
Chapter III



FINANCIAL MANAGEMENT

The SPVs could mobilise very few financial resources from sources other than Government grants defeating the objective of their formation.

Financial improvement plans submitted by the consultants could not be implemented as the State Government was yet (June 2024) to take decision on its suitability for universal adoption in all Urban Local Bodies (ULBs).

SLNA incurred an expenditure of ₹0.75 crore towards activities which does not pertain to the Smart City project/cell. Inadequate verification in respect of payments made to the PMC resulted in excess payment of ₹2.56 crore.

Though the service provider for Master System Integrator for the Integrated Command and Control Centre (ICCC) failed to complete the work as scheduled, SLNA failed to enforce contractual obligation of levying and collecting penalty for delayed execution of works. Levy of nominal penalty of ₹2,000 per day lacked justification though specific rate of penalties were prescribed in the contract.

3.1 Financial Management of SPVs

Prudent financial management of a scheme ensures that the intended benefits of the schemes reach beneficiaries in time as envisaged in the scheme. The Smart City Mission was a centrally sponsored scheme and GoI gave financial support to the Mission on an average ₹100 crore per city per year. An equal amount was contributed on a matching basis, by the State Government. The release and expenditure of funds to the smart cities in Karnataka as of June 2024 is detailed in **Table 3.1**.

Table 3.1: Release and expenditure of Mission funds to SPVs

(₹ in crore)

Sl. No	Name of the Smart City	Funds Received			Expenditure
		GoI	GoK	Total	
1	Belagavi	490.00	500.00	990.00	859.14
2	Bengaluru	488.00	500.00	988.00	812.06
3	Davanagere	490.00	500.00	990.00	830.82
4	Hubballi-Dharwad	490.00	500.00	990.00	791.22
5	Mangaluru	416.50	426.50	843.00	735.57
6	Shivamogga	490.00	500.00	990.00	904.20
7	Tumakuru	490.00	500.00	990.00	855.15
Total		3,354.50	3,426.50	6,781.00	5,788.16

Source: Information furnished by Smart Cities

3.2 Non-mobilisation of financial resources for Mission funding

As per the clause 11.3 of Mission guidelines, the cities were expected to plan with as much larger outlay as possible in addition to the funds being made available by State and Central Governments. The cities had multiple financing options such as convergence of schemes and initiatives of Central and State Governments, generating own resources, proposing Public Private Partnership (PPP) projects, market borrowings, loans and even by inviting equity partners for the projects.

The funding mechanism other than Mission grants envisaged in the SCPs of seven smart cities is provided in **Table 3.2**.

Table 3.2: Funding mechanism projected in the SCPs

(₹ in crore)

Smart city	Revenue ¹⁶ Generating Projects	14 th FC	Convergence ¹⁷ with Central and State Schemes	Leverage borrowings from financial institutions	PPP	Total
Belagavi	1,498.92	3.70	1,851.00	NIL	1,006.10	2,860.80
Bengaluru	371.87	Nil	985.00	Nil	234.28	1,219.28
Davanagere	4,325.04	Nil	168.00	Nil	168.00	335.56
Hubballi-Dharwad	479.00	Nil	485.00	114 (World Bank)	170.00	769.00
Mangaluru	473.59	Nil	509.00	Nil	517.00	1,025.95
Shivamogga	260.70	Nil	127.00	Nil	468.00	595.60
Tumakuru	Not Specified	Nil	883.00	Nil	344.00	1,227.00
Total	7,409.12	3.70	5,008.00	114.00	2,907.38	8,033.19

Source: Information furnished by KUIDFC/SPVs

¹⁶ Generating funds through lease of market/shops, vehicle parking, street vendors and digital advertising boards *etc.*

¹⁷ Convergence of Sewage treatment plan under Amrut scheme, construction of toilets under SBM, construction of affordable houses under Prime Minister Awas Yojana and upgradation of District hospital under National Health Mission *etc.*

Audit observed that the SPVs failed to mobilise resources from sources other than Mission grants as detailed below:

- The SLNA conducted credit rating and financial improvement studies of the cities through consultants to tap resources by innovative financial mechanisms prescribed in the guidelines such as municipal bonds, pooled finance mechanisms, tax increment financing, value capture financing *etc.* However, the financial improvement plans submitted by the consultants could not be implemented as the State Government was yet (June 2024) to take decision on its suitability for universal adoption in all ULBs after effecting legislative amendments to the existing Acts/Rules. Further there is no progress in this regard.

