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सत्यमेव जयते

Report of
Third Delhi Finance Commission
2006-2011

VOLUME-III

PROJECTIONS
AND
RECOMMENDATIONS

National Capital Territory of Delhi
October 2006

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Chapter 17
Financial Projections (2006-2011)

In the previous chapters an analysis of relevant concepts and the overall context has been covered. The financial data in respect of both the state government and local bodies have been elaborated. A crucial part of the review of the real physical and financial trends characterizing the fiscal position of the state government and local body is the projections for the period 2006-2011. Projections, particularly long term, are notoriously difficult. There are numerous factors that could alter the basic calculus and upset forecasts.

- In the first place, there is an assumption about the reliability and completeness of the data utilized. This is not always true:
- Second, that the data is valid for a long enough period of time. This too is mostly not true. In a dynamic economic situation the trends are themselves in a state of flux.
- Finally, the economic situation from which the data are being drawn is itself subject to change. Accordingly, all projections are, at best, approximations of possible trends.

17.2 In earlier chapters we had seen that there are steep fluctuations in the projections related to receipts and expenditure. The figures of actual receipts and expenditure also displayed such variations. This would make even predictions for the next year difficult, not to speak of reliable forecasts for the long term. This suggests the need for rigorous implementation of **annual plan and budget circulars** so as to bring the fluctuations under greater financial discipline. Only then would projections for each year be closer to the actual receipts and expenditure.

17.3 Nonetheless, annual and five year projections are made. The difference between the projections made and the actual realizations or expenditure levels represent either faulty projections, or a performance gap, or both. This too needs to be kept in mind while assessing projections regarding resource growth or expenditure needs.

Projections I: State Government

17.4 In 2002, the Planning Department, GNCTD, prepared a review of the fiscal scenario of Delhi. This included a projection for the period 2003-2004 to

2017-2018[1]. Table 17.0 summarizes the basic financial data in respect of the Delhi Government.

Table 17.0Financial Position of Delhi Government

1	Item	1994-1995	1995-1996	1996-1997	1997-98	1998-99
2	**Revenue Receipts**	**1980.46**	**2296.50**	**2795.99**	**3480.72**	**3660.12**
3	Own Tax Revenue	1787.47	2111.05	2534.87	2941.58	3088.78
4	Non Tax revenue	192.99	185.45	261.12	539.14	571.34
5	**Capital Receipts**	**547.99**	**825.38**	**880.57**	**1030.18**	**1030.47**
6	Recoveries of loans	33.30	24.52	25.66	150.47	51.28
7	Loan repayment by Government Servants	4.36	4.48	3.71	3.68	3.64
8	Loans from the Centre	510.33	796.38	851.20	876.03	975.55
9	**Total Receipts**	**2528.45**	**3121.88**	**3676.56**	**4510.90**	**4690.59**
10	**Non Plan Expenditure**	**1239.84**	**1622.97**	**1620.20**	**2222.60**	**2893.59**
11	Revenue Account	1039.62	1314.70	1372.93	1685.67	2045.07
12	Normal Revenue Expenditure	1039.62	1220.70	1183.04	1371.59	1612.73
13	Interest Payment	0	94.00	189.89	314.08	432.34
14	Capital Account	200.22	308.27	247.27	536.93	848.52
15	Normal Capital Expenditure	200.22	308.27	247.27	536.93	580.20
16	Loan repayment by Government	0	70.00	0	0.00	268.32
17	**Plan Expenditure**	**1167.18**	**1328.47**	**1895.14**	**1988.19**	**2049.02**
18	Revenue Account	391.29	562.46	658.88	636.33	795.05
19	Capital Account	775.89	766.01	1236.26	1351.86	1253.97
20	**Total Expenditure**	**2407.02**	**2951.44**	**3515.34**	**4210.79**	**4942.61**
21	Revenue Account	1430.91	1877.16	2031.81	2322.00	2840.12
22	Capital	976.11	1074.28	1483.53	1888.79	2102.49
23	**Revenue Surplus/Deficit 2-21**	**549.55**	**419.34**	**764.18**	**1158.72**	**820.00**
24	**Capital Surplus/Deficit 5-22**	**-428.12**	**-248.90**	**-602.96**	**-858.61**	**-1072.02**
25	**Fiscal deficit 2+6+7+16-20**	**-388.90**	**-555.94**	**-689.98**	**-575.92**	**-959.25**
26	**Primary deficit 25+13**	**-388.90**	**-461.94**	**-500.09**	**-261.84**	**-526.91**
27	**Overall Surplus/Deficit 9-20**	**121.43**	**170.44**	**161.22**	**300.11**	**-252.02**
28	Total Receipt excluding loan	2018.12	2325.50	2825.36	3634.87	3715.04
29	Total Expenditure	2407.02	2951.44	3515.34	4210.79	4942.61
30	Deficit ignoring Loan finance	-388.90	-625.94	-689.98	-575.92	-1227.57

[1] The data and analysis in subsequent paragraphs is based on the 2002 Presentation on Fiscal Scenario of Delhi, Government of the NCT of Delhi, Planning Department.

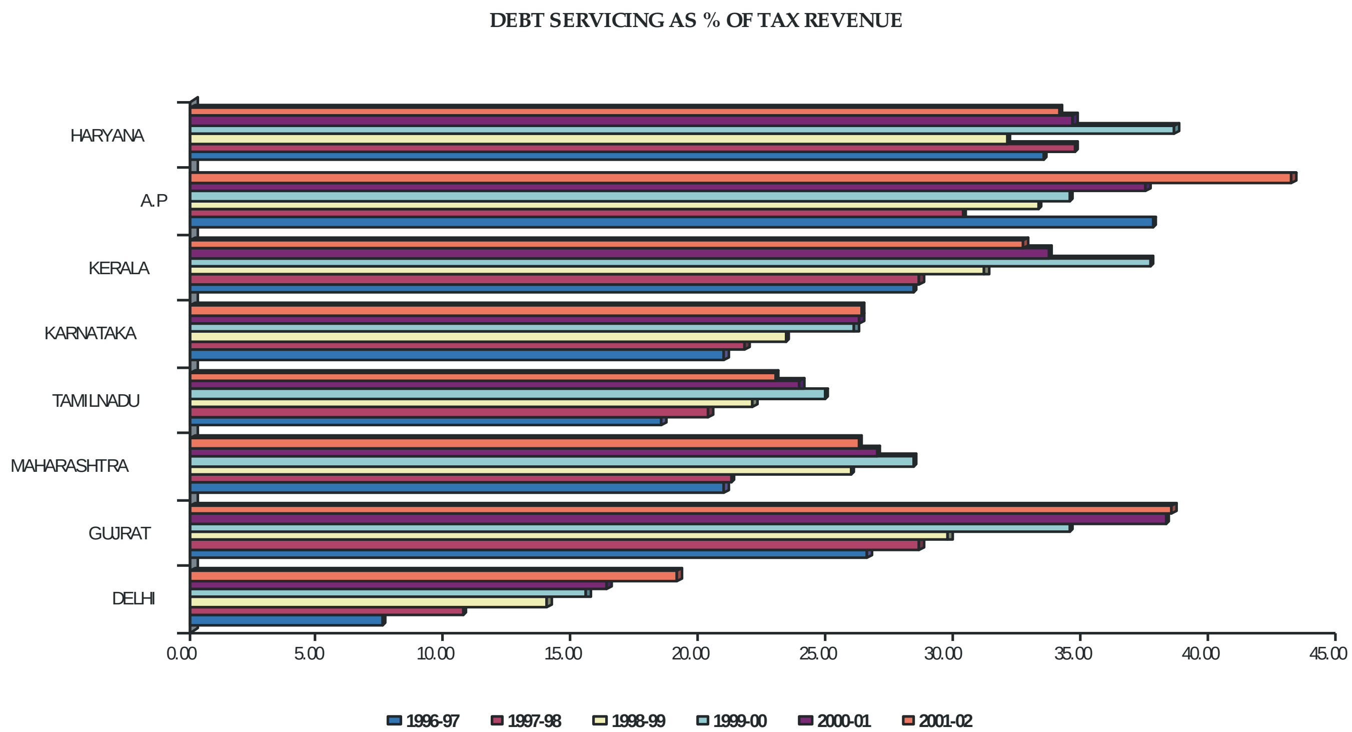
1	Item	1999-2000	2000-01	2001-02	2002-03	Average Growth rate
2	**Revenue Receipts**	**4274.32**	**5443.98**	**6253.71**	**6665.94**	**0.16**
3	Own Tax Revenue	3430.41	4400.62	4896.75	5324.19	0.15
4	Non Tax revenue	843.91	1043.36	1356.96	1341.75	0.27
5	**Capital Receipts**	**1650.59**	**1885.20**	**2496.42**	**3868.36**	**0.28**
6	Recoveries of loans	245.96	115.07	451.33	198.21	0.25
7	Loan repayment by Government Servants	5.09	6.05	6.52	8.42	0.09
8	Loans from the Centre	1399.54	1764.08	2038.57	3661.73	0.28
9	**Total Receipts**	**5924.91**	**7329.18**	**8750.13**	**10534.30**	**0.20**
10	**Non Plan Expenditure**	**3643.40**	**4240.15**	**4645.85**	**5800.85**	**0.21**
11	Revenue Account	2640.33	2728.75	3112.67	3380.00	0.16
12	Normal Revenue Expenditure	2109.59	2011.99	2178.51	2265.22	0.10
13	Interest Payment	530.74	716.76	934.16	1114.78	0.42
14	Capital Account	1003.07	1511.40	1533.18	2420.85	0.37
15	Normal Capital Expenditure	998.37	1323.89	1370.59	1476.35	0.28
16	Loan repayment by Government	4.70	187.51	162.59	944.50	
17	**Plan Expenditure**	**2268.27**	**3122.13**	**3984.87**	**4412.65**	**0.18**
18	Revenue Account	882.67	967.91	1955.01	1218.20	0.15
19	Capital Account	1385.60	2154.22	2029.86	3194.45	0.19
20	**Total Expenditure**	**5911.67**	**7362.28**	**8630.72**	**10213.50**	0.20
21	Revenue Account	3523.00	3696.66	5067.68	4598.20	**0.16**
22	Capital	2388.67	3665.62	3563.04	5615.30	0.24
23	**Revenue Surplus/Deficit 2-21**	**751.32**	**1747.32**	**1186.03**	**2067.74**	0.18
24	**Capital Surplus/Deficit 5-22**	**-738.08**	**-1780.42**	**-1066.62**	**-1746.94**	**0.19**
25	**Fiscal deficit 2+6+7+16-20**	**-1381.60**	**-1609.67**	**-1756.57**	**-2396.43**	**0.26**
26	**Primary deficit 25+13**	**-850.86**	**-892.91**	**-822.41**	**-1281.65**	**0.16**
27	**Overall Surplus/Deficit 9-20**	**13.24**	**-33.10**	**119.41**	**320.80**	**0.13**
28	Total Receipt excluding loan	4525.37	5565.10	6711.56	6872.57	**0.17**
29	Total Expenditure	5911.67	7362.28	8630.72	10213.50	0.20
30	Deficit ignoring Loan finance	-1386.30	-1797.2	-1919.16	3340.93	0.31

The data suggest that:

- The revenue surplus of the state government had increased from Rupees 549.55 crore (1994-1995) to Rupees 2067.74 crore (2002-2003).
- The capital deficit increased from Rupees 428.12 crore (1994-1995) to Rupees 1746.94 crore (2002-2003).
- Fiscal deficit rose to Rupees 2396.43 crore (2002-2003) from Rupees 388.90 crore in 1994-1995.
- The primary deficit grew from Rupees 388.90 crore (1994-1995) to Rupees 1281.65 crore (2002-2003).
- The overall surplus however increased from Rupees 121.43 crore (1994-1995) to Rupees 320.80 crore (2002-2003). There was an overall deficit of Rupees 252.02 crore (1998-1999) and of Rupees 33.10 crore (2000-2001).

- Importantly, there has always been an **overall deficit** if we exclude the loan receipts from the total receipts and in that case the deficit was from Rupees 388.90 crore (1994-1995) to Rupees 3340.93 crore (2002-2003). This implies that the expenditure of the Delhi government has always exceeded its own receipts.
- The average growth rate of some of the vital parameters are: tax revenues: 0.15; non-tax revenue: 0.27; capital receipts: 0.28; loans from the centre: 0.28; non-plan expenditure: 0.21; interest payment: 0.42; non-plan capital expenditure: 0.37; plan expenditure: 0.18; fiscal deficit: 0.26; deficit excluding loan finance: 0.31
- Figure: 17.1 exhibits the comparative position of debt servicing by Delhi government vis-a-vis other states as a percentage of tax revenue.
- It has taken only five years for **debt servicing** as a percentage of tax revenues to increase from just over 8 percent to approximately 20 percent. The position of Tamilnadu is the closest to that of Delhi. The more important fact is that the situation in most states is a consequence of years of financial laxity. Unlike states, loans as a component of receipts have entered the finances of the Delhi government as recently as 1993-1994.

Figure: 17.1-Debt Servicing as a Percentage of Tax Revenue



- **Box: 17.0 summarizes the areas of concern identified by the 2002 study.**

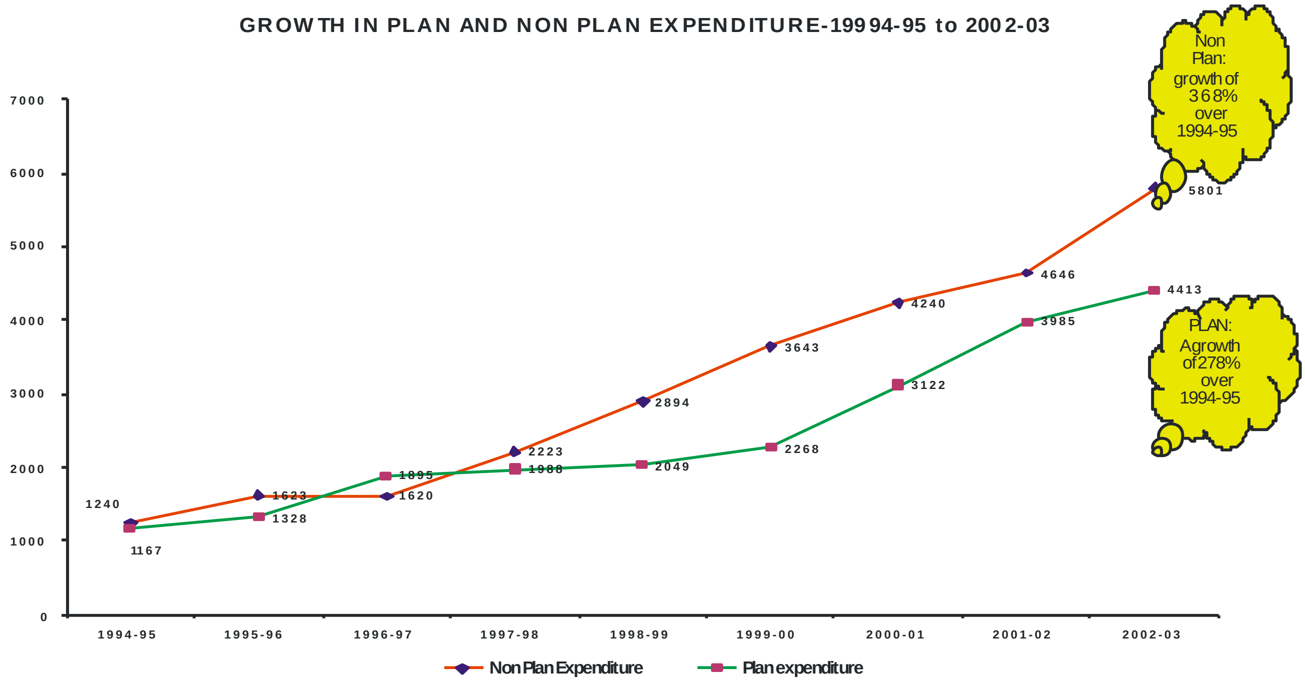
Box: 17.0- Causes and Concerns

- The study expressed concern about:
  - ✓ Growth in Plan Size: The allocation in the major sectors had increased from Rupees 13010 crore in the Ninth plan to Rupees 19672 crore in Tenth plan, a growth of 51 percent over Ninth plan. The plan expenditure increased from Rupees 2049 crore to Rupees 4413 crore between 1998-1999 and 2002-2003, an average annual growth of 24 percent.
  - ✓ Assistance to Utilities (DTC & DJB): The total loan to DJB & DTC in last five years stands at Rupees 1067.63 crore and Rupees 1351.41 crore
  - ✓ Non-Plan Expenditure: The average growth in non-plan expenditure including interest payment has been over 16 percent. From Rupees 2222.6 crore in 1997-1998 it increased to Rupees 5800.85 crore in 2002-2003, a growth of 161 percent over 1997-1998
  - ✓ Growth in Debt Servicing: The debt servicing was growing at the rate of 30 percent since 1997-1998 due to growth in total debt outstanding
  - ✓ Slow growth In Revenue Receipt: While our gross expenditure has increased at an average rate of over 17-20 percent our revenue receipts have grown at an average rate of 15-17 percent. If we factor out some good years when large growth was recorded (2000-2001 in sales tax) due to major discretionary changes the growth in last few years has not been more than 8-10 percent. In 1997-1998 our revenue receipt was Rupees 3480.72 crore and it stood at Rupees 6665.94 crore in 2002-03, a growth of 91 percent over 1997-1998 against corresponding growth in expenditure of 143 percent; our total expenditure increased from Rupees 4210.79 crore in 1997-98 to Rupees 10213.5 crore in 2002-2003.

Extract from: Presentation of Fiscal Scenario of Delhi: Projections for 2003-2004 to 2017-2018, GNCTD, Planning Department, November, 2002.

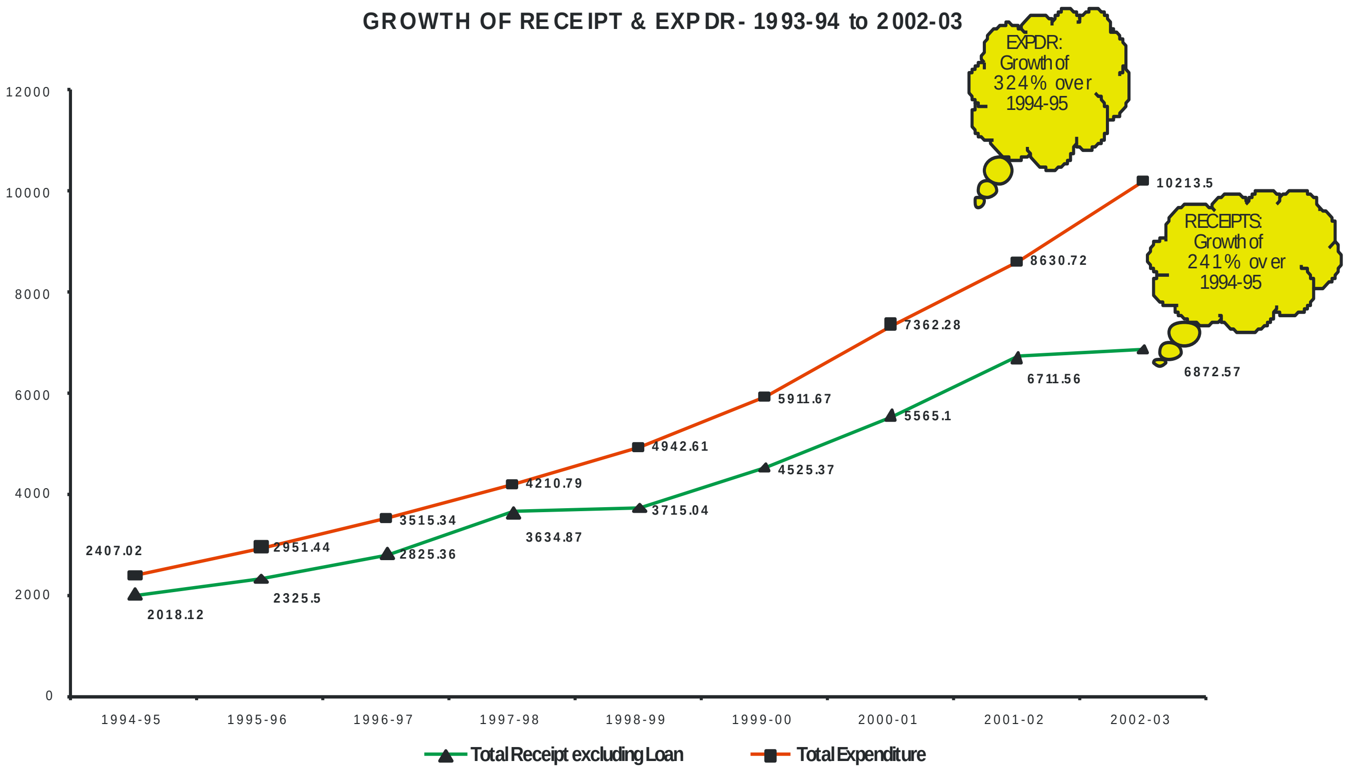
17.5 Figure 17.2 depicts the growth of plan and non-plan expenditure during the period 1994-1995 to 2002-2003. When plan expenditure increased from Rupees 1167.00 crore (1994-1995) to Rupees 4413.00 crore (2002-2003) i.e. a growth of 278 percent over 1994-1995, the non-plan expenditure increased during the said period from Rupees 1240.00 crore to Rupees 5801.00 crore i.e. a growth of 368 percent over 1994-1995. As was seen in Chapters IX, X, and XI this gap between **plan and non-plan** expenditure has only widened in favour of non-plan and against plan expenditure in the subsequent years.

Figure 17.2: Growth in Plan and Non-plan Expenditure 1994-1995 to 2002-2003



17.6 Figure 17.3 depicts the growth of total receipts excluding loans and expenditure during the period from 1994-1995 to 2002-2003. The receipts grew from Rupees 2018.12 crore (1994-1995) to Rupees 6872.57 crore (2002-2003) i.e. a growth of 241 percent over 1994-1995, and the expenditure increased from Rupees 2407.02 crore in the same period to Rupees 10213.50 crore i.e, a growth of 324 percent over 1994-1995. This also shows that the pace of expenditure was higher than the pace of receipts.

Figure 17.3 : Growth of Receipt & Expenditure 1994-1995 to 2002-2003



- In the period after 2002-2003, the total receipts excluding loans have grown from Rupees 7604.29 crore (2003-2004); to Rupees 9090.53 crore (2004-2005) to Rupees 10843.53 crore (2005-2006). In the same period the expenditure grew from Rupees 11720.17 crore (2003-2004), to Rupees 12875.42 crore (2004-2005), to Rupees 11141.74 crore (2005-2006). On the basis of data up to 2005-2006, the total expenditure had grown by 362.89 percent over 1994-1995 and the receipts had grown by 437.31 percent. Accordingly, the trend had reversed. The receipts were now growing faster than the expenditure.

17.7 The debt of the state government grew from Rupees 117.00 crore (1993-1994) to Rupees 11351.00 crore (2002-2003). At the end of the financial year 2005-2006, the outstanding debt was Rupees 21676.32 crore. The increase in the period 1993-1994 to 2002-2003 was 9601.71 percent. In the period 1993-1994 to 2005-2006 the percentage increase was 18426.77 percent, practically double in just three years. The increase between 2003-2004 and 2005-2006 over 2002-2003 was 90.96 percent. The **loans have grown** at a phenomenal rate in the last three years (the difference between the loan amount in 2005-2006 over 2002-2003 was Rupees 10,325.32 crore).

17.8 We now begin a consideration of the three scenarios spelt out in the presentation on GNCTD in November 2002.

- Contrast this situation with the projections made (Scenario-1) regarding the fiscal projections depicted in Table 17.1. As per these projections the outstanding debt was expected to decline at an annual average growth rate of 9.00 percent. This has clearly not happened. Similarly, the receipts were expected to grow at an annual average rate of 7 percent and reach the figure of Rupees 9437.00 crore in 2006-2007. The actual receipts of 2005-2006 are themselves closer to the projections for 2009-2010.

Table: 17.1-Fiscal Projections for NCT of Delhi (Amount in crore of Rupees)-Scenario-I

S.No	Year	2002-2003	2003-2004	2006-2007	2009-2010	2012-2013	Ann. Av.Gr.
I	Outstanding Debt	11400	11200	10250	8250	4500	-9
II	State Domestic Product (SDP)	73260	76906	94845	112784	130723	6
III	Gross Receipt						
1	Tax Revenue	5324	5618	6954	8290	9627	6
2	Non Tax Revenue	1342	1536	2035	2534	3033	8
3	Loan Recovery	207	336	448	561	673	8
	Gross Receipt (Total III)	6873	7490	9437	11385	13332	7
IV	Gross Expenditure						
1	Non Plan Expenditure						
(I)	Normal Non Plan Revenue Expenditure	2265	2194	2825	3272	3718	6
(II)	Non Plan Support to PSUs/local Bodies	1476	1200	2035	2518	3001	9
(III)	Debt Repayment	945	200	400	850	1450	26
(IV)	Interest Payment	1115	1400	2099	3135	4526	14
	Total Non Plan Expenditure (IV(1))	5801	4994	7359	9775	12695	10
	Gross expenditure	10214	10080	13314	17019	21229	9
V	Resource Gap	3341	2590	3876	5634	7897	13
VI	New Debt Requirement	3661	2590	3876	5634	7897	13
VII	Total Debt Outstanding	11351	13590	22732	35265	52250	16
	New Debt as % of Tax Revenue	68.8	46	56	68	82	471
	Total Debt as % of SDP	15.49	18	24	31	40	9
	Interest Payment as % of Tax Revenue	20.94	25	30	38	47	8
	Interest Payment as % of SDP	1.52	2	2	3	3	8
	Debt Repayment as % of loan Recovery		60	89	152	216	

Note : Assumptions for the projection

1. Projection are based on regression of actual figures for the year 1994-1995 to 2002-2003 and latest estimated figure for the year 2003-2004.
2. Normal Non-Plan revenue expenditure mainly comprises the committed liability (viz. establishment, office expenses etc. excluding repayment of loan and interest.)
3. Rate of interest payment for outst anding loan has been taken at 12% per annum and that of the fresh loan at 9.65% per annum.
4. Amount in crore of Rupees

17.9 The gross expenditure which was expected to rise to Rupees 13314.00 crore in 2006-2007 and Rupees 17019.00 crore in 2009-2010, reached the figure of Rupees 12875.42 crore in 2004-2005 itself.

- The non- plan expenditure was projected at Rupees 7359.00 crore in 2006-2007 and Rupees 9775.00 crore in 2009-2010. By 2004-2005, the non-plan expenditure was already Rupees 8607.94 crore and crossed the projections for 2006-2007.
- The total plan expenditure in 2006-2007 was to be Rupees 5955.00 crore and in 2009-2010 it was projected at Rupees 7244.00 crore. Against this the actual plan expenditure in 2004-2005 was Rupees 4267.48 crore and in 2005-2006 was Rupees 4300.56 crore. At this rate there is little hope of reaching the projected plan expenditure in 2006-2007. In fact, the budget estimates for 2006-2007 confirm this, being Rupees 5200 crore. The track record of plan expenditure suggests that it may not be possible to sustain the projections of the BE stage at the revised estimates stage.

17.10 The resource gap[2] in the year 2003-2004 was projected at Rupees 2590.00 crore and for 2006-2007 at Rupees 3876.00 crore whereas the actual resource gap in the year 2003-2004 was Rupees 4115.91 crore and in the year 2004-2005 was Rupees 3784.83 crore. In the year 2005-2006 there was no resource gap. On the other hand, the receipts were in excess of total expenditure by Rupees 21.47 crore, which meant that the state government did not require any further loan whereas the new debt requirement for 2006-2007 was projected at Rupees 3876.00 crore.

- Total debt outstanding in the year 2003-2004 was projected at Rupees 13590.00 crore and at the close of 2006-2007 at Rupees 22732.00 crore. In actual, the total debt outstanding at the end of 2003-2004 was Rupees 14293.84 crore, at the close of 2004-2005 Rupees 16003.54 crore and at the end of 2005-2006 total debt outstanding was Rupees 21676.32 crore almost the level projected for 2006-2007.

17.11 In Scenario-II (Table 17.2), the assumed levels of expenditure- plan, non-plan (including interest payments) and total-have been varied. Scenario-II assumes lower levels of expenditure of all kinds. Accordingly, compared to Scenario-I, the resource gap and debt needs assumed in Scenario-II stand reduced. The assumption being made is that expenditure compression is a clear and viable option.

---

[2] Resource gap is difference between the total expenditure and the total receipts (excluding loans).

Table: 17.2-Fiscal Projections for NCT of Delhi (Amount in crore of Rupees)-Scenario-II

S.No.	Year	2002-2003	2003-2004	2006-2007	2009-2010	2012-2013	Ann. Av.Gr.
I	Outstanding Debt	11400	11200	10250	8250	4500	-9
II	State Domestic Product (SDP)	73260	76906	94845	112784	130723	6
III	Gross Receipt						
1	Tax Revenue	5324	5618	6954	8290	9627	6
2	Non Tax Revenue	1342	1536	2035	2534	3033	8
3	Loan Recovery	207	336	448	561	673	8
	Gross Receipt (Total III)	6873	7490	9437	11385	13332	7
IV	Gross Expenditure						
1	Non Plan Expenditure						
(I)	Normal Non Plan Revenue Expenditure	2265	2194	2825	3272	3718	6
(II)	Non Plan Support to PSUs/local Bodies	1476	1200	2035	2518	3001	9
(III)	Debt Repayment	945	200	400	850	1450	26
(IV)	Interest Payment	1115	1400	2028	2610	2990	9
	Total Non Plan Expenditure (IV(1))	5801	4994	7288	9249	11159	9
2	Plan Expenditure	4413	5000	5000	5000	5000	
	Gross expenditure	10214	9994	12288	14249	16159	5
V	Resource Gap	3341	2504	2851	2865	2827	1
VI	New Debt Requirement	3661	2504	2851	2865	2827	1
VII	Total debt outstanding	11351	13504	20975	27050	31267	9
	New Debt as % of Tax Revenue	69	45	41	35	29	-70
	Total Debt as % of SDP	15	18	22	24	24	3
	Interest Payment as % of Tax Revenue	21	25	29	31	31	3
	Interest Payment as % of SDP	2	2	2	2	2	3
	Debt Repayment as % of Loan Recovery		60	89	152	216	

Note : Assumptions for the projection

1. Projection are based on regression of actual figures for the year 1994-1995 to 2002-2003 and latest estimated figure for the year 2003-2004.
2. Normal Non-Plan revenue expenditure mainly comprises the committed liability (viz. establishment, office expenses etc. excluding repayment of loan and interest.)
3. Rate of interest payment for outstanding loan has been taken at 12% per annum and that of the fresh loan at 9.65% per annum.

- For instance it has been assumed that the non-plan expenditure in Scenario II will be Rupees 4994.00 crore in 2003-2004; Rupees 7288.00 crore in 2006-2007, and Rupees 9249.00 crore in 2009-2010. The plan expenditure will be Rupees 5000.00 crore in 2003-2004, 2006-2007, and 2009-2010. The total expenditure was projected at Rupees 9994.00 crore in 2003-2004, Rupees 12288.00 crore in 2006-2007, and Rupees 14249.00 crore in 2009-2010.

- Clearly, assumption of constant plan expenditure is quite unrealistic. The actual plan expenditure in 2003-2004 was Rupees 4572.70 crore, Rupees 4267.48 in 2004-2005, and Rupees 4300.56 crore in 2005-2006. Thus the actual expenditure trend indicates that plan expenditure declined in 2004-2005 over 2003-2004 before marginally recovering in 2005-2006. Further, though the non-plan expenditure crossed the level projected for 2003-2004i in 2002-2003, in 2005-2006 the non-plan expenditure stood at Rupees 6841.18 crore.
- The expenditure is expected to grow at an annual average growth rate of 9 percent in the first scenario, 5 percent in the second scenario, and 6 percent in the third scenario. The outstanding debt in the first scenario is projected to grow at an annual average growth rate of 16 percent, and 9 percent in the second and third scenario. Clearly, the second and third scenarios are based on an assumption of expenditure curtailment to contain the resource gap. Like the earlier two models, it is assumed in Scenario-III (Table 17.3) also that the outstanding debt will increase though to a lesser extent than in the earlier two models.

Table: 17.3-Fiscal Projections for NCT of Delhi (Amount in crore of Rupees)-Scenario-III

S.No.	Year	2002-2003	2003-2004	2006-2007	2009-2010	2012-2013	Ann.Av.Gr.
I	Outstanding Debt	11400	11200	10250	8250	4500	-9
II	SDP	73260	76906	94845	112784	130723	6
III	Gross Receipt						
1	Tax Revenue	5324	5618	6954	8290	9627	6
2	Non Tax Revenue	1342	1536	2035	2534	3033	8
3	Loan Recovery	207	336	448	561	673	8
	Gross Receipt (Total III)	6873	7490	9437	11385	13332	7
IV	Gross Expenditure						
1	Non Plan Expenditure						
(I)	Normal Non Plan Revenue Expenditure	2265	2194	2825	3272	3718	6
(II)	Non Plan Support to PSUs/local Bodies	1476	1200	1300	1000	700	-7
(III)	Debt Repayment	945	200	400	850	1450	26
(IV)	Interest Payment	1115	1400	1750	2320	2752	9
	Total Non Plan Expenditure (IV(1))	5801	4994	6275	7442	8620	6
2	Plan Expenditure	4413	5086	5955	7244	8534	6
	Gross expenditure	10214	10080	12230	14686	17154	6
V	Resource Gap	3341	2590	2793	3301	3822	5
VI	New Debt Requirement	3661	2504	2343	2501	2422	1

	ARM		86	450	800	1400	
VII	Total debt outstanding	11351	13504	19446	24852	28490	9
	New Debt as % of Tax Revenue	69	45	34	30	25	-70
	Total Debt as % of SDP	15	18	21	22	22	2
	Interest Payment as % of Tax Revenue	21	25	25	28	29	3
	Interest Payment as % of SDP	2	2	2	2	2	3
	Debt Repayment as % of Loan Recovery		60	89	152	216	

Note : Assumptions for the projection
1. Projection are based on regression of actual figures for the year 1994-1995 to 2002-2003 and latest estimated figure for the year 2003-2004.
2. Normal Non-Plan revenue expenditure mainly comprises the committed liability (viz. establishment, office expenses etc. excluding repayment of loan and interest.)
3. Rate of interest payment for outstanding loan has been taken at 12% per annum and that of the fresh loan at 9.65% per annum.
4. Plan size same as at Scenario 1, resources gap to be met through reduction in assistance to utilities and ARM.

- The developments in the period 2003-2004 to 2005-2006 have undermined these assumptions. The fact is that in the years after the projections were made, total receipts have grown. Plan expenditure as a percentage of total expenditure has declined. This reduced level of plan expenditure may well be responsible for the small overall surplus (excluding the loan amount received from the centre) in 2005-2006 (Rupees 21.47 crore).
- In such circumstances, the loan amounts are not fulfilling the traditional role of filling a resource gap. This is because even the overall deficit has been wiped out. There is an excess of receipts over expenditure. If plan expenditure was expanding, as it could be expected to, given the overall infrastructure, amenities, and services deficit, there could have been a need to avail loans. However, the loans are being received irrespective of the capacity to absorb loans at the current level. One consequence of the increasing loan amounts is the explosion of non-plan expenditure (by way of repayments of principal plus interest).

- For the reasons indicated above the three models will not assist in the task of making realistic projections.

Projections II: State Government

17.12 The Eleventh Five Year Plan of Delhi, says the Approach Paper, shall take into account the findings, projections and recommendations made in Regional Plan-2021 for NCR, MPD-2021, the requirements determined by the fact of Delhi being the venue of various forthcoming national and international events and finally the expectations of the people of Delhi[3].

- The Regional Plan-2021 for NCR and the draft MPD-2021 have projected a population of 22-23 million for Delhi in 2021. DUEIIP-21 prepared by Government of Delhi in February, 2001 also projected the population of Delhi at 22 million in 2021. These population projections for Delhi in 2021 are based on the holding capacity of Delhi[4] as well as taking into account the component of population projected to be diverted to NCR Central Towns[5]. Without taking into account these two facts the **projected population** of Delhi in 2021 may reach 24.48 million as estimated by Registrar General of India (Census). The estimated population of Delhi by the end of Eleventh Five Year Plan i.e. March 2012 will be 18.98 million as per estimates of Registrar General of India.

17.13 Delhi, according to the Approach paper, has a vibrant economy. The real growth of Gross State Domestic Product of Delhi has increased from 7.31 percent in the Ninth Plan to 8.4 percent in the first three years of the Tenth Five Year Plan. It is expected that growth in GSDP during Tenth Plan will be about 9.5 percent. Keeping in view the growth potential in services sector which has a contribution of about 79 percent in Delhi's economy, the targeted growth of GSDP in Delhi is proposed at 10 percent for the Eleventh Five Year Plan.

17.14 The average annual growth rate of tax revenue has increased from 14.72 percent in the Ninth Plan to 19.21 percent in the Tenth Five Year Plan mainly because of implementation of Value Added Tax (VAT) in Delhi. The Value Added Tax has a share of about 74 percent in total tax revenue of Delhi. Keeping in view the growth potential in Delhi's economy, an average growth rate of about 17.19 percent is proposed for tax revenue in the Eleventh Five Year Plan.[6]

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[3] This section is based on the draft Approach Paper to the Eleventh Five Year Plan of Delhi, Planning Department, Government of the NCT of Delhi, July 2006.

[4] Though the claim is that the projected population is based on an assessment of the 'holding capacity' of Delhi, it is not clear what exactly is the said capacity against which the population projection has been fixed, nor how it has been arrived at.

[5] This assumption too is unlikely to work out in the light of past experience. It has neither been possible to divert migrating population to the NCR nor to move out institutions, businesses, trades or commercial and industrial activity outside Delhi.

[6] The reduced growth rate of tax revenue from 19.21 percent to 17.19 percent is strange. An economy poised to grow should surely be able to yield higher tax revenues even if there is no change in the tax rate structure. Also the new tax measures proposed should enable the government to realize higher tax revenues.

17.15 Increase in tax buoyancy above one is a sign of better tax collection. The tax buoyancy in Delhi has increased from 1.08 in the Ninth Five Year Plan to 1.52 in the Tenth Five Year Plan. Tax buoyancy during the Eleventh Plan period is estimated at 1.15. The Planning Commission has also assumed the centre's revenue buoyancy of 1.15 in its Approach Paper for the Eleventh Plan.[7]

17.16 The Approach paper identifies some of the 'thrust areas.' These are depicted in Box 17.1.

Box: 17.1-Thrust Areas for the Eleventh Five Year Plan

- ✓ Complete rejuvenation of river Yamuna.
- ✓ Development of river Yamuna front.
- ✓ Development of sub-standard areas by providing sewerage system or low cost sanitation system in addition to water supply, electricity, solid waste disposal system in these areas.
- ✓ Renewal and development of walled city and other special areas like Karol Bagh and Paharganj.
- ✓ Development of new sanitary landfill sites on scientific lines.
- ✓ Reliable facility for disposal of hazardous and bio-medical waste.
- ✓ Development of green belt within and outside the boundaries of Delhi territory by concerned state governments.
- ✓ Development of new railway stations and modernization and expansion of existing railway stations and airports.
- ✓ Improvement of surrounding areas of all railway stations and airports.
- ✓ Development of Multi Modal Transport System and revitalization of ring rail.
- ✓ Moving towards self-reliance in power.
- ✓ Promotion of Delhi as destination both for national and international tourists through development of infrastructure like construction of all types/categories of hotel accommodation, organization of cultural events, promotion of medical and heritage tourism.
- ✓ Promotion of high-tech and IT services.
- ✓ Suitable arrangements for vendors and weekly markets.
- ✓ Recycling of treated waste water, rain water harvesting, controlled exploitation of ground water and its recharging.

[7] The assumption of a buoyancy of 1.15 for the Eleventh Five Year Plan is difficult to understand. This is for two reasons. One, a buoyancy of 1.52 has already been said to have been achieved in the Tenth Five Year Plan. Secondly, Delhi is being projected as a vibrant economy poised to grow at 15 percent per annum (at current prices) against 12.64 percent (at current prices) in the Tenth Five Year Plan. Accordingly, only one set of statements and derivative conclusions can be true. Either Delhi is a vibrant economy, expected to grow and yield more than satisfactory levels of tax revenues (9.46 percent share of GSDP) or else it is likely to grow marginally (the difference between the growth rate of the Tenth and Eleventh Five Year Plan at constant prices). In the latter case, the lower buoyancy of 1.15 would be easier to accept.

- ✓ Ensuring enrolment of all 6-14 years age children of Delhi – drop out to zero level and extending reach of education to all up to secondary level.
- ✓ Expansion of primary, secondary and tertiary health care facilities so as to ensure bed population ratio of about 2.50 bed per thousand by 2012.
- ✓ Adequate and safe drinking water to each household.

17.17 Some key fiscal indicators as a percentage of GSDP during the Ninth, Tenth and Eleventh plan are provided in Table 17.4 (Statement-I).

Table: 17.4-Key Fiscal Indicators as a Percentage of GSDP (Statement-I)

Serial No.	Item	Plan Average (Ninth Plan)	Plan Average (Tenth Plan)	Plan Average (Eleventh Plan)
1	State Plan (including CSS)	4.82	5.00	5.15
2	Total Non-Plan	6.36	7.76	6.47
	of which:			
(I)	Interest payments	1.02	1.76	1.45
(ii)	Pay & Allowances		1.43	1.36
3	Total Expenditure	11.20	13.01	11.63
4	Own Tax Revenue	6.86	8.08	9.57
5	Non-Tax Revenue	1.53	1.81	1.79
6	Total Revenue Receipts	8.40	9.90	11.36
7	Repayment of Loan to GOI		0.24	0.31
8	Total Revenue Expenditure	6.26	6.40	6.46
9	Gross Fiscal Deficit	-2.17	-0.12	0.19
10	Revenue Surplus(+)/Deficit(-)	2.05	0.53	4.86

17.18 Average plan expenditure as a percentage of GDP[8] in Delhi was 4.82 percent in Ninth Plan which increased to 5 percent in the Tenth Five Year Plan. Keeping in view the infrastructural requirement in the context of ensuing Commonwealth Games and also to make Delhi a global city, the plan expenditure in Eleventh Plan is proposed at 5.15 percent of GSDP.[9]

[8] Wherever the figures are given as a percentage of the GSDP, and look favourable, the advantageous situation is really on account of the growth in GSDP being assumed and projected.

[9] This is a most discouraging feature of the projections. The proposed expenditure on the Commonwealth Games will have a limited impact- geographically and economically- which will leave a large area of Delhi untouched. It has already been seen that mega events have frequently introduced distortions in the socio-economic conditions of Delhi. Besides, expenditure directed at achieving the status of a 'global city' is uncertain-as an absolute or percentage share of the total plan expenditure and the Approach Paper is short on programmatic and project details. Further, the global city status hardly lends itself to being a

17.19 The average non-plan expenditure in Delhi as a percentage of GSDP was 6.36 percent in the Ninth Plan which increased to 7.76 of the percent in the Tenth Plan mainly because of non-plan assistance to public utilities, increase in interest payments, etc. The Approach Paper says that efforts would be made to improve the financial position of the public utilities and reduce their reliance on loans to the minimum extent possible. Average non-plan expenditure is expected to be around 6.47 percent of the GSDP in the Eleventh Plan.[10] This would be lower than the target of 9.88 percent projected by the Planning Commission in the Approach Paper for the states.

17.20 Interest payment of Delhi government as percentage of GSDP was 1.02 percent in Ninth Plan which increased to 1.76 percent in the Tenth Plan. It is expected that interest payment would be around 1.45 percent of GSDP during the Eleventh Plan period. Private Sector involvement through public-private participation approach and reduction in loans for capital outlay will help in reducing interest burden.[11]

17.21 The repayment of loans to the central government which started during the Tenth Plan period is expected to rise from 0.24 percent of GSDP to 0.31 percent as a percentage of GSDP in the Eleventh plan.

17.22 Another important component of non-plan expenditure is pay and allowances. Delhi Government's liability on pay and allowances was 1.43 percent of GSDP in Tenth Plan which is expected to decrease to 1.36 percent of GSDP in the Eleventh Plan.

17.23 The total expenditure as a percentage of the GSDP was 11.20 percent during the Ninth Plan period and 13.01 percent in the Tenth Plan period. It is projected to decline by 1.38 percentage points in the Eleventh Plan period to 11.63 percent.

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government sponsored program. We shall return to this aspect in the next chapter. Finally the proposed plan expenditure will grow at a rate lesser than the growth of the GSDP.

[10] This is a rather ambitious target even if the possibility of a growing economy is factored in. It means reducing non-plan expenditure by 1.29 percentage points of the GSDP in comparison to the Tenth Plan position; in fact almost restoring the position prevalent in the Ninth Plan in terms of the share of non-plan expenditure as percentage of the GSDP. It would require implementing a strategy that allows for steep reduction of loans from the centre and an exercise of strict financial discipline vis-à-vis the public utilities. The track record in respect of both is not encouraging.

[11] The sectors in which private sector would be involved and the volumes of investment that would be forthcoming to help reduce the need for capital loans are not indicated.

17.24 The tax GDP ratio in Delhi has increased from 6.86 percent in the Ninth Plan to 8.08 percent in the Tenth Plan. Keeping in view the buoyant tax revenue and new measures like implementation of Goods and Passengers Tax, circle rates for registration of properties etc., a target of 9.57 percent of tax GDP ratio is proposed for the Eleventh Plan.

17.25 Non-tax revenue as a percentage of GSDP has increased from 1.53 percent in the Ninth Plan to 1.81 percent in the Tenth Plan and has been projected at 1.79 percent in the Eleventh Plan: a decline of 0.02 percentage points.

17.26 The total revenue receipts as a percentage of GSDP rose from 8.40 percent in the Ninth Plan to 9.90 percent in the Tenth Plan which is now expected to rise to 11.36 percent in the Eleventh Plan: an increase of 1.46 percentage points.

17.27 The Delhi Government are consistently having revenue surplus since 1994-1995 and this position will continue during the Eleventh Plan period.[12] Its average revenue surplus is expected to be 4.86 percent of GSDP during the Eleventh Plan. As per the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 the revenue deficit of the Centre as well as the states has to be reduced to zero. Delhi's position in this regard is, therefore, already much better as compared to other States.[13] Delhi's average fiscal deficit is expected to be 0.38 percent of GSDP in the first year of the Eleventh Plan which will reduce to 0.23 percent of GSDP in the second year and thereafter from the third year, there will be no fiscal deficit. Rather, there will be a surplus of 0.01 percent of GSDP in the mid year of Eleventh Plan which will increase to 1.03 percent of GSDP in the terminal year of the Eleventh Plan. According to the said Act, the centre and all states will have to bring down the fiscal deficit to 3 percent of GDP by 2008-09. Thus, Delhi's fiscal position is expected to remain better during the Eleventh Plan Period.

[12] However, there has been a fiscal deficit all through, except in 2005-2006 when there was a surplus of Rupees 245.13 crore. Fiscal surplus/deficit means the difference between total receipts and total expenditure.

[13] The position of Delhi in respect of revenue surplus no doubt is much better than in other states. However, the picture does not remain so satisfactory when we consider the fact that many liabilities of the other state government's are not borne by the Delhi government: illustratively expenditure on police and law and order. Besides, this may require adherence to the financial discipline envisaged in the FRBM Act and the evolution and implementation of a long term fiscal policy.

17.28 The gross fixed capital formation under public sector in Delhi has been worked out at Rupees 9024.46 crore [12.52 percent GSDP] in the first year of Tenth plan which is expected to increase in the Eleventh Plan period because of more investment in infrastructure, civic and social services in Delhi.

17.29 The financial projections as a percentage of GSDP for the Eleventh Plan are at Table 17.5 (Statement–II). The plan expenditure including Centrally Sponsored Scheme (CSS) is expected to grow as a percentage of the GSDP from 4.85 percent (2007-2008) to 5.33 percent (2009-2010). It is projected to decline in the last two years of the Plan period by 0.14 percentage points. This is despite the fact that the GSDP is projected to grow, while the plan expenditure as a percentage of the larger GSDP is projected to decline.

Table: 17.5-Government of Delhi Financial Projection as a Percentage of GSDP for Eleventh Five Year Plan (2007-12) (9.5% Growth Scenario with: Buoyancy =1.15) (as per cent of GSDP) (Statement-II)

Serial No.	Item	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average (Eleventh Plan)
1	State Plan (including CSS)	4.55	4.85	5.09	5.33	5.31	5.19	5.15
2	Total Non-Plan	7.19	6.92	6.76	6.51	6.22	5.98	6.47
	of which:							
(I)	Interest payments	1.91	1.91	1.67	1.45	1.26	1.09	1.45
(ii)	Pay & Allowances	1.42	1.38	1.45	1.39	1.33	1.26	1.36
3	Total Expenditure	11.73	11.77	11.85	11.83	11.54	11.17	11.63
4	Own Tax Revenue	8.98	9.21	9.40	9.58	9.76	9.93	9.57
5	Non-Tax Revenue	1.91	1.87	1.83	1.79	1.75	1.71	1.79
6	Total Revenue Receipts	10.89	11.08	11.23	11.37	11.51	11.64	11.36
7	Repayment of Loan to GOI	0.84	0.17	0.26	0.35	0.40	0.47	0.31
8	Total Revenue Expenditure	6.50	7.01	6.80	6.49	6.18	5.88	6.46
9	Gross Fiscal Deficit	0.16	-0.38	-0.23	0.01	0.47	1.03	0.19
10	Revenue Surplus(+)/Deficit(-)	4.38	4.07	4.43	4.88	5.33	5.76	4.86

17.30 The projected trend of total non-plan expenditure as a percentage of GSDP is a continuous decline. If attained this would certainly be a major achievement.

17.31 The percentage share of the total expenditure in the GSDP is projected to grow from 11.77 percent (2007-2008) to 11.85 percent (2008-2009). Thereafter, there is a continuous decline of 0.68 percentage points. This decline is largely dependent on the projected curtailment of non-plan expenditure.

17.32 As a percentage of GSDP, the revenue receipts are expected to rise continuously during the Eleventh Plan Period from 11.08 percent (2007-2008) to 11.64 percent (2011-2012).

17.33 The projections based on the percentage share in GSDP present a rather unusual situation: revenues are expected to rise continuously as a percentage of GSDP. But total expenditure is projected to decline, yielding a growing revenue surplus of 5.76 percent in 2011-2012 from 4.07 percent in 2007-2008. This is an increase in revenue surplus of 1.69 percentage points. Some would consider this a happy situation. However, seen in the context of the infrastructure and services deficit this presents a conundrum. In fact, it could also be taken to reflect a **performance gap** and lack of **institutional capacity** to utilize the additional resources mobilized.

17.34 Table 17.6 shows the financial projections for the Eleventh Plan period.

Table: 17.6- Financial Projections for Eleventh Five Year Plan (2007-12) (Assumption: Real Growth in GSDP = 9.5%, Buoyancy =1.16, Inflation = 5% Rupees in crore

Sl. No.	Year	2007-08	2008-09	2009-10	2010-11	2011-12	Annual Average Growth (Eleventh Plan)
1	GSDP at Current Prices	131497.69	150236.11	172395.93	198686.31	229979.41	*15.00*
	% change over previous year	13.50	14.25	14.75	15.25	15.75	
2	GSDP at Constant Prices	66633.11	72796.67	79894.34	88083.51	97552.49	*10.00*
	% change over previous year	8.50	9.25	9.75	10.25	10.75	
3	Own Tax Revenue	12105.60	14127.24	16514.74	19388.30	22839.42	*17.19*
	% change over previous year	16.40	16.70	16.90	17.40	17.80	
	As % of GSDP	9.21	9.40	9.58	9.76	9.93	*9.57*
	Buoyancy						*1.15*
4	Own non-tax Revenue	1542.10	1805.60	2114.42	2476.37	2900.68	*17.11*
	% change over previous year	17.07	17.09	17.10	17.12	17.13	
	As % of GSDP	1.17	1.20	1.23	1.25	1.26	*1.22*
	Buoyancy						*1.14*
	Of which:						

(a)	Interest from DTC	665.59	769.49	889.61	1028.47	1189.02	*15.61*
(b)	Interest from DJB	562.57	667.20	791.30	938.49	1113.05	*18.60*
(c)	Others	313.94	368.91	433.51	509.41	598.61	*17.51*
5	Grants from Centre	920.41	944.23	969.00	994.76	1021.55	*2.64*
	Share in Central Taxes*	325.00	325.00	325.00	325.00	325.00	*0.00*
	Plan Grants (Incl. CSS)	595.41	619.23	644.00	669.76	696.55	*4.00*
6	**Total Own Revenue (3+4)**	**13647.70**	**15932.84**	**18629.16**	**21864.68**	**25740.10**	***17.18***
	% change over previous year	33.78	16.74	16.92	17.37	17.72	
	As % of GSDP	10.38	10.61	10.81	11.00	11.19	*10.79*
	Buoyancy	0.04	0.02	0.02	0.02	0.02	*1.15*
7	**Total Revenue (5+6)**	**14568.11**	**16877.07**	**19598.15**	**22859.43**	**26761.64**	*16.41*
	% change over previous year	31.26	15.85	16.12	16.64	17.07	
	As % of GSDP	11.08	11.23	11.37	11.51	11.64	*11.36*
8	**Non Plan Expenditure (A+B)**	**9102.27**	**10156.47**	**11215.47**	**12361.53**	**13761.97**	*10.77*
	% change over previous year	12.71	11.58	10.43	10.22	11.33	
	As % of GSDP	6.92	6.76	6.51	6.22	5.98	*6.47*
A	On Revenue Account	6909.54	7588.55	8179.68	8847.04	9609.73	*8.47*
	Of which:						
i	Interest Payments	2510.00	2506.00	2504.00	2502.00	2499.00	*-0.10*
	% change over previous year	13.57	-0.16	-0.08	-0.08	-0.12	
	As % of GSDP	1.91	1.67	1.45	1.26	1.09	*1.45*
ii	Pay & Allowances	1811.61	2173.93	2396.11	2635.72	2899.29	*12.00*
	% change over previous year	10.00	20.00	10.22	10.00	10.00	
	As % of GSDP	1.38	1.45	1.39	1.33	1.26	*1.36*
iii	Pension	450.00	485.00	525.00	567.00	612.00	*8.02*
iv	Devolution to Local Bodies	1271.00	1483.00	1734.00	2035.00	2398.00	*17.19*
	% change over previous year	16.39	16.68	16.93	17.36	17.84	
	As % of GSDP	0.97	0.99	1.01	1.02	1.04	*1.00*
v	Others	866.93	940.61	1020.57	1107.31	1201.44	*8.50*
B	On Capital Account	2192.74	2567.92	3035.79	3514.49	4152.24	*17.24*
	Of which:						
i	Loan Repaid	222.00	386.00	606.00	793.00	1088.00	*47.68*
	As % of GSDP	0.17	0.26	0.35	0.40	0.47	*0.31*
ii	Pre-paid						
	Cash Loan to:						
(a)	DTC	276.00	276.00	276.00	276.00	276.00	
(b)	DJB	165.00	182.00	200.00	220.00	242.00	
(c)	DPCL	301.58	287.23	272.88	258.53	244.18	

	Loan for Interest Recovery :						
(a)	DTC	665.59	769.49	889.61	1028.47	1189.02	*15.61*
(b)	DJB	562.57	667.20	791.30	938.49	1113.05	*18.60*
9	**Plan Expenditure**	**6376.70**	**7652.04**	**9182.45**	**10559.82**	**11932.59**	*17.06*
	% change over previous year	21.00	20.00	20.00	15.00	13.00	
	As % of GSDP	4.85	5.09	5.33	5.31	5.19	*5.15*
	On Revenue Account	2310.39	2633.85	3002.59	3422.95	3902.16	*14.00*
10	Recoveries of Loans	192.94	198.73	204.69	210.83	217.16	*3.00*
11	**Total Revenue Expenditure**	**9219.93**	**10222.40**	**11182.26**	**12269.98**	**13511.89**	***9.93***
	As % of GSDP	7.01	6.80	6.49	6.18	5.88	*6.46*
	Total Exp	2462.51	2749.83	3083.41	3471.13	3922.22	*12.34*
	As % of GSDP						
	Revenue Surplus	222.00	386.00	606.00	793.00	1088.00	*47.68*
	Fiscal Deficit	7.01	6.80	6.49	6.18	5.88	

*This represents adhoc grants in lien of share in central taxes.

17.35 Here are the chief highlights:

- ✓ Tax revenue is expected to grow at an annual average rate of 17.19 percent.
- ✓ Non-Tax revenues are projected to grow at an annual average growth rate of 17.11 percent. Interest recoveries from DTC and DJB are poised to grow at the rate of 15.61 and 18.60 respectively. Interest recoveries from the other agencies (local bodies and public enterprises) are posited to grow at the rate of 17.51 percent.
- ✓ Total revenue receipts are projected to increase at an annual average rate of 16.41 percent.
- ✓ Total Non-plan expenditure is expected to grow at an annual average rate of 10.77 percent Non-plan revenue expenditure is posited to grow at the annual average growth rate of 8.47 percent, interest payment to the Government of India minus 0.10 percent, pay and allowances 12.00 percent, and pensions 8.02 percent (applicable from April 1, 2007 for employees appointed after January 1, 2004).
- ✓ Non-plan expenditure (capital account) has been proposed at the annual growth rate of 17.24 percent. Loan repayment in particular is a large item of expenditure in terms of the annual average growth rate: 47.68 percent.
- ✓ Plan expenditure has been projected to increase at an annual average growth rate of 17.06 percent. On revenue account, the increase would be at the rate of 14.00 percent.

- ✓ The annual average growth rate of devolution to local bodies has been taken at 17.19 percent.

17.36 The data suggest that the total plan expenditure in the Eleventh Plan (inclusive of CSS and expenditure to be incurred in connection with the Commonwealth Games in 2010) will be of the order of Rupees 45,703.59 crore. This is against the approved outlay of Rupees 23000.00 crore for the Tenth Plan. Accordingly, it represents an absolute increase of Rupees 22,703.59 crore and a percentage step up of 98.71 percent.

17.37 However, the plan expenditure in the Tenth Plan (first four years) was below the projected level. By the fourth year of the Tenth Plan, the total expenditure was Rupees 17413.12 crore. This implies that if the plan expenditure was to reach the level of the approved outlay, an expenditure of Rupees 5586.88 crore would have to be incurred in the fifth year i.e 2006-2007. The BE and the RE (as revised in the projections for the Eleventh Five Year Plan) are short on this target by Rupees 386.88 crore (based on the BE) and Rupees 316.88 crore (based on the RE). This is clearly based on the assumption that actual expenditure in the fifth year will be close either to the BE or to the RE projections. The track record of plan expenditure does not inspire confidence that this would happen. Therefore, the **proposed plan size** for the Eleventh Plan period appears to be ambitious.

17.38 Again, consider the data in Table 17.7. The annual average expenditure that was required in the five years of the Tenth Plan was Rupees 4600 crore (Rupees 23,000 crore divided by five). The RE in the first four years was closer to the required annual average than were the BE projections. RE were, of course, lower than the BE in all except the first year (when it remained fixed at Rupees 4700.00 crore). Now, even against what was the required annual average, the actual expenditure trailed the RE projections. Given this performance gap, how are the Eleventh Plan projections likely to look?

Table: 17.7-Plan Expenditure BE/RE and Actual in the Tenth Five Year Plan (first four years) (Rupees in crore)

Year	BE	RE	Actual	Absolute Variation in RE Over BE	Percentage Variation in RE Over BE	Absolute Variation in Actual Over BE	Percentage Variation in Actual Over BE	Absolute Variation in Actual Over RE	Percentage Variation in Actual Over RE
2002-2003	4700.00	4700.00	4383.06	0.00	0.00	-316.94	-6.74	-316.94	-6.74
2003-2004	5025.00	4864.00	4559.46	-161.00	-3.20	-465.54	-9.26	-304.54	-6.26
2004-2005	5000.00	4532.28	4185.60	-476.72	-9.53	-814.40	-16.29	-346.68	-7.65
2005-2006	5100.00	4700.00	4285.00	-400.00	-7.84	-815.00	-15.98	-415.00	-8.83
2006-2007	5200.00	5270.00*	-	70.00	1.35	-	-	-	-

(Modified BE as in the Eleventh Plan approach Paper)

17.39 The proposed plan size of Rupees 45,703.59 crore would mean an annual average expenditure of Rupees 9140.72 crore. This implies annual average expenditure at double the levels achieved in the Tenth Plan. The possibility of departments or agencies of the state government, including the local bodies, being able to acquire **absorptive capacity** on this scale cannot be ruled out, but its probability, to put it no stronger, looks bleak. In this context recall that plan expenditure as a percentage of total expenditure has plunged to 26.53 percent in 2004-2005.

17.40 One infirmity that plagues the plan implementation strategy of the Delhi government is the absence of a long-term **investment plan**.[14] This was reviewed in Chapter IV.

17.41 As per the projections made by Delhi government, the tax revenue of Delhi Government is expected to grow from Rupees 12105.60 crore in the year 2007-2008 to Rupees 22839.42 crore in the year 2011-2012. i.e. during the Eleventh Plan. The base has been taken as modified projection of Rupees 10400.00 crore for the year 2006-2007. Total own tax revenue during the Eleventh Plan will be Rupees 84975.30 crore. (Table 17.8)

[14] Investment Plans: Simply put, an investment plan requires drawing up a comprehensive list of executive projects (detailing their costs and execution schedules) based on an assessment of deficits in the spheres of infrastructure, services, and amenities. This would broadly cover spheres the state government intends to focus its efforts on and make investments. It would also require spelling out areas in which it expects private sector participation, involvement and investment. The success of developmental initiatives depends as much on the efforts of individual citizens and other organized groups as it does on public sector initiatives.

Table: 17.8- Revenue Receipts and Total Expenditure as a Percentage of Various Parameters (Rupees in crore)

Sl. No.	Item	2006-07 (Modified)	2007-08	2008-09	2009-10	2010-11	2011-12	Total (2007-08 to 2011-12)
	GSDP Projection (Current Prices)	115856.99	131497.69	150236.11	172395.93	198686.31	229979.41	*882795.45*
1	**Own Tax Revenue**	10400.00	12105.60	14127.24	16514.74	19388.30	22839.42	*84975.30*
2	**Non-Tax Revenue**	2214.73	2462.51	2749.83	3083.41	3471.13	3922.22	*15689.10*
3	**Total Revenue Receipts (1+2)**	12614.73	14568.11	16877.07	19598.15	22859.43	26761.64	*100664.40*
4	**Total Non-Plan Expenditure**	8325.48	9102.27	10156.47	11215.47	12361.53	13761.97	*56597.72*
a	**Non-Plan Revenue**	5748.00	6909.54	7588.55	8179.68	8847.04	9609.73	*41134.54*
b	**Non-Plan Capital**	2577.48	2192.73	2567.92	3035.79	3514.49	4152.24	*15463.18*
5	**State Plan (including CSS)**	5270.00	6376.70	7652.04	9182.45	10559.82	11932.59	*45703.59*
a	**Plan Revenue**	2026.66	2310.39	2633.85	3002.59	3422.95	3902.16	*15271.94*
b	**Plan Capital**	3243.34	4066.31	5018.19	6179.86	7136.87	8030.43	*30431.65*
6	**Total Expenditure (4+5)**	13595.48	15478.97	17808.51	20397.92	22921.34	25694.57	102301.31
7	**Resources Gap (3-6)**	-980.75	-910.87	-931.45	-799.76	-61.91	1067.08	-1636.91
	Percentage :-							
1	**Plan Revenue Expenditure as a Percentage of Own Tax Revenue**	19.49	19.09	18.64	18.18	17.65	17.09	17.97
2	**Plan Capital Expenditure as a Percentage of Own Tax Revenue**	31.19	33.59	35.52	37.42	36.81	35.16	35.81
3	**Plan Revenue Expenditure as a Percentage of Total Revenue Receipt**	16.07	15.86	15.61	15.32	14.97	14.58	15.17
4	**Plan Capital Expenditure as a Percentage of Total Revenue Receipt**	25.71	27.91	29.73	31.53	31.22	30.01	30.23
5	**Non-Plan Revenue Expenditure as a Percentage of Own Tax Revenue**	55.27	57.08	53.72	49.53	45.63	42.08	48.41
6	**Non-Plan Capital Expenditure as a Percentage of Own Tax Revenue**	24.78	18.11	18.18	18.38	18.13	18.18	18.20
7	**Non-Plan Revenue Expenditure as a Percentage of Total Revenue Receipt**	45.57	47.43	44.96	41.74	38.70	35.91	40.86
8	**Non-Plan Capital Expenditure as a Percentage of Total Revenue Receipt**	20.43	15.05	15.22	15.49	15.37	15.52	15.36
9	**Total Plan Expenditure as a Percentage of GSDP**	4.55	4.85	5.09	5.33	5.31	5.19	5.18

10	**Total Plan Expenditure as a Percentage of Own Tax Revenue**	50.67	52.68	54.17	55.60	54.46	52.25	53.78
11	**Total Plan Expenditure as a Percentage of Total Revenue Receipt**	41.78	43.77	45.34	46.85	46.19	44.59	45.40
12	**Total Non-Plan Expenditure as a Percentage of GSDP**	7.19	6.92	6.76	6.51	6.22	5.98	6.41
13	**Total Non-Plan Expenditure as a Percentage of Own Tax Revenue**	80.05	75.19	71.89	67.91	63.76	60.26	66.60
14	**Total Non-Plan Expenditure as a Percentage of Total Revenue Receipt**	66.00	62.48	60.18	57.23	54.08	51.42	56.22
15	**Plan Revenue Exp. as a Percentage of Total State Plan Exp.**	38.46	36.23	34.42	32.70	32.41	32.70	33.42
16	**Plan Capital Exp. as a Percentage of Total State Plan Exp.**	61.54	63.77	65.58	67.30	67.59	67.30	66.58
17	**Plan Expenditure as a Percentage of Total Expenditure**	38.76	41.20	42.97	45.02	46.07	46.44	44.68
18	**Non-Plan Expenditure as a Percentage of Total Expenditure**	61.24	58.80	57.03	54.98	53.93	53.56	55.32
19	**Tax revenue as a percentage of total revenue receipts**	82.44	83.10	83.71	84.27	84.82	85.34	84.41
20	**Non-tax revenue as a percentage of total revenue receipts**	17.56	16.90	16.29	15.73	15.18	14.66	15.59

17.42 The non-tax revenue (including share in central taxes and central plan assistance) is expected to grow from Rupees 2214.73 crore (2006-2007) to Rupees 3922.22 crore (2011-2012). Total non-tax revenue during the Eleventh Plan will be Rupees 15689.10 crore.

17.43 Total revenue receipt will thus rise from Rupees 12614.73 crore (2006-2007) to Rupees 26761.64 crore (2011-2012). Total revenue receipt during the Eleventh Plan will be Rupees 100664.40 crore.

17.44 The total non-plan expenditure of Delhi government will increase from Rupees 8325.48 crore (2006-2007) to Rupees 13761.97 crore (2011-2012). Total non-plan expenditure during the Eleventh Plan will be Rupees 56597.72 crore.

17.45 Non-plan revenue expenditure (included in total non plan expenditure) is expected to increase from Rupees 5748.00 crore (2006-2007) to Rupees 9609.73 crore (2011-2012). Total non-plan revenue expenditure during the Eleventh Plan will be Rupees 41134.54 crore.

17.46 Non-plan capital expenditure will go up from Rupees 2577.48 crore (2006-2007) to Rupees 4152.24 crore (2011-2012). Total non-plan capital expenditure during the Eleventh Plan will be Rupees 15463.18 crore. However, the projections suggest a decline in 2007-2008 to Rupees 2192.73 crore before increasing to the amount indicated in the terminal year of the Eleventh Plan.

17.47 State plan expenditure (including CSS) will grow from Rupees 5270.00 crore (2006-2007) to Rupees 11932.59 crore (2011-2012). Total state plan expenditure during the Eleventh Plan will be Rupees 45703.59 crore.

17.48 Plan revenue expenditure (included in state plan) is expected to grow from Rupees 2026.66 crore (2006-2007) to Rupees 3902.16 crore (2011-2012). Total Plan revenue expenditure during the eleventh five year plan will be Rupees 15271.94 crore.

17.49 Plan capital expenditure (included in state plan) is expected to grow from Rupees 3243.34 crore (2006-2007) to Rupees 8030.43 crore (2011-2012). Total Plan capital expenditure during the eleventh plan will be Rupees 30431.65 crore.

17.50 Total expenditure of Delhi government will thus rise from Rupees 13595.48 crore (2006-2007) to Rupees 25694.57 (2011-2012). Total expenditure during the eleventh plan will be Rupees 102301.31 crore.

17.51 With 2006-2007 as the base year the resource gap in the year is expected to be of the order of Rupees 980.75 crore and the resource gap in the first year of the Eleventh Plan (2007-2008) will be Rupees 910.87 crore and will rise to Rupees 931.45 crore in 2008-2009. The resource gap is expected to decline to Rupees 799.76 crore in 2009-2010 and to Rupees 61.91 crore (2010-2011), and, there will be a revenue surplus in 2011-2012. The resource surplus in the year 2011-2012 is expected to be of the order of Rupees 1067.08 crore. Total resource gap during the Eleventh Plan period is expected to be of the order of Rupees 1636.91 crore. This is the projected resource gap minus loans from the centre.

17.52 Plan revenue expenditure as a percentage of tax revenue is expected to be in the range of 17.09 percent to 19.09 percent during the eleventh plan. It is expected to decline every year from Rupees 19.09 percent (2007-2008) to 17.09 percent (2011-2012). Percentage point decline in the plan revenue expenditure is expected to be of the level of 2.00 during the period. The plan revenue expenditure during the eleventh plan period is expected to be 17.97 percent of the tax revenue.

17.53 Plan capital expenditure as a percentage of tax revenue is expected to be in the range of 33.59 percent (2007-2008) to 37.42 percent (2009-2010) during the Eleventh Plan period. It is expected to increase in first three years from 33.59 percent (2007-2008) to 37.42 percent (2009-2010) and decline in last two years to 35.16 percent (2011-2012). As a whole the plan capital expenditure during the eleventh plan period will be 35.81 percent of the tax revenue.

17.54 Plan revenue expenditure as a percentage of total revenue receipts is expected to be in the range of 14.58 percent (2011-2012) to 15.86 percent (2007-2008) during the eleventh plan period. It is expected to decline from 15.86 percent (2007-2008) to 14.58 percent (2011-2012). The plan revenue expenditure as a percentage of total revenue receipts will be 15.17 percent.

17.55 Plan capital expenditure as a percentage of total revenue receipts is expected to be in the range of 27.91 percent (2007-2008) to 31.53 percent (2009-2010) during the eleventh plan period. It is expected to increase in first three years from 27.91 percent (2007-2008) to 31.53 percent (2009-2010) and decline in last two years to 30.01 percent (2011-2012). The plan capital expenditure as a percentage of total revenue receipts during the Eleventh Plan period will be 30.23 percent.

