4. The finances of local bodies

INTRODUCTION

The discharge of municipal functions in Delhi is the responsibility of three agencies, viz. the Municipal Corporation of Delhi (MCD); the New Delhi Municipal Council (NDMC); and the Delhi Cantonment Board (DCB). The MCD covers an area of about 1400 sq. kms. out of a total area of 1485 sq. kms., comprising the NCT of Delhi. The balance of the area is shared between the NDMC (42.73 sq. km.) and DCB (43 sq. kms).

The MCD was constituted as a body corporate under the *Delhi Municipal Corporation Act, 1957*, amalgamating the eleven municipal bodies which were then responsible for the provision of basic services to areas which today constitute the MCD. The MCD is composed of 100 councillors chosen by direct election on the basis of adult suffrage and six aldermen who are chosen by the councillors. Following the *Constitution (seventy-fourth) Amendment Act, 1992*, *Delhi Municipal Corporation Act, 1957*, was modified in a way that it incorporated the mandatory provisions of the constitutional amendment. The non-mandatory provisions such as the functions listed in *schedule 12* of the *Constitution (seventy-fourth) Amendment Act* have not been fully incorporated in the modified *Act*.[1]

The NDMC was constituted in 1927 under the *Punjab Municipal Act, 1911*.[2] *Section 11* of the *Punjab Municipal Act* provided that the Committee should consist of not less than five members, who could be appointed by the government either by name or office or they could be members elected from among the inhabitants in accordance with the rules made under the *Act* or partly of one and partly of the other as the state government may, by notification, direct. The New Delhi Municipal Committee was redesignated in July 1994, as the New Delhi Municipal Council by an *Act* of Parliament with a view to bring a greater measure of commonality in the procedures adopted by the MCD and the NDMC in matters relating to taxation, revenue, budgeting, contracts, and accounts and audit.

THE MUNICIPAL CORPORATION OF DELHI (MCD)

The *Delhi Municipal Corporation Act, 1957*, lays down in chapter III, the obligatory and discretionary functions of the Corporation. Important obligatory functions of the Corporation include construction, maintenance and cleansing of drains and drainage works; scavenging, removal and disposal of filth, rubbish and other obnoxious or polluted material; the establishment and maintenance of dispensaries and maternity and child welfare centres; construction, maintenance, alteration and improvements of public streets, bridges, culverts and causeways; establishment, maintenance of and aid to schools for primary education (subject to such grants as may be determined from time to time), and the lighting, watering, and cleansing of public streets and other public places. For the performance of these

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1 The important omissions in the modified *Act* relate to such functions as urban planning, regulation of landuse, urban poverty alleviation, water supply and the like.

2 On the shifting of the capital from Calcutta to Delhi in 1912, a committee known as *the Imperial Delhi Committee* was constituted in March 1913 for the construction and management of the proposed new capital. In 1916, it was notified as the *Raisina Municipal Committee*, which was redesignated as the *New Delhi Municipal Committee* in 1927.

(and other) functions, the *Act* empowers the MCD to levy taxes on property; a tax on advertisements other than the advertisements published in newspapers; a duty on the transfer of property, and a tax on buildings payable along with the application for sanction of the building plan. The Corporation is authorised to levy an education cess, a tax on professions, trade, callings and employment, a betterment tax, and tolls. The *Act* also empowers the MCD to borrow in accordance with the conditions laid down therein. An important provision in the *Act* is that the budget is to be prepared in a way that "the estimated cash balance at the close of the year shall not be below the sum of Rs one lakh or such higher sum as the Corporation may determine."

In 1996–97, the MCD using its own tax and non-tax powers, raised Rs. 452.1 crore, which formed about 67 percent of its total revenue income. The other constituents of MCD's revenue income were (i) the share of MCD in the taxes leviable by the Government of NCT, (ii) grants from the government, and (iii) miscellaneous receipts. The shared taxes provided an income of Rs. 114.1 crore, constituting 17 percent of MCD's total revenue income. The share of government grants in the revenue income was 8.1 percent. Over the years, MCD's own tax and non-tax sources as a percentage of total revenue receipts has risen from about 61 percent in 1992–93 to 67 percent in 1996–97; consequently its dependence on government's transfers has declined from about 30 percent in 1992–93 to 25–26 percent in 1996–97. This percentage is inclusive of transfers on account of shared taxes. In per capita terms, MCD's income over the period 1993–94 to 1996–97 has risen at about 10 percent annually which when adjusted to inflation, would mean an increase of about 2 percent.

