>

*(Source: Data furnished by SMMU)*

Of the ₹65.11 crore due from GoI, for meeting A&OE expenses, only ₹36.81 crore was received. It was seen that there was delay ranging from 35 days to 19 months in releasing A&OE funds to SMMU by State Government. Mission Director replied that delay in financial clearance by the State Government was the reason for the delayed release.

Audit noticed that the amount expended included an amount of ₹76.07 lakh deposited with PWD towards road restoration charges during October – December 2021 by Kozhikode corporation for laying sewer lines in connection with construction of STPs at Kothi and Avikkal. Though the works were cancelled due to public protest, the road restoration charge remitted to PWD has not so far been claimed and remitted to project fund by the Corporation (November 2024). Corporation replied (December 2024) that road restoration charges remitted to PWD would be adjusted against the works to be executed under AMRUT 2.0. Audit also noticed that though an amount of ₹2.25 crore (at the rate of ₹25 lakh per ULB) was released to SMMU for preparation of SLIP/capacity building of mission cities, SMMU did not transfer the amount to the mission cities. SMMU could expend only ₹63,000 for the purpose.

Principal Secretary, LSGD during exit conference (September 2024) stated that funds were not transferred to ULBs for preparation of SLIP as there was no demand from ULBs. However, Government assured to look into the possibility of transferring the assistance to ULBs. Reply is not tenable as funds specifically released by GoI towards preparation of SLIPs by the mission cities should have been transferred to them, as mission cities were responsible for preparation of SLIPs. Further, GoI had stipulated for release of funds to ULBs within one month, which was also not adhered to.

### 3.3 Reform Incentive

One of the Mission objectives was to improve governance through a set of Reforms. During the Mission period, 11 Reforms were to be implemented. Incentive amount was released based on the performance of the ULB in the preceding year on achieving reforms stipulated in the guidelines. The details of fund received by the State and expenditure incurred are given in **Table 3.4**.

**Table 3.4: Reform incentive – Funds received and released by the State***(₹ in crore)*

Year	GoI Released	GoK Released	Amount released to ULBs	Expenditure
	Amount released	Amount released to SMMU		
2016-17	15.00	0	0	0
2017-18	16.68	15.00	12.00	0
2018-19	15.89	16.68	3.35	0
2019-20	12.25	28.14	32.47	38.57
2021-22	0	0	0	9.95
2022-23	0	0	0	0
2023-24	0	0	4.92	11.00
<b>Total</b>	<b>59.82</b>	<b>59.82</b>	<b>52.74</b>	<b>59.52</b>

*(Source: Data furnished by SMMU)*

According to the mission guidelines, incentive award amount could only be used by mission cities on admissible components of AMRUT, including new projects. Though incentive could not be used as State share, ULBs could utilise the incentive amount towards project funding. However, ₹7.08 crore out of ₹59.82 crore was retained by SMMU (March 2024) in contravention of the scheme guidelines. Of the ₹7.08 crore retained by SMMU, an amount of ₹4.00 crore was expended by SMMU towards inadmissible project viz., preparation of Nava Kerala Urban Policy.

During exit conference Principal Secretary, LSGD (September 2024) stated that through Nava Kerala Urban Policy Government intended to frame policies on reforms on local bodies. The reply is not acceptable as the guidelines permit for utilisation of reform incentive fund only by the mission cities and did not permit utilisation of the fund for preparation of policy by Government.

### **3.4 Loss of Central assistance for the preparation of GIS based Master Plan, LAP and TPS**

#### **3.4.1 Preparation of GIS based Master Plan**

Formulation of GIS based master plans for mission cities was a sub scheme under AMRUT. The objective was to develop common digital geo-referenced base maps and land use maps using Geographical Information System (GIS) and Master Plan Formulation for the selected AMRUT Cities. For implementation of the sub-scheme in the mission cities ₹6.40 crore was allocated by GoI. The fund was to be released in four instalments (20:40:20:20) and the State received ₹5.12 crore being the first three instalments. Chief, Town Planner, Thiruvananthapuram was responsible for preparation of the maps and GIS based master plan. Funds received from GoI for GIS based master plan is detailed in **Table 3.5**.

**Table 3.5: Funds received from GoI for GIS based master plan.***(₹ in crore)*

Year	GoI release	GoK release to SMMU	Expenditure
2017-18	1.16	1.16	0
2018-19	0	0	0.79
2019-20	2.31	2.31	2.45
2020-21	0	0	0.15
2021-22	1.65	1.65	0.79
2022-23	0	0	0.43
2023-24	0	0	0.31
<b>Total</b>	<b>5.12</b>	<b>5.12</b>	<b>4.92</b>

*(Source: Details furnished by SMMU)*

As per the reform guidelines, the fourth (final) instalment of fund could be claimed after the submission of the final notification of the sanctioning of Master Plan for nine AMRUT cities and achieving utilisation of 75 per cent of the GoI fund. However, none of the ULBs except Kollam Corporation could finalise the Master Plan (March 2024) which led to non-receipt of fourth instalment of ₹ 1.28 crore.

