



Transfer of Water Supply and Sewerage Services to Bhubaneswar Municipal Corporation, Orissa, India

Final Concept Note

Indo-USAID Financial Institutions Reform and Expansion Project—
Debt & Infrastructure Component (FIRE-D Project)

USAID-TCGI Contract No. 386-C-00-04-00119-00

August 2010

This publication was produced for review by the United States Agency for International Development. It was prepared by The Communities Group International (TCGI), in partnership with AECOM.

Indo-USAID Financial Institutions Reform and Expansion Project—
Debt & Infrastructure Component (FIRE-D Project)

USAID-TCGI Contract No. 386-C-00-04-00119-00

DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

CONCEPT NOTE
for
TRANSFER OF WATER SUPPLY AND SEWERAGE SERVICES TO
BHUBANESWAR MUNICIPAL CORPORATION

Draft for Discussion

Prepared for:
Government of Orissa
Department of Housing and Urban Development

Prepared by:
Indo-USAID FIRE (D) Project
New Delhi

August 2010

Table of Contents

Preface to the Concept Note.....	iv
Section 1. Executive Summary.....	1
1.1. Background.....	1
1.2. Existing Structure.....	1
1.3. Proposed Structure.....	2
Section 2. Background.....	4
2.1. Background to the Reforms in Urban Water Supply and Sewerage Services	4
2.2. Current Scenario of WS and SS in Orissa.....	5
Section 3. Proposed Transaction	9
3.1. Key Objectives of the Proposed Transaction	9
3.2. Summary of Proposed Transaction	10
3.3. Overview of the Transaction Flow	10
3.4. Legal Background.....	11
Section 4. Incorporation and Operationalisation of WATCO	12
4.1. Incorporation of WATCO	12
4.2. Applicability of Rules and Regulations to WATCO.....	13
4.3. Business Model for the Ring Fenced WS and SS Business Undertaking.....	13
4.4. Operationalisation of WATCO	14
Section 5. Organisation Structure of WATCO	16
5.1. Existing Organisation Structure of PHEO and Bhubaneswar Circle	16
5.2. Organisation Structure of Bhubaneswar Circle	16
5.3. What the Structure Should Achieve?.....	16
5.4. Key Drivers of the Organisation Structure	16
5.5. Institutional Arrangement of the Ring Fenced Entity	17
5.6. Proposed Roles, Responsibilities and Accountability.....	17
5.7. Governance Structure.....	18
5.8. Board of Directors and Corporate Governance Committees.....	18
5.9. Options – Organisation Structure	21
5.10. Operational Level Structure	27
5.11. Conclusion	28

Section 6.	Transfer Mechanism Between PHEO To BMC	29
6.1.	Transfer of Assets, Liabilities, Proceedings, Business, and Functions of the Ring Fenced WS and SS Undertaking to BMC.....	29
6.2.	Operational Issues to be Addressed in Transfer Scheme.....	30
6.3.	Government Notification of Transfer Scheme	31
Section 7.	Deputation of PHEO Employees to WATCO	31
7.1.	Deputation Mechanism for PHEO Employees.....	31
7.2.	Performance Linked Employee Incentives	32
7.3.	Employee Grievance Redressal Mechanism.....	32
7.4.	Government Notification for Deputation of Employees.....	32
Section 8.	Financial Restructuring and Business Plan.....	33
8.1.	Financial Restructuring	33
8.2.	Areas of Financial Restructuring.....	33
8.3.	Updating the Business Plan.....	33
Section 9.	Performance-based Management Contract.....	34
9.1.	Finalisation of the Performance-based Management Contract	34
9.2.	Key Areas of Coverage in the Performance-based Management Contract	35
Section 10.	Project Monitoring.....	36
10.1.	Formation of Empowered Committee	36
10.2.	Program Implementation Unit (PIU).....	36
10.3.	Proposed Roles and Responsibilities of the various Institutions Subsequent to Notification of Transfer Scheme and Execution of the Performance-based Management Contract.....	37
Section 11.	Activity Plan.....	39
11.1.	Activity Plan	39

Acronyms

BoD	Board of Directors
BMC	Bhubaneswar Municipal Corporation
CAA	Constitution Amendment Act
CEO	Chief Executive Officer
CPWA	Central Public Works Accounts
DDO	Drawing and Disbursing Officer
EC	Empowered Committee
FIRE-D	Financial Institutions Reform and Expansion (Debt)
GoI	Government of India
GoO	Government of Orissa
HR	Human Resources
HUDD	Housing and Urban Development Department
IT	Information Technology
JnNURM	Jawaharlal Nehru National Urban Renewal Mission
LC	Letter of Credit
MoA	Memorandum of Agreement
O and M	Operation and Maintenance
OPWD	Orissa Public Works Department
OWSSB	The Orissa Water Supply and Sewerage Board
PHEO	Public Health Engineering Organization
PMC	Performance-based Management Contract
RoC	Registrar of Companies
SLB	Service Level Benchmark
SPV	Special Purpose Vehicle
SS	Sewerage Services
ULB	Urban Local Body
WATCO	Water Corporation
WS	Water Supply

Preface to the Concept Note

Introduction

Deloitte Touche Tohmatsu India Private Limited (Deloitte) has been retained by Indo-USAID Financial Institutions Reform and Expansion (FIRE-D) project to provide consultancy support for setting up a Corporate Entity for providing water and sewerage services to the citizens of Bhubaneswar city including the transfer of the ring fenced Water Supply (WS) and Sewerage Services (SS) of Bhubaneswar city from Public Health Engineering Organization (PHEO), Government of Orissa (GoO), to Bhubaneswar Municipal Corporation (BMC) together herein after referred as the Transaction.

Scope of Work

The above assignment has been divided under the following three phases:

Phase-I

Task 1 - Preparation of Legal Brief; and
Task 2 - Preparation of Concept Note for Transaction.

Phase-II

Task 1 - Preparation of the 'Act' (Optional);
Task 2 - Preparation of Transfer Scheme between PHEO and BMC;
Task 3 - Drafting of Performance-based Management Contract; and
Task 4 - Review of Financial Management and Accounts.

Phase-III

Task 1 - Company Incorporation; and
Task 2 - Preparation of Operational Framework for proposed corporate entity (hereinafter referred to as Water Corporation, ('WATCO')).

As part of Phase-I above, Deloitte is required to prepare a Concept Note containing guidelines for transfer of the ring fenced WS and SS business undertaking from PHEO, GoO, to BMC and create a corporate entity for provision of services to the citizen of Bhubaneswar city duly; taking into consideration the legal framework (a legal brief has been prepared separately).

Coverage of the Concept Note

This Concept Note covers the following aspects:

- Identify key stakeholders and their representatives and lay down their roles and responsibilities;
- Review and update the earlier studies and recommendations;
- Develop business transfer mechanism between PHEO and BMC (including ownership of assets, liabilities, etc.), and revenue sharing mechanism between BMC and WATCO;
- Design mechanism for:
 - Transfer of undertaking - vesting with and re-vesting by GoO/direct transfer; and
 - GoO's financial support - transition/regular.

- Review of existing laws, rules, regulations, byelaws, orders, notifications, and other related regulatory framework to identify the amendments required, if any, to various legislations, rules, regulations, etc., that impact the transaction;
- Review, in specific, the existing service rules of PHEO employees, particularly relating to their deputation to the WATCO and protection of retirement benefits;
- Formulate an appropriate communications strategy for inclusion of the employees in ensuring smooth transition in meeting the reform objectives; and
- Prepare detailed work plan indicating the activities involved in the transaction and the key milestones.

Basis of Concept Note

This Concept Note has been prepared based on an in-principle approval provided by GoO for the proposed transaction and progress already made/work carried out by the project implementers. This Concept Note serves as a guidance note to carry out the proposed transition and would be referred to accordingly. This Concept Note does not present detailed procedures of any nature. The recommendations provided in this Concept Note are subject to change, if any, that may occur in the current or envisaged scenario and/or during the actual implementation of the proposed transaction. This Concept Note has been prepared taking into consideration the following:

- Prevailing legal provisions;
- 74th Constitution Amendment Act;
- Baseline Report and Corporatisation Plan for Bhubaneswar City Water Services prepared by Indo-USAID FIRE-D Project;
- The Orissa Gazette number 385, dated March 25, 2010 ref. number 7192-Reforms-UR-18/2010/HUD;
- Information available from the websites of PHEO, BMC, and OWSSB;
- MoA between Gol, GoO, and BMC under the Jawaharlal Nehru Urban Renewal Mission (JnNURM);
- Legal brief prepared by Deloitte on the aforesaid transaction; and
- Discussions held with the concerned officials of PHEO and FIRE-D Project.

Section 1. Executive Summary

1.1. Background

1.1.1. The Government of Orissa (GoO) is committed to implement the decentralization measures as envisaged in the 74th Constitution Amendment Act (CAA) and reforms mandated by the reform-driven Jawaharlal Nehru National Urban Renewal Mission (JnNURM). One of the reform objectives pertains to provision of financially self sustainable water supply (WS) and sewerage services (SS) to be provided by Urban Local Bodies (ULBs) with improved performance levels. At present, Public Health Engineering Organization (PHEO) of GoO is responsible to deliver WS and SS in the State. However, ULBs, including Bhubaneswar Municipal Corporation (BMC), do not possess requisite technical expertise and financial soundness to meet service standards and citizen satisfaction in case of WS and SS. In order to facilitate institutional development, GoO has evaluated various options to implement the devolution of responsibilities to ULBs and, after evaluation of these options, decided to corporatize the water service delivery by creating a State-owned Water Corporation (to be incorporated under the provisions of the Companies Act, 1956). In context of this, the State Cabinet provided an in-principle approval for creation of the Orissa Water Corporation (WATCO) for Bhubaneswar city on a pilot basis and to transfer the assets and liabilities pertaining to the water services from PHEO to BMC. The WATCO would then provide WS and SS to the citizens of Bhubaneswar city, under a performance-based management contract (PMC) entered with BMC.

1.2. Existing Structure

1.2.1. In the current scenario, mainly two bodies are involved in WS and SS in Orissa, viz., PHEO and Orissa Water Supply and Sewerage Board (OWSSB). PHEO undertakes WS and SS activities; including planning, operation, maintenance, management, monitoring, and quality control as well as to construct minor capital works. Whereas, OWSSB undertakes capital works for major water supply and sewerage augmentation projects.

1.2.2. The basic rules and regulations governing PHEO include the following:

- For Works Related Matters - Orissa Public Works Department (OPWD) Code - Volume I and II, Central Public Works Accounts (CPWA) Code, Orissa Water Works (Urban Local Bodies) Rules, 1980, Orissa Government Financial Rules, etc.
- For Employee Service Related Matters - Orissa Service Code, Orissa Government Servants Conduct Rules, a number of Orissa Civil Service Rules, Orissa Ministerial Service Rules, Orissa General Provident Fund Rules, etc.

1.2.3. Funds requirements (for administrative and works, including grants/subsidies) of PHEO are met through a Letter of Credit (LC) issued by Finance Department and operated through GoO's Treasury. Further, salaries of regular staff are paid out of Government Treasury through direct bank credit; whereas non-regular salaries are paid through LC.

1.2.4. All receipts including WS and SS user charges collected by PHEO are deposited in GoO's Treasury. However, WS and SS user charges from Government employees living in the Government quarters are recovered from their salaries and remitted to GoO's Treasury by the concerned departments.

1.2.5. OWSSB meets its funds requirement mainly out of the administrative and supervision charges in the form of centage/contingency on execution of capital works, and preparation of DPRs, etc. For execution of capital works the funds are provided by GoO through budget allocation, GoI grants, and funding from financial institutions.

1.2.6. The PHEO currently follows cash based single entry system of accounting as envisaged under CPWA Code. The accounting system is driven by the budget, since without any budget provision, no expenditures can be incurred.

1.3. Proposed Structure

1.3.1. **Objectives** - The proposed transaction is envisaged to attain objectives, including legal compliance, bring professionalism and accountability in the management of WS and SS, make WS and SS business self sustainable, achieve standard service level benchmarks (SLBs), provide incentives, and build capacity of PHEO employees to function effectively, etc.

1.3.2. **Key Features of Proposed Transaction** - The key features of the proposed transaction are provided below:

- PHEO shall transfer all the assets, liabilities, rights, claims, proceedings, etc. relating to the ring fenced WS and SS undertaking for Bhubaneswar city to BMC under the notified transfer scheme;
- BMC shall be the owner of all WS and SS assets. It shall provide the necessary funding and shall fix user charges for ensuring cost recovery and sustainability of services;
- A Special Purpose Vehicle (SPV), Water Corporation (WATCO), wholly owned by GoO, shall be created under the Companies Act, 1956, to provide WS and SS to Bhubaneswar city on a pilot basis;
- GoO shall depute the concerned PHEO employees to WATCO on “as-is-where-is” basis (i.e. in terms of cadre, designation, division, office, hierarchy, roles and responsibilities, etc.) by way of notification (however, the number of employees to be transferred on deputation to WATCO and timing of their transfer shall be decided by GoO);
- The service conditions of the employees deputed to WATCO shall not, in any way, be inferior to those applicable to them immediately before the effective date of transfer;
- WATCO shall be created before notification of transfer scheme so as to ensure execution of the PMC with BMC on notification of transfer scheme;
- WATCO shall enter into a PMC with BMC to provide WS and SS and shall strive to achieve the standard SLBs stipulated in the PMC;
- WATCO shall have a right to engage contractors/vendors/service providers to provide WS and SS;
- WATCO shall have the right to undertake any business associated with WS and SS, including service delivery, expansion and related financial and revenue management;
- WATCO shall collect the user charges on behalf of BMC and remit the same into the Treasury of GoO;
- WATCO shall be governed by a board of directors (BoD), whereas BMC shall monitor the WS and SS provided by WATCO. BMC shall have its representation on BoD of WATCO for taking strategic and policy decisions;

- GoO shall continue to make payment, including salaries, allowances, gratuity, and other retirement benefits, for employees deputed to WATCO;
- GoO shall provide grants/subsidies, through BMC, to WATCO to carry out WS and SS. BMC shall own any capital works executed against grant/subsidies;
- BMC, if required, shall borrow from financial institutions to ensure smooth WS and SS related activities;
- WATCO shall provide WS and SS out of the management fee and operating cost paid by BMC to be sourced from the operating subsidies/grants released by GoO;
- GoO shall facilitate and provide funding to WATCO in building the capacity and incentivising the employees transferred on deputation to WATCO; and
- The WATCO, under an agreement with BMC, shall institute incentive mechanisms for the employees, by way of funding performance-linked incentives on achievement of performance benchmarks. The incentive mechanism shall be incorporated in the PMC.

