

Capacity and investment in the
Water supply and Sanitation sectors
in A and B Municipal Councils-
Guidelines in respect of participation
of Cooperative Institutions in

**Government of Maharashtra,
Water Supply and Sanitation Department
Government Circular No. NAPAPU/1001/CR.503/PAPU 22,
Mantralaya, Mumbai-400032
Dated 12th June 2001**

Read: Government Resolution No. NAPASU 1000/CR419/PAPU 22, dated 27th
September 2000.

Introduction:

1. There is a vast difference in the income and expenditure related to the existing water supply projects which are maintained and operated by the Urban Local Bodies (ULB). All the Municipal Corporations and 'A' class Municipal Councils were directed vide Government Resolution dated 27th September 2000 to carry out water and energy audits, check water leakages and reduce wastage by seeking participation of the private sector.
2. Water Supply & Sanitation is considered as essential service. Civil bodies are facing many problems due to urbanization and increasing demand from the residents. There is a need to increase efficiency in the water supply and sewage schemes through participation of the private institutions. At present as per the Govt. water policy, water supply scheme is handed over to the ULB's for proper maintenance and repair. However the ULB's are not able to maintain the scheme due to leakage of water and misuse of water. The failure of the scheme is due to the huge gap between income and expenditure. Due to the lack of sufficient funds for repairs and maintenance, ULB's are forced to undertake new schemes.
3. To overcome this, the Govt. was considering participation of private institutions in operation and maintenance of the water supply scheme in case of 'A' class municipal councils.

CIRCULAR:

1. There are various options available with respect to the participation of the private institutions in the existing management of water supply scheme. Management of water supply schemes can be operated by the private institutions by taking the responsibilities of metering, billing recovery, distribution and maintenance. Collection of information of the existing water supply scheme before giving contract to the private institutions, income and expenditure of the scheme is essential. Also information about private institutions, their services, capacity etc. is necessary before entering into such an agreement.
2. It is necessary to maintain transparency, give priority to the security of consumers and ascertain the efficiency of the services by the private operator under proper supervision of ULB. Competitive bids will be called by the ULB before the selection of private institutions, by preparing the bid document and drafting the terms and conditions. Information regarding technical, financial and manpower capacity of the private operator will be ascertained before the agreement. Following aspects should be finalized before making such an agreement.
 1. Norms/standards of work of the contractor should be properly decided.
 2. Allotment of risk shall be shared by both the parties.
 3. Details about responsibility, supervision and fines shall be clearly mentioned in the agreement.
 4. Program of training and capacity building for the local employees shall be included in the agreement.
 5. Welfare of the consumers shall be considered as the topmost priority.
3. Tender advertisement to award the contract shall be published in the national and local newspapers. Comparative statement of all the rates for maintenance, repairs from the contractors should be prepared and evaluated. Contract shall be signed only after acceptance of all conditions by the contractor. Progress report and schedule of work shall be maintained by the contractor and checked by the civil body.

4. Transparency shall be maintained by involving elected members, officers, consumer organizations as well as experts in the field from the start of the privatization procedure till its completion.

Three options for Participation of Private Institutions are explained as under :-

a) **Management Agreement** : The agreement shall be for a period of 3 to 5 years. Responsibility of management of water supply and employees will remain with the private operator but the responsibility of new investment in the scheme and rehabilitation will remain with the ULB. Fees for management of the operation shall depend on the responsibility. Applicable fine should be mentioned in the agreement for unsatisfactory performance. A provision of incentive to the contractor shall also be mentioned in the agreement for better performance for billing and recovery, maintenance and repair and cost saving measures. The period of contract could be extended if found satisfactory for further 3 to 5 years with some concessions in the agreement. Management agreement shall be entered for meter reading, billing, recovery and minor repairs. But capital investment work should not be included in this agreement.

b) **Rent Agreement** : This agreement shall be for a period of 6 to 10 years and no fees should be given to the operator. The Operator will be responsible for maintenance, repair expenses, collection of water charges, replacement of minor machineries etc. Water charges shall be fixed at such rates as to recover the expenses of maintenance and repairs etc. Incentives to the contractor also can be considered for better recovery of water charges and for reducing maintenance and repairs expenses. Operator will be needed to pay to the ULB, the rent for the use of water management system which shall be based on the assessment of the income and expenditure. Responsibility for new investment for water supply scheme shall remain with the Local Body. Responsibility for maintenance and repairs shall lie with the contractor. However there has to be coordination between them. In case of any problem, the same shall be solved by the local body as per the provisions of dispute resolution as included in the agreement. If the problem is not solved by them, the dispute shall be brought to the notice of Govt. and its decision shall be binding on both.