Table 20: MCD: Structure of Revenue Income

Structure	[illegible]				
	1992–93	1993–94	1994–95	1995–96	1996–97
Internal Revenue	202.7(61.1)	277.5(64.1)	330.5(65.8)	384.5(66.2)	452.1(67.7)
Tax	192.7	267.9(61.9)	313.9(62.5)	370.7(63.8)	442.3(66.2)
Non-tax	10.0	9.6(2.2)	16.6(3.3)	13.8(2.4)	9.8(1.5)
Share of Assigned Taxes	64.8(19.5)	84.5(19.6)	86.1(17.2)	101.7(17.5)	114.1(17.1)
Grants	37.5(11.3)	47.0(10.8)	49.5 (9.6)	54.0(9.3)	54.0(8.1)
Others	26.7(8.0)	24.2(5.6)	36.0 (7.2)	41.0(7.0)	47.9(7.2)
Total	331.8(100.0%)	433.1(100.0%)	502.1(100.0%)	581.2(100.0%)	668.1(100.0%)

Note : Figures in parentheses are percentages to the total.

Property tax is the single most important source of income for MCD, as also the key instrument for financing municipal services. In 1995–96, the total income from property taxes was Rs. 267.1 crore, or 63 percent of MCD's total internal resources and 46 percent of its total revenue income. Income from property taxes has, in recent years, risen at moderate rates mainly in response to the measures that have been taken to simplify the tax structure and its administration. At the same time, the rate of growth of property tax income is barely representative of the phenomenal increase in property values and the expansion of Delhi's property market. The property tax system uses the annual rental value (ARV) as the basis of assessment which is hamstrung on account of firstly, the application of the *Rent Control Act*, and secondly, infrequent revaluation of properties. Moreover, Delhi's property tax system is beset with an extremely narrow base; only about 30 percent of the total number of properties are said to be assessed for taxation. It also has an obsolete exemption and rebate policy. It is estimated that MCD is able to tap only about 15–20 percent of the potential of property taxes in Delhi.

BOX

The basis of property tax in Delhi is the rateable value (RV) of a property which is arrived at by taking the annual rental value (ARV) of a property at which it might be reasonably expected to let from year to year, minus a sum equal to 15 percent of the annual rent for cost of repairs and maintenance. The rateable value of land is taken to be 5 percent of the anticipated capital value of such land.

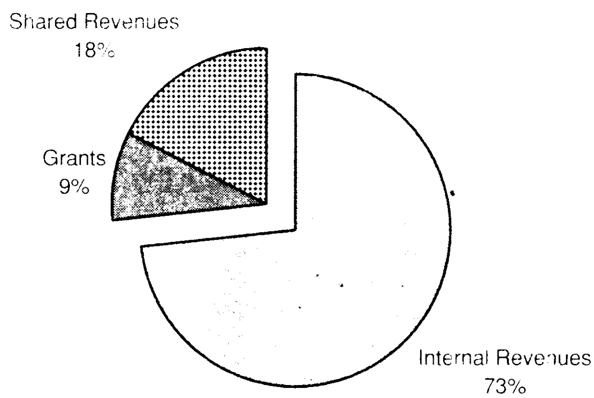
The method of determining the rateable value is complex in that there are two parellel methods used for its determination. Cost method is applied to all owner-occupied properties and rented properties with rents of less than Rs. 3,500 per month and which were constructed before December 1, 1988. A RV method is applied to properties which have a RV of more than Rs. 3,500 per month and rental properties constructed after 1 December 1988. The rateable value under cost method is worked out as 10 percent of the cost of construction and cost of land at the time of construction, minus 15 percent allowance for maintenance and repairs. The rateable value under rental method is computed at 85 percent of the market rent.

