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PUBLIC ACCOUNTS COMMITTEE

(2012-2013)

ANDHRA PRADESH LEGISLATURE

XIII CA

REPORT (NINTH)

ON

THE REPORT OF THE COMPTROLLER AND
AUDITOR GENERAL OF INDIA (CIVIL) FOR
THE YEAR 2007-08, 2009-10 AND 2010-11
PERTAINING TO MUNICIPAL
ADMINISTRATION &
URBAN DEVELOPMENT DEPARTMENT

(Presented to the Legislature on 26-03-2013)

ANDHRA PRADESH LEGISLATURE (P.A.C.) SECRETARIAT
PUBLIC GARDENS, HYDERABAD - 500 004

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(i)

COMMITTEE ON ACCOUNTS CONTENTS

Page Nos.

I. Composition of the Committee	:	v
II. Introduction	:	vii
III. Report	:	1
IV. Summary of Observations / Recommendations :		46

1. Sri B. Prakash Reddy : Chairman
2. Sri K. Ramchandra Reddy : Member from Council
3. Dr. Duggupati Venkateswara Rao :
4. Sri Anam Venkataranga Reddy
5. Sri C.K. Jayachandrab Reddy
6. Sri Peri Venkateswarar
7. Sri T. Jaya Prakash Reddy
8. Sri Dronamraju Sarivasa Rao
9. Sri A. Mohan
10. Sri Dasineni Uma Maheswara Rao
11. Sri B. Durga Prasad Rao
12. Sri G. Jakesh Yadav
13. Sri B.K. Partha Sarathi
14. Sri K. Kannababu
15. Sri Etala Rajender
16. Sri Vaireddy Vareda Rama Rao : Member from Council
17. Sri V. Bhooopal Reddy
18. Sri Rudraraju Padma Raju

COMMITTEE ON PUBLIC ACCOUNTS

(2012-13)

(Constituted on 20-01-2012)

1. Sri R. Prakash Reddy : Chairman
2. Sri K. Rambhupal Reddy : Member from Assembly
- *3. Dr. Daggubati Venkateshwara Rao : ..
4. Sri Anam Vivekananda Reddy : ..
5. Sri C.K. Jayachandra Reddy : ..
- **6. Sri Perni Venkatramaiah : ..
- **7. Sri T. Jaya Prakash Reddy : ..
- **8. Sri Dronamraju Srinivasa Rao : ..
- **9. Sri A. Mohan : ..
10. Sri Devineni Uma Maheswara Rao : ..
11. Sri B. Durga Prasad Rao : ..
12. Sri G. Jaipal Yadav : ..
13. Sri B.K. Partha Sarathi : ..
14. Sri K. Kannababu : ..
15. Sri Etala Rajender : ..
- *16. Sri Vasireddy Varada Rama Rao : Member from Council
- *17. Sri V. Bhoopal Reddy : ..
- *18. Sri Rudraraju Padma Raju : ..

- *19. Sri Nimmakayala China Rajappa : " "
- *20. Sri Chukka Ramalah " "
- ***21. Sri T. Bhanuprasada Rao " "
- ****22. Sri Ponguleti Sudhakar Reddy : Spl. Invitee from Council
- ****23. Sri B. Changal Rayudu " "
- ****24. Sri K. Yadava Reddy " "
- ****25. Sri Y.V.B. Rajendra Prasad " "
- ****26. Sri Akbaruddin Owaisi : Spl. Invitee from Assembly
- ****27. Sri E. Lakshmi Narayana " "

LEGISLATURE SECRETARIAT:

1. Dr. S. Raja Sadaram, Secretary
2. Sri P. Balakrishnamacharyulu, Deputy Secretary
3. Sri H.A. Shafi, Assistant Secretary
4. Sri K.V.V. Satyanarayana, Section Officer.

*We.f. 28-01-2012
 **Uplo 09-02-2012
 ***We.f. 10-10-2012
 ****We.f. 10-10-2012
 *****We.f. 26-11-2012

INTRODUCTION

1, the Chairman of the Committee on Public Accounts (2012-2013) having been authorized by the Committee to present the Ninth Report, on their behalf, do present this report on the Reports of the Comptroller and Auditor General of India (Civil) for the years 2007-08, 2009-10 and 2010-11 pertaining to Municipal Administration & Urban Development Department.

2. The Reports of the Comptroller and Auditor General of India (Civil) for the years 2007-08, 2009-10 and 2010-11 were laid on the Table of the House on 5.12.2008, 29.3.2011 and 29.3.2012.

3. The Committee examined the reports of the Comptroller and Auditor General of India (Civil) for the years 2007-08, 2009-10 and 2010-11 pertaining to Municipal Administration & Urban Development Department at their sitting held on 14th May 2012, 23rd August 2012, 5th & 6th October, 2012, 17th October 2012 and 12th February 2013.

4. A statement showing the Summary of Observations/ Recommendations of the Committee is appended to this Report.

5. A record of proceedings of the sitting of the Committee, which has been maintained forms part of this Report.

6. The Committee placed on record their appreciation of the assistance rendered to them by the Principal Accountant General (G & S.S.A), Andhra Pradesh and their Officers and Staff; Secretary to State Legislature and their Officers and Staff in examination and preparation of the Report. The Committee would like to express their thanks to the officers of Municipal Administration & Urban Development Department and other Officers and Staff of the Government of Andhra Pradesh for the Co-operation in giving information to the Committee.

Hyderabad,
 Dated: 21-03-2013.

R. PRAKASH REDDY,
 CHAIRMAN,
 Public Accounts Committee.

Report of the Public Accounts Committee on the Reports of the Comptroller and Auditor General of India for the years 2007-08, 2009-10, 2010-11 (Civil) – Government of Andhra Pradesh

Municipal Administration and Urban Development Department

1. Para No: 3.3.7.5 of Audit Report 2007-08

Management of Wastes

Use of Waste

Establishment of processing plants: The Greater Hyderabad Municipal Corporation (erstwhile MCH) concluded (May 1997) an agreement with a Hyderabad based Company (M/s Selco International Limited) to establish Pelletisation plant (Phase I) and Power plant (Phase II) at Gandhamguda site in Rajendranagar Mandal in Hyderabad. For this purpose, 10 acres of land was leased to the Company and a lease agreement was concluded in June 1998 to establish the Plants.

The site (at Gandhamguda) selected was inappropriate as it was close to Airport and hence APPCB could not accord approval for setting up the power plant there.

Scrutiny of the records of the GHMC revealed that GHMC passed on undue financial benefits to the Company on several counts violating the agreement conditions as discussed below:

Agreement condition	Violation made by GHMC resulting in undue benefit to Company
The Company was to make its own arrangement for raising the funds.	The Corporation has not ensured the financial viability of the Company before awarding the contract. Government permitted (January 1999) the Company to mortgage the land with the financial institutions IREDA and TDB (both are Central PSUs) to raise finance of Rs 20.38 crore (Rs 14.55 crore for pelletisation plant

and Rs 5.83 crore for construction of power plant) for establishment of Power project. This was irregular as it was tantamount to Government standing surety for loans raised by a private party.

The Company shall collect and transport the MSW to an extent of 175 TPD (25 per cent of the requirement) at its cost to their plant and the balance 525 TPD (75 per cent of requirement) has to be supplied by GHMC. (Cost of transportation to be borne by GHMC)

If the Corporation failed to supply the waste, Rs 20 per MT shall be paid by the Corporation to the Company.

If the Company failed to use the minimum quantity of garbage i.e. 700 TPD the Company has to pay penalty of Rs 20 per MT for the quantity not used.

Amendments were made (March 1998) in the agreement already concluded by deleting Clause VIII relieving the Company the obligation to pay any penalty for non-lifting of the minimum quantity of garbage. On the other hand a rare onerous obligation was cast on the Corporation by increasing penalty of Rs 20 under Clause XIII to Rs 120 per MT for non-supply of the minimum garbage by the Corporation to the Company.

During the period from March 2000-December 2007 the Company had not lifted the garbage of 16.30 lakh MT. Due to deletion of the Clause VIII in the agreement the GHMC had to forgo revenue of Rs 3.26 crore towards penalty payable by the Company.

It is thus evident that the party participated in the bid despite not having the funds to execute the project. GHMC also failed in verifying and establishing their financial capacity. The post tender deviations as mentioned in the Table above vitiated the sanctity of the original bids also resulting in undue financial benefits to the Company.

The Company established (November 2003) its Power plant at Shadnagar, 55 km away from the Gandhamguda site but has not been lifting the garbage as envisaged in the agreement and as a result, the garbage was getting accumulated by leaps and bounds at the dump yards with adverse implications on human health and environment.

Similarly the Vijayawada Municipal Corporation (VMC) permitted M/s. Sri Ram Energy Systems Limited Company (SESL) to mortgage the leased out land of 10 acres for construction of power plant to raise finance of Rs 18.85 crore and Rs 7.24 crore respectively from

IPEDA and TDB. The Company set up the plant but failed to run the plant on regular basis leading to non-clearance of garbage to the extent stipulated. Except issue of show-cause notices during July 2004 to January 2008 the VMC failed to take effective legal action against the Company.

Failure to assess the financial capabilities of the parties led to unsuccessful execution of the power projects and the Government is saddled with the prospects of having to discharge the loans raised by the private parties as these loans have been raised not on the strength of the parties but on the basis of Government lands. GHMC and VMC have not monitored the raising of loans, their utilization specifically for the intended projects and the repayment made by the parties to the financial institutions.

Processing facilities in cluster approach: Government decided to set up processing plants initially at four clusters. As the waste generated in one municipality is not sufficient to establish power plant, the CDMA proposed (October 2005) to group the neighbouring ULBs by forming clusters to make the processing and final disposal of the waste at landfills a viable activity by establishing a common integrated waste management facility.

The CDMA requested the EPTRI¹ to evaluate four clusters of Visakhapatnam (4), Guntur (9), Anantapur (9) and Nellore (9) comprising 31 ULBs and to review the waste to energy (WTE Projects) where the Government decided to set up processing plants. The EPTRI submitted its report/proposals (August-November 2007) but the approval of the Government is still awaited as of July 2008.

Thus the implementation of power projects in four clusters is still in proposal stage resulting in the waste generated by the ULBs not being scientifically utilised.

1.1 Initiating the discussion on the Audit paragraph, the Chairman enquired about the criminal case filed against Sri Ram Energy System Limited. The Committee sought information about the petitions filed and other details i.e., the date of filing the case and action taken on the issue.