1.3.3. Legal Background – To review the legal compliance of the proposed transaction, FIRE (D) supported the drafting of a legal brief seeking the opinion from the Law Department, GoO, on whether the proposed transaction can be legally enforceable/tenable, based on the existing laws currently in force in the State of Orissa; or there is a need for a new ‘Act’ to be enacted by the GoO to carry out the proposed transaction. Accordingly, the legal brief submitted to Principal Secretary, HUDD, GoO, is provided in *Annexure 1 - “Legal Brief for the Consideration of Law Department of the GoO”*. The legal brief is of the opinion that the existing legal provisions are sufficient to empower the GoO to execute the proposed transaction. However, the opinion from the Law Department, GoO, is awaited.

1.3.4. Financial Restructuring and Business Plan - A business plan, already prepared by Indo-USAID FIRE (D) Project, shall be updated to ensure the sustainability of the ring fenced WS and SS business undertaking. This business plan shall include financial projections and scenario analysis based on the information gathered and norms and assumptions set out in the accounting, finance, technical and commercial areas.

1.3.5. GoO’s Support - GoO shall provide financial support to WATCO, through BMC, for five to seven years to make it viable and to operationalise and strengthen WATCO. GoO shall also undertake to increase funding to improve the efficiency and expand the services in Bhubaneswar city.

1.3.6. Operationalisation of WATCO - The key activities involved in operationalisation of WATCO shall include the creation of an organisation structure (including appointment of CEO and key officials) and deployment of human resources (HR), including deputation of PHEO employees to WATCO, formation of various committees (including Executive Committee), and definition of powers of CEO, delegation of powers at various levels, definition of HR policies, etc. WATCO shall set up commercial systems, financial and accounting management systems, HR and personnel system, Information Technology (IT) system, procurement system, inventory management, etc.

1.3.7. Formation of an Empowered Committee - To take timely actions and approvals, GoO shall form an Empowered Committee (EC) to be headed by the Chief Secretary with Secretary Finance and Secretary Law as the members, and the Principal Secretary, Housing and Urban Development Department (HUDD), as the member convener. This EC shall meet at least once in a

month or as frequently as necessary to provide timely approvals and review progress of implementation of the transaction.

1.3.8. Formation of Program Implementation Unit - To ensure smooth implementation of the proposed transaction, EC shall form a Program Implementation Unit (PIU), which shall look after the day-to-day affairs relating to the proposed transaction. The members of the PIU would include representatives from GoO (i.e., PHEO), BMC, OWSSB and WATCO.

Section 2. Background

2.1. Background to the Reforms in Urban Water Supply and Sewerage Services

2.1.1. The State of Orissa is taking several steps to improve the quality of life of its urban population. GoO is committed to implement the decentralization measures as envisaged in the 74th Constitution Amendment Act (CAA). Further, the Jawaharlal Nehru National Urban Renewal Mission (JnNURM) also mandates transfer of functions and implementation of key financial management reforms. GoO and BMC have signed a Memorandum of Agreement (MoA) with Government of India (GoI) to access central funds under JnNURM, committing to time-bound reform initiatives. According to the MoA signed with GoI, GoO agreed to transfer the water supply function to the State's local bodies by 2009-10. At present, Public Health Engineering Organization (PHEO) of GoO is responsible to deliver water supply and sewerage services in the State.

2.1.2. Operation and Maintenance (O and M) of large citywide WS and SS infrastructure systems requires technical expertise and financial soundness to meet service standards and citizen satisfaction, which is a challenging task for ULBs in the absence of adequate institutional capacity. Appropriate institutional arrangements coupled with accountable service agreements are required to ensure satisfactory WS and SS standards and improved service delivery with due accountability to ULBs in tune with the CAA.

2.1.3. Various options were discussed and evaluated by GoO to implement the mandatory reforms including devolution of responsibilities to ULBs and sustainability of water services. This included discussions with the concerned stakeholders, including PHEO and BMC to address the critical issues of service conditions of Government employees arising due to their deputation to WATCO. GoO took the decision to transfer the assets and liabilities to the BMC, corporatize the PHEO by setting up a State-owned Water Utility Corporation, and provide WS and SS through a performance-based management contract (PMC) with the respective ULB, which opts for such an arrangement.

2.1.4. On a pilot basis, the GoO has decided to implement the corporatization arrangement in Bhubaneswar Municipal Corporation (BMC). Accordingly, the GoO has accorded in-principle approval to create the Orissa Water Corporation (WATCO) under the provisions of the Companies Act, 1956. Accordingly, the WATCO would provide WS and SS to the citizens of Bhubaneswar city, under a performance-based management contract (PMC) with BMC.

2.2. Current Scenario of WS and SS in Orissa

2.2.1. Roles of Organisations Involved in Executing the WS and SS Business

- **PHEO** provides WS and SS and undertakes activities, including planning, operation, maintenance, management, monitoring and quality control of WS and SS as well as construction of minor capital works for WS and SS in Orissa. PHEO provides WS and SS in 102 ULBs of Orissa, including Bhubaneswar city. In addition, PHEO carries out “deposit works” for ULBs, new suburban colonies, etc. and maintains all State-owned buildings and staff quarters, including important buildings such as Raj Bhavan, State Secretariat, etc.
- **The Orissa Water Supply and Sewerage Board (OWSSB)** executes major water supply and sewerage augmentation projects and hands over the completed projects to PHEO for O and M.

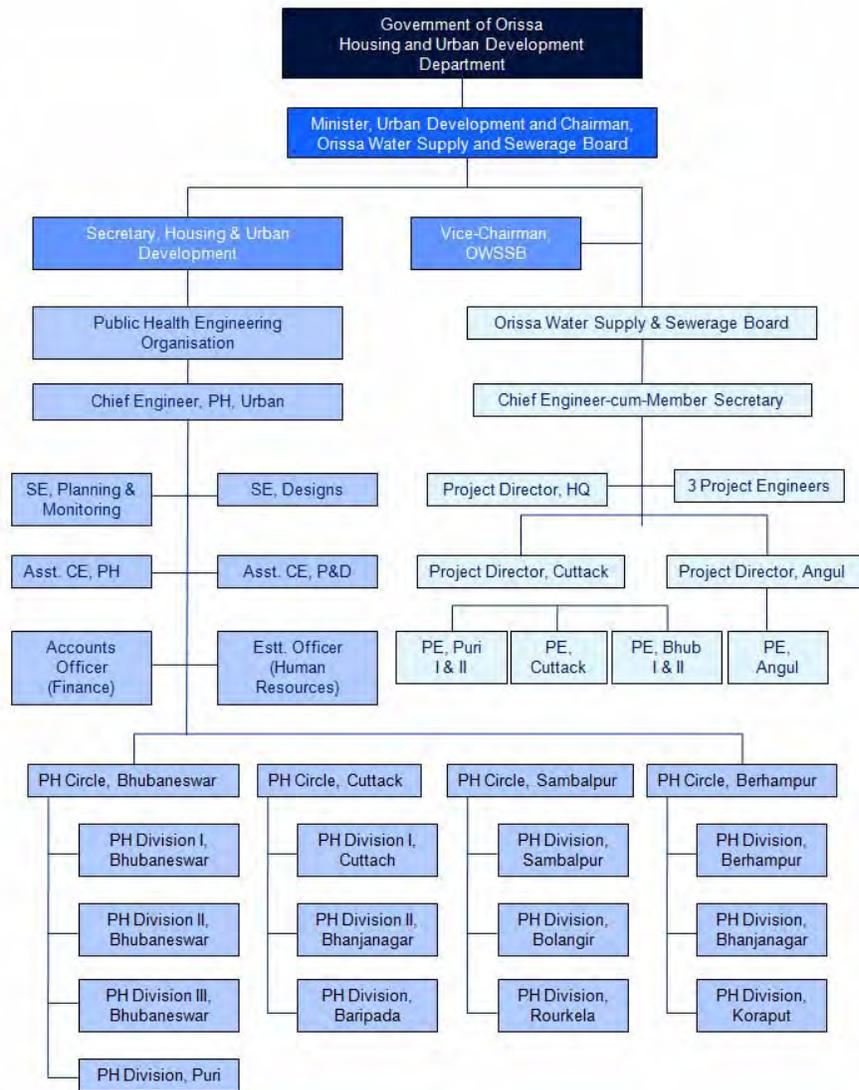
2.2.2. Legislative Framework Governing WS and SS at PHEO

- PHEO has no special legislation governing it. It is governed by the regular conduct of business followed by State Government Departments. However, the following rules and regulations set the basis for its functioning:
 - **Orissa Public Works Department (OPWD) Code - Volume I and II** - OPWD Code primarily deals with rules and procedures pertaining to establishment, works, and public buildings. It also provides the sanctioning powers of the Government and officers in charge of the Department of Public Works.
 - **Central Public Works Account (CPWA) Code** - This Code describes the financial methods and procedure to be observed by the public works officers in dealing with transactions relating to Central Public Works, and in keeping and rendering accounts of such transactions. These are supplementary to the financial rules contained in the Central Public Works Department Code, General Financial Rules, and the Treasury Rules of the Union Government.
 - **Orissa Water Works (Urban Local Bodies) Rules, 1980** - The main objective of Orissa Water Works (Urban Local Bodies) Rules, 1980, is to introduce a unified rate of tariff that will facilitate execution of water supply schemes in such urban local bodies on a no-profit no-loss basis.
 - **Orissa Government Financial Rules** - to deal with the aspects relating to finance.
 - **Orissa Service Code, Orissa Government Servants Conduct Rules, Orissa Civil Service Rules, Orissa Ministerial Service Rules, Orissa General Provident Fund Rules, etc.** - to deal with employees service-related matters.

2.2.3. Organisation Structure in the Context of WS and SS

- The overall organisation structure of WS and SS in Orissa is provided in the exhibit 2.1:

Exhibit 2.1 - Present Organisation Structure of WS and SS in Orissa



(Source: PHEO)

2.2.4. The administrative, financial and technical provisions and powers of the existing PHEO structure in terms of roles and responsibilities at various levels are given below in the table 2.1. For the detailed existing set up, please refer to the Rapid Assessment Report prepared by Indo-USAID FIRE-D Project.

Table 2.1 - Administrative, Financial and Technical Provisions and Powers of the Existing Structure in Terms of Roles and Responsibilities at Various Levels at PHEO

Position	Illustrative Responsibilities
Chief Engineer - Responsible to the Government for the efficient	<ul style="list-style-type: none"> Exercise control over the activities carried out by the officers of the department in connection with the maintenance of the accounts, custody & disbursement of money, custody of stores,

Position	Illustrative Responsibilities
administration of the department or branch thereof as general professional control of public works within his jurisdiction	<p>and timely submission of accounts to the Accountant General (AG)</p> <ul style="list-style-type: none"> • Ensure that all documents required by the AG in connection with the audit of the transactions of the PHEO are made available to him or the officers authorised by the latter • Prepare annually the portion of the budget estimates relating to establishment and works under his control • Administer grants and keep a close watch over the progress of expenditure against it with a view to see that no excess is permitted to occur and that if additional funds are necessary, application for the same is made
<i>Superintending Engineer</i> - Responsible to the Chief Engineer for the administrative and general professional control of public works and in charge of officers of the department within his circle	<ul style="list-style-type: none"> • Inspect the various works in progress within his circle and satisfy himself that the system of management prevailing is efficient and economical, that the different stores are duly verified according to the Rules laid down and that there is no accumulation of stock in any division beyond its requirement and that the execution and administrative work of the circle is satisfactorily performed
<i>Executive Engineer</i> - Responsible to the Superintending Engineer of the circle or Chief Engineer, if the division is directly under the control of the Chief Engineer, for the efficient execution and management of all works and in all matters within his division	<ul style="list-style-type: none"> • Organize and supervise the execution of works and see that they are suitably and economically carried out • Ensure the preparation of plans and estimates for all works to be executed in his division taking into consideration any error in the sanctioned plan, and any variation in the conditions at site • Ensure prompt execution of works according to the terms of the contract • Responsible for the preparation of budget estimates of expenditure and revenue of his division • Take necessary steps to obtain funds for the works and establishment under his control and submit accounts for the money received and spent by him to the Audit Office • Maintain relevant initial records in respect of personal claims of gazetted and non-gazetted Government servants of his establishment and exercise due scrutiny over the personal claims before the same are passed for payment • Ensure that the accounts furnished to the AG are in accordance with the books maintained in the division and that they present a true and correct state of affairs • Responsible for the correctness of the original records of cash and stores, receipts and expenditure, in all respects and to ensure that complete vouchers are obtained • Ensure that the Divisional Accountant carries out his duties regularly and promptly • Take steps to regularise the audit objections promptly
<i>Sub-divisional Officer</i> - Responsible to the	<ul style="list-style-type: none"> • Timely and comprehensive field survey and investigation, preparation of plans and estimates including revised estimates

