CHAPTER IV

CONTRACTING OUT PROCESS IN MUNICIPAL CORPORATION, CHANDIGARH

This chapter aims to analyze the contracting out process in Municipal Corporation Chandigarh. The chapter has been divided into two parts. Part I deals with the basic process adopted by Municipal Corporation Chandigarh for contracting out of select services. In part II the discussion regarding contracting out process since inception has been discussed, in addition efforts have also been made to examine and discuss the comparative cost analysis of in-house and contracted out services. Further, the problems for contracting out of various services have also been outlined in this section.

I

The process of contracting out is being carried out by Municipal Corporation Chandigarh on the guidelines framed by Central Public Works Department (CPWD), Government of India.

The Central Public Works Department is a 157 year old institution and is the key organization of the Government of India responsible for crafting and providing broad services including planning, designing, construction and maintenance of office & residential buildings as well as other structures of various ministries and departments of Government of India and other autonomous bodies and public sector enterprises.

The manual provides a basic framework for ensuring the process to be more efficient, project oriented and for speedy deliverance of works with very good quality.

According to CPWD manual, a contract is when two or more persons have a common intention communicated to each other to create some obligation between them, there is said to be an agreement. An agreement which is enforceable by law is a “Contract.” Further, According to Section 10 of the Indian Contract Act, 1872, only those agreements are enforceable by law which are made by the free consent of parties competent to contract, for a lawful consideration and with a lawful object, and are not expressly declared to be void. This is subject to any special law according to which a contract should be in writing and attested by witnesses.
Essential of a Contract: As per CPWD manual the following are the essential ingredients of a contract:

(a) Offer made by one person called the “Promisor”.
(b) Acceptance of an offer made by the other person called the “Promisee”.
(c) Doing of an act, or abstinence from doing a particular act by promisor for promisee, that is called consideration.
(d) The offer and acceptance should relate to something which is not prohibited by law.
(e) Offer and acceptance constitute an agreement, which when enforceable by law, becomes a contract.
(f) In order to make a valid and binding agreement, the party entering into such an agreement should be competent to make such agreement.

For the purpose of an agreement, there must be a communication of intention between the parties there to. Hence in the forms of a contract there is:

(a) A proposal.
(b) Communication of the proposal.
(c) Communication of acceptance of the proposal.

The communication of acceptance of the proposal completes the agreement. An offer may lapse for want of acceptance or be revoked before acceptance. Acceptance produces something that cannot be recalled or undone. A contract springs up as soon as the offer is accepted and imposes an obligation upon the person making the offer. It has been opined by the Ministry of Law that before communication of acceptance of an offer, the tenderer would be within his right to withdraw, alter and/or modify his tender before its acceptance, unless there is a specific promise to keep the offer open for a specific period.

Now let us discuss the steps undertaken by Municipal Corporation Chandigarh for entering into any contracting process for select service.
4.1 STEPS OF CONTRACTING PROCESS AT MUNICIPAL CORPORATION CHANDIGARH

Pre requisites for Execution of Work

There are four main stages which are involved in the execution of a work i.e. administrative approval, expenditure sanction, technical sanction, and availability of funds. According to information obtained from Municipal Corporation, it has been found that every work usually begins with the prior administrative approval. Further the process involves preparation of detailed estimates along with sanction of expenditures and allotment of funds. Further there is also a need for technical sanctions to a given work.

**Preliminary project report:** This report reflects the brief history of work to be undertaken and it covers the assessment of feasibility of respective services duly coordinated with the client department, after this assessment approval of the preliminary plans by the client takes place which is followed by preparation of preliminary estimate on basis of sanctioned rates.

**Administrative approval** is the communication of formal approval of the proposals by the competent authority of the respective department requiring the work.

**Accord of administrative approval:** After obtaining the administrative approval the consensus of the competent authority of the Administrative Department is being obtained to the preliminary estimates for the work. However, no such concurrence is required for normal repairs and maintenance works. The preliminary estimates are framed by the authority of concerned department. Afterwards one copy of the administrative approval is sent to the concerned Accounts Officer.

**Technical sanction:** After the administrative approval is procured technical sanction is obtained and it is necessary as it is considered to be a guarantee that the proposals are technically sound and that the estimates are accurately prepared and are based on adequate data. After receipt of administrative approval and expenditure sanction, detailed estimates are prepared for accord of technical sanction. The technical sanction is being accorded by the competent authority before a work is taken in hand. This technical sanction comprises nature and scope of work. A copy of the technical sanction for the respective works is endorsed to the concerned department.