¹ Environment Protection Training & Research Institute

- 1.2 The Commissioner, Vijayawada Municipal Corporation (Commissioner) replied that a criminal case was filed by Mr. Ashok Kumar in Vijayawada 3rd Metropolitan Magistrate court under Sec. 667 of HMC Act read with Sec. 138, 134, 41, 42 and 43 of Public Health Act, 1939 under Sec. 43 and 24(3) of Air (Prevention and Control of Pollution) Act, 1981. It is basically about foul smell emanating out of the plant. Municipal Corporation, Vijayawada and PCB (Pollution Control Board) have been made respondents in that case. On 17 May 2010, the then Commissioner had filed counter affidavit in the court. So far orders have not been received in this case. The said Plant was commissioned in December, 2003 and functioned up to February 2009 and thereafter stopped functioning.
- 1.3 The Committee enquired about the other issues of the case.
- 1.4 The Commissioner replied that the major issue is pollution and nuisance on account of the foul smell emanating out of the Plant, causing inconvenience to public health.
- 1.5 Committee enquired about the dates of filing of cases and the counter.
- 1.6 Commissioner, VMC replied that the case was filed in the year 2008 and the case number is No.270 of 2008. The then Municipal Commissioner has filed a counter affidavit in this case in May, 2010.
- 1.7 Committee enquired about the present stage of the case.
- 1.8 Commissioner, VMC replied that the affidavit was filed in May 2010 and no court orders were received in this regard and the case is pending in the Court of IIIrd Metropolitan Magistrate Court.
- 1.9 The Committee felt that when the plant was not functioning the court case is not an issue and sought a report about non-functioning of the plant.
- 1.10 Commissioner replied that as per the records available the plant was functioning till February 2009 and after that it remained non-functional.
- 1.11 Committee enquired about the present possession of land.
- 1.12 Commissioner, VMC replied that the Land is in Government's possession and they have to take away their Plant & Machinery. Now Government has to resume the land back.
- 1.13 Committee stated that when the case was pending in the court for a number of years then the plant authorities may take advantage of the court orders and ask the Corporation to pay fine.

- 1.14 Commissioner, VMC replied that the matter was discussed with the Municipal Standing Counsel on 6 October, 2012. The Counsel has asked to send somebody on 28 October, 2012 to discuss about all the legal steps that are to be taken to remove the plant and machinery from the site.
- 1.15 The Committee felt that there are two issues in this regard Number one is removing the plant and machinery from the site by the Company and the second is resuming the land back. The Committee enquired about the legal action taken against M/s Sri Ram Energy Systems Limited for violation of agreement conditions.
- 1.16 Commissioner, VMC replied that Government is seeking legal opinion in this issue.
- 1.17 The Committee observed that no action has been taken against Sri Ram Energy Systems Limited. Also Government has not sought any legal opinion since 2009, and enquired about the correspondence between VMC and the Company after 2009.
- 1.18 Commissioner, VMC replied that as per the records there is no correspondence after 24 August, 2008.
- 1.19 The Committee felt that the agreement was entered into with Sri Ram Energy Systems Limited to generate power through recycling of the waste. The main motto behind giving Government land is to avoid the problem of waste as well as the production of additional power. The Committee sought the following information:
- i. What are the initial agreement conditions?
 - ii. Whether the company has complied with the agreement conditions or not? If not, what action has been taken against them for violation of the agreement conditions?
- 1.20 The Committee observed that the land allotted to the Sri Ram Energy Systems Limited was in the city outskirts at the time of allotment and hence, no one objected to the establishment of the plant. Due to expansion of city, the plant is now in the centre of the city and the people living around the plant objected to the functioning of the plant that ultimately led to closure of the plant. Now the land allotted becomes so valuable due to increase in the value of the land cost. The Committee also felt that if the court case is settled, Government can construct JNNURM houses in the land or the land can be utilised for any other purpose. In this context, it is pertinent to note that central funds received under JNNURM could not be utilized for want of availability of land and about 1.50 lakh houses were to be constructed for poor in Vijayawada city.

1.21 The Committee also felt that there is no relation between the case filed in the court regarding environmental pollution that is causing inconvenience to public and the agreement entered with Sri Ram Energy Systems Limited by VMC.

1.22 The Principal Secretary stated that some municipalities have been grouped by Government for taking solid wastes from those areas and generating power. The lands allotted to these plants are on the basis of rent only but these are not transferred completely to them. As per the agreement signed with the Companies, municipalities will dump the waste in some place in their vehicles. From this place the plant authorities have to collect the waste and transport it to the plant on their own cost. In the plant they will generate power from the waste and can sell power to anyone. There is no condition that the power has to be sold to Government only. Earlier there is no tipping fee to be paid to the plant. But now they are asking for tipping fee and discussions are going on this issue. Anywhere in the country, these plants are not working successfully. As regards the present case, if they cannot work in the centre of the city, the best thing is to take back the Government land and the Company will take back whatever machinery it has.

1.23 Committee enquired about the working of the similar plant established in Hyderabad.

1.24 Principal Secretary, MA&UD replied that even in Hyderabad also the plant was closed. He further replied that these types of plants were functional till 2009 only.

1.25 Commissioner, Greater Hyderabad Municipal Corporation stated that initially, when these agreements were entered into in the year 1997, it was thought that the plants are economically viable. They brought some finance and operated the plants. Subsequently, the APERC has fixed the unit rate of power as Rs. 3.42 paisa for solid waste management and now it has been increased to Rs. 4 and odd. Now the generation of power by solid waste management, including cost of capital and maintenance is working out to more than Rs 7 per unit. That is why practically it is not working out. GHMC is paying tipping fee for processing the waste, treatment and disposal facility. We are transporting and handing over the waste at our own cost and paying them Rs. 600 per ton additionally for treatment, which includes bio-composting and using the balance material (RDF) for power generation. Even in Hyderabad, we are paying Rs 600 per ton for treatment and disposal. Whereas in Chennai, Bangalore and

Mumbai wherever it is done, it is more than that amount. In their case, when the Corporation was giving the waste, they told them that the Corporation would transport 75 per cent of the waste and the remaining 25 per cent has to be transported by the Company itself and as per the original conditions; the Company has to pay Rs 10 or Rs 20 to the Corporation. As of now, no plant is running on that basis throughout Andhra Pradesh or throughout India and there is no successful experiment to show that it is a practical thing.

1.26 Committee observed that the most valuable land was kept vacant without any use. Chairman enquired whether permission was given to mortgage the land for Rs 7.24 crore.

1.27 Commissioner, VMC replied that the permission was not given as they have not applied for the permission. He further stated that the Corporation has made some efforts like, on 18 December, 2008 an elaborate notice was issued to the Company to show cause as to why the terms and conditions of the lease, including supplementary lease conditions have been violated by them. Again, the matter was referred to the standing counsel on 24 August, 2011 seeking his advice as to how to resume the land and how to deal with the machinery aspect and there are no developments thereafter. He also stated that he has initiated action now and after 20 October 2012, we will take one month time to take back the land and work out the method to vacate the plant and machinery from the premises. There is no financial liability on the land and the land belongs to the Corporation only.

1.28 Chairman enquired about the action taken on the Company for violation of the agreement conditions

1.29 Principal Secretary stated that on 6 October, 2012, Commissioner had a discussion with the Standing Counsel. As they have violated the agreement, there was a council Resolution to terminate the agreement and resume the land.

1.30 Chairman asked the Principal Secretary as to why there is delay in taking action on the Company and whether the Commissioner, VMC & Standing Counsel have the responsibility or not.

1.31 Principal Secretary replied that both have responsibility. After Counsel Resolution, Commissioner has to implement the Resolution by terminating the agreement.

1.32 Committee further enquired about the plants that are not running presently in the State and where there is violation of the agreement conditions.

1.33 Principal Secretary replied that there were five/six plants like this in different parts of the State clubbing five/six municipalities as one zone. Only at Karimnagar, they are saying that they would commission the plant. In rest of the places, they are at different stages. Recently, Commissioner & Director of Municipal Administration has been directed to issue notices to all the Companies to stick to the original agreements, failing which the agreements are to be cancelled and there will not be any change of lease conditions at this stage. Most of them are approaching with a request to give them tipping fee as is being done in other places. Since the original agreements do not provide for tipping fee, and if we have to give tipping fee, we have to start the whole process afresh giving opportunity to everybody to participate.

1.34 The Committee pointed out that **Selco International Ltd.** was awarded 10 acres of land in 1998 for establishing processing plant in Gandhamguda village of GHMC area. The Corporation has not ensured financial viability of the Company before awarding the contract and GHMC has given permission to mortgage the land for Rs 20.38 crore.

1.35 Commissioner, GHMC replied that as per the procedure, State level official committee and technical committee are constituted to examine the offers given by the companies and it was awarded to Selco International Ltd. The Government had given permission to mortgage to government agencies only to secure loan. Based on the permission two agencies IREDA (Indian Renewable Energy Development Agency), TDB (Technology Development Board) have given Rs 2 crore and Rs 4.55 crore respectively to Selco International Ltd. As 10 acres land is not sufficient to establish the plant, they purchased 55 acres of land in Shadnagar with the mortgage amount and established the plant there. Out of Rs 6.55 crore, around Rs 3.3 crore (IREDA: 77lakh TDB: 2.6 crore) is yet to be recovered from the company. Because of outdated technology the plant was closed. We have given notice to them to pay the royalty and penalty. As per the original agreement, Corporation has to transport 75 per cent of the waste with its own cost and the remaining 25 per cent has to be transported by the company itself. If the Corporation failed to supply the waste then it has to pay Rs 25/- per metric tonne, and if the company fails to use 700 ton garbage in a day then the company is liable to pay Rs 20 per M.T to the Corporation. They have suggested for waiving the penalty provisions. The Corporation has removed that penalty provision with a condition to the effect that shortfall will be a continued liability on the Company. But the penalty system was

continued as per the original agreement only and penalty of Rs 23 lakh was paid to GHMC by the Company. After closing the plant they stopped paying penalty. Actually the Company had invested a lot on the project but unfortunately the technology could not support the cost. In this situation we went for a legal opinion which says that the contract can be terminated by issuing notice. Now we want to put pressure on the Company to release the mortgage on the land duly paying Rs 3.42 crore which is outstanding and then take over. We are taking along with the liability payable to IREDA and TDB. Now, we have to pay an amount of Rs 3.42 crore in case we want to take over the land and within six months the Company has to pay. We have put it in the Council and taken a decision.

1.36 Chairman asked as to why GHMC is unable to take over 10 acres of land.

1.37 Commissioner, GHMC replied that the Company had not used the 10 acres of land.

1.38 The Committee pointed out that though the Company has not used the land, it had mortgaged the land and still it has to repay an amount of Rs 3.30 crore and penalty amount.

1.39 Commissioner, GHMC replied that if the Company fails to adhere to the conditions then the Government can take back the land but GHMC has no right on the land & machinery purchased by them. Only IREDA & TDB have the right. He further stated that the Government is pursuing the matter with them to attach the property and put pressure on the person so that he will clear off the loan. Even if the Government sells the land, it may not get that much amount. It is useful for development of a park. The Commissioner promised that GHMC would pursue the matter.

1.40 The Committee felt that the loan was not sanctioned by the Government and hence legally there is no chance to attach the property. The Company mortgaged the Government land. The Committee also felt that Government should not have granted permission for mortgaging the Government land.

1.41 Commissioner, GHMC replied that the Government might have taken a decision at that particular time to encourage that kind of technology. He further stated that the loan was taken for establishment of a power plant in an extent of ten acres of land and this was not approved by the Pollution Control Board.

1.42 The Committee pointed out that although Government had taken some decisions to encourage them the Company has not

spent even a rupee out of the loan amount i.e. Rs 6.55 crore in the ten acres of land handed over to them. The Committee asked as to how the Company can take the loan without PCB's approval, and Government allowed it to happen.

1.43 Commissioner, GHMC stated that the loan was sanctioned on 55 acres of land. As PCB has not permitted them for mortgaging the plant they shifted the plant.

1.44 Chairman wanted to know on which land the loan was sanctioned for establishing the plant.

1.45 Commissioner, GHMC replied that the 10 acres of land & the equipment had been mortgaged. Both IREDA & TDB have the power to attach the properties.

1.46 The Committee questioned the purchase of 55 acres of land with the loan obtained by mortgaging the Government land. The Committee felt that the Company had tried to mortgage the 10 acres of land and it is nothing but cheating.

