

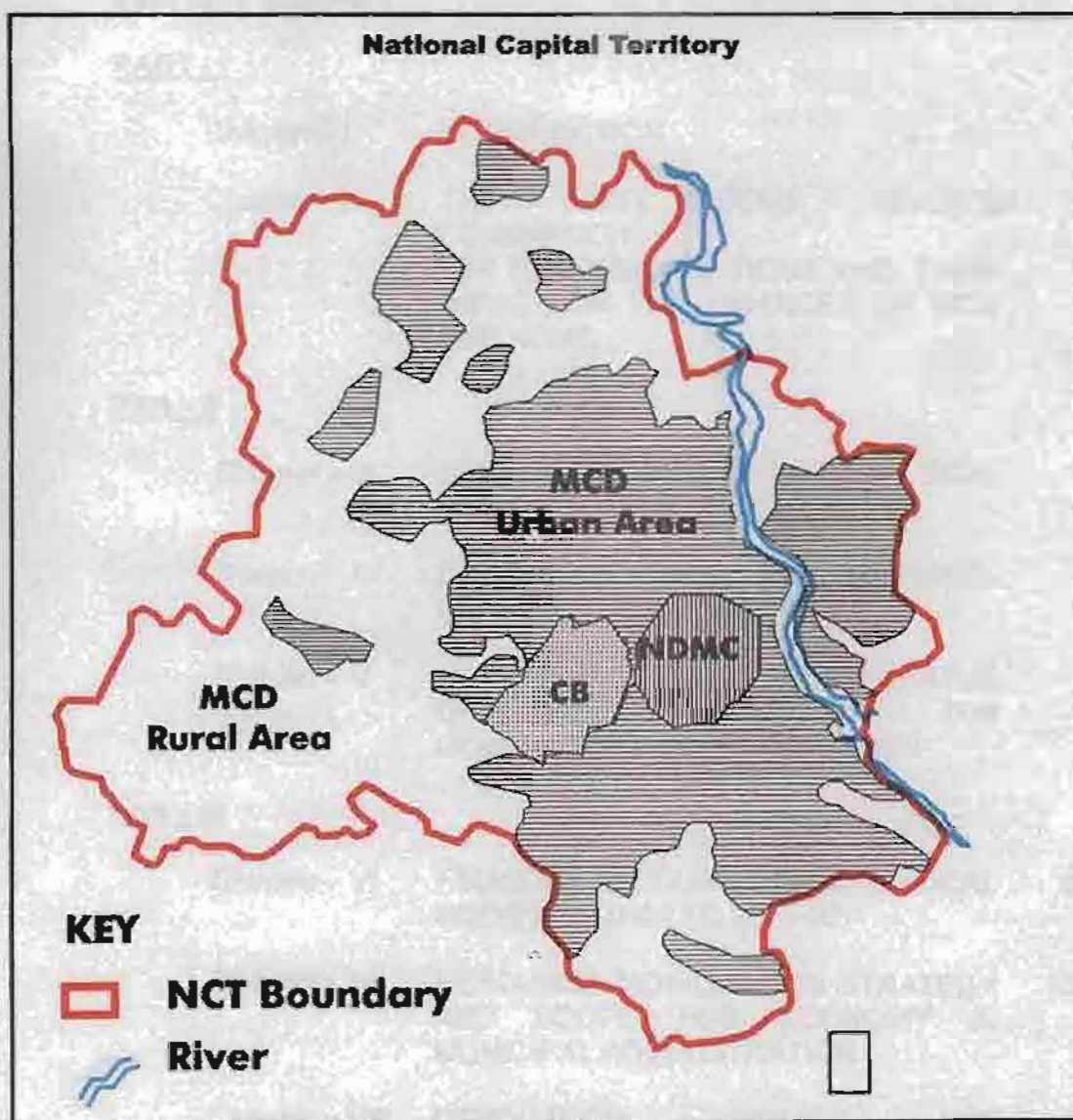


**REPORT
OF
SECOND DELHI FINANCE COMMISSION**

VOLUME - I

**NATIONAL CAPITAL TERRITORY OF DELHI
APRIL, 2002**

REPORT OF SECOND DELHI FINANCE COMMISSION



NATIONAL CAPITAL TERRITORY OF DELHI
APRIL, 2002

REPORT OF THE SECOND DELHI FINANCE COMMISSION

VOLUME - I

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

The Second Delhi Finance Commission was set up under the provisions of the Delhi Finance Commission Act, 1994 vide Government of NCT of Delhi order dated 9th January, 2001 and recommendations were to be given covering the period 1st April, 2001 to 31st March, 2006. An interim report was given by the Commission on 14th March, 2001 wherein it was suggested that the recommendations of the First Commission be adopted for making devolution to MCD and NDMC during the year 2001-02. The final report of the Commission pertains to the period 2001-06, and all fiscal transfers made by GNCTD to MCD and NDMC for the year 2001-02 are to be treated as subsumed into the proposed transfers and adjusted from the amounts due as per the recommended scheme of devolution.

The terms of reference of Second Delhi Finance Commission require it to review the financial position of the Municipalities and make recommendations as to the principles which should govern the devolution package from the National Capital Territory of Delhi to the Municipalities, keeping in view the overall resources position of the Government of National Capital Territory of Delhi, the scope for economy in the municipal administration, the scope for improvements in resource mobilization by the municipalities and tax effort made by the municipalities. The Commission was also asked to consider the requirements of the Municipal bodies for modernization of administration as also to consider how adequate maintenance and upkeep of capital assets could be ensured.

The Second Delhi Finance Commission, unlike in the case of first Commission was asked to make recommendations on financial devolution to the Delhi Cantonment Board. Its terms of reference included an assessment of the debt position of Municipalities as also suggestions for corrective measures. In addition, the Commission was asked to review the functions assigned to Municipalities.

The Commission collected information from Municipal Corporation of Delhi, New Delhi Municipal Council, Delhi Cantonment Board and Government of Delhi

in respect of their present position and their future demands, and also sought views of MPs, MLAs, Municipal Councilors and Members of the NDMC and the public through newspapers on its terms of reference.

On the basis of the information received from the concerned agencies and Government of Delhi in their respective memoranda, the Commission made an assessment of the status of finances of these local bodies as also the Government of NCT of Delhi. For this purpose, data on revenue receipts and non-plan revenue expenditure was studied for each of the local bodies for the eleven year period 1990-91 to 2000-01. Trend rates of growth for individual items of revenue receipts and non-plan revenue expenditure were calculated which enabled comparison between rates of growth of different components, thereby indicating areas in which revenue receipts could potentially be enhanced, as also areas in which expenditure was comparatively high, and could accordingly be curtailed. This exercise was conducted for each of the local bodies.

An attempt was also made to disaggregate the data for this eleven year period into two parts – one prior to 1996-97, and the other from 1996-97 to 2000-01, i.e. the period of award of the first Finance commission to examine whether any logical conclusions could be drawn regarding the impact of first Finance Commission recommendations on revenue receipts and non-plan revenue expenditure of local bodies. However, since the report of the first Delhi Finance Commission was submitted on 31st December, 1997, and its recommendations accepted by Government of Delhi on 30th September, 1998 and conveyed to local bodies thereafter, the impact of implementing these is not evident visibly in the rates of growth of revenue receipts, revenue expenditure and other items for the award period, i.e. 1996-2001. Hence comparison of rates of growth of the first and the second periods does not lead to any significant conclusions.

The Commission also attempted to examine the impact of implementing the recommendations of the first Delhi Finance Commission on the transfer of funds to MCD and NDMC by comparing averages for the five year period 1996-2001 with averages for the previous five years, i.e. 1991-96 with respect to transfers to local bodies and found that total devolution to MCD and NDMC as a percentage of

tax revenue of GNCTD reduced from 10.93 per cent in the former period to 9.65 per cent in the latter period. Transfers as a percentage of internal revenue, and as a percentage of non-plan expenditure to both MCD and NDMC also decreased as an outcome of implementation of recommendations of the first Finance Commission.

The Commission found that total revenue receipts of MCD grew at a trend growth rate of 17 per cent per annum over the eleven years period 1990-91 to 2000-01, while total revenue expenditure grew at a trend growth rate of 18 per cent per annum. The share of internal revenue receipts increased from 62 per cent in 1990-91 to 71 per cent of total revenue receipts in 2000-01. Tax revenues of MCD which were 80 per cent of internal revenue in 1990-91 increased to 89 per cent of internal revenues in 2000-01. The major element of tax revenue in 2000-01 was house tax which constituted 78 per cent of total revenues.

The major elements of revenue expenditure in 2000-01 were education which was 25 per cent of all revenue expenditure, conservancy and street cleaning which was 19 per cent, public health and medical relief which was 12 per cent, roads and public lighting which was 8 per cent and miscellaneous expenditure including petty new works which was 25 per cent of revenue expenditure.

In the case of NDMC, the total revenue receipts of NDMC increased at a trend growth rate of 16 per cent over the period 1990-91 to 2000-01, while revenue expenditure increased at a trend growth rate of 15 per cent over the same period, which resulted in generating revenue surplus over this period. The internal revenues of NDMC increased from 93 per cent of total revenue receipts in 1990-91 to 98 per cent in 2000-01. The major sources of non-tax revenue of NDMC in 2000-01 have been interest on investment, which was 5 per cent of total non-tax revenue, sale of energy which was 74 per cent and rent/license fee, which was 12 per cent of total non-tax revenue. In the case of tax revenue, house tax alone accounted for 93 per cent of all tax revenues in 2000-01. The share of transfers in revenue receipts declined significantly from 7 per cent in 1990-91 to 2 per cent in 2000-01.

The major elements of revenue expenditure of NDMC in 2000-01 consisted of expenditure on social and development services which was 16 per cent, followed by Administrative Departments which was 15 per cent, other municipal works which was 10 per cent and water supply which was 7 per cent.

In addition to reviewing the finances of the local bodies, the Commission also reviewed the functions assigned to municipalities, and has decided to recommend that there should be no overlapping of functions between Government of Delhi and Municipalities. It has also decided to recommend that hospitals, with more than 100 beds capacity should be transferred to Government of Delhi. Functions relating to construction and maintenance of rest houses, poor houses, infirmaries, children's homes, houses for the deaf and dumb and for disabled and handicapped children, shelters for destitutes and asylums should also be transferred to Government of Delhi.

In addition, the Commission recommends transfer of the functions relating to factory licensing and food licenses to Government of Delhi. On the other hand, the Commission recommends that construction and maintenance of cattle ponds should be transferred from discretionary to obligatory functions of MCD and NDMC.

The Commission analyzed the finances of GNCTD particularly on non-plan account and has come to the conclusion that the finances of NCT of Delhi are comfortable and likely to improve in future, because of which the Government of NCT of Delhi could spare amounts for transfer to MCD and NDMC in addition to the devolution recommended by the first Delhi Finance Commission. On the basis of estimates finalized by Planning Commission for the Tenth Five Year Plan, GNCTD have estimated a surplus of Rs. 21493 crores on non-plan revenue account and overall surplus of Rs. 6979 crores for the forecast period 2001-06 before making any devolution to local bodies.

The Commission estimated the likely revenue gaps for MCD and NDMC utilizing buoyancy and elasticity coefficients for revenue receipts and revenue expenditure along with normative assumptions adopted by the Commission and

estimated a revenue gap of Rs. 3626.84 crores for MCD during 2001-06 as against Rs. 5961.42 crores projected by MCD.

In respect of NDMC, on the basis of normative assumptions adopted by the Commission, there is a revenue surplus of Rs. 482.02 crores for 2001-06, which is much higher than the revenue gap of Rs. 104.44 crores estimated by NDMC themselves.

The Commission, after detailed deliberations, has decided to make the following recommendations (as detailed in chapter VIII) :-

Devolution to MCD and NDMC be continued on the system of global sharing of tax revenue of GNCTD at the rate of a basic annual fiscal transfer of 5.5 per cent of tax revenues. The division of 70 per cent of this amount be made on the basis of population and 30 per cent on the basis of physical area. The ceiling on grant-in-aid be raised to 5 percent of tax revenues from the existing 4 per cent. Grant-in-aid for expenditure on education be provided at the rate of 70 per cent of eligible expenditure in respect of MCD and at the rate of 66 per cent of eligible expenditure in respect of NDMC. The Commission further recommends that a specified percentage of grant-in-aid provided by Government of Delhi to MCD for education should be specifically earmarked for maintenance of school buildings. Grant-in-aid in respect of reimbursement of expenditure on resettlement colonies and mid day meals be continued as earlier.

Reform is recommended in the following areas :-

- i. MCD should come up with a concrete reform package in respect of property taxes, which is transparent, objective and simple and based on Unit Area method of valuation as has been done in several reforming states. NDMC may also develop and implement a suitable reform package in respect of property taxes.

- ii. MCD, NDMC and DCB should reform practices in respect of Municipal Accounting and Budget based on the reforms already implemented in Tamilnadu and Karnaktaka and submit to the Government of Delhi.
- iii. MCD, NDMC and DCB should each identify areas suitable for private participation and submit a reform package to Government in this respect indicating also how they intend to implement the same.
- iv. MCD and NDMC should proceed to take necessary steps to levy new taxes namely tax on professions, trades, callings and employment ; and tax on increase in urban land values and also review bringing in more services under fee structure and revision of non tax revenue rates like penalties, fines, fees etc. An incentive amount of 2 per cent be paid in respect of collections from new taxes. An incentive amount of 33 per cent be paid for higher collections from existing tax sources.

A Municipal Reform Fund may be created to undertake the reforms in the above mentioned areas by the local bodies. Releases from this fund may be linked to achievement of laid down milestones.

In addition, funds of Rs. 10 crores and Rs. 1 crore respectively have been recommended for creation for computerization in MCD and NDMC respectively. For maintenance of capital assets, the Commission recommends that local bodies should keep aside a specified percentage of the amount received in devolution.

The restructuring of debt worked out by the first Commission is to continue with a three-year moratorium in respect of fresh loans, and a reduction in interest rates.

The existing pattern of devolution is to continue in respect of Delhi Cantonment Board.

PART I

CHAPTER I

INTRODUCTION

Delhi has a unique place in the politico-administrative hierarchy, of India's polity.

The current set up of Delhi with a Legislative Assembly i.e. National Capital Territory of Delhi governed by a Council of Ministers, was brought about by Article-239-AA of the Constitution inserted by the Constitution (Sixty-Ninth Amendment) Act 1991 (Act 1 of 1992) with effect from 1.2.1992. This Act is known as National Capital Territory of Delhi Act, 1991. Public order, police and land have been kept outside the purview of the Legislative Assembly of NCT.

Being the capital of India, Delhi faces a lot of problems on account of large migration into the city and an increasingly rapid pace of urbanization. Though 38 per cent of the area is rural, yet NCT of Delhi is primarily an urban settlement and even the villages have grown into small townships.

The population residing within the municipal limits of MCD has grown year after year, without commensurate growth in resources available for meeting the civic needs of this growing body of population. This has imposed a severe strain on MCD finances.

The 73rd and 74th Amendments of the Constitution of India, inter alia, mandate the setting up of a Finance Commission in each State (SFC) within one year of the commencement of the Constitution (Seventy-third Amendment) Act, 1992 and thereafter at the expiration of every five years to review the financial position of the Panchayats (Article 243 I : 73rd Amendment) and the Municipalities (Article 243-Y: 74th Amendment). The SFCs are required to make recommendations, inter-alia, as to the principles which should govern the distribution/assignment of the net proceeds of the taxes, duties, tolls and fees levied by the States and grant-in-aid from the Consolidated Fund of the State between the State, Panchayats and the Municipalities, and inter-se between the

Municipalities/Panchayats at all levels. The enactment also provides that "The Legislature of a State may, by law, provide for the composition of the Commission, the qualifications which shall be requisite for appointment as member thereof, and the manner in which they shall be selected" and further, "the Commission shall have such powers in the performance of their functions as the Legislature of the State may, by law, confer on them."

Article 243-I, in Part-IX and Article 243-ZB in Part-IX-A extend the applicability of these provisions to the Union Territories.

In pursuance of Article 243-I, read with Article 243-Y, of the Constitution, the Delhi Finance Commission Act was passed by the Legislature of NCT of Delhi and though it received the assent of the President on October 3, 1994, it was deemed to have come into force on the 23rd day of April 1994 under Section 1 (3) of the Act. As a sequel, the First Delhi Finance Commission (First DFC) was constituted in April 1995 – nearly a year after the Act was deemed to have come into effect.

The Second Delhi Finance Commission was constituted under the provisions of Section 3 of the Delhi Finance Commission Act, 1994 vide Government order No. F.50(1)/98/DFC II/UD/611 dated 9th January, 2001, copy at Annexure 1.1

The Commission has been directed to review the financial position of the Municipalities and make recommendations as to –

- (a) the principles, which should govern –
 - (i) the distribution between the National Capital Territory of Delhi and the Municipalities, of the net proceeds of the taxes, duties, tolls and fees leviable by the National Capital Territory of Delhi which may be divided between them;
 - (ii) the determination of the taxes, duties, tolls and fees, which may be assigned to or appropriated by the Municipalities ;
 - (iii) the grants-in-aid to the Municipalities from the Consolidated Fund of the National Capital Territory of Delhi; and

- (b) the measures needed to improve the financial position of the Municipalities.

In making its recommendations, the Commission is to have regard, among other considerations, to -

- (a) the overall resources position of the Government of National Capital Territory of Delhi ;
- (b) the scope for economy in the Municipal Administration ;
- (c) the scope for improvements in resource mobilization by the Municipalities ;
- (d) tax effort made by the Municipalities ;
- (e) adequate maintenance and upkeep of capital assets and maintenance of assets created under Plan schemes completed till the end of March, 2001 (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 modernisation of administration, for example, computerisation of records, and upgrading the standards of services (the manner in which such expenditure could be monitored may be indicated).

The Commission is to review the functions assigned to Municipalities keeping in view the availability of resources, especially with regard to the discretionary functions.

The Commission may make an assessment of the debt position of Municipalities as on 31st March, 2001 and suggest such corrective measures as

are deemed necessary, keeping in view the financial requirements of the Government of National Capital Territory of Delhi.

The Commission may make recommendations on the financial devolution to the Delhi Cantonment Board out of the Consolidated Fund of the Government of National Capital Territory of Delhi, as a special case.

The Commission shall also indicate in its report the basis on which it has arrived at its findings and indicate, as far as possible, the estimates/forecasts of receipts and disbursements for all the Municipalities together as well as separately for each of such bodies.

The original term of the Commission was till 30.4.2001 which was subsequently extended till 30.04.2002 / 31.05.2002. An interim report was also to be furnished in the meanwhile for the year 2001-2002 by 28.2.2001 which was submitted to Govt. on 14.3.2001. The same is placed at Annexure 1 2.

Further, the Second Delhi Finance Commission was also directed vide letter no.695 F II(8)-2001/1785 dated 7.3.2001 (Annexure 1.3) to review the financial position of the Municipal Corporation, Chandigarh and Panchayats in Union Territory, Chandigarh, and make recommendations to the Administrator, Chandigarh on the following :-

(A) In the case of Municipal Corporation as to :-

- (a) the principles, which should govern :-
 - i) the determination of taxes, duties, tolls and fees, which may be assigned to, or appropriated by the Corporation;
 - ii) the grants-in-aid to the Corporation from the Consolidated Fund of India.
- (b) the measures needed to improve the financial position of the Corporation;
- (c) any other matter referred to the Finance Commission by the Administrator in the interest of sound functioning of the Corporation.

(B) In the case of Panchayats as to :-

(a) the principles, which shall govern :-

- i) the distribution between the State and the Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them and the allocation between the Panchayats at all levels of their respective shares of such proceeds;
- ii) the determination of taxes, duties, tolls, fees which may be assigned to, or appropriated by the Panchayats; and
- iii) the grants-in-aid to the Panchayats from the Administration Budget i.e. the Consolidated Fund of India.

(b) the measures needed to improve the financial position of the Panchayats; and

(c) any other matter referred to the Finance Commission by the Administrator in the interests of sound finance of the Panchayats.

COMPOSITION

The Commission consisted of the following officers :-

- | | | |
|----|---|---|
| 1. | Shri K.S. Baidwan,
Chairman,
Delhi Transport Corporation,
Government of NCT of Delhi | Chairman
(effective 13.7 2001) |
| 2. | Shri S.R. Sharma,
former Principal Secretary (Home),
Government of NCT of Delhi | Chairman
(effective 16.1.2001 to
12.7.2001) |

- | | | |
|----|---|---|
| 3. | Shri Ramesh Chandra,
Principal Secretary (Finance),
Government of NCT of Delhi | Member- Ex-Officio
(effective 24.1.2001) 15.06.02 |
| 4. | Shri Desh Bandu,
former Municipal Secretary,
Municipal Corporation of Delhi | Member (Full Time)
(effective 12.1.2001) |
| 5. | Professor Om Prakash Mathur
National Institute of Public Finance &
Policy, New Delhi | Member (Part Time)
(effective 15.1.2001 to
12.4.2002) |
| 6. | Shri Rakesh Singh,
Finance Secretary-cum-
Secretary, Local Government,
Chandigarh Administration | Member-Ex-Officio
(effective 20.4.2001 to
2.8.2001) |
| 7. | Shri R.S. Gujral,
Secretary, Local Government,
Chandigarh Administration | Member-Ex-Officio
(effective 2.8.2001) |

Shri C.S. Khairwal functioned as part-time Secretary to the Commission till 31.05.2001. Smt. Sumati Mehta was posted as full time Secretary to the Commission vide orders dated 30.5.2001.

APPROACH

In accordance with the mandate, the Commission decided to use a multipronged approach comprising:

- (a) collection of data on the finances of Municipalities; for this, the Commission developed formats, a set of which is provided in volume II;
- (b) seeking memoranda from Government of Delhi, Municipal Corporation of Delhi, New Delhi Municipal Council and Delhi Cantonment Board; whose objective was to take note of their present position and their future

demands. The Commission sought memoranda and information from MCD, NDMC, DCB and Govt. of NCT of Delhi;

- (c) seeking views of the Members of Parliament from Delhi, Members of the Legislative Assembly of Delhi, Municipal Councilors, and Members of New Delhi Municipal Council.

In line with this approach, the Commission sought memoranda and information from Chandigarh Administration as well.

It was decided that a notice be released in newspapers and letters issued inviting views/suggestions of the public and eminent citizens on the matters covered by its terms of reference. Accordingly, a public notice (Annexure 1.4) was issued in newspapers dated 3.8.2001, and letters (Annexure 1.5) sent to Members of Parliament from Delhi (Annexure 1.6), Members of the Legislative Assembly of Delhi (Annexure 1.7), Municipal Councilors (Annexure 1.8) and NDMC Members (Annexure 1.9). A few responses were received - One from the Chairman of the Standing Committee of MCD, one from Deputy Chairman of the Standing Committee on Property Taxes of MCD, and few from public persons.

The Commission reviewed the approaches employed by the Finance Commissions in other States and it also took note of the approach of the Central Finance Commission.

The Secretary attended a one-day workshop organized by the National Institute of Public Finance and Policy on 10.8.2001, at which several useful presentations on the subject of Appraisal of Municipal finances were heard and a publication of National Institute of Public Finance and Policy titled "Approach to State Municipal Fiscal Relations – Options and Perspectives" received. The Secretary also attended a one day National Seminar on Municipal Accounting Reforms organized by Ministry of Urban Development, Govt. of India on 9th January, 2002.

The Commission held meetings with the heads of local bodies including Commissioner, MCD, Chairman NDMC and Chief Executive Officer of Delhi

Cantonment Board. It also held meetings with the Departments of Urban Development, Health, Education and Social Welfare of Government of NCT of Delhi with respect to utilization of funds being released to MCD and NDMC.

METHODOLOGY

The following methodology for estimation of revenue expenditure and revenue receipts of local bodies and Govt. of NCT of Delhi has been employed,

1. Revenue Gap

The data received from the local bodies and Govt. of Delhi has been analyzed and presented in tabular form. Based on this data analysis, the finances of MCD, NDMC, DCB and Govt. of NCT of Delhi have been appraised and projections made in respect of internal revenue /revenue receipts and non-plan revenue expenditure for each of the years of the award period 2001-06 for each of the local bodies and Govt. of NCT of Delhi. The revenue gap during the award period was estimated by using buoyancy and elasticity coefficients based on annual trend growth rates worked out from the time series data for the 11 years, 1990-91 to 2000-01 in respect of internal revenue and non-plan revenue expenditure of local bodies.

These projections of revenue gap in respect of local bodies form the basis for recommendations with respect to devolution made subsequently.

The Commission discussed various methods of projections in respect of revenue receipts and non-plan revenue expenditure of Govt. of NCT of Delhi with a view to ascertain availability of resources, to the extent possible, for devolution to the local bodies. One of the methods related to normatively assessing the revenue receipts and non-plan revenue expenditure. Another method involved projecting the revenue receipts and non-plan revenue expenditure based upon buoyancy and elasticity coefficients separately for each head of revenue and expenditure, which were worked out with reference to GSDP of NCT of Delhi. A

third alternative was to adopt the figures finalized by the Planning Commission, Government of India in consultation with the Chief Minister of Delhi for the Tenth Five Year Plan Period.

After deliberations, the Commission came to the conclusion that the figures in respect of revenue receipts and non-plan revenue expenditure finalized by the Planning Commission for Tenth Five Year Plan Period of NCT of Delhi should be adopted by the Commission.

STRUCTURE OF THE REPORT

The report has been presented in two volumes.

Volume – I covers eight Chapters including the Devolution package and has an Executive Summary at the beginning of the Volume. Volume – II includes the Annexures.

Part I of the Report covers two chapters.

Chapter – I is the Introduction, which includes the detailed Terms of Reference of the Commission, and also explains the methodology and approach adopted by the Commission. Chapter - II in Part I includes a brief account of the key recommendations of the first Delhi Finance Commission and their impact on the finances of MCD and NDMC.

Part II is divided into three Chapters.

Chapter - III covers the state of the finances of MCD, NDMC and Delhi Cantonment Board. It analyses the position on non-plan Revenue Account in respect of both receipts and expenditure of each of these three bodies. It also discusses the debt position of both MCD and NDMC.

Chapter - IV of the Report discusses the obligatory and discretionary functions assigned to these local bodies.

Chapter - V provides an overview of the current status of the finances of Government of NCT of Delhi.

Part III of the Report includes four chapters.

Chapter - VI of the Report deals with the projections of revenue gap in respect of MCD, NDMC and Delhi Cantonment Board. These projections are based upon buoyancy coefficients and elasticity coefficients in respect of the different items of revenue receipts and revenue expenditure.

Chapter - VII focuses on measures to step up resource mobilization and achieve economies in municipal administration.

Chapter - VIII discusses the devolution package and recommendations in respect of MCD, NDMC and Delhi Cantonment Board.

Volume. II of the Report includes Annexures (letters, formats, public notice, and data)

CHAPTER II

THE FIRST DELHI FINANCE COMMISSION : KEY RECOMMENDATIONS AND THEIR IMPACT ON THE FINANCES OF MCD AND NDMC.

Diagnosis of the Problem and Issues

The quality of life in the metropolis of Delhi, just as in any other large city, is determined to a large extent by the level of urban infrastructure services available to the population.

The urban infrastructure services available to the population hinge on the physical framework of facilities through which goods and services are provided to the public. The linkages of urban infrastructure services to the economy and the quality of life are multiple and complex, because urban infrastructure services affect both production and consumption directly, create positive and negative spill over effects (externalities) and involve large flows of expenditure.

Urban infrastructure services include a wide spectrum of services- transportation, power generation, transmission and distribution, telecom, water and sewage disposal, urban mass transport system and other urban infrastructure including health, educational and other primary services. Some of these services have a direct impact on the working of a business enterprise, while others are more important from a societal point of view.

In the NCT of Delhi, many of the urban infrastructure services mentioned above are handled by separate bodies, namely, Delhi Vidyut Board, Delhi Jal Board, Delhi Transport Corporation and others. Several functions are handled by the urban local bodies, namely MCD, NDMC as also the Delhi Cantonment Board (DCB).

The main urban services handled by these agencies include scavenging and solid waste management, street lighting, primary education and primary health. In addition, NDMC and DCB handle water supply and distribution of electricity as well.

The finances of these local bodies become relevant since they impact on the quality of urban services available to the population. It is in this background that study of the key recommendations of the first Delhi Finance Commission and their impact on the finances of MCD and NDMC assumes significance.

Though the first Delhi Finance Commission was to make recommendations for the period 1996-97 to 2000-01, since its Report was submitted only on 31.12.97, and accepted by Govt. of Delhi only on 30/9/98, the impact of implementing its recommendations is seen only thereafter. However, since the subsequent devolution covered implementation of recommendations for the previous two years as well, the data of any particular year does not reflect the impact of recommendations for that particular year. Data for the five year period needs to be compared with the previous five years for any meaningful comparison.

Main Recommendations of first Commission

- a) a basic annual fiscal transfer of 9.5 percent of GNCTD's tax revenue to MCD and NDMC;
- b) a further annual transfer, on matching basis, subject to a maximum of 1.5% 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 per cent of GNCTD's tax revenue equivalent to savings in expenditure against projections made by the Commission for the respective years of the award period.

In the alternative, transfers under (b) and (c) above could be brought under one criterion – that of surplus on non-plan account that MCD or NDMC or both generate for financing capital expenditure in each year. The transfer can then be made on a matching basis, subject to an overall ceiling of three per cent of GNCTD's tax revenue in that year.

The division of 70 per cent of the amounts arrived at as above between MCD and NDMC may be on the basis of the ratios of the population living in their respective areas and the remaining 30 per cent in the ratio of the physical area under their jurisdiction.

As regards DCB, the Commission are precluded from making any recommendations; as the amounts involved are tiny, these could be met by separate grants over and above the devolution recommended above.

Other Recommendations

- (a) The first Delhi Finance Commission also recommended that the GNCTD consider ways of ensuring that the amount of Rs. 588 crores for operation and maintenance of existing capital assets in the overall assessment of non-plan expenditure be so utilized and not diverted to any other use.
- (b) The first Commission estimated that the following measures could yield additional revenues of Rs. 1110 crores to MCD and Rs. 71 crores to NDMC.

S.No.	Item	(Rs. In crores)	
		MCD	NDMC
1.	Rationalization of Property tax	860	43
2.	Levy of Profession Tax	100	20
3.	Levy of Entry Tax	40	8
4.	Increase in various fees, charges, etc.	50	-
5.	Night parking charges	60	-
	Total	1110	71

- (c) The Commission recommended (a) consolidation of MCD loans as on 1.4.96 into a single loan of 20 years duration with fresh rate of interest at 2% lower than the weighted average interest rate of loans so consolidated, and (b) recovery of interest arrears in 20 equal annual instalments.
- (d) Any transfer made by GNCTD to MCD and NDMC as per the recommendations made in the Interim Report may be treated as subsumed in and adjusted from the amounts due as per the Final Report
- (e) A permanent Finance Commission Division on the lines of one in the Government of India may be set up to service as also to act as the memory/data bank for the subsequent Delhi Finance Commissions.

Decisions of the Government on the Recommendations of the first Commission

While the first Commission made the recommendations summarized above, which are contained in Chapter 14 of the Report of the first Commission, the decisions of the Government on the recommendations of the Commission were as indicated in the following paragraphs:-

Main Recommendations

Scheme of Devolution

The Government accepted the Commission's recommendation for basic annual transfer of 9.5% of GNCTD's tax revenues to MCD and NDMC. However, this was to be bifurcated into two parts- first confined to tax assignment at 5.5% and the second covering the non-plan grants limited to 4%. The distribution of the first part between MCD and NDMC would be 70% on the basis of population and 30% on the basis of area. As regards the second part, the grants would continue to flow in the same manner and on the same basis as hitherto.

The recommendation of the Commission for a further transfer upto 1.5% of GNCTD's tax revenues with reference to improvement in revenues was accepted,

with the modification that, for this purpose the additional resource mobilization would alone be taken into account. However, the Commission's recommendation for another transfer upto 1.5% of GNCTD's tax revenues with reference to economy in expenditure was not accepted, for practical reasons.

Other Recommendations

(a) Operation and Maintenance

The recommendations regarding monitoring of the expenditure of Rs. 588 crores in respect of operation and maintenance of capital assets in the overall assessed non-plan expenditure of MCD, was not accepted.

(b) Augmentation of Revenues

The recommendation of the Commission in regard to additional resource mobilization by MCD and NDMC was accepted.

(c) Debt Relief

The Commission's recommendations on (a) consolidation of MCD loan as on 1.4.96 into a single loan of 20 years duration with fresh rate of interest at 2% lower than the weighted average interest rate of loans so consolidated, and (b) recovery of interest arrears in 20 equal annual instalments, were accepted.

(d) Interim Report

The transfers made to MCD and NDMC as per recommendations of the interim report, were adjusted against the transfers as per the recommendations of the final report.

(e) Finance Commission Division

Government of NCT of Delhi accepted the recommendation relating to setting up of a permanent Finance Commission Division. This division is

functioning with a skeleton staff in Urban Development Department of Govt. of NCT of Delhi.

Impact of Implementing Recommendations of the first Commission

The impact of implementing the Recommendations of the first Delhi Finance Commission was studied based on information furnished by MCD, NDMC, Urban Development Department and Finance Department of Government of Delhi. These are as under:-

a) Changes in the revenue sharing arrangement between the Government of NCT and the MCD and NDMC and pattern of grants-in-aid to MCD and NDMC.

The revenue sharing arrangement between Government of NCT and the two main local bodies underwent substantial change.

In terms of the Commission's recommendations as accepted by the Government (and laid in the Assembly on 30.9.1998), 5.5% of the Delhi Government's total tax revenues devolved to MCD and NDMC together (instead of share in specified taxes) with their respective shares worked out @ 70% on the basis of population and 30% on that of area. On this basis, the composite share of MCD came to 94.21 % and that of NDMC to 5.79 % during the period of first Delhi Finance Commission. Under the erstwhile arrangement, their shares were around 91.41 % and 8.59 % respectively during the five year period preceding the period of first Delhi Finance Commission. Thus NDMC lost as a result of implementation of this part of recommendation of first Delhi Finance Commission. With respect to the devolution of funds relating to non plan grants-in-aid, the MCD suffered because of the imposition of the cap of 4% of Government's tax revenues and the NDMC also suffered to some extent on this count.

A comparative statement showing the non-plan transfers to MCD and NDMC in the form of grant-in-aid and tax-sharing for pre-Delhi Finance Commission period 1991-92 to 1995-96 and during Delhi Finance Commission period from 1996-97 to 2000-01 is placed at Table 1 to highlight the changes in the finances transferred to MCD and NDMC.

Table 1
TRANSFERS TO MCD AND NDMC
WITH RESPECT TO TAX REVENUES OF GNCTD.

(Rs. in Lakhs)													
S. N.	ITEM	1991-92	1992-93	1993-94	1994-95	1995-96	Total (1991-96)/ Av.(1991-96)	1996-97	1997-98	1998-99	1999-2000	2000-01	Total (1996-2001)/ Av.(1996-2001)
1	2	3	4	5	6	7	8	9	10	11	12	13	14
I	Transfers to Local Bodies	15880	13855	16502	17079	19629	82945	21438	20334	19128	59702	40711	161312
	% of tax revenue	13.97	10.25	11.59	9.55	9.30	10.95	8.46	6.91	6.19	17.40	9.25	9.64
A	Grant-in-aid	6590	6874	7135	7627	8314	36540	8717	11090	12270	20373	17202	69652
	% of tax revenue	5.80	5.09	5.01	4.27	3.94	4.82	3.44	3.77	3.97	5.94	3.91	4.21
	MCD	6049	6416	6650	7110	7696	33922	8030	10058	11089	19496	16096	64769
	% of tax revenue	5.32	4.75	4.67	3.98	3.65	4.47	3.17	3.42	3.59	5.68	3.66	3.90
	NDMC	541	458	485	517	617	2618	687	1032	1181	877	1106	4883
	% of tax revenue	0.48	0.34	0.34	0.29	0.29	0.35	0.27	0.35	0.38	0.26	0.25	0.30
B	Compensation and Assignments	9290	6981	9367	9452	11313	46405	12721	9244	6858	39329	23509	91660
	% of tax revenue	8.17	5.16	6.58	5.29	5.36	6.11	5.02	3.14	2.22	11.46	5.34	5.44
	MCD	8294	6276	8547	8607	10172	41896	11410	7997	6234	38805	22755	87201
	% of tax revenue	7.29	4.64	6.00	4.82	4.82	5.51	4.50	2.72	2.02	11.31	5.17	5.14
	% of Tax Assignment	89.28	89.90	91.25	91.06	89.90	90.28	89.70	86.50	90.91	98.67	96.79	95.13
	NDMC	996	705	820	845	1143	4509	1311	1247	624	524	754	4459
	% of tax revenue	0.88	0.52	0.58	0.47	0.54	0.60	0.52	0.42	0.20	0.15	0.17	0.29
	% of Tax Assignment	10.72	10.10	8.75	8.94	10.10	9.72	10.30	13.50	9.09	1.33	3.21	4.87
2	Tax Revenue of GNCTD	113700	135167	142436	178747	211105	781155	253487	294158	308878	343041	440062	1639626

b) Change in the fiscal domain of MCD and NDMC following the recommendations of the First Delhi Finance Commission.

