

CHAPTER II**Coordination and Planning****2.1 Coordination**

2.1.1 The company, jointly owned by the GOI and the GNCTD on 50:50 basis, is neither a Central PSU nor a State PSU. For the issues concerning the Central Government, Ministry of Urban Development (MoUD) has acted as the nodal ministry and likewise, the Department of Transport for the GNCTD has been providing the requisite coordination as the nodal ministry. Under the unique administrative model evolved by the GOI, the company has not been put under the direct control of any administrative ministry. The administrative model, however, presents ambiguity relating to the issues of (i) coordination and control by the executive government and (ii) the proper forum for legislative accountability. The company has also not signed any Memorandum of Understanding with the Ministry as required by the Department of Public Enterprises' (DPE) guidelines of 9 January 2007.

2.1.2 The subject of the administrative ministry came up for discussion by the Board of Directors (BOD) in its 31st and 32nd meetings. While the Chairman, BOD, stated that the contract for the rolling stock should be sent to the JBIC for concurrence through the administrative ministry as laid down in the guidelines of the Department of Economic Affairs (DEA), the MD was of the view that if this practice was followed, the confidentiality would be lost. The Chairman was reported to have decided to take up the matter with the DEA. However, no clarification has been sought from the DEA till date (May 2008). Thus, in the absence of any explicitly laid down administrative ministry, the company did not comply with the DEA's prescribed procedures in processing the JBIC loans which, *inter alia*, provided that the proposals relating to evaluation of bids, award of contracts, *etc.*, wherever required, as per the loan agreement should be sent by the executing agency, *i.e.*, the company to the JBIC through the administrative ministry concerned.

2.1.3 The management stated (April 2008) that the unique experiment of a joint venture had established itself as a success story and added that placing the company under one administrative ministry would give it a different connotation of being either a Central PSU or a State PSU which would not be in consonance with the 50:50 character of a joint venture and would thus be a retrograde step.

2.1.4 The project from its very inception faced many challenges, some conventional and some city and project centric. It goes to the credit of the company that it managed to override these constraints and completed the project successfully. This was made possible by the adoption of certain innovative practices like fast track decision making at every level, shaping a team with a mission, reverse time clock for monitoring the completion of every segment *etc.* These practices need to be adequately documented so as to benefit other/similar infrastructure projects.

2.1.5 The novel experiment of putting both Central and State Governments on equal footing gave an unprecedented level of autonomy and freedom to the company. As other metropolitan regions in the country have also decided to take up Urban Rail projects,

there is a need to develop a suitable policy at the national level for projects of this nature so that accountability issues are not placed at unreasonable risk in the interests of expediency.

2.2 Independent directors

2.2.1 The BOD has a total of 16 members with seven functional Directors (including the Managing Director) and five nominee Directors each from the two joint shareholders. The BOD delegated all powers exercisable by it to the MD with the stipulation that important decisions taken by the latter would be reported to the BOD at the next meeting. The MD in turn sub-delegated the powers in respect of works, stores, establishment, financial and miscellaneous matters to the designated officers mentioned in the Schedule of Powers. This has facilitated quick decision-making.

2.2.2 There is no regular monitoring from a designated administrative ministry, and the main agency to provide oversight is the BOD itself. The BOD, however, did not have independent Directors in accordance with the DPE's guidelines of 22 June 2007 on Corporate Governance. As a minimum of six independent Directors would be required to secure compliance with DPE's guidelines, the size of the BOD would swell to 23. Accordingly, a view may need to be taken regarding the appropriate numbers of Directors on the BOD to retain its functionality and effectiveness.

2.3 Audit committee

Audit Committee is an important instrumentality for good corporate governance and matters relating to risk management and financial reporting are generally its assigned subjects in the BOD. The company has an Audit Committee in its BOD comprising the required number of non-executive (nominee) Directors with a non-executive chairperson as required under section 292A of the Companies Act, 1956. The Committee, however, met only 17 times during the period of seven years ended 31 March 2008 with the Chairperson (nominee Director from GOI) attending only 10 of these meetings. It would be a good practice to include only non-executive independent Directors in the Audit Committee as nominee Directors usually have other responsibilities in their parent department.