Besides the taxes on property, there are three other important sources of tax revenue for MCD; in order of importance, these are a duty on transfer of property (10.1%), a tax on consumption, sale or supply of electricity (5.6%), and a tax on advertisement (2.0%). There are other taxes too on the statute, e.g., a tax on non-motorised vehicles and animals, a theatre tax, and a milch and dog tax. However, the yield from these taxes is low, partly because of the low level of tax rates which bear no link with the cost incurred on their enforcement,[3] and partly because of the growing obsolescence and irrelevance of such taxes.

As in the case of the accounts of the Government of NCT, the MCD also derives income from a large number of non-tax revenue heads. These include rents, fees, and fines comprising processing fees, education fees, fees from hospitals, fees from vehicle licences, rent of land and buildings, car parking fees, rents of markets, and slaughter houses fees, and the like. The total income from such heads in 1995–96 was Rs. 13.75 crore which is not only low in absolute terms, but which does not cover even a fraction of the cost incurred on administering these services. Administration and enforcement cost of the different provisions of the *DMC Act, 1957,* is several times higher than the fee or the charge laid out in the schedule.

3 The rate structure of such taxes as taxes on animals or on advertisements is highly cumbersome, e.g, different rates for horses with a height of over 12 hands, and those which have a height of under 12 hands, different rates for pig, dog, camel, cow and buffaloe. Similarly, advertisement taxes vary between Rs. 10 and Rs. 30, depending on the space and whether the space is illuminated or not. Rates are uniformly low.

Graph 9: MCD: Structure of Revenue Income (1995-96)



The MCD derives about 17–18 percent of revenue receipts from its share in such state-level taxes as motor vehicles tax, entertainment tax, and terminal tax. However, these taxes as indicated in an earlier section, have displayed a buoyancy ratio of less than 1, and, therefore, the MCD has not particularly benefited from this sharing arrangement. The MCD also receives a grant from the Government of NCT, which is specific for education, maintenance of resettlement colonies, nutrition programmes, and programmes for malaria eradication. It is significant that grant for education has, at best, increased marginally between 1992–93 and 1995–96–from Rs. 37.5 crore to Rs. 54.0 crore, or about 6–7 percent annually, which is far below the overall annual increase in the incomes of NCT.

The total expenditure of MCD in 1995–96 was placed at Rs. 582.0 crore, posting a minor deficit on revenue account. In 1994–95, MCD posted a small surplus. Primary education is the most important head of expenditure, accounting for 22 percent of the MCD's total expenditure which is followed by expenditure on conservancy and street cleaning (21%), and roads (13.3%). MCD has, however, maintained a small surplus on revenue account.

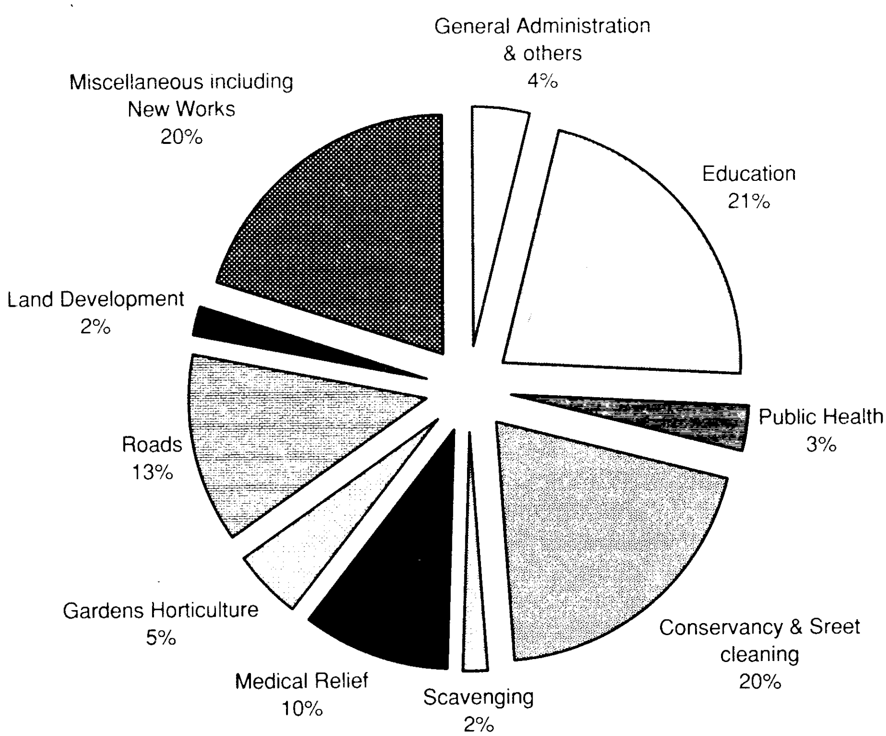
According to recent estimates, the total outstanding debt of MCD at the end of the fiscal year 1995–96 was placed at Rs. 388.35 crore and the outstanding debt to tax revenue ratio was 104.7:1. Several debts, it must be highlighted, were contracted in early 1950s when MCD was not even constituted in its present form, but those debts are still continuing.[4] Other debts contracted after the formation of MCD are also continuing with no redemption having been made during 1995–96.