There was no change in the fiscal domain of the MCD and NDMC following

the recommendations of the First Delhi Finance Commission. However, the Commission, in pursuance of Article 243 Y (1) (b) of the Constitution, recommended in Chapter 12 of their Report a number of measures to improve the financial position of MCD and NDMC.

None of these fiscal measures was implemented either by MCD or NDMC. Consequently no fund was also transferred by the Government of NCT of Delhi either to MCD or to NDMC as per recommendations of first Delhi Finance Commission in respect of transfer of maximum of 1.5 % of GNCTD's tax revenue, on matching basis with reference to improvement in revenues.

Finally, analysis of the non-plan transfers to MCD and NDMC in the form of grant-in-aid and basic tax assignment for pre first Commission period i.e. 1991-92 to 1995-96 and during the first Delhi Finance Commission period, from 1996-97 to 2000-01 reveals the following picture :-

Tax assignments to MCD and NDMC which averaged 6.11% of GNCTD's tax revenues in the pre first Commission period, reduced to 5.44% of GNCTD's tax revenues as a result of implementation of first Finance Commission's recommendations. MCD, which was receiving 9.98% of GNCTD's tax revenues in the earlier period received 9.04% during the Finance Commission period, NDMC, which was receiving 0.95% of GNCTD's tax revenue in the earlier period received 0.59% of GNCTD's tax revenue during the Finance Commission period.

Table 2 summarizes the impact of implementing the recommendations of the first Commission.

Table 2

DEVOLUTION TO MCD AND NDMC - SUMMARY

	1991-96			1996-2001		
Total devolution to MCD & NDMC (percentage of tax revenue of GNCTD)	10.93			9.64		
Compensation and Assignments (C&A)	6.11			5.44		
Grant-in-aid (GIA)	4.82			4.21		
	C & A	GIA	Total	C & A	GIA	Total
Total devolution to MCD	5.51	4.47	9.98	5.14	3.90	9.04
Total devolution to NDMC	0.60	0.35	0.95	0.29	0.30	0.59

From the analysis of Table 3 given below, it can be seen that transfers as a percentage of internal revenue of both MCD and NDMC were lower as a sequel to implementation of the recommendations of the first Commission.

Similar was the case of transfers as a percentage of non-plan expenditure of both MCD and NDMC.

Table 3

**DEVOLUTION TO MCD AND NDMC AS PERCENTAGE OF THEIR
INTERNAL REVENUE AND NON-PLAN EXPENDITURE**

Item	Average			
	MCD		NDMC	
Transfers	1991-06	1996-01	1991-96	1996-01
as percentage of internal revenue	52.48	40.46	12.16	6.99
as percentage of non-plan expenditure	33.45	26.29	10.45	6.97

Conclusions :

The impact of implementing the recommendations of the first Commission as accepted by Govt. of Delhi was examined by this Commission and the following conclusions are arrived at.

- i) In spite of the first Commission's recommendations in respect of raising additional revenues through rationalisation of property tax, levy of profession tax, levy of entry tax, increase in various fees, charges, etc. and levy of night parking charges, since almost none of these measures was adopted by the Municipal Corporation, or the NDMC, there was no actual change in their respective fiscal domain.
- ii) The system of revenue sharing between Government of NCT and MCD and NDMC, as also the pattern of grant-in-aid to MCD and NDMC changed substantially as a result of implementation of recommendations of the first Delhi Finance Commission.

Firstly, the scheduler system of tax sharing was replaced by the global system of tax sharing.

Secondly, while the pattern and the terms and conditions of non-plan grants-in-aid were not disturbed, a cap of 4% of Government's tax revenues was imposed on their total quantum to MCD and NDMC together. This substantially limited the quantum of funds received by MCD in respect of grant-in-aid compared to earlier.

Thirdly, the shares of MCD and NDMC in the composite devolution pattern in use prior to the recommendations of the first Commission for the period 1991-96 were around 91.41% and 8.59 % respectively. On the basis of first Commission's recommendations regarding working out respective shares of MCD and NDMC @ 70% on the basis of population and 30% on the basis of area, the composite share of MCD works out to 94.21 % and that of NDMC to 5.79 % for the period.

PART II

CHAPTER III

STATE OF FINANCES OF THE LOCAL BODIES

The area of NCT is serviced by three local bodies namely MCD, NDMC and the DCB, with 1397.3 sq kms., 42.7 sq. kms. and 43 sq. kms. falling under each of these respectively. Of these, only MCD and NDMC come in the category of municipalities. The Delhi Cantonment Board represents a unique form of local self-governance. The Cantonments are administered directly by the Ministry of Defence in the Central Government under a separate act viz Cantonment Act, 1924; and are thus quite unlike other local self-government institutions which are subordinate to the authority of the State Governments.

Population

The NCT of Delhi is a fast growing metropolis. There are manifold reasons for rapidly increasing population. One of the main reasons has been the high rate of growth of development works including residential and commercial establishments, which in turn has led to attracting large numbers of people from all parts of the country. This is also because Delhi is the seat of the Central Government. As per the 2001 census, the total population of what is now NCT was 137.83 lakhs compared to 94.21 lakhs in 1991 representing an exponential annual growth rate of 4.15 per cent, way above the annual average growth rate of 2.14 per cent for the country as a whole. Of this 93 per cent was urban population compared to the all India average of 28 per cent. The density of population of Delhi, which is highest amongst the states and union territories of the country, was 9294 persons per square kilometers in 2001 census, twenty eight times the all India average of 324 persons per square kilometer.

Table 1

PROVISIONAL FIGURES OF INDIA AND DELHI CENSUS - 2001

S.N.	ITEM	INDIA		DELHI	
		1991	2001	1991	2001
1	Population (in lakhs)	8386	10270	94	138
2	Males	4352	5313	52	76
3	Females	4034	4957	42	62
4	Percentage share of population in total population		100%		1.34
4	Average Annual Exponential growth rate 1991-01		2.14%		4.15%
5	Density (persons per Sq. Km.)	267	324	6352	9294
6	Sex Ratio .(Females per thousand Males)	927	933	827	821

MCD area accounts for 97 per cent of the total area of NCT, with NDMC accounting for 2 per cent and the DCB for the remaining 1 per cent. Within MCD area, as much as 23 per cent of total Delhi's population resides in Trans Yamuna area even though it constitutes only 8% of the total area of NCT of Delhi. While the Commission notes that inward migration has become an integral part of NCT, it is nevertheless concerned that almost the entire brunt of this migration is being borne by MCD, causing major strain on its infrastructure and financial resources. Between 1971 and 2001, while NDMC's share in the total population of Delhi declined from 7 per cent to 2 per cent, and from 1.4 per cent to 0.9 per cent in the DCB area, in MCD area, it increased from 91 per cent to 97 per cent. The figures in respect of area and population in respect of the three local bodies may be seen in Tables 2 and 3 respectively.

Table 2

AREA UNDER THE LOCAL BODIES (IN SQ. KMS)

S.N.	LOCAL BODIES	Area as per census			
		1971	1981	1991	2001
1)	MCD				
	i) Urban	360.59	506.19	599.63	805.38
	ii) Rural	1038.70	891.10	797.66	591.91
	iii) Total	1399.29	1397.29	1397.29	1397.29
2)	NDMC	42.74	42.74	42.74	42.74
3)	DELHI CANTONMENT	42.97	42.97	42.97	42.97

Table 3**GROWTH IN POPULATION UNDER LOCAL BODIES (IN LAKHS)**

S. N.	LOCAL BODIES	POPULATION CENSUS			
		1971	1981	1991	2001
1)	MCD				
	Urban	32.88 (80.87)	54.1 (86.97)	80.76 (85.73)	124.01 (89.97)
	Rural	4.19 (10.30)	4.52 (7.27)	9.49 (10.07)	9.63 (6.99)
	Total	37.07 (91.17)	58.62 (94.24)	90.25 (95.80)	133.64 (96.96)
2)	NDMC	3.02 (7.42)	2.73 (4.39)	3.01 (3.20)	2.96 (2.14)
3)	DELHI CANTONMENT	0.57 (1.41)	0.85 (1.37)	0.94 (1.00)	1.24 (0.90)

(Figures in brackets indicate percentage to total population).

Similar trends are seen in the case of density of population (Table 4). Whereas in the case of NDMC, there has been a marginal decline from 7061 persons per square kilometer in 1971 to 6897 persons per square kilometer in 2001, density of population has steeply increased in MCD area from 2649 persons per square kilometer in 1971 to 20680 persons in 2001. i.e., an increase of more than eight and half times. It is, therefore, not surprising that the aggregate receipts of MCD which grew at 32 per cent per annum between 1990-91 and 2000-01, when measured in per capita terms showed a reduced growth of 18 per cent during the same period. In the case of NDMC, in the absence of significant change in population, the annual growth rate of aggregate receipts and per capita receipts at 64 per cent and 65 per cent respectively, is very nearly identical.

Table 4
TREND OF DENSITY OF POPULATION

S.N.	LOCAL BODIES	DENSITY (PERSONS PER SQ. KMS.)			
		1971	1981	1991	2001
1)	MCD				
i)	Urban	9118	10688	13464	15398
ii)	Rural	403	507	1190	1627
iii)	Total	2649	4195	6459	20680
2)	NDMC	7061	6388	7050	6897
3)	DELHI CANTT.	1334	1982	2197	2896

A large part, more than half, of MCD's population lives in areas like Resettlement Colonies, Regularized Unauthorized Colonies, Unauthorized Colonies and J.J. Clusters etc. which are bereft of basic civic amenities. The rural population in MCD area exhibited a high rate of growth during 1981-1991. However, this trend totally reversed during the decade 1991-2001. In the decade 1991-2001, it registered a decadal growth rate of only 1.50 % as against a decadal growth rate of 109.86 % during 1981-91 and 8.01 % decadal growth rate during 1971-81. Major factors causing increase in population are migration of worker/labour class to Delhi. This population initially settles in slums and later gets accommodated in Resettlement colonies. About 1071 unauthorized colonies and 1070 J.J. Clusters have come up in all parts of Delhi.

A. MUNICIPAL CORPORATION OF DELHI

Background

The Delhi Municipal Corporation Act, 1957 was enacted by Parliament on December 28, 1957 and the first Corporation came into existence on April 7, 1958. The statutory bodies providing water, electricity and transport services were placed under the overall control of the Corporation, but subsequently these were segregated and constituted as separate boards/undertakings.

MCD is the largest municipal authority of NCT and according to MCD, the largest in the world on the basis of population serviced. It has both urban and rural areas in its jurisdiction, which is a peculiar characteristic. MCD is also entrusted with work of developmental nature, including construction of arterial roads and over-bridges, colony hospitals and some major hospitals. The Corporation employs over one lakh persons.

Functional Domain

MCD performs both obligatory and discretionary functions which are detailed in Chapter IV of this report.

Sources of Finance

In order to enable MCD to perform the functions entrusted to it efficiently, Section 99 of the DMC Act provides for constitution of a Municipal Fund to which all the moneys received on behalf of MCD from various tax and non-tax sources, and transfers from GNCTD and other government bodies are to be credited. The Act provides for obligatory and discretionary taxes to be levied by MCD. Section 113 of the DMC Act lists the obligatory taxes. These comprise :-

- (i) Property tax
- (ii) Tax on vehicles and animals,
- (iii) Theatre tax,
- (iv) Tax on advertisements other than those published in the newspapers.
- (v) Duty on transfer of property; and
- (vi) Tax on buildings, payable along with applications for sanction of Building Plan.

Further, under Section 113(2), MCD is empowered to levy, at its discretion, all or any of the taxes from amongst the following :-

- (i) Education cess,
- (ii) Local rate on land revenues,
- (iii) Tax on professions, trade, callings and employment,
- (iv) Tax on consumption, sale or supply of electricity,
- (v) Betterment tax on the increase in urban land values, caused by the execution of development works.
- (vi) Tax on boats, and
- (vii) Tolls.

Currently, MCD levies all the obligatory taxes. Among the discretionary taxes, tax on consumption of electricity and toll tax is levied.

In addition to the obligatory and discretionary taxes, it charges fees for providing certain services and also imposes fines for violation of any provisions of the Act. Fee is charged for educational and medical services, tehbazari, chabutra projections, etc. Fines are imposed for violating building by laws and for breaches of other laws/rules and regulations of DMC Act.

Besides revenue from its own taxes, MCD used to receive a share in the assigned taxes from the GNCTD upto 1995-96. The assigned taxes were: (i) Motor vehicles tax, (ii) Entertainment tax, and (iii) Terminal tax, and compensation in lieu thereof, after its abolition in January, 1993. After the implementation of recommendations of first Delhi Finance Commission, MCD receives a specified proportion of the pool of state tax revenues from the Government of NCT of Delhi. In addition it receives non-plan grants for primary education, mid-day-meal programme and maintenance of resettlement colonies transferred from DDA to MCD in 1988-89. Grants for primary education are given @ 60% of the actual eligible non-plan expenditure incurred by Education department which is further restricted to the ceiling of 4 % of GNCTD tax revenue taken together with reimbursement of expenditure on resettlement colonies and mid-day-meal programme.

Fiscal appraisal of MCD

The fiscal appraisal of MCD requires analysis of revenue receipts and revenue expenditure of MCD. Revenue receipts comprise tax revenues, non-tax revenues, assigned taxes/share in global taxes and non-plan grant-in-aid. Revenue expenditure is classified under sixteen different heads.

Table 5 present a bird's eye view of revenue receipts and internal revenue of the MCD for the period from 1990-91 to 2000-01. Summary tables may be seen in this chapter. Details are given in the table at Annexure 3.1.

Data in the tables is as furnished by MCD in respect of internal revenue receipts. In respect of transfers, i.e., grants-in-aid and assigned taxes / share in global taxes, data is as provided by NCT of Delhi.

Table 5
REVENUE RECEIPTS (SUMMARY) - MCD

(Rs. in Lakhs)

S.N.	ITEMS	ACTUALS											Trend Gr.
		1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Revenue Receipts (I + II)	31891	34529	35317	45382	52267	60410	68832	75807	84832	148854	135984	17
	Growth over prev. year		8	2	28	15	15	14	10	12	73	-7	17
I.	Internal Revenue												
A.	Tax Revenue	15849	17714	18712	28751	31385	37070	44957	53199	62097	73798	86622	19
	% age of internal revenue	80	88	83	89	86	87	91	92	92	83	88	
	Growth over prev. year			6	43	17	18	21	18	17	19	17	
B.	Non Tax Revenue	3948	2472	3813	3374	5255	5472	4425	4554	5412	14755	10511	13
	% of Internal Revenue	20	12	17	11	14	13	9	8	8	17	11	
	Growth over prev. year		-37	58	-14	56	4	-19	3	19	173	-29	
	Total I (A+B) (Tax and Non Tax Receipts / Internal Revenue)	19797	20186	22625	30165	36550	42542	49392	57753	67509	88553	97133	19
	% age of Revenue Receipt	61	58	64	67	70	70	72	77	85	70	71	
	Growth over prev. year		2	12	33	21	16	16	17	17	31	10	
II.	Transfers												
A.	Tax Assignments	5678	8294	8276	8547	8607	10172	11410	7096	6234	38805	22759	13
	% of total transfer	47	58	49	56	55	57	59	44	36	67	59	
	Growth over prev. year		46	-24	36	1	18	12	-30	-22	522	-41	52
B.	Non-Plan Grant-in Aid	6416	6049	6416	6650	7110	7596	8030	10058	11089	19496	16096	11
	% of total transfer	53	42	51	44	45	43	41	56	64	33	41	
	Growth over prev. year		-6	6	4	7	8	4	25	10	76	-17	12
	TOTAL II (A+B) (Transfers)	12094	14343	12692	15197	15717	17868	19440	18054	17323	58301	38851	12
	% of total revenue receipt	38	42	36	34	30	30	28	24	20	40	29	
	Growth over prev. year		19	-12	20	3	14	9	-7	-4	237	-33	24

Overall Trends in Revenue Receipts and Revenue Expenditure

It can be seen that total revenue receipts of MCD grew from Rs. 318.91 crores in 1990-91 to Rs. 1359.84 crores in 2000-01, which reflected a trend growth rate of 17% per annum over the eleven years time series data.

BOX 1 : GROWTH OF INTERNAL REVENUE - MCD

Years	Tax Revenue	Non-Tax Revenue	(Rs. in Crores)
			Internal Revenue (Tax + Non-Tax)
1990/91	158.49	39.48	197.97
1991/92	177.14	24.72	201.86
1992/93	187.12	39.13	226.25
1993/94	267.91	33.74	301.65
1994/95	313.85	52.65	366.50
1995/96	370.70	54.72	425.42
Annual Trend Growth Rate (%) during 1990/91 to 1995/96	19.80	11.32	16.37
1996/97	449.67	44.25	493.92
1997/98	531.99	45.54	577.53
1998/99	620.97	54.12	675.09
1999/00	737.98	147.55	885.53
2000/01	886.22	105.11	991.33
Annual Trend Growth Rate (%) during 1996/97 to 2000/01	17.80	33.72	19.48
Annual Trend Growth Rate (%) during 1990/91 to 2000/01	19.43	13.00	18.58

**BOX 2 : MEASURE OF ANNUAL GROWTH RATE
CONCEPT OF REGRESSION METHOD**

A technically superior method of computing average annual growth rate is based upon the following model which did not suffer from biases presented from averaging extreme values as well as simply averaging arithmetically the values which themselves are ratios and not merely numbers.

$$Y_t = Y_0 e^{bt}$$

in which

- Y_t = the value of the series (expenditure or receipt) at the final year,
 Y_0 = the initial year ($t = 0$) value,
 b = $(1/Y_t) \cdot (dY_t/dt)$ = instantaneous rate of growth of Y at time t , and t denotes time.

The function describes a variable Y which displays a constant proportionate rate of growth ($b > 0$) or decay ($b < 0$).

As against this, total revenue expenditure grew from Rs. 305.65 crores in 1990-91 to Rs. 1372.80 crores in 2000-01, which reflected a trend growth rate of 18% per annum over the same period (details in table at Annexure 3.2). Because of the fact that receipts have grown at a trend growth rate of 17% per annum, whereas expenditure has grown at a higher

rate of 18% per annum, MCD has made use of ways and means loans for meeting the budgetary requirements.

Revenue Receipts

During the period, from 1990-91 to 2000-01, internal revenues grew at a trend rate of 19% per annum from Rs. 197.97 crores in 1990-91 to Rs. 971.33 crores in 2000-01. Internal revenue which comprised 62% of total revenue receipts in 1990-91 increased to 71% of total revenue receipts in 2000-01. Internal revenues consist of both tax revenue and non-tax revenue. While tax revenue increased from Rs. 158.49 crores in 1990-91 to Rs. 866.22 crores in 2000-01, with a trend growth rate of 19% p.a., non-tax revenue increased at a trend growth rate of 13% p.a. only. Tax revenues constituted 80% of internal revenue in 1990-91, while non-tax revenues constituted the remaining 20%. In 2000-01, the share of tax revenue had increased to 89% of internal revenues, while that of non-tax revenues had come down to 11%.

It is seen from the above analysis that not only did the share of MCD's internal revenue receipts in total revenue increase during this eleven year period under study, but also that within the internal revenue increase, higher tax revenues contributed to a larger share in total revenue receipts, than non tax revenue receipts. (Details in the table at Annexure 3.1)

The major elements of tax revenue consisted of obligatory taxes, namely House Tax, Duty on Transfer of Property, Miscellaneous taxes as also discretionary taxes, namely tax on sale and supply of electricity and toll tax. The increase in revenue account receipts from one major source, namely, property tax is shown in Table 6 below.

Table 6

REVENUE ACCOUNT RECEIPTS FROM PROPERTY TAXES FOR MCD

Year	Receipts (Rs. in Crores)
1990/91	127.21
1991/92	137.17
1992/93	137.22
1993/94	205.71
1994/95	234.25
1995/96	267.14
Annual Trend Growth Rate (%) during 1990/91 to 1995/96	17.75
1996/97	331.86
1997/98	424.80
1998/99	508.09
1999/00	596.38
2000/01	677.22
Annual Trend Growth Rate (%) during 1996/97 to 2000/01	19.31
Annual Trend Growth Rate (%) during 1990/91 to 2000/01	19.90

It can be seen that the growth rate of 20% per annum in property tax collection during the eleven-year period 1990-91 to 2000-01 is higher than the growth rate of 17% per annum in respect of revenue receipts of MCD during the same period.

The collection to demand ratio during the period of eleven-years, 1990-91 to 2000-01 is given in Table 7 below. The Commission noted with concern the low level of collection to demand ratio at 21% in 2000-01. This demand includes the amount of arrears of property tax stayed by the Courts.

Table 7

PROPERTY TAX - DEMAND AND COLLECTION RATIO

Years	Property Tax (Rs. in Crores)		% of 3 to 2
	Demanded	Collected	
1	2	3	4
1990/91	1396.83	127.21	9.11
1991/92	1623.95	137.17	8.45
1992/93	1850.66	137.22	7.41
1993/94	2107.37	205.71	9.76
1994/95	2316.09	234.25	10.11
1995/96	2523.23	267.14	10.59
1996/97	2704.26	331.86	12.27
1997/98	2871.62	424.80	14.79
1998/99	3007.33	508.09	16.90
1999/00	3167.59	596.38	18.83
2000/01	3248.64	677.22	20.86

Within tax revenues, house tax and duty on transfer of property grew faster than overall tax revenue, at a trend growth rate of 20% per annum over this period as against trend rate of growth of 19% per annum for tax revenues as a whole. Miscellaneous taxes and tax on sale and supply of electricity grew at a relatively slower pace, at 2% per annum and 12 % per annum respectively.

BOX 3 : REVENUE RECEIPTS OF MCD

Item	% rate of growth 1990-91 to 1995-96	% rate of growth 1996-97 to 2000-01	% rate of growth 1990-91 to 2000-01
Total revenue receipt	14.35	22.46	16.69
Tax revenue receipts	19.80	17.80	19.43
Non-tax receipts	11.32	33.72	13.00
Shared Revenues	10.00	28.32	13.03
Grants	4.17	23.09	11.46

The major sources of non-tax revenue consisted of rent, fees, fines and other miscellaneous receipts.

From analysis of the data in Table 5, it can be seen that there is wide variation both in respect of amount received under tax assignments and non-plan grant-in-aid during the period 1997-98 to 2000-01. This is because of the fact that the recommendations of first Delhi Finance Commission were accepted in the year 1998-99 and the arrears of 1996-97 were paid in 1999-2000.

Revenue Expenditure

In respect of expenditure, all figures are based on data furnished by MCD in the Memorandum. The break-up of composite totals was furnished by MCD subsequently, wherever necessary.

MCD maintains its accounts in five volumes. Volume – I pertains to non-plan receipts and expenditure. MCD does not distinguish between non-plan revenue expenditure and non-plan capital expenditure for all practical purposes. Non-plan capital expenditure e.g. repayment of loans received from Government of NCT of Delhi for creating remunerative assets is booked in Volume - I of the budget document. Accordingly, the Commission has adopted the same practice. Volume – II covers the transactions under Plan schemes, both revenue and capital, which are implemented mostly from the grants and loans which MCD receives from the Government. It also includes accounts of projects financed through grants from other agencies. Volume - III covers receipts and expenditure on the maintenance of 44 resettlement colonies transferred to MCD by the DDA in 1987-88 for which it receives grant from the Government. It covers transactions of the Slum Wing as well. Volume - IV deals with loan receipts and outgo on account of non-plan capital expenditure on commercial ventures. Volume - V is also one of capital expenditure covering activities like construction of houses etc. financed through special grants from the Government.

Revenue expenditure consists of expenditure on general supervision, collection of revenue, education, libraries, public health, medical relief, conservancy and street cleaning, scavenging, drains and sewers, roads and public lighting, buildings, land acquisition and management, fire brigade, licensing and removal of encroachments, gardens and open spaces, markets and slaughter houses, miscellaneous including petty new works and development charges, reserve for unforeseen charges, development charges and others. Table 8 gives a summary of revenue expenditure of MCD in 1990-91 and in 2000-01. The details are given in the table at Annexure 3.2.

Table 8

REVENUE EXPENDITURE (SUMMARY) – MCD

S.N.	Important Items of Expenditure	(Rs. in lakhs)	
		Amount) 1990-91	2000-01
	Revenue Expenditure	27799	128243
I	Education	8054	33894
	% age of revenue expenditure	26	25
II	Public Health	985	3742
	% age of revenue expenditure	3	3
III	Medical Relief	3800	12445
	% age of revenue expenditure	12	9
IV	Conservancy, Street Cleansing	6163	26340
	% age of revenue expenditure	20	19
V	Scavenging, Drains and Sewers	784	1113
	% age of revenue expenditure	3	1
VI	Roads and Public Lighting	3307	10765
	% age of revenue expenditure	11	8
VII	Garden and Open Spaces	1453	6187
	% age of revenue expenditure	5	5
VIII	Misc. including Petty New Work, Department and Debt Charges	3252	33755
	% age of revenue expenditure	11	25

The major elements of total revenue expenditure in 1990-91 were education which was 26 % of the total, Conservancy and Street cleaning which was 20% of the total, and Roads and Public lighting which was 11 % of the total.

The composition of revenue expenditure did not change significantly during the eleven year period under study and the corresponding figures for education, conservancy and street cleaning and roads and public lighting stood at 25 %, 19% and 8% respectively for 2000-01. However, expenditure on miscellaneous expenditure including petty new works and department charges steadily increased from 11 % in 1990-91 to 25% in 2000-01.

It is significant that the growth in internal revenue of MCD has not increased at the same pace as growth in non-plan revenue expenditure after the implementation of First Commission's recommendations. Due to this reason, MCD had to go for ways and means advances from Government of NCT of Delhi.

BOX 4 : REVENUE ACCOUNT EXPENDITURE OF MCD

Year	Expenditure (Rs. in Crores)
1990/91	305.65
1991/92	342.39
1992/93	357.24
1993/94	417.21
1994/95	487.79
1995/96	582.05
Annual Trend Growth Rate (%) during 1990/91 to 1995/96	13.52
1996/97	667.40
1997/98	816.54
1998/99	1121.23
1999/00	1358.94
2000/01	1372.80
Annual Trend Growth Rate (%) during 1996/97 to 2000/01	21.55
Annual Trend Growth Rate (%) during 1990/91 to 2000/01	17.90

The different components of revenue expenditure in MCD were studied in some depth by the Commission. Table 9 below gives the important components of revenue expenditure of MCD.

Table 9

**COMPOSITION OF REVENUE ACCOUNT EXPENDITURE OF MCD
(AS PERCENTAGE OF TOTAL REVENUE EXPENDITURE)**

Year	Establishment including wages and salaries	Operation and Maintenance	Interest Payments
1990/91	72.24	5.50	0.90
1991/92	71.98	7.95	1.28
1992/93	74.80	8.10	0.89
1993/94	73.53	8.84	0.59
1994/95	70.42	8.26	0.96
1995/96	68.24	7.74	0.17
1996/97	68.44	7.63	0.10
1997/98	72.54	6.65	0.04
1998/99	80.22	4.54	5.10
1999/00	79.08	4.70	5.17
2000/01	71.65	3.63	5.53

It is found that expenditure on establishment including wages and salaries remained around 70% in most years, but increased to 80% and 79% respectively

in 1998-99 and 1999-2000 on account of implementation of the Fifth Pay Commission recommendations. Such a high percentage of expenditure on wages and salaries is attributable to labour intensive services like education, solid waste management and conservancy being provided by the MCD. Another factor is deployment of large number of teachers for imparting primary education.

Expenditure on operation and maintenance of services remained in the region of roughly 4 to 8 % of total revenue expenditure. This suggests that MCD is not adequately maintaining the capital assets earlier created.

Interest payments, which were low, at around 1% till 1994-95, fell further initially, but later went up to more than 5% during the years 1998-99 to 2000-01. Such a high jump in percentage of interest payment to revenue expenditure is due to recovery of interest from the share in global tax provided to MCD by Government of Delhi.

BOX 5 : EXPENDITURE ON SOLID WASTE MANAGEMENT OF MCD

(Rs. In Crores)

Year	Solid Waste Management
1990/91	69.47
1991/92	71.82
1992/93	78.87
1993/94	95.52
1994/95	112.25
1995/96	127.40
Annual Average Growth Rate (%) during 1990/91 to 1995/96	13.93
1996/97	147.81
1997/98	187.57
1998/99	275.94
1999/00	333.65
2000/01	274.53
Annual Average Growth Rate (%) during 1996/97 to 2000/01	19.89
Annual Average Growth Rate (%) during 1990/91 to 2000/01	18.20

B. New Delhi Municipal Council

Background

The New Delhi Municipal Council was so renamed in February 1927, and upgraded as a first class municipality in 1932. However, the Punjab Municipality Act, 1911 as applied to NDMC was replaced by the New Delhi Municipal Council Act, 1994 and the Council was notified on 10.11.1995.

In respect of New Delhi Municipal Council, which consists of only 3 per cent of the area and 3 per cent of the population of National Capital Territory of Delhi, it was felt that a different kind of legal system had to be structured which took into account special characteristics of the New Delhi Municipal Council area. The New Delhi Municipal Council area comprises the territory that has been described as Lutyen's Delhi and which has historically come to be regarded as the seat of central authority in the Union of India. Efficient functioning of municipal services in this area is critical and is a factor which has an important bearing on the functioning of the NDMC.

Accordingly, a special legislation was structured for New Delhi Municipal Council area. The principal features of the law governing New Delhi Municipal Council area are that the Chairperson is nominated by the Central Government in consultation with the Chief Minister of Delhi. Three members of the legislative assembly of National Capital Territory of Delhi representing New Delhi area are nominated on the Council, five members are nominated from the officers of Government by the Central Government and two members are nominated by the Central Government in consultation with the Chief Minister of Delhi to represent professionals like lawyers, doctors, intellectuals, traders, labourers etc. The Member of Parliament from New Delhi area is a special invitee without voting rights. Also, out of eleven members, at least three are to be women members and one member is to belong to scheduled caste.

Functional Domain

Like MCD, NDMC performs both obligatory and discretionary functions. These are detailed in Chapter IV of the report.

Sources of Finance

Under Section 55 of the NDMC Act, 1994, the NDMC is empowered to adopt budget estimates for the ensuing year on the basis of the anticipated income and expenditure under different heads as well as the expected government assistance under both plan and non-plan account.

Sections 60 to 125 of the NDMC Act, 1994 deal with taxation powers of the Council. Section 60(1) mentions the obligatory taxes, which shall be levied by NDMC. These include:-

- (a) Property tax;
- (b) A tax on vehicles and animals;
- (c) A theatre tax;
- (d) A tax on advertisements other than advertisements published in the newspapers;
- (e) A duty on the transfer of property; and
- (f) A tax on buildings for sanction of building plan.

In addition to obligatory taxes, NDMC has also been assigned certain discretionary taxes under Section 60(2) of the Act. These are :-

- (a) education cess;
- (b) tax on professions, trades, callings, and employment,
- (c) tax on the consumption, sale or supply of electricity,
- (d) betterment tax on the increase in urban land values caused by the execution of any development and improvement work, and tolls.

Presently, NDMC is levying all the obligatory taxes but no discretionary tax.

Sections 126 to 136 of the NDMC Act deal with borrowings by NDMC. The provisions are similar to those for MCD. The NDMC Act mandates that any

surplus funds in NDMC can be invested either in scheduled banks or in public securities.

FISCAL APPRAISAL OF NDMC

The fiscal appraisal of NDMC requires analysis of revenue receipts and revenue expenditure of NDMC. Revenue receipts comprise tax revenues, non-tax revenues, assigned taxes/share in global taxes and non-plan grant-in-aid. Revenue expenditure can be classified under eleven different heads.

Tables 10 presents a bird's eye view of revenue receipts of the NDMC for the period from 1990-91 to 2000-01. The details are given in the table at Annexure 3.3.

Data in the tables is as furnished by NDMC in respect of internal revenue receipts. In respect of transfers, i.e. grants in aid and assigned taxes/share in global taxes, data is as provided by NCT of Delhi.

Table 10

REVENUE RECEIPTS (SUMMARY) - NDMC

S.N.	ITEMS	ACTUALS (Rs. in Lakhs)											Trend Growth
		1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Total Revenue Receipts (I + II)	15205	21593	23301	27781	33196	35894	39578	49075	53645	59952	74583	16
	Growth over prev. year		42	8	19	19	8	10	24	9	12	24	
I.	Internal Revenue												
A.	Tax Revenue	732	1024	1261	1962	2300	2723	2994	3873	4859	7516	9660	27
	% age of internal revenue	5	5	6	8	7	8	8	8	9	13	13	
	Growth over prev. year			23	56	17	18	10	29	25	55	29	
B.	Non Tax Revenue	13461	19032	20877	24514	29534	31411	34585	42922	46981	51035	63063	15
	% of Internal Revenue	95	95	94	93	93	92	92	92	91	87	87	
	Growth over prev. year		41	10	17	20	6	10	24	9	9	24	
	Total I (A+B) (Tax and Non Tax Receipts/ Internal Revenue)	14193	20056	22138	26476	31834	34134	37580	46795	51840	58551	72723	16
	% age of Revenue Receipts	93	93	95	95	96	95	95	95	97	98	98	
	Growth over prev. year		41	10	20	20	7	10	25	11	13	24	
II.	Transfers												
A-	Tax Assignments	537	996	705	820	845	1143	1311	1248	624	524	754	0.04
	% of total transfers	53	65	61	63	62	65	66	55	35	37	41	
	Growth over prev. year		85	-29	16	3	35	15	-5	-50	-16	44	
B -	Non-Plan Grant-in-Aid	475	541	458	485	517	617	687	1032	1181	877	1106	10
	% of total transfers	47	35	39	37	38	35	34	45	65	63	59	
	Growth over prev. year		38	-47	15	18	57	40	196	85	-173	130	
	TOTAL II (A+B) (Transfers)	1012	1537	1163	1305	1362	1760	1998	2280	1805	1401	1860	5
	% of total revenue receipts	7	7	5	5	4	5	5	5	3	2	2	
	Growth over prev. year		52	-24	12	4	29	14	14	-21	-23	33	

It can be seen that the contribution of transfers as a percentage of total revenue receipts from Government of Delhi has decreased from 7% in 1990-91 to a meagre 2% in 2000-01. Further analysis of the transfers of funds, which has two components viz., tax assignments/ global share and non-plan grants-in-aid, reveals that percentage share of tax assignment/global share which was 66% during 1996-97 decreased to 41% during 2000-01.

BOX 6 : INTERNAL REVENUE – NDMC

Years	(Rs. in crores)		
	Tax Revenue	Non-Tax Revenue	Internal Revenue (Tax + Non-Tax)
1990/91	7.32	134.61	141.93
1991/92	10.24	190.32	200.56
1992/93	12.61	208.77	221.38
1993/94	19.62	245.14	264.76
1994/95	23.00	295.34	318.34
1995/96	27.23	314.11	341.34
Annual Trend Growth Rate (%) during 1990/91 to 1995/96	30.95	17.74	18.54
1996/97	29.94	345.86	375.80
1997/98	38.73	429.22	467.95
1998/99	48.59	469.81	518.40
1999/00	75.16	510.35	585.51
2000/01	96.60	630.63	727.23
Annual Trend Growth Rate (%) during 1996/97 to 2000/01	35.06	14.73	16.70
Annual Trend Growth Rate (%) during 1990/91 to 2000/01	26.56	19.60	20.73

Overall Trends in Revenue Receipts and Revenue Expenditure

It can be seen from the table at Annexure 3.3 that total revenue receipts of NDMC grew from Rs. 152.05 crores in 1990-91 to Rs. 745.83 crores in 2000-01, which reflected a trend growth rate of 16% per annum over the eleven years time series data.

As against this, the table at Annexure 3.4 brings out that total revenue expenditure increased from Rs. 151.03 crores in 1990-91 to Rs.

732.24 crores in 2000-01, which reflected a trend growth rate of 15 per annum during the same period.

Revenue Receipts

During the period from 1990-91 to 2000-01, internal revenues grew at a trend rate of 16% per annum from Rs. 141.93 crores in 1990-91 to Rs. 727.23 crores in 2000-01. Internal revenue which comprised 93% of total revenue receipts in 1990-91 increased to a massive 98% of total revenue receipts in 2000-01.