The State Government replied (April 2025) that UDD is currently deliberating on the recommendations made by the credit rating agency for its suitability of universal adoption by all ULBs in the State, after effecting legislative amendments to the existing Rules/ Acts or introduce new clauses for the applicable Rules/Acts as required.

- SPVs did not take any action to mobilise additional resources through National Investment and Infrastructure Fund (NIIF) and Leverage borrowings from financial institutions.

The State Government accepted that Smart Cities have not proposed mobilisation of funds under NIIF and it will be implemented in future projects.

- In respect of PPP models of seven SCPs an outlay of ₹2,907.38 crore could not be implemented fully as envisaged. 31 PPP projects were dropped as they were financially not viable. Further out of 26 projects (**Appendix-3.1**) implemented under PPP model, only 13 were completed.

The State Government replied (April 2025) that smart cities are implementing 26 PPP projects worth ₹1,091.05 crore, out of which, 13 projects of ₹329.68 crore were completed and 13 projects worth ₹761.37 crore are in progress.

- The SCPs projected an amount of ₹7,409.12 crore to be generated over a period of five to 30 years from revenue-generating projects¹⁸. The revenue so generated was to take care of the operation and maintenance expenditure of the SPVs. However, SPVs took up only 53 out of 645 smart city projects (eight *per cent*) under revenue generation model. Even in respect of these 53 projects, proceeds of revenue would flow to the respective Corporation or Trusts created for the operation and maintenance of the assets.

The State Government replied (April 2025) that as on date seven cities have taken up 130 projects under revenue generation category. Further, the core infrastructure of the city is being developed *viz.*, roads, UGDs, foot paths, parks, water supply, SWM, Government schools and hospitals *etc.*, which are essential urban infrastructure in nature and building a

¹⁸ In the form of development charges, entry fees, lease rentals, sanitation charges, smart metering charges *etc.*

revenue model for this basic infrastructure is always not practical. However, conscious efforts are made to encourage self-sustainability of projects through revenue generation in projects like subscription model for libraries, Public Bicycle Sharing (PBS), entry fee for parks, monetising advertisement tax through digital display boards, parking fees, Multi Utility Facility Centres (MUFCs)/markets, OFC ducts etc.

The reply confirms the fact that the above projects in the SCPs could not be successfully converted into revenue generating models.

- The SCPs had made provision for ₹5,008 crore to be pooled out of convergence with various central and state schemes. However, there was no financial convergence (inflow/outflow of funds) in respect of 226 out of 237 projects taken up under the convergence mode. The SPVs did not have any role in implementation or monitoring of these projects and the records related to implementing these projects were not available with them. This was in contravention of the approved SCP and Mission guidelines which outlined the convergence agenda with other missions/schemes as one of the key functions and responsibilities of the SPVs.

The State Government replied (April 2025) that seven cities put together had taken up 251 works of ₹6,814.10 crore, under convergence out of which 232 works of ₹3,822.49 crore are completed and 19 works of ₹2,991.61 crore are in progress.

Recommendation 1: The Smart cities need to tap resources other than Government grants like municipal bonds, pooled finance mechanism etc., for long-term sustainability of the projects taken up.

3.3 Non-remittance of interest of ₹2.69 crore earned on Centrally Sponsored Scheme (CSS) grant

KUIDFC (SLNA) operated an account exclusively for 'Smart City Mission' for transactions relating to funds released by the GoI and GoK. Further, the funds to SPVs and implementing agencies were released from this account.

Rule 230 (8) of GFR-2017 stipulates that all interests or other earnings against Grants in aid or advances (other than reimbursement) released to any Grantee institution should be mandatorily remitted to the Consolidated Fund of India immediately after finalisation of the accounts. As per OM dated 30 June 2021 issued by the Ministry of Finance (Department of Expenditure), GoI, State Nodal Agency/Single Nodal Agency (SNA) of each CSS in the State shall compute the total interest earned out of the funds received in its account (both from the Central Government and the State Government) in the preceding financial year in the first week of April each year. The interest earned will be apportioned by the SNA between the Central and the State Government as per the approved funding pattern of the CSS and shall be deposited in the respective Consolidated Funds.