17.56 Non-plan revenue expenditure as a percentage of total tax revenue is expected to be in the range of 42.08 percent (2011-2012) to 57.08 percent (2007-2008) during the Eleventh Plan period. It is expected to decline from 57.08 percent (2007-2008) to 42.08 percent (2011-2012). The non-plan revenue expenditure as a percentage of total tax revenue will be 48.41 percent. The non-plan revenue expenditure as a percentage of tax revenue is expected to decline all along. In the terminal year of the Plan period, the non-plan revenue expenditure would have declined by 15.00 percentage points.

17.57 Non-plan capital expenditure as a percentage of total tax revenue is expected to be in the range of 18.11 percent (2007-2008) to 18.38 percent (2009-2010) during the eleventh plan period. It is expected to increase in first three years from 18.11 percent (2007-2008) to 18.38 percent (2009-2010) and then decline to 18.13 percent (2010-2011) and is expected to grow marginally to 18.18

percent (2011-2012). The non-plan capital expenditure as a percentage of total tax revenue during the Eleventh Plan period is expected at 18.20 percent.

17.58 Non-plan revenue expenditure as a percentage of total revenue receipts is expected to be in the range of 35.91 percent (2011-2012) to 47.43 percent (2007-2008) during the Eleventh Plan period. It is expected to decline from 47.43 percent (2007-2008) to 35.91 percent (2011-2012). The non-plan revenue expenditure as a percentage of total revenue receipts during the plan period are expected to be 40.86 percent. The non-plan revenue expenditure is posited to decline by 11.52 percentage points.

17.59 Non-plan capital expenditure as a percentage of total revenue receipts is expected to be in the range of 15.05 percent (2007-2008) to 15.52 percent (2011-2012) during the Eleventh Plan period. It is expected to increase in first three years from 15.05 percent (2007-2008) to 15.49 percent (2009-2010) and then decline to 15.37 percent (2010-2011) and is expected to grow to 15.52 percent (2011-2012). The non-plan capital expenditure as a percentage of total revenue receipts during the eleventh plan period is expected at 15.36 percent.

17.60 Total plan expenditure as a percentage of total tax revenue is expected to be in the range of 52.25 percent (2011-2012) to 55.60 percent (2009-2010) during the eleventh plan period. It is expected to increase in first three years from 52.68 percent (2007-2008) to 55.60 percent (2009-2010) and decline in last two years to 52.25 percent (2011-2012). The total plan expenditure as a percentage of total tax revenue during the eleventh plan period will be 53.78 percent.

17.61 Total plan expenditure as a percentage of total revenue receipts is expected to be in the range of 43.77 percent (2007-2008) to 46.85 percent (2009-2010) during the Eleventh Plan period. It is expected to increase in first three years from 43.77 percent (2007-2008) to 46.85 percent (2009-2010) and decline in last two years to 44.59 percent (2011-2012). The total plan expenditure as a percentage of total revenue receipt is expected to be 45.40 percent.

17.62 Total non-plan expenditure as a percentage of total tax revenue is expected to be in the range of 60.26 percent (2011-2012) to 75.19 percent (2007-2008) during the Eleventh Plan period. It is expected to decline from 75.19 percent (2007-2008) to 60.26 percent (2011-2012). The total non-plan expenditure as a percentage of total tax revenue is expected to decline in all the five years of the plan period. The total plan expenditure during the plan period will be 66.60 percent of total tax revenue.

17.63 Total non-plan expenditure as a percentage of total revenue receipt is expected to be in the range of 51.42 percent (2011-2012) to 62.48 percent (2007-2008). It is expected to decline from 62.48 percent (2007-2008) to 51.42 percent (2011-2012). The total non-plan expenditure as a percentage of total revenue receipt is expected to decline in all the five years of the plan period. The total non-plan expenditure during the plan period will be 56.22 percent of total revenue receipts. The net decline in total non-plan expenditure will be of 11.06 percentage points.

17.64 Plan revenue expenditure as a percentage of total plan expenditure is expected to be in the range of 32.41 percent (2010-2011) to 36.23 percent (2007-2008). It is expected to decline from 36.23 percent (2007-2008) to 32.41 percent (2010-2011) and then increase to 32.70 percent in the year 2011-2012. The plan revenue expenditure as a percentage of total plan expenditure is expected to decline in the first four years of the plan and then rise to 32.70 percent in 2011-2012. The total plan revenue expenditure during the plan period will be 33.42 percent of the total plan expenditure.

17.65 Plan capital expenditure as a percentage of total plan expenditure is expected to be in the range of 63.77 percent (2007-2008) to 67.59 percent (2010-2011). It is expected to increase in first four years from 63.77 percent (2007-2008) to 67.59 percent (2010-2011) and decline in the last year of the plan period to 67.30 percent (2011-2012). The total plan capital expenditure as a percentage of total plan expenditure is expected to be 66.58 percent.

17.66 Total plan expenditure as a percentage of total expenditure is expected to be in the range of 41.20percent (2007-2008) to 46.44 percent (2011-2012). It is expected to increase continuously in all the five years of the plan period. The total plan expenditure as a percentage of total expenditure will be 44.68 percent.

17.67 Total non-plan expenditure as a percentage of total expenditure is expected to be in the range of 53.56 percent (2011-2012) to 58.80 percent (2007-2008). It is expected to decline continuously in all the five years of the plan period. The total non-plan expenditure as a percentage of total expenditure will be 55.32 percent.

17.68 Tax revenue as a percentage of total revenue receipts is expected to rise from 83.10 percent (2007-2008) to 85.34 percent (2011-2012). It is a continuously upward trend. During the plan period it will be 84.41 percent of total revenue receipts.

17.69 Non–tax revenue as a percentage of total revenue receipts is expected to decline from 16.90 percent (2007-2008) to 14.66 percent (2011-2012), a continuously declining trend. For the plan period it will be 15.59 percent of total revenue receipts.

Projections-III: State Government

17.70 Though the Commission has taken note of the projections in the Approach Paper, it is not possible, at this stage, to have a realistic idea about the size and shape of the Eleventh Plan and the pattern of its funding. Therefore, we turn to a consideration of the projections in the Memorandum of the state government.

17.71 The forecast is confined to the non-plan account only and does not provide for any devolution of funds to municipalities[15]. The objective of the forecast is to find the surplus on the non-plan account available for devolution of funds to municipalities based on the recommendations of the Finance Commission, after providing for resources required for funding of the plan[16].

17.72 The Third Finance Commission is required to recommend the devolution of funds for the five years period 2006-2011. The Budget Estimates for 2006-07, the first year of the five-year period covered by the Commission, which have become available have been adopted as the base of the forecast for both receipts and expenditures/disbursements. The rates of growth assumed for the forecast are normative.

17.73 As for the tax revenues, the growth rates assumed have been indicated in Table 17.9.

Table: 17.9-Assumed Percentage Growth Rates for tax Revenues-2006-2007 to 2011-2012

Item	Growth rate
Sales Tax	11.00
State Excise	10.00
Stamps and Registration	12.00
Tax on Vehicles	07.00
Other Taxes and Duties	10.00

[15] This section is based on the Memorandum of the State Government to the Third Delhi Finance Commission vide DO No. 7/443/27/2004/UD/1265 dated May 1, 2006.

[16] Since the submission of its Memorandum, the State Government have prepared a draft Approach Paper to the Eleventh Plan projecting both the plan and non-plan requirements.

17.74 The non-tax revenues (other than interest receipts) have been projected at a global rate of 4 percent, while the revenue expenditure (other than interest payment) have been progressed at the rate of 9 percent.

17.75 The estimates of interest receipts do not include notional recoveries from DJB and DTC which correspond to the non-plan loans advanced to them for the purpose. In other words, both the non-plan loans given to enable them to pay interest due from them and interest receipts corresponding to such loans have been omitted from the forecast. As such, the interest receipts as adopted represent the real receipts.

17.76 As regards interest payments, these are related to the outstanding loans received up to 2005-06. The fresh loans would be only for the plan 2006-2011 and their requirement will depend on the size of plan and the surplus on non-plan account left after devolution of funds to local bodies.

17.77 The forecast of non-plan capital expenditure provides for the following special liabilities:

(a) non-plan loans for meeting the working losses of DJB: The Delhi Jal Board incurred a working loss of Rupees 125 crore in 2005-06 despite tariff hikes. For 2006-2007, the budget has placed the loss at Rs.100 crore on the assumption of increase in fixed charges as proposed. On present indications, no increase in any rates is considered feasible and the loss of the Board in 2006-2007 may well be more than that in 2005-2006. On this basis, the losses of the Board have been projected at Rupees 827 crore for the five year period 2006-2011.

(b) Non-plan loans to DTC: The DTC is also estimated to have incurred working losses of Rupees 321 crore in 2005-2006. After accounting for subsidy on account of concessional passes to students, senior citizens etc. already provided for in the revenue account, the net liability of the government towards meeting the working losses of DTC has been worked out at Rupees 1729 crore over the five years.

(c) non-plan loans to DPCL to clear CPSUs dues: On the basis of the Government of India’s decision, non-plan assistance will need to be provided to Delhi Power Company Ltd. for enabling it to discharge outstanding power/fuel dues of the erstwhile DVB payable to the Central Public Sector Undertakings (CPSUs). Provision has been made for clearing such dues estimated as Rupees 929 crore over the five-year period (2006-2011).

Results of the Forecast of Receipts and Disbursements (non-plan)

17.78 A summary of the forecast of receipts and expenditures (non-plan) for the five-year period 2006-2011 based on the assumptions set out above, is presented in Table 17.10.

Table 17.10-: Forecast of Receipts & Expenditure for the period 2006-2007 to 2010-2011 (Rupees. in Crore)

	Item	2005-06 (L.E.)*	Growth Rate (%)	2006-07	2007-08	2008-09	2009-10	2010-11	Total 2006-11
I	REVENUE ACCOUNT								
A.	**Revenue Receipts**								
1	Tax Revenue	7946.00		8884.00	9844.65	10909.87	12091.11	13401.05	55130.68
2	Non-Tax Revenue	248.02		267.16	288.18	311.08	336.00	363.17	1565.59
3	Grants-in-aid from the Centre	325.00		325.00	325.00	325.00	325.00	325.00	1625.00
	Total Revenue Receipts - A	**8519.02**		**9476.16**	**10457.83**	**11545.95**	**12752.11**	**14089.22**	**58321.27**
B.	**Non-Plan Expenditure**								
a.	Interest Payments	1700.82		2130.07	2012.59	1985.93	1939.61	1866.84	9935.04
b.	Others (excl. Transfer to Local Bodies)	2777.83	9.0	2547.34	2776.62	3026.50	3298.88	3595.77	15245.11
	Total - B: Non-Plan Revenue Expenditure	**4478.65**		**4677.41**	**4789.21**	**5012.43**	**5238.49**	**5462.61**	**25180.15**
C.	**Surplus (+)/Deficit (-) on Revenue Account**	**4040.37**		**4798.75**	**5668.62**	**6533.52**	**7513.62**	**8626.61**	**33141.12**
II.	**CAPITAL ACCOUNT**								
A.	Receipts * (Other than small savings loans)	414.67		187.32	200.00	220.00	245.00	270.00	1122.32
B.	Disbursements	2883.60		1516.42	869.16	1076.35	1402.15	1644.80	6508.88
C.	**Surplus (+)/Deficit (-) on Capital Account**	**-2468.93**		**-1329.10**	**-669.16**	**-856.35**	**-1157.15**	**-1374.80**	**-5386.56**
III.	**Overall Surplus (+)/Deficit (-) (I+II)**	**1571.44**		**3469.65**	**4999.46**	**5677.17**	**6356.47**	**7251.81**	**27754.56**
	Surplus (+)/Deficit (-) taking into account IV	1571.44	0.00	3469.65	4999.46	5677.17	6356.47	7251.81	27754.56
	Transfers to Local Bodies	768.35		831.59	1033.69	1145.54	1269.57	1407.11	5687.49
	Net Surplus/Deficit after Transfers	803.09		2638.06	3965.77	4531.63	5086.90	5844.70	22067.07
	Plan Account								
	1. Outlay								
(i)	State Plan	4700.00		5200.00	5980.00	6877.00	7909.00	9095.00	35061.00
(ii)	C.S.S.	75.00		70.00					

	2. Resources								
	(a) Plan Grants								
	State Plan	188.89		502.51	215.00	237.00	261.00	287.00	1502.51
	C.S.S.								
	Grants	35.67		70.00					
	Opening Surplus	39.33							
	(b) Small Savings	**4356.22**		**2059.43**	**1799.23**	**2108.37**	**2561.10**	**2963.30**	**11491.42**
	(c) Cont. from Non-Plan	803.09		2638.06	3965.77	4531.63	5086.90	5844.70	22067.07
	Surplus or Deficit	608.87		0.00	0.00	0.00	0.00	0.00	

*LE: Latest Estimates

17.79 The total revenue receipts, inclusive of tax revenue, non-tax revenue and grants-in-aid from the central government, have been projected at Rupees 58321.27 crore.

17.80 The non-plan expenditure, inclusive of interest payment and other expenditures (excluding transfers to local bodies), have been projected at Rupees 25180.15 crore.

17.81 The surplus on revenue account has been projected at Rupees 33141.12 crore.

17.82 The capital receipts other than small savings loans have been estimated at Rupees 1122.32 crore.

17.83 The non-plan capital expenditure has been projected at Rupees 6508.88 crore. Thus the deficit on capital account has been estimated at Rupees 5386.56 crore.

17.84 The overall surplus has been estimated at Rupees 27754.56 crore.

17.85 On the basis of the existing scheme (i.e. 10.5 percent of the government tax resources), the devolution to local bodies over the five year period 2006-2011 is estimated at Rs.5,687.49 crore. This leaves a net surplus of Rupees 22067.07 crore.

17.86 The total central plan assistance during the five year period (2006-2007 to 2010-2011) has been placed at Rupees 1502.51 crore. Small savings loans have been projected at Rupees 11491.42 crore. As a result of the central plan assistance, small savings loans, and the identified surplus, the total resources available for plan size in the five year period have been projected at Rupees 35061.00 crore.[17]

17.87 The above forecast will be affected by the following contingencies:

(i) it has been assumed that the pension liabilities in respect of the employees of the Government of NCT will continue to be borne by the Central Government. However, if such liability is to be borne by the GNCTD itself, the non-plan expenditure will be higher to that extent.

(ii) further, it has been assumed that the Public Account will remain with the Central Government. But if the Public Account of GNCTD is created in the near future, the cash balances of NCT of Delhi will be separated and the public debt, government guarantees etc. will have to be accounted for separately.

17.88 Further, the forecast does not provide for the following liabilities:

(i) impact of the new/next Pay Commission, an announcement for appointment of which has already been made by the Central Government,

(ii) committed liability on account of the maintenance of schemes/projects completed by the end of the Tenth Plan, and

(iii) interest payment on account of small savings loans during 2006-2011.

17.89 The forecast as given above reveals a non-plan surplus of Rupees 27,754.56 crore over the five-year period (2006-2011) covered by the third Delhi Finance Commission. The two demands on this surplus are on account of:

(a) the devolution of funds to the municipalities under the Commission's recommendations, and,

(b) the government's contribution towards plan funding.

17.90 Allowing for this, a surplus of Rupees 22,067.07 crore (Rupees 27,754.56 crore minus Rupees 5687.49 crore) will be left for plan funding. On this basis, the picture of plan account over the five-year period (assuming plan outlay to

[17] Memorandum of the GNCTD to the Third DFC, 2006.

increase at 15 percent over the Rs.5200 crore fixed for 2006-2007) will work out as in Table 17.11.

Table 17.11: Resources for the Period 2006-2011 (Rupees in crore)

S.No.	Item	2006-07	2007-08	2008-09	2009-10	2010-11	Total
1.	Plan outlay	5200.00	5980.00	6877.0	7909.00	9095.00	35061.00
2.	Resources						
(a)	Central Assistance (Grant-in-aid)	502.51*	215.00	237.00	261.00	287.00	1502.51
(b)	Contribution from non-Plan account	2638.06	3965.77	4531.63	5086.90	5844.70	22067.07
3.	Gap (1-2)	2059.43	1799.23	2108.37	2561.10	2963.30	11491.42

* Includes additional assistance of Rs.352.52 crore (i.e. Rs.52.52 crore for specific schemes and Rs.300 crore for National Urban Renewal Mission).

17.91 Having made the forecast on normative basis, the only means left with the government to cover the above gap, is to fund the plan through debt like small savings loans. In other words, is to implies that the Government would need small savings loans of the order of Rs.11491.42 crore to sustain the plan of Rupees 5200 crore in 2006-07 with 15 percent increase per year up to 2010-11. This order of loan, if resorted to, would entail additional interest liability of Rupees 1837.19 crore over the period 2006-2011 (not provided for in the above picture). Additional loans would need to be raised to meet this liability also.

17.92 With the fresh loans of Rupees 13328.61 crore (Rupees 11491.42 crore plus Rupees 1837.19 crore) needed, as per the above exercise, over the five year period 2006-2011, the **outstanding indebtedness** of the Government which stood at Rupees 18101.00 crore at the end of 2005-06, would reach the disturbing level of Rupees 28443.00 crore by the end of 2010-2011.

17.93 The picture of debt servicing (interest payment and repayment of loan) based on the above outstanding, works out as shown in Table 17.12.

Table: 17.12- Debt servicing of state Government for the period 2006-2007 to 2010-2011. (Rs. in crore)

Year	In respect of loan up to 2005-06			Interest in respect of fresh loan	Total liability (4+5)
	Interest payment	Repayment of principal	Total (2+3)		
1	2	3	4	5	6
2006-2007	2130.07	978.98*	3109.05	-	3109.05
2007-2008	2012.59	222.19	2234.78	185.35	2420.13
2008-2009	1985.93	386.03	2371.96	347.28	2719.24
2009-2010	1939.61	606.44	2546.05	537.03	3083.08
2010-2011	1866.84	793.06	2659.90	767.53	3427.43
Total	9935.04	2986.70	12921.74	1837.19	14758.93

(* Includes pre-payment of Rs.845.48 crore)

17.94 The above scenario, says the Memorandum of the state government, is most disquieting as it reveals that debt-servicing by way of interest payment and repayment of loan as due, would exceed the fresh loans (Rupees 13328.61 crore) over the five year period 2006-2011. This is a serious pointer indicating that if the borrowings of the order as assumed is allowed, the government would lead itself into a **serious "debt-trap".** In this context, it may be stated that it does not appear feasible to think of a plan outlay lower than that proposed, especially in view of the government's firm resolve to make Delhi a world- class city, keeping in view in particular the Commonwealth Games in 2010, with special emphasis on the Multi-Modal Transit System involving expansion of DMRC, establishment of Mono-Rail, Light Rail Transit, High-Capacity Bus System, construction of Link Roads, elevated corridors, over-bridges, flyovers, express-ways, etc. In this light, efforts need to be focused on **maximizing the contribution** from the non-plan account.

17.95 In this background, the **present level of transfers** made to the municipal bodies under the Finance Commission recommendations should not be taken as sustainable. Rather, the municipal bodies may be exhorted to make the maximum possible efforts to augment their own resources through mobilization of more income from existing sources and tapping the sources allocated to them but not exploited so far. They may also be motivated to exercise utmost economy in expenditures and to promote more efficient and productive ways of delivery of services.

Projections of the State Government: Analysis and Conclusions

17.96 What do the various projections made by the state government or the local bodies tell us? Table 17.13 summarizes the position derived from the State Memorandum and the Approach Paper to the Eleventh Five Year Plan.

Table: 17. 13: Comparison of the Position in the Approach Paper to the Eleventh Plan and Memorandum of State Government to the Third Delhi Finance Commission (Rupees in crore)

As per 11th Plan Approach a per							
Item	**2007-2008**	**2008-2009**	**2009-2010**	**2010-2011**	**2011-12**	**Total 2007-2012**	**Trend Growth Rate**
Tax Revenue	12105.60	14127.24	16514.74	19388.30	22839.42	84975.30	17.19
Non Tax Revenue	2462.51	2749.83	3083.41	3471.13	3922.22	15689.10	12.34
Total Receipt	**14568.11**	**16877.07**	**19598.15**	**22859.43**	**26761.64**	**100664.40**	16.41
Non-Plan Expenditure							
Revenue Expenditure (Including Assigned Tax & Interest Payment)	6909.54	7588.55	8179.68	8847.04	9609.73	41134.54	8.47
Capital Expenditure Including loan repayment)	2192.73	2567.92	3035.79	3514.49	4152.24	15463.17	17.24
Total Non-Plan Exp.	**9102.27**	**10156.47**	**11215.47**	**12361.53**	**13761.97**	**56597.71**	10.77
Assigned Taxes	1271.00	1483.00	1734.00	2035.00	2398.00	8921.00	17.19
Interest Payment to GOI	2510.00	2506.00	2504.00	2502.00	2499.00	12521.00	-0.10
Loan Repayment	222.00	386.00	606.00	793.00	1088.00	3095.00	
Plan Expenditure							
Revenue Expenditure	2310.39	2633.85	3002.59	3422.95	3902.16	15271.94	14.00
Capital Expenditure	4066.31	5018.19	6179.86	7136.87	8030.43	30431.66	18.69
Total Plan Exp.	**6376.70**	**7652.04**	**9182.45**	**10559.82**	**11932.59**	**45703.60**	17.06
Total Exp. (Plan +Non-Plan)	**15478.97**	**17808.51**	**20397.92**	**22921.35**	**25694.56**	**102301.31**	13.50
Resources Gap	**-910.86**	**-931.44**	**-799.77**	**-61.92**	**1067.08**	**-1636.91**	
As per Memorandum							
Item	**2006-2007**	**2007-2008**	**2008-2009**	**2009-2010**	**2010-2011**	**Total 2006-2011**	**Trend Growth Rate**
Tax Revenue	8884.00	9844.65	10909.87	12091.11	13401.05	55130.68	10.82
Non Tax Revenue (Excluding Book Adjustment Entry)	267.16	288.18	311.08	336.00	363.17	1565.59	7.98
Grant in aid from Centre	325.00	325.00	325.00	325.00	325.00	1625.00	0.00
Capital Receipt	187.32	200.00	220.00	245.00	270.00	1122.32	9.79
Plan Grant	502.51	215.00	237.00	261.00	287.00	1502.51	-8.85
Total Receipt	**10165.99**	**10872.83**	**12002.95**	**13258.11**	**14646.22**	**60946.10**	9.73

Non-Plan Expenditure							
Revenue Expenditure (Including Assigned Tax & Interest)	5509.00	5822.90	6157.97	6508.06	6869.72	30867.65	5.68
Capital Expenditure (including loan Repayment)	1516.42	869.16	1076.35	1402.15	1644.80	6508.88	6.62
Total Non-Plan Exp.	**7025.42**	**6692.06**	**7234.32**	**7910.21**	**8514.52**	**37376.53**	5.67
Assigned Taxes	831.59	1033.69	1145.54	1269.57	1407.11	5687.50	13.40
Interest Payment to GOI	2130.07	2012.59	1985.93	1939.61	1866.84	9935.04	-2.96
Repayment of Loan	978.98	222.19	386.03	606.44	793.06	2986.70	
Total Plan Exp.	**5200.00**	**5980.00**	**6877.00**	**7909.00**	**9095.00**	**35061.00**	15.00
Total Exp. (Plan +Non-Plan)	**12225.42**	**12672.06**	**14111.32**	**15819.21**	**17609.52**	**72437.53**	9.98
Resources Gap	**-2059.43**	**-1799.23**	**-2108.37**	**-2561.10**	**-2963.30**	**-11491.43**	

- It needs to be noted that the period of the Memorandum is from 2006-2007 to 2010-2011 and that of the Eleventh Five Year Plan Approach Paper is 2007-2008 to 2011-2012.[18]
- The trend growth rate for total receipts assumed in the Eleventh Plan Approach Paper is 16.41 percent, whereas in the State Memorandum the same has been taken as 9.73 percent. This is a considerable variation and represents a 6.68 percentage point difference in the two estimates.
- The non-plan expenditure is expected to grow at the rate of 10.77 percent as per the Approach Paper but only at the far more modest rate of 5.67 percent as per the Memorandum: a percentage points difference of 5.10.
- The plan expenditure is projected to grow at the trend growth rate of 17.06 percent in the Eleventh Plan period, whereas as per the Memorandum at 15.00 percent. This is a 2.06 percentage point variation.
- The total expenditure as per the Approach Paper will grow at the trend growth rate of 13.50 percent and as per the Memorandum, at the rate of 9.98 percent: a 3.52 percentage point difference.
- The Approach Paper anticipates a resource gap of Rupees 1636.91 crore. The resource gap as per the Memorandum is expected to be Rupee 11491.43 crore. This represents the extent of loan finance needed.

[18] The trend growth rates for the Approach Paper as well as the Memorandum have been calculated in the Commission on the basis of the data incorporated in the two projections.

17.97 We shall now examine the projections made in the Approach Paper and the Memorandum with the data of the Approach Paper recast to fit the time period 2006-2007 to 2010-2011. Table 17.14 summarizes the position.[19]

Table: 17.14-The Resource Gap-Approach Paper and Memorandum-with 2006-2007 as Base Year and 2010-2011 as the Terminal Year

As per 11th Plan Approach Paper

(Rs. in crore)

Item	2006-2007 (Modified)	2007-2008	2008-2009	2009-2010	2010-2011	Total 2006-2011	Trend Growth Rate
Tax Revenue	10400.00	12105.60	14127.24	16514.74	19388.30	72535.88	16.84
Non Tax Revenue	2214.73	2462.51	2749.83	3083.41	3471.13	13981.61	11.89
Total Receipt	**12614.73**	**14568.11**	**16877.07**	**19598.15**	**22859.43**	86517.49	16.02
Non-Plan Expenditure							
Revenue Expenditure (Including Assigned Tax & Interest Payment)	5748.00	6909.54	7588.55	8179.68	8847.04	37272.81	10.86
Capital Expenditure	2577.48	2192.73	2567.92	3035.79	3514.49	13888.41	9.92
Total Non-Plan Exp.	**8325.48**	**9102.27**	**10156.47**	**11215.47**	**12361.53**	51161.22	10.51
Assigned Taxes	1092.00	1271.00	1483.00	1734.00	2035.00	7615.00	16.83
Interest Payment to GOI	2210.07	2510.00	2506.00	2504.00	2502.00	12232.07	2.49
Plan Expenditure							
Revenue Expenditure	2026.66	2310.39	2633.85	3002.59	3422.95	13396.44	14.00
Capital Expenditure	3243.34	4066.31	5018.19	6179.86	7136.87	25644.57	22.09
Total Plan Exp.	**5270.00**	**6376.70**	**7652.04**	**9182.45**	**10559.82**	39041.01	19.18
Total Exp. (Plan +Non-Plan)	**13595.48**	**15478.97**	**17808.51**	**20397.92**	**22921.35**	90202.23	14.12
Resources Gap	**-980.75**	**-910.86**	**-931.44**	**-799.77**	**-61.92**	-3684.74	

As per Memorandum

(Rs. in crore)

Item	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Total 2006-2011	Trend Growth Rate
2	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Tax Revenue	8884.00	9844.65	10909.87	12091.11	13401.05	55130.68	10.82
Non Tax Revenue (Excluding Book Adjustment Entry)	267.16	288.18	311.08	336.00	363.17	1565.59	7.98
Grant in aid from Centre	325.00	325.00	325.00	325.00	325.00	1625.00	0.00
Capital Receipt	187.32	200.00	220.00	245.00	270.00	1122.32	9.79
Plan Grant	502.51	215.00	237.00	261.00	287.00	1502.51	-8.85
Total Receipt	**10165.99**	**10872.83**	**12002.95**	**13258.11**	**14646.22**	**60946.10**	9.73
Non-Plan Expenditure							
Revenue Expenditure (Including Assigned Tax & Interest)	5509.00	5822.90	6157.97	6508.06	6869.72	30867.65	5.68
Capital Expenditure	1516.42	869.16	1076.35	1402.15	1644.80	6508.88	6.62

[19] Data has been generated in the Commission on the basis of figures available in the two projections.

Total Non-Plan Exp.	**7025.42**	**6692.06**	**7234.32**	**7910.21**	**8514.52**	**37376.53**	5.67
Assigned Taxes	831.59	1033.69	1145.54	1269.57	1407.11	5687.50	13.40
Interest Payment to GOI	2130.07	2012.59	1985.93	1939.61	1866.84	9935.04	-2.96
Total Plan Exp.	**5200.00**	**5980.00**	**6877.00**	**7909.00**	**9095.00**	**35061.00**	15.00
Total Exp. (Plan +Non-Plan)	**12225.42**	**12672.06**	**14111.32**	**15819.21**	**17609.52**	**72437.53**	9.98
Resources Gap	**-2059.43**	**-1799.23**	**-2108.37**	**-2561.10**	**-2963.30**	**-11491.43**	

- If we take the base year as 2006-2007 and terminate the five year period in 2010-2011, the difference between the total mobilized receipts would be Rupees 25571.39 crore [Total receipts (AP) Rupees 86517.49 crore minus Total receipts (Memorandum) Rupees 60946.10 crore].
- The trend growth rate of tax receipts assumed in the Approach Paper even after recasting the data remains as high as 16.84 percent. This therefore gives a difference of 6.02 percentage points between the trend growth rates in the two projections. This is a **significant variation** and the basis of assuming the higher growth rate in the Approach paper is not clear.

17.98 The absolute difference in estimates regarding the total non-plan expenditure is also considerable. The Approach Paper projects the total non-plan expenditure during the five year period at Rupees 51161.22 crore (and trend growth rate at 10.51 percent) and, as per the Memorandum, it is expected to be Rupees 37376.53 crore (with trend growth rate of 5.67 percent) i.e a variation of Rupees 13784.69 crore. This makes for a 4.84 percentage point variation.

- This is a rather startling difference. In the first place it may be recalled that one of the important components of the Eleventh Plan strategy is to contain the non-plan expenditure, whereas the difference alone suggest that this may not be realized.
- As per the Approach Paper projections, total plan expenditure during the period would be Rupees 39041.01 crore. According to the Memorandum it would be Rupees 35061.00 crore. This is not a significant difference. However, it also highlights that ultimately it is plan expenditure rather than non-plan expenditure that is contained.
- The total expenditure as per the Approach Paper is expected to be Rupees 90202.23 crore and as per the memorandum it would be Rupees 72437.53 crore. The variation in the two is Rupees 17764.70 crore.
- The resource gap in Table 17.14 according to the Approach Paper works out to Rupees 3684.74 crore, whereas the Memorandum estimates the resource gap at Rupees 11491.43 crore.

- This comparative position leaves many questions unanswered. For instance, the **resource gap** in the Memorandum is far higher than is the Approach Paper data. This is when the plan size also is much smaller as per the Memorandum.

17.99 The Commission has examined the non-plan expenditure for the year 2005-2006. This is in the context of the proposed reduction of non-plan expenditure as proposed in the Approach Paper. Given the pattern and items composing non-plan expenditure, the scope for containment appears to be limited. In the first place, see the figures of non-plan revenue expenditure reproduced in Table 17.15.

- The total non-plan revenue expenditure consists broadly of five items. Of these, interest payments involve the maximum expenditure, followed by non-plan grants to local bodies and public utilities. The salaries and other contingent expenditures are the next most important item. The assigned taxes constitute the next significant item of expenditure. The scope for reducing non-plan revenue expenditure is limited to containing expenditure on interest payments and non-plan grants to the public utilities. The Approach Paper also recognizes the need to impose financial discipline on public utilities. However, this appears to be somewhat difficult given the past record of their performance. Therefore, the possibilities of reduction in non-plan revenue expenditure, as contemplated in the Approach Paper, seem to be quite ambitious.

Table: 17.15- Details of non-plan revenue expenditure-2005-2006 (Rupees in crore)

Items of Expenditure	Expenditure
(i) Salary and others	1198.05
(ii) Interest payments	1672.82
(iii) Assigned taxes to Local bodies	407.79
(iv) Non-plan Grants to Local Bodies	1139.22
(v) Subsidies to DTC/BSES/NDPL	449.07
Total Non-plan Revenue Expenditure[(i)+ (ii)+ (iii) + (iv)+ (v)]	4866.95

(Source: Month-wise Information on Receipts and expenditure of the Government of the NCT of Delhi for the Month of March (Supplementary II) 2006 furnished vide Letter No. F2 (7)/ Pr. AO/Comp/2005-06/576 dated July 21, 2006)

17.100 This is further confirmed by the non-plan capital expenditure data. Table 17.16 reports the relevant data. Total capital expenditure (non-plan) during the year 2005-2006 was Rupees 1974.23 crore. Out of this, Delhi government released non-plan loans to public utilities (DTC, DJB, and Delhi Transco) amounting to Rupees 1687.35 crore and an amount of Rupees 223.66 crore was paid to the Government of India toward repayment of loans. This leaves a balance of Rupees 63.22 crore as the normal capital expenditure of the Delhi Government under non-plan.

- In this context the resource projections[20] made by the DJB,[21] DTC,[22] and the MCD[23] for the Eleventh Plan should give us an idea of the resource requirements of these bodies. The projections of the MCD are in respect of just one activity: solid waste management. The DJB has projected a total **resource requirement** of Rupees 10995.62 crore for the period 2006-2007 to 2011 (i.e. the first four years of the plan period which is co-terminus with the period of the Commission) in respect of Trans-Yamuna Area Development Board, water supply and sewerage. Similarly, the DTC has forecast a total requirement of Rupees 1268.65 crore for the purchase of buses and infrastructure development. As far as the MCD is concerned, it has projected a total amount of Rupees 775.64 crore for solid waste treatment and its disposal during the same period.

- This normal capital expenditure of Rupees 63.22 crore mainly consists of the expenditure of Rupees 59.05 crore under the Scheme of Large Scale Acquisition, Development and Disposal of Land in Delhi. These are the notional transactions appearing in the accounts of Delhi Government based on transactions made from personal ledger account maintained by the Land and Building department. Thus, the net non-plan capital expenditure comes to only Rupees 4.17 crore a year. This again raises the issue: what is the realistic scope for reduction on the non-plan side?

Table : 17.16- Non-Plan Capital Expenditure (Rs. in Crore)

Item	Expenditure
1. Re-payment of Loan	223.66
(a) Normal Repayment	58.24

[20] These are tentative projections and do not necessarily have approval of the state government at the time of writing the Report.
[21] Letter no. DJB/DIR (F&A)/2006/4555/dated September 1, 2006 from Director (F&A), Delhi Jal Board to the Commission.
[22] PRD/Eleventh Five Year/06/100 dated August 18, 2006 from Chief General Manager, DTC, to Special Commissioner (Transport), Transport Department, government of the NCTD.

[23] F-406/DNC/2003/44 dated April 28, 2004 from the Director-in-Chief (CSE) MCD, to the Member Secretary, NCRPB.

(b) Pre-payment of Previous Costly Loans	165.42
2. Loans & Advance to Govt. Servants	0.43
3. Capital Expenditure	62.79
4. Loans to Public Utilities	1687.35
a. DTC	974.49
b. DJB	562.86
c. Delhi Transco Ltd.	150.00
Total Non-Plan Capital Expenditure (1+2+3+4)	**1974.23**

(Source: Month-wise Information on Receipts and Expenditure of the Government of the NCT of Delhi for the Month of March (Supplementary II) 2006 furnished vide Letter No. F2 (7)/ Pr. AO/Comp/2005-06/576 dated July 21, 2006)

17.101 Therefore, the point that deserves further consideration is the following: with a much smaller plan size (in the Memorandum), the projected resource deficit is Rupees 11,641 crore, but with a much larger plan size (as per the Approach Paper) the deficit is practically negligible. This is not comprehensible except that the Approach Paper seems to suggest that there will be much larger revenue receipts and loan needs will be cut. Additionally, support to the public utilities would be scaled down. It remains to be seen whether these objectives are achieved or whether the actual outcomes belie these assumptions.

Eleventh Plan Approach Paper and Linkage with Plans and Declared Objectives

17.102 The Approach Paper proclaims that the objectives of the Eleventh Plan would be 'development with a human face' and making Delhi 'a global city'. It identifies thrust areas and also says that the requirements of the MPD-2021 of the Delhi Development Authority and the Regional Plan-2021 of the NCRPB have been taken into consideration. Presumably therefore the investment requirements projected in the Regional Plan-2021 have been taken into account in finalizing a plan size of Rupees 45,703. 59 crore.

- For example, Box 17.2 illustratively provides details of the investment projections made by the NCRPB in the Regional Plan 2021, for the transport sector in the first phase: 2001-2011. It has not been possible to determine the amount, if any, Delhi government were to provide in the period 2001-2002 to 2005-2006 and the amount that was actually provided. It has also not been possible to know the amount that the Delhi government has to provide in the period up to 2010-2011 and as to whether this is included in the proposed plan size.

Box: 17.2-Eleventh Plan Approach Paper and Linkage with NCRPB Regional Plan-2021-Transport Sector

Based on the observations and findings in the analysis as above, the following policy actions are to be provided to achieve the overall objectives of the Regional Plan-2021.

(a) To decongest NCT-Delhi roads, rail and rail terminals by diverting the by-passable traffic from Delhi.

(b) To provide linkages amongst Metro/Regional Urban Settlements in the outlying areas of NCR.

(c) To connect Metro/Regional Centres with the Capital by an efficient and effective transport network for facilitating faster movement of traffic among such centres and NCT-Delhi.

(d) To link the sub-regional Centres with effective and efficient transport network for facilitating the faster movement of traffic among such centres and higher order settlements.

(e) To directly link other urban nodes having maximum attracting and generating characteristics.

(f) To create the Unified Metropolitan Transport Authority for NCR

PHASING OF PROJECTS

The Plan is divided in two phases i.e., 1st Phase 2001-2011 and 2nd Phase 2011-2021. In the first phase of the Plan, following projects would be taken up for implementation:

a) Western Peripheral Expressway

b) Eastern Peripheral Expressway

c) Rapid Rail Transit System

- Shahdara-Ghaziabad
- Sahibabad-Minto Bridge
- Dayabasti-Gurgaon
- Naya Azadpur-Narela-Sonepat
- Patel Nagar-Nangloi-Bahadurgarh
- New Tilak Bridge- Tughlakabad-Ballabhgarh
- New Tilak Bridge-Noida-Greater Noida

d) Present ring road, outer ring road and five national highways (radial roads) up to CNR towns to be developed as per express way standards.

e) Four laning of the following road sections

- Bahadurgarh-Rohtak-NCR Border (NHlO)
- Rohtak-NCR Border (NH71)
- Ghaziabad-Meerut-NCR Boundary (NH58) Ghaziabad-Bulandshahr-Khurja-NCR Boundary (NH91) Gurgaon-Alwar (Old NH8)
- Panipat -Gohana- Rohtak
- Jhajjar-Rewari Road (NH71 and NH7IA)
- Elevated Road connecting Delhi with Faridabad near Badarpur

- All other roads connecting CNCR towns with Delhi

f) Rewari-Bhiwadi Rail Link

g) Rohtak-Hansi Corridor

INVESTMENT REQUIREMENT

The total investment requirements for the implementation of the 1st phase of Plan proposals would be Rupees 19,141 crore at the 2001 prices.

(Source: Regional Plan 2021, National Capital Region, NCRPB, Government of India, Ministry of Urban Development)

17.103 Similarly, the NCRPB Regional Plan 2021 provides details of the investment plan, *inter alia*, for sectors such as power, water, and sewerage and solid waste management. In the power sector the investment requirement in the period 2002-2012 has been projected as Rupees 45,904.00 crore for the entire NCR. Here too, it is not clear as to what investment has been made or is still required from the Delhi government.

- The investment requirement for drinking water for Delhi was projected at Rupees 6404.06 crore up to 2021. The requirement up to 2010-2011 is not clear from the Regional Plan. The required investment for sewerage (Rupees 4860.00 cores) and solid waste management (Rupees 770.63 crore) have also been determined up to 2021.
- Details of the amounts earmarked or required in the future for the above sectors in the Eleventh Five Year Plan were not available. In fact, it appears that the **plan size** has been identified without feedback from departments, without sector, program or project allocations having been determined, and, therefore, without a specific investment plan. Accordingly, Rupees 45703.59 crore merely identifies the size of the Eleventh Plan on the basis of the anticipated resources.

Track Record as a Guide to Forecasts

17.104 Various revenue and expenditure aspects of the financial management of the state government have been considered (Chapters 10 and 11). However, we may recall the track record of just a few select parameters to examine the reliability of any one of them as a guide to future forecasts.

- Table 17.17 tracks the tax revenues of the state government. It is of course self-evident that neither the BE nor the RE nor the actual realization figures of any year bear any relationship to each other. In fact, they cannot even be relied upon to predict the performance in the succeeding year. Again the actual collections of past years are not relevant to the BE of each year. Not only this, there are also steep fluctuations in the budget estimates, the revised estimates and actual realizations over the years.

Table: 17.17- Trends in tax Revenues (State Government)-1994-1995 to 2005-2006 (Rupees in Crore)

Year	OBE (Rupees in crore)	RE (Rupees in crore)	Actual (Rupees in crore)	Absolute Variation in RE over BE (Rupees in crore	Percentage Variation in RE over BE	Absolute Variation in Actual over BE (Rupees in crore)	Percentage Variation in Actual over BE	Absolute Variation in Actual over RE (Rupees in crore)	Percentage Variation in Actual over RE
1994-1995	1933.03	1694.13	1787.47	-238.90	-12.36	-145.56	-75.53	93.34	5.51
1995-1996	2109.21	2070.08	2111.05	-39.13	-1.856	1.84	0.09	40.97	1.98
1996-1997	2641.10	2502.10	2534.87	-112.00	-4.28	-79.23	-3.03	32.77	1.31
1997-1998	3145.10	3049.10	2941.58	-96.00	-3.05	-203.52	-6.47	-107.52	-3.53
1998-1999	3595.12	3311.13	3088.78	-283.99	-7.90	-506.34	-14.08	-222.35	-6.72
1999-2000	3983.15	3683.16	3430.41	-300.00	-7.53	-552.74	-13.88	-252.74	-6.86
2000-2001	4700.15	4448.56	4400.63	-251.59	-5.35	-299.52	-6.37	-47.93	-1.08
2001-2002	5138.15	5088.00	4896.75	-50.15	-0.98	-241.40	-4.70	-191.25	-3.76
2002-2003	5854.00	5425.00	5324.19	-429.00	-7.33	-529.81	-9.05	-100.81	-1.86
2003-2004	6214.00	5596.00	5884.17	-618.00	-9.95	-329.83	-5.31	288.17	5.15
2004-2005	6521.50	6581.00	7106.13	59.50	0.91	584.63	8.96	515.13	7.98
2005-2006	7393.00	7946.00	8939.28	553.00	7.48	1546.28	20.92	993.28	12.50

- For example, the BE of 1998-1999 was Rupees 3595.12 crore, the RE was Rupees 3311.13 crore, and the actual was Rupees 3088.78. Clearly, the BE was reduced at the RE stage by approximately Rupees 284.00 crore, and the actual was even lesser than the reduced RE by approximately Rupees 223.00 crore over the RE. The actual was less than the BE by about Rupees 506.00 crore. This **pattern** of reduced RE and further reduced actual is true of at least six years.

17.105 Now consider the impact of any years' actual on the succeeding years' BE. In 1999-2000 the BE was Rupees 3983.15 crore, that is an increase of Rupees 900.00 crore over the actual of 1998-1999. This pattern of increase by over Rupees 500 crore at the BE stage over the actual of the previous year is repeated in nine out of the twelve year period. This **large scale variation** in BE, RE and actual over or within the year is actually the only visible trend and pattern.

17.106 Thus, there is neither a pattern in the determination of the BE, nor the downward revision at the RE stage in ten out of the twelve year period, or the actual collections of any year. The **track record** therefore is an imperfect basis for future projections. However, in the absence of any other alternative, the available data is relied on. In doing so, the BE and the RE figures are ignored. The trends of actual collections or expenditure will be taken as guides.

Municipal Corporation of Delhi Financial Matters

17.107 This section is based on the Memorandum of the MCD submitted vide DO No. CA/DFC/FMB/ 379 dated December 14, 2005 from CA and FA, MCD. To begin the analysis, the position of the revenues of the Corporation is considered.

- Table 17.18 depicts the actual income of the MCD during 1994-1995 to 2003-2004. The revenues of MCD at current prices have increased from Rupees 504.05 crore in 1994-1995 to Rupees 1682.84 crore in 2003-2004. This amounts to a percentage increase of 233.86 percent.

Table: 17.18-Statement of Actual Income of the MCD for the Last ten Years

(Rupees in lakh)

INCOME	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
General Tax and Misc. Revenue	40340.08	47581.71	56950.99	61989.11	88442.83	94333.09	109932.29	115626.33	126107.63	138435.23
Education	4991.12	5416.42	5822.11	6917.50	7618.08	10351.51	9441.76	10201.50	11750.34	12001.21
Libraries	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Public Health	185.78	248.34	209.71	246.61	291.72	284.03	319.92	279.68	297.61	160.76
Medical Relief	63.38	62.19	67.24	79.83	65.65	117.94	155.70	126.89	182.72	256.85
Conservancy, Street Cleansing	51.99	43.51	45.72	53.22	197.16	27.91	158.20	41.28	125.53	328.50
Roads & Public Lighting	244.17	154.59	153.38	128.89	222.51	3705.96	4218.72	6445.46	4639.76	2214.39
Buildings, Land & Acquisition & Mgmt.	532.88	712.40	1596.17	1106.06	1743.18	1808.00	2374.12	2714.67	2653.74	3356.03
Fire Brigade	10.31	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Licensing, Removal of Encroachments etc.	945.42	697.29	111.25	413.56	503.52	554.11	761.79	610.00	553.13	525.65
Garden and Open Spaces	78.37	118.28	105.75	74.86	82.21	181.53	168.81	161.69	187.48	249.91
Markets & Slaughter House	49.69	71.28	60.82	71.68	479.03	88.26	251.46	409.78	165.24	138.13
Reimbursement of cost of Admn. Charges for different schemes	1100.00	1000.00	600.00	600.00	0.00	0.00	0.00	314.19	2475.87	6261.00
Extra Ordinary Receipts	200.00	0.00	0.00	9000.00	11000.00	18000.00	8000.00	18740.70	16400.00	3073.47
Development Charges	1612.02	1950.35	868.85	966.68	1490.98	6433.34	1501.77	1393.37	410.70	1283.13
TOTAL	**50405.21**	**58056.36**	**66591.99**	**81648.00**	**112136.87**	**135885.68**	**137284.54**	**157065.54**	**165949.75**	**168284.26**
Internal	36650.00	42544.00	49392.00	57753.00	67509.00	8854.00	97134.76	103380.00	108153.00	123709.00

Revenue										
Assigned Taxes	8605.00	10172.00	11400.00	7997.00	26035.00	19004.00	22754.60	24794.00	29680.00	29529.00
Grants	4950.00	5400.00	5800.00	6898.00	7592.00	10329.00	9395.18	10151.00	11717.00	11973.00
Ways & Means	200.00	0.00	0.00	9000.00	11000.00	18000.00	8000.00	6000.00	6000.00	0.00

(Source: Based on Annexure 9 of the MCD Memorandum)

- The MCD says it has taken various steps to increase its internal revenue from Rupees 366.50 crore in 1994-1995 to Rupees 1237.09 crore in the year 2003-2004 which is a 237.54 percent increase. The revenue from external sources, assigned taxes and grant, taken together have increased from Rupees 135.55 crore in the year 1994-1995 to Rupees 415.02 crore in the year 2003-2004 which is 'only' an increase of 206.17 percent. It shows that the income from external sources received from GNCTD has not increased proportionately as compared to internal resources. The percentage point difference being 31.37 percent. Increase has been attributed to better tax collection management.

17.108 Table 17.19 discusses the percentage trend of receipts of the MCD over the previous year in the period 1994-1995 to 2003-2004. In 1995-1996, the revenue receipts increased by 15.76 percent over the previous year. The percentage growth rose to 40.98 percent in 1998-1999, and then declined to 10.47 percent in 2003-2004. The percentage growth was the minimum at 6.99 percent in 2001-2002.

Table: 17.19- Transfer from State Government and Internal Revenue Receipts of MCD

S. No.		Item	1994-95	1995-96	1996-97	1997-98	1998-99
		Revenue Receipt	50205.00	58116.00	66592.00	71738.00	101136.00
		Growth over previous year	-	15.76	14.58	7.73	40.98
(i)		INTERNAL REVENUE					
	A	Tax Revenue	31385.00	37070.00	44966.00	53200.00	62097.00
		% of internal revenue growth over previous year	-	18.11	21.30	18.31	16.72
	B	Non-Tax Revenue	5265.00	5474.00	4426.00	4553.00	5412.00
		% of internal revenue growth over previous year	-	3.97	-19.15	2.87	18.87
		Total i (A+B) (Tax & Non-Tax receipts/ internal revenue	36650.00	42544.00	49392.00	57753.00	67509.00

(ii)		TRANSFERS					
	A	Tax Assignment	8605.00	10172.00	11400.00	7097.00	26035.00
		% of total transfer growth over previous year	-	18.21	12.07	-37.75	266.85
	B	Non-Plan Grant-in-aid	4950.00	5400.00	5800.00	6888.00	7592.00
		% of total transfer growth over previous year	-	9.09	7.41	18.76	10.22
		Total ii (A+B)	13555.00	15572.00	17200.00	13985.00	33627.00

S. No.	Item	1999-00	2000-01	2001-02	2002-03	2003-04
	Revenue Receipt	117884.00	129285.00	138325.00	149550.00	165211.00
	Growth over previous year	16.56	9.67	6.99	8.11	10.47
I	INTERNAL REVENUE					
A	Tax Revenue	73798.00	86622.00	90085.00	95846.00	108015.00
	% of internal revenue growth over previous year	18.84	17.38	4.00	6.40	12.70
B	Non-Tax Revenue	14753.00	10513.00	13295.00	12307.00	15694.00
	% of internal revenue growth over previous year	172.60	-28.74	26.46	-7.43	27.52
	Total i (A+B) (Tax & Non-Tax receipts/ internal revenue)	88551.00	97135.00	103380.00	108153.00	123709.00
ii	TRANSFERS					
A	Tax Assignment	19004.00	22755.00	24794.00	29680.00	29529.00
	% of total transfer growth over previous year	-27.01	19.74	8.96	19.71	-0.51
B	Non-Plan Grant-in-aid	10329.00	9395.00	10151.00	11717.00	11973.00
	% of total transfer growth over previous year	36.05	-9.04	8.05	15.43	2.18
		29333.00	32150.00	34945.00	41397.00	41502.00

(Source: Based on Annexure 14 of the MCD Memorandum)

17.109 In so far as the internal revenues consisting of the tax and non tax-revenues are concerned, the tax revenues increased by 18.11 percent over the previous year in 1995-1996 and the percentage increase in 1996-1997 was the maximum at 21.30 percent in the ten year period. It then decreased to 12.70 percent in 2003-2004. The increase in internal revenues was minimum at 4.00 percent in 2001-2002.

- The non-tax revenues reached 27.52 percent increase (2003-2004) over the previous year as compared to 3.97 percent in 1995-1996. However, it is noteworthy that the percentage variation was negative in three out of ten years (1996-1997, 2000-2001, and 2002-2003) and the maximum negative variation was 28.74 percent in 2000-2001. The maximum positive variation was 172.60 percent in 1999-2000.

- Assigned taxes and non-plan grants in absolute terms have increased from Rupees 135.55 crore (1994-1995) to Rupees 415.02 crore (2003-2004). However, they display a fluctuating trend.

17.110 The Corporation, in its Memorandum to the Commission, says that the per capita income of MCD in 1994-1995 was Rupees 478.00. This has increased to Rupees 1070.00 in 2003-2004 showing an increase of 123.84 percent, whereas the income from internal revenues has increased from Rupees 366.50 crore to Rupees 1237.09 crore showing an increase of 237.54 percent. This clearly shows that the increase in per capita revenue is not proportionate to the internal revenue. In other words, there has been an increase in the non-tax paying population. Table 17.20 reflects the per capita income of the MCD in the period 1994-1995 to 2003-2004.

Table: 17.20-Statement Showing per Capita Income-1994-1995 to 2003-2004-MCD

Year	Total Revenue	Population	Per Capita Income (Rs.)
1994-1995	50205	105.05	478
1995-1996	58116	108.79	534
1996-1997	66592	116.22	573
1997-1998	72648	120.34	604
1998-1999	101136	120.77	837
1999-2000	117887	125.05	943
2000-2001	137285	133.63	1027
2001-2002	157066	146.37	1073
2002-2003	165950	151.82	1093
2003-2004	168284	157.28	1070

(Source: Annexure X of the MCD Memorandum)

- In this context what would be more relevant is to enumerate the steps the Corporation took to tap in to the tax base more widely and deeply than has been evident. For instance, it may be recalled, that it was noted in Chapter 12 that MCD has not taken effective steps to determine or expand the size of the tax base for implementing and levying the property tax-before and after the introduction of the UAM.

17.111 The manner of presentation of the MCD obfuscates matters. While it has been sought to be conveyed that the per capita income quoted above has been calculated against the Corporation's own internal revenues Table 17.20 makes it clear that the calculation has been made against the total revenues, not internal revenues alone. In fact Annexure 10 to the Memorandum has nothing to do with the internal revenues.

17.112 Table 17.21 depicts the per capita income of the MCD based on their internal revenues.

Table: 17.21- per capita income of the MCD based on their internal revenues-1994-1995 to 2003-2004 (Rupees in lakh)

Year	Internal Revenue	Population	Per Capita Internal Revenue	Absolute Population Increase over Previous Year
1994-1995	36650	105.05	348.88	
1995-1996	42544	108.79	391.07	3.74
1996-1997	49392	116.22	424.99	7.43
1997-1998	57753	120.34	479.92	4.12
1998-1999	67509	120.77	558.99	0.43
1999-2000	88551	125.07	708.01	4.30
2000-2001	97135	133.63	726.90	8.56
2001-2002	103380	146.37	706.29	12.74
2002-2003	108153	151.82	712.38	5.45
2003-2004	123409	157.28	784.65	5.46

- If the per capita income were to be calculated on the basis of the internal revenues of the MCD, the picture changes quite substantially. Against, the per capita income of Rupees 478.00 (1994-1995), the figure now is Rupees 348.88. And in 2003-2004, it would be Rupees 784.65 instead of Rupees 1070.00. This means that the contribution of **internal revenues** is quite low in comparison to their per capita expenditure and external sources are playing a major role in filling the gap.

17.113 Table 17.22 shows the per capita expenditure of the MCD. The per capita expenditure in 1994-1995 was Rupees 464 and in 2003-2004 it was Rupees 1067.00 showing an increase of 129.95 percent, whereas, the total expenditure in 1994-1995 was Rupees 487.79 crore which increased to Rupees 1677.73 crore showing an increase of 243.94 percent. This also shows that, though the expenditure has increased substantially, again, the same is not adequate to cope with the increase in population. The demographic growth is adversely affecting the civic services.

Table: 17.22-Statement showing Per Capita Expenditure- 1995-1995 to 2003-2004

Year	Expenditure	Population	Per Capita Expenditure (Rs.)
1994-1995	48779	105.05	464
1995-1996	58204	108.79	535
1996-1997	66739	116.22	574
1997-1998	81653	120.34	679
1998-1999	112122	120.77	928
1999-2000	135894	125.05	1087
2000-2001	137280	133.63	1027
2001-2002	157065	146.37	1073
2002-2003	162407	151.82	1070
2003-2004	167773	157.28	1067

(Source: Annexure 7 to the MCD Memorandum)

- The Corporation has attributed both the small increases in per capita income and the large increases in per capita expenditure to the population factor. The per capita expenditure has been less than the per capita income Table 17.21 and 17.23 in three years (1994-1995, 2002-2203, and 2003-2004). It has been equal to the per capita income in two years (2000-2001 and 2001-2002). It has been more than the per capita income in five years (1995-1996 to 1999-2000). It was more than the per capita income by Rupees 01 in two years (1995-1996 and 1996-1997). It was more by Rupees 75.00 in 1997-1998, by Rupees 91 in 1998-1999, and by Rupees 144.00 in 1999-2000.

- Therefore, consider the data again in the light of the contention that the population growth is alone responsible for the financial difficulties of the Corporation. The fact is that the expenditure exceeded the per capita income in precisely those years when the increase in population was on the lower side: in 1995-1996, for instance, the population increase was 3.74 lakh, in 1996-1997 the increase was 7.43 lakh, in 1997-1998 it was 4.12 lakh, in 1998-1999 the same was a mere 0.43 lakh, and in 1999-2000 the increase was 4.30 lakh.

- On the other hand, when the per capita expenditure was either equal to or less than the per capita income the increase in population was comparatively higher: in 2000-2001 the population increase was 8.56 lakh, in 2001-2002 the increase was of 12.74 lakh, in 2002-2003 it was 5.45 lakh, and in 2003-2004 the same was 5.46 lakh.
- In the five years, when the per capita expenditure was more than the per capita income, total population increase was 16.28 lakh, whereas in the four years (2000-2001 to 2003-2004) when the per capita expenditure was either equal to or less than the per capita income, the population growth was 32.21 lakh.
- Now it is nobody's case that the increases in population have no impact on at least expenditure responsibilities. However, the data do not support the claim that income and expenditure volumes can be loaded on to the population factor alone. In fact, in so far as the income side is concerned (say, in the context of property tax), the population relevant to the issue would be the population already settled in Delhi because migrating population does not carry its immobile assets or property to the place of migration.
- Therefore, apart from the population factor, the efficiency of resource management is important to determine resource needs.

Financial Profile

Sources of Finance

17.114 We begin with a look at the sources of finance for MCD.

- In order to enable the MCD to perform its obligatory and discretionary functions properly and efficiently Section 99 of the DMC Act, 1957 provides for constitution of a Municipal Fund to which all the moneys received on behalf of the MCD from different taxes and non-tax sources as per DMC Act are to be credited. The Act provides for following obligatory taxes to be levied by the MCD under Section 113: (a) property tax, (b) vehicles and animals, (c) theatre tax, (d) advertisements, (e) transfer of property, and (f) building plan.
- Besides these obligatory taxes, under Section 113 (2) the MCD has been empowered to levy the following taxes at its discretion:

(a)education cess, (b) land revenue, (c) professions, trade, callings and employment, (d) electricity tax, (e) betterment tax on the increase in urban land values, (f) boats, and (g) tolls.

- The MCD is presently levying all obligatory taxes. Amongst the discretionary taxes, Electricity and Toll Tax is being collected. In addition, MCD also charges fees for providing certain services and imposes fines for violation of any provisions of the Act.
- MCD also receives its share in the global share of taxes from the GNCTD.

Primary Education

- A grant is given for primary education and reimbursement of expenditure incurred on maintenance of resettlement colonies transferred from DDA to MCD in 1988-1989. Expenditure incurred on the maintenance of resettlement colonies and 70 percent of the expenditure incurred by the MCD on primary education is reimbursed by the GNCTD as a non-plan grant subject to a ceiling of 5 percent of the net proceeds of tax revenues of the state government. The ceiling of 5 percent has, according to the Memorandum, in fact, limited the grant to 25 percent of the actual releases which can be seen from the table given below (Table 17.23)

Table : 17.23-Non-plan Grants from the GNCTD for Primary Education (figures in lakh)

Year	Actual eligible amount after deducting income	Entitlement @60% of the net expenditure	Actually released		Difference payable
1994-1995	11,036.86	6,622.12	5,400.00	(Paid in 95-96)	1,222.12
1995-1996	12,774.72	7,664.83	5,800.00	(Paid in 96-97)	1,864.83
1996-1997	13,861.61	8,316.97	6,897.63	(Paid in 97-98)	1,419.34
1997-1998	18,010.00	10,806.00	7,588.75	(Paid in 98-99)	3,217.25
1998-1999	30,027.54	18,016.52	10,321.08	(Paid in 99-00)	7,695.44
1999-2000	37,028.54	22,217.12	9,395.18	(Paid in 00-01)	12,821.94
2000-2001	33,712.78	20,227.67	10,151.11	(Paid in 01-02)	10,076.56
2001-2002	33,274.57	19,964.74	11,716.97	(Paid in 02-03)	8,247.77
2002-2003	36,907.83	22,144.70	11,972.91	(Paid in 03-04)	10,171.79
2003-2004	39,054.33	23,432.60	17,435.46	(Paid in 04-05)	5,997.14
TOTAL					62,734.18

(Source: Based on Table 8 of the MCD Memorandum)

- Because of the explosive demographic growth, establishment, construction, maintenance as well as aid to primary schools is a major obligatory responsibility of the MCD. Out of 1833 schools approximately 1750 schools have already been provided with permanent buildings and other school buildings are in progress. Now less than 5 percent schools are being run from tents. Computers have been provided in 1000 schools.
- Students are provided with free uniform, sweaters, shoes and socks, textbooks annually. Free mid-day meals are provided to all the students through 11 NGOs/private contractors. As per approved scheme 50 percent cost of mid-day meal is met from plan and 50 percent from non-plan i.e. Rupees 10.00 crore from MCD's own resources. MCD is also providing 95 percent aid amounting to Rupees 8.20 crore from non plan to 44 aided schools. Further double bench tables have been provided to replace tat patties. Keeping in mind the health and environment aspects, water purifiers and water coolers are being provided in all the schools at a cost of Rupees 4.00 crore.
- The total expenditure under non-plan budget provided by MCD for the year 2005-2006 is Rupees 566.00 crore and Rupees 135.00 crore under plan outlay. MCD would require an amount of Rupees 3505.00 crore for five years under non-plan. For this, the GNCTD will have to increase reimbursement to 95 percent of the amount of non-plan expenditure i.e. Rupees 3329.75 crore against existing 70 percent.
- The gap has been calculated by the Corporation from their point of view. However, proceeding on the basis of the formulation recommended by the Second Finance Commission there is no gap.

Resettlement Colonies

- Similarly, the Memorandum argues that the grant amount for the maintenance of resettlement colonies has been less than the entitlement by an amount of Rupees37.23 crore. However, on the basis of the data in Table 17.24 based on Annexure 17 of the Memorandum, the picture is quite different. The total grant amount released to the MCD in the period 1994-1995 to 2003-2004 was Rupees 527.16 crore, as against a total expenditure of Rupees 502.63 crore. From 1994-1995 to 1998-1999, the expenditure was more than the grants amount to the extent of Rupees 66.89 crore, and the expenditure was less than the grants released by GNCTD in the period 1999-2000 to 2003-2004 by Rupees 92.42 crore. This gives us a net excess amount of grants released to the tune of Rupees 24.53 crore.

Table: 17.24- Resource Gap as a Consequence of Maintenance of Resettlement Colonies-

Rupees in lakh

Year	Receipts (Grants)	Revenue Expenditure	Balance
1994-1995	2160.00	2765.94	-605.94
1995-1996	2160.00	3266.87	-1106.87
1996-1997	2160.00	3641.05	-1481.05
1997-1998	3000.00	4514.00	-1514.00
1998-1999	3500.00	5481.36	-1981.36
1999-2000	5413.30 3761.82	6600.41	2574.71
2000-2001	6384.60	6039.97	344.63
2001-2002	7279.94	5820.10	1459.84
2002-2003	8356.69	5647.91	2708.78
2003-2004	8539.23	6485.24	2053.99
		TOTAL	2452.73

(Source: based on Annexure 17 of the MCD Memorandum)

Trends in Expenditure

17.115 Over all trends in the revenue expenditure (non-plan) of MCD's General Wing is tabulated in Table 17.25. Expenditure increased from Rupees 487.79 crore in 1994-1995 to Rupees 1677.73 crore in 2003-2004 representing a growth of 243.94 percent during the last 10 years. Increase in expenditure is more than two and a half times, which MCD states is nominal, if cost escalation is taken into account. The per capita expenditure has increased from Rupees 464.00 in 1994-1995 to Rupees 1067.00 in 2003-2004. This reflects the financial constraints and fiscal stress of MCD.

Table -17.25-Revenue Expenditure on Various Heads of Accounts-(MCD) Non-plan (Rupees in crore)

Expenditure	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
General Supervision, Collection of Revenue etc.	21.36	22.08	31.97	34.17	36.66	38.22	48.00	53.20	53.12	56.14
Education	111.54	128.68	139.70	181.27	301.94	371.97	338.94	333.25	369.41	390.83
Libraries	0.33	0.34	0.28	0.38	0.55	1.21	0.65	0.65	0.66	0.97
Public Health	14.65	16.89	19.18	25.84	34.30	39.01	37.42	37.74	39.22	40.92
Medical Relief	51.65	57.47	66.08	79.14	99.01	125.37	124.45	127.52	147.10	166.18
Conservancy, Street Cleansing	102.42	117.64	131.94	177.77	227.85	260.24	263.40	275.98	298.98	334.82
Scavenging, Drains &	9.82	9.76	15.87	9.80	48.09	73.41	11.13	8.83	11.40	11.22

Sewers										
Roads & Public Lighting	64.99	73.72	82.41	97.30	106.10	121.33	107.65	154.71	132.04	152.27
Buildings, Land Acquisition & Mgt.	8.38	10.70	13.29	14.40	19.30	21.94	24.11	22.25	21.80	26.81
Fire Brigade	6.37	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Licensing, Removal of Encroachments etc.	1.18	1.23	1.30	1.80	2.02	2.05	2.38	2.19	2.17	2.14
Garden and Open Spaces	24.82	27.97	32.47	41.94	50.83	58.16	61.87	65.07	63.90	69.82
Markets & Slaughter House	1.39	1.64	1.70	1.95	1.85	3.21	3.28	2.66	4.91	4.46
Misc. Incl. Petty New Work & Departmental Charges	63.90	103.31	118.39	145.65	189.93	239.70	337.56	478.97	443.08	396.65
Reserve for Unforeseen Charges	0.00	0.00	0.05	1.25	0.01	0.00	7.57	3.78	33.55	22.43
Development Charges	4.99	10.62	12.77	3.88	2.79	3.12	4.38	3.85	2.73	2.07
TOTAL	**487.79**	**582.05**	**667.40**	**816.54**	**1121.23**	**1358.94**	**1372.80**	**1570.65**	**1624.07**	**1677.73**

(Source: Annexure 6 to the MCD Memorandum)

- Though the MCD refers to the increase in expenditure by two-and-a-half times as 'nominal' keeping cost escalation in mind, it also categorizes the increase in the per capita expenditure as reflecting the financial constraints and fiscal stress of the MCD. As a matter of fact the increase in per capita expenditure in ten years is by 129.96 percent only against the total increase in expenditure of 243.94 percent.

17.116 The fact is that none of these figures by themselves reflects anything other than statistical trends- whether in total or per capita expenditure. It certainly does not serve as an indicator of financial constraints or **fiscal stress**. The real indicator of financial constraints or fiscal stress would be that the Corporation had devoted increasing amounts of revenue (both raised and received) to the time barred achievement of physical targets on ground (especially in the realm of obligatory functions). However, despite this, it was unable to deliver normative levels of infrastructure or amenities. This would have been a much more acceptable yardstick to determine financial constraints and fiscal stress.

17.117 MCD states that though the per capita expenditure shows a phenomenal increase of 243.94 percent during the last 10 years, the same is still inadequate to provide satisfactory services if inflation is also taken into account. For example, the cost of maintenance of roads has increased from Rupees 23000.00 (12′ width per mile per year) in 1982-1983 to Rupees 136522.00 in 2004-2005 showing an increase of around 600 percent during the ten year period (as per our calculation this represents a 493.57 percent increase and not 600 percent). Further, even if we restrict ourselves to the internal revenues of the MCD and from the year 1985-1986 (rather than from 1982-1983) to 2003-2004 (rather than 2004-2005) the increase in revenues has been of the order of 1655.21 percent.

- As the per capita expenditure is said to be a better index of the level of services, in order to augment it, the MCD needs to enhance the per capita expenditure at least at the rate of 10 to 15 percent per annum. It is argued that this further justifies MCD's case for increased devolution. The per capita expenditure is showing a decline in the last two years even though the total expenditure increased considerably. This is due to the fact that the population of Delhi has increased tremendously, beyond the ratio of income.
- Assuming that the per capita expenditure is indeed a reliable measure of the best possible quantitative and qualitative aspects of expenditure management, the more reliable and appropriate index would be total expenditure on service delivery divided by the total beneficiary population and not the total population of the NCT of Delhi. Further, if the per capita expenditure is to be relied upon, it should lead us to the per capita unit cost of delivery. Then we could arrive at a more authentic measure of the cost and delivery efficiencies, or lack thereof. Since the MCD has neither calculated the per capita expenditure in terms of the service expenditure and beneficiary population, nor indicated the efforts made by it to meet the costs through internal revenue mobilization, this argument is not good enough for enhanced allocations.

Expenditure on Different Heads

17.118 Primary education and health related functions (public health, medical relief and sanitation services) accounts for a substantial share in the total revenue expenditure of MCD. Together they claim more than 56 percent of the total revenue expenditure (non-plan). See Table 17.26.

Table : 17.26- Revenue Expenditure under Various Heads MCD (Non-Plan) as a percentage of Total Revenue Expenditure

Expenditure	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
General Supervision, Collection of Revenue etc.	4.38	3.79	4.79	4.18	3.27	2.81	3.50	3.39	3.27	3.34
Education	22.86	22.11	20.93	22.20	26.93	27.37	24.69	21.22	22.75	23.29
Libraries	0.04	0.06	0.05	0.05	0.05	0.09	0.05	0.04	0.04	0.06
Public Health	3.00	2.90	2.87	3.16	3.06	2.87	2.72	2.40	2.41	2.44
Medical Relief	10.59	9.87	9.90	9.69	8.83	9.23	9.07	8.12	9.06	9.90
Conservancy, Street Cleansing	21.00	20.21	19.77	21.77	20.32	19.15	19.19	17.57	18.41	19.96
Scavenging, Drains & Sewers	2.02	1.68	2.38	1.20	4.29	5.40	0.81	0.56	0.70	0.67
Roads & Public Lighting	13.32	12.67	12.35	11.92	9.46	8.93	7.84	9.85	8.13	9.08
Buildings, Land Acquisition & Mgt.	1.72	1.84	1.99	1.76	1.73	1.61	1.75	1.42	1.34	1.60
Fire Brigade	1.32	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Licensing, Removal of Encroachments etc.	0.24	0.21	0.19	0.22	0.18	0.15	0.17	0.14	0.13	0.13
Garden and Open Spaces	5.09	4.81	4.87	5.14	4.53	4.28	4.51	4.14	3.94	4.16
Markets & Slaughter House	0.29	0.28	0.25	0.24	0.16	0.24	0.24	0.17	0.30	0.27
Misc. Incl. Petty New Work & Departmental Charges	13.10	17.75	17.74	17.84	16.94	17.64	24.59	30.50	27.28	23.64
Reserve for Unforeseen Charges	0.00	0.00	0.01	0.15	0.00	0.00	0.55	0.24	2.07	1.34
Development Charges	1.03	1.82	1.91	0.48	0.25	0.23	0.32	0.24	0.17	0.12
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

(Source: Based on Annexure 8 of the MCD Memorandum)

- The figures need to be de-constructed into absolute and percentage changes annually to arrive at any reasonable conclusion. For this purpose we shall illustratively examine three items of expenditure only: primary education, primary health, and sanitation, and, conservancy.