**Preliminary rough cost estimate:** Preliminary estimates are prepared on the basis of sanctioned rates of the manpower and items as enshrined in the Central Public Works
Department manual. The preliminary estimates are prepared on the basis of the preliminary reports prepared by the field officers, junior engineers, draftsmen, consultants and chiefs of respective departments.

In special cases where any preliminary survey, investigations, preparation of project reports including appointment of consultant and other essential preliminary steps connected with the schemes are done before the preliminary estimate for the requisitioned work is finalised, a separate estimate for such purposes are prepared, and sent to client department for sanction.

**Forwarding of preliminary estimate:** Chief Engineer, Superintending Engineer or Executive Engineer are the major components and are considered nodal officer for forwarding estimates.

**Preparation of the detailed estimate:** The preparation of detailed estimates and taken up only after obtaining an approval from the Department or House paying for the proposal without any objections for the same work to be contracted out. The estimate for a project or work is comprehensive, supported by requisite details and based on the calculations, where necessary. According to officials of Municipal Corporation Chandigarh, the detailed estimates include the terms and conditions laid down by central public works department which are as follows:

(i) **History:**-It pertains to specific information regarding the initiation of the proposal, events and its general purpose. History also highlights previous correspondence, documents and specifications.

(ii) **Design:**- It includes portrayal of the proposal specifically with regard to significant dimensions like location and design, standards and specifications, calculations and drawings. While in case of a revised estimate, a description of the original proposals and those finally approved are given.

(iii) **Scope:**- A precise statement of work other than estimate and it also reflects the various arrangements which are to be made for particular piece of work which are not included in the estimates.

(iv) **Rates:**- Rates depict the calculations and formulas used for computing the final rates, it also includes the important standard schedule of rates or market rates and also to the details accompanying the estimate, with any special explanation connected with it.
(v) **Cost:** - Cost of the work puts forth the comparison with the amount initially provided beneath administrative sanction or detailed estimate.

(vi) **Method:** - The method portrays the plan for carrying out the work, whether by contract or daily labour, or combination of both.

(vii) **Establishment:** - It provides the details of any provision made in the estimate for work-charged.

(viii) **Construction Plan:** - It personifies the special methods of construction to be adopted with consonance to specifications and details of the provisions that are made in the estimate for requisite construction plans.

(ix) **Land:** - Land is acquired for carrying out a specific work.

(x) **Time:** - The estimated time of completion of particular project, depicting break ups for carrying out a specific work.

Any other points of importance that demand knowledge of local conditions are incorporated. The abstract of the detailed estimates are framed to show the quantity and cost of each work, to be completed.

**Schedule of Rates:** To facilitate the preparation of estimates, as also to serve as a guide in settling rates in connection with contract agreements, a schedule of rates for each kind of work usually executed are maintained by the concerned department. It is primed on the basis of the rates prevailing in each station and essential analysis of the rates for each description of work under different conditions.

**Tender Processing:** After clarifying the above points tender processing starts. The first stage of tender processing is preparation of tender document which includes detailed estimates showing the quantities, rates and amounts of the various items of work, and also the specifications to be adopted. The estimated cost put to tender in the notice inviting tenders are worked out by adjusting the estimated cost of schedule items by the cost index and combining it with cost of non scheduled items if any, worked out on market rates.

Before approval of notice inviting tender, the following conditions are made sure:

(i) Availability of clear site, funds and approval of building plans from local bodies.

(ii) Confirmation that materials to be issued to the contractor would be available.

(iii) Availability of structural drawings for the foundations.
(iv) Lay out plan for all services.

Tender documents of work comprising of the following are prepared and approved by an authority that is empowered to approve the Notice Inviting Tenders (NIT) before it is issued, the rates entered in the estimates are generally agreed with the scheduled rates, but where due to any reason, scheduled rates are not available, market rates are considered. Assistant Engineer, Junior Engineer or Draftsmen compiles the tender documents for sale and regularly date and initial all rectifications. Further conditions and additions in the Schedule of Quantities, Schedule of Materials to be issued, and specifications and other essential parts of contract documents are also specified. They also date and initial all the pages of the tender documents, irrespective of fact whether they contain or do not contain any corrections or over writings, etc.

The Notice Inviting Tender includes following three components:

**Part A:** - This part includes the major component of the work, general conditions of contract as applicable with all amendments and modifications.

**Part B:** - General/specific conditions, specifications and schedule of quantities applicable to major component of the work.

