Chapter-II

Planning and Financial Management

Planning

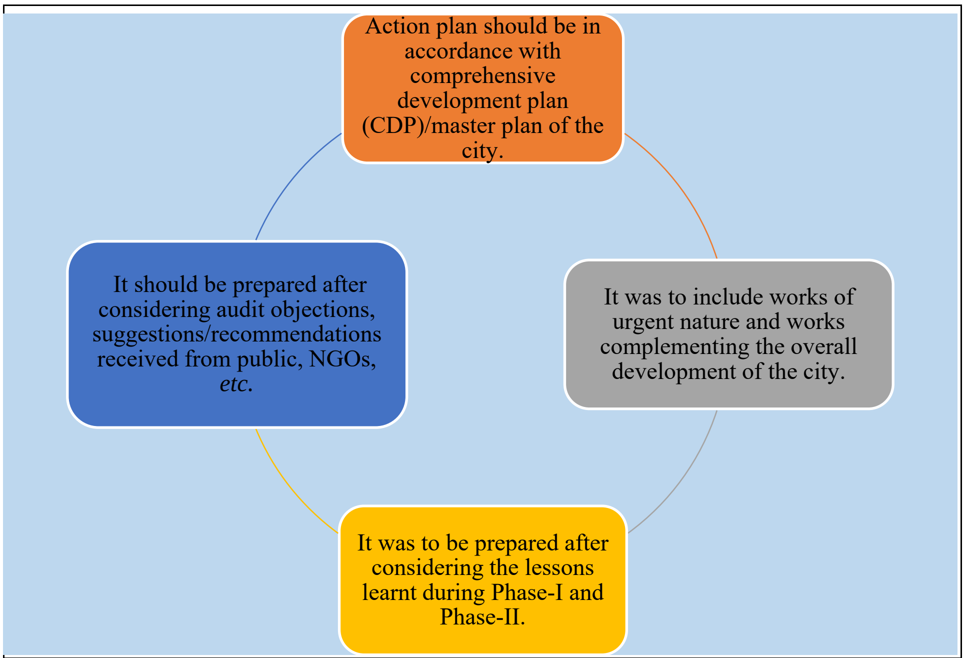
The CCs were required to prepare one time action plan detailing the works to be taken up under the Scheme during the period 2014-17. The works selected were to aid in the overall development of the city covering various components of urban infrastructure. The action plans so prepared were to be placed before the District Level Committee (DLC)[6], headed by the District-in-charge Minister. The DLC was empowered to scrutinise the plans and revise it based on the specific requirements of the city. After the approval of DLC, the action plans were submitted for the approval of the Government through DMA. Audit observed following deficiencies in the planning process of the Scheme:

2.1 Absence of comprehensive planning

Pursuant to announcement (July 2013) of the Scheme in Budget, the State Government issued (September 2013) the first set of implementation guidelines and allocated ₹ 100 crore each to these 10 CCs. Accordingly, DMA instructed (September 2013) all the DCs and CCs to submit one time action plan for implementation of the Scheme. This circular, however, did not contain any criteria to be adopted for preparing the action plans.

Subsequently, the Government issued (May 2014) detailed instructions for Scheme implementation. This order, *inter alia*, contained instructions for preparing the action plans based on the criteria depicted in **Chart 2.1**:

Chart 2.1: Pre-requisites for preparing the action plan



Source: Paragraph 4 of the Scheme guidelines

6 Headed by District in-charge Minister, the Committee consisted of local MP, MLA, Mayor, Deputy Mayor, Commissioner and Superintending Engineer of CC, Project Director of DUDC.

Audit observed (August to December 2021) that all the four test-checked CCs had submitted their one-time action plans to DMA during November 2013 to April 2014 *i.e.*, before detailed instructions were issued (as detailed in **Appendix 2.1**). However, the Government/DMA did not issue any instructions to CCs to revise the action plans in accordance with the detailed guidelines issued.

Thus, the CCs were not given opportunity to revise the action plans in line with the guidelines issued, resulting in the following deficiencies in their preparation:

i) None of the four test-checked CCs prepared the action plans based on the CDP/master plan of the city;

ii) CCs did not provide any data/record which had been used to prioritise the works; and

iii) No impact assessment or evaluation study was conducted for Phase-I and Phase-II and many of the audit objections pointed in previous audit persisted such as, deficient planning, deficiencies in estimates preparation, lack of transparency in tender evaluation, ineffective contract management, lacunae in monitoring, *etc*.

In the absence of these, planning and selection of works in the CCs, were, to a large extent, driven by the perceived availability of funds rather than a need-based analysis. Delay in issuing detailed guidelines and non-adherence to the prescribed criteria deprived the CCs the opportunity of following a prioritised and holistic approach to its infrastructure development needs.

The State Government replied (April 2022) that the action plans were not revised as the circular issued during September 2013 contained instructions which were in similar lines with the guidelines issued in May 2014. Reply is incorrect as the detailed guidelines were issued only during May 2014 and it has been verified during the course of audit that the circular issued during September 2013 did not contain specific instructions for adhering to the master plan of the city or prioritisation for selection of works under the Scheme.

2.2 Non-execution of works as per original action plans

The Scheme guidelines mandated that there was no scope for subsequent changes/revisions in the approved action plan. In case, some works could not be taken up then such works would be deemed to have been abandoned and funds would be restricted to cost of remaining works (Paragraph 23).

