5. The fiscal challenge: the next five years

INTRODUCTION

The fiscal challenge of the Government of NCT of Delhi as shown by the foregoing analysis, is vastly different from that faced by other states. Unlike other states which are heavily burdened with deficits on revenue account, capital expenditure compression, and high and rising debts,[1] Delhi has been able to maintain a surplus on revenue account, moderate levels of capital expenditure, and low debt levels. Its fiscal problems are, however, to be found in other spheres of which the sub-optimal use of sales taxes, low and falling buoyancies of particularly those taxes which are intrinsically urban in nature, such as, stamp duties and motor vehicle taxes, abysmally low use of non-tax sources of revenues, and large and rising implicit subsidies are particularly noteworthy. In addition, NCT's fiscal balance continues to be severely threatened by accumulation of loans by its major public utilities, namely, the DTC, DVB and DWB, their massive operating losses, and an obsolete and unresponsive local tax system.

It is in this specific context that the fiscal reform options and packages for Delhi are developed in this section. This section is divided into two parts. The first part dwells on the implications of a *no-change* or a *status-quo* option for the fiscal position of the Government of NCT. The implications are elaborated for a period of five years, using 1996–97 as the base year. The purpose of this option is to assess the impact of continuing with the existing fiscal policies and trends on the finances of NCT.

The second part outlines what is considered for the Government of NCT, an appropriate and achievable package of fiscal reforms. Emphasis is placed in the package on what can be done on the one hand, to tap the NCT's large and expanding fiscal opportunities and on the other hand, eliminate the fiscal and related weaknesses. It gives a broad outline of actions that are considered necessary for improving the finances of public utilities, although these would entail further probing and investigation. Part 2 also attempts to quantify, wherever possible, the impact of the package on key fiscal variables with the use of a simulation exercise.

A postscript is added on the recent developments on the politico-administrative set-up of Delhi. *Prima-facie*, these developments which include according to Delhi a full statehood, or even such actions as transfer of Delhi Milk Supply (DMS) and the Delhi Development Authority (DDA) to the Government of NCT, will impact its finances and necessitate reworking of many of the estimates provided in this section of the study. A full statehood for Delhi will alter the fiscal relationship between the union government and the Government of NCT. Similarly, the Delhi Finance Commission which was set up in pursuance of *Article 243 Y* of the *Constitution (seventy-fourth) Amendment Act, 1992*, has made elaborate recommendations on the fiscal relationships and arrangements between the Government of NCT of Delhi and its local bodies. The recommendations of the Commission may also affect the government's fiscal balance.[2]

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1 This is not to suggest that there are no commonalties between the fiscal problems of states and the Government of NCT of Delhi. One such common problems is the under– performance of public sector undertakings(PSUs). In Delhi, dividend from PSUs ranged between 3.2 to 5.1 percent during 1994–95 and 1996–97.

2 The report of the Delhi Finance Commission is thus far a confidential document, and is unavailable for this study.

THE NO-CHANGE OPTION FISCAL SCENARIO

The *no-change* option is designed to project as to what might happen to the fiscal balance of Delhi in case no change is affected in the fiscal and related parameters. Note should be made here of the fact that the *no-change* option in the case of Delhi is somewhat complicated by the fact that the finance accounts of Delhi on a discrete basis are available for only three years, i.e., 1994–95, 1995–96, and 1996–97, which are inadequate to reflect the long run behaviour of the government's income and expenditure. For this reason, two sets of projections under the *no-change* option are provided here. The assumptions under the two sets of projections follow.

No–change option: assumptions under projection 'A'

i GSDP in nominal terms is assumed to increase at 16.15 percent annually, which is the observed long run growth rate of GSDP in Delhi. This assumption runs through all projections under different options.

ii Tax and non-tax revenue receipts are assumed to increase at the observed long run growth rates of 15.53 percent and 13.43 percent respectively. Use of long run trends is justified on the ground that there has been no change in the tax and non-tax domain of the Government of NCT of Delhi after it acquired the present status.

iii Grants made in lieu of shared taxes are projected by using a simple three-year average (1994–95 to 1996–97) of grant to GSDP ratio. Capital receipts are also projected on this basis.[3]

iv Revenue expenditure is assumed to increase at 19.16 percent annually, this being the growth rate observed over the period 1994–95 to 1995–96. A short-run growth rate is preferred as it includes the financial impact of many of the institutional changes that have taken place in the administrative set-up of Delhi.

v For capital expenditure, a long run growth rate is assumed to be more realistic and is used for purposes of projections.

vi Interest liabilities are still to fully reflect the cost of central government loans. For this set of projections, its ratio to GSDP rather than the rate of growth has been used.