1.47 Commissioner, GHMC replied that, in fact after drawing Rs 6.55 crore by mortgaging 10 acres of land, the APPCB has not agreed for setting up the plant in this 10 acres site. The Company has shown Rs. 22 crore as cost of the land and managed to get the loans from other financial institutions for the balance amount. He further stated that as soon as APPCB rejected the proposal to establish the plant in 10 acres of land he has again taken permission to put-up the plant elsewhere.

1.48 Chairman pointed out that the Company applied for the establishment of the plant but for using the mortgaged amount for establishing the plant somewhere else.

1.49 Commissioner, GHMC replied that actually Government has permitted to mortgage the land for taking finance to put-up the plant.

1.50 The Committee sought information on the following:

- (i) How could the organisation establish the plant in private land?
- (ii) How did the Government permit it?
- (iii) How was the bank loan released without PCB's permission to establish the plant?

1.51 Commissioner, GHMC replied that Government wants to encourage the persons to put-up the plants.

1.52 The Committee felt that when the Government agreed to mortgage the land its intention was with the establishment of the plant in 10 acres of land, the machinery would be under the control of Government.

1.53 Commissioner, GHMC replied that mortgage would mean that at least the equipment is under our control.

1.54 The Committee felt that spending the mortgage amount somewhere else is not correct. The Committee, in this context, also quoted the Government Order wherein it was specified clearly that the mortgage amount should not be spent for other purposes.

1.55 Commissioner, GHMC replied that power plant means, it has two activities viz. (1) pelletization and (2) thermatization. To prepare pellets, Gandhamguda site was used even up to the year 2009. Actually, dump was also situated in Gandhamguda site only. After preparation, pellets are transported to Shadnagar site, and as such he is using for the same purpose. The Company neither deviated nor used the site for any other purpose.

1.56 Chairman stated that when an organisation had come forward to establish a power plant its financial status was to be verified. In the instant case, it seems that M/s Selco international was a zero financier. In such situations, any Company can be awarded the work.

1.57 Commissioner, GHMC replied that the organisation is not a zero financier; it has to bear 30 per cent of the expenditure and the remaining 70 per cent is sanctioned by the financial institutions in terms of loan.

1.58 Committee asked as to what action has been taken on the Company for violation of the agreement conditions.

1.59 Commissioner, GHMC replied that it is only a lease for 30 years; even today we can take over that land, since it is in our possession only.

1.60 The Committee stated that Selco international has to give Bank Guarantee to the Municipal Corporation as per the agreement.

1.61 Commissioner, GHMC stated that bank guarantee has been given for Rs 1.5 crore (as per the land value of Rs 16.5 lakh per acre at the time of allotment) and it is still valid and he is also going to extend that Bank Guarantee.

1.62 The Committee stated that the Bank Guarantee was to be given based on the mortgage amount.

1.63 The Commissioner, GHMC replied that the land was allotted at the rate of Rs 50,000 per acre and no records were available about the assessment of land value done by IREDA & TDB while sanctioning the loan.

1.64 The Committee wanted to know how the loan of Rs 6.55 crore was sanctioned on the mortgage of 10 acres of land whose market value was Rs 50,000 per acre.

1.65 Commissioner, GHMC replied that the loan amount might be inclusive of cost of plant & equipment. He further stated that the loan amount is assessed by the market value of the land on that day, but it is not suitable for construction. The land is on the hill side.

1.66 The Committee enquired about the action that is planned to initiate on the Company finally.

1.67 Commissioner, GHMC replied that the deed will be cancelled and the land will be taken back by intimating IREDA & TDB through letters within one month's time.

1.68 While concluding the discussion on the above issues, the Committee felt unhappy to note that, despite closure (in the year 2009) of the power plants by Sri Ram Energy Systems Limited and Selco International Limited, the Government has not taken back the lands allotted to them even as of now. Therefore, the Committee recommends that Government should take immediate action to cancel the agreements with them and take back the valuable land within a month for its proper use.

1.69 With regard to 'Selco International Limited' for which land was allotted in Gandhamguda in Hyderabad, the Committee also recommends that Government should take action to get the mortgage cleared by the Company on the Government land parted with.

1.70 As regards Sri Ram Energy System Limited for which land was allotted in Vijayawada, the Committee recommends that Government should initiate criminal action for mortgaging Government land without Government's knowledge and specific approval.

1.70 The Committee further recommends that the Government should ensure that the successful bidder has the requisite financial capability to execute the work, before awarding the contract.

1.71 The Committee also recommends that Government should take immediate action to put in place a mechanism for management of waste in Vijayawada.

2. Para 3.4.8 of Audit Report 2009-10

Undue benefit to the Contractor

2.1 PVNR² Elevated Expressway Corridor (elongated flyover) provides connectivity from Sarojini Devi (SD) Hospital in Hyderabad city to Aramgarh Junction, which is 12 km from Rajiv Gandhi International Airport (RGIA) at Shamshabad. The work was awarded (October 2006) to a Kolkata based firm³ for '439 crore. The scope of work consists of the following major items.

- (a) Elevated Expressway Corridor (EEC)
- (b) Underpass at Aramgarh junction
- (c) Trumpet Interchange near RGIA and
- (d) Improvement of Inner Ring Road (IRR)

Audit noticed that the State Government, while awarding the above work under Engineering, Procurement and Construction (EPC) contract system (AP EPC) did not incorporate safeguards to the effect that, in the event of reduction in the scope of work/quantities, payments would be restricted to the actually executed works. Consequently, undue benefit of ' 86.67 crore was passed on to a contractor in the execution of EEC (' 83.46 crore) and Trumpet Interchange (' 3.21 crore) as follows:

Elevated Expressway Corridor (EEC)

The amount estimated for this component was ' 344.13 crore. After adjusting towards tender percentage (i.e. 2.44 per cent less to the estimated value) the amount payable works out to ' 335.73 crore provided the estimated quantities are executed in full. However, there were major post-tender reductions in the quantities executed as detailed in Table-19.

391

Table-19

Item	As per Internal Bench Mark (IBM)		Value (Rupees in crore)	As per execution ¹ utilisation		Value payable (Rupees in crore)	Difference (Rupees in crore) (Col. 4-7)
	Quantity	Average Rate (Rupees)		Quantity	Rate ⁴ (Rupees)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Concrete	169921 Cum	6565.77	110.91	161266 Cum	6405.55	103.30	7.61
Steel	40583 MT	32146.25	130.46	29591 MT	31361.88	92.80	37.66
HTS strands	3890 MT	81912.95	31.78	2538 MT	79914.27	20.28	11.50
						Total	56.77

Hence, the amount payable to the contractor works out to ' 278.96 crore (' 335.73 crore - ' 56.77 crore). As against this, the amount scheduled for payment was ' 362.42 crore⁵ resulting in an undue benefit of ' 83.46 crore (' 362.42 crore - ' 278.96 crore) to the contractor for this component.

Trumpet Interchange

When the estimate was initially prepared, it was envisaged in the scope of work that Trumpet Interchange would be constructed for a length of 115 metres at a cost of ' 16.72 crore. Subsequently, the estimate was revised taking the length as 1,992 metres⁶ at a cost of ' 59.32 crore, thus boosting up the estimate by ' 42.60 crore. In the NIT the executable length was mentioned as 115 metres only and the contractor also executed accordingly. Therefore, after adjusting the tender percentage (i.e. 2.44 per cent) less to the estimated value) towards the initial estimated value of ' 6.72 crore (for 115 metres length) the value of Trumpet Interchange works out to ' 16.31 crore. However, this component the amount scheduled for payment was ' 19.52 crore⁷. This resulted in an undue benefit of ' 3.21 crore (' 19.52 crore - ' 16.31 crore) to the contractor.

Thus, in the above works, the benefit of post tender reduction in quantities did not accrue to the Government and thereby undue benefit of ₹ 86.67 crore was passed on to the contractor.

¹Rate adjusted for tender percentage (-) 2.44 per cent

²49.22 crore paid as on June 2010

³Area(34257.51 sq m)⁴adth (17.2 m)

⁵'19.46 crore paid as on June 2010

Government in their reply (June 2010) stated that bill of quantities (BOQ) were not given as it was an EPC contract. It also stated that, only scope of work and basic parameters would be defined in the bid documents. Besides, arriving of IBM had no bearing on the financial bids and in any case was not the criteria for selection and that it can also be construed that the amount quoted for the work by the successful bidder was quite competitive.

The reply is not acceptable for the following reasons:

(i) Correct computation of IBM value assumes significance as this serves as the internal bench mark for arriving at the five per cent ceiling limit stipulated by the Government. But the work was awarded to the contractor for a value of 15.82 per cent in excess⁸ of five per cent ceiling prescribed by the Government due to inflated estimates.

(ii) While for the non-disclosure of BOQ in NIT, the Government cited EPC guidelines, it has violated the same guidelines of EPC with regard to price adjustment clause. Though EPC guidelines specifically prohibited price adjustment during the operation of the contract, Government had incorporated this clause in the agreement towards price rise in steel, cement, fuel, etc. While EPC turnkey guidelines prescribe that the fixed price contract is free from variation of market prices, the insertion of price variation clause in the agreement confers undue benefit of ' 43.02 crore (as of March 2010) to the contractor and is detrimental to the Government's interest.

(iii) In this connection Audit had already recommended⁹ that all conditions/clauses in tender schedules and agreements in EPC contracts should be examined in consultation with the Law Department and suitable changes/provisions may be made to safeguard the Government interest in EPC system of contract. But this was not taken into account by the Government while replying to the audit observation.

2.2 In the Explanatory Notes Government stated that IBM had no bearing on the financial bids and in any case was not the criteria for selection.

⁸IBM value arrived at by the HMIDA

Less: Undue benefit

Realistic IBM value works out to

Bid amount quoted by the contractor

Difference between IBM and bid value

Percentage of bid value over IBM

⁹Para 3.2.13 - Performance review on 'Godavari Water Utilisation Authority' which featured in the CAG's Audit Report (Civil) for the year ended 31 March 2007

' 450.00 crore

' 86.67 crore

' 363.33 crore

' 439.00 crore

' 75.67 crore

20.82

2.3 Initiating the discussion on the Audit paragraph the Chairman stated that due to non-incorporation of the safeguards in the agreements the benefit of post tender reduction in the quantities did not accrue to the Government in the construction work of PVNR Elevated Express Way Corridor. This has resulted in an undue benefit of Rs. 86.67 crore to the contractor.

2.4 While responding to the Committee's observations the Commissioner, HMDA stated that it was an EPC contract and was estimated at Rs. 450 crore. He informed the Committee that the tenders were called for in a transparent manner and the contract was awarded to Simplex Limited which had quoted the lowest bid of Rs. 439 crore. The quote of other Companies are: Gammon India Ltd.: Rs. 447 crore, Puni Liyod: Rs. 457 crore, Navayuga Constructions: Rs. 482 crore, Italian Thai Public Ltd: Rs. 538 crore, JIM Corp: Rs. 659 crore who participated in the bidding process. He argued that while the main contention of Audit was that excess amounts had been paid to the contractor before completion of the work based on the December 2009 estimates of steel & concrete used. But the work has not been completed as of now and 3 ramps are under construction. He contended that it is pre-mature to assess the execution of quantities and utilisation of concrete & steel and quantities executed so far are higher than what was estimated even before construction of three ramps. He opined that it would be helpful for them if the audit is conducted after completion of the project to identify as to what is right and what is wrong.

