



## **PUNE MUNICIPAL CORPORATION**

### **FRAMEWORK AND PRINCIPLES OF THE SPECIAL PURPOSE VEHICLE FOR PUNE UNDER SMART CITIES MISSION**

The Ministry of Urban Development, Government of India (**Central Government**) has launched the Smart Cities Mission (**Mission**), with an aim to develop 100 cities as smart cities over the next 5 years. The objective of the Mission is to promote cities that provide core infrastructure and improve the quality of life of people and focus on redefining urban development initiatives that make the cities more livable, inclusive and centers of economic growth. The Mission is to be implemented in accordance with the Smart City Mission Statement and Guidelines (**Guidelines**), released by the Central Government in June 2015.

This document spells out the framework and principles for the formation of the Special Purpose Vehicle (**SPV**) for the implementation of the Smart Cities Mission in the city of Pune. The formation of a well-functioning SPV and the implementation framework is a critical component for success in the Mission. The SPV is being formed to strengthen the Pune Municipal Corporation (PMC), increase operational efficiency and bring in innovation in its functioning.

The document is divided in the following sections:

- I. STRUCTURE OF THE SPV**
- II. SHAREHOLDERS OF THE SPV AND PRIVATE PARTICIPATION**
- III. MAIN OBJECTS (FUNCTIONS AND RESPONSIBILITIES) OF THE SPV**
- IV. ALLOCATION OF FUNDS / FINANCING**
- V. MANAGEMENT / GOVERNANCE OF THE SPV**
- VI. DELEGATION OF POWERS**
- VII. MISCELLANEOUS**

## **I. STRUCTURE OF THE SPV**

The Guidelines provide that the Mission at the city level will be implemented by a SPV, created for the purpose.

The SPV for the city of Pune will be a public limited company incorporated under the relevant provisions of the Companies Act, 2013 (**Companies Act**) and will be promoted jointly by the State Government of Maharashtra (State Government) and PMC.

The Authorized Share Capital of the SPV will be Rs. 5,00,000. The State Government and PMC will contribute this amount equally. The minimum paid up capital of the SPV shall be Rs.5,00,000. The increase, reduction and alteration of the permissible share capital in the SPV will be permitted in accordance with the provisions of the Companies Act.

### ***Sub-SPVs***

Under the Guidelines, the SPV has been given the autonomy and operational independence in decision-making and the implementation of the Mission. The Board of the SPV will have the complete freedom to decide whether the execution of the projects may be done through joint ventures, subsidiaries, public-private partnership (PPP), turnkey contracts etc. Therefore, in addition to the main SPV, there could be multiple project SPVs to execute the respective projects (pan city initiatives and local area development), envisaged by PMC for the city of Pune. The different sub-SPVs may include project specific SPVs, sectoral holding companies with a portfolio of project specific SPVs, subsidiary companies or public private partnerships.

## **II. SHAREHOLDERS OF THE SPV AND PRIVATE PARTICIPATION**

In relation to the shareholding pattern of the SPV, the Guidelines state that the State Government and the PMC will be joint promoters in the SPV, having equal equity participation. The private sector or financial institutions could be considered for taking equity stake in the SPV provided that the shareholding pattern of 50:50 of the State Government and the PMC is maintained (shareholding is equal at all times) and the State Government and the PMC together have majority shareholding and control of the SPV. It may be relevant to mention that the shareholding of the State Government, PMC and private sector may be in the ratio 40:40:20 or 30:30:40 or 26:26: 48.

While the Guidelines permit the involvement of the private sector in the SPV (at the discretion of the State Government and the PMC), the participation of the private sector / financial institutions is necessary to make the smart cities project viable, as it requires huge resources and large scale investment. It is important that the private sector is suitably accommodated in the SPV structure (even if at a later stage), while ensuring that the balance of power between the State Government and the PMC is maintained. Having financial institutions as shareholders will strengthen the credibility of the SPV, especially while taking loans and participation of the private sector will help with bringing efficiency, improving service quality and incentivizing innovation.

In the alternate, private investment may also be introduced at the sub-SPV level instead of at the top level of the SPV. This will ensure that the private sector has the flexibility in investing in the sectors of its choice, and also different private entities can be there for different sub-SPVs.

### III. MAIN OBJECTS (FUNCTIONS AND RESPONSIBILITIES) OF THE SPV

The SPV is being formed to strengthen the Pune Municipal Corporation (PMC), increase operational efficiency and bring in innovation in its functioning. No rights or authorities of PMC shall be diluted. The Corporation shall have the rights of fixing tariff. The SPV will act like an execution arm of the PMC with autonomy in projects execution.