17.119 The annual expenditure as a percentage of total expenditure in respect of primary education has been from 20 to 25 percent. The figures for primary health (including medical relief) have been from 11 to 14 percent. The range for sanitation and conservancy (including street cleaning, drainage and sewerage) has been between 18 to 25 percent.

- However, the annual absolute percentage variations of expenditure, in respect of these very items, have shown a long term decrease. Primary education reached a peak in 1999-2000 of 27.37 percent and then declined to 23.30 percent in 2003-2004. Similarly the maximum share of primary health was in 1997-1998 at 3.16 percent. Thereafter, it continuously declined, reaching 2.44 percent in 2003-2004. The expenditure on scavenging, drains and sewers was 5.40 percent in 1999-2000. The expenditure **reduced sharply** from this to 0.67 percent in 2003-2004.

Economy in Expenditure

17.120 In fact if any item of expenditure shows a surprising step up it is '**miscellaneous expenditure',** including petty new works and departmental charges': from 17.64 percent in 1999-2000 to 30.50 percent in 2001-2002. There was a marginal decline to 27.28 percent in 2002-2003 but remained above one-fifth of the total expenditure even in 2003-2004 (23.64 percent).

Outsourcing of service on PPP/BOT basis

17.121 The MCD has reported a few measures which involve PPP or BOT to overcome resource constraints and involve private participation.

17.122 The MCD says that despite the restraints it has tried to cut down expenditure on some of the functions by (a) involvement of NGOs in de-silting of drains thereby reducing appointment of regular staff, and burden on pension and salaries, (b) involvement of RWAs in maintenance and upkeep of parks and gardens, reducing expenditure on regular employees in horticulture department, (c) involvement of RWAs in maintenance of community centres, (d) outsourcing collection of taxes, issue of birth and death certificates, issue and renewal of licenses etc. to keep staff recruitment down, (e) construction and maintenance of public toilets and public urinals on BOT basis to reduce capital cost.

17.123 Table 17.27 indicates the projects the MCD intends to implement on a PPP or BOT basis.

Table : 17.27 -Projects Planned and financed on BOT basis for next five years

S.No.	Facility	Amount (Rs. in lakh)
(a)	Compost Up-gradation, Okhla	1400
(b)	New Compost Plant	1400
(c)	Methanization (Pilot), Bawana	1600
(d)	RDF* (Pilot), Burari	1500
(e)	C&D Waste Processing, Burari	1500
(f)	C&D Waste Processing, Bakarwala	1500
(g)	Landfill, Narela	16800
(h)	Landfill, Bhatti Mines	22400
	Total	**48100**

(*RDF-Refuse Derived Fuel)

17.124 Table 17.28 details the investment requirements of projects proposed to be implemented on a PPP or BOT basis

Table: 17.28-Estimates for Investments and Operation and Maintenance Cost for the next five years- 2005-2009 on BOT basis by Private Sector

S.No.	Technology Options	Agency	Amount (Rs.in lacs)
(a)	Compost	IL & FS	4300
(b)	Methanization	IL & FS	2600
(c)	RDF with Power Generation	IL & FS	2600
(d)	C&D Waste Processing Facility	IL & FS	5500
	Total		**15000**

17.125 Table 17.29 similarly details the investment requirements of projects to be implemented directly by the MCD.

Table 17.29-Estimates for Investments and Operation and Maintenance Cost for the next five years that is 2005-2009 by MCD

S.No.	Technology Options	Investment by Pvt. Sector on BOT (Rs. in lacs)	Investment by MCD (Rs. in lacs)
(a)	Sanitary land filling with gas recovery and power generator	15000	10000
(b)	PPP Project for collection and transportation of solid waste in 6 zones	10000	36000
	Total	**25000**	**46000**

17.126 Table 17.30 provides details of outstanding liabilities of the Corporation as on March 31, 2005. There is a shortfall and deficit on account of increasing expenditure caused by the continued explosive demographic growth, staff salaries, and cost of providing civic services. Shortfall over years has resulted in accumulation of liabilities amounting to Rupees 2129.59 crore as on March 31, 2005 which are obligatory in nature and will restrict investment in new infrastructure and maintenance of existing infrastructure

Table 17.30 -Outsanding Liability of MCD as on March 31, 2005 (Rupees in Lakh)

S.No.	Particulars	Amount
1.	Outstanding Loans and Interest	110946.00
2.	G.P.F. Liability:	
	(a) Liability	17964.95
	(b) Loan	14300.00
3.	Securities	12346.76
4.	Deposit Work	4440.12
5.	Other Deposits	127.40
6.	GIS	319.31
7.	Drought Relief Fund	9.11
8.	R.R. Cut (9-D-i) Amount received but work to be executed)	3591.43
9.	Outstanding demand of Contractors	48913.00
	TOTAL	212958.08

(Source: Based on Annexure 20 of the MCD memorandum)

Revenue Gap

17.127 Table 17.31 depicts the revenue gap (total revenue from internal sources minus the total revenue expenditure) as reported by the MCD. Accordingly, the table shows that the revenues from its own sources are insufficient to meet the revenue expenditure. The revenue gap has widened from Rupees 12129.28 lacs in 1994-95 to Rupees 44063.59 in 2003-2004 i.e. 33.14 percent in 1994-95 to 35.62 percent in 2003-04.

Table: 17.31-Revenue Gap (Non-plan) and Gap Filling through External Sources-(Rupees in Lakh)

Year	Internal Revenue	Revenue Exp.	Revenue Gap (2-3)	Gap filling through			Total	Resources Gap
				Assigned Taxes	Grant	Ways & Means		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1994-1995	36650.03	48779.31	-12129.28	8605.18	4950.00	200.00	13755.18	1625.90
1995-1996	42542.28	58204.75	-15662.47	10172.39	5401.69	---	15574.08	-88.39
1996-1997	49392.00	66739.93	-17347.93	11400.00	5800.00	---	17200.00	-147.93
1997-1998	57753.00	81653.78	-23900.78	7997.00	6898.00	9000.00	23895.00	-5.78
1998-1999	67509.00	112122.69	-44613.69	26035.00	7592.00	11000.00	44627.00	13.31
1999-2000	88554.00	135894.47	-47340.47	19004.00	10329.00	18000.00	47333.00	-7.47
2000-2001	97135.00	137280.15	-40145.15	22755.00	9395.00	8000.00	40150.00	4.85
2001-2002	103380.00	157064.58	-53684.58	24794.00	10151.00	6000.00	40945.00	-12739.58
2002-2003	108153.00	162407.12	-54254.12	29680.00	11717.00	6000.00	47397.00	-6857.12
2003-2004	123709.00	167772.59	-44063.59	29529.00	11973.00	---	41502.00	-2561.59

(Source: Based on Annexure 16 of the MCD Memorandum)

- The revenue gap is bridged through external funds received by the MCD in the form of global share and grants as well as ways and means advances (Annexure 16 of MCD Memorandum). Despite regular flow of external resources, the MCD ends up with a minus balance in several years i.e. Rupees 1625.90 lakh (+) in 1994-1995 to Rupees 2561.59 Lakh (–) in 2003-2004.
- The total resource gap in ten years on the basis of MCD data has been Rupees 207.64 crore.

17.128 The overall position of revenue collected by MCD from internal resources as well as from external resources i.e. global share, grants and ways and means loan is given in Annexure 18 of MCD Memorandum. The comparative figures reflect that the Corporation had to take ways and means advances only in exceptional circumstances. The advances had to be taken from 1997-1998 onwards to discharge additional liabilities accrued on account of the implementation of 5th Pay Commission recommendations amounting to approximately Rupees 1050 crore and merger of 50 percent of DA as DP (Rupees 250 crore approx).

- Interest on plan loans is being paid from non-plan funds. Plan loans increased from 14.97 percent in 1996-1997 to 29.14 percent in 2003-04. Since expenditure from plan loans is not revenue related and interest has to be paid to GNCTD, it has increased the revenue gap.

17.129 Major part of the revenue income goes towards salary and pension payments leaving little amount for maintenance and capital works. It is claimed that despite all out efforts, reduction in establishment expenditure has not been found feasible by virtue of the nature of the services provided by the MCD.[24] To provide obligatory and discretionary functions MCD has to resort to plan loans which are non-remunerative in nature. To compound the problem, an exorbitant amount of interest is paid on plan loans. This avoidable expenditure adversely affects, payment of salaries, payment for development works under Councillor fund, old age pension, and contingencies. Literally, no amount is left for maintenance works.

17.130 As per the debt policy, loan should be taken only for the projects which have some component of remuneration attached to it so as to have a steady stream of income for debt repayment. However, in the case of MCD, plan loans are taken for non-remunerative purposes and on an average around Rupees 70.00 crore is paid towards interest on these loans. This has resulted in further revenue gap and MCD is left with no alternative but to take ways and mean advance again on a very high rate of interest. It is argued that in case the GNCTD waives off interest on these loans, the MCD will be able to carry out some of its functions more efficiently.

17.131 MCD states that the total impact of the ongoing reforms under infrastructure, property tax, computerization, sanitation, accounting and those still to be introduced is reported to be approximately Rupees 1287.42 crore. It is not possible for the MCD to keep pace with increasing demand of services both in quality and quantity out of the current resources. There are several reasons for this.

17.132 Regular and heavy inflow of migratory population consisting of unskilled/skilled labour has resulted in proportionate increase in the number of schools, hospitals and other medical institutions, community centres, sanitation works, cremation grounds, drainage system and other civic

[24] The Commission had specifically sought information on steps taken to review the staff and manpower [position in the Corporation. No cogent reply was received.

infrastructure and expenditure thereof. This migratory population has resulted in the mushrooming of slums and JJ and unauthorized colonies which have to be provided basic civic facilities but do not contribute to the MCD revenue.

17.133 Plan loan liabilities have been increasing year after year as these are meant for non-remunerative and remunerative purposes.

17.134 Similarly, the plan loans received for non-remunerative or non-asset building purposes have steadily increased whereas plan loans given for remunerative or asset building purposes have declined. These plan loans are not cost effective as they carry a very high rate of interest ranging from 11.5 percent to 15 percent. Table 17.32 reports the position of plan grants and loans.

Table : 17.32-Position of Plan Grants and Loans (Rupees in lakh)

Year	**Plan Grants**	**Plan Loans**			**Total**
		Remunerative	**Non-Remunerative**	**TOTAL LOANS**	**LOAN+GRANT**
Upto 31.3.96		11354.44	*27432.00*	38786.44	38786.44
1996-97	32199.37	1050.00	*3768.75*	4818.75	37018.12
1997-98	32702.77	1550.00	*4418.75*	5968.75	38671.52
1998-99	34270.38	0.00	*3554.37*	3554.37	37824.75
1999-00	41166.21	500.00	*3254.68*	3754.68	44920.89
2000-01	41240.65	0.00	*6762.50*	6762.50	48003.15
2001-02	42450.08	0.00	*7520.00*	7520.00	49970.08
2002-03	49223.80	200.00	*10306.25*	10506.25	59730.05
2003-04	45780.53	200.00	*10918.75*	11118.75	56899.28
2004-05	50545.33	0.00	*14727.00*	14727.00	65272.33
Total	**369579.12**	**14854.44**	**92663.05**	107517.49	477096.61

(Source: Based on Annexure 22 of the MCD Memorandum)

17.135 The recovery of these plan loans adds to the tremendous financial burden/accumulated liabilities of MCD. These plan loans are unproductive as the same are invested in unauthorized colonies/rural areas having negligible or no tax returns. Plan loans, says the MCD, should be treated as outright grants. It is also logical that loan should be taken only when there is a likely return. For these reasons a proposal was initiated for implementing 'polluter pays' practice but this was not accepted by the Corporation.

17.136 As most of the students studying in the MCD primary schools are from economically weaker sections of the society from where MCD does not collect any revenue, the grant should be raised to 95 percent.

17.137 The amount of reimbursement of expenditure incurred on re-settlement colonies which belong to the GNCTD is also taken as grant while computing ceiling of grants payable to the MCD. Since, the amount incurred on re-settlement colonies is reimbursed to the MCD in the form of salary of staff transferred along with these colonies and cost of street-lighting, the same should not be treated as grant to MCD.

17.138 Often assets transferred to MCD have not been maintained for years and require heavy investment. Hence, these grants should be proportionately increased and plan loans proportionately decreased if not converted to grants.

17.139 There has been no manpower review in recent years. However, it is a fact that the quantum of civic services is directly related to the population, and, increase in population results in proportionate increase in workforce. MCD also states that the manpower in service departments like Engineering, Sanitation, Education, Horticulture, Health, and Veterinary is a service in itself and the expenditure on salaries of staff working in these departments cannot be termed as expenditure on salaries. Rather this is expenditure on services and they account for above 95 percent of total expenditure on salaries.

17.140 Therefore, in the present scenario there is remote chance of decrease in the expenditure on salaries. Nevertheless in the last five years, no new posts have been created. Services like security and garbage management have been privatised and posts surrendered as and when incumbents superannuate. Work of teachers, medical officers and para-medical staff is being done through contracts. As public-private partnership picks up in other sectors the numbers will be appropriately reduced.

17.141 The total number of pensioners is around 28,100 and the monthly expenditure on pension is approximately Rupees 120.00 crore a year. However, with effect from April 01, 2004 MCD has adopted the New Pension Scheme of GOI. Burden of pension will be only for employees recruited before April 01, 2004.

17.142 Financial burden on account of implementation of recommendations of Fifth Pay Commission, merger of 50 percent DA as DP and periodical increase in DA etc. should be neutralized with a matching grant by the state government. However, in the case of MCD, no grant for this purpose has been given by the GNCTD.

17.143 Non implementation of tax on profession, trades etc. has not found favour with the Corporation. This has resulted in recurring loss of Rupees 50.00 crore per annum since April 01, 2005. MCD wants to be compensated for this to reduce the revenue gap and increase and improve civic services.

17.144 Increase in the rates of taxes, fee, fines, cesses has been recommended to GNCTD but approval is awaited. The revised rates are expected to yield Rupees 100.00 crore annually. As on June 01, 2005 the resultant loss was Rupees 785.42 crore (Annexure 28 of MCD Memorandum) MCD wants to be compensated for this recurring loss by GNCTD to reduce revenue gap.

17.145 In other Municipal Corporations, octroi is the main source of income and usually the ratio of octroi to property tax is higher. In Mumbai, during 2003-2004 Rupees 1800.00 crore were collected from octroi and only Rupees 298.95 crore was collected from property tax. However, in 2003-2004 MCD collected approximately Rupees 768.94 crore from property tax only. As octroi was abolished, toll tax was introduced. This however, resulted in revenues of only Rupees 79.00 crore from Toll Tax.

17.146 At present, MCD and NDMC together get 5.5 percent of GNCTD's tax revenue as global share of taxes with division of 70 percent of the amounts arrived on the basis of population living in their respective areas and 30 percent on the basis of the area under their respective jurisdiction. Besides this, grants on education (non-plan) at the rate of 70 percent of the eligible expenditure and expenditure on resettlement colonies is being given subject to ceiling of 5 percent of GNCTD's net proceeds of tax revenue.

17.147 MCD wants that the current system of devolution of funds to be reviewed and examined from the point of actual requirement and actual service rendered. Most of the reforms initiated by the MCD are time bound and as per recommendations of the last two Finance Commissions. The MCD expects that all reform measures should be financed by the state government.

17.148 Therefore, according to MCD, there is a strong and genuine case for raising the share of global taxes to at least 15 percent for providing better and quality services/for completing the ongoing reform process and changing the face of Delhi.

17.149 The details of additional allocation of resources sought by the MCD are reproduced in Table 17.33. The total amount works out to Rupees 16862.32 crore during the period 2006-2007 to 2010-2011.

Table: 17.33-Summary of Funds Required by MCD in the Next Five Years (2006-07 to 2010-11) (Rupees in crore)

1)	Sanitation:			
	(a)	Sweeping and Solid Waste Management		474.91
	(b)	Construction/maintenance of drains		
	(c)	Construction/maintenance of public conveniences		
	Excluding 6 projects totaling Rupees. 400 crore planned on BOT basis.			
	Excluding 3 projects totaling Rupees. 7.34 crore funded by Municipal Bonds.			
2)	(a)	Roads, bridges, street lighting		360.00
	(b)	Traffic management plan for 2010 Commonwealth Games		200.00
	(c)	Civic Centre		298.50
	(d)	Multi level mechanized car parking		100.00
	(e)	Construction of zonal offices		80.00
	(f)	District Centre Kingsway Camp		15.00
	(g)	S.P. Marg		80.00
	(h)	Maintenance of assets		500.00
3)	Health:			
	(a)	Veterinary Services:		
		(i)	Modern Slaughter House	142.00
		(ii)	Cremation Ground	13.04
	(b)	Medical Relief @ Rs. 252.73 crore p.a.		1263.65
4)	Education (arrears 627.34 + mid-day meal 50 + grant for next 5 years 3329.75)			4007.09
5)	E-Governance			123.75
6)	Others:			

	(a)	Garden and Open Spaces @ Rs. 34.91 crore p.a.	174.55
	(b)	Heritage Society @ Rs. 5 crore p.a.	25.00
	(c)	Accounting Reforms	10.00
	(d)	Property Tax Reforms	8.76
	(e)	Property Tax shortfall due to UAM	681.00
	(f)	Building Bye-laws	268.00
Grants:			
I	(i)	Raising of global share of taxes from 5.5% to 15% @ Rs. 721.10 crore p.a.	3605.50
	(ii)	Conversion of Plan loans to grants	926.63
	(iii)	Conversion of Councilor Fund into Plan grants	116.58
II	(i)	Neutralization of Expenditure on account of implementation of Vth CPC	1050.00
	(ii)	Recurring expenditure on account of merging of DA as DP	175.00
	(iii)	Neutralization of Expenditure incurred on rural areas	314.66
III	Reimbursement:		
	(i)	Professional Tax not allowed @ Rs. 50 crore p.a.	250.00
	(ii)	Increase in taxes, fees, fines not implemented	785.42
		Municipal. Elections	20.00
		Family Planning/ICDS	68.75
		Expenditure on Resettlement Colonies	37.23
IV	Others:		
		Old Age Pension for widows of Municipal. Employees and old persons @ Rs. 28.92 crore p.a.	144.60
	(i)	Electricity Tax on DMRC @ Rs. 1.75 crore p.a.	8.75
	(ii)	Property Tax on DMRC	248.00
	(iii)	Advertisement Tax on DMRC (@ 20 p.a.)	100.00
		Expenditure on 2010 Commonwealth Games	185.95
		TOTAL	**16862.32**

17.150 The projected revenues and expenditures of the MCD are shown in Table 17.34. The first point to note is that the projections begin in 2004-2005 and end in 2009-2010. The required projections were for the period 2006-2007 to 2010-2011. As it happens, we now have the actual figures for 2004-2005 too.

17.151 The second point is that Annexure 26 of the Memorandum is not discussed in the body of the Memorandum. It is not clear as to what components of revenue receipts have been included or excluded in the projections. It is also not clear as to what components of expenditure have been included or excluded. The reasons for the trend growths assumed for revenues or expenditures have not been indicated.

17.152 The Memorandum similarly does not spell out what measures are contemplated for additional resource mobilization or containment of expenditure. Among other things, the memorandum does not provide any details of developmental plans, investment needs or the expenditure priorities. It is in fact short on all relevant details for the purposes of determining the reliability of the projections.

17.153 The MCD have taken an average annual growth of 5.63 percent for revenues and a rate of 5.51 percent for the expenditure. Against this the trend growth rate for own revenue receipts in the period 1994-1995 to 2004-2005 has been 13.80 percent. The trend growth rate for non-plan revenue expenditures has been 14.60 percent.

17.154 The total resource gap in the period 2004-2005 to 2009-2010 has been identified as Rupees 88.11 crore. Now we shall exclude the first two years not being relevant to the Commission and add the year 2010-2011 by calculating the revenues and expenditure on the trend growths assumed by the MCD. The figures would be Rupees 2469.19 crore (revenue), Rupees 2442.18 crore (expenditure), and the total resources gap (2006-2007 to 2010-2011) would be Rupees 97.76 crore.

Table: 17.34-Projected Revenue Income and Expenditure (Non-plan) of MCD-2004-2005 to 2009-2010 (Rupees in Lakh)

Year	Projected Revenue Receipts at an average growth rate of 5.63%	Projected Revenue Expenditure at an average growth rate of 5.51%	Nominal Resource Gap
2004-2005	177758	177017	741
2005-2006	187766	186771	995
2006-2007	198337	197062	1275

2007-2008	209503	207920	1584
2008-2009	221298	219376	1922
2009-2010	233758	231464	2294
2010-2011*	246919	244218	2701

(Source: Based on Annexure 26 of the Memorandum
Figures for 2010-2011 have been calculated in the Commission on the basis of trend growth rates assumed by the MCD)

NDMC Projections

17.155 Though the current status of physical infrastructure has already been detailed sector-wise in the chapters dealing with the NDMC[25], the same is summarized in Table 17.35.

Table: 17.35-Requirement of funds for replacement of assets during next five years (Rupees in Crore)

Item	Rupees
1. Water Supply (60% of assets i.e. 251-271 k.m. @ Rs 50 lacs per k.m.)	136.00
2. Sewerage (50% of sewerage assets i.e. 175 k.m. @ Rs 60 lacs per k.m.)	105.00
3. Electricity	190.00
4. Up-gradation and Construction of buildings	212.17[26]
5. Roads and Roundabouts	120.00
6. Gardens, Parks & Fountain	10.00
Total	**773.17**

(Source: Memorandum of the NDMC)

- As is evident, says the NDMC Memorandum, funds to the tune of Rupees 773.17 crore are required, during next five years, for the replacement of existing assets which have outlived their useful life, and are imperative to maintain even the current status of efficiency/services.
- Additional funds, over and above Rupees 773.17 crore, shall be required to upgrade the services/efficiency level to the standards expected from and envisioned by NDMC. The benchmarks relied upon to indicate the 'standards expected from and envisioned by the NDMC' have not been clarified.

[25] This section is based on the Memorandum submitted to the third Delhi Finance Commission by the NDMC.
[26] Details of Projects are in Annexure I of the NDMC memorandum.

17.156 In addition, to this there is ever increasing un-assessed future liability for pensioners/employees. The current pension liability of the NDMC is approximately Rupees 52.00 crore per annum, which is estimated to cross the Rupees 100 crore mark by the end of 2010-2011. In addition to the above, revenue deficit to the tune of Rupees 1465 crore as detailed in the forecast (Table 17.36) for next five years is apprehended.

Table: 17.36-Internal Revenue Receipts- NDMC (Forecast)- Rupees in lakh

S. No.	Items	FORECASTS					
		2006-07	2007-08	2008-09	2009-10	2010-11	Total 2006-2011
1	2	3	4	5	6	7	8
I.	**Internal Revenues**						
A.	**Tax Revenue/Obligatory**						
(i)	**House Tax**						
	Forecast of NDMC	15000	16000	17000	18200	19500	85700
(ii)	**Duty on transfer of property**						
	Forecast of NDMC	1000	1100	1200	1350	1500	6150
(iii)	**Adv/Show/Theatre**						
	Forecast of NDMC	4	4	4	4	4	20
(iv)	**Service Charges**						
	Forecast of NDMC	1400	1500	1600	1700	1850	8050
	Total A (Tax Revenue)						
	Forecast of NDMC	17404	18604	19804	21254	22854	99920
B.	**Non Tax Revenue**						
(i)	**Interest on Investment**						
	Forecast of NDMC	16000	16800	17500	17500	17500	85300
(ii)	**Sale of Energy**						
	Forecast of NDMC	51500	52000	52500	53000	53500	262500
(iii)	**Sale of Water**						
	Forecast of NDMC	1500	1500	1600	1600	1650	7850
(iv)	**Rent/Licence Fee**						
	Forecast of NDMC	9000	9000	9500	10000	10000	47500
(v)	**Other misc. receipt**						
	Forecast of NDMC	4596	4096	5096	4846	6496	25130

	Total B (Non-Tax Revenue)						
	Forecast of NDMC	82596	83396	86196	86946	89146	428280
	Total I (A=B) (Tax & Non Tax Receipt/Internal Revenue)						
	Forecast of NDMC	100000	102000	106000	108200	112000	528200

REVENUE EXPENDITURE - NDMC (FORECASTS)

(Rs. in Lakh)

S. No.	**Items**	**FORECASTS**					
		2006-07	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**Total 2006-2011**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
	Revenue Expenditure						
(i)	**Taxes, Duties & Principal Revenue**						
	Forecast of NDMC	161	182	206	233	267	1049
(ii)	**Interest**						
	Forecast of NDMC	150	200	250	300	350	1250
(iii)	**Administrative Department**						
	Forecast of NDMC	25000	25200	27800	30580	33600	142180
(iv)	**Social & Dev. Services**						
	Forecast of NDMC	20500	22550	24800	27200	30500	125550
(v)	**Electricity**						
	Forecast of NDMC	39500	43500	47850	52600	57800	241250
(vi)	**Water supply**						
	Forecast of NDMC	6900	7600	8300	9150	10050	42000
(vii)	**Roads**						
	Forecast of NDMC	3250	3700	4250	4900	5635	21735
(viii)	**Other Municipal Works**						
	Forecast of NDMC	12500	14500	18000	21000	26400	92400
(ix)	**Advance to employees**						
	Forecast of NDMC	100	100	100	100	100	500
(x)	**External Assistance**						
	Forecast of NDMC	100	100	100	100	100	500
(xi)	**Deposit Works**						

	Forecast of NDMC	800	1000	1250	1500	1750	6300
	Total Revenue Expenditure						
	Forecast of NDMC	108961	118632	132906	147663	166552	674714

REVENUE GAP/SURPLUS - NDMC (FORECASTS)

(Rs. in Lakh)

S. No.	**Items**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**Total 2006-11**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
	Internal Revenues						
	Forecast of NDMC	100000	102000	106000	108200	112000	528200
	Revenue Expenditure						
	Forecast of NDMC	108961	118632	132906	147663	166552	674714
	Revenue Gap/Surplus						
	Forecast of NDMC	-8961	-16632	-26906	-39463	-54552	-146514

17.157 The internal revenues of the NDMC have been projected to grow from Rupees 1000.00 crore (2006-2007) to Rupees 1120.00 crore in 2010-2011. This represents an increase of 12 percent over a period five years. Accordingly, this implies an annual average growth of 2.40 percent. The absolute annual average growth would be Rupees 24.00 crore.

17.158 Now, contrast this with the situation in the last eleven years. The revenues grew from 318.32 crore (1994-1995) to Rupees 1012.23 crore (2004-2005). This represents an annual average growth of Rupees 69.39 crore and a 217.99 percent growth over the ten year period. Thus annual percentage growth rate comes to 21.80 percent.

17.159 In the immediately preceding five years the revenues increased from Rupees 567.35 crore (1999-2000) to Rupees 1012.23 crore (2004-2005). This reflects a growth of Rupees 444.88 crore over the five year period. This is a 78.41 percent increase over the five year period, representing an absolute annual average increase of Rupees 88.98 crore. The annual average percentage increase is 15.68 percent.

17.160 The trends of both the time series (whether from 1994-1995 or 1999-2000) indicate a revenue potential vastly understated by the projections. The basis for such **low projections** for the next five years is not easily comprehensible. This is because the Memorandum does not attempt to explain the circumstances that are expected to impact revenues so adversely.

17.161 The non-plan revenue expenditure is now projected to grow from Rupees 1089.61crore (2006-2007) to Rupees 1665.52 crore (2010-2011). This is an absolute increase of Rupees 575.91 crore over the five year period. The annual average absolute change is Rupees 115.18 crore. Thus, the growth in expenditure, over the five year period, shall be 52.85 percent and the annual average growth is 10.57 percent.

17.162 The non-plan revenue expenditure of NDMC grew from Rupees 320.63 crore (1994-1995) to Rupees 931.87 crore (2004-2005). The absolute increase in this period was Rupees 611.24 crore. The absolute annual increase was Rupees 61.12 crore. The total percentage increase during the period was 190.64 percent. The annual percentage increase was 19.06 percent.

17.163 The non-plan revenue expenditure of NDMC grew Rupees 538.04 crore (1999-2000) to Rupees 931.87 crore (2004-2005). The absolute increase in this period was Rupees 393.83 crore. The absolute annual increase was Rupees 78.77 crore. The total percentage increase during the period was 73.20 percent. The annual percentage increase was 14.64 percent.

17.164 The projections reflect a lowering of the total non-plan revenue expenditure irrespective of the base trend: 1994-1995 or 1999-2000. Compared to the two time series, the drop in revenues expenditure is 19.40 percentage points (1994-1995 base year), and 13.28 percentage points (1999-2000). Compared to both time series, the drop in non-plan revenue expenditure is 8.49 percentage points (1994-1995) and 4.07 percentage points (1999-2000 base year). This is also difficult to understand. The NDMC has projected items of expenditure such as enhanced pension liabilities and increases in maintenance or up-gradation of various services and infrastructure networks in the coming four years. However, while revenues are projected to dip sharply, even the total non-plan revenue expenditure is expected to decline. If it happens, it will be a worthy achievement.

17.165 At present, all that this projection exercise has achieved is a deficit for the organization. However, given the trends of the past, the resource surplus in 2005-2006 to 2010-2011 comes to Rupees 789.58 crore, and Rupees 419.51 crore based on trends during 2000-2001 to 2004-2005.

- If we exclude the resource surplus of Rupees 83.01 crore in 2005-2006, the gap increases to Rupees 85.20 crore. This is no where near the gap of Rupees 1465.14 crore projected by the NDMC.
- A review of the future liabilities of NDMC, its narrow and stagnant revenue base and its over-dependence on electricity and interest income, reveal that the **fiscal health** of NDMC is not as good as it would seem by only looking at its surplus funds and debt-free status. The current surplus funds are fully tied-up and shall barely be sufficient to meet the requirement of the Council in the near future.

Views of NDMC on Transfer / Devolution of Funds

17.166 The importance of transfer of funds in the finances of municipalities has been very high all over the country, their share in the revenue of municipalities being up to 31.7 per cent. The importance of transfers in the finances of municipalities has risen since the devolution of functions to municipalities after the 73rd and 74th Constitutional amendment. However, the expectation that functional devolution will be accompanied by a corresponding transfer of fiscal powers has not been realized. To make urban areas more efficient and growth oriented, ULBs need to undertake systems and structural reforms. All development plans need to be linked with resource mobilization.

17.167 The criteria for transfer of funds by the various central/state Finance Commissions has been mainly on three sets of considerations viz (1) needs (2) cost disabilities and (3) fiscal efficiency. Needs refer to expenditure that are required to be made but have not been made due to deficiency in fiscal capacities. Cost disabilities refer to the circumstances that lead to higher than average per capita costs for delivering the same level of services at an average level of efficiency, e.g. excess rainfall, hilly terrain, large and remote areas with low density of population. Some cost disabilities arise when the size of the state is too small and some minimum expenditure has to be incurred for providing the relevant administrative infrastructure. In a normative approach, fiscal efficiency is implicit because requirements are assessed taking into account only the average revenue effort.

17.168 In the said design of fiscal transfers, NDMC has been placed in a disadvantageous position. The transfers do not serve the objectives of efficiency. Filling resource gaps should not be the only criteria for fiscal transfers but it should encourage and reward efficiency. Resource gaps may arise because municipalities have inadequate capacities as also because the revenue effort is deficient in relative terms. The Twelfth Finance Commission while announcing the Issues and Approach has rightly observed that equalization transfers aim at providing citizens of every state a comparable standard of services, provided their revenue effort is also comparable. In other words, equalization transfers neutralize deficiencies in fiscal capacity but not in revenue effort. Under such an approach, transfers should be determined on a normative basis instead of merely filling up gaps arising from the projections of revenue and expenditure based on historical trends.

17.169 The formula for fiscal transfer by the Third Delhi Finance Commission, thus, should keep in mind:-

(i) that the funds should be made available not only to meet the revenue account gap, which is primarily the requirement of MCD, but also for up-gradation of service.

(ii) that adequate compensation is granted to NDMC for loss of revenue on account of exemption of central/ state government properties from levy of property tax.

(iii) that the loss of revenue of user charges on account of services provided to government buildings as well as diplomatic missions shall be duly compensated for. It is to be noted that the ratio of government and private properties in NDMC area is 80:20 and the expenditure or services shall be apportioned in the same ratio.

(iv) inter-se assignment of taxes to NDMC shall be in the ratio of collection of taxes and duties from NDMC area to the total collection of taxes and duties instead of 70 per cent on the basis of population and 30 percent on the basis of area.

(v) stamp duty collections from NDMC area are easily quantifiable and should be assigned to NDMC after deduction of collection charges.

(vi) a proposal of the Council to augment its resources by levy of tax on consumption, sale or supply of electricity and levy of education cess is pending approval from the Central government. The proposal of tax on profession, trade, callings and employment has been deferred for consideration by the Council. The loss of revenue on account of non-levy of discretionary taxes shall be duly compensated.

Projections of Local Bodies: Analysis and Conclusions

17.170 Projections are essentially required to establish goals and objectives as well as yardsticks against which performance can be assessed at a future date. They implicitly suggest the organization's commitment to the achievement of projected targets, both financial and developmental. Forecasts that are independent of the real factors driving resource mobilization and expenditure management tend to be unrealistic and unreliable. Accordingly, projections must be based on future plans and initiative measures taken or intended to be taken for mobilizing additional resources or economizing expenditure.

17.171 There are several aspects of the projections made by the local bodies which need deeper study. Consider the projections against the numerous yardsticks that can be applied. Do the projections satisfy any of them? Apart from not satisfying the basic objectives of projections, here are some possible **benchmarks**:

- ✓ Do the projections reflect the recognizable trends suggested by the data of previous years?
- ✓ Even if they do the more vital issue would be as to whether the projections reflect or deny the impact of any future policy initiatives, alterations and efforts proposed to be undertaken. The difficulty in relying purely on the data of the past is that, as we have already noted there are no reliable trends in any set of data and it also suggests that the organization intends to carry on as it has in the past.
- ✓ If they do not so intend, then have the underlying factors responsible for the discontinuous trend being projected been clearly identified? In other words, has a reasonable explanation been offered for the sudden break with the trends of the past?
- ✓ Have the estimates of revenue trends been rooted in any actual or proposed measures to enhance resource mobilization? Therefore, is it the claim of the local bodies that the trends are despite every effort to mobilize additional resources?
- ✓ Have the expenditure trends been related to any long term or medium term development or investment plans?
- ✓ Do the projections suggest that the local bodies have identified the areas in which they would consciously compress expenditure to generate investible funds?

- ✓ Do the projections indicate the priorities of the organizations in the next five years?
- ✓ What, if any, is the time table for resolving outstanding deficits in infrastructure, amenities, and services? What are the plans for providing adequate resources against the activity schedule?
- ✓ Is there any suggestion of anxiety to resolve long standing issues such as the maintenance and upkeep of assets and adequacy of provision thereof?
- ✓ What about plans and provisions for outstanding liabilities?
- ✓ Have they reviewed their activities and programs to identify those which (in the present context or in the context of their own development plans) are now redundant? If so, what are the possible savings?
- ✓ Has the resort to public-private participation resulted in savings to the organizations? If so, what is the extent of the savings? Has this also occasioned a review of the manpower: quality and strength?

17.172 The answer to all the above has to be in the negative. The track record of revenues and expenditure in the case of the local bodies is even more incoherent. The BE, RE and the actual collections simply do not bear any resemblance to each other. The budgetary data indeed are unable to explain financial options or provide a basis for rational evaluations of implementation successes or failures. The data are also not able to provide an insight in to fiscal, developmental or investment related goals and objectives. Accordingly, the projections are not embedded in any **analytical framework** related to policies, options or issues. Therefore, it is not possible to rely on these forecasts.

Projections: Approach of the Commission

17.173 The approach of the Commission is anchored in a specific analytical framework. The essential elements of the framework underlie the entire report. However, we shall pull together the relevant elements in this summary recapitulation.

- This framework includes the belief that projections cannot be de-linked from goals and objectives. In other words, the mobilization of resources and the management of expenditure have to be geared to the achievement of specific objectives.
- Irrespective of developmental plans, if any, organizations have obligations and responsibilities which too will indicate the resource needs. Accordingly, organizations either respond to the demands of

citizens or offer facilities even if there is no visible demand for the same. However, between the two, the first priority should be the obligatory responsibilities constituting the response to basic requirements.

17.174 All goals and objectives require the drawing up of appropriate investment and development plans. It is these plans that suggest the level of resource needs.

- The appropriate level of resource mobilization, its proper allocation and the best utilization of resources is vital to the financial health of any organization. These broad requirements of any financial system will dictate the substance of the fiscal policy.

17.175 The fiscal policy has to ensure timely availability of reasonable and dependable stocks and flows of funds, which depends on the proposed development plans, priorities, execution time-frames etc. Similarly, the policy also needs to ensure that the pattern and volume of expenditure subserves the objectives for which funds have been allocated or earmarked.

- Projections that extrapolate from data of the past exclusively foreclose introducing in to the analysis, the impact of future policy options and choices made.

17.176 Further, the steep fluctuations in the financial data (in respect of both state government and the local bodies), limit their utility even if long term trends are worked out. Consider in this context the variations- absolute, percentage and percentage points-in practically all financial parameters.[27] Is there a sense of underlying stability? Do the data suggest existence of long term goals, a long term fiscal policy, and a long term investment plan? How can such unstable data yield even *reasonably* stable forecasts?

- Analysis of the past data and trends would merely assist in determining where an organization stands at any given point of time as it undertakes the task of forecasting its financial future. It is the assumed needs of the future, the plans and policies- both financial and developmental- to fulfill the tasks and obligations of the organization, which will influence and determine the reliability of the projections for normative and operational purposes.

[27] Chapters 10,11, 12, 13, 14, and 15

- Finally, in making projections, there is the need to draw upon considerations of efficiency and effectiveness- i.e the normative aspects- of both revenue mobilization and expenditures incurred.

Projections To and By First and Second Finance Commissions

17.177 The hypothesis that the past is a relatively imperfect guide to the future can be tested by briefly reviewing the projections made to (and by) the First and Second Finance Commissions, and, the actual position that emerged in the periods to which their recommendations related.

First DFC: Projections relating to GNCTD

- Table 17.37 depicts the projections made by the state government to the First Delhi Finance Commission and the Commission's own estimates with reference to these projections. The state government had projected a surplus on revenue account of Rupees 7541.00 crore during the period 1996-1997 to 2000-2001. Against this, the Commission projected a surplus of Rupees 8838.00 crore. In projecting the surplus both the state government and the first Finance Commission considered only the tax and non-tax revenues (presumably excluding interest as a component of non-tax revenues). In determining the surplus on non-plan revenue account, the Commission has excluded the assigned taxes to the local bodies but included a sum of Rupees 569 crore as non-plan grants not included in the projections of the Delhi government.

Table: 17.37-Surplus of GNCTD over Award Period (1996-1997 to 2000-2001)(Rupees in crore)

	GNCTD'S forecast		DFC'S Forecast	
	Absolute	**% of GDP**	**Absolute**	**% of GDP**
1. Revenu	17546	9.31	17630	9.36
a. Tax Revenue	17295	9.18	17331	9.20
i) Stamps & Registration Fee	898		1157	
ii) State Excise	2320		2504	
iii) Sales Tax	12898		12324	
iv) Taxes on Vehicles	474		598	
v) Other Taxes & Duties etc.	704		748	
vi) Others	1		Negligible	

b. Non-Tax Revenue	251	0.13	299	0.16
II. Non Plan Revenue Expenditure	10004	5.26	8792	4.66
i) Normal	8402		7330	
ii) Non-Plan Grants to local bodies	--		569	
iii) Committed liability	844		363	
iv) Impact of 5th Pay Commission	758		530	
III. Surplus (+)/Deficit (-) on Non Plan Revenue account	7541	4.05	8838	4.71

(Source: Report of the First Delhi Finance Commission on Municipalities in the NCT of Delhi, 1996-1997-2000-2001, Volume 1)

17.178 The Delhi government forecast revenue receipts of Rupees 17546.00 crore; the Commission's assessment was Rupees 17630.00 crore. The actual receipts against this were Rupees 16700.38 crore. The actual receipts were therefore less than the government's projections by Rupees 845.62 crore and less than the Commission's projections by Rupees 929.62 crore. In the state government's assessment the non-plan revenue expenditure, excluding assigned taxes would be Rupees 10004.00 crore. Against this the Commission was of the view that the same (including non-plan grants) would be Rupees 8792.00 crore. The actual non-plan revenue expenditure was Rupees 9545.00 crore which was less by Rupees 459.00 crore (state government) and Rupees 753.00 crore more than the estimate of the Commission. Against the surplus projection of the state government (Rupees 7541.00 crore) and that made by the First Commission (Rupees 8838.00 crore), the actual surplus in the period was Rupees 7155.38 crore.

17.179 The actual performance indicates that some of the shortfall in the projected revenues was met by curtailing expenditure (Rupees 459.00 crore out of the total shortfall of Rupees 845.62 cores), leaving a gap of Rupees 486.62 crore. The shortfall against the projected revenues as per the Commission was Rupees 929.62 crore and expenditure exceeded the projections by Rupees 753.00 crore, leaving a gap of Rupees 1682.62 crore.

17.180 Table 17.38 depicts the position of the projections made by the MCD to/and by the first Delhi Finance Commission.

17.181 Taking into account the total expenditure and total receipts projected by the MCD and the first Delhi Finance Commission, the net deficit of MCD was:

Table 17.38: Projections made by MCD to 1st DFC and Projections made by 1st DFC (1996-1997 to 2000-2001)

		As projected by	
		MCD	1st DFC
		(Rupees in crore)	
Total expenditure	:	(-) 4695.64	(-) 4731.09
Less total receipts	:	(-) 4433.52	(-) 4984.73
Resource gap(-)/surplus (+)	:	(-) 262.12	253.61
Plus additional financial requirements :-			
A. Revenue Account (1 to 6)	:	(-) 2374.43	(-) 1404.88
1. Impact of 5th Pay Commission Recommendations	:	(-) 1075.00	(-) 623.19
2. Impact of two D.A. Installments every year	:	(-) 420.00	(-) 0
3. Natural calamities relief	:	(-) 53.43	(-) 0
4. Shortfall in sanitation	:	(-) 288.00	(-) 185.28
5. Expenditure on Elections	:	(-) 13.00	(-) 8.00
6. Expenditure on operations and maintenance	:	(-) 525.00	(-) 588.41
B. Capital Account (7 to 8)	:	(-) 47.28	(-) 25.00
7. De-linking of sewers from storm water drains	:	(-) 25.00	(-) 25.00
8. Shortfall in expenditure on new works	:	(-) 22.28	(-) 0
Total	:	(-) 2683.83	(-) 1176.24

17.182 The MCD projected revenue receipts of Rupees 4433.52 crore for the period 1996-1997 to 2000-2001. The Commission however estimated that the revenue receipts would be Rupees 4984.73 crore. As per the MCD the total non-plan expenditure would be Rupees 4695.64 crore. The Commission assessed that it would be Rupees 4731.09 crore. Compared to the MCD, the Commission assessed both the projected revenues and expenditure on the higher side. On the receipts side the Commission projected revenues more than that of the MCD by Rupees 551.21 crore. The difference in the projections of the MCD and the Commission in respect of expenditure was of Rupees 35.45 crore. Hence, while the expenditure was shown to exceed estimates of the MCD by a very marginal amount, the step up in the projected revenues was quite substantial.

17.183 The MCD projected a resource deficit of Rupees 2683.83 crore and the Commission assessed the deficit to be Rupees 1176.24 crore.

17.184 As against the total demand of Rupees 2683.83 crore from MCD, the First Delhi Finance Commission, after making the provision for assigned taxes (Rupees 589.36 crore) and grants in aid (Rupees 886.20 crore) left the uncovered gap of Rupees 1176.24 crore.

17.185 Taking into account the additional financial requirements of MCD as detailed in their memorandum, the total estimated expenditure during the five year period of 1996-1997 to 2000-2001 would have been Rupees 7117.35 crore as under:-

Total expenditure (A1 + A2)	:	Rupees 4695.64 crore
Plus additional financial requirements as per the memorandum	:	Rupees 2421.71 crore
Total	:	Rupees 7117.35 crore

17.186 The actual position was somewhat different. The total actual receipts in the period were Rupees 5190.76 crore, while the actual expenditure was Rupees 5336.91 crore leaving a deficit of Rupees 146.91 crore in five year period of 1996-1997 to 2000-2001.

17.187 It will be seen from the above that the actual expenditure of MCD during the five year period was Rupees 5336.91 crore as against the total projected expenditure of Rupees 7117.35 crore i.e. a shortfall of Rupees 1780.44 crore. (Table 17.39).

Table: 17.39-Estimated Revenue / Resource Gap of MCD and DFC (1996-1997 to 2000-01) (Rupees in crore)

	MCD	DFC
A Total Expenditure (A.I + A.II)	4695.64	4731.09
A.I Total Revenue Expenditure	4695.64	4505.74
A.II Total Capital Expenditure	Included in A.I	225.35
B. Total Receipts (B.I + B.II)	4433.52	4984.73
B. I. From Internal Sources	Separate projections	3509.16
B.1a.Tax receipts		3119.94

B. I. b .Non-tax receipts B.II. From External Sources (As per existing fiscal transfers policy) B. ii (a) Share in assigned taxes B. ii. b. Grants-in-aid	have not been done Included in B	389.22 1475.56 589.36 886.20
C. Revenue gap – {Surplus (+)/Deficit (-)} [B.I – A.I]		-996.58
D. Resource gap - {Surplus (+)/Deficit (-)} [A-BI	-262.12	253.61
E. Additional Financial Requirements as per Memorandum	-2421.71	-1429.88
E.I. Revenue Account	-2374.43	-1404.88
(1) Impact of Fifth Pay Commission (2) Natural Calamities (3) Impact of 2DA Instalments Annual @ Rupees 14 Cr. (4) Shortfall in Sanitation (5) Elections (6) Expenditure on O & M	-1075.00 -53.43 -420.00 -288.00 -13.00 -525.00	-623.19 0.00 0.00 -185.28 -8.00 -588.41
E.II. Capital Account	-47.28	-25.00
(7) De-linking of Sewers from Strom Water Drains (8) Shortfall in Budget for New Works	-25.00 -22.28	-25.00 0.00
F. Aggregate Revenue Surplus (+)/Deficit (-) [B.I – (A.I +E.1)]		-2401.46
G. Financed through Receipts from external sources		-1475.56
H. Balance after financing through external sources		-925.90
I. Add: Expenditure on capital account		-250.35
J. Aggregate Resource Surplus (+)/Deficit (-) [B–(A +E)]	-2683.83	-1176.24

(Source: Report of the First Delhi Finance Commission on Municipalities in the NCT of Delhi, 1996-1997 to 2000-2001, Volume 1)

(Notes: 1. Projections of receipts by MCD include the effect of share in assigned taxes, grants and loans in Account I (A). Projections of expenditure by MCD include the effect of, among others, loan repayment (instalments and interest) and capital expenditure.
2.Separately revenue gaps were not estimated.
3.Under expenditure on O & M, MCD's figure is on account of shortfall up to 1995-96 and no account for future made. But on the contrary, DFC's estimates are on annual basis for the period of award).

Projections relating to NDMC

17.188 Table 17.40 depicts the position of the projections made by the NDMC to and by the First Delhi Finance Commission.

Table: 17.40-Estimated Revenue/Resource Gap of NDMC as per Memorandum/DFC (1997-98 to 2000-01) (Rupees in crore)

Detail	1997-98	1998-99	1999-2000	2000-01	Total
NON-PLAN EXPENDITURE					
1. Salary	122.20	140.53	161.60	185.85	610.18
2. Pensionary benefits	16.30	18.77	21.59	24.81	81.47
3. O & M	250.35	267.87	286.62	306.68	1111.52
4. Sub-Total	388.85	427.17	469.81	517.34	1803.17
5. Capital	51.20	58.58	60.96	63.34	234.08

6. TOTAL	440.05	485.75	530.77	580.68	2037.25
RECEIPTS					
7. Internal	407.24	451.84	496.27	540.33	1895.68
8. Assigned	12.90	14.39	15.87	17.36	60.52
9. Grants	7.84	8.92	16.00	11.08	43.84
10. 10. Total	427.98	475.15	528.14	568.77	2000.04
ESTIMATED GAP (SURPLUS + / DEFICIT-)					
11. Revenue gap (7-4)	18.39	24.67	26.46	22.99	92.51
12. Resource gap (10-6)	-12.07	-10.60	-2.63	-11.91	-37.21

Estimated Revenue and Resource Gap of NDMC by DFC

(Aggregate of 1996-97 to 2000-2001) (Rupees in crore)	
1. Internal receipts	3089.69
2. Revenue expenditure	3268.15
3. Revenue Gap	(-) 178.46
4. Education Grants	58.81
5. Revenue Gap with adjustment of Grants	(-) 119.65
6. Share in assigned taxes	91.75
7. Revenue Gap with adjustment of share in assigned	(-) 27.90
taxes	68.77
8. Non-Plan Capital Expenditure	(-) 96.68
9. Uncovered Resource Gap	

(Source: Report of the First Delhi Finance Commission on Municipalities in the NCT of Delhi, 1996-1997 to 2000-2001, Volume 1)

- The NDMC projected revenue receipts of Rupees 2000.04 crore for the five year period (1996-1997 to 2000-2001). The Commission, however, estimated that the revenue receipts would be Rupees 3240.25 crore. As per the NDMC, the total non-plan expenditure would be Rupees 2037.25 crore and the Commission assessed that it would be Rupees 3336.92 crore. Compared to the NDMC, the Commission assessed both the receipts and the expenditure of NDMC on the higher side.
- On the receipt side the Commission projected revenues more than that of the NDMC by Rupees 1240.21 crore. The difference in the projections of NDMC and the Commission in respect of expenditure was of Rupees 1299.67 crore. The **difference in the projections** made by the Finance Commission and the NDMC was very wide. Accordingly, while the NDMC projected a resource gap of Rupees 37.21 crore, the Commission assessed the gap to be Rupees 96.68 crore.
- The actual position was altogether different. The total receipts of NDMC during the period were Rupees 2691.30 crore and the expenditure

Rupees 2597.77 crore resulting in a resource surplus of Rupees 93.53 crore.

Second DFC projections relating to GNCTD

17.189 We now turn to a consideration of the position as emerged in the context of the Second Delhi Finance Commission.

- Table 17.41 depicts the projections made by the state government. The Commission deliberated on various issues of methodology for working out the resource availability for the forecast period (2001-2006) and concluded that, 'the forecast based upon the Tenth Five Year Plan as finalized by the Planning Commission could be accepted as the basis for estimating resources availability of GNCTD.'[28] Accordingly, the second DFC accepted the projections furnished by the GNCTD and there was no difference between the forecasts of the Delhi government and the Commission.

Table: 17.41-Revenue and Capital Account - Summary (Forecasts –GNCTD)
(Rupees in crore)

S.NO		ITEMS	ACTUALS 2000-01	Forecast					
				2001-02	2002-03	2003-04	2004-05	2005-06	Total (2001-2006)
I		Non-Plan Account – GNCTD							
A		REVENUE							
	A	RECEIPTS	4880.07	5577.11	6312.61	7188.46	8248.23	9470.18	**36796.59**
	B	EXPENDITURE	2324.80	2683.20	2887.00	3041.82	3241.57	3450.47	**15304.06**
	C	**SURPLUS OR DEFICIT**	**2555.27**	**2893.91**	**3425.61**	**4146.64**	**5006.66**	**6019.71**	**21492.53**
B		CAPITAL							
	A	RECEIPTS	121.12	426.89	101.50	71.70	82.63	84.36	**767.08**
	B	EXPENDITURE	367.66	294.00	136.23	190.67	250.74	332.70	**1204.34**
	C	**SURPLUS OR DEFICIT**	**-246.54**	**132.89**	**-34.73**	**-118.97**	**-168.11**	**-248.34**	**-437.26**
C	3	**TOTAL - SURPLUS/DEFICIT (NON-PLAN)**	**2308.73**	**3026.80**	**3390.88**	**4027.67**	**4838.55**	**5771.37**	**21055.27**
II		PLAN ACCOUNT							
A		REVENUE							
	A	**RECEIPT – GRANT**	**165.01**	**178.23**	**108.60**	**115.65**	**123.18**	**131.19**	**656.85**
	I	STATE PLAN SCHEME	111.01	113.40	108.60	115.65	123.18	131.19	**592.02**
	II	CSS	54.00	64.83	0.00	0.00	0.00	0.00	**64.83**

[28] Report of the Second Delhi Finance Commission, Volume I, pages 86-87, Volume II, Annexure 5.6, pages 43-44, National Capital Territory of Delhi, April 2002.

	B	**EXPENDITURE**	**374.85**	**662.76**	**641.57**	**564.40**	**862.72**	**1092.98**	**3824.43**
	I	STATE PLAN SCHEME	340.62	597.93	590.04	564.40	862.72	1092.98	**3708.07**
	II	CSS	34.23	64.83	51.53	0.00	0.00	0.00	**116.36**
	C	**SURPLUS OR DEFICIT**	**-209.84**	**-484.53**	**-532.97**	**-448.75**	**-739.54**	**-961.79**	**-3167.58**
B		**CAPITAL**							
	A	**RECEIPTS - LOAN**	**1764.08**	**1909.99**	**1890.81**	**1485.55**	**991.75**	**725.84**	**7003.94**
	I	BLOCK LOAN	259.00	264.60	253.40	269.85	287.42	306.11	**1381.38**
	II	SMALL SAVINGS	1505.08	1645.39	1637.41	1215.70	704.33	419.73	**5622.56**
	B	EXPENDITURE	669.43	809.80	1218.87	993.93	1717.26	2163.30	**6903.16**
	C	**SURPLUS/DEFICIT**	**1094.65**	**1100.19**	**671.94**	**491.62**	**-725.51**	**-1437.46**	**100.78**
C	**1**	**TOTAL - SURPLUS/DEFICIT (PLAN)**	**884.81**	**615.66**	**138.97**	**42.87**	**-1465.05**	**-2399.25**	**-3066.80**
III		**TOTAL (SURPLUS/DEFICIT)**	**3193.54**	**3642.46**	**3529.85**	**4070.54**	**3373.50**	**3372.12**	**17988.47**
IV		**DELHI VIDYUT BOARD**							
	A	**PAYMENT BY WAY OF:-**							
	A	PLAN - GRANTS		887.05	2.00	2.21	2.32	2.43	**896.01**
	B	PLAN – LOANS	847.83	604.42	1411.00	1473.82	505.64	233.13	**4228.01**
	C	NON-PLAN ASSISTANCE	794.99	820.54	0.00	0.00	0.00	0.00	**820.54**
	B	**RECOVERY BY WAY OF:-**							
	D	REPAYMENT OF LOANS							
	E	INTEREST PAYMENTS	398.90	466.97					**466.97**
	C	**NET LIABILITY - IV (a+b+c-d-e)**	**1243.92**	**1845.04**	**1413.00**	**1476.03**	**507.96**	**235.56**	**5477.59**
V		**DELHI JAL BOARD**							
	A	**PAYMENT BY WAY OF:-**							
	A	PLAN - GRANTS	65.90	64.00	55.00	66.87	70.21	79.81	**335.89**
	B	PLAN – LOANS	381.00	422.34	535.87	767.76	840.86	919.38	**3486.21**
	C	NON-PLAN ASSISTANCE	75.00	381.99	177.00	186.00	195.00	206.00	**1145.99**
	B	**RECOVERY BY WAY OF:-**							
	D	REPAYMENT OF LOANS							
	E	INTEREST PAYMENTS		191.99	177.00	186.00	195.00	206.00	**955.99**
	C	**NET LIABILITY - V**	**521.90**	**676.34**	**590.87**	**834.63**	**911.07**	**999.19**	**4012.10**

		(a+b+c-d-e)							
VI		**DELHI TRANSPORT CORP.**							
	A	**PAYMENT BY WAY OF:-**							
	A	NON-PLAN ASSISTANCE	193.75	421.93	382.40	400.05	463.03	525.78	**2193.19**
	B	EQUITY/LOANS	160.00	180.00	140.00	112.08	117.69	123.58	**673.35**
	B	**RECOVERY BY WAY OF:-**							
	C	REPAYMENT OF LOANS							
	D	INTEREST PAYMENTS		236.52	205.11	251.34	299.33	354.91	**1347.21**
	C	**NET LIABILITY - VI (a+b-c-d)**	**353.75**	**365.41**	**317.29**	**260.79**	**281.39**	**294.45**	**1519.33**
VII		**TOTAL NET SURPLUS/DEFICIT (III-IV-V-VI)**	**1073.97**	**755.67**	**1208.69**	**1499.09**	**1673.08**	**1842.92**	**6979.45**
VIII		**TRANSFER TO LOCAL BODIES**							
	A	**PLAN ACCOUNT**	**623.12**	**634.46**	**695.70**	**868.94**	**948.88**	**1010.38**	**4158.36**
	A	GRANTS	527.00	534.21	568.45	723.29	795.84	849.51	**3471.30**
	B	LOANS	96.12	100.25	127.25	145.65	153.04	160.87	**687.06**
	B	**NON-PLAN ACCOUNT**	**483.95**	**503.51**	**513.00**	**630.18**	**724.19**	**832.53**	**3203.41**
	A	BASIC TAX ASSIGNEMENT	235.08	256.00	297.00	364.84	419.27	481.99	**1819.10**
	B	SPECIAL LOAN	80.00	60.00					**60.00**
	C	**GRANTS**	**168.87**	**187.51**	**216.00**	**265.34**	**304.92**	**350.54**	**1324.31**
	I	EDUCATION	104.78	112.71	130.07				**242.78**
	II	RESETTELMENT OF COLONIES	63.85	72.80	83.18				**155.98**
	III	NUTRITION	0.24	2.00	2.75				**4.75**
		TOTAL – VIII (A+B)	**1107.07**	**1137.97**	**1208.70**	**1499.12**	**1673.07**	**1842.91**	**7361.77**
IX		**OVERALL SURPLUS/DEFICIT (VII-VIII)**	**-33.10**	**-382.30**	**-0.01**	**-0.03**	**0.01**	**0.01**	**-382.32**

- Against the total projected receipts of Rupees 45224.46 crore (including loan amount of Rupees 7003.94 crore) the actual realizations in the period (2001-2006) were Rupees 61714.67 crore (including loans of Rupees 20249.66 crore). Against the projections of loans to the tune of Rupees 7003.94 crore, Delhi government received loans of Rupees

20249.67 crore, that is, an excess of Rupees 13245.72 crore. The total was projected at Rupees 45606.78 crore, while the actual was Rupees 54581.55 crore. This made for a surplus (including loans) of Rupees 7133.12 crore against a projected deficit of Rupee 382.32 crore.

- The presumption that the proposed expenditure would have been undertaken with or without the loan component is a reasonable one. Accordingly, irrespective of whether the loans were received or not, the actual expenditure would have been incurred. Thus, if the loan amounts had not been received, the projected deficit would have been Rupees 7386.26 crore (Rupees 7003.94 plus Rupees 382.32 crore). On the other hand, the actual deficit after excluding loans received came to Rupees 13116.54 crore.

Second DFC Projections Relating to MCD

17.190 Table 17.42 depicts the forecast for internal revenues, revenue expenditure, and the resource gap projected by the MCD and the Second Delhi Finance Commission during the five year period from 2001-2002 to 2005-2006.

Table: 17.42- Revenue Gap – MCD/DFC (Forecast) (Rupees in Lakh)

S. No.	Items	FORECAST					
		2001-02	2002-03	2003-04	2004-05	2005-06	Total 2001-06
1	2	3	4	5	6	7	8
	Internal Revenues	115347	137108	163122	194235	231465	841277
	Forecast of MCD	112922	131285	152032	177448	206301	779988
	Revenue Expenditure	163469	194960	232891	278657	333981	1203958
	Forecast of MCD	175955	235222	274080	319358	372115	1376730
	Revenue Gap	-48122	-57852	-69769	-84422	-102516	-362681
	Forecast of MCD	-63033	-103937	-122048	-141910	-165814	-596742

As per 2nd DFC Report						
Revenue Gap	-48123	-57852	-69769	-84423	-102517	-362684
Forecast of MCD	-63033	-103937	-121448	-141910	-165814	-596142

- The MCD projected total internal revenues during the five year period from 2001-2002 to 2005-2006 at Rupees 7805.88 crore as against which the Second Delhi Finance Commission projected the internal revenues at Rupees 8412.76 crore.

- As against the MCD's forecast of revenue expenditure of Rupees 13767.30 crore during the period, the Second Delhi Finance Commission projected the revenue expenditure at Rupees 12039.61 crore.
- Thus the MCD projected a revenue gap of Rupees 5961.42 crore during the five year period whereas the Finance Commission projected the same at Rupees 3626.84 crore.
- This Commission has the figures of actual internal revenues and expenditure of MCD for the period up to 2004-2005 and as such we will compare the revenue gap in the four year period of 2001-2002 to 2004-2005 as projected by the MCD and that by the Second Finance Commission.
- The MCD projected internal revenues during the four year period at Rupees 5742.87 crore and the Finance Commission at Rupees 6098.11 crore.
- For the revenue expenditure the MCD projected the total of Rupees 10046.15 crore as against which the Second Finance Commission projected the revenue expenditure at Rupees 8699.78 crore.
- Thus the MCD projected the revenue gap of Rupees 4303.28 crore for the four year period and the Commission projected the same at Rupees 2601.67 crore.
- The internal revenues of the MCD amounted to Rupees 4592.48 crore during the four year period of 2001-2002 to 2004-2005 and the actual revenue expenditure during the period was Rupees 6570.52 crore leaving a revenue gap of Rupees 1978.04 crore.
- MCD received total non-plan transfers including assigned taxes and non-plan grants amounting to Rupees 2222.88 crore during the period with the result that the MCD came in revenue surplus of Rupees 244.84 crore.
- The non-plan transfers from Delhi Government were 48.40 percent of MCD's internal revenues and 33.83 percent of MCD's revenue expenditure.

Second DFC: Projections relating to NDMC

17.191 Table 17.43 depicts the forecast of internal revenue, revenue expenditure and the resource gap projected by the NDMC and the Second Delhi Finance Commission during the five year period from 2001-2002 to 2005-2006.[29]

[29] Annexures Detailed projections of the revenues and revenue expenditure made by the NDMC and the Second Finance Commission.

Table: 17.43- Revenue Gap/Surplus - NDMC (Forecast) (Rupees in Lakh)

S. No.	Items	FORCAST					
		2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	Total 2001-2006
1	2	3	4	5	6	7	8
1	Internal Revenues	86577	103089	123035	147177	176457	636335
	Forecast of NDMC	79258	82460	85925	89980	93680	431303
2	Revenue Expenditure	78195	92717	111288	135912	170020	588132
	Forecast of NDMC	80690	82465	87247	92825	98520	441747
	Revenue Gap/Surplus	8383	10372	11747	11264	6437	48203
	Forecast of NDMC	-1432	-5	-1322	-2845	-4840	-10444

- The NDMC projected total internal revenues during the five year period from 2001-2002 to 2005-2006 at Rupees 4313.03 crore as against which the Second Delhi Finance Commission projected the internal revenues at Rupees 6363.35 crore.
- As against the NDMC’s forecast of revenue expenditure of Rupees 4417.47 crore during the period, the Second Delhi Finance Commission projected the revenue expenditure at Rupees 5881.32 crore.
- Thus, the NDMC projected a revenue gap of Rupees 104.44 crore during the five year period whereas the Finance Commission projected the revenue surplus of Rupees 482.02 crore.
- The Commission has the figures of actual internal revenues and expenditure of NDMC for the period up to 2004-2005 and as such we will compare the revenue gap in the four year period of 2001-2002 to 2004-2005 as projected by the NDMC and that by the Second Finance Commission.
- The NDMC projected internal revenues during the four year period at Rupees 3376.23 crore and the Finance Commission at Rupees 4598.78 crore.
- For the revenue expenditure the NDMC projected the total of Rupees 3432.27 crore as against which the Second Finance Commission projected the revenue expenditure at Rupees 4181.12 crore.

- Thus the NDMC projected the revenue gap of Rupees 56.04 crore for the four year period and the Commission projected the revenue surplus of Rupees 417.65 crore during the period.
- The internal revenues of NDMC amounted to Rupees 3395.60 crore during the four year period of 2001-2002 to 2004-2005 and the actual revenue expenditure during the period was Rupees 3101.00 crore leaving a revenue surplus of Rupees 294.60 crore.
- NDMC received total non-plan transfers including assigned taxes and non-plan grants amounting to Rupees 108.69 crore during the period with the result that the NDMC's net revenue surplus came to Rupees 403.29 crore.

17.192 Clearly, there has been **considerable divergence** between the projections made **to** the Commission and the projections made **by** the Commission in respect of the state government and the local bodies (the only exception being the convergence between the projections made by the state government to the second Finance Commission and the Commission's own projections). There was also divergence between the actual figures and all the projections (the exception being the estimations of the state government made to the First Commission).

17.193 Therefore, projections constituting a purely mathematical exercise, even if dependent on a sophisticated application of mathematical techniques based, among other things, on growth rates, buoyancy or elasticity measures etc can take us upto a point and no further. Projections need to marry a number of policy strands (consisting, *inter alia*, of fiscal, developmental and investment policies) in a holistic manner. When budgetary data is not translated into **development and investment plans** there cannot be a reliable projection of resource needs.[30]

Estimation of Commission

17.194 The exercise begins with a brief review of what the past can tell us about two essential factors the: (i) trends in revenue, and; (ii) expenditure pattern. These will assist us to assess the (i) financial status, and; (ii) efficiency of financial operations as revealed by the budgetary data. This will help to anchor the analysis and fix one of the two polestars, i.e. the past (the other

[30] Development plans broadly consist of providing programmatic content to declared goals and objectives. Measurable benchmarks against specific targets are part of the development plan. Investment plans involve spelling out the resource requirements, source of funding, and the execution time schedules. Together, the development and investment plans will indicate the resource requirements: total, annually, and as per execution schedule.

being the future). In doing so the mass of data already narrated in the chapters dealing with financial operations of the state government will be examined. Though the analysis has been made in the context of the state government, it is equally applicable to the local bodies.

GNCTD Trends in Revenue:

17.195 In the period 1994-1995 to 2005-2006, the total receipts of the state government increased very substantially, from Rupees 2528.45 crore to Rupees 17059.66 crore[31]. This is an absolute increase of Rupees 14531.21 crore. In percentage terms the increase was 574.71 percent representing a (around) seven fold (6.75) increase.

17.196 The total receipts in the period 1994-1995 to 2005-2006 were Rupees 93497.36 crore. In this the total loan amount was Rupees 27422.77 crore. Accordingly, the total net receipts (including share in central taxes, central plan assistance, recovery of loans, loan repayments by government servants but excluding the loan amount) was Rupees 66074.59 crore.

17.197 The sources of revenue which played a major role in this increase, based on the data of 2005-2006 are: tax revenues (52.40 percent) and loans from the central government (34.56 percent).

17.198 Among the tax revenues, the dominant role was that of the sales tax and its new incarnation: the VAT. The share of VAT was 72.72 percent and that of the next most significant i.e. excise was 11.46 percent.

17.199 In non-tax revenues the principle contribution was that of interest recoveries (89.65 percent). It is another matter that most of the interest recoveries involve **book adjustments** and no real revenue inflows. For instance, the total interest recoveries due in 2005-2006 were Rupees 1254.17 crore, and, out of this Rupees 1095.40 crore (Rupees 656.54 crore from DTC and Rupees 438.86 crore from the DJB) involved a mere book adjustment. This was 87.34 percent of the total interest amount shown as received.

17.200 The Commission has estimated the trends in revenue from 1985-1986 to 2005-2006; from 1994-1995 to 2005-2006; from 1997-1998 to 2005-2006 and; 2000-2001 to 2005-2006. Table 17.44 summarizes the data in respect of the various components.

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[31] Detailed analysis is available in the relevant chapters relating the financial operations of the state government and the local bodies. Here only the broad features are recalled.

Table: 17.44-Trend Growth Rates of Various Receipts Components

Items	1985-1986 to 2005-2006	1994-1995 to 2005-2006	1997-1998 to 2005-2006	2000-2001 to 2005-2006
Tax Revenue	15.20	14.70	14.70	14.60
Sales Tax/VAT	15.90	15.20	15.70	13.40
Excise	12.00	09.90	08.50	12.20
Stamps and Registration	20.50	21.10	27.90	32.60
Taxes on Vehicles	15.70	12.70	10.20	13.00
Other taxes	09.50	15.70	3.60	17.80
Non-Tax Revenues	25.70	35.00	29.20	15.30
Capital Receipts	43.20	24.80	27.40	25.70
Recovery of loans (from Local Bodies)	22.00	30.10	19.10	17.70
Loan Repayments by government servants	04.10	04.90	05.80	-04.30
Loan from Central Government		24.60	28.40	26.80
Total Receipts	19.7	18.60	18.60	17.30

17.201 Clearly, compared to the period 1985-1986 to 2005-2006, there has been a deceleration (of 2.40 percentage points) in the trend growth rates of total receipts during 2000-2001 to 2005-2006.

17.202 The trend growth rate of tax revenues in all the four periods has been more or less the same.

17.203 Non-tax revenues have slowed down. If we exclude the block period 1985-1986 to 2005-2006, the decline is particularly steep.

17.204 The capital receipts have remained at around 25 percent. This is excluding the period 1985-1986 to 2005-2006.

17.205 Among the tax instruments, only the sales tax/VAT have held steady. The stamps and registration fee have shown an upward trend Excise has also shown acceleration. Similarly, taxes on vehicles have shown some acceleration. 'Other taxes' have shown considerable acceleration.

17.206 The state government have made several efforts to mobilize additional resources. These, illustratively, include: introduction of UFR (Uniform Floor Rates) in Sales Tax Department, introduction of VAT, introduction of Luxury Tax and Cable Tax in the Entertainment Tax Department, introduction of ad valorem tax in the Transport Department, and revision of Stamp Duty rates and policies related to registration of documents. Most of the reforms came in the period 2000-2001 to 2005-2006. This highlights the obvious need for a deeper analysis of the deceleration in this period.

Expenditure: Volumes and Patterns

17.207 Total expenditure in the period 1994-1995 to 2004-2005 has grown from Rupees 2407.01 crore to Rupees 12875.42 crore[32]. This is an absolute increase of Rupees 10468.41 and a percentage increase of 434.91 percent. This means that the expenditure has grown more than five times. The total expenditure in this period was Rupees 85882.70 crore.

17.208 Expenditure has been less than the revenue receipts irrespective of the parameter applied. In other words, the receipts have been more than the expenditure in absolute (receipts by Rupees 14531.21 crore and expenditure by Rupees 10468.41 crore) and percentage terms (receipts grew by 574.71 percent and expenditure by 434.91 percent).

17.209 By itself, this is a hugely satisfying position. This is because there is a self-evident surplus even though the total expenditure includes items such as assigned taxes and grants to the local bodies.

17.210 The position alters when the total expenditure minus the **loan component** of the receipts is considered. The total receipts, minus the loan component, are Rupees 66074.59 crore, and, against this the total expenditure of Rupees 85882.70 crore converts the position to a **deficit** of Rupees 19808.11 crore. The percentage growth of total receipts (minus loan component) in the period 1994-1995 to 2005-2006 has been 453.15 percent and that of total expenditure 362.89 percent.