2.5 The Chairman enquired whether the whole project would be completed with Rs 439 crore or more. Chief Engineer, HMDA, replied that there are some additional works which were not included in the Agreement.

2.6 When the Committee asked how much would be required for completion of the works, the Chief Engineer, HMDA, replied that it would be Rs 18 crore.

2.7 The Committee enquired about the present stage of the project. Chief Engineer, HMDA, replied that the project had been completed up to 85 per cent.

2.8 The Committee has not accepted the Commissioner's contention and stated that contractors are taking undue advantage of the EPC system, swallowing crores of rupees by quoting higher rates for the initial stages of work and lesser rates for subsequent

last stage of works. The Committee observed that there are some systemic deficiencies in the EPC which need to be addressed. Though standard schedules are available with Roads and Buildings, Municipal Administration and Irrigation and Command Area Development Departments, the Departments are not supervising the progress of works with special reference to quantities executed from time to time and the quantities yet to be executed, etc. and making the payments to contractors irrespective of the quantities executed. The Committee also felt that, for construction of a flyover the quantities for basement, sub-structure, super structure, etc can be estimated properly and the payments regulated accordingly, but this was not being done; instead, the payments are being made based on the requests of contractors without verifying the facts despite availability of technical staff in the Engineering Departments.

2.9 *Therefore, the Committee recommends that Government should ensure that payments to contractors are restricted only to the extent of quantities executed and discourage making payments in advance of the execution of quantities on what so ever reason.*

2.10 *The Committee also recommends that Government take action to streamline the procedures relating to EPC system so as to safeguard Government Interest.*

2.11 *The Committee further recommends that Government should consider incorporating appropriate clauses in the EPC agreements, facilitating adjustment of the contract price in case of variation in specifications / scope of work.*

3 Para 3.4.12 of Audit Report 2009-10

Tirupati Integrated Temple Tourism Township Project

Tirupati Urban Development Authority (TUDA) took (March 2006) possession of Government lands (145.61 acres¹⁰) in Surappakasam village for setting up a Satellite Township. Even before proposals from private parties were invited, M/s Emmar MGF Land Private Limited (Developer)¹¹ submitted (May 2006) within a short span of a month a *suo-motu* proposal for development of Integrated Temple Tourism Township (Project) on Swiss Challenge Method¹² under Public Private Partnership Mode as per the AP Infrastructure

¹⁰ at the market rate of one lakh per acre, as assessed by the District Collector

¹¹ The Company was subsequently converted into Public Limited company

¹² Means when a private sector participant submits an unsolicited or *suo-motu* proposal for undertaking a project, not already initiated by the Authority

Development Enabling Act, 2001 (Act). The Developer offered 25 per cent share of the gross revenues of ' 3,287 crore which works out to ' 821.76 crore over eight years in addition to the development fee of ' 15 crore payable upfront. TUDA entered into (June 2006) a Memorandum of Understanding (MoU) with the Developer for taking up the Project by treating him as the Original Project Proponent (OPP).

In terms of the provisions of the Act, TUDA called (July 2006) for counter proposals. An extremely short period of 13 days in two short spells was given which was grossly inadequate for any party to submit an offer given the substantial size and volume of the project. Consequently, there was no response. The Development Agreement-cum-General Power of Attorney was concluded (August 2006) with the Developer. A small sum of ' 4 crore was collected as against the token amount of ' 15 crore which the party had offered to pay. On the plea of not having taken prior approval of the Government, the advance of ' 4 crore was also refunded to the party and the agreement was cancelled (October 2006). The party was given the benefit of submitting a fresh offer instead of calling for open bids. While Government approval was necessary, the contractual relationship was between TUDA and the Developer. Apparently, the Developer was not keen to persist with the initial offer else he would have challenged this cancellation.

In response to the invitation of TUDA to submit a fresh offer the Developer submitted (March 2007) a revised proposal offering 15 per cent share of the gross revenues of ' 1,610 crore which works out to ' 241.61 crore over eight years in addition to the development fee of ' 15 crore and ' 5 crore as advance payment to be adjusted against the revenues payable to TUDA in the first year of the development period. TUDA again invited (May 2007) counter proposals giving a time limit of 60 days (by 9 July 2007). Two Companies¹³ submitted their counter proposals. The Consultant reportedly evaluated the two commercial offers and the offer of the OPP according to the Evaluation Financial Model (a model calculation sheet included in the Request for Proposal) and ranked the commercial offer in terms of net present value (NPV) of the OPP as the highest and recommended to issue the 'letter of award' to OPP. As per the Central Vigilance Commission's (CVC) guidelines of September 2003, pre-qualification criteria, performance criteria and evaluation criteria should be incorporated

in the bid documents in clear and unambiguous terms for evaluation of bids in a transparent manner. In the instant case, to arrive at the NPV and to evaluate the commercial offer, yearly returns offered by the two Companies were required to be considered in accordance with the Evaluation Financial Model. The competing counter offers did not indicate the yearly cash flows to TUDA as they were asked to offer revenue only in percentage terms. TUDA too did not have this information as well as the basis for such evaluation made by its consultant. Thus, there was no transparency in arriving at the NPV of each of the competitors by the consultant and hence the rates were not comparable. As full particulars of the offers made by the parties were not made available by TUDA, Audit could not assess the correctness of evaluation of the offers.

TUDA entered into a Development Agreement with the Developer in September 2007. It received (September 2007) ' 4 crore as advance instead of ' 20 crore. The Developer submitted (November 2007) a BG for ' 16 crore which was valid up to 12 November 2008. The currency of the BG was extended (12 November 2008) by one more year.

As the Developer did not pay the balance development fee and failed to fulfil contractual obligations even as of September 2009, TUDA realised (September 2009) the amount of ' 16 crore by invoking the BG after issue of notices to the Developer. The Government, however, directed (January 2010) TUDA to return the BG amount and approve the Detailed Project Report (DPR) submitted by the Developer. The DPR submitted in November 2009 promised revenues of only ' 191.81 crore as against the already reduced offer of ' 256.61 crore.

As of June 2010, the BG amount of ' 16 crore was returned to the Developer. The agreement for the revenues of ' 256.61 crore was not cancelled and instead Government fixed (July 2010) the Drop Dead Date¹⁴ (DDD) as 15 July 2010 as against the request of the Developer to extend the DDD up to 31 May 2010 (an unsolicited additional time of 45 days). This led to the party holding the precious land raising the potential risk of fuelling speculation with very little of its funds being blocked. As a result, although the offer was received way back in May 2006, the land remains to be developed (June 2010).

¹³ Larsen & Toubro Limited and Raniky Infrastructure Limited (a consortium)

¹⁴ The date occurring upon the expiry of six months from the agreement date or such other date as may be agreed to in writing by the parties

Thus, lack of transparency and undue favours to M/s Emaar MGF Land Limited resulted in the TUDA entering into a revised agreement which assures revenue of ' 580 crore less than the initial offer.

The matter was reported to Government in June 2010 (also reminded in August 2010); reply had not been received (November 2010).

3.1 Initiating discussion on the audit paragraph, Vice Chairman, TUDA stated as follows:

TUDA proposed to develop a township in 145.61 acres of land situated at Surappakasam village. At that time suomotto proposals under swiss challenge method had been submitted by Emaar MGF land private limited by offering an income of Rs 821.76 crore to TUDA. In July 2006, counter proposals had been called by TUDA by accepting the proposals of Emaar MGF land private limited as the original proponent. As no counter offers had been received, TUDA signed an agreement with Emaar MGF land private limited on 10 August 2006. Government informed TUDA that the agreement had not been processed correctly as per AP industrial enabling Act 2001 and directed TUDA to cancel the agreement. Accordingly, TUDA cancelled the agreement. After cancellation of the agreement, fresh proposals had been called for on 11 May 2007. Once again Emaar MGF land private limited submitted revised proposals by reducing the income offered to TUDA from Rs 821.76 crore to Rs 256.61 crore. Accepting Emaar MGF land private limited as the original project proponent, counter proposals had been called for on 11 May 2007. This time, two companies viz., "Ramky Infrastructure" and "L&T" had filed the counter proposals. After evaluation of all the proposals, M/s Emaar MGF land private limited stood as highest bidder and TUDA signed agreement on 26 September 2007. As the Company has failed to fulfill the agreement conditions, TUDA issued notice in September 2009 and it en-cashed the bank guarantee of Rs. 16 crore. Government directed TUDA to refund the en-cashed bank guarantee amount and obtain bank guarantee afresh. Bank guarantee (valid up to 02 February 2011) was obtained again. Still, even as per the revised agreement, DPR for Rs. 256 crore had not been submitted by the Company and hence the land had not been handed over by TUDA till date. Once again TUDA encashed the bank guarantee on 19 January 2011 and issued notice for termination of agreement. Then they approached TUDA and requested to form a Board for discussing the considerations & negotiations. TUDA has rejected the request and action is being taken to cancel the agreement after

obtaining legal opinion. Still today, land has not been handed over to the Company.

3.2 The Committee asked as to why the Government directed TUDA to refund the bank guarantee. The Committee also noted that Government had directed TUDA to accept the DPR that was submitted by the Company for Rs 191.81 crore which was lesser than the offer of Rs 256.61 crore for which an agreement was entered into.

3.3 The Committee enquired about the reasons for not taking action even after so many years and asked as to who were involved in this issue.

3.4 VC, TUDA replied that in January 2010, Government ordered to refund the bank guarantee amount after deducting an amount of Rs 2.83 crore towards interest. Government also directed TUDA to obtain a fresh bank guarantee and study DPRs.

3.5 The Committee enquired whether there exists Chairman for TUDA at that time.

3.6 VC replied that Sri Chevireddy Bhaskar Reddy was the Chairman of TUDA at that time.

3.7 The Committee sought to know the reasons for favouring the Company when there were doubts on the project report submitted by the Company and when the project itself was not viable. The Committee wanted to know the details for taking such an action during the period 2007-2010.

3.8 VC, TUDA replied that the file and details regarding bank guarantee in 2010 are available.

3.9 Chairman asked as to who has originated the project proposal i.e. Government or TUDA or Emaar MGF.

3.10 VC, TUDA replied that the decision was taken by the TUDA Board that existed in 2006.

3.11 Chairman asked the VC, TUDA to furnish a copy of the Board's resolution and details of bank guarantee forfeited by the Board.

3.12 The Committee noted that amount offered by the Company to TUDA was reduced from Rs 821.76 crore to Rs 191.81 crore and felt that DPRs submitted by the company were unrealistic. The Committee enquired about the agencies and the consultants that were involved in preparation of the DPR's.

3.13 The Committee felt that a detailed enquiry should be conducted on this issue.

3.14 The Chairman asked as to how the Company can give a suo motto proposal before a decision is taken by the Board. The Committee noted that the Company submitted its proposal in the year 2006 and TUDA made a resolution in the year 2007 to take up the project. The Committee concluded that TUDA has acted as per the proposals of the Company.

3.15 The Committee asked whether any evaluation was done to check the viability of the Company. The Committee also felt that TUDA should have called for open bids instead of inviting counter proposals. The Committee also expressed dismay with regard to giving very less time (i.e. 13 days) for submitting counter proposal.

3.16 The Committee enquired whether TUDA analysed the need of the project or not.

3.17 The Chairman enquired whether the agreement with the agency has been terminated.

3.18 Principal Secretary replied that both the termination of the agency and cancellation of the proposal itself are called for. He further stated that land has not been handed over as of now and they are framing the guidelines for the township project.

