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Preface

This Report of the Comptroller and Auditor General of India has been prepared for submission to the Governor of Karnataka under Article 151 (2) of the Constitution to be tabled in the State Legislature.

The Report covering the period 2015-16 to June 2024 contains the results of Performance Audit of 'Implementation of Smart City Mission'.

Audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Executive Summary

Smart Cities Mission was launched by Government of India on 25 June 2015 in order to meet the changing needs of the cities and achieve comprehensive development of physical, institutional, social and economic infrastructure of the cities. As per Census 2011, cities house 63 *per cent* of the population. The mission was to cover 100 cities and its duration was five years (2015- 16 to 2019- 20) which has been extended up to March 2025.

The Mission has two components, viz., Area Based Development (ABD) and Pan City development. Seven cities in Karnataka have been selected, viz., Belagavi, Bengaluru, Davanagere, Hubballi-Dharwad, Mangaluru, Shivamogga and Tumakuru under the Mission.

The Performance Audit on the ‘Implementation of Smart Cities Mission’ was undertaken to assess whether, the implementation of the scheme was in convergence with other related Government schemes, funds released by State Government to Cities/ Special Purpose Vehicle (SPV) and mobilization of funds by Cities/SPVs was efficient and in consideration with objectives of the scheme, the projects were implemented in accordance with Smart City proposals and SCM guidelines; there exists mechanism for monitoring the implementation of the Smart Cities Mission and whether there exists adequate representation of Urban Local Bodies (ULBs) in SPVs.

The Performance Audit was conducted (May 2022 to December 2022, July 2023 to September 2023 and May 2024 to July 2024) to review the implementation of the Mission during the period 2015-16 to June 2024.

Major Audit Observations

Planning

Selection of cities through smart city challenge process and preparation of Smart City Proposals by the selected cities were the introductory milestones in the implementation of the Mission. As against 135 goals specified in the SCP of smart cities aligned to nine strategic pillars, the achievement was 68 only and other projects are in progress. Smart cities dropped 160 out of 544 (30 *per cent*) projects originally planned, which was against MoHUA instructions. The State Government stated that interventions from multiple departments were required in implementation of the scheme and it will be impractical to expect achievement of all these long-term goals under a single mission.

As against ₹817.42 crore allocation under Pan City, projects were taken up for ₹1,462.67 crore. The Tender SURE guidelines aimed at solving issues of non-usability of road network due to frequent civil works undertaken by multiple utility agencies to provide underground utilities viz., water supply, telecom lines, power lines, sewage *etc.*, which were haphazardly laid. Non-provision of utility ducts in SPVs other than BenSCL necessitated frequent digging up of the carriageway of the road for laying of utility lines.

Fund Management

The SPVs could mobilise very few financial resources from sources other than Government grants defeating the objective of their formation. The State Level Nodal Agency (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. There is no progress in this regard.

State Level Nodal Agency (SLNA) has spent an amount 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 did not enforce the 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.

Implementation and monitoring

Four of the sampled SPVs had not maintained the minimum requirement of ₹200 crore, against which the actual paid-up capital of each Smart City stood only at ₹10 lakh, in the absence of which, compliance to the provisions of the Companies Act could not be ensured. Failure to provide full time CEOs for the SPVs impacted their functioning. Lack of operational independence resulted in dependence of SPVs on Government for technical approvals and variations which delayed the projects, wherein, only 45 out of 645 projects were awarded within stipulated time.

Master System Integrator's appointment to establish centralised Data Centre at Karnataka Municipal Data Society (KMDS) could not be completed even after five years of awarding contract and financial progress achieved was ₹19.08 crore only against ₹60.22 crore. The implementation of Centralised Command and Control Centre could not be carried out in the absence of completion of data centre at KMDS. Tweaking of tender condition resulted in selection of ineligible Local System Integrator for implementation of Integrated Command and Control Centre (ICCC) project in Shivamogga, which vitiated the tender process.

Functioning of ICCC was sub-optimal as the integration of line departments with ICCC is pending either due to non-readiness of local system at department level or due to security reasons, indicating poor inter-departmental coordination. The integration of City Surveillance System

implemented by the Police and Traffic Department was yet to be carried out despite several correspondences made with the police department. Similarly, City Surveillance System and Intelligent Transport Management System implemented by the Hubballi-Dharwad Bus Rapid Transport System (HDBRTS) could not be integrated with ICCC due to non-provision of information such as location of CCTV cameras, data related to bus routes and stations by HDBRTS. Integration of Centralised Control and Monitoring System for LED streetlights also was not carried out as the project for installation of LED light on PPP basis did not materialise. Integration of disaster management systems, environmental sensors, energy meters, digital display boards and smart health kiosk were yet to be accomplished.

Utility ducts provided for water supply, gas pipelines, electricity lines *etc.*, could not be utilised due to non-feasibility by respective utility departments. The pipeline laid by Belagavi Smart City Limited for a length of 5.72 km for waterline in utility ducts could not be utilised as the pressure rating of pipes laid did not match with that of the pipes laid under the Karnataka Urban Water Supply Modernisation Project. The gas pipeline laid for 5.751 km did not have provision for stop off valves, squeezer *etc.*, and hence could not be utilised for gas supply. Tumakuru Smart City Limited (TSCL), Shivamogga Smart City Limited (SSCL) and Hubballi-Dharwad Smart City Limited (HDSCL) laid Double Wall corrugated pipes for carrying electricity cables in underground ducts without considering the inputs from user departments and without conducting adequate technical investigations. The infrastructure created by HDSCL at a cost of ₹62.60 crore such as upgradation of Chittaguppi hospital, development of fish market, renovation of core markets and construction of 1BHK units under Vani Vilas Development Initiative remained idle for more than two years. Entrustment of works without possession of requisite land and statutory clearances led to shortfall in achieving the intended benefits in respect of river front works (Netravathi River bank of Thota and Jappinamogaru village, Mangaluru).

Monitoring lapses included inadequate representation of Urban Local Bodies in the Director Board of Smart Cities, shortfall and improper conduct of impact assessment studies and non-appointment of quality supervision consultants.

Recommendations

- 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.
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.

3. Government should ensure availability of full time CEOs for better implementation of the scheme and effective coordination with multiple stakeholders.

Government should exercise due diligence in fixing authorised share capital and paid-up capital of the SPVs commensurate with the commercial financial models.

Government should ensure timely completion of tender awarding process and issue of Letter of Acceptance (LoA) as mandated in e-procurement.

4. The SPVs should ensure that the software applications installed are used effectively, should be timely and should not reach end of life/support during the contract period.

5. The State Government should ensure operationalization of Centralised Command and Control Centre with integration of all data centres of seven cities to achieve the intended objectives.

6. The State Government should ensure that roads/pavements laid adhere to IRC standards and recommendations of technical committee.

7. The State Government should establish adequate co-ordination mechanism with the end user departments to ensure that the technologies adopted conformed to their specification and that the assets created were utilised and maintained.

8. The SPVs should ensure that the works taken up under the Mission conformed to the relevant standards and that the recommendations of the technical experts are duly considered during their implementation.

9. The State Government should ensure adequate representation of ULBs in SPVs to meet the city specific needs.

The State Government should ensure that SPVs appoint Quality Supervision Consultant to ensure quality of works executed meet the prescribed standards.

10. Good initiatives/practices which resulted in effective implementation of SCM may be disseminated and replicated with modifications, if any, with reference to local conditions.