17.211 Figure 17.4 shows the trend of receipts (excluding loan amount) and the expenditure over the period 1994-1995 to 2005-2006. The graphic brings out

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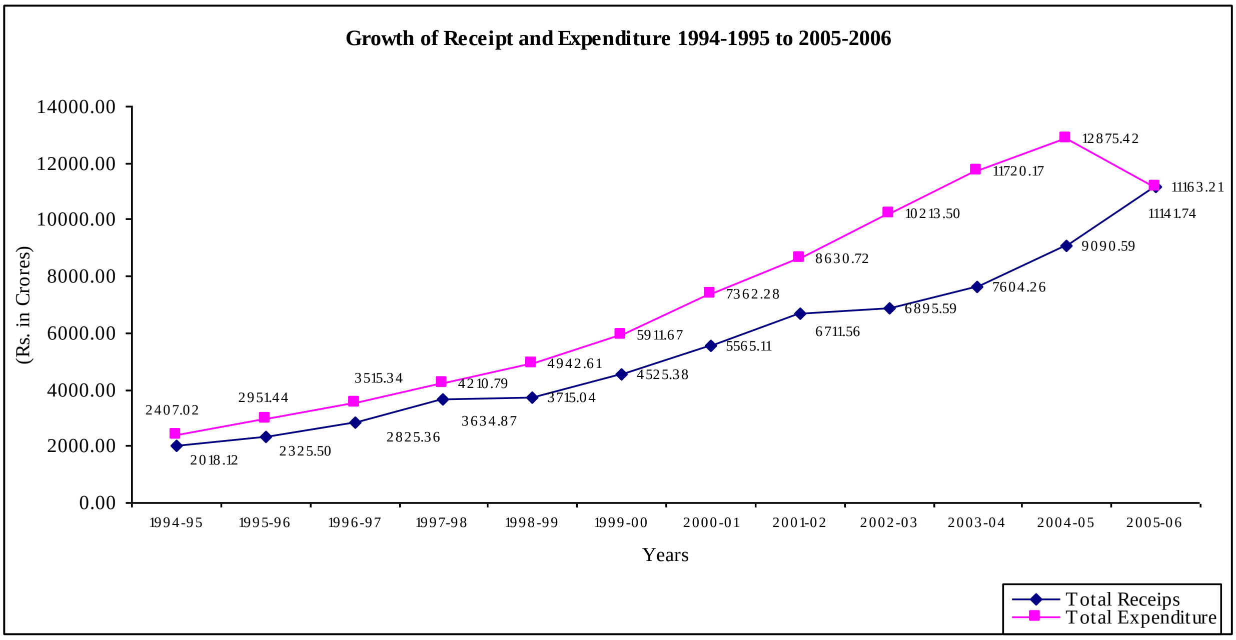
[32] Detailed analysis is available in the relevant chapter dealing with revenues and expenditure of the state government

clearly that, while receipts have certainly shown a rising trend, the closure of the gap between receipts and expenditure is attributable mostly to the sharp decline in expenditure.

Figure 17.4-Growth of Receipts and expenditure-1994-1995 to 2005-2006



17.212 This **closure of the gap** is an interesting reversal in percentage terms. However, what needs to be noted is that this may not be due to curbing of non-plan expenditure or even vastly improved revenues. Data suggest that this has been due to a reduced percentage of plan expenditure in total expenditure.

17.213 It may be recalled, in this context, that the Planning Department in its 2002 study had pointed out the clear and obvious danger of receipts (excluding loans) falling below the expenditure if some measures were not initiated to step up revenues or curtail expenditure. The suggestions included steps to reduce non-plan expenditure, engage private participation in the infrastructure sector, and cut assistance to public utilities. All three are still relevant. Therefore, despite the improvement in percentage terms, the note of caution struck by the Planning Department in its study of 2002 remains valid.

Opening and Closing Balances

17.214 In fact, the position becomes even more untenable when we look at the unexpended amounts available with the state government as opening balances. Table 17.45 reveals a disturbing increase in the opening balance year to year. The turn around in percentage terms (indicating a reversal of the gap between receipts and expenditure with receipts exceeding expenditure) looks far less satisfying when we take note of the **mounting opening balances**. This has implications for the increasing non-plan expenditure, besides raising issues about the institutional absorptive capacity of government departments and reflects unsatisfactory management of available resources.

Table: 17.45- Opening and Closing Balances of the GNCTD-1994-1995 to 2005-2006 (Rupees in crore)

Year	Opening Balance	Receipts During the Year	Total (column 2+3)	Expenditure During the Year	Closing Balance (4-5)
1994-1995	-99.05	2528.45	2429.40	2407.02	22.38
1995-1996	22.38	3121.88	3144.26	2951. 44	192.82
1996-1997	192.82	3676.56	3869.38	3515,34	354.04
1997-1998	354.04	4510.90	4864..94	4210.79	654.15
1998-1999	654.15	4690.59	5344.74	4942.61	402.13
1999-2000	402.13	5924.92	6327.05	5911.67	415.38
2000-2001	415.38	7329.19	7744.57	7362.28	382.29
2001-2002	382.29	8750.13	9132.42	8630.72	501.70
2002-2003	354.57	10534.30	10888.87	10213.50	675.37
2003-2004	675.37	12268.84	12944.21	11720.17	1224.04
2004-2005	1224.04	13101.94	14325.98	12875.42	1450.56
2005-2006	1450.56	17059.66	18510.22	11141.74	7368.48

Non-plan Expenditure

17.215 The non-plan expenditure has grown from Rupees 1239.84 crore in 1994-1995 to Rupees 6841.18 crore in 2005-2006. This represents an absolute increase of Rupees 5601.34 crore and a percentage increase of 451.78 percent. This is a five and a half fold increase.

17.216 As a percentage of total expenditure, it was 51.51 percent (1994-1995) which increased to 61.40 percent (2005-2006). It means that there has been a 9.89 percentage point increase in a short period of just twelve years.

17.217 Loan repayments are ballooning: from Rupees 70 crore in 1995-1996 to Rupees 223.66 crore in 2005-2006. The absolute increase has been Rupees 153.66 crore and percentage increase was 219.51 percent.[33]

[33] This however does not reflect the position accurately. In fact it disguises the actual situation. The fact is that in some years such as 2002-2003, 2003-2004, and 2004-2005 the loan repayment amounts have been much larger: Rupees 944.50 crore (2002-2003), Rupees 1677.19 crore (2003-2004), and Rupees 2301.65 crore (2004-2005).

17.218 An important component of non-plan expenditure is interest payments. These have grown from Rupees 94.00 crore in 1995-1996 to Rupees 1672.82 crore in 2005-2006. This represents an absolute increase of Rupees 1578.82 crore, and a percentage increase of 1679.60 percent. There is no doubt that interest payments too are mounting.

17.219 Out of the total loan amount in the period (1994-1995 to 2005-2006) of Rupees 274022.77 crore, an amount of Rupees 5840.12 crore has been repaid. Accordingly, the debt burden of the state government has been rising rapidly and the net burden presently is Rupees 21482.65 crore.

Maintenance

17.220 Maintenance of capital assets is undeniably a vital requirement. However, the trend in respect of such expenditure is not very encouraging. In absolute terms it increased from Rupees 89.61 crore in 1994-1995 to Rupees 257.11 crore in 2005-2006. Though the absolute increase was Rupees 167.50 crore and the percentage increase was 186.92 percent, as is evident, the steep percentage increase essentially reflects the rise from a relatively small base. This is not a satisfactory position by any yardstick; neither the quantum of assets involved nor the normative aspects (periodicity and quality) of maintenance.

17.221 The total expenditure on repair and maintenance of assets in the twelve year period (1994-1995 to 2005-2006) was Rupees 2153.57 crore. This makes for a percentage share of just 2.51 percent of the total expenditure incurred in this period by the Delhi government.

Non-Plan Loans to Public Utilities

17.222 Table 17.46 details the total non-plan loans released by Delhi Government to public utilities during the period from 1996-1997 to 2005-2006.

Table: 17.46- Total non- plan loans released by Delhi Government to public utilities during the period from 1996-1997 to 2005-2006

Year	DJB	DTC	DVB	Delhi Transco	DPCL	Total
1994-1995						0.00
1995-1996						0.00
1996-1997		65.00				65.00
1997-1998	20.00	76.22	390.33			486.55
1998-1999		151.50	453.56			605.06
1999-2000		233.88	657.89			891.77

2000-2001	75.00	193.75	794.99			1063.74
2001-2002	381.99	185.41	820.54			1387.94
2002-2003	610.64	586.87		90.48		1287.99
2003-2004	621.00	621.00			504.71	1746.71
2004-2005	727.75	565.27			262.71	1555.73
2005-2006	562.86	974.49		150.00		1687.35
Total	**2999.24**	**3653.39**	**3117.31**	**240.48**	**767.42**	**10777.84**

- The **loans to public utilities** increased from Rupees 65.00 crore (1996-1997) to Rupees 1687.35 crore (2005-2006) i.e. an absolute increase of Rupees 1622.35 crore. The increase was 2495.92 percent and was approximately twenty six times of the amount released in 1996-1997.
- Total loans released to public utilities during the period were Rupees 10777.84 crore of which Rupees 2999.24 crore were released to DJB, Rupees 3653.39 crore to DTC, Rupees 3117.31 crore to DVB, Rupees 240.48 crore to Delhi Transco Ltd. and Rupees 767.42 crore to DPCL
- Total amount released to the public utilities during the period was 12.55 percent of the total expenditure of Delhi government during the period from 1994-1995 to 2005-2006.

17.223 As already noted, the track record of recoveries from the public utilities (particularly the DJB and DTC) is not satisfactory. It can only be hoped that the government will take steps to make effective recoveries of both interest and principal amounts from the DTC and the DJB. This would also require stricter implementation of the conditions specified in the Memorandum of Understanding so that these organisations stand on their own feet.

17.224 Extending loan facility without insistence on financial improvements has already affected and will further affect the state's own finances. It may therefore be necessary to announce a timetable for improvements with achievable and specific milestones. Thereafter, the government should consider requiring the public utilities to stand on their own feet by a firm implementation of a 'no-bail out policy'.

Transfers to Local Bodies

17.225 The other vital aspect for this analysis is the expenditure incurred on transfers to the local bodies. The first point to note is that transfers to local bodies is not a new phenomenon. The Finance Commissions, have been conferred the responsibility of reviewing the finances of both the state government and local bodies to provide a set of principles for the allocation of resources to the municipal bodies.

17.226 Second, our review of the situation suggests that the local bodies have not taken the task of managing their financial affairs very seriously. Their approach appears to be predicated on a mix of **three conditions** which they seem to regard as 'basic and inviolable': (i) that the state government has no option other than to bail them out; (ii) that they are not answerable for the resources made available to them; (iii) and that for utilization of resources no rational planning is necessary. This approach has survived all their inabilities to find a reasonable match between receipts and expenditure. However, responsibilities accompany authority. This is a lesson that at least the MCD needs to internalise. In fact it can 'earn' revenues from the state government far more easily if it were to make out its case on the basis of having delivered desirable outcomes.

17.227 The Commission could not find any provision either in the Constitution or the relevant Acts which make it obligatory for the State Government to make transfer to local bodies which do not perform upto acceptable standards. During this study the Commission was continuously confronted with the problem of linking State Government transfers with performance. This aspect is taken up in Chapter XIX relating to recommendations.

17.228 It is in the background of these two broad observations that the transfers made by the state government (whether as assigned taxes or non-plan grants) need to be considered. In the period 1994-1995 to 2005-2006, the state government transferred a total of Rupees 5127.32 crore to local bodies in the shape of assigned taxes (Rupees 2788.87 crore) and non-plan grants (Rupees 2338.35 crore). This represents 5.98 percent of the total expenditure of the government during the period. This amount in accordance with the formulation given by the First and Second Delhi Finance Commissions.

Plan expenditure

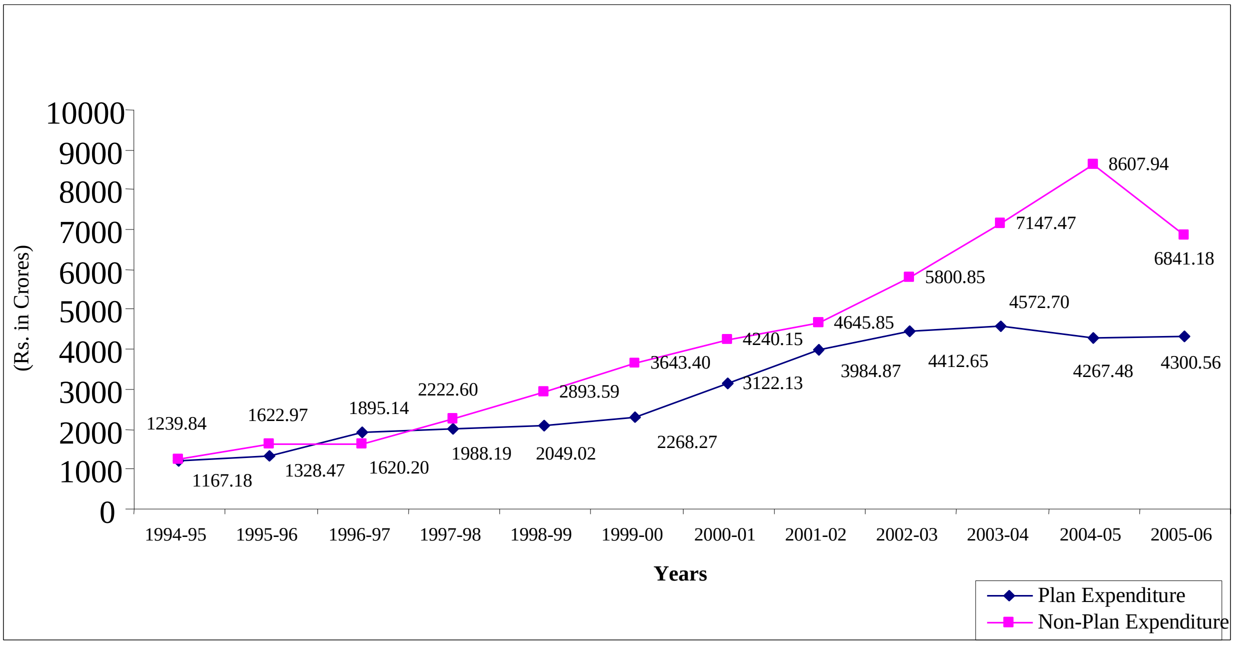
17.229 The total plan expenditure grew from Rupees 1167.18 crore in 1994-1995 to Rupees 4300.56 crore in 2005-2006. This implies an absolute increase of Rupees 3133.38 crore. The increase was of 268.46 percent. It is approximately three and three quarter times the expenditure of 1994-1995 (3.68 times).[34]

[34] Details of the budgetary provisions for selected sectors have already been discussed in detail in **Chapter 9.** Therefore, here merely the broad conclusions are recalled.

17.230 Compared to the growth of non-plan expenditure this is quite inadequate. The total plan expenditure in the period was Rupees 35356.66 crore. The total plan expenditure in the twelve-year period was 41.71 percent of the total expenditure in the same period. It was 48.49 percent of the total expenditure in 1994-1995, and, in 2005-2006, it is 38.60 percent. The data suggest a long-term secular decline in the plan expenditure. Indeed, the decrease between 1994-1995 and 2005-2006 is as much as 9.89 percentage points. This should be a matter of grave concern to the state government. It not only impacts programs, projects, and assets creation but also raises the issues of expenditure that fails to make a serious dent in solving prevailing problems.

17.231 Figure 17.5 tracks the decline of plan expenditure as compared to the non-plan expenditure in the period 1994-1995 to 2005-2006.

Figure : 17.5- Growth of Plan and Non-plan Expenditure-1994-1995 to 2005-2006



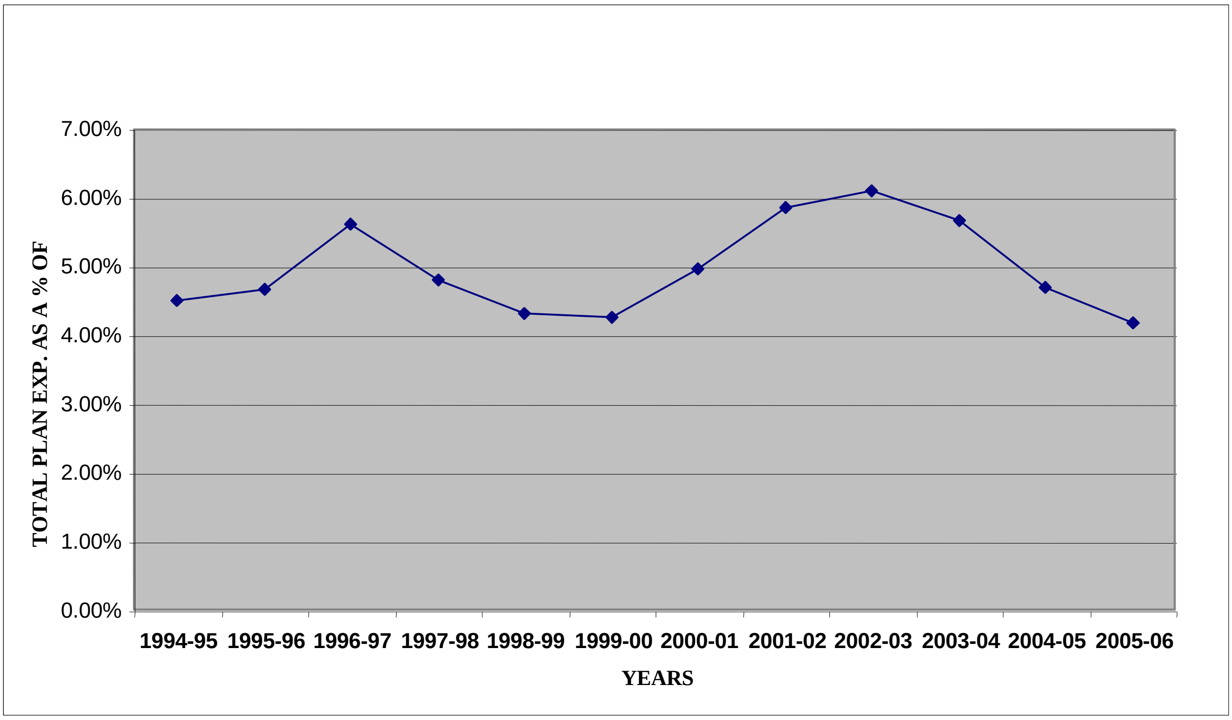
17.232 The total plan expenditure as a percentage of the GSDP has been between 4.19 percent (2005-2006) to 6.12 percent (2002-2003). Table 17.47 provides the details. The percentage share of plan expenditure in GSDP is a measure of public investment. It has been on a downward slide since 2002-2003: from 6.12 (2002-2003) to 5.68 percent (2003-2004) to 4.70 percent (2004-2005), and finally to 4.19 percent (2005-2006). The causes and consequences of this decline are not always understood clearly. The state government would need to investigate the same for applying correctives. This is more so when revenues are reportedly bourgeoning and opening balances are growing.

Table: 17.47-Total Plan Expenditure as a Percentage of GSDP

1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
4.52	4.68	5.61	4.82	4.32	4.28	4.98	5.86	6.12	5.68	4.70	4.19

17.233 Figure 17.6 shows the trend of plan expenditure as a percentage of GSDP.

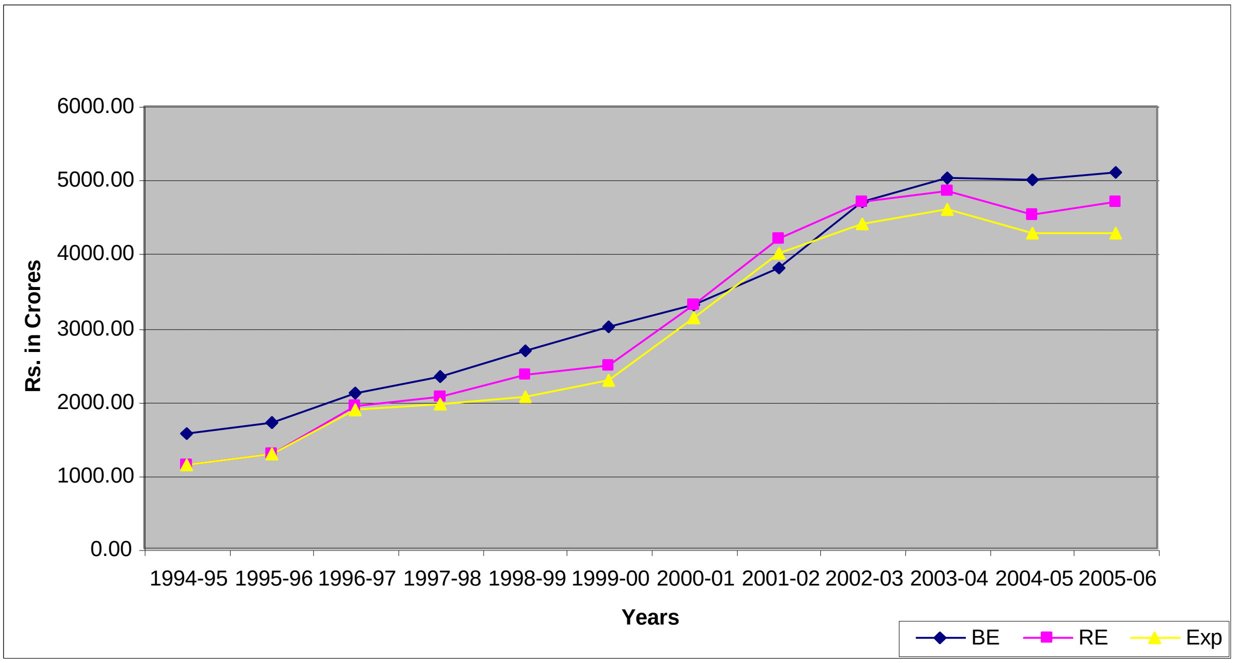
Figure: 17.6-Total Plan Expenditure as a Percentage of GSDP



Utilisation of Plan funds

17.234 The actual utilization of plan funds, has been well below the allocations proposed at the BE and RE stage. Figure 17.7 illustrates this clearly. While in the early years the expenditure could at least match the RE figures, in the later years there has been a growing divergence. This suggests that departments of government have been unable to make use of the allocated amounts. In terms of actual expenditure the plan size has always been less than what was initially proposed. In fact, it has almost always been revised downward at the RE stage and departments have not been able to make use of even the reduced amounts allocated at the RE stage (the exception being 2001-2002).

Figure: 17.7- BE/RE and Actual Total Plan Expenditure -1994-1995 to 2005-2006



Allocations and Utilisation – Select Sectors

17.235 Now consider the matter with reference to the sector pattern of allocations and utilization. Broadly, priority has been accorded to transport, power, water supply and sanitation in the infrastructure sector, education and health, in the social sectors (though not social welfare itself) and rural development. Table 17.48, 17.49 and 17.50 depicts the sector-wise details of the allocation and utilization of allocated resources in the Eighth, Ninth, and Tenth Five Year (first four years) Plans respectively.

Table: 17.48-Allocation and Utilization of Plan Funds-Select Sectors-Eighth Plan (1992-1997)-Rupees in crore

Name of the Sector	8th Five Year Plan (1992-1997)				
	Approved Outlay	Revised Outlay	Actual	Actual as % of AO	Actual as % of RO
Transport	660.00	848.24	851.94	129.08	100.44
As a % of AO/RO/Actual	14.67	13.49	13.72		
Energy	1220.00	1552.81	1549.40	127.00	99.78
As a % of AO/RO/Actual	27.11	24.69	24.96		
Water Supply & Sanitation	820.00	896.19	895.30	109.18	99.90
As a % of AO/RO/Actual	18.22	14.25	14.42		
Public Health	41.20	37.28	33.85	82.16	90.80
As a % of AO/RO/Actual	0.92	0.59	0.55		
Medical	308.80	383.80	371.51	120.31	96.80
As a % of AO/RO/Actual	6.86	6.10	5.98		

General Education	450.00	507.97	497.48	110.55	97.93
As a % of AO/RO/Actual	10.00	8.08	8.01		
Rural Development	24.75	137.61	137.65	556.16	100.03
As a % of AO/RO/Actual	0.55	2.19	2.22		
Social Welfare	6.00	37.88	34.82	580.33	91.92
As a % of AO/RO/Actual	0.13	0.60	0.56		
Welfare of SC/ST/OBC	24.50	41.94	38.48	157.06	91.75
As a % of AO/RO/Actual	0.54	0.67	0.62		
Other Sectors	944.75	1845.94	1797.89	190.30	97.40
As a % of AO/RO/Actual	20.99	29.35	28.96		
Total	**4500.00**	**6289.66**	**6208.32**	**137.96**	**98.71**

17.236 The approved outlay of the Eighth Five Year Plan (1992-1997) was of Rupees 4500.00 crore, which was revised to Rupees 6289.66 crore. The actual expenditure during the plan period was Rupees 6208.32 crore, i.e, 137.96 percent of the approved outlay.

- The percentage share in approved outlay, sector wise was 14.67 percent for transport, 27.11 percent for power, 18.22 percent for water supply and sanitation, 0.92 percent for public health, 6.86 percent for medical, 10 percent for general education, 0.55 percent for rural development, 0.13 percent for social welfare and, 0.54 percent for welfare of SC/ST.
- As against the approved outlay, the percentage share in actual expenditure was 13.72 percent for transport, 24.96 percent for power, 14.42 percent for water supply and sanitation, 0.55 percent for public health, 5.98 percent for medical, 8.01 percent for general education, 2.22 percent for rural development, 0.56 percent for social welfare and 0.62 percent for welfare of SC/ST.
- The expenditure was more than 100 percent of approved outlay in all sectors other than public health. Against the revised estimates however, the actual exceeded 100 percent in only two sectors, transport and rural development. In other sectors it was above 90 percent.

17.237 The approved outlay of the Ninth Plan (1997-2002) was of Rupees 15541.28 crore, which was revised to Rupees 14438.86 crore. The actual expenditure during the plan period was Rupees 13465.15 crore, i.e, 86.64 percent of the approved outlay.

Table: 17.49-Allocation and Utilization of Plan Funds-Select Sectors-Ninth Plan (1997-2002)-Rupees in crore

Name of the Sector	9th Five Year Plan (1997-2002)				
	Approved Outlay	Revised Outlay	Actual	Actual as % of AO	Actual as % of RO
Transport	3158.40	2554.83	2260.69	71.58	88.49
As a % of AO/RO/Actual	20.32	17.69	16.79		
Energy	3046.55	3555.07	3589.69	117.83	100.97
As a % of AO/RO/Actual	19.60	24.62	26.66		
Water Supply & Sanitation	2540.00	1913.20	1896.88	74.68	99.15
As a % of AO/RO/Actual	16.34	13.25	14.09		
Public Health	79.55	89.27	77.01	96.81	86.27
As a % of AO/RO/Actual	0.51	0.62	0.57		
Medical	1021.85	1027.61	949.10	92.88	92.36
As a % of AO/RO/Actual	6.58	7.12	7.05		
General Education	860.75	1078.46	920.55	106.95	85.36
As a % of AO/RO/Actual	5.54	7.47	6.84		
Rural Development	597.65	415.73	345.95	57.89	83.22
As a % of AO/RO/Actual	3.85	2.88	2.57		
Social Welfare	108.60	153.41	132.64	122.14	86.46
As a % of AO/RO/Actual	0.70	1.06	0.99		
Welfare of SC/ST/OBC	87.25	84.53	35.69	40.91	42.22
As a % of AO/RO/Actual	0.56	0.59	0.27		
Other Sectors	4040.68	3566.75	3256.95	80.60	91.31
As a % of AO/RO/Actual	26.00	24.70	24.19		
Total	**15541.28**	**14438.86**	**13465.15**	**86.64**	**93.26**

- The percentage share in approved outlay, sector wise was 20.32 percent for transport, 19.60 percent for power, 16.34 percent for water supply and sanitation, 0.51 percent for public health, 6.58 percent for medical, 5.54 percent for general education, 3.85 percent for rural development, 0.70 percent for social welfare and, 0.56 percent for welfare of SC/ST.
- As against the approved outlay, the percentage share in actual expenditure was 16.79 percent for transport, 26.66 percent for power, 14.09 percent for water supply and sanitation, 0.57 percent for public health, 7.05 percent for medical, 6.84 percent for general education, 2.57 percent for rural development, 0.99 percent for social welfare and 0.27 percent for welfare of SC/ST.

- The expenditure was more than 100 percent of approved outlay in three sectors, power, general education, and social welfare. Against the revised estimates however, the actual exceeded 100 percent in only the power sector. It was above 90 percent in two sectors, water supply and sanitation and medical.

17.238 The approved outlay of the Tenth Plan (2002-2007) was of Rupees 23000.00 crore. The approved plan size in the first four years has been Rupees 19825.00 crore' which has been revised to Rupees 18796.28 crore. The actual expenditure during the first four years has been Rupees 17507.15 crore, i.e, 88.31 percent of the approved outlay of the first four years.

Table: 17.50-Allocation and Utilization of Plan Funds-Select Sectors-Tenth Plan (2002-2007)-Rupees in crore

Name of the Sector	10th Five Year Plan (Approved Outlay)	10th Five Year Plan (First Four Year) (2002-2006)				
		Approved Outlay	Revised Outlay	Actual	Actual as % of AO	Actual as % of RO
Transport	5446.71	4395.29	3771.68	3481.11	79.20	92.30
As a % of AO/RO/Actual	23.68	22.17	20.07	19.88		
Energy	3457.50	4298.29	4283.41	4211.20	97.97	98.31
As a % of AO/RO/Actual	15.03	21.68	22.79	24.05		
Water Supply	3766.00	2691.52	2776.20	2668.47	99.14	96.12
As a % of AO/RO/Actual	16.37	13.58	14.77	15.24		
Public Health	158.00	94.27	103.93	85.77	90.98	82.53
As a % of AO/RO/Actual	0.69	0.48	0.55	0.49		
Medical	2223.50	1866.10	1784.04	1650.27	88.43	92.50
As a % of AO/RO/Actual	9.67	9.41	9.49	9.43		
General Education	1840.00	1473.16	1239.67	1054.55	71.58	85.07
As a % of AO/RO/Actual	8.00	7.43	6.60	6.02		
Rural Development	463.25	389.18	346.47	326.38	83.86	94.20
As a % of AO/RO/Actual	2.01	1.96	1.84	1.86		
Social Welfare	322.50	313.17	338.76	291.83	93.19	86.15
As a % of AO/RO/Actual	1.40	1.58	1.80	1.67		
Welfare of SC/ST/OBC	158.00	140.07	150.89	95.51	68.19	63.30
As a % of AO/RO/Actual	0.69	0.71	0.80	0.55		
Other Sectors	5164.54	4163.95	4001.23	3642.06	87.47	91.02
As a % of AO/RO/Actual	22.45	21.00	21.29	20.80		
Total	**23000.00**	**19825.00**	**18796.28**	**17507.15**	88.31	93.14

- The percentage share in approved outlay (total plan) sector wise was 23.68 percent for transport, 15.03 percent for power, 16.37 percent for water supply[35], 0.69 percent for public health, 9.67 percent for medical, 8.00 percent for general education, 2.01 percent for rural development, 1.40 percent for social welfare and, 0.69 percent for welfare of SC/ST.
- The percentage share in approved outlay of the first four years sector wise was 22.17 percent for transport, 21.68 percent for power, 13.58 percent for water supply[36], 0.48 percent for public health, 9.42 percent for medical, 7.43 percent for general education, 1.96 percent for rural development, 1.58 percent for social welfare and, 0.71 percent for welfare of SC/ST.
- As against the approved outlay of the first four years, the percentage share in actual expenditure was 79.20 percent for transport, 97.97 percent for power, 99.14 percent for water supply, 90.98 percent for public health, 88.43 percent for medical, 71.58 percent for general education, 83.86 percent for rural development, 99.19 percent for social welfare and 68.19 percent for welfare of SC/ST.
- The expenditure has been more than 90 percent of approved outlay in four sectors, power, water supply, public health, and social welfare. Against the revised estimates however, the actual exceeded 90 percent in five sectors.

Efficiency of Financial Operations and Financial Status

17.239 The above review of the trends in revenue and the expenditure pattern is useful in determining the broad financial status and efficiency of financial operations. A similar exercise in respect of the local bodies will show that the main issues that arise are:

- ✓ The budgetary data (BE, RE, and actual) of any given year do not provide a basis for determining the position that will emerge in the next year.
- ✓ Therefore, even the attempt to forecast the likely future trends on the basis of any group of years is plagued with uncertainties.
- ✓ The unpredictability of revenue targets is attributable to a number of reasons. However, an important element would be the data base at the time of making any policy changes and the availability of post implementation data. Adequate data is vital at both stages to enable a reasonable and well considered policy

[35] The item of sanitation has since been transferred to the MCD and the DJB is now responsible for water supply and sewage disposal only. Hence, the deletion of sanitation from the Tenth Plan items.
[36] ibid

change, predict the effect of the change, and, then, to evaluate the change in the light of the implementation. Neither the administrative departments concerned generate the required data and information, and, nor are the Finance and Planning Departments equipped in terms of suitable personnel and expertise to carry out such an in-depth analysis.

- ✓ Many difficulties are associated with expenditure management also. For instance, the expenditure proposals of the MCD are not backed by any annual plan. The state government on the other hand does not watch, except cursorily, the expenditure incurred by the local bodies out of resources transferred to them even as tied grants. Public utilities are unable to improve their financial management. State government departments are becoming increasingly incapable of absorbing larger allocations of plan funds. The trends of expenditure percentages clearly show this.
- ✓ The larger issue of what specifically the expenditure incurred is intended to achieve is unclear. For example, are the public sector investments intended to secure increasing incomes, output, and investment from the private sector? Is the intention to deliver services, efficiently and effectively? If so, how does the delivery of primary education, primary health or sanitation measure up against the desired levels? Is the cost of delivery of various services reasonable? Are projects being implemented according to specified time frames or are cost overruns and time an issue? How does the system work to enable timely identification of difficulties and problem areas to enable attention before the problem magnifies?
- ✓ Finally, we recall the outstanding features of the financial status of the state government and the local bodies. The **state government** is essentially faced with a situation in which there are huge opening balances, large inflows of small savings loans, and, therefore, large repayment and interest liabilities, rising non-plan expenditure and declining plan expenditure. This is despite the increasing inflows of tax revenues.
- ✓ The **local bodies**, especially the MCD, incur expenditure without reference to resource availability. This results in growing un-discharged liabilities. There has been little effort to enhance resources while there seems to have been a conscious effort to increase expenditure. There has been no effort to review the

manpower position, cut flab and introduce better expenditure management techniques. All this suggests that the local bodies need to be more responsible in their attitude to improve fiscal policies.

Mathem-Atical Model

17.240 In working with the mathematical models, the Commission has sought to extrapolate its estimates of revenues and expenditures for the next five years. The following assumptions have been made which are common to the state government or the local bodies and/or both, as specified.

Assump-tions-I: Goals and Long term Plans

17.241 The goals of the state government in the period 2006-2007 to 2010-2011 are essentially two: development with a human face, and, acquiring the status of a global city for Delhi.

- ✓ Since the local bodies have not spelt out any long term goals or objectives, their 'obligatory functions' will be of paramount importance and priority.
- ✓ The state government and the local bodies will prepare long term development, fiscal, investment plans given their overall objectives. The long term in this context will mean the period 2006-2007 to 2010-2011.
- ✓ It is these long term plans that will suggest the resource requirements and the measures needed to secure necessary resources and plan expenditure.

Assump-tions-II: Improving Financial Management

17.242 A further set of assumptions relating to improving financial management are:

- ✓ The state government and local bodies will be able to compress non-plan expenditure and arrest the decline in plan expenditure.
- ✓ The state government will be able to effectively stem the tide of small savings loans or plan for the better utilization of loan amounts.
- ✓ Therefore the state government will also take required measures to reduce the outstanding liabilities on account of loans from the centre and reduce the opening cash balance. This, in turn, should help to reduce the non-plan expenditure.
- ✓ That the state government will take steps to reduce the implicit plan and non-plan subsidies in a phased manner.
- ✓ The state government will be able to ensure fiscal discipline in respect of the public utilities, which will give an appropriate response.

- ✓ All revenue earning departments of the state government and the local bodies will identify the arrears of revenue, including those locked up in litigation, and take immediate steps to liquidate both.
- ✓ Both the state government and the local bodies will generate data necessary to make realistic projections of revenues and expenditure. Data will also be generated to assess the impact of tax rates rationalizations before they are implemented. This would include an estimate of the revenues expected from the proposed measures. Both state government and the local bodies will also track the outcome of measures implemented. Preferably, tax rates will remain stable for at least three years at a time.
- ✓ The local bodies will take serious steps to mobilize resources on a far more effective scale than has been the case so far. They will undertake expenditure only to the extent revenues are actually realized and not in anticipation as reflected in highly inflated budgetary figures.
- ✓ The local bodies will also take steps to compress all wasteful and avoidable expenditure.
- ✓ Besides compressing avoidable expenditure, the local bodies will take steps to rationalize their expenditure management by basing it on well conceived plans for the entire period and annual plans thereafter.
- ✓ The assumption is that both the state government and the local bodies will be interested in reversing the present pattern and trend of investment. There are obvious bottlenecks in the infrastructure sector that need to be corrected. Whatever, be the assessments of investment needed in infrastructure – in terms of complete geographic, demographic, timely and normative coverage– it appears to be self-evident that some of the shortfalls are due to the decline in public sector investments (decline in plan expenditure identified in earlier paras). Any investments being made are either inadequate or in non-productive sectors.

Methodology

17.243 The methodology adopted by the Commission for making forecasts is spelt out below.

- ✓ The trend growth rate of various revenue (total receipts, tax revenues, non-tax revenues, capital receipts) and expenditure parameters (loan re-payment, interest payments, loans to public utilities, plan and non-plan) have been determined for the period

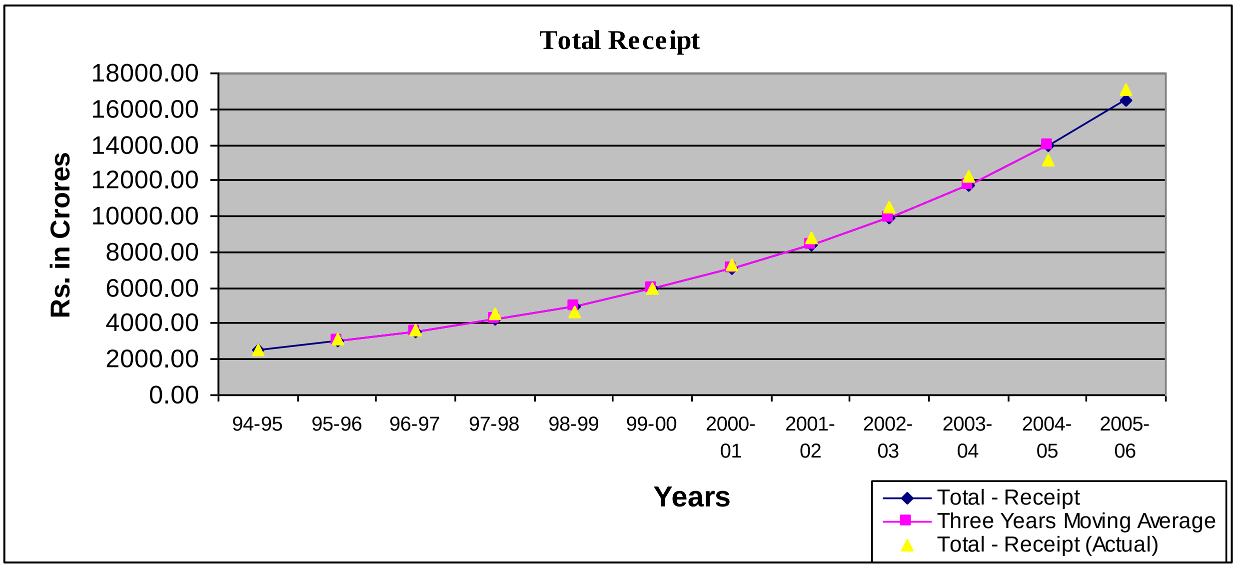
1994-1995 to 2005-2006 on the basis of the annual average growth rate, as well as, a three year moving average.

- ✓ These trend growth rates have been applied to both the past and the future (forecasted) data to see the extent of scatter around this long term secular trend.
- ✓ The extent of deviation (positive or negative) will suggest the extent to which the actual position can differ from the forecasts.

Projections: State Govern-ment

17.244 Figure 17.8 depicts the position of total receipts. The trend growth rate of total receipts[37] on the basis of the annual average growth and on the basis of a three year moving average has been determined to be 18.6 percent.

Figure: 17.8-Total Receipts as per Trend Growth Rates 1994-1995 to 2005-2006



- This trend growth rate has been calculated on the basis of the actual realizations in the period 1994-1995 to 2005-2006 with 1994-1995 as the base year. The trend growth so determined has been applied to the data of the base year.
- The actual collections were more than the trend in seven years. It was less than the trend in three years. The collections were marginally above the trend in two years (1995-1996 and 1996-1997). They were substantially higher in five years (1997-1998, 2001-2002, 2002-2003, 2003-2004, and 2005-2006). The position does not vary when the data is examined on the basis of the three years moving average.

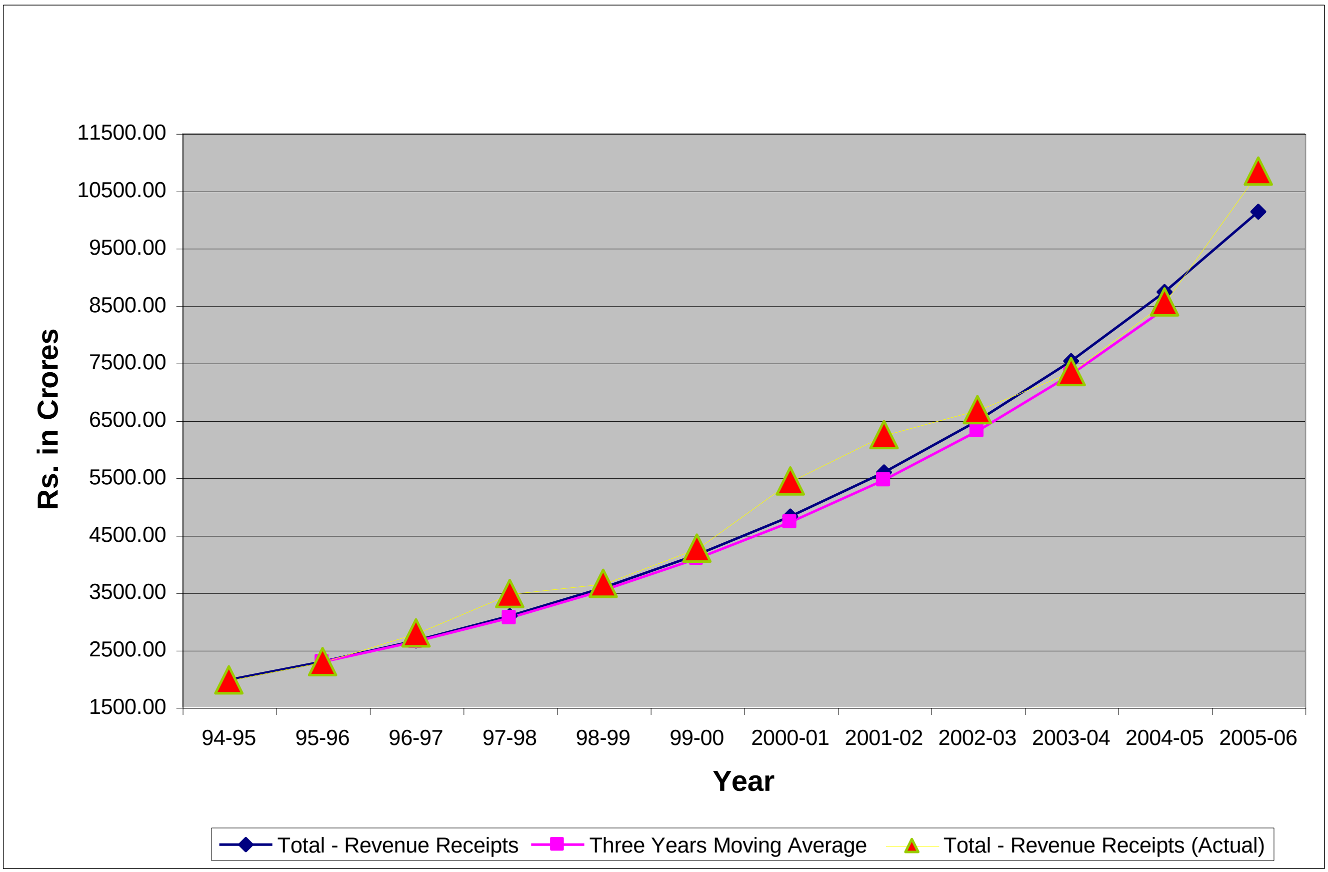
Total revenue receipts

17.245 Figure 17.9 shows the situation of total revenue receipts. The trend growth rate of total revenue receipts[38] on the basis of the annual average

[37] Annexe: Working Data Sheets. See-Vol-III, Section-IV

growth and on the basis of a three year moving average has been determined to be 16.0 and 15.6 percent respectively.

Figure : 17.9-Total Revenue Receipts as per the Trend Growth Rates1994-1995 to 2005-2006



- This trend growth rate has also been calculated on the basis of the actual realizations in the period 1994-1995 to 2005-2006 with 1994-1995 as the base year. The trend growth so determined has been applied to the data of the base year.
- The actual collections were more than the trend in eight years. It was less than the trend in three years. The collections were marginally above the trend in two years (1998-1999 and 1999-2000). They were substantially higher in the remaining six.
- The position changes marginally when the data is examined on the basis of the three years moving average. In all the years the actual collections were more than the trend calculated on the basis of a three years moving average.
- Both time series show that the scatter around the secular trend is not very appreciable. In fact, there is a tendency of convergence. The only

[38] Annexe: Working Data Sheets. See Vol-III, Section-IV

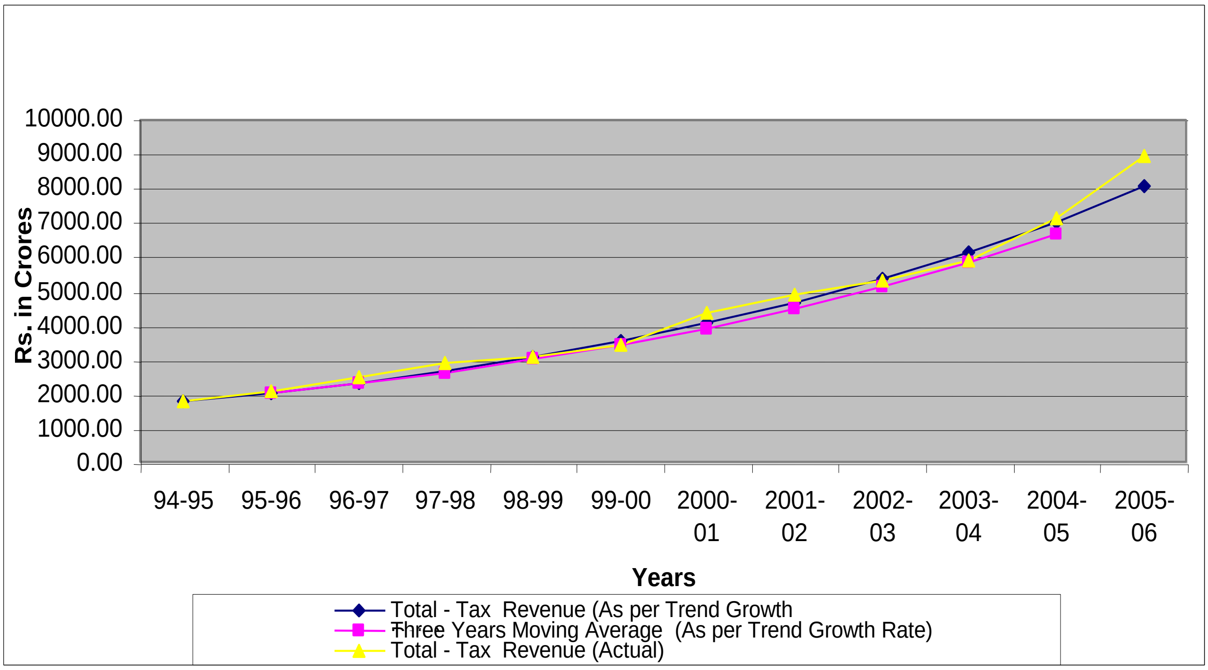
three years which witnessed a very large deviation from the long term norm were 2000-2001, 2001-2002, and 2005-2006. These are also the years which saw the introduction of the Uniform Floor Rate in sales tax and the VAT. Accordingly, while the revenues of the state government may have benefited from the favourable economic situation of Delhi, some of the credit has also to be given to the policy initiatives of the GNCTD and GOI.

- These three years should have lifted the long term growth rates. However, the trend growth declines in the period 2001-2006 from 16.0 percent (annual average growth rate) to 13.7 percent. They also demonstrate that the growth rate will decline when we start from a larger base and that much more additional effort would be required if the growth rate is to be maintained.

Tax revenues

17.246 Figure 17.10 reports the trends in tax revenues. On the basis of the annual average growth rate, the trend growth rate of tax revenues was 14.7 percent and on the basis of the three years moving average it was 14.1 percent. There has by and large been convergence between the actual tax revenues and the long term growth rates. The exceptions are 2000-2001, 2001-2002, and 2005-2006. Indeed, it is the surge in tax revenues that is perhaps largely responsible for the overall increase in receipts in these very years.

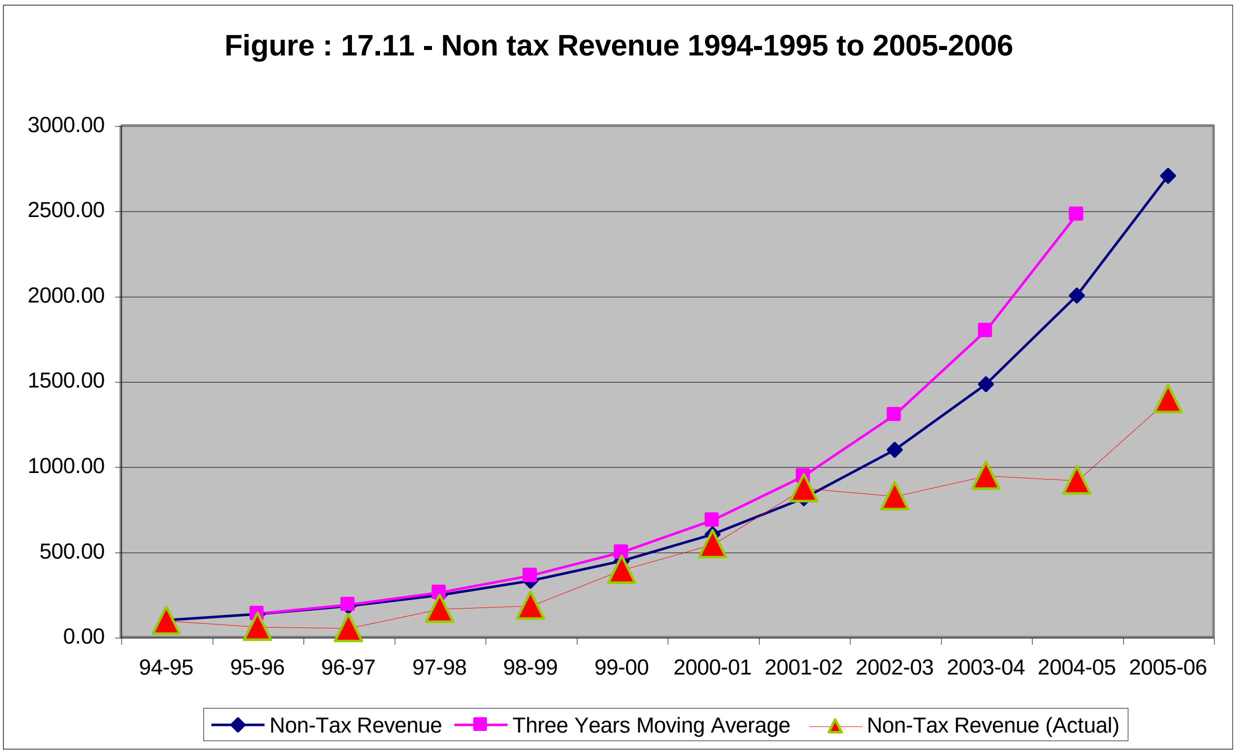
Figure: 17.10-Total Tax Revenue as per the Trend Growth Rates1994-1995 to 2005-2006



- There have been a number of new measures in the sphere of tax revenues. The principal ones are related to the reform in sales tax, stamps and registration, and in the tax on motor vehicles. It may be recalled that the surge in sales tax revenues could not be sustained for very long after the introduction of UFR. In fact, revenues fell sharply in 2002-2003. Accordingly, the state government may need to track every source of revenue to sustain much higher levels of performance.

Non-tax Revenue

17.247 Figure 17.11 depicts the trends in non-tax revenues. On the basis of the annual average growth rate, the trend growth rate of non-tax revenues was 35.0 percent and on the basis of the three years moving average it was 37.9 percent. There has, by and large, not been convergence between the actual non-tax revenues and the long term growth rates. The only exception (on the basis of the trend growth rate) was 2001-2002. Indeed, it is only the surge in interest revenue that is perhaps largely responsible for the overall increase in receipts in the years since 1997-1998. This however, should not bring about a state of complacency, because the interest realizations, as already noted, are only book adjustments.

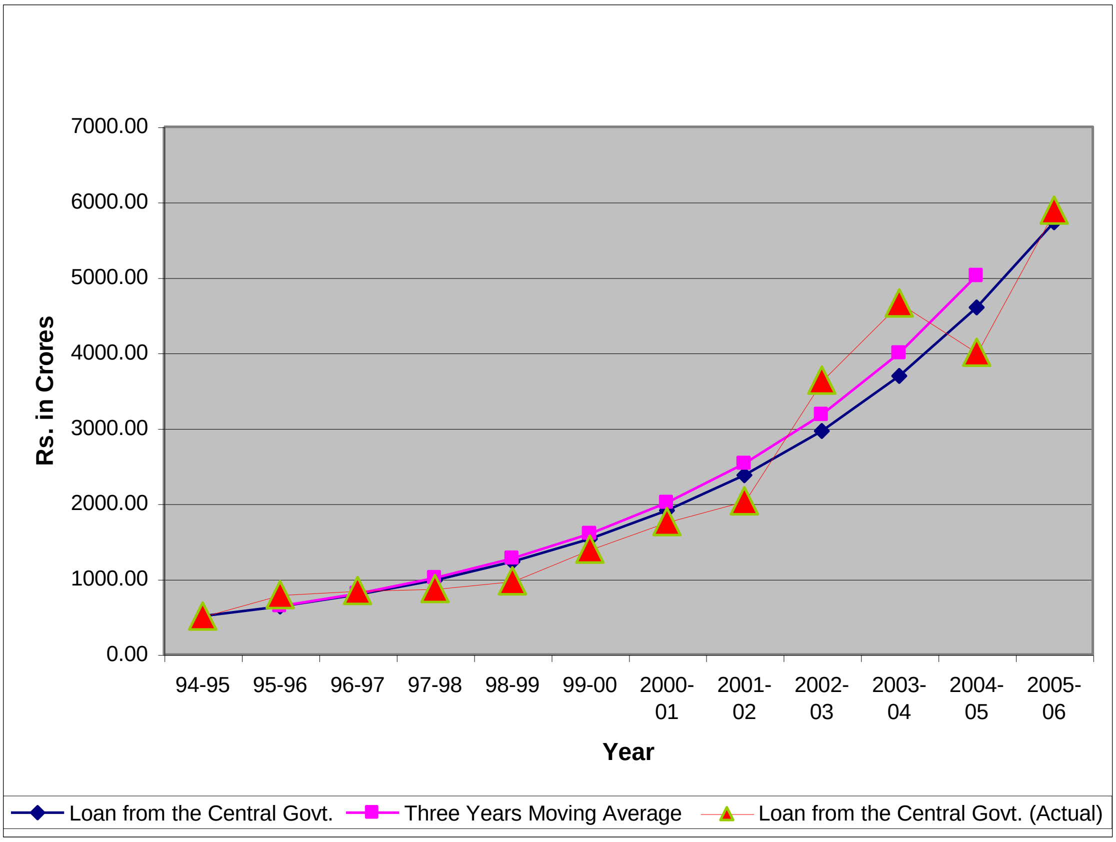


- In the sphere of non-tax revenues, the state government needs to take a very comprehensive and hard look at the loans given to the public utilities and reduce the reliance of these bodies on state government loans so as to lessen the interest burden. Secondly, there is a strong need to review various user charges and implicit subsidies.

Loans from Central Government

17.248 Figure 17.12 reports the loans from the central government. On the basis of the annual average growth rate, the trend growth rate of loans from the central government was 24.6 percent and on the basis of the three years moving average it was 25.7 percent. There has, by and large, not been convergence between the actual loans and the long term growth rates.

Figure: 17.12- Reports the Loans from the Central Government

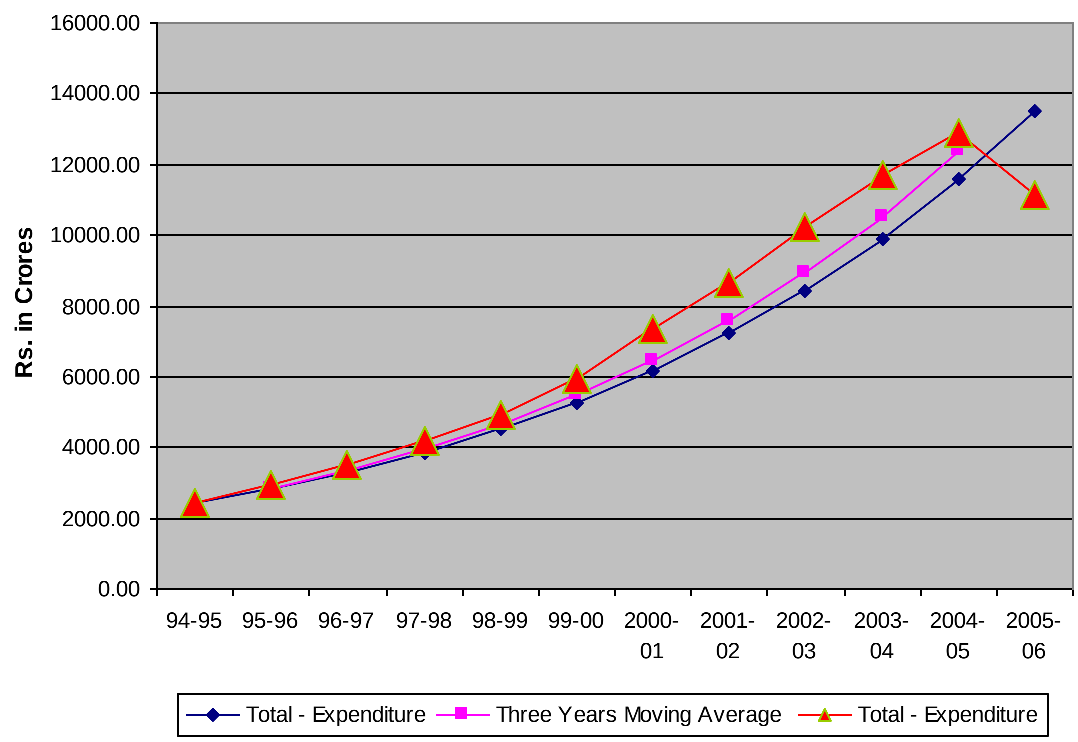


- The trend growth rate of central government loans is very much on the higher side. In fact, another disturbing factor are the growing opening cash balances. This implies that not only has growth (particularly in the last four years) been extraordinarily high, but it has also served no useful purpose. Recall that much of the loan amount pushes up non-plan expenditure such as repayment of loan to the central government and payment of interest. It is almost like receiving loan amounts for the privilege of repaying the same.

Total Expenditure Trends

17.249 Figure 17.13 reports the trends in total expenditure. On the basis of the annual average growth rate, the trend growth rate of total expenditure is 17.0 percent and on the basis of the three years moving average it was 17.8 percent. There has, by and large, not been convergence between the actual loans and the long term growth rates. The difference between the trend growth rate of total receipts and the total expenditure is very marginal.

Figure 17.13 Trends in Total Expenditure 1994-1995 to 2005-2006

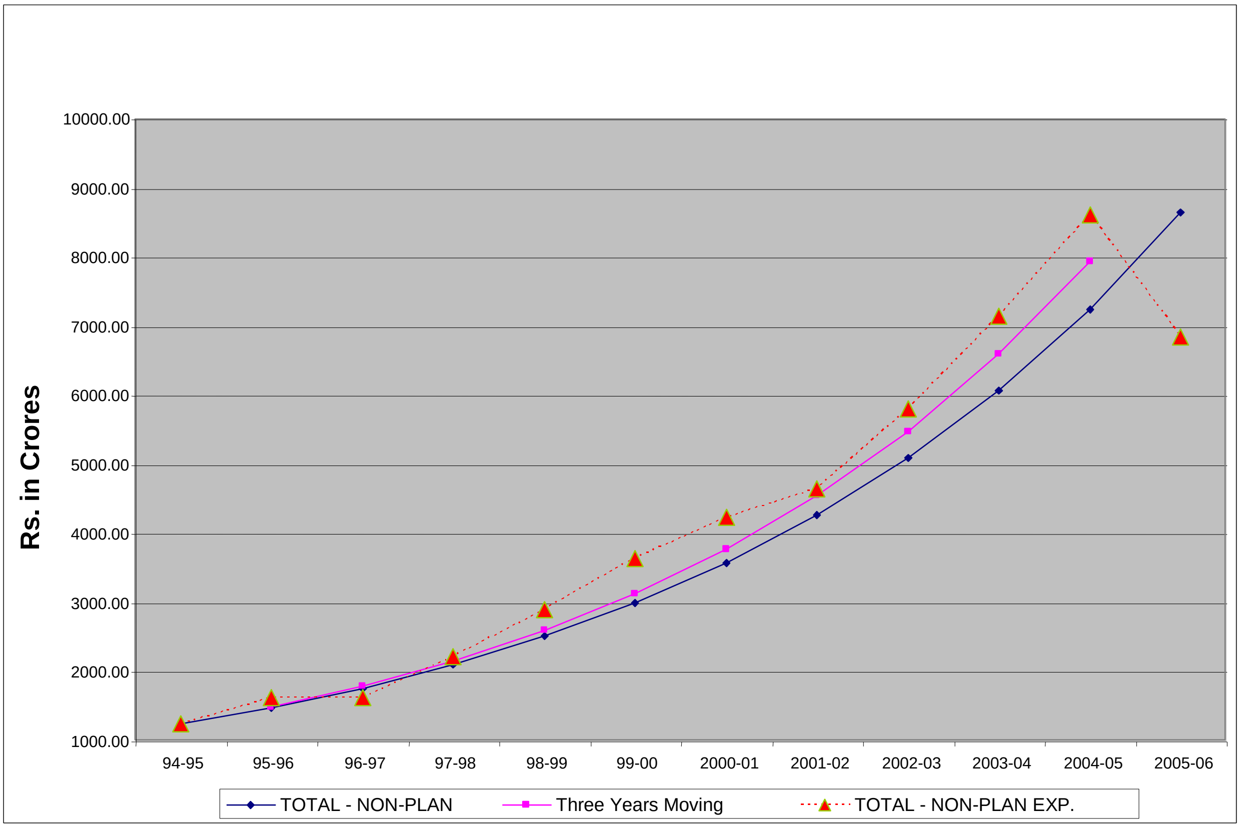


- There has been little convergence between the trend growth rate and the actual total expenditure. The convergence is visible only in three years. From 2002-2003 onward the difference has been growing. Only in 2005-2006, the total expenditure came down below the growth rate. This too was because government's intention to repay a substantial amount of the central loan (Rupees 2281.67 crore) did not materialize. The state government was able to repay only Rupees 223.66 crore. This kept down the non-plan expenditure. The fact, of course, is that the actual plan expenditure in 2005-2006 was also down.
- Clearly, relying on substantial repayment of loans to curb non-plan expenditure may not prove an effective strategy (unless GOI scheme is modified to allow repayments and prepayments of loans) on a substantial scale.

Non-plan Expenditure

17.250 Figure 17.14 shows the trends in total non-plan expenditure. On the basis of the annual average growth rate, the trend growth rate of total non-plan expenditure is 19.3 percent and on the basis of the three years moving average it was 20.4 percent. There has by and large not been convergence between the actual non-plan expenditure and the long term growth rates.

Figure 17.14 Trends in Total Non-plan Expenditure-1994-1995 to 2005-2006

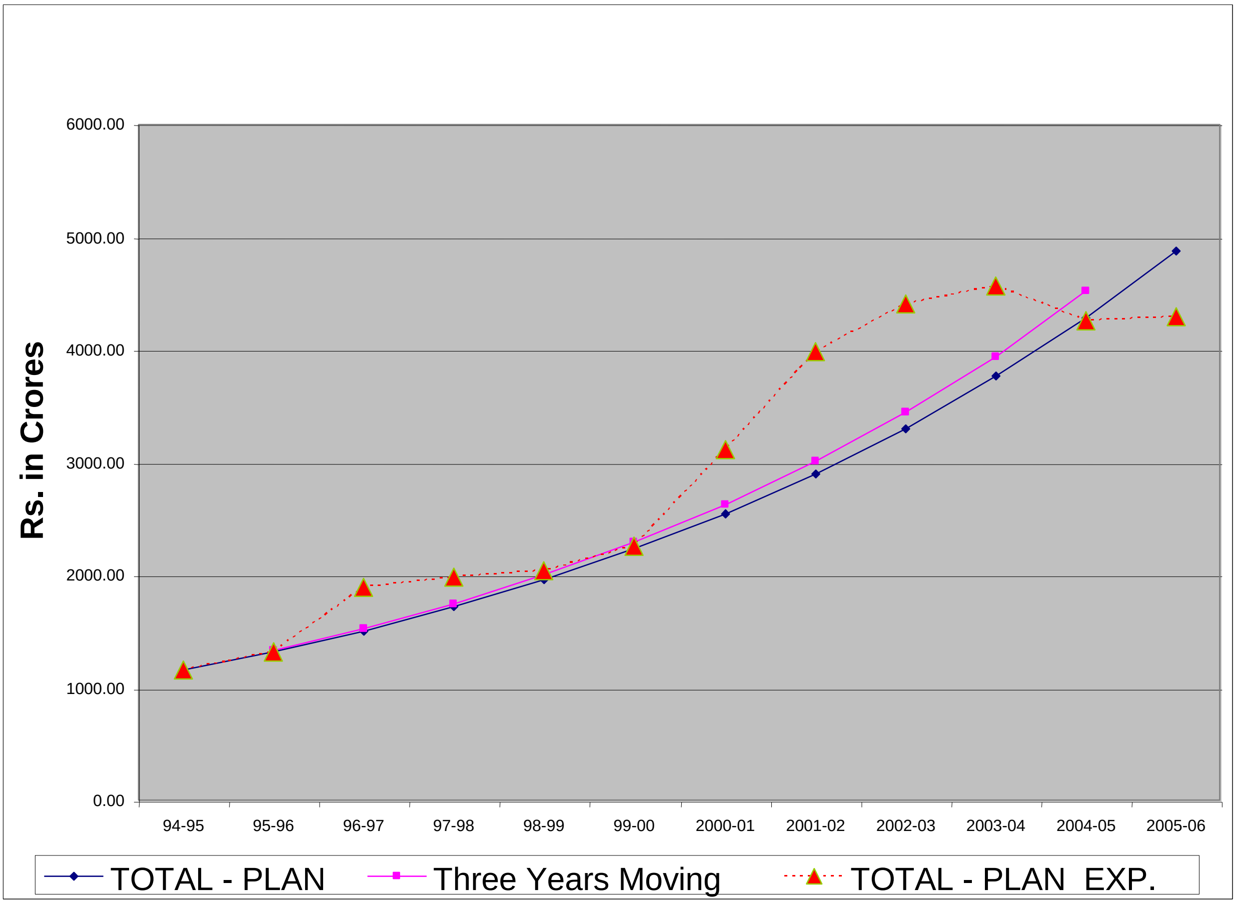


- There was convergence in the initial years between the actual non-plan expenditure and the trend growth rates. Thereafter, the non-plan expenditure continued to rise, till it was more or less equal to the trend growth rate on the basis of the three year average. It then again rose, till it fell below the trend growth rates in 2005-2006. The reason for the decline is the same as that pointed out in the context of total expenditure.

Plan expenditure trends

17.251 Figure 17.15 shows the trends in total plan expenditure. On the basis of the annual average growth rate, the trend growth rate of total plan expenditure is 13.9 percent and on the basis of the three years moving average it was 14.5 percent. There has by and large not been convergence between the actual plan expenditure and the long term growth rates.