3.19 VC, TUDA stated that an amount of Rs 20 crore had been collected from the Company.

3.20 The Committee felt that TUDA has not studied the requirement of the project and simply acted based on the suo motto proposal of the Company and cautioned the Government to be careful in future before acting on such proposals.

3.21 The Committee further directed the Government to submit a detailed note about the whole issue including the details of officials if any, involved in favouring the Company.

3.22 Although a note has been submitted by VC, TUDA, as called for by the Committee the information whether an enquiry (to establish if any officials of TUDA were involved in favouring the Company) and results of such enquiry (as desired by the Committee) has not been furnished / received either from VC, TUDA or from the Government till the date of finalising this report.

3.23 *Therefore, in the context of TUDA acting on the suo motto proposals of the Company and the Government intervening*

unnecessarily in the matter from time to time, the Committee recommends that an enquiry should be conducted on the whole issue to assess specifically whether any officials were involved in this issue with a malafide intention.

3.24 *The Committee also recommends that appropriate action should be initiated against the persons if any found guilty and compliance reported to the Committee within 3 months.*

4 Vijayawada, Guntur, Tenali, and Mangalagiri Urban Development Authority

Para 9.5.1 of Audit Report 2010-11

Approval of layouts

One of the important functions of the Authority is Development Control i.e., approval of building plans and layouts, approval for change of land use, inspection and regularisation of unauthorised constructions, etc. The performance of the Authority with regard to these aspects during the period 2006-11 is discussed below.

Government instructions of February 1980 require that while applying for permission to develop or change use of any land or building, under the provisions of the Act, every individual should pay the development charges at the prescribed rates to the Authority, or to the local authority, if powers have been delegated to the latter by the Authority under Section 56 of the Act. Audit scrutiny in this regard revealed:

Construction of Engineering college at Nunna by Saraswathi Vidya Peetam

> Saraswathi Vidya Peetam constructed (2007) an Engineering college at Nunna (Krishna district) by converting 10.30 acres of land earmarked for recreational facilities, without permission from the Authority/Government. Despite being aware of this violation of the sanctioned land use, the Authority neither took appropriate action to stop the unauthorised construction nor penalised the VidyaPeetam. The Authority had also not collected the conversion fee of 63.45 lakh payable by the Vidya Peetam as of October 2011. Government accepted the audit observation and stated (October 2011) that the Authority had collected the development charges to the extent of 19.41 lakh and that action was being taken to collect the balance amount from the institute.

4.1 Initiating discussion on the audit paragraph, Vice-Chairman, VGTMUDA (VC) stated that the Authority had collected land conversion charges in full.

4.2 Referring to the audit paragraph, the Chairman pointed out that the Authority neither took appropriate action to stop the unauthorised construction nor penalised the institution.

4.3 VC replied that there were two issues. One is non-collection of conversion charges and another one is non-penalization of the Organisation. VC stated that the conversion charges of Rs 32.26 lakh have since been collected from institution. With regard to unauthorized construction, VC stated that the institution had not submitted any plans for approval of the Authority. He also stated that when the officials of the Authority visited the site for verification, the staff were manhandled. While filing a criminal case against the management of the Institution, All India Council for Technical Education and State Board of Technical Education were also addressed for cancellation of the recognition of the Institution.

4.4 The Committee asked whether any reply has been received from the AICTE.

4.5 VC replied that no reply has been received so far and recently the State Board of Technical Education was reminded in this regard.

4.6 The Chairman directed the District Collector, Krishna to review the whole issue of manhandling of employees of VGTMUDA and also the unauthorized constructions being taken up by the institution and to report compliance to the Committee.

4.7 The Principal Secretary stated that the enforcement was with local bodies. Approvals were to be given by the Authority. But, according to the GO issued recently, powers of enforcement are given to Urban Development Authorities also and the department will act on the issue based on this GO.

4.8 The Chief Planning Officer, Vijayawada informed the Committee that, actually as per the Act and Rules, local bodies are the enforcement authorities and they have addressed the concerned Panchayat Secretary many a times to take action on the unauthorized construction. He further stated that, initially Saraswathi Vidyapeetam

had sought conversion for 50 acres and the charges were estimated as Rs 60 lakh, but later they have reduced the extent to 25 acres. On that extent, the conversion charges were calculated at Rs 32 lakh (approximately) and out of that the educational institution had initially paid Rs 19.41 lakh and subsequently paid the balance amount of Rs 12.85 lakh.

4.9 The Chairman stated that about Rs 30 lakh is still due from the institution.

4.10 VC replied that the institution had reduced the construction area (25.50 acres) to an extent of 50 percent than what was initially applied (58.20 acres) and the entire amount of Rs 33.26 lakh that was applicable for the reduced construction area has been collected from the Institution.

4.11 The Committee felt that action should have been taken by the Authority against the Institution at the time of commencement of the construction work itself and directed VC to stop further constructions.

4.12 VC replied that the construction has been stopped.

4.13 The Special Secretary to Government (MA&UD) suggested to VC to write to the concerned authorities not to supply power and water to the institution.

4.14 The Committee concluded that the Institution has violated the rules and continued the unauthorized construction and therefore recommends that Government should take stringent action immediately.

4.15 The Committee recommends that Government should take action to demolish the buildings that were constructed unauthorisedly by the Vidyapeetam.

4.16 The Committee further recommends that Government should take steps to stop providing amenities viz., supply of water and electricity to the premises of the institution.

4.17 The Committee also recommends that the Government should be vigilant with regard to non-compliance of its orders, rules and regulations and initiate swift action to discipline such violators.

5. Para No. 9.5.5 of Audit Report 2010-11
Development charges

The Authority has been collecting (2009-11) certain development charges viz., open space charges¹⁵ (' 0.70 crore) from plot holders in unauthorised layouts, drainage charges¹⁶ (' 1.29 crore) from private developers and environment impact fee¹⁷ (' 0.07 crore) from quarry owners. The Authority did not utilise the amounts so collected (' 2.06 crore during the period) for the intended purposes and instead parked them in short term deposits. Moreover, Government sanction for such levies as required under its bye-laws had not been obtained.

Government replied (October 2011) that the amounts would be utilised for development activities including preparation of comprehensive infrastructure plan for the region or to improve the drainage system wherever required.

Para 9.8.1 Budgetary process

The Authority's funds include its own revenue from collection of development charges, sale proceeds from disposal of developed plots and built-up houses, lease rentals, regularisation fee under Land Regularisation Scheme (LRS), Building Penalisation Scheme (BPS), etc. Funds/grants are also provided by Gol and the State Government for various developmental activities. Various receipts of the Authority during the years 2006-07 to 2010-11 are given in Appendix-9.3.

As per the delegation of powers issued (September 1986 and August 1991) by the State Government, the Corporations/Municipalities and Gram Panchayats (GPs) within the jurisdiction of the Authority are empowered to collect development charges for approval of building plans and remit the amount to the Authority. Further, 30 percent of the penal amount collectable under BPS by the Corporations/Municipalities on behalf of the Authority, is also to be remitted to the Authority. Similarly, 50 percent of the penal amount collected under BPS by the Authority in villages/GPs under its jurisdiction, has to be remitted to the respective GPs to be utilised for improvement of amenities in the respective GP area.

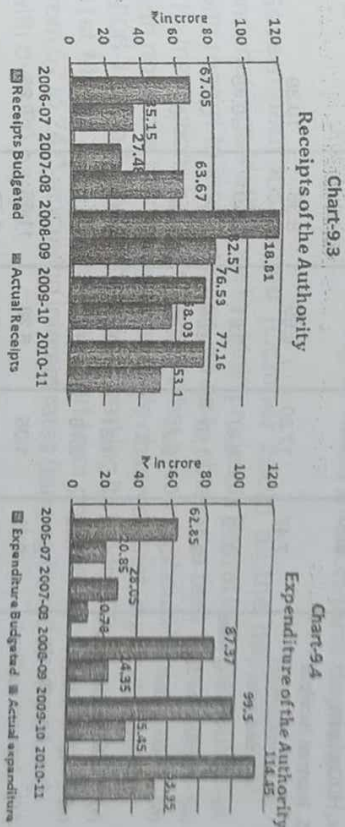
¹⁵To acquire land for development of lung space/park/greenery for ecological balance

¹⁶For preparation of infrastructure plan for this region or to improve the drainage system

¹⁷For development of greenery and infrastructure

The Authority submits its annual budget to the Administrative Department along with proposals for various development activities and anticipated receipts. During the five year period 2006-11, the State Government released a grant of 7 lakh ('5 lakh in 2006-07 and ' 2 lakh in 2007-08) to the Authority. In addition, the Authority received ' 13.06 crore for construction of Inner Ring Road at Vijayawada from the Central Government (' 9.28 crore) and State Government (' 3.71 crore).

Details of receipts and expenditure budgeted for by the Authority and approved by the Government vis-à-vis the actual receipts and expenditure during the five year period 2006 -11 are given in Chart-9.3 and 9.4.



The Authority could not collect the anticipated receipts, nor could it utilise the funds budgeted for, in any of the years under review. While formulating the budgets, it was expected that revenue would accrue from sale of sites, plots, housing schemes, fees, development charges, etc., and expenditure would be incurred on land acquisition, sites and services, construction of shopping complexes, formation of inner ring road, deposit works, infrastructure, etc. However, since the Authority had not been able to sell its sites/plots or float housing schemes during this period, it could not collect the revenue projected in its budget.

The Authority stated (October 2011) that it could not undertake the development works during the last five years due to fund constraints and that, failure to shore up its revenue led to its inability to take up planned development works. The reply is not acceptable because while the Authority had realised substantially the budgeted receipts year to year, it could spend only a fraction of the funds at its disposal.

(Reference to paragraph 9.8.1 page 103)

Receipts of the Authority during the years 2006-07 to 2010-11
(in crore)

Sl. No. Funds received from	2006-07	2007-08	2008-09	2009-10	2010-11
1. State Government	0.05	0.02	3.71	Nil	Nil
2. Central Government	0.61	Nil	9.28	Nil	Nil
3. Contributions from local bodies	0.24	0.66	0.69	2.41	0.89
4. HUDA Loan	5.00	Nil	Nil	Nil	Nil
5. Internal receipts					
(i) Development charges	7.47	17.20	9.66	8.36	10.39
(ii) Compounding fees	0.20	0.41	0.51	0.40	0.45
(iii) Application fee	0.70	1.07	0.66	0.41	0.54
(iv) Open space charges	0.81	2.21	0.85	0.90	0.85
(v) conversion fees	0.88	1.31	0.57	0.27	0.60
(vi) Sal. of plots, houses, etc.	1.22	0.78	3.72	0.18	0.62
(vii) Interest realized	0.45	1.35	6.28	11.35	9.28
(viii) Misc. General advances	13.90	0.92	0.71	0.47	
(ix) Other receipts	3.62	7.63	3.76	22.17	0.45
(x) BPS/LRS	Nil	2.44	22.77	9.81	14.37
(xi) Scheme receipts	Nil	27.67	19.39	1.30	1.73
Total	29.25	62.99	68.88	55.62	39.28
Grand Total	35.15	63.67	82.57	58.03	40.17

Source: Annual Accounts of the Authority

Para 9.8.2 Preparation of Annual Accounts

In terms of the Act governing the Authority, the letter is required to prepare its annual accounts, get them certified by the Principal Accountant General¹⁸ and submit to the Government to be laid before both the Houses of the State Legislature.