Recommendation No. 1

- (i) There is a need to develop a suitable mechanism at the national level for projects of this nature so that accountability issues are not placed at unreasonable risk in the interests of expediency.**
- (ii) Considering the importance of the BOD in the unique administrative structure, the GOI may take a lead and work out an arrangement with the GNCTD for appointing independent Directors on the BOD of the company.**

2.4 Corporate plan

2.4.1 The company did not prepare a Corporate Plan as target dates were stipulated for each significant milestone in the DPR and no value addition was expected in Phase I of the Project by having a formal corporate plan. The management stated (April 2008) that guidelines of the DPE were not technically applicable to the company, being a joint

venture of the GOI and the GNCTD and added that the company was already working in the direction of developing a formal corporate plan.

2.4.2 A DPR is only meant as a tool for planning and monitoring for construction activity and can seldom serve as a surrogate corporate plan as unforeseen events may often render the initial projections invalid. Moreover, a formal duly approved Corporate Plan serves as a written guidance for all the officials of the company and promotes a favourable control environment for the achievement of corporate objectives. It is best practice to have the Corporate Plan and, unless specifically exempted, the company should also adopt the other guidelines of the DPE, the DEA and the Central Vigilance Commission (CVC) for a more robust corporate governance.

Recommendation No. 2

- (i) The company should prepare a formal Corporate Plan to chart out its goals and strategies for the achievement of business development, diversification, technology upgradation, marketing and customer satisfaction.**
- (ii) The company should adopt guidelines of the DPE, the DEA and the CVC to strengthen corporate governance.**

2.5 Projection of ridership

2.5.1 According to the DPR of 1995, 31.85 lakh passenger trips per day (*i.e.* ridership) was expected on completion of the Project in the year 2005. The subsequent DPR of 2003 projected daily ridership of 22.60 lakh. With this extent of ridership projection, benefits of speedier and safer travel for commuters, abatement of atmospheric pollution, reduction in fuel consumption, reduced accident rates and decongestion of roads were expected.

2.5.2 The highest daily average ridership attained was, however, 6.62 lakh only in November 2007, which was 21 *per cent* of the original projections and 29 *per cent* of the revised figure. The reasons for the shortfall in ridership were stated to be mainly as under:

- (i) Higher fare structure of Metro in comparison to the other modes of Public Transport (Bus);
- (ii) For commuters the cost barrier went beyond the cost of Metro tickets, to also include cost of travel from the residence to the Metro Station and from the Metro Station to the workplace;
- (iii) Lack of proper connectivity; and
- (iv) Lack of feeder bus system for adjoining area to Metro System.

2.5.3 Despite low ridership, there was congestion on the Metro during peak hours. The congestion was attributable to various factors like lower number of passenger cars, sub-optimal speed over the rail network, lower frequency of trains, and absence of differential fares during peak hours.

2.5.4 The management stated (April 2008) that efforts to boost ridership were a continuous process and the company had already extended the operation hours, introduced feeder bus services, increased the train fleet and introduced more escalators. They added that the company achieved the average figure of carrying 10 passenger-Kms as compared to the anticipated figure of 7. The proposed increase of the network under

Phase II would give more facilities for end-to-end travel and would increase the ridership on the existing system. As regards congestion during the peak hours, the management stated (May 2008) that more trains were being brought in and that the capacity of a train could be increased from the present four cars to eight cars. With the expansion of the metro network, differential tariff structure (for peak and non-peak hours) may also be proposed to the tariff regulator.

2.5.5 The projection of ridership was independent of network under development in Phase II. The fact that transport modeling for ridership was not carried out accurately by RITES, was accepted by the company as well as the MoUD before the Empowered Group of Secretaries in 2005. Audit was informed that the company to meet its ridership projections, was considering measures like a more effective feeder bus service, increased parking facilities at stations and unified ticket for bus and metro.

Recommendation No. 3

The company should generate and sustain ridership by utilising the surplus capacity available during off-peak hours and through measures that provide and offer better facilities to commuters.