EXECUTIVE SUMMARY

BACKGROUND: The Third Delhi Finance Commission was constituted by an order dated 21st October, 2004 of the Government of National Capital Territory of Delhi. In the terms of reference, the Commission has been asked to make recommendations regarding the principles which should govern the distribution of the net proceeds of taxes, duties etc. leviable by the GNCTD, to the local bodies. The Commission shall also have regard, among other things, to the overall resources position of the GNCTD and scope for economy in municipal administration and, also, the scope for improvements in resource mobilisation.

City visions provide a framework for an evaluation of resource needs. A comparative examination of some urban local bodies was necessary for the analysis. The resource requirements of the state government in the global city context is also relevant. Socio-economic forces and technology are posing a challenge to the growth of the city. Urban development is increasingly becoming associated with acquiring a competitive edge. Resource requirements of the state government may have to be recast in the global city context. What benchmarks should an "effectively functioning" local body achieve, and, what should be its ties with the state government? The Commission sought to find answers in the various chapters.

Approach and Methodology

Chapter-1 spells out the approach and methodology adopted by the Commission regarding the analytical framework, the assumptions, and techniques used for investigations. "Delhi the City", as a national capital, as a distributive commercial centre, and, having an aspiration to become a "modern global city", is an underlying theme throughout the study. Under the Terms of Reference, (order-dated 21.10.2004); the Commission has to make recommendations regarding the principles which should govern the distribution between the GNCTD and the municipalities, of the net proceeds of taxes, duties etc. leviable by the GNCTD. The terms also include measures to improve the financial position of the municipalities. The Commission compared local bodies of Delhi with municipal bodies elsewhere. Some questions asked were: how effective is the delivery of services? Are there possibilities to minimise cost and time overruns? Did the recommendations of the First and Second Delhi Finance Commission have some impact on the working style of the municipal bodies? Considering the disparities at the Zonal levels, are resource allocations amongst the zones being made on a rational basis, within local bodies. The Commission adopted a broad-based approach to data collection and tried to capture nuances of perceptions of a cross section of people/stake holders.

International, National And Regional Trends And Policy

Chapter-2 examines the various "visions" of Delhi as a city by different authorities and evaluates them from the point of view of resource needs. The challenges to its growth and the fragmented planning processes are also examined. Developments at international levels are impacting cities more deeply. Cities, as dynamic engines of growth, attract investments, employment and talent through IT, ITES and BPO routes. This has accelerated inter-urban competition among cities, which have been obliged to identify their comparative advantages. This has implications for resource management. Some deceleration of urbanisation has taken place. Sub-urbanisation is on the increase. Mega city management will need evolving a "city vision" and suitable institutional mechanisms. Judicial interventions have increased in the area of urban policy formulation. For city management, a number of studies point to high requirements of resources. The issue of who is to provide for such heavy investment -- government or partly through private investment -- has been touched upon. The National Capital Region has to be seen as an integral whole.

Though well recognised for decades, the goal of inhibiting growth of Delhi has made little headway. Statistical figures in terms of state domestic product, high per capita expenditure, high literacy rate etc. need not make Delhi complacent. There is a need to go behind the figures. There are many inadequately addressed issues connected with the provision of basic services.

Delhi – The City

Chapter-3 examines Delhi "the city": as a national capital; as a mega city and as an aspiring global city. There is a concentration of administrative and political power. The fragmentation of the planning process is the core issue behind many problems of coordination and implementation. Population size positions Delhi as a "mega" city. Management of migration is a major challenge in terms of infrastructure and resource needs. A high level of financial, legal and management services etc. is yet to be achieved. Such "advanced producer services" are fundamental to the achievement of a truly "global city" status. The attraction of NCR as a destination of choice has declined. In an overall cost and quality driven analysis for off-shoring work, Delhi figures well but IT/ITEs activities may move towards new areas. It is for Delhi to reinforce its competitive advantages and meet the demand for basic services and quality of life. It has to create the environment required for attracting investments and employment in the current "globalising" context.

The City: Vision, Development, Management and Good Governance

Chapter-4: Delhi has veered between different visions of the "city". Initially, it wanted "planned development", then to be a "manageable" city and then a "cyber city". Now it seeks to develop into a "modern global city". Multiplicity of visions arises out of the multiplicity of planning bodies. Various master plans proposed to restrict growth of urbanization and migration and ensure quality infrastructure. DDA's Master Plan for 2020-21 aims at making Delhi a global, modern and a world-class city. GNCTD's own five-year plans continued to recognize unchecked in-migration and pressure on infrastructure as a basic problem. The 10th Five Year Plan (2002-2007)'s thrust was on the privatisation process in power sector, and, it also attempted to restructure some public utilities. The main areas of concern are, therefore, identified as the lack of economic integration, heavy financial loss of public utilities and fragmentation of planning. A vital input for the realization of the vision of a modern global city would be "good governance" both as an objective and as a process. There is need for a mechanism to continuously review progress towards objectives influencing Delhi's role as a modern global city, particularly its trade and business development aspects.

Interplay of Mega-Events and the Population Factor

Chapter-5: Efforts for planned development for Delhi have, so far, not made much headway. Delhi has been growing at about 1000 persons per day for a number of years. The move to relocate offices out of Delhi has also not succeeded. Expansion and upgrading of facilities attracts more migration. The Central Government has retained substantial control over local bodies in Delhi. The status of a global city implies "networking and flows between cities". Cities seek to attract companies and investment. Winning strategies have to be evolved to tap the potential in the global IT and BPO markets etc. Some mega events, which influenced the growth of Delhi, were Refugee Influx (1947), First International Trade Fair (1957), Ninth Asian Games (1982), Punjab migrants (1987) and Kashmir migrants (1990). Population remains a major determining factor for infrastructure development of the city. Additional requirements of funds for Commonwealth Games 2010 would have a great impact on physical infrastructure. If NCRPB Regional Plan 2001 had fully worked, 26 lakh migrants would have been diverted to cities outside Delhi. The anticipated inflow of population has to be deflected to the satellite towns. The availability of funds has trailed requirements. Push and pull factors need to be assessed. The role of good governance is critical.