Review of records showed that funds received from GoI and GoK were kept in flexi deposits for time to time during 2015-16 to June 2024, which earned an interest of ₹2.69 crore but was not remitted to respective Consolidated funds.

The purpose of release of funds to SLNA is meant for onward transmission to SPVs towards implementation of scheme rather than earning interest.

The State Government replied (April 2025) the interest earned will be remitted to concerned accounts on pro-rata basis.

3.4 Inappropriate use of SCM Funds beyond intended objective

Review of records relating to expenditure incurred by KUIDFC (from April 2023 to June 2024) towards following items amounting to ₹0.75 crore revealed that the Administrative & Office Expenses (A&OE), does not pertain to the Smart City project/cell as detailed below:

1. An amount of ₹0.25 crore was paid (November 2023) to the City Managers Associations, Karnataka for participation in *Municipalika* though the demand was raised by UDD. Usage of SCM funds towards the event was not covered under guidelines.
2. An expenditure of ₹0.48 crore (₹0.27 crore for office maintenance and ₹0.21 crore for security charge) has been booked under SCM funds. This expenditure, which pertains to the maintenance and security of the entire KUIDFC office, was paid from SCM funds without adequate justification.
3. The Institute of Directors (IOD) requested ₹0.02 crore for an international conference on environmental management and climate change. This amount was paid by KUIDFC from SCM funds on 14 June 2024.

The State Government replied (April 2025) that the funds were utilised for capacity building activities and to bring better technologies to smart cities. However, expenditure incurred towards above items which were not forming part of SCM purview was inadmissible.

3.5 Other deficiencies in Financial Management

3.5.1 Excess payment to Project Management Consultant

MSCL appointed (April 2017) M/s Wadia Techno-Engineering Services Ltd in consortium with M/s Louis Berger Consulting Pvt Ltd and C-DAC as PMC to implement the Mission. As the PMC failed to perform its contract obligations, MSCL issued (November 2020) notice to terminate the contract. PMC in its reply (December 2020) offered to handover projects handled by them to the agencies nominated by MSCL. For settlement of outstanding dues, PMC submitted a claim of ₹7.19 crore out of which MSCL had already paid ₹3.95 crore. The MSCL paid the balance amount of ₹3.44 crore (January 2022) after due verification of the claims by a Chartered Accountant (CA).

On scrutiny of Chartered Accountant's report and payments made to PMC, Audit observed the following:

- Excess payment of ₹1.13 crore was made for two projects¹⁹ that had only completed the design stage. As per the CA report, the projects were treated as completed and full payments were made irregularly.
- Similarly excess payment of ₹0.71 crore was made in respect of two projects²⁰, the design phase of which were incomplete.
- MSCL appointed two new PMCs to implement waterfront development and Smart Road projects and paid an amount of ₹0.72 crore for the design phase of these works. This amounted to duplication as the erstwhile PMC had already been paid for the design phase of these works.

Thus, inadequate verification in respect of payments made to the PMC resulted in excess payment of ₹2.56 crore.

The State Government replied (April 2025) that the total payment to PMC is based on manpower deployed for the period of actual deployment and the total value of work executed during the deployment and was not dependent on the presence of PMC during actual implementation or submission of design phase reports. The reply is not acceptable as payment to PMC was to be regulated based on the achievement of milestones prescribed in the contract agreement.

3.5.2 Irregular transfer of funds directly to departments

MoHUA instructed (January 2019) that in projects where the respective departments / government agencies possessed strong technical expertise and execution capabilities, they could be leveraged in executing those projects faster. However, MoHUA had specified that there should not be any transfer of funds directly from SPV to government department/agency. The payments should be disbursed by the SPV to the contractor on completion of each milestone as per the terms of the tender. The government department/ agency was to check and verify the contractor's bills for correctness and submit them to SPV for payment. A tripartite agreement was to be entered between SPV, the government department/agency and the prospective bidder before the execution of such projects.

Audit noticed that an amount of ₹153.38 crore was transferred to the departments/agencies in contravention of MoHUA instructions as detailed in **Table 3.3**.

¹⁹ Development of MLCP with retail space near Hampanakatta junction, and Conversion of all streetlights into solar LED.