¹⁸Entrusted under Section 20 of C&AG's (DPC) Act, 1971

The accounts for the years 2006-07, 2007-08, 2008-09 were presented to the State Legislature only during March 2011. Further, annual accounts for the years 2009-10 and 2010-11 have not been furnished to the Principal Accountant General for audit. Due to delay in preparation of annual accounts, the financial position of the Authority could not be ascertained and the possibility of irregularities, frauds, etc. remaining undetected cannot be ruled out.

The Vice-Chairman stated (October 2011) that compilation of annual accounts for the year 2010-11 was in progress and would be submitted to the Principal Accountant General in due course.

Para No. 9.8.3 Parking of funds in short-term deposits

Government instructed (October 2002) all the departments/undertakings/institutions to obtain proposals from at least three banks with regard to interest rates, so as to obtain the best interest rates. The instructions further stipulated that accounts should be maintained with not more than three banks. We observed that, during the period 2006-11, the Authority had been parking its funds ('68.43 crore as of 31st March 2011) in several short-term deposits (number ranging from 57 to 247) at varying interest rates (ranging from 6 to 10 percent) with over 20 banks.

Due to parking its funds in several short-term deposits with banks which offered lower interest rates, the Authority failed to derive maximum benefit from investment of its surplus funds and lost interest amounting to '5.18 crore (Appendix-9.4).

The Vice-Chairman, while accepting the audit observation, stated that the Authority has initiated steps to reduce the number of bank accounts and invest the surplus funds in banks which offer higher rates of interest. Government however stated (October 2011) that, the Authority is selecting the banks which offer good interest. The reply of the Government is not correct as we observed that surplus funds had been invested in banks which offered low interest rates resulting in losses to the Authority. Further, the Authority had not followed the prescribed procedure of obtaining proposals from at least three banks with regard to interest rates.

Appendix-9.4

(Reference to paragraph 9.8.3 page 105)

Details of funds parked in Short Term Deposits (STDs) during the period 2006-07 to 2010-11 (VGT Muda)
(in crore)

year	Range of interest rates in percent	Range of investment period	Number of STDs during the year	Number of banks	Funds kept under STDs to the end of the year	Maturity value (M.V) of the STDs	Interest earned	calculation M.V. at higher rate of interest	Calculation of interest at higher rate	Loss of interest
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) (7) - (6)	(9)	(10) (9) - (6)	(11) (10) - (8)
2006-07	6.50 to 7.75	6 months	57	20	15.40	15.92	0.52	16.00 (7.75%)	0.60	0.08
2007-08	6.5 to 9.5	6 months to 1 year	154	36	61.08	65.43	4.35	65.91 (9.50%)	4.83	0.48
2008-09	7.50 to 10.00	1 year	212	42	121.10	132.07	10.97	133.67 (10.00%)	12.57	1.60
2009-10	6 to 8.25	1 year	247	36	126.60	135.53	8.93	137.37 (8.25%)	10.77	1.84
2010-11	4 to 7.50	46 days to 1 year	124	33	68.43	72.53	4.10	73.71 (7.50%)	5.28	1.18
				Total	392.61	421.48	28.87	426.66	34.05	5.18

30

Source: Information obtained from the Annual Accounts and Statement of investments of the Authority

para 9.8.4 Lax control over remittance of development charges/fees by local bodies

As per Government instructions (September 1986), the municipalities are required to remit development charges collected on behalf of the Authority during a month, on the 1st of the succeeding month to the Authority. Vijayawada Municipal Corporation (VMC) has stopped the remittance of the development charges collected by it to the Authority since 1997. The Authority does not have the details of the dues recoverable from VMC on this account beyond December 2009 by when the unremitted development charges had accumulated to '30 crore. Neither the Authority nor the Government could get the outstanding dues released from VMC as of October 2011.

Similarly, 30 percent share of Building Penalisation Scheme (BPS) fees collected by the Urban Local Bodies (ULBs) in the region was not being remitted to the Authority. Since the Authority does not have the details of fees collected by the ULBs on account of BPS, we are unable to quantify the amount of loss to the Authority in this regard. The Vice-Chairman admitted (October 2011) that the Authority had no details of amounts to be received from the municipal corporations and municipalities. The Principal Secretary stated (October 2011) in the exit conference that, since the local bodies were starved of funds, they would not like to remit moneys to the Authority and a mechanism would soon be evolved at the Government level to address these issues.

Para 9.8.5 Unadjusted advances

State Financial Rules stipulate that, all advances including temporary, travelling and miscellaneous advances, should be adjusted in the accounts as soon as possible and not be left unadjusted beyond the closure of the financial year. However, advances amounting to '5.38 crore¹⁹ sanctioned by the Authority during 1991-2010 had remained unadjusted as of October 2011.

Para 9.8.6 Record maintenance

The Authority had not maintained important control registers such as cash book, land register and asset register properly. The register of valuables was in fact, not maintained. Consequently, the details

31

¹⁹ and acquisition ('2.86 crore); Urban Forestry wing ('0.36 crore); Amaravathi Township ('0.32 crore); Tekkalapadu Park ('0.05 crore); Truck Terminal ('0.15 crore); Krishna Pushkarams ('0.05 crore); Rayakapuram Scheme ('0.04 lakh); Staff members ('0.11 crore) and General purposes ('1.48 crore)

relating to cheques/demand drafts issued and received were not verifiable. As per Rules 10 and 11 of Andhra Pradesh Treasury Code, cash book is to be closed regularly and at the end of each month. Further, closing balances are to be brought forward.

Maintenance of cash book by the Authority was irregular and deficient during the five year period 2006-11. While the cash book was being closed every month, opening and closing balances were not being reflected in it. Transactions were posted on the date of writing the cash book instead of on the date of their occurrence. Further, the receipts of challans/DDs were posted in the cash book as lumpsum figures. There were delays ranging up to 60 days in depositing the DDs in banks, causing loss of interest to the Authority. Non-maintenance of important control registers and irregular manner of recording cash transactions is fraught with serious risk of fraud and misappropriation that must be addressed urgently.

Government assured (October 2011) that steps would be taken to maintain the cash book and other registers in proper format with immediate effect.

Para 9.8.7 Internal Audit

The Urban Areas (Development) Act does not provide for Internal Audit of the Authority. In the absence of Internal Audit, the management cannot derive assurance that the rules and procedures are being complied with by various wings.

Government assured (October 2011) that necessary instructions would be issued for establishing an internal audit cell in consultation with Finance Department.

5.1 Initiating discussion on the audit paragraphs, the Chairman enquired about the availability of funds with the Authority for development works and asked whether the funds are in the form of fixed deposits or in other form? The Chairman also wanted to know whether the funds are being spent towards developmental works.

5.2 VC replied that there are no funds in the form of deposits. An amount of Rs 82.77 crore available (Building penalization scheme:

Rs 13.78 crore; Land Regularisation Scheme: Rs 68.99 crore) with the Authority. The development charges are also the part of that scheme which fall within the meaning of BPS.

5.3 To an enquiry made by the Committee with regard to total allocation of funds to the Authority and the amount spent during the last three years, the Officials were unable to provide the information to the Committee.

5.4 The Committee noted the following:

- > Other than development charges other funds are also available with the Authority.
- > Funds were kept in deposits and other accounts without spending for developmental activities.
- > Either cash books or other related records were not maintained properly.

5.5 The Principal Secretary stated that all the townships were subject to land acquisition. So far as land acquisition is concerned, in most of the cases, there is farmers' resistance and as a result, the process is getting delayed. The land is costly and therefore, the farmers are not willing to give part with to the Authority. All these proposals are pending with the Collectors of Guntur and Krishna. As there is no chance to take any initiative under the Public Private Partnership mode, Government has not given permission and the issues regarding land acquisition are pending with the Collectors. As there is no land acquisition, the related funds are lying unutilized.

5.6 VC informed the Committee that there are two projects viz., Jawaharlal Nehru National Urban Renewal Mission project and Inner Ring Roads for which Rs 80 crore has been allocated. Planning process, establishment costs are met from out of the funds of the Authority.

5.7 The Principal Accountant General informed the Committee that the Municipalities and other local bodies in the jurisdiction of the Authority are required to pay taxes to the Authority. Due to non- compilation of the Accounts by these local bodies, they are unable to arrive at the income (received by the local bodies) and as a consequence the Authority could not also assess the amounts to be

received from the local bodies. Non-preparation of Accounts is a major problem in all the municipalities.

5.8 The Principal Secretary replied that action has been initiated for compilation of the accounts of the municipalities. Necessary training is also being imparted to equip the personnel.

5.9 The Commissioner and Director of Municipal Administration (CDMA) stated that, as per the recommendations of the XIII Finance Commission, online accounting package has been introduced and is being done for last two years. For the newly added 46 Municipalities it is yet to be done due to shortage of Accounts Officers and these will be recruited soon through APPSC. CDMA also stated that utilization of services of the reputed Chartered Accountants is also being considered and the Municipal staff are being trained accordingly.

5.10 After discussion of the issues the Committee decided to make the following recommendations:

5.11 *The Committee recommends that the financial management of the Authority should be streamlined and accountability fixed for the tax manner in which the accounts and accounting records are maintained.*

5.12 *The Committee recommends that the Authority should maintain the Cash Book and other control registers properly and in a systematic manner. It should be ensured that receipt of challans / DDs is posted in the Cash Book on the day of occurrence of the transactions. The Authority should also ensure that DDs are deposited in banks at once so as to avoid any loss of interest.*

5.13 *The Committee expressed anguish over the deficient performance of the VGTMDA in the area of development projects as the amounts collected by the Authority towards development charges were not utilised for the purpose and instead these were lying unutilized in the form of deposits and in bank accounts. Therefore, the Committee recommends that Government should ensure optimal utilisation of funds for development projects, proper investment of surplus funds, proper maintenance of records and timely finalisation of Accounts by the Authority by instituting adequate internal controls.*

5.14 *The Committee while expressing serious concern with regard to non-preparation of Accounts by municipalities in time, recommends that Government should ensure timely preparation/finalisation of Accounts by all municipalities in the State. Government should also ensure that the share towards development charges is remitted to the respective development authorities in time.*

5.15 *With regard to huge advances remaining unadjusted for long periods, the Committee recommends that action should be taken to adjust the advances without any further delay while keeping a close watch over such advances in future.*

5.16 *The Committee also recommends that immediate steps should be taken to establish Internal Audit. Internal audit of all the units of the Authority should be conducted every year to derive assurance that the rules and procedures are being complied with by various wings of the Authority.*

5.17 *The Committee further recommends that the Authority should be more responsive to the needs of the local community in terms of infrastructure and basic minimum facilities with regard to development of the area under its jurisdiction.*

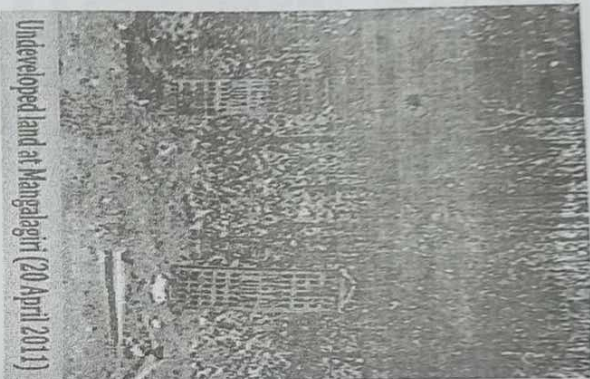
6 Para 9.6.1 of Audit Report 2010-11

Acquisition of land for townships

The VGTM region is located at the head of Krishna delta and the lands in this region are fertile due to the availability of good irrigation system. Considering its locational advantage, the region has attracted several major industries/establishments²⁰ and educational institutions. All these factors lead to increase in the population of the four cities of the region viz., Vijayawada, Guntur, Tenali and Mangalagiri. Consequently, there is a heavy demand for development of houses/apartments and satellite townships in the area.