### 3.4.2 Local Area Plan (LAP) and Town Planning Scheme (TPS)

A pilot project on formulation of Local Area Plan (LAP) and Town Planning Scheme (TPS) was planned in 25 AMRUT cities in India and Thiruvananthapuram was the city selected under the scheme. The Local Area Plan aims for redevelopment of existing brown field areas<sup>27</sup> whereas Town Planning Scheme facilitates for planned expansion of green field areas<sup>28</sup>.

Against ₹two crore sanctioned for implementation of the project (₹one crore each for LAP and TPS) State had received ₹1.2 crore (first two installments<sup>29</sup> i.e. 60 per cent). Tamil Nadu Institute of Urban Studies (TNIUS) was identified by GoI for the preparation of LAP and TPS. The release of funds for the scheme was based on the achievement of milestones and not on utilisation of funds. As the milestone prescribed ‘framing of rules for land pooling’ could not be achieved, GoK lost ₹0.80 crore sanctioned for the scheme. Though an amount of ₹0.65 crore was utilised, the objective remains unachieved (March 2024).

## 3.5 Inadmissible payments

Guidelines permit utilization of scheme funds towards implementation of project components only. However, audit noticed instances of utilizing mission funds for construction of building for KWA, settlement of liability of previous Schemes etc., in deviation from the guidelines. Details are given in **Table 3.6**.

<sup>27</sup> Thampanoor, Palayam, Thycadu and Vazhuthacadu wards of Thiruvananthapuram Corporation

<sup>28</sup> Vizhinjam area of the Corporation

<sup>29</sup> In July 2019 and May 2022

**Table 3.6: Instances of inadmissible payments**

Sl. No.	Purpose for which amount diverted	Name of ULB	Amount (₹ in crore)	Type of fund	Remarks
1.	Five office buildings for KWA	Thiruvananthapuram and Kochi corporations and Palakkad Municipality	2.48	Project Fund	Construction of three Smart Offices and two office buildings.
2.	Settlement of court decree of KSUDP liability from AMRUT funds	Kollam Corporation	0.73	Project Fund	Municipal Corporation settled the dues payable to the contractor in connection with construction of underpass near Chinnakada (Kollam) under Kerala Sustainable Urban Development Project (KSUDP).
3.	Construction of synthetic turf in the playground at Chavakkad High School	Guruvayur Municipality	0.62	Project fund	Constructed synthetic turf, drainages, toilet block etc., in the playground of the school.
4.	Nava Kerala Urban Policy	SMMU	4.00	Reform Incentive Fund	Withdrawn (March 2024) from the SNA account and kept in a separate account of the Urban Director for preparation of Nava Kerala Urban Policy.
5.	Meeting O&M cost from the project fund	Thiruvananthapuram and Kochi Corporations	7.21	Project fund	Guidelines prohibits drawing O&M cost from project funds. However, O&M cost was included in the project fund for purchase and installation of 53 flow meters, smart meters and 75 MLD WTP at Aruvikkara in Thiruvananthapuram Corporation and STP at Elamkulam at Kochi Corporation.
	<b>Total</b>		<b>15.04</b>		

(Source: Information collected from SMMU/CMMU/KWA)

Audit observed that project fund to the tune of ₹11.04 crore and reform incentive fund to the tune of ₹four crore have been diverted towards executing inadmissible projects.

Agreeing to the Audit observation regarding construction of office buildings by KWA and incurring O&M cost from project fund, Principal Secretary, LSGD during exit conference (September 2024) assured to obtain the response of Water Resources Department. Further response has not been received (February 2025).

### **3.6 Avoidable burden due to upfront release of loan assistance to ULBs**

According to the guidelines, the mission cities should contribute 20 per cent of the project fund. As most of the mission cities do not have the financial capacity to meet the ULB share, tenth SHPSC meeting decided to release 15 per cent of ULB share of the project cost in respect of water supply and sewerage/septage management projects as loan by the State Government. The amount was to be recovered in equated instalments, over a period of 10 years from the

Development fund of the ULBs concerned with interest at the rate 7.5 *per cent*. Accordingly, GoK released ₹254.36 crore to SMMU in two instalments during July and November 2018. The loan amount was distributed to the ULBs by SMMU in five instalments during 29 October 2018 to 15 December 2021. However, the amount was transferred to SNA account operated by SMMU in March 2022.

Audit noticed that, of the ₹254.36 crore loan amount released, ₹217.83 crore (86 *per cent*) could only be expended (March 2024) due to slow pace in implementation and cancellation of 17 projects under water supply and sewerage sectors, and ₹36.56 crore remained unutilised with SMMU. As the mission cities were to repay the amount with interest, Government should have released the amount based on the progress in expenditure achieved year after year.

***Recommendation 3: Government should ensure that scheme funds are not diverted and do not remain parked with implementing agencies.***