Internal revenues consist of both tax revenue and non-tax revenue. While tax revenue increased from Rs. 7.32 crores in 1990-91 to Rs.96.60 crores in 2000-01, with a trend growth rate of 27% per annum, non tax revenue increased from Rs.134.61 crores in 1990-91 to Rs.630.63 crores in 2000-01, with a trend growth rate of 15% per annum. Tax Revenues constituted 5% of internal revenues in 1990-91 while non-tax revenues constituted a massive 95%. This was because of the large volume of revenue receipts from sale of energy (Rs. 90.69 crores), rent/license fee (Rs.26.20 crores) and other miscellaneous receipts (Rs.5.91 crores) in 1990-91. In 2000-01, the share of tax revenue in total internal revenue increased to 13% while that of non tax revenues reduced somewhat to 87%.

It is clear from the above analysis that not only did the share of NDMC's Internal revenue receipts in total revenue receipts increase during this eleven year period, under study, from 93% to 98%, but also within the internal revenue increase, higher non tax revenues and not tax revenues, contributed to a larger share in total revenue receipts.

Since the share of internal revenue in total revenue receipts increased from 93% in 1990-91 to 98% in 2000-01 over this eleven year

period, the share of transfers including tax assignments and non-plan grant-in-aid for education and mid day meal scheme came down from 7% in 1990-91 to 2% in 2000-01.

It can be clearly seen that NDMC is dependent on transfers from Government of NCT of Delhi to a very limited extent. Transfers constituted barely 2% of total revenue receipts in 2000-01.

The major elements of non-tax revenue which increased significantly during this period are interest on investment, sale of energy, rent/license fee and other miscellaneous receipts.

Interest on investment increased from Rs. 5.40 crores in 1990-91 to Rs. 30 crores in 2000-01. The revenue receipts on account of sale of energy increased from Rs. 90.69 crores in 1990-91 to Rs. 467.77 crores in 2000-01, which resulted in its share in non-tax revenue increasing from 67% in 1990-91 to 74% in 2000-01. Revenue receipts on account of Rent/licence fee increased from Rs.26.20 crores in 1990-91 to Rs. 78.16 crores in 2000-01. Though the receipts from rent/licence fees increased in absolute terms, in terms of the share of rent/license fee as a % of all non-tax revenue, the share fell from 19% in 1990-91 to 12% in 2000-01. Other miscellaneous receipts increased from Rs. 5.91 crores in 1990-91 to Rs. 54.70 crores in 2000-01 showing a trend rate of growth of 29% per annum. The share of other miscellaneous receipts as a percentage of non-tax revenue increased from 4% in 1990-91 to 9% in 2000-01.

BOX 7 : REVENUE ACCOUNT RECEIPTS OF NDMC

	% Growth 1990-91 to 1995-96	% Growth 1996-97 to 2000-01	% Growth 1990-91 to 2000-01
Total Revenue Account Receipts	17.89	15.81	15.50
Tax Receipts	33.31	35.70	28.29
Non Tax Receipts	17.74	14.73	15.01
Shared Revenue	10.31	-18.99	-0.26
Grants	3.57	7.53	10.16

The elements of tax revenue consisted of house tax, duty on transfer of property and tax on advertisement/show/theatre, which constituted 83%, 15% and 2% respectively of tax revenues in 1990-91. This break - up changed to 93%, 7% and 0% respectively in 2000-01 since the growth rate in house tax at 32% per annum was higher than that in other categories. Table 11 shows the growth in receipts from property taxes over this period for NDMC.

Table 11

REVENUE ACCOUNT RECEIPTS FROM PROPERTY TAXES FOR NDMC

(Rs. in Crores)	
Year	NDMC
1990/91	6.06
1991/92	8.80
1992/93	11.82
1993/94	18.37
1994/95	21.44
1995/96	24.33
Annual Trend Growth Rate (%) during 1990/91 to 1995/96	33.31
1996/97	27.00
1997/98	36.66
1998/99	44.70
1999/00	70.72
2000/01	89.46
Annual Trend Growth Rate (%) during 1996/97 to 2000/01	35.70
Annual Trend Growth Rate (%) during 1990/91 to 2000/01	28.29

Table 12 presents further details in respect of property tax assessed, demanded and collected in respect of NDMC area. It is seen that collection to demand ratio has improved from 16% in 1995-96 to 31% in 2000-01. Another important feature of property tax collection in NDMC area is a very high increase in the ratio of collection to assessments from 31% in 1995-96 to 74% in 2000-01.

Table 12

NDMC - PROPERTY TAX ASSESSED,
DEMANDED AND COLLECTED

Years	Property Tax (Rs. in Crores)		Collected	% of	
	Assessed	Demanded		3 to 1	3 to 2
	1	2	3	4	5
1995/96	78.32	156.60	24.33	31	16
1996/97	93.20	210.81	27.00	29	13
1997/98	110.80	273.32	36.66	33	13
1998/99	92.27	308.68	44.70	48	14
1999/00	132.21	377.36	70.72	53	19
2000/01	120.63	291.34	89.46	74	31

Revenue Expenditure

The revenue expenditure data in Table 13 is as supplied by the NDMC. As in the case of MCD, the capital expenditure on repayment of loan and investment in capital assets etc. has been taken as part of revenue expenditure of NDMC.

Table 13

REVENUE EXPENDITURE (SUMMARY) - NDMC

(Rs. in Lakhs)

S.N.	IMPORTANT ITEMS OF EXPENDITURE	ACTUALS											
		1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	Trend Gr.
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	REVENUE EXPENDITURE	15103	21680	23022	27691	32687	35102	39132	47472	48283	56627	73224	15
	Growth over prev. year		44	6	20	18	7	11	21	2	17	29	
(i)	Interest	662	697	725	798	856	818	839	0	0	0	4285	19
	% age of revenue expenditure	4	3	3	3	3	2	2	0	0	0	6	
	Growth over prev. year		5	4	10	7	-4	3	0	0	0	0	
(ii)	Administrative Deptt.	1383	1545	1606	3034	3421	4686	4816	9266	5165	6481	11059	22
	% age of revenue expenditure	9	7	7	11	10	13	12	20	11	11	15	
	Growth over prev. year		12	4	89	13	37	3	92	-44	25	71	
(iii)	Social and Dev. Service	2667	3220	3573	4132	7234	5374	7716	8900	10926	11297	11765	17
	% age of revenue expenditure	18	15	16	15	22	15	20	19	23	20	16	
	Growth over prev. year		21	11	16	75	-26	44	15	23	3	4	
(iv)	Water Supply	633	2464	1193	1286	1497	1488	1832	2567	1793	3294	5443	14
	% age of revenue expenditure	4	11	5	5	5	4	5	5	4	6	7	
	Growth over prev. year		289	-52	8	16	-1	23	40	-30	84	85	

Table 13 (Contd.)

(v)	Electricity	7072	9650	11098	12889	14322	16253	18803	20650	22542	27543	26973	14
	% age of revenue expenditure	47	45	48	47	44	46	48	43	47	49	37	
	Growth over prev. year		36	15	16	11	13	16	10	9	22	-2	15
(vi)	Other Mpl. Works	1649	2658	3527	4270	4042	4809	3521	4792	5411	5551	6996	11
	% age of revenue expenditure	11	12	15	15	12	14	9	10	11	10	10	
	Growth over prev. year		61	33	21	-5	19	-27	36	13	3	26	
(vii)	External Assistance	663	1073	870	817	797	922	841	0	0	0	4023	15
	% age of revenue expenditure	4	5	4	3	2	3	2	0	0	0	0	5
	Growth over prev. year		62	-19	-6	-2	16	0	0	0	0	0	

Total revenue expenditure consisted of expenditure on several items. These included eleven categories which were expenditure on collection of taxes, duties and principal revenue, interest payments, administrative department expenses, expenditure on social and development services, electricity, water supply, roads, other municipal works, advances to employees, external assistance and deposit works. The details can be seen from the table at Annexure 3.4. There is no uniformity in growth of expenditure in any particular year over the previous year for the entire period of eleven years from 1990-91 to 2000-01.

BOX 8 : REVENUE ACCOUNT EXPENDITURE OF NDMC

Year	Expenditure (Rs. in Crores)
1990/91	151.03
1991/92	216.80
1992/93	230.22
1993/94	276.91
1994/95	326.87
1995/96	351.02
Annual Trend Growth Rate (%) during 1990/91 to 1995/96	17.46
1996/97	391.32
1997/98	474.72
1998/99	482.83
1999/00	566.27
2000/01	732.24
Annual Trend Growth Rate (%) during 1996/97 to 2000/01	15.37
Annual Trend Growth Rate (%) during 1990/91 to 2000/01	14.83

The major elements of revenue expenditure in 1990-91 were expenditure on electricity which was 47%, followed by social and development services which was 18%, expenditure on other municipal works which was 11% and expenditure on administrative departments which was 9%. The composition of revenue expenditure changed somewhat during the eleven year period under study and the corresponding figures for 2000-01 in respect of expenditure on electricity, administrative departments, expenditure on social and development services, and expenditure on other municipal works were 37%, 15%, 16% and 10% respectively.

BOX 9 : REVENUE ACCOUNT EXPENDITURE ON SOLID WASTE MANAGEMENT BY NDMC

Year	Expenditure (Rs. in Crores)
1990/91	5.98
1991/92	6.40
1992/93	7.45
1993/94	7.60
1994/95	8.88
1995/96	11.63
Annual Trend Growth Rate (%) during 1990/91 to 1995/96	13.16
1996/97	13.04
1997/98	13.35
1998/99	23.11
1999/00	17.75
2000/01	24.02
Annual Trend Growth Rate (%) during 1996/97 to 2000/01	16.26
Annual Trend Growth Rate (%) during 1990/91 to 2000/01	15.59

C. DELHI CANTONMENT BOARD

Background

There are 62 Cantonments in the country notified under the Cantonment Act, 1924. Every Cantonment has a Cantonment Board and an Executive Officer from IDES, who is also the Secretary of the Board. The Delhi Cantonment Board is an autonomous body under the control of the Ministry of Defence, Government of India.

The GOC-in-chief of Delhi Cantonment is the President of the Board assisted by seven nominated members and seven elected members.

Functional Domain

The functional domain of Delhi Cantonment Board is detailed in Chapter-IV of this report.

Sources of Finance

The Delhi Cantonment Board is earning revenue from the following sources

1. House tax.
2. Profession tax/animal tax/advertisement tax etc.
3. Water tax.
4. Conservancy tax.
5. Lease rent
6. Rent from temporary occupation of land.
7. Barat ghars.
8. House rent on cantonment fund property.
9. Conservancy charges.
10. Miscellaneous.
11. Interest on fixed deposit

In addition, it receives share in assigned taxes with respect to Entertainment tax, Motor Vehicle tax, Compensation towards Terminal tax and grant-in-aid for education.

Fiscal Appraisal of DCB

Tables 14 present a bird's eye-view of revenue receipts of the Delhi Cantonment Board for the period from 1990-91 to 2000-01. The details can be seen from the table at Annexure 3.5.

Data in the tables is as furnished by Delhi Cantonment Board in respect of internal revenue receipts. In respect of transfers, i.e., grants-in-aid and assigned taxes/share in global taxes, data is as provided by NCT of Delhi.

In respect of expenditure, all figures are based on data furnished by Delhi Cantonment Board.

Overall Trends in Revenue Receipts and Revenue Expenditure

It can be seen that total revenue receipts grew from Rs. 13.92 crores in 1990-91 to Rs. 45.29 crores in 2000-01, which reflected a trend growth rate of 9% per annum over the eleven year time series data.

Table 14
REVENUE RECEIPTS (SUMMARY) - DCB

(Rs. in Lakhs)

S.N.	ITEMS	ACTUALS											Trend/ Av. Gr.
		1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Total Revenue Receipt (I + II)	1392	2706	2491	2223	1756	1400	1927	2545	3003	5179	4529	9
	Growth over prev. year		94	-8	-11	-21	-20	38	32	18	72	-13	18
I.	Internal Revenue Total I (A+B) (Tax & Non Tax Revenue)	1250	2484	2355	2058	1583	1186	1703	2358	2682	4788	4057	9
	% age of Revenue Receipt	90	92	95	93	90	85	88	93	89	92	90	
	Growth over prev. year		99	-5	-13	-23	-25	44	38	14	78	-15	19
A.	Tax Revenue	10	14	9	11	13	12	14	11	21	23	349	22
	% age of Internal revenue	1	1	0	1	1	1	1	0	1	0	9	
	Growth over prev. year		40	-35	12	24	-12	22	-21	86	9	1449	157
B	Non-Tax Revenue	1240	2470	2346	2047	1570	1174	1889	2347	2661	4763	3708	8
	% of Internal Revenue	99	99	100	99	99	99	99	100	99	100	91	
	Growth over prev. year		99	-5	-13	-23	-25	44	39	13	79	-22	18
II	TOTAL II (A+B) (Transfers)	142	222	136	165	173	214	224	187	321	393	472	11
	% of total revenue receipt	10	8	5	7	10	15	12	7	11	8	10	
	Growth over prev. year		56	-39	21	5	24	5	-17	72	22	20	17
A	Tax Assignments	102	183	92	115	113	144	157	113	222	276	347	10
	% of total transfer	1000	2231	1685	1549	1147	942	1351	1538	2077	3637	3329	
	Growth over prev. year		79	-50	25	-2	27	9	-28	96	24	26	21
B	Non-Plan Grant-in-Aid/ Education	40	39	44	50	60	70	67	74	99	117	125	13
	% of non plan grant-in aid	100	100	100	100	100	100	100	100	100	100	100	
	Growth over prev. year		-3	13	14	20	17	-4	10	34	18	7	13

Revenue Receipts

During the period from 1990-91 to 2000-01, internal revenues grew at a trend rate of 9% per annum from Rs. 12.50 crores in 1990-91 to Rs. 40.57 crores in 2000-01. Internal revenues comprised 90-92% of all revenue receipts in this

period, though their share varied from as low as of 85% in 1995-96 to as much as 95% in 1992-93.

Internal revenue consists of both tax revenue and non-tax revenue. While tax revenue increased from Rs. 0.10 crores in 1990-91 to Rs. 3.49 crores in 2000-01, with a trend growth rate of 22% per annum, non tax revenue increased from Rs. 12.40 crores in 1990-91 to Rs. 37.08 crores in 2000-01, with a trend growth rate of 8% per annum. Tax revenues constituted 1% of internal revenues in 1990-91, but were exceptionally high at 9% in 2000-01. Non-tax revenues constituted 99% of internal revenues in 1990-91 but their share went down to 91% in 2000-01.

It is seen from the above analysis that in the case of Delhi Cantonment Board, non-tax revenue contributed majorly to growth of internal tax revenues, contributing to anything between 91 and 100% of internal revenues during this period.

The major elements of non-tax revenues consist of service charges and interest on investment.

The opening balance of Delhi Cantonment Board itself remained significantly high and at the beginning of 2000-01 it was a substantial Rs. 11.34 crores.

The major element of tax revenue was house tax which contributed to 99% of tax revenues in 2000-01. Other small elements were animal and vehicle tax, profession tax, water tax and conservancy tax, all of which together accounted for barely 1% of all internal revenues. Table 15 gives the position regarding growth of property taxes in DCB over the eleven years period.

Table 15

REVENUE ACCOUNT RECEIPTS FROM PROPERTY TAXES IN DCB

Year	Receipts (Rs. in Crores)
1990/91	0.07
1991/92	0.11
1992/93	0.06
1993/94	0.07

1994/95	0.09
1995/96	0.09
Annual Trend Growth Rate (%) during 1990/91 to 1995/96	2.34
1996/97	0.11
1997/98	0.08
1998/99	0.16
1999/00	0.18
2000/01	3.45
Annual Trend Growth Rate (%) during 1996/97 to 2000/01	116.02
Annual Trend Growth Rate (%) during 1990/91 to 2000/01	25.37

The exceptionally high growth rate of 116% during the period 1996-97 to 2000-01 is attributable to property tax arrears of Rs. 3.20 crores received during 2000-01.

Transfers to Delhi Cantonment Board constitute about 5 to 15% of total revenue receipts. Transfers to Delhi Cantonment Board included tax assignment in respect of octroi, advertisement / Show / Movie / Entertainment tax, and non-plan grant-in-aid for education. No devolution was recommended for Delhi Cantonment Board by first Finance Commission since it was not considered a municipality. Thus the transfer of funds to Delhi Cantonment Board continued after 1995-96 on the previous basis.

BOX 10 : REVENUE ACCOUNT RECEIPTS OF DELHI CANTONMENT BOARD			
Item	Annual Trend Growth Rate (in %)		
	1990-91 to 1995-96	1996-97 to 2000-01	1990-91 to 2000-01
Total Revenue Account Receipts	-3.87	27.39	8.94
Tax Revenue Receipts	2.58	104.82	22.55
Non Tax Receipts	4.93	25.61	8.36
Shared Revenue	1.44	28.14	10.22
Grants	20.96	19.16	13.64

Revenue Expenditure

From Table 16, it can be seen that total revenue expenditure of DCB grew from Rs. 13.55 crores in 1990-91 to Rs. 45.45 crores in 2000-01, which reflected a trend growth rate of 9% per annum over the same period. Because of the fact that receipts have grown at a trend growth rate of 10% per annum, whereas expenditure has grown at a lower rate of 9% per annum. Delhi Cantonment Board had a closing balance of Rs. 3.13 crores at the end of 2000-01.

Table 16

REVENUE EXPENDITURE (SUMMARY) - DCB

(Rs. in Lakhs)

S.N.	IMPORTANT ITEMS OF EXPENDITURE	ACTUALS											Trend Growth
		1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	REVENUE EXPENDITURE	1355	2682	2491	2227	1547	1400	1903	2608	2999	5172	4545	9
	Growth over prev. year		98	-7	-11	-31	-10	36	37	15	72	-12	
(i)	Original Works	126	149	184	214	127	38	123	61	90	199	349	1
	% age of revenue expenditure	9	6	7	10	8	3	6	2	3	4	8	
	Growth over prev. year		18	23	16	-41	-70	224	-50	48	121	75	
(ii)	Maintenance and Repairs	54	76	44	42	67	106	127	136	140	188	209	17
	% age of revenue expenditure	4	3	2	2	4	8	7	5	5	4	5	
	Growth over prev. year		41	-42	-5	60	58	20	7	3	34	11	
(iii)	Public Safety and Conv.	24	31	36	47	51	57	64	87	127	174	160	22
	% age of revenue expenditure	2	1	1	2	3	4	3	3	4	3	4	
	Growth over prev. year		29	16	31	9	12	12	36	46	37	-8	
(iv)	Hospital and Dispensaries	45	51	63	74	70	78	70	97	109	118	131	10
	% age of revenue expenditure	3	2	3	3	5	6	4	4	4	2	3	
	Growth over prev. year		13	24	17	-5	11	-10	39	12	8	11	
(v)	Latrines, Drainage, Conservancy and Scavenging	109	118	124	140	157	186	194	270	299	315	331	13
	% age of revenue expenditure	8	4	5	8	10	13	10	10	10	6	7	
	Growth over prev. year		8	5	13	12	18	4	39	11	5	5	
(vi)	Education	53	65	74	86	83	93	105	133	157	171	164	12
	% age of revenue expenditure	4	2	3	4	5	7	6	5	5	3	4	
	Growth over prev. year		23	14	16	-3	12	13	27	16	9	-4	
(vii)	Investment	60	2053	1756	1223	922	648	974	1597	1710	2700	2712	21
	% age of revenue expenditure	4	77	71	55	60	46	51	61	57	52	60	
	Growth over prev. year		3322	-14	-30	-25	-30	50	64	7	58	0	
(viii)	Closing Balance	838	91	157	345		116	154	106	203	1134	313	3
	% age of revenue expenditure	62	3	6	15	0	8	8	4	7	22	7	
	Growth over prev. year		-89	73	120	-100		33	-31	92	459	-72	

The significant components of revenue expenditure consisted of expenditure on original works, maintenance and repairs, toilets, drainage, conservancy and scavenging. Apart from this, 60% of total revenue expenditure went into investments in 2000-01 - a significant Rs. 27.12 crores was invested in that one year alone. The same was the case in 1999-2000 when Rs. 27.00 crores was invested. Closing balance in 2000-01 was also Rs. 3.13 crores but less than the high of Rs. 11.34 crores in 1999-2000. The details are given in the table at Annexure 3.6

It can be seen from the above that the Delhi Cantonment Board has been in a financially comfortable position with funds available for large investments, as also large opening and closing balances.

Table 17

REVENUE ACCOUNT EXPENDITURE ON SOLID WASTE MANAGEMENT OF DCB

Year	Expenditure (Rs. In Crores)
1990/91	1.09
1991/92	1.18
1992/93	1.24
1993/94	1.40
1994/95	1.58
1995/96	1.86
Annual Trend Growth Rate (%) during 1990/91 to 1995/96	11.05
1996/97	1.94
1997/98	2.7
1998/99	2.99
1999/00	3.15
2000/01	3.31
Annual Trend Growth Rate (%) during 1996/97 to 2000/01	13.01
Annual Trend Growth Rate (%) during 1990/91 to 2000/01	13.20

Table 17 brings out the fact that the expenditure on solid waste management by Delhi Cantonment Board has been steadily increasing since 1990-01 to 2000-01. However, expenditure on solid waste management as a percentage of total revenue expenditure varied substantially ranging between 4 and 10%.

Table 18

REVENUE EXPENDITURE ON WAGES AND SALARIES AND OPERATION AND MAINTENANCE OF DCB

Year	(Rs. in Crores)	
	Wages and Salaries	Operation and Maintenance
1990/91	1.96	0.54
1991/92	2.24	0.76
1992/93	2.48	0.44
1993/94	2.73	0.42
1994/95	3.01	0.79
1995/96	3.52	1.06
Annual Trend Growth Rate (%) during 1990/91 to 1995/96	11.82	10.33
1996/97	3.87	1.27
1997/98	5.35	1.36

1998/99	6.13	1.40
1999/00	6.46	1.88
2000/01	6.75	2.09
Annual Trend Growth Rate (%) during 1996/97 to 2000/01	13.90	14.11
Annual Trend Growth Rate (%) during 1990/91 to 2000/01	14.33	16.38

Table 18 gives details in respect of revenue expenditure on wages and salaries and operation and maintenance in respect of DCB. It can be seen that the expenditure under these two items is increasing steadily.

One of the reasons for good financial health of DCB is low expenditure on salary and wages and operation and maintenance.

DEBT POSITION OF MCD and NDMC

Para 7 of the Terms of Reference of the Commission requires it to make an assessment of the debt position of Municipalities as on 31.3.2001 and suggest such corrective measures as are deemed necessary, keeping in view the financial requirements of the Government of NCT.

The DMC Act 1993 and the NDMC Act 1994 make identical provisions to empower Municipal Corporation of Delhi and New Delhi Municipal Council to borrow, under Section 185 of DMC Act and Section 126 of NDMC Act respectively.

Section 185 of DMC Act provides :

"185. Powers of Corporation to borrow – (1) The Corporation may, in pursuance of any resolution passed by it, borrow by way of debenture or otherwise on the security of all or any of the taxes, rates, cess, fees and charges authorized by or under the Act any sums of money which may be required:

- (a) for acquiring any land which it has power to acquire;
- (b) for erecting any building which it has power to erect.

- (c) for execution of any permanent work, the provision of any plant, or the doing of any other thing which has power to execute, provide or do, if the cost of carrying out the purpose in question ought to be spread over a term of years;
- (d) to pay off any debt due to the Government;
- (e) to repay a loan previously raised under this Act or any other Act previously in force, or
- (f) for any other purpose for which the Corporation is, by virtue of this Act or any other law for the time being in force, authorized to borrow.

Provided that -

- (i) no loan shall be raised without the previous sanction of the Central Government or without previous publication of the application for sanction under the Local Authorities Loan Act, 1914 (9 of 1914), and the rules made there under; and
 - (ii) the amount of loan, the rate of interest and the terms including the date of floatation, the time and method of the repayment and the like shall be subject to the approval of the Central Government.
- (2) When any sum of money has been borrowed under sub-section (1), no portion of any sum of money borrowed for any of the purposes referred to in clause (c) of sub-section (1) shall be applied to the payment of salaries and allowances to any municipal officers or other municipal employees other than those exclusively employed in connection with the carrying out of that purpose."

Loans to MCD come from the Government broadly in two forms – one for meeting its non-plan requirements and the other for creation of capital assets, as also for the development of various localities in urban and rural areas, under plan projects. To correct the revenue account deficits in certain years, it requests the Government for and receives ways and means advances as loans. For plan schemes, the Corporation prepares its five-year development plan to be

considered by the Government for plan assistance by way of a combination of loans and grants, along with various terms and conditions.

The plan loans are required to be repaid by MCD in 15 years from the year after the one in which the loan was availed. The rate of interest is 12.5 % per annum. The ways and means advances /special loan are required to be paid in one to five years and interest rate varies from 13.5% to 15%. In 1997-98 interest free ways and means advance of Rs. 90 crores was provided to MCD.

NDMC too has been receiving plan assistance largely by way of loans from GNCTD for different sectors viz., (i) Power, (ii) Housing, (iii) Water Supply and Sewage Disposal, and (iv) Agriculture and Allied Services (Compost Plant).

Plan loans have been provided to NDMC with an interest rate of 12.5% per annum and are required to be paid within a period of 15 years from the year after the one in which the loan was availed.

The first Delhi Finance Commission profiled the debt position of both MCD and NDMC, classifying loans into those for remunerative schemes and those for non remunerative schemes, and came to the conclusion that only 20% of loans taken by MCD could be classified as being for remunerative purposes and even those not wholly so, since they were for construction of quarters for staff, shopping complexes, land development, compost plant, slaughter house, etc.

In the case of NDMC, the loans taken were only for development projects under plan except for once, in 1991-92 when it took a small loan of Rs.6.40 lakhs under non-plan schemes. Most other loans were for electricity, water supply, housing, etc.

No loan is provided to Delhi Cantonment by GNCTD either for non-plan purpose or plan purpose or ways and means loan.

The first Delhi Finance Commission had recommended :-

- (a) consolidation of MCD loans as on 01/04/96 into a single loan of 20 years duration with fresh rate of interest at 2% lower than the weighted average interest rate of loans so consolidated, and
- (b) recovery of interest arrears in 20 equal annual instalments.

These recommendations were accepted by Government of Delhi and the outstanding loan and interest as on 1.4.1996 were converted into equal instalments of 20 years. The rate of interest on the outstanding loan was fixed @ 6.0583 per cent per annum.

The first Delhi Finance Commission worked out an amount of Rs. 373.37 crores as outstanding principal and Rs. 143.07 crores as interest arrears as on 1.4.1996. The Government of Delhi started recovering outstanding principal and interest arrears through an annual instalment of Rs. 18.67 crores as principal and Rs.7.15 crores as interest arrears with effect from 1998-99, i.e. since the recommendations of the First Finance Commission were made effective. The Government of Delhi also decided to recover in three annual equal instalments of Rs. 31.92 crores each the amount of principal and interest arrears due for the years 1996-97 and 1997-98. The details may be seen in the table at Annexure 3.7.

PRESENT STATUS OF BORROWINGS BY MCD AND NDMC

MCD

Annexure 3.7 contains the details of the amount of principal and interest due from MCD (including slum wing) in respect of the loans taken from 1996-97 to 2000-01 whether for plan purposes or for ways and means advances.

Analysis of the figures reveals a slow but growing trend of accumulating debt in respect of MCD. This is on account of increase in both the principal outstanding as also increase in interest overdue as is evident from Table 19 below.

Table 19
DEBT POSITION OF MCD

YEAR	OUTSTANDING DEBT (Rs. in Crores)					INCREASE OVER PREVIOUS YEAR (%)
	Principal		Interest		Total	
	Plan	Non-Plan	Plan	Non-Plan		
As on 31/03/96	373.37	—	143.07	—	516.44	
As on 31/03/97	421.55	—	172.28	—	593.83	14.99
As on 31/03/98	481.24	90.00	207.51	—	778.75	31.14
As on 31/03/99	475.26	110.00	193.02	—	778.28	(-)0.06
As on 31/03/00	469.47	235.00	176.46	7.70	888.63	14.18
As on 31/03/01	492.30	250.00	158.16	39.74	940.20	5.80

It can be seen from Table 19 that the increase in outstanding principal and interest was highest during the year 1997-98 but started declining subsequently. This is because the Government of Delhi while releasing the share in global taxes during the year 1999-2000 and 2000-01 to the MCD deducted an amount towards principal and interest as detailed earlier.

NDMC

In respect of NDMC, it is seen that the volume of debt has been decreasing as on 31.3.2001 since NDMC has decided not to take any further loans with effect from 1/4/2001 and also paid in advance the outstanding principal and interest.

As on 31.3.2000 the NDMC was required to pay a principal amount of Rs. 98.30 crores and Rs. 43.10 crores as interest. During the year 2000-01 NDMC repaid Rs. 39.23 crores as principal and Rs. 43.10 crores as interest. Thus, NDMC was required to pay only an amount of RS. 59.07 crores as outstanding principal as on 31.3.2001.

The NDMC is regularly paying the principal and interest on due dates and has indicated that it shall continue to pay in future as well.

SUBMISSIONS

MCD

MCD in its Memorandum to the Commission has stated that the financial situation of MCD has been leading to non-clearance of outstanding dues, which are obligatory in nature. Those include non-repayment of loans, non-contribution to PF fund and non-payment of contractors and suppliers bills. According to MCD, outstanding liabilities as on 31.3.2001 amount to Rs.1177 crores. MCD has also stated that the unilateral decision of the GNCTD to deduct plan loans and ways and means advances along with interest out of the global share has put MCD in a financial crunch. This decision at a time when the Corporation had to meet the additional financial implications of about Rs. 1050 crores on account of implementation of Fifth Pay Commission's recommendations brought the financial position from bad to worse. The ways and means advances taken by the Corporation as an interim measure have helped to a very limited extent only, as the GNCTD had started recovering these loans within a period of two years defeating the very purpose of easing of financial crunch. They have therefore, submitted that recoveries of ways and means advances should be reviewed and recoveries be made in a longer period with justified rate of interest instead of existing rate. The rate of interest being charged on ways and means advances is 16%, and these advances have not been taken for any remunerative purposes, but were taken to meet the obligation of implementation of Fifth Pay Commission recommendations.

MCD has also stated that funds under various plan schemes are given on grants and loan basis. It has requested that loans component should only be for those plan schemes, which are productive or may help MCD in generating income. However, since none of the schemes for which plan loans have been granted are revenue generating in nature, they have requested that these loans be treated as outright grants.

NDMC

It has been mentioned by NDMC that they will not take any loan from Government of NCT of Delhi with effect from 1.4.2001. However, outstanding loan will be repaid in instalments with interest on due dates.

GNCTD

Government of Delhi informed that from the year 2001-02 onwards, no amount of loan will be released to MCD for construction of staff quarters and office buildings. Thus the liability of MCD would not increase substantially during the years 2002-03 to 2005-06.

A. Corrective measures for improving debt position of Municipalities

Accumulation of debt reflects the outcome of the fiscal operations of the Municipalities on the revenue and expenditure sides of their budgets. If expenditure, whether committed or discretionary, exceeds revenues, tax and non-tax, the excess can only be financed through fresh borrowing. If the mismatch between revenues and expenditures is of a temporary nature, borrowing provides a reprieve. However, if the mismatch persists over a long period of time and grows in volume, debt tends to become unsustainable, and one has to look at the structural causes of persistent and growing fiscal deficits i.e. requirement of fresh borrowing.

The basic underlying causes that have driven the MCD and NDMC on to a course of mounting debt, deficits and debt servicing burden are reflected in the earlier sections. Bearing those considerations in mind, some corrective measures are suggested here.

2. While considering corrective measures relating to debt position of Municipalities, the question of the long-term sustainability of debt of the MCD, NDMC, and the Government of NCT of Delhi has to be kept in mind. Given the fact of growing debt figures for both agencies as well as

Government of NCT, there is need to consider in each case the cost of debt, the use and productivity of the borrowed funds, and the arrangements for the amortization of debt while resorting to borrowings.

Ultimately the solution to any debt problem lies in borrowed funds

- (a) not being used for financing revenue expenditure; and
- (b) being used efficiently and productively for capital expenditure so as to earn returns and/or increase productivity of the economy resulting in increased governmental revenues.

In this background, it needs to be considered as to how the debt burden of the MCD and NDMC can be brought down over a period of time. The ability of a Municipality to service the debt including its interest burden depends on its ability to raise the revenue receipts to meet the incremental expenditure on interest payments and the primary expenditure. Three important measures can be utilized to reduce the debt burden of the Municipalities.

- a. the incremental revenue receipts should meet the incremental interest burden and the incremental primary expenditure.
- b. a surplus may be generated on revenue account to meet future repayment obligation. This surplus may be credited in a sinking fund for this purpose.
- c. The Municipalities should have and maintain a balance in their revenue account.

Debt relief to MCD and NDMC should be conditional and linked to quantifiable improvement in fiscal performance. Sustainable improvement can take place only when MCD and NDMC make persistent efforts to put their finances on a sound footing by additional revenue effort, expenditure compression and reprioritization in line with restructuring plans. Immediate focus should be on achieving revenue balance or at least reducing revenue imbalance to the minimum.

Debt relief could be linked to improvement in the ratio of revenue receipts of the Municipality to its total revenue expenditure. This would act as an incentive for encouraging better performance.

The Commission recommends that the system recommended by first Finance Commission and subsequently accepted by Govt. of Delhi should continue. The First Finance Commission recommended consolidation of MCD loans as on 1.4.1996 into a single loan of 20 years duration with fresh rate of interest at 2% lower than the weighted average interest rate and also recovery of interest arrears in 20 equal annual instalments.

As part of financial reforms the Commission recommends that MCD be persuaded to open an ESCROW account for repayment of loans.

CHAPTER IV

PROFILE OF FUNCTIONAL RESPONSIBILITIES :

LOCAL BODIES

The Commission is required under para 6 of the Terms of Reference of the Commission to review the functions assigned to Municipalities keeping in view the availability of resources, especially with regard to the discretionary functions.

Section 243 W of the Constitution of India reads as follows.

"243W. Powers, authority and responsibilities of Municipalities, etc. – Subject to the provisions of this Constitution, the Legislature of a State may, by law, endow –

- (a) the Municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Municipalities, subject to such conditions as may be specified therein, with respect to -
 - (i) the preparation of plans for economic development and social justice;
 - (ii) the performance of functions and the implementation of schemes as may be entrusted to them including those in relation to the matters listed in the Twelfth Schedule;
- (b) the Committees with such powers and authority as may be necessary to enable them to carry out the responsibilities conferred upon them including those in relation to the matters listed in the Twelfth Schedule."

In Delhi, the Municipal Corporation of Delhi was constituted by enacting the "Delhi Municipal Corporation Act, 1957" by Parliament, which

was later amended by Delhi Municipal Corporation Act, 1993. An interesting feature of the Municipal Corporation of Delhi is that its jurisdiction is confined not merely to the urban areas of Delhi, but extends to the rural areas of Delhi as well.

Similarly, the New Delhi Municipal Committee (now named as New Delhi Municipal Council) was initially constituted by extending the Punjab Municipal Corporation Act, 1911 to New Delhi area of NCT of Delhi, while later the New Delhi Municipal Council Act, 1994 was separately enacted.

The Twelfth Schedule of the Constitution lists out the matters in respect of which the Municipalities may be endowed with such powers and authority as may be necessary to enable them to function as Institutions of Self-Government.

The matters listed in the Twelfth Schedule include eighteen items listed below:-

1. Urban Planning including town planning.
2. Regulation of land-use and construction of buildings.
3. Planning for economic and social development.
4. Roads and Bridges.
5. Water supply for domestic, industrial and commercial purpose.
6. Public health, sanitation, conservancy and solid waste management.
7. Fire services.
8. Urban forestry, protection of the environment and promotion of ecological aspects.
9. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.
10. Slum improvement and upgradation.
11. Urban poverty alleviation.
12. Provision of urban amenities and facilities such as parks, gardens, play grounds.

13. Promotion of cultural, educational and aesthetic aspects.
14. Burial and burial grounds; cremations, cremation grounds and electric crematoriums.
15. Cattle pounds; prevention of cruelty to animals.
16. Vital statistics including registration of births and deaths.
17. Public amenities including street lighting, parking lots, bus stops and public conveniences.
18. Regulation of slaughter houses and tanneries.

The Statement below indicates the position in respect of municipal functions enumerated in the Twelfth Schedule entrusted to MCD and NDMC respectively.

S.NO.	FUNCTIONS	MCD	NDMC
1.	Urban Planning including town planning.	X	X
2.	Regulation of land-use and construction of buildings.	X	X
3.	Planning for economic and social development.	√	√
4.	Roads and Bridges.	√	√
5.	Water supply for domestic, industrial and commercial purpose.	X	√
6.	Public health sanitation, conservancy and solid waste management.	√	√
7.	Fire services.	X	X
8.	Urban forestry, protection of the environment and promotion of ecological aspects.	X	X
9.	Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.	√	√
10.	Slum improvement and upgradation.	√	X
11.	Urban poverty alleviation.	X	X
12.	Provision of urban amenities and facilities such as parks, gardens, play grounds.	√	√

13.	Promotion of cultural, educational and aesthetic aspects.	√	√
14.	Burial and burial grounds; cremations, cremation grounds and electric crematoriums.	√	√
15.	Cattle pounds; prevention of cruelty to animals.	√	√
16.	Vital statistics including registration of births and deaths.	√	√
17.	Public amenities including street lighting, parking lots, bus stops and public conveniences.	√	√
18.	Regulation of slaughter houses and tanneries.	√	X

It can be seen that of the eighteen functions listed in the Twelfth Schedule of the Constitution, MCD has so far been entrusted with only twelve of the functions. The remaining six functions as listed below are being performed by separate bodies/agencies of the Government of NCT of Delhi/ Government of India.