Assessing City Management: Governance, Infrastructure and Services- as Benchmarks

Chapter-6 deals with evolving the benchmarks for assessing 'city management'. Infrastructure and services like water supply, public transport, health, education, and, other indicators such as accountability, responsiveness, citizen participation and, also, management innovation determine the city's competitive edge to attract investment. Delhi has shortfalls in various areas. In education sector the ratio of student per teacher can be looked into; in the health sector, though bed population ratio is more than WHO recommendation, preventive health care is not up to the mark (dengue and gastroenteritis). Pollution and health problems are increasing. Only 45% of the city's population lives in approved colonies. Water supply is short by 40%. Only 55% of Delhi has a sewerage system. Delhi produces only 18% of its power requirements. Inadequate management structures and fragmented planning lead to lack of an integrated vision and implementation deficiencies. The continuous migration has a lasting impact on resource needs of the city. On socio economic benchmarks, Delhi is facing much stress. Networking between GNCTD and Governments of States in the NCR needs to be stepped up if benefits of the hinterland (NCR) are to flow to the NCT.

Assessing City Management: Policy, Institutional Arrangements - As Benchmarks

Chapter-7: Benchmarks are essential for evaluating any city. The administrative arrangements in Delhi, the development plans of the National Capital Region Planning Board, and, the Delhi Development Authority, have helped to evolve perspectives on resource constraints, performance gaps, sector shortfalls and physical service gaps. Committee reports of the Ministry of Urban Development have emphasized on upgradation of municipal services, efficiency of property tax collection, Metropolitan Planning Committee, public-private partnerships and, devolution/transfer of funds from the state governments to local bodies. Local bodies should have a greater say in their areas of responsibility. Rapid increases in urban population have eroded the financial strength and management capacities of local bodies. Ministry of Finance instructions on economy, budget circulars etc. all emphasize conservation of financial resources. Planning Commission guidelines stress on prioritisation, private-sector participation, rationalizing manpower, completion of ongoing projects, and devolution of resources and responsibilities to local bodies. Ministry of Home Affairs, instructions also emphasize realistic budgets, economy and more focused "object" accounting heads. Less than half of potential revenue is actually collected by local bodies. Ministry guidelines on expenditure management, fiscal prudence and austerity have helped in deriving performance benchmarks. Non-adherence to normative yardsticks should not be ignored in future allocations of funds to local bodies.

Assessing City Management: The State Government-Local Body Interface: As Benchmarks

Chapter-8: Identifying resource needs is based on the declared vision of Delhi as a "modern Global City": Then comes analysis of the effectiveness of resource mobilization, allocation and their utilization. Both quantitative and qualitative dimensions of receipts and expenditures of state and local bodies have been examined. The outcomes of decentralization have also been looked at. Expenditure management has been examined under five groupings: Public Goods (law and order etc); merit goods (education, health etc); income transfer (administrative expenses, interest, etc) economic goods (power, transport etc) and services (sanitation, public works etc). Vis-à-vis economic objectives, public spending seems, at times, to be focused on "private" transfer either to interest groups or to individual citizens. This transfer of funds often takes the form of public employment and subsidy which actually flows to individuals. There are significant micro-level areas of concern: unreformed status of state/local bodies and relationship reflected in insufficient control of the State Government over city management. Overlapping functional jurisdictions also cause duplication and higher costs. Some checklists have been given to enable assessment of financial relations across levels of government concerning spending, funding and macroeconomic management. Improvements in the implementation process and procedures are needed.

Planning for the Development of Delhi

In Chapter-9 an effort has been made to identify investment needs from various estimates made. These include projections made by the NCR Planning Board (1997) and by the Delhi Urban Environment and Infrastructure Improvement Project (2001). Some important sectors considered while projecting investment plans are transport, power, water supply, solid waste management and sewerage. The Plan and GNCTD's budget documents were also relied upon to trace the evolution of development priorities. The budget of 2001-02 enunciated, for the first time, a larger perspective on urban development and the goal of Delhi as a world class city. Resource projections for the Ninth Five Year Plan and Tenth Plan, annual budgets from 1993-94 to 1997-98 have been analysed in the context of institutional changes taking place and Delhi emerging as the National Capital Territory with its own consolidated fund. Reforms in governance, loan liabilities, financial implications of public utilities and public - private partnerships are touched upon. The annual budget and annual plan circulars are examined for setting normative standards. Tax policy is also analysed. There is an analysis of plan expenditure and utilisation by various agencies in different sectors - rural development, transport, general education, water supply and sanitation, urban development and social welfare etc. The analysis showed that many departments were unable to make full utilisation of the allocated funds. Cost time efficiencies of projects are also commented upon. There is an urgent need to define precisely the "city vision". The plans of the state government and the local bodies must integrate seamlessly.

The State Government: Financial Operations: Resource Needs and Resource Mobilization

This Chapter-10 examines the financial operations of the GNCTD. Resource needs will depend on a clear appreciation of the responsibilities of the state government. The investment needs under plan and non-plan are identified and compared to GSDP as also with some other states. Annual budgets and their projection of resource needs are analysed against revised projections and actual. The percentage variations are wide. Resources availability and trend growth rates have also been examined. Non-plan requirement projected and actual is growing at a faster pace than plan. Resource mobilisation is then gone into along with the changing composition of receipts. Total tax revenue as a percentage of total revenue has been declining. Each component of tax revenue - sales tax, excise, stamps and registration fee, tax on motor vehicles etc. is separately analysed. Non-tax revenues are also commented on. Capital receipts such as small savings loans are analysed. An important aspect is the growth of debt which has increased from a mere 117 crores in 1993-94 to Rs. 21,676.32 crores in 2005-06. Some observations of the Comptroller and Auditor General have been relied upon to highlight issues deserving attention in revenue earning departments.