Note should be made of the fact that revenue account surplus/deficit is not in itself a relevant indicator of the fiscal health of municipalities in India. By statute, municipalities in India are expected to

4 Loans were taken for the construction of sweepers quarters, public latrines, acquisition of evacuee properties, low income group housing schemes, building works and road programmes, street lighting, construction of drainage, pavements and electrification scheme, purchase of refuse trucks, wheel barrows, and the like.

maintain either a surplus or balance their budgets although a large number of them deviate from this requirement and resort to ways and means advances for balancing their budgets. For this reason, other indicators are used for determining their fiscal health. These include the tax base, exemption policies, capacity to be able to charge for services on the basis of use or consumption, collection efficiency, the degree of dependence on the higher level of governments for meeting their revenue expenditure, and debt burdens.[5]

Graph 10: MCD: Composition of Revenue Expenditure (1995-96)



On these counts, MCD has not displayed any enterprise. For instance, tax on properties is assessed on ARV, which is either not revised or revised in such a way that it is not able to reflect the appreciation in property values. With only about 30 percent of the total properties assessed for taxation, the tax base continues to be extremely narrow and tax assessments low. A factor that compounds MCD's problem in augmenting its revenue base is the level of inefficiencies in revenue collection. According to an estimate made by the Comptroller and Auditor General of India, in 1995–96, the annual property tax revenue collection should have been close to Rs. 2200 crore against which only about Rs. 267 crore were collected. Estimates indicate that the net recoverable demand in respect of property taxes upto the end of

5 The municipal corporations are permitted to borrow under certain conditions. Their borrowing powers are also regulated in that they can not raise a loan without the previous sanction of the government; similarly, the amount of loan, the rate of interest, and the terms including the date of flotation, the time and method of repayment are subject to the approval of the government.

fiscal year 1995-96 was Rs. 2405 crore. The non-tax component of revenue is fragile, suggesting MCD's reluctance to enforce a discipline on the use and consumption of services it offers. MCD has not made any use of sunrise taxes such as advertisement taxes, parking fees, and a duty on the transfer of property which have direct linkage with the growth of economy, for improving its functional position. Similarly, the revenue-sharing arrangement with the Government of Delhi is far from being predictable and one which does not permit any advance planning by the MCD.

NEW DELHI MUNICIPAL COUNCIL (NDMC)

The NDMC came into being in accordance with the provisions of the *New Delhi Municipal Council Act, 1994*. The Council consists of a chairperson, who is an officer appointed by the central government in consultation with the Chief Minister of Delhi, three members of the legislative assembly of Delhi representing constituencies which comprise wholly or partly the New Delhi area, five members from amongst the officers of the central government or the Government of NCT or their undertakings to be nominated by the central government and two members to be nominated by the central government in consultation with the Chief Minister of Delhi to represent special interest groups. A Member of Parliament representing wholly or partly the New Delhi area is to be a special invitee to the meetings of the council but without a right to vote.

The functions of NDMC are divided into obligatory and discretionary functions. These functions are now comparable with those of the MCD. Likewise, the taxation and borrowing powers of the NDMC have been brought at par with those enjoyed by the MCD.