**Part C:** - It depicts the minor component of the work, (where Superintending and Executive Engineer in charge of major component is the competent authority under clause 2 and clause 5 as mentioned in schedule A to F for major components) general or specific conditions, specifications and schedule of quantities applicable to minor component or components of the work. Entire work under the scope of merged tender gets executed under one agreement. Schedules for minor components of the work are supplied by technical sanctioning authority of the discipline in necessary time which is to be included in the main tender.

The Department lays down eligibility criteria for agencies responsible for execution of minor components of works. Agencies to be engaged by the main contractor have to fulfil the laid down criteria. In case the main contractor himself meets the required eligibility criteria as laid down by the Department for any minor component(s) of work, he is allowed to execute the same after due verification.

**Procedure for call of tenders:** Previously tenders were called under two and three envelope system, but recently Municipal Corporation has adopted e-tendering to make the system transparent and effective. Tenders amounting more than ten lacs are invited through e-tendering mode only.
Preparation of notice inviting tenders: The Notice Inviting Tenders are carefully prepared. All notices calling for tenders are in the standard form, and serially numbered. A proper register is maintained for this purpose. The notices are issued only after the authority competent to accord Technical Sanction has approved the Notice Inviting Tender papers, symbols are generally avoided and specific units are mentioned, each page is being checked by the competent authority duly signed. Time period of work is also decided by the board of the respective department. The Chief Engineer incharge of the work finalises the eligibility as well as bid evaluation criteria in accordance with the guidelines given in guidelines of CPWD.

Call of tenders: Tenders for various technically sanctioned estimates are called from interesting bidders. Extensive publicity is given to the Notice Inviting Tenders. Tenders are invited in the most open and public manner possible, by placing advertisement on the website and in the press, and by notice in English and Hindi and the written language of the district and U.T. as well.

Receipt, Opening and Acceptance of Tenders: To avoid the possibility of original tender documents being tampered, all the tenders in the power of Executive Engineer and higher officers are received in the Divisional Office. Tenders in the power of Assistant Engineer are received in the Sub-Division; e-tenders are received online. All the manual tenders are opened in the presence of such intending tenderers or their representatives as may choose to attend at the time and place, which should be advertised. After opening the tenders in the manner mentioned above, and keeping a record, preparation of comparative statement takes place, the Executive Engineer will send the same to the office of the Superintending Engineer/Chief Engineer (i.e. the tender accepting authority concerned) and the detailed scrutiny will be done in the office of that accepting authority.

If the response to tenders from the contractors of the appropriate classes is poor or unreasonably high rates are received, they may be recalled again after identifying the reasons. The rates quoted by first lowest tenderer, if beyond acceptable limit, rates are brought down to an acceptable level through negotiations. All the other tenderers are given a counter offer to reduce their rates to the rates quoted (or negotiated rates) by first lowest tenderer. After the tender for the work has been accepted, the same is communicated to the contractor.

Award of Work and Operation of the contract: As and when requisition of a set of works/jobs is received, the same are assigned to one of the short listed agency by EE
starting from original L1 on a work order slip. According to the practice earnest money is paid by each tenderer to enable the government to ensure that a tenderer does not back out of his tender before its acceptance, or refuse to execute the work after it has been awarded to him. The earnest money varies from service to service. The contractor raises the bills for work done & payments are made accordingly. If an agency does not start the work or does not perform the assigned work properly and/or in time, it is dropped from the list of approved/short listed agencies and their deposits including performance guarantee etc. gets forfeited. Such agencies are debarred for tendering for a period of three years within that Zone. Such an action is decided by Chief Engineer.

**Monitoring of Contract:** The Site is inspected by different officers of the respective departments including junior engineers, superintending engineers and chief engineers. Records are maintained about the inspections at Municipal Corporation. All the inspections are communicated in the form of inspection notes to the senior officers of organization. All the inspections are carefully recorded in the register. Every material issued is recorded in a separate register. The Notice Inviting Tender approving authority stipulates time schedule for physical milestones for accomplishing a particular work. The tender accepting authority reviews the progress of work each month with all the concerned disciplines including the contractor. The factors affecting the progress are identified and discussed and remedial measures taken in consultation with the officers of client department. Whenever physical milestones are specified in the NIT, the detailed reviews are carried out on the dates specified for such milestones. An extension of time is also granted by the competent authority for genuine hindrances and re-schedules the milestones appropriately for the work. Further, Chief Technical Examiner’s Organisation is the technical wing of the Central Vigilance Commission. Chief Technical Examiner’s Organisation conducts inspections of works of CPWD from the vigilance angle on its own or on a complaint being received by/referred to them. The inspections are carried out by them for works of any magnitude, both in respect of original and repair works. In order to facilitate selection of work for inspection, a quarterly return has been prescribed for submission to them giving the list of works in progress. These returns are consolidated for each Zone, and sent by the Chief Engineers to the Chief Technical Examiner (CTE). The returns are made on separate sheet, Circle wise, indicating clearly the name and address of the Engineering-charge under whose charge the work is being got.
executed. The Quarterly Progress Reports include all civil works where accepted/tender value exceeds Rs. One crore, electrical works exceeding Rs. 15 lakhs, and horticulture works exceeding Rs. 2 lakhs, and these are submitted on separate sheets for civil, electrical and horticultural works. These returns are submitted for the quarters ending March, June, September and December. Executive Engineers sends the returns to their Superintending Engineers by the 5th of the succeeding month of the quarter to which the report pertains.