Tax Concession Agreement : This agreement is similar to the Rent Agreement. But the period of this agreement should be for 20 to 30 years and the responsibility of

maintenance and repairs and investment shall rest with the contractor during this period. After the completion of agreement, maintenance and repairs management shall be handed over to the ULB. Since the operator is expected to make investment, rent received by the ULB shall be less than the other options.

5. ULB shall select one of the above three option to hand over the water supply scheme in existences to the private operator. Selection of the operator shall be made through competitive tenders. All details i.e. geography, extent, capacity etc. shall be considered before the agreement. Consumer services and redressal system shall be operated by the contractor after the agreement. The operator shall take action on application for new pipe connections etc. as well as the user's complaints.

Responsibility of the Private Contractors :

1. During the agreement period, the contractor shall provide information of the scheme, consumer's details, water charges plan, maps etc. to the ULB.
2. The contractor shall propose the scheme for regularization of illegal connections, metering and reduction in losses.
3. The contractor can ask for essential work force from ULB.
4. The private operator will have to give a bank guarantee from a scheduled bank for the amount of operations.
5. The operator shall submit yearly operating plan to the ULB for approval.
6. Contractor shall pay attention to efficiency, security and maintenance of the water supply.
7. The operator shall maintain proper accounts of all the expenses.
8. As per the agreement between ULB and private operator, the workers of ULB's are to be trained by the operator.
9. In case the operator fails to maintain and operate as per the agreement, the ULB is empowered to get the work done and recover the cost from the contractor. In case of irresponsible behavior or negligence, the ULB's have a right to cancel the agreement for following reasons:
 - a) Deliberate and consistent negligence or delay in maintenance.
 - b) If consumer's get contaminated water and less than stipulated quantity of water.

- c) In case the contractor does not follow standards of maintenance or security is irregular or provides less than stipulated water supply.

Responsibility of the Urban Local Bodies :

1. To provide information regarding project, consumers, water charges and maps to the contractor.
 2. ULB has to make available all the necessary permissions to the contractor in the stipulated time.
 3. ULB has to cooperate with the contractors in the work of minor repairs
 4. Bank account shall be opened in a Bank with mutual consent.
 5. ULB has to provide workers as and when demanded by the contractor.
 6. Contractors shall be authorized by ULB for collection of water charges, meter reading, meter changes or closure.
 7. ULB has all the rights to change the rates of water supply
 8. ULB shall pay the contractors following fees on time -
 - a) Service charges as per agreement
 - b) Development charges for (1) training of ULB workers, (2) Efficient system for billing and recovery (3) Consumer services and redressal cell establishment.
6. At the end of the agreement, the contractor has to transfer the project to ULB. The process for such transfer shall start 6 months prior to the end of agreement date. Any incomplete work shall be brought to the notice of contractor by ULB and the contractor shall complete it within two months.
7. Whether to transfer water supply scheme of 'A' class municipalities to the private contractors shall be decided by the ULB. No compensation will be paid to the ULB by Govt. for the same. Some assistance will be provided to the ULB by the Govt. The Govt. may consider compensating the ULBs after transfer of such scheme for water and energy audit, assessment of water losses and devising plans for reducing water losses.
8. All the conditions and clauses of the agreement shall be clearly written in the agreement. A coordination committee shall be established by the ULB to monitor the agreement and supervise the responsibilities of both contractor and the ULB.

By order and in the name of the Governor of Maharashtra,

(S. Prabhakaran)
Principal Secretary,
Government of Maharashtra