- | | | |
|----|--|---|
| 1. | Urban planning including town planning | Delhi Development Authority,
Government of India |
| 2. | Regulation of land use and construction of buildings | Delhi Development Authority,
Government of India |
| 3. | Water supply for domestic, industrial and commercial purpose | Delhi Jal Board, Government of Delhi |
| 4. | Fire Services | Government of Delhi |
| 5. | Urban forestry, protection of the environment and promotion of ecological aspects. | Government of Delhi |
| 6. | Urban Poverty alleviation | Government of Delhi |

Similar is the case of NDMC which is performing only eleven of these eighteen functions. The five functions (except serial No. 5 i.e. water supply for domestic, industrial and commercial purpose) which are identical to those excluded in case of MCD and two functions namely 'slum improvement and

upgradation' and 'regulation of slaughter houses and tanneries' do not find a place in the list of functions of NDMC.

Separately a table is placed below setting out all the obligatory and discretionary functions entrusted to MCD (Sections 42 and 43 of DMC Act, 1957) and NDMC (Sections 11,12 of NDMC Act, 1993) respectively.

FUNCTIONS ENTRUSTED TO MCD AND NDMC

A:- OBLIGATORY FUNCTIONS

S.N.	FUNCTIONS	MCD	NDMC
(a)	The construction, maintenance and cleansing of drains and drainage works and of public latrines, urinals and similar conveniences;	√	√
(b)	The construction and maintenance of works and means for providing supply of <u>water</u> for public and private purposes;	X	√
(c)	The scavenging, removal and disposal of filth, rubbish and other obnoxious or polluted matters;	√	√
(d)	The construction or purchase, maintenance, extension, management for- (i) Supply and distribution of <u>electricity</u> to the public; (ii) Providing a sufficient supply of pure and wholesome water.	X	√
(e)	The reclamation of unhealthy localities, the removal of noxious vegetation and generally the abatement of all nuisances;	√	√
(f)	The regulation of places for the disposal of the dead and the provision and maintenance of places for the said purpose;	√	√

(g)	The registration of births and deaths;	√	√
(h)	Public vaccination and inoculation;	√	√
(i)	Measures for preventing and checking the spread of dangerous diseases,	√	√
(j)	The establishment and maintenance of dispensaries and maternity and child welfare centres and the carrying out of other measures necessary for public medical relief;	√	√
(k)	The construction, and maintenance of municipal markets and regulation of all markets;	√	√
(l)	The regulation and abatement of offensive or dangerous trade or practices;	√	√
(m)	The securing or removal of dangerous Buildings and places,	√	√
(n)	The construction, maintenance, alteration and improvements of public streets, bridges, culverts, causeways and the like;	√	√
(o)	The lighting, watering and cleansing of public streets and other public places;	√	√
(p)	The removal of obstructions and projections in or upon streets bridges and other public places;	√	√
(q)	The naming and numbering of streets and premises;	√	√
(r)	The establishment, maintenance of, and aid to, schools for primary education subject to such grants as may be determined by the Central Government from time to time (since delegated to Government of Delhi);	√	√
(s)	The maintenance of municipal offices;	√	√
(t)	The laying out or the maintenance of public parks,	√	√

	gardens or recreation grounds;		
(u)	The maintenance of monuments and memorials vested in any local authority in Delhi/New Delhi immediately before the commencement of this Act or which may be vested in the Corporation/Council after such commencement;	√	√
(v)	The maintenance and development of the value of all properties vested in or entrusted to the management of the Corporation/Council;	√	√
(w)	The preparation of plans for economic development and social justice;	√	√
(x)	The maintenance including the expansion and upgradation of facilities of the hospitals existing on the date of the commencement of this Act;	√	√
(y)	Sanction or refuse erection or re-erection of buildings; and	X	√
(z)	The fulfilment of any other obligation imposed by or under this Act or any other law for the time being in force.	√	√

While the obligatory functions assigned to NDMC include construction and maintenance of works and means for providing supply of water, as also purchase and distribution of electricity, and sanction or refuse erection or re-erection of buildings; these are not assigned to MCD. NDMC handles only the distribution part of electricity and water supply. Production and bulk purchase of electricity and water supply and sewerage treatment are handled by separate agencies. These functions have been segregated from MCD also and separate bodies set up for this purpose, namely Delhi Vidyut Board and Delhi Jal Board respectively.

B: DISCRETIONARY FUNCTIONS

S.N	FUNCTIONS	MCD	NDMC
(a)	The furtherance of education including cultural and physical education by measures other than the establishment and maintenance of, and aid to, schools for primary education;	√	√
(b)	The establishment and maintenance of, and aid to, libraries, museums, art galleries, botanical or zoological collections;	√	√
(c)	The establishment and maintenance of, and aid to, stadia, gymnasia, akharas and places for sports and games;	√	√
(d)	The planting and care of trees on road sides and elsewhere;	√	√
(e)	The surveys of buildings and lands;	√	√
(f)	The registration of marriages;	√	X
(g)	The taking of a census of population;	√	√
(h)	The civic reception to persons of distinction	√	X
(i)	The providing of music or other entertainments in public places or places of public resort and the establishment of theatres and cinemas;	√	√
(j)	The organisation and management of fairs and exhibitions;	√	X
(k)	The acquisition of movable or immovable property for any of the purposes before mentioned, including payment of the cost of investigations, surveys or examinations in relation thereto for the construction or adaptation of building necessary for such purposes;	√	√
(l)	The construction and maintenance of- (i) Rest-houses, (ii) Poor-houses,	√	√

	(iii) Infirmaries, (iv) Children's homes, (v) Houses for the deaf and dumb and for disabled and handicapped children, (vi) Shelters for destitute and disabled persons, (vii) Asylums for persons of unsound mind,		
(m)	The construction and maintenance of <u>cattle ponds</u> ;	√	√
(n)	The building or purchase and maintenance of dwelling-houses for municipal officers and other municipal employees;	√	√
(o)	Any measures for the welfare of the municipal officers and other municipal employees or any class of them including the sanctioning of loans to such officers and employees or any class of them for construction of houses and purchase of vehicles.	√	√
(p)	The organisation or management of chemical or bacteriological laboratories for the examination or analysis of water , food and drugs for the detection of diseases or research connected with the public health or medical relief;	√	√
(q)	The provision for relief to destitute and disabled persons;	√	√
(r)	The establishment and maintenance of veterinary hospitals;	√	√
(s)	The organisation, construction, maintenance and management of swimming pools, public wash houses, bathing places and other institutions designed for the improvement of public health;	√	√
(t)	The organisation and management of farms and dairies within or without Delhi/New Delhi for the supply, distribution and processing of milk and milk products for the benefit of the residents of Delhi/New	√	X

	Delhi		
(u)	The organisation and management of cottage industries, handicraft centres and sales emporia;	√	√
(v)	The construction and maintenance of warehouses and godowns;	√	X
(w)	The construction and maintenance of garages, sheds and stands for vehicles and cattle biers;	√	√
(x)	The provision for unfiltered water supply;	√	X
(y)	The improvement of Delhi/New Delhi in accordance with improvement schemes by the MCD/NDMC;	√	√
(z)	The provision of housing accommodation for the inhabitants of any area or for any class of inhabitants; and	√	√
(za)	Any measure not herein before specifically mentioned, likely to promote public safety, health, convenience or general welfare.	√	√

The MCD and NDMC have been assigned a rather long list of discretionary functions, more specifically 27 discretionary functions have been assigned to MCD and 21 discretionary functions to NDMC. While in the case of NDMC, it may not be out of place to assign discretionary functions, in the case of MCD the scope of performing discretionary functions needs careful assessment from time to time based on availability of resources.

In the Memorandum submitted to the Commission, the MCD has indicated that it spends only 1 to 2% of its total budget on discretionary and non-essential functions. The position of MCD expenditure on non-obligatory functions is reflected in the Table below:

Table 1

EXPENDITURE ON NON OBLIGATORY FUNCTIONS - MCD

Head	(Rs. in Lakhs)						
	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-2001
Physical Education and Grant-in-aid to Government Schools	372.44	433.43	489.11	563.43	839.41	878.75	791.99
Libraries; Museums, Akharas; Sports Places and Grant-in-aid to public institutions (Except Estt.)	82.53	82.28	80.06	84.84	150.84	210.45	155.15
Plantation of Trees on road side & elsewhere	31.87	32.41	31.78	30.44	31.94	28.39	37.06
Civic Reception	1.21	1.34	2.37	5.63	7.67	3.51	6.89
Fairs and Exhibitions	15.36	11.83	17.23	20.85	12.36	17.64	61.96
Old Age Pension	175.53	162.26	147.33	154.16	224.40	297.22	340.14
Swimming Pools	0.82	1.82	1.79	2.07	4.09	4.07	4.16
Total	679.76	725.37	769.67	861.42	1270.71	1440.03	1397.35
Total Expenditure	48779	58204	66739	81653	112122	135894	137280
Percentage	1.39%	1.24%	1.15%	1.05%	1.13%	1.05%	1.02%

It can be seen that in the last few years, MCD has spent only about 1 to 1.5% of its total expenditure on Discretionary functions. In absolute terms, this expenditure is not very high, but still substantial, ranging from Rs.7 crores to Rs.14 crores in 2000-01.

As regards NDMC, it can be seen that it performed a wide variety of discretionary functions in comparison to MCD. These include setting up of senior secondary schools, youth centres and setting up of girls hostels, etc.

FUNCTIONAL DOMAIN OF DCB

OBLIGATORY FUNCTIONS

The obligatory functions of the Board include -

- (a) Lighting Streets and other public places.

- (b) Provision of water supply.
- (c) Cleaning streets, public places and drains, abating nuisance and removing noxious vegetation.
- (d) Regulating offensive, dangerous and obnoxious trades, callings and practices.
- (e) Removing on the ground of public safety, health or convenience undesirable obstruction and projections in streets and other public places.
- (f) Securing or removing dangerous buildings and places.
- (g) Acquiring, maintaining and regulating places for disposal of the dead.
- (h) Constructing altering and maintaining streets, culverts, markets, slaughter-houses, latrines, urinals, drains and sewerage and regulating their use.
- (i) Planting and maintaining trees, on road sides and other public places.
- (j) Providing or arranging for a sufficient supply of pure and wholesome water, where such supply does not exist, guarding from pollution of water used for human consumption and preventing polluted water from being used.
- (k) Registering birth and deaths.
- (l) Establishing and maintaining a system of public vaccination and inoculation.
- (m) Establishing and maintaining or supporting public hospitals and dispensaries and providing medical relief.
- (n) Establishing and maintaining Primary schools.
- (o) Rendering assistance in extinguishing fires and protecting life and property when fires occur.
- (p) Maintaining and developing the value of property vested in or entrusted to the management of the Board.
- (q) Establishing and maintaining civil defence services.
- (r) Preparing and implementing town planning schemes.
- (s) Fulfilling any other obligation imposed upon it by or under Cantonment Act, 1924 or any other law for the time being in force.

DISCRETIONARY FUNCTIONS

A Board may, within the cantonment, make provisions for –

- (a) laying out in areas, whether previously built upon or not, new streets, and acquiring land for that purpose and for the construction of buildings, and compounds of buildings, to abut on such streets;
- (b) constructing, establishing or maintaining public parks, gardens, offices, dairies, bathing or washing places, drinking fountains, tanks, wells and other works of public utility;
- (c) reclaiming unhealthy localities;
- (d) furthering educational objects by measures other than the establishment and maintenance of primary schools;
- (e) taking a census and granting rewards for information which may tend to secure the correct registration of vital statistics;
- (f) making a survey;
- (g) giving relief on the occurrence of the local epidemics, floods, famines or other natural calamities by the establishment or maintenance of relief works or otherwise;
- (h) securing or assisting to secure suitable places for the carrying on of any offensive, dangerous or obnoxious trade, calling or occupation;
- (i) establishing and maintaining a farm or other place for disposal of sewage;
- (j) constructing, subsidising or guaranteeing tramways or other means of locomotion, and electric lighting or electric power works;
- (k) establishing and maintaining cattle pounds;
- (l) arranging for civic reception with prior approval of the Officer Commanding-in-Chief, the Command;
- (m) providing housing accommodation for any class of inhabitants;
- (n) establishing and maintaining or supporting public hospitals and dispensaries, and providing public medical relief;
- (o) celebrating Independence Day and Republic Day and incurring expenditure thereon;
- (p) developing land resources under the management of the Board;
- (q) preparing and implementing group housing schemes;
- (r) establishing small-scale and cottage industries;

- (s) developing small-scale and cottage industries;
- (t) adopting any measure, other than a measure specified in section 116 of Cantonment Act, 1924 or in the foregoing provisions likely to promote the safety, health or convenience of the inhabitants of the cantonment;

It can be seen that some of the obligatory functions entrusted to DCB include a few which are not being performed by either MCD or NDMC e.g. establishing and maintaining civil defence services and preparing and implementing town planning schemes. Similarly, preparing and implementing group housing schemes and establishing and developing small scale and cottage industries are functions which are being performed by DCB but which are outside the functional domain of MCD and NDMC.

The Commission deliberated at length on how the functions and responsibilities entrusted to MCD and NDMC could be discharged to ensure a certain level of basic services. This could be done either by expanding their responsibilities, reducing their responsibilities, shifting some of the discretionary functions to obligatory or vice-versa or leaving the obligatory/discretionary functions untouched.

After deliberations, the Commission recommends that -

- (a) There should be no overlapping of functions between Govt. of Delhi and the Municipalities,
- (b) Primary health care including dispensaries, maternity and child health care centres and small hospitals should remain with municipalities, but all hospitals with more than 100 beds capacity should be transferred from Municipalities to Govt. of Delhi since these require specialized management, logistics and diagnostic facilities.
- (c) The discretionary function of old age pension being performed by MCD and NDMC should be transferred to Government of Delhi to avoid duplication. This would also help in improving the financial health of municipalities.

- (d) The function relating to construction and maintenance of cattle ponds should be transferred from discretionary to obligatory functions of both MCD and NDMC respectively.
- (e) The discretionary functions relating to MCD in respect of construction and maintenance of rest houses, poor houses, infirmaries, children's homes, houses for the deaf and dumb and for disabled and handicapped children, shelters for destitute and disabled persons, and asylums for persons of unsound mind, should be transferred to Govt. of Delhi to enable better and coordinated approach and better management of buildings.
- (f) In terms of the Supreme Court recent judgement, greater responsibility lies with the Government of Delhi in respect of location of industries. The work of relocation of industries from non-conforming areas to conforming areas has been handled by Government of Delhi in the recent past. Therefore, the work relating to issue of factory licenses should be transferred to Government of Delhi from MCD. This would facilitate the implementation of a uniform policy throughout Delhi.
- (g) The issue of food licences for eating establishments should be transferred to Government of Delhi for better supervision, control and coordination as is the practice in other States and as was also recommended by the Supreme Court.

CHAPTER V

OVERVIEW OF THE CURRENT STATUS OF THE FINANCES OF THE GOVERNMENT OF NCT OF DELHI

The current set up of Delhi was brought about by Article 239-AA of the Constitution inserted by the Constitution (Sixty-ninth Amendment) Act, 1991 with effect from 1.2.1992. By this amendment, the name of the Union Territory of Delhi was changed to National Capital Territory of Delhi and though it continues as a Union Territory, it has been endowed with a Legislative Assembly with a Chief Minister and a Council of Ministers with limited powers as distinct from the powers available to them in other States. Matters covered by Entries 1,2 and 18 of the State List of the Seventh Schedule viz., Public Order, Police and Land have been kept outside the purview of the Legislative Assembly of NCT of Delhi. Financial matters require the approval of Government of India before they are placed before the Legislative Assembly. Any other matter discussed and approved by the Assembly cannot become a law unless approved by the Government of India.

State Domestic Product

With per capita income of Delhi at current prices of Rs. 38864 against an all-India per capita income of Rs. 16487 in 2000-01, NCT of Delhi ranked first among all the States and Union Territories in the country. The State Income (i.e. net State Domestic Product) of Rs. 52793 crores at current prices accounted for 3.14 per cent of the national income of Rs. 1679982 crores during 2000-01 and was contributed by only 1.34 per cent of the country's population residing in Delhi. In the year 2000-01 NCT of Delhi registered a growth rate of 10.3 per cent in State Domestic Product at current prices against an all-India average of 7.8 per cent with growth in per capita income of 6.4 per cent compared to 5.9 per cent for the country as a whole. Table 1 gives details of State Income of Delhi and All India. Further details may be seen in the table at Annexure 5.1.

Table 1

STATE INCOME : DELHI AND ALL INDIA

ITEM	1993-94		1998-99		1999-2000(P)		2000-01(Q)	
	DELHI	ALL INDIA	DELHI	ALL INDIA	DELHI	ALL INDIA	DELHI	ALL INDIA
AT CURRENT PRICES								
GSDP (Rs. in crore)	20841	781345	46943	1616033	52375	1755638	57547	1895843
% change over previous year			14.5	16.3	11.6	8.6	9.9	8
NSDP (Rs. in crore)	18816	697992	42785	1449424	47846	1557781	52793	1679982
% change over previous year			15.1	17.1	11.8	7.8	10.3	7.8
Per Capita Income	18021	7698	33870	14712	36515	15562	38864	16467
% change over previous year			10.9	15.2	7.8	5.8	6.4	5.9
AT 1993-94 PRICES								
GSDP (Rs. in crore)	20841	781345	33530	1083047	35109	1148500	36685	1193922
% change over previous year			7.5	6.5	4.7	6.0	4.5	4.0
NSDP (Rs. in crore)	18816	697992	30484	960956	31875	1007743	33213	1044915
% change over previous year			7.9	6.6	4.6	4.9	4.2	3.7
PER CAPITA INCOME(Rs.)	18021	7698	24133	9733	24327	10067	24450	10254
% change over previous year			3.9	4.8	0.8	3.4	0.5	1.9

Source : Economic survey 2001-02, Government of Delhi. (P- Provisional, Q - Quick)

Fiscal Profile

Prior to Delhi becoming a Union Territory with a legislature, its entire expenditure was being met from the Consolidated Fund of India, and its resources were credited in the same Fund. Till 30.11.1993, the budget of Union Territory of Delhi formed part of the Central budget; and a separate Demand for Grants for the Union Territory of Delhi was included in the Demands for Grants of the Ministry of Home Affairs. With the formation of NCT of Delhi, a separate Consolidated Fund of Delhi was created on 1.12.1993. All revenue received by NCT, in relation to any matter in respect of which the Legislative Assembly of NCT has powers to make laws as also all grants and loans advanced to Government of NCT by the Government of India; and all moneys received by the Government of NCT by way of repayment of loans and payment of interest are credited to this Fund; and all payments on behalf of NCT are met therefrom. An Annual Financial Statement – or Budget-detailing 'Estimated Receipts and the Expenditure of the NCT of Delhi for the year' is also required to be laid before the Legislative Assembly of NCT. The Act also created a separate Contingency Fund for Delhi for meeting any unforeseen expenditure pending its approval by the Legislature and made various other provisions as in vogue in other States in the matter of administering State Finances.

The Public Account of Delhi which all along formed part of the Consolidated Fund of India continues to be maintained by the Central Government and the balances thereof have, as yet, not been transferred to NCT of Delhi.

The budgetary position of NCT of Delhi for the years 1990 - 91 to 2000-01 is set out in Table 2 below .

Table 2
GNCTD - REVENUE ACCOUNT AND CAPITAL ACCOUNT - SUMMARY
(Rs. in Crores)

S.N	Heads	Actuals										
		1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
I	Revenue Receipts	1023	1165	1418	1472	1980	2296	2795	3480	3660	4274	5444
1.	Own Revenues	1023	1165	1418	1472	1887	2174	2590	3111	3276	3828	4949
	(a) Tax Revenues	990	1137	1351	1424	1787	2111	2534	2941	3088	3430	4401
	(b) Non-Tax Revenue	32	28	67	48	99	63	55	169	187	397	548
2	Transfers from Centre					93	122	205	369	383	446	495
II	Revenue Expenditure	994	1071	1137	1268	1430	1877	2031	2322	2840	3523	3697
III	Surplus/Deficit on Revenue Account	28	94	281	204	549	419	764	1158	820	751	1748
IV	Capital Account											
A	Capital Receipts	54	36	43	149	547	755	880	1030	762	1645	1698
	(a) Loans from the Centre											
	(i) Receipts				117	510	796	851	876	975	1399	1764
	(ii) Disbursements						70			268	4	187
	(iii) Net				117	510	726	851	876	707	1394	1577
B	Capital Disbursements	464	554	634	782	976	1004	1483	1888	1834	2383	3478
V	Surplus/Deficit on Capital Account	-430	-517	-591	-633	-428	-248	-602	-858	-1072	-738	-1780
VI	Overall Budgetary Surplus/Deficit	-401	-423	-309	-428	121	170	161	300	-252	13	-33
A	Opening Balance							45	206	507	255	208
B	Closing Balance						45	206	507	255	268	235
VII	Fiscal Deficit	401	423	309	545	388	555	689	575	959	1381	1610
A	Receipts	1077	1202	1482	1505	2018	2325	2825	3634	3715	4525	5565
B	Expenditure	1479	1626	1771	2051	2407	2881	3515	4210	4674	5906	7175

In brief, there was an overall budgetary surplus (i.e. an excess of total expenditure over total receipts) from 1994-95 to 1997-98 and deficit during 1990-91 to 1993-94, 1998-99 and 2000-01. In the revenue account there was a surplus throughout this period, even after mandatory transfers to the local bodies;

and more importantly after meeting the plan expenditure. Unlike the Revenue Account, the Capital Account throughout this period showed a deficit which peaked at Rs. 1780 crores in 2000-01.

The above table also indicates that the loan requirements of Government of NCT of Delhi from Centre peaked at Rs. 1764 crores during 2000-01, though it was only Rs.510 crores (the lowest) during 1994-95. The details are given in the table at Annexure 5.2.

Trend of Revenue Receipts

Between 1990-91 and 2000-01, own revenue receipts of Government of Delhi registered a trend growth rate of 17 per cent per annum. Measured in per capita terms, own revenue receipts per capita increased from Rs.1086 in 1990-91 to Rs. 3591 in 2000-01 i.e. more than three times and moved along with the growth in the State's per capita income which also registered an increase of more than three times over the corresponding period.

Table 3
FISCAL PARAMETERS – GNCTD

(Rs. in Lakhs)

S. N.	ITEMS	ACTUALS											Trend/ A.G.
		1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	
I	2	3	4	5	6	7	8	9	10	11	12	13	14
I	Tax Revenue	99099	113700	135167	142436	178747	211105	253457	294158	308878	343041	440062	18
	% age of own revenue	97	98	95	97	95	97	95	95	94	90	86	
	Growth over prev. year		15	19	5	25	18	20	18	5	11	28	18
II	Non-Tax Revenue	3211	2898	6718	4889	9962	8314	5574	16952	18796	39785	54835	31
	% age of own revenue	3	2	5	3	5	3	2	5	6	10	11	
	Growth over prev. year		-10	132	-28	105	-37	-12	204	11	112	38	52
III	Own Revenue (I+II)	102310	116598	141885	147296	188709	217419	259061	311110	327674	382826	494897	17
	% age of Total Receipts	100	100	100	100	100	100	100	93	93	93	94	
	Growth over prev. year		14	22	4	28	15	19	20	5	17	29	17
IV	Transfer from Centre (except plan assistance)								24000	25992	30030	33000	12
	% age of Total Receipts								7	7	7	6	
	Growth over prev. year									8	16	10	11
V	Total Revenue Receipts	102310	116598	141885	147296	188709	217419	259061	335110	353666	412856	527897	18
	Growth over prev. year		14	22	4	28	15	19	29	6	17	28	18
VI	Population	94	98	103	107	112	117	123	129	133	135	138	
VII	Per Capita (in Rupees)												
(i)	Tax Revenue	1052	1155	1314	1325	1591	1789	2064	2288	2319	2534	3193	
(ii)	Non-Tax Revenue	34	29	65	45	89	54	45	132	141	294	398	
(iii)	Own Receipts	1086	1184	1379	1370	1680	1853	2109	2420	2460	2827	3591	
(iv)	Transfer from the Centre	0	0	0	0	0	0	0	187	195	222	239	
(v)	Total Revenue Receipts	1086	1184	1379	1370	1680	1853	2109	2607	2656	3049	3830	
VIII	GSDP (Current Prices)	1132627	1485680	1700381	2084053	2568632	2818896	3353065	4099214	4694295	5237525	5754880	18
	Growth over prev. year		31	14	23	23	10	19	22	15	12	10	18
IX	State Income (Current Prices)	1024336	1350440	1536400	1881612	2325345	2523313	3014773	3716904	4278516	4784578	5279310	
	Growth over prev. year		32	14	22	24	9	19	23	15	12	10	18
X	Per Capita Income (in Rupees) at Current Prices	10873	13718	14937	18021	21420	22364	25715	30537	33870	36515	38864	
	Growth over prev. year		26	9	21	18	4	15	19	11	8	8	14

The revenue receipts of NCT comprise own revenue, broken down between tax revenue, non-tax revenue and transfers from the Centre, the latter commencing only in 1997-98 consequent upon Delhi acquiring the status of a Union Territory with a Legislature. In own revenue, the major contribution was that of tax revenue and the share of non-tax revenue was only marginal i.e. between 2 per cent (in 1991-92 and 1996-97) and 11 per cent (in 2000-01).

A growth of only 4% (lowest) over the previous year in own revenue was recorded in the year 1993-94. The highest figure of 29% growth over the previous year was recorded in 2000-01.

Tax Revenue

Tax revenue has been growing at a trend growth rate of 16% per annum for the time series data from 1990-91 to 2000-01. Share of tax revenue in own revenues varied between 98% to 89%. The highest 98% share was recorded in the years 1991-92 and 1996-97 and lowest 89% in the year 2000-01. Unlike the share of own revenue in total revenue, which has been almost 93-100%, wide variation has been noticed in annual growth over previous year i.e., lowest 4% in 1993-94, 5% in 1998-99, and highest 29% in 2000-01.

The principal sources of tax revenue of NCT of Delhi are Sales Tax, accounting for almost three-fourth of its tax revenue, and State Excise, accounting for about one-sixth of total tax revenue. Both these taxes are income buoyant – between them, the two currently yield 90% (2000-01) of the tax revenue of NCT of Delhi. The other sources are Stamps and Registration Fees (4 per Cent) and Tax on Vehicles (3 per cent). Land revenue, once a major source, contributed a negligible Rs.1 lakh in 2000-01. Table 4 below gives details of tax revenue from different sources over the years 1990-91 to 2000-01 along with percentage share in tax revenue and growth over previous year separately from all sources.

Table 4
STATEMENT OF TAX REVENUE - GNCTD

(Rs. in Lakhs)

S.N.	ITEMS	ACTUALS											Trend/ Av.Gr.
		1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Tax Revenue												
(i)	Land Revenue	2	15	44	24	21	4	1	1	1	1	1	-27
	% age of tax revenue	0	0	0	0	0	0	0	0	0	0	0	
	Growth over prev. year		650	193	-45	-13	-81	-75	0	0	0	0	-63
(ii)	Stamps and Registration	3214	4788	4868	6646	11192	12743	11463	11738	15101	19047	19169	19
	% age of tax revenue	3	4	4	5	6	6	5	4	5	9	4	
	Growth over prev. year		49	2	37	68	14	-10	2	29	26	1	22
(iii)	State Excise	16221	21544	27848	28360	30847	33579	44654	51501	52611	56641	56721	13
	% age of tax revenue	16	19	21	20	17	16	18	18	17	17	13	
	Growth over prev. year		33	29	2	9	9	33	15	2	8	-2	14
(iv)	Sales Tax	68971	77782	92984	100170	127126	153913	181481	202904	211297	234650	338786	16
	% age of tax revenue	70	68	69	70	71	73	72	69	68	68	77	
	Growth over prev. year		13	20	8	27	21	18	12	-4	11	44	18
(v)	Tax on Vehicles	5316	3764	3897	4684	6649	7051	7812	10511	12539	16087	14234	16
	% age of tax revenue	5	3	3	3	4	3	3	4	4	5	3	
	Growth over prev. year		-29	4	20	42	6	11	35	19	28	-12	12
(vi)	Taxes on Goods and Passengers	3720	3904	3309	98	0	320	875	749	631	216	102	-20
	% age of tax revenue	4	3	2	0	0	0	0	0	0	0	0	
	Growth over prev. year		5	-15	-97	-100	0	173	-14	-16	-66	-53	-20
(vii)	Other Taxes and duties	1655	1903	2219	2454	2912	3495	7201	16754	16698	16390	12049	31
	% age of tax revenue	2	2	2	2	2	2	3	6	5	5	3	
	Growth over prev. year		15	17	11	19	20	108	133	0	-2	-26	29
	Total Tax Revenue	99099	113700	135167	142438	178747	211105	253487	294158	308878	343041	440062	16
	Growth over prev. year		15	19	5	25	18	20	16	5	11	28	16

(1) Sales Tax and Excise Duties :

Between 1990-91 and 2000-01, Sales tax revenue grew at an annual trend rate of 16 per cent. Over the years, its relative importance in the aggregate tax revenue improved from 70 per cent in 1990-91 to 77 per cent in 2000-01. However, its rates of growth over previous year exhibited wide fluctuations over different years. For example, its growth over previous year was 4 per cent in 1998-99 over the previous year, 27% in 1994-95 over 1993-94 and 44% in 2000-01 over the previous year.

The trend growth rate of State Excise, the next important source of revenue was 13 per cent. As in the case of Sales tax, in this case too, its annual rate of growth as also its share in total State taxes exhibited very wide fluctuations. While its annual growth over preceding years varied between 2 per cent in 1993-94 and 1998-99 to 33 per cent in 1991-92 and 1996-97 over the previous years,

its contribution in total tax revenue has decreased to 13 per cent in 2000-01 from 21 per cent in 1992-93.

(2) Tax on Vehicles:

Between 1990-91 and 2000-01, although taxes on vehicles also showed a trend growth rate of 16 per cent, its contribution ranged between about 3 per cent to 5 per cent of the tax revenue of NCT of Delhi. This tax has two components – the first is the tax on vehicles, commonly known as Road Tax, which is covered by Delhi Motor Vehicles Taxation Act, 1962. The other component is the different fees prescribed under Motor Vehicles Rules, 1989 framed under Motor Vehicles Act, 1988 and is administered by the Ministry of Shipping and Surface Transport, Government of India. The fee is collected by the Directorate of Transport of NCT for the services rendered by it to the vehicle owners.

(3) Stamps and Registration:

Stamps and Registration fees grew at a trend rate of 19 per cent over the period 1990-91 to 2000-01. Its contribution in total tax revenue varied between 3 to 6 per cent. However, its growth over previous year varied very widely, and could be termed erratic.

Table 5 below contains percentage of tax revenue, non-tax revenue, transfers from centre and total receipts of NCT of Delhi with reference to corresponding Gross State Domestic Product of Delhi.

Table 5
REVENUE RECEIPTS AS PERCENTAGE OF GSDP

S N	ITEMS	ACTUALS										
		1990- 91	1991- 92	1992- 93	1993- 94	1994- 95	1995- 96	1996- 97	1997- 98	1998- 99	1999- 2000	2000- 01
1	2	3	4	5	6	7	8	9	10	11	12	13
I	% of GSDP											
(i)	Tax revenue	8.75	7.64	7.95	6.83	6.96	7.49	7.56	7.18	6.58	6.55	7.65
(ii)	Non-tax revenue	0.28	0.19	0.40	0.23	0.39	0.22	0.17	0.41	0.40	0.76	0.95
(iii)	Own revenue	9.03	7.83	8.34	7.07	7.35	7.71	7.73	7.59	6.98	7.31	8.60
(iv)	Transfers from Centre								0.59	0.55	0.57	0.57
(v)	Total receipts	9.03	7.83	8.34	7.07	7.35	7.71	7.73	8.17	7.53	7.88	9.17

It can be observed that the tax revenue as a percentage of GSDP has fallen from 8.75% in 1990-91 to 6.55% in 1999-2000 and then gone up to 7.65% in 2000-01. Own revenue receipts as a percentage of GSDP was lowest at 7.07% in 1993-94 and highest at 9.03% in 1990-91. Transfers from centre started from the year 1997-98. Total receipts including transfers as a percentage of GSDP was highest at 9.17% in 2000-01 and lowest at 7.35% in 1994-95.

Expenditure

The expenditure incurred by NCT of Delhi can broadly be classified into revenue and capital, each with a plan and non-plan component. Alternatively, it can also be classified between plan and non-plan expenditure, each with a revenue and a capital component. Between 1990-91 and 2000-01, the aggregate expenditure, aggregate capital expenditure and aggregate revenue expenditure in NCT grew at trend growth rates of 18 per cent, 22 per cent and 15 per cent respectively. The total plan expenditure grew at 15 per cent and the non-plan expenditure at 20 per cent per annum. The aggregate expenditure/GSDP ratio showed fluctuating trend over the period ranging between 9 per cent to 13 per cent. The aggregate revenue expenditure/ GSDP ratio ranged between 6 to 9 per cent, and the aggregate capital expenditure/GSDP ratio varied between 4 per cent to 6 per cent, aggregate plan expenditure / GSDP ratio ranged between

Table 6
EXPENDITURE – GSDP RATIO - GNCTD

(Rs. in Crores)									
S.N.	Heads	Actuals							Trend
		1990-91	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	
1	2	3	4	5	6	7	8	9	10
A	Revenue Expenditure	995	1877	2032	2322	2840	3523	3697	15
	% of total expenditure	67	64	58	55	57	60	52	
	% of GSDP	9	7	6	6	6	7	6	
B	Capital Disbursements	484	1074	1484	1889	2102	2389	3478	22
	% to total expenditure	33	36	42	45	43	40	48	
	% of GSDP	4	4	4	5	4	5	6	
C	Total Expenditure	1479	2951	3515	4211	4943	5912	7175	18
	% of GSDP	13	10	10	10	11	11	12	
D	GSDP (Current Prices)	11328	28189	33531	40992	46943	52375	57547	18

4 to 7 per cent and aggregate non-plan expenditure/GSDP ratio varied between 5 per cent to 7 per cent. This can be seen from the table at Annexure 5.3.

It can be clearly seen from tables 5 and 6 that the percentage of own receipts of GNCTD has always been more than the percentage of revenue expenditure with reference to GSDP of Delhi and the difference has been as high as 1.67% in 1996-97 and 2000-01.

Further desegregation revealed that the share of plan revenue expenditure in the total revenue expenditure was relatively small, being only 25 to 32 per cent. On the capital side, the bulk of expenditure was on plan account. Its share ranged between 58 per cent to 100 per cent.

Under the non-plan side, the bulk of expenditure was on revenue account which grew at a trend growth rate of 15 per cent. The maintenance expenditure of plan schemes becomes part of non-plan revenue expenditure at the end of each five year plan period. The non-plan revenue expenditure comprises expenditure on salaries and wages, interest payment, pensionary charges and transfers to local bodies. The share of non-plan capital expenditure was relatively less. The other details may be seen in table at Annexure 5.3.

During the year 2000-01, 50 per cent of the total non-plan revenue expenditure was accounted for by expenditure on social sectors namely, General Education, Medical and Public Health, Technical Education, Social Security and Welfare, Urban Development and a few others like Sports and Youth Welfare, Art and Culture, Housing etc. General services including organs of state, interest payments, etc. accounted for another 44%, and Economic Services for 6% of total non plan revenue expenditure.

Further details can be seen from the table at Annexure 5.4.

Table 7

CLASSIFICATION OF NON-PLAN REVENUE EXPENDITURE - GNCTD

		(Rs. in Lakhs)										
S.N.	ITEMS	ACTUALS										
		1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
1	2	3	4	5	6	7	8	9	10	11	12	13
A	General Services	23658	26322	29957	34762	37301	56555	46112	51008	67324	79227	102056
	% age of total (D)	39	42	44	44	43	51	40	34	36	39	44
	Growth over prev. year		11	14	16	7	52	-18	11	32	18	29
B	Social Services	34040	32772	35137	39736	44737	49792	63776	88423	106070	113229	116688
	% age of total (D)	56	53	51	51	52	45	55	60	57	56	50
	Growth over prev. year		-4	7	13	13	11	28	39	20	7	3
C	Economic Services	2861	2981	3507	3913	4682	5401	5743	8615	11664	11482	13736
	% age of total (D)	5	5	5	5	5	5	5	6	6	6	6
	Growth over prev. year		4	18	12	20	15	6	50	35	-2	20
D	Total (A+B+C)	60559	62075	68601	78411	86720	111748	115631	148046	185058	203938	232480
	Growth over prev. year		3	11	14	11	29	3	28	25	10	14

In the case of interest also, no payments were involved upto the year 1994-95 as no loans were advanced by the Central Government to Delhi Government before the formation of NCT. Interest payments started from the year 1995-96 when a sum of Rs. 94 crores was paid/payable to Central Government by GNCTD, which has now increased to Rs. 717 crores in 2000-01 i.e. more than seven and half times.