The implementation of Quality Assurance in the field requires close co-operation among the three agencies, namely (a) field engineers (b) the construction agency, and (c) the Quality Assurance team at Circle level for strict compliance of Quality Assurance Procedure forming part of agreement1.

According to officials of Municipal Corporation Chandigarh sites are supervised and checked by field officers that include engineers as well. Besides surprise checks the material used at the site also gets tested at laboratories whether its upto the mark or not. Samples of materials are approved by the Executive Engineer/SE and signed by him and the contractor and preserved till the end of the project. After the completion of work and on basis of satisfaction of the department final bills are prepared for the payment. All the necessary deductions and penalties are deducted from the payment of contractor.

II

4.2 CONTRACTING OUT OF SELECT SERVICES

Contracting out is considered as the most pervasive and well established forms of privatization in present scenario. In this part, the discussion regarding contracting out process since inception has been discussed; in addition efforts have also been made to examine and discuss the comparative cost analysis of in-house and contracted out services.

4.3 SANITATION SERVICES

Contracting out of sanitation services was incepted in year 1996. According to documents of Municipal Corporation Chandigarh it came to light that the experience in the starting phase was not very good due to the reason that conditions were changed from time to time in order to bring more efficiency in the system. In the year 1

2003, the issue was discussed in the general house of corporation at length. After prolonged discussions the general house framed terms and conditions of the sanitation contract. One significant condition of the contract was that before making payment the contractors were required to take satisfactory performance certificate from the area councillor. Another important condition was that contractor would deploy at least a specific number of employees for the particular area on minimum wages prescribed by the Chandigarh Administration and also required to pay employee provident fund and employee state insurance at prescribed rate as employer share. Although Municipal Corporation Chandigarh specified minimum number of personnel for particular contract, but it was left upto the contractor to quote their rates and estimates, the personnel required and specify.

4.4 TRENDS OF COST EFFECTIVENESS IN CONTRACTED OUT SANITATION SERVICES (OUTSOURCING AREA)

It is important to know whether, a provision of service by an in-house department or by a contractor is cost effective or not. In this regard Table 4.1 illustrates the comparative cost analysis of sanitation service.

Figure 4.1
Number of sweepers employed in different areas and employee costing

![Graph showing number of sweepers employed in different areas and employee costing]
On the basis of above graphical presentation it is evident that a contractual sweeper deployed during 2009-2010 costs quite less than the permanent employed sweeper. The above computations are being carried out on basis of information supplied by Municipal Corporation Chandigarh. The cost of contractual sweeper is calculated by using formula i.e. Minimum wages act + Employee provident fund + EDLI + Employee state insurance + Service Tax, whereas cost of permanent employee is ascertained according to pay scale at the entry level in the department. It is vivid that old employee cost much more than newer ones. But despite taking the new employee there is much difference and one can deduce that through contracting out there is cost saving and less responsibility about the employee in terms of fringe benefits enjoyed by the permanent one.

4.5 ELECTRICAL SERVICES

On basis of enquiry it has been found that electrical services of Municipal Corporation Chandigarh were contracted out since 2007. Officials of the concerned department told that major contracted out services include maintenance of street lights and provisions of specific tasks are outsourced through contractors. Other than this contractual staff of electrical wing is being provided by various contractual agencies. The whole process is carried out on set guidelines of CPWD and monitoring is being done by department itself. Further contract evaluation is carried out on basis of contract agreement.
4.6 TRENDS OF COST EFFECTIVENESS IN CONTRACTING OUT ELECTRICAL SERVICES

It is important to compare the expenditure to be incurred on any service to be provided by either an in-house department or by contracted out service. Figure 4.2 shows the comparative analysis of electrical services in this regard.