Audit observed (August to December 2021) that there were subsequent revisions (four to five times) to the action plans in all the test-checked CCs. Out of 735 works planned and included in the original action plan of the Scheme, 141 works (costing ₹ 91.35 crore) were not taken up by these CCs (**Appendix 2.2**). The Government also accorded approvals to revised action plans instead of restricting the funds to the cost of remaining works.

The non-execution of 141 works out of 735 (19 *per* cent) works planned indicated that the action plans were not need based and were prepared in *ad hoc* manner without exercising due diligence.

The State Government in its reply (April 2022) stated that the revisions to the action plans were made as per the decision of DLC to accommodate works of urgent nature and due to non-availability of sites for originally planned works. Reply was not acceptable as the action plans were to be prepared after considering the prioritised infrastructure requirements of the city. Further, the Scheme guidelines also prohibited inclusion of works in the action plan for which availability of site was not ensured.

2.3 Revision of action plans without approval of District Level Committees

The Scheme guidelines stipulated that once action plan of a CC was approved by the DLC headed by the District in-charge Minister, the CC would submit it to DMA. The DMA would scrutinize the action plan and submit it, with its recommendations, to the Government for approval. Finally, the Government would accord approval to the plan after due verification.

Audit observed (September to November 2021) in two test-checked CCs (Ballari and Mysuru) that the Government had accorded approvals to revised action plans involving an amount of ₹ 43.57 crore[7] without obtaining concurrence from the respective DLCs. The non-involvement of DLCs while revising the action plans was against the community/participatory planning concept prescribed in the guidelines.

The State Government replied (April 2022) that the action plan of Ballari was revised based on the relevant Government order (August 2017) to utilise ₹ 16.43 crore as CC's contribution towards Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme. The reply cannot be accepted as the involvement of DLC in preparation of action plan was to be adhered to ensure the community planning concept prescribed in the guidelines. It was also stated that revised action plan of Mysuru was approved by the DLC. However, no documentary evidence was produced in support of the reply.

Financial Management

As per the Scheme guidelines, the funds were to be released during three financial years, commencing from the year 2014-15. The Scheme was funded with 50 *per cent* of the allocation as grants and remaining 50 *per cent* by obtaining loan borrowed through Karnataka Water and Sanitation Pooled Fund Trust (KWSPFT). The Government of Karnataka had unconditionally and irrevocably undertaken and committed to make budgetary allocation on annual basis for the timely and full payment of principal and interest, to be met through securitisation of the future SFC devolution to the CCs.

[7] Ballari: G.O. dated 18.08.2017 - ₹ 16.43 crore
Mysuru: G.O dated 06.04.2015 - ₹ 15 crore and G.O. dated 13.08.2021 - ₹ 12.14 crore.

Government released the grants to the DCs concerned through UDD. Grants for the first year (2014-15) were drawn on payee receipt and grants for subsequent years (2015-16 onwards) were released through treasury. DMA, being the nodal agency, was to monitor the progress of expenditure of CCs and submit proposals to Government/KWSPFT for releasing further grants/loan. KWSPFT was to avail the loan instalments based on demand received from DMA and transfer it to DMA main (loan) account. This account was linked to 10 sub-accounts in the names of different CCs and operated by DCs of respective districts. These sub-accounts had the facility of sweep-in from the DMA main account as and when payment requests were made in sub-accounts. DMA was responsible to convey to the banks the maximum amount to be withdrawn from sub-accounts (loan authorisations).

As per the information furnished (January 2022) by DMA, expenditure of ₹ 922.35 crore was incurred (March 2021) against the available amount of ₹ 931.63 crore. The unit-wise details are given in **Table 2.1**:

Table 2.1: Financial progress under the Scheme as on 31 March 2021

(₹ in crore)

S. No.	City Corporation	Releases			Expenditure			Percentage
		Grants	Loan	Total	Grant	Loan	Total	
1	Ballari	40.45	35.85	76.30	40.45	35.58	76.03	99.65
2	Belagavi	50.00	42.96	92.96	50.00	41.32	91.32	98.24
3	Davanagere	50.00	49.77	99.77	50.00	49.56	99.56	99.79
4	Hubballi-Dharwad	50.00	47.15	97.15	50.00	46.37	96.37	99.20
5	Kalaburagi	49.50	43.50	93.00	49.50	43.50	93.00	100.00
6	Mangaluru	50.00	42.40	92.40	50.00	40.73	90.73	98.19
7	Mysuru	48.68	34.47	83.15	48.68	34.12	82.80	99.58
8	Shivamogga	50.00	44.25	94.25	50.00	42.39	92.39	98.03
9	Tumakuru	50.00	47.90	97.90	50.00	47.74	97.74	99.84
10	Vijayapura	50.00	47.66	97.66	50.00	45.38	95.38	97.67
	Total	**488.63**	**435.91**	**924.54**	**488.63**	**426.69**	**915.32**	**99.00**
	Administrative expenses	0.82	6.27	7.09	0.82	6.21	7.03	99.15
	Grand total	**489.45**	**442.18**	**931.63**	**489.45**	**432.90**	**922.35**	**99.00**

Source: Information furnished by DMA

A) GRANTS

2.4 Status of Grants

As per Karnataka Budget Manual, each Head of Department was to prepare budget estimates separately for each head of account (Paragraph 88). In terms of KMABR, 2006, every CC was to prepare an annual budget containing the annual estimate of the anticipated receipts and payments for the next financial year (Rules 131 and 132).