²⁰ AP Heavy Machinery and Engineering Limited, Railway Wagon Workshop, Vijayawada Thermal Power Station, Jawahar Autonagar, Cement Industries, AP Electronics Complex, etc.

To meet the demands of housing and reduce congestion in Guntur and Vijayawada cities, the Authority acquired (1986) 408.44 acres of land in Guntur district²¹ for establishing a township. However, of this only 64 percent of the acquired land (259.93 acres) has been developed during the last 25 years. Even the land thus developed had not been fruitfully utilised for the intended purposes, as discussed at paragraphs 9.6.3 to 9.6.6. During the period 2006-11, the Authority had not acquired any land (except 1,068 sq yards for widening of roads) for development of townships or for independent housing projects.



Undeveloped land at Mangalagiri (20 April 2011)

One of the major functions of the Authority is to acquire and develop lands for townships that includes urban infrastructure. There was however, no perspective plan with the Authority for acquiring land for these purposes and it had neither established a land bank for future needs nor an independent database of lands it already possesses. Further, the Authority had not maintained any details regarding encroachment of its lands.

The Vice-Chairman, while accepting the audit findings, stated (October 2011) that all the proposals for acquisition of land were pending with the respective Collectors and these would be pursued.

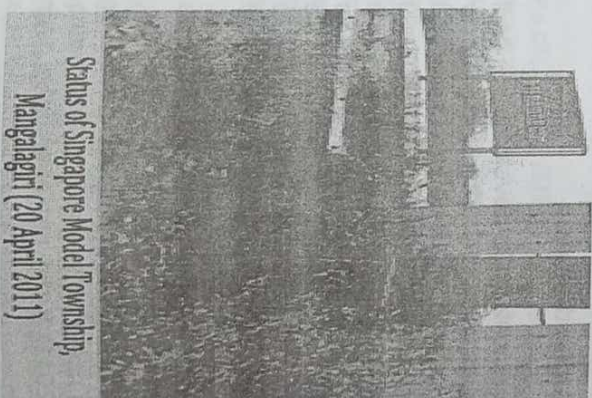
Para 9.6.2 Establishment of townships

The ZDPs lay down the space requirements for new residential areas along with minimum necessary amenities and services. There was no specific proposal for development of townships/mega housing projects in the ZDPs and the additional requirement of housing as estimated in the ZDPs was left to be developed by the owners of the land. During the 5 year period 2006-11, the Authority took up

development of townships only in Guntur and Mangalagiri incurring a mere 2 percent ('1.59 crore) of '66.89 crore it realised from sale of plots, sites, etc. on establishment of townships. Consequently, none of the test checked township projects undertaken by it during 2006-11 had been completed as of October 2011. In fact, in Tenali town, except Chencheapeta township, which was taken up 25 years ago, no development project what so ever, has been initiated by the Authority. Our observations on the townships developed by the Authority during the last five years are discussed below.

Para 9.6.3 Singapore Model Township

The Authority entered into an agreement with a private developer²² (July 2007) for development of a Singapore Model Township in Mangalagiri. A minimum guaranteed sum (MGS) of '92 crore was to be paid by the developer firm within two years from the date of agreement. Subsequently, due to increase in the land requirement for development of the township from 50 to 53 acres, the MGS was revised to '97.52 crore. The project was to be completed by July 2011.



Status of Singapore Model Township, Mangalagiri (20 April 2011)

As per the terms and conditions of the Expression of Interest (EOI) and Letter of Acceptance (LoA), 10 percent of the MGS amounting to '9.75 crore was to be paid by the firm as performance security in the form of Bank Guarantee (BG). Against this the firm paid (March 2007) '9.20 crore before the Authority handed over to it the site (53 acres) in January 2008. As per the payment schedule the firm paid '41.80 crore (45 percent) up to July 2008 towards MGS but expressed (February 2009) difficulty in paying the remaining instalments as also in taking up the project during the then prevailing economic recession.

²¹In Mangalagiri Municipal limits and Nowkurru village

²²M/s Arhant Indo-African Infra Developer and Builders Private Limited, Hyderabad, a Special Purpose Company

State Government accepted the contention of the firm and directed (July 2010) the Authority to transfer the land proportionate to the payment already made by the firm. Accordingly, the Authority released the performance security and transferred (April 2011) to the firm the ownership of 22 acres of land proportionate to the amount of '41.80 crore already paid by the firm towards MGS.

As the private developer failed to honour its commitment to pay MGS in its totality and to develop the mega township, it was a material default and had significantly altered the fundamentals of the deal. The Authority should, therefore have terminated the agreement and forfeited the performance security. Instead, the firm was unduly favoured by transferring 22 acres of prime land at the old and below market rates of 2007, even though the agreement did not provide for it, whereas the objective of creating a model township for the benefit of public had remained unrealised.

The Government did not throw any light on the matter either in its reply or in the exit conference. The Authority merely replied during exit conference (October 2011) that it had merely complied with the Government decision taken (July 2010) in transferring the land to the developer firm.

Para 9.6.4 Mega Township at Ankireddipalem

The Authority entered into an agreement with a developer²³ in April 2008 for construction of a mega township at Ankireddipalem (Guntur district) comprising around 350 LIG²⁴ and MIG²⁵ houses to be built over in an area of 18,489 sq yards at an estimated cost of '23.89 crore. The transaction involved payment of '4.34 crore by the developer to the Authority towards cost of the land. The project was to commence within six months from the date of agreement or the date of handing over of vacant land, whichever was later, and was to be completed within 24 months thereafter. The bid price was to be paid in nine instalments within 24 months from the date of agreement. In addition, performance guarantee for an amount of '2.38 crore was also payable.

The project could not take off as envisaged because the developer not only delayed payment of land cost ('4.34 crore) by 11 months (last instalment paid in March 2011) it did not even take over

²³ Ms Vensar Construction Company Limited, Hyderabad

²⁴ Lower Income Group

²⁵ Middle Income Group

possession of land as of September 2011. Delay was attributed by the developer to the fact that the Authority while providing an approach road up to the project site had not ensured external infrastructure like water and electricity at the site. These amenities to be provided at low cost as per the decision (July 2010) of the VGTMDA Board, were yet to be provided as of September 2011. Thus, Authority's inaction was largely responsible for delay in establishment of the township.

Government accepted the audit observation and stated (October 2011) that the developer had taken over the possession of the land in October 2011 and the township would be developed in another two years time.

Para 9.6.5 Cricket Stadium

At the request of Andhra Cricket Association (ACA), the State Government permitted (April 2000) the Authority to allot 20 acres of land to ACA for constructing a Cricket Stadium at Amaravathi Township, Mangalagiri (Guntur district). The Authority assigned (July 2000) land to ACA at a price of 50,000 per acre.

As of October 2011, ACA had not commenced construction of the Stadium even though 11 years had elapsed after the allotment of the land. Reasons for not taking up construction of the stadium were neither available on record nor could be spelt out by the Authority.



Proposed site for Cricket Stadium at Mangalagiri
(20 April 2011)

While permitting the Authority to allot land to ACA, the State Government had stipulated that (i) it should not be utilised for any other purpose and that (ii) ACA should take up construction of the Stadium within one year and complete it within three years. The Authority failed to incorporate these conditions in the land transfer deed. Authority was, therefore, not able to initiate any action against ACA despite its failure to take up construction or resume the land.

Despite its failure to get the stadium constructed, the Authority allotted (February 2010) another piece of 3.22 acres of land to ACA (adjacent

to plot of land already allotted) for construction of pavilion at the South-East side of the proposed Cricket Stadium. The basic price of '800 per sq yard ('38.72 lakh per acre) totalling ' 1.25 crore for the second plot of land was far below market value of ' 1.84 crore per acre, prevalent as of April 2007. At current rates, the value of land (20 acres) is ' 36.80 crore. As the land was not utilised by ACA for the intended purpose, the objective of development of Amaravathi township was also not achieved.

Government replied (October 2011) that further extension of time for three more years i.e. up to June 2014 had been accorded to ACA on the assurance that construction of cricket stadium would commence shortly, failing which, the land would be resumed by the Authority for development of other activities.

Para 9.6.6 IT SEZ (Mangalagiri)

Gol permitted (June 2007) the Authority to set up an IT SEZ at an estimated cost of '880 crore with the stipulation to complete it within three years. The Authority issued 'Request for Proposals' (RFP) for the project in March 2008. A Letter of Acceptance (LOA) to a respondent private firm was issued in January 2009, i.e., after both bid validity period and performance guarantee had expired. The firm refused to extend the bid validity period and expressed its inability to take up the project due to the prevailing market condition. As the project was not implemented within the stipulated period of three years, the approval granted by Gol for setting up the SEZ became invalid as per the SEZ Rules. The anticipated benefits of the proposed SEZ such as large scale employment generation, overall development of the area and development of Tier-II cities like Vijayawada as envisaged in the State Government's IT policy could thus, not be derived.

In their reply (April 2011) while the Authority attributed the delay to its consultant APITCO, the Government stated (October 2011) that the project could not be taken up due to recession and lack of demand. For one, this dichotomy between the replies of the Authority and the Government reflects a clear difference of perception between two authorities who were committed to push further a major policy driven initiative.

The Authority could not formulate the projects diligently and implement them in an effective manner. It could not act decisively and swiftly in developing the projects envisaged in

the Master Plan/ZDPs, resulting in a stalemate with regard to the construction of the township projects taken up by it.

6.1 Initiating discussion on the audit paragraph, the Chairman noted that the Authority has developed only 259 acres out of 408.44 acres acquired in Guntur District. The Committee sought explanation with regard to the lacklustre performance of the Authority in developing the townships.

6.2 VC replied that the Authority had acquired 200 acres of land (Pedakakanipally: Ac. 54.70 cents; Guddipadu: Ac 45.94 cents; Tekkiapally: Ac 38.64 cents; Guntur Rural: Ac 61.46 cents.). VC also stated that there was good response from the farmers in these areas for acquisition of lands. VC further stated that the Authority had tried to hold regular meetings with the farmers in order to part with their lands.

6.3 The Committee enquired about the action taken against the agreement holders who failed to develop the lands.

6.4 Replying to the Committee VC stated as follows:-

Amaravathi township was developed near Mangalagiri. Expression of interest was called for development of Singapore like township under Public Private Partnership. Based on the then existing procedures, an agreement was entered into with Indo-African Industries, Icon Foundations and Vinayaka Property Developers for development of project in 53 acres. They quoted Rs 97.52 crore at Rs 1.84 crore per acre for 53 acres. They paid an amount of Rs 41.80 crore from time to time including 10 percent of initial deposit. After paying the amount of Rs 41.80 crore, they approached Government for allotment of land proportionate to the amount paid by them, by quoting recession in economy. After thorough examination of the issue, Government issued orders in July 2010 for allotment of land for the amount paid by them. Based on the Government orders, 22.72 acres of land was allotted to the developer. At that time Government got much better rate for the land. Now the rate of the lands per acre is between Rs 70 lakh and Rs 80 lakh. If we put it for auction now, there is no scope for getting the rate.