![Figure 4.2](image)

**Figure 4.2**
Comparative analysis of internal project costing and contracted out electrical services

<table>
<thead>
<tr>
<th>Internal Project Costing for specific electrical services</th>
<th>129775</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bidder’s Cost (Approx.)</td>
<td></td>
</tr>
<tr>
<td>Firm 1</td>
<td>138870</td>
</tr>
<tr>
<td>Firm 2</td>
<td>158600</td>
</tr>
<tr>
<td>Firm 3</td>
<td>153480</td>
</tr>
<tr>
<td>Firm 4 (L1)</td>
<td>124983</td>
</tr>
</tbody>
</table>

Source: Compiled from official documents of MCC.

The above said tender was floated for accomplishment of electrical work which includes material and as well as labour. The broad head of this work includes carriage and erection of steel tubular pole, supply and erection of round shape bracket, S & E of 440 watt metal halide lamp flood light fitting, S & L of DWC pipe 50/63 mm without hand bockey, S& L of DWC pipe 50/63 mm with hand bockey, supply and laying of ISI marked 4 core 16 mm sq armoured cable loose in treach/piper, S&E of cc
collar including MS junction box, Supply and erection of pvc, outdoor type m.s. ,
supply and erection of 3 phase aluminum bus bar, sensor based timer, ICTPN , G.I.
earth pipe, earth wire, painting and numbering of poles. On basis of computation of
Delhi schedule rates rates the tender was floated aggregating to expenditure of Rs
129775/. Three different firms competed and quoted their rates and it was allotted to
lowest bidder which is firm 4 at the rate of Rs 124983/

The above analysis presents that there is cost savings in allotting an electrical service
through contracting out. The graphical presentation (figure 4.2) shows that different
parties contested to win bid for a particular service. The service was allotted to L1
which is lowest bidder in terms of price.

4.7 ROAD SERVICES

On basis of enquiry from client department it came to light that building and roads
work were contracted out since 1996. The major reason for outsourcing these works
are shortage of manpower, lack of infrastructure and poor performance of permanent
staff. The process of contracting out is carried out by following guidelines set by
CPWD. In case of major construction of buildings help was sought from architects
and consultants. Rest of the works pertaining to roads are carried out by technical and
administrative departmental staff.

4.8 TRENDS OF COST EFFECTIVENESS IN CONTRACTING OUT RECARPETING ROAD SERVICES

It is important to examine whether, a provision of service by an in-house department
or by a contractor is cost effective or not. In this regard Figure 4.3 illustrates the
comparative cost analysis of road service.
Figure 4.3
Comparative analysis of internal project costing and contracted out road services

<table>
<thead>
<tr>
<th>Internal Project Cost</th>
<th>Bidder’s Cost (Approx.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Firm 1 (LI)</td>
</tr>
<tr>
<td></td>
<td>Firm 2</td>
</tr>
<tr>
<td>9956407</td>
<td>9701692</td>
</tr>
<tr>
<td>9761792</td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from official documents of MCC.

In case of above tender it is clear that at times there are few bidders offering a price for doing a specific job. Only two firms participated for recarpeting of roads which is not a healthy sign for contracting out, but still there are savings as compared to market rate which are being computed on basis of DSR rates. Details of above are attached in annexure.

4.9 HORTICULTURE SERVICES

Horticulture department of Municipal Corporation Chandigarh has been contracting out services like Providing & fixing of Railing, Children Playing Equipment and Benches, Development and maintenance of Green Belts / Gardens, Maintenance of railing, playing equipments, benches etc. provided in parks / Open Spaces / Green Belts / Gardens; Removal of parthenium weed / Congress grass/ wild growth, Plantation and maintenance of Trees and Shrubs along road sides, Open Spaces,
Parks, Green Belts and Gardens; Removal of dry trees / Green Trees; Sale of Trees, Shrubs and other plant material through Corporation nurseries. On basis of inquiry it came to light that manpower for maintenance of parks and green belts is being provided by contractors, further these personnel are deployed to various green belts and parks of the city. The whole transaction is carried out as per the rules of central public works department.

4.10 TRENDS OF COST EFFECTIVENESS IN CONTRACTED OUT HORTICULTURE SERVICES

To examine whether, a provision of service by an in-house department or by a contractor is cost effective or not. In this regard Figure 4.4 illustrates the comparative cost analysis of horticulture service.

Figure 4.4
Comparative analysis of internal employee costing and contracted out horticulture services

<table>
<thead>
<tr>
<th>Total Cost for Outsourcing 188 Gardeners (Approx. Cost for 6 months)</th>
<th>Internal Employee Costing of Gardeners (Approx. Cost for 6 months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs. 16,54,400</td>
<td>Rs. 25,38,000</td>
</tr>
</tbody>
</table>

Source: Compiled from official documents of MCC.