Scheme guidelines specified that funds (₹ 1,000 crore) were to be released over a period of three years (2014-15 to 2016-17) in the ratio of 20:40:40. It was, however, seen that it was not adhered to as ₹ 931.63 crore was released over a span of seven years (2014-15 to 2020-21). This included loans aggregating

₹ 442.18 crore availed during the period from 2016-17 to 2020-21. Balance of ₹ 68.37 crore was yet to be released (March 2021).

Scrutiny further showed that release of grants was not commensurate with the requirement of funds as grants aggregating ₹ 43.33 crore had lapsed during the period from 2015-16 to 2019-20. Details are given in **Table 2.2**.

Table 2.2: Statement showing release of Scheme funds up to 2020-21

(₹ in crore)

Year	Grants released	Grants lapsed	Net grant	Loan	Total funds
2014-15	33.50	NA	33.50	-	33.50
2015-16	169.12	27.64	141.49	-	141.49
2016-17	124.92	1.59	123.34	100.60	223.94
2017-18	157.95	0.14	157.81	141.00	298.81
2018-19	37.10	8.58	28.52	98.77	127.29
2019-20	9.39	5.38	4.01	75.45	79.46
2020-21	0.79	-	0.79	26.36	27.15
Total	**532.78**	**43.33**	**489.45**	**442.18**	**931.63**

Source: Information furnished by DMA

NA: Not applicable as the grants for the year 2014-15 was released on payee receipt and deposited in bank accounts.

2.5 Non-adherence to category-wise limits

As per Paragraph 5 of the Scheme guidelines, works under five categories were to be taken up with upper and lower limits mentioned therein (**Table 2.3**).

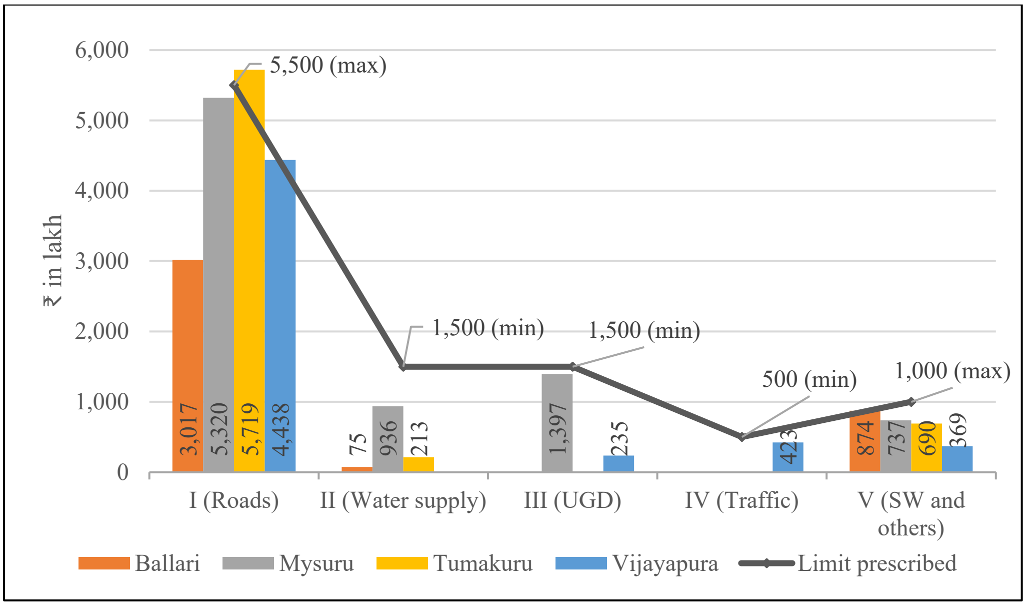
Table 2.3: Categories of works admissible under the Scheme

Category	Types of works	Upper/lower limit of allocation
I	Roads, roadside drains, footpaths, pedestrian underpass/ subways	Maximum ₹ 55 crore
II	Water Supply distribution network renewal/ augmentation, overhead tanks (OHT), Ground Level Storage Reservoir (GLSR) and other types of water supply works	Minimum ₹ 15 crore
III	Underground drainage (UGD) distribution network/laterals works and other UGD works	Minimum ₹ 15 crore
IV	Traffic management improvement works such as Vehicle Actuated Signal (Solar/UPS) integrated with surveillance enforcement cameras	Minimum ₹ 5 crore
V	Storm Water Drains (SWD), Street lights, Multi-level parking complex, Shopping complex, Energy Savings works and other infrastructural works	Maximum ₹ 10 crore

Source: Scheme guidelines

As per the progress reports furnished by four test-checked CCs, Audit observed (August to December 2021) that none of the CCs adhered to the prescribed limits in three (II, III and IV) out of five categories during the period 2015-21. Details are given in **Chart 2.2**.

