K.S. MEHRA
PRINCIPAL SECRETARY
URBAN DEVELOPMENT

D.O. No. F.13/32/2007/UD /469-7

GOVERNMENT OF THE NATIONAL
CAPITAL TERRITORY OF DELHI
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Dated : 08.01.2008
9-1-08

Dear

In pursuance of the provisions of clause (2) of Article 243Y of the Constitution, the recommendations of the third Delhi Finance Commission along with an explanatory memorandum as to the action taken thereon by the Government have been laid on the Table of the Legislative Assembly of National Capital Territory of Delhi on Friday the 28th December, 2007.

A copy of the said explanatory memorandum is sent herewith for information and any action thereon as required on part of your organization.

The recommendations of the Commission as accepted by the Government would be given effect to from 1st April, 2008 and would be valid for the period of three years up to 31st March, 2011. The devolution of funds made already to local authorities for the two years 2006-07 and 2007-08 shall be treated as final.

Yours sincerely,

**(K.S. MEHRA)**

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1. **Shri Ashok Kumar, Commissioner, MCD, Town Hall, Delhi-6**
2. **Shri Parimal Rai, Chairman, NDMC, Palika Kendra, N.Delhi**
3. **Shri A.R.Datta, CEO, Delhi Cantonment Board, Delhi Cantt.**

GOVERNMENT OF NATIONAL CAPITAL TERRITORY OF DELHI
DEPARTMENT OF URBAN DEVELOPMENT

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

The Third Delhi Finance Commission (hereinafter referred to as the 'Commission') constituted vide order No. F7/443/3/2004/UD/10905 dated 21st October 2004, submitted its report to the Government on 5th April, 2007. The Executive Summary of the report containing inter alia each of its recommendations covering the period of five years 2006-2011, as given in the beginning of the report, 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.

2. The Commission has made 59 recommendations in all. These are of two kinds – first, that are directly related to the terms of reference made to the Commission and the other, that are peripheral and incidental.

## I

## Devolution of Funds

3. The decisions of the Government on the recommendations of the Commission of the first kind which involve devolution of funds to local authorities are first covered and indicated below.

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Tax-assignment

4. The Government has accepted the Commission's recommendation for assignment of 4.0 percent of the net proceeds of all taxes and duties collected by the Government of National Capital Territory of Delhi, to the Municipal Corporation of Delhi and New Delhi Municipal Council together. 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. The Government has also accepted the recommendation that of the shares so derived, 5 percent of the share of New Delhi Municipal Council may be earmarked for the maintenance of its capital assets and 10 percent of the share of Municipal Corporation of Delhi be earmarked for the maintenance of its school buildings and other capital assets (5 percent each). These earmarked amounts shall be released by way of grants-in-aid subject to monitoring.

**Municipal Reforms Fund**

5. The recommendation for appropriation of 1.5 percent of the net proceeds of all taxes and duties imposed by the Government to the Municipal Reform Fund and that for allocation out of it, to New Delhi Municipal Council an amount equivalent to 10 per cent of its share in tax assignment as a reward in recognition of its better fiscal management has also been accepted. However, the disbursal of the remaining appropriation to that Fund to the Municipal Corporation of Delhi and New Delhi Municipal Council shall be in the ratio of net improvement recorded by them in a year in their Balance of Current Revenues (i.e. the surplus/deficit on non-plan revenue account), an omnibus yardstick representing the net result of a public authority's performance in the matter of both receipts and expenditure accounts

taken together, as the scheme of the Commission for the purpose was considered too complex and cumbersome to be put in practice.