On the basis of above graphical presentation it is clear that a contractual gardener costs much less than the permanent employed gardeners. The above computations are being carried out on basis of information supplied by Horticulture department of
Municipal Corporation Chandigarh. Above analysis clearly depict that there is cost saving of 883600 in employing 188 gardeners for the period of six months. Other than these savings, there are many advantages in terms of cost saving as permanent employees have various benefits and components which they get from government.

4.11 PARKING SERVICES
The Paid Parking of the Municipal Corporation is under the Additional Commissioner-I and assisted by S.D.E. HQ. The paid parkings are given only on lease for the period of one year which can be extended up to 3 years by way of auction. There are 26 parking lots in Chandigarh. The process of contracting out in parking services is carried out by calling tenders and holding a public auction and the parking lot is leased out to the highest bidder for one year. This has been done to regulate traffic and generate revenue.

4.12 STUDY OF SELECT CONTRACTED OUT SERVICES AT MUNICIPAL CORPORATION CHANDIGARH
The rationale for contracting out local government services is primarily for cost saving in a quality effective manner. The other reasons for pursuing contracting out is to meet infrastructural gap and for using the experts for the requisite service. In case of Municipal Corporation Chandigarh it came to light that there is severe staff crunch, attitude of permanent employees towards work and lack of infrastructure are some of the reasons for contracting services. On basis of inquiry it has been found that the estimates are prepared according to sanctioned rates of central public works department. Officials of the Municipal Corporation are of the view that the services are quite cheaper through contracting out. There is chance to negotiate with the potential bidders and work is being allotted to bidder offering lowest price. There is a checklist of formalities which a contractor must complete before participating in a bidding process. The whole process of contracting is carried out by different departments with the help of their own officials.

Although the services rendered by Municipal Corporation through contractors are cost effective in nature, yet there are some impediments among different services which are as below:
**Lengthy Memorandum of Understanding:** The analysis of the Memorandum of understanding signed between Municipal Corporation and the contractors for the various service shows that the contract language is legal in nature and the agreement ran into several pages. Even contractors rendering various services are not aware and have little knowledge about the terms and conditions of the contract, which is against the spirit of contracting out. There is need to have sound knowledge and complete understanding of the contract to both the parties. The contracts are carried out in casual manner. The interaction with councillors has bought out the facts that the municipal corporation is using the format which was designed long time back on the basis of guidelines of CPWD. Such outdated are coming in the way of effective service delivery. This problem is common for all the services.

**Lack of Feasibility and Poor Contract Design:** Feasibility study is considered as backbone of successful contracting process. Once it has been decided to contract out a service, there is dire need to carry out a feasibility study to examine the current cost to establish a baseline against which a contract price can be compared. On basis of studying select services, the problem of poor feasibility and contract design emerged in case of road and parking service.

On the basis of interaction with the councilors and officials of the Municipal Corporation and media reports it came to light that more than 400 internal roads of city is in bad shape and contractor are not interested in work due to low MC rates viz-a-viz market rates. This shows that the contract design has failed to attract the potential bidders and tenders have been floated on as many as thirteen occasions for recarpeting but no contractor came forward. The civic body lost lacs in issuing advertisements of the tenders without considering the revision of rates. (April 2, 2012 HT). Several councillors were of the view that the rates should be revised to the current market rates so as to generate interest of the contractors in the contracting process. The municipal corporation has suffered a loss of 2.3 crores in last two years i.e. 2010-2012 since it failed to allot the work in time. The work allotted to the company was not completed on time and the councillors claimed that the entire procedure adopted for road construction was faulty and bogus. As per the official records, there is lot of variation in rates passed by MC ranging from 17% to 70 %.

The same kind of problem has been prevalent in the paid parking. Municipal Corporation has suffered a loss of Rs. 10 lacs since the contract of paid parking lots
expired. No bidder came forward against the reserve price kept by Municipal Corporation. Meanwhile one of the contractor lamented that all the parking lots in the city are incurring losses as the conditions laid down by MC are very strict. This shows that the terms and conditions laid down by Municipal Corporation are not realistic and enforceable.

**Excessively Bureaucratic Contracting Procedures:** The rules governing contracting at Municipal Corporation are quite cumbersome and often results in delay. The area councillors lament that after passing the budget, they are not involved in any phase of contracting out which is very significant part for the development of their wards. Councillors are not informed about the working and as to how much penalty have been imposed on the contractors and how much recovered. Councillors admitted that there is lack of coordination between departments of the Corporation and there is no nodal officer who would act as a link between departments. Officials of the departments reported that policy matters takes lot of time to implement the decisions taken by house. Such procedural implication often results in delay.