²⁰ Redevelopment of Central market and retrofit of fish market and Waterfront area development.

Table 3.3: Amount released by SPVs directly to Government Departments/ Agencies as of June 2024

Sl. No	Smart City	Amount transferred (₹ in crore)	Government Department/ Agency	Purpose	Date of transfer	Present Status
1	Tumakuru	20.71	Health and Family welfare	Construction of Trauma Care Centre at district hospital	16.08.2019	The funds were utilised (December 2021) after a gap of two years
2		14.46	KUWSDB	Intervention and additional improvement of water supply package I and II	31.07.2019	The work was completed on 10 July 2020
3	Mangaluru	114	KUIDFC	24×7 water supply project to Mangaluru city under KIUWMIP ²¹	28.05.2020 to 09.02.2023	An amount of ₹114 crore has been utilised till April 2023.
4		2.20	MCC	Construction of service bus stand near State Bank	01.07.2022 to 20.10.2022	Completed
5	Davanagere	0.87	KUIDFC	Construction of toilets for Government educational institutions under KIUWMIP	05.05.2022	The funds were released as the share of Davanagere City Corporation under KIUWMP though not part of SCP
6		1.14	KUIDFC	Extension of raw water transmission line from Kundwada WTP under Jalasiri Scheme	25.06.2021	The funds were released from savings amount of dropped projects

Source: Information furnished by Smart Cities

Audit also noticed that Mangaluru and Davanagere smart cities did not enter into tripartite agreements with the government agencies and bidders as stipulated in the Mission guidelines.

The State Government replied (April 2025) that the works were taken up by KUIDFC and other agencies and the funds were contributed from SPVs which were approved by the Board.

The reply was not acceptable as the advisory issued was in extension of Mission guidelines which prescribed that Mission funds should not be diverted from the SPVs. Further, the funds deposited were utilised only after one to two years from the date of release indicating that there was no immediate requirement.

²¹ Karnataka Integrated Urban Water Management Investment Programme.

3.5.3 Levy and collection of penalty

The service provider for Master System Integrator for the Integrated Command and Control Centre (ICCC) facility was approved for an estimated cost of ₹101.30 crore. The work was awarded (March 2021) to M/s Fluentgrid Limited for ₹95.99 crore, with a stipulation to complete the work in eight months *i.e.*, November 2021. However, audit observed that due to various factors including delays in finalizing the ICCC location, upgradation of works in eight zonal centres of BBMP and delay in finalization of DPR, extension of time (EoT) was granted four times from November 2021 to December 2023.

Despite these extensions, the agency failed to complete the project on time. Based on the report of PMC (iDeCK), the Managing Director, Bengaluru Smart City Limited communicated (January 2023) to the agency regarding levy of penalty of ₹2.92 crore for the above delay in completion of works as per the provisions outlined in the Contract Agreement Clause 51.2 of RFP Volume 3. This clause specifies that a penalty of one *per cent* should be imposed for a delay of one week and 1.5 *per cent* for delays exceeding one week, subject to a maximum of seven *per cent* of the value of balance work. Further, the agency submitted request to waive off the penalty and same was rejected by the Board of Directors (29th Board meeting) of Bengaluru Smart City Limited (November 2023) and Managing Director, BenSCL was authorised to take necessary action in this regard.

Additionally, the agency requested a further extension of time from 01 February 2023 to 31 March 2024. The Technical Committee recommended for levy of nominal penalty of ₹2,000 per day and same was approved by the Board (March 2024) in its 30th Board meeting. However, the tender conditions clearly outlined the rate of penalties for project delays, and there was no justification for levying penalty at the rate of ₹2,000 per day without any price escalation, which led to non-invoking of tender conditions.

Government in its reply stated that the penalty works out to ₹7.83 lakh. However, the PMC considering delays in implementing the project had recommended for levy of penalty of ₹2.92 crore. The reply is not acceptable as, the Board though rejected the proposal of waiver of penalty, no action was taken to collect the same. The details of total amount of penalty levied and collected was not communicated to audit.

Recommendation 2: The Government should direct the SLNA to adhere to guidelines issued in implementation of the scheme and remit the interest dues to GoK/GoI accounts concerned. Further, the SPVs should invoke contractual obligations on the agencies for deviations/delays in implementation of the scheme.