The State Government: Financial Operations; Resource Allocation and Resource Utilization

Chapter-11 examines the allocation and utilization of resources mobilized by the state government across proposed and actual utilization, plan and non-plan, capital and revenue and socio-economic sectors. It also examines the efficiency of expenditure management and the performance level of public sector utilities. The utilization of funds earmarked for plan has been on the lower side. The percentage share of plan expenditure out of the total receipt of each year is shrinking. On the other hand, non-plan expenditure has exceeded even 60%. Revised estimates for plan expenditure have, in most cases, been lower than the budget estimates thereby providing a smaller resource base. Under utilization of resources reveals the absence of an utilization plan. The unutilised amounts will also bear an additional interest liability because of loans taken from the central government against small savings. There is also heavy emphasis on giving loans to public utilities for their operational requirements and inability to utilize the borrowed amounts efficiently and effectively on creation of capital and productive assets. As a result, the opportunity of funding alternative developmental projects has been lost. This is a disturbing development of recent years. MOUs should be strictly imposed on public utilities and soft options avoided if financial prudence and health is to be regarded. Delhi has managed to maintain a surplus on the revenue account. However, it balances its overall budget deficit by taking loan against small savings. Delhi does not also bear the expenditure on police, law and order and pensions. The gap between capital receipts and capital expenditure has actually been growing from 1994-95.

Municipal Corporation of Delhi: Resource Mobilization

Chapter-12 describes the geographical divisions of the GNCTD, MCD, NDMC, DCB and DDA which manage the NCT. The functional jurisdiction of the MCD is then spelt out in its obligatory and discretionary functions. The MCD's receipts structure shows that own revenue receipts are 46.72% (1994-95 to 2004-05). The next highest amount is plan grants from the GNCTD at 22.19%. Non-tax revenues were higher (1134.35 crore) than tax revenues (1072.72 crore) in 2004-05. In 2000-01 only 20.86% of the property tax demanded was collected. The recommendations of the Committee on Unit Area Method of Property Tax are analysed. The growth of property tax has been lower than the growth of GSDP in all reference periods. Only a small proportion (37.97%) of property tax potential is being tapped into (2003-04). The collection of arrears is abnormally low being only 5.65 percent. Finance Department had felt that constitution of the Municipal Valuation or the Hardship and Anomaly Committee may dilute the UAM scheme. The demand of the MCD for additional arrangement due to lesser tax collection makes a mockery of the property tax reforms. The single most important aspect for the revenue shortfall could be the lack of awareness of the new system, both among public and staff. Rebates, concessions and exemptions also played their part. Aspects of the advertisement tax have also been touched upon, along with discretionary tax such as electricity tax, toll tax and other taxes. Some of these rates have not been revised since 1957. Introduction of a tax on professions is important. Grants from the GNCTD under Non-plan and Plan have been analysed as also plan loans and ways and means (Non-plan loan) advances.

Municipal Corporation of Delhi: Expenditure Management:

Chapter-13 provides an analyses of expenditure management in the MCD. What is an "effectively functioning" local body? It starts with a review of the total expenditure incurred by the MCD from 1994-95 to 2004-05 in which the trend growth is 13.1 percent. The trend growth rate of Non-plan expenditure works out to 15%. The actual expenditure under Non-plan has been very high all along compared to the tax revenue and own revenue receipts. The administrative expenditure was very high as a percentage (44.73 percent in 2004-05) of the total expenditure of the Corporation. Expenditure on manpower is the single largest item (70.57 percent). Currently, the total number of employees is 1,43,304, which includes contract employees 2854, daily wagers 21051 and leave substitutes of 29160. The trend growth rate of maintenance expenditure (Rupees 102 crores in 2004-05) was 8.1 percent. Non-plan revenue and capital expenditure have also been analysed. The analysis moves to the approved BE/RE of funds to be released by the GNCTD, funds actually released by GNCTD, received by MCD and actual expenditure incurred by MCD. In a few given years there is excess expenditure. The database of the GNCTD and corporation does not provide a common analytical base which is necessary for monitoring, supervising and for planning utilization of resources.

The MCD does not appear to deploy any substantial amount out of its own revenues for creation of capital assets. The development needs of the rural areas in Delhi are the responsibility of both the Development Department, GNCTD and the MCD. The Delhi Rural Development Board prioritises the works. MCD has often failed to furnish utilization certificates and progress reports against funds released. Some efforts were made to rationalize resource allocations in the Annual Plan for 2002-03. Some delegation of financial powers also took place in MCD. However, the role of the zonal committees in financial proposals/budgeting remained undefined and ineffective. As on 31.03.2005 the total assets of the MCD were of the order of Rupees 8103.54 crore and liabilities were Rupees 2333.48 crore. There does not seem to be any definite plan to deal with increasing liabilities. The discretionary fund of the Councillors has been commented upon briefly. Some observations of the Comptroller and Auditor General of India are relevant for evaluating the expenditure performance of the MCD. The HSMI study finds that the growth rate of expenditure of MCD is much higher than its revenue income. The strategic fiscal gap reflects the requirement of funds for revenue and capital budget. The MCD does not currently appear to have a clear-cut vision, a normative base, a detailed policy objective and strategy to design actions. Revenue expenditure of MCD on services is not growing at par with the growth of the state economy. There is prevalence of a conventional labour intensive system of municipal services. Some resource management and utilisation issues as they affect service delivery are then considered. There is inadequate service particularly in the education and health sectors. The steep shortfalls in expenditure suggest that the Corporation lacks absorptive capacity, executive plans, technical ability or appropriate administrative arrangements for allocating and utilising funds rationally.