Position	Illustrative Responsibilities
<p>Executive Engineer/Divisional Officer in all matters concerned with the efficient management and execution of works within his sub-division</p>	<p>for all works to be done in the sub-division</p> <ul style="list-style-type: none"> • Prompt and efficient execution of work according to the terms of each contract • Ensure that his subordinate staffs are performing their duties properly by regularly inspecting and checking the primary records • Ensure that all unused materials of the Department are brought into account • Satisfy himself that the work has actually been executed in accordance with the detailed measurements recorded in the bill • Responsible to see that proper accounts of stores and tools and plant are maintained in his sub-division and submitted to the Divisional Officer punctually and in complete form • Keep accounts in the prescribed manner and submit them completely and punctually to the Divisional Officer as prescribed in the rules • Responsible for the preparation of budget requirements of expenditure and revenue of his sub-division
<p><i>Sectional Officer</i> - Responsible for all matters connected with the efficient management of the sections to their Sub-divisional Officers or directly to their Divisional Officers, in cases where the divisions are directed under the charge of the Divisional Officer</p>	<ul style="list-style-type: none"> • Investigate and prepare plans and estimates entrusted to their charge • Maintenance of muster rolls, record of works charged to establishment, and measurement books • Execute work entrusted to their charge • Submit budgets, accounts, prescribed returns, etc. to the Sub-divisional Officers concerned
<p><i>Divisional Accountant</i> - A Divisional Accountant is posted at each division by the Accountant General to assist the Divisional Officer in the discharge of his responsibilities regarding accounts and financial functions of the division</p>	<ul style="list-style-type: none"> • Carry out all the functions of the Treasury Accountant in relation to checking of personal claims of gazette/non-gazetted persons whose pay is drawn by the Divisional Officer by cheque • Responsible to the Executive Engineer for the correct compilation of accounts

2.2.5. Fund Flow Mechanism

- Fund flow mechanism for payments:
 - GoO's typical fund flow mechanism through Letters of Credit (LC) is followed at PHEO. A LC is the GoO Finance Department's instruction/authorization to bankers to honour payments from each implementing unit up to the specified limit and within the validity period set in the LC. Under the LC system, Accountant

General has authorised the Divisional Officers for issuing Government cheques for making payments.

- The PHEO divisions submit their requisition for LC each month to the Chief Engineer, who in turn requests the Finance Department, based on actual requirement of funds during the month. The Finance Department issues LC in favour of the Chief Engineer. The Chief Engineer authorises the Drawing and Disbursing Officer (DDO) of the division (the Divisional Officers are declared as the DDOs under the OPWD and CPWA Codes) to have cheque drawing authority to incur expenditures for the various projects.
- The salaries for regular staff are paid out of the Government Treasury through direct bank credit. The non-regular staff salaries are paid through a LC.
- Receipts made by PHEO - All collections are entered in the Treasury Remittance Register and deposited in the Treasury on the next day. However, WS and SS user charges from Government employees are recovered from their salaries and remitted to the Government Treasury by the concerned departments.
- OWSSB - OWSSB generally meets its funds requirement for preparation of DPRs and execution of projects from the budgetary allocation of GoO, grants of Gol (JnNURM, National River Conservation Directorate), and funding (loan) from multilateral funding agencies/financial institutions, like Housing and Urban Development Corporation Limited, Japan International Cooperation Agency, etc. It has no independent source of income to meet its administrative and other expenses. These expenses are generally borne out of the centage/contingency of the projects, expressed in terms of a percentage of the total project cost.

2.2.6. **Accounting at PHEO**

- The PHEO currently follows cash based single entry system of accounting as envisaged under CPWA Code. Revenue is accounted for in the books as and when it is received and expenditure is accounted for when it is paid. Hence, the existing system neither captures the total demand/revenue raised nor the liabilities incurred.
- According to CPWA Code, transactions are grouped under Expenditure heads, Revenue heads, Remittance heads, Debt and Deposit heads.
- The accounting system is driven by the budget because without any budget provision, no expenditure can be incurred.
- In view of the transfer of assets and liabilities of WS and SS pertaining to Bhubaneswar city to BMC (i.e., the ring fenced activity), the opening balance sheet has been prepared as on April 1, 2009 for the ring fenced activity of WS and SS. Further, Accounting, Budgeting, and Costing Manuals have been prepared to implement in the ring fenced entity.

Section 3. Proposed Transaction

3.1. Key Objectives of the Proposed Transaction

- 3.1.1. The key objectives of the proposed transaction are provided below:
 - Improving water and sewerage services to the citizens of the ULBs by increasing accountability of the service provider;
 - WS and SS reforms - Fulfilment of agreed mandatory reforms under JnNURM;

- Legal compliance - Compliance with the provisions of 74th CAA;
- Professionalism in management - Commercialise services from State Department to professionally managed services with corporate governance principles;
- Self sustainability - Ensure self sustainability of WS and SS in Bhubaneswar city;
- Provide services in conformity with standard SLBs or take all necessary actions to progressively achieve the standards; and
- Rewarding employees - Incentivise the ring fenced entity and its employees for improved SLBs and safeguarding the interests of PHEO employees.

3.2. Summary of Proposed Transaction

3.2.1. The key aspects of the proposed transaction (please refer subsequent sections for details) are provided below:

Transfer of Assets and Liabilities from PHEO to BMC

- PHEO, GoO, shall transfer all the assets, liabilities, rights, claims, proceedings, etc. of the ring fenced WS and SS business undertaking, pertaining to Bhubaneswar city, to BMC; and
- Activities other than WS and SS undertaken by PHEO shall not be transferred to BMC (*for more details please refer Section 6., Transfer Mechanism between PHEO to BMC*).

Transfer of Employees on Deputation from PHEO to WATCO

- GoO shall transfer PHEO employees (working at Chief Engineer's office/Superintending Engineer's office, divisions for WS and SS pertaining to Bhubaneswar city, including sub-division/section/other offices under a division, etc.) on deputation to WATCO (*for more details please refer Section 7., Transfer of PHEO Employees on Deputation to WATCO*).

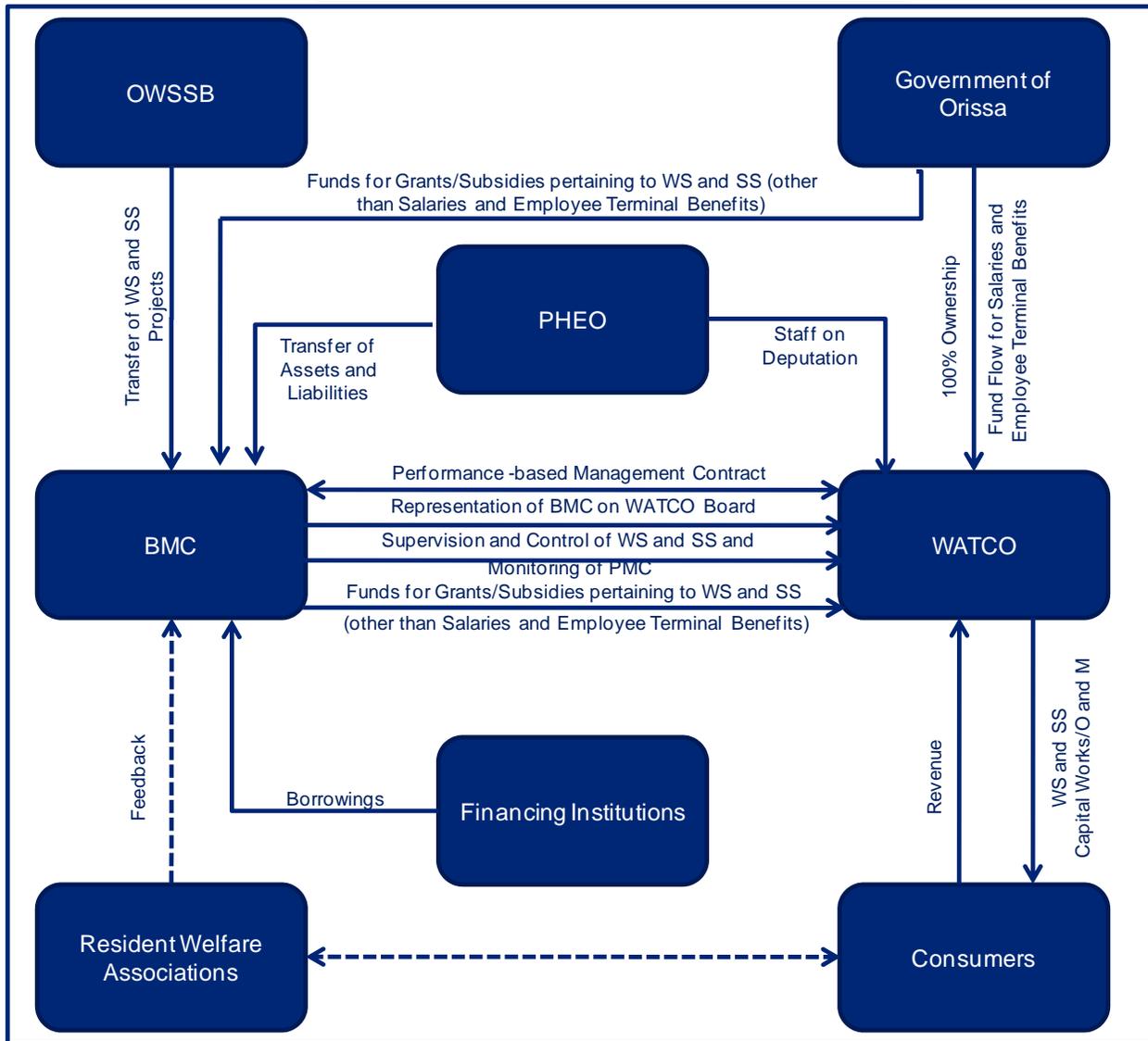
Creation of Special Purpose Vehicle (SPV)

- Creation of Water Corporation - A SPV, WATCO, shall be incorporated under the Companies Act, 1956, to provide WS and SS to Bhubaneswar city (including capital works and O and M). This SPV shall be wholly owned by GoO;
- WATCO shall provide WS and SS under the PMC to be entered into with BMC. Proposed WATCO will be accountable to BMC for WS and SS. However, WATCO's management shall be under the control of its BoD;
- WATCO shall be allowed to use and have custody of all WS and SS related assets transferred to BMC, including the circle/division/sub-division/section offices in order to ensure smooth operations of WS and SS; and
- WATCO shall be created before notification of the transfer scheme, so as to enable execution of the PMC with BMC on notification of transfer scheme (*for more details please refer Section 8., Incorporation and Operationalisation of WATCO*).

3.3. Overview of the Transaction Flow

3.3.1. An overview of the proposed transaction is given in the exhibit 3.1:

Exhibit 3.1 - Overview of the Proposed Transaction



3.4. Legal Background

3.4.1. To review the legal compliance of the proposed transaction, FIRE (D) supported the drafting of a legal brief seeking an opinion from the Law Department, GoO, on whether the proposed transaction can be legally enforceable/tenable, based on the existing laws currently in force in the State of Orissa; or whether there is a need for a new 'Act' to be enacted by the GoO to carry out the proposed transaction. Accordingly, the legal brief submitted to Principal Secretary, HUDD, GoO, is provided in *Annexure 1 - "Legal Brief for the Consideration of Law Department of the GoO"*.

3.4.2. The legal brief analyses the following important aspects:

- Whether GoO can transfer the WSS utility/business undertaking in the city of Bhubaneswar from PHEO to Bhubaneswar Municipal Corporation (BMC);

- Whether BMC can avail the assistance and services of a corporate entity (WATCO), set up by the GoO, in managing, maintaining and operating WSS services;
- Whether availing such assistance and services of WATCO by BMC can be done through a performance-based contract between the BMC and WATCO; and
- Whether employees of the GoO engaged in PHEO for WSS services can be deputed to WATCO.

3.4.3. It is the opinion of the legal brief that the existing legal provisions are sufficient to empower the GoO to execute the proposed transaction. However, the opinion from the Law Department, GoO, is awaited based on which, the need to amend the existing laws or enact a new 'Act', if any, shall be identified by the GoO.

Section 4. Incorporation and Operationalisation of WATCO

4.1. Incorporation of WATCO

4.1.1. WATCO shall be created and registered under the Companies Act, 1956, as a public limited company wholly owned by GoO.

4.1.2. **Approval of Name** - The first step in forming the new company is the approval of the name by the Registrar of Companies (RoC) in the State of Orissa where the company will have its Registered Office.

4.1.3. **Identification of first Directors** - Select Government officials, including eminent professionals and citizen representatives (as decided by GoO), shall be identified as the first directors of WATCO.

4.1.4. **Drafting of the Memorandum of Association** - This document sets out the constitution of the company. It contains, inter alia, the objectives and the scope of activity of the company besides also defining the relationship of the company with the outside world. The main objective of the company shall be to carry out WS and SS business and allied activities.