Table 21: NDMC: Structure of Income

Income head	Income (Rs. lakh)							
	1992–93	%	1993–94	%	1994–95	%	1995–96(R.E.)	%
Taxes, duties and other sources	2045.7	9.0	2882.7	10.6	3256.5	10.0	3954.8	11.2
Interest	643.8	2.8	1037.3	3.8	680.2	2.1	900.0	2.5
Administrative department	12.4	0.0	78.8	0.3	33.2	0.1	5.7	0.0
Social and development services	150.3	0.7	149.1	0.5	150.0	0.5	214.0	0.6
Electricity supply	15073.7	66.2	17257.2	63.4	23226.3	71.2	23895.2	67.4
Water supply	1133.7	5.0	1371.8	5.0	1194.6	3.7	1206.0	3.4
Other municipal works	3716.2	16.3	4447.9	16.3	4062.4	12.5	5268.6	4.9
Total	22775.8	100.0	27224.8	100.0	32603.2	100.0	35444.3	100.0

The NDMC derives its income from four main sources, which in order of importance, are charges from the sale of electricity, income from municipal works, property taxes and charges from the sale of water. In 1995–96, the total income of NDMC was estimated at Rs. 354.4 crore. Of this, only about 11 percent is derived from taxes and duties. NDMC is perhaps the only municipality in the country which derives most of its income from non-tax sources, principally the sale of electricity (67%), about 15 percent from municipal works, and about 3 percent from the sale of water.

The revenue expenditure of NDMC in 1995–96 expenditure was placed at Rs. 339.9 crore, of which the main expenditure was on purchase of electricity from the DVB/DESU (47.5%). NDMC spends about 18 percent on the provision of social and economic development services, about 9 percent on maintenance of its complexes which yield a substantial income, and approximately 3.6 percent on purchase of water from MCD including its distribution within its jurisdiction.

NDMC's fiscal scenario distinguishes itself in respect of at least two main spheres: (i) extensive use of non-tax sources of revenues; and (ii) its capacity to be able to post surpluses on revenue account. What is particularly noteworthy is that NDMC is able to price such goods as electricity and water in a manner that it is able to not only cover costs but also earn a small profit. An important feature of NDMC's fiscal situation is that its per capita income is among the highest in the country, despite the fact that its tax base is far from extensive.

Table 22: NDMC: Structure of Expenditure

Expenditure heads	Expenditure (Rs. lakh)							
	1992–93		1993–94		1994–95		1995–96	R.F.
Taxes, duties & other principal revenue	40.41	0.2	40.10	0.1	44.72	0.1	58.80	0.2
Interest	725.03	3.1	798.49	2.9	855.69	2.6	817.99	2.4
Administrative deptt.	1541.13	6.7	2901.43	10.6	3323.67	10.2	4073.82	12.2
Social & development deptt.	3573.46	15.5	4132.25	15.1	4874.43	14.9	5893.29	17.7
Electricity supply	11095.89	48.2	12489.09	45.8	14321.86	43.8	16072.93	48.1
Water supply	1192.63	5.2	1286.19	4.7	1497.17	4.6	1213.35	3.6
Roads	339.32	1.5	375.74	1.4	430.72	1.3	446.35	1.3
Other miscellaneous works	3527.42	15.3	4269.53	15.6	4042.43	12.4	3119.18	9.3
Loans & advance	923.44	4.0	865.42	3.2	839.43	2.6	857.81	2.6
Miscellaneous	64.96	0.3	132.33	0.5	2457.50	7.5	835.74	2.5
Total	23236.9	100.0	27290.57	100.0	32687.62	100.0	33389.26	100.0

The MCD and NDMC, and to a minor extent, the DCB collectively depend to a significant extent on the Government of NCT for meeting its revenue and capital expenditure. In 1995-96, the total transfers to these three bodies which included DESU as well, amounted to Rs. 423.43 crore on non-Plan account and Rs. 872.52 crore on Plan account. Together, these accounted for 43.9 percent of the NCT's total budget, making it evident that NCT's fiscal sustainability is crucially dependent on the financial performance of local bodies.