NDMC: Resource Management

Chapter-14 recalls the establishment of Raisina Municipal Committee in 1916 and its growth into the New Delhi Municipal Council. The territorial boundaries are described and the obligatory and discretionary functions of the NDMC are summarized. The receipts structure shows that of the total receipt of Rupees 1078.97 crore in 2004-05, own receipts were 1012.23 crore. External sources play a relatively insignificant role. Own receipts which include tax and non-tax revenues have increased their percentage share from 92.43 percent (1994-95) to 95.15 percent (2004-05). Assigned taxes have declined from 2.36 to 1.06 percent during the same period. Property tax is the main source of internal tax revenue of NDMC. There has been marked improvement in the actual realisations of property tax from about 20 percent in the 1995-2000 period to almost 90% in 2004-05. The rate of growth of property tax for NDMC is significantly higher than that of GSDP of Delhi. This compares favourably with MCD. Revenues are, thereafter, analysed source wise such as advertisement tax, interest on investments, sale of electricity, sale of water, rent/licence fee and other miscellaneous receipts. Interest on investment as a percentage of total non-tax revenue ranged from 0.03 percent (1996-97) to 21 percent (2004-05). As a percentage of total non-tax revenue, surplus on sale of electricity declined from 85.63 percent (1998-99) to 62.73 percent (2004-05); sale of water declined from 4.02 percent (1994-95) to 1.68 percent (2004-05), and the rent/licence fee has declined from 16.16 percent (1996-97) to 4.78 percent (2004-05). Miscellaneous receipts as a percentage of total receipts have moved from 3.65 percent (1997-98) to 9.81 percent (2004-05). A significant aspect is that the non-tax revenue as a percentage of total revenue receipts was 88.49 percent (2004-05). Coming to assigned taxes, as a percentage of total revenue receipts this declined from 2.53 percent (1994-95) to 1.05 percent (2004-05). Non plan grants as a percentage of total receipts moved from 1.43 percent (1999-2000) to 2.88 percent (2004-05). Plan grants as a percentage of total receipts declined from 1.09 percent (1995-96) to 0.28 percent (2004-05). As a percentage of total receipts, the receipts for deposit works have declined from 3.31 percent in 1995-96 to 0.99 percent (2004-05). The Memorandum sent by the NDMC to the Commission starts with a reference to a "Vision" of Delhi. The major sources of revenue are the sale of electricity, licence fee from properties, property tax and interest earnings on investments etc. User charges on electricity and water constituted a high 56% of NDMC's resource base for 2004-2005. NDMC has repaid its outstanding loans with interest during 2004-05 and is now a debt free municipality. NDMC's investible funds have grown from Rupees 300 crores (1994-95) to 2000 crores in 2004-05. Revenue surplus has been a fairly common feature of the NDMC budget. Total receipts for 1995-96, which was Rupees 614.59, crore has gone up within ten years by nearly 68.73 percent to Rupees 1037.02 crore. In 2005-06 (BE) and amount of Rupees 43.79 crore only had been earmarked as total flow of funds from the Government. NDMC has suggested a mechanism for generating data on sub-division wise/ward wise tax collection or conduct a special study to lay an empirical basis for a formula for showing tax revenue in future. The Unit Area Method of Property Tax would be introduced in NDMC areas after assessing its impact in MCD areas. Some other issues touched upon are: lower water tariff, composting of solid waste, sewerage system, development of commercial complexes, pricing policy and demand management. Regarding resource mobilisation, it is possible that public works for community use should also be designed with a view to give sustained revenues to the municipal body. As compared to MCD, there is a stronger relationship between the projected and actual realisations. Reliance on non-tax sources of revenue is growing (such as interest on investments and surplus from sale of electricity). These are inherently unstable. There are substantial idle funds. All this is indicative of a lack of long or medium term development, investment and fiscal plans. A list of projects does not add up to planning. However, generally financial management has been more responsible than in MCD.