Chart 2.2: Expenditure incurred under various categories against the prescribed limits during 2015-21



Source: Progress reports of test-checked CCs

As observed above, out of four test-checked CCs, traffic management works were executed in Vijayapura CC only. The minimum allocation of ₹ 15 crore stipulated in respect of water supply and UGD works was not attained in any of the test-checked CCs. CC, Ballari and CC, Tumakuru did not execute any UGD works while CC, Vijayapura did not execute any water supply works under the Scheme. Further, CC, Tumakuru incurred expenditure of ₹ 57.19 crore under Category-I (road works) against the maximum limit of ₹ 55 crore, leading to excess expenditure of ₹ 2.19 crore. These not only contravened the criteria laid down for selecting works but also led to ignoring the need for upgrading other infrastructure and civic amenities such as water supply, UGD and traffic management.

The State Government replied (April 2022) that the shortfall in implementation of water supply, UGD and traffic management categories was due to the fact that the above components were taken up under other Government schemes. The reply is not acceptable as the allocation under the above components were utilised towards works taken up under other schemes (detailed in Paragraph 2.6) in contravention to the Scheme guidelines, besides non-adherence to the category-wise limits prescribed under the Scheme guidelines.

2.6 Diversion of Scheme funds

Paragraph 4(g) of the Scheme guidelines stipulated that action plan should be prepared after excluding the works taken up under other schemes.

In contravention to the guidelines, three test-checked CCs (Ballari, Tumakuru and Vijayapura) diverted ₹ 108.75 crore (40 *per cent* of total expenditure of ₹ 269.28 crore) towards paying their contribution amounts for other schemes (AMRUT, Rajiv Gandhi Awas Yojana and 24*7 water supply) or on works being executed under other grants, as detailed in **Appendix 2.3**.

The diversion of Scheme funds to works taken up under other schemes/grants were in contravention of the Scheme guidelines and deprived the CCs the full benefit which was to be accrued from the Scheme.

The State Government in its reply (April 2022) stated that the instances pointed out by Audit were not diversion of funds but utilisation of Scheme funds towards providing share of CC for schemes such as AMRUT, RAY, *etc*. Reply was not acceptable as Scheme guidelines specifically prohibited funding of works taken up under other schemes. Reply was also silent regarding utilisation of Scheme funds for ineligible components such as payment of land compensation, construction of building, *etc*.

2.7 Diversion of funds from Heritage Grants towards *Nagarothana* (Phase-III)

The Government had announced ₹ 100 crore special grant for improvements of Heritage Buildings and other works in Mysuru CC during 2014-15.

Scrutiny of records (September to October 2021) showed that DC, Mysuru diverted (March 2017) Heritage grants of ₹ 1.51 crore towards four works under the Scheme. There was no approval from DMA/UDD for diverting the grants. Audit also observed that expenditure of ₹ 1.51 crore did not form part of the progress report/UC of the Scheme though the amounts were utilised for works under the Scheme. As a result, expenditure of *Nagarothana* works was understated to that extent.

The State Government stated (April 2022) that Heritage grant was diverted to avoid lapse of grant during the year end. The reply is not acceptable as drawal of funds to avoid lapse of grants is against the codal provisions. The reply also did not address the audit observation regarding absence of approval from DMA/UDD for diverting the grants and understatement of *Nagarothana* expenditure.

2.8 Non-renewal of bank guarantee

Rule 115(2) of KMABR, 2006, mandated that wherever bank guarantees (BG) were furnished by contractors in lieu of security deposit (SD), the Accounts Department should enter the details in the Register of BGs. The Accounts Department was also to ensure that the BGs should be kept in force during the term specified in the procurement order by renewing them as and when they expired.

As per the tender documents, the contractors were to furnish SD at the rate of five *per cent* of award cost and these were to be valid up to 30 days from defect liability period (two years).

Audit scrutiny (August to December 2021) revealed that none of the test-checked CCs had maintained/updated BG register. Out of 51 test-checked packages (excluding one package entrusted to KRIDL at Ballari), details of SD/BG were not available on record in 16 packages (31 *per cent*) costing ₹ 22.80 crore. In 30 packages (59 *per cent*), contractors had furnished SD in the form of BG aggregating ₹ 2.08 crore but these were not renewed up to defect liability periods. In one package (Package 26/2 at Tumakuru), the contractor had submitted (April 2019) SD in the form of fixed deposit receipt for ₹ 3.52 lakh which was not pledged in the name of the Commissioner, CC in violation of Clause 29 of tender document.

In the absence/non-renewal of BGs, the CCs did not have adequate security to safeguard Government interests in respect of the contracts entered into.

The State Government accepted the observation and stated (April 2022) that BG registers would be maintained in future.

B) <u>LOANS</u>

2.9 Discrepancies in availing loan and repayment

To avail the loan, KWSPFT entered into loan agreements for ₹ 200 crore with SBI bank (April 2017) and for ₹ 300 crore with ICICI bank (January 2018). In terms of loan agreements and Government instructions, KWSPFT was to repay the amount to banks and would demand the funds from Government (UDD). KWSPFT was to raise demand with UDD on the basis of loan amounts outstanding and applicable rate of interest.

As of March 2021, KWSPFT availed loan aggregating ₹ 368.70 crore[8]. Against the loan amount of ₹ 368.70 crore drawn under the Scheme (Phase-III), KWSPFT had repaid ₹ 176.42 crore[9] to banks (March 2021).

Audit observations highlighting discrepancies in availing loans and repayments are discussed in succeeding paragraphs.