4.1.5. **Drafting of the Articles of Association** - This document contains the rules and regulations of the company for the management of its internal affairs. While the Memorandum of Association specifies the objectives and purposes for which the company has been formed, the Articles of Association lay down the rules and regulations to achieve those objectives and purposes.

4.1.6. **Registration of Company** - WATCO shall be a public limited company. To register a company with RoC, documents such as Memorandum of Association, Articles of Association, other documents and forms (including declaration of compliance, notice of situation of registered office of the company, particulars of directors appointed, manager, secretary, etc., RoC's letter indicating the availability of name, etc.) are filed and the filing fees are paid to RoC. Subsequently, RoC scrutinizes the documents and satisfies itself with respect to all the formalities required and, thereafter, issues a Certificate of Incorporation, which brings the company into existence.

4.1.7. **Obtain Certificate of Commencement of Business** - WATCO, in order to commence business, shall be required to obtain a Certificate of Commencement of Business from RoC. To

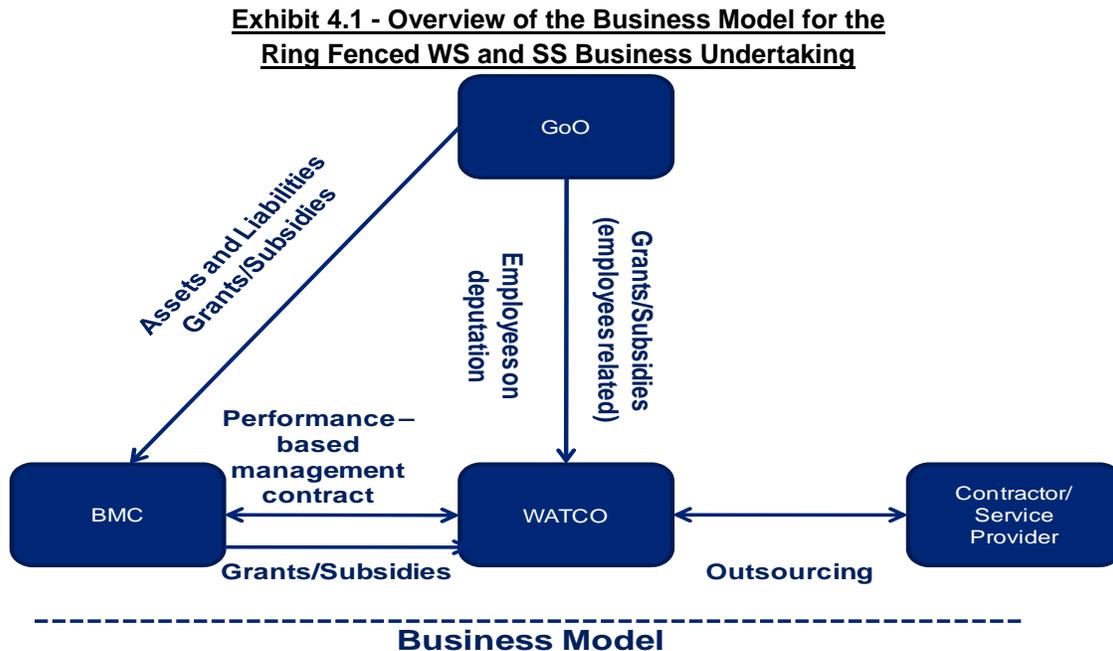
obtain this certificate, a statement in lieu of prospectus shall be filed along with other relevant documents with the RoC. Subsequent to issuance of the Certificate for Commencement of Business, WATCO can commence business.

4.2. Applicability of Rules and Regulations to WATCO

4.2.1. WATCO shall be governed by the rules and regulations of the Companies Act, 1956. Further, WATCO shall follow all the rules and regulations applicable to Government-owned undertakings as well as rules and regulations to be complied as part of the PMC. However, in case any provision contradicts the Companies Act, 1956, then WATCO shall comply with the provisions of the Companies Act, 1956, instead of other rules and regulations.

4.3. Business Model for the Ring Fenced WS and SS Business Undertaking

4.3.1. The overview of the business model for the ring fenced WS and SS business undertaking is given in the exhibit below.



4.3.2. The operational structure of WATCO, including the organisation structure, the PMC, and the deputation of PHEO employees to WATCO, has already been discussed in the relevant sections of this Concept Note. Other than the above, the key features of the business model for WATCO are provided below:

Operations of WATCO

- WATCO shall operate as a professionally managed organisation on commercial principles;
- WATCO shall have power to operate/enter into an agreement with ULBs other than BMC in future to provide WS and SS; and
- WATCO shall have a right to engage contractors/vendors/service providers for WS and SS. However, overall responsibility of performance of O and M or capital works-

related activities shall be with WATCO and monitored by BMC for the ring fenced WS and SS.

Funding of Capital and O and M Works

- BMC/ULB/GoO shall fund capital works. O and M expenditures shall be met by WATCO from the revenue collected from the users of WS and SS, as well as grant/subsidies received, if any, from BMC/GoO.

Associated Businesses

- WATCO shall have the right to undertake any business associated with WS and SS, including service delivery, expansion and related financial and revenue management (e.g., packaged drinking water, ice factory, water testing laboratory, training courses in WS and SS management, consulting services in the areas of WS and SS or any other business that is consistent with the objectives set out in the object clause mentioned in the Memorandum of Association of WATCO).

User Charges/Tariff Determination

- BMC shall set/revise the user charges/tariffs for WS and SS. WATCO shall submit to BMC calculations of user charges/tariffs as agreed in the PMC.

GoO's Assistance for WS and SS Infrastructure

- GoO shall provide financial assistance in terms of grant/subsidy for capital works, as well as O and M works of WS and SS.

4.4. Operationalisation of WATCO

4.4.1. Subsequent to setting up the organisation, there shall be a number of procedural as well as strategic activities required to be undertaken to make WATCO operational. These key activities are provided below.

4.4.2. **Appointment of Company Secretary** - WATCO shall engage a company secretary according to the legal requirement of the Companies Act, 1956, to facilitate corporate compliances.

4.4.3. **Open Bank Account** - WATCO shall open a separate bank account to meet revenue expenditures of the Company and deposit revenue collected, as well as for grants/deposits/subsidies received for O and M and capital works-related expenditures. These bank accounts shall be operated by the CEO initially and then may be delegated for operation to Head - Finance.

4.4.4. **Financial Assistance by GoO** - GoO shall provide financial assistance to WATCO to meet its preliminary expenditures for creation of the company; to set up the organisation structure; expenses of BoD; administrative expenditures during the transition phase; and to set up various systems, including commercial systems, financial and accounting management systems, HR and personnel, IT system, procurement system, inventory management, etc.

4.4.5. **Introduce and Implement Accounting, Costing and Budgeting Manuals** - The new accounting, costing and budgeting manuals shall be introduced to streamline accounting, costing, and budgeting procedures effectively at WATCO. WATCO shall also ensure compliance with these procedures.

4.4.6. Set Up Commercial Double Entry Accrual Based Accounting Systems and Procedures - WATCO shall set up commercial systems and procedures for efficient operations, including metering, billing and collection, arrears, inventory management, verification of consumer connections, detection of illegal connections and their regularisation, consumer database management, etc.

4.4.7. Set Up Accounts and Financial Management Systems - Based on the new manuals, WATCO shall set up the corresponding accounts and financial management systems, including creation of books of account, records and registers required according to the Companies Act, 1956, or other rules and regulations on an as needed basis, apprise personnel about the new financial management systems, operation of bank accounts according to the prescribed procedure, fund management discipline, etc. The objective shall be to properly capture transactions that reflect the true operations and fiscal status of WATCO.

4.4.8. Set Up IT Systems - WATCO shall be required to set up robust IT systems in the areas of commercial, HR, accounting, inventory management, etc. in order to make timely decisions/take action. Some of the key IT modules include stores, procurement, financial accounting, budgeting, debt management, HR and personnel, billing and collection, etc.

4.4.9. Issue of Notifications/Instructions to WATCO Personnel - WATCO shall issue the following notifications/instructions in order to ensure a smooth transition of activities from PHEO to WATCO:

- Notification to continue existing set up through transfer or until separate corporate office/other offices for WATCO are established; and
- Instruction to make fund requisition for various works to be made unit/division/section offices-wise.

4.4.10. Delegation of Powers - The BoD of WATCO shall finalise and approve powers of the CEO to make decisions and take required actions. BoD shall also finalise the delegation of powers to the officials at various levels.

4.4.11. HR Policies for WATCO - WATCO shall frame its HR policies to define, monitor, and operate HR-related areas effectively on commercial operations principles. HR policies shall cover key areas, including recruitment and selection process, employee placement/transfer policy, employee benefits and allowances, working hours and leave, applicability of HR policies to employees on deputation, applicability of GoO's service rules, code of conduct policy, performance management system, and employee separation.

4.4.12. Registration of Contractors/Vendors/Service Providers - WATCO, in order to strengthen its technical skills and support advanced technologies/processes/operations for effective delivery of WS and SS, shall register contractors/vendors/service providers. WATCO may outsource part of the services to these organisations.

4.4.13. Operational and Works Budget - WATCO shall prepare an operational and works budget for the ring fenced WS and SS, under the guidance of BMC, from the date of effectiveness of the PMC up to the end of the continuing financial year. WATCO shall take approval of the budget from BoD. The works budget shall be prepared based on revenue collection projections as well as grants/loans identified by GoO for WS and SS in Bhubaneswar city in the State Government

budget. This budget shall form the basis to incur expenditures of WS and SS on O and M as well as capital works projects.

Section 5. Organisation Structure of WATCO

5.1. Existing Organisation Structure of PHEO and Bhubaneswar Circle

5.1.1. The Chief Engineer (PH-Urban) heads the PHEO. The Chief Engineer reports to the Secretary, HUDD, GoO. The PHEO is divided into four circles, viz., Bhubaneswar, Cuttack, Sambalpur, and Berhampur. Superintending Engineers head these PH circles and report to the Chief Engineer. Each circle is further divided into divisions, which are headed by Executive Engineers. Executive Engineers oversee the activities pertaining to the respective Divisions and have Assistant Engineers reporting to them.

5.1.2. The organisation structure of the PHEO is detailed in Annexure 2.

5.2. Organisation Structure of Bhubaneswar Circle

5.2.1. A Superintending Engineer heads the Bhubaneswar Circle. The Bhubaneswar Circle is divided into three Divisions and an Executive Engineer heads each Division. There are twelve Sub-divisions in the Bhubaneswar Circle. The Sub-divisions are under the control of an Assistant Engineer. The Sub-divisions are further classified into Sections and each Section Office is headed by a Junior Engineer.

5.2.2. The organisation structure of the Bhubaneswar Circle is given in Annexure 3.

5.2.3. To achieve the objectives of the transaction, it is proposed to ring fence the Bhubaneswar Circle and transfer the operations to a Corporatized Operating Entity. The objective of the proposed structure, the key drivers and the options for the organisation structure of the proposed entity are discussed below.

5.3. What the Structure Should Achieve?

- 5.3.1. The main objective of the organisation structure is to achieve the following:
- Improve accountability in service provision and responsibility to customers;
 - Enhance speed of decision-making and operational efficiency;
 - Ensure optimal span of control across levels;
 - Facilitate rewarding of merit and encourage efficiency in customer services;
 - Ease of implementation that requires less modification to the existing set up; and
 - Scalable in future.

5.4. Key Drivers of the Organisation Structure

- 5.4.1. The key drivers of the organisation structure include:
- Institutional arrangement; and
 - Roles, responsibilities and accountability.

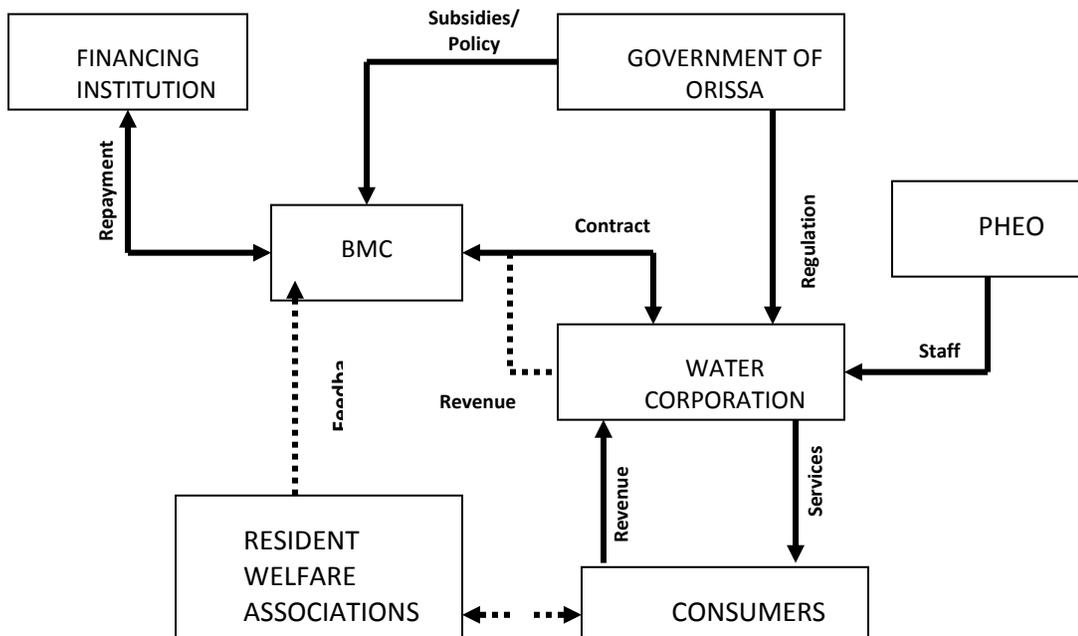
5.5. Institutional Arrangement of the Ring Fenced Entity

5.5.1. The options suggested for the organisation structure are based on the proposed institutional arrangement and the objectives stated above. The key features of the institutional arrangement include:

- The proposed entity will be accountable to BMC.
- The State Government shall depute the personnel working in the concerned circle and divisions pertaining to Bhubaneswar from PHEO to the proposed entity.
- The proposed entity shall enter into a performance-based management contract with BMC for providing water and sewerage services.
- The proposed entity shall manage the WS and SS for Bhubaneswar city.
- The State Government will continue to release the salaries and allowances of all PHEO staff deputed to the proposed entity.
- BMC shall set/revise the user charges/tariffs for WS and SS. WATCO shall submit to BMC calculations of user charges/tariffs as agreed in the PMC.