Figure 17.15 Trends in Total Plan Expenditure-1994-1995 to 2005-2006

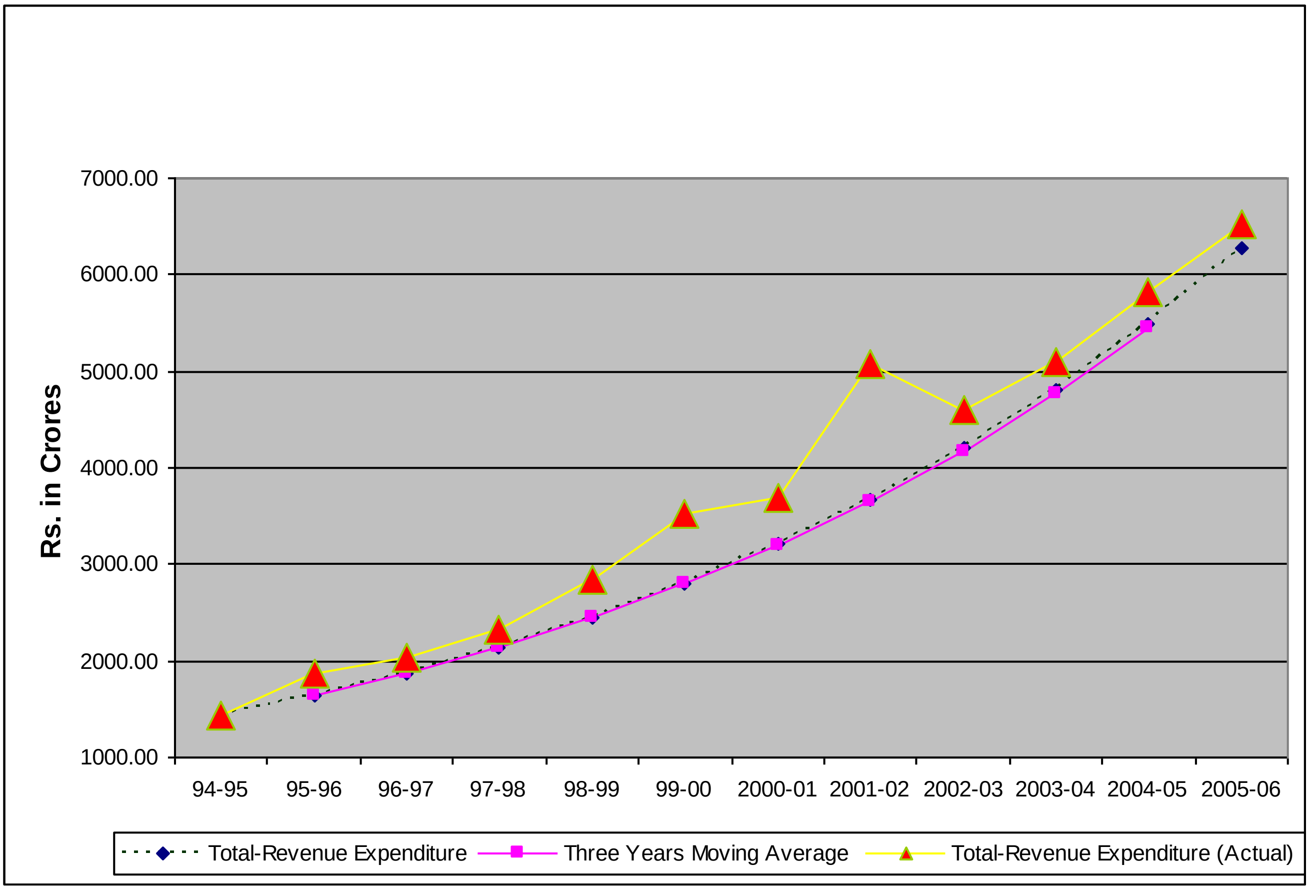


- There was convergence between the actual plan expenditure and the trend growth rates in four years (1995-1996, 1998-1999, 1999-2000 and 2004-2005). In the remaining years except in 2005-2006 the actual expenditure was higher than the trend growth rate. The actual expenditure in the year 2005-2006 was less than the trend growth.

Revenue Expenditure Trends

17.252 Figure 17.16 shows the trends in total revenue expenditure. On the basis of the annual average growth rate, the trend growth rate of total revenue expenditure was 14.4 percent and on the basis of the three years moving average it was 14.3 percent. There has not been convergence between the actual revenue expenditure and the trend growth rates.

Figure 17.16 Trends in Total Revenue Expenditure-1994-1995 to 2005-2006

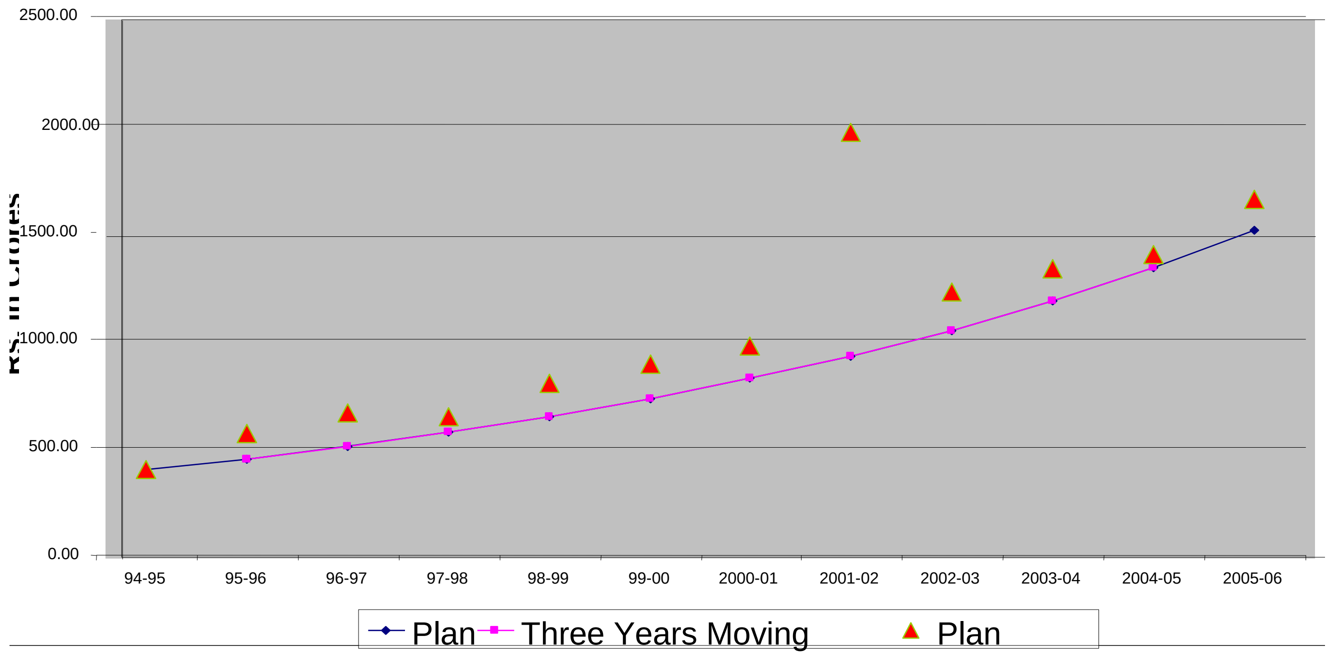


- The actual total revenue expenditure was always higher than the trend growth rates.

Non-plan Revenue Expenditure Trends

17.253 Figure 17.17 shows the trends in non-plan revenue expenditure. On the basis of the annual average growth rate, the trend growth rate of non-plan revenue expenditure was 14.9 percent and on the basis of the three years moving average it was 14.8 percent. There has not been any convergence between the non-plan revenue expenditure and the trend growth rates.

Figure: 17.17 Total Non-plan Revenue Expenditure-1994-1995 to 2005-2006

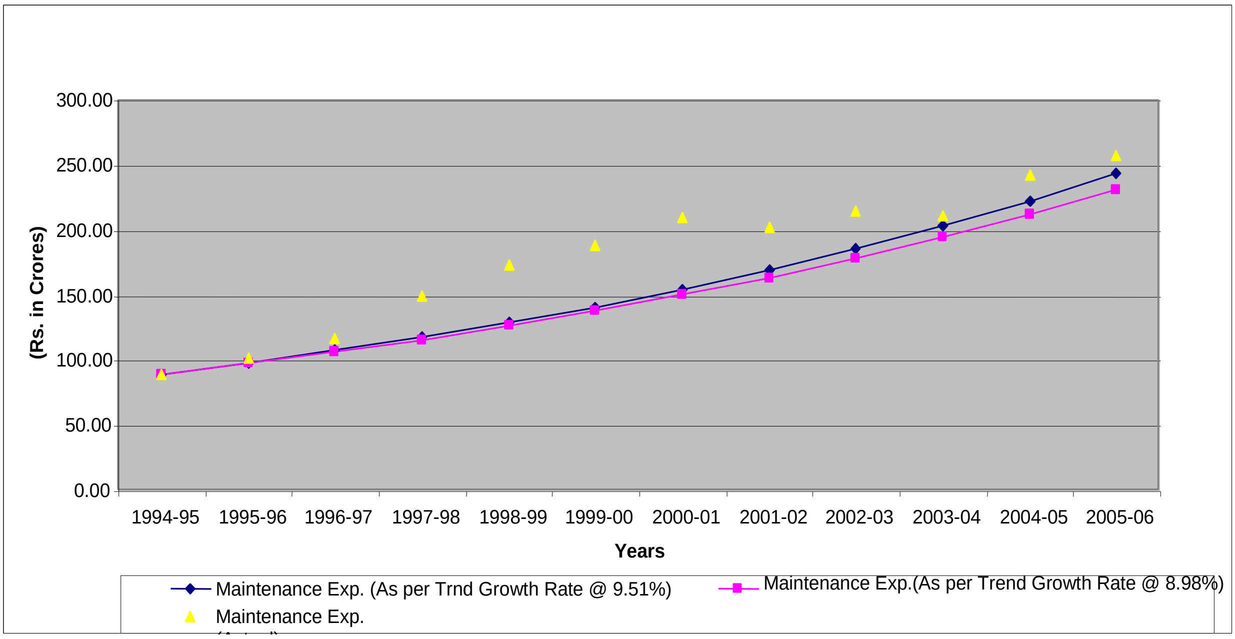


- The actual non-plan revenue expenditure was always higher than the trend growth rates.

Non-plan Maintenance Expenditure

17.254 Figure 17.18 shows the trends in non-plan maintenance expenditure. On the basis of the annual average growth rate, the trend growth rate of non-plan maintenance expenditure was 9.51 percent and on the basis of the three years moving average it was 8.98 percent. There has by and large not been any convergence between the non-plan maintenance expenditure and the average annual trend growth rates.

Figure: 17.18- Non-plan Maintenance Expenditure-1994-1995 to 2005-2006

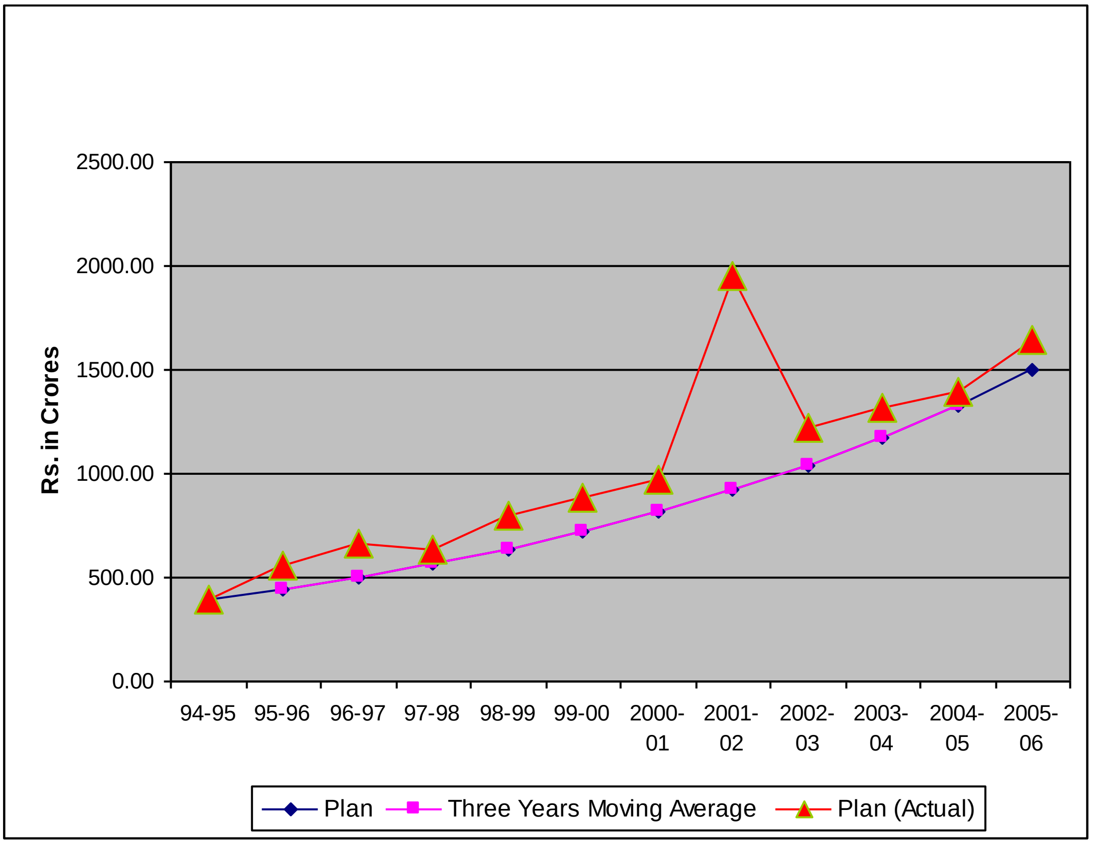


- The actual non-plan maintenance expenditure has always been higher than the trend growth rates in the years except in the years 1995-1996, 1996-1997 and 2003-2004.

Plan Revenue Expenditure Trends

17.255 Figure 17.19 shows the trends in plan revenue expenditure. On the basis of the annual average growth rate, the trend growth rate of plan revenue expenditure and three years moving average it was 13.0 percent. There has not been any convergence between the plan revenue expenditure and the average annual trend growth rates.

Figure: 17.19- Plan Revenue Expenditure-1994-1995 to 2005-2006

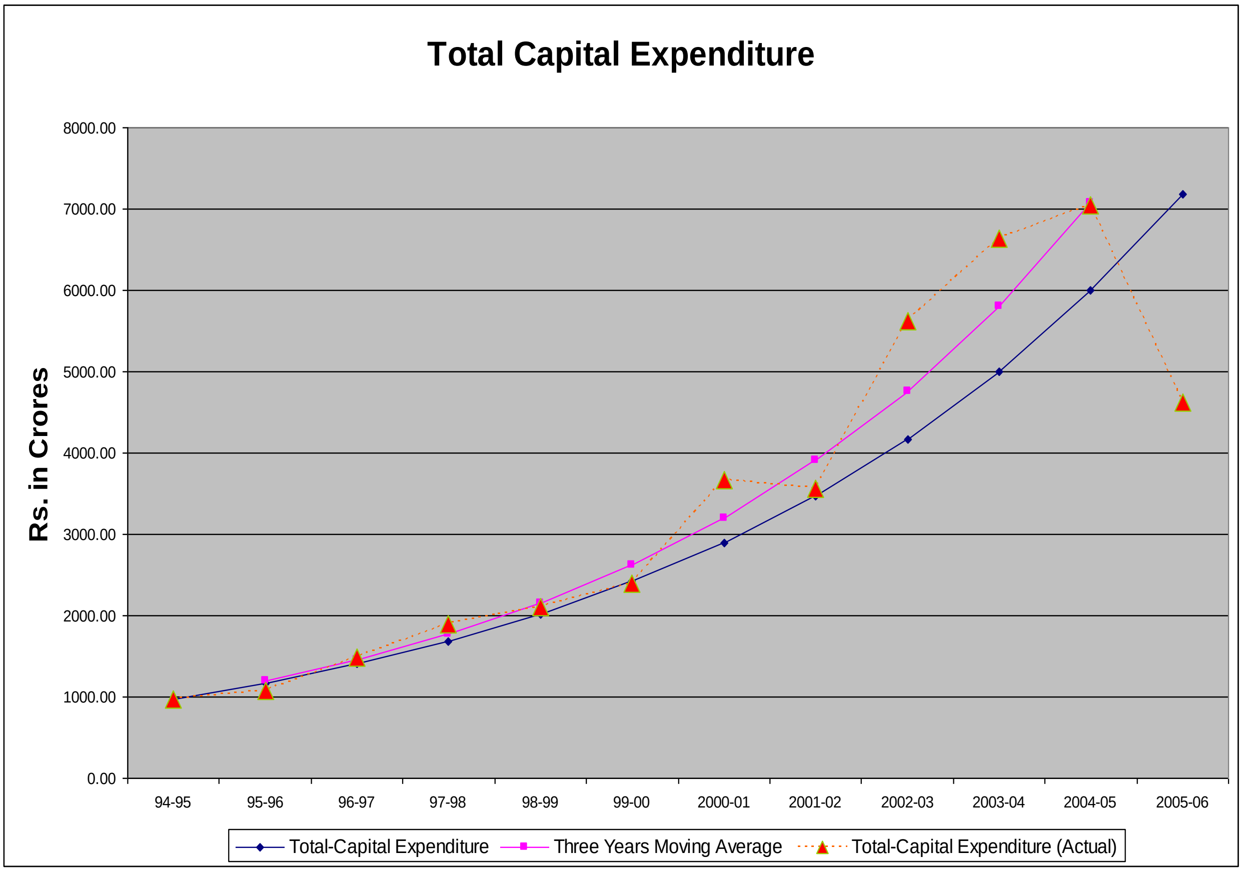


- The actual plan revenue expenditure was always higher than the trend growth rates.

Total Capital Expenditure Trends

17.256 Figure 17.20 shows the trends in total capital expenditure. On the basis of the annual average growth rate, the trend growth rate of total capital expenditure was 19.9 percent and on the basis of the three years moving average it was 21.9 percent.

Figure: 17.20- Total Capital Expenditure-1994-1995 to 2005-2006

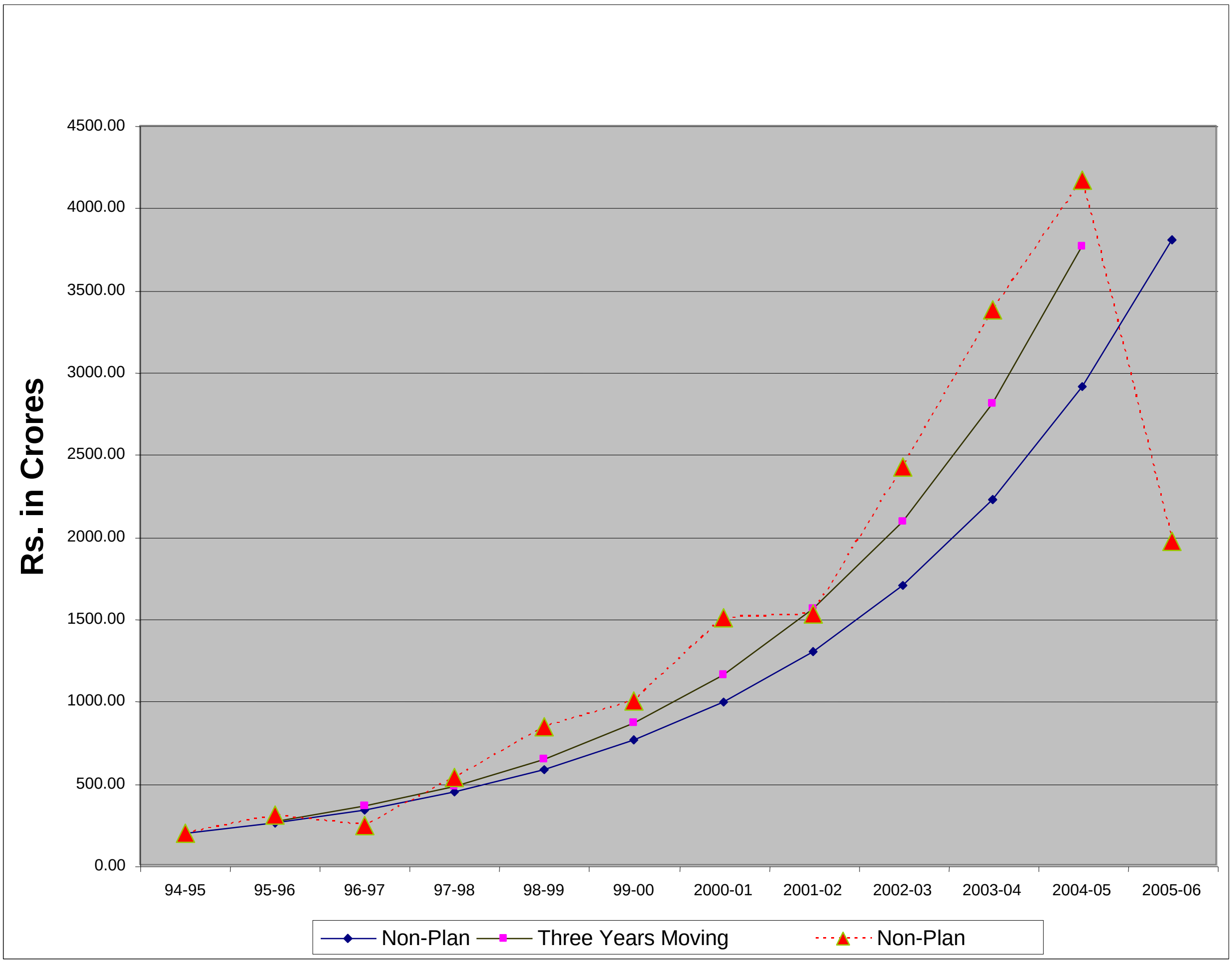


- There has not been any convergence between the total capital expenditure and the average annual trend growth rates in the years 2000-2001, 2002-2003, 2003-2004 and 2005-2006.
- The actual capital expenditure was higher than the trend growth in 2000-2001, 2002-2003 and 2003-2004. It was less than the trend growth in the year 2005-2006.

Non-plan Capital Expenditure

17.257 Figure 17.21 shows the trends in non-plan capital expenditure. On the basis of the annual average growth rate, the trend growth rate of non-plan capital expenditure was 30.7 percent and on the basis of the three years moving average it was 34.1 percent.

Figure: 17.21-Non Plan Capital Expenditure-1994-1995 to 2005-2006

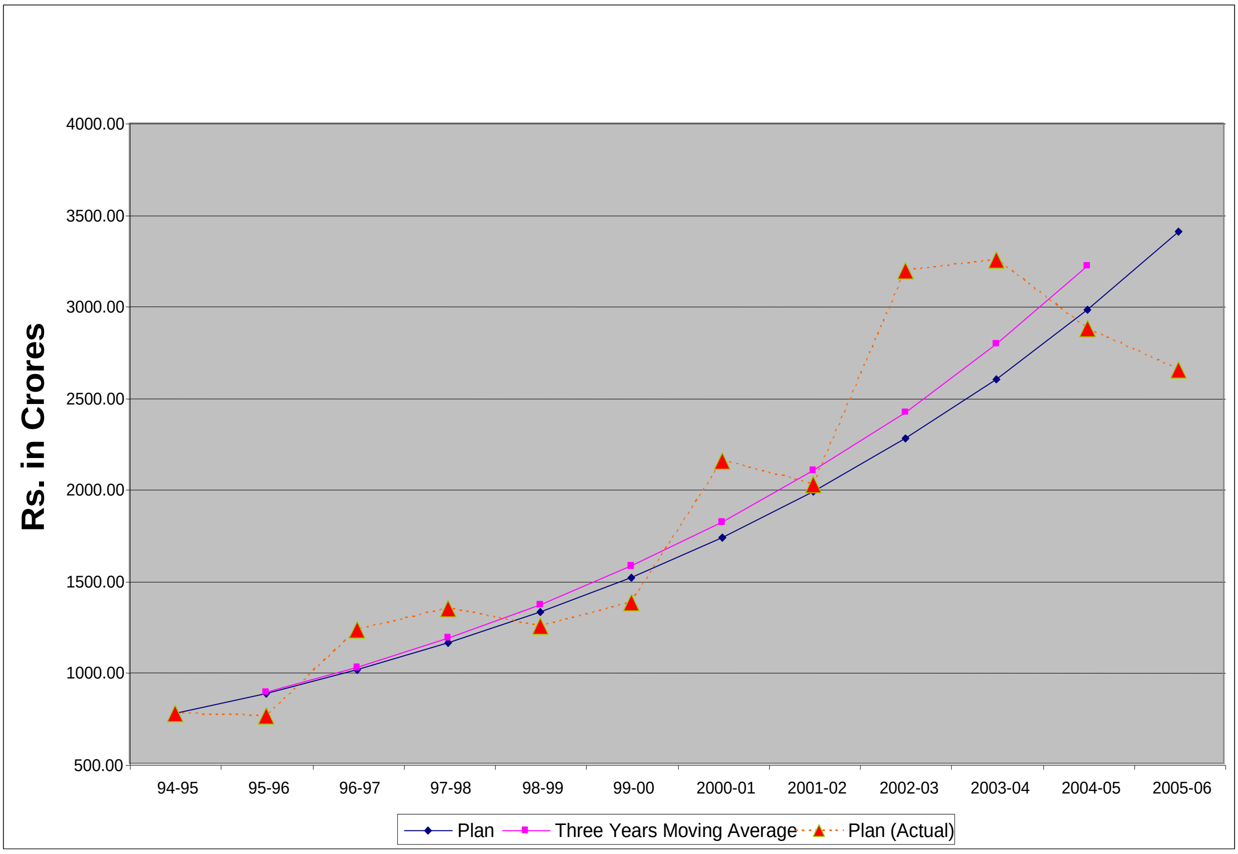


- There has not been any convergence between the non-plan capital expenditure and the average annual trend growth rates in the years 1998-1999, 1999-2000, 2000-2001, 2002-2003, 2003-2004, 2004-2005 and 2005-2006.
- The actual non-plan capital expenditure was higher than the trend growth in all these years except in the year 2005-2006 when it was lower than the trend growth.

Plan Capital Expenditure Trends

17.258 Figure 17.22 shows the trends in plan capital expenditure. On the basis of the annual average growth rate, the trend growth rate of plan capital expenditure was 14.4 percent and on the basis of the three years moving average it was 15.3 percent.

Figure: 17.22- Plan Capital Expenditure-1994-1995 to 2005-2006



- There has by and large not been any convergence between the plan capital expenditure and the average annual trend growth.
- The actual plan capital expenditure was higher than the trend growth in all these years except in the years 1995-1996, 1998-1999, 1999-2000, 2004-2005 and 2005-2006.

Commission's Forecast

17.259 For the purposes of a forecast we shall be depending on the data of actual figures for the five-year period 2001-2006 and the trend growth derived from this data. This will help to take into account the impact of the latest policy measures to generate additional resources.

17.260 The projections made by the state government in its Memorandum, the draft Approach Paper to the Eleventh Plan, the trend growth rates, and those estimated by the Commission have been compared in Table 17.51.

Table: 17.51-Projections-State Government and The Finance Commission: A Comparison (Rupees in crore)

S.No.	Items	Actual 2005-06	Trend Growth Rate Actual 2000-2001 to 2005-2006	Projections (Trend Growth Rates) Total 2006-07 to 2010-11*	Projections (State Government) Total 2006-07 to 2010-11$	Projections (State Government) Total 2007-08 to 2011-12@	Projections (Commission) Total 2006-07 to 2010-11*
I	**REVENUE RECEIPTS**						
1	**TAX REVENUE**						
a	Sales Tax	6500.55	13.4	45440.06	40480.71	NA	43000.00
b	Excise	1024.80	12.2	7333.75	5952.48	NA	6700.00
c	Stamps and Registration	827.65	32.6	10433.90	5399.92	NA	7900.00
d	Motor Vehicle Tax	298.74	13.0	2187.59	1868.99	NA	2000.00
e	Other Tax	287.54	17.8	2413.75	1428.59	NA	1900.00
	Total - Tax Revenue	8939.28	14.6	68526.68*	55130.69	84975.30	61500.00
2	Non-Tax Revenue	1398.96	15.3	10940.25**	1565.59	10839.17	2000.00***
1+2	OWN REVENUE RECEIPTS OF DELHI GOVT.	10338.24	14.6	79250.82	56696.28	95814.47	63500.00
3	Share in Central Taxes	325.00	-	1625.00	1625.00	1625.00	1625
4	CENTRAL PLAN ASSISTANCE (GRANT)	178.26	3.8	998.21	No Projection	3234.95	1200.00
	Total - Revenue Receipts	10843.53	13.7	81013.23	58321.28	100664.42	66325.00
II	CAPITAL RECEIPTS						
1	Recovery of Loans	314.74	17.7	2634.63	1122.32		2634.63
2	Loan Repayment by Govt. Servant]	4.94		25.00	No Projections	NA	25.00
3	Loan against Small Savings	5896.45	30.6	70449.60	No Projections	NA	No Projections
	Total-Capital Receipts	6216.13	25.7	65007.63	1122.32	1024.35	2659.63
	Total – Receipt	17059.66	17.3	141198.97	59443.60	101688.77	68984.63
	EXPENDITURE						
III	REVENUE EXPENDITUTRE						
1	Non-Plan	4866.95	12.3	34929.59	25180.15	41134.54	30250.00
2	Plan	1648.44	5.0	9564.11	No Projection	15271.94	9565.00
	Total-Revenue Expenditure	6515.39	10.1	43881.86	No Projection		39815.00
IV	CAPITAL EXPENDITURE					56406.48	
1	Non-Plan	1974.23	14.3	15004.96	6508.88	15463.18	10750.00
2	Plan	2652.12	6.2	15940.69	No Projection	30428.06	25435.00
	Total-Capital Expenditure	4626.35	10.1	31158.97	No Projection	45891.24	32185.00
	TOTAL - NON-PLAN EXP.	6841.18	13.6	50965.09	31689.03	56597.72	41000.00
	TOTAL - PLAN EXP.	4300.56	5.4	25247.44	35061.00	45700.00	35000.00
	Total – Expenditure	11141.74	10.2	75258.65	66750.03	102297.72	76000.00
	Resource Deficit/Surplus	5917.92	-	65940.32	(-) 7306.43	(-) 608.95	(-)7015.37

(Note: *The actual totals and those reported in the Figure above will vary due to rounding off of trend growth rates ** Inclusive of Interest Income; *** Exclusive of Interest Income; $ Based on Memorandum of the State Government. @ Based on draft Approach Paper to Eleventh Five Year Plan)

Projections as per trends

17.261 If the trends of the actual receipts and expenditure for the six years period (2001-2006) are extrapolated in to the future, the position would be as shown in column 5 of Table 17.51. This gives us total receipts of Rupees 141198.97 crore (including small savings loans of Rupees 70449.60 crore). Therefore, minus the loan amounts the total receipts are projected to be Rupees 70749.37 crore.

17.262 Further, the projections of total receipts above include non-tax revenue of Rupees 10940.25 crore which are inclusive of interest earnings due mainly from public utilities. If this is excluded (in view of the fact that there are no actual realizations) the total receipts would be further reduced to Rupees 60749.37 crore (Rupees 70749.37 minus Rupees 10000.00 crores).

17.263 The total expenditure (plan and non-plan) would, as per the trends, be Rupees 75258.65 crore (plan Rupees 25247.44 crore plus Rupees 50965.09 crore non-plan).

17.264 If we include the small savings loans as per the trend growth rate there would be a surplus of Rupees 65940.32 crore. On the other hand, if the small savings loans are excluded, there would be a deficit of Rupees 4509.28 crore.

17.265 Interest of around Rupees 10,000 crore, given the track record, is also not likely to be realized and would be added to the loan amount. This too will contribute to the deficit. Therefore the total deficit would be Rupees 14509.28 crore.

Projections as per State Government Memorandum

17.266 As per the Memorandum of the state government, the projected receipts and expenditure for the five years period (2006-2011) would be as shown in column 6 of Table 17.51. This gives us total receipts of Rupees 59443.60 crore (excluding small savings loans of Rupees 70449.60 crore and also central plan assistance of Rupees 998.21 crore as per the trend growth rates).

17.267 Further, the projections of total receipts above include non-tax revenue of Rupees 1565.59 crore which apparently are exclusive of interest earnings due mainly from public utilities.

17.268 The total expenditure (plan and non-plan) would according to the Memorandum be Rupees 66750.03 crore (plan Rupees 35061.00 crore plus non-plan Rupees 31689.03 crore).

17.269 According to the Memorandum there would be an overall deficit of Rupees 7306.43 crore.

Projections in Draft Approach Paper to Eleventh Plan

17.270 The projections based on the draft Approach Paper to the Eleventh Five-year Plan have been shown in column 7 of Table 17.53. A conscious note has been taken of the projections because the time frame varies only slightly and the bulk of the period is the same as in the Memorandum of the state government. These projections show total receipts of Rupees 101688.77 crore.

17.271 The Approach Paper has projected total tax revenues of Rupees 84975.30 crore against Rupees 55130.69 crore, making for a difference of Rupees 29844.61 crore. The difference between the Approach Paper and the projections based on the trend is Rupees 16448.62. The difference in the Approach paper's projection and that of the trends analysis is probably due to a difference in the time frame and the trend growth taken into account for the five year period of the Eleventh Plan. In any case, the projections of the Approach Paper are closer to the projections of the trend growth.

17.272 The non-tax revenues have been projected at Rupees 10839.17 crore. The trend growth projects non-tax revenues at Rupees 10940.25 crore. While there is a very marginal difference between the two, the variation is considerable compared to the position in the Memorandum. This is possibly due to the Memorandum excluding interest receipts due from the public utilities.

17.273 The total expenditure has been projected at Rupees 102297.72 crore (plan-Rupees 45700.00 crore and non-plan Rupees 56597.72 crore). Comparison with the Memorandum reveals that the total expenditure has been pegged at Rupees 66750.03 crore. The plan expenditure has been placed at Rupees 35061.00 crore and non-plan at Rupees 31689.03 crore. Clearly, there is a substantial difference between the Approach Paper and the Memorandum. The Memorandum has placed the non-plan expenditure at Rupees 31689.03 crore. The difference in the two estimates is Rupees 24908.69 crore. The Approach paper states, as one of the important components of its strategy, the intention to compress non-plan expenditure. In pursuit of this, the Paper proposes to reduce small savings loans to the minimum possible and improve the financial position of the public utilities.

17.274 The difference between the deficit/surplus projected by the Approach Paper and the Memorandum may also be noted. According to the Memorandum, the deficit would be Rupees 7306.43 crore and the Approach paper projects a deficit of Rupees 608.95 crore. The respective deficit figures indicate the loan amount that shall be required to cover the gap.

17.275 The Approach Paper takes into account the total projected cash loan of Rupees 3753.40 crore (DTC Rupees 1380.00 crore, DJB 1009.00 crore, and DPCL Rupees 1364.40 crore) and the interest amount due from the public utilities. The total interest amount has been shown as Rupees 8615.22 crore. This makes for a total figure of Rupees 12368.62 crore. Given these data, it is far from clear as to how the **financial discipline** envisaged by the Approach Paper will be secured.

Commission's Projections

17.276 The Commission's projections are based on a moderation of the trend growth data, the forecasts of the state government, and the data in the Approach Paper. Therefore, the forecast tries to strike a balance between the three projections. The Commission's estimates are provided in column 8 of Table 17.51

Receipts

17.277 The total receipts in the period 2006-2007 and 2010-2011 as per the moderated projections of the Commission are Rupees 68984.63 crore (exclusive of small savings loans and interest receipts from public utilities).

17.278 The state government have made no projections regarding the small savings loans, central plan assistance, and repayments of loans by the government employees. It has also excluded interest due from the public utilities. Accordingly, it has projected the total receipts at Rupees 59443.60 crore. The trend growth figures include all these excluded items and the receipts have been projected at Rupees 141198.97 crore. In moderating the forecast, the Commission too has excluded the items not included in the receipts figure of the state government, the exception being that the Commission has projected Rupees 25.00 crore for loan repayments by government employees.

17.279 Though like the state government, the Commission has not included projections in respect of small savings loans, the fact remains that unless there is a major change in policy, small savings loans will continue to remain an important and substantial part of the total receipts. This implies that assuming away the loan component is likely to be contrary to the real situation. Similarly, showing receipts against interest amount dues distorts the actual picture.

17.280 Now, consider the third important component of total receipts: the tax revenues. In making its projections the state government have assumed growth rates of: sales tax (11 percent); state excise (10 percent); stamps and registration (12 percent); tax on vehicles (7 percent), and other taxes (10 percent). These are rather conservative estimates given the trends of the past. For example, against a trend growth of 13.4 percent for vat, the Memorandum expects the growth at 11 percent. Similarly, against 12.2 percent for state excise, the state government assumes a growth of just 10 percent. The divergence is particularly sharp in the case of stamps and registration, taxes on motor vehicles, and other taxes: excise-12 percent (state government) against 32.6 percent (trend), taxes on motor vehicles 7 (state government) percent and 13 percent (trend), 10 percent (state government) and 17.8 percent (trend).

Expenditure

17.281 The total expenditure has been estimated by the Commission at Rupees 76000.00 crore. Out of this, the plan expenditure is placed at Rupees 35000.00 crore and the non-plan expenditure at Rupees 41000.00 crore.

17.282 The plan expenditure as per the past trend (involving an annual average expenditure of Rupees 4110.07 crore and a trend rate of 5.4 percent) comes to a total of Rupees 25247.44 crore in the next five years. The Memorandum of the state government has projected the plan expenditure at Rupees 35061.00 crore and the Approach Paper has projected the same at Rupees 45700.00 crore. The Commission has estimated the plan expenditure during the period at Rupees 35000.00 crore.

17.283 The Commission has projected an additional amount of approximately Rupees 9750.00 crore on the assumption that over and above the normal plan size (of Rupees 25247.44 crore) there would be special needs to fulfill the twin objectives of 'development with a human face,' and for making Delhi a global city. The exact program and project component of these two goals have not been spelt out clearly in the Approach Paper. Some suggestions of the Commission in this context are incorporated in the next chapter.

17.284 As regards non-plan expenditure, the expenditure for the period as per the past trends comes to Rupees 50965.09 crore whereas the state government has projected a total of Rupees 31689.03 crore. The Approach Paper has estimated the non-plan expenditure during the Eleventh Plan period at Rupees 56597.72 crore even though it has been stated in the Approach Paper that the non-plan expenditure will be compressed during the Eleventh Plan by ensuring financial discipline in the public utilities and reducing the small saving loans to the minimum.

17.285 The Commission has projected the non-plan expenditure at Rupees 41000.00 crore. Even after the state government takes necessary action to curb the non-plan expenditure and reduce the loan amounts to public utilities to the minimum, the non-plan expenditure is not likely to be less than this amount. This also takes into account the expenditure of Rupees 2027.00 crore on account of pension liabilities under the new pension scheme effective for the employees appointed after January 2004 (these projections are for four years from 2007-2008 to 2010-2011 as estimated in the draft Approach Paper).

17.286 As per the past trends and taking into account the loan amounts against small savings which would be received by Delhi government and also including the interest on loans from public utilities, the over all surplus comes to Rupees 65940.32 crore. In case we do not provide for the small saving loan of Rupees 70449.60 crore and Rupees 10,000.00 crore for interest from public utilities, the overall surplus will turn into a deficit of Rupees 4509.28 crore.

17.287 The state government in its Memorandum has projected the deficit of Rupees 7306.43 crore and the Approach Paper for the Eleventh Plan at Rupees 608.95 crore. The Commission has estimated the likely deficit during the five year period at Rupees 7015.37 crore after excluding small saving loans, interest from public utilities and increased provision for the non-plan expenditure.

17.288 One final issue relates to the assigned taxes and non-plan grants to local bodies. The present percentage shares are 5.5 percent of the net proceeds of the tax revenues of the state government for assigned taxes and 5.00 percent as non-plan grants. If there is no change in this rate, the total share of the local bodies (MCD, NDMC, and DCB) for the period 2006-2007 to 2010-2011 would be Rupees 6450.00 crore. If there is an increase of 0.50 percent in both the rates i.e. assigned taxes at the rate of 6.00 percent of the net proceeds of the tax revenue and 5.50 percent as non-plan grants the total liability of the state government would increase to Rupees 7060 crore. And if the rate is increased by 1 percent, from 5.50 to 6.50 percent for assigned taxes and 6.00 percent as non-plan grant, the total liability would be Rupees 7670.00 crore.

17.289 The net impact of the increase by 0.50 percent each in assigned taxes and non-plan grants will be Rupees 610.00 crore and in case the assigned taxes and grants are increased by 1 percent each the net impact will be approximately Rupees 1220.00 crore.

17.290 The deficit of the state government would increase by these amounts in case the percentages for assigned taxes and non-plan grants are increased by 0.50 percent or 1 percent respectively.

Analysis of Projections of Local Bodies: MCD

17.291 The first thing that needs to be noted is the fact that projections of the local bodies are deficient in providing any analytical background. There is no attempt to even explain the causative reasoning behind the trajectory of revenues or expenditure projected. For instance, the NDMC had projected the likelihood of a deficit to the second Finance Commission also. It did not happen. Therefore, what has led the NDMC to assume that, this time round, the forecast of its surplus converting itself into a deficit is any more valid? Again, apart from projecting their expenditure requirements, what measures will the MCD take to generate additional resources or to compress wasteful expenditure? The Memoranda of the two local bodies are silent on other equally important aspects of financial management that should have engaged their focused attention. The somewhat casual presentation is all the more unacceptable because they have been assigned expenditure responsibilities in spheres having a vital impact on the quality of life available to citizens: the provision of civic services, infrastructure, and amenities.

17.292 Additionally, the projections of revenues and expenditure are not related to any medium term or long term plans related to their responsibilities. This again is a significant omission. It is not even related to achievements in the areas of responsibility. This means there is no narration of what the local bodies set out to achieve and what they actually can showcase as their achievements.

17.293 There is no enumeration of the fiscal reforms undertaken or proposed: whether in the field of revenues or expenditure. How will they handle the bourgeoning wage or pension bills? How will they cut manpower? How will they achieve larger allocations for the discharge of obligatory functions? There is no answer to even such basic issues. In fact, it is almost as though the local bodies exist in a vacuum: responsible to no one and answerable for nothing.

Assessing Trends

17.294 It is in this background that their forecasts need to be assessed. Table 17.56 provides details of the projections on the basis of trend growth rates (1994-1995 to 2004-2005), such projections as have been provided by the MCD, and the projections of the Commission.

17.295 Before the actual forecasts are considered , the main features of the financial operations of the MCD[39] may be briefly recalled .

17.296 The actual realizations of revenues proposed by the Commissioner or approved by the Corporation (whether at the BE or the RE stage) have always been lower, and substantially so. For instance, in the latter part of the period 1994-1995 to 2004-2005, there is a growing divergence between the actual collections and the resource projections at the BE and RE stage. In 2004-2005 it was below 50 percent of both the BE and the RE. In absolute terms the difference is of Rupees 1256.30 crore (BE) and Rupees 1473.16 crore (RE). It was below 60 percent in earlier four years. The gap between projections and collections reflects performance inefficiencies or unrealistic projections. In either case this is not a satisfactory situation.

17.297 The share of 'own receipts' in total receipts have mostly been less than 50 percent. This implies that the state government has met over 50 percent of the resource needs of the MCD. In fact, in five years, the share of own resources was between 40 to 45 percent. Own resources crossed the 50 percent mark in just three years, and that too marginally. It was barely 40.65 percent in 2004-2005.

17.298 The fact is that, if budgetary data is studied in some detail, it would not be possible to detect any pattern or trend. This is suggestive of the absence of any medium term or long term development and investment plans. In turn, this implies that the Corporation is not working toward the achievement of any specific goals or objectives, not even the discharge of obligatory functions.

17.299 The lack of effective initiatives in the sphere of resource mobilization is too evident to require any detailed recalling. Not only did the Corporation fail to implement the reformed property tax system but it made hardly any effort to generate investible funds by curtailing non-priority expenditure.

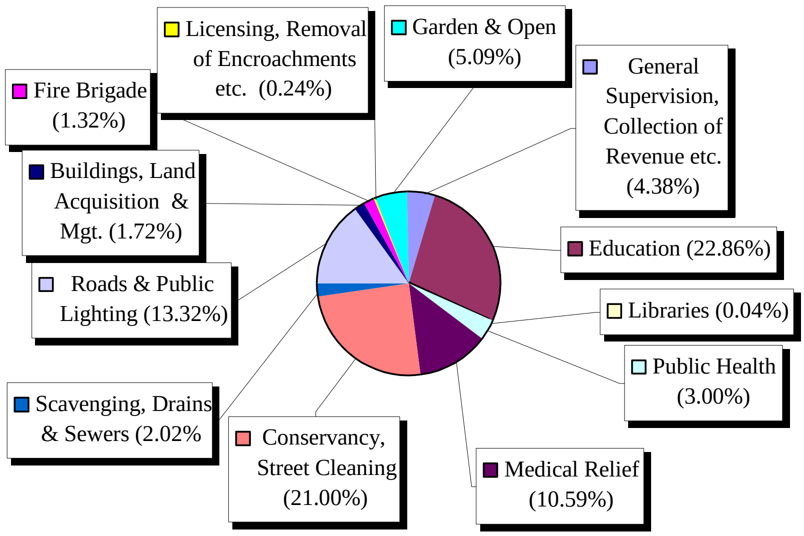
17.300 In this context it is worth noting that the Corporation has been unable to review the burgeoning manpower and has not been able to discharge even the statutory liabilities. Nor has it found resources for reform measures. Nonetheless, the expenditure has continued to mount.

[39] Details in Chapter XII and XIII.

Obligatory Functions of MCD

17.301 Now consider the position with reference to the provisions of section 105 of the Delhi Municipal Corporation Act, 1957. The section requires that the Corporation shall incur expenditure for carrying out the provisions of the Act.[40] This should mean that priority should be accorded to the obligatory functions. However, expenditure on obligatory responsibilities has declined from 85.88 percent (1994-1995) to 74.90 percent (2003-2004) i.e. a 10.89 percentage points decline. In 2001-2002 it came down to just 69.02 percent. Figure 17.23 provides the percentage share of expenditure on obligatory functions in 1994-1995.

Figure –17.23: Percenatage Share of Revenue Expenditure on Various Heads of Account - MCD (Non-plan) for the year 1994-95



17.302 Within the obligatory responsibilities it is worth noting (Table 17.52) that in percentage terms the expenditure on practically all items has been declining. For instance, it declined from a peak of 27.37 percent (1999-2000) on education to 23.29 percent (2003-2004). In respect of public health, the decline in the same period was from 3.00 percent to 2.44 percent. The situation does not improve when we turn to the expenditure on medical relief, conservancy, street cleaning, scavenging, drains and sewers, roads and public lighting. The decline has been particularly sharp in respect of roads and public lighting.

[40] Delhi Municipal Corporation Act, 1957, Section 105 dealing with application of Municipal Fund: (1) the monies, from time to time credited to the Municipal Fund shall be applied in payment of all sums, charges, and costs necessary for carrying out the provisions of this Act, and of the rules, regulations, and by-laws made there under, or of which payment is duly directed, sanctioned or required by or under any of the provisions of this Act. (2) Such monies shall likewise be applied in payment of all sums payable out of the Municipal Fund under any other enactment for the time being in force.

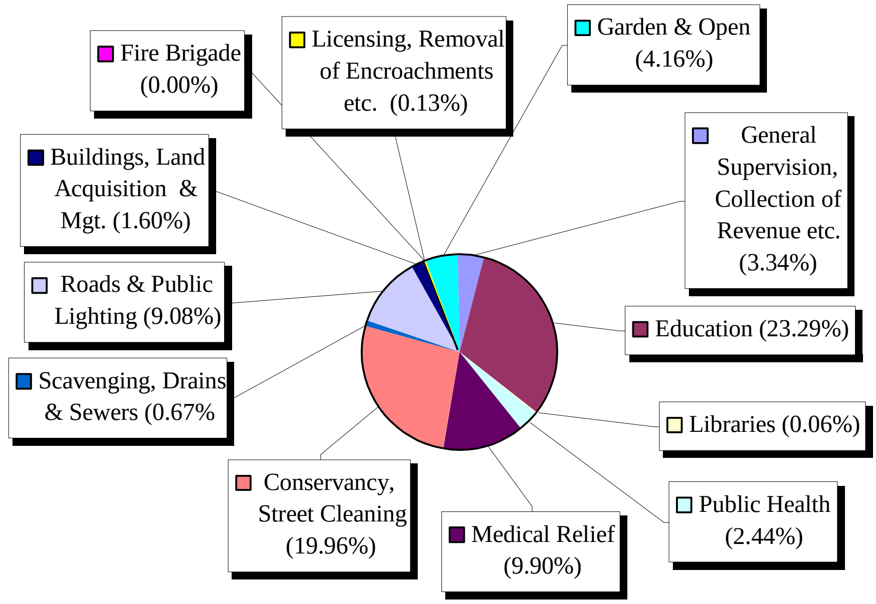
Table : 17.52-Percentage Share of Revenue Expenditure on Various Heads of Accounts – MCD (NON-PLAN)

Expenditure	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
General Supervision, Collection of Revenue etc.	4.38	3.79	4.79	4.18	3.27	2.81	3.50	3.39	3.27	3.34
Education	22.86	22.11	20.93	22.20	26.93	27.37	24.69	21.22	22.75	23.29
Libraries	0.04	0.06	0.05	0.05	0.05	0.09	0.05	0.04	0.04	0.06
Public Health	3.00	2.90	2.87	3.16	3.06	2.87	2.72	2.40	2.41	2.44
Medical Relief	10.59	9.87	9.90	9.69	8.83	9.23	9.07	8.12	9.06	9.90
Conservancy, Street Cleansing	21.00	20.21	19.77	21.77	20.32	19.15	19.19	17.57	18.41	19.96
Scavenging, Drains & Sewers	2.02	1.68	2.38	1.20	4.29	5.40	0.81	0.56	0.70	0.67
Roads & Public Lighting	13.32	12.67	12.35	11.92	9.46	8.93	7.84	9.85	8.13	9.08
Buildings, Land Acquisition & Mgt.	1.72	1.84	1.99	1.76	1.73	1.61	1.75	1.42	1.34	1.60
Fire Brigade	1.32	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Licensing, Removal of Encroachments etc.	0.24	0.21	0.19	0.22	0.18	0.15	0.17	0.14	0.13	0.13
Garden and Open Spaces	5.09	4.81	4.87	5.14	4.53	4.28	4.51	4.14	3.94	4.16
Markets & Slaughter Houses 1``-	0.29	0.28	0.25	0.24	0.16	0.24	0.24	0.17	0.30	0.27
Total	**85.88**	**80.43**	**80.43**	**81.53**	**82.81**	**82.13**	**74.54**	**69.02**	**70.48**	**74.90**

(Source: Based on Annexure 8 of the Memorandum of the MCD)

17.303 Figure 17.24 summarizes the percentage share of expenditure on obligatory functions in 2003-2004. While the expenditure on obligatory functions has declined overall, expenditure has escalated on a number of miscellaneous items of petty expenditure.

Figure 17.24: Percenatage Share of Revenue Expenditure on Various Heads of Account - MCD (Non-plan) for the year 2003-04



Miscellaneous Expenditure on New Works Etc.

17.304 The miscellaneous expenditure on new works and departmental charges has increased from 13.10 percent (1994-1995) to 23.64 percent (2003-2004). This expenditure was as high as 30.50 percent (2001-2002) and 27.28 percent (2002-2003). The reserve for unforeseen charges has grown from zero percent (1994-1995) to 1.34 percent (2003-2004). It was as high as 2.07 percent in 2002-2003 (Table 17.53).

Table : 17.53- Various Items of Revenue Expenditure as percentage of Total Non-plan Revenue-1994-1995 to 2003-2004

Expenditure	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Misc. Incl. Petty New Work & Departmental Charges	13.10	17.75	17.74	17.84	16.94	17.64	24.59	30.50	27.28	23.64
Reserve for Unforeseen Charges	0.00	0.00	0.01	0.15	0.00	0.00	0.55	0.24	2.07	1.34

(Source: Based on Annexure 8 of the Memorandum of the MCD)

17.305 The percentage figures above are quite innocent. They do not give a complete idea of the expenditure involved. Accordingly, the absolute figures have been reproduced in Table 17.54.

Table 17.54– Absolute Revenue Expenditure on various Items-1994-1995 to 2003-2004 (Rupees in lakh)

Expenditure	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Misc. Incl. Petty New Work & Departmental Charges	6389.84	10331.21	11837.75	14564.46	18993.71	23970.21	33755.18	47897.29	44307.90	39664.74
Reserve for Unforeseen Charges	0.00	0.00	5.44	125.00	0.67	0.00	757.10	378.04	3354.99	2243.25

(Source: Based on Annexure 6 of the Memorandum of the MCD)

17.306 No other item can compare with expenditure incurred on petty works or the reserve for unforeseen expenditure. The expenditure on the former has grown from Rupees 63.90 crore (1994-1995) to Rupees 396.65 crore (2003-2004). In 2001-2002, this had been Rupees 478.97 crore, and, in 2002-2003 it was Rupees 443.08 crore. It is far from clear as to what specifically constitutes expenditure on petty works. The effect of expenditure on such a scale should be evaluated for its impact.

17.307 The Corporation should, therefore, **investigate** this expenditure and submit a report to the state government on the impact this expenditure has had on the services, amenities and infrastructure. The investigation should also cover issues as to whether this expenditure is covered by appropriate budgetary allocations and sanctions of the competent authority. Meanwhile such expenditure should be kept in abeyance. This should, *inter alia*, constitute the first step toward economy in expenditure and reducing the deficit, current and projected.

17.308 Generally, no unbudgeted expenditure should be incurred, if the investigations reveal that expenditure is incurred without provisions in the BE or RE, this practice should be stopped. It can only result in reducing the funds available for planned or obligatory functions.

17.309 Self-evidently, in the period 1994-1995 to 2004-2005, while the own revenue receipts of the MCD have grown at an annual average rate of 13.83

percent, the non-plan expenditure has grown at a rate of 14.97 percent i.e. a percentage point difference of 1.14. In absolute terms this implies that in 2005-2006, the own revenue receipts would be around Rupees 1414.45 crore, while the total non-plan expenditure would be Rupees 2248.00 crore, reflecting a deficit of Rupees 833.55 crore.

17.310 The growing divergence could be suggestive of one of two interpretations. It could be because of the limited scope of the resource base or limited efforts to mobilize resources. On the other hand, it could also mean that there has been little effort to contain expenditure or limit it to priority sectors.

17.311 Note that expenditure on general supervision and collection of revenues has declined from 4.48 percent in (1994-1995) to 3.34 percent (2003-2004). This decline is despite the plan grants provided by the state government for computerizing the records of various departments of the Corporation. Between 1997-1998 and 2005-2006 a sum of Rupees 6.67 crore was provided as a plan grant. In the Memorandum to the Commission, the Corporation has asked for Rupees 123.75 crore for computerization.

17.312 Similarly, the state government has made available an amount of Rupees 758.29 crore for sanitation in the period 1992-1993 to 2005-2006, an annual average amount of Rupees 50.52 crore. This amount has been around Rupees 100 crore since 2002-2003. Has there been any visible impact on the sanitation levels?

17.313 The corporation has sought a grant of Rupees 4007.09 crore in the primary education sector. In this amount a sum of Rupees 627.34 crore has been asked for on grounds of claimed arrears.

17.314 In the Memorandum there is a demand for Rupees 882.25 crore (Rupees 474.91 crore for construction/maintenance of drains, Rupees 400.00 crore for operationalizing of six projects on a BOT basis, and Rupees 7.34 crore for three projects by issuing municipal bonds. The amounts identified for BOT or municipal bond funding would possibly arise if funds do not materialize).

17.315 The project based fund requirement includes Rupees 298.50 crore for the Civic Centre for which alternative funding has also been arranged; a loan of Rupees 30 crore from NCRPB was availed of in 2004-2005. As a matter of fact, the MCD had also explored the possibility of municipal bonds for this purpose before the NCRPB decided to provide funds.

17.316 The reforms recommended (for local bodies) by the earlier Finance Commissions or even otherwise, generally have as their logic the possibility of ensuring additional streams of monies (through more effective resource mobilization or by tracking and reducing wasteful expenditure). The Corporation, however, rarely owns any reform measure whether in the sphere of resource mobilization or expenditure management. It appears to treat reform measures as an opportunity, a cause, or an excuse to ask for a long running demand for additional funds. The reforms not only become a never ending exercise but also become part of the problem and do not move towards a solution.[41]

17.317 Also the nature of demands is itself debatable, such as for amounts against implementation of the Fifth Pay Commission's recommendations (Rupees 1050 crore) and merger of 50 percent of the DA as dearness pay in the basic pay (Rupees 175 crore), or against the Councillor Fund (Rupees 116.58 crore), or professional tax (Rupees 250 crore) not approved by the Corporation itself. Similarly old age pensions scheme for widows of municipal employees (Rupees 144.60 crore), or compensatory grant for shortfall in property tax collections due to implementation of UAM (Rupees 681.00 crore), or for medical relief (Rupees 1263.65 crore), or for raising the global share in the state government's tax proceeds (Rupees 3605.50 crore) by raising the share from 5.5 percent to 15.00 percent and conversion of plan loans into grants (Rupees 926.63 crore).

17.318 Therefore, the demand for additional monies made to the third Delhi Finance Commission are unconvincing. Recall, that over and above the amounts required for bridging the claimed resource gap, the total demand against specific objectives or projects is as much as Rupees 16862.32 crore. An amount equal to four annual plans of the state.

17.319 Table 17.55 depicts the projections made by the MCD. These have been altered to the extent the Corporation starts the projections in 2004-2005 and ends the same in the year 2009-2010. The Commission has relied on these figures for extrapolation up to 2010-2011.

Table: 17.55 Projected Revenue Income and Expenditure (Non-Plan) Of MCD during the Year 2004-05 TO 2009-10 (Rupees in Lakh)

Year	Projected Revenue Receipts an average	Projected Revenue Expenditure an	Nominal Resource Gap

[41] Chapter 12 for the implementation of the UAM system for levying property tax reforms.

	growth rate of 5.63%	average growth rate of 5.51%	
2004-2005	177758	177017	741
2005-2006	187766	186771	995
2006-2007	198337	197062	1275
2007-2008	209503	207920	1584
2008-2009	221298	219376	1922
2009-2010	233758	231464	2294
2010-2011	246919	244218	2701
Total (2006-2007 to 2010-2011)	1109806	1100050	9756

(Source: Based on Annexure 26 of the memorandum of the MCD)

17.320 The forecasts have been estimated on the basis of trends from 1994-1995 to 2004-2005 and from 2000-2001 to 2004-2005. Table 17.56 presents a comparative analysis. As can be seen based on data furnished by the MCd itself, there shall be a surplus of Rupees 97.56 crore (Table 17.56)[42]. On the basis of trend growth during the period from 1994-1995 to 2004-2005, the deficit comes to Rupees 6998.75 crore. As per the trend growth during the period from 2000-2001 to 2004-2005, the deficit comes to Rupees 2265.19 crore.

Table: 17.56-Comparative Analysis of Projections-MCD-2006-2007 to 2010-2011 (Rupees in crore)

S.No.	ITEMS	2004-05	Trend Growth Rate 1994-95 to 2004-05	2005-06	Total 2006-07 to 2010-11	Trend Growth Rate 2000-01 to 2004-05	2005-06	Total 2006-07 to 2010-11	Projection MCD
I	REVENUE RECEIPTS								
1	TAX REVENUE								
A	House Tax	645.88	12.35	725.65	5215.38	0.19	647.11	3254.03	NA
B	Duty on Transfer of Property	167.94	13.28	190.24	1404.32	19.64	200.92	1776.23	NA
C	Tax on sale & supply of electricity	162.46	13.57	184.51	1373.34	43.70	233.46	3936.27	NA
E	Toll Tax	78.06	25.00	97.58	1001.00	8.37	84.59	541.80	NA

42 The MCD has not furnished any projection for the relevant period i.e., 2006-2007 to 2010-2011. In Annexure 26 (Memorandum of the MCD) it has furnished projections for the period 2004-2005 to 2009-2010. The Annexure has not been discussed in the body of the Memorandum but provides revenue and expenditure growth rates for the period for which the projections have been made. The Commission has adopted these growth rates (revenue average growth rate assumed by the MCD was 5.63 percent and expenditure was assumed at an average growth rate of 5.51 percent. On the basis of these growth rates projections have been made for the year 2010-2011.

F	Advertisement Tax	17.51	6.08	18.57	111.25	19.83	20.98	186.48	NA
G	Other Tax	2.29	22.60	2.81	26.95	9.11	2.50	38.31	NA
	Total - Tax Revenue	1074.14	13.66	1219.36	9132.24	6.31	1189.56	9733.11	NA
2	Non-Tax Revenue	168.92	15.49	195.09	1533.90	11.57	187.46	1324.44	NA
1+2	OWN REVENUE RECEIPTS OF MCD	1243.06	13.83	1414.45	10666.14	6.93	1378.02	11057.55	11098.06
	EXPENDITURE								
	Non-Plan Revenue Expenditure	1864.88	14.61	2137.34	16389.08	8.25	2018.73	12884.22	NA
	Non-Plan Capital Expenditure	85.59	29.28	110.66	1275.81	0.61	86.12	438.53	NA
	Total Expenditure (Non-Plan)	1950.47	14.97	2248.00	17664.89	7.99	2104.85	13322.74	11000.50
	Resources Gap	-707.41		-833.55	-6998.75		-726.83	-2265.19	(+) 97.56
	Additional Requirement								16862.32

17.321 The Corporation has not provided any detailed analysis to indicate the basis for either the projected revenues or expenditure. It is presumed however that the corporation intends to mobilize additional resources through steps such as the introduction of the professional tax, and by a variety of measures such as emphasizing recovery of arrear amounts, tackling revenues locked in litigation, widening the tax base and generally improving the collections of revenues. The Corporation would also presumably take steps to curtail their non-plan expenditure. Therefore we have no reason not to accept the surplus of Rupees 97.56 crore as projected by the MCD.

17.322 However, this leaves the issue of Rupees 16862.32 crore unanswered. It has already been noted that most of the demands do not appear reasonable and cannot be accepted. The only one worth consideration is in respect of the revenue loss arising from the fact that the state government has reportedly not communicated approval for the proposed increases in taxes, fees, fines etc. This involves as per the estimates of the MCD an amount of Rupees 785.42 crore in the five year period 2006-2007 to 2010-2011. Table 17.57 provides details of the alleged loss of revenue on account non-approval of increases in fees and fines etc

Table : 17.57 - Loss to MCD on Account of Non- approval Of Revised Rates of Fees and Fines By GNCTD (Rupees in Lakh)

S.No.	Name of Tax/Free	Existing Collection 2003-04 (Fig. In Lakh)	Proposed Hike (Times)	Expected Enhanced Collection in 04-05

1	Horse Driven Vehicles	66.21	10	662.10
2	Milch Tax	10.49	10	104.90
3	Dog Tax	0.03	20	0.60
4	Theatre Tax	12.82	10	128.20
5	Tax on Advertisement	1159.00	12	13908.00
6	Fee on Vehicles	0.07	10	0.70
7	Other Vehicles	49.23	10	492.30
	Total	**1297.85**		**15296.80**
	Difference = Rs. 13998.95 lakh approx. Add 10% for annual increment for next 5 years Rs. 8546.49 lakh.			
	Total Loss in Next 5 Years		699.95	Crore
			85.47	Crore
			785.42	Crore

(Source: based on Annexure 28 of the Memorandum of the MCD)

Some aspects of MCD functioning

17.323 The proposal is of doubtful utility as it is debatable as to whether the tax base would yield revenues on any appreciable scale. However, since the proposition stands unproven either way, the state government should appropriately, if not already done, the responsibility for not having communicated approval despite the submission of the proposal in 2003. Accordingly, we believe the state government ought to provide a compensatory grant. This will be 50 percent of the alleged loss of revenue to the MCD in equal annual instalments till the proposal is approved. The annual instalment would be Rupees 78.54 crore.

17.324 The MCD has made no progress in rationalizing expenditure or mobilizing resources. There is also no suggestion that any such efforts will be made in the future. It is worth recording that the Corporation has yet to take any specific measure as per the recommendations of the Second Finance Commission.

17.325 For instance nothing highlights this inadequacy better than the fact that the state government has been funding around over 50 percent of their expenditure in most of the years. The share of 'own receipts' has mostly been less than 50 percent. This implies that the state government has met over 50 percent of the resource needs of the MCD.

17.326 Expenditure is incurred by the MCD without reference to any reasonable yardstick. For example it is not related to any rational assessment of revenues in any given year. It is also not related to any medium or long term development and investment plans.

17.327 The most dissatisfying aspect is the lack of commitment to introducing reforms whether in the sphere of resource mobilization or economies in expenditure. The most obvious source of expanding liabilities is in the arena of manpower. This has not occasioned any review. It has only led to demands that the state government should underwrite the wages and salary bill. Therefore, to expect that the organization would even consider, on its own, cost cutting measures by containing cost and time overruns in project implementation or by curtailing avoidable expenditure or emphasizing priority sectors may be unrealistic.

Aspects of NDMC functioning

17.328 In considering the projections of the NDMC it has to be kept in mind that the total geographical area of the NDMC is much smaller than that of the MCD. It also services a far smaller population. The NDMC also does not have the problems of shanty towns, slums or unauthorized colonies on the scale that MCD areas have.

17.329 NDMC caters to the needs of the relatively affluent sections of the Delhi population. It houses a large number of properties that are exempted from the levying of property tax. These include government offices and residential colonies and the diplomatic enclave.

17.330 The area of the NDMC includes commercial hubs like Connaught Place and Khan Market, a number of five star hotels, and large open spaces. The expectations regarding the quality of services are also on a higher side.

17.331 The revenue collections are almost always more than the expenditure. Therefore, despite the projections to earlier and this Commission that the NDMC is likely to face a deficit, the apprehensions have not been borne out by the actual figures of revenues and expenditure.

17.332 Several factors could be responsible for this state of affairs. One possible explanation for the persistent revenue surplus lies in the fact that NDMC by its very nature is a low expenditure area. There is little scope for extensive expenditure. At best, the NDMC can take up intensive expenditure proposals designed to either deepen the availability of facilities, services and amenities or on improvements designed to ensure more effective and efficient delivery.

17.333 Thus, though the argument is that NDMC should not be penalized for efficient resource management, it is doubtful as to whether the NDMC needs resources on a very large scale. This perhaps explains the inability of the organization to utilize the resources already at its disposal. This also explains the large amounts lying unutilised that have enabled the NDMC to earn substantial revenues as interest income. For example in 2004-2005 their interest earnings from investments was Rupees 178.74 crore.

Commission's Projections relating to NDMC

17.334 Table 17.58 details the forecast of the NDMC and the Commission's projections as per the trend growth As per the trend growth of own revenue receipts of NDMC and the non-plan revenue expenditure excluding assigned taxes and non plan grants, during the period from 1994-1995 to 2004-2005 the revenue surplus during the period from 2006-2007 to 2010-2011 comes to Rs.719.35 crore. As per the trend growth during the period from 2000-2001 to 2005-2006 (RE), the revenues surplus comes to Rupees 2049.57 crore. As against this, the NDMC has shown a revenue gap of Rupees 1465.14 crore during the period in their memorandum.

Table: 17.58-NDMC Forecast (Rs. in crore)

S.No.	ITEMS	2004-05	Trend Growth Rate 1994-95 to 2004-05	Total 2006-07 to 2010-11.	2005-06 (RE)	Trend Growth Rate 2000-01 to 2005-06 (RE)	Total 2006-07 to 2010-11.	Projection NDMC (2006-07 to 2010-11)
1	2	3	4	6	5	6	7	8
	REVENUE RECEIPTS							
I	TAX REVENUE							
	House Tax	147.60	24.29	1845.57	132.50	8.30	846.89	857.00
	Duty on Transfer of Property	13.28	19.44	139.44	12.50	17.10	102.88	61.50
	Advertisement/Show/Theater Tax	0.11	-15.91	0.28	0.05	13.00	0.37	0.20
	Service Charges				16.03		80.50	80.50
	Total - Tax Revenue	160.99	23.66	1985.29	161.08	10.60	1030.64	999.20
II	NON-TAX REVENUES							
	Interest on Investment	178.74		853.00	155.88	49.30	3029.82	853.00

	Sale of Electricity	533.99	9.92	3932.67	527.64	2.70	2859.74	2625.00
	Sale of Water	14.32		78.50	14.63		78.50	78.50
	Rent/License Fee	40.71	-0.48	199.67	106.00	21.10	976.12	475.00
	Other Misc. Receipts	83.48	23.67	1020.99	48.02	-5.40	203.89	251.30
	Total Non-Tax Revenue	851.24	11.21	6084.83	852.17	8.00	7148.07	4282.80
III	OWN REVENUE RECEIPTS OF NDMC	1012.23	12.60	8070.12	1013.25	8.40	8178.71	5282.00
IV	REVENUE EXPENDITUTRE							
	Non-Plan Revenue Expenditure	931.87	11.73	7350.77	973.03	7.80	6129.14	
V	Revenue Surplus (III-IV)	80.36		719.35	40.22		2049.57	-1465.14

17.335 NDMC in their memorandum to the First Finance Commission had shown a revenue surplus of Rupees 92.51 crore and to the Second Finance Commission a revenue deficit of Rupees 104.44 crore. As against the above projections of NDMC, the First Commission had projected a revenue deficit of Rupees 178.46 crore and the Second Commission had estimated a revenue surplus of Rupees 482.02 crore. In actual, there was a surplus of Rupees 231.71 crore during the First Finance Commission period of 1996-1997 to 2000-2001 and Rs.403.29 crore in first four years of second finance commission period from 2001-2002 to 2004-2005.

17.336 Keeping in view the trend growth of own revenue receipts and revenue expenditure of NDMC excluding non-plan transfers from the GNCTD there appears to be no likelihood of NDMC having a revenue deficit during the period from 2006-2007 to 2010-2011.

17.337 The NDMC in their Memorandum has also submitted their requirement of additional funds to the extent of Rs.773.17 crore during the period from 2006-2007 to 2010-2011 as under:-

<u>Requirement of funds for replacement of assets during next five years</u>

1. <u>Water Supply</u> -- Rs.136.00 Crore
   (60% of assets i.e. 251-271 k.m. @Rs.50 lacs per k.m.)
2. <u>Sewerage</u> -- Rs.105.00 Crore
   (50% of sewerage assets i.e. 175 k.m. @Rs.60 lacs per k.m.)
3. <u>Electricity</u> -- Rs.190.00 Crore
4. <u>Upgradation and Construction of buildings</u> -- Rs.212.17 Crore
5. <u>Roads and Roundabouts</u> -- Rs.120.00 Crore
6. <u>Gardens, Parks & Fountain</u> -- Rs.10.00 Crore

Total	--	Rs.773.17 Crore

17.338 Firstly, the NDMC has not furnished any details of this expenditure. Secondly in case they do require this amount for replacement of their assets, they can fund this from within their accumulated surpluses of Rupees 2000.00 crore at the close of financial year 2004-05.

17.339 As far as the NDMC is concerned their projection of a deficit is inexplicable. Further, assuming that there will indeed be a deficit, there is no indication of the steps the NDMC proposes to take to compress expenditure or raise resources appreciably. There is, therefore, no suggestion of what the deficit, if any, would be net of the measures the organization proposes.

Some Concluding remarks on Projections

17.340 The analysis of the projections leads us to the following **broad conclusions**:

- The Delhi government without availing loans is in deficit in the entire period from 1994-1995 to in 2005-2006, except in 2004-05.
- Including loans it has always been in surplus except in 1998-1999 and 2000-2001.
- The opening balance of the state government is growing year by year so that as on April 1, 2006 the amount is as high as Rupees 7368.48 crore resulting in an unnecessary burden of interest dues of approximately Rupees 700.00 crore.
- The state government's non-plan expenditure as well as the loan liabilities has increased enormously.
- The percentage share of plan expenditure in total expenditure has come down considerably.
- The revenue surplus in comparison to many other state governments is certainly a good feature of the finances. However, this has to be juxtaposed against the fact that many items of expenditure incurred by other state governments do not constitute a liability for the Delhi government. This includes expenditure on police and law and order, as well as, pensions of employees appointed prior to January 1, 2004.

17.341 The state government has extended loan facility to the public utilities such as the DTC and the DJB to enable them to meet their operational losses. This amount too has grown over the years very rapidly. More importantly there is a very slim chance that the loan amounts or the interest dues will actually be recovered. If not immediately, in the longer run if these loans are not recovered, it is likely to impact the finances of the state government adversely.

17.342 The state government's tax revenues are benefiting from the buoyant economy, just like the share of the local bodies in assigned taxes and non-plan grants are riding the wave of higher revenue in flows of the state government.

