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GOVERNMENT OF NATIONAL CAPITAL TERRITORY OF DELHI
DEPARTMENT OF URBAN DEVELOPMENT.

Explanatory Memorandum as to the action taken on the recommendations made by the Second Delhi Finance Commission.

The Second Delhi Finance Commission (herein after referred to as the 'Commission') constituted vide order No.F50(1)/98/DFC II/UD/611 dated the 9th January, 2001 submitted its report to the Government on 30th April, 2002. The report containing its recommendations on each of the subjects referred to it covering the period of five years 2001-2006 together with the explanatory memorandum on the action taken on these recommendations is being laid on the table of the House in pursuance of clause (2) of article 243 Y of the Constitution of India. The summary of the recommendations of the Commission relating to tax-assignment, grants-in-aid, debt relief and other matters is contained in Chapter VIII of the report. An Executive Summary is also given at the beginning of the report. The decisions of the Government on the recommendations of the Commission are indicated in brief, in the following paragraphs.

SCHEME OF DEVOLUTION.

2. The Government has accepted the Commission's recommendation for assignment of 5.5 percent of the net proceeds of all taxes and duties collected by the Government of NCT of Delhi, to the Municipal Corporation of Delhi and the New Delhi Municipal Council together, during each of the five financial years commencing from Ist April, 2001. The inter-se distribution of the same between Municipal Corporation of Delhi and New Delhi Municipal Council will be 70 percent on the basis of population (as per 1991 census) and 30 percent on the basis of area.

3. The Commission's recommendation for raising the level of the grants-in-aid (non-plan) for education from 6o percent of the 'eligible' expenditure to 70 percent in the case of Municipal Corporation of Delhi has been accepted. In line with the same, the level of this grant in the case of NDMC also has been raised to 70 percent (against 66 percent recommended by the Commission). The recommendation for payment of the grants-in-aid for the maintenance of resettlement colonies to Municipal Corporation of Delhi and for mid-day meals schemes to Municipal Corporation of Delhi and New Delhi Municipal Council on the same basis as at present, has been accepted. Similarly, the recommendation in regard to confining the overall quantum of all these grants-in-aid together in a year within the cap of 5 percent of the Government's net tax revenues in that year, has also been accepted. The shares of Municipal Corporation of Delhi and New Delhi Municipal Council in the total amount of the grants-in-aid so arrived will be determined in proportion to their respective eligible expenditures.

4. The Commission's recommendation for earmarking of 5 percent of the tax-assignment to Municipal Corporation of Delhi and New Delhi Municipal Council (i.e. their shares in 5.5 percent of the net tax proceeds mentioned in para 2 above) for the maintenance of their capital assets as also for earmarking of 5 percent of the grants-in-aid for education to Municipal Corporation of Delhi for the maintenance of school buildings have also been accepted. Consequential changes for the purpose in the Grants-in-aid to Local Bodies Rules, 1990 will be made.

<u>Additional Resource Mobilisation</u>

5. The Government has decided to refer to Municipal Corporation of Delhi and New Delhi Municipal Council for action, the following recommendations of the Commission aimed at mobilisation of additional resources.

(i) Imposition of tax on professions, trades, callings and employment.

(ii) Levy of tax on increase in urban land values on account of execution of any development or improvement work; and

(iii) Revision of the structure of various fees, fines and rents.

6. With a view to encourage Municipal Corporation of Delhi and New Delhi Municipal Council to make all out efforts to mobilise additional resources, the Commission recommended incentive payment to them equivalent to

(a) 2 percent of the collection (in the year following the year of levy) from new taxes, and

(b) 33 percent of the collections from the existing taxes, in excess of 2 percent of the amounts assumed in the forecast therefor made by the Commission,

during each of the five years 2001-06. The Government has accepted (a) but as regards (b), the incentive payment has been staggered as 11 percent in the first year, 22 percent in the second year and 33 percent in the third year and onwards, of the excess amount mobilised beyond 2 percent of the Commission's forecast for the respective tax-head.

Financial Management and Reforms

7. The recommendations of the Commission on contracting out selected services to the private sector and for downsizing of their work-force together with that for augmenting expenditures on environment conservation are being referred for action to both Municipal Corporation of Delhi and New Delhi Municipal Council and those on property tax reforms through adoption of the Unit Area Method and for reform of Accounting and Budgeting through adoption of mercantile system is being referred for necessary action to the New Delhi Municipal Council alone, (Action on these recommendations is already under way in Municipal Corporation of Delhi). It is proposed to call for periodical reports from them for monitoring the progress on each of these fronts.

8. The Commission's recommendation on creation of the Municipal Reform Fund by the Government for extending financial support to Municipal Corporation of Delhi and New Delhi Municipal Council for promotion of the reform process has been accepted. Its corpus will be constituted of the amounts payable to there bodies by way of incentives towards raising additional resources discussed in para 6 above.

9. The recommendations of the Commission for providing Rs.10 crore to Municipal Corporation of Delhi and Rs 1 crore to New Delhi Municipal Council for computerization of public dealing departments has not been accepted, since there already exists a plan scheme for the purpose in Municipal Corporation of Delhi and it is considered better to strengthen that scheme if need be rather create a duplicate outlet outside the plan. Similarly, the needs of New Delhi Municipal Council for the purpose are proposed to be taken care of under the plan.

Debt Relief.

10. Commission's recommendation for grant of three year moratorium on the fresh loans to Municipal Corporation of Delhi has been accepted in respect of loans to be sanctioned during the three years 2003-06, to provide relief in its repayment liability. As regards the recommendation for reduction in the rates of interest, it will be kept in mind while determining the terms and conditions of loans, in the light of the interest rates paid by the Government on Plan loans and Small Savings loans.

Delhi Cantonment Board.

11. The Commission's recommendation that the devolution of funds to the Delhi Cantonment Board may continue to be made as per the current practice has been accepted by the Government.

Other recommendations.

12. The transfer of Municipal Corporation of Delhi hospitals capacity of with 100 or more beds to the Government recommended by the Commission is not considered necessary. Similarly, the recommendation for transfer of the job in respect of factory and food licensing has not been accepted. As regard other functions of the Corporation like poor houses, homes for destitute, old age pension etc. it has been decided to make a survey to see that there is no duplication of schemes and to establish coordination between the Department of Social Welfare and local bodies in respect of all the schemes/projects identified by the Finance Commission

Implementation of the Commission's recommendations.

13. Necessary action will be taken in due course for amendment/enactment of relevant laws/rules and issue of executive/administrative orders, for implementation of the Commission's recommendations as accepted by the Government.

(A.K.WALIA)
MINISTER OF URBAN DEVELOPMENT

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New Delhi
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