NDMC: Expenditure Management

Chapter-15 recognizes that resource allocation and expenditure management is determined by NDMC's location and demography. It services a floating population of about 15 lakh. The diplomatic corps, international institutes, state government bhavans and a high income, high spending section of the population have higher expectations from N.D.M.C in terms of civic services. However, the scope for extensive capital expenditure is limited in N.D.M.C area given its size. The expenditure pattern in terms of rate of growth in revenue expenditure, the strategic fiscal gap, the pattern of revenue expenditure and per capita expenditure have been analysed to examine the adequacy and appropriateness of expenditure on municipal services. In the last decade or so, the total plan expenditure has been less than 3 percent. The non-plan expenditure has been as high as 97.31 percent showing that very little investment is being made on the creation of capital assets. The trend growth rate of total expenditure by N.D.M.C from 1994-95 to 2004-05 has been 11.23 percent. Trends in B.E, R.E and Actual expenditure are analysed. In quite a few years projections at B.E stage have been ambitious and approved. Revisions at R.E stage were even more ambitious and not matched by actual expenditure. Between 1994-95 and 2004-05, the structure of total expenditure underwent a change which was tilted in favour of Non-plan expenditure, both revenue and capital. As a percentage of own revenue receipts, expenditure has been from 92.91 percent (2002-03) to 11.57 percent (1995-96). Data indicates there is no specific trend in any of the parameters whether measured against B.E, R.E or the actual. There are sharp fluctuations. The trend growth rate during 1994-95 to 2004-05 of the total revenue expenditure in respect of B.E, R.E and actual expenditure has been 12.1, 12.5 and 11.6 percent respectively. The overall trend growth rate of total capital expenditure for B.E and R.E has been 6.9 percent and for actual expenditure it was 5.2 percent. Figures and data are suggestive of N.D.M.C not having planned for renewal of old infrastructure or that there is hardly any scope for creation of new assets. The trend growth rate of total non-plan expenditure works out to 11.8 percent. It is seen from the data that N.D.M.C is not able to incur expenditure even on non-plan side as projected in B.E and R.E. Non-plan expenditure as a percentage of own revenue receipt has been in the range of 91.74 percent (2002-03) to 104.63 (2000-01). Though percentage increase in tax revenue has been particularly impressive but it starts from a very small base. On the other hand, percentage increase in Non-plan expenditure has comparatively been modest but it starts from a much larger base. The mainstay of expenditure in N.D.M.C is from surplus from sale of electricity. Earning from commercial activities and from interest on investments is a poor substitute for regular tax and non-tax revenue sources. According to the findings of the HSMI on the growth of revenue expenditure, it is seen that this expenditure is not growing at par with the growth of the state economy. There are some concerns that if the municipal services, which enable the economy to grow through economies of scale, are not upgraded this may subsequently affect the growth of the state economy. Regarding the public debt it is seen that N.D.M.C has repaid the total outstanding loans with interest during 2004-05 and is now a debt free municipality. The trend growth rate of total plan expenditure (1994-95 to 2004-05) was minus 2.5 percent for BE, 1.0 percent for R.E and minus 4.7 percent for actual plan expenditure. Plan expenditure as a whole, during 1994-95 to 2004-05, as a percentage of total expenditure has been on a declining trend. Management of plan expenditure should be of considerable concern to the local body. The N.D.M.C memorandum to this Commission projected a requirement of funds of Rs 773.17 crore for replacement of assets during the next five years covering water supply, sewerage, electricity equipment, buildings, roads and roundabouts and gardens, parks or fountains etc. On the basis of the stable population of N.D.M.C, the per capita expenditure on primary health in 2004-05 would be only Rupees 11.52. N.D.M.C has been incurring an expenditure of Rupees 40-45 crore annually on education whereas it received only Rupees 7 to 15 crores annually during the last six years. The per capita expenditure on removal and disposal of solid waste has been growing steadily from Rupees 71.01 lakhs (1995-96) to 164.96 lakhs (2004-05) per thousand of population of 18 lakhs (fixed 3 lakhs + floating 15 lakhs). Some observations of the HSMI are worth recalling here. Strategic fiscal gap should be based on a long term multi sector perspective and should be guided by a clear cut vision. The resource allocation in N.D.M.C is not linked to a long term perspective and does not reflect performance indicators. Much of the expenditure increases are mainly attributed to the implementation of the Fifth Pay Commission recommendations in 1997. They should aim for a leaner staff strength and implement recommendations of any pay commission only if they can afford it. Some comparisons are drawn between the data and situations in the N.D.M.C and M.C.D in terms of municipal expenditure, O&M services, per capita expenditure, labour intensive systems, education and application of partnerships. N.D.M.C investments are bound to be intensive, aimed at essential replacements and upgrading outdated infrastructure. There is limited scope for extensive capital investment in the N.D.M.C area. The main item of expenditure is the purchase of electricity and water and together it amounts to 47.55 percent of the total expenditure. The net earning from these two sectors was Rs 709 crores during the period 2001-06. The desirability of this pattern of financial operations needs a deeper study.

Mobilization and Application of Resources of Delhi Cantonment Board

Chapter-16 outlines the characteristics of the Delhi Cantonment Board including its classification, its area and breakdown between civil and military population. There is a brief description of the Board's obligatory and discretionary duties. There is no elected Board or civil area committee at present. Tax revenue sources are analysed. Rates of house tax etc. have not been revised since 1980. Non Tax revenues such as interest on investments, conservancy charges etc. are thereafter analysed. The receipts structure shows that own revenue receipts form as much as 90.15 percent of total receipts followed by assigned taxes at 6.44 percent. Thereafter, various components of total expenditure are analysed. The revenue surplus has been showing a declining trend. In the section on projections, some of the expansion plans of the DCB have been quantified. However, the DCB does not qualify as a Municipality and is not entitled to be covered under the scheme of devolution of funds by a Finance Commission.

Financial Projections (2006-2011)

Chapter-17 outlines some difficulties in making realistic assumptions as many factors can upset forecasts. The projections made by the GNCTD are taken up first. In scenario-I (2002) the Planning Department, GNCTD prepared a review of the fiscal scenario of Delhi, which included a projection for the period 2003-2004 to 2017-2018. There has always been an overall deficit. This deficit increased from Rupees 388.90 crore (1994-1995) to Rupees 3340.93 crore (2002-2003). It has taken only five years for debt servicing as a percentage of tax revenues to increase from 8 percent to about 20 percent. The debt of the state government grew from Rupees 117 crore (1993-1994) to Rupees 21676.32 crore (2005-2006). According to this projection the resource gap was projected at Rupees 3876 crore (2006-2007) and Rupees 7897 crore (2012-2013). The total debt outstanding was projected at Rupees 22732 crore (2006-2007) and Rupees 52250 crore (2012-2013). In scenario II which assumed lower levels of expenditure including plan, non plan (including interest payments), the resource gaps and debt needs stand reduced. The assumption being made is that expenditure compression is a viable option. The total resource gap was projected at Rupees 2851 crore (2006-2007) and Rupees 2827 crore (2012-2013). The total outstanding debt was projected at Rupees 20975 crore (2006-2007) and Rupees 31267 crore (2012-2013). In Scenario III it is assumed that the outstanding debt will increase, though by a lesser extent to Rupees 28490 crore (2012-2013). The State Government made another set of projections in the draft Approach paper to the Eleventh Plan (Planning Department, GNCTD). By the end of the Eleventh Plan, the population of Delhi is estimated to be 18.98 million. The targeted nominal growth of GSDP in Delhi is proposed at 15 percent, considering the growth potential of the services sector. In this projection, the resources gap has been projected at Rupees 1067 crore (2011-2012). The third projection made by the state government is based on the Memorandum filed before the Commission in May 2006. The gap in resources for the period 2006-2011 would be Rupees 11491.42 crore (Rupees 2963.30 crore for 2010-2011). The total debt servicing liability for the period 2006-2007 to 2010-2011 would be Rupees 14758.93 crore which would exceed fresh loans (Rupees 13328.61 crore) over the five years period 2006-2011. If borrowings, as assumed, is allowed, the government would lead itself into a serious debt trap. In view of GNCTD's stated objective of making Delhi a global city and outlays required for commonwealth games 2010 and other infrastructure needs, it is unlikely that there could be a substantial cut in plan outlay. The present level of transfers made to the municipal bodies does not appear to be sustainable without augmenting "own resources" through maximum possible efforts. Financial matters of the MCD based on its Memorandum of December 2005 filed with the Commission are then examined. In 2003-2004 internal receipts (tax and non tax) of MCD were Rupees 1237.06 crore. Transfers of tax assignment and grant amounted to Rupees 415 crore. The revenue gap (i.e. internal revenue of Rupees 1237.09 crore minus revenue expenditure of Rupees 1677.72 crore) was 440.63 crore which was filled up through assigned taxes