**Cartelization in Select Services:** It is observed that there is serious problem of cartelization. There are few takers for the contracts and Municipal Corporation has suffered the losses worth crores. Contractors lament that strict conditions and difference in market rates are responsible for lesser interest in contracts of Municipal Corporation. Such monopoly is serious threat to spirit of contracting out.

If contracting is significant and there are not enough bidders to cultivate competition, there is need on behalf of Municipal Corporation to develop methods to entice private organizations into the bidding; contractor’s participation can be inspired by providing grants or contracts for capacity building. Such involvements can also be encouraged by permitting kind payment schedules, profits etc. The nonexistence of bidders in a contracting procedure is a strong indication that the approach to privatization must be updated and simplified. It is hazardous and imprudent to proceed with a contracting process in the absence of competition. A monopoly will allow a contractor to raise prices, and even more damaging a contractor can restrict service\(^2\).

In case of sanitation services it evident from the examples below:

\(^2\)Poor Competition among Bidders(2012), Hindustan Times, November 27.
E-Tenders were floated for Outsourcing of areas i.e. Villages, colonies and sectors on 25.05.2012 on the terms & conditions as approved by General House of the Corporation in its 178th meeting held on 30.03.2012. The technical bids were scrutinized on 29.06.2012.

Table

<table>
<thead>
<tr>
<th>Outsourcing of Area (Group A - Villages) – 275 workers</th>
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</thead>
<tbody>
<tr>
<td><strong>Villages &amp; Participants</strong></td>
</tr>
<tr>
<td>M/s Friends Associates</td>
</tr>
<tr>
<td>M/s Reliable Services</td>
</tr>
<tr>
<td>M/s Decent Security &amp; House Keeping Services</td>
</tr>
<tr>
<td>M/s Capital Security Services</td>
</tr>
</tbody>
</table>

Source: Compiled from Minutes of 178th Meeting of MCC.

M/s Reliable Services and M/s Decent Security & House Keeping Services have given their consent that they have no objection, if the work is allotted equally between M/s Friends Associates and M/s Capital Security Services and these firms have also no objection in this regard.

Table

<table>
<thead>
<tr>
<th>Outsourcing of Area (Group B - Colonies) – 475 workers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Colonies &amp; Participants</strong></td>
</tr>
<tr>
<td>M/s Decent Security &amp; House Keeping Services</td>
</tr>
<tr>
<td>M/s Capital Security Services</td>
</tr>
<tr>
<td>M/s Sharma Associates</td>
</tr>
</tbody>
</table>

Source: Compiled from Minutes of 178th Meeting of MCC.

M/s Capital Security Services and M/s Sharma Associates have given their consent that they have no objection, if the work is allotted equally between them.
M/s Friends Associates has given his consent that he has no objection, if the work is allotted equally between M/s Decent Security & House Keeping Services and M/s Reliable Services and these firms have also no objection in this regard.

After receiving the above bids from contractors, tendering committee had decided to distribute the work in 50:50 ratio as there were two bidders at 0% in Group-A and Group-C respectively.

While clause 11 of detailed notice inviting tender states that in case, more than one contractor quoted the same rate in the Price Bid for a group then the successful bidder shall be decided by draw of lots. Despite the clause the agenda for splitting the work is placed before chief Municipal Commissioner and got approved as there is no financial implication involved. Such instance clearly depicts the cartel practice among sanitation contractors which is serious threat to contracting out.

Meagre Communication between Government and Contractor:

Communication and relationships are considered significant in process of contracting out. While Municipal officials believe that contracting is a “turn-key process”, It is presumed that contract once awarded will automatically give tangible results. However the close study of the records of Municipal Corporation reveals that most contracts do not work that way. Literature on contracting out process also reveals that best of effort is required at the organizational level to make contracting a success. The

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continuous dialogue between the contractor and officials are very important. While in case of Municipal Corporation Chandigarh, it has been found that there is no communication between Municipal Corporation, contractors, and staff of contractor.

Such practices mar the spirit of contracting out and are proving as the major hurdle in efficient service delivery to the citizens. Under such conditions contractors easily manage to evade responsibility and leads to unacceptable performance. Sanctioning contractors is mere a formality and most of the contractors breach and gets way by paying fines. Under such conditions the quality of service is suffering and gives rise to conflicts also. It has been found that there is no devised plan for meetings and there is no clear cut channel of communication. Such communication gap is prevalent in all the service.