The results of the projections made on the basis of the above–stated parameters and assumptions are shown in table 23. The results show that the Government of NCT would have a surplus on revenue account; however, as a percentage of GSDP, it will be a lower order of surplus. NCT's fiscal deficit would rise to 2.75 percent of GSDP in the first year and escalate to 3.27 percent in the fifth year of projections.

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3 For grants, there are no long term trends. Grants during the pre-1993 period were a part of the union government's budget.

Table 23: The No-change Fiscal Option (1)

	Assumptions	1996–97	First year	Second year	Third year	Fourth year	Fifth year
Revenue receipts (Rs. crore)		**2795.98**	**3179.48**	**3673.09**	**4243.36**	**4902.22**	**5663.42**
Tax revenue	15.53*	2534.86	2928.52	3383.32	3908.75	4515.78	5217.08
Own-non tax revenue	13.43*	55.74	63.23	71.72	81.35	92.27	104.67
Grants	0.59@	205.37	187.73	218.05	253.26	294.16	341.67
Capital receipts (Rs crore)	**3.14@**	**880.57**	**1004.94**	**1167.24**	**1355.75**	**1574.70**	**1829.02**
Recoveries of loans	0.13@	25.66	41.16	47.81	55.53	64.50	74.92
Revenue expenditure (Rs crore)	**19.16#**	**2031.80**	**2421.09**	**2884.97**	**3437.74**	**4096.41**	**4881.28**
Interest liabilities	0.55@	189.88	176.37	204.85	237.93	276.36	320.99
Capital expenditure	**13.23***	**1483.52**	**1679.79**	**1902.03**	**2153.66**	**2438.59**	**2761.22**
GSDP at current prices	**16.15$**	**27532.15**	**31978.59**	**37143.13**	**43141.75**	**50109.14**	**58201.77**
Revenue surplus		**–764.17**	**–758.39**	**–788.11**	**–805.63**	**–805.82**	**–782.15**
Fiscal deficit		**693.67**	**880.24**	**1066.10**	**1292.50**	**1568.28**	**1904.16**
Primary deficit		**503.79**	**703.88**	**861.25**	**1054.57**	**1291.92**	**1583.17**
As % of GSDP							
Revenue surplus		**–2.78**	**–2.37**	**–2.12**	**–1.87**	**–1.61**	**–1.34**
Fiscal deficit		**2.52**	**2.75**	**2.87**	**3.00**	**3.13**	**3.27**
Primary deficit		**1.83**	**2.20**	**2.32**	**2.44**	**2.58**	**2.72**

Note: * Indicates the annual growth rate for the period of 1985–86 to 1996–97.
# Indicates the annual growth rate for the period of 1994–95 to 1996–97.
$ Indicates the annual growth rate for the period of 1985–86 to 1995–96.
@ Indicates a simple three year average of the ratio of capital receipts to GSDP and also of grants to GSDP. In the case of interest liabilities, a two year average is used.

No-change option: assumptions under projection 'B'

Assumptions made for projection `A' hold excepting for the following three heads: (i) wages and salaries, (ii) pension payments, and (iii) interest payments. In respect of wages and salaries, as indicated earlier, an assumption is **to be** made in view of the non-availability of the economic and functional classification beyond 1992–93. In 1992–93, wages and salaries inclusive of expenditure on police formed 40.9 percent of Delhi' s total revenue expenditure.[4] Adjusting it for expenditure on police would place the expenditure on wages and salaries in 1996–97 at Rs 561.54 crore, or 29.9 percent of the total expenditure. Further adjustment of this expenditure on account of the *Fifth Central Pay Commission*, places it at Rs 645.77 crore. Using it as the base figure, wages and salaries component has been projected to increase at an annual rate of 15 percent. An additional 15 percent of wages and salaries component is assumed to represent pension payments from year one of the projections.

4 This estimate is drawn from an internal memorandum of the Planning Department titled as The Memorandum of the Government of NCT of Delhi to Delhi Finance Commission, 1997.

Current interest burdens are placed at 9.3 percent of the total revenue expenditure and 0.69 percent of the GSDP. In 1996–97, outstanding loan liabilities amounted to Rs. 2290.4 crore. Interest burden is assumed at 13 percent of the outstanding liabilities and assumed to rise at the rate of 19.15 percent annually. The results of this option are presented in table 24. Under this option the government will have a lower level of surplus on revenue account. Persistence of such a surplus is attributed to the fact that the full burden of debt, and losses of public utilities and local bodies are assumed to be at the 1996–97 level.