2.9.1 Loan repayment

Karnataka Budget Manual mandated that budget estimates should be as close and accurate as possible and the provision to be included in respect of each item should be based on what was expected to be actually paid or spent during the year. An avoidable extra provision in an estimate was as much a financial irregularity as an excess expenditure over the sanctioned estimate (Paragraph 108). As per Scheme guidelines, the loan amount was to be adjusted against the future SFC grants and expenditure (charged) was to be borne under the head of account 3604-00-191-0-51-240 (Debt servicing). KWSPFT would request the Government to release funds for repaying the loan amounts (interest and principal). On receipt of funds, it would deposit the amounts in the respective escrow accounts for servicing the loan. In case of delays in receipt of funds from the Government, KWSPFT would repay the loan out of funds available.

Scrutiny of records (December 2021) showed that KWSPFT communicated to UDD/DMA the budgetary provisions to be made out of SFC grants for servicing the loans. Thereafter, based on demands received, UDD released funds to KWSPFT towards principal and interest repayable to banks.

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[8] ₹ 200 crore through SBI and ₹ 168.70 crore through ICICI bank.

[9] Loan repaid by KWSPFT: SBI – ₹ 66.56 crore (Principal) and ₹ 49.59 crore (interest); ICICI - ₹ 34.08 crore (Principal) and ₹ 26.19 crore (interest).

During the period 2016-21, the budget allocation for loan repayment of Scheme was ₹ 239.05 crore, against which the UDD released ₹ 176.23 crore based on demands received through KWSPFT. The budget estimates were not realistic as there was excess budget provision of ₹ 62.82 crore. Year-wise analysis indicated extra provision (savings over budget) ranging from 38 to 100 *per cent* during the years 2016-17 to 2019-20 whereas expenditure during the year 2020-21 exceeded the sanctioned estimate by 21 *per cent*. Details are given in **Appendix 2.4**.

The State Government attributed (May 2022) these variations to delays in programme implementation and other factors such as changes in Marginal Cost of Funds Based Lending Rate (MCLR) on annual reset basis, change in date of availing first instalment, non-drawal of the loan amount as per the schedule, *etc*. The fact, however, remained that there were instances of savings (38 to 100 *per cent*) and excess of 21 *per cent* over the budget estimates, which were against the provisions of Karnataka Budget Manual.

2.9.2 Diversion of loan and avoidable interest liability

Based on Government instruction (August 2016), KWSPFT issued (October 2016) tender notification to avail ₹ 200 crore for the Scheme at the most competitive rate. Pending the drawal of loan, the Government accorded (September 2016) approval for temporary utilisation of loan amount of ₹ 100 crore from *Nagarothana* Phase-II to Phase-III. One of the conditions was that the amount would be recouped to Phase-II once the loan was availed for Phase-III.

Accordingly, KWSPFT availed loan of ₹ 100 crore from Phase-II (₹ 60.00 crore from Syndicate Bank on 26 September 2016 at 9.95 *per cent* and ₹ 40.00 crore from Bank of India on 23 September 2016 at 9.95 *per cent*) which was diverted for Phase-III.

Scrutiny further showed that KWSPFT entered (April 2017) into loan agreement (Phase-III) for ₹ 200 crore with SBI at 8.25 *per cent*. Despite the availability of loan for Phase-III during April 2017, UDD/KWSPFT did not immediately replenish the amount of ₹ 100 crore to Phase-II, which was availed at higher rate of interest. Only part amount aggregating ₹ 33.20 crore was recouped (July 2017, April 2018 and December 2019) from Phase-III to Phase-II account (till March 2021).

The failure of KWSPFT to recoup the transferred amount of ₹ 100 crore, despite availability of funds drawn at lower interest rate from Phase-III resulted in avoidable interest liability of ₹ 5.09 crore (till March 2021). Details are given in **Appendix 2.5**.

Audit also observed that loans amounting to ₹ 58.10 crore (₹ 45.30 crore from Axis Bank and ₹ 12.80 crore from Bank of India) was availed for Phase-II during 2017-18 to 2019-20. The drawal of above loans was not necessitated as an amount of ₹ 66.80 crore was pending to be recouped from Phase-III. Justification for not availing this amount from Phase-III and rates of interest at which the above loan was availed were not furnished to audit. In the absence of this, audit could not quantity the further loss of interest, if any.

The State Government replied (May 2022) that DMA communicated (November 2021) to avail balance loan sanctioned towards *Nagarothana* Phase-III based on progress in works and to replenish the amount to *Nagarothana* Phase-II. It was further stated that there was no avoidable interest liability as loan amounts were utilized based on the needs and were being serviced on time. The reply is not acceptable as failure to replenish the diverted loan amount contravened the Government order (September 2016) which resulted in additional liability as rate of interest for Phase-III was less than that of Phase-II.

2.9.3 Improper increase of margin above the Marginal Cost of Funds Based Lending Rate resulting in avoidable liability

In response to tender notification (October 2016) for ₹ 200 crore loan, twelve bidders participated and the SBI, Commercial Branch, Bengaluru, quoting the lowest rate as 8.98 *per cent* (MCLR[10] + 0.08 *per cent* margin) was selected.