A research study undertaken by the researcher on parking service revealed that Contractors lamented that they had submitted memorandums number of times on problems being encountered by them. It is clear from findings of this study that a communication gap between the contractor and the officials and no attention is paid to hear the grievances of the contractors at any stage after signing the contract, thereby hampering the results of the contractor in terms of service delivery.4

**Exploitation of Contracted staff:** On basis of survey it has been found that profit motive of contractor is responsible for deficient staffing, training and equipments. Most of the staff employed by the contractor is being hired at low cost and they are poorly trained to carry out the specific work. On basis of interaction with contracted out staff of sanitation, roads, electrical and parking services it came to light that due to poor monitoring and high scope of corruption, contractor is easily deceiving Municipal Corporation by employing less staff and depriving them of the equipments.

On basic of interaction with workers of the contractors of all services, it came to the surface that they are being charged for the dress, given less and untimely salaries, no holiday is provided and less number of workers are employed for performing particular duties. (For detailed analysis see chapter number 5)

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**Political Interference in Contractor Selection or Management:** Political interference in selection of contractor is considered as one of the major evil of contracting out. It has been found that Municipal Corporation has favoured various contractors by changing terms and conditions of the contractual agreement due to political pressures. Such practices resulted in huge losses to Municipal Corporation. Threat of selections based on political pressures results in wrong and inefficient contractor which can further cause poor service delivery.

The media report clarified and corroborated that the whole process of contracting out has irregularities since the proposal which was deliberately sanctioned by the chief engineer public health and design is carried out in a way to suit a particular firm.5

**Inappropriate Monitoring System: Norms-A Mere Formality**

Contracting out process requires that an organization entering into contracting system must have an efficient monitoring system. To do this job efficiently in public agencies a, government managers must have precise and opportune information about contractor performance. Performance processes must be carefully crafted to provide information about the processes, outputs and outcomes that matter the most to the government and its program. Since the program’s activities are being implemented by organization acting under contract, the performance measurement system must be explicitly designed into the contract’s structure. In case of Municipal Corporation Chandigarh it came to light that work is checked and monitored by the client department only. There is no separate and independent institutional mechanism to monitor and supervise performance. This work is highly specialised in nature and requires knowledge and skill which is missing in most of the government organizations, particularly at the lower level. The heads of the concerned branches viz. Sanitation, electrical, horticulture, maintenance of park services and parking services are made coordinators for the work to be contracted out. Due to work pressure and their other departmental duties, they fail to monitor the work and conduct of the staff of the contractors on regular basis, resulting in flouting the norms laid down in the contract by the contractor. Therefore it is recommended that a separate branch consisting of staff having requisite knowledge and skill be created for

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handling the work of contracting process that is from contract design to monitoring and evaluation.

**Misdirected or Inadequate Contract Incentive Provisions**

Contractors, like everyone else, do better work when there are rewards associated with superior performance. Some government contracts reward performance with cash bonuses; others provide firms with advantages during contract renewal competitions. There is no such policy present in Municipal Corporation Chandigarh, rather contractor feels that the sanctions are hard and it is difficult to work under such terms and conditions. The following letter from one area councillor depicts the situation where no contractor came forward for work.

From the above it is clear that the Municipal Corporation Chandigarh does not have any policy for incentivising the contractors particularly for works areas which are unattractive due to conditions pertaining in those areas.

**Union Opposition to Contracting**

In case of MCC, it is clearly evident when Municipal Corporation initiated a door to door garbage collection pilot project. This project got strong oppositions from local garbage collectors and due to that opposition project was scrapped mid way. In reprisal sweepers throng to house to deputy mayor and dumped heaps of garbage in front of his house

**4.13 CONCLUDING OBSERVATIONS:**

On basis of above discussion, it has been observed that the process of contracting out at Municipal Corporation Chandigarh is being carried out on the basis of Central Public Works Department guidelines. Further it has been found that the services provided through contractor is cost effective but it has wide ranging issues and problems i.e. lengthy memorandum of understanding, excessively bureaucratic contracting procedures, lack of feasibility and poor contract design, cartelization in select services, meagre communication between government and contractor, exploitation of contracted staff, political opposition to contracting, political interference in contractor selection or management, inappropriate monitoring system and union opposition to contracting. From the findings of the existing literature already discussed in the chapter brings forth that the contracting out could be counterproductive if not carried out with meticulousness. There is need of sporadic research based assessment by independent authority of the ongoing contracting out projects, so that such barriers can be removed. Effective monitoring and supervision is highly recommended so that the clauses enshrined in memorandum of understanding are adhered to.