(Rupees 295.29 crore) and grant (119.73 crore) leaving a resource gap of Rupees 25.61 crore. The analysis goes into per capita income of the MCD population, per capita expenditure and non-plan grants for primary education, maintenance of resettlement colonies. Trends in revenue expenditure (non-plan) of MCD's general wing shows a growth of 243.94 percent during the last ten years. Cost escalation has to be kept in mind. The figures do not serve as an indicator of financial constraints or fiscal stress. A more acceptable yardstick to assess fiscal stress would have been a shortage of funds for delivery on obligatory functions, despite all efforts to raise maximum possible resources internally and, further, despite allocation of the maximum amount possible for the discharge of these obligatory responsibilities. Primary education and health, account for more than 56 percent of the total revenue expenditure (non-plan). Miscellaneous expenditure shows a surprising step up of 30.50 percent in 2001-2002 and remains above one fifth of the total expenditure even in 2003-2004 (23.64 percent). Regarding economy in expenditure, MCD has reported a few measures to involve PPP or BOT to overcome resource constraints and involve private participation. These projections amount to Rupees 481 crore over a five-year period. The shortfall over the years has resulted in accumulation of liabilities amounting to Rupees 2129.59 crore on 31 March 2005. MCD has reported that its revenue gap (total revenue expenditure minus revenue from internal sources) has widened from Rupees 1212.92 crore in 1994-1995 (33.14 percent) to Rupees 4406.35 crore in 2003-2004 (35.62 percent of the revenue). A major part of the revenue income goes towards salary and pension payments leaving little for maintenance and capital works. Plan loan liabilities have been increasing year after year as these are meant for both non-remunerative and remunerative purposes. There has been no effective manpower review in recent years. The MCD expects that all reforms measures should be financed by the state government. MCD has claimed that there is a strong and genuine case for raising the share of global taxes from 5.5% of net tax proceeds at present to at least 15 percent for providing better and quality services and for completing the reform process and changing the face of Delhi. The additional allocation of resources sought by MCD are 16862.32 crore for the period 2006-2007 to 2010-2011 covering sanitation, roads, bridges, electric lighting, health, education, e-governance etc.

Summing-up: Analysis and Assessments

Chapter-18 gives a summing up of the analyses and assessments of issues arising in preceding chapters. A comprehensive reform agenda, efforts at consensus, sharing of goals are all needed. The functional framework, schedule 12 of the Constitution, is analysed and it is seen that in the post amendment phase, the functional jurisdiction between the state and the local bodies remains largely unstructured and unreformed. This calls for a thorough dialogue between the state government and the local bodies as partners. The proposed goal of a world class city status includes expectations from civil society itself apart from higher operational efficiencies. The state government needs to spell out the substance of its stated goal, role and responsibilities of all participating sections and agencies. Against the public sector investment projections of Rupees 103667.21 crore, the availability of resources as projected in the state government memorandum is likely to be Rupees 58321.27 crore. The status of infrastructure and norms for provision of services will determine investment needs and deficits. The population factor, too, will have a definite influence. Norms suggested by various committees and studies are briefly outlined to enable estimates of investment requirements for urban infrastructure. The parameters for assessing the financial performance of local bodies are then examined. The implications of the fiscal base of municipalities is then gone into, as also the size of the municipal sector in the NCT which is, in fiscal terms, quite tiny. Municipal bodies have weak links with the economy of the state which is evident from the ratio of own revenues to gross domestic product. The analysis moves on to a comparison of revenue performance of four urban local bodies. City Governments are taking innovative steps to improve their revenue mobilisation and practices adopted by Hyderabad and Mumbai could be examined by GNCTD and local bodies. Issues of fiscal base and fiscal efforts are then examined. Performance of municipalities on the criterion of expenditure levels is also covered. The HSMI report states that over two third of the revenue expenditure is devoted towards salaries and other establishment related activities such as perks, phone, fax, vehicles and staff cars, equipment etc. The first and second Finance Commissions had commented adversely on the manpower management in MCD. This is an important component of internal reform. Local bodies are not only not willing to contemplate downsizing the establishment but also insist on implementing pay scales of the Central Pay Commission. Reform measures relating to property tax have either been implemented half-heartedly or practically ineffectively. The impact of decentralisation, in the wake of amendments, is that assigned taxes and non-plan grants in percentage terms have actually declined from 11.40 percent of gross tax revenues (1985-86 to 1995-96) to 9.80 percent (1996-97 to 2005-06). In attempting to measure the performance of municipalities various norms are applied. Trends in receipts and expenditure pre and post amendment (constitution) are examined. An evaluation of the financial performance (pre and post amendment phases) of the MCD is also attempted. An evaluation of the financial performance of the NDMC following the amendment has been done on the basis of various revenue and expenditure parameters. A spatial comparison of MCD and NDMC in terms of municipal finance has been attempted with Hyderabad and Mumbai Municipal Corporations. Significantly, HMC and GMMC are in a position to spare revenues to fund capital projects. There is, then, an analysis of institutional arrangements as the quality of institutions affects socio-economic development substantially. Some important constitutional and statutory issues, relating to the scheme of distribution of revenues between the union and the states and between states and municipalities are examined. The principal findings of the review are stated briefly. The goal of a global city will impose the need to select the platform on which the international status of the city will be built (IT sector, tourist paradise, commercial centres etc). The city may need to acquire a competitive edge. All institutions have to act in concert to address key quality of life concerns (sanitation, public health etc). The Constitutional amendments have not so far brought about responsible resource management by the local bodies (particularly the MCD). The single most important reason for a largely unreformed municipal sector has been the absence of a comprehensive reform agenda regarding resource mobilization, expenditure management and efficient operations. A gradualist approach is unlikely to produce desired results. To put local bodies on notice, the resource transfers should depend on their delivering outcomes. An arena in which the state government could legitimately seek reform is institutional arrangements which by bringing in convergence between goals at different levels of governance may determine effective and efficient performance of local bodies. There is also need for a better definition of the functional jurisdiction.