5.5.2. The institutional arrangement is given in the exhibit 5.1.

Exhibit 5.1 – Proposed Institutional Arrangement



Source: FIRE-D's Report on Institutional and Financial Due Diligence of the PHEO.

5.6. Proposed Roles, Responsibilities and Accountability

5.6.1. The roles and responsibilities of the proposed entity, based on our discussions with the GoO and the "Institutional and Financial Due Diligence of the PHEO" report is given below:

- Undertake to run the business of WS and SS in Bhubaneswar city.

- Plan services in consultation with and under the guidance of BMC. Execute capital projects in Bhubaneswar city.
- Set up commercial systems and procedures for efficient operations, covering – metering, billing, and collection, along with measures for reducing commercial losses, such as verification of consumer connections, detecting illegal connections and their regularisation, etc.
- Set up accounting and financial management systems to properly capture the transactions that reflect the true operations of the proposed entity.
- Institute HR functions to look into the requirements of skills training and organisational learning to ensure that the entity operates in a commercially viable manner.
- Carry out operations in a manner that ensures meeting of service standards agreed with BMC.
- Financial management to work within the budget agreed ex-ante with the GoO and as set out in the management contract.

5.7. Governance Structure

5.7.1. The key to the success of any organisation is its governance structure. The governance structure, in this context, refers to a Board of Directors (Board), the senior management, various committees and sub-committees.

5.8. Board of Directors and Corporate Governance Committees

5.8.1. The proposed entity will be steered and controlled by the Board. We suggest that GoO should broad-base the Board with representatives from its consumers and other stakeholders, including representatives from PHEO, Bhubaneswar Development Authority, State Level Nodal Agency for JnNURM and Orissa Water Supply and Sewerage Board, etc. This will give scope for inducting different points of view in the Board and also lend more autonomy and transparency to the Board. Further, as the proposed entity shall be wholly owned by the GoO, we suggest that the Chairperson be from the GoO.

5.8.2. The exhibit below illustrates the Corporate Governance Committees that can be formed to support the Board. Some of these committees can be created as sub-committees depending on the need of GoO.

Exhibit 5.2 – Corporate Governance Committees



5.8.3. The role, membership, and periodicity of meetings of the suggested committees are given in the table below:

Table 5.1 – Corporate Governance Committees

Committee	Role of the Committee	Suggested Members	Periodicity of Meeting
Executive Committee	The Executive Committee will be involved in decisions relating to formulating and implementing corporate strategy, new projects/expansions, funding decisions; and reviewing HR/Compensation Committee recommendations on succession planning and senior management performance evaluation; and monitoring performance.	<ul style="list-style-type: none"> • Chairperson. • Head of the Organisation/Chief Executive Officer (CEO). • Two or three Independent Directors. • Head – Technical. • Head – Finance and Accounts and such other members depending on the organization option. 	Quarterly
Audit Committee	<ul style="list-style-type: none"> • Set up company’s financial reporting process. • Set up, monitor and evaluate the accounting system and internal control systems compliance. • Review and address the qualifications, independence, appointment, retention, and compensation of statutory auditors. • Oversight of the work of the statutory auditors including resolution of disagreements between the management and the statutory auditors. • Review financial statements before submission to the Board. • Appoint internal auditors • Discuss the scope of audit and observations of internal auditors. • Assess risk and monitor the risk mitigation process initiated. • Review and approve all related party transactions. 	<ul style="list-style-type: none"> • Two or three Independent Directors. • One full-time Director. 	Quarterly

Committee	Role of the Committee	Suggested Members	Periodicity of Meeting
Technical and Infrastructure Committee	<ul style="list-style-type: none"> • Identify and evaluate options for creation of infrastructure assets. • Ascertain and evaluate options for financing the infrastructure creation. • Monitor and track the implementation of large infrastructure projects. • Evaluate the procurement strategy, including supplier relationship to management. 	<ul style="list-style-type: none"> • Two or three Independent Directors. • Head of the Organisation/CEO. • Head – Technical. • Head – Finance and Accounts. 	Quarterly
HR/ Compensation Committee	<ul style="list-style-type: none"> • Formulate HR policies to motivate senior management and employees to achieve business objectives. • Institutionalize knowledge and processes. • Design/review compensation and benefits plan for the senior management/employees to attract and retain key executives. • Design/review the performance evaluation parameters of top management. • Oversee the evaluation of the performance of the company's senior management and approve annual compensation, including salary, bonus and/or incentives. 	<ul style="list-style-type: none"> • Two or three Independent Directors. • Chief Executive Officer. • Head – Finance and Accounts. • Head – Corporate HR and Administration. 	Quarterly
Information Technology Committee	<ul style="list-style-type: none"> • Advise the board and management on IT-related issues. • Ensure IT programmes effectively support the company's business objectives and strategies. • Appraise the financial and strategic benefits of proposed major IT-related projects and technology architecture alternatives. • Review the progress of major IT-related projects and technology architecture decisions. • Monitor the quality and effectiveness of the company's IT security and formulate/review the company's business continuity plans. • Report to and consult with the Audit 	<ul style="list-style-type: none"> • Head of the Organisation/CEO. • One or two Independent Director(s). • Head – Finance and Accounts. • Head – IT and such other technical heads depending on the organization option. 	Quarterly

Committee	Role of the Committee	Suggested Members	Periodicity of Meeting
	Committee regarding IT systems and processes that relate to or affect the company's internal control systems.		
Consumer Grievance Redressal Committee	<ul style="list-style-type: none"> Address the disputes with regard to the connections, billing, etc. Responsible for implementation of RTI Act. 	<ul style="list-style-type: none"> Two or three Independent Directors. Head of the Organisation/CEO. 	Monthly

5.9. Options – Organisation Structure

- 5.9.1. Generally, organisation structures are classified on the following basis:
- **Product**, where each unit is responsible for the design, production, and sales of a product/family of products.
 - **Functional**, where activities/employees are grouped according to function. Functional expertise support core competencies.
 - **Geographic**, where geographic regions report directly to the Head of the Organisation. Each region has full control of all activities within its geographic boundaries. Corporate Office retains the responsibility for strategic planning.

5.9.2. Based on our evaluation of the proposed institutional arrangement and the objectives of the organisation structure, we have suggested options based on the **functional and geographic models**. Each of these options is discussed below.

Option One – Functional Organisation Structure

5.9.3. A functionally organised structure is logically the simplest. In a functional organisation, the activities/employees are grouped according to their functions. In a functional organisation structure, the control is centralized with the Functional Heads are located in the Corporate Office. Further, there are separate positions for the various functions of the entity.

5.9.4. The advantage of this structure is that there is high control over the business activities. Since the Head of the Organisation/CEO has direct access to the Functional Heads, he/she has complete clarity on the happenings of the various functions. Since there is a need for good co-operation and co-ordination among the various functions, it leads to a sense of teamwork in the organisation.

5.9.5. On the flip side, because of the focus on functions, the focus on the business and serving the needs of the consumers may be lost. Further, the high span of control¹ of the Head of the Organisation may impact the time availability to focus on the needs of the consumers and other growth objectives.

¹ Span of control refers to the number of employees that a single manager is responsible for, usually in terms of allocating work and monitoring performance.

5.9.6. Keeping in mind the requirements of GoO, two variants of the functional model are suggested. Further, the first variant can evolve into the second variant over a period of time. The functional structure has been designed based on the following functions identified:

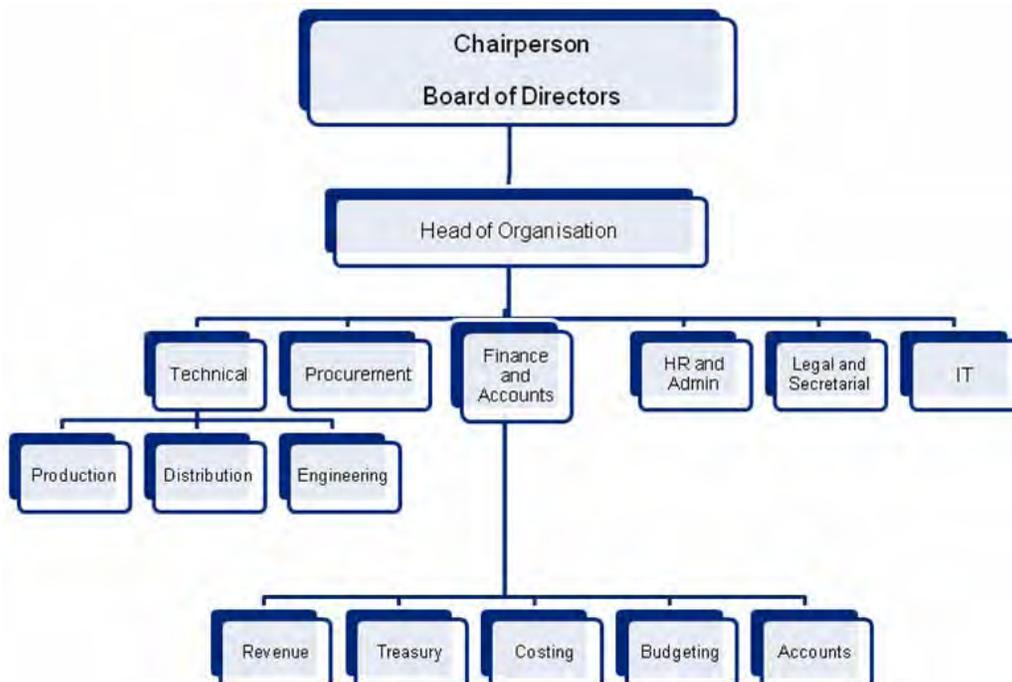
- Production including the treatment plants and quality control.
- Distribution.
- Engineering or Projects, which will include managing capital projects, entity-wide asset management and the capital improvement function.
- Corporate Planning/Budgeting.
- Procurement.
- Finance and Accounts.
- Human Resources and Administration.
- Legal and Secretarial.
- Information Technology (IT).

Functional Structure – First Variant

5.9.7. In the first variant of the functional structure, a Head – Technical is proposed, who will be responsible for the Production, Engineering and Distribution functions. The Head – Technical shall report to the Head of the Organisation/CEO. The support functions, including Finance and Accounts, HR and Admin, and Procurement shall be centralized and the Function Heads shall report to the CEO.

5.9.8. The organisation structure of this variant is given in the exhibit below:

Exhibit 5.3 – Functional Structure – Variant One



5.9.9. The Organisation Head/CEO shall report to the Board of Directors and be responsible to achieve the vision of the proposed entity, provide direction and strategic leadership. The brief roles and responsibilities of each position in the proposed structure are given in the table below. Please note that these roles and responsibilities are indicative only. These positions report to the Head of the Organisation/CEO.

Table 5.2 - Brief Roles and Responsibilities of each Position in the Proposed Structure

Position	Role
Head –Technical	The Technical Head is responsible for the production, distribution and engineering functions. The position will also handle capital projects and maintenance of the existing infrastructure assets.
Head – Finance and Accounts	The Finance and Accounts Head shall be responsible for the overall finance and accounts function. The other functions handled by this position would include costing, coordination with Financial Institutions, coordination with GoO and BMC on the financial aspects of the performance-based contract, funding for the infrastructure projects, etc.
Head – Procurement	This position shall manage the entire supply chain with regard to sourcing, storage and logistics of materials/services for execution of capital works, operations and maintenance, etc.
Head – Legal and Secretarial	This position handles the legal and secretarial matters of the proposed entity. The position reports to the Organisation Head with a dotted line relationship to the Board of Directors for the corporate and secretarial services.
Head – HR and Administration	This position is responsible for recruitment, design of HR policies and procedures, training, design of compensation policies, address employee grievances, etc. This position shall also handle the routine administration function of the proposed entity
Head – IT	The Head – IT is responsible for designing the IT policy, ascertaining the hardware and software requirements including the IT infrastructure required, and also maintaining the IT infrastructure.

Pros and Cons

5.9.10. Since all the support functions, including Finance and Accounts, HR and Admin, and Procurement shall be centralized; there will be functional expertise and specialization of these functions. Further, since centralized procurement of goods and services shall be done at the Corporate Office, better rates can be negotiated with the suppliers/contractors. Finally, economies of scale can be achieved because of centralized functions at the Corporate Office. On the flip side, this variant of functional structure, however, shall require a major reorganization of the existing set up at the PHEO. A Corporate Office would have to be set up and the operations at the Division Offices would require realignment. This structure would also mean limited flexibility in responding to the needs of the consumers due to the centralization of the functions. Moreover, centralization of functions may lead to slow transfer of knowledge and information across the various functions and to the various divisions. Therefore, in the process of centralization, the focus on the end consumer may be lost.