Another important item of non-plan revenue expenditure of NCT of Delhi was 'transfers' to the local bodies. This includes the transfers on account of share in assigned taxes/global share in tax revenue and non-plan grant-in-aid. An amount of Rs. 132.47 crores was transferred in 1990-91, which increased to Rs. 411.83 crores in 2000-01. Average percentage share of total transfers to local bodies to tax revenue decreased to 9.74% of tax revenue of GNCTD during the five year period 1997-2001 from 11.05% of tax revenue during the five year period 1991-96 as can be seen from the table at Annexure 5.5.

Forecast of Receipts and Disbursements of the Government of NCT of Delhi for the award period 2001-06.

Para 5 of the terms of reference of the Commission states that, in making its recommendations, the Commission, shall have regard, among other considerations to the overall resource position of the Government of NCT of Delhi. In this context, the Commission had requested GNCTD to furnish their forecasts of receipts and expenditure on revenue and capital account for the period 2001-02 to 2005-06.

The forecasts conveyed by Government of NCT of Delhi cover all the transactions in the Consolidated Fund of the Government of NCT of Delhi including transfers to MCD, NDMC, and DCB. The forecast is based on current prices. The additional resource mobilization has also been taken into account in the forecast. They have also indicated that in any case the additional receipts accruing as a result of these changes should appropriately count as a resource for the plan and not be taken into account for deciding devolution to local bodies.

A summary of the forecasts of revenue and capital account for the forecast period 2001-06 is placed below in Table 8. Figures for 2000-01 are also indicated to provide a benchmark for comparison.

Table 8
Summary of Forecast of Revenue and Capital Account – GNCTD
(Rs. in Crores)

S.N.	Items	Actuals 2000-01	Total 2001-06
1	2	3	4
I.	Non-Plan Account of GNCTD		
A.	Revenue		
	(a) Receipts	4880.07	36796.59
	(b) Expenditure	2324.80	15304.06
	(c) Surplus or Deficit	2555.27	21492.53
B.	Capital		
	(a) Receipts	121.12	767.08
	(b) Expenditure	367.66	1204.34
	(c) Surplus or Deficit	-246.54	-437.26
C.	Total Surplus or Deficit (Non-Plan)	2308.73	21055.27
II.	Plan Account of GNCTD		
A.	Revenue		
	(a) Receipts – Grants	165.01	656.85
	(b) Expenditure	374.85	3824.43
	(c) Surplus or Deficit	-209.84	-3167.58
B.	Capital		
	(a) Receipts Loans	1764.08	7003.94

	(b) Expenditure	669.43	6903.16
	(c) Surplus or Deficit	1094.65	100.78
C.	Total Surplus or Deficit (Plan)	884.81	-3066.80
III.	Total Surplus or Deficit (Plan+Non-Plan) (I+II)	3193.54	17988.47
IV.	Delhi Vidyut Board	1243.92	5477.59
V.	Delhi Jal Board	521.90	4012.10
VI.	D.T.C.	353.75	1519.33
VII.	Total Net Surplus or Deficit (III-IV-V-VI)	1073.97	6979.45
VIII.	Transfers to Local Bodies		
(A)	Plan Account	623.12	4158.36
	(a) Grants	527.00	3471.30
	(b) Loans	96.12	687.06
(B)	Non-Plan Account	483.95	3203.41
	(a) Basic Tax Assignment	235.08	1819.10
	(b) Special Loan	80.00	60.00
	(c) Grants	168.87	1324.31
	Total - VIII (A+B)	1107.07	7361.77
IX.	Overall Surplus or Deficit (VII-VIII)	-33.10	-382.32

The projections made by GNCTD are based on RE 2001-02, BE 2002-03 and projections for the years 2003-04, 2004-05 and 2005-06 as finalized by the Planning Commission for 10th Five Year Plan.

The transfers to local bodies (MCD and NDMC) for non-plan grant-in-aid and global share have been worked out on the basis of the present rate of devolution i.e. 4% for non-plan grant-in-aid and 5.5% for global share in the projected tax revenue of GNCTD.

GNCTD have on this basis indicated a surplus of Rs. 21493 crores, on non-plan revenue account and overall surplus of Rs. 6979 crores for the five years of the forecasts period 2001-06.

Overall details in this regard can be seen from the table at Annexure 5.6.

The Commission deliberated on various issues of methodology for working out the resource availability for the forecast period 2001-06 and came to the conclusion that the forecast based upon the 10th five year plan as finalized by the Planning Commission could be accepted as the basis for estimating resource availability of GNCTD.

From the above analysis of the finances of GNCTD, particularly on the non-plan account, the Commission came to the conclusion that the finances of NCT of Delhi are comfortable, and are likely to improve in future. Therefore, the Commission felt that it would be possible for Government of NCT of Delhi to spare amounts for transfer to MCD and NDMC in addition to the existing pattern of devolution.

PART III

CHAPTER VI

FINANCIAL REQUIREMENTS: LOCAL BODIES (2001-02 TO 2005-06)

Assessment of Revenue Gap

The Commission needs to make an assessment of the financial requirements or the revenue gap for MCD, NDMC and Delhi Cantonment Board for each of the years of the award period i.e., 2001-06, before proceeding to recommend an appropriate devolution to plug the gap so computed to the extent possible. The revenue gap of a municipality is the difference between the internal revenue of a municipality and its non-plan revenue expenditure. The revenue gap may arise on account of asymmetry in expenditure and revenue assignments or for reasons of fiscal and cost disabilities among municipalities.

A revenue gap may be large or small, depending on what expenditure responsibilities are assigned to municipalities and what resource raising powers they possess. The nature and extent of the gap determines the course of action that could be taken to bring about greater correspondence between the fiscal powers and authority and the expenditure responsibilities of municipalities or, more specifically, to determine the changes that may need to be made in the global sharing of taxes, duties, toll and fees, in revenue sharing arrangements, the size of the grants-in-aid, or in the expenditure profile of municipalities, in order to bridge the gap. This is the position as far as revenue gap of past years is concerned.

When forecasts of revenue gap are to be made, the task is different. For the purpose of determining the future financial needs, it is the difference between the expenditure needs and revenue raising capacity of municipalities that constitutes the revenue gap. Revenue raising capacity is defined as the amount of money a city could raise at a given tax burden on its citizens. Expenditure need is the amount a city must spend to provide public services of a given quality.

A. Municipal Corporation of Delhi

Revenue Gap for MCD - 1990 - 91 to 2000 - 01 (without expenditure on Maintenance of Resettlement Colonies)

From the data in Chapter III of the Report it can be seen that while revenue expenditure of MCD increased from Rs. 305.65 crores in 1990-91 to Rs. 1372.80 crores in 2000-01, internal revenue receipts increased from Rs. 197.97 crores in 1990-91 to Rs. 971.33 crores in 2000-01. The revenue gap thus increased from Rs. 107.68 crores to Rs. 401.47 crores during this period. These details can be seen from the tables at Annexure 6.1, 6.2, and 6.3 respectively.

Forecasts of Revenue Gap as projected by MCD—2001-02 to 2005-06 (Without expenditure on maintenance of Resettlement Colonies)

MCD, in its memorandum, has forecast revenue expenditure at Rs. 1759.55 crores for 2001-02, Rs. 2352.22 crores for 2002-03 Rs. 2740.80 crores for 2003-04, Rs. 3193.58 crores for 2004 -05 and Rs. 3721.15 crores for 2005-06. The total of revenue expenditure during the award period as per MCD's estimation is Rs. 13767.30 crores. As against this, MCD's forecast of internal revenue receipts during the same years is Rs. 1129.22 crores, Rs. 1312.85 crores, Rs. 1526.32 crores, Rs. 1774.48 crores and Rs. 2063.01 crores respectively, i.e. a total of Rs. 7805.88 crores. With total expenditure projected at Rs. 13767.30 crores and total internal revenue receipts forecast at Rs. 7805.88 crores over the five-year award period, the forecast of MCD in respect of revenue gap for the award period is Rs. 5961.42 crores. The year-wise details of forecast made by MCD of revenue expenditure, internal revenue and revenue gap during the award period can be seen from the tables at Annexure 6.4, 6.5 and 6.6 respectively.

Submissions made by MCD

In its memorandum to the Commission, MCD has made the following submissions:-

I. Review of pattern for distribution of global share of taxes

The First Delhi Finance Commission recommended that 9.5% of GNCTD's tax revenue would be distributed to MCD and NDMC as global share of taxes in

lieu of assigned taxes. GNCTD decided that global share shall be 5.5% of GNCTD's tax revenues while grants would be upto 4% of GNCTD's tax revenue. They have mentioned that it was also provided that non-plan grants-in-aid would flow to local bodies in the same manner and on the same basis as hitherto. It is also mentioned that in a unilateral decision, Delhi Government included the reimbursement for maintenance of resettlement colonies which is being carried out on behalf of the Delhi Government in the grants along with education grant and grants for nutrition and the three put together have further been restricted to 4% of the GNCTD's tax revenue which has resulted in great hardship to MCD. In view of these restrictions, the MCD has received Rs. 43743.65 lakhs less than the due amount @60% education grant (non-plan). They have, therefore, submitted that the limit of 4% imposed on non-plan education grant and grant for nutrition and reimbursement of expenditure on maintenance of resettlement colonies should immediately be withdrawn and the difference paid to MCD.

II. Reimbursement of education grant @ 95% of the actual expenditure

MCD is running 1818 primary schools, 33 independent nursery schools and providing educational facilities to the 8.16 lakhs children. A large number of these students belong to scheduled castes, OBCs and weaker sections of society. They are provided with free uniform, books with bags and also mid-day meal. Also, MCD gives grant-in-aid @95% to 50 recognized aided primary schools. There is annual increase of approximately 30000 children and corresponding increase in teaching strength. Additional primary schools are opened initially under the plan schemes to implement national policy and universalization of primary education. The expenditure on these schools is financed out of plan funds during the respective plan period and after completion of each five years plan this expenditure gets transferred to non-plan expenditure of MCD. This puts additional burden on MCD's internal resources resulting in quantum jump in education expenditure. The expenditure on education is totally service oriented without any return. GNCTD had been giving grant-in-aid @ 50% of the actual expenditure till First Delhi Finance Commission was constituted. The First Delhi Finance Commission recommended for revision of grant from 50% to 60% of the eligible expenditure incurred by the MCD on education. However, with the imposition of

4% limit the actual reimbursement has been about 25%. On the other hand, aided schools of GNCTD get reimbursement @95% of the expenditure from the government as grant-in-aid and even MCD gives grant-in-aid to aided schools @95% of their expenditure. The grant-in-aid given by the GNCTD to MCD is only 60% and with further restriction of 4% on the GNCTD's tax revenue. MCD in its memorandum has submitted that the GNCTD should pay grant-in-aid to MCD @95% of its eligible expenditure and that too without any restriction/limit as being applied at present, as this is an obligatory function of the Corporation.

III. Arbitrary deduction of plan loans

Though the recommendation of the First Delhi Finance Commission with regard to consolidation of MCD's share of Assigned Taxes into a single global sharing of taxes of GNCTD appeared beneficial to the MCD, the subsequent decision of the GNCTD to deduct plan loans and ways and means advances along with interest out of the global share has put MCD in a financial crunch. They have, therefore, submitted that the recovery of plan loans and ways and means advances should be reviewed and made on long term basis without any interest.

IV. Recovery of Ways and Means Advances

MCD has submitted that recoveries of ways and means advances should be reviewed and recoveries be made in longer period with justified rate of interest instead of the existing rate. The rate of interest being charged on the ways and means advances is 16% whereas the interest rate on investments is about 9 to 9.5%. Moreover, these ways and means advances have not been taken for any remunerative purposes, but were taken to meet the obligations of implementation of Fifth Pay Commission recommendations.

V. Financial assistance under plan

From the date of its inception, MCD has been receiving funds under various plan schemes for execution of prescribed schemes. These funds are released on quarterly basis by Delhi Government forming two components i.e. grants and loans. MCD has suggested that loan component should only be for

plan schemes, which are productive and may help MCD in generating income. However, none of the schemes for which plan loans have been granted are revenue generating in nature. Since these funds, treated as plan loans by GNCTD are spent on providing civic services to the people, MCD has requested GNCTD to convert these loans into outright grants. The recovery of these plan loans along with interest out of global share of taxes has put further financial burden on the MCD as no income is generated out of these schemes. MCD has, therefore, submitted that funds under plan schemes may be given to MCD only as grant-in-aid. MCD has stated that they will not accept any assistance under plan as loans for the schemes which are not revenue generating. MCD has submitted that all plan loans being recovered by GNCTD along with interest may be reimbursed to MCD by treating them as outright grants.

VI. Neutralization of expenditure incurred on rural areas

One of the unique features of Municipal Corporation of Delhi is that it has to provide municipal services in the rural areas as well. Presently about 10 lakh people are residing in rural areas having a physical area of 591.91 sq. Kms. (2001 census) MCD in its memorandum has mentioned that the annexation of rural areas in the MCD's jurisdiction has become a financial liability as income from rural areas is too meager to contribute to resource mobilization. However, on the other hand, substantial expenditure is incurred on rural areas. In order to fill-up the resources gap, the Morarka Commission recommended that a special grant of 100% be given to the MCD for development of rural areas. Despite this, Government of NCTD has only given plan loans for development of rural villages, which are being recovered by the Government of NCT of Delhi along with interest. In view of this, MCD has submitted that the expenditure incurred on development

of rural villages and other rural townships may be reimbursed 100% as grant-in-aid instead of current plan loans as the expenditure is non remunerative, and Government of NCT of Delhi gets land revenue from rural areas.

VII. Reimbursement of expenditure incurred on municipal elections

Under the provisions of DMC Act, Delhi Election Commission has been set up to conduct local elections. While its administrative expenses are to be borne by

the Delhi Government, the expenses on the conduct of municipal elections are to be borne by the MCD. The Delhi Election Commission has demanded Rs. 15 crores to conduct elections, which are expected to be held early next year. Besides the above Rs.15 crores, the Corporation has to spend about Rs. 5 crores for construction of polling booths, providing furniture etc. for the elections. This expenditure has also put an additional burden on the already meager municipal resources. MCD in its memorandum has submitted that this expenditure should be incurred by the Central Government/Delhi Government as in the case of Election of Parliament and Legislative Assembly as the Corporation is a statutory body created under an Act of Parliament.

VIII. Implementation of fifth Pay Commission recommendations

MCD has stated that the total impact of implementing Vth Pay Commission recommendations on MCD was to the tune of Rs. 1050 crores, and the expenditure on establishment has soared to Rs. 85 crores (approx.) per annum. MCD has stated that the salary of doctors, teachers, sanitation, engineering staff, health workers and malaria workers cannot be treated as expenditure on establishment as the same is a service in itself. In view of this, they have suggested that the additional expenditure incurred by the Corporation for implementation of Vth Pay Commission's Report should be reimbursed by the Delhi Government.

IX. Reimbursement of expenditure incurred on medical relief

Medical relief is primarily a state subject. However, in Delhi, Municipal Corporation of Delhi is running 6 major hospitals and 6 colony hospitals, 2 poly clinics, 5 primary health centres, 50 Allopathic Dispensaries, 16 Mobile Dispensaries, besides a separate Department for Indigenous System of Medicines. MCD has stated that an estimated amount of Rs. 124.45 crores has been spent on these services during 2000-01. They have submitted that GNCTD should reimburse this amount as the services of medical relief pertain to State Government.

X. Extra grant in case of extra income

GNCTD has promised 1.5% additional funds under global share in case MCD increases its revenue to the level of projected income by First Delhi Finance Commission by levying additional taxes like Night Parking Charges, Professional Tax, Misuse Charges and Toll Tax etc. Toll tax has been levied by MCD and is generating about Rs. 60-65 crores per annum. Other taxes could not be levied due to administrative, legal and political reasons. MCD has stated that though there has been an increase of about 491% in internal revenue of MCD, the increase in global share and grants has been upto 300.95%. MCD has tried its best to increase the income to the level projected by First Delhi Finance Commission and hence suggested that GNCTD should pay MCD additional 1.5% global share.

XI. Maintenance of assets created out of plan funds

The First Delhi Finance Commission had recommended constitution of a fund @15% of total plan assistance for maintenance of assets created out of plan funds. However, GNCTD has not set up such a fund which has put additional financial burden on MCD. MCD has, therefore, recommended that this fund may be constituted immediately and Rs. 210 crores be paid to MCD for maintenance of assets created out of the plan schemes for the period ending March 2002.

XII. Reimbursement of expenditure incurred on family planning, ICDS and resettlement colonies etc.

MCD has mentioned that an amount of Rs. 68.57 crores has not been reimbursed to MCD on State and Centrally sponsored schemes. These schemes are being carried out by the MCD on behalf of the State and Central Government. MCD has, therefore, requested that an amount of Rs. 68.57 crores may be released immediately to MCD.

XIII. Comparison in per capita expenditure of MCD and NDMC

The per capita non-plan aggregate expenditure in NDMC area was Rs. 1790 in 1984-85 and Rs. 11700 in 1995-96 as per observations of First Delhi Finance Commission. On the other hand, MCD's per capita expenditure during

2000-01 was only Rs. 1040. Even if the per capita expenditure of Rs. 11700 is adopted in MCD, which has to be made to bring the civic services at par in Delhi, additional funds to the tune of Rs. 69696 crores based on the expenditure by NDMC in 1995-96 will be required as per projections reflected in Table No. 24 of MCD's Memorandum.

Corporation's request in a Nut Shell

1. A limit of 4% imposed on grants be withdrawn and difference of unpaid amount of resettlement colonies by GNCTD due to above condition be reimbursed immediately.
2. 100% reimbursement of expenditure incurred on resettlement colonies be made.
3. Education Grant may be raised to 95% of the actual eligible expenditure.
4. Plan loans not given for generation of remunerative projects be converted into outright grants.
5. For future there should be no plan loans for development works and only plan assistance be given to MCD.
6. Recovery of plan loans out of global share of taxes be stopped henceforth.
7. Expenditure incurred on Vth Pay Commission of approximately Rs. 1050 crores be reimbursed.
8. Periodical increase in DA be neutralised by way of reimbursement.
9. MCD's share from total tax revenue of GNCTD be raised to 20-25% to enable the Corporation to fill resource gap and allow MCD to devote more funds for meeting the obligatory functions.
10. Expenditure incurred on medical relief be reimbursed.
11. The grants due for carrying out state and centrally sponsored schemes on family welfare amounting to Rs. 68.97 crores be reimbursed immediately.
12. Interest rate on ways and means advance and other loans be charged at the prevailing bank rates against what is now charged i.e. 16%.

13. Amount spent on elections be reimbursed and future election expenditure should be met by the GNCTD.

14. In order to bring civic services in MCD at par with NDMC, additional funds to the tune of Rs. 69696 crores (based on per capita expenditure in NDMC area during 1995-96) be given.

Commission's own projections of Revenue Expenditure and Internal Revenue Receipts of MCD - 2001-02 to 2005-06

The Commission made projections of revenue receipts and expenditure on the following basis :

1. Trend growth rate was first obtained through regression analysis over the previous eleven years data (1990-91 to 2000-01).
2. The buoyancy or expenditure elasticity was calculated separately for each head of income and expenditure by reference to the trend growth of GSDP.
3. The buoyancy coefficients were normatively assumed to increase at 5% per cent per year while estimating internal revenue receipts in respect of House tax, duty on transfer of property and miscellaneous taxes.
4. In the case of revenue receipts from toll tax, a trend growth rate of 10% was assumed since data was available for two years only, i.e. 1999-2000 and 2000-01. Buoyancy coefficient was normatively assumed to increase at 5% per year on this.
5. All other items of internal revenue receipts were assumed to increase on the basis of trend growth rates over the previous eleven years period.
6. A 5 percent increase in the elasticity coefficients was normatively assumed in respect of the following three items of expenditure viz. General education, public health and roads, and public lighting.
7. All other items of expenditure were assumed to grow at trend growth rates observed over the previous eleven years period.

Tables at Annexure 6.1 and 6.2 show the annual trend growth rate in time series data from 1990-91 to 2000-01 in respect of revenue expenditure and revenue receipts of MCD respectively.

The Table at Annexure 6.4 gives the forecasts of revenue expenditure and the Table at Annexure 6.5 gives the forecast of internal revenue receipts of MCD projected by the Commission on the basis specified above.

On the basis of the above normative assumptions, the internal revenue of MCD for the award period has been estimated as Rs. 8412.76 crores and revenue expenditure has been assessed at Rs. 12039.61 crores. This leaves an uncovered gap of Rs. 3626.84 crores during the award period as against the estimate of Rs. 5961.42 crores given by MCD. This implies an average annual uncovered gap of Rs. 725.37 crores as assessed by the Commission against the estimate of Rs. 1192.28 crores given by MCD. These details can be seen from the table at Annexure 6.6.

Requirements of MCD for Modernization of Administration

The terms of reference of the Commission mention that while making its recommendations, the Commission shall have regard, among other considerations, to the requirements of the municipal bodies for modernization of administration for example, computerization of records, and upgrading the standards of services.

In this regard, MCD in its reply has indicated that a detailed project report on computerization of various departments of MCD was prepared by M/s. CMC Ltd., and sent to GNCTD for providing funds under plan scheme. Subsequently the scheme was revised and MCD is awaiting receipt of required funds for implementing the same from GNCTD under plan head. Due to financial stringency, MCD has not been able to achieve the required computerization so far.

M/s. CMC had initially prepared a proposal for computerization of all the 12 zones and important departments and then networking Town Hall Headquarters

through LAN and WAN which would cost Rs. 4.02 crores. Besides this, computer training would be organized for all Municipal officials at a computer training center, setting up of which would cost Rs. 59 lakhs. In addition, computer training of employees would be organized through IIPA/CMC at a cost of Rs. 8 lakhs, computerization of property tax zones would be undertaken at a cost of Rs. 12 lakhs, and computerization of municipal press, which would cost Rs. 28 lakhs. The total cost of this entire proposal was Rs. 5.09 crores.

Subsequently, the proposal was recast at the instance of I.T. Department of GNCTD and the total cost reduced to Rs. 4.22 crores, of which Rs. 1.80 crores would be spent in Phase – I and Rs. 2.37 crores in Phase-II.

Monitoring of modernization schemes should not normally be problematic since releases of funds for this purpose could be linked to achievement of laid down milestones. This would prevent diversion of funds for other uses.

MCD has requested plan funds for computerization.

The Commission is of the view that to achieve desirable level of efficiency in administration and to provide quick relief to the public grievances, computerization of all the public dealing departments including property tax, assessment and collection, registration of births and deaths, issue of licenses etc. should be completed in first phase of computerization and rest of the departments should be covered in second phase.

Maintenance and upkeep of capital assets and assets created under plan schemes completed till the end of March, 2001.

MCD has submitted details of capital assets and assets created under plan schemes completed till 31st March, 2001 in respect of several departments, namely, Engineering, Conservancy and Sanitation and Health. These are enclosed at Annexure 6.7. It has also given an estimate of maintenance expenditure on these as also norms used for assessing the maintenance expenditure.

However, these estimates cannot be taken as a reasonable basis for recommending devolution with a view to ensuring adequate maintenance and upkeep of capital assets and maintenance of assets created under plan schemes completed till the end of March, 2001. This is because MCD has failed to make a proper categorization of the different types of capital assets nor indicated how these are proposed to be maintained; The information furnished is very raw, and it appears to be difficult, if not impossible, to ensure that if amounts are released on this basis, they will be properly spent.

The First Commission had calculated a sum of Rs. 588 crores to be incurred on operations and maintenance of existing assets in their total projections of revenue expenditure over the award period. GNCTD was entrusted with the task of ensuring that the amount of Rs. 588 crores provided for operation and maintenance was so utilized and not spent on personnel or diverted for other uses. However, it has been observed from the memorandum submitted by MCD that MCD incurred only Rs. 269.92 crores during the award period, 1996-97 to 2000-01, and also that GNCTD did not accept this recommendation of the First Commission regarding monitoring of maintenance expenditure.

B. New Delhi Municipal Council

Revenue Gap for NDMC - 1990-91 to 2000-01

From the data in chapter III of the report, it can be seen that while revenue expenditure of NDMC increased from Rs.151.03 crores in 1990-91 to Rs. 732.24 crores in 2000-01, internal revenue receipts increased from Rs. 141.93 crores in 1990-91 to Rs. 727.23 crores in 2000-01. The revenue gap which ranged from Rs. 6.77 crores in 1997-98 to Rs. 15.52 crores in 1996-97 decreased to Rs. 5.01 crores during 2000-01. In the years 1998-99 and 1999-2000, the revenue gap was in fact a surplus since internal revenue receipts were higher than revenue expenditure. For 1998-99, revenue expenditure was Rs.482.83 crores while internal revenue receipts were Rs.518.40 crores, thereby leaving a revenue surplus of Rs. 35.57 crores. Similarly, for 1999-2000, revenue expenditure was Rs. 566.27 crores while internal revenue receipts were Rs. 585.51 crores, implying thereby a revenue surplus of Rs. 19.24 crores. These details can be seen from the tables at Annexures 6.8, 6.9 and 6.10 respectively.

Transfers increased during this period from Rs.10.12 crores in 1990-91 to Rs.18.60 crores in 2000-01, and helped in filling the revenue gap in the years when it was there.

Forecast of revenue gap as projected by NDMC – 2001- 02 to 2005-06

The NDMC has projected internal revenue receipts at Rs. 792.58 crores for 2001-02, Rs. 824.60 crores for 2002-03, Rs. 859.25 crores for 2003-04, Rs. 899.80 crores for 2004-05 and Rs. 936.80 crores for 2005-06. The total of internal revenue receipts for the award period 2001-06 is Rs. 4313.03 crores.

As against this, total revenue expenditure has been projected by NDMC at Rs. 4417.47 crores, thereby resulting in a revenue gap of Rs. 104.44 crores.

The details in respect of internal revenue receipts, revenue expenditure and revenue gap during the forecast period are given in the tables at Annexure 6.11, 6.12 and 6.13 respectively.

Submissions of NDMC

- I. NDMC has stated that there has been a decrease in assigned share of taxes, including plan and non-plan assistance, in absolute as well as relative terms.
- II. NDMC has mentioned that the first DFC reduced the fiscal domain of NDMC by reducing its share of assigned taxes as also its non-plan and plan grants in its devolution formula. Out of the share of taxes received during the first three years of the award, a sum of Rs. 23.69 crores was treated as excess payment. The Government is recovering this.
- III. NDMC has stated that for meeting expectation of a comparatively high level of civic services in its area, NDMC is required to make substantial investment for augmentation and upgradation of municipal infrastructure in the areas of distribution of supply of power and water supply as also in

sewerage, sanitation, garbage removal and repair and maintenance of roads.

- IV. DERC hiked the rate of power supply to NDMC @ Rs. 2.70/KVAH with effect from 1.6.2001. They have mentioned that this is going to cause an extra expenditure of Rs. 79 crores during the current financial year. Even though increased receipts from consumers to the extent of Rs. 46 crores would offset the extra burden, there would be an additional payment to DVB of the order of Rs. 33 crore. This burden is bound to rise in future. NDMC, however, would not be in a position to fix a higher tariff for its consumers vis-à-vis those in MCD area, as such a step would not be practical. It would become increasingly difficult for NDMC to maintain the existing standard of electricity supply if the source of funds gets progressively eroded. NDMC serves the most important part of the capital. NDMC have suggested that considering the fact that they will have to maintain their present level of efficiency, the erosion in its resources caused due to the hike in tariff by DERC, deserves to be compensated by higher allocation of assigned taxes in the form of additional grants-in-aid
- V. NDMC has mentioned that as per Section 125 of the NDMC Act 1994, the Legislative Assembly of NCT of Delhi can transfer the collections of entertainment tax from NDMC area, after deducting the cost of collection. At present, NDMC does not receive any money on this account from the Delhi Government
- VI. NDMC has mentioned that given the high rate of interest on loans from the Delhi Government for power, water supply, sewerage and compost plant, NDMC was compelled to stop taking any loans from the Government as, except power sector where NDMC can break even, none of the other sectors yielded any financial returns to service the debts.
- VII. NDMC has mentioned that the tariff for water is low. The cost of providing water supply is steadily increasing as replacement of old supply lines requires heavy investment of capital. However, the increase in expenditure on investments cannot be offset by NDMC by raising the tariff as it has to

maintain parity in tariff vis-à-vis MCD area. About 50% of such additional expenditure should be given as grant-in-aid.

- VIII. NDMC has mentioned that NDMC runs a compost plant at high cost. Composting of biodegradable municipal waste is a desirable and environment friendly activity but it is a loss-making proposition for NDMC. Since this activity cannot be suspended, notwithstanding the high losses, NDMC deserves to be suitably compensated by way of grant-in-aid from the Delhi Government for meeting the running expenses on the plant.
- IX. NDMC has stated that Sewerage sector needs sizeable capital investment. With the arrival of trench less technology, which is highly capital intensive, NDMC's expenditure has increased several fold. It is a non-remunerative sector. They have stated that there is need, therefore, for increase in assistance in the form of grant-in-aid.
- X. They have stated that the funds paid to NDMC by Delhi Government in previous years were correctly treated by NDMC as a legitimate receipt under the devolution formula. Its subsequent recovery was not in tune with the Commission's objective to make NDMC a financially self-reliant body and equip it with real autonomy.

Initiatives taken by NDMC

Resource Mobilization:

- a) Use of land as an asset;
- b) Development of commercial complexes

Privatisation and Community Participation:

- a) Launched project with an NGO (ACORD). The objective is to increase community participation in the area of garbage segregation, disposal and reduction by promoting the idea of local composting.
- b) The existing 15 sub-ways handed over to private parties for their better upkeep and maintenance, which, in turn, would optimize their usage.

- c) The Children's Park near India gate handed over to Maruti Udyog Limited for upgradation to international standards.
- d) Improvement of markets on cost sharing basis with market associations.
- e) Construction of toilets on BOT basis.
- f) Construction of bus queue shelters on BOT basis.

To sum up, the NDMC has requested the following:-

1. Conversion of loans for compost plant, water supply, sewerage and power supply into grant-in-aid. These sectors are non-remunerative and require huge funds for augmentation/ replacement/ upgradation.
2. The share of taxes should be based on some rationale.
3. Though technically, NDMC is free to fix tariff on water and power supply in its area, in practical terms it is not feasible, as parity in tariff vis-à-vis MCD area has to be maintained.
4. Grant-in-aid for setting up and running of compost plant.
5. First Commission's appreciation of NDMC for providing "improved services by NDMC to its residents" was not factored into the devolution formula. Instead of getting any advantage, NDMC was penalized. The Second Commission may consider correcting this anomalous situation by recognizing NDMC's efforts to stand on its own feet and rewarding it with greater financial incentive in the form of grants.

Commission's own projections of Revenue Expenditure and Internal Revenue Receipts of NDMC - 2001-02 to 2005-06.

The Commission made projections of revenue expenditure and revenue receipts for NDMC on the following basis. Trend growth rates were first obtained through regression analysis over the previous eleven years data (1990-91 to

2000-2001). Trend growth rates in respect of revenue receipts and revenue expenditure of NDMC are as shown in Tables at Annexure 6.8 and 6.9 respectively.

Buoyancy coefficients with a 5 per cent annual increase have been applied to the following heads of revenue receipts:

- a. House tax
- b. Duty on transfer
- c. Interest
- d. Energy
- e. Rent, fee and fines
- f. Other miscellaneous receipts

All other items of internal revenue receipts have been assumed to grow on the basis of trend growth rates over the previous eleven years period.

Forecasts for the period 2001-06 have been made accordingly. In respect of expenditure, elasticity coefficient with 5 per cent annual increase has been applied to the following heads of expenditure:

- a. Interest payment
- b. Social and development schemes
- c. Electricity
- d. Water supply
- e. Roads
- f. Deposit works

All other items of expenditure have been assumed to grow at trend growth rates observed over the previous eleven years period.

The forecast of internal revenue receipts of NDMC for the award period 2001-06 on the basis of the above normative assumptions has been indicated in the table at Annexure 6.11. Forecasts in respect of non-plan revenue expenditure have been made on the basis of the above normative assumptions and may be seen in the table at Annexure 6.12. It can be seen that projections of internal

revenue in respect of the award period have been calculated at Rs. 6363.35 crores. As against this, non-plan revenue expenditure has been projected as Rs. 5881.32 crores, leaving a surplus of Rs. 482.02 crores for five years. This implies an average annual surplus of Rs. 96.40 crores which is much higher than the annual average revenue gap of Rs. 20.89 crores as calculated by NDMC. The year-wise details during the forecast period of revenue gap are shown in the table at Annexure 6.13.

Requirements of NDMC for Modernisation of Administration

The terms of reference of the Commission mention that while making its recommendations, the Commission shall have regard, among other considerations, to the requirements of the Municipal bodies for modernisation of administration, e.g. computerization of records, and upgrading the standards of services.

The NDMC has submitted a detailed statement regarding various works for modernization of administration along with proposed cost in respect of each of the items. In addition, it has explained the expected efficiency from each of these works.

These include modernization equipment for water supply, sewerage, civil engineering, Information Technology, Education and Electricity, composting and Roads. Broad details as submitted by NDMC have been indicated in a statement enclosed as Annexure 6.14.

Maintenance and upkeep of capital Assets and Assets created under plan schemes completed till the end of March, 2001.

NDMC has submitted details of capital assets and assets created under plan schemes completed till 31st March' 2001, in respect of several departments.

The same are placed at Annexure 6.15.

C. Delhi Cantonment Board

Revenue Gap for Delhi Cantonment Board 1990-91 to 2000-01

From the data in Chapter III of the Report, it can be seen that while revenue expenditure increased from Rs. 13.55 crores in 1990-91 to Rs. 45.45 crores in 2000-01, internal Revenue Receipts increased from Rs. 12.50 crores in 1990-91 to Rs. 40.57 crores in 2000-01. The Revenue gap thus increased from Rs. 1.05 crores in 1990-91 to Rs. 4.88 crores in 2000-01, except in the year 1994-95 when there was a revenue surplus of Rs. 0.36 crores.

Transfers, including non-plan grant-in-aid for education, increased during this period from Rs. 1.42 crores in 1990-91 to Rs. 4.72 crores in 2000-01.

Further details in this regard are shown in tables at Annexures 6.16, 6.17 and 6.18 respectively.

Forecasts in the Memorandum submitted by Delhi Cantonment Board.

The Memorandum submitted by the Delhi Cantonment Board to the Commission does not contain any estimate of the likely revenue gap for the award period. It only mentions that the Board's own sources of income from House Tax, Profession Tax, etc. are very minimal- to the tune of Rs. 88 lakhs. It mentions that the Board has plans to undertake various development projects, viz.,

- a) Upgradation of general hospital from 30 beds to 100 bedded hospital with all modern facilities in the field of treatment and diagnosis including operation theaters.
- b) Upgradation of Primary Middle Schools.
- c) Creation of dispensaries
- d) Construction of Community Halls.
- e) Shopping Plazas.
- f) Strengthening of Water Supply.
- g) Guest House.
- h) Upgradation of Roads.
- i) Beautification of Cantonment Major Roads and Junctions.
- j) Mechanization of Sanitation.
- k) Upgradation /creation of essential civic amenities.
- l) Development of City Centres.
- m) Creation of Development Stores etc.

It also mentions that the Board is spending huge amount for the maintenance of Cantonment Fund property and its assets and the expenditure is likely to rise many times in the near future. The major development schemes proposed by the Board are highly capital intensive and cannot be supported by the Board from its own funds. Therefore, devolution is requested to be continued.

Delhi Cantonment Board has forecast revenue expenditure for the award period at Rs. 206.61 crores and internal revenue receipts during the award period at Rs. 176.35 crores, thereby resulting in a revenue gap of Rs.30.26 crores. Details may be seen in tables at Annexures 6.19, 6.20 and 6.21 respectively.

CHAPTER VII

RESOURCE MOBILIZATION STRATEGY AND SCOPE FOR ECONOMY IN MUNICIPAL ADMINISTRATION

From the study of finances as well as financial requirements of the three local bodies, namely MCD, NDMC & DCB, it can be seen that the MCD has been passing through a financial crunch. There has been a large growth of urban population, creating a rapidly growing demand for urban services. However, the capacity to supply urban services as well as to undertake the necessary infrastructure development is severely constrained by a shortage of fiscal resources. This situation is the result of a combination of factors —

1. Reduction in the percentage of tax revenues transferred to MCD, NDMC & DCB in recent years – from 11.05% in the period 1991-96 to 9.74% in the period 1996-2001 to the three local bodies put together.
2. Increased burden of debt servicing and debt repayment, and higher unit costs of providing services, and,
3. Higher burden of salaries in the post Fifth Pay Commission period.