SBI, while communicating (4 March 2017) the acceptance of the offer, revised the rate of interest as 8.25 *per cent* (one-year MCLR + 0.25 *per cent* margin). KWSPFT entered into (April 2017) agreement at the revised rate of 8.25 *per cent*. Audit observed that KWSPFT accepted the offer of SBI without considering the fact that SBI had increased the margin from 0.08 *per cent* to 0.25 *per cent* and the reduction in effective rate of interest was attributable to change in MCLR from 8.90 *per cent* (November 2016) to 8.00 *per cent* (March 2017). Failure of KWSPFT to ensure that SBI adhered to its quoted margin rate of 0.08 *per cent* resulted in avoidable interest liability of ₹ 2.72 crore[11].

The State Government stated (May 2022) that there was reduction in the rate of interest from 8.98 *per cent* to 8.25 *per cent* which was accepted by KWSPFT. The reply did not address the audit observation regarding the improper increase in margin from 0.08 *per cent* to 0.25 *per cent*. Further, the reduction, which SBI had communicated, was due to change in MCLR from 8.90 *per cent* to 8.00 *per cent*, which was as per the bank's policy but the margin rate, which was arbitrarily increased from 0.08 *per cent* to 0.25 *per cent* had no justification. In case KWSPFT had insisted SBI to adhere to its quoted margin rate of (+) 0.08 *per cent*, the rate of interest would have been 8.08 *per cent*.

2.9.4 Availing loan instalments at higher rates of interest

KWSPFT entered into loan agreements for ₹ 200 crore with SBI bank (April 2017) and for ₹ 300 crore with ICICI bank (January 2018). As of March 2021, KWSPFT availed loan aggregating ₹ 368.70 crore (₹ 200 crore through SBI and ₹ 168.70 crore through ICICI bank).

A comparison of the rates of interest available on the dates of fund requirements showed that instead of the available lower rate of interest (8.24 *per cent*) from ICICI bank, KWSPFT availed (April 2018 to January 2019) ₹ 85 crore in four instalments through SBI at the higher rate of 8.40 *per cent*. Details are given in **Appendix 2.6**.

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10 MCLR-Marginal Cost of Funds Based Lending Rate.

11 ₹ 200 crore × 0.17 *per cent* × 8 years = ₹ 2.72 crore.

Avoidable liability of additional interest (@ 0.16 *per cent*) on this ₹ 85 crore worked out to ₹ 34.45 lakh (March 2021). Reason/justification for availing loan instalments aggregating ₹ 85 crore at higher rate of interest despite the availability of lower rate was not furnished to audit.

The State Government stated (May 2022) that in terms of loan agreements/dates of first disbursement by SBI and ICICI, loans were to be availed by 6 April 2019 and 1 February 2020 respectively. Therefore, balance loan amount of ₹ 85 crore was drawn from SBI and there was no adverse financial implication. The reply is not acceptable for the following reasons:

i) Before exhausting balance loan of ₹ 85 crore from SBI, KWSPFT had drawn an amount of ₹ 64 crore from ICICI on 2 February 2018 and 24 April 2018;

ii) Before drawing ₹ 66.50 crore from SBI in September 2018, KWSPFT had proposed to draw ₹ 40 crore from ICICI bank. Since ICICI bank did not release this amount, ₹ 40 crore was drawn from SBI;

iii) KWSPFT availed loan amount of ₹ 40 crore from ICICI bank after the loan availing period was over *i.e.,* after 1 February 2020 and ₹ 131.30 crore was yet to be drawn (March 2021);

iv) There was financial implication as interest was paid at the higher rate to SBI (8.40 *per cent*) than ICICI (8.24 *per cent*).

2.9.5 Delay in loan repayments (principal) leading to avoidable payment of interest

In terms of agreement with SBI (Clause 2.9), loan was repayable in 24 quarterly instalments. Repayment was to commence after two years of moratorium period from the date of first disbursement (7 April 2017) and successive instalments would fall due sequentially on completion of three months from then on *i.e.,* 7 April 2019, 7 July 2019, 7 October 2019, 7 January 2020 and so on (every three months).

Similarly, Clause 2.9 of agreement with ICICI bank stipulated that loan was repayable in 24 quarterly instalments with each instalment amounting to 16.67 *per cent* of the total outstanding term loan amount. Repayment was to commence after two years of moratorium period from the date of first disbursement (2 February 2018) and successive instalments would fall due sequentially from first day of every quarter thereafter *i.e.,* 2 February 2020, 1 April 2020, 1 July 2020, 1 October 2020 and so on (first day of every quarter thereafter). Audit, however, observed that KWSPFT did not repay the loan amounts on the due dates. There were delays ranging from 71 to 84 days in repaying SBI instalments (**Appendix 2.7**) and 32 to 92 days in repaying ICICI instalments (**Appendix 2.8**).

It could be seen that failure of KWSPFT in repaying loan instalments on due dates resulted in avoidable payment of interest aggregating ₹ 1.81 crore[12] (March 2021).

[12] ₹ 119.51 lakh (SBI) + ₹ 61.76 lakh (ICICI).

The State Government stated (May 2022) that SBI had prescribed repayment schedule of principal instalments based on financial quarters and first instalment was due on 30 June 2019. In respect of ICICI bank, principal instalments were to be repaid on the first day of next financial quarter commencing from the end of moratorium as per Credit Agreement Letter. The reply is not acceptable as the repayment schedule mentioned in the reply contravened the conditions in the loan agreements entered with SBI and ICICI banks.

