CHAPTER III : MINISTRY OF URBAN DEVELOPMENT

3. National Capital Region Planning Board

Fund Management of National Capital Region Planning Board

Highlights

- **Management of funds was inadequate as significant balances ranging from Rs. 343.31 crore to Rs. 975.47 crore were retained in short term deposits at rates lower than the borrowing rate resulting in estimated loss of interest of Rs. 44.99 crore.**

  (Paragraph 3.4)

- **Conditions for prepayment of loans were not in alignment with market practice. As a result, the Board was adversely affected by prepayments in an environment of falling interest rates.**

  (Paragraph 3.4)

- **Tax planning was deficient leading to avoidable expenditure of Rs. 7.83 crore on payment of penalty and interest for delay in filing of returns and deposit of advance tax.**

  (Paragraph 3.5)

- **The Board had not prescribed parameters for appraisal of projects which led to withdrawal of projects costing Rs. 354.52 crore.**

  (Paragraph 3.6.1)

- **The Board did not effectively monitor implementation of the projects.**

  (Paragraph 3.7)

Recommendation:

- *The Board's funding activities, aimed to provide finance for projects, were un-remunerative and ineffective. The Board should focus its resources on its core functions of developing plans and then coordinating and monitoring their execution to improve their efficiency and effectiveness.*

3.1 Introduction

3.1.1 Incorporation of the Board

Government of India had set up, in February 1985, the National Capital Region Planning Board (Board), an autonomous body under the National Capital Region Planning Board Act 1985 (Act), with a view to ensuring balanced and harmonized development of the National Capital Region (NCR). The NCR extended over an area of 33578 Sq. kms covering the **National Capital Territory of Delhi** (1483 Sq km) and bordering areas of the states of **Haryana** (13,413 Sq km)**, Rajasthan** (7,829 sq km) and **Uttar Pradesh** (10,853 sq km).

The Board has the mandate of preparing a Plan for the development of the NCR and for coordinating and monitoring the implementation of plans and for evolving harmonized policies for the control of land uses and development of infrastructure in the Region. The functions of the Board extend to sanction of financial assistance to the implementing agencies of the participating states for setting up projects within NCR and follow up of the progress of the assisted projects.

3.1.2 Organisational set-up

The Union Minister of Urban Development and Poverty Alleviation (MOUDPA) is the Chairman of the Board which consists of 21 senior level members of the Government of India and the participating States and 10 co-opted members. A full time Member Secretary of the rank of the Additional Secretary to the Government of India is the Chief Executive of the Board. The Board's secretariat consists of Planning, Financing and Administration Wings. The Board has one NCR Planning and Monitoring Cell working within each of three participating states for coordination and monitoring of projects.

At the headquarters of the Board, there are two Project Sanctioning and Monitoring Groups (PSMG). Group-I is headed by Secretary, Urban Development and has powers to sanction finance in cases of projects costing more than Rs. 5 crore whereas Group-II is headed by Member Secretary of the Board, with powers to sanction loan to implementing agencies in cases of projects costing below Rs. 5 crore. The projects falling under NCR are planned and implemented in the sub regions by a number of autonomous bodies of the State Governments operating within their respective zones. Some of these autonomous bodies are the Uttar Pradesh State Industrial Development Corporation, New Okhla Industrial Development Authority, Ghaziabad Development Authority in Uttar Pradesh, Haryana Urban Development Authority and Haryana State Industrial Development Corporation in Haryana and Rajasthan Industrial & Investment Corporation and Urban Improvement Trust in Rajasthan.

3.2 Audit objectives and Scope of Audit

The objective of this audit was to examine the role of the Board as a funding agency. This has been attempted by assessing the following:

- Efficiency of financial management of the Board as reflected in its resource mobilization and utilization.
- How effectively the Board could secure implementation of its plans by financing projects in NCR.
- Capacity of the Board in appraising, financing and monitoring the projects funded by it.
- Efficiency of the system of monitoring.

This review covered the period 2000-01 to 2004-05. During this period, the Board had sanctioned 65 projects costing an estimated amount of Rs. 4433 crore against which loans amounting to Rs. 3000 crore were sanctioned. During the audit conducted between August 2005 and November 2005, 20 projects in which loan assistance of Rs. 1198 crore had been sanctioned, were reviewed.

The performance audit report on the working of the Board was referred to the Government and the Board in December 2005 and discussed at a meeting held in December 2005 with the management of the Board. The views of the management were considered and a revised performance audit report on the fund management of the Board was issued to the Government and Management in January 2006; replies are awaited.