Functional Structure – Second Variant

5.9.11. The second organisation structure is a variant of the structure suggested above. In this variant, the technical and specialized functions under the Technical Head are transferred to newly-created separate functions, reporting to the Organisation Head/CEO. This, therefore, increases the

span of control at the Corporate Office under the Organisation Head/CEO. The organisation structure under this variant is given in the exhibit below:

Exhibit 5.4 – Function Structure – Second Variant



5.9.12. Under this option, the following technical and functional heads will report to the Head of the Organisation:

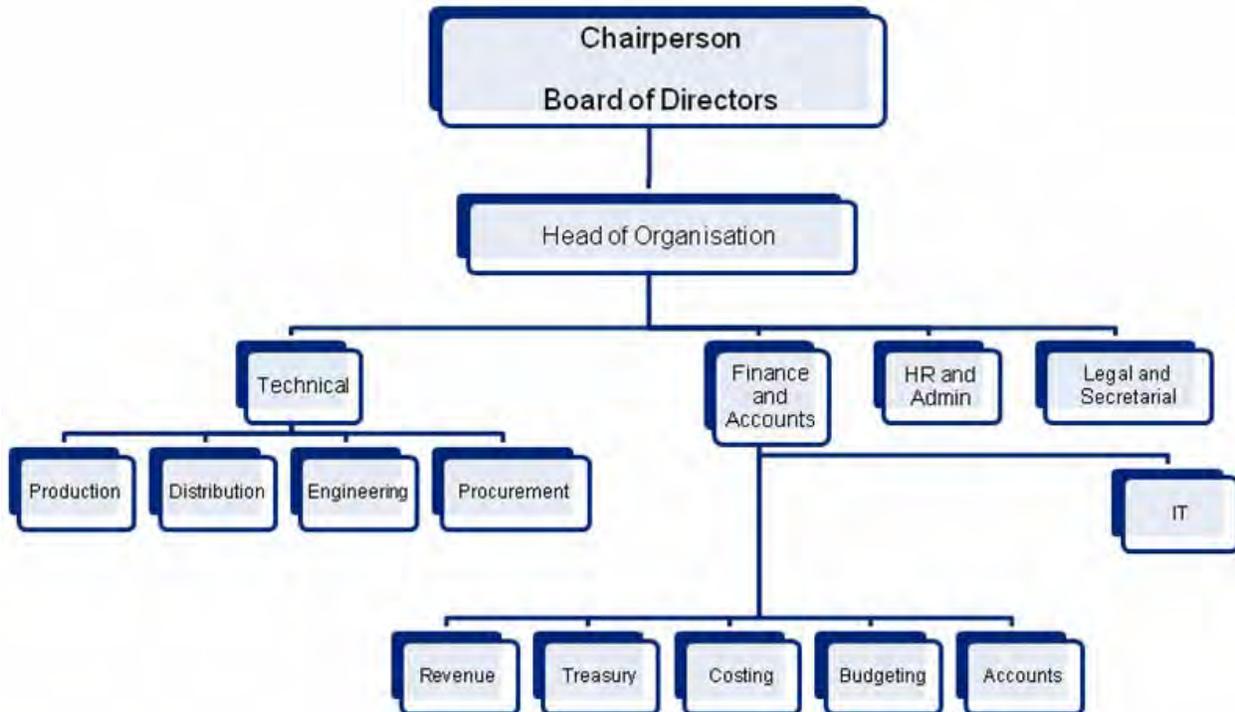
- Engineering
- Production
- Distribution
- Finance and Accounts
- HR and Admin
- Legal and Secretarial
- IT

5.9.13. Since the second option is a variant of the first option, most of the advantages and disadvantages are common to both of them. However, an additional key disadvantage of this variant is the higher span of control and a larger Corporate Office set up. This may result in loss of focus of the Organisation Head/CEO on key issues, especially the consumer focus.

Functional Structure – Third Variant

5.9.14. GoO can also consider another variant of the functional structure, wherein the procurement function reports to the Technical Head and the IT function is handled by the Finance and Accounts Head. This variant reduces the span of control of the Organisation Head/CEO. Other advantages and disadvantages of the first and second variants apply to this variant as well. The indicative structure of this variant is given in the exhibit 5.5.

Exhibit 5.5 – Functional Structure – Third Variant



Option Two – Geographic Structure

5.9.15. In a geographic structure, the organisation structure is divided into various regions or geographic locations. This structure, typically works in the following manner:

- Each region has full control over all activities within its geographic location/boundaries.
- Each Regional Head reports to the Organisation Head/CEO.
- Corporate Office retains responsibility for strategic planning.

5.9.16. The PHEO currently operates a hybrid system of geographic and functional structure, leaning towards the geographic organisation structure.

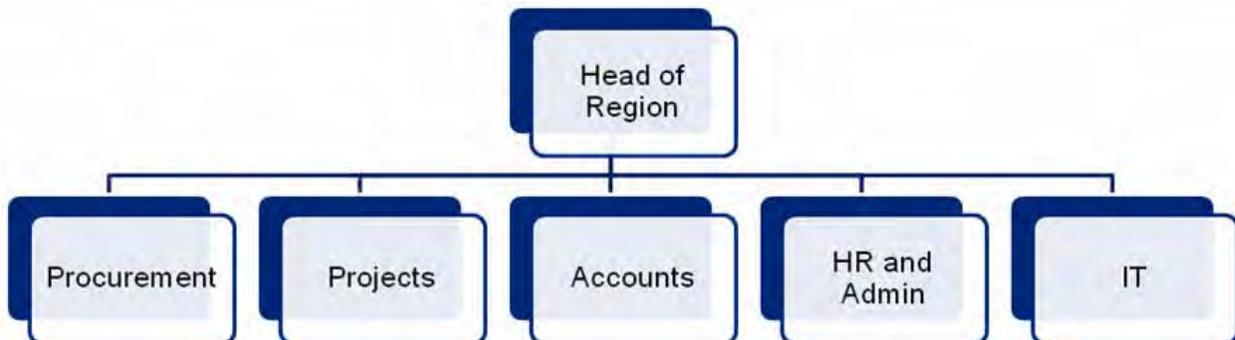
The organisation structure proposed according to this option is given in the exhibit 5.6:

Exhibit 5.6 – Geographic Structure



5.9.17. Each region shall be a self-sustaining entity having expertise for both project execution and operations and maintenance and shall be the total service provider for the entire geography in the region. Each region will be headed by a Regional Head (similar to the Executive Engineer in the existing structure). The Regional Head will be responsible for all the functions in the region. This includes production, distribution, procurement/sourcing, execution of projects, maintenance, etc. Each region will also have independent support functions like Accounts, Human Resources and Administration. The indicative structure at the region is given in the exhibit 5.7.

Exhibit 5.7 – Indicative Structure at the Region



5.9.18. The Corporate Office will house the Corporate Finance and Accounts, Legal and Secretarial and Information Technology functions. Under this structure, the prime responsibility of the Corporate Finance and Accounts will be to coordinate with the Financial Institutions for arranging finance for new projects and the working capital requirements of the proposed entity. Other responsibilities include coordination with GoO and BMC on the financial aspects of the

performance-based contract and with the Regional Accountants of the various regions for the accounting and costing functions. Further, for Budgeting/Planning functions, the Corporate Finance and Accounts will work closely with the Office of the Organisation Head/CEO. The Information and Technology function at the Corporate Office will coordinate with the regional IT personnel to understand their requirements at the regional level. To ensure uniformity in usage of software applications and the IT infrastructure, it is suggested to have a Corporate IT function that will be supported by regional IT personnel. Finally, the Legal and Secretarial function shall be housed at Corporate Office.

Pros and Cons

5.9.19. The main advantage of a geographic model is the ease of implementation of the corporatized entity (in the present context). Since this structure assumes decentralised operations, it provides more autonomy and independence to the regions and is best placed to understand the needs of the consumers and provide services faster. On the other hand, one key disadvantage of this option is duplication of processes and the associated overhead costs. The other key issue will be the coordination across regions and with the Corporate Office. Moreover, since, each region shall need a similar set up and structure, this will lead to lower economies of scale

5.10. Operational Level Structure

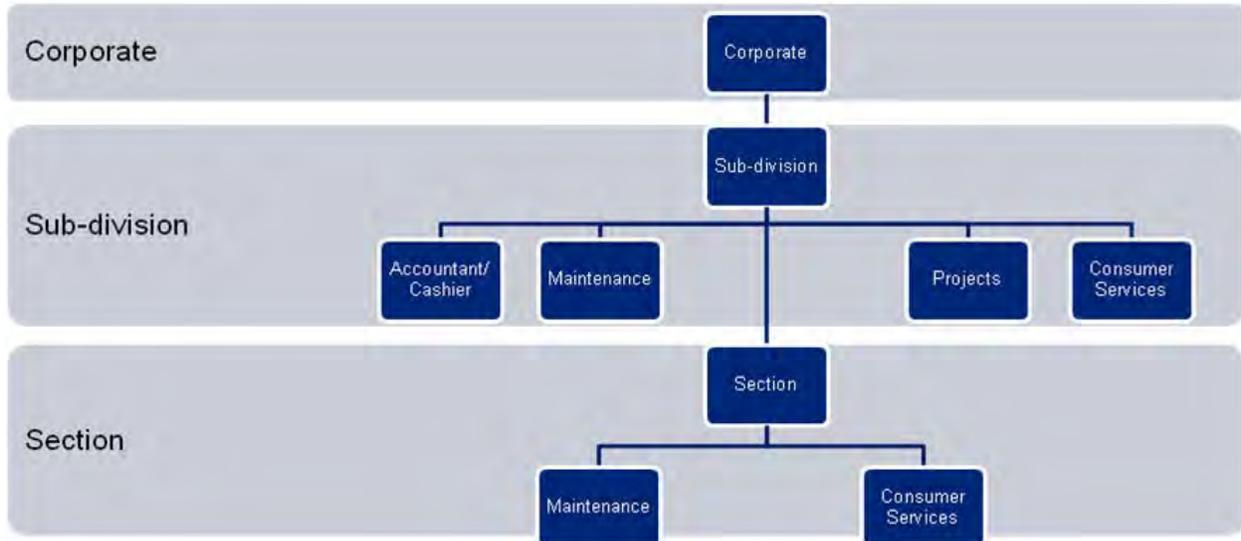
5.10.1. Operational level structure refers to the middle and lower management levels. The operational structure for the functional model(s) will have lesser layers when compared with the geographic model.

Operational Level – Functional Structure(s)

5.10.2. As discussed earlier, the functional structure will require reorganisation of the existing setup. As decision-making is assumed/shall be centralised in a functional structure, the existing decision-making responsibilities at the division level and the staff handling the same, to the extent possible, may be transferred to the Corporate Office performing appropriate corporate functions.

5.10.3. At the operational level, the Sub-divisions and the Sections in the existing setup will continue to handle the functions that they are carrying out presently, to the extent applicable. The exhibit below gives the operational level for functional structure.

Exhibit 5.8 – Operational Level for Functional Structure(s)



5.10.4. The functions given above are indicative only. Depending on the functions actually allocated to these offices, GoO can decide on the number of layers, positions and responsibilities

Operational Level – Geographic Structure

5.10.5. In a geographic structure, the regions/divisions are responsible for all the functions. In this setup, we suggest two levels under each region (similar to the present structure). These two levels shall act as the Sub-Region/Sub-Division and Section/Branch/Ward, respectively. The functions of these units will be similar to the functions presently carried out by the Sub-Division and Section Offices. The exhibit 5.9 illustrates the operational levels of a geographic organisation.

Exhibit 5.9 – Operational Levels for Geographic Structure



5.11. Conclusion

5.11.1. The recommendations made in this note are preliminary. When GoO Cabinet approval is achieved for overall water sector reform, we suggest that a more detailed study be undertaken to

finalize the organisational structure and define the roles and responsibilities and key performance measures for each position. Adherence to rules of Government, if any, shall also be evaluated and incorporated. The recommendations here are only to facilitate GoO to make a beginning in the matter. The following are some of the next steps in this direction:

- Carry out an in-depth investigation and design of the organisation structure that will include identification of the various positions, the job responsibilities and the key result areas for each position, accountability and reporting protocols.
- Design human resources policies and procedures for the proposed entity. This should also address the transition issues.
- Compensation and benefits - design the incentive-based pay structure including executive compensation.
- Training plan for each level.
- Amendment of service rules to enable secondment or deputation.