The SPV will discharge the following functions:

- (a) Approve and sanction the local area development projects under the Mission in the SPV Area including their technical appraisal. SPV Area shall mean Aundh-Baner-Balewadi (ABB) area approved under the Mission and any other area as approved by PMC in future.
- (b) Approve and sanction the pan city projects approved for Pune under the Mission including their technical appraisal.
- (c) Coordinate with different agencies like PMPML and City Traffic Police for the local area based and Pan city projects.
- (d) Carry out the project development activities for implementation of the smart cities projects including forming project specific SPVs and sectoral holding companies consisting of project specific SPVs.
- (e) Identify and develop projects and arrange for professional inputs for risk management, project structuring, project appraisal, preparation of Expression of Interest/ Request for Proposal/ bid documents etc., evaluation of bids, bid process management and project management.
- (f) Undertake due diligence and analyse, examine and appraise proposals and monitor the above projects.
- (g) Drive O&M activities after project execution for both local-area development projects and pan-city projects
- (h) Earn its revenues also from the impact fee and issue PIF based bonds, and further will have the land monetization rights in the SPV Area. The SPV will collect property taxes and grant building permissions on behalf of the PMC.
- (i) Right to develop land parcels within SPV Area by land pooling under the Town Planning Scheme mechanism



- (j) Assist PMC in undertaking key municipal functions
- (k) Work as developer for Dr. Babasaheb Ambedkar Vasti slum rehabilitation in SPV Area
  
- (l) Get into Service Level Agreements (SLAs) with concerned PMC departments like Solid Waste Management, Water and other municipal services and the ability to outsource these functions within the SPV Area
  
- (m) The SPV Area may be expanded anytime to include more areas with due approval of PMC.
  
- (n) Develop amenity spaces and PMC land in SPV Area for citizens. PMC will transfer such lands at no cost to the SPV.
  
- (o) Can accept deposits, issue bonds, raise loans from external sources, for the purpose of company subject to the provisions of the relevant acts.

***Project wise functions of the SPV and coordination with other agencies for local-area development in the SPV Area***

The functioning of the SPV in each of the sector, within the SPV Area will be as follows:

(a) Transport and mobility:

- I. *Bus Rapid Transport (BRT) and road infrastructure:* SPV will construct road, bus stops for the BRT network. PMPML will manage and run the buses and the SPV will have the option of contracting buses on specific routes, if required. The SPV will be responsible for O&M of bus stops in the SPV Area.
- II. *Non-motorized Transport (NMT) infrastructure:* SPV will construct footpaths, bicycle lanes, redesign roads and junctions, undertake place making, and be responsible for O&M
- III. *Public Bicycle Sharing (PBS) infrastructure:* SPV will be responsible for setting up, running and O&M of PBS system
- IV. *Electric buses:* SPV to make available buses, define routes and fares, which will be operated and maintained by a private operator
- V. *E-rickshaws:* SPV to have the ability to make available e-rickshaws and lease out to private operators

(b) Water and sewage:

- I. *Water supply management:* SPV to have a Service Level Agreement (SLA) with PMC to provide bulk water at pre-defined rate; SPV to build key infrastructure to supply 150 lpcd water. Major O&M issues to be taken up by the PMC, minor issues to be managed by SPV. The SPV water function will run by PMC employees on SLAs with the SPV
- II. *Sewage:* Baner Sewage Treatment Plant (STP) to be augmented and managed by PMC
- III. *River cleaning:* SPV to install and manage root-zone technology and physical cleaning of river
- IV. *Rain water harvesting:* SPV to make available sumps in housing societies in SPV Area, the societies will be responsible for O&M of these sumps

(c) Solid waste management and sanitation:

- I. *Solid Waste Management:* PMC would be responsible for door-to-door collection with SLA with SPV. SPV responsible for transportation of segregated waste, and will operate the transfer station and other related facilities created in SPV Area for the purpose of efficient management of solid waste in the area.
- II. *Sanitation:* SPV responsible for cleanliness and sanitation of public infrastructure in SPV Area. Community and school toilets will be made available by SPV; O&M of the same will be done by the SPV by getting into suitable contracts for the same.