The major conclusions of this analysis and assessment are:

- while the state government has at least enunciated a specific development goal, the local bodies have nothing even akin to a city development plan.
- There has been a decline in the transfers to the local bodies in percentage terms in the post-Amendment phase.

- However, even independent of this, there has been very little effort on the part of municipal bodies to mobilize additional resources or rationalize expenditure - both volumes and choices. In fact, there is hardly any effort by the local bodies to introduce organizational, institutional or fiscal reforms. Therefore, institutional arrangements remain unreformed and weak.
- The resource base of the local bodies remains either narrow (both MCD and the NDMC), or fragile (NDMC) or unexploited (both MCD and the NDMC).
- The expenditure pattern remains unplanned and ad hoc.
- These represent a disturbing continuation of the pre-Amendment phase.

The Commission's considered view is that marginal changes in the devolution formula cannot be the mainstay of anticipated reforms. A comprehensive reform agenda is necessary for the municipal sector covering the statutory, administrative and systemic aspects. The state government has displayed sensitivity to the sensibilities of local bodies which has not necessarily resulted in better municipal administration. The local bodies have displayed little inclination to pursue a mix of policies to reform procedures and processes. All this accounts for the high transaction costs for getting things done. While the state government need to be assertive about financial and functional issues, the bedrock of effectively functioning municipal bodies has to be rooted in consensus, trust and convergence of goals between the two levels of governance.

The Recommendations

Chapter 19 sets forth the recommendations as required in the Terms of Reference of the Commission. Municipal administration is a cause for considerable concern. The lack of reforms persists. It is not easy to explain the inability or unwillingness of the MCD to own reforms, as reforms, rather than as an imposition to trigger demands for additional resource allocation. The devolution package has to address these overriding considerations. The package should help in fulfilling the expectations of citizens, promote convergence between two levels of governance and lead to effective resource management. Devolution must lead towards good governance. For the purposes of the recommendations, the terms of reference have been grouped into three broad categories: the functional and the fiscal domains, and the devolution package. Underlying all is a package of administrative, institutional and statutory reforms.

Chapter 17 and 18 are a prelude to the recommendations which have been made according to the following scheme:

Scheme of Recommendations

I.	**Guiding Principles Governing Devolutions**
II.	**Recommendations relating to the Functional Domain of the Local Bodies**
III.	**Recommendations relating to the Financial Domain of the Local Bodies**
IV.	**Recommendations relating to the Institutional Sphere**
	(i) State Government
	(ii) Local Bodies
V.	**Recommendations regarding the Financial Devolution Package**
VI.	**Recommendations regarding the Delhi Cantonment Board**
VII.	**Concluding Observations**

I-Principles Governing Devolution

There is a vision of a reformed municipal administration in the function module and the fiscal/financial module covering both resource and expenditure management. There is a vision of the reformed institutional module also

Derived from the vision of municipal administration, there are four vital ingredients (principles) that the devolution package must promote:

- First, it must fulfil the expectations of citizens in terms of improved infrastructure and service delivery.
- Second, it must promote convergence and consensus between the two levels of governance in securing the goals and objectives of a common and shared city development plan.
- Third, devolution must promote effective resource management and efficient resource utilization.
- Fourth, devolution must promote increasing financial self-reliance at the municipal level.

In other words, devolution must deliver on the promise implied in the phrase 'good governance'.

II Gist of Recommendations related to Functional Domain of the Local Bodies.

Recommendation No.

1. Set up an overarching Standing City Development and Reforms Committee.
2. Spell out purpose and the program content of goal of "modern global city" and draw up a socio-economic master plan.
3. Set up the Metropolitan Planning Committee.
4. Major hospitals to be transferred to GNCTD from local bodies.
5. Work of rural areas be done by the Rural Development Department of GNCTD.
6. Welfare schemes to be done by the Social Welfare Department, GNCTD
7. Maintenance of industrial estates of DSIDC to be undertaken by DSIDC and 33% of property tax to be deducted from share of assigned taxes of

the MCD.

III Gist of Recommendations related to the Financial Domain of the local bodies.

8. Draw up medium and long term development and investment plans coterminous with Eleventh Five Year Plan.
9. Create a City Development Fund with escrow and MOU arrangements.
10. Draw up a long term fiscal plan.
11. Expand fiscal autonomy of local bodies.
12. Furnish detailed executive plans for mobilizing additional Resources.
13. Take steps to levy tax on professions and betterment levy.
14. Review property tax rates, all exemptions and concessions and categorization of colonies and properties.
15. Conduct a comprehensive survey of properties to increase the tax base.
16. Local bodies to take effective steps of recover large arrears of property tax.
17. Rationalize property tax rate.
18. NDMC to consider the UAM system by studying the more successful models.
19. Recover service charges from all government buildings.
20. State government to compensate MCD for loss of revenue arising from failure to accord approval for the proposed revision of fees, charges and rates.
21. HSMI study recommendations to be considered, particularly revenue enhancing measures.
22. Recover cost of municipal services from regularized unauthorized colonies.
23. Set up Centre for Civic governance in the Directorate of Training

GNCTD for training municipal functionaries and increasing labour productivity.