Section 6. Transfer Mechanism Between PHEO To BMC

6.1. Transfer of Assets, Liabilities, Proceedings, Business, and Functions of the Ring Fenced WS and SS Undertaking to BMC

6.1.1. PHEO, GoO, shall transfer all its assets, liabilities, proceedings, business and functions of the ring fenced WS and SS business undertaking to BMC, including:

- All the assets and liabilities of the ring fenced WS and SS business undertaking shall be transferred to BMC. However, all existing borrowings made by GoO to the ring fenced WS and SS business undertaking and other liabilities, which are payable to GoO, shall not be transferred to BMC and shall be retained by GoO.
- Assets shall include:
 - Water supply fixed assets covering water treatment plants, production tube wells, pumping stations, storage tanks, hand pump, tube wells, water mains - transmission, water mains - distribution, stand posts, connections, etc.;
 - Sewerage system fixed assets covering sewage treatment plants, sewage pumping stations, trunk sewers, collector sewers, connections, etc.;
 - Other general and administrative assets used in the normal day-to-day business operations covering plant, machinery, land, building, offices, stores, furniture, fixtures, vehicles, residential quarters and guest houses, and amenities and installations pertaining and attached thereto and other movable and immovable assets, cash in hand, cash at bank, investments, book debts - corporeal and incorporeal, tangible and intangible assets, benefits, licenses, consents, authorities, registrations, patents, trademarks, and powers of every kind, nature and description whatsoever, privileges, liberties, easements, advantages, benefits and approvals, contracts, deeds, schemes, bonds, agreements, and other instruments, and interest of whatever nature and wherever situated;
 - Capital works in progress carried out by PHEO; and
 - Capital works completed by OWSSB and not yet transferred to PHEO.
- BMC, which is the sole obligator for water services and the owner of the capital assets/infrastructure created for the ring fenced WS and SS business undertaking,

shall allow WATCO to use the above assets/infrastructure for delivery of WS and SS in Bhubaneswar city;

- Liabilities shall include all liabilities, debts (other than retained by GoO), duties, obligations, unutilised grants/subsidies/contributions and other outstanding, including statutory liabilities and Government levies of whatever nature, and contingent liabilities that may arise in regard to the dealings before the date of the transfer, in respect of the ring fenced WS and SS business undertaking transferred under transfer scheme;
- Proceedings shall include the proceedings of whatever nature, including suits, appeals, complaints, petitions, applications, conciliatory, arbitration whether civil or criminal or otherwise; and
- Contracts, agreements, work orders, and arrangements to the extent they are associated with the ring fenced WS and SS business undertaking.

6.1.2. All the assets and liabilities shall be transferred at the nominal consideration of Re. 1. However, BMC shall account for these assets and liabilities at their book values as would appear in the opening balance sheet of the ring fenced WS and SS business undertaking.

6.1.3. Further, GoO shall provide guarantee to BMC for any contingent liabilities, pertaining to the ring fenced WS and SS business undertaking, that gets converted into actual liability subsequent to the date of transfer.

6.1.4. The notification of transfer scheme by GoO and execution of PMC by BMC and WATCO shall be done in parallel.

6.2. Operational Issues to be Addressed in Transfer Scheme

6.2.1. **Proceedings** - All proceedings of whatever nature by or against the PHEO pending on the date of the transfer shall not abate or discontinue or otherwise in anyway prejudicial be affected by reason of the transfer under the transfer scheme and the proceedings shall be continued, prosecuted, and enforced by or against the transferee to whom the same are assigned in accordance with this scheme and orders issued thereunder. The proceedings shall be continued in the same manner and to the same extent as it would or might have been continued, prosecuted and enforced by or against the PHEO if the transfers specified in this scheme had not been made.

6.2.2. **Separation of Services Provided by PHEO to other ULBs and Services other than WS and SS in Bhubaneswar City** - Currently, the divisions of PHEO (proposed to be transferred to BMC) are also catering to the services of maintenance of Government buildings located in Bhubaneswar city. In addition, these divisions are also providing WS and SS to other ULBs (located outside Bhubaneswar city). These activities shall continue to be handled by PHEO.

6.2.3. **Business Operations Issues** - The transfer scheme shall also address the following business operations issues:

- The business operations of WS and SS shall be planned, controlled, and executed by BMC through WATCO. BMC shall delegate the responsibility of WS and SS to WATCO, which shall be fully accountable for the services.
- Roles and responsibilities, subsequent to proposed transaction, of BMC, WATCO, and GoO shall be clearly defined in the transfer scheme; and

- The geographical coverage of Bhubaneswar city wherein WS and SS shall be catered by WATCO shall be identified and listed in PMC.

6.2.4. **Incentives** - GoO shall incentivise WATCO and BMC on achieving/exceeding SLBs. Interim targets shall be set in light of current performance and a realistic assessment of what could be achieved within the timeframe, given the available resources. The clear specification and monitoring of these targets shall motivate the management and staff to achieve or exceed the targets. On achieving the targets, yearly incentive payments shall be made.

6.2.5. **Fund Flow Mechanism** - The fund flow mechanism, subsequent to notification of transfer scheme and execution of the PMC, shall be devised for plan as well as non-plan expenditures. The funds pertaining to WS and SS shall be provided by GoO, through BMC, to WATCO. However, funds for salaries and terminal benefits of PHEO employees transferred on deputation to WATCO shall be provided by GoO directly to WATCO.

6.3. Government Notification of Transfer Scheme

6.3.1. Initially, the transfer scheme shall be notified provisionally by GoO for a period of say three months. Subsequently, based on the inputs/feedback, if any, received from parties, concerned to the proposed transaction, and amendments, if any, made therein, the transfer scheme shall be notified as final. GoO may extend the time, marginally, for which the transfer scheme has been notified provisionally.

Section 7. Deputation of PHEO Employees to WATCO

7.1. Deputation Mechanism for PHEO Employees

7.1.1. The employees of PHEO, involved in WS and SS to Bhubaneswar city, shall be deputed to WATCO on “as-is-where-is” basis (i.e., cadre, designation, division, office, hierarchy, roles and responsibilities, etc., shall remain the same). The employees of PHEO undertaking activities other than the ring fenced WS and SS business undertaking shall remain with PHEO. However, the number of employees to be transferred on deputation to WATCO and the timing of their transfer shall be decided by GoO. If GoO decides to depute employees other than those serving with ring fenced WS and SS business undertaking, then their roles and responsibilities shall be defined by GoO/WATCO.

7.1.2. The service conditions, for the employees to be deputed to WATCO, shall not, in any way, be inferior to those applicable to them immediately before the effective date.

7.1.3. PHEO employees deputed to WATCO shall also be given an option to be absorbed back within GoO on completion of the deputation period or to remain on deputation.

7.1.4. Those PHEO employees who wish to opt for absorption into the WATCO service shall be eligible to receive salary and benefits as applicable to WATCO employees as decided by WATCO Board and such employees shall be eligible for receiving all terminal benefits as applicable to GoO employees.

7.1.5. The GoO shall not only protect the service conditions, but shall also guarantee payment of salaries and pension of the employees deputed to WATCO. Moreover, the liability in respect of retirement benefits of the employees in the service and pensioners of the PHEO immediately before the date of transfer on deputation shall be the liability of GoO.

7.1.6. The liability in respect of employees hired by BMC/WATCO shall be solely of BMC/WATCO.

7.1.7. Employees retained by PHEO shall carry out activities pertaining to O and M of Government buildings at Bhubaneswar and providing WS and SS to Khurdah, Jatni, Balugaon, and Banapur towns.

7.2. Performance Linked Employee Incentives

7.2.1. In order to improve/achieve/exceed the service levels in WS and SS, GoO shall motivate the employees transferred on deputation by providing incentives linked to their performance and meeting of service levels. GoO, jointly with WATCO and BMC, shall devise a scheme for performance linked incentives for employees transferred on deputation to WATCO. These incentives shall be funded out of the efficiency gains achieved by WATCO and paid by GoO.

7.2.2. Some of the key aspects that need to be considered before devising a scheme for performance linked employee incentives include:

- Define key performance areas for employees at all levels;
- Quantify, as far as possible, the performance parameters (in terms of quality, quantity, time and cost);
- Clarity about the expected performance levels in terms of SLBs;
- Clarity of methodology and authority to measure performance;
- Simplicity of the scheme from understanding point of view;
- Well defined communication plan to inform all about the proposed scheme;
- Ensure availability of budget to meet incentives cash outflow; and
- Grievance handling mechanism.

7.3. Employee Grievance Redressal Mechanism

7.3.1. GoO shall constitute a Committee for Redressal of Grievances related to transfer of employees on deputation to WATCO. This Committee shall have representative members from PHEO, BMC, GoO, and WATCO. Employees may raise grievances with regard to their transfer on deputation and make recommendation on such deputation up to the date of final notification of transfer scheme. These grievances shall be considered by the Committee, which shall recommend accordingly to the GoO. GoO shall take decisions on grievances on transfer on deputation to WATCO and issue orders accordingly.

7.4. Government Notification for Deputation of Employees

7.4.1. GoO shall issue a notification for transfer of PHEO employees on deputation to WATCO covering detailed terms and conditions of deputation, fund flow mechanism for employees' current

dues and retirement benefits, employee benefits, scheme of performance linked employee incentives, etc.

Section 8. Financial Restructuring and Business Plan

8.1. Financial Restructuring

8.1.1. Financial restructuring is the reorganization of the financial assets and liabilities of a corporation in order to create a more beneficial financial environment for the company. In the context of PHEO pertaining to Bhubaneswar city, financial restructuring shall involve identification of unserviceable liabilities and their vesting with the GoO (i.e. not to be transferred to BMC or WATCO) and making suitable provisions towards/writing off doubtful receivables.

8.2. Areas of Financial Restructuring

8.2.1. The select items of assets and liabilities that shall be considered for financial restructuring exercise would include:

- Borrowings, covering loans from financial institutions by GoO on behalf of PHEO, loans given by GoO to PHEO for carrying out project works or establishment expenditures, working capital borrowings, etc;
- Grants/subsidies from GoO and Gol for capital and O and M works for WS and SS, administrative and establishment expenditures, acquisition of fixed assets, general grants, etc.;
- Long outstanding dues pending recovery; and
- Value of inventories lying at site and shown as capital works in progress.

8.3. Updating the Business Plan

8.3.1. In order to assess the financial sustainability of the ring fenced WS and SS business undertaking, a business plan, which has already been prepared by Indo-USAID FIRE (D) shall be updated by WATCO. This update shall cover financial projections and scenario analysis to identify, analyse, and understand various scenarios and the impact of permutations and combinations of various norms/assumptions on the operations of WS and SS.

8.3.2. Overall activities involved in the business plan shall include the following:

- Gathering information accounting/financial/commercial/technical data/information;
- Finalising norms/assumptions to be considered; and
- Financial model for business plan.

8.3.3. **Gathering Information** - Based on collection of latest information/data, the business plan shall be updated. Some of the key accounting/financial and commercial/technical data/information that would be required for updation of business plan include the following:

- Accounting/financial data:
 - Opening balance sheet of the ring fenced activity;
 - Key accounting transactions occurred during the financial year 2009-10;
 - Explanation/information that may be required in respect of the final accounts/key transactions; and

- Norms/assumptions in respect of projections of income, expenditures, assets and liabilities, including rate of interest on loan, moratorium and repayment term in respect of loans, grants/subsidies from GoO/Gol, depreciation rate, operations and maintenance expenses, establishment and administration expenses, bad debts, other income, current liabilities, deposits from outside parties, retention money/advances to suppliers/contractors, cash and bank balance, etc.
- The technical/commercial data shall include demand forecast versus supply of water, production capacity, collection efficiency, un-accounted for water, coverage of WS and SS in Bhubaneswar city, revisions in the WS and SS user charges/tariffs, expected SLBs, consumers per connection, growth in number of consumers, market mix of commercial, industrial and domestic WS and SS connections, proposed projects under progress, projects planned to be commenced in the shorter/longer run, etc.
- Sensitivity analysis to understand the impact of permutations and combinations of various norms/assumptions under various scenarios;
- The breakeven year for the ring fenced WS and SS business undertaking under various scenarios and the year in which financial turnaround shall take place; and
- Projected financial statements, including balance sheet, profit and loss account, cash flow statement, internal accrual, and ratio analysis.

8.3.4. Finalising Norms/Assumptions - The norms/assumption on accounting/financial and commercial/technical data shall be finalised after due discussions with PHEO, BMC and GoO. These norms/assumptions shall then be used for the financial model.

Section 9. Performance-based Management Contract

9.1. Finalisation of the Performance-based Management Contract

9.1.1. BMC shall enter into a PMC for WS and SS with WATCO covering key service level benchmarks (SLBs) to be achieved by WATCO, including rate of water supply, duration of water supply, quality, pressure, complaint redressal, new water supply/sewerage connections, revenue collection efficiency, sewerage systems, etc.

9.1.2. A draft PMC shall be provided by USAID FIRE (D) Project for the purpose of guidance of WATCO and BMC. The EC, after discussions with the Contract Parties, shall ensure the necessary approvals from GoO on the legal and financial sections and organise meetings of parties for signing of the final PMC with amendments, if any.

9.1.3. The PMC with WATCO shall be executed parallel to the notification of the transfer scheme. In case, for any reason, the PMC is not executed at the time of notification of the transfer scheme, then the transfer scheme shall have the provision to allow PHEO to act as a custodian of WS and SS assets transferred to BMC and shall manage WS and SS, until WATCO takes it over under the PMC.

9.1.4. For the purpose of monitoring the activities to be carried out by WATCO and to ensure compliance with the terms and conditions, and fulfilment of the obligations of the parties under the PMC, BMC shall assign 1-2 officials, who shall be assigned with the exclusive responsibility to oversee the work being executed by WATCO on behalf of BMC.