6.5 The Committee stated that outer ring road is being laid near the lands. The rate of the lands is much costlier than earlier. The Committee asked whether the companies approached the Authority for allotment of the remaining lands.

- 6.6 VC replied that the companies have not approached for the remaining lands.
- 6.7 The Committee felt that when profit accrued it would be given to the Companies but when losses arise they approach the Government for consideration. It is not fair on the part of the Government to consider allotment of land that was proportionate to the amount paid by them, as the Authority was to part with the lands with main intention of developing the area / region and it is not the activity of the Authority to sell their lands for petty amounts.
- 6.8 The Committee enquired whether the lands belong to farmers.
- 6.9 VC replied that the lands were acquired by the Authority in the year 1986.
- 6.10 The Committee asked as to why the lands were allotted to them after acquisition.
- 6.11 VC replied that the township was planned in 408 acres under Amaravathi Township. Sixty percent of the lands were sold in auction under Sites and Services programme. In the remaining lands, model townships and cricket stadia were proposed along with social infrastructure. Construction of cricket stadium was assigned to Andhra Cricket Association and the construction is being started. A special economic zone was also proposed in the lands.
- 6.12 The Committee also enquired about the works proposed in the Singapore Township and whether there exists any commercial and social activities.
- 6.13 VC replied that it was for construction of houses with gated community. In the gated community, facilities like gym and club are generally available.
- 6.14 The Committee enquired whether the companies have developed the 22 acres and taken up the activity.
- 6.15 VC replied that the plan is being submitted to the Authority by the Companies and no works have been commenced as of now.
- 6.16 The Committee observed that it is generally taken for granted that the amount has been received by Government from the Companies and lands were given to the companies and as such there was no loss to the Government. The main issue is that the Authority is supposed to develop this township but that objective has

not been achieved as there was no activity whatsoever in the Authority. However, the Authority is unable to explain as to why it has not been able to develop any of the townships.

6.17 *The Committee recommends that Government should prepare Master plans keeping in view the requirement of development of the area under its jurisdiction rather than treat it as a perfunctory function. Action should be taken to develop townships in the lands as proposed in the master plans.*

6.18 *Agreements concerning entrustment of Government lands should be devised in such a manner as to safeguard the interests of the Government / Authority, especially where entrustment of mega township/satellite township/housing colonies under PPP mode are involved.*

6.19 *With regard to the allotment of 22.72 acres of land to the developer (Indo-African Industries, Icon Foundations, and Vinayaka Property Developers) in lieu of the amount paid by them, the Committee recommends that Government should institute a thorough enquiry into the whole issue and a report submitted to the Committee within 3 months.*

6.20 *The Committee also recommends that the Authority should take immediate steps to provide adequate infrastructure to the already established townships to ensure development of the region.*

7 Para 9.7.3 of Audit Report 2010-11

Truck Terminal not operationalised

Mention was earlier made in Paragraph 4.2.8 of C&AG's Audit Report for the year 2005-06 about the failure of the Authority to utilise the truck terminal constructed in January 2003 at a cost of ₹16.83 crore.

We further observed that the allottees²⁶ had not occupied the units even as of October 2011. The truck owners were reluctant to shift to this terminal owing to additional costs involved in transportation of goods to various places of consumption. The efforts of the Authority to convince the allottees to occupy the truck terminal in coordination with the municipal and police authorities proved futile.

Government replied (October 2011) that the Authority is taking the help of Police to restrict entry of heavy goods vehicles into

²⁶shops: 532, offices: 120, independent godowns: 91, plots: 65, row godowns: 24

Vijayawada city and simultaneously mobilising the truck operators to shift their activities to the truck terminal so as to make it operative.

The Authority should have assessed the feasibility of constructing the truck terminal and taken the concerned stakeholders into confidence well before selecting the site for setting up the facility. Failure to do so resulted in non-operationalisation of the terminal even after the lapse of over eight years. The objective of reducing traffic congestion thus remained unachieved.

7.1 Initiating discussion on the audit paragraphs, the Vice Chairman apprised the Committee as follows:

7.2 The foundation stone for Truck and Goods terminal was laid by the then Hon'ble Chief Minister on 20th November 2004 and even after lapse of eight years, the terminal was not operationalised. To construct this terminal, 34.93 acres of land nearer to National Highway 5 and 49 km away from Vijayawada in revenue survey nos. 53p, 54p 55 to 60, 66 to 69, 72 and 73 of Ibrahimpatnam Village and Mandal of Krishna District was acquired by the Authority. For construction of Bodhi Sin UDA, Hill Park, Inner Ring Road, Rail and four lines Flyover Bridge, etc., the Authority has paid the fees prescribed to all the respective departments.

7.3 In respect of Inner Ring Road works, VC stated that all the phases of I to IV are in progress. Link roads have been formed by the Authority. 34.93 acres has been divided for parking, expansion of roads, amenities, administrative office, petrol bunk, way bridge, service station, police station, post office and telephone exchange. Out of the estimated amount of Rs 17.66 crore, an amount of Rs 17.38 crore has been spent so far. Though shops were allotted to the local public, due to disputes in various Courts, they could not commence their business. If once activity is commenced, all the issues will be settled.

7.4 The Committee stated that the traffic and pollution in Vijayawada city can be controlled by utilizing the truck terminal.

7.5 The Committee asked the District collector to discuss the issue with the Transport Associations in coordination with Municipal Administration and Transport Departments.

7.6 The Collector, Krishna promised the Committee that he would take appropriate action to make use of the truck terminal.

7.7 The Committee expressed displeasure over non-operationalisation of the truck terminal for over eight years even after

spending Rs 17.38 crore with the resultant losses to traders (who owned shops in the truck terminal), etc.

7.8 The Committee took a serious view of non-operationalisation of the truck terminal at Vijayawada for over 8 years after completing the project and recommends that Government should take action for expeditious operationalisation of the truck terminal by initiating discussions with various transport associations, so as to control the traffic accidents, and pollution in Vijayawada city.

SUMMARY OF RECOMMENDATIONS

1. While concluding the discussion on the above issues, the Committee felt unhappy to note that, despite closure (in the Year 2009) of the power plants by Sri Ram Energy Systems Limited and Selco International Limited, the Government has not taken back the lands allotted to them even as of now. Therefore, the Committee recommends that Government should take immediate action to cancel the agreements with them and take back the valuable land within a month for its proper use.

(Para No.1.68)

2. With regard to 'Selco International Limited' for which land was allotted in Gandhamguda in Hyderabad, the Committee also recommends that Government should take action to get the mortgage cleared by the Company on the Government land parted with.

(Para No.1.69)

3. As regards Sri Ram Energy System Limited for which land was allotted in Vijayawada, the Committee recommends that Government should initiate criminal action for mortgaging Government land without Government's knowledge and specific approval.

The Committee further recommends that the Government should ensure that the successful bidder has the required financial capability to execute the work, before awarding the contract.

(Para No.1.70)

4. The Committee also recommends that Government should take immediate action to put in place a mechanism for management of waste in Vijayawada.

(Para No.1.71)

5. Therefore, the Committee recommends that Government should ensure that payments to contractors are restricted only to the extent of quantities executed and discourage making payments in advance of the execution of quantities on what so ever reason.

(Para No.2.9)

6. The Committee also recommends that Government take action to streamline the procedures relating to EPC system so as to safeguard Government interest.

(Para No.2.10)

7. The Committee further recommends that Government should consider incorporating appropriate clauses in the EPC agreements, facilitating adjustment of the contract price in case of variation in specifications / scope of work.

(Para No.2.11)

8. Therefore, in the context of TUDA acting on the suomotto proposals of the Company and the Government intervening unnecessarily in the matter from time to time, the Committee recommends that an enquiry should be conducted on the whole issue to assess specifically whether any officials were involved in this issue with a malafide intention.

(Para No.3.23)

9. The Committee also recommends that appropriate action should be initiated against the persons if any found guilty and compliance reported to the Committee within 3 months.

(Para No.3.24)

10. The Committee concluded that the Institution has violated the rules and continued the unauthorized construction and therefore recommends that Government should take stringent action immediately.

(Para No.4.14)

11. The Committee recommends that Government should take action to demolish the buildings that were constructed unauthorisedly by the Vidyapeetam.

(Para No.4.15)

12. The Committee further recommends that Government should take steps to stop providing amenities viz., supply of water and electricity to the premises of the institution.

(Para No.4.16)

13. The Committee also recommends that the Government should be vigilant with regard to non-compliance of its orders, rules and regulations and initiate swift action to discipline such violators.

(Para No.4.17)

14. The Committee recommends that the financial management of the Authority should be streamlined and accountability fixed for the lax manner in which the accounts and accounting records are maintained.

(Para No.5.11)

15. The Committee recommends that the Authority should maintain the Cash Book and other control registers properly and in a systematic manner. It should be ensured that receipt of challans / DDs is posted in the Cash Book on the day of occurrence of the transactions. The Authority should also ensure that DDs are deposited in banks at once so as to avoid any loss of interest.

(Para No.5.12)

16. The Committee expressed anguish over the deficient performance of the VGTMUDA in the area of development projects as the amounts collected by the Authority towards development charges were not utilised for the purpose and instead these were lying unutilized in the form of deposits and in bank accounts. Therefore, the Committee recommends that Government should ensure optimal utilisation of funds for development projects, proper investment of surplus funds, proper maintenance of records and timely finalisation of Accounts by the Authority by instituting adequate internal controls.

(Para No.5.13)

17. The Committee while expressing serious concern with regard to non-preparation of Accounts by municipalities in time, recommends that Government should ensure timely preparation/finalisation of Accounts by all municipalities in the State. Government should also ensure that the share towards development charges is remitted to the respective development authorities in time.

(Para No.5.14)

18. With regard to huge advances remaining unadjusted for long periods, the Committee recommends that action should be taken to adjust the advances without any further delay while keeping a close watch over such advances in future.

(Para No.5.15)

19. The Committee also recommends that immediate steps should be taken to establish Internal Audit. Internal audit of all the units of the Authority should be conducted every year to derive assurance that the rules and procedures are being complied with by various wings of the Authority.

(Para No.5.16)

20. The Committee further recommends that the Authority should be more responsive to the needs of the local community in terms of infrastructure and basic minimum facilities with regard to development of the area under its jurisdiction.

(Para No.5.17)

21. The Committee recommends that Government should prepare Master plans keeping in view the requirements of development of the area under its jurisdiction rather than treat it as a perfunctory function. Action should be taken to develop townships in the lands as proposed in the master plans.

(Para No.6.17)

22. Agreements concerning entrustment of Government lands should be devised in such a manner as to safeguard the interests of the Government / Authority, especially where entrustment of mega township/satellite township/housing colonies under PPP mode are involved.

(Para No.6.18)

23. With regard to the allotment of 22.72 acres of land to the developer (Indo-African Industries, Icon Foundations and Vinayaka Property Developers) *in lieu* of the amount paid by them, the Committee recommends that Government should institute a thorough enquiry into the whole issue and a report submitted to the Committee within 3 months.

(Para No.6.19)

24. The Committee also recommends that the Authority should take immediate steps to provide adequate infrastructure to the already established townships to ensure development of the region.

(Para No.6.20)

25. The Committee took a serious view of non-operationalisation of the truck terminal at Vijayawada for over 8 years after completing the project and recommends that Government should take action for expeditious operationalisation of the truck terminal by initiating discussions with various transport associations, so as to control the traffic, accidents, and pollution in Vijayawada city.

(Para No.7.8)

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