(d) Energy and Solar:

- I. *Smart grid*: MSEDCL to setup smart grid T&D network in SPV Area. SPV to procure net meters hand-over to MSEDCL via an SLA. MSEDCL responsible for O&M of network and meters
  - II. *Solar Energy*: Private operator to directly sign a PPA with the customer to install and O&M solar panels, SPV to facilitate the solarisation of the ABB area with appropriate measures and incentives if required
  - III. *Street lights*: SPV responsible for procurement, installation and O&M of street lights in SPV Area
- (e) Amenities and riverfront development:
- I. *Open spaces*: SPV responsible for setting up and O&M of gardens, parks and open spaces in the SPV Area
  - II. *Open gyms, street furniture and other amenities*: SPV responsible for setting up and O&M of open gyms, street furniture and other amenities in SPV Area
  - III. *Riverfront development*: SPV responsible for construction and O&M in SPV Area and will also receive revenues generated.
- (f) Safety and response
- I. *Intelligent Operations Centre (IOC)*: SPV to setup and manage O&M of the IOC. SPV to procure police vehicles, ambulances and other equipment, and provide to Police /Hospitals via SLAs. Police/Hospital to be responsible for O&M of equipment and vehicles. PMC to provide additional policemen to SPV, SPV will have the option of setting up and managing private security force, if required in the SPV Area.
- (g) E-Governance and Wi-Fi
- I. *Central command centre*: SPV responsible for setting up and O&M of central command centre, associated sensors, communication network and platform
  - II. *Citizen Service centre*: SPV to setup and run the citizen service centres, PMC to provide back-end support via SLAs
  - III. *Public internet*: SPV to setup optical fibre network and will be responsible for O&M
  - IV. SPV will provide a complete suite of e-Gov services to the citizens in the SPV Area and will be backed by the PMC with SLAs for the same.
- (h) Slum redevelopment:
- I. *Slum redevelopment*: SPV to be responsible for redevelopment of slums on private land in the SPV Area. SRA will be responsible for overall management, including consent and eligibility
- (i) Affordable housing:
- I. *Affordable housing*: SPV to create affordable housing for EWS/LIG population on two amenity spaces in the SPV Area. SPV to create appropriate amount of affordable housing on land that will be developed under Town Planning scheme in the SPV area.
  - II. *Skill development, healthcare and education*: SPV to undertake socio-economic transformation initiatives in SPV Area and work towards improving healthcare and education facilities and build skills to generate employment

(j) Health and Education:

- I. *Health*: SPV responsible for developing suitable amenity spaces for hospitals in the SPV Area through contract/PPP etc.
- II. *Education*: SPV responsible for developing suitable amenity spaces in the SPV Area for schools through contract/PPP etc.

(k) Transit and start-up hub:

- I. *Transit and Start-up hub*: SPV to develop Transit and Start-up hub, including Multi-level car parking in the 12acre land in the SPV Area. PMPML and State Government MSRTC to use the transit hub as a bus and BRT depot.

#### IV. ALLOCATION OF FUNDS / FINANCING

The Guidelines state that the Mission will be operated as a Centrally Sponsored Scheme and the Central Government proposes to give financial support to the extent of Rs. 48,000 crores over five years i.e. on an average Rs. 100 crores per city per year. An equal amount, on a matching basis, will have to be contributed by the State Government and PMC together. The funds provided by the Central Government, State Government and PMC to the SPV will be in the form of tied grant and kept in a separate Grant Fund and will be utilized only for the purposes for which the grants have been given and subject to the conditions laid down. The Grants from Centre and State Governments and PMC specifically marked for Smart City projects will be used for capital expenses by SPV.

The funds will act as a catalyst to attract funding from internal and external sources but will meet only a part of the project cost. The balance funds are expected to be mobilized from various sources including bilateral and multilateral institutions (both domestic and foreign), convergence with other Central Government schemes like Swachh Bharat Mission and the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) as well as from the private sector. In addition to the funding, linkages also have to be established by the SPV with other institutes in the field of education, technology etc.

The SPV aims to increase the revenue and / or reduce the cost of operations of PMC by bringing in innovative practices and improving efficiencies. The incremental benefit / part of freed budget allocated for such activities that accrue to PMC due to SPV will be granted to SPV only to fill the O&M expenses gap with SPV. For example, if the SPV undertakes projects worth 90 Cr and saves 50 Cr of costs of the Corporation and further increases the revenue (other than the normal yearly increase) by 60 Cr making a total incremental benefit to corporation of Rs 110 Cr. Then the SPV would be granted 90 Cr only and Corporation retains 20 Cr. However, in case that the 90 Cr spent on project by SPV leads to a net benefit of only 60 Cr in first year, and the rest of the benefit will accrue over the lifetime of the project, then the SPV will be compensated for 30 Cr. An escrow account will be opened to receive such revenues, which shall be used to fund the O&M expenses of SPV. This situation may arise because the SPV will also execute some projects which are non-remunerative like traffic management, bus services improvement etc.