To compound the problem of poor infrastructure services, there is the problem of additional resources required for maintenance, renovation and replacement of old equipment.

In this scenario, the Municipal Corporation of Delhi as well as the other local bodies, namely, NDMC and DCB can respond to the fiscal challenge by employing some of the following strategies.

One, these urban local bodies can seek to raise additional revenue through a variety of means such as improved revenue mobilization through raising local taxes and their management, and introducing new taxes and charges.

Second, they can seek to improve the efficiency and effectiveness of their operations through productivity improvement programs, more efficient programming, planning and budgeting, cutting back some programs and using low-cost approaches.

Third, they can reduce the scope of their activities by greater use of private participation in the provision of some of the urban services.

The relevance of each of these strategies is discussed separately for each of the local bodies.

A. SCOPE FOR AUGMENTING RESOURCES

There is ample scope for local bodies to augment their resources through improved revenue mobilization from the existing tax/non-tax measures, imposing fresh taxes and raising the existing structure of various fees levied, as also through bringing in more services under the fee structure.

Improved resource mobilization, especially of taxes must be made keeping in mind the equity criterion, because unfairness is in itself an obstacle to revenue collection. Resistance to pay taxes or charges will increase if individuals feel that these are unfair compared to the burden borne by others, compared to the level of services they receive.

The local bodies can improve the quality of facilities and services available to the population in their jurisdiction while also striving to raise their revenues to cover both capital investment and recurring expenditure, as well as higher salaries and debt service burdens. Such revenue will be adequate only if it grows with the demands made on it, that is, in line with the expansion of services and rising costs.

It is in this background that the Commission looked at some of the major sources of tax revenues of MCD.

Tax based resources NDMC

Property tax

The Commission found that property tax constituted the mainstay of the internal revenue base of MCD. These constituted 80% of tax revenue in 1990-91 and this proportion remained as high as 78% in 2000-01. The trend rate of growth over the eleven-year period was 20%, which was slightly higher than the 19% trend rate of growth of overall internal revenues during the same period. While property tax constituted 80% of all tax revenues, it accounted for as much as two-thirds of internal revenue both tax and non tax, of MCD during this period.

The First Delhi Finance Commission had commissioned an in depth study of all aspects of property tax levy and collection through Human Settlement Management Institute (HSMI), a wing of HUDCO. This study confirmed that MCD has been able to collect only a fraction of the potential revenues from this source.

According to the study, property tax is the single largest and most dependable source of Municipal Finance in Delhi. During 2000-01, MCD collected Rs. 677.22 crores as property tax. However, the current performance of collection of property tax is far from satisfactory. As per the HSMI report, only one out of four properties assessed actually ends up contributing to the Corporation kitty some amount as property tax. As a percentage of total demand including arrears, the recovery percentage was a mere 9.11 % in 1990-91. This percentage has gone up in subsequent years, but even in 2000-01 was only 20.86%.

Another negative feature of property tax in MCD area is its narrow base and heavy underassessment. According to the HSMI study, if the assessable properties are brought into the tax net, the demand would go up by 50% even at the current level of assessment efficiency. If underassessment is also taken care of, the demand may go up by 300%.

Mobilization performance of property tax has also not been as good as its potential. Data in respect of property tax, demanded and collected in respect of MCD area is placed in Table 1 below:

Table- 1

PROPERTY TAX DEMANDED AND COLLECTED IN MCD AREA

Years	Number of properties assessed for taxation	Amount (Rs. in crores)		Amount collected as a % of amount demanded
		Demanded	Collected	
1	2	3	4	5
1990-91	488452	1396.83	127.21	9.11
1991-92	521786	1623.95	137.17	8.45
1992-93	524991	1850.66	137.22	7.41
1993-94	591368	2107.37	205.71	9.76
1994-95	643555	2316.09	234.25	10.11
1995-96	704400	2523.23	267.14	10.59
1996-97	735924	2704.26	331.86	12.27
1997-98	761568	2871.62	424.80	14.79
1998-99	792779	3007.33	508.09	16.90
1999-00	808572	3167.59	596.38	18.83
2000-01	836951	3246.64	677.22	20.86

The above data clearly indicates the inefficiency in property tax mobilization. The ratio of collection to demand should be much higher than what it presently is. There is ample scope to reorganize the entire system of levying the property tax and switching over to a new system of property taxation based on unit area method which is simple, objective and transparent. This will lead to lesser litigation and thereby also result in a lower amount being locked up in arrears.

Growth rate of property tax

Notwithstanding the recommendations made by the First Commission including the observations of the HSML study, this Commission found that MCD has not been able to improve its resource mobilization in this potentially very important area.

After a spurt in growth over previous years, at 28% in 1997-98, after the HSML study and the first Commission's report, the growth rate of property tax has subsequently come down to 20% in 1998-99, 17% in 1999-2000, and 14% in

2000-01. These figures themselves indicate the enormous potential for increasing revenues on this count.

This Commission noted that property tax as an important source of revenue which is not being satisfactorily exploited by the MCD. It is noted that MCD is continuing to base valuation of properties on the basis of Annual Rateable values, that is, the potential income to the owner from renting a property (irrespective of whether it is actually rented or not). It is felt that the existing method of valuation of properties for purposes of property tax assessment gave ample scope for discretion to the assessing authority, which is undesirable. The Commission took note of the judgment given by Justice BP Jeevan Reddy and Justice (Mrs.) Sujata Manohar of the Supreme Court wherein they mentioned the advantages of the method of Property Tax Valuation adopted by the Patna Municipal Corporation in 1993.

The judgment mentioned that "The merit of the Assessment Rules, 1993 is that they rid the house-owners of the harassment and the constant threats of revision of annual rental value by the concerned officials of the corporation." This Rule has divided buildings into three categories on the basis of type of construction, viz. (i) Pucca buildings with RCC roof, (ii) Pucca buildings with asbestos/corrugated sheet roof and (iii) all other buildings not falling under (i) & (ii) for purpose of valuation of holding for levying taxes.

The reforms and restructuring of property tax assessment in Andhra Pradesh was aimed at evolving a scientific method in assessment and levy of property tax incorporating the principles of equity, objectivity, fairness and simplicity as also to make tax administration efficient, transparent and effective in the levy of property taxes, while also improving buoyancy in property tax revenues. The pattern adopted is Area Based Annual Rental Value as the basis for property tax assessment.

Several states have successfully switched to Unit Area method for property tax assessment. In Tamil Nadu also, the 1998 Act prescribes that the basic property tax for every building shall relate to the carpet area of the building and its usage.

In view of the above and the fact that the existing method of property tax assessment in Delhi gave enormous scope for discretion, the Commission recommends that MCD should also reform its method of property taxes based on unit area method of valuation to make the same more scientific, objective and simple. The Commission is of the opinion that there was no reason why local bodies in Delhi could not gain through reform of property tax assessment as had already been done in several states.

Unit Area method of assessment combined with self-assessment –

The merit of the unit area method is that it rids the house-owners of the harassment and the constant threats of revision of annual rateable value by the concerned officials. The system of annual rateable value leaves too much discretion to the municipal authorities. Under unit area method, the only thing that has to be ascertained is the carpet area of the house, the rest is determined by the rules. The rules should divide the city into different zones for purposes of valuation. This would enable standardization so that objectivity is ensured. Standardization implies setting up of certain measurable norms in the assessment, taking into consideration measurable variables like carpet area, use of building, location and type of building. Such a method combined with computerization of property tax administration will improve the efficiency in levy, assessment and collection as well as greater transparency in tax management.

Self Assessment

Such a method would reduce the high degree of personal judgment and of contact between assessors and tax payers which offers wide scope for under valuation. The simpler method, already in use in many states, would limit site visits to physical measurement and application of standard formulae, which if combined with computerization, would be even more effective.

The Commission also emphasized the need for MCD to focus on collection efficiency defined as the percentage of total amount billed that is collected as well

as billing efficiency defined as percentage of total amount of property taxes that is actually billed.

Other Taxes

Duty on transfer of property increased from 9% of tax revenue in 1990-91 to 11% in 2000-01, because of a relatively high trend growth rate of 20% p.a.

Miscellaneous taxes were barely 1% of total tax revenue in 2000-01, and therefore, have relatively limited scope for increase as is also the case in respect of taxes on sale and supply of electricity.

New taxes as potential sources of revenue for MCD

Apart from the taxes discussed above, MCD has scope to levy certain discretionary taxes. These include -

(a) Tax on professions, trades, callings and employment

The First Commission had stated that, considering that Delhi has the highest per capita income in the country, and the fact that it also has a very large salaried class, both in the public and private sectors, as well as trading and professional classes, and the fact that the area of collection is very compact, the potential revenue from this source is very high. It had estimated additional resource generation from this source at Rs.100 crores for last three years i.e., 1998-99 to 2000-01.

However, MCD has so far not utilized this source of additional resource mobilization.

(b) Tax on increase in urban land values

There is ample scope for levy of a tax based on increase in urban land values caused by the execution of any development or improvement work. This will lead to increase in revenue receipts considering the enormous increase in urban land values in Delhi. However, such a tax has not been levied so far.

Non-tax sources of revenue for MCD

Revenue from non-tax sources in respect of MCD constituted 11% of internal revenue in 2000-01. This is far below the 20% of internal revenue that it constituted in 1990-91. Revenue from non tax sources include rent, fees, fines and other miscellaneous receipts.

The First Commission had suggested that MCD should try to ensure that the contribution of non-tax sources to the total internal revenue rises by 2% per year so as to remain at an average of 19 to 20% from non-tax sources. This has not taken place.

Need for review and revision of fees, fines, rents and other charges

The non-tax base of MCD is very different from that of NDMC, with NDMC obtaining a large share of its own financial resources from non tax sources, 82% as against 11% in the case of MCD. Therefore, there is need to revise the various rates of fee, fines and rents and rates of various other miscellaneous items, which have not been revised since long.

The Commission recommends that the two new taxes as mentioned above should be levied by MCD immediately on more realistic terms. The Commission also recommends that the structure of various fees, fines and rents should be revised suitably to enhance the non-tax revenue.

Tax based resources of NDMC

Property tax constitutes the mainstay of tax revenues of NDMC, being about 93% of all tax revenues in 2000-01. Because of the high trend growth rate of 28% of property tax, this percentage has increased from 83% in 1990-91 to 93% in 2000-01.

As mentioned earlier, the first Delhi Finance Commission commissioned an in depth study of all aspects of property tax levy and collection through HSMI. This study has also confirmed that NDMC has been able to collect only a fraction of the potential revenues from this source.

The study affirmed that property tax is the single largest and most dependable source of municipal finance in Delhi though in NDMC area, the collection is only about one-ninth of the current demand of property tax.

The HSMI report mentions that five star hotels in NDMC area yield only 3% of the demand billed against them. Large amounts, as much as two thirds of the civic body's total current demand on account of property tax are blocked in arrears with them. The NDMC had arrears of Rs. 36.7 crores in unrealized property tax when HSMI submitted its report.

As in the case of MCD, an outstanding feature of property tax management in NDMC is its narrow base and heavy under assessment. According to the findings of the study, the demand would go up by 50% even at current level of assessment efficiency by bringing the assessable properties into the tax net. If, however, the under assessment is also taken care of, the demand may go up by 300%.

Mobilization of property tax has remained low and growth rate over previous years varied significantly, from as low as 11% over the previous year in 1996-97 to as high as 58%, over the previous year in 1999-2000.

The Commission recommends that NDMC should adopt the same approach as mentioned in case of MCD and implement a Reform Package for Property Tax assessment and collection.

Other taxes

Contribution of other taxes, namely duty on transfer of property and revenue from tax on advertisements/show/ theatre has been relatively small, 15-16% of tax revenue. Of these, duty on transfer of property was initially contributing 15% of all tax revenues, but its share has consistently come down and it now constitutes only 7% of all tax revenues.

New taxes as potential sources of revenue for NDMC

Apart from the taxes listed above, NDMC has scope to levy certain discretionary taxes. These include:-

(a) Tax on professions, trades, callings and employment

The first Commission had estimated a collection of Rs. 20 crores during the last three years of the award period, which has not been implemented by NDMC. Adequate potential exists for NDMC to utilize this source of additional resource mobilization.

(b) Tax on urban land values

Tax on increase in urban land values caused by execution of any development or improvement work.

However, these have not been levied so far.

The Commission recommends that the above mentioned taxes should be levied immediately.

Non-tax sources of revenue

Revenue from non-tax sources in respect of NDMC constituted 82% of Internal Revenue in 2000-01, down from 87% in 1990-91. Revenue from non-tax sources includes interest on investment, sale of energy (net), rent/license fee and other miscellaneous receipts. All of these sources have been exceptionally high in NDMC area.

The Commission recommends that new areas of non-tax sources of revenues should be explored by NDMC bringing more items under the ambit of fee structure.

B. SCOPE FOR ECONOMY IN MUNICIPAL ADMINISTRATION

There is also considerable scope for improving the ways in which the available resources are being utilized by the local bodies. The Commission

discussed the subject of expenditure planning of the local bodies with a view to improving effectiveness and efficiency and felt that it would be useful for MCD, NDMC and DCB to adopt the following :-

- (1) Improving the budgeting and programming of financial management systems,
- (2) Implementing productivity improvement schemes, and
- (3) Contracting out services in the private sector where it is shown to result in cost savings.

Municipal Accounting & Budget Reforms

The local bodies can modernize their expenditure control through implementation of Municipal Accounting Reforms as has been done in Tamil Nadu and Karnataka. The Commission is of the opinion that :-

1. The existing accounting system is faulty as it does not give a correct picture of the finances.
2. It should be changed to "Accrual" based.
3. The accrual system would also help in raising debt finance from capital market and financial institutions.

For adopting accrual based accounting system, the Commission recommends the reimbursement of entire expenditure incurred on carrying out a study from a reputed institution.

Private participation in the provision of urban services

Since the existing system of municipal administration is not capable of delivering the desired level of civic services, it would be better to hand over the responsibility of selected urban services to "community self help organizations". This would enable municipal bodies to withdraw from the provision of selected activities and reallocate the resource savings to other essential services.

Private enterprise can be looked at for the provision of facilities where it is appropriate that clients should pay for the services, and where it is acceptable and feasible that, by choice or force of circumstances, if they do not pay, they do not

obtain the relevant benefits. Private enterprise can have advantages over the public sector because it can offer greater efficiency, can operate in a competitive environment, will often be more responsive to clients requirements or complaints since it is not subject to tortuous administrative processes, and because it often has access to capital sources which may not be readily available to public authorities.

The Commission recommends that the local bodies should themselves identify which of the areas like solid waste management, management of street lights, public toilets, gardens, billing and collection of service charges could be handed over to the private sector and work out a program of privatization from the view point of higher efficiency and cost savings. There are several options namely service contracts, management contract, lease, build, operate and transfer concessions in respect of private sector participation in the delivery of municipal services. It is for each local body to work out their own Reform Program for private participation in various services indicating clear milestones and targets.

Downsizing the workforce

Table 2 below gives the details of staff in MCD.

Table 2

Staff Strength of MCD

Year	Supervisory Posts		Clerical & Supporting Staff		Total	
	Category 'A' & 'B'					
	Permanent	Temporary	Permanent	Temporary	Permanent	Temporary
1990/91	1966	183	65981	4908	67947	5091
1991/92	2275	221	69939	7496	72214	7717
1992/93	2511	138	78037	4034	80548	4172
1993/94	2529	132	80287	4055	82816	4187
1994/95	2516	134	79072	4021	81587	4156
1995/96	2442	135	77743	5851	80185	5986
1996/97	2482	131	77850	5719	80332	5850
1997/98	2499	130	78416	5691	80915	5821
1998/99	2682	124	78469	5686	81151	5810
1999/00	2720	125	78867	8398	81587	8523
2000/01	2770	123	79105	8395	81875	8518

It can be seen that staff strength, both permanent & temporary has consistently increased.

The studies got done by the first Delhi Finance Commission, reveal that the work force engaged in various municipal services is much more than required on the basis of any norms. Measures such as total ban on new recruitment, and non filling of vacancies caused by retirement, death etc. could be considered. The Fifth Pay Commission has also, while recommending new pay scales and other benefits to employees, emphasized the necessity to restrain and reduce gradually the size of the workforce.

None of these suggestions, already made by the first Finance Commission, have been acted on seriously by the MCD. This Commission reiterate the same.

CHAPTER VIII

DEVOLUTION PACKAGE AND RECOMMENDATIONS

While the functions attached to urban local bodies have acquired greater significance because of the 74th Constitutional amendment, the finances of the local bodies have remained relatively inadequate since the power of taxation vested in the local bodies is generally limited to those taxes which are levied on a local base like land and property or profession and trade, or goods imported in a local area for use, consumption or sale. Most taxes like sales tax, excise duty and stamp duty are levied by the State Government with a view to ensuring uniformity throughout the state. There is, therefore, a need to transfer funds from the State Government to the local bodies so as to enable the local Government to perform its functional responsibilities adequately without experiencing a corresponding shortfall in resources.

The Second Delhi Finance Commission was set up by Govt. of NCT of Delhi vide order dated 9th January, 2002. The terms of reference of the Second Delhi Finance Commission have been detailed in Chapter I of the Report. As mentioned therein, the Commission is required to review the financial position of the Municipalities and make recommendations on the principles which should govern devolution of funds to municipalities as also measures needed to improve the financial position of the Municipalities. The Commission is to have regard, among other considerations to the overall resources position of the Govt. of National Capital Territory of Delhi, the scope for economy in the Municipal Administration, the scope for improvements in resource mobilization by the Municipalities, adequate maintenance and upkeep of capital assets and the requirements of the Municipal bodies for modernisation of administration.

The Second Delhi Finance Commission has reviewed the financial position of the Municipalities in Chapter III of this Report as well as the resource availability of GNCTD in Chapter V of the Report. The Commission has also made an attempt to assess the financial requirements of the local bodies in Chapter VI of the Report. An attempt has been made to assess the likely gap between the

expenditure needs of the local bodies and the availability of funds from various sources, both tax and non-tax.

Devolution to MCD and NDMC

The Commission considered the question of whether the devolution package recommended by the first Commission for MCD and NDMC was satisfactory or whether the same needed modification.

The First Commission had recommended a basic annual fiscal transfer of 9.5 per cent of GNCTD's tax revenue to MCD and NDMC, which was subsequently bifurcated into two parts – the first limited to 5.5 per cent and the second covering non-plan grants limited to 4 per cent.

The Commission found that both MCD and NDMC, while having no complaints with respect to the global sharing of 5.5 per cent of NCT's tax revenues were dissatisfied with the ceiling of 4 per cent of tax Revenues on the non-plan grants. Also both MCD and NDMC in their Memoranda to the Commission requested for a larger devolution package, as also for funds for maintenance expenditure on capital assets as also for fresh capital investment.

The Commission after detailed deliberations and after considering the overall resources position of the Govt. of NCT of Delhi, has decided to make the following recommendations :-

A. Devolution Package

(a) Devolution to MCD and NDMC be continued on the system of global sharing of the tax revenues of GNCTD with the municipalities in lieu of scheduler or itemized tax-sharing through assigned taxes and statutory grants-in-aid. After deliberations, the Commission recommends that the basic annual fiscal transfer of 5.5 per cent of tax Revenues of GNCTD continue to be provided to MCD and NDMC to be divided as per recommendation in para A (b) below, together with additional amounts as detailed below and separate provision for DCB as is the current practice.

(b) The Commission further recommends that for the basic devolution of 5.5 per cent of tax Revenues of GNCTD, the division of 70 per cent of the amounts arrived at between MCD and NDMC may be on the basis of the population living in their respective areas and the remaining 30 per cent in the ratio of the physical area under their jurisdiction.

(c) The Commission, also recommends that the 4 per cent ceiling on grant-in-aid may be raised to 5 per cent.

(d) As per guidelines/ pattern / norms of grant-in-aid to the local bodies within the Union Territory of Delhi Rules 1990, (Annexure 8.1) the MCD and NDMC are provided grant-in-aid @ of 60 per cent of the net expenditure incurred by the MCD and NDMC and 66 per cent to DCB of the net expenditure incurred by the DCB for educational purpose.

The Commission recommends that grant-in-aid be provided at the rate of 70 per cent of eligible net non-plan revenue expenditure incurred by MCD on education in lieu of the present 60 per cent . This is recommended in view of the fact that MCD needed to be compensated for the large influx of population as also low levels of literacy rate among the residents, particularly in areas like Resettlement Colonies, JJ clusters, unauthorized colonies etc, in its jurisdiction. The Commission also felt that since primary education is a fundamental right and this is the capital of the country, MCD needed to be encouraged to incur expenditure for this purpose.

The NDMC be allowed reimbursement at the rate of 66 per cent of eligible expenditure on education to maintain parity with DCB.

(e) The Commission recommends that grant-in-aid in respect of reimbursement of expenditure on resettlement colonies and mid-day meals be allowed as per the provisions of the original terms and conditions as drawn by Government of Delhi in this respect prior to the implementation of the recommendations of first Delhi Finance Commission.

B Measures to improve financial position of Municipalities :

The Commission notes with great concern the inadequacy of resource mobilization efforts of both MCD and NDMC and the fact that in spite of the first Commission's recommendations in respect of raising additional revenues through rationalization of property tax, levy of profession tax, levy of entry tax, increases in various fees, charges etc. and levy of night parking charges, almost none of these measures were adopted by the MCD or the NDMC. The Commission felt very strongly that these local bodies have not raised the resources that are well within reach and thereby bolstered their financial position.

Additional Resource Mobilization

(a) The Commission recommends that both MCD and NDMC immediately levy the following taxes :-

- 1) Tax on professions, trades, callings and employment,
- 2) Tax on increase in urban land values,
- 3) Review of rates of fees / fines /rent.

The Commission recommends that Govt. of NCT of Delhi be apprised of the progress and action taken in this regard.

(b) As part of better financial management, the Commission recommends an incentive amount of 2 per cent in respect of collections from new taxes, operative after the expiry of the first year of the levy of such taxes.

(c) The Commission also recommends an incentive amount of 33 per cent for higher collections from existing tax sources if the amount of collection during each of the years of the award period is greater than two percent over the forecasts made by the Commission. To illustrate, if the Commission's forecast of property tax collection of MCD for the year 2003-04 is Rs. 'X' crores, the Commission recommends that an incentive of 33 per cent would be paid by the Govt. of Delhi in respect of the excess amount of $[('X') \times 1.02 - 'X']$.

The Commission examined the system of property taxation adopted by MCD in great depth, and has come to the conclusion that the same is starkly deficient with respect to transparency as also uniformity.

It is felt that resource mobilization can be greatly improved, at least in the long run, if the system of property tax assessment is replaced by the Unit Area method of assessment, to make the same more scientific, objective and simple. Unit area method of property tax assessment taking into consideration measurable variables like carpet area, use of building, location & type of building would greatly improve the efficiency in levy, assessment and collection as well as greater transparency in management. Such a method combined with computerization of property tax administration and adoption of a passbook approach would lead to greater efficiency and fewer complaints. The Commission also recommends that NDMC also design and implement a suitable reform package in respect of property tax assessment.

The Commission notes with concern the erratic revenue realization by MCD from DVB. The revenue realization of electricity tax by MCD from DVB over a period of eleven years from 1991 to 2001 indicates dips and peaks. The Commission is of the view that MCD should take up this matter in right earnest with DVB for actual realization of electricity tax collected by DVB from the consumers. The electricity tax so realized should be utilized by MCD for providing street lighting as a high priority area since public safety is involved. This would help in minimizing the crime rate as well.

Financial management and Reforms :

(a) With respect to financial management, the Commission recommends that there is need for downsizing since MCD suffers from a rather high manpower ratio at 11 per 1000 of population. The Commission recommends that MCD needs to take steps to improve productivity of its staff, along with the downsizing.

(b) The Commission recommends the scope for improved asset management and treasury management.

(c) The Commission stresses the need for MCD, NDMC and DCB to reform in the following areas :-

- (1) Improving the budgetary systems as also of financial management systems,
- (2) Implementing productivity improvement schemes, and
- (3) Contracting out services in the private sector where it is shown to result in cost savings.

Details of the proposed reforms in these areas are detailed in Chapter VII of this report.

(d) The Commission recommends that Govt. of Delhi may consider creating a Municipal Reform Fund to encourage the local bodies to undertake the following reforms. Releases from this fund are to be linked to achievement of desired milestones in respect of the three major reform areas recommended by the Commission, namely,

- (1) Reform of Property Tax Assessment including Computerization.
- (2) Reform of Municipal Accounting and Budgetary systems, and
- (3) Private participation in the provision of urban services.

For adopting accrual based accounting system, the Commission recommends the reimbursement of entire expenditure incurred by the local bodies on carrying out a study from a reputed institution after approval of Govt. of NCT of Delhi.

(e) The Commission recommends that computerization of public dealing departments of MCD viz., property tax department, licensing department, registration of births and deaths, should be carried out on top priority basis and Government of Delhi should provide an amount of Rs. 10 crore to MCD. Similarly, NDMC should also be provided an amount of Rs. 1 crore for computerization of public dealing departments as mentioned above. The Govt. of Delhi should monitor the computerization in MCD and NDMC. For this purpose, a mechanism should be devised by Govt. of Delhi both for release of amount and monitoring.

(f) The funds devolved by Govt. of Delhi to the local bodies are intended not merely for bridging the revenue gap, but also intended for maintaining the capital assets already created and capital assets created under plan schemes which are subsequently transferred to non-plan for maintenance. The Commission recommends that both MCD and NDMC should spend a specific amount received in devolution, say, at least 5 per cent, for the purpose of maintenance of capital assets.

The Commission further recommends that 5 per cent of grant-in-aid provided by Govt. of Delhi to MCD for education should be specifically earmarked for maintenance of school buildings only. A mechanism in this regard should be devised by Govt. of Delhi both for releases, as also for monitoring.

(g) The expenditure incurred on environmental conservation should be suitably enhanced by the local bodies to arrest the degradation of environment whether in the field of sanitation, roads, public toilets, solid waste management, air pollution, noise pollution or decongestion.

C Functional responsibilities of MCD and NDMC

The Commission has examined the functional responsibilities being performed by MCD and NDMC and makes the following recommendations –

- (a) There should be no overlapping of functions between Govt. of Delhi and the Municipalities, e.g. the function of old age pension is being performed by MCD and NDMC as a discretionary function. The old age pension is also being provided by Govt. of Delhi. This is a duplication of functions and strain on the resources of MCD and NDMC. If this function is performed by Govt. of Delhi alone, it would help in improving the financial health of municipalities.
- (b) Primary health care including dispensaries, maternity and child health care centres and small hospitals should remain with municipalities, but all hospitals with more than 100 beds capacity should be transferred from Municipalities to Govt. of Delhi since these require specialized

management logistics and diagnostic facilities, which is already available with Govt. of Delhi. This is again a case of overlapping of functions between Govt. of Delhi and the Municipalities.

- (c) The function relating to construction and maintenance of cattle ponds should be transferred from discretionary to obligatory functions of both MCD and NDMC respectively.
- (d) The discretionary functions relating to MCD in respect of construction and maintenance of rest houses, poor houses, infirmaries, children's homes, houses for the deaf and dumb and for disabled and handicapped children, shelters for destitute and disabled persons, and asylums for persons of unsound mind, should be transferred to Govt. of Delhi to enable better and coordinated approach and better management of buildings.
- (e) In terms of the Supreme Court recent judgement, greater responsibility lies with the Government of Delhi in respect of location of industries. The work of relocation of industries from non-conforming areas to conforming areas has been handled by Government of Delhi in the recent past. Therefore, the work relating to issue of factory licenses should be transferred to Government of Delhi from MCD. This would facilitate the implementation of a uniform policy throughout Delhi.
The Commission is of the view that the system of single window service be followed for all clearances for industries and for this purpose the function relating to factory licensing should be shifted to Govt. of NCT of Delhi.
- (f) The Commission has deliberated on the issue of food licences for eating establishments and has come to the conclusion that this subject should be transferred to Govt. of Delhi for better supervision, control and coordination as is the practice in other States and as has also been recommended by the Supreme Court.

D Debt Restructuring

On debt restructuring, the Commission recommends that the restructuring of debt worked out by the First Commission may continue and Government of

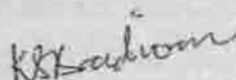
Delhi may consider allowing a three years moratorium in respect of fresh loans. It is felt that the rate of interest charged on fresh loans to local bodies should not be higher than the rate of interest presently being charged from DVB, DTC, & DJB etc.

The Commission recommends that Govt. of Delhi should consider reduction in the interest rate on the funds given to local bodies, whether for plan purposes or by way of ways and means advances in the present regime of lower interest rates.

As part of financial reforms the Commission recommends that it would be appropriate to consider persuading MCD to open an ESCROW account for repayment of future loans.

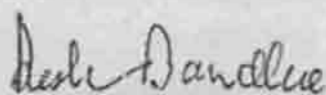
The above recommendations read along with this Report cover the terms of reference assigned to the Commission by the Government. The Commission also recommends that any fiscal transfers made by GNCTD to MCD and NDMC in 2001-02 may be treated as subsumed into the proposed transfers and may be adjusted from the amounts due as per the recommended scheme of devolution.

Before concluding, the Commission is happy to place on record its appreciation of the valuable assistance rendered by Smt. Sumati Mehta, Secretary of the Commission, Sh. D.K. Rastogi, Deputy Director and their small team whose unstinted labour and cooperation contributed valuably to the accomplishment of the task assigned to them.



(K.S. Baidwan)

Chairman



(Desh Bandhu)

Member



(Ramesh Chandra)

Member

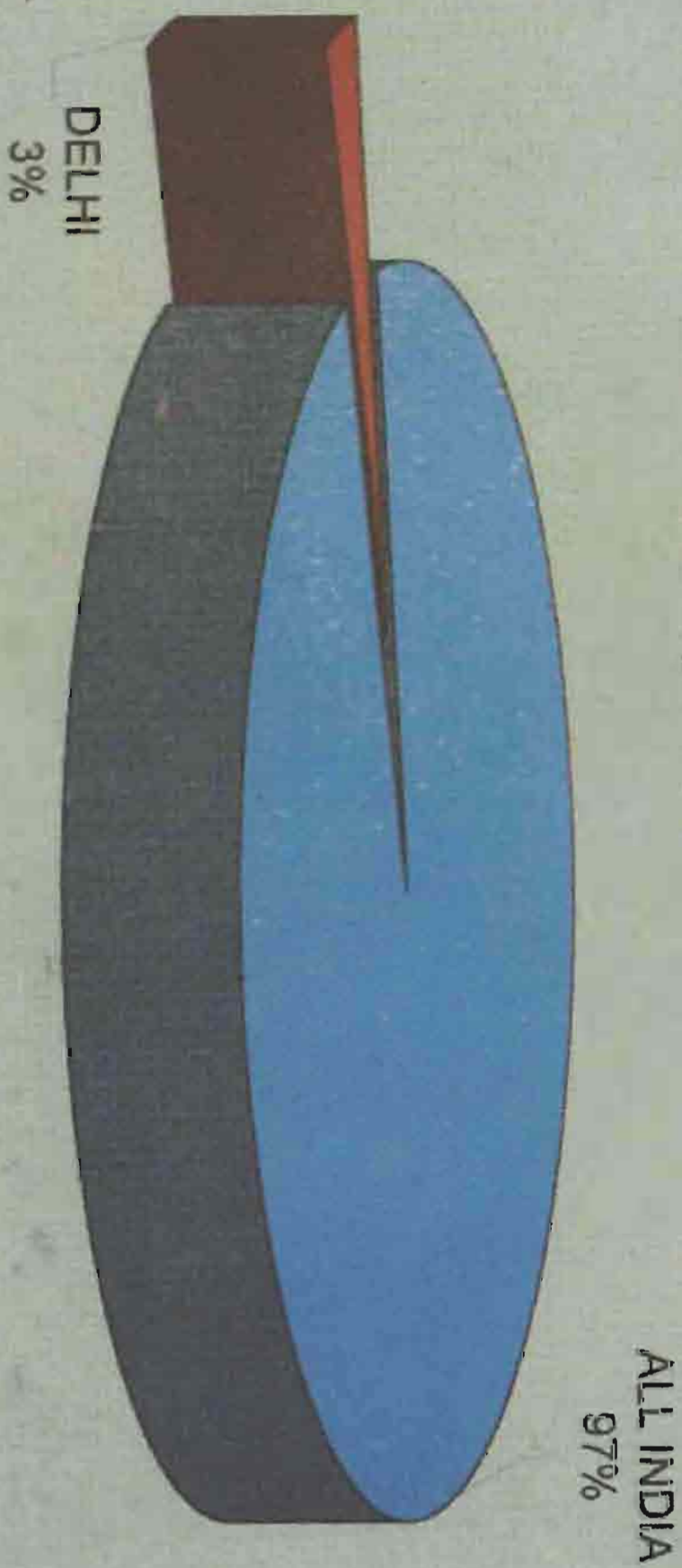


(R.S. Gujral)

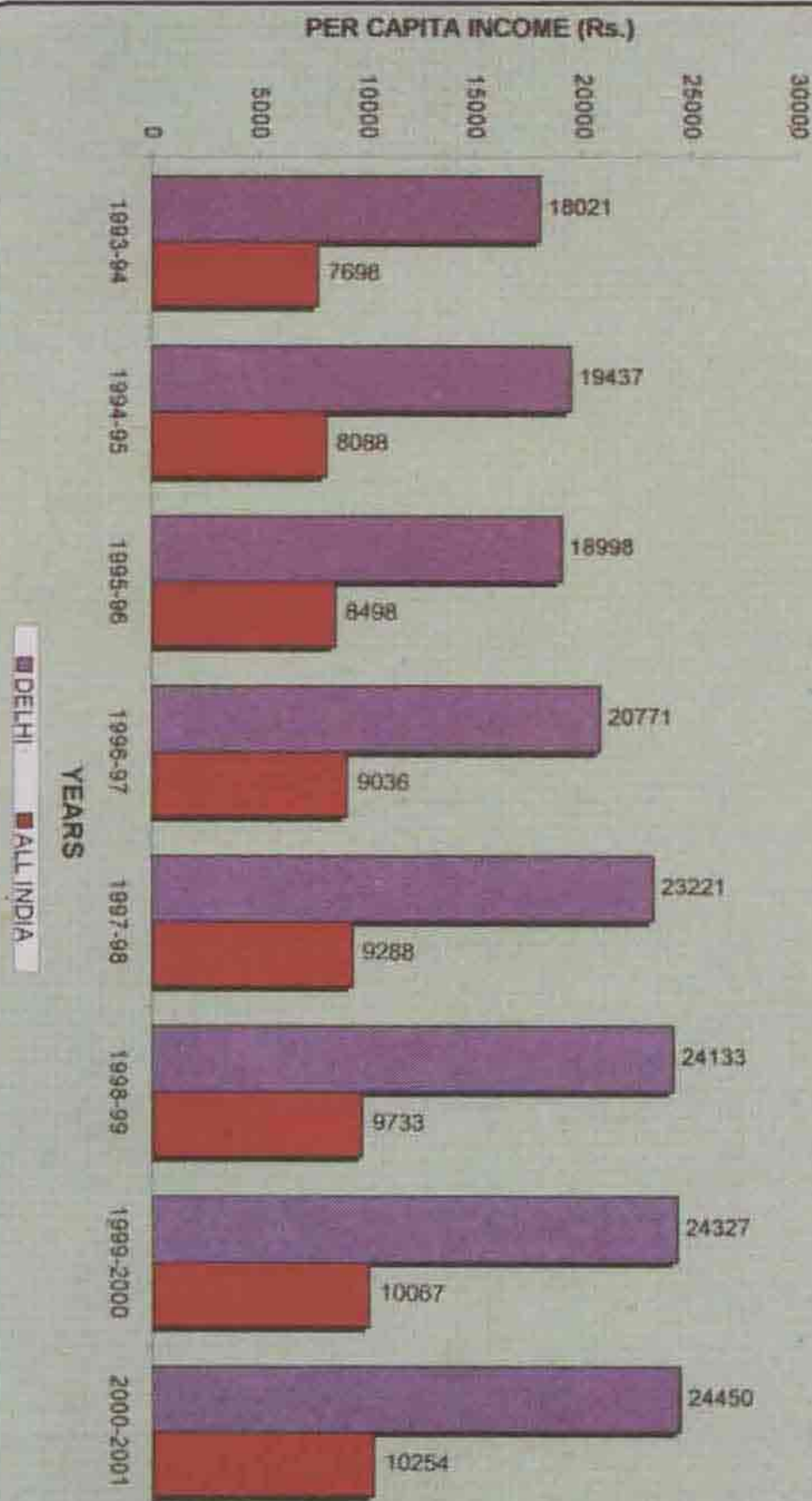
Member

GRAPHS

SHARE OF DELHI IN NATIONAL GDP
(AT CURRENT PRICES)

