

**Government of India
Ministry of Finance
Department of Economic Affairs
PPP Cell**

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**Empowered Committee for the Scheme for Financial Support to Public
Private Partnerships in Infrastructure**

Third Meeting on July 16, 2008

Record Note of Discussions

The third meeting of the Empowered Committee (EC), chaired by Finance Secretary, was held on July 16, 2008 in North Block, New Delhi. The list of participants is annexed.

2. The Empowered Committee considered the proposal from Government of Andhra Pradesh (GoAP) for enhancement of Total Project Cost (TPC) for Hyderabad Metro Rail Project from Rs.9,696 crore to Rs.12,410 crore.

3. It was noted that the Hyderabad Metro Rail Project, with a total length of 71.16 km and project cost of Rs 9,696 crore, was considered by the Empowered Institution on April 10, 2008 and recommended for grant of in-principle approval for viability gap funding (VGF) to the Empowered Committee, subject to Government of Andhra Pradesh making modifications in the draft Concession Agreement as decided during the meeting. The Empowered Committee considered the proposal in its meeting held on April 30, 2008 and recommended the proposal to the Finance Minister for approval. Accordingly, with the approval of Finance Minister, the project was granted in-principle approval of viability gap funding support of Rs.1939 crore.

4. Joint Secretary (Infra), DEA explained that GoAP had, subsequently, reviewed the project cost to take into account of the steep increase in steel, cement and oil prices; revising the requirement of Interest During Construction (IDC) and incorporating the estimate of the Financing Charges which would be required for the project. It was noted that the primary component of the increase in the estimates of the TPC by the State Government was the revision in the estimation of quantum and value rolling stock required for the project. The project cost, thus estimated by the State Government was Rs.12,410 crore.

5. Principal Secretary, GoAP explained that the State Government had adopted an extremely conservative approach while re-estimating the project cost. It was further elaborated that the rolling stock requirement for the project provided in the earlier approved project cost of Rs.9,696 crore would have been sufficient to cater for the traffic requirement of 2008-09. However, since the COD of the project was now March 2014, the estimation of rolling stock required alignment with the expected traffic in 2014. However, keeping in view to possibility that the traffic projections in the first year may not reach the expected levels, the coaches estimated were for the traffic projects for 2011. Similarly, the other estimates had been reviewed in a moderate manner.

6. It was noted that the Planning Commission had appraised the proposal for enhancement of the project cost and accepted the methodology for arriving at a project cost of Rs.12,410 crore. However, planning Commission had recommended that a lump sum reduction 5% may be made across board in the cost estimates submitted by GoAP in view of the private sector efficiencies and the total project cost may be limited at Rs.11,790 crore.

7. JS(Infra), DEA explained that Ministry of Urban Development (MoUD) had, after appraisal of the project recommended that the Sales Tax on the project should be absorbed/exempted by the State Government and, hence, excluded from the project cost for the purposes of estimating the VGF; and the financing charges should be limited only to debt component of the total project cost. Accordingly, MoUD have recommended a project cost of Rs.11,892 crore for the project. It was noted that MoUD had also sought comments of DMRC on the proposal. Delhi metro Rail Corporation (DMRC) had examined the technical specifications and confirmed that the enhanced cost estimates were justified and reasonable.

8. JS(Infra), DEA explained that the proposal from GoAP had been examined by DEA and the project cost had been re-estimated after excluding the cost of Relief and Rehabilitation and shifting of utilities and the component of the state taxes; not providing interest during construction (IDC) for the grant (VGF) component of the project cost; and limiting the financing charges only to debt component of the total project cost. Accordingly, Rs.11,814 crore had been recommended as the revised cost for the project. Representative of Department of Expenditure indicated that the approach adopted by DEA may be accepted.

9. The Chairman of the Empowered Committee noted that the assessment by DEA regarding the ineligible items for inclusion in the cost estimates also subsumed the ineligible items identified by MoUD. He suggested that the appraisal process followed should be codified to facilitate its replication for other projects.

(Action: Department of Economic Affairs)

10. Adviser to Deputy Chairman, Planning Commission expressed reservations about exclusion of State Taxes from the cost estimates. Pointing out that State taxes had not been excluded from other road projects approved under the Scheme, it was requested that the matter may be reviewed for the instant proposal; alternately the same standard may be adopted for all projects considered under the Scheme for Financial Support to PPPs in Infrastructure. Secretary, MoUD explained that the State Taxes had been excluded for the other Metro projects supported by Government of India, and the same principle should also apply to the projects being implemented in the PPP framework. Additional Secretary (Expenditure) supported the view of MoUD. It was decided that the State tax component may be excluded from the cost estimates for the purposes of determination of the viability gap funding for the project. However, in case it is subsequently decided to allow inclusion of the State Taxes in the project cost for metro projects, while determining the GoI support, the benefit would also be extended to the instant proposal from GoAP.

*(Action: Ministry of Urban Development, GoI;
Department of Economic Affairs, GoI;
Government of Andhra Pradesh)*

10. The Empowered Committee approved the revised project cost of Rs.11,814 crore for Hyderabad Metro Rail Project and noted that the VGF support, eligible for support under the Scheme (20 percent of the revised project cost) was Rs.2,362.88 crore, an increase of Rs.423.88 crore over the earlier approved VGF for the project. The Empowered Committee recommended the proposal to Finance Minister for in-principle approval of enhanced viability gap funding support of Rs.2,362.88 crore to the project.

*(Action: Department of Economic Affairs, GoI;
Government of Andhra Pradesh)*

11. The meeting ended with a vote of thanks to the Chair.