3.3 The Board as Funding Agency

3.3.1 Resources of the Board

According to the Act, all receipts of the Board are credited to the National Capital Region Planning Board Fund. These are used for meeting the salaries, allowances and other administrative expenses of the Board and providing financial assistance to participating States and the Union territory for the implementing projects designed to further the objectives of the Regional Plans and development of the Counter Magnet Area (CMA) outside NCR.

The sources of funds are the grants released by the Central Government, repayment of principal and interest on loans from Project Implementing Agencies (PIAs) and external market borrowings through private placement of Bonds.

3.4 Overall resource mobilization and utilization

A comprehensive view of the financial outlay of the Board from the IX plan period to March 2005 is as under:-

(Rupees in crore)

Plan Period	Grant released by G.O.I	Grant released by Govt. of Delhi	Internal accruals including repayment of loans	Bonds	Loan released	Unutilised cash & Bank balance (at the year end)
1997-98	42	15	62.38	226.40	84.27	---
1998-99	45	20	82.56	285.00	206.81	176.64
99-2000	42	30	147.16	Nil	238.45	279.98
2000-01	45	30	208.50	152.40	159.57	343.31
2001-02	50	25	308.92	234.75	271.91	768.14
2002-03	55	Nil	343.81	Nil	110.86	975.47
2003-04	52	30	413.36	Nil	274.08	834.81
2004-05	61.70	30	422.52	Nil	275.72	699.03

The amount of loans to implementing agencies outstanding at the end of 2004-05 was Rs. 895.51 crore

The amount of bonds outstanding at the end of 2004-05 was Rs. 387.15 crore.

Audit noted that:-

i) Significant funds were retained as closing balances during the period 2000-01 to 2004-05. These balances ranged between Rs. 343.31 crore and Rs. 975.47 crore. The closing balance held at the end of each year since 1999-2000 exceeded the disbursement made during the subsequent year by Rs. 71 crore to Rs. 788 crore. The closing balance varied between 126 *per cent* and 693 *per cent* of the amount disbursed during the following year.

ii) It was noted that the borrowing cost of the funds ranged from 9.55 to 14 *per cent* per annum, which was significantly higher than the rate of interest earned (3.75 to 11.25 *per cent* annually) on surplus funds invested in short term deposits with banks (between 16 days and 365 days) during the period from 2000-01 to 2004-05.

The funds amounting to Rs. 387.15 crore raised by the Board during the period 2000-01 and 2001-02 through bonds, were clearly not required in view of the unspent balances with the Board at the end of the respective years. In addition, expenditure of Rs. 3.87 crore was incurred on payment of stamp duty on the borrowing. During the subsequent period from 2002-03 to 2004-05, the loss of interest, incurred on avoidable borrowing through bonds was estimated by calculating the difference between the cost of the borrowing (10.20 *per* *cent* per annum) and the average return from term deposits (3.75 *per cent* to 11.25 *per cent* per annum) and amounted to Rs. 44.99 crore.

This occurred mainly due to:

- Absence of periodical cash flow analysis to estimate reliably the inflow of funds from repayments of principal and interest and outgo of funds. The Project Sanctioning & Monitoring Group had not been monitoring, after April 2003, the position of the backlog in drawal of loans that aggregated to Rs. 15.40 crore (including Rs. 6.40 crore remaining undisbursed for more than 5 years).

- Put and calls option[1] were available to the Board only after five years, in accordance with the terms and conditions of the bonds. This was not backed by corresponding restrictions on the prepayment of loans by the Project Implementing Agencies (PIA) to safeguard the interest of the Board against its commitment towards long term borrowings.

- The Board had not prescribed any prepayment charges till July 2004. The Board levied from August 2004 prepayment charges at 1 *per cent* of the amount prepaid irrespective of the fall in the market and Board interest rates. The provision failed to act as deterrence in the face of the steep fall in the lending rates of the Board, which declined in 2003-04 by 4.5 to 5 *per cent* over the rate applicable in 2001-02. As a result, there were substantial prepayments amounting to Rs. 121.36 crore during the year 2004-05. For comparison, Audit noted that the charges for prepayment by other public sector financing institution, for instance, HUDCO, were 75 *per cent* of the fall in applicable rate. Hence, the Board's prepayment charges were not in alignment with market practices and was much too low.

- Audit also noted that the lending rate of the Board was almost at par during certain periods and even higher during other periods than the lending rates of public sector financial undertakings like HUDCO engaged in long term finance against Government guarantees, as indicated below:

(Interest rate per annum)

Rate effective from	**Rate of HUDCO**	**Rate of NCRPB**
October 2002	11.50	11.00
May 2003	9.75	11.00
November 2003	8.75	8.50
February 2004	8.50	8.50
January 2005	8.25	7.00

[1] Call option entitles the borrower to premature payment while put option enables the lender to recall his amount prematurely.