Chapter: 18
The Summing-up: Analysis and Assessments

The broad assumption underlying the preceding analysis of the status of urban local bodies in the NCT of Delhi is that devolution packages have to be related to clear, specific and measurable outcomes, both physical and financial, and it needs to sub-serve the overall developmental goals. In this chapter we shall be summing up the analysis and assessments of the issues involved in designing an inter-governmental transfer system. It, along with Chapter 17, will therefore serve as the prelude to the recommendations. As would be seen, there are several factors responsible for devolution not having had a significant impact. These include, inter alia, absence of a comprehensive review of the functional domain of the local bodies, restructuring processes and procedures, and lack of purposeful action to translate the city visions into executive plans.

Inter-governmental Transfers: Lessons

18.2 What does the analysis in the preceding analysis tell us? What lessons does it hold? It has been noted that the early 1990s were witness to institutional and structural changes at the level of both the state government and the local bodies. The NCT of Delhi got an elected assembly and a representative government. This was an outcome of the recommendations of the Balakrishnan Committee. In pursuance of the objects and reasons underlying the 74th constitutional amendment, *inter alia*, the tenure and finances of the urban local bodies were put on a firmer footing. This was a result of the national level move to provide local governance a constitutional grounding.

18.3 The Constitution (seventy-fourth) Amendment was intended to herald a new phase in the functioning of urban local bodies. With statutory safeguards regarding tenures and assured access to finances the local bodies were expected to launch a new era of effective and efficient discharge of their responsibilities. There is little evidence of that having happened:

- First, the success of any functional and financial devolution packages depends on a comprehensive reform agenda. The reform agenda needs to touch upon several aspects of the functioning of the urban local bodies: administrative structures, procedures and systems for (planning and execution), and resource management, among other things.
- Second, consensus, based on trust, between the two levels of government is a critical input. This need for trust and consensus touches every aspect of the relationship between the state government and the local bodies. It determines the nature and extent of cooperation between

the two levels of governance. It influences agreements on functional jurisdiction: complementary, supplementary, and exclusive areas of functioning. It determines whether data, information, and policy declarations can be and are relied upon or not.

- Third, therefore, the success of the devolution package inevitably is based on the assumption that efficient and effective discharge of responsibilities by the municipal bodies is a shared goal.
- Fourth, the effective functioning of local bodies is the outcome of many tangible and intangible factors. Among these, the number and calibre of personnel, systems and procedures, organizational inputs, technical skills and competence and planning capabilities are surely important. However, the ability to raise, access, manage and apply resources lies at the heart of effective functioning.
- Fifth, success also depends on factors partly located in the state-local body relationship and partly in the functioning of the local bodies. Adequacy of resources is believed to be of critical importance. However, equally vital would be the demarcation of roles and responsibilities. Clarity on the functional role will determine various issues. These include ability to focus on core or obligatory functions, the level of resource mobilization needed for discharge of the said functions, the efficiency of resource allocation between competing items of expenditure, the areas in which economies can be achieved, and the general accountability of the organization.
- Sixth, the effectiveness of devolution will also depend on the ability of the higher level government to determine the design of functional devolution, enforce performance, secure economies in expenditure, and implementation of reform measures, if any, envisaged.
- Seventh, urban local bodies, like any other organization, need to manage both resources and expenditure. This requires of them rational resource mobilization and allocation. The local bodies cannot reasonably expect an unending flow or stock of funds. Therefore, they ought to prioritise expenditure in several ways: cut manpower, reduce duplication of work already being discharged by the state government and concentrate on core or obligatory functions. They also need to focus on resource mobilization: tackle arrears, revenues locked up in litigation, expansion of tax base and rationalization of rates and tariffs.

Functional Framework: Development Goals and Functional Domain of Local Bodies

18.4 The most fundamental underpinning of any devolution scheme, that has a direct impact on the volume and structure of municipal finance, is the functional domain of the local bodies[1]. Therefore, the municipal functional jurisdiction provides the starting point for the Commission's assessments. Broad characteristics of the pre- and post-Amendment situation are:

- Entry 5 of the State list in the Constitution empowers the state government to lay down the functions, powers, and responsibilities of municipal bodies.[2] Municipal institutions were initially, entrusted with the provision of conservancy services, road repairs, and lighting etc. They are now being looked upon in accordance with the provisions of the Constitution (seventy-fourth) Amendment Act, 1992, as institutions that would be engaged, in such functions as planning for the economic and social development, urban forestry, protection of the environment and promotion of ecological aspects; urban planning including town planning; urban poverty alleviation, and slum improvement and up-gradation.
- Schedule 12 of the Constitution (article 243 w) provides an illustrative list of 18 functions that may be entrusted to the municipalities. The incorporation of Schedule 12 has, not infrequently, been interpreted as implying that the municipal functional domain has acquired some kind of a discrete character, apart from an expansion of its portfolio. This requires a few observations. One: the functions and duties enumerated in Schedule 12 are *not* in addition to what the municipalities were

[1] Paragraph 6 of the Order No. 7 (443) (3)/2004/UD/10905 dated October 21, 2004 refers. This requires that, 'the Commission may review the functions assigned to Municipalities keeping in view the availability of resources, especially with regard to the discretionary functions'.

[2] Accordingly, the state governments, out of the powers and responsibilities enumerated by the State list (Seventh Schedule), have assigned certain functions and duties to municipalities. Typically, these have consisted of public health and sanitation (Entry 6), burials and cremations and cremation grounds (Entry 10), libraries, museums, and other similar institutions controlled and financed by the state (Entry 12), communications, i.e, roads and bridges (Entry 13), water supply, drainage, and embankments subject to the provisions of Entry 56 of the Union list (Entry 17), and markets and fairs (Entry 28). The main functions with which the municipalities are associated and which are generally, though not uniformly, performed by them include services that have the characteristics of *private goods*, example, water supply, sewerage and drainage, and conservancy and sanitation, and others that are in the nature of *public goods*, example, street lighting and municipal roads. In addition, the municipalities are vested with a number of regulatory duties and often even with the development of markets, commercial complexes, and the like. Several municipal corporations have a larger functional domain which consists of running hospitals and dispensaries, electricity generation and distribution, and bus transport services. The key point is that these functions conform to the text book division of functions between different levels of government, which says that local authorities are 'the best to supply local public goods.'

responsible for in the pre-Constitutional amendment phase. In fact there is considerable overlap between the functions that the municipalities were responsible for in the pre-1992 period and those listed in Schedule 12. Of the 18 functions listed in Schedule 12, eleven formed a part of the municipal jurisdiction even in the pre-1992 phase.[3]

- Two: the significance of Schedule 12 functions for municipalities lies not so much in enlarging the scope of municipal operations as in the fact that many of the functions are drawn from the Concurrent list of the Constitution.[4] At the very least, it would suggest that there is a group of functions wherein there is concurrency of interests in respect of all the three tiers of government, i.e., the central, state, and municipal. This makes for duplication at the state and local levels. In the NCT this is evident in the functional overlap in the health, education and social welfare sectors. For instance, both Social Welfare Department of the GNCTD and the MCD operate schemes for old age pension by whatever nomenclature they might be described.[5] This overlap deserves to be reviewed so as to spell out clearly the roles and responsibilities of the different levels of government in any specific sphere.

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[3] The pre-1992 functions common to Schedule 12 are: regulation of land use and construction of buildings; roads and bridges; water supply for domestic, industrial, and commercial purposes; public health, sanitation and conservancy and solid waste management ; fire services; burials and burial grounds; and cremation grounds and electric crematoriums; cattle pounds, prevention of cruelty to animals; vital statistics including registration of births and deaths; public amenities including street lighting, bus stops; and public conveniences; and regulation of slaughter houses and tanneries

[4] These include, illustratively, functions such as planning for economic and social development (subject 20 of the Concurrent List) and urban forestry, protection of the environment and promotion of ecological aspects (subject 7A and 7B of the Concurrent List).

[5] Letter No. PA/JD (A)/DSW/06/5001 dated August 22, 2006. The Community Service Department of Municipal Corporation of Delhi is also having parallel schemes for economically weaker section of the society. The schemes are: Old Age Pension Scheme and assistance to widow and physically handicapped: under this scheme financial assistance is being given @ Rs.400/- w.e.f. 1.4.2006 to the beneficiaries who are more than 60 years and do not have means of livelihood. Similarly they are also giving such monthly assistance to the widows and handicapped persons. The scheme is being implemented at ward level and each councillor of the ward is having provision in his tenure to recommend 800 cases. There are 134 wards existing in the MCD and total 107200 beneficiaries are being covered under this scheme.

A new scheme of widow daughter marriage has been launched by the MCD in the current financial year. Under this scheme a lump sum amount Rs.15000/- is to be given to the beneficiaries for performing marriage of their daughters. The Councillor of the ward will recommend @ 10 cases per year.

These schemes are common in terms of providing the financial assistance to weaker section. Therefore, there are possibilities of duplication and there is no mechanism to weed out duplication at the initial stage. However, the department is interchanging the list of beneficiaries but even then this is not a fool proof mechanism. Therefore, it will be desirable that these schemes should be implemented by only one department and duplication should be avoided. This will also be beneficial for the applicants as well as to the department to avoid inconvenience to the public and will help early disposal of the cases by the department

- The domain of municipal functions is neither discrete nor absolute; there is a built in concurrency between the functional domain of the state governments and the municipalities. In practice few municipalities have assumed all these responsibilities. Therefore, the functional jurisdiction of the municipalities in the NCT has witnessed periodic shifts and changes, on account of withdrawal of functions (such as water supply and sewerage, production and generation of power, fire services), or equipping them with new responsibilities (slum wing). However, there has not been any comprehensive review of the functional jurisdiction of the municipal bodies in the NCT. It has not so far been indicated as to which core functions the local bodies should emphasize.
- Three: the 1992 amendment does not clearly spell out the nature of responsibilities required of the local governments in respect of functions such as planning for economic and social development (Entry 20), protection of the environment and promotion of ecological aspects (Entry 17 A and B), safeguarding the interests of weaker sections of the society (Entry 16), and the tasks that are to be performed by the (central or) state governments. The state government have also not spelt out their expectations in the areas of concurrency.
- Four: many of the functions listed in Schedule 12 have distributional aspects. It has been extensively argued in the literature on fiscal federalism that redistribution is essentially not a local government function. For this reason, functions such as poverty alleviation, environment protection and preservation, and even slum up-gradation need to continue within the ambit of the state government, with a minimal role for municipalities. In any case, the position has altered as a result of the Constitutional amendment. However, there is no clear formulation on how these functions might be financed, with what tax bases, and with what inter-governmental transfers. In the NCT, the state government provides plan grants for slum up-gradation. In other words, in the post-Amendments phase the functional jurisdiction remains largely unstructured and unreformed. This calls for a thorough dialogue between the state government and the local bodies.

- Based on the Constitutional amendment, essential or core functions can be classified as those in respect of which decision-making will rest with the municipalities. Execution would be funded out of municipal revenues (taxes, charges etc) and pre-determined grants, and may be done either by the municipal bodies or other agencies at their behest. For this, functions mentioned in the Twelfth Schedule can be drawn upon.[6] However, the local bodies have also not reviewed what could constitute their core competencies. It has not been examined as to which obligatory functions should be funded exclusively through their 'own resources.' Accordingly, the balance activities which would need the state government's financial support cannot be worked out logically. Supplementary grants in support of vital and deserving activities can also not be quantified.

- "Discretionary functions" have the straightforward implication of functions so designated in the statute. There is another aspect, too. In this sense 'discretionary function' means the functions involving an exercise of choice with a view to prioritising. In this context, it is worth noting that the MCD, for example, has a huge amount of liabilities, a scandalous wage and salary bill, and a poor record in the provision of services and amenities. Yet, there is no evidence of any rational choices being made in the exercise of discretion regarding expenditure.

- In fact, the choices made by the MCD are dismaying.[7] For instance, Amendment 18 to the 2005-2006 budget of the MCD asks for an additional provision of Rupees 670.00 lakhs for discretionary expenses by Councillors for development works in wards. Similarly, Amendment 22 seeks an additional provision of Rupees 30.00 lakhs for laptops to Councillors. Several proposals involved increasing the provision for transfer payments such as to widows, aged, or for marriage of the daughters of widows. Unfortunately, the status of solid waste management, the inability to convert tented or rented accommodation for schools,

[6] Such as: roads and bridges, sanitation, preventive health care, urban forestry, urban amenities such as parks, gardens, playgrounds, burial and cremation grounds, cattle pounds, street lighting, registration of births/deaths and vital statistics, parking lots, bus stops, public conveniences, regulation of slaughter houses and tanneries.

[7] Annexe: Motions and Amendments, Revised Budget Estimates 2005-2006 & Budget Estimates 2006-2007 (General Wing & Slum & JJ), Office of the Municipal Secretary, Municipal Corporation of Delhi. See Vol-III, Section-II

into self-owned and permanent structures, and condition of roads is adequate evidence that the MCD frequently exercises discretion with a view to postponing capital and O&M expenditure.

- Agency functions are to be funded by state government revenues by specific transfer: slum improvement and up-gradation, maintenance of re-settlement colonies, primary education and primary health care. Here the most pertinent issue is related to the feedback on outcomes and physical progress. There are no procedures and processes that would ensure periodic information. Nor is the release of funds incumbent on the local body reporting progress. This applies to rural development and the roads sector too. The monitoring and review mechanisms at the state government level deserve to be seriously reviewed and strengthened.

18.5 It needs to be stressed that devolution is not a zero-sum game and local bodies need not be rendered effective at the cost of the state government. It has to be a partnership between the two levels. Therefore, while the local bodies certainly need to be enabled to discharge their mandated role, the responsibilities and resource needs of the state government are an equally vital consideration. For instance, besides the clear and obvious responsibilities of the state government in the provision of physical and socio-economic infrastructure, in the earlier chapters we have already encountered the goal of Delhi as a 'global city' and development with a 'human face': goals enunciated by the state government. Besides, there are the investment needs implicit in the forthcoming Commonwealth Games. All these imply resource needs. They also possibly imply expenditure assignments to the local bodies depending on the role and responsibilities, if any, envisaged for them. These objectives require spelling out in greater detail the role and responsibilities of the participating public sector entities: in resource mobilization as also expenditure management.

Aspects of world class city status

18.6 A few observations are in order about the proposed goal of acquiring a world class city status for Delhi.

- First, it is necessary to be clear about the purpose for which the status is sought. Is it to invite investment, jobs and skills? Is it to attract tourist traffic? Is it to serve as a benchmark against which delivery of services and status of infrastructure can be assessed?

- Second, the purpose of seeking the status will define the comparative advantages of Delhi and help to identify its national and international competitors. The variety and diversity of Delhi provides many platforms and each should be harnessed to seeking a global status. Delhi can have as many 'global cities' as its diversity permits.
- Third, there can be no "sell-by" timeframe for the goal of global status. It is a continuing process and requires action accordingly. A global city is no doubt a place but (and more importantly) it is a series of outcomes.
- Fourth, the goal cannot be a government-sponsored program limited to public sector schemes and projects. It will require a compact between the state and local level governments on roles and responsibilities. In fact, it would require participation of the citizen in all possible manners and through all civil society organizations.
- Fifth, it cannot be a program of acquiring a few or even many "collectibles"-designer or signature bridges, tallest building, maximum malls or conference halls.
- The government and the local bodies need executive plans on an agreed platform for securing its stated objective.

The state government therefore needs to spell out the substance of its stated goal, roles and responsibilities of public sector entities, and expectations from civil society, as also the resource requirements, more comprehensively. This should be done at the earliest so as to coincide with the inauguration of the Eleventh Five Year Plan in 2007-2008. As a matter of fact, the state government needs to initiate a comprehensive review of the functional domain through a dialogue with all stakeholders. This is not to suggest that the review necessarily should result in curtailing the functional jurisdiction. It should be undertaken to ensure that the functions entrusted to the local bodies reflect a wide consensus. This consensus needs to emphasize the core competencies of the local bodies. It should enable channelling funds into areas of 'core responsibility'. Otherwise, the ad hoc arrangements would persist: lack of prioritisation, no clear benchmarks (financial or outcomes), and open-ended implementation of development programs. It is better for the MCD and NDMC to do a few things effectively, rather than most things ineffectively. This would also reflect the resource capacities more realistically.

Resource Needs: State Government and Local Bodies

18.7 The resource needs for the next five years have been projected by the state government, its public utilities, and the local bodies[8]. The state government has projected a total resource need of Rupees 72437.52 crore [Rupees 35061.00 crore (plan) and Rupees 37376.52 (non-plan), including non-plan transfers as recommended by the State Finance Commission)]. The public utilities have projected a total resource requirement of Rupees 13594.42 crore (The DJB Rupees 12111.32 crore of which Rupees 5588.50 crore is for water supply and Rupees 6347.82 crore is for sewerage sector, and Rupees 175.00 crore for MLA priority works; and DTC Rupees 1482.88 crore). The MCD has stated that it needs Rupees 16862.32 crore (excluding state government non-plan transfers) and the NDMC Rupees 773.17 crore (excluding state government non-plan transfers). Together the public sector investment projections are Rupees 103667.21 crore.

Norms and Status of Infrast-ructure

18.8 Quite apart from the long-term goals, the investment needs will be dictated by the current status of infrastructure, services, and amenities. Deficits in these areas will suggest the volumes of investment required. The deficit will be determined by the norms for the provision of services and amenities. Among the factors affecting the demand for and the normative supply, the population factor will have a definite say in the matter. What however, are the norms that have been evolved over the years and how does the situation in Delhi look? Working paper XII/2006 provides comparative details[9].

18.9 For computing the financial needs of urban infrastructure, the physical norms have to be converted into financial norms. Whereas the Zakaria Committee on Augmentation of Financial Resources of urban local bodies had attempted to evolve per capita investment norms for various urban services in early sixties, the Task Force on Housing and Urban Development, Planning Commission worked out these norms in 1983.

18.10 The Operations Research Group has also suggested investment norms for urban infrastructure but they have covered only two services, namely, water supply and sewerage for this purpose. These are presented in Table 18.0.

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[8] Paragraph 5 (a) of Order dated October 21, 2004 requires the Commission to accord due consideration to, 'the overall resource position of the government of the NCT of Delhi'.

[9] Annexe: working Paper XI/2006. See Vol-III, Section-III

The norms have been updated to the year 1998-99, using the All India Consumer Price Index for urban non-manual Employees as an inflator.[10]

Table: 18.0-Suggested Financial Norms for Provision of Core Civic Services at 1998-99 Prices (Rupees /capita)

Core Services	Planning Commission		Zakaria Committee (Wt.Avg.)	ORG	
	Low	High		Low	High
Water Supply	980.00	1470.00	706.69	645.46	1698.00
Sewerage	980.00	1102.50	961.26	649.67	1299.34
Solid Waste Disposal	122.50	196.00	n.a.	n.a.	n.a.
Storm Water Drains	367.50	490.00	483.72	n.a.	n.a.
Roads	980.00	1470.00	828.02	n.a.	n.a.
Street Lighting	294.00	294.00	410.66	N.a.	n.a.
All services	3724.00	5022.50	3390.36		

n.a. Comparative norms (per capita) are not available/not provided.

Note: Only ORG and Planning Commission have suggested two levels of norms – one at low level and another at high level of service standards.

Source: i. Operations Research Group (ORG), Delivery and Financing of Urban Services, 1989

ii. Zakaria Committee, Augmentation of Financial Resources of Urban Local Bodies, Report of Committee of Ministers, Constituted by the Central Council of Local Self Government, 1963 (weightage averages worked out as per class wise norms).

iii. Planning Commission; Task Force on Housing and Urban Development, - Financing Urban Development, 1983.

18.11 These physical and financial yardsticks should serve as a benchmark for both the state government and the local bodies. The state government can apply them for assessing the quality of performance of the local bodies and for

[10] Annexe: Updated versions of O&M Norms, Financial and Investment Norms developed by the National Institute of Urban Affairs, Government of India, Ministry of Urban Development, See Vol-III, Section-II

insistence on these yardsticks being followed. The local bodies too can draw up investment and development plans for delivery of services and the provision of amenities by relying on these physical and financial norms.

18.12 Table 18.1 gives the estimated additional investment needs for provision of core services in the urban areas of the country for the years 2000 to 2020. The range of required investments by 2005 works out to be approximately Rupees 55 thousand cores to Rupees 74 thousand crore.

Table: 18.1-Estimated Additional Investment Needs for Provision of Core Urban Services as per Planning Commission Norms and Standards, at 1998-99 prices

Year	2000		2005		2010		2015		2020	
Projected Population	286,147,402		334,732,915		391,567,855		458,052,907		535,826,583	
Services	Low	High	Low	High	Low	High	Low	High	Low	High
Water Supply	9606	14409	14368	21551	19937	29906	26453	39680	34075	51112
Sewerage	9606	10807	14368	16164	19937	22430	26453	29760	34075	38334
Solid Waste Disposal	1201	1921	1796	2874	2492	3987	3307	5291	4259	6815
Storm Water Drains	3602	4803	5388	7184	7477	9969	9920	13227	12778	17037
Roads	9606	14409	14368	21551	19937	29906	26453	39680	34075	51112
Street Lighting	2882	2882	4310	4310	5981	5981	7936	7936	10222	10222
All services	36504	49232	54597	73634	75762	102180	100521	135572	129484	174634

Method to Compute the Requirement: Requirement 2020 = (norm x (pop2020 - pop1998) + ((pop1998.30)*norm))/10000000 Where: Population 98=268,748,694*

18.13 Table 18.2 depicts the estimates of investment requirements for urban infrastructure. These estimates are based on the norms suggested by various committees and studies.

Table 18.2-Estimates of Urban Infrastructure Investment Requirements

Agency	Services covered	Period of Recommendation	Resource Requirements (Rs in crore)
NIUA (Planning Commission Norms updated to 1998-99 prices)	Water Supply, Sewerage, Solid Waste Disposal, Storm Water Drains, Roads, Street Lights	2000-2020	129484-174634
Zakaria Committee Norms (updated to 1998-99 prices)	Water Supply, Sewerage, Drainage, Roads and Street Lights	2000-2020	113754
India Infrastructure Report (Rakesh Mohan Committee)	Water Supply, Sanitation and Roads	1996-2001	41636-43573
Ninth Plan Document	Water Supply and Sanitation	1997-2002	50000

18.14 The India Infrastructure Report (Rakesh Mohan Committee) estimated afresh the funds required to augment the core services of water supply, sanitation and roads to clear the backlog, new investments and operation and maintenance of the services provided. The committee had estimated that a total of Rupees 42 thousand crore to Rupees 44 thousand crore for the period 1996-2001 were needed for augmentation of these services. These include the backlog provisions, as also the new investment needed for the purpose. The investment requirements for different services are given in Table 18.3. Besides the above, the Ninth Plant document, has also estimated the funds required for urban water supply and sanitation. They had estimated Rupees 50,000 crore from 1997- 2002 for augmentation of these two services in the urban areas of the country.

Table 18.3-Investment Requirements for Urban Infrastructure as per Rakesh Mohan Committee Rupees in Crore

Service	Backlog up to 1995	Additional Investment Needs		O & M Needs	Total	
		1996-97	2001-06		1996-2001	2001-2006
Water Supply	69.67	8.61	7.74	-	-	-
Sanitation	52.86	8.61	7.74	-	-	-
Roads	10.85	8.61	7.74	-	-	-
Total	133.38	25.84	23.21	48.96	-	28.30
Average Per annum	13.34	5.17	4.64	9.79	-	27.73

Source: The India Infrastructure Report (1996): Policy Imperatives for Growth and Welfare, Expert Group on the Commercialization of Infrastructure Projects (Rakesh Mohan Committee) vol 3, Sectoral Reports.

18.15 As noted earlier the NCRPB and the Delhi Urban Environment and Infrastructure Improvement Project have estimated the investment requirements of urban infrastructure in the NCT from time to time. It is not clear whether the development and investment plans are phased or guided by these projections. The estimated requirements will surely depend on estimations of development investments required.

Assessment of the Financial Position of the Local bodies

18.16 In designing a new inter-governmental transfer system (or evaluating an existing one) it would do well to begin with a full understanding of the match between the objectives of the program and the horizontal and vertical dimensions of the system. Assessment of the financial performance of the local bodies[11] will rely on essentially the following parameters:

- Financial evaluation of the local bodies
- Comparative study
- The statutory, organizational, and institutional issues involved

Fiscal Base of Municipalities in Delhi: Implications

18.17 Municipal bodies in the NCT have a fiscal jurisdiction consisting of taxes on lands and property, taxes on advertisements other than those in

[11] Paragraph 4 of the Terms of Reference begins by requiring the Commission to 'review the financial position of the Municipalities' and paragraph 5 requires the Commission to have regard to the scope for economy in the municipal administration, improvement in resource mobilization, and tax efforts made by them, adequacy of maintenance and up-keep of capital assets and assets created under plan schemes. Order no. F7 (443) (3)/2004/UD/10905 dated October 21, 2004.

national newspapers, radio and television, taxes on animals and boats, and fees, tolls, and a host of charges. On the other hand, in some states (Maharashtra and parts of Gujarat), municipalities have access to octroi levies, i.e., taxes on the entry of goods into an area for consumption, use, or sale. With the exception of these levies which are related to the regional economy and activities therein, other taxes constituting the fiscal domain have local impacts with no inter-jurisdictional implications. In addition, municipalities receive, on different accounts and for different purposes, grants-in-aid from the state government. Notwithstanding the Constitution (seventy-fourth) Amendment Act, 1992 which envisioned a change in the fiscal relations between the state and the municipalities, the tax jurisdiction of municipalities has not undergone any noticeable change even with their changing functional portfolio.

18.18 Box 18.1 summarizes the revenue base of the local bodies in Delhi. For the MCD, the property tax remains the main source of revenue and for the NDMC it is the sale of electricity. This reliance on one or, at best, two revenue sources has a few implications:

- First, it means that both the local bodies are relying on a very narrow revenue base.
- Second, the effort to expand the tax base in terms of tax rate structures, reduction of exemptions and concessions, or better enforcement is largely missing. In the case of the NDMC this is apparently a result of buoyant revenues from the sale of electricity. In the case of the MCD it can be attributed to a number of factors: lack of approval by the Corporation for tax proposals such as the tax on professions, or inadequate attention to arrears, or measures to identify properties eligible to pay property tax. Its tax base for property tax stands frozen at around 9 lakh properties out of approximately 22 lakh properties.
- Third, there are sharp fluctuations in their annual revenue realizations. Indeed, realizations are unrelated to any financial or economic parameters: such as the unexploited tax revenues potential, annually projected revenues, or projected and actual expenditure needs.
- Fourth, the tax rates structure and revisions of the same are still not within the fiscal jurisdiction of the local bodies. These require approval of either the state government or the central government or both. Further, instead of just a floor rate for taxes in the domain of the local bodies, there is also a ceiling on the rates of taxation.
- For example, the first and second Finance Commissions had recommended levy of a tax on professions, trades, callings and

employment. There has been no progress in the matter because reportedly the Corporation declined to approve the proposal. On the other hand, the Corporations proposal to revise rates, cess, and fines etc also recommended by the second Finance Commission as an additional resource management measure is said to be pending with the state government.

Box: 18.1-Major Sources of Income for Municipal Bodies in the NCT

Sources	Major Components
Internal/own Sources	
Tax Revenue	Property taxes; animals, trade and callings and professions; theater tax/show tax; tax on advertisements, boats, toll tax on commercial vehicles etc.
Non-Tax Revenue	Rents from municipal assets; income from municipal undertakings; user charges; fee and fines; income from municipal investments; etc. In the case of NDMC includes revenues from sale of electricity and water
External Sources	
Grants- in-aid	General purpose; specific purpose; grants in lieu of taxes
Shared Taxes (Global Assignment as recommended by the state Finance Commissions)	VAT, state excise, entertainment tax; luxury and betting tax; motor vehicle tax; registration fee and stamp duties

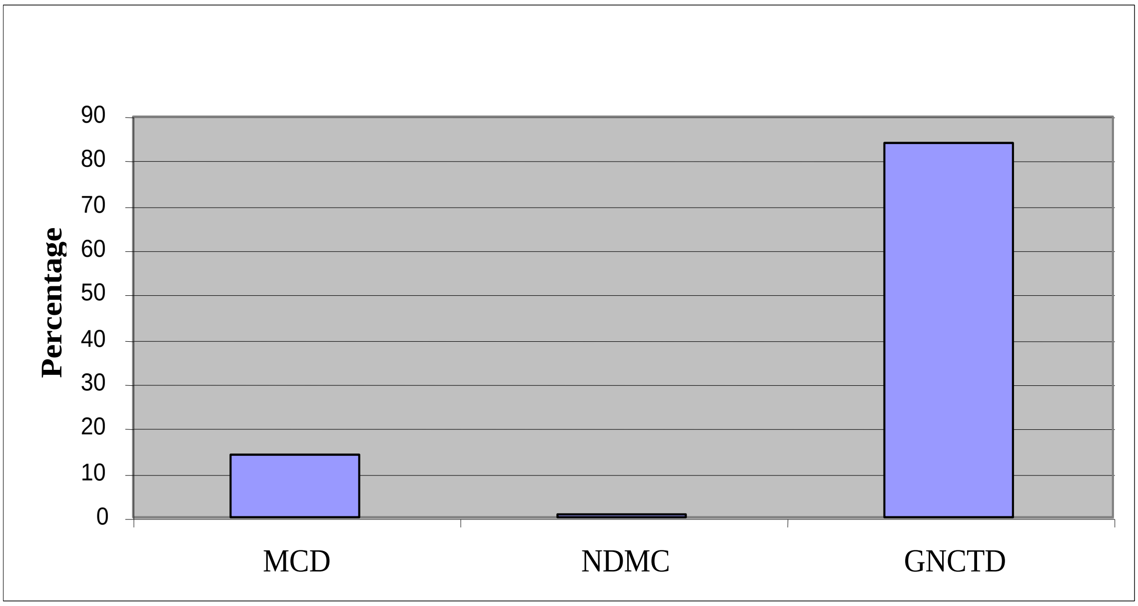
Size of Municipal Sector in NCT

18.19 In fiscal terms, the municipal sector in Delhi is tiny. In 2004-2005, the MCD and the NDMC raised Rupees 1235.13 crore, or approximately 14.81 percent of the total tax revenues raised by the public sector. Contrast this with percentage share of the local bodies in the total tax resources raised by the public sector in 1994-1995. It formed 15.86 percent of the total tax resources. The municipal share in resources raised by the public sector in 2004-2005 over 1994-1995 has changed by minus 1.05 percentage points.

18.20 The share of the state government in 1994-1995 was Rupees 1787.47 crore, that is, 84.14 percent. In 2004-2005 the share of the state government was Rupees 7106.13 crore, that is, 85.19 percent. The share in 2004-2005 is 1.05 percentage points higher than in 1994-1995. Accordingly, the absolute increase in tax revenues from Rupees 1787.47 crore (1994-1995) to Rupees 71064.13 crore (2004-2005) reflects a four-fold increase. In fact even the percentage change is quite reasonable.

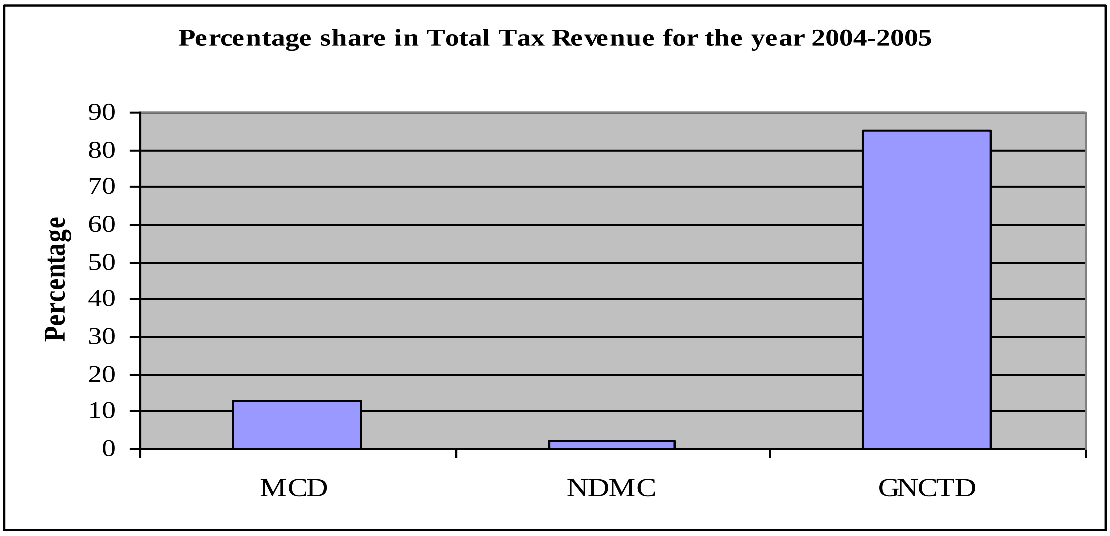
18.21 The share of the two local bodies in raising tax revenues as a percentage of the total tax revenues raised by the public sector is also revealing. The share of the MCD in 1994-1995 was Rupees 313.85 crore, that is, 14.77 percent. In 2004-2005 the share of MCD was Rupees 1074.14 crore, that is, 12.88 percent. The share in 2004-2005 is 1.89 percentage points lower than in 1994-1995. Accordingly, the absolute increase in tax revenues from Rupees 313.85 crore (1994-1995) to Rupees 1074.14 crore (2004-2005) should not mislead us into concluding that the resource mobilization by the MCD has improved. Figure 18.0 indicates the percentage share of various public sector agencies in total tax revenues.

Figure: 18.0-Percentage Share of Total Tax Revenue-1994-1995



18.22 The share of the NDMC in 1994-1995 was Rupees 23.00 crore, that is, 1.09 percent. In 2004-2005 the share of NDMC was Rupees 160.99 crore, that is, 1.93 percent. The share in 2004-2005 is 0.84 percentage points higher than in 1994-1995. Accordingly, while the absolute increase in tax revenues from Rupees 23.85 crore (1994-1995) to Rupees 160.99 crore (2004-2005) represents a seven-fold increase, the percentage point increase is, at best, notional. Figure 18.1 depicts the share of various agencies in 2004-2005.

Figure: 18.1-Percentage Share of Total Tax Revenue-2004-2005

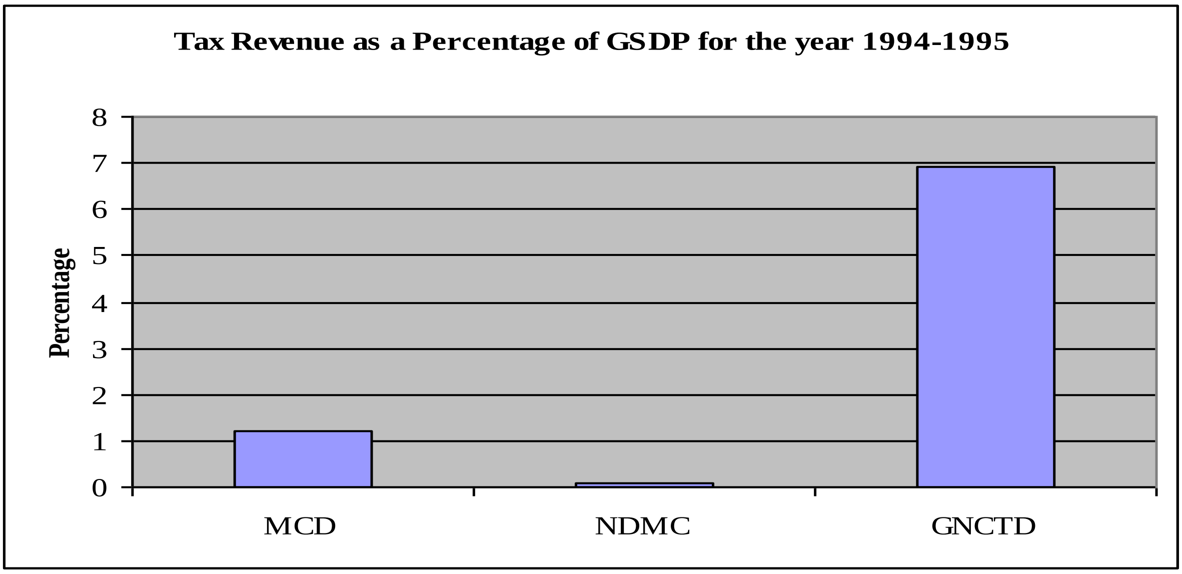


18.23 The unavoidable conclusion is that while the resource mobilization by the state government and the NDMC has shown improvement over the eleven year period that of the MCD has shown deterioration.

Linkage with the Local Economy

18.24 Figure 18.2 depicts the share of tax revenue as a percentage of GSDP in 1994-1995.

Figure: 18.2-Tax Revenue as a Percentage of GSDP-1994-1995



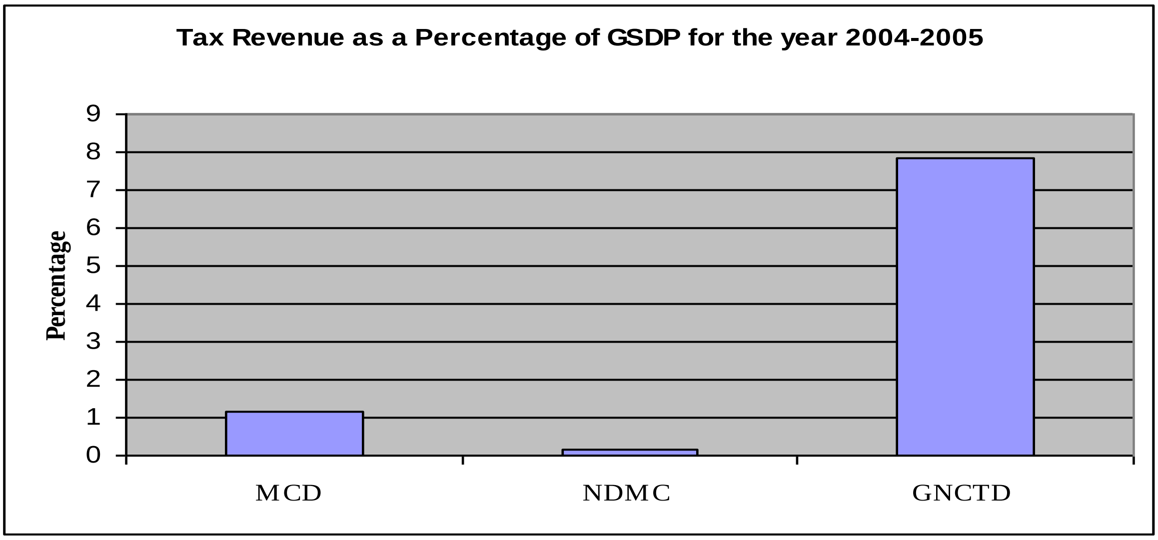
18.25 The municipal bodies have weak links with the economy of the state which is evident from the ratio of own revenues to gross domestic product. The share of the public sector raised resources in 1994-1995 was 8.22 percent of

GSDP. In 2004-2005, the share was 9.19 percent of GSDP. The share of the state government was 6.92 percent in 1994-1995, which increased to 7.83 percent in 2004-2005, a 0.91 percentage point increase.

18.26 The share of Municipal Corporation of Delhi's tax revenue as a percentage of GSDP was 1.21 percent in 1994-1995. This declined to 1.18 percent in 2004-2005, a 0.03 percentage points decline. The share of the NDMC rose from 0.09 percent in 1994-1995 to 0.18 percent in 2004-2005, a 0.09 percentage points increase.

18.27 Figure18.3 exhibits the tax revenue as a percentage of GSDP in 2004-2005.

Figure: 18.3-Tax Revenue as a Percentage of GSDP-2004-2005



18.28 Table 18.4 compares the revenue performance of four urban local bodies. It is important to note that growth in revenue mobilization at Hyderabad Municipal Corporation is significantly higher than Greater Mumbai Municipal Corporation, Municipal Corporation of Delhi, and the New Delhi Municipal Council.[12]

[12] This section is based on the Report of the HSMI, March 2006.

Table: 18.4- Revenue Mobilization Performance at Hyderabad, Mumbai and Delhi – 2003-04

Indicator	HMC	GMMC*	MCD	NDMC
ACGR – Rev. Receipts (%)	21.41	13.04	14.95	10.48
Per Capita Revenue Receipts at current prices (in Rs.)	1,015.00	3215.00	1,255.00	10,899.00

Source: HSMI Report to the Commission, March 2006, based on Municipal Budgets of HMC, GMMC, MCD,NDMC Notes: (i) * Figures are for 2004-05 and include only Budget – 'A' and Budget – 'E' (ii) NDMC figures are excluding water & electricity

Figures of per capita revenue receipts reveal that the NDMC ranks the highest among the four urban local bodies, which may be attributed to a declining population from 3.01 lakhs in 1991 to 2.95 lakhs in 2001.

Revenues and Resource Mobilization

18.29 Composition of revenue income in the four urban local bodies gives a positive picture of revenue performance. As may be seen from Table 18.5 and Figure 18.4, the most striking features of revenue composition in the spatial context are:

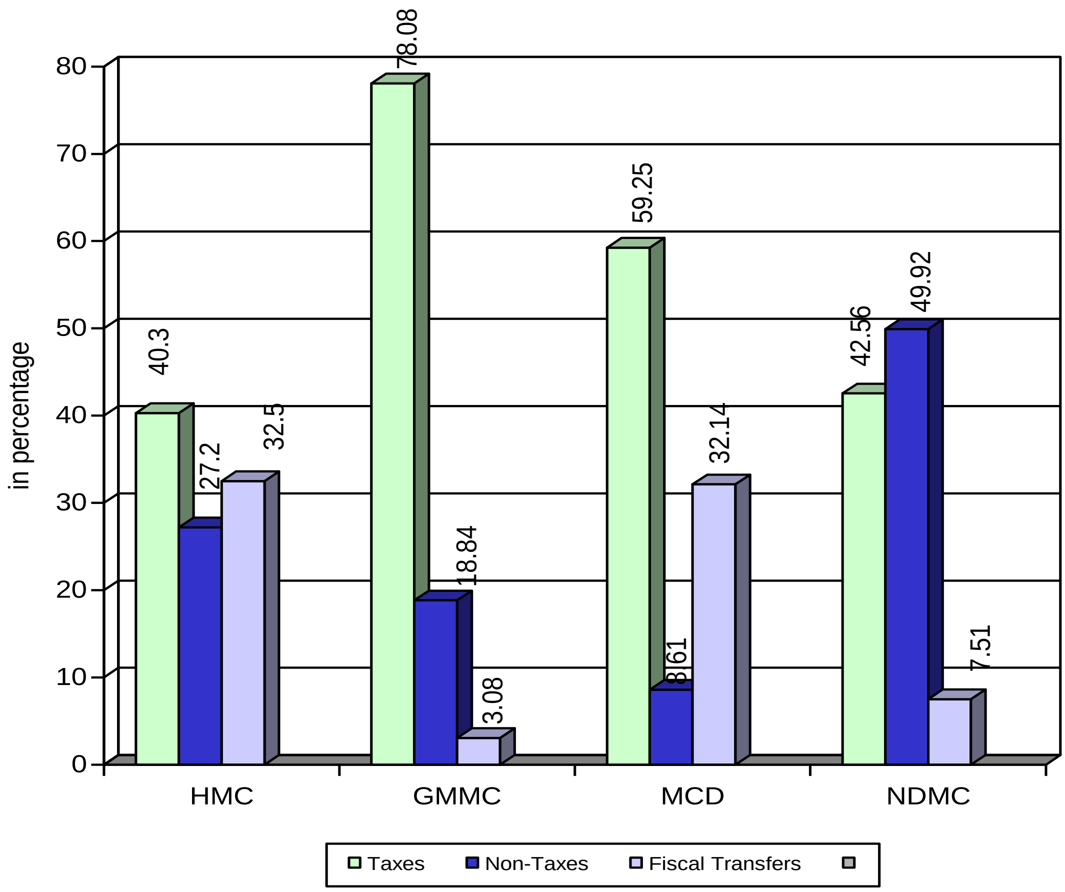
- Dependence on own sources is fairly high at Mumbai and MCD. Revenue mobilization at Mumbai is significantly high due to imposition of octroi which has exceptionally high potential owing to the fact that Mumbai is the economic capital of the country.
- Performance of non-tax mobilization is the highest at NDMC followed by Hyderabad. It is due to rental income for municipal properties, parking places, interest from deposits at NDMC and special charges as bulk producers of solid waste, revision of rates/ fee structure at Hyderabad. A proposal for revision of fee structure at MCD is pending with the GNCTD.
- `Liquidity' position at Hyderabad is fairly comfortable. GMMC has the benefit of octroi, which brings substantial revenue to the tune of Rupees 2432.20 crore in 2004-2005. HMC has a revenue transfer to the tune of Rupees 23.3 crore only.
- HMC and GMMC are in a position to spare revenue to fund capital projects/account.

Table: 18.5-Composition of Revenue Components (in percentage)

ULBs	Taxes		Non Tax		Fiscal Transfer	
	1993-94	2003-04	1993-94	2003-04	1993-94	2003-04
HMC	63.5	40.3	25.6	27.2	9.9	32.5
GMMC*	79.82	78.08	15.86	18.84	3.31	3.08
MCD	59.19	59.25	7.46	8.61	33.35	32.14
NDMC	21.44	42.56	64.30	49.92	14.26	7.51

Source: Municipal Budgets of HMC, GMMC, MCD,NDMC Notes * Figures are for 1994-95 and 2004-05 and include only Budget – 'A' and Budget – 'E (i) NDMC figures are excluding water & electricity

Figure: 18.4-Composition of Revenue Receipts



18.30 Variations in the revenue performance of four urban local bodies are attributed to specific factors. Table 18.6 gives some basic characteristics of revenue mobilization among four cities. As emerges, city governments are taking innovative steps to improve their revenue mobilization. MCD is particularly lacking in terms of mobilization of non tax revenue. The practices adopted by Hyderabad and Mumbai deserve special mention to have feedback for Delhi.

Table: 18.6-Basic Characteristics of Revenue Mobilization

Characteristics	HMC	GMMC	MCD	NDMC
Mainstay/Most Dependent Instrument	Property Tax	Octroi	Property Tax	Property Tax
Non tax share of sources 2003-2004	27%	19%	9%	50%*
Innovative Revenue Instruments	• Betterment charges • Road Widening • Impact fee • Storm water • Drainage charges • Collection charges in Solid Waste Managemen t	• Transferable Development Rights (TDR) • PI Sales	e-Governance	e-Governance
Innovative Accounting	DEAS Automation	-	DEAS Automation	DEAS Automation
Innovative Budgeting	• Analytical & comparative statements • Innovative Preparation	_	-	-

(Note: *without sale of electricity and water.
Source - HSMI Study, 2006
PI=Private Initiative Sales, DEAS= Double Entry Accounting System)

Fiscal Base and Fiscal Effort

18.31 Before considering other aspects, it would be useful to deal with the issue related to fiscal capacity reflected in fiscal effort. Fiscal capacity is defined as the difference between the potential and actual revenue.

- Fiscal effort (sometimes referred to as local fiscal performance) can be defined as the degree to which a region or local government utilizes the revenue bases available to it. As such the level of fiscal effort is affected by the level of the tax rates applied (if local governments have discretion over rate), by the level of exemptions granted (if local governments have discretion over the structure of the tax), and by the tax enforcement effort exerted by the tax administration authorities. The level of fiscal effort is typically measured as the ratio of the actual amount of revenues collected to some measure of fiscal capacity.
- There are two reasons why it is important to include a discussion of fiscal effort in concert with this treatment of fiscal capacity. First, the degree of fiscal effort determines the gap between actual collections in a region and the region's fiscal capacity. The acknowledgement that different regions may exert different levels of fiscal effort emphasizes the fact that the revenues raised in a region and the revenue-raising ability of a region are two distinctly different concepts. Second, fiscal effort itself may become a factor in the allocation of equalization grants. The idea is that regions that try harder to raise revenues but are still unable to finance a certain level of public services may be more worthy of receiving grant money.
- A common problem with the inclusion of fiscal effort in allocation formulas is that rather than using the level of fiscal effort, local fiscal effort is stimulated based on the increase in own source revenue collections relative to the previous year. The disadvantage of this approach is that local governments need to consistently exert a higher level of fiscal effort to receive these incentives. Local governments that initially exert a high level of fiscal effort have little room to increase their fiscal effort further, and are thus not rewarded for their high levels of fiscal effort. On the other hand, this mechanism simply rewards local governments that had previously low levels of fiscal effort. In summary, by rewarding increases in fiscal effort (as opposed to the level of effort), there is little incentive for local governments to maintain a consistently high level of effort.
- The problems associated with using the actual amount of revenue collections in a jurisdiction as a measure of fiscal capacity should be noted. Several elements create a gap between the actual and the

potential ability to raise revenues. First, changes in the definition of the taxable item or the tax rates can determine actual revenue outcomes. Second, even when the rates and tax base are the same, there may be differences in the enforcement effort and grant of different levels of exemptions. Third, fiscal capacity may vary as a result of different levels of taxpayer compliance (for the same enforcement effort). Thus while tax rates, enforcement effort, and taxpayer compliance all affect the actual revenue collections, they do not affect the potential ability to collect revenues.

- Additionally, using actual revenue collections as a measure of fiscal capacity in an equalization formula would provide a negative incentive for revenue generation by a local body, as it would penalize transfers to local governments that collect more. The repeated efforts of the NDMC to project a deficit are, perhaps, partly explained by this.
- In this context, it maybe recalled that the incentive formulation of the first and second Finance Commissions had no impact on resource mobilization efforts of the local bodies.[13]

Municipal Bodies and Expenditure Levels

18.32 The performance of the municipalities on the criterion of expenditure levels runs along the same track as that of own revenues. Estimated at 0.75 percent of the Gross Domestic Product (GDP) municipal expenditure at the national level is extremely low.[14] In the NCT, municipal expenditure was 4.24 percent of GSDP in 1994-1995. In 2004-2005 the municipal expenditure was 4.02 percent of the GSDP. The share of expenditure by the MCD was 2.91 percent (1994-1995). This increased to 2.95 percent of the GSDP in 2004-2005. In the case of the NDMC the share was 1.33 percent in 1994-1995 and 1.07 percent in 2004-2005. This means that the expenditure has remained more or less stagnant (MCD) or has deteriorated (NDMC). The share of total expenditure of the state government was 9.31 percent of the GSDP in 1994-1995. In 2004-2005 it was 14.19 percent registering a 4.88 percentage point increase.

Per capita expenditure

18.33 The per capita public sector expenditure (Delhi government, MCD and NDMC) in 1994-1995 was Rupees 3273.02. In 2004-2005, the per capita expenditure of the public sector was Rupees 9051.19. This was an increase of 176.54 percent. A breakdown of the share of all the three agencies shows that the share of the state government increased from Rupees 2228.72 (1994-1995) to

[13] Report of the First Delhi Finance Commission on Municipalities in the NCT of Delhi, (1996-2001), Volume I, page:214-215, December, 1997; Report of the Second Delhi Finance Commission, Volume I, page 125, April 2002.

[14] India's Municipal Sector, A study for the Twelfth Finance Commission (TFC), OP Mathur and Sandeep Thakur, National Institute of Public Finance and Policy, New Delhi, September 2004.

Rupees 8253.47 (2004-2005), a percentage increase of 270.32 percent. The daily per capita expenditure was Rupees 6.10 in 1994-1995. This increased to Rupees 22.61 in 2004-2005. The per capita expenditure of the MCD was Rupees 715.61 in 1994-1995. In 2004-2005 it was Rupees 1705.70, reflecting an increase of 138.36 percent. The per capita daily expenditure of the MCD in 1994-1995 was Rupees 1.96. This increased to Rupees 4.67 in 2004.2005. The small increases in the per capita daily expenditure would reflect the increase in the population size serviced by the MCD. The per capita expenditure of the NDMC was Rupees 11457.33 (1994-1995) and Rupees 32216.33 (2004-2005). The per capita daily expenditure of the NDMC was Rupees 31.39 in 1994-1995 and Rupees 88.26 in 2004-2005. The NDMC daily per capita expenditure was four times that of the state government. This is largely attributable to the much smaller population and area size of the NDMC. The daily per capita expenditure in the MCD area at least cannot, by any standard, be expected to deliver services that satisfy the needs of either the urban households or other non-domestic users.

18.34 The expenditure on establishment (salaries and wages) accounts for 54.20 percent at the all-India level. The figure naturally varies across the country: as high as 80.40 percent in Madhya Pradesh, 69.70 percent in Haryana, 50.60 percent in Orissa, 65.00 percent in Uttar Pradesh.[15] It is worth noting, says the HSMI study for this Commission, that over two third of revenue expenditure is devoted towards cost on salaries and other establishment related activities such as perks, phone, fax, automation, office space, vehicles, equipments, etc. The non-salary component of municipal expenditure remains around 30 percent of municipal spending which means that in case of any fiscal stress, regular repairs and replacement in services is going to be effected adversely (Table 18.7 and Figure 18.5a and 18.5b). The establishment cost in 2003-2004 in the MCD was 73.60 percent and in the NDMC it was 65.70 percent. This clearly is not only very high but also leaves fewer resources for operations and maintenance. The share of O&M in total revenue expenditure being low at both the civic bodies is a cause of concern.

Table: 18.7-Composition of Establishment and O&M Expenditure at MCD and NDMC (Rupees crore)

Year	Establishment Cost	O&M Cost
1993-94	307 (71.8%)	110
2003-04	1206 (73.6%)	471.73
NDMC(Excluding Electricity and Water expenses)		**(**Rs. Crore)
Year	Establishment Cost	O&M Cost
2003-04	262.33 (65.7%)	136.81

[15] Ibid

(Source: HSMI Study based on MCD and NDMC Budgets)

Figure -18.5 (a)

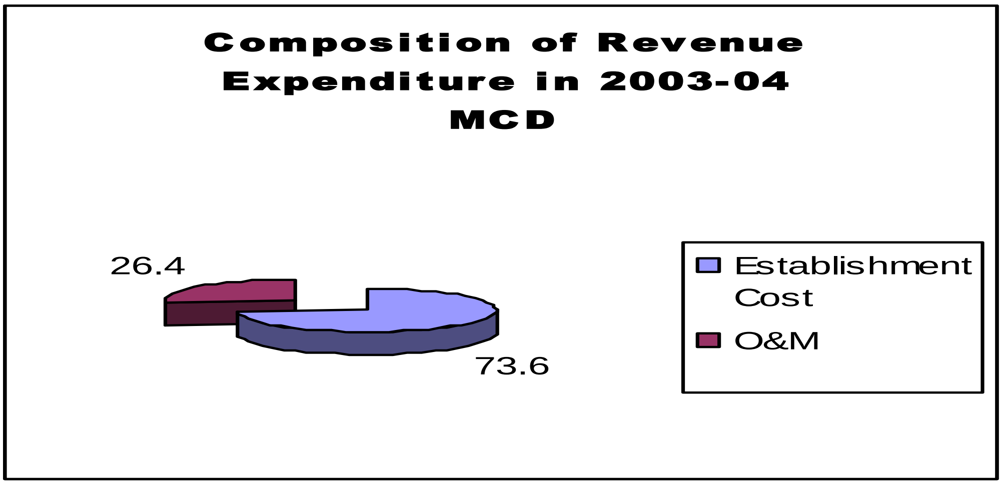
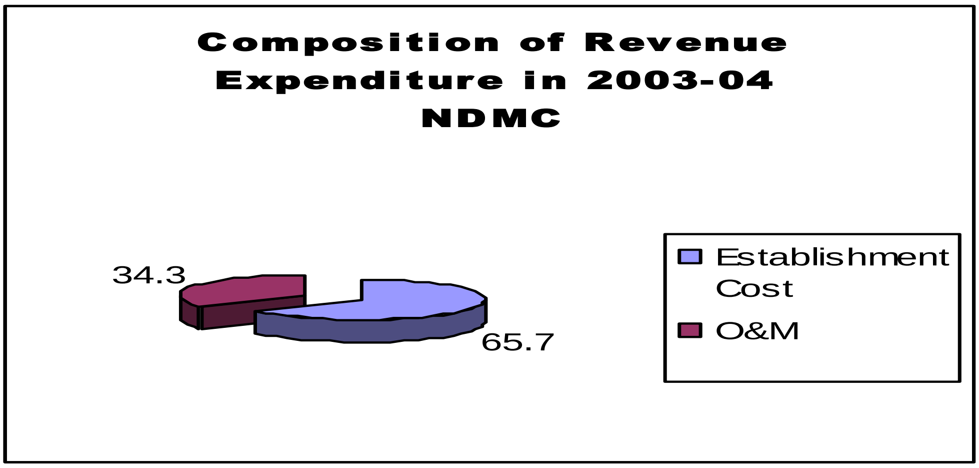


Figure -18.5 (b)



Manpower Reduction

18.35 The findings of the first and second Delhi Finance Commissions on the issue of manpower are worth recalling.[16] The first Delhi Finance Commission found the submission of the MCD quite amazing that there was no scope for reducing the staff strength. It also felt that there was excess employment and low productivity. This was true of both local bodies. It recommended participation of the private sector to enhance efficiency and reduce the costs of delivering services. This was reiterated by the second Finance Commission, which made the further observation that the MCD in particular had taken no steps to act on the various recommendations of the first Commission.[17] The

[16] Report of the First Delhi Finance Commission on Municipalities in National Capital Territory of Delhi (1996-2001), Volume I, pages 142-161, December 1997.

[17] Annexe: Observations of First and Second Finance Commissions on Manpower, see Vol-III, Section-II

second Commission reported that the number of employees in the MCD was 90393 in 2000-2001[18].

18.36 The MCD has informed this Commission that the total number of employees is 143304 as on December 14, 2005. Therefore, far from reducing the manpower there is an increase of 52911 employees. This is an increase of 58.53 percent. Accordingly, the situation has deteriorated. This is deplorable because the urban reform agenda depends as much on the local bodies taking serious steps for internal reform, as on the support of the state government for such measures. If the local bodies fail to carry out basic reforms which would enhance their own resources-whether by enhanced mobilization or by cutting wasteful expenditure-their pleas for additional allocation do not carry conviction. This is more so when the local bodies fail to explore the option of public-private participation. Additionally, the local bodies are not willing to contemplate downsizing. They also insist on implementing pay scales recommended by the Central Pay Commission, i.e, on employing expensive manpower.

Local Bodies and Implementation of reforms

18.37 Several state governments, including the Delhi government, have set in motion initiatives for augmenting the revenue base of local bodies. Property tax reforms involving a shift from annual ratable value to unit area system, substitution of cash based to an accrual based accounting system, forging a better linkage between tariff and cost of services, and public-private partnerships in service provision provide the core of the initiatives that have been taken in the recent years. However, in the case of even these limited measures the local bodies in the NCT have either implemented them half-heartedly or practically ineffectively.

Impact of Decentralization on State Government Resources of Local Bodies

18.38 It is also relevant to determine the impact of decentralization as embodied in the **new Constitutional provisions** firstly, on the finances of the state government and secondly, on the financial performance of the municipalities.

18.39 In the absence of any fresh review of the revenue and expenditure assignments to the local bodies, most of the time, there has been a resort to marginal adjustments to the shares or amounts that municipalities were receiving in the pre-amendment period. Therefore, the data suggest that the impact of the recommendations of the state finance commissions on the state's

[18] Report of the Second Delhi Finance Commission, Volume I, National Capital territory of Delhi, pages 120-121 April 2002.

finances in terms of the additional 'load' as a percentage of total tax revenues has actually declined. In the years preceding the amendments (1985-1986 to 1995-1996), the assigned taxes and non-plan grants to local bodies accounted for the transfer of Rupees 1387.75 crore or 11.53 percent of the net tax revenues (Rupees 12016.35 crore). In the post-amendment (1996-1997 to 2005-2006) phase this has been Rupees 4755.74 crore or 9.80 percent of the net tax revenues (48093.25).

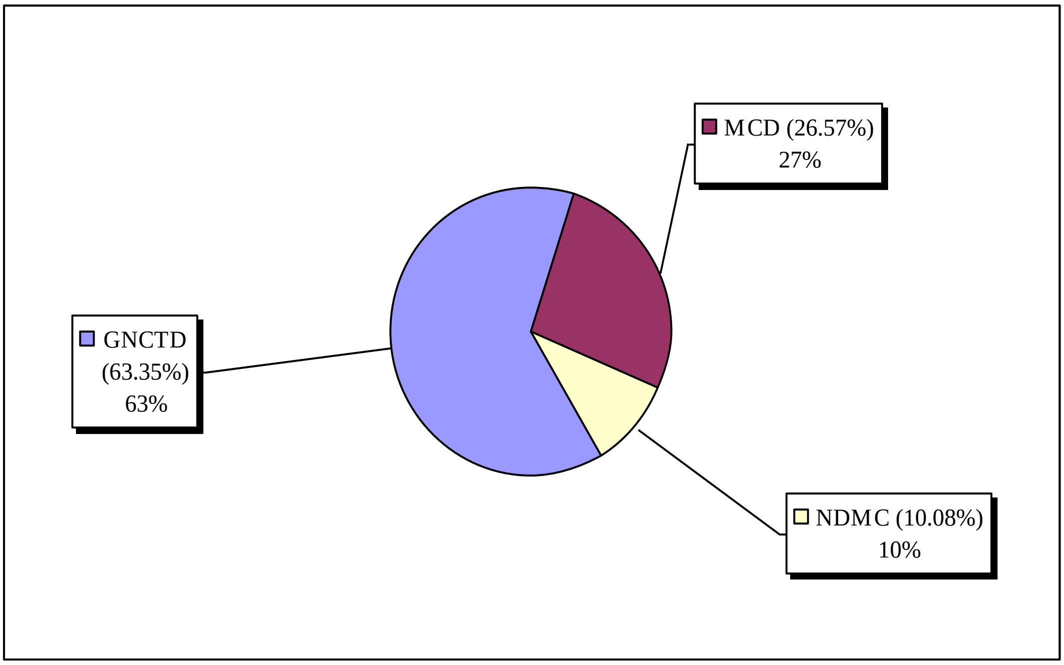
Trends in Receipts/ Expenditure: Pre/Post-Amendment

18.40 Trends in total receipts in the pre- and post Amendment phase are indicated in Figure 18.6 and 18.7[19].

RECEIPTS

- The total receipts of the public sector (state government, MCD, and NDMC) in the **pre-Amendment phase** (1985-1986 to 1995-1996) were Rupees 23113.98 crore. The share of the erstwhile Delhi Administration was 63.35 percent, that of MCD was 26.57 percent, and of the NDMC was 10.08 percent.

Figure: 18.6-Percentage Share Receipts-GNCTD and Local Bodies-1985-1986 to 1995-1996 (PRE-AMENDMENT)



- In the **post–Amendment phase**, the total receipts of the public sector (including the public utilities) were Rupees 99351.93 crore. The increase in the post-Amendment phase (consisting of 09 years) over the pre-Amendment phase (consisting of 11 years) was a healthy amount of Rupees 76237.95 crore i.e. a 329.83 percent increase.

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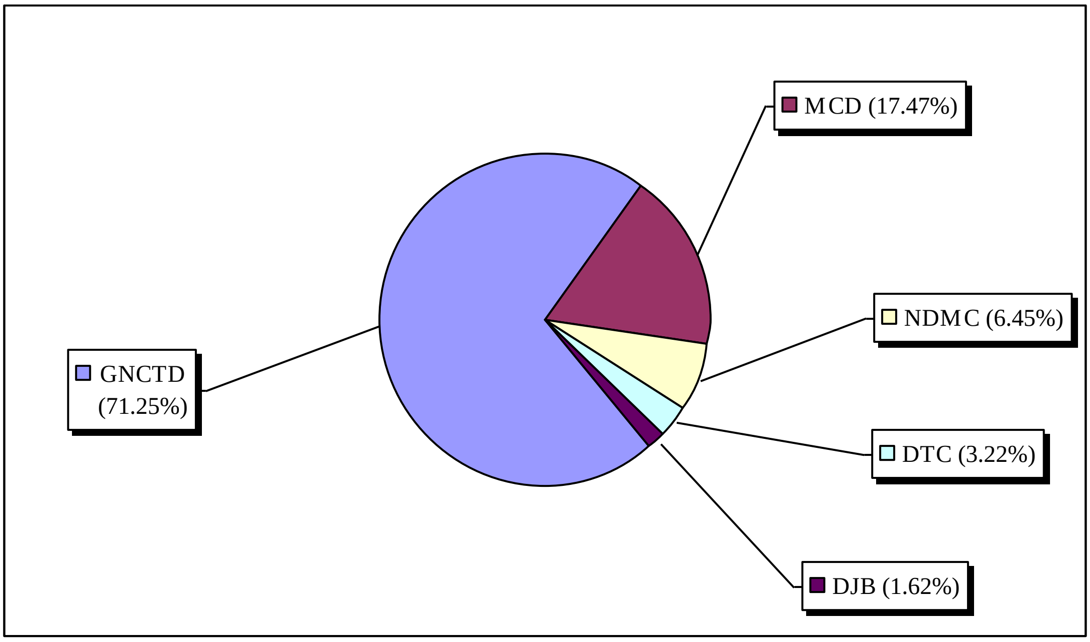
[19] Annexe: Working Data Sheet. See Vol-III, Section-IV

- The share of the various public sector entities was: 71.25 percent for GNCTD, for MCD 17.47 percent, for NDMC 6.45 percent, for DTC 3.22 percent, and for DJB 1.62 percent. The share of all agencies other than the GNCTD has dropped, with the combined share of the new entrants (the public utilities) being below 5 percent.
- While the increase in the share of the GNCTD is attributable in part to the increased loan component, and partly to tax reforms, the decline in the share of the local bodies must be traced to the lack of any serious efforts to mobilize resources on their part.

Figure: 18.7-Percentage Share Receipts-GNCTD, Local Bodies and Public Utilities (DJB/DTC)-1996-1997 to2004-2005 (POST AMENDMENT)



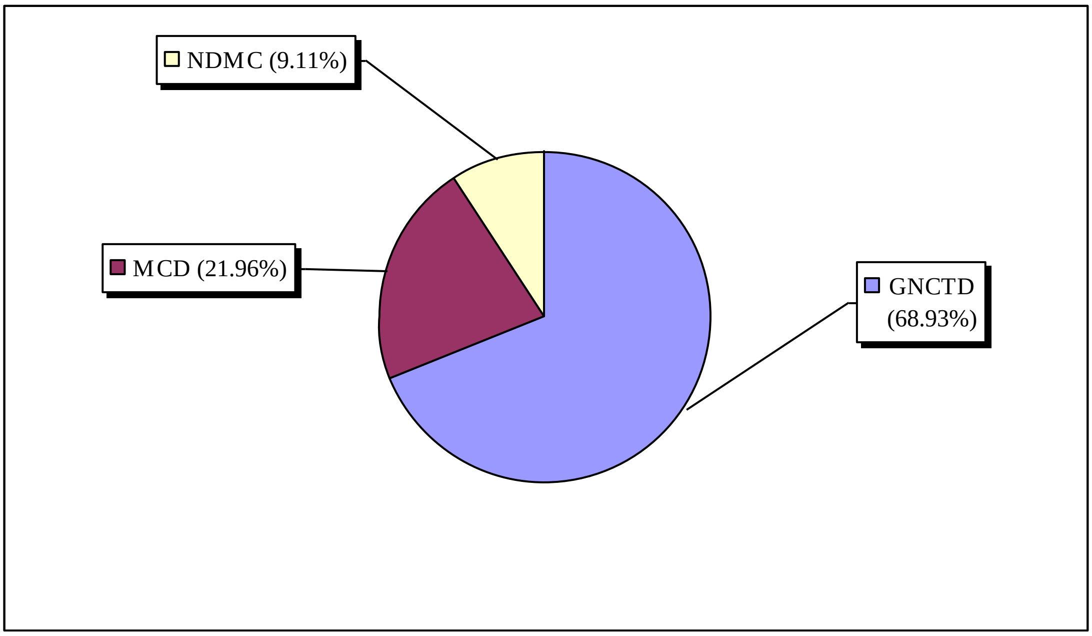
Expenditure

18.41 Trends in total expenditure in the pre- and post Amendment phase are indicated in Figure 18.8 and 18.9 [20].

- The total expenditure of the public sector (state government, MCD, and NDMC) in the pre-Amendment phase (1985-1986 to 1995-1996) was Rupees 25383.35 crore. The share of the erstwhile Delhi Administration was 68.93 percent, that of MCD was 21.96 percent, and of the NDMC was 9.11 percent.

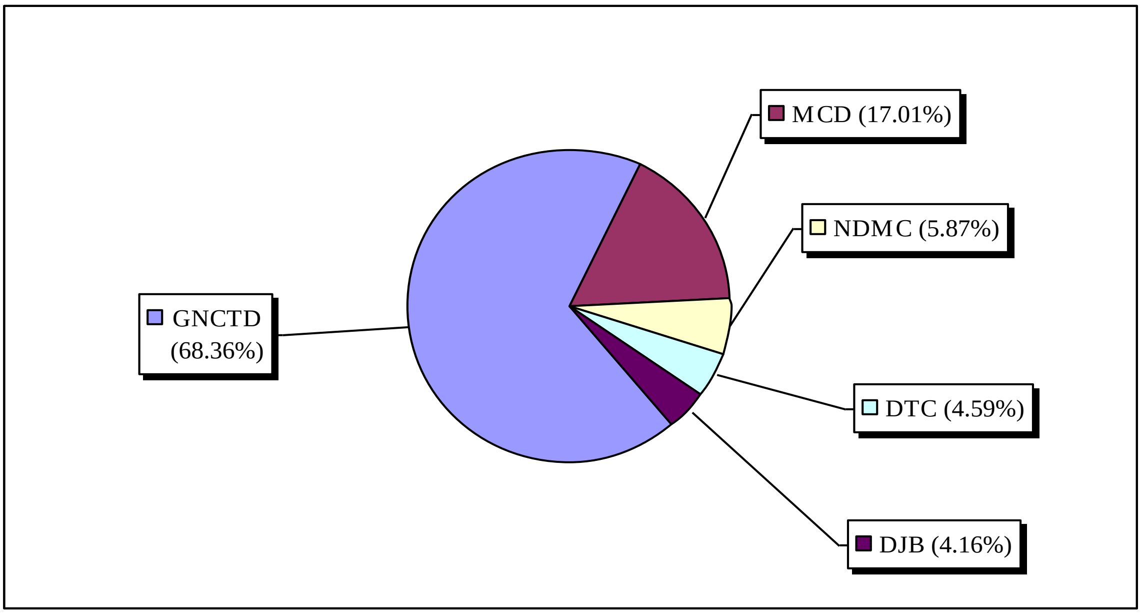
[20] Annexe: Working Data Sheet. See Vol-III, Section-IV

Figure: 18.8-Percentage Share Expenditure-GNCTD and Local Bodies-1985-1986 to 1995-1996 (PRE-AMENDMENT)



- In the **post–Amendment phase**, the total expenditure of the public sector (including the public utilities) was Rupees 101502.18 crore. The increase in the post-Amendment phase (consisting of 09 years) over the pre-Amendment phase (consisting of 11 years) was a healthy amount of Rupees 76118.83 crore- a 299.88 percent increase.
- The share of the GNCTD declined marginally (0.57 percent), that of the MCD declined by 4.95 percent, of the NDMC by 3.24 percent. The share of the new entrants (the public utilities) was: 4.59 percent (DTC) and 4.16 percent (DJB).