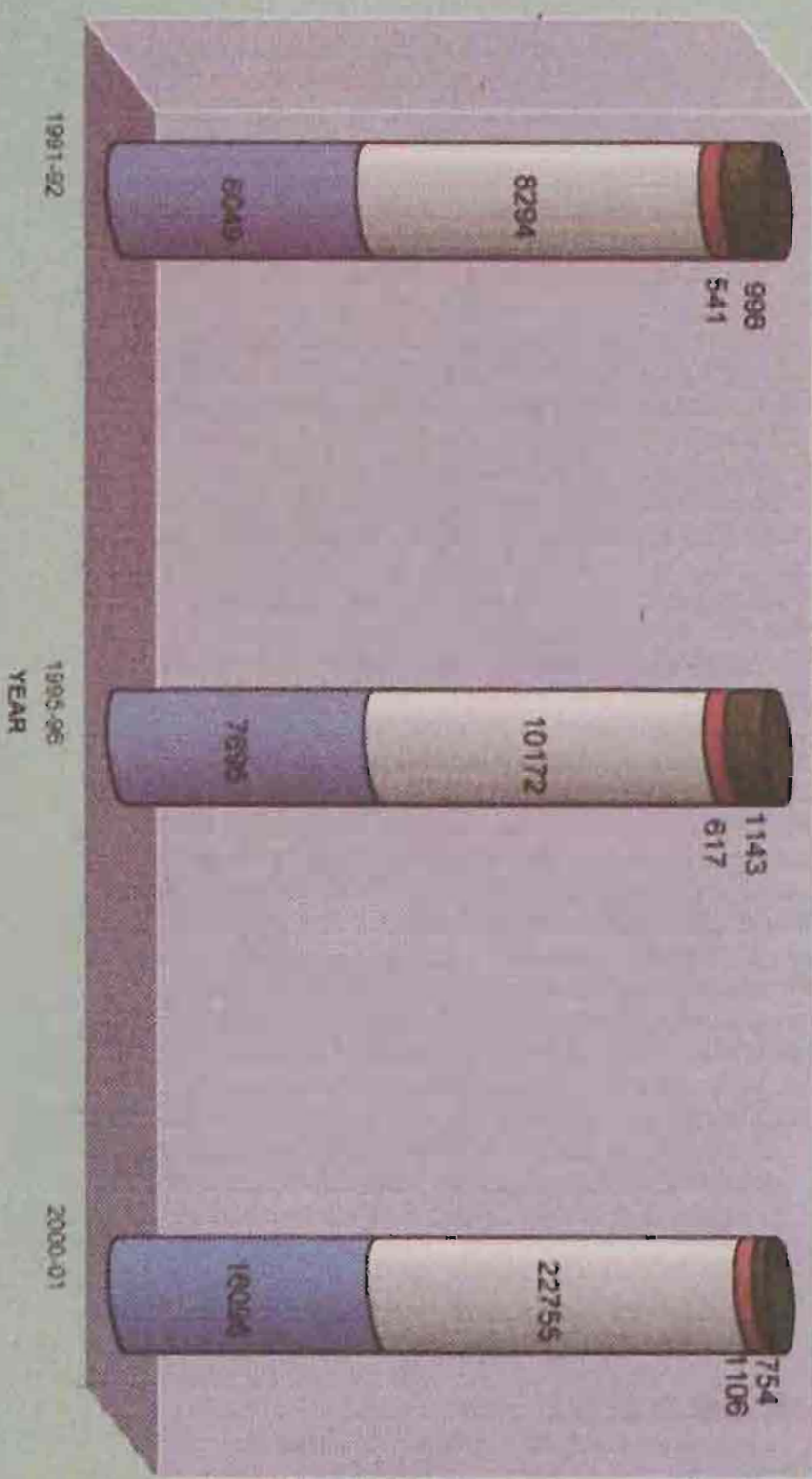


PER CAPITA INCOME - DELHI AND ALL INDIA



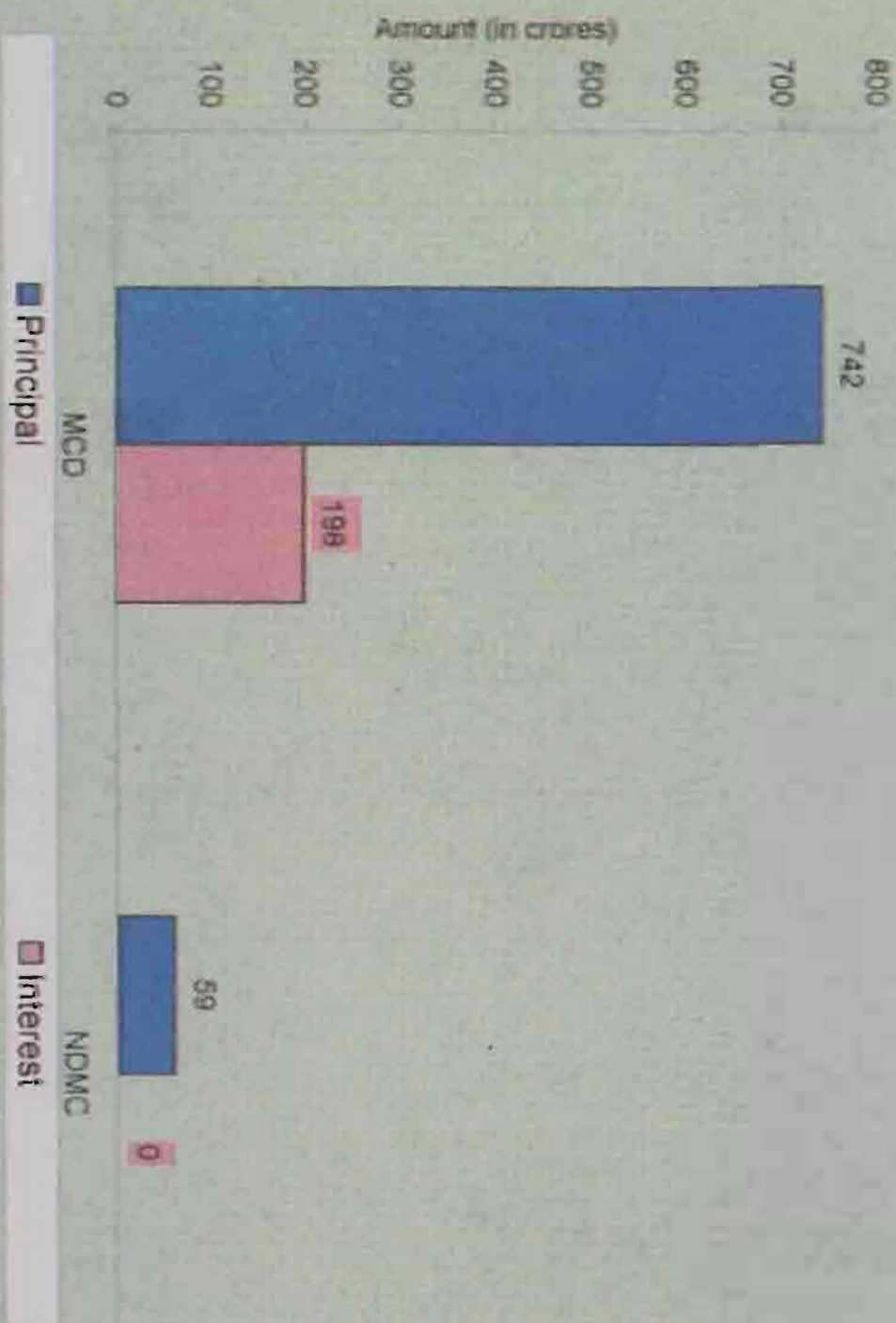
TRANSFER OF FUNDS TO MCD AND NDMC

(RS IN LAKHS)



- Grant in Aid (MCD)
- Global Share (MCD)
- Grant in Aid (NDMC)
- Global Share (NDMC)

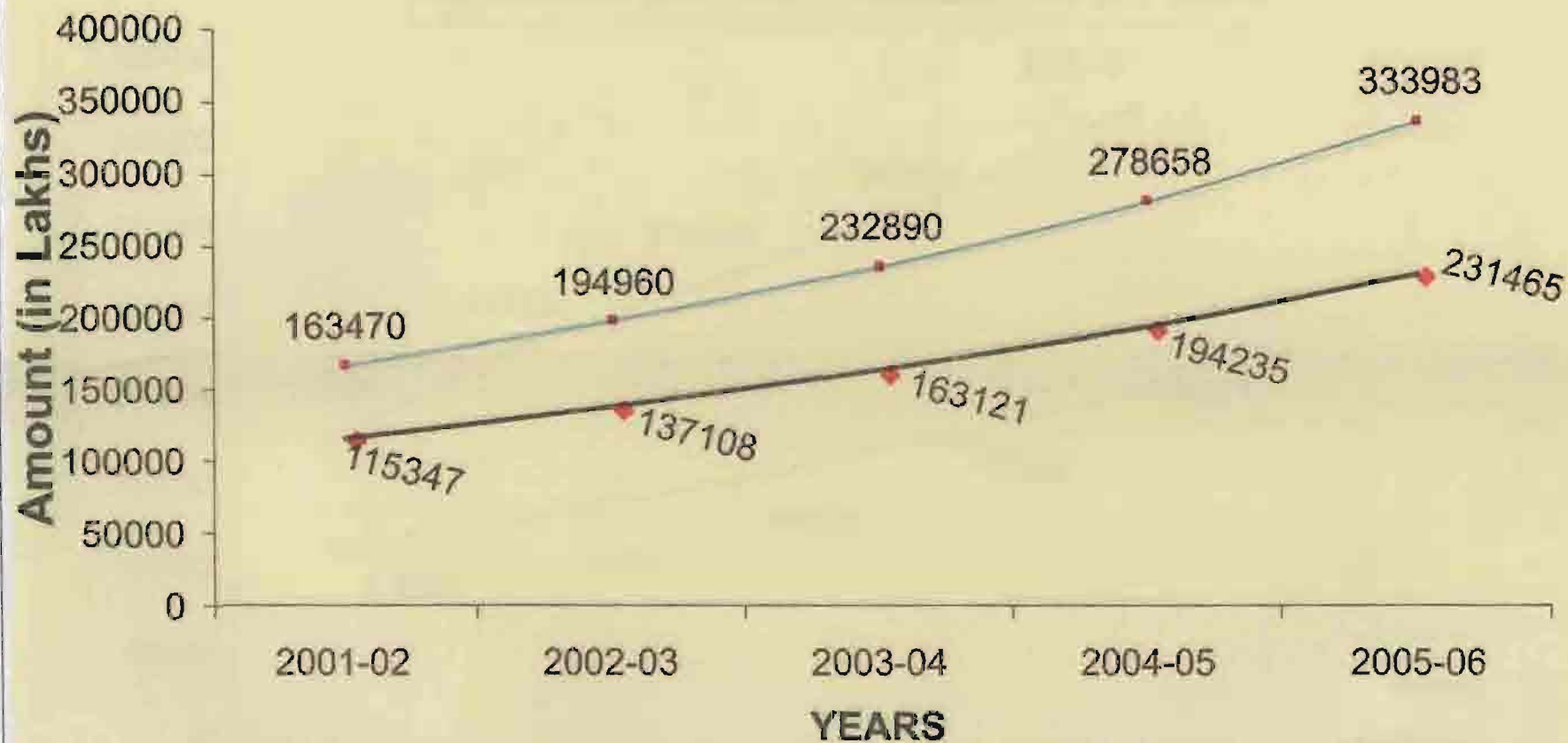
DEBT POSITION AS ON 31st MARCH, 2001 - MCD AND NDMC



REVENUE GAP - NDMC (ACTUALS)



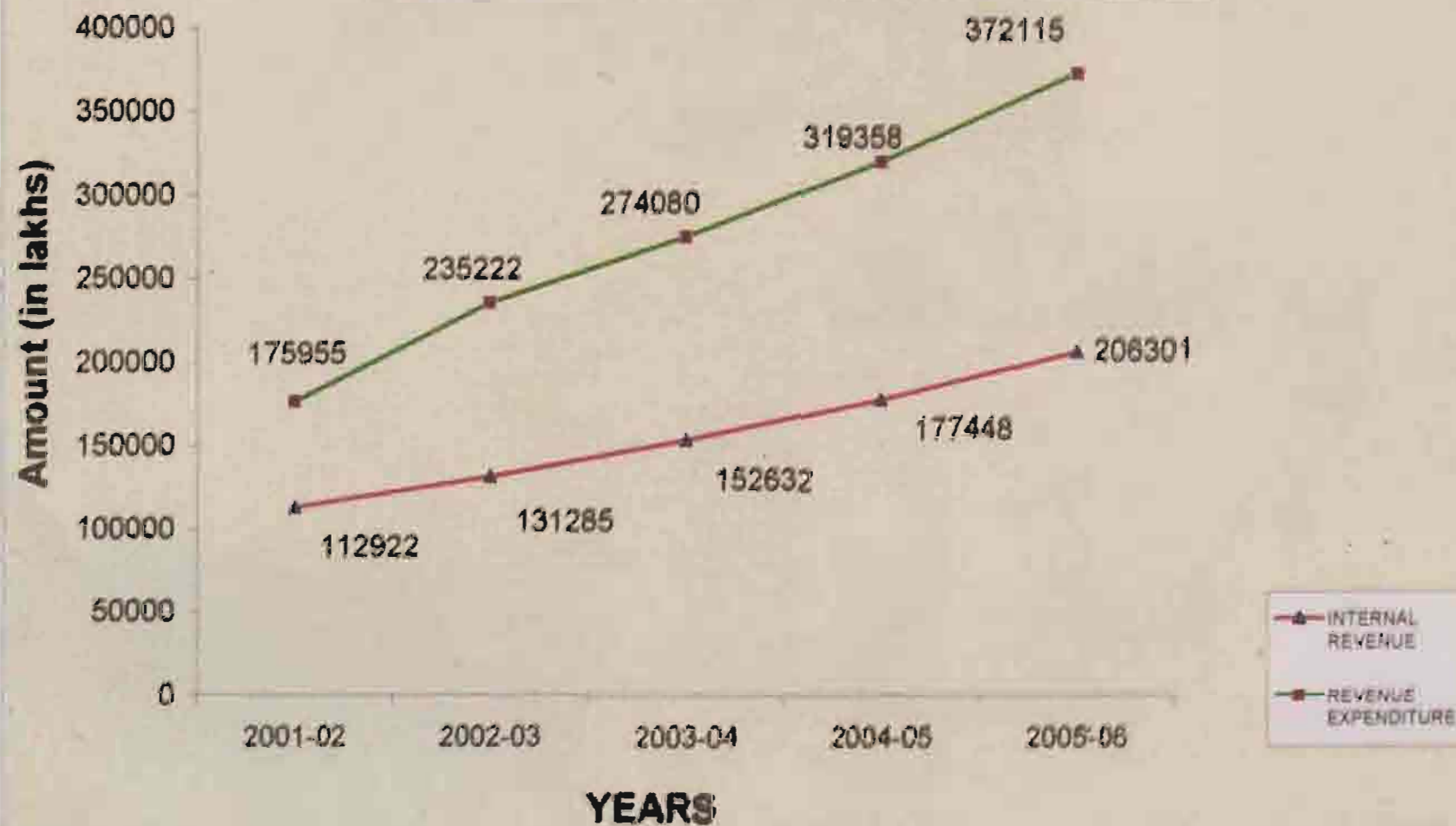
REVENUE GAP OF MCD AS PROJECTED BY COMMISSION



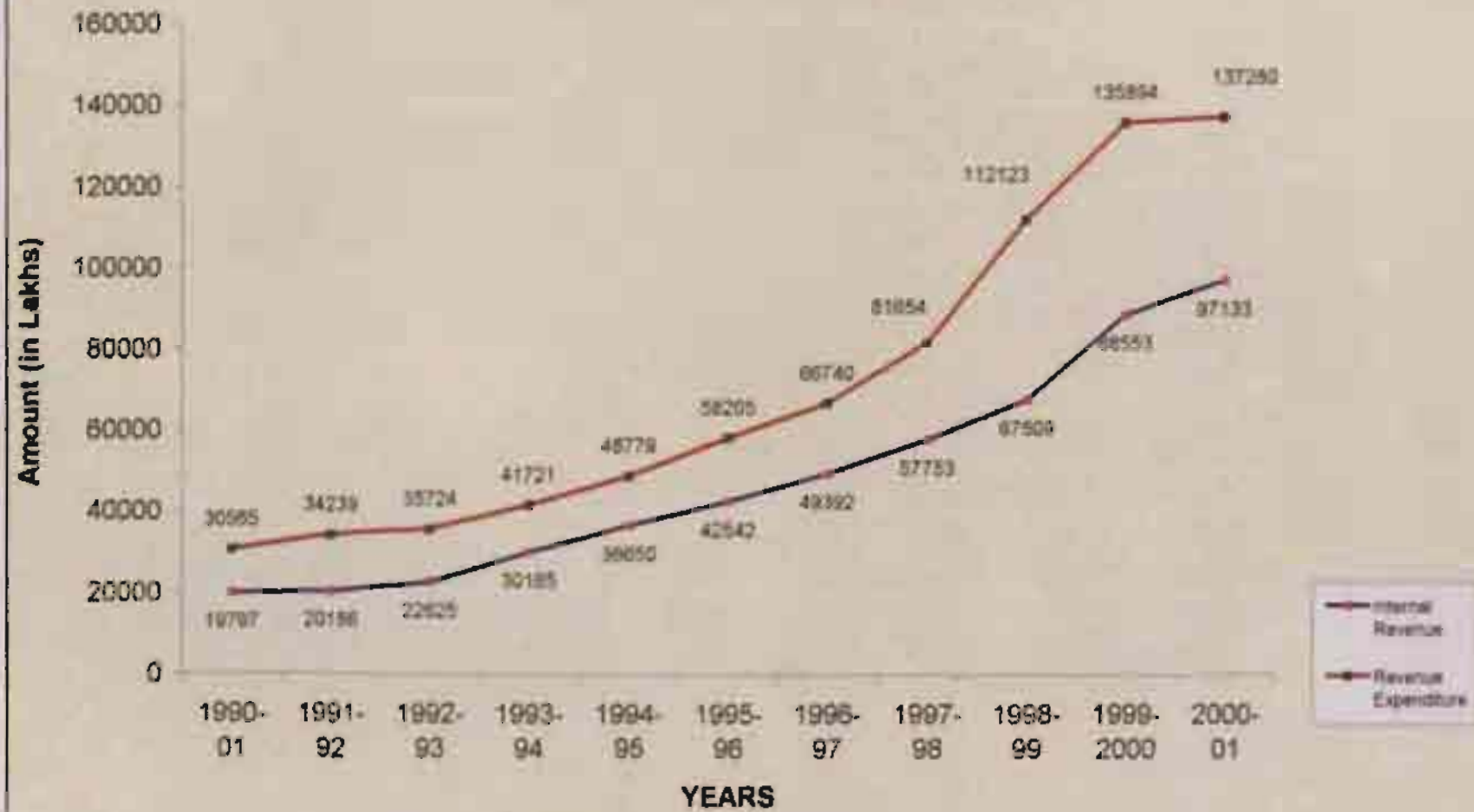
INTERNAL REVENUE

REVENUE EXPENDITURE

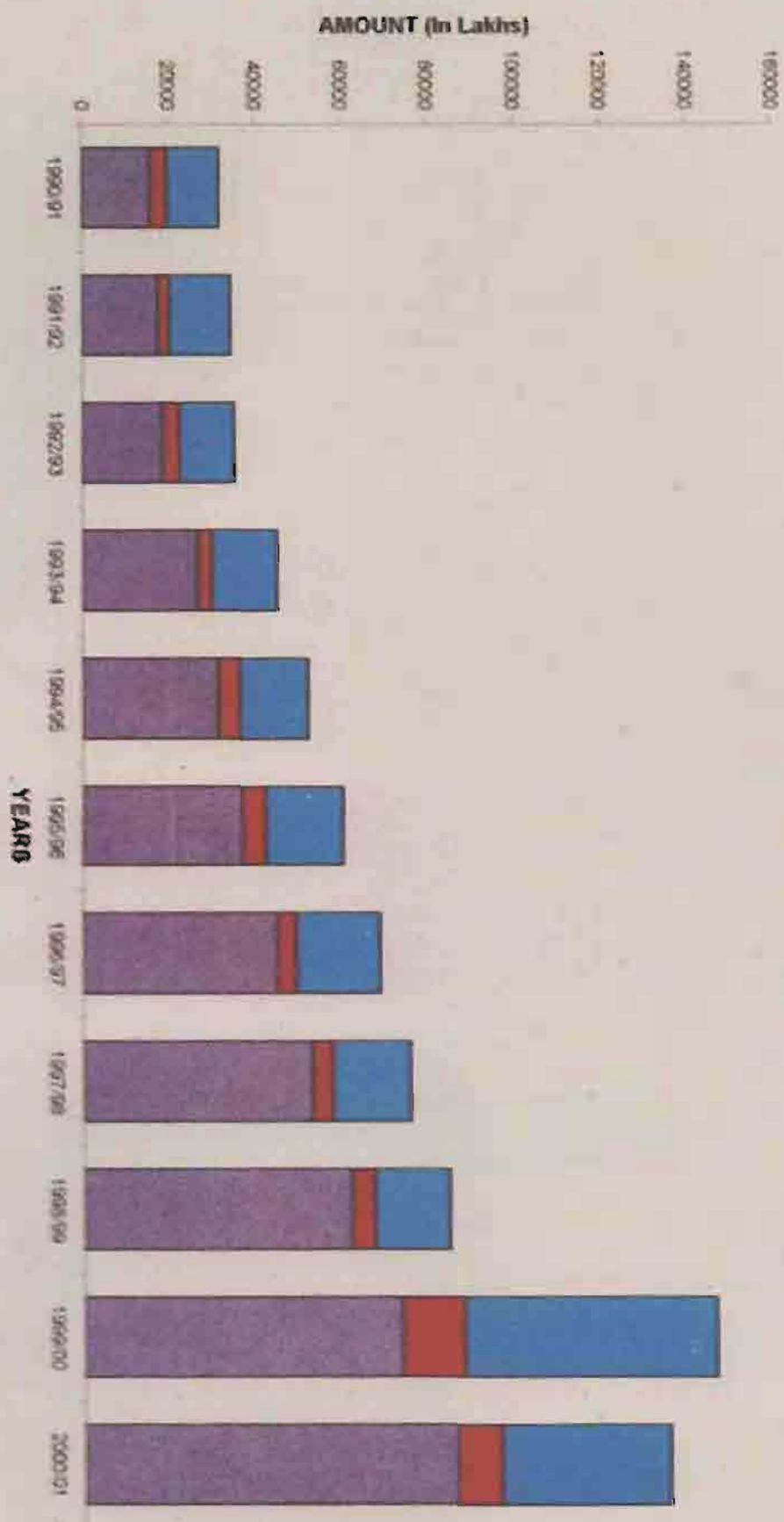
REVENUE GAP AS PROJECTED BY MCD



REVENUE GAP - MCD (ACTUALS)



REVENUE RECEIPTS - MCD (ACTUALS)

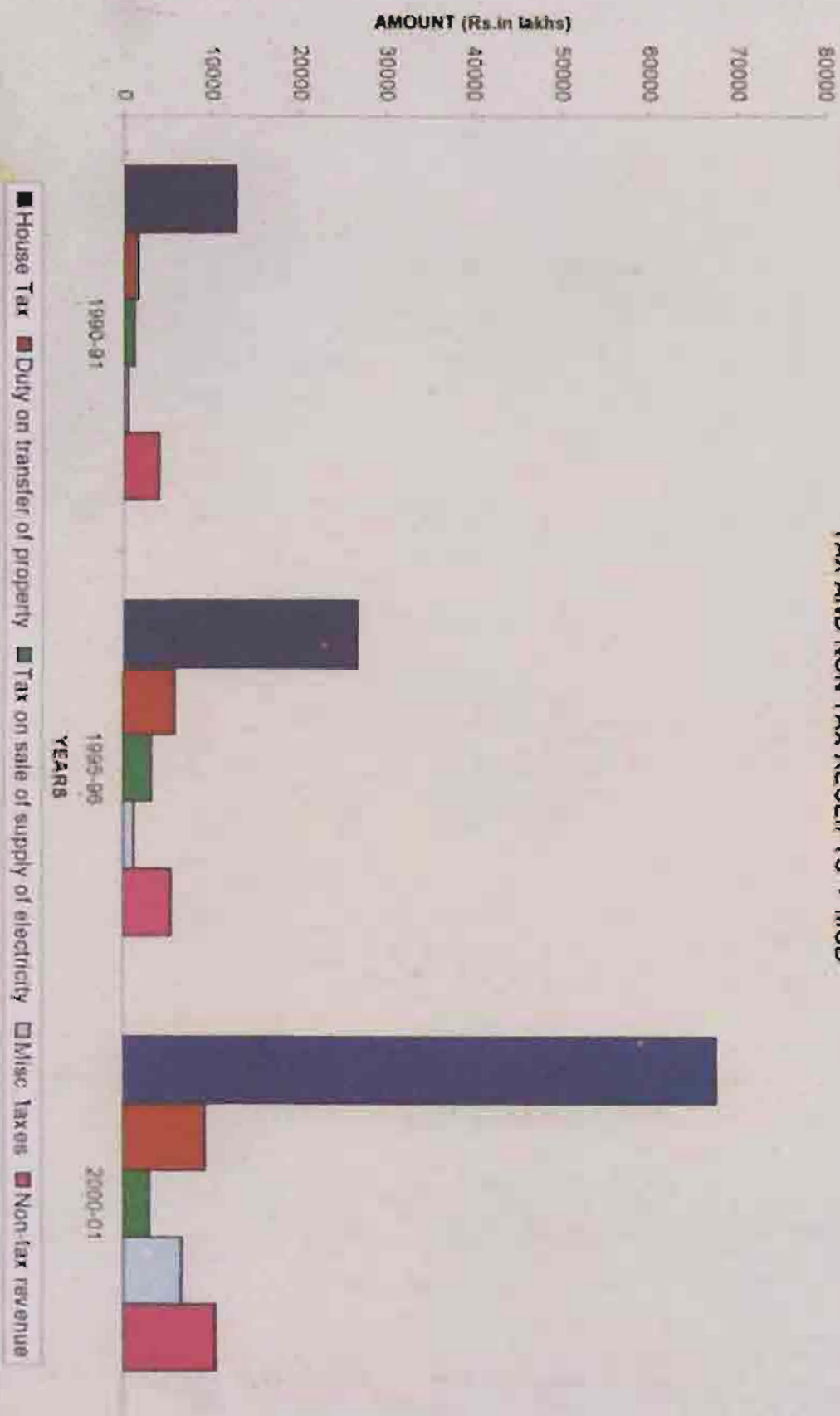


■ Tax Revenue

■ Non-Tax Revenue

■ Transfer

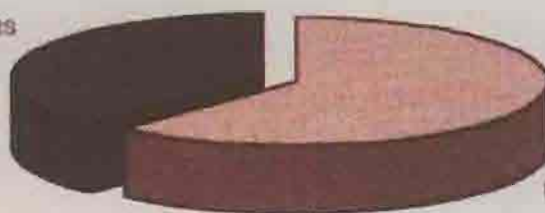
TAX AND NON TAX RECEIPTS - MCD



**SHARE OF TRANSFERS IN REVENUE RECEIPTS OF MCD FOR THE
YEARS 1990-91, 1995-96 AND 2000-01**

1990-91

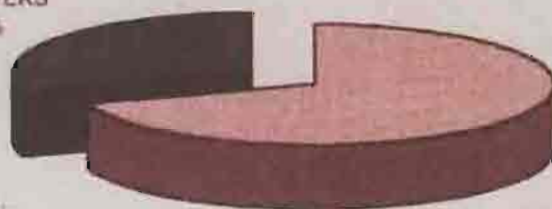
TRANSFERS
38%



TOTAL
REV RECEIPTS
62%

1995-96

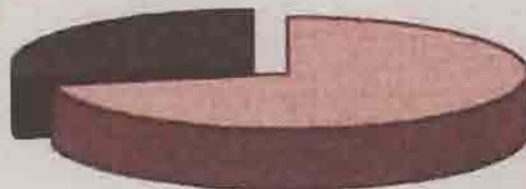
TRANSFERS
30%



TOTAL
REV RECEIPTS
70%

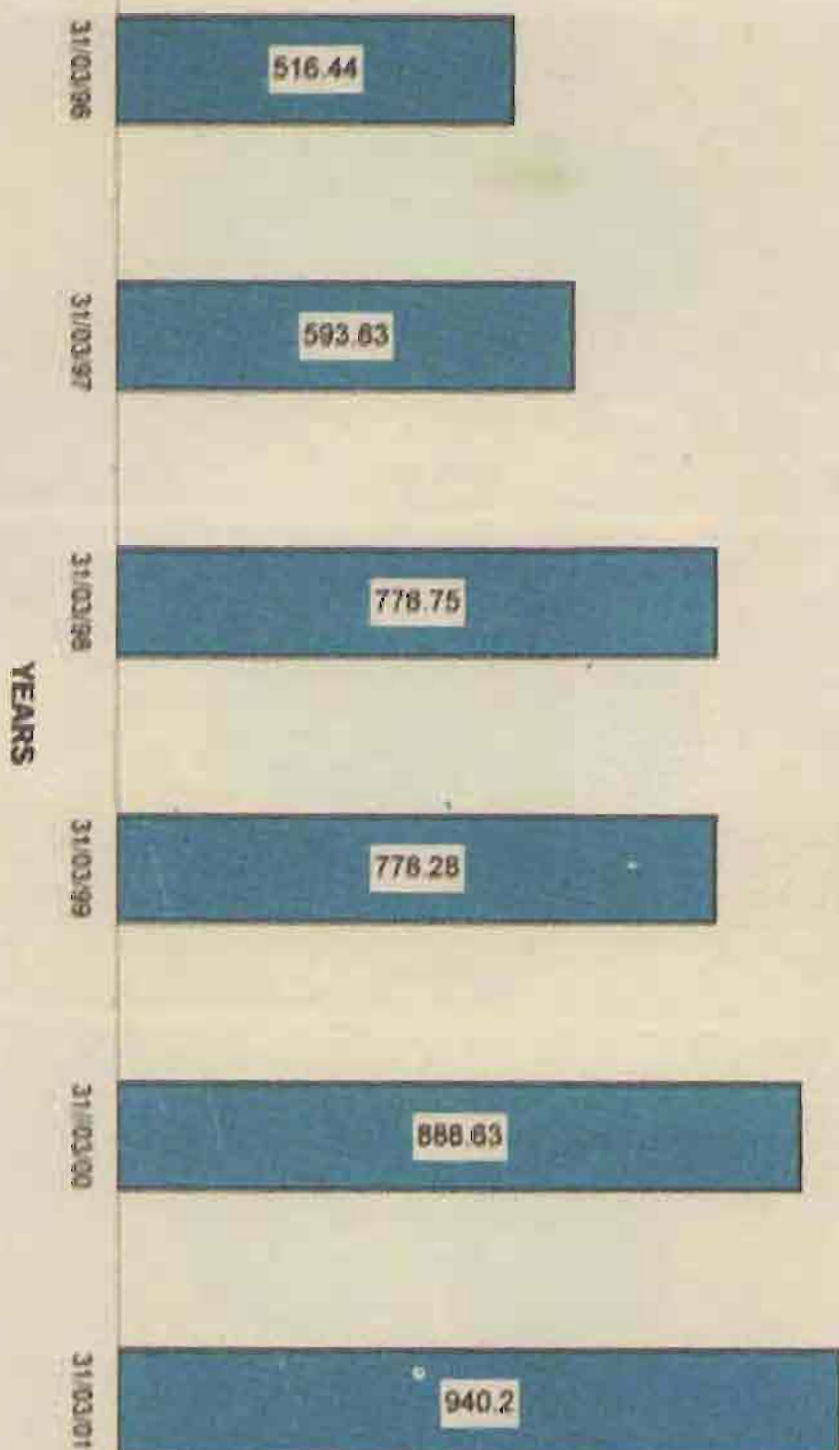
2000-01

TRANSFERS
29%

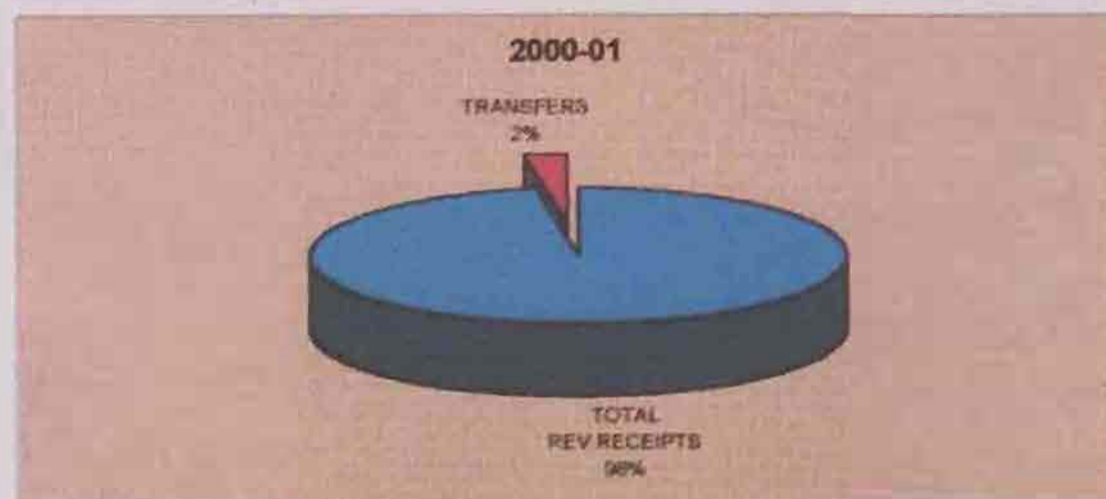
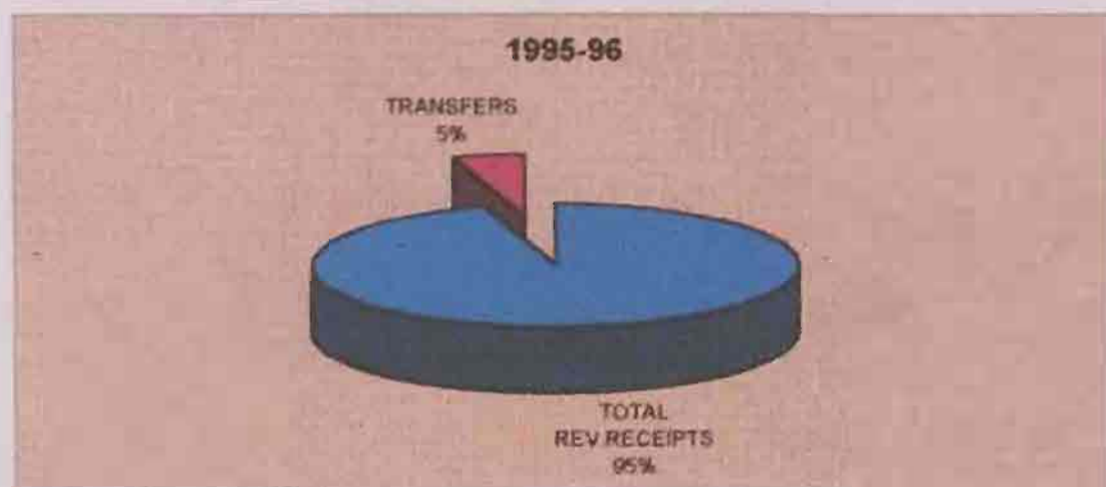
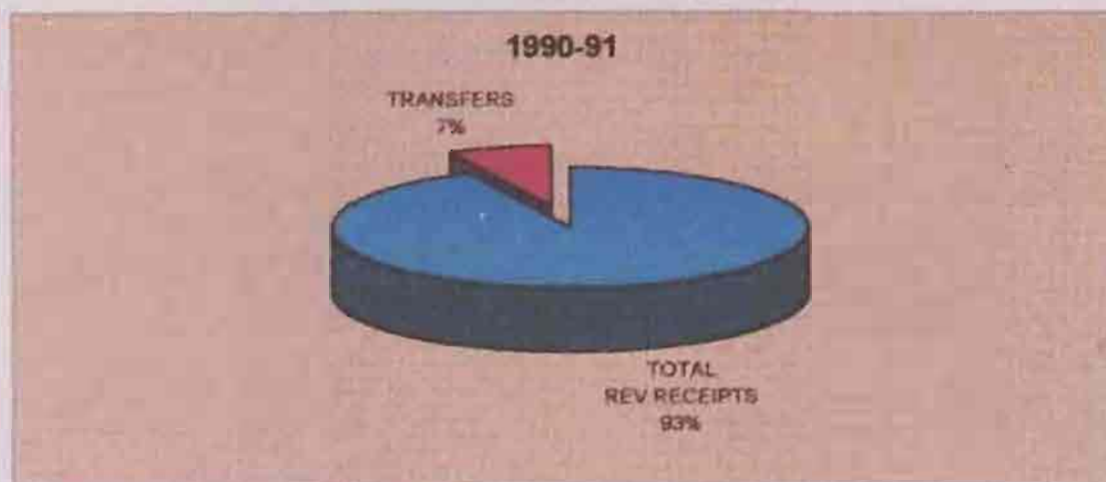