**Grants-in-aid**

6. The Commission's recommendation on payment of grants-in-aid to cover 70 percent of the eligible non-plan expenditure on education in the case of Municipal Corporation of Delhi and New Delhi Municipal Council and 100 percent of that incurred by Municipal Corporation of Delhi on the maintenance of resettlement colonies, subject to their overall quantum in a year being confined to the cap of 5 percent of the Government's net tax revenues in that year, has also been accepted. In case of this overall quantum exceeding the said cap, the shares of Municipal Corporation of Delhi and New Delhi Municipal Council shall be determined in proportion of their respective eligible expenditures. Since these grants-in-aid are by way of reimbursement of non-plan expenditures, the suggestion of the Commission to make their release in the coming years as subject to these bodies submitting an account of their past performance and executive plan, is not considered relevant.

**Release of funds to Zones directly**

7. The recommendation for release of 40 percent of the devolution of tax-assignment and grants-in-aid due to Municipal Corporation of Delhi to each of its twelve zones directly on the basis of 70:30 formula based on population and area has not been accepted. This is not in line with the Constitutional mandate and may lead to serious inter-zonal distortions, especially in the matter of grants-in-aid.

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## Compensatory grant to Municipal Corporation of Delhi

8. The Commission's recommendation for payment of a grant of Rs 100 crore per year to Municipal Corporation of Delhi as compensation for the delay on the part of the Government in approving its proposal for augmentation of tax rates from 2004-05, till its proposal is approved or 2010-2011 whichever is earlier, has also not been accepted, since the Government cannot be faulted for the delay.

## Assignment to Delhi Cantonment Board

9. The recommendation to pay to the Delhi Cantonment Board on ad-hoc basis an amount of Rs 5 crore in the first year (2006-07) reduced by one crore for each of the remaining four years (2007-2011) has not been accepted, since the Commission has not given any basis for disrupting the dispensation being made in its favour since long. Instead, it has been decided to continue to pay to the Board an earmarked grants-in-aid equivalent to 70 percent of its eligible expenditure (non-plan) on primary education, as in the case Municipal Corporation of Delhi and New Delhi Municipal Council. In addition, an amount equivalent to 0.07 percent of the Government's net tax revenues shall be paid to the Board by way of tax-assignment.

# II

## Other Recommendations

10. The Government has accepted the recommendation to strengthen and revamp the existing Finance Commission Cell located in the Urban Development Department. The Government has also accepted the recommendation relating to the constitution of Metropolitan Planning Committee in Delhi. However, the recommendations of the Finance Commission on transfer of major hospitals of

Municipal Corporation of Delhi and New Delhi Municipal Council to the Government and those pertaining to setting up of Standing City Development and Reforms Committee, the State Reforms and Coordination Committee and Municipal Reforms Committee and creation of City Development Fund have not been accepted, as this will result in proliferation and further add to multiplicity of agencies, Once the Metropolitan Planning Committee duly reconstituted under the Government of National Capital Territory of Delhi is in position, there would be no need for those institutions.

11. Most of the other recommendations have also been accepted by the Government and follow-up action thereon shall be taken in due course, in consultation with the concerned departments and agencies.

**Date of effect**

12. On account of the delay in the submission of the report by the Commission, the devolution of funds to Municipal Corporation of Delhi and New Delhi Municipal Council for the first two years of its five year period (2006-2011) have already been made on the basis of the Second Finance Commission's recommendations. The implementation of the recommendations of the Third Finance Commission w.e.f. 1st April 2006 would involve recovery of the excess amounts already released to those bodies. Even otherwise, those of the recommendations of the Commission requiring the local bodies to effect reforms including measures to tone up tax administration and expenditure management and also entitling them to additional devolution of funds with reference to their performance on this account, cannot, in any case, be given effect to retrospectively.

It has, therefore, been decided to give effect to all its recommendations as accepted by the Government, from 1st April, 2008. The devolution of funds made already for 2006-07 and 2007-08 to Municipal Corporation of Delhi, New Delhi Municipal Council and Delhi Cantonment Board may be treated as final.

**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.

(RAJ KUMAR CHAUHAN)
MINISTER OF URBAN DEVELOPMENT

F. 13/32/2007/UD/
New Delhi
Dated: 25.12.07