Figure: 18.9-Percentage Share Expenditure-GNCTD, Local Bodies and Public Utilities (DJB/DTC)-1996-1997 to2004-2005 (POST AMENDMENT)



Evaluation of Financial Performance pre- and post-Amendment Phases: MCD

Non-plan Expenditure

18.42 The total non-plan expenditure of MCD rose from Rupees 146.71 crore in 1985-1986 to Rupees 582.05 crore in 1995-1996. The total non-plan expenditure in this period was Rupees 3550.52 crore that is an annual average of Rupees 322.77 crore. The total non-plan grants of Rupees 738.90 crore in the period 1985-1986 to 1995-1996, constituted 20.81 percent of the total non-plan expenditure. In the same period (1985-1986 to 1995-1996) assigned taxes added up to Rupees 721.56 crore. This constituted 20.32 percent of the total non-plan expenditure. Therefore, the state government's transfers accounted for 41.13 percent of the total non-plan expenditure of the MCD.

- The total non-plan expenditure of MCD rose from Rupees 667.40 crore in 1996-1997 to Rupees 1950.47 crore in 2004-2005. The total non-plan expenditure in this period was Rupees 12159.83 crore that is an annual average of Rupees 1351.09 crore. The total non-plan grants of Rupees 1680.37 crore in the period 1996-1997 to 2004-2005, constituted 13.82 percent of the total non-plan expenditure. In the same period (1996-1997 to 2004-2005) assigned taxes added up to Rupees 2059.04 crore. This constituted 16.93 percent of the total non-plan expenditure. Therefore, the state government's transfers accounted for 30.75 percent of the total non-plan expenditure of the MCD in the post-Amendment phase. This also highlights the fact that the percentage share of transfers in non-plan expenditure of the MCD has declined in the post-Amendment phase.

- The per capita total non-plan expenditure of the MCD increased from Rupees 209.59 in 1985-1986 to Rupees 533.99 in 1996-1997. This was a 154.78 percent increase. In the post-Amendment period (1996-1997 to 2004-2005) the increase was from Rupees 575.34 to Rupees 1242.43, a 115.93 percent increase. This suggests that that there has been a declining trend in the total non-plan expenditure of the MCD in the post-1996 period.
- The fact that the share of the state government in meeting non-plan expenditure only means that the Corporation is devoting a larger percentage to meet such expenditure from their own resources. Therefore, the decreasing percentage increase in non-plan expenditure is an encouraging factor. In any case, the state government should not be expected to meet the non-plan expenditure of the Corporation.

Plan-expenditure

- The total plan expenditure of MCD rose from Rupees 64.93 crore in 1985-1986 to Rupees 372.88 crore in 1995-1996. The total amount released to the MCD for plan purposes in the same period was Rupees 2038.66 crore (Rupees 1695.33 crore as grants and Rupees 343.33 crore as loans). The total plan expenditure in this period was Rupees 2022.69 crore that is an annual average of Rupees 183.88 crore. In other words all plan activity of the Corporation is funded by the state government. The Corporation, on the other hand, is unable to utilize the amounts released. The total plan grants of Rupees 1695.33 crore in the period 1985-1986 to 1995-1996, constituted 83.82 percent of the total plan expenditure.
- The total plan expenditure of MCD rose from Rupees 437.35 crore in 1996-1997 to Rupees 727.48 crore in 2004-2005. The total plan amount released to the MCD in this period (1996-1997 to 2004-2005) was Rupees 6048.52 crore (grants of Rupees 4660.28 crore and loans of Rupees 1388.24 crore). The grants of Rupees 4660.28 crore constituted 91.19 percent of the total plan expenditure. The total plan expenditure in this period was Rupees 5110.70 crore that is an annual average of Rupees 567.86 crore. However, it is noteworthy that the Corporation has been unable to utilize the plan amounts released to it as a grant or a loan. In this phase the underutilization was to the extent of Rupees 937.82 crore.

Some observations on utilisation of funds

18.43 In this context, a few observations are in order. First, given the inability to utilize funds released, claims of fund inadequacy do not sound credible. Second, the state government should seriously re-consider the release of plan funds unless the Corporation is able to show financial and physical progress.

Third, the grants to the local bodies must go beyond the budgetary classification of plan and non-plan by linking specific amounts to the core functions of the body.

18.44 In the period 1985-1986 to 1995-1996, the total receipts of the MCD rose from Rupees 203.85 crore to Rupees 1034.58 crore. This is a 407.52 percent increase. The total receipts in this period were Rupees 6142.54 crore with an annual average of Rupees 558.41 crore. The total per capita receipts in 1985-1986 were Rupees 291.21 which rose to Rupees 949.16 in 1995-1996. The percentage increase in the per capita receipts was 225.94 percent.

- In the period 1996-1997 to 2004-2005, the total receipts of the MCD rose from Rupees 1113.96 crore to Rupees 3058.04 crore. This involved a percentage increase of 174.52. The total receipts in this period were Rupees 17356.06 crore with an annual average of Rupees 1928.45 crore. The per capita total receipt in 1996-1997 was Rupees 960.31 which rose to Rupees 1947.80 in 2004-2005. The percentage increase in the per capita total receipts was 102.83 percent. In other words, the growth in per capita total receipts in percentage terms was considerably lower in the post-Amendment period.

- In the period 1985-1986 to 1996-1997, the total tax revenue of the MCD rose form Rupees 62.86 crore to Rupees 370.70 crore. The total tax revenues in this period was Rupees 2000.05 crore with an annual average of Rupees 181.82 crore. The per capita tax revenue in 1985-1986 was Rupees 89.80 which rose to Rupees 340.09 in 1995-1996. The percentage increase in the per capita tax revenue was 278.72 percent.

- In the period 1996-1997 to 2004-2005, the total tax revenue of the MCD rose from Rupees 449.66 crore to Rupees 1074.14 crore. The total tax revenues in this period were Rupees 7220.43 crore with an annual average of Rupees 802.27 crore. The per capita tax revenue in 1996-1997 was Rupees 387.64 which rose to Rupees 684.17 in 2004-2005. The percentage increase in the per capita tax revenue was 76.50 percent. In other words, the growth in per capita tax revenue terms in percentage terms was considerably lower in the post-Amendment period.

18.45 To what can this decline in per capita tax revenue be attributed? It could reflect growth of population. However, this is a rather limited explanation, at best. Possibly, this is because the tax paying population is different from the total population, and, given the fact that property tax is the mainstay of the tax base of the MCD, there has been virtually no change in the size of the tax base.

This reflects the narrowing of the **tax base** as well as the lack of effort to expand the same. It could also be substantially because of **lack of enforcement** effort on the part of the MCD.

- The expenditure (plan and non-plan) increased from Rupees 211.64 crore (1985-1986) to Rupees 954.93 crore (1995-1996). This is an increase of 351.20 percent. Total expenditure during the period was Rupees 5573.21 crore with an annual average of Rupees 506.66 crore.
- The per capita total expenditure of the MCD grew from Rupees 302.34 (1985-1986) to Rupees 876.08 (1995-1996). This is a 189.77 percent increase in this period.
- The expenditure (plan and non-plan) increased from Rupees 1104.75 crore (1996-1997) to Rupees 2677.95 crore (2004-2005). This is an increase of 142.40 percent. Total expenditure during the period was Rupees 77270.53 crore with an annual average of Rupees 1918.95 crore.
- The per capita total expenditure of the MCD grew from Rupees 952.37 (1996-1997) to Rupees 1705.70 (2004-2005). This is a 79.10 percent increase in this period.
- In the post-Amendment phase the increase in the total expenditure in percentage terms was less than in the pre-Amendment period. The same is true of the per capita expenditure in the post-Amendment period too. The total expenditure has increased at a higher rate in the second phase as compared to the percentage increase in the per capita total expenditure. The reduced per capita expenditure may be attributed to the increase in population

18.46 The receipts and expenditure of the MCD in the post-Amendment phase exhibit a **declining growth** in percentage terms. This implies that neither resource mobilization nor **expenditure management** is effective

NDMC: Evaluation of Financial Performance pre- and post-Amendment Phases

18.47 The total non-plan expenditure of the NDMC rose from Rupees 66.68 crore in 1985-1986 to Rupees 351.00 crore in 1995-1996. The total non-plan expenditure in this period was Rupees 2026.72 crore, that is, an annual average of Rupees 184.25 crore. The total non-plan grants of Rupees 40.35 crore in the period 1985-1986 to 1995-1996, constituted 1.99 percent of the total non-plan expenditure. In the same period (1985-1986 to 1995-1996) assigned taxes added up to Rupees 68.96 crore. This constituted 3.40 percent of the total non-plan expenditure. Therefore, the state government's transfers accounted for 5.39 percent of the total non-plan expenditure of the NDMC.

Non - Plan

- The total non-plan expenditure of NDMC rose from Rupees 341.70 crore in 1996-1997 to Rupees 954.85 crore in 2004-2005. The total non-plan expenditure in this period was Rupees 5828.27 crore that is an annual average of Rupees 647.59 crore. The total non-plan grants of Rupees 119.07 crore in the period 1996-1997 to 2004-2005, constituted 2.04 percent of the total non-plan expenditure showing a marginal increase over the pre-Amendment period. In the same period (1996-1997 to 2004-2005) assigned taxes added up to Rupees 83.04 crore. This constituted 1.42 percent of the total non-plan expenditure. This indicates a decline of 1.98 percentage points in the post-Amendment period. Therefore, the state government's transfers accounted for 3.46 percent of the total non-plan expenditure of the NDMC in the post-Amendment phase. This also highlights the fact that the percentage share of transfers in non-plan expenditure of the NDMC has declined in the post-Amendment phase.

- The per capita total non-plan expenditure of the NDMC increased from Rupees 2189.33 in 1985-1986 to Rupees 11700.00 in 1995-1996. This was a 434.41 percent increase. In the post-Amendment period (1996-1997 to 2004-2005) the increase was from Rupees 11390.00 to Rupees 31828.33, a 179.44 percent increase. This suggests that, as in the case of the MCD, there has been a declining trend in the total non-plan expenditure of the NDMC in the post-1996 period.

18.48 The fact that the share of the state government in meeting **non-plan expenditure is declining** only means that the Council is devoting a larger percentage to meet such expenditure from their own resources. Therefore, the decreasing percentage - increase in non-plan expenditure is an encouraging factor. In any case, the state government should not be expected to meet the non-plan expenditure of the Council.

Plan

18.49 The total plan expenditure of NDMC rose from Rupees 11.77 crore in 1985-1986 to Rupees 28.98 crore in 1995-1996. The total amount released to the NDMC for plan purposes was Rupees 277.11 crore (Rupees 160.13 crore as grants and Rupees 116.98 crore as loans). The total plan expenditure in this period was Rupees 285.48 crore, that is, an annual average of Rupees 25.95 crore. In other words 97.07 percent of the plan expenditure of the Council was funded by the state government. The performance of the Council in this period was better than that of the MCD.

- The total plan expenditure of NDMC declined from Rupees 18.80 crore in 1996-1997 to Rupees 11.64 crore in 2004-2005. This represents an absolute decline of Rupees 7.16 crore and a 38.09 percent fall. The total plan amount released to the NDMC in this period (1996-1997 to 2004-2005) was Rupees 99.91 crore (grants of Rupees 72.81 crore and loans of Rupees 27.10 crore). The state governments' transfers constituted 74.53 percent of the total plan expenditure. This represents a 22.54 percentage points decline over the pre-Amendment period. The total plan expenditure in this period was Rupees 134.06 crore that is an annual average of Rupees 14.90 crore. The annual average plan expenditure of the NDMC has also come down from the pre-Amendment phase. Since 2001 the Council has chosen to forego the loan component of plan assistance. This could be an indicator of financial prudence coupled with the fact that the Council has also retired all its debt. The more likely explanation however appears to be the limited scope for extensive capital expenditure. The NDMC can basically only deepen the services, amenities or infrastructure. Therefore, given the limited scope for development works claims of fund inadequacy have to be scrutinised carefully.

Tax Revenue

18.50 In the period 1985-1986 to 1995-1996, the total tax revenue of the NDMC rose form Rupees 3.63 crore to Rupees 27.23 crore. The total tax revenues in this period were Rupees 126.88 crore with an annual average of Rupees 11.53 crore. The per capita tax revenue in 1985-1986 was Rupees 121.00 which rose to Rupees 907.67 in 1995-1996. The percentage increase in the per capita tax revenue was 650.14 percent.

- In the period 1996-1997 to 2004-2005, the total tax revenue of the NDMC rose form Rupees 32.87 crore to Rupees 160.99 crore. The total tax revenues in this period were Rupees 843.64 crore with an annual average of Rupees 93.74 crore. The per capita tax revenue in 1996-1997 was Rupees 1095.67 which rose to Rupees 5366.33 in 2004-2005. The percentage increase in the per capita tax revenue was 389.78 percent. In other words, the growth in per capita tax revenue in percentage terms was considerably lower in the post-Amendment period.

Total and Per capita expenditure

18.51 The expenditure (plan and non-plan) increased from Rupees 77.45 crore (1985-1986) to Rupees 379.98 crore (1995-1996). This is an increase of 390.61 percent. Total expenditure during the period was Rupees 2312.20 crore with an annual average of Rupees 210.20 crore.

- The per capita total expenditure of the NDMC grew from Rupees 2581.67 (1985-1986) to Rupees 12666.00 (1995-1996). This is a 390.61 percent increase in this period.

- The expenditure (plan and non-plan) increased from Rupees 360.50 crore (1996-1997) to Rupees 966.49 crore (2004-2005). This is an increase of 168.10 percent. Total expenditure during the period was Rupees 5962.33 crore with an annual average of Rupees 662.48 crore.

- The per capita total expenditure of the NDMC grew from Rupees 12016.67 (1996-1997) to Rupees 32216.33 (2004-2005). This is a 168.10 percent increase in this period.

18.52 In the post-Amendment phase, the increase in the total expenditure in percentage terms was less than in the pre-Amendment period. The same is true of the per capita expenditure in the post-Amendment period too. The total expenditure has increased at a lower rate in the second phase as compared to the percentage increase in the per capita total expenditure. The reduced per capita expenditure may be attributed to the limited scope for expenditure.

18.53 The receipts and expenditure of the NDMC in the post-Amendment phase exhibit a **declining growth** in percentage terms. This implies that neither resource mobilization nor expenditure management is effective

Receipts

18.54 In the period 1985-1986 to 1995-1996, the total receipts of the NDMC rose from Rupees 77.53 crore to Rupees 383.37 crore. The total receipts in this period were Rupees 2328.17 crore with an annual average of Rupees 211.65 crore. The per capita total receipts in 1985-1986 were Rupees 2584.33 which rose to Rupees 12779.00 in 1995-1996. The percentage increase in the per capita total receipts was 394.48 percent.

- In the period 1996-1997 to 2004-2005, the total receipts of the NDMC rose from Rupees 396.66 crore to Rupees 1078.97 crore. This involved a percentage increase of 172.01. The total receipts in this period were Rupees 6405.72 crore with an annual average of Rupees 711.75 crore. The per capita total receipts in 1996-1997 were Rupees 13222.00 which rose to Rupees 35965.67 in 2004-2005. The percentage increase in the per capita total receipts was 172.01 percent. In other words, the growth in per capita total receipts in percentage terms was considerably lower in the post-Amendment period.

MCD: Expenditure on Obligatory Functions

18.55 One aspect of the pattern of expenditure deserves special attention. This is analysed in the context of the MCD, though it would be advisable to review the position in the NDMC also. This is with regard to expenditure on obligatory functions. It was noted in Chapter 17 (dealing with the projections) that, percentage share of expenditure on obligatory functions had declined in 2003-2004 compared to the 1994-1995 position. The year 1994-1995 was in the pre-Amendment phase and 2003-2004 is well in the post-Amendment period.

- On the other hand, the expenditure on a number of miscellaneous items labeled 'petty expenditure' by the MCD has escalated during the period. This expenditure is generally outside the framework of the original budget. It gets regularized through post-facto approvals.

Spatial Comparison

18.56 This section examines the municipal finance of MCD and NDMC in a spatial context with particular reference to municipal corporations of Hyderabad (HMC) and Greater Mumbai (GMMC). At the same time, the relevant innovations on municipal finance among other cities are also examined to have a suitable feedback for MCD and NDMC[21].

Income - Expenditure Differential

18.57 Table 18.8 and Figure 18.10 indicates the income expenditure differential and growth during the period of 1993 to 2004. The municipal income and expenditure of MCD has grown at almost the same rates whereas in HMC, municipal revenue has grown at a faster rate as compared to revenue expenditure. In case of NDMC, revenue has grown at a much slower pace as compared to its revenue expenditure.

Table: 18.8-Income - Expenditure Differential (in Rupees lakhs)

ULBs	Municipal Rev (MR)		Rev. Exp (RE)		Differential (MR-RE)		Differential as % of MR	
	1993-94	2003-04	1993-94	2003-04	1993-94	2003-04	1993-94	2003-04
HMC@	7127	40848 *(21.41)*	6419	34998 *(20.74)*	708	5850	10	14
GMMC	118896	405060 *(13.04)*	119728	442023 *(12.57)*	(-)832	(-)36963	(-)0.69	(-)9.13
MCD	45265	182298 *(14.92)*	41721	167773 *(14.93)*	3544	14525	8	8
NDMC	9152	31935 *(10.48)*	13516	39914 *(11.44)*	(-) 4364	(-) 7979	(-) 47.68	(-) 24.98

(Source: Municipal Budgets of HMC, GMMC, MCD and NDMC)

[21] This section is based on the study conducted by the HSMI for the third Delhi Finance Commission.

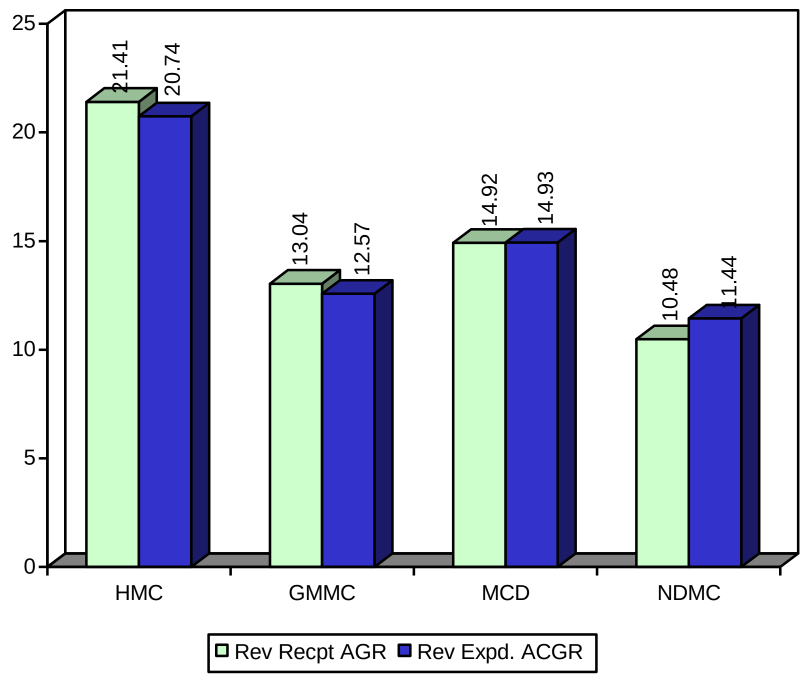
Notes: i. @ Figures are for 1994-95 and 2003-04

ii. *Figures are for 1994-95 and 2004-05 and include only Budget – 'A' and Budget – 'E'

iii. Figures within parentheses are the A.C.G.R. – growth rates.

iv. NDMC figures are excluding sale of water & electricity

Figure 18.10: Income - Expenditure Differential (In %)



Composition of Revenue

18.58 As may be seen from Table 18.9, and Figure the most striking features of the revenue composition in the spatial context are:

(a) Dependence on own sources is fairly high at Mumbai and MCD. Revenue mobilization at Mumbai is significantly high due to imposition of octroi which has exceptionally high potential owing to the fact that Mumbai is the economic capital of the country.

(b) Performance of non-tax mobilization is the highest at NDMC followed by Hyderabad. It is due to rental income from municipal properties, parking places, interest from deposits at NDMC and special charges on bulk producers of solid waste, revision of rates/ fee structure at Hyderabad. A proposal for revision of fee structure at MCD is pending with the GNCTD.

(c) `Liquidity' position at Hyderabad is fairly comfortable. GMMC has the benefit of octroi, which brought substantial revenue to the tune of Rupees 2432.20 crore in 2004-05. HMC has a revenue transfer to the tune of just Rs.23.3 crore.

(d) HMC and GMMC are in a position to spare revenue to fund capital projects/account.

(e) Even making allowances for the fact that the GMMC is one among a very large number of urban and rural local bodies in Maharashtra, its dependence on fiscal transfers is not only as low as 3.08 percent in 2003-2004 but has declined from 3.31 percent in 1993-1994.

Table: 18.9-Composition of Revenue Components (in percentage)

ULBs	Taxes		Non Tax		Fiscal Transfer	
	1993-94	2003-04	1993-94	2003-04	1993-94	2003-04
HMC	63.5	40.3	25.6	27.2	9.9	32.5
GMMC*	79.82	78.08	15.86	18.84	3.31	3.08
MCD	59.19	59.25	7.46	8.61	33.35	32.14
NDMC	21.44	42.56	64.30	49.92	14.26	7.51

(Source: Municipal Budgets of HMC, GMMC, MCD, NDMC Notes * Figures are for 1994-95 and 2004-05 and include only Budget – 'A' and Budget – 'E (i) NDMC figures are excluding water & electricity)

18.59 Resource allocation and expenditure pattern of HMC and GMMC indicate significant variation from that of MCD/NDMC. It is worth noting that the rate of growth of revenue expenditure at NDMC is significantly lower than the other three urban local bodies. Table 18.10 indicates the growth and relative weight of broader classification of expenditure. As may be seen, the establishment cost is fairly low at 31 percent and 34 percent at HMC and GMMC respectively as compared to a startling 74 percent and 66 percent at MCD and NDMC respectively.

Table: 18.10-Growth and Composition of Revenue Expenditure – 2003-04 (in percentage)

ULBs	A.C.G.R.	Establishment	*O&M*
HMC	20.74	31.00	*69.00*
GMMC*	12.57	33.70	*66.30*

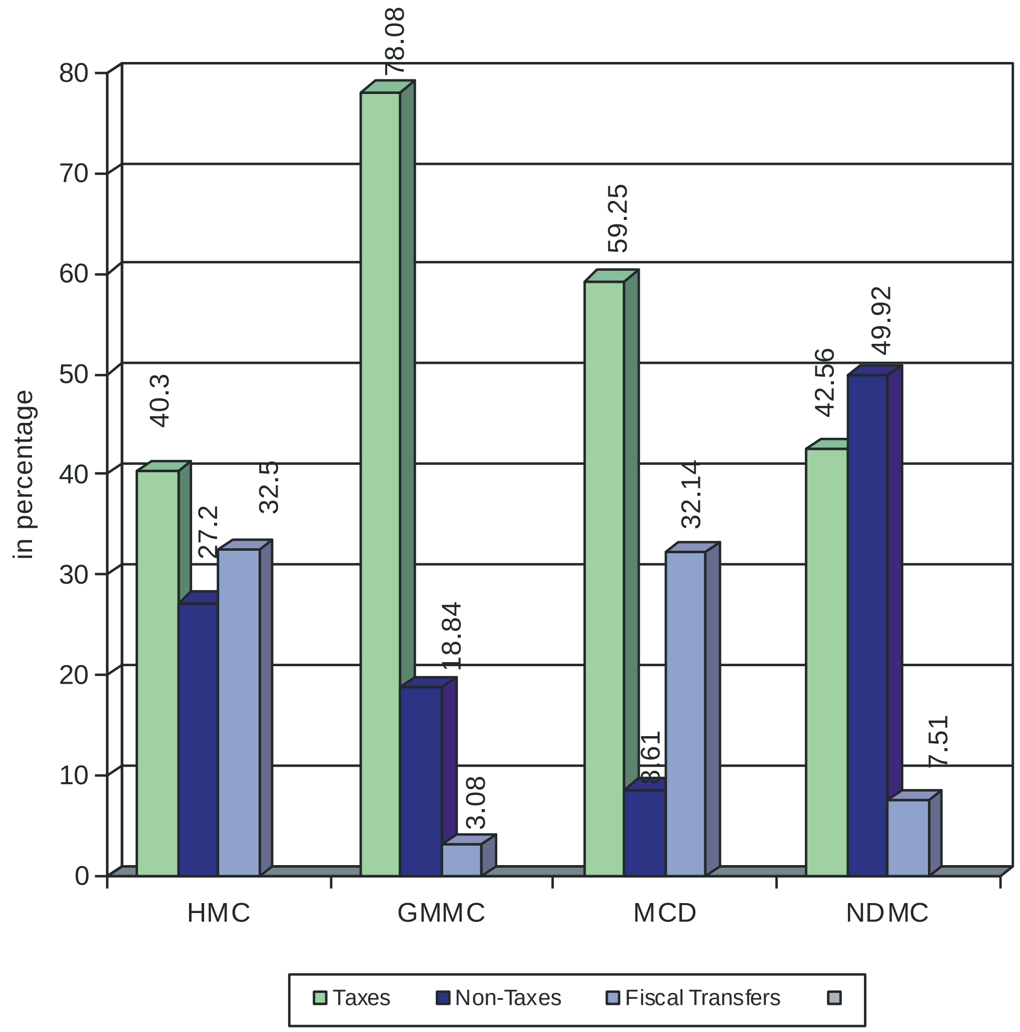
MCD	14.93	73.60	*26.40*
NDMC	11.44	65.70	*34.30*

Source: Municipal Budgets of HMC, GMMC, MCD,NDMC

Notes: (i)* Figures are for 2004-05 and include only Budget – 'A' and Budget – 'E'

(ii)) NDMC figures are excluding water & electricity

Figure 18.11: Composition of Revenue Components (in percentage)



Pattern of Capital Expenditure

18.60 The pattern of capital expenditure in Hyderabad and Mumbai as compared to Delhi shows a great deal of variation. Table 18.11 indicates the salient features of planning the capital expenditure at the four urban local bodies.

Table: 18.11-Salient features of Planning Capital Expenditure

Item	HMC	GMMC	MCD	NDMC
1) Systematic Capital Budget	Nil	Nil	Nil	Nil
2) Consultative Capital Budget	Yes	Nil	Nil	Nil
3) Cushion of Revenue Account transfers	Yes	Yes	No	Yes
4) Use of community Resources	High	Medium	Low	Low
5) Convergence of Resources	High	Medium	Adhoc	Adhoc

(Source : HSMI Study 2006)

18.61 In view of the spatial context as above, it appears that MCD and NDMC have not improved their performance on many items pertaining to finances, fiscal management and efficiency of functions. As may be seen from Table 18.12 the status of MCD and NDMC in comparison to GMCC and HMC in the spatial context on specific performance indicators appear to be low and unsatisfactory with a particular reference to the following:

(i) Revenue growth is significantly lower than Hyderabad at MCD which is largely due to lower mobilization of non-tax resources.

(ii) Establishment cost at both MCD and NDMC is fairly high as compared to other cities. This shows that the two civic bodies have failed to promote Public-Private Partnership (PPP) to reduce the burden of labour intensive services particularly in the area of solid waste management which is the single largest service of manpower deployment.

(iii) MCD and NDMC spend a relatively smaller amount on O&M as compared to establishment in other cities. This affects routine maintenance, repair and replacement of municipal infrastructure and leads to a constant deterioration. This is confirmed by the vast gap in the municipal infrastructure.

(iv) MCD is suffering from resource crunch and liquidity problems. The inadequacy of ways and means advance to pay salaries confirms the liquidity problem at MCD.

(v) Financial planning at MCD and NDMC is purely ad hoc and irregular on account of :

- Lack of linkages with a multi-sector, multi-year physical plan which does not exist.

- It is not done in a consultative manner using inputs from municipal departments, community, press, professionals, etc. in a systematic manner.
- Lack of linkages with actual requirement of infrastructure/services at grassroot level.
- It is not linked with participatory funding, taking resources from `local elasticity' and other stakeholders.
- There is a vast potential for further action on accounting sector reforms which are to be initiated in furtherance of application of DEAS.

(vi) MCD and NDMC have not rationalized their functions in line with the feedback from the sector during the last 10 years. Specific initiatives lacking at MCD and NDMC include:

- Absence of City Development Plan which affects the entire operations of civic body and leads to ad hoc and irregular nature of municipal activities.
- Partnership potential of services is not specifically identified and therefore a systematic plan to promote PPP for improvement of efficiency and mobilization of resources does not exist.
- MCD still maintains hospitals which is a state function in an overall municipal context and which takes away a sizeable part of revenue.
- Although slums are within the purview of MCD, `poverty alleviation' is retained by GNCTD.
- MCD and NDMC have not initiated innovative schemes in the area of resource mobilization, partnerships, efficiency in expenditure, participatory funding, etc.
- Finally, it appears from the above analysis that instruments, approaches, operations and practices of municipal finance are undergoing a reform process. There is enormous scope for MCD and NDMC to learn from the innovations adopted by cities of Mumbai and Hyderabad and other cities in India.

Table: 18.12: Comparative Municipal Finance on Select Performance Indicators

ULB's		NDMC	MCD	HMC	GMMC
FINANCES	Revenue Growth	LOW (10%)	MODERATE (15%)	HIGH (21%)	MODERATE (13%)
	Mobilization of Non-Taxes Sources	HIGH (50%)	LOW (9%)	MODERATE (27%)	MODERATE (19%)
	Establishment Costs	HIGH (66%)	HIGH (74%)	MODERATE (31%)	MODERATE (34%)
	O&M Efficiency	LOW (34%)	LOW (26%)	HIGH (66%)	HIGH (69%)
	Liquidity Status	SATISFACTORY	POOR	SATISFACTORY	SATISFACTORY
FINANCIAL MANAGEMENT	Accounting Efficiency	MODERATE (DEAS - Under Progress)	MODERATE (DEAS- Under Progress)	HIGH (DEAS - Applied)	MODERATE (DEAS - Under Progress)
	Systematic Capital Budget	POOR	POOR	POOR	POOR
	Consultative Capital Budget	POOR	POOR	SATISFACTORY	POOR
	Participatory Funding	POOR	POOR	SATISFACTORY	MODERATE
FUNCTIONS	CDP	NIL	NIL	NIL	NIL
	Incidence of Public Private Partnership	MODERATE	POOR	HIGH	MODERATE
	Curative Health Operations (Hospitals)	NIL	HIGH	NIL	HIGH
	Secondary & Higher Education	SUBSTANTIAL	LOW	LOW	HIGH
	Poverty Alleviation Scheme	NIL	NIL	YES	YES
	Innovative Schemes	NIL	NIL	HIGH (Hyderabad First, Fund Your City & Road Widening)	MODERATE (PI Sales)

Constitutional and Statutory Issues

18.62 The Commission examined the constitutional and statutory issues which have been highlighted in the Working Paper No. XI/2006[22]. The examination suggests that attention is needed on the following:

(i) The principles under clause (1) of Article 243Y are required to be formulated by the SFC. However, the state governments have also to take a view on the law to be enacted with reference to clause (a) of Article 243X in the light of the Finance Commission's recommendations, in view of the fact that according to Article 243X, assignment to a municipality shall be subject to such "conditions and limits" as may be specified in the state laws (para 6 of the working paper).

(ii) Para-(i) of sub-clause (a) of clause (1) of Article 243Y has used the expression "net proceeds", but para IXA of the Constitution has not defined it. The state government has to decide how "net proceeds" is to be defined and the procedure and authority for its certification (para 4 of the working paper).

(iii) The NCT government may take up with the Government of India, Ministry of Home Affairs to seek augmentation of its Consolidated Fund on the basis of the Commission's recommendations so as to add to the resources of local bodies (para 7 of the working paper).

Summing up

18.63 It is now possible to sum up the **principal findings** of this review. For instance, several aspects of the situation Delhi faces are suggestive of the need for focused attention, besides re-engineering of policy on a number of issues. This implies making choices, even difficult choices. For instance, the goal of Delhi 'as a global city' will impose the need to select the platform on which the international status of the city would be built: the IT sector, tourist paradise, a research hub, or a commercial centre.

18.64 This choice will need to take on board a host of ancillary facts: the fact that developments at the international level have fostered an inter-urban competition; that cities are competing for resources; that urbanization has accelerated; that urban development has been re-defined to imply the need .for cities to acquire a competitive edge; that, consequently, the problems of socio-economic development in urban centers make for a rather complex situation.

18.65 In such conditions traditional responses are unlikely to address the crucial issues confronting cities. This is as true for the NCT of Delhi, as it is for any other city. It will therefore call for action on a number of 'quality of life'

[22] Annexe: Working paper XII/2006. See Vol-III, Section-III

issues- sanitation standards, public health management, physical infrastructure. socio-economic services- that together make a city worth visiting. In turn, these measures will require the state government, local government, and para-statal organizations to act in concert.

18.66 Among the many factors that can, and will, determine the outcomes in the sphere of urban management is the quality of institutions and the state-local body interface. The policies and responses of the state government, the policies and responses of the municipal bodies, and their mutual interactions, self-evidently, will determine the depth and sweep or the reach and impact of reforms at the municipal level. Indeed, the rationale of the Constitutional amendments lay mainly in the expectation that statutorily determined functional responsibilities along with assured access to finances and a secure tenure would induce responsible resource management by the local bodies. The record of municipal administration on this score in the last ten and more years, in the NCT of Delhi, has been rather disappointing. Why is this so? Why has the reformed municipal administration not emerged in the national capital?

18.67 There could be several factors that would serve equally well as a peg to hang the explanatory coat on. However, it seems fairly obvious that the vision of effectively functioning local bodies required the simultaneous implementation of measures covering a wide range of issues. No single strand in the reform agenda would suffice to trigger the wide ranging changes required: not only security of tenure, not assured access to funds alone and, not only functional clarity. It had to be a reform program that seamlessly combined all the elements. Therefore, the single most important reason for a largely unreformed municipal sector has been the absence of a comprehensive reform agenda.

18.68 The local bodies could have unveiled a reform agenda *suo motu.* They have not done so. The state government could have advised the local bodies to initiate wide ranging reforms. It has not done so either (the reforms in the sphere of property tax or suggestions for introducing the mechanism of annual plans notwithstanding). The suggestions of the state Finance Commissions too have not induced any introspection by the local bodies. Therefore, the belief that secure tenures and assured finances would encourage local bodies to take up reforms at the local level has been belied.

18.69 Municipal bodies alert to their role and responsibilities, and consequent resource needs, could have signalled their awareness by resorting to several financial management measures. Consider, first, the resource mobilization aspect. The vocabulary of an organization intent on essential internal reforms would include considerations of maximizing the returns on already deployed revenue instruments, both tax and non-tax. *Inter alia,* the local body would examine steps to deepen and widen the tax and non-tax base. It would review the tax and non-tax rates, user charges and tariff tables. It would contemplate and introduce steps to recover arrears and revenues locked up in litigation. It would try to contain the costs of tax administration. The projects and programs being implemented, for nothing better than historical reasons, would be put under the scanner to determine their continued need and relevance. This could be expected to yield investment surpluses internally. The local bodies in the NCT have attempted nothing of the kind. Nor has prodding in this direction helped.

18.70 Now consider the expenditure parameter. The municipal bodies could legitimately be expected to deploy resources rationally and to contain and roll back wasteful or unproductive expenditure. They could be expected to devote a substantial portion of resources to obligatory duties. They would draw up master plans for the time-barred provision of infrastructure, amenities, and services. This would require prioritisation, curbing expenditure on manpower, attention to investments in the creation or maintenance of capital assets, and wiping out statutory and non-statutory arrears. They have not done anything to signal awareness on this front either.

18.71 How, then, to determine the quantum of resource transfer? Obviously, 'need' whether derived from the difference between the 'actual' resource mobilization effort and the revenue realizations or as the difference between the cost cutting efforts and generation of investment funds carries substantial subjective valuation. The outcomes of such efforts nevertheless provide the most reliable yardstick. However, by their very nature, they suggest an incremental and gradualist approach to resource transfers predicated on proof of better resource mobilization and utilization.

18.72 Will this gradualist approach in response to 'visible effort' by the municipal administration produce desired results? This is rather unlikely. The cost of providing, upgrading or extending amenities, services and facilities are constantly escalating. The cost escalation does not wait for the required policy fine-tuning. The absolute resource mobilization, in real terms, by the local bodies is actually declining. For instance, property tax receipts, the mainstay of tax revenues of the MCD, were 74.64 percent of the tax revenues in 1994-1995.

These first rose to 81.82 percent in 1998-1999. Thereafter, they have declined continuously: to 71.19 percent (2003-2004) to 60.13 percent in 2004-2005. Similarly, the annual percentage variation has shown a downward trend: from 28.01 percent (1997-1998) to minus 16.00 percent (2004-2005). This is further eroding their capacity to undertake even basic tasks. To put them on notice, that resource transfers will depend on their **delivering outcomes**, measured in effective delivery of services, would hopefully de-emphasize specific policy initiatives (such as, resource mobilization or cost cutting, by leaving it to their ingenuity to determine the exact financial policy mixes).

18.73 The arena in which the state government could legitimately seek reform is institutional arrangements. The quality of institutions, by affecting the performance of organizations, determines very substantially socio-economic development. Institutional arrangements encompass a wide range of requirements: from subordinate legislation comprising of rules and by-laws, structures for identifying development needs-howsoever enunciated, to the application of financial and physical norms, planning the management, and execution of projects and programs. It also depends upon coordination and convergence between the goals and objectives at, say, different levels of governance. Ultimately, all these will determine the effective and efficient performance of the local bodies.

18.74 The municipal bodies need to take a very hard look at all these aspects. Unreformed or dated by-laws for instance are a major hurdle. In the two local bodies there has been hardly any progress in the last ten or more years in this regard. Again, the bodies have no city development plans, no benchmark of the deficits in services and amenities, and no investment plans or time schedules for dealing with the deficits. In such circumstances, the inability to quantify realistic resource requirements is only compounded by the inability to ensure effective resource utilization. No action plan for institutional reform has been spelt out by the local bodies.

18.75 The state government also, similarly needs to secure a better definition of the functional jurisdiction, besides coordination and performance at all levels. The global share in taxes, as the basis for financial devolution, has the advantage and attractiveness of being simple. However, its very simplicity fails to address a number of issues such as purposeful grants, funding directed at the core services and functions of local bodies, rising absolute but declining percentage shares in transfers or even influencing the outcomes and results of the devolution package.

18.76 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. This implies that development and investment plans of local bodies are devoid of any substantive program content. Expenditure management is not related to any program rooted in the city vision, or in any normative assessment of physical shortages in infrastructure, services or amenities.

18.77 The result is that devolution, as could well be expected, has not really taken off. 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 to mobilize additional resources or rationalize expenditure-both volumes and choices. In fact, there is simply no effort by the local bodies to introduce basic and sustainable 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 NDMC and the MCD). The expenditure pattern remains unplanned and ad hoc. These represent a disturbing continuation of the pre-Amendment phase.

Postscript as Conclusion

18.78 The Commission has attempted what it hopes can be termed a fairly exhaustive review. It has considered the foundations and purposes of systems of inter-governmental transfers. The financial data has been reviewed in its operational setting. The relationship between the state government and the local bodies in their statutory, financial, and functional frameworks has informed the discussions. What then are the most important findings?

18.79 It is our considered view that:

- Irrespective of the yardstick applied, municipal administration has not shown any significant improvements. This is largely because marginal changes in the devolution formula have been assumed to be the mainstay of the anticipated reforms. A comprehensive reform agenda of the municipal sector-consisting of statutory, administrative, and systemic reforms- has been missing.
- The major share of responsibility for the failure of a comprehensive reform agenda has to be borne by the municipal bodies. However, the state government too has displayed extraordinary sensitivity to the sensibilities of local bodies, which has not necessarily resulted in better municipal administration.

- The local bodies have displayed very little inclination to pursue a mix of policies consisting of a reform of procedures and processes or attention to the agenda contained in the obligatory functions that would raise their profile in public estimation as capable of delivering a host of services, facilities, and amenities effectively. Indeed, while there has been no effort at reforms induced by a self-appraisal of the situation, the reforms suggested by the earlier Finance Commissions (financial) or even the state government (systemic and procedural relating to introduction of zonal plans) have met with only a lukewarm response.
- In fact by all accounts, the underlying causes of poor resource mobilization efforts and poor expenditure management, by the local bodies, especially, the MCD, mask fundamental dysfunctionalities. This obviously then accounts for very high transactions costs, whether measured as the time and cost overruns (in respect of programs and projects) or as the time and effort required (by the citizen) for getting things done.
- Finally, the bedrock of effectively functioning municipal bodies has to be rooted in consensus, trust, and convergence between the two levels of governance. This would require a fundamental change in the present styles and stands of both levels on a score of issues. The state government, therefore, need to be assertive about financial and functional issues. It needs to effectively direct the developmental agenda of the city. On the other hand, the local bodies need to look inward and address the whole gamut of issues crying for attention. The next five years might well be critical to the emergence of a reformed municipal administration and it should be on the priority list of all concerned.

Chapter 19

The Recommendations

> ***The importance of the SFCs in the scheme of fiscal decentralization is that besides arbitrating on the claims to resources by the state government and the local bodies, their recommendations would impart greater stability and predictability to the transfer mechanism. The convention established at the national level of accepting the principal recommendations of the Finance Commission without modifications, however, is not being followed in the states. Often, even the accepted recommendations are not fully implemented, citing resource constraints and this defeats the very purpose of constituting the SFCs. This situation needs a change.***
>
> ***------Report of the Twelfth Finance Commission (2005-2010), November 2004, Page 149, paragraph 8.29***

The status of municipal administration in the National Capital Territory is cause for considerable concern. The deficiencies in the functioning of the local bodies are easily identified: the unreformed functional and the equally unreformed fiscal domain, the vastly untouched institutional and organizational issues, and the unattended procedural and systemic matters. This is despite the reforms mandated by the constitutional and statutory provisions, despite suggestions made by previous Finance Commissions, and, more importantly, despite the self-evident need for sweeping reforms.

19.2 Indeed, the profound inadequacies, characterizing the functioning and the operations of local bodies, make one wonder as to what could be the underlying cause. Is it that the need for fundamental change, is for some unfathomable reasons unclear to the local bodies themselves? Is their understanding of what constitute 'required reforms' irreconcilably different from what are generally recognized as constituting the essentials of a municipal reform agenda? Do municipal bodies share the same aspirational space as the state government? Do they have any conceptual framework of reforms needed? It appears not.

19.3 How else does one explain the inability or unwillingness of the MCD to own reforms as reforms, rather than as impositions triggering demands for additional resource allocation just to implement reforms suggested by the state government or the earlier Finance Commissions? How else does one explain the absence of any effort whatsoever to plan and prioritise expenditure (ballooning wages bill, growing petty expenditure, escalating liabilities etc)? How else does one explain the singular lack of any meaningful improvement in the infrastructure provision or service delivery? Therefore, the track record of municipal bodies, particularly MCD, in the post-constitutional amendment years, is rather disappointing and, there is no gainsaying the fact that, a satisfactory municipal administration remains a distant and a substantially unfinished agenda in the NCT.

PERCEPTIONS

The maximum complaints are received in respect of MCD matters which mostly pertain to encroachment on public land and unauthorized construction in the knowledge of the local officials. On many occasions it was observed that no officer from MCD was present during the hearings. Often the representation itself was at a junior level and no meaningful discussion was possible. Quite often officials brought an incomplete report forcing the hearing to be refixed……Some improvement has taken place. However there is scope for greater improvement.

---Public Grievances Commission, Government of NCT of Delhi, Annual Report, Page 5, Year ending March 31, 2005.

19.4 One major issue is what overriding considerations should guide the formulation of the devolution package and other required reforms? Should the platform of reforms be constructed on an assessment of past performance or should the future requirements guide us? Clearly, exclusive reliance on either parameter would be self-limiting. This provokes the obvious question: what next? Our recommendations are intended to answer this.

19.5 While, the entire report provides the basis for the package of recommendations, the preceding Chapters 17 and 18, are a prelude to the recommendations. They bring together the vital analytical elements and are companion chapters.

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*

19.6 For the purposes of the recommendations, the **terms of reference** have been grouped into three broad categories. These are issues related to: the **functional** domain of the local bodies, the **fiscal** domain of the local bodies, and the financial **devolution** package. Underlying all three components is a package of administrative, **institutional** and statutory reforms.

I-Guiding Principles Governing Devolution: City Vision and Vision of Municipal Administration

Order No. F.7 (443)(3)/2004/UD/10905 dated October 21, 2004 requires that the Commission makes recommendations as to the principles which should govern distribution of net proceeds of taxes etc.
-Terms of Reference-Para-4

Principles

19.7 The first and the second Finance Commissions drew pointed attention to a number of shortcomings in the functioning of the municipal bodies. Our analysis shows that most of the issues remain unresolved. Therefore, the answers to a reformed municipal administration must begin by (a) outlining a vision of municipal administration, and (b) by enunciating 'guiding principles' which provide the starting point for the evolution of an appropriate devolution package.

Vision of Municipal Administration

19.8 The vision of municipal administration at the end (2011) of the five-year period is highlighted below. Box 19.0 details an illustrative listing of issues in the functional arena.

Box: 19.0-Vision of Reformed Municipal Administration (Function Module)

Ingredients of Existing Functional Module	**Ingredients of Reformed Functional Module**
Lack of integration with the goals and objectives of the state government.	Convergence between the goals of the state government and the local bodies based on an agreed city vision and city development plan.
Insufficient attention to mapping the deficits in core areas of infrastructure, services and amenities.	Joint assessment by the local bodies and the state government regarding deficits in infrastructure, amenities, and services (based on geographic and demographic service units) to define functional contours.
Lack of time-schedules and benchmarks to assess progress of works, schemes and programs at any given point of time. Open-ended implementation of schemes such as maintenance of re-settlement colonies.	Activities, works, projects, and plans to provide for schedules, benchmarks and closure.
Inordinate attention to activities not strictly a priority for local bodies, especially schemes involving transfer payments.	Reduction of transfer payment schemes and of expenditure on petty works.

Duplication of schemes and activities between the state government and the municipal bodies	Minimization of duplication in the functional sphere.
Consequently, inadequate attention to obligatory functions and maintenance of assets.	Maximum attention to obligatory, core, or priority areas and maintenance of assets.

19.9 This perception of reforms of the functional domain of the municipal administration seeks to rationalize the role-responsibility framework of the local bodies. The underlying principle is that tasks must be handled at the level best equipped and most competent to do so i.e. the subsidiarity principle. It, therefore, goes beyond the historically accepted formulation that has guided functional distribution as between the state government and the local bodies so far.

19.10 The next important module is the fiscal/financial domain. Details of reforms required in the fiscal sector are provided in Box: 19.1 and 19.2. However, these are merely illustrative and, by no means, an exhaustive listing.

Box: 19.1-Vision of Reformed Municipal Administration (Fiscal/Financial Module)

Resource Management
Municipal bodies will introduce into their functioning clear and obvious rationale for the revenue projections of each year.
(a) The local bodies will prepare a medium and long term plan for resource mobilization to coincide with the commencement of the Eleventh Five Year Plan.
(b) The long term and medium term resource mobilization plans should provide a basis for realistic assessments of resource availability to coincide with the commencement of the Eleventh Five Year Plan.
(c) The rationale for annual revenue projections shall be clearly stated as part of the budgetary documents: whether based on trends in actual revenue realizations vis-à-vis projections made in the BE and RE or on future policy initiatives intended or both with effect from the financial

year 2007-2008. All assumptions made for revenue projections should be explicitly spelt out to check any tendency of inflating revenues.
(d) The analysis of past trends should take cognizance of the data for, at least, the previous five years.
(e) The analysis of future policy initiatives, incorporated in the medium and long-term plan, should indicate the specific measures that are proposed to be taken and the estimated revenue from the said measures.
(f) Municipal bodies will review the collection efficiencies with a view to determining reasons for various trends noted: stagnant share of tax revenue in GSDP; erratic percentage share of tax revenue in total receipts; cost of tax administration; persisting low share of non-tax revenues (MCD); inadequate revenues from property tax despite introduction of the UAM (MCD); arrears of revenues.
Ingredients of substantial step up in resource mobilization
(a) Improvements in data base to be completed within 9 months. This would require updating information about the tax base, especially in the context of the property tax, with a view to expanding the tax base.
(b) Reconsideration within 6 months of all revenue eroding exemptions, concessions, and rebates with a view to reducing and eventually eliminating the same.
(c) Revision of all tax and non-tax rates and tariffs, including user charges, within 12 months.
(d) Introduction of new resource measures, such as the profession tax, within 6 months. This also includes consideration of measures such as the re-introduction of the octroi or a suitable alternative.
(e) Arrears should be wiped out within 24 months.
(f) Efforts should be made to realize maximum amount of the revenues locked up in litigation either through urgent hearings or through mechanisms such as lok adalats.

Box: 19.2-Vision of Reformed Municipal Administration (Fiscal/Financial Module)

Expenditure Management
Municipal bodies will introduce into their functioning clear and obvious rationale for the expenditure projections of each year.
(a) The municipal bodies will prepare a medium and long term development and investment plan based on the normative supply of goods and services to be provided, extended, or upgraded to coincide with the commencement of the Eleventh Five Year Plan.
(b) Expenditure in any given year should not exceed the actual availability of resources and no liabilities should be assumed in anticipation of resource availability to coincide with the commencement of the Eleventh Five Year Plan.
(c) The rationale and need for specific expenditure proposals would be backed with details of expenditure already incurred, if any, and on the basis of realistic revenue expectations. The analysis, to form part of the budgetary documents, would provide an assessment of volumes of expenditure proposed on various items and for various purposes. It would also provide an assessment of outcomes of expenditure already incurred, if any. Further, expenditure proposals would indicate specifically the deficits in infrastructure, services, and amenities it hopes to address with areas and population likely to benefit with effect from the financial year 2007-2008.
(d) There would be a review of all expenditure being incurred to identify specific items that can be reduced or eliminated. All programs and projects will be reviewed within 6 months, in the first instance, and periodically thereafter. This will enable the local bodies to generate investible surpluses.
(e) There would be a time-barred (within 6 months) review of the manpower strength and steps to roll back manpower to more manageable levels. The local bodies are in serious error in having allowed manpower to rise to such levels. Automatic applicability of Central Pay Commission recommendations will be done away with. The recommendations shall be adopted only if their own resources permit.
Ingredients of substantial compression of expenditure
(a) Budget provisions must be related to realistic assessments of revenues in

any given financial year. Indeed, expenditure must not be projected on the basis of inflated revenue expectations.
(b) Expenditure involving duplication of schemes or any project undertaken by the state government also to be reduced within 12 months and totally eliminated by the end of 36 months.
(c) Fresh expenditure should be incurred only when the first charge on revenues realized has been met: statutory plus non-statutory liabilities, expenditure arising out of court orders, obligatory functions, wages and salaries, and maintenance of assets.
(d) Discretionary functions to be taken up only if own resources permit after meeting the liabilities of first charge.
(e) Ad hoc expenditure in anticipation of post facto approvals must be avoided unless there is a grave emergency.
(f) Appointments against leave vacancies should be ended immediately. The absolute staff strength should be rolled back to the position noted by the second Finance Commission in the first 24 months. Thereafter, based on the review of manpower proposed, the staff strength should be further brought down to more realistic levels within 36 months.
(g) Fresh recruitments against vacancies arising from resignation, retirement (including voluntary retirement, death, or leave) to be banned for the entire award period of the Commission i.e, 2006-2007 to 2010-2011.
(h) Obligatory functions involving the provision of primary education and primary health should be reviewed for an assessment of actual ground level conditions. This is especially with a view to determining teacher absenteeism, strength of students, availability of basic facilities in schools etc. Further progress of the scheme for mechanization of sanitation should be reviewed intensively to determine physical achievements against funds provided.

19.11 Availability of resources is a necessary but not a sufficient condition for the effective functioning of any organization. Indeed, the hardware of funds and functionaries requires the software of institutional capacity and willingness. For instance, availability of funds in the health sector will not suffice unless there is an efficient health infrastructure and delivery mechanism. Therefore, the capacity and willingness of organizations to plan the best utilization of available resources is critical. The surplus revenues of the NDMC are as indicative of poor absorptive capacity as is the overall inefficiency displayed by the MCD in resource management. Box 19.3 specifies the institutional and organizational ingredients of the vision for a reformed municipal administration which should inform their functioning by the end of the award period.

Box: 19.3-Vision of Reformed Municipal Administration (Institutional Module)

The ability to generate or willingness to access conceptual policy frameworks.

The ability to make functional choices to enable focused attention on core areas of responsibility or willingness to take advice on the matter with a view to conserving resources for principal responsibilities.

The ability to assess priorities and plan for resource allocations accordingly or willingness to be guided in the choice of focus which also will depend on resource availability.

The ability to formulate plans for execution of various plan programs and projects or willingness to access advice and guidance on such formulation.

The ability to secure time-barred implementation of projects and schemes or willingness to out-source implementation.

The ability to formulate tax and non-tax proposals in-house or the willingness to seek advice in doing so.

The ability to manage expenditure within the available resources or willingness to accept external control to do so.

The ability to up-date the skills of personnel and willingness to reduce their numbers.

The ability to formulate proposals for updating the subordinate legislation or the willingness to take external assistance for doing so.

The ability to see the advantage in cooperation with the state government or willingness to generate the necessary coordination with the overall goals and objectives of the city development plans.

The ability to put into place mechanisms for program implementation, coordination and oversight.

19.12 Derived from the vision of municipal administration, there are four vital 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 efficient resource management and effective 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'.

19.13 These, then, constitute the broad principles that underlie the body of recommendations which need to be seen in the light of the city vision and the vision of municipal administration. Indeed, they constitute the benchmarks against which the performance of the local bodies needs to be assessed periodically and at the end of the award period of the Commission.

II-Recommendations related to the Functional Domain of the Local Bodies

> ***Order dated October 21, 2004, requires that the Commission 'may review the functions assigned to the municipalities keeping in view the availability of resources, especially with regard to the discretionary functions.'***
>
> ***-Terms of Reference – para-6***

19.14 One point needs to be stressed at this juncture. The devolution package must be seen as a part of a much larger reform agenda, including in its sweep fiscal and non-fiscal elements. The analysis in the preceding chapters has demonstrated that financial devolution requires to be seen in the context of goals and concepts. Devolution cannot realistically be expected to shoulder the burden of all-round reform. In turn, this too depends on a self-evident reasoning: the logic of devolution and the logic of non-fiscal reforms, despite their obvious inter-linkages, are based on different streams of rationale.

Comprehensive Review of the Functional Domain

19.15 The functional domain of the local bodies derives much of its legitimacy from their respective statutes. However, the functional role of the municipal administration requires clarity on numerous issues precisely because of the statutory provisions, (Chapter XVIII: on subjects drawn from the Concurrent list, for example). Next, the functional responsibilities of local bodies arise from city development plans and goals too. Finally, as noted earlier, many of the difficulties being faced are a result of the *multiplicity of planning agencies*.

19.16 Therefore, the first step required for ensuring the effective delivery of local level services and amenities, and distribution of resources in favour of priority works is a comprehensive review of the functional domain of the local bodies. In addition, the review is necessary to rationalize the distribution of functional responsibilities between the state government and the local bodies. Even though Article 243 (W) provides that it is the legislature of a state which may by law endow municipalities with powers and responsibilities, it appears that neither the state legislature nor the state government is in a position to determine the role-responsibility agenda of the local bodies. This is reflected in the fact that it has not been possible to implement even the recommendations of the earlier Commissions for transfer of various responsibilities. It is, therefore, necessary for the state government to evolve an implementation strategy covering recommendations of the State Finance Commissions, a comprehensive review of the functional domain, and, control over the city development agenda. The framework for the comprehensive review has been spelt out in the Box 19.0 above.

Recommendation No.1

An overarching Standing City Development and Reforms Committee (SCDRC) be constituted to draw up a comprehensive Municipal Reforms Program (2006-2007 to 2010-2011)[1]. Under this the Municipal Reforms Coordination Committee (MRCC) should consist of representatives of the state government and the local bodies.

- Experts from the academic world, research institutions, and the central government representatives (Ministry of Urban Development and the Ministry of Home Affairs) could be usefully associated with the review exercise.

[1] The Standing City Development and Reforms Committee has been elaborated in Recommendations No. 35, 36 and 49.

- The MRCC should be assisted by three working groups: Group I to review various issues in the functional domain of the municipal authorities; Group II to consider matters related to the fiscal/financial sphere, and; Group III for an examination of issues related to the institutional and organizational capacities of the local bodies.

- The objectives (or terms of reference) of Working Group I[2] would be to identify: (a) the core competencies and core functions which the local bodies ought to focus on in the next five years; (b) the sectors and activities that constitute a duplication of effort and elimination of one level (whether the state government or the local body), and (c) the savings likely to be achieved by transferring the function to either of one level which, in turn, should assist in generating investment funds. This Group will continue to monitor overlap areas and functional mismatches and report to the MRCC from time to time.

- In respect of functions that are unavoidably in the concurrent sphere of the state and local bodies (i.e. functions drawn from the Concurrent list of the Constitution), there should be a clear demarcation in respect of their respective roles and responsibilities. This should enable the state government to spell out its priorities and expectations from the local bodies in terms of performance and outcomes both in the medium (first three years of the Commission's award period) and long term (fifth year of the Commission's award period).

- The working group should be asked to furnish its initial recommendations by September 30, 2007. The recommendations of the MRCC should be made applicable as soon as possible but, in any case, within the financial year 2007-2008 and should be implemented to coincide with the Eleventh Five Year Plan period. Thereafter, the Working Groups can furnish reports on various issues affecting municipal administration from time to time.

City Vision and City Development Plans

19.17 Next are the issues related to functional responsibilities arising from the city vision and the city development plans. It is evident that any meaningful contribution of the local bodies will derive from the larger city vision. In their

[2] The terms of reference in respect of the Working Groups II and III are indicated separately in sections dealing with the subject.

Memorandum the state government have reiterated their 'firm resolve' to make Delhi a world-class city, invited attention to commitments arising from the Commonwealth Games scheduled for 2010, and emphasized the financial commitments on account of the proposed Multi-modal Transit System involving an expansion of the projects of the Delhi Metro Rail Corporation (DMRC), Monorail, light rail transit, high-capacity bus system, etc.

Recommendation No. 2

In order to lend purpose to devolution, the state government should spell out the (a) purpose of the goal of Delhi as world class city, (Chapter 3 entitled 'Delhi-The City' and Chapter 18 entitled 'The Summing-up: Analysis and Assessments') (b) the program content of the goal, (c) the roles and responsibilities, if any, envisaged for the local bodies in the context of its own development goals and priorities, and (d) expectations from civil society and the role of the NGOs and private sector. This should help in drawing up a state level socio-economic master plan for the next five years with the objective of a 'global city' as the reference point.

The Planning Function

19.18 The state government have, in their Memorandum, informed that the demand for transfer of the subject of land to the state government is being pursued vigorously. It has stated that, in the event of transfer of the subject, the government proposes to constitute a Metropolitan Planning Committee in terms of article 243 ZE of the Constitution for preparation of draft plans spanning spatial planning and development planning for the city as a whole having regard to the integrated development of infrastructure and environmental conservation in municipal areas.

19.19 It may be recalled that one of the important roles and responsibilities envisaged for the local bodies is socio-economic planning. Further, even within the constraints of land not being a subject under the state government, the need for a Metropolitan Planning Committee cannot be over emphasized. The problems arising from the multiplicity of planning bodies and consequent multiplicity of priorities need to be tackled seriously. The state government can determine the development agenda only through such a mechanism.

Recommendation No.3

(a) The Commission recommends constitution of the Metropolitan Planning Committee with or without transfer of the subject of

land. This is essential to remove the distortions that appear in planning for the city with each agency contributing its own vision of the city,

(b) In the light of priorities identified for focused attention in the next five years, both the local bodies must furnish by September 30, 2007 a master plan including details of the area-wise deficits of infrastructure, amenities, and services that they intend to focus on in the next five years, and development and investment plans in respect of the said deficits.

(c) These shall reflect the priorities of the zones in the light of specific inadequacies in each territorial unit.

(d) The importance of the service sector, (ranging from occupations as varied as washermen, electricians, plumbers to IT BPO employees etc.), which is a relatively faster growing sector needs to be recognised, for its potential, by the GNCTD. A suitable plan may be worked out in the context of the global city as to what the state may contribute to making the service sector strong and vibrant. The Planning Department could be tasked to prepare a base paper associating experts as necessary. SCDRC may need to make special efforts to position the aspiring global city in the context of emerging trends in trade and commerce where multilateral trading is fast becoming a reality with tariff barriers going down and non-tariff barriers becoming increasingly difficult to sustain.

Transfer of Some Responsibilities

19.20 Nonetheless, the Commission believes there are changes in the functional jurisdiction that need to be effected immediately. The reasoning, in some cases, has been part of the discourse on the local bodies for the last decade and more. In others, it reflects the legitimate concerns of the state government as expressed in its Memorandum or by the departments concerned.

Recommendation No.4

For the reasons noted by the first and second Commission and the reasoning advanced by the state government in its Memorandum, it is recommended that the 27 major hospitals under the local bodies (25 with the MCD and 2 with the NDMC) should be transferred to the jurisdiction of the state government:

Recommendation No.5

For reasons recorded in Chapter 13 (section dealing with 'Plan Expenditure: Rural Delhi'), it is recommended that work relating to rural development, including the provision of civic services be taken over by the Development Department, government of the NCT, and be executed under the supervision of the Rural Development Board. In this context the Commission endorses the suggestion of the Development Department;

Recommendation No.6

For the reasons advanced by the Social Welfare Department of the government of the NCT, duplication in the sphere of social welfare schemes involving transfer payments, such as old age pension and marriage of daughters of widows is undesirable (Chapter 18). The Commission endorses the suggestion that these schemes should be the exclusive responsibility of the state government. The resultant savings would add to the internal resources of the local bodies and assist them to focus on their core responsibilities.

19.21 The state government, in the Memorandum, have invited attention of the Commission towards the poor maintenance of industrial estates that have been transferred to the MCD for maintenance purposes. The Memorandum says that the MCD is collecting property tax from these estates but is unable to provide the required services. It has been suggested that the Commission may examine the matter. Having examined the issues involved, the Commission can do no better than to endorse the suggestions made in the Report on 'Redefining the Role of the DSIDC' (June 2005).

Recommendation No. 7

The O&M responsibility of maintenance etc. of industrial estates, in the administrative control of the DSIDC should be transferred to the DSIDC. Secondly, initially an amount equal to 33 percent of the property tax revenues sourced to the industrial estates should be deducted from the share of assigned taxes of the MCD and transferred directly to the DSIDC for discharge of this responsibility. Thirdly, the Estate Managers may be equipped with statutory and magisterial powers to deal effectively with encroachments etc. Further, if this approach results in the better maintenance, other industrial estates under the control of the Industries Department, can also be transferred to DSIDC for maintenance.

III-Recommendations Related to the Financial Domain of the Local Bodies

Order dated October 21, 2004 – Terms of Reference Para-5
In making its recommendations, the Commission shall have regard, among other considerations, to-

- ***(a) the overall resource position of the government of the NCT of Delhi;***
- ***(b) the scope for economy in the Municipal Administration;***
- ***(c) the scope for improvements in resource mobilization by the Municipalities;***
- ***(d) the tax effort made by the Municipalities;***
- ***(e) adequate maintenance and upkeep of capital assets created under the Plan schemes completed till the end of March 2006 (the norms, if any, on the basis of which specified amounts are allowed for maintenance of different categories of capital assets and the manner in which such maintenance expenditure could be monitored may be indicated);***
- ***(f) the requirements of the Municipal bodies for modernization of administration, for example, computerization of records, and upgrading the standard of services (the manner in which expenditure could be monitored may be indicated…)***

19.22 The financial sector requires comprehensive reform. The most important deficiency noted in the analysis of the financial operations of the local bodies is that fiscal management is neither based on assessed shortfalls in the physical or socio-economic infrastructure, actual or normative, nor on realistic assessments of resource availability over any time frame. Accordingly, it is freed from any realistic considerations of resource needs or resource constraints, resource mobilization or resource availability. Thus, both resource mobilization and expenditure management are bereft of any perceivable logic or rationale. Working Group II under the MRCC should monitor and coordinate implementation of various reform measures in the financial sector, including recommendations of the Finance Commissions.

Development and Investment Plans

19.23 The starting point for any reasonably effective resource management exercise would be the evolution of a development and investment plan. This would be in continuation of the exercise to identify areas and needs, local bodies intend to focus on in the next five years (Recommendation No. 1 above). The development and investment plans should incorporate details of:

(a) the population and areas that shall be benefited. The selection of areas and population must be made and justified in a rising hierarchy of need; from maximum deficits in the level of services, amenities and status of infrastructure being the first to benefit from new investment to the least being taken up last;

(b) purposes i.e. as to whether they relate to upgrading, maintaining or providing a facility afresh;

(c) the physical and financial norms relied upon for drawing up the investment plans, and; the annual proposals and benchmarks for performance evaluation at the end of each of the five years.

Recommendation No. 8

The local bodies must draw up medium and long term development and investment plans, implementation of which should be co-terminus with the period of the Eleventh Five Year Plan. The Civil Department fund and the Municipal Reform fund could also be utilized for the preparation of a City Development Plan with a key role given to MCD/NDMC.

Recommendation No. 9

The development and investment plans should provide the platform for:

(a) creation of a corpus of funds to be designated the 'City Development Fund',

(b) these plans should lead to Memorandums of Understanding between the state government and the local bodies for the entire five year period for specific schemes containing physical targets.

19.24 The city development plan as cleared by the SCDRC should be placed before the Council of Ministers. Thereafter, individual projects will follow the normal channels and procedure of administrative approval and expenditure sanction etc. The aim is to bring about as much integration in the overall approach as possible in the given circumstances.

19.25 The timely submission of such utilization certificates as may be prescribed by the state government shall be a necessary, but not a sufficient, condition for release of further instalments of funds constituting the tied grants. Release of further amounts will be subject to field level verifications by the state government through such agencies as it may appoint for the purpose including agencies such as IIT, NIUA, Resident Welfare Associations, NGOs etc. The field level verifications should be undertaken two weeks prior to the date of release of the instalment.

19.26 While, the grants for this will be funded separately, as indicated in greater detail in the section dealing with the devolution package, access to this funding will be subject to the acceptance and fulfilment of all the conditions by the local bodies concerned. If necessary, fresh rules for grant in aid may be formulated.

19.27 Funds, such as the capital development fund, the municipal reforms fund etc. should preferably be operated under the ESCROW system where 3 or 4 authorised signatories are required so that funds are actually utilised for the approved objectives.

Financial Management

19.28 Even the very limited identification of effective financial management as a hallmark of effectively functioning local bodies, suggests that several aspects of financial management need urgent attention (Box 19.1 and Table 19.2). Reforms in the financial sector encompass a wide range of matters: among others, budgeting and accounting. However, the contribution of no other reform will be as significant as the evolution of a medium and long term fiscal policy. A long term fiscal policy will signal the commitment of organizations to rational management in the financial sphere.

19.29 The fiscal policy will need to spell out specifically the measures that shall be adopted broadly in two spheres: resource mobilization and expenditure management. This fiscal policy, with details of annual goals, benchmarks and milestones, shall provide the platform for a financial Memorandum of Understanding for the entire five year period constituting the award period of the Commission.

Recommendation No. 10

(a) The local bodies should draw up and furnish to the state government by September 30, 2007 a long-term fiscal policy covering the five year period with effect from the financial year 2007-2008. This fiscal policy should, *inter alia*, indicate the

milestones for achievement of various measurable and verifiable benchmarks, and

(b) The state government and the local bodies should execute a Financial Memorandum of Understanding based on mutually agreed benchmarks.

Resource Mobilization: Institutional Support Mechanisms

19.30 Resource mobilization on a vastly improved scale would require a few measures at the level of the state government. Section 150 (2) of the DMC Act, 1957 and Section 96 (2) of the NDMC Act, 1994 require the MCD and the NDMC to submit to the government for its approval, proposals for the levy of change in the rates of any of the discretionary taxes, fees (specified in Section 113 (2) of the DMC Act and section 60 (2) of the NDMC Act) and will come into force only if, and after, it is approved by the state government. The Commission concurs with the state government's position in the Memorandum that these provisions make for unnecessary delay in the implementation of various revenue mobilization measures. Such constraints should be removed.

Recommendation No. 11

To enhance the capacity and induce a sense of responsibility for better resource mobilization, the fiscal autonomy of the local bodies should be expanded. The power to approve the introduction of any tax and non-tax measures and the rates at which they should be levied, should be placed firmly in the fiscal jurisdiction of the local bodies, and the state and central government should divest themselves of the power to accord approvals, (b) The ceiling on rates of taxes and non-tax sources of revenue should be removed; only floor rates should be prescribed, and; (c) However, all proposals to abandon revenue, especially tax revenue, by reduction of rates, exclusion of categories, or expansion of exemptions and concessions would require approval of the state government.

Resource Mobilization: Specific Measures

19.31 Within the above policy framework, steps will be required to move toward better resource mobilization measures.

Recommendation No. 12

The local bodies must furnish detailed executive plans in respect of the measures intended to mobilize additional resources. This should

include details of: (a) new taxes, tariffs, or user charges contemplated, (b) proposed rates thereof, (c) revisions in rates of tax and non-tax measures already in force, (c) reductions in exemptions and concessions, (d) measures to deal with arrears, (e) enforcement steps contemplated, and (f) activities and programs it intends to discontinue in the light of their having outlived their utility or relevance or both.

Recommendation No. 13

In addition, the local bodies: (a) should take steps to levy the tax on professions and trades as recommended by the second Finance Commission, (b) MCD should invoke the provision for betterment levies as per section 113 of DMC Act, 1957 and the NDMC, as per the corresponding section in its statute.

19.32 Property tax is the mainstay of the resource base of the "own revenues" of the MCD. It should have attracted the most focused attention of the Corporation. However, implementation of the UAM system is marked by casualness (Chapter 12). Part of the fall in revenues from this source could be attributed (as the MCD believes) to the various exemptions and concessions built into the UAM system as applicable in the NCT. Part of the explanation, however, lies in the ineffective administration of the reformed system of levying property tax. Irrespective of which of the two is the more potent explanation, the fact is that there has been a substantial decline in the revenue yields. It is worth mentioning that in 2004-2005, the MCD granted rebate on property taxes amounting to Rupees 53.00 crore[3] despite the overall decline in revenues.

Recommendation No. 14

Since the MCD believes it is the exemptions and other concessions that have undermined revenues in the post-UAM period, in the context of the property tax (Chapter 14), it is specially recommended that the MCD should review property tax rates, all exemptions and concessions, and categorization of colonies and properties, to eliminate the revenue eroding elements. In view of the large financial implications the Working Group of the MRCC may specifically conduct a time barred review of all property tax collection (current dues, arrears etc) and have a survey conducted of properties escaping the tax net (see Recommendation 15).