The SPV will have the borrowing power to accept deposits, issue bonds and raise loans from external sources, for the purpose of the company subject to the provisions of the relevant acts. The SPV will have the right to demand impact fee and issue PIF based bonds, and further will have the land monetization and construction approval rights for the local-area selected for development

It may be noted that in case funds are allocated to PMC for any project in relation to the Mission, such funds should be automatically and immediately allocated to the SPV. Further in addition to equity contribution, the State Government may also provide its contribution to the Mission as a grant. This may be done by the State Government to fulfill its responsibility in relation to ensuring availability of funds for the Mission and for ensuring the financial sustainability/ viability of the SPV. Such grants from the State Government, as and when released, may be given directly to the SPV for the specified services/sectors.

The following points may also be noted in relation to the funds of the SPV:

#### ***Dividends***

Dividends will be ploughed back into the SPV till the time there are no private shareholders in the SPV. Once the SPV has private shareholders, the dividends will be distributed among the shareholders from time to time as per the decision of Board of SPV.

#### ***Accounts and Audits***

The Companies Act mandates periodical audits and submission of accounts to Registrar of Companies and the SPV has to comply with all the requirements prescribed under the Companies Act.

### **V. MANAGEMENT / GOVERNANCE OF THE SPV**

#### ***Governing Board***

The Guidelines state that the Board of Directors will have representatives of Central Government, State Government, PMC and Independent Directors, in addition to the CEO and Functional Directors. Subject to the provisions of the Companies Act, the SPV shall have a Governing Board consisting of:

- a) The Municipal Commissioner of PMC who will also be the Chairperson of the SPV.
- b) The Mayor, Chairman of the Standing Committee, the Leader of Opposition these three and three other Party Leaders (apart from parties of these three & of Parties with more than 10 Councilors in PMC) will represent PMC in the SPV.
- c) The State Government will be represented by the District Collector, Commissioner of Police, CMD of PMPML, Chief Engineer of MSEDCL, Pune and two other members who would be



Independent Directors, who will be selected from the data bank(s) maintained by the Ministry of Corporate Affairs and preference will be given to the eminent citizens of Pune who have ideally served as independent directors in the Board of different companies fulfilling Clause 49 of the listing agreement of Securities and Exchange Board of India, or are professionals of international repute.

d) The Ministry of Urban Development will appoint one representative of the Central Government on the Board.

e) The CEO of the SPV

There will be a provision for expanding the Board in case of private shareholding of the SPV. The maximum number of Directors on the Board will be limited to fifteen.

The Governing Board shall convene once every quarter and will be responsible for major strategic decisions and approving the annual strategic plan of the SPV.

In order to ensure smooth governance and avoid conflict of interest in the SPV, the Board of Directors of the SPV and their agencies/ companies will be automatically disallowed from bidding for the projects awarded by the SPV under the Mission.

### ***Executive Committee***

The SPV shall have an Executive Committee that will meet once a month to take month-to-month decisions including decisions beyond the authority of the CEO, on the functioning of the SPV. The Executive Committee will comprise of:

- (a) The Municipal Commissioner of PMC
- (b) The Chief Executive Officer (CEO) of the SPV
- (c) The Chief Financial Officer (CFO) of the SPV

### ***Chief Executive Officer***

According to the Guidelines, the SPV will be headed by a full time Chief Executive Officer (CEO). The CEO of the SPV will be appointed by the Board with the concurrence of the Ministry of Urban Development for a fixed term of 3 years, with upto 2 years possible extension.

The Board may recommend the names of suitable candidates for the post of CEO of the SPV, to the Ministry for its concurrence. This will ensure that the selection of the CEO remains the prerogative of the Board and not the Central Government.

The Board shall appoint the CEO from open market. The compensation of the CEO will be at par with market standards. It may be noted that the qualifications of the CEO have not been set out in the Guidelines and government officials, senior corporate executives and independent experts may be considered for the post of the CEO.

The CEO will be responsible for overseeing and managing the SPV including the day to day operations of the SPV among other responsibilities, which have been specifically stated in the Guidelines.

### ***Other personnel in the SPV***

In addition to the CEO and the Board of Directors, the SPV may appoint the following key personnel (with the requisite professional experience), to execute the various projects being implemented in the city of Pune under the Mission. Please note that this is an illustrative list and the positions may change depending on the final structure of the SPV.