9.2. Key Areas of Coverage in the Performance-based Management Contract

9.2.1. The PMC shall be executed for say 5 years and extendable further according to mutual understanding between BMC and WATCO. Some of the key areas that shall be covered in the PMC are provided below:

Legal Aspects

- Objective of the contract;
- Definition of key terms used in the contract;
- Effective date of commencement of services, duration of contract, option to extend the contract;
- Compliances by BMC and WATCO to the PMC in terms of eligibility and right to enter into the contract;
- Obligations of BMC and WATCO;
- Employees of WATCO, and employees deputed from PHEO;
- Terms and conditions for service contracts by WATCO to outsource activities to contractors;
- Risk sharing for losses that might arise on account of destruction of capital assets due to force majeure;
- Terms and conditions on changes in the circumstances, e.g. change in law, increase in service delivery costs, increase in taxes, etc.;
- Force majeure clause:
 - For political, non-political and other events;
 - Procedure to claim relief for force majeure; and
 - Consequence of force majeure.
- Emergencies;
- Confidentiality;
- Dispute resolution; and
- Circumstances that define default of contractual obligations by either party leading to termination and action to be taken on termination.

Accounting and Auditing

- Maintenance of books of account, records, registers, etc.; and
- Independent auditor to audit the accounts of WATCO to monitor correct utilisation of WS and SS related funds.

Monitoring and Evaluation

- Performance monitoring mechanism; and
- Monitoring and measurement of SLBs.

Schedules

- Details of water and sewerage infrastructure;
- Revision of user charges/tariff;
- Performance targets (SLBs);

- Payment for services;
- Incentives and penalties; and
- Geographical coverage of Bhubaneswar city wherein WS and SS shall be catered by WATCO.

Section 10. Project Monitoring

10.1. Formation of Empowered Committee

10.1.1. To take timely actions and approvals relating to the proposed transaction, GoO shall form an Empowered Committee (EC) to be headed by the Chief Secretary with Secretary Finance and Secretary Law as the members and the Principal Secretary Housing and Urban Development Department (HUDD) as the member convener. This EC shall meet at least once a month or as frequently as necessary to provide timely approvals and review progress of implementation of the proposed transaction.

10.1.2. The EC shall perform the following activities to facilitate smooth execution of proposed transaction:

- Prepare/finalise work plan for the proposed transaction;
- Form a Project Implementation Unit (PIU);
- Identification of PIU members;
- Interact with the PIU and provide it with relevant information on the development of the proposed transaction;
- Obtain progress reports from the PIU on the proposed transaction;
- Provide guidance to resolve transitional issues; and
- Undertake other tasks as may be necessary for smooth execution of the transaction
(For more details, please refer Section 11., Activity Plan).

10.2. Program Implementation Unit (PIU)

10.2.1. The EC shall form a Project Implementation Unit (PIU), which shall look after day-to-day affairs to ensure smooth implementation of the proposed transaction. The members of the PIU would include representatives from GoO (i.e., PHEO), BMC, OWSSB and WATCO. In addition, the EC may also appoint outside consultants (to be a part of PIU) to assist the aforesaid PIU members in carrying out the necessary tasks for successful implementation of the proposed transaction.

10.2.2. The above PIU shall function till the proposed transaction is implemented or till it is felt necessary and decided by the EC.

10.2.3. Identifying PIU members and engaging them appropriately throughout the implementation of the proposed transaction and change management process is critical to the success of any project. PIU would help in the following manner:

- Understand the need for information;
- Ensure that the right people receive the right information, at the right time, and in the right way;
- Build organizational buy-in, commitment and capability for change; and

- Maximize the potential for a successful transition from current to future state.

10.2.4. In addition to the above, the PIU shall also devise a strategy to communicate the advantages and progress of the proposed transaction to the employee group(s).

10.2.5. Empowered Committee in its meetings shall interact with PIU members to understand their issues/concerns and identify the required interventions to resolve them. These interventions shall be logically grouped under the respective areas, for e.g., Finance, HR, Commercial, Administrative, Technical, etc.

10.3. Proposed Roles and Responsibilities of the various Institutions involved in the Transfer Scheme Subsequent to Notification of Transfer Scheme and Execution of the Performance-based Management Contract

10.3.1. Subsequent to notification of transfer scheme and execution of the PMC, the proposed roles and responsibilities of the various institutions involved in the transfer scheme (to facilitate BMC and WATCO in performing their tasks as defined in PMC) shall be as under:

Table 10.1 - Proposed Roles and Responsibilities of various Institutions

Proposed Roles and Responsibilities	GoO	BMC	WATCO	OWSSB
Planning of WS and SS				
Delivery of WS and SS				
Monitoring and supervision of WS and SS				
Monitoring of PMC				
Financial support to WATCO for five to seven years				
Funding for institutional strengthening				
Funding for the employee benefits, including salaries, gratuity, other retirements benefits (for retirements subsequent to transfer of PHEO employees on deputation)				
Funding to improve/expand WS and SS infrastructure in Bhubaneswar city				
User charges/tariff setting for WS and SS				
Ownership of capital assets (infrastructure for WS and SS), relating to WS and SS in Bhubaneswar city, created/under creation/to be created in future and corresponding liabilities				
Setting of SLBs				
Achievement of SLBs				
Monthly O and M report to BMC				
Prepare project plans and programs pertaining to WS and SS delivery – O and M as well as capital works				
Institutional strengthening for WS and SS operations				
Execute capital works				

Role of GoO

- Provide financial support to WATCO, through BMC, for five to seven years to make it self-sustainable. GoO shall support operationalisation and strengthening of WATCO

to ensure professional management and commercial operations at WATCO. The support shall be in the areas of commercial, financial, IT, HR and technical operations of WATCO; and

- Provide funding for the employee benefits/remuneration, including salaries, gratuity, other retirement benefits (for retirements subsequent to transfer of PHEO employees on deputation), etc., of PHEO employees deputed to WATCO.

Role of BMC

- Planning of WS and SS that shall enable it to be responsive to citizen needs and improved service delivery;
- BMC shall monitor and supervise WS and SS operations of Bhubaneswar city, through WATCO;
- BMC shall also monitor the compliance of terms and conditions agreed in PMC, by WATCO;
- Set/revise WS and SS user charges/tariffs in line with the mandatory reforms of achieving full cost recovery as per the MoA under JnNURM or other relevant laws and regulations for the time being in force;
- Procure funding for service expansion, as well as for filling the viability gap, from GoO and other sources; and
- Own all the capital assets (infrastructure for WS and SS), relating to WS and SS in Bhubaneswar city, created/under creation/to be created in future, and corresponding liabilities.

Role of WATCO

- Accountability to BMC:
 - Manage the assets and provide services to the consumers and collect revenues, on behalf of BMC as an agent;
 - Provide WS and SS in Bhubaneswar city with progressively improved SLBs agreed through the PMC executed with BMC;
 - Submit monthly O and M report providing details on various SLBs and physical status of the WS and SS infrastructure to BMC; and
 - Prepare annual operating plans and investment plans for WS and SS to enable BMC to procure necessary funding from budgetary provisions by GoO and other sources.
- Performance benchmarks:
 - Benchmark various key service areas for improvement in order to set service levels and achieve them. Some of the select SLBs include per capita water supply at tap, quality of water at tap, pressure of water delivered, non-revenue water, cost recovery, operating ratio, response time for complaints, etc.; and
 - Focus on consumer relations through training programs as well as creating management information system to monitor consumer relations.
- Undertake institutional strengthening activities in the areas of commercial systems and procedures, accounting and financial management, HR functions, IT system, procurement system, inventory management, etc.; and
- Undertake capital expansion works for WS and SS in Bhubaneswar city. However, the ownership of these capital works shall be with BMC and shall be transferred to BMC on completion. Funding for these capital works shall be done by GoO/BMC.

Role of OWSSB

- OWSSB shall continue to perform the tasks as mandated in the Orissa Water Supply and Sewerage Board Act, 1991, or as decided by GoO in this regard; and
- From the effective date of notification of the transfer scheme transaction, OWSSB shall then onwards transfer all the capital assets created for WS and SS, pertaining to Bhubaneswar city, to BMC instead of PHEO.

Section 11. Activity Plan

11.1. Activity Plan

11.1.1. An indicative activity plan (containing activities and sub-activities, person responsible, and the timelines) to carry out the proposed transaction is given in the table below:

Table 11.1 - Indicative Activity Plan

Sl. No.	Activities - Sub-activities	Person(s) Responsible	2010										2011							
			S	O	N	D	J	F	M	A	M	J	J	A	S	O				
1	Formation of Empowered Committee	GoO/EC																		
1.01	Formation of Empowered Committee (EC)	GoO																		
1.02	Identify and appoint members of EC	GoO																		
1.03	Define roles and responsibilities of EC	GoO																		
1.04	Monthly meeting of EC	EC																		
2	Formation of Project Implementation Unit	EC with assistance of consultants																		
2.01	Identify PIU members and form PIU	EC with assistance of consultants																		
2.02	Appoint consultants to be part of PIU for providing implementation assistance	EC with assistance of consultants																		
2.03	Define roles and responsibilities of PIU members and consultants	EC with assistance of consultants																		
3	Incorporation of WATCO	EC with assistance of consultants																		
3.01	Approval of name from Registrar of Companies	Consultants																		
3.02	Identification of first directors	GoO/EC																		

Sl. No.	Activities - Sub-activities	Person(s) Responsible	2010										2011							
			S	O	N	D	J	F	M	A	M	J	J	A	S	O				
3.02	Drafting of the Memorandum of Association and Articles of Association	Consultants																		
3.03	Registration of WATCO	Consultants																		
3.04	Obtain Certificate of Incorporation	Consultants																		
3.05	Obtain Certificate of Commencement of Business	Consultants																		
4	Operationalisation of WATCO	BoD of WATCO/GoO																		
4.01	Finalization of organization structure of WATCO and implementation thereof	BoD of WATCO																		
4.02	Appointment of Company Secretary	BoD of WATCO																		
4.03	Formation of Executive Committee	BoD of WATCO																		
4.04	Formation of other operational committees, viz., Audit Committee, Technical and Infrastructure Committee, HR/Compensation Committee, IT Committee, Consumer Grievance Redressal Committee	BoD of WATCO																		
4.05	Define powers of CEO through BoD resolution	BoD of WATCO																		
4.06	Define delegation of powers through BoD resolution at various levels for various activities of WATCO, viz., procurement, management, inventory, finance, HR, technical, etc.	BoD of WATCO																		
4.07	Define HR policies for WATCO	BoD of WATCO																		
4.08	Define roles and responsibilities for the newly recruited employees/changes in the existing roles and responsibilities of employees transferred on deputation, if any	CEO of WATCO																		

Sl. No.	Activities - Sub-activities	Person(s) Responsible	2010					2011								
			S	O	N	D	J	F	M	A	M	J	J	A	S	O
4.09	Opening of bank account (separately for revenue expenditures and works expenditures)	WATCO and GoO														
4.10	Financial assistance by GoO to meet preliminary expenses of WATCO	GoO/ BMC														
4.11	Introduce accounting, costing and budgeting manuals	WATCO														
4.12	Set up commercial systems and procedures	WATCO														
4.13	Set up accounts and financial management systems	WATCO														
4.14	Set up IT systems in the areas of commercial, HR, accounting, inventory management, etc.	WATCO														
4.15	Issue of notification for continuation of existing set up until separate corporate office for WATCO	WATCO														
4.16	Instruction to make fund requisition for various works to be made unit/division/section offices-wise	WATCO														
4.17	Transfer of funds from personal ledger account of PHEO to WATCO	GoO														
4.18	Registration of contractors/vendors/service providers	WATCO														
4.19	Cleaning of customer database	WATCO														
4.20	Preparation of operational budget and works budget from the cutoff date up to the forthcoming financial year	WATCO under the guidance of BMC														
5	Transfer Mechanism between PHEO and BMC	GoO/EC with assistance of consultants														
5.01	Drafting and finalization of an 'Act', if required, for enabling GoO to go ahead with the proposed transaction															

Sl. No.	Activities - Sub-activities	Person(s) Responsible	2010					2011								
			S	O	N	D	J	F	M	A	M	J	J	A	S	O
5.02	Drafting of transfer scheme	Consultants														
5.03	Government notification of transfer scheme – provisional	GoO														
5.04	Government notification of transfer scheme – final	GoO														
6	Deputation of PHEO Employees to WATCO	GoO/EC with assistance of consultants														
6.01	Drafting of Government notification for transfer of PHEO employees on deputation to WATCO	Consultants														
6.02	Devising scheme for performance linked employee incentive	GoO, BMC and WATCO														
6.02	Government notification for transfer of PHEO employees on deputation-provisional	GoO														
6.03	Constitution of Committee for Redressal of Grievances	GoO														
6.03	Government notification for transfer of PHEO employees on deputation-final	GoO														
7	Financial Restructuring and Business Plan for the Ring Fenced WS and SS Business Undertaking	EC with assistance of consultants														
7.01	Identify areas of financial restructuring	Consultants														
7.02	Update Business Plan covering financial projections and scenario analysis	Consultants														
7.03	GoO approval on financial restructuring	GoO														
8	Performance - based Management Contract (PMC)	WATCO/BMC/EC														
8.01	Drafting of performance - based management contract	EC with assistance of consultants														
8.02	Discussion on the PMC between WATCO and BMC	WATCO and BMC														
8.03	GoO approval on the PMC	GoO														

Sl. No.	Activities - Sub-activities	Person(s) Responsible	2010					2011								
			S	O	N	D	J	F	M	A	M	J	J	A	S	O
8.04	Signing of the PMC by WATCO and BMC	WATCO and BMC														
9	Project Monitoring	PIU														
9.01	Project monitoring	PIU														
9.02	Reporting to EC and obtain feedback and inputs	PIU														