2.9.6 Excess demand of funds and avoidable interest liability

In terms of loan agreements and Government orders for availing loan, KWSPFT would repay the amounts to banks and would demand the funds from Government (UDD). KWSPFT was to raise demand with UDD on the basis of loan amounts outstanding and applicable rate of interest.

A comparison of the amounts paid by KWSPFT to banks and amounts demanded from Government (UDD) showed following discrepancies:

i) <u>2018-19</u>: For the months of January to March 2019, as against ₹ 4.12 crore paid to SBI, KWSPFT demanded and received ₹ 5.11 crore from UDD. For the same period, KWSPFT paid ₹ 1.57 crore to ICICI bank, but demanded ₹ 3.61 crore from UDD. Thus, there was excess demand of ₹ 3.03 crore.

ii) <u>2019-20</u>: For the months of January to March 2020, though KWSPFT paid ₹ 9.36 crore to ICICI bank, the grants demanded from UDD was ₹ 9.60 crore. Similarly, the amount paid in June 2019 to SBI was ₹ 1.52 crore, whereas the amount demanded from UDD was ₹ 1.58 crore. This resulted in excess demand of ₹ 0.29 crore.

iii) <u>2020-21</u>: There was excess demand of ₹ 0.16 crore as KWSPFT had demanded (June and July 2020) ₹ 2.34 crore from UDD whereas it had paid ₹ 2.18 crore to SBI.

Audit observed that these excess demands/releases of funds to KWSPFT were mainly attributable to the following:

a) Against the outstanding loan of ₹ 64 crore from ICICI bank, KWSPFT demanded interest on ₹ 164 crore (for the months of January to March 2019).

b) Similarly, instead of demanding interest on ₹ 6.50 crore (SBI), KWSPFT raised the demand with UDD for ₹ 65 crore (January to March 2019).

c) KWSPFT availed loan instalment of ₹ 20 crore from ICICI bank on 24 February 2020 and hence, interest for February 2020 was payable for six days. However, KWSPFT raised demand with UDD from 3 February 2020 (27 days).

d) Similarly, KWSPFT availed loan instalment of ₹ 5.00 crore from ICICI bank on 5 February 2020 and rate of interest was 8.24 *per cent* but it raised demand with UDD for interest from 30 January 2020 at the rate of 8.84 *per cent*.

e) KWSPFT paid interest (March 2020) on ₹ 153.70 crore to ICICI bank at the applicable rate of 8.24 *per cent* but it submitted demand notice at 8.84 *per cent*.

f) KWSPFT paid interest (June 2020) on ₹ 174.98 crore to SBI at the applicable rate of 8.00 *per cent* but the demand was calculated at 8.80 *per cent*. Also, for the month of July 2020, KWSPFT paid ₹ 1.03 crore to SBI, but demanded ₹ 1.08 crore from UDD.

g) UDD did not verify the correctness of the demands raised by KWSPFT and released the funds without any reconciliation.

Month-wise details are given in **Appendix 2.9** (SBI) and **Appendix 2.10** (ICICI bank).

Audit also observed that KWSPFT did not utilise the excess amount received from the department to prepay loans. As a result, it failed to reduce the interest liability by ₹ 0.49 crore (March 2021) as detailed in **Appendix 2.11**.

The State Government while accepting the audit observation, stated (May 2022) that banks were being instructed to confirm the estimated demands before a request was made to UDD for releasing funds and also to credit excess amounts available in the escrow account towards loan repayment. The reply is, however, silent about fixing the responsibility for excess release due to incorrect demand of ₹ 164 crore and ₹ 65 crore instead of ₹ 64 crore and ₹ 6.50 crore respectively.

2.9.7 Additional interest charged to loan sub-accounts

Scrutiny (August to December 2021) of bank statements pertaining to loan sub-accounts operated at Canara Bank by test-checked CCs (except Ballari) revealed that an amount of ₹ 27.95 lakh[13] was debited by the bank as interest capitalised. Possibility of presenting cheques and subsequent withdrawal without ensuring availability of adequate funds in the main account leading to levy of interest amount could not be ruled out. The DMA had not taken any action (January 2022) to seek clarification from the banks regarding the amounts debited and to recover the same.

2.10 Other deficiencies in Financial Management

2.10.1 Avoidable liability of interest

In contravention to the Scheme guidelines which prohibited funding of works executed under other schemes, DC, Vijayapura released (November 2017 and July 2018) an amount of ₹ 19.86 crore to Commissioner, CC, Vijayapura for paying land compensation for widening a road in connection with implementation of master plan for the city (detailed in Paragraph 2.6).

[13] Mysuru – ₹ 10.77 lakh, Tumakuru – ₹ 2.60 lakh and Vijayapura – ₹ 14.58 lakh.

Audit scrutiny (November and December 2021) revealed that Commissioner issued (September 2014) notice and offered compensation amount to the affected persons. Of these, 48 property owners contested (September 2014) the proposed compensation and filed Writ Petitions (WPs) in the High Court of Karnataka (Kalaburagi Bench). During pendency of WP, CC gave an undertaking in the High Court, not to act against the petitioners, without following the due process of law.