24. Revenue estimates of local bodies should be realistic and expenditure in any financial year should not exceed revenue collections.

25. Time barred review of relevance of existing schemes and programmes with a view to identifying savings and investment funds.

26. State government to seek white paper from local bodies on need, justification and expansion of manpower in the last 10 years.

27. State government to seek details of steps to roll back manpower which in view of substantial expenditure is an area of concern.

28. Discretionary expenditure reflected in item "petty works" to be drastically controlled and reduced.

29. Public-private partnerships to be developed in a systematic manner.

30. A comprehensive asset management strategy should be taken up by the local bodies.

IV Gist of Recommendations relating to the institutional sphere

State Government

31. State Government needs to be empowered to exercise all statutory powers in matters relating to the MCD.

32. All rules and by laws which have remained unchanged in the post Amendment (Constitutional) period should be updated.

33. The state government to make suitable amendments to specify conditions and limits of distribution of taxes and define 'net proceeds' and certifying authority.

34. GNCTD might consider accepting the discipline of a Fiscal Responsibility Act, which could be applicable to local bodies also.

35. Set up a body called the Standing City Development and Reforms

Committee (SCDRC) at the level of the Chief Secretary GNCTD to sustain a regular dialogue with local bodies and review pertinent matters. Under the SCDRC will be two Committees namely the Municipal Reform and Coordination Committee (MRCC) and the State Reforms and Coordination Committee (SRCC). Each will have working groups as required. An organogram has been given at figure 19.0 (page No. 1149)

36. SCDRC may identify infrastructure deficits and clear projects relating to the objective of the global city (on a fast track).

37. A small permanent Finance Commission cell may be set up in the Finance Department.

38. In view of the serious situation of financial stress which is developing for GNCTD, a Financial (Expenditure) Reforms Commission may be set up.

39. A Project Management Cell which can be accessed by all departments may be set up in the Finance Department.

40. The Financial Reforms Commission may re-examine status of various Reports of consultants on different Departments.

41. Project Management cell may ensure compliance of MOUs with public utilities and local bodies.

42. State government should commit itself to a long-term fiscal policy of financial prudence and diagnose problems afflicting public utilities.

43. As an effort towards revenue maximization, an Economic Intelligence Unit be set up in the Finance Department which will specifically identify all areas of suspected leakage of revenues.

44. A comprehensive review of social welfare programs may be done by the GNCTD in the Planning Department/ SCDRC.

45. Suggestions made by Administrative Reforms Department for

removing time and cost overruns deserve a special review.

46. GNCTD may create its own PWD cadre with full control.

47. Open-ended release of funds for never ending implementation need to be reconsidered by the SCDRC (e.g. maintenance of resettlement colonies).

48. The Urban Development Department should be strengthened so that it can play its role of coordinating and monitoring the urban management of Delhi.

49. SCDRC should follow through on implementation of various fiscal and non-fiscal reforms required.

50. As part of the monitoring system, all vigilance officers in local bodies should work under the overall superintendence, direction and control of the Department of Vigilance of the state government under the state C.V.O.

Local Bodies

51. It is necessary to set a time barred action plan to complete the double entry accounting system for local bodies which should increasingly be the basis for management decisions.

V Gist of Recommendation regarding the Devolution Package.

52. GNCTD may consider creating a City Development Fund with Rupees 1000 crore to fund and partner projects which subserve the objective of a global city status.

53. In order to encourage a "knowledge economy" the GNCTD may earmark funds for substantial upgradation of some libraries, educational institutions, IT sector development, give a push to reading habits for policy formulators etc.

54. The Commission has recommended 4 percent of the net tax proceeds

of the state government as the assignment to the local bodies, against 5.5 percent by the second Finance Commission.

55. This amount of 1.5% as reduced may be kept in a newly constituted Municipal Reform Fund to be administered by the SCDRC.

56. Forty percent of total grants and assigned amounts should be transferred directly to the 12 zones of the MCD.

57. The Non-plan grants component remains unchanged at 5 percent of the net proceeds of tax revenue.

58. A comprehensive review of plan expenditure is overdue. GNCTD may explore alternative agencies for executive work if local bodies do not deliver outcomes.

VI Gist of recommendations relating to the Delhi Cantonment Board.

59. For historical reasons, the amount of transfer to the DCB may be an adhoc Rupees 5 crore in the first year to be phased out over the award period by decreasing it by one crore every year.

VII Gist of Concluding Observations

The Commission has reviewed municipal administration from different evaluation platforms such as efficient resource management, effective service delivery and the purpose and objectives of devolution. The study involved an examination of the system's financial and statutory capacities. The Commission, regrettably, has to reconfirm the impression of the earlier two Finance Commissions that the functioning of the local bodies is characterised by a poverty of achievements. The kernel of financial reforms is always endangered by the absence of appropriate administrative and financial support mechanisms. What is self-evident is that the control of the state government on the development agenda and city management should be clear and explicit.

In this there are major administrative and statutory handicaps. Do the local bodies share the state government's vision of Delhi as a global city? Can the financial devolution package - with a few lakhs more or less - be expected to deliver envisioned reforms? There is nothing to suggest that suo moto improvements can be expected in the near or even distant future specially in the case of MCD. There is, therefore, a need for a strong external vigilant sentinel which can only be through administrative structures and arrangements set up by the state government. The entire set of recommendations relating to administrative restructuring has to be seen in this context. City leaders have to put their full weight behind a sustained program of city and municipal reform. The Commission hopes that its recommendations/ suggestions will assist in achieving both the visions and the objectives of a hugely redeemed and reformed municipal administration and of Delhi as a modern global city.