TOTAL
REV RECEIPTS
71%

DEBT POSITION - MCD
(Rs. in Crores)



**SHARE OF TRANSFERS IN REVENUE RECEIPTS OF NDMC FOR THE
YEARS 1990-91, 1995-96 AND 2000-01**



REVENUE GAP OF NDMC AS PROJECTED BY THE COMMISSION

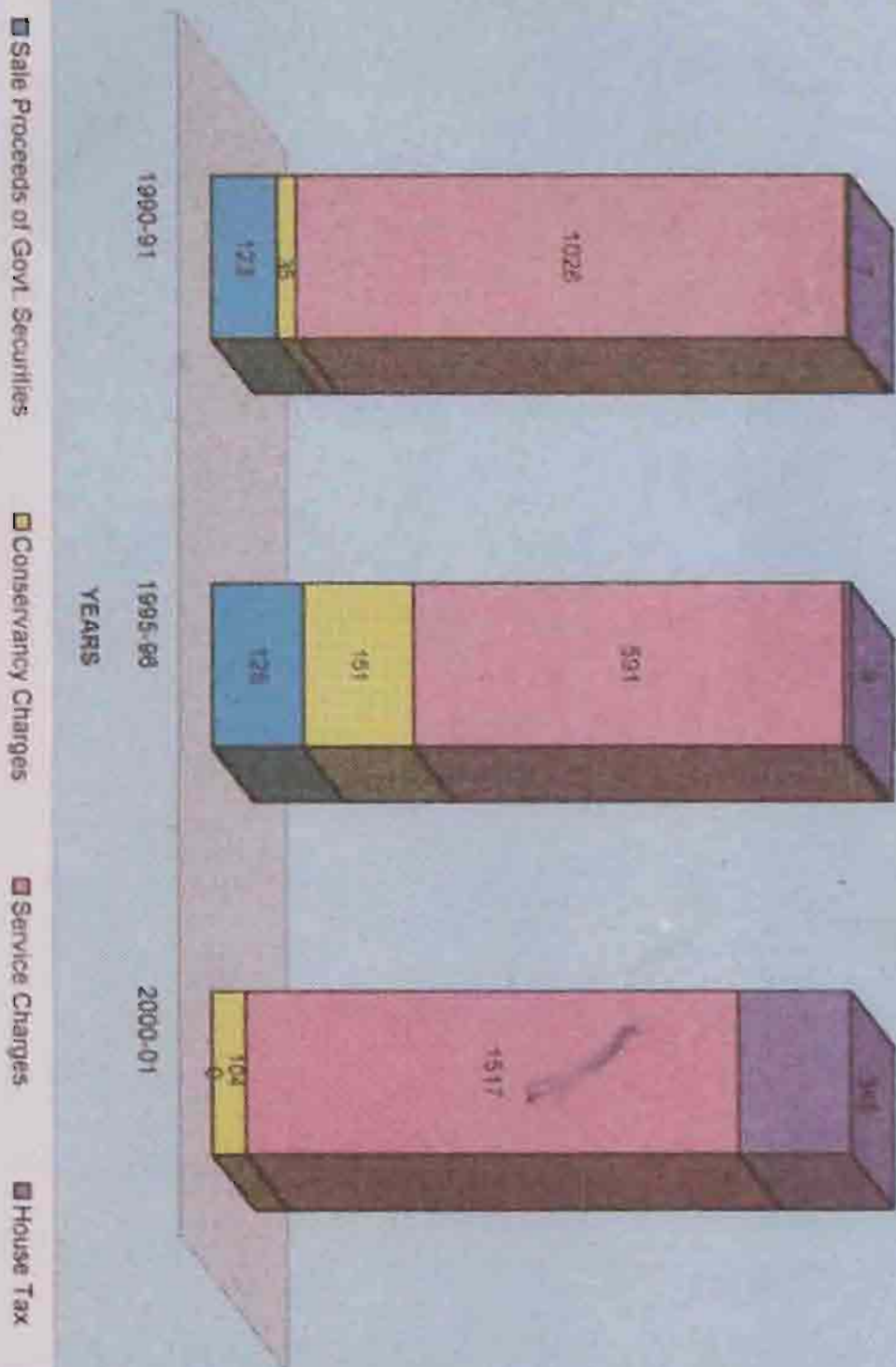


REVENUE GAP AS PROJECTED BY NDMC

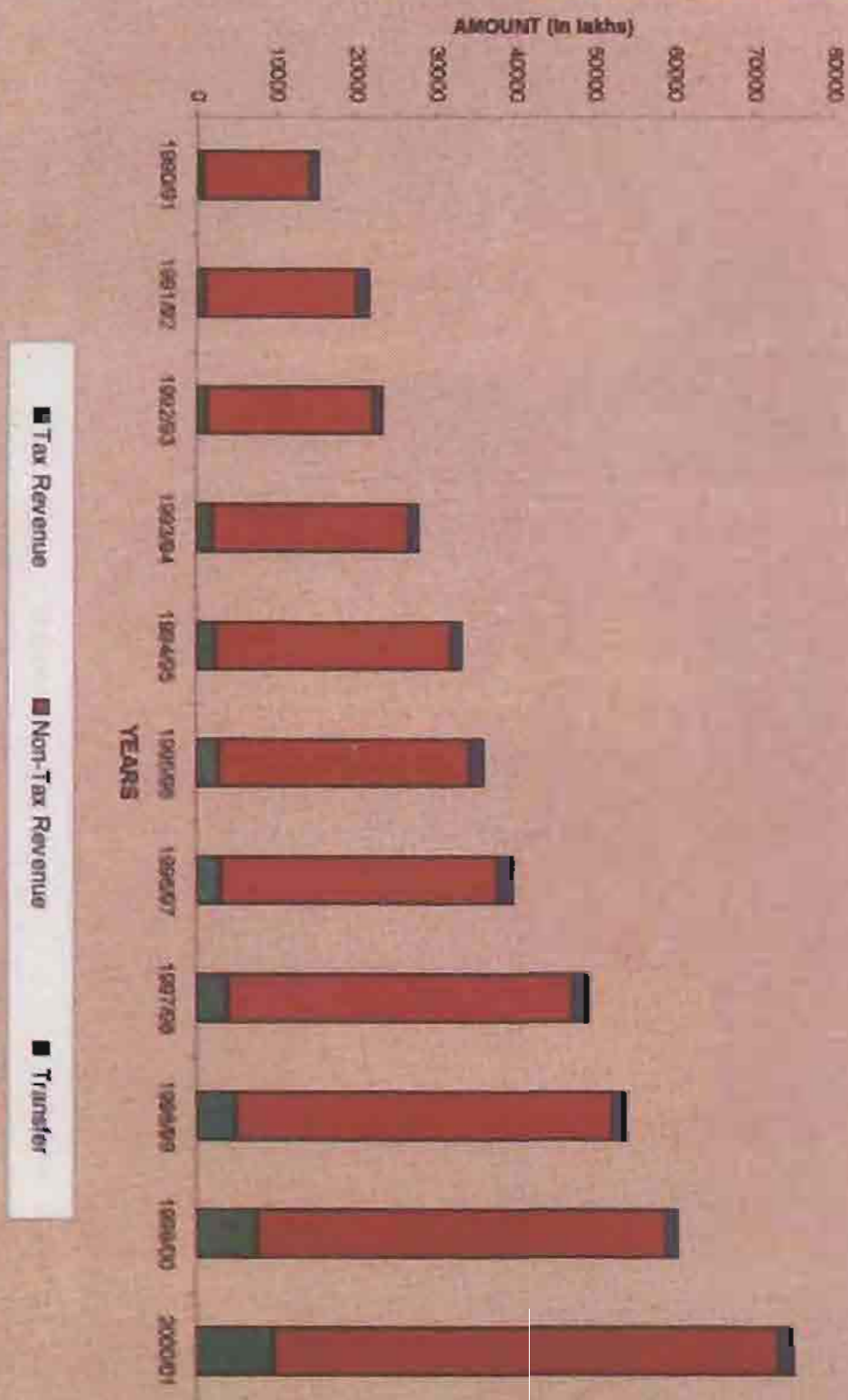


IMPORTANT ITEMS OF INTERNAL REVENUES - DCB

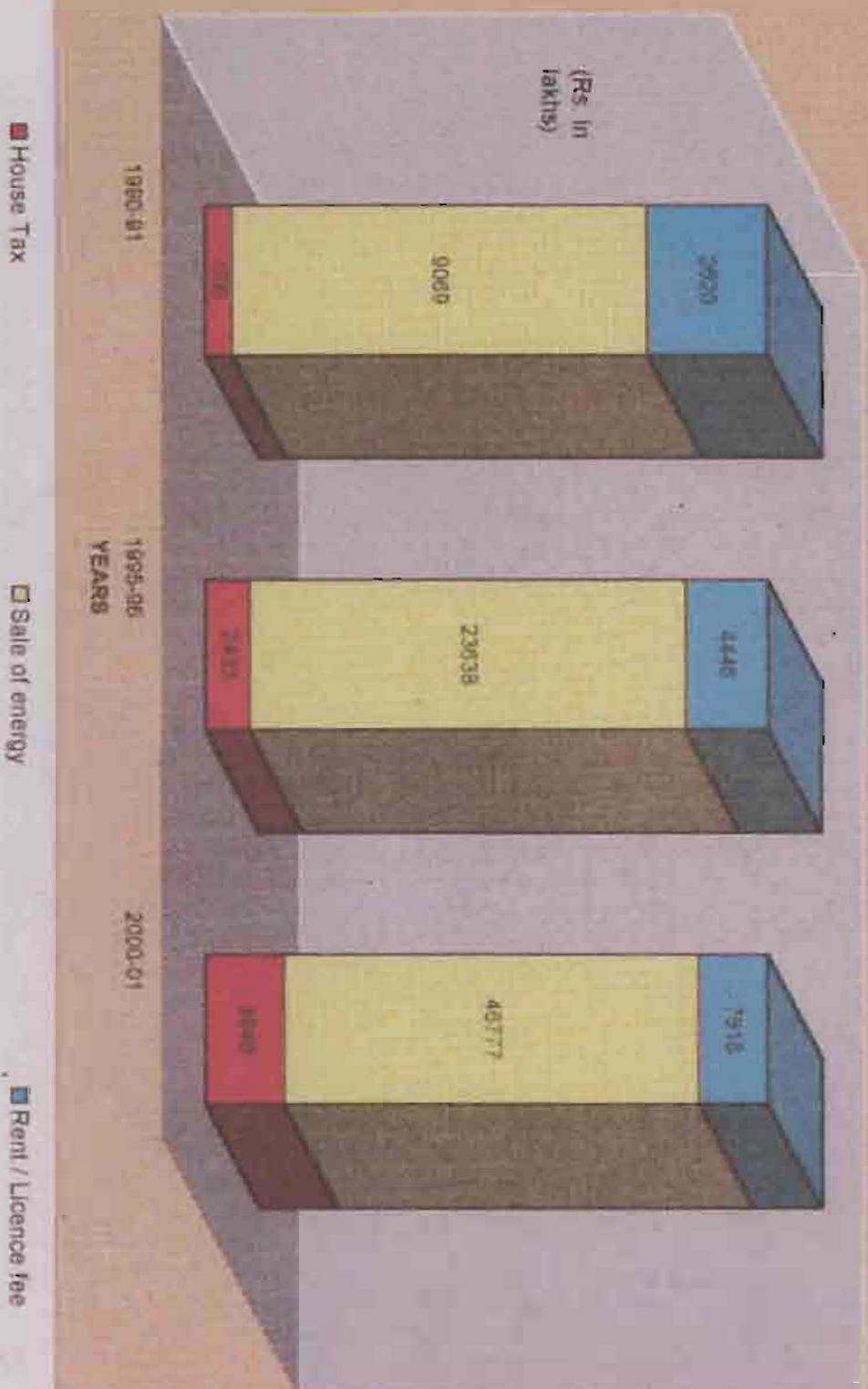
(Rs. in Lakhs)



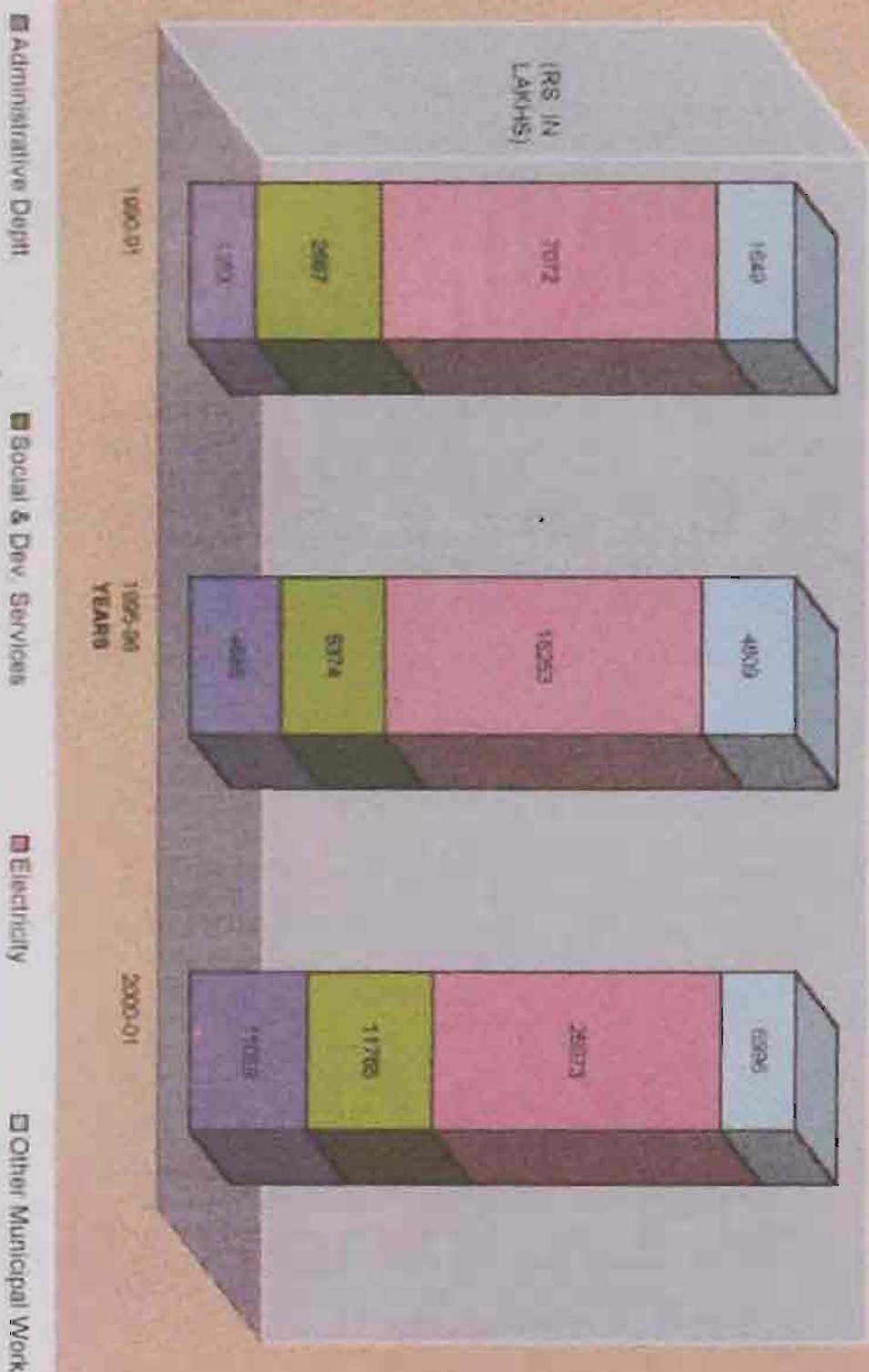
REVENUE RECEIPTS - NDMC (ACTUALS)



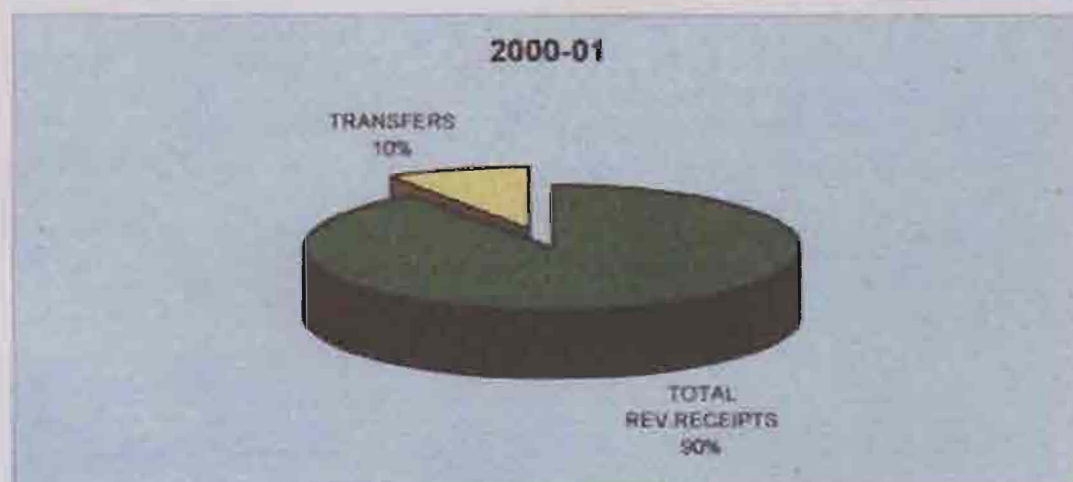
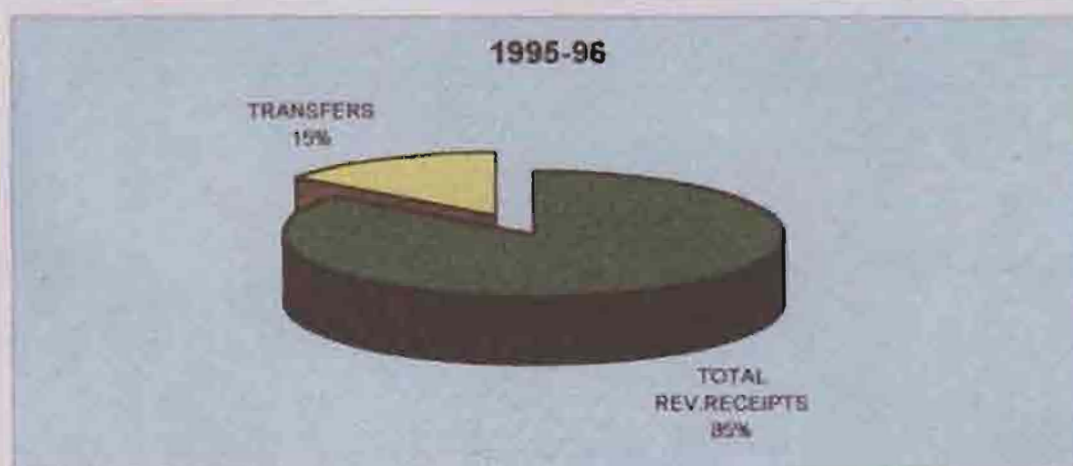
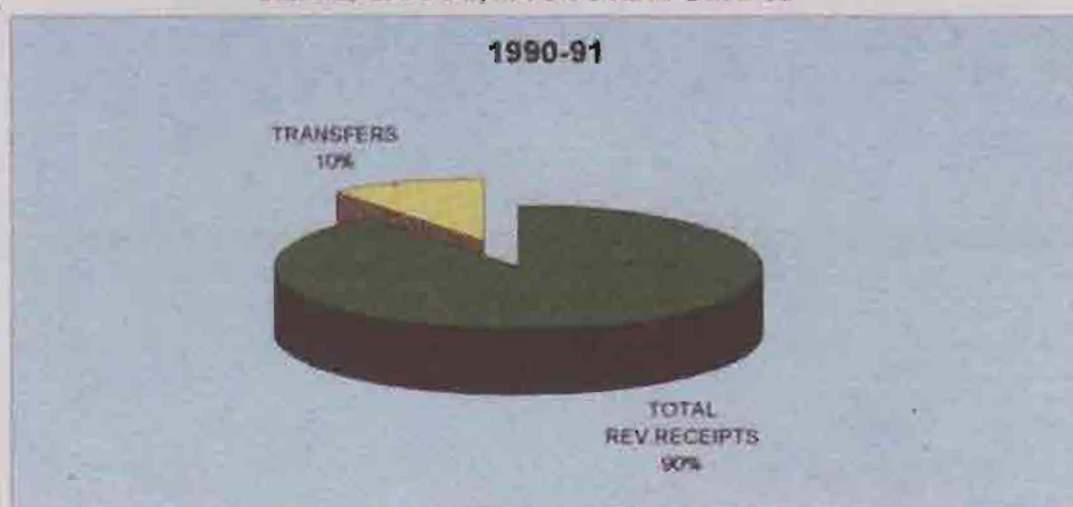
IMPORTANT ITEMS OF INTERNAL REVENUES - NDMC



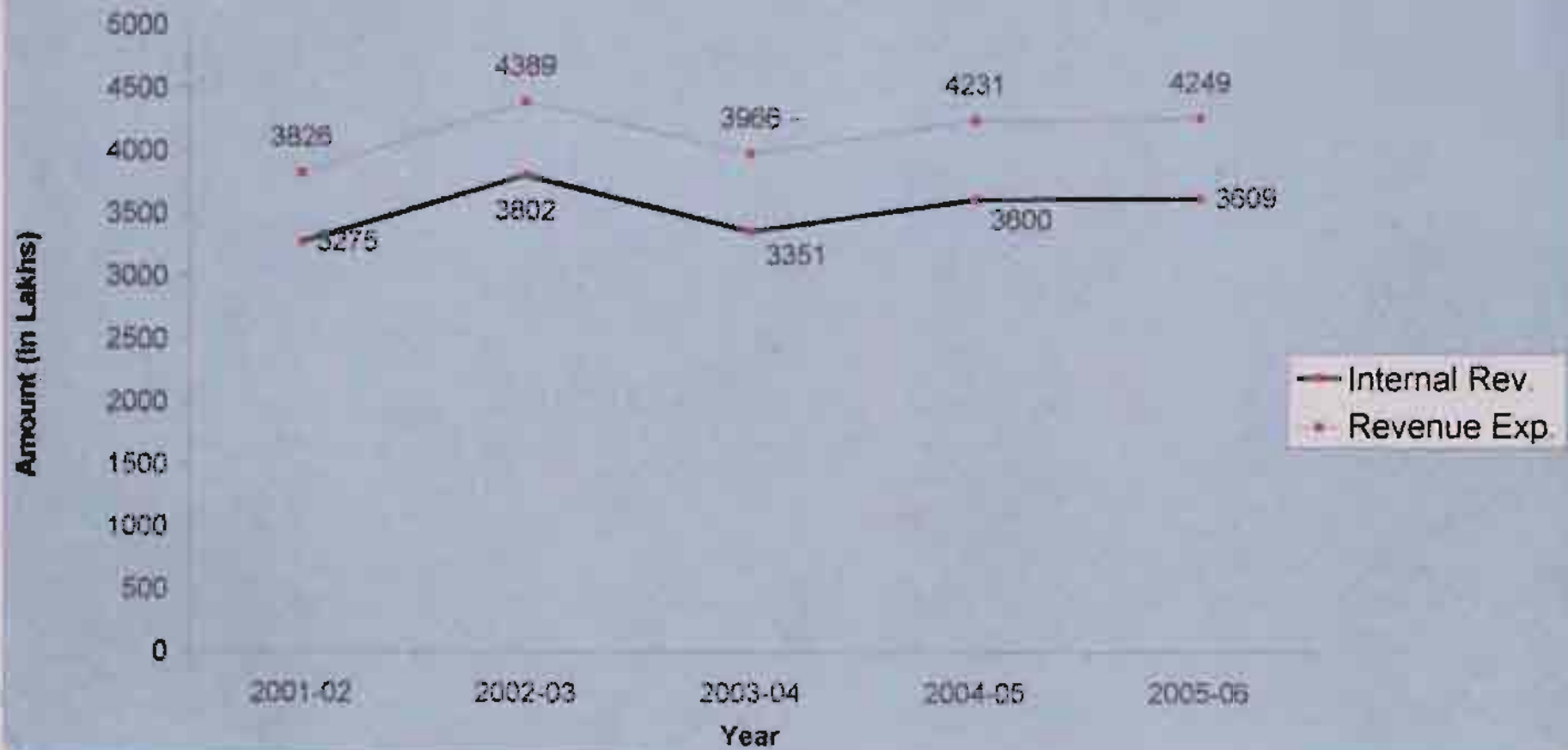
IMPORTANT ITEMS OF NON-PLAN EXPENDITURE - NDMC



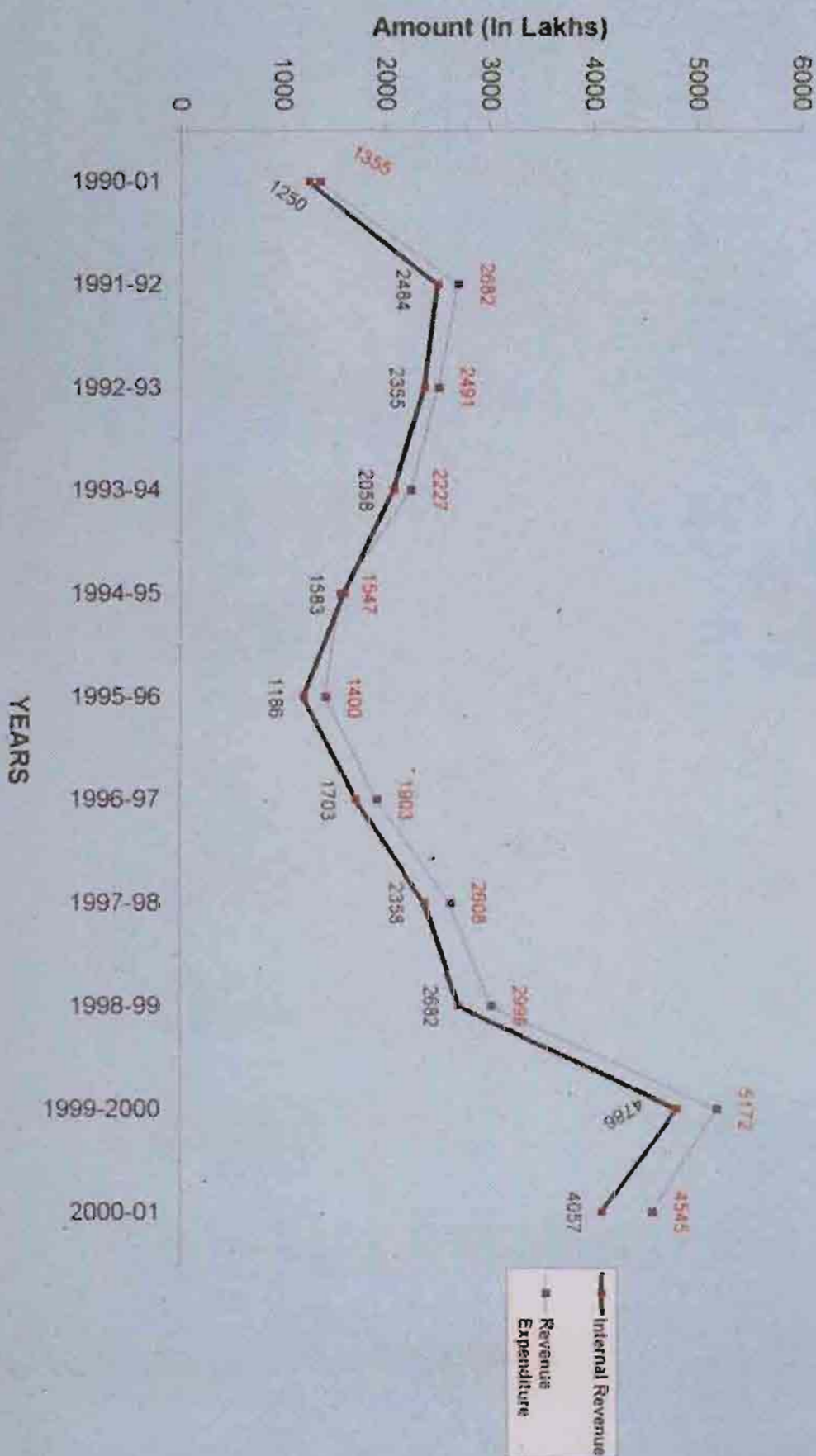
**SHARE OF TRANSFERS IN REVENUE RECEIPTS OF DCB FOR THE
YEARS 1990-91, 1995-96 AND 2000-01**



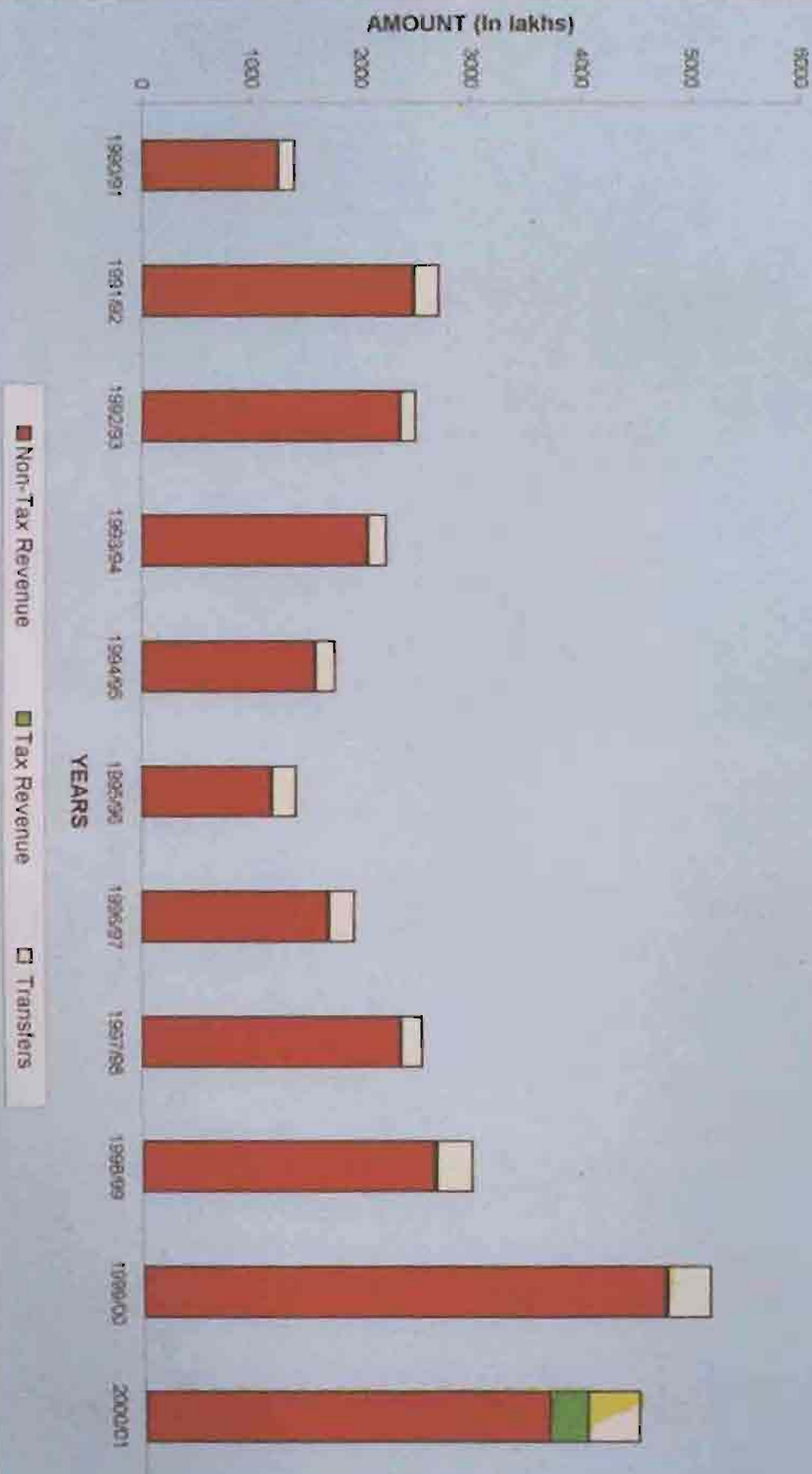
Revenue Gap as projected by DCB



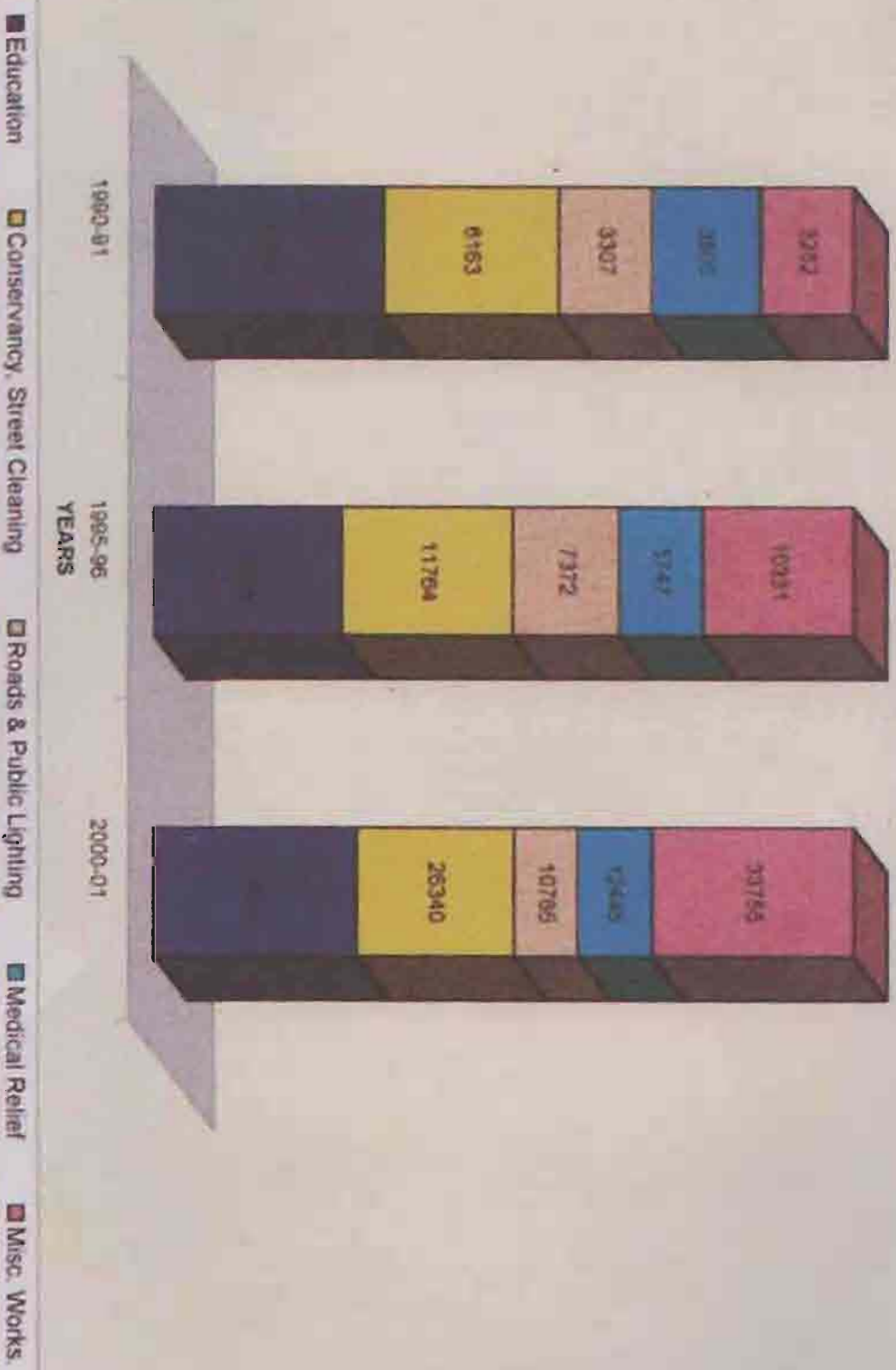
REVENUE GAP - DCB (ACTUALS)



REVENUE RECEIPTS - DCB (ACTUALS)



IMPORTANT ITEMS OF NON-PLAN EXPENDITURE - MCD



IMPORTANT ITEMS OF NON-PLAN EXPENDITURE - DCB