[3] Combined Statement of Revenues, Expenditure and Changes in Fund Balances for the period Ended March 31, 2005 cited in Comprehensive Annual Financial Reports, 2004-05, Volume I, Municipal Corporation of Delhi.

19.33 However, there is an equally valid argument that the tax administration has been lax. There is a need to plug administrative loopholes.

Recommendation No. 15

The MCD should conduct a comprehensive survey of properties to create a database and to net the unexploited potential tax base (i.e. increase the tax base), identify the exempted properties, properties put to commercial use, etc by invoking the provisions of sub-section (1) of section 123 A of the Delhi Municipal Corporation Act, 1957. (This could also involve accessing the database of various agencies for required information such as power and water suppliers, telephone department, sales tax registrants, particularly for commercial areas, and mobile service providers).

- Augmentation of property tax base should be taken up to include the following:

(i) Carry out complete listing of all the properties within respective jurisdiction to plug leakages, if necessary, seeking involvement of the private sector.

(ii) Update the data on use, location, size, etc. on the basis of self-assessment done by property tax account holders at MCD and NDMC accordingly.

(iii) All properties should be brought under the net of property tax.

(iv) property tax registration card (PRC) should be issued for rectification and multiple uses.

- Streamline property tax collection system with application of innovations such as:

(i) Data on DCB (Demand Collection Balance) statements should be updated.

(ii) ABC (Always Best Control) analysis of arrears should be adopted

(iii) Collectable demand should be computed. Collection through one window approvals i.e citizen service bureau at MCD (in line with Hyderabad) should be popularized for wider compliance.

(iv) Introduce levy of interest in place of concessions.

(v) Effective collection drive should be launched using private sector on commission basis, e-collection, collections at door-steps, mutual resolution of disputes, Lok Adalats, display of defaulters' name in the locality itself, attractive incentives and penalties including attachment of bank account and levy of penal interest.

Recommendation No. 16

The MCD should take steps for recovering arrears of revenues, acknowledged by the MCD to be at least Rupees 4523.83 crores, and locked in litigation (the number of cases is reportedly 2689 involving revenue of Rupees 800 crores approximately). The NDMC too needs to tackle arrears and revenues locked up in litigation much more vigorously (Chapter 12 specifically paragraphs 12.31 to 12.69 dealing with property tax).

Recommendation No. 17

Rationalization of property tax rate to include specific actions namely:

(i) The two civic bodies should first decide the amount to be recovered from property tax.

(ii) Rental data and land values should be collected and updated on a regular basis.

(iii) The rate should be fixed in line with the amount and size of property tax base

(iv) A system of modification of unit rates should be developed accordingly

19.34 It is necessary for the NDMC to stabilize its revenue base that is extraordinarily dependent on fragile revenue sources: sale of electricity and interest income from investments. Besides, it is desirable that the civic bodies in Delhi follow similar system of property tax.

Recommendation No. 18

The NDMC should examine the issue of introducing the UAM system of levying property tax, not on the basis of the MCD experience but by turning to the more successful models.

Recommendation No. 19

Both the local bodies, specially NDMC which hosts a predominant number of government properties, should take up the matter of recovering service charges for government buildings and other such categories in their respective areas through the state government[4] in respect of central and state government properties besides the embassies.

Non-Tax Revenue Sources

User Charges

19.35 Non-tax revenues, including user charges, are the most under exploited resource mechanism in the case of the MCD. The receipts have never exceeded

[4] Annexe: Note from the NDMC on service charges, see Vol-III, Section-II

Rupees 168.92 crore (2004-2005). Among the various explanations for this is the fact of rates not having been revised for decades. A proposal was submitted to the state government but approval is, reportedly, awaited.

19.36 There is a need for proper alignment of charges and fees with the cost of delivery of services. Such linkages serve to ration output and restrain wasteful consumption, in addition to raising additional revenues. Inappropriate linkages of prices with cost provide implicit subsidies to high income households. Subsidy should be given in a transparent and direct form only when essential so that it reaches the target group(s).

19.37 The existing rates are too low and have lost their edge. These rates need to be revised periodically to keep pace with inflation and serve as a source of revenue and a check on wasteful usage/expenditure.

Recommendation No. 20

The state government should (a) accord approval, at the earliest, to MCD's proposal for revising fees, charges and rates as also recommended by the Second Commission, (b) meanwhile, till approval is accorded, the state government should provide the MCD with a fixed compensatory grant of Rupees 100 crore for the loss of revenue with effect from the financial year 2004-2005 till approval is accorded. However, if the actual realizations are less than Rupees 100 crore annually, the excess over the actual collections should be adjusted against future releases.

Recommendation No. 21

Considering various suggestions made in the Human Settlement and Management Institute, 2006 Report the Commission also recommends consideration of various other revenue enhancing measures.

These are enumerated below:

- The local bodies should develop comparative and analytical financial statements covering ratio analysis, income-expenditure statements, liquidity status, asset liability management (ALM), annual subsidy report for specific services, etc to improve internal financial management.
- Carry out complete listing of advertisement potential of municipal assets covering roads, buildings, lands, etc.

- Betterment tax needs to be imposed separately to recover costs on provision of municipal infrastructure.
- `Impact fee' is another instrument which needs to be applied by MCD & NDMC. It has enormous potential to raise additional revenue on `New Construction' taking into account its burden on existing or future infrastructure. (This is already imposed by Hyderabad Municipal Corporation).
- NDMC should also consider imposing tax on electricity consumption as already applied by MCD.
- The local bodies should revise the user charges including parking charges and penalties expeditiously i.e. within 12 months. The revision can be phased and should include a provision for an automatic annual increase of 5% per annum.
- Local bodies should apply special charges on bulk production of garbage as applied by Hyderabad Municipal Corporation.

Recommendation No. 22

Effective fiscal instruments should be used to recover the cost of municipal services among regularized unauthorized colonies. In this regard, potential of betterment tax as exists in the Municipal Act should be used.

Recommendation No. 23

Develop training facilities for capacity building (Union Territories Civil Services) in civic bodies in Delhi. This can be included in the programs of Directorate of Training (UTCS), GNCTD. A special cell known as the 'Centre for Civic Governance' (CCG) may be created.

- It should include:

(i) training need assessment (TNA) for social upgradation of functionaries at the two civic bodies.

(ii) three-tier training – awareness workshops, classroom training and on-the-job training should be developed for municipal functionaries.

(iii) build capacity of a cross-section of municipal functionaries including elected representatives.

(iv) carry out related research to develop manuals, checklists, norms and guidelines, technical circulars etc. on specialized tasks and activities falling within the functional jurisdiction of MCD and NDMC.

(v) requisite funds for training and capacity building should be mobilized for capital and non-plan requirements. As per

Department of Personnel guidelines, 2 percent of salary budget should be set aside for capacity building activities.

(vi) conducting urban management/municipal administration studies and training programs for officers and officials of the state government and the local bodies.

(vii) special emphasis may be given by the Centre for Civic Governance to devise schemes for improvement of labour productivity in the local bodies. For this purpose, they may be in touch with the Labour Welfare Board and the training programmes conducted by the Labour Commissioner's office.

Economies and Expenditure Compression

19.38 There is an urgent need for good housekeeping. Expenditure management requires a great deal of financial restraint, besides prudence in the management of the smallest items of expenditure. Municipal bodies need to display far greater cost consciousness in procurements, cutting waste in routine administrative expenditure, and deferring all avoidable consumption expenditure. They will have to avoid assuming liabilities that do not promote their role in areas of core competency. Focus would have to be on conserving resources for capital works, by providing an underpinning of development goals and objectives. Expenditure compression could include the following aspects.

Matching Expenditure to Realistic Revenue Projections

19.39 Budget and revised revenue estimates of local bodies should be realistic. They must be based on past trends in actual realisations and/or on the basis of proposed policy initiatives.

Recommendation No. 24

Budget proposals should be based on the following two clearly distinguishable elements:

(i) revenue expected as per the trend growth of actual receipts during the last five years.

(ii) revenue expected on account of new measures introduced for mobilisation of additional resources with resource wise details of expected collection of revenue.

These details should form part of an explanatory memorandum in the budget documents placed before the corporation for approval and should be made mandatory.

- Expenditure in any financial year should not exceed the revenue estimates so proposed

Review Existing Schemes and Programs

19.40 There are several schemes that are being implemented for no other reason than being a part of the historical legacy. Additional financial burdens are assumed again for reasons which are not always economically rational or even clear. This happens mostly in schemes involving transfer payments. For instance, apart from constituting a duplication of expenditure and responsibility (and the distinct possibility of benefits being extended to undeserving candidates) that ought not to be a priority for the MCD, the actual financial implications of various schemes, for a resource constrained body, are enormous.

19.41 The scheme of old age pension and assistance to widows and physically handicapped was introduced with effect from April 1, 2006. Under the scheme, a beneficiary is entitled to Rupees 400 per month. Each Councillor can recommend 800 cases during his tenure. There being 134 Councillors, the annual financial implication of the scheme is Rupees 51.46 crore per annum and Rupees 257.28 crore in a period of five years. Similarly, a new scheme has been announced for extending financial assistance for the marriage of the daughters of widows. This involves a grant of Rupees 15,000 in each case. Each Councillor can recommend 10 cases in a year with a total of 50 cases during his tenure. Over a period of five years this will have a financial implication of Rupees 10.05 crore. Thus, in a period of five years the financial implication of these transfer payment schemes is Rupees 267.33 crore.

Recommendation No. 25

There is a need to assess the continuing relevance and need of schemes like old age pension etc (as above). The local bodies need to review all existing programs and projects. Such a review should assist in identifying the appropriate level for welfare schemes (which the Commission believes is the State Government), avoiding duplication and malpractices resulting from a two tier implementation and consequent savings and investment funds. The said review should be

completed by September 30, 2007 and the CDMRC may ensure the effectiveness of the review.

Manpower

19.42 Increase in the manpower has taken place in the post- first/second Finance Commission periods even though they had clearly recommended a reduction in the manpower strength. This has involved, for the MCD, an addition of 8364 permanent employees (81875 noted by the second Finance Commission in 2000-2001 to 90239 currently) 44547 temporary personnel (against 8518 noted by the second Finance Commission-2000-2001 to 53065 presently). This run away expansion has taken place even though the Corporation is not able to meet its wage and salary bill regularly at the end of each month. The second notable feature of this expansion is that it is essentially in respect of posts, filling up the vacancies of which is in the competence of the Corporation. Third, there is no overall analysis of the actual manpower needs of the bodies. As a result, the expenditure on salaries, wages, and employees benefits in the financial year 2004-2005 was Rupees 1552.85 crore and the per month expenditure works out to approximately Rupees 129.00 crore. In the sphere of recruitment of manpower, a few policy declarations by the state government would be in order.

Recommendation No26

The state government should: (a) seek from both the local bodies a white paper on the need, justification, and expansion of manpower in the last 10 years, (b) extend the applicability of the economy instructions regarding filling up vacancies to the local bodies (such as ban on filling up posts lying vacant for over a year, not filling up vacancies arising out of resignation, retirement, dismissal or death), (c) in view of the difficulties being faced by even state governments in the implementation of central pay scales, clarify that if the local bodies employ any fresh personnel or adopt central pay scales the state government will not meet the additional cost of doing so, and they shall have to meet the expenditure by raising their own resources.

Recommendation No. 27

The state government must also seek specific details of the:

(a) steps to roll back manpower, in the first phase, to at least the strength noted by the second Finance Commission, and

(b) reduce the manpower to a more manageable number by outsourcing work (this is absolutely essential if the cost of

service delivery is to be brought under control. If the cost of employing the 53065 is taken at a minimum flat rate of Rupees 4000 per person per month, the straight savings would be approximately Rupees 255 crores annually, which by any yardstick is a substantial saving),

(c) Revenue expenditure on establishment costs on municipal functions should be gradually reduced to a level of about 50 percent in a medium term perspective so that larger amount of funds are available for regular replacement and repair of existing assets and capital projects, etc.

(d) expenditure allocation proposed by the local bodies for priority sectors and especially for maintenance and capital investment (Chapter XIII specifically paragraphs 13.21 to 13.27). These are important areas for intensive review in the MRCC and its Working Groups.

"Petty Expenditure"

19.43 The extraordinarily large volume of "petty expenditure", constituting a form of discretionary expenditure, needs serious review by both the local bodies and the state government. Considering that the state government, at any point of time, meets more than 50 percent of the non-plan revenue expenditure of the local bodies, it has a legitimate interest in the proper utilization of resources. Recall, that in the three year period (2001-2002, 2002-2003 and 2003-2004) MCD spent Rupees 1318.70 crore on 'petty works'. This expenditure has accounted for as much as 30.50 percent (2001-2002), 27.28 percent (2002-2003) and 23.64 percent (2003-2004) of the total non-plan revenue expenditure. Indeed, it is next only to expenditure on wages and salaries and indicates a serious dilution of the discipline of a financial allocation system.

Recommendaon No. 28

In the interest of its own financial viability, the MCD needs to review this item of expenditure for its worth and relevance. The discretionary expenditure reflected in the item 'petty works' has to be drastically controlled and reduced. The funds need to be channelled into productive capital investment.

Non-Fiscal Measures

Public-Private Partnerships

19.44 The role of public-private partnership has not really been explored seriously by the local bodies, MCD in particular. There are several areas in which the local bodies can outsource functioning with major gains in the financial sector. The principal one is sanitation.

Recommendation No. 29

Development of public-private partnerships should be taken up in a systematic and expeditious manner, wherever there are operational and financial advantages while providing better services.

- Further action could be on the following lines:

(i) Develop a partnership policy at MCD and NDMC.

(ii) Identify available services whereby partnership can be introduced.

(iii) Un-bundle the service and assess partnership potential.

(iv) Identify suitable 'mode of partnership' and follow modalities.

(v) Specifically examine solid waste management and develop a plan for partnerships similar to Hyderabad by selecting (a) units of 8 kilometres road length for cleaning (with a focus to cover 75 percent of road length in a phased manner); (b) revival of incineration plant at Timarpur along with setting up of other plants on similar lines and (c) transportation (`contract' system by Hyderabad Municipal Corporation).

(vi) Examine partnership potential on 'financing', covering accessing capital market through 'municipal bonds'. In this regard, MCD has already qualified credit rating of ICRA with the status of SOAAA. It will facilitate mobilization of funds from capital market which should be used for remunerative and bankable projects. In order to minimize risk on bond financed project, refinancing model as applied by Madurai Municipal Corporation could be used. In this case, project could be implemented through short-term loan and subsequently, upon completion, bonds can be issued against the project.

(vii) Contribution of civil society is another area which needs to be used for partnerships in line with Indore, Ahmedabad etc. for pavement and maintenance of roads, footpaths, social forestry, maintenance of community services, adoption of slums and civic amenities by business houses/industries, NGOs and CBOs.

(viii) Partnership initiatives should be designed in a systematic manner taking into account potential contribution from `National Urban Renewal Mission' in terms of (i) Project Development Fund and (ii) `Viability Gap Funding' for development of bankable projects.

(ix) The few private-pubic partnership experiments which have already been conducted by the local bodies need to be examined in depth and a suitable model evolved so that it can be applied across the territory for different functions to move towards participation on a significantly enlarged scale by various private bodies, RWAs, NGOs etc. This may ensure that the objective of moving towards a global city is one shared with all sections of the society.

Evolution of an Asset Management Strategy

19.45 It is seen that the record of assets created, added to and requiring maintenance are not satisfactorily and comprehensively maintained. The Double Entry Accounting System is expected to bring about some improvements in the proper accounting of assets and also liabilities. However, this important area needs special attention to avoid misutilisation of assets, and disputed ownership and to ensure proper accounting of maintenance expenditure and also adequate returns from productive assets.

Recommendation No. 30

A comprehensive asset management strategy should be taken up by the two civic bodies.

- Aspects to be considered include:

(i) Carry out complete listing of assets consisting of land, buildings, roads, machinery and equipments etc.

(ii) Classify the assets according to fixed, current, saleable, non-saleable, vendible/non-vendible, etc. and incorporate these in annual accounts.

(iii) Value the assets in terms of current value, replacement value, capital deployed, etc.

(iv) List existing financial etc returns, if any, from these assets.

(v) Apply asset management strategy to tap maximum revenue potential on the basis of alternate uses of municipal assets for all eligible assets.

(viii) Asset management exercise starting from listing upto revenue potential should be carried out in a bottom-up manner along with a suitable follow-up at grass-root, i.e. neighbourhood/ward level.

(ix) Non-tax base is highly under utilised and assets exploited by illegal and unauthorised use.

(x) Illegal and unauthorized use of road, parks and trees should either be removed or be regularized through due process where conditions and rules permit, so that these become productive.

(xi) Each building and land covering school buildings, hospitals, offices, shopping centres, employee housing etc. should be assessed to review its potential of revenue mobilization including reconstruction or alternate/additional use.

(xii) Apply PI Sales (Private Initiatives Sale) on public/municipal land in line with GMMC for provision of urban services as per plan provisions by giving lease rights or sale under BOT, BOOT, BOLT, etc., which would (a) identify municipal land having potential for PI sales (b) invite partners to bid for such activity; and (c) develop the contract and assign the work.

(xiii) Non-tax base is highly under-utilised and exploited by illegal and unauthorised use. Complete listing of assets, proper classification, valuations, under alternate scenario, assessment of returns and asset management strategy is not in place. Revenue potential of 30000 Km of road length, 14046 parks, 229 community centres/halls and 9 lakh trees is not utilized adequately.

(xiv) A detailed study on 'Municipal Asset Management' should be conducted to specifically cover actions under points (i) - (xii) above.

IV-Recommendations Relating to the Institutional Sphere

19.46 It is often assumed that availability of funds would lead to all round required reforms but it just does not follow. Therefore, the 'first principles' of the reform agenda must include institutional reforms and capacity building. The institutional inputs very largely determine the state-local body framework and the quality of inter-relationships and functioning. Accordingly, if efficiency at the local level is a desired goal, it will come only if government are willing to expend considerable bureaucratic, investigative, and enforcement resources.

IV(i) State Government
Statutory Control over Local Bodies

19.47 The splitting of the monolithic MCD, which is being considered by a Committee constituted by the government of India, may be an aspect of the required administrative restructuring of the MCD. However, effective control of the state government over city management and the development agenda is even more important. The amendments to the Delhi Municipal Corporation Act, 1957 and the New Delhi Municipal Council Act, 1994 have 'central government' (an entity, incidentally, that is not defined in the Delhi Municipal Corporation Act, 1957) at several places. This has reduced the say of the state government in local governance. It is worth noting that the only other union territory with a legislature is Pondicherry and the central government has no role in matters related to local bodies in Pondicherry which, in any case, is a state subject. State government may consider taking up the matter with the central government.

Recommendation No. 31

New Delhi area is the seat of the central government which also houses the diplomatic enclave. Therefore, while the central government may have to retain a say in matters related to the NDMC, it can be requested to empower the state government in the exercise of all statutory powers in matters relating to the MCD. In doing so, given the special status of Delhi as the national capital, the central government may have to reserve to itself powers to deal with special situations. This should go a long way in restoring balance between the state government and the local bodies.

Statutory Measures

19.48 Subordinate legislation consisting of rules and/or by-laws are necessary to make statutory provisions operational. The Constitutional amendments placed a responsibility on the state governments to harmonise provisions of the local body statutes keeping in view the expectations from these bodies. Subordinate legislation is yet to be updated in the MCD and the NDMC (under process).

Recommendation No. 32

All rules and by-laws which have remained unchanged in the post-Constitutional Amendments period should be suitably updated.

Recommendation No. 33 **In accordance with the provisions of article 243-X, assignment to a municipality shall be subject to such conditions and limits as may be specified in the state laws. The state government should make suitable amendments in the Delhi (Distribution of Proceeds of Taxes) Act, 2002 in the light of the provisions of article 243X and, also, introduce a definition of the phrase 'net proceeds', and specify the authority, whose word shall be final for certification thereof. (see Chapter 18).**

Recommendation No. 34 **In view of the growing outstanding debt of the GNCTD and the unsatisfactory resource mobilization and expenditure management position of the local bodies, Government might also consider accepting the discipline of a Fiscal Responsibility and Budget Management Act. This should be applicable to local bodies too.**

Institutional Mechanisms

19.49 There is an undeniable need to constantly monitor implementation of the functioning of the local bodies. A regular dialogue needs to be sustained to remove hurdles before they are magnified into a crisis. Several institutional mechanisms are needed to ensure that implementation of reforms stays on track.

Recommendation No. 35 **Among institutional mechanisms designed to enhance institutional capacities, a standing body of state government and local body officials to be called the Standing City Development and Reforms Coordination Committee (SCDRC), with Working Groups as necessary, should be created. This should be chaired by the Chief Secretary to sustain a regular dialogue with local bodies and review various pertinent matters.**

- The Commission was aware of the onerous responsibilities of the Chief Secretary. To avoid overburdening him with all details of the work of the Standing City Development and Reforms Coordination Committee a more workable institutional arrangement was thought of. A Vice Chairman may preside over the Standing City Development and Reforms Coordination Committee or Municipal Reforms and Coordination Committee or State Reforms and Coordination Committee as expedient. An organogram is at Figure 19.0. The

Commissions' suggestions regarding the working arrangements are as follows:

(i) The Chief Secretary will chair all meetings of the Standing City Development and Reforms Coordination Committee which will be a joint meeting of the Municipal Reforms and Coordination Committee (MRCC) and the State Reforms and Coordination Committee (SRCC)

(ii) The Municipal Reforms and Coordination Committee will also be chaired by the Chief Secretary, and, in his absence, by the Secretary/Principal Secretary (Urban Development) as a Vice Chairman. The Municipal Reforms and Coordination Committee will operate the Municipal Reform Fund in an Escrow Account which will require the signatures of the Chief Secretary, Principal Secretary (Urban Development), Principal Secretary (Finance) and the Commissioner, MCD.

(iii) The Standing City Development and Reforms Coordination Committee will be chaired by the Chief Secretary and, in his absence, by the Secretary/Principal Secretary, Finance / Planning as a Vice Chairman. The Standing City Development and Reforms Coordination Committee will operate the City Development Fund. The City Development Fund shall be in the nature of an Escrow Account to be operated by the Chief Secretary, the Secretary (Urban Development) and the Secretary (Finance) through the State Reforms and Coordination Committee. The State Reforms and Coordination Committee shall also function as a Monitoring Committee for both NCT departments and local bodies.

(iv) For the present, some Working Groups have been suggested on currently important matters. These are to be formed mainly from ex-officio functionaries and there will be very little financial implications. Other working groups or smaller expert groups on specific topics, as immediately relevant at the time, can also be formed by the Standing City Development and Reforms Coordination Committee to advise it. The aim is to concentrate intensive attention for some time, on certain issues considered critical to improving municipal administration and also considered essential for moving towards a global city. The exact constitution of State Reforms and Coordination Committee and Municipal Reforms and Coordination Committee and each Working Group may be determined by the Standing City Development and Reforms Coordination Committee.

(v) The Standing City Development and Reforms Coordination Committee may be anchored in the Urban Development Department and deal with both the City Development Fund and Municipal Reform Fund.

(vi) The Working Group on Financial Reforms (State), apart from working on all aspects of better financial management at the state level would also follow up on the recommendations of the Financial Reforms Commission, if and when set up.

- A possible constitution is:

STATE GOVERNMENT:

1	Secretary (Finance and Planning)	01 (as Vice Chairman of SCDRC and SRCC)
2	Secretary (Urban Development)	01 (Vice Chairman of MRCC)
3	Secretary (Development Department)	01
4	Secretary (PWD)	01
5	Secretary (Labor)	01
6	Commissioner (VAT)	01
7	Secretary-cum-Commissioner, Transport	01
8	Commissioner and Secretary Industry	01
9	Commissioner (Police)	01 (Special invitee in case of any relevant agenda item)

LOCAL BODIES

10	Commissioner (MCD)	01
11	Chairperson, NDMC	01
12	Chairman/CEO, Delhi Cantonment Board	01

AUTONOMOUS BODIES

13	Infrastructure Agencies	02 (by rotation)

(DTTDC, DSIDC, DFC, DJB, DTC)

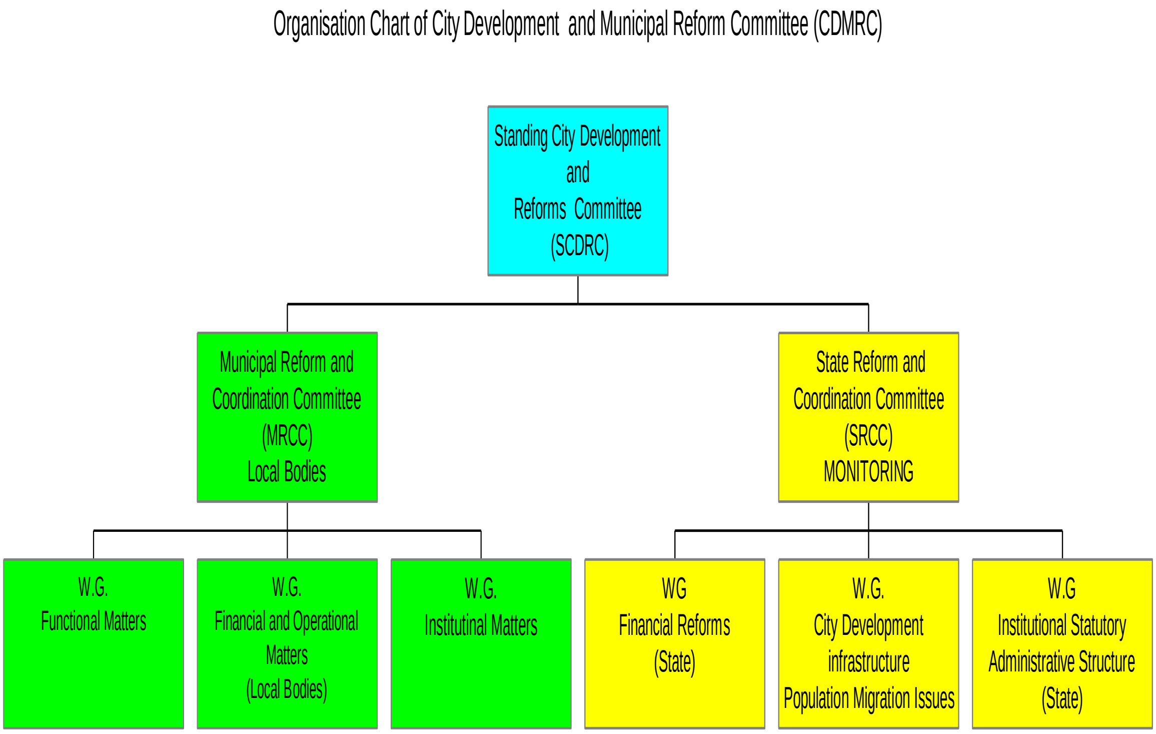
OTHERS

14	Experts on Urban Development/City Planning (considered desirable on rotational basis)	02

Government of India

15	Vice-Chairman-DDA	01 (special invitee)
16	Member Secretary – NCRPB	01(special invitee)

Figure 19.0



*WG – Working Group

19.50 One of the major shortcomings in planning for the NCT is the lack of adequate data on the shortfalls in various socio-economic sectors. The absence of any mapping of deficits poses obvious difficulties. Nevertheless, plans need matching of resource mobilization, otherwise, they are impressionistic. Implementation too becomes uncertain and often open ended.

19.51 The working group under SRCC looking into population issues may also specifically try to evolve a common strategy with other participating state governments for the development of the NCR in order to tackle migration issues through appropriate public policies.

Recommendation No. 36

The Standing City Development and Reforms Committee with the assistance of the Departments of Finance and Planning may be tasked with the responsibility of identifying infrastructure deficits through out the NCT and investment needs thereof (Chapter XI specifically paragraph 115.5). Infrastructure projects of the state government and the local bodies relating to the objective of the global city may be cleared by this Committee and placed before the EFC as per the normal procedures of administrative approval and expenditure sanction.

Financial Sectors and Institutional Mechanisms

19.52 There is also a need for more focused attention to the financial sub-sector of reforms. Besides, as our review has shown, the MCD has taken no concrete steps to implement the various suggestions and recommendations of even the second Finance Commission. It has been satisfied constituting and re-constituting committees to 'examine' the recommendations. This practically amounts to negligence.

19.53 Additionally, recommendations of the earlier Finance Commissions have suffered for want of adequate follow-up. The previous Commissions had suggested that a Finance Commission Cell be created and anchored in the Finance Department to act as the Secretariat of the Finance Commissions. The proposal still has considerable merit. It will, first, enable the state government to follow up implementation of recommendations on a regular basis. Second, each Finance Commission, as and when set up, will not have to start from scratch and would require less time to assemble the required expert staff, information and data. In fact, the national Twelfth Finance Commission too has recommended that a permanent State Finance Commission cell ought to be created in the Finance Department of the state government as the collection and correlation of data would need to be done continuously and data would need to be made available to the State Finance Commission as and when it is constituted.

Recommendation No.37 **An appropriately staffed permanent Finance Commission Cell may be set up in the Finance Department with a core staff (initially most of the staff may be on part time basis) which can be strengthened for the duration of the Finance Commission's terms. The secretariat of the Finance Commission could also service the Financial Reforms Commission for the period of its existence till its Report is submitted.**

19.54 The GNCTD is moving towards a serious situation of financial stress, as its outstanding debt (currently Rs.21676.32 crores as on 31.03.2006) has been mounting at a faster rate (trend growth rate 30.6%) than can be sustained (expected to be Rs. 70449.60 crore by 30.03.2011 i.e. the amount expected to be received as loan during the period 2006-2007 to 2010-2011). This is subject to the assumption that whole of the amount outstanding as on 31.03.2006 is repaid by Delhi Government by the end of financial year 2010-2011. If this assumption does not hold good for any reason, the figure of outstanding debt would be an unmanageable approximately Rs. 85,000.00 crore. With careful husbanding of resources at this stage, the situation can still be retrieved and brought under control. (see para 17.248 and Table 17.51).

Recommendation No38 **Before the situation becomes more alarming, a Financial (Expenditure) Reforms Commission may be set up at the level of the State Government by a Resolution of the Council of Ministers. This should cover local bodies also to assess all ways to conserve resources and curtail wasteful expenditure and right size all government departments and local bodies. This may be on the lines of the Expenditure Reforms Commissions set up by the Central government and some of the state governments but could have broader terms of reference including better overall financial management. (Chapter 11, specifically paragraph 11.5.9 and Chapter 13 specifically paragraph 13.95.1).**

- Some years ago, the GNCTD had taken a major step toward financial reform by constituting a committee to review all explicit and implicit subsidies. The reports of the Committee could not be finalized in respect of a number of sectors that had been proposed for review. There have also been reforms in the sphere of resource mobilization.
- The work of the committee on subsidies and user charges appointed in 2002 should be revived and given to the Financial Reforms Commission. The mandate to the Commission should be to furnish a

report on implicit and explicit subsidies and user charges by December 31, 2007 (Chapter 11 specifically paragraph 11.21).

- Similarly, the Financial Reforms Commission could also assess the revenues from reformed tax instruments (such as VAT) and review this from two angles, at the very least (a) how large is the tax base from which the revenues are realized, (b) how close or distant are the actual realizations from the potential. In considering the latter question, attention must also focus on the net actual receipts, namely, cost of tax administration and net of refunds, if any.
- The administrative, technical and managerial capacities of the departments of the state government be reassessed by the Financial Reforms Commission with a view to enhancing their ability to implement plan schemes and programs.

19.55 One of the areas of concern, that has emerged from the analysis of the finances of the state government, is the absorptive capacity of the state government's own departments. Just one piece of data will suffice to show the erosion of capacity: decline in plan expenditure. There could be several explanations for this: delays in conceptualising executive plans, delays in approvals (administrative, technical or financial), delays in actual implementation etc. However, another potent reason appears to be the sheer inadequate capacity of the departments.

19.56 The low utilization of funds earmarked for plan expenditure can be traced very substantially to departmental incapacities. For example, framing tender bids for special works, and evaluating them, would need technical capacities not generally available in departments. Similarly, procurement of complex multi-faceted goods, whose specifications cannot be easily written down, codified, or verified, would require procurement policies different from procurement of standardized shelf goods, being a simple example (Chapter 11). Such complexities are increasing as markets open up.

19.57 A concept note prepared by the Food and Civil Supplies Department argues that there would be immense savings in non-plan expenditure allocated for running the huge establishment of the Food and Civil Supplies Department. This would require sub-dividing the APL cardholders into two socio-economic categories based on whether they are income tax payers or not and entitling only the latter to SFAs and kerosene. With this one stroke, much of the ills of diversion, black marketing and adulteration presently prevailing in the system can be substantially eliminated. The Commission felt that the observations of the Food and Civil Supplies Department deserve serious consideration by the GNCTD with a view to expenditure curtailment so that more funds can become available to the Municipal Reform Fund or City Development Fund. This matter can also be referred to the Financial Reforms Commission.

19.58 The planning structure needs to be strengthened across various departments and local bodies particularly in the major departments dealing with critical infrastructure which must have strong planning cells. The GNCTD may specifically address this issue and consider providing expert staff to the Project Management Cell which should be accessible to all Departments.

Recommendation No. 39

A Project Management Cell which can be accessed by all Departments may be set up in the Finance Department with qualified personnel having experience in project management.

19.59 Another indication of the lack of technical capacity or required in-house expertise is the fact that a number of departments have taken recourse to out-sourcing their needs for technical advice. However, many of the reports generated by consultants have not been acted upon. For example, in the Transport Department alone, there are a number of reports of consultants pending final decisions.

Recommendation No. 40

The status of action taken on the reports and studies submitted by a large number of consultants may be examined (Chapter 11 specifically paragraph 11.26) by the Financial Reforms Commission.

19.60 Frequently, various well intentioned measures (such as executing a memorandum of understanding) do not have the impact that is intended. Again the reasons can be many and they need not hold us up. Surely, however, the main reason ought to be the failure to visit the consequences that have been spelt out in the event of non-adherence.

Recommendation No.41

The instrument of Memorandum of Understanding should be deployed more effectively vis-à-vis both public utilities and local bodies and the Finance Department should vet all MOUs and ensure their compliance through the Project Management Cell.

Financial Operations: State Government

19.61 Quite a few aspects of the financial operations of the state government are of deep concern, and each aspect is gridlocked. We can begin a brief recall from any given point and arrive at the same position. The state government has a rather deceptive revenue surplus and is able to balance its budget largely due to the small savings loans. Minus the loan component, the state government has been in fiscal deficit in all the years so far, but for one.

19.62 The growing loan amounts have had two immediate consequences: growing opening balances and exploding non-plan expenditure.

19.63 The overall revenue surplus leads to an uncalled for complacency and results in liberal loan facilities for public utilities and local bodies. The extension of loan facility to the public utilities or the local bodies (MCD) clearly has much to do with the claimed 'comfortable' financial position of the state government. In the period 1994-1995 to 2005-2006, an amount of Rupees 12286.02 crore has been provided as non-plan loans (practically unrecoverable in respect of public utilities) to the public sector entities, including local bodies. Out of this, an amount of Rupees 6654.70 crore has been provided to the public utilities i.e. DJB and the DTC. This despite the fact that, at least, the DTC was transferred to the GNCTD with all liabilities cleared. Further, this is in addition, to the plan loans made available in the same period. The plan loans were Rupees 14405.48 crore. Out of this, the plan loans to the DJB and the DTC were Rupees 5353.13 crore.

Recommendation No.42

The state government should also:

(a) commit itself to a long term fiscal policy, aimed at financial prudence, with clearly outlined benchmarks and milestones.

(b) Draw up a clear policy for utilization of small savings loans till it is possible to match loan inflows to actual needs, (the GNCTD is paying interest unnecessarily on idle funds).

(c) Diagnose the problems afflicting the public utilities (causing a serious financial drain), announce the remedial actions required within a period of two years, and enunciate a clear 'no bailout' policy in respect of both the local bodies and public utilities thereafter. This would give the organizations two years to put their financial position

on a sound footing (Chapter 11 specifically paragraph 11.26 and Chapter 13 specifically paragraph 13.95.21).

Economic Intelligence Unit

19.64 A significant corollary would be to specially upgrade the creation and management of physical and financial databases. The Planning Department, for instance, no longer tracks the investments in capital assets. The local bodies do not maintain databases to identify expenditure on obligatory functions and also, within this broad category, expenditure on specific sectors. Similarly, the Finance Department does not track the impact of changes in tax policies or rates. In fact, the introduction of new tax rates is rarely accompanied by detailed analysis of likely revenue gains or losses. Therefore, it is important to set up systems for data generation and maintenance which should promote the immediate and long-term needs of analysis and planning.

Recommendation No.43

An Economic Intelligence Unit, anchored in the Finance Department, with adequate representation of Planning Department and the revenue earning departments be created. This unit will also specifically seek to identify all areas (VAT, Excise, Registration Act etc) of suspected leakage of revenues, among other things. This work should be done independent of the feedback from the field formations by developing separate channels of intelligence collection. This should be seen as an effort at revenue maximisation.

Review of Plan and Non-plan Expenditure

19.65 The decline in plan and growth of non-plan expenditure warrants a serious review by the state government and especially the relative decline of capital expenditure (chapter 9 and 11).

Recommendation No.44

The proposed thrust on 'development with a human face' suggests the need for a comprehensive review of social welfare programs. Schemes that merely involve transfer payments whether at the state government or the local level are best curtailed, if not totally eliminated. Again, schemes and projects that have no relevance to the present socio-economic situation should be reviewed, as suggested by the Planning Commission too, and should, on the basis of such a review, be dropped. This review is best conducted by the state

government in the Standing City Development Committee assisted by the Planning Department and should not be left to the discretion of individual departments.

Recommendation No.45 **The suggestions made by the Administrative Reforms Department (Chapter 9, Para 9.98) for removing cost and time overruns may be considered for introduction. In this context, the delays in EFC projects deserve a special review in the Financial Reforms Commission.**

Recommendation No.46 **The Delhi government should pursue the creation of its own PWD cadre (Chapter 11, specifically paragraph 11.12). Besides, the predominant role of the PWD in the sphere of asset management should be reviewed for introduction of an element of competition (chapter 11 specifically paragraph 11.14).**

Recommendation No.47 **Open-ended release of funds for never ending implementation also needs to be reconsidered by the Standing City Development and Reforms Committee. In this context, the release of funds to the MCD for maintenance of re-settlement colonies since 1988 is a good example.**

19.66 The multiplicity of agencies has been commented on by a number of learned studies. One aspect of the fragmentation of administrative arrangements has attracted lesser attention. This relates to the functioning of the departments of the GNCTD. The coordination within departments, between departments, and, between departments and local bodies needs to be improved. There are a number of agencies dealing with the same function, for example: education, health, roads, nutrition, and social welfare.

19.67 This frequently leads to independent assessments of the requirements of any sector. Inevitably, it also leads to independent release of funds, and independent, if at all, monitoring of utilization. Therefore, there is no single department responsible for the preparation of holistic executive plans of action in terms of normative physical targets, time schedules, benchmarks and measurable outcomes or milestones. None can provide data and information about inputs for preparation of plans, release or utilization of funds etc. Urban development, in such a situation, is no more than a collection of departmental schemes and programs, with no evaluation of the impact of each on the socio-economic situation or even in relation to each other. There is, therefore, nothing that can actually be described as an urban management and development strategy. This is true notwithstanding the exertions of GNCTD and agencies such as the NCRPB, DDA, and the local bodies. There is an obvious need to correct this fragmentation.

Recommendation No.48

The Urban Development Department is best situated, by virtue of its charge, to function as the principal Department for coordinating and monitoring the urban management of Delhi, on behalf of the state government. It is vital to recognize this and to strengthen the Department to play its fundamental role far more effectively. There are several aspects to this. These are related to its own role, its role vis-à-vis the local bodies, and vis-à-vis subject departments of the government.

19.68 In so far as its own role is concerned, it must emerge as the principal source and repository of data, information and inputs for framing policy decisions in respect of all aspects of urban development and management irrespective of the subject. It must be the chief coordinating and monitoring agency of the state government. Its advice on projects, programs, policies, and proposals for release of all funds should be accorded necessary attention. This will require adequate strengthening of the physical and technical capabilities of the department.

19.69 The fragmentation of various matters into tight department-wise containers must yield place to inter-departmental coordination. This would involve, a greater say for the Urban Development Department in articulating program content of the goal of Delhi as a global city. In addition, there should be clear backup for its assessments vis-à-vis the functioning of local bodies in government's response to various issues.

19.70 The Principal Secretary, Urban Development Department as the Administrative Secretary for the local bodies should be given the powers of reviewing the ACRs of municipal functionaries of and above the level of Secretary, MCD, Deputy Commissioner of Zones and MCD, HQ Officials of Grade-I irrespective of designation. This is by way of strengthening of monitoring arrangements for the MCD and moving towards a more cohesive and integrated approach towards city development. Similar arrangements need to be worked out for NDMC also.

Monitoring Systems

19.71 The Terms of Reference (Para 5) require the Commission to make suggestions on the kind of monitoring systems that ought to be put in place. We do so below.

19.72 The Twelfth Finance Commission stressed on the need for a high level monitoring committee headed by the Chief Secretary, with the Finance Secretary and administrative Secretaries/Heads of Departments as members for proper utilization of finance commission grants. The Committee should be responsible for monitoring both financial and physical targets and for ensuring adherence to the specific conditionality in respect of each grant. The Committee should approve projects that are to be finalized from the suggested municipal reform fund.

19.73 Some of the characteristics of monitoring systems are elaborated below to enable the designing of an effective system:

- First, the architectural design of monitoring systems depends on the scope and objectives of monitoring. It could be selective or comprehensive.
- Second, the levels of trust and confidence (extending from small matters as to whether the data and information are regarded as reliable, to abstracts like faith in publicly declared declarations and intentions), will suggest as to whether monitoring needs to be intrusive and punitive.
- Third, it is such considerations that will also determine the frequency of reporting required and the penalties proposed to be levied for non-reporting or non-performance.
- Fourth, oversight in the nature of checks and balances can be applied at various stages and through several instruments. Checks can be exercised when activities, projects, or programs are submitted for administrative approval or when they are received for expenditure sanction or at the time of releasing the first and subsequent instalments of funds. Besides, the intervening periods between approvals and sanctions or release of funds (both initially and subsequently) provide opportunities for monitoring.
- Fifth, several agencies already participate in the monitoring of activities and programs. These include the formal agencies consisting of the

administrative heads, the Finance Department, internal and external vigilance agencies, and the auditors. For quite some time now, the courts and the media have been active in exercising oversight. With the enactment of the Right to Information Act, 2000 and constitution of the Public Grievances Commission the citizen too is better equipped to call upon public agencies to explain their lack of achievements in different spheres. Ultimately, the elected representatives are responsible to the people. Nonetheless, there is a feeling that the local bodies are not fully alive to their responsibilities.

- Sixth, the need for a monitoring system is arising as there is a clear hiatus between expectations and experience: municipal reform is clearly trailing expectations.
- Seventh, a slightly more complex difficulty is the inability of the external monitor to hold the disciplinary line. While reportage is defective, the release of instalments continues in the interest of 'work'. A conflation of interests involved in execution and monitoring is virtually impossible to secure.

Suggested Oversight Mechanisms

19.74 The first principles of an effective system of oversight would be to spell out the objectives of the proposed monitoring system. This might require creating separate mechanisms for different purposes.

Recommendation No.49

The first oversight mechanism required is a body and system to follow through on the implementation of various fiscal and non-fiscal reforms required and suggested by various sources[5]. The Standing City Development and Reforms Committee (SCDRC) could act as the said monitoring committee and meet at least once in every quarter to review utilization of grants and to issue directions for mid-course corrections.

19.75 A Standing City Development and Reforms Committee headed by the Chief Secretary has already been suggested earlier at Recommendation-1. Some possible areas which it could look into are elaborated below:

[5] The Standing City Development and Reforms Committee has been elaborated in Recommendation No. 1, 35, 49 etc and may be seen together.

- To assist this Committee, it may constitute such sub-committees for various aspects of the functioning of local bodies such as resource mobilization, expenditure management, and institutional issues or any other.
- The Committee may set targets in various sectors and indicate the time frame for achieving specific predetermined goals.
- The extant and proposed status of projects and programs should be clearly stated at the initial stage itself.
- Set out development goals in terms of verifiable benchmarks and milestones, expected to be fulfilled in specified short (one year), medium (three year), and long term (five year) time frames.
- Preparation of detailed project reports (DPR) distinct from proposals for expenditure sanction should be insisted upon.
- The rewards, for successfully implementing reforms, should follow as automatically as the penalties.
- Reportage in quantitative terms (such as, expenditure as a percentage of allocated funds or physical achievements as a percentage of total work) is deceptive. They rarely convey the actual status of progress and should not be relied upon exclusively. Qualitative aspects and progress against specified time schedules are an even more important aspect. These qualitative dimensions should be built into the reportage system.
- Reportage should not be confined to periodical paper reports. Field verifications by third parties (such as NGOs and RWAs etc) should be relied upon in addition to teams of inspecting officials.

Monitoring and Vigilance

19.76 Monitoring arrangements should also include a strong vigilance set up. At present, there is no coordination among vigilance departments of the local bodies and the state government. The Chief Secretary, Government of NCT of Delhi, as the Chief Vigilance Officer for the State Government should have a full assessment of all aspects and trends related to vigilance in the local bodies also as their work impacts on large sections of the public.

Recommendation No. 50

All Vigilance Officers in local bodies and public utilities, irrespective of their designation, should work under the overall superintendence, direction and control of the Department of Vigilance of the State Government under the state C.V.O.

- The present practice of having separate CVOs for local bodies and public utilities under the GNCTD should be given up. They may instead be designated as Additional CVOs and they should report to the CS/CVO GNCTD in respect of vigilance matters. The appointment of Additional CVOs should be made on the recommendations of the Chief Secretary/CVO.
- All quarterly and monthly reports from local bodies and also other departments should be sent to the CVO for processing in the State Vigilance Department. The Chief Secretary, as the CVO, should be empowered to call for detailed reports and vigilance files wherever required.
- The Vigilance Department of the GNCTD may be strengthened so that it is enabled to do a percentage check of all vigilance cases in local bodies also. A Technical Cell may also need to be created for investigation into cases involving construction work such as roads, buildings etc. in the local bodies, to maintain standards.

IV-(II) Local Bodies
Financial Systems and Operations

19.77 MCD and NDMC need to re-orient their budgeting exercise to use it as instruments of effective planning, management and control and link it with the fiscal and financial operations of the civic body. The data and information as made available by the MCD does not suggest any developmental, investment or financial planning (Chapter 13 specifically paragraphs 13.95.1 to 13.95.2)

19.78 The double entry accounting system was introduced some years ago. This system in itself may rectify a number of defects which have come to notice in the single entry system and lead to greater awareness of financial management issues when the position of assets and liabilities (including contingent liabilities) are clearly reflected in the accounts.

Recommendation No. 51

None the less, even the introduction of the double entry accounting system by itself will not suffice. The accounting data and analytical financial ratios needs to be built into the process of decision making, specially relating to resource mobilisation and expenditure curtailment. This may lead to easier access to market borrowings as

the financial assets and liabilities, would be up to date and credible and open to assessment by credit rating agencies.

- The Municipal Bodies should prepare every year an annual report based on the analysis of the annual accounts prepared under the double entry system inclusive of Income & Expenditure statement and the Balance Sheet and submit the same to the Corporation/Council and the government. The report should indicate the achievements of the previous year in comparison to the past, and, the lessons, the bodies learnt from the comparative data of two years relating to mobilization of resources, actual expenditure under plan and non-plan, creation of new assets, collection of arrears, new measures taken to mobilize the additional resources, measures taken to reduce the staff strength, minimise the wasteful expenditure and wipe out the past liabilities.
- In addition the bodies should also discuss in the annual reports, their plan and programmes for the next financial year, for the improvements in the services being provided by them to the citizen and also in their financial management. This should be consistent with the medium and long term investment and development plan (Recommendation No.8) and medium and long term fiscal policy (recommendation No.10).

V - Recommendations Regarding the Devolution Package

19.79 The basic principle regarding the devolution package is that it should assist the task of effective resource mobilization and the efficiency of expenditure and underwrite the effective functioning of the local bodies so that they can move towards self-reliance.

19.80 The terms of reference require that, among other factors, the Commission shall have regard to the overall resource position of the GNCTD. Therefore, apart from the actual projections (Chapter XVII) and resource demands of the local bodies, a vital consideration is the resource position of the state government itself.

19.81 There are several features of the resource position that would suggest that larger volumes of resources can be transferred to the municipal bodies. These are: the rising tax revenues, the consistent revenue surplus, and the growing opening balances. This would, however, be a misreading of the situation, because there are equally strong reasons for not contemplating any increases in transfers to the municipal bodies. The other side of the story must invite attention to disturbing features of the resource position of the state government. These include: the ballooning interest burden, the increasing loan repayments, outstanding loan liabilities, the galloping non-plan expenditure, the declining plan expenditure, the shrinking share of capital and maintenance expenditure, and the increasingly negative contribution of public utilities (DTC and DJB) which are cause for serious concern. The financial situation of the state government may appear reasonably stable. However, there are several underlying causes for unease. The state government too needs to take measures to address these issues.

19.82 On the other hand, the projected resource needs of the local bodies raise many vital questions. These have been examined in detail in the relevant chapters dealing with the financial operations of the MCD and the NDMC. We recall only the main points. In the case of the MCD, there has been no effort to relate resource mobilization to even the annually projected expenditure needs. It is not surprising therefore, that the organization has shown no concern about mobilizing additional resources. Wherever, measures have been taken (such as enforcement of the UAM) the effort has not only been half-hearted but it has also led to demands for compensation against the loss of anticipated revenues. The MCD actually does not own any reform. It projects them as having been introduced under duress. That the MCD has also not seen the worth of any steps to compress wasteful and excessive expenditure, is demonstrated by the growing manpower. Additionally, It does find it possible to undertake populist measures. There is, therefore, a confirmation of the fact that the resource gap is due to financial profligacy and inefficiencies. The case of the NDMC is circumscribed by the lack of scope for extensive capital expenditure but their financial management has been more responsible. It is this background that needs to be kept in mind while assessing the quantum of justified resource transfers to the municipalities.

19.83 The first Commission had recommended that the then system of relying on statutory grants-in-aid and scheduler or itemized tax sharing through assigned taxes required to be replaced by a system of global sharing of the tax revenues of the GNCTD with the municipalities. It recommended a basic (a) annual fiscal transfer of 9.5 percent of the GNCTD's tax revenue to the MCD and the NDMC, (b) a further annual transfer on matching basis subject to a maximum of 1.5 percent of GNCTD's tax revenue equivalent to excess of revenue over and above the amounts projected by and taken into account by the Commission, for the respective years of the award period, and (c) another transfer on matching basis subject to a maximum of 1.5 percent of GNCTD's tax revenue equivalent to savings in expenditure against projections made by the Commission for the respective years of the award period. The division of 70 percent of the amounts arrived at, as above, between MCD and the NDMC may be on the basis of the ratios of the population living in their respective areas and the remaining 30 percent in the ratio of the physical area under their jurisdiction.

19.84 The second Finance Commission continued the basic formula adopted by the First Finance Commission. However, while it did not change the percentage share in global tax assignment, it enhanced the 4 percent ceiling on grants-in-aid to 5 percent. This raised the total transfers to 10.5 percent against the earlier 9.5 percent. The second Commission also recommended an incentive of 2 percent in respect of collections from new taxes operative after the expiry of the first year of the levy of such taxes and an incentive of 33 percent for higher collections from existing tax sources, if the amount of collection during each of the years of the award period is greater than 2 percent over the forecasts made by the Commission.

19.85 Both the Commissions recommended that the existing practices may continue in respect of the DCB for providing tax assignments and the grants-in-aid. However, neither of the Commissions quantified this amount.

19.86 There are a few notable features of the system recommended by the two earlier Commissions. These are:

(a) The formula is based on global share in the net proceeds of the tax revenues of the state government. This enables the local bodies to ride the wave of rising state revenues: VAT, excise, stamp duties and registration fees or taxes on motor vehicles.

(b) This formula focuses on the volumes of transfers and introduces an incentive package for additional resource mobilization or expenditure compression or both.

(c) The global sharing formula fails to answer a number of issues related to the qualitative aspects of expenditure. It has, *inter alia*, neither promoted economies in expenditure nor induced any effort at prioritisation, nor helped in directing or guiding investments into core activities.

(d) In fact, even though absolute transfers have increased, in percentage terms the share of the municipal bodies in the net tax proceeds of the state government has gone down in the post-Amendment phase.

(e) The 5 percent grants include grants for the education sector under non-plan subject to 60 percent of the net expenditure of the MCD and 66 percent of the net expenditure in case of the NDMC and the DCB. This was raised to 70 percent on the recommendation of the second Finance Commission. In addition to the education sector, the MCD has been provided a grant within the ceiling of 5 percent of net proceeds of tax revenues for the maintenance of re-settlement colonies.

(f) The earlier incentive schemes, howsoever attractive, have not worked, having failed to ensure any additional resource mobilization or expenditure compression.

(g) The municipal bodies receive plan grants for the discharge of agency functions (for implementation of the plan schemes of the Delhi government).

19.87 There is a clear dilemma here. The local bodies have shown no inclination to improve their fiscal performance on just any parameter one may like to apply to their functioning. The gaps, if any, are not worked out on any normative basis. They can very well be attributed to factors such as fiscal laxity.

19.88 Nonetheless, since local government (Entry 5 in the State list) is a state subject and the spending responsibilities and taxation powers of municipal bodies are determined by the state governments, it is conveniently assumed that state governments have the obligation of bridging the gap between what the municipalities are able to raise by way of taxes, charges, levies etc. and what they need to fulfil their spending responsibilities. However, the important proviso is that such a gap is worked out on sustainable normative considerations and are not attributable to inefficiencies and fiscal profligacy. Accordingly, there is an obvious need to correct both adverse tendencies.

19.89 It is necessary to first spell out the broad guiding principles underlying the formulation of this Commission. The Commission has taken three streams of resource transfers into consideration: assigned taxes, non-plan grants, and plan grants.

19.90 Assigned taxes are the general purpose grants. The local bodies are free to utilize the funds for purposes deemed fit. The non-plan grants (such as for primary education and resettlement colonies) are tied grants and are meant for specific uses. The plan grants are for implementing projects and programs on behalf of the state government amounting to funding 'agency functions' (to the MCD for agriculture, rural development, roads, for computerization, education, sports, medical/public health, SC/ST/OBC welfare, nutrition, urban development; to the NDMC for roads, education, sports, medical/public health, SC/ST/OBC welfare, nutrition, urban development).

19.91 The purposes of non-plan and plan grants have remained unchanged. The monitoring of utilization by the MCD/GNCTD has been weak. The MCD does not maintain separate accounts of receipts and expenditure out of these funds. Indeed, there is no clarity on what items the funds have been expended, nor what is the progress in respect of the works for which the funds are released. This is not a happy situation at all.

19.92 The Commission, therefore, considers it necessary to make an effort to address these issues and does so below:

Creation of a 'City Development Fund'

Recommendation No.52

It is suggested that Government may consider creating a 'City Development Fund' with a corpus of, say, Rupees 1000 crores. These funds for the present, may be allocated from plan funds, Jawaharlal Nehru Urban Renewal Mission and Small Savings Loans which are lying unutilised as growing opening balances. The GNCTD could also consider involvement of private initiative; enterprise and investment. This fund could then also be used to partner projects. The City Development Fund, which should be anchored in the Urban Development Department, should be administered by the SCDRC as elaborated earlier in Recommendation 35.

19.93 Some possible criteria for funding projects, which subserve the objective of the global city status, could be: (a) the project should clearly raise the standard of any essential service such as the distribution of water, sewerage systems, handling solid waste, etc; (b) financial implications of projects should not exceed Rupees 200 crore in any one financial year; however, funds should not be spread too thinly, the objective being to make a visible impact; (c) promotion of cultural activities, higher level training programs for advanced producer services, creation of consultancies of international repute and plans and projects intended to promote or develop trade and commerce (d) fund should operate within the overall discipline of plan schemes.

19.94 Funds from this would be available to all developmental agencies including local bodies, the private sector and NGOs against specific project proposals intended to: (a) fulfil the government's goal of Delhi as a global city, (b) correct infrastructure deficits, (c) upgrade or provide amenities and civic services, for a period of five years with annual benchmarks and outcomes clearly stated in a Memorandum of Understanding.

19.95 The GNCTD may consider introduction of a system of post facto reimbursement of expenditure for projects approved by Standing City Development and Reforms Committee so that release to the local bodies can be done in stages on the basis of physical verification of the work done. It is felt that this will ensure actual physical progress on the ground. NDMC which has sufficient liquid resources can reasonably be expected to take greater advantage of this reimbursement scheme.

19.96 Internationally, cities are seeking to acquire a comparative advantage and trying to position themselves as "knowledge economies". Several factors help in acquiring this status. They include promotion of cultural activities at one end, and the cyber economy, at the other. Stress could also be placed on general and professional education and acquisition of technical skills.

Recommendation No.53

However, initially, in order to encourage a 'knowledge economy' the state government may like to earmark funds for some of the purposes which are given below through plan schemes of the concerned departments. The amounts are based on proposals received from the department/agency concerned and can be assessed separately.

Funds Requirements for Five years (Rupees in Crores)

Item	Purpose	Amount suggested
(i) Hardayal Municipal Public Library-(MCD)	Up-gradation	12.21
(ii) Delhi College of	World class facilities in Research	

Engineering	and Development (1)Information and communication Technology. (2)Information Security (3) Nano Technology (4) Energy and Environment Research with a focus on Bio-diesel, Hydrogen and New fuel Research. (5) Research facility for VLSI Design and Embedded System.	200.00
(iii) G.T.B. Hospital & University College of Medical Sciences	Proposal for development and expansion of Endocrinology, and Metabolic care services.	15.00
(iv) Department of Information Technology	Requirement of funds for I.T. Sector in various Departments of Government of Delhi.	214.59
All Departments	Creation of Appropriate Databases	50.00
Total		491.80

- The funds intended for the Lala Hardayal Library should be earmarked for the library and released to the library directly to avoid any diversion. Among the items of expenditure that the library should undertake are: a scheme for on-line membership, paid access to rare and valuable scripts, documents and data and refurbishing the physical infrastructure of the library. These recommendations are based on discussions with officers of the library and the proposal submitted by them by way of response to the Commission's questionnaire.
- Upgrading the Delhi College of Engineering to a world class centre of excellence would be an important contribution and hence the recommendation of their proposal.
- Departments are in serious need of creating an appropriate database and government will need to invest in the creation of such databases.
- Nevertheless, creation of a knowledge economy as a platform for acquiring an international competitive edge is an area which requires incisive and in depth examination. Accordingly, the Working Group entrusted with the responsibility of framing the socio-economic plan for the city should also be required to examine this issue. In doing so, the

Committee could seek advice and guidance from a wide body of experts, including those who have experience in the field of venture capital. Emphasis should be on promoting innovation, research and design, and, technical skill formation. Participation of and investment from the corporate sector, which would ultimately benefit from this reorientation, would certainly be desirable. The Working Group should be open to suggestions emanating from any source whatsoever – academia, scientific community, businessmen, financial institutions, banks and departments and agencies of the state government etc. Its principal responsibility would be generating, formulating and/or partnering of proposals which promote the knowledge economy. This could be a critical element to move towards the objective of a global city.

- Suggestions received from the Delhi College of Engineering to ensure a greater retention of talented engineering graduates in and around Delhi deserve to be considered in depth. These include the creation of IT Parks, Biotech Parks, Nanotech Parks and Knowledge Parks (having centres for knowledge and innovation management in addition to technology incubators in leading engineering institutions in Delhi). It has been suggested that these parks should be set up as part of new knowledge cities which can provide a major attraction for world class industries in the high-tech area. These Parks should be designed on the concept of a synergetic partnership between industries, academia and research and development establishments.

19.97 Government may also consider professional up-dation allowance to cover expenditure on books, professional journals, subscription of membership fee of professional associations to officers whose role in the formulation of policy is important. It may consider a biannual allowance as detailed below on reimbursement basis:

Officers serving in the GNCTD as Secretaries and/or Heads of Departments.	Professional updation allowance	Not exceeding Rupees 6, 000 biannually
Other officers of Joint Secretary and above level		Not exceeding Rupees 3000/-

		biannually

Devolution: Assigned Taxes

19.98 The Commission has considered the matter related to the assignment of taxes to the local bodies. It was noted that the local bodies have not set their house in order. Indeed, they have not shown any inclination to do so. There is a fundamental denial implied in the functioning of the local bodies for the need to undertake reforms and improve resource mobilization as well as expenditure containment.

19.99 There is no evidence of attempts to channel funds into priority areas: maintenance of assets or capital investments. The MCD in particular has allowed an already bad situation to worsen in terms of the manpower strength. There is no suggestion that the zonal level difficulties, in terms of inadequacies of services, amenities or facilities, guide the organization in determining the geographical allocation of resources. Indeed, it is doubtful as to whether the organization even has the institutional capacity to deal with the problems or has a realistic idea of the investment required.

19.100 After a detailed analysis of the track record of local bodies, the Commission came to the conclusion that a stage had come when financial devolution has to be linked to actual performance. At the very least, a local body must show that it has made a serious effort at resource mobilization and expenditure management, and at raising efficiencies in upgrading the level of civic services. The Commission was not convinced that an adequate effort had been made in these areas.

Recommendation No. 54

In these circumstances (Paras 19.94, 19.95 and 19.97), the Commission recommends a reduction of 1.5 percent in the share of the local bodies in the net tax proceeds of the state government, i.e. from the existing 5.5 percent to 4 percent. Despite this reduction, the local bodies will see an automatic increase in absolute terms due to expected improvements in the tax revenues of the state government.

- The Second DFC had suggested that an amount of five percent of the funds devolved should be kept in a separate reserve for the purpose of maintenance of assets of local bodies and another five percent for the education sector local bodies school buildings. The Commission recommends implementation of the earlier recommendation. Amounts may be earmarked for these purposes and separately shown in the MCD budget.

- However, the MCD can "earn" additional resource transfer by markedly improving expenditure compression or additional resource mobilization. In the case of NDMC, the Commission recommends an annual 10 percent of the year's eligible amount in recognition of the relatively better financial management by NDMC. Access to additional resources, over and above this 10 percent, shall also depend on improvements in resource mobilisation and expenditure management. The required improvements in resource management shall be as per criteria specified in Box 19.1 and 19.2.

Municipal Reform Fund

19.101 The local bodies must ensure additional resource mobilization and expenditure compression by adopting several measures. In respect of resource mobilization these include: expansion of property tax base, recovery of tax arrears, elimination of exemptions and concessions, improved enforcement, recovery of revenues locked in litigation, introduction of new taxes and tax rates, revision of user charges, public–private management of services, outsourcing of activities. In respect of expenditure compression and improved pattern of expenditure, these would include: roll back expansion of manpower to the 2001 level within two years, increase expenditure on capital assets, introduce annual plan mechanism, devote increasing percentage of 'own resources' for maintenance and capital works, furnish annual benchmarks and outcomes to GNCTD, improve the link between expenditure and revenues, improve links between budgetary provisions and plans (this would imply plan expenditure out of their own resources). At present the local bodies depend on the state government for all plan expenditure.

Recommendation No.55

The amount of 1.5 percent of the net tax proceeds of the state government as reduced (Recommendation No. 54) from the assignment should constitute a Municipal Reform Fund. The Fund should be administered by the SCDRC.

- The Municipal Reforms Fund shall be utilized for the following purposes:

(a) Providing the additional 10 percent annually of the eligible amount to the NDMC as above.

(b) Local bodies will be entitled to a grant equal to 40 percent of the revenues realized over and above the average realizations of the previous two years from the date of implementation of the resource mobilization measure.

(c) In the event of a new revenue instrument which has no previous trends, the grant amount shall be 20 percent of the revenues realized.

(d) A further annual transfer equivalent to savings in non-plan revenue expenditure by 20 percent of the average annual expenditure of the previous two years.

(e) Subject to the local bodies fulfilling specific and clearly quantified and verifiable targets in the spheres of either resource mobilization or expenditure compression or both as in Boxes 19.1 and 19.2 (other than those specified in (a) to (d) above) they shall be entitled to a grant of 30 percent of the mobilised resources or expenditure savings.

Recommendation No.56 **40 percent of the total grants and assigned amounts should be transferred directly to the 12 zones of the MCD against plans based on an assessment of the zonal level infrastructure and amenities deficit.**

19.102 In the first two years the amount may be divided in the ratio of 70: 30 based on zonal population and area. In subsequent years, the amount will depend on the assessed zonal deficits of infrastructure and facilities plus the actual achievement against declared plans and the success in mobilization of revenues by the zone concerned. Accordingly, the targets for revenue and expenditure will be set for each zone by the MCD in consultation with the Urban Development Department.

Devolution: Non-plan Grants

19.103 In so far as these non-plan grants for education and re-settlement colonies are concerned, it is high time that a comprehensive review be got conducted by the SCDRC to determine the conditions on ground. A number of schools reportedly exist only on paper and others are characterized by high teacher absenteeism. In so far as the maintenance of re-settlement colonies is concerned, grants have been in operation since 1988.

19.104 There is also a need to assess physical achievements against financial outlays. After that a specific time schedule for completion of the works needs to be drawn up. While the funds being released as non-plan grants may continue in the financial years 2006-2007 and 2007-2008, further grants be made by the State Government under these heads only if the MCD has provided a detailed analysis of the past achievements and a time-barred executive plan for the remaining period of the Commission's award period.

Recommendation No.57 **The non-plan grants component, which, as per the recommendations of the second Finance Commission stand at 5 percent of the net proceeds of tax revenue, shall remain unchanged.**

- This transfer will be subject to the conditions presently applicable for education purposes (i.e. up to a maximum of 70 percent of the total non-plan expenditure on education by the local bodies) and in the case of the MCD on the maintenance of re-settlement colonies. The expenditure in respect of both the local bodies and the items of expenditure is subject to a ceiling of 5 percent of the net proceeds of the tax revenue of the state government.

Devolution: Plan Grants

19.105 The plan grants for carrying out 'agency functions' are an important stream of receipts for the local bodies. The quantum, composition, and sectors constituting the plan grants should be reviewed. These are practically treated as an entitlement of local bodies. That is not how it should be. For instance, grants for roads and sanitation and conservancy are for clear purposes. In the case of roads, there is no information about which roads are to be taken up, for what kind of work, and with what progress. Grants for sanitation and conservancy are for strengthening and mechanization of the services. There is little evidence of both. The plan grants are essentially revenue expenditure.

Recommendation No.58 **A comprehensive review of plan-expenditure is overdue and may be conducted by the SCDRC. Additionally, a strict watch on the execution of works by the state government in the Urban Development Department is recommended. If the local bodies do not deliver on results and prescribed outcomes, the government may explore the scope for alternative agencies executing the work on its behalf (Chapter 13 specifically paragraphs 13.95.10 to 13.95.22.**

VI- Recommendations relating to the Delhi Cantonment Board

The Commission may make recommendations on the financial devolution to the Delhi Cantonment Board out of the Consolidated Fund of the National Capital Territory of Delhi as a special case.
Terms of Reference – Para-8

19.106 The long term annual average non-plan transfers (including compensation, assigned taxes and non-plan grants to the DCB in the last twelve years (1994-1995 to 2005-2006) work out to be Rupees 4.15 crore. In the period 2001-2002 to 2005-2006 Rupees 6.00 crore. In 2002-2003 it was Rupees 5.55 crore and in 2003-2004 it was Rupees 5.87 crore, while in 2004-2005 it was Rupees 6.46 crore and in 2005-2006 it went up to Rupees 6.97 crore. In other words, in the last year it touched nearly Rupees 7 crore.

19.107 It is our considered view, as noted by the first Finance Commission that the Delhi Cantonment Board does not qualify as a municipality because it does not meet the criteria laid down in Part IX A of the Constitution. It is a body functioning directly under the control of the Ministry of Defence. For historical reasons GNCTD may consider continuing some non-plan transfers and phase out the transfers over this award period.

Recommendation No.59

The amount of the transfer in the first year of the award period to the DCB may be Rupees 5 crores on an adhoc basis. This shall be subject to decrease of one crore every year for the remaining years of the award period. This will be a lump-sum amount in lieu of all non-plan transfers including compensation, assignments and non-plan grants being released presently. Further, the DCB shall be required to spend at least 50 percent of the annual amount in villages falling in the jurisdiction of the Board.

Concluding Observations

19.108 We have reviewed the status of municipal administration relying on several evaluation platforms, such as, the logic of any proposed financial package, the purpose of devolution in terms of efficient resource management, effective service delivery, provision of the required infrastructure, and the fulfilment of developmental goals.

19.109 The Commission was especially interested in whether public sector entities and the local level administration were "enabled" in the discharge of their respective responsibilities. This involved an examination of fundamentals such as administrative arrangements, systems and procedures financial capacities, and statutory capabilities in relation to functional responsibilities and financial management.

19.110 The Commission, regrettably, has to reconfirm the impression of the earlier two Finance Commissions that the functioning of the local bodies is characterized by a poverty of achievements. The kernel of financial reforms is always endangered by the absence of appropriate and institutional support mechanisms.

19.111 What is self-evident is that the control of the state government on the development agenda and city management should be clear and explicit. On both counts, the state government faces major administrative statutory handicaps.

19.112 As an example, do the local bodies share the state government's vision of Delhi as a "Global City"? If they do, are they aware of what responsibilities devolve on them, as a result? Can the state government expect that the local bodies would, without any prompting, deliver on the said responsibilities? If the response from local bodies cannot be expected to be forthcoming automatically, (if there is indeed no shared vision) can the financial devolution package – with a few lakhs more or less – be expected to deliver envisioned reforms?

19.113 Two Finance Commissions have gone by. Ten years (1995-2005) is a long enough period for effective implementation of recommendations by any organisation serious about improving its financial management. Even though the reforms suggested have been of an obvious and basic nature, the implementation has either been non-existent or shallow.

19.114 There is, therefore, an undeniable need now for deep reforms in the municipal level administration. The fiduciary duties of the municipal bodies are enormous and cast several responsibilities on them for effective resource management and better delivery of services. The improvement, however, will depend much on the ability to restructure administrative arrangements.

19.115 Further, an in-depth analysis, particularly of the financial operations of the MCD, shows that the autonomy given to the local bodies by different enactments has not been used in a manner which can be said to be in the best interest of the citizens. More significantly, the Commission was driven to the conclusion that there is nothing to suggest that improvements can be expected in the near or even distant future, especially in the case of MCD.

19.116 What is needed is a strong external vigilant sentinel, which must provide for sustained review and close monitoring of the performance of the local bodies. This function, in the present circumstances, can best be discharged by administrative structures and arrangements supplied by the state government.

19.117 We believe that sustained follow up on the implementation of the recommendations would assist in the evolution of a municipal administration committed to the needs of the city. Therefore, city leaders may have to put their full weight behind a programme of city and municipal reform, designed to be implemented relentlessly. Otherwise, much may remain the same. It is hoped that the recommendations / suggestions of the Commission will assist in achieving both the vision and the objectives of a hugely redeemed and reformed municipal administration and, of Delhi, as a modern global city.

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