- (a) Head (Transport and Traffic) – to award, execute and commission all pan-city and SPV Area projects in transport and traffic
- (b) Head (Water Supply and Sanitation) – to award, execute and commission all Pan city and SPV Area projects in Water Supply and Sanitation
- (c) Head of Operations and Services - to award and take care of all other services in the SPV area
- (d) Chief Knowledge Officer – to drive ICT based plan and execution of smart solutions as part of the Pan City and SPV Area development projects.
- (e) Chief Financial Officer– to drive financial functions of the SPV
- (f) Chief Vigilance Officer – to ensure good governance in and integrity of the SPV
- (g) Chief Urban Planner – to plan, design and implement area development projects in SPV Area

The SPV may appoint designated and dedicated officials from diverse backgrounds, who will assist the key personnel in implementing and managing the smart cities project, in a time bound and effective manner. Further project management consultants may also be appointed by the SPV for designing, developing, managing and implementing the various projects.

At the end state, the SPV will have 45-50 employees. The tentative organization structure of the SPV with the number of employees is the following:

- (a) Transportation and mobility – 10-12 employees

- (b) Water and sewage – 4-5 employees
- (c) Solid waste management, sanitation and cleanliness – 3-4 employees
- (d) Environment, energy and sustainability – 3-4 employees
- (e) Citizen services and emergency response – 10-11 employees
- (f) Buildings, infrastructure and development – 8-9 employees
- (g) Finance – (2-3 employees)
- (h) Vigilance – (1-2 employees)

This is an illustrative number and the powers to increase/ decrease number of personnel will be with the board.

## **VI. DELEGATION OF POWERS**

One of the primary reasons for the creation of a SPV is to ensure operational independence and autonomy in decision-making and the Guidelines provide for the delegation of the following powers of the State Government and the PMC to the SPV:

- (a) The rights and obligations of the PMC with respect to the Mission to the SPV.
- (b) The decision-making powers available to the PMC under the Appropriate Acts/Rules to the CEO of the SPV.
- (c) The approval or decision making powers related to project implementation under the Mission available to the Urban Development Department of the State Government to the Board of Directors of the SPV.

The delegation of powers to the SPV will be done under the provisions of the Maharashtra Municipal Corporation Act, 1949 and other applicable laws. It may be relevant to mention that the power with regard to the fixation of tariff for any sector would always remain with the PMC.

### ***Constitutional Provisions***

With a view to provide for the setting up democratic institutions at the grass root level, by virtue of the 73<sup>rd</sup> and 74<sup>th</sup> amendment to the Constitution of India, Part IX introduced the Panchayat system and Part IXA provided for the establishment of municipalities / urban local bodies and gave them constitutional status. Part IX-A (Article 243P – 243ZG) specifically provides for

devolution by the State Legislature of powers and responsibilities to municipalities, as may be required to enable them to function as institutions of self-government.

### ***Provisions of the Maharashtra Municipal Corporation Act***

This delegation of powers to the SPV is proposed to be done under Sections 66 (41A) & 66A of the Maharashtra Municipal Corporation Act, in relation to the performance of functions by agencies, which states the following:

*Section 66 (41A) –*

*‘With the previous sanction of the state Government & subject to such terms & conditions as the state Government may impose subscribing to the share capital of any company or co operative society, with a limited liability, established or to be established for maintaining or setting up a slaughter house, or for providing any other services in the city, useful to the corporation in carrying out any of the duties imposed upon it by or under this act or any other law for the time being in force.’*

*Section 66A –*

*‘When any duty has been imposed on, or any function has been assigned to, a Corporation under this Act or any other law for the time being in force, or a Corporation has been entrusted with the implementation of a scheme by the State Government or any other authority —*

*(i) The Corporation may, either discharge such duty or perform such function or implement such schemes by itself; or*

*(ii) Subject to such directions as may be issued and the terms and conditions as may be determined by the State Government, cause it to be discharged, performed or implemented by any agency:*

*Provided that, the Corporation may also specify terms and conditions, not inconsistent with the terms and conditions determined by the State Government for such agency arrangement.’*

## **VII. MISCELLANEOUS**

### ***Leasing and Mortgaging Rights***

Leasing and mortgaging rights on the assets owned or created by the SPV will be available.

### ***Winding up***

The procedure for the winding up of the SPV will be in accordance with the provisions of the Companies Act. All the assets created by SPV will be transferred back to PMC after dissolution or winding up of SPV.