Hence, the tool of interest rates was not used effectively and consistently as an incentive to promote lending and give effect to the Board's plans during the period covered by this review.

Audit also noticed that the causes for poor off take of loans by the participating States were not considered by the Board while approving the annual budget during the period 2000-01 to 2004-05.

3.5 Tax Management

The NCRPB was exempted from payment of income tax till March 2002 under section 10(20) A of the Income Tax Act. However, the Finance Bill 2002 withdrew this exemption. Accordingly, the Board became liable to pay income tax from April 2002 onwards in quarterly installments of advance tax on due dates and also to submit tax return for the financial year 2002-03 within the prescribed time.

NCRPB did not deposit advance tax payable during 2002-03 and 2003-04 which amounted to Rs. 23.41 crore and 26.51 crore respectively. It had to pay Rs. 2.05 crore for non-filing of return under section 234A of the Income Tax Act and Rs. 5.78 crore for default in payment of advance tax during the year 2002-03 and 2003-04 under section 234B and 234C. The Board could have avoided the expenditure of Rs. 7.83 crore by ensuring compliance with the provisions of the Act.

3.6 Project Financing

Appraisal of projects

3.6.1. Parameters not specified

The Board had not prescribed essential parameters for appraisal of projects like the amount of margin money to be brought in by the project implementing body, the stage at which such margin money would be brought in, the rate of return for the viability of the projects and the pre-conditions to be satisfied before approaching the Board for finance. As a result, Audit observed that out of 65 projects sanctioned by the Board during 2000-2005, 5 projects costing Rs. 354.52 crore, in which loan amounting to Rs. 232.96 crore had been sanctioned and Rs. 15.59 crore released, were withdrawn by the Project Implementing Agencies on grounds of land litigation, alternative funding of projects through internal funds and refusal of the State Governments to provide guarantees.

Further, in case of these withdrawn projects, the Board had not recalled the full loan released, in the absence of any such provision in the agreements executed with the PIAs. Hence, PIAs continued to repay as per the prior schedule after availing of the usual moratorium incorporated in the sanction order.

3.7 Monitoring and Evaluation

In order to secure coordination and timely implementation of projects, the Board created four Planning and Monitoring Cells in 1987 in all the participating states i.e. Haryana, Rajasthan, U.P. and Delhi. These Cells were placed directly under the Town Planning Departments of the respective states. The Board meets the entire establishment cost of these Cells including the staff cost. The main functions of these Cells are to assist the Local Authorities in timely preparation and finalization of the Sub Regional Plans and the Master Plan. Apart from the above, their functions include:

- monitoring progress of projects and coordinating various activities relating to planning and development of the sub region and giving feed back to the NCR planning Board in matters relating to plan implementation; and

- keeping the Board informed of developments taking place in their respective jurisdictions.

Since inception, the total amount reimbursed to all the NCR Cells as grants in aid upto March 2005 was Rs. 581.36 lakh, as per state-wise breakup shown below:-

(Rupees in lakh)

Name of the State	Grant in aid
Haryana	174.27
Uttar Pradesh	197.88
Rajasthan	160.25
Delhi	48.96

In March 1999, the Chairman while reviewing the monitoring carried out by NCR Cells recorded that the periodic progress reports were not being submitted regularly and emphasized that a methodology for overseeing the functioning of the Cells was to be evolved. However, Audit observed that the following activities were still not being attended to by the NCR Cells.

- The Cells were not submitting the quarterly progress reports within the stipulated time.

- Although the officers posted in the NCR Cells are required to visit the project sites on regular basis to monitor the progress and ensure quarterly reporting of progress to the Board, no tour reports were submitted.

- The projects proposed from the state governments/implementing agencies were required to be examined and appraised by the respective Cells but no such appraisal reports were received in the Board along with the project reports.

- Cells were not monitoring the implementation of the projects. Time overrun in 37 cases occurred as of December 2003 out of 65 projects under progress. However, the Board did not call for and analyze the reasons for their delay.

3.8 Conclusions

The Board is financing the projects of the State Government agencies located in the NCR, in order to secure balanced and harmonized development of the Region. The Board has, however, failed to develop competitive financial packages to attract project proposals. The Board also failed to protect its financial interests by not adopting market practices while formulating the terms of its loans and as a result, could not effectively utilize the available funds. This significantly reduced the potential impact of its activities on the planned development of the NCR.

(Dr. A.K. BANERJEE)

New Delhi **Director General of Audit**

Dated **Central Revenues**

Countersigned

New Delhi **(VIJAYENDRA N. KAUL)**

Dated **Comptroller and Auditor General of India**