However, in violation of the undertaking given, CC demolished (October 2014) the properties belonging to the aggrieved parties. Consequently, the High Court ordered (July 2016) to fix the land compensation at current market rate along with 100 *per cent* solatium with 12 *per cent* interest per annum for two years. The CC was to pay the advance settlement of 30 *per cent* of the compensation on or before 30 July 2016 and the remaining 70 *per cent* within four months from the date of first instalment *i.e.,* on or before 30 November 2016, failing which the remaining amount would carry an interest at 15 *per cent* per annum.

In this regard, audit observations are as follows:

i) Since CC did not follow the due procedure of law, it had to pay the interest of 24 *per cent* (12 *per cent* for two years) on the compensation amount payable. This interest amount worked out to ₹ 1.94 crore, out of which ₹ 1.36 crore was paid out of Scheme funds.

ii) CC paid 30 *per cent* of the compensation amount during the month of July-August 2016 and hence, balance 70 *per cent* was to be paid before 30 November 2016, failing which interest at 15 *per cent* per annum was leviable. Audit noticed that despite the availability of sufficient funds, CC paid the balance 70 *per cent* in the month of November 2017, July 2018 and February 2019. These delays led to additional liability of interest at 15 *per cent* aggregating ₹ 2.60 crore.

Details are given in **Appendix 2.12** and **Appendix 2.13**.

The State Government stated (April 2022) that CC, Vijayapura made payment to the landowners as per the Court order and hence, there was no fault on part of the CC. The reply is not acceptable as the CC neither followed the due procedure of law nor paid 70 *per cent* of the compensation amount within the prescribed date, which led to avoidable liability of interest.

2.10.2 Blockage of funds

Rule 73 of KMABR stated that in respect of deposit works carried out by other Government agency on behalf of CC, the gross estimated expenditure could be released in one lump sum or instalments as agreed. CC was to monitor the progress of expenditure on such works and ensure refund of unspent balances.

DLC, Tumakuru approved (February 2014) the proposal to reserve ₹ 5.50 crore out of the Scheme funds for the work "Construction of approach road by PWD from Bhadramma Circle to Shettihalli Railway Gate" based on the proposal submitted by Assistant Executive Engineer, PWD Sub-division, Tumakuru. The work estimated at ₹ 11 crore was to be funded out of *Nagarothana* Scheme and by Infrastructure Development Department, GoK (50 *per cent* each). Accordingly, the Commissioner, CC, Tumakuru, submitted (February 2014) the proposal to Secretary, UDD, to revise the Action Plan.

However, contrary to the approved proposal, CC, Tumakuru deposited (August/October 2017) the entire estimated cost of ₹ 11 crore out of Scheme funds[14] with PWD, resulting in excess deposit of ₹ 5.50 crore. The expenditure under this work was only ₹ 1.61 crore (as of July 2021). The lack of due diligence by CC, Tumakuru in releasing excess deposit of ₹ 5.50 crore in one instalment without ensuring the progress of work resulted in blocking of Scheme funds amounting to ₹ 9.39 crore for more than four years.

The State Government stated (April 2022) that proposal for increasing the amount to ₹ 11 crore was made *vide* Government Order dated 4 March 2014. The reply is not verifiable as copy of the G.O. was not enclosed. Further, the reply does not clarify the audit observation regarding deposit of entire amount without ensuring progress of work.

Conclusion

The CCs did not follow the Government guidelines for preparation of action plans detailing the works to be taken up under the Scheme. None of the test-checked CCs provided any data/record based on which the works were prioritised and selected. There was absence of need-based analysis in planning and selection of works.

The CCs also did not execute around 19 *per cent* of the works originally included in the action plan and the State Government, in disregard of its own instructions, accorded approvals to revised action plans. The revision of action plans without concurrence of DLCs was against the community/participatory planning concept prescribed in Scheme guidelines.

Budgetary Control was deficient as there were instances of savings/excess over the budget estimates and lapse of grants released due to non-utilisation.

Failure of CCs to adhere to the limits prescribed in the Scheme guidelines for various categories of works resulted in non-selection of works related to traffic management, water supply and UGD, ignoring overall infrastructure development of cities. The CCs diverted the Scheme funds towards works taken up under other schemes in contravention of the guidelines.

KWSPFT incurred avoidable interest liability of ₹ 5.09 crore due to non-recoupment of loan diverted from *Nagarothana* Phase-II to Phase-III which was availed at a higher interest rate. There was additional expenditure of ₹ 4.87 crore due to availing loans at higher than the quoted interest rates, non-exercising the option of availing loans which were available at lower interest rates and delay in repayment of loan as per the schedule prescribed in the agreements. The

[14] ₹ 4.67 crore out of Grants (August 2017) and ₹ 6.33 crore out of loan (October 2017).

incorrect estimation of demand of grants by KWSPFT for loan repayment resulted in release of grants by UDD in excess of requirement for the purpose.

Other deficiencies in financial management such as payment of avoidable interest due to delay in payment of land compensation and blocking of Scheme funds in deposit works in excess of requirement were also noticed.

Recommendations

- ***Planning for infrastructure development in the cities were to be undertaken only after need analysis and in consultation with the stakeholders to aid in the holistic development of infrastructure of the cities.***

- ***The availing of loans and their servicing need to be exercised with due diligence and loan accounts should be periodically reconciled to preclude risk of additional liabilities to Government.***