Table 24: The No-change Fiscal Option (2)

	Assumptions	1996-97	First year	Second year	Third year	Fourth year	Fifth year
Revenue receipts		**2795.98**	**3179.48**	**3673.09**	**4243.36**	**4902.22**	**5663.42**
Tax revenue	15.53*	2534.86	2928.52	3383.32	3908.75	4515.78	5217.08
Own-non tax revenue	13.43*	55.74	63.23	71.72	81.35	92.27	104.67
Grants	0.59@	205.37	187.73	218.05	253.26	294.16	341.67
Capital receipts	**3.14@**	**880.57**	**1004.94**	**1167.24**	**1355.75**	**1574.70**	**1829.02**
Recoveries of loans	0.13@	25.66	41.16	47.81	55.53	64.50	74.92
Revenue expenditure		**2116.03**	**2670.35**	**3112.17**	**3651.81**	**4288.46**	**5039.59**
Revenue expenditure other than wages and salaries	19.16#	1470.26	1751.96	2087.64	2487.63	2964.26	3532.21
Wages and salaries	15aa	645.77	742.64	854.03	982.14	1129.46	1298.87
Pensions	Estimated		175.75	170.50	182.05	194.75	208.51
Interest liabilities	19.16#	189.88	297.76	354.81	422.79	503.79	600.32
Capital expenditure	**13.23***	**1483.52**	**1679.79**	**1902.03**	**2153.66**	**2438.59**	**2761.22**
GSDP at current prices	**16.15$**	**27532.15**	**31978.59**	**37143.13**	**43141.75**	**50109.14**	**58201.77**
Revenue surplus		**–764.17**	**–509.13**	**–560.92**	**–591.55**	**–613.76**	**–623.83**
Fiscal deficit		**693.67**	**1129.50**	**1293.30**	**1506.58**	**1760.34**	**2062.48**
Primary Deficit		**503.79**	**831.74**	**938.49**	**1083.79**	**1256.54**	**1462.16**
As % of GSDP							
Revenue surplus		**–2.78**	**–1.59**	**–1.51**	**–1.37**	**–1.22**	**–1.07**
Fiscal deficit		**2.52**	**3.53**	**3.48**	**3.49**	**3.51**	**3.54**
Primary deficit		**1.83**	**2.60**	**2.53**	**2.51**	**2.51**	**2.51**

Note: * Indicates the annual average growth rate for the period of 1985–86 to 1996–97.
\# Indicates the annual average growth rate for the period of 1994–95 to 1996–97.
$ Indicates the annual average growth rate for the period of 1985–86 to 1995–96.
@ Indicates a simple three year average of the ratio of capital receipts and grants to GSDP. In the case of interest liabilities, an average of two years is used.
aa Indicates an annual average growth rate of 15%.

A Package of Fiscal Reforms

What should be done to strengthen and consolidate the finances of the Government of NCT? What fiscal initiatives would help to secure NCT's finances on a sound footing? A package of fiscal reform should consist of five principal components:

- ❒ Augmentation and consolidation of Delhi's tax base by accelerating reforms in such taxes as sales tax, and undertaking reform in other tax areas;
- ❒ Better and wider use of the non–tax component of revenue resources aimed at (i) additional revenue generation, (ii) reduction of subsidies, and (iii) better resource allocation;

- Reprioritising of expenditure in order to provide larger funds for under-funded sectors;
- Wholesale reform of the financial and organisational structure of public utilities; and
- Restructuring of the local finance system aimed at making the MCD creditworthy, accountable and sensitive to such problems as environmental deterioration.

Augmentation and consolidation of the tax base

The tax jurisdiction of Delhi, as pointed out earlier, consists of, in order of revenue importance, sales tax, state excise, stamp and registration fees, motor vehicle taxes, and other minor taxes. The government has already initiated a series of reforms in sales tax and more recently, in stamp duties. The potential areas of reform are as under:

Sales tax

In 1996–97, sales tax collections amounted to Rs 1,814 crore and the target for 1998–99 is fixed at Rs. 2,500 crore. In recent years, the government has introduced a series of reform measures as a result of which the total number of assessees registered under the *Delhi Sales Tax Act* have risen from 122,914 in 1992–93 to 140,787 in 1997–98, and those under the *Central Sales Tax Act* from 112,681 to 137,242. It has also introduced a new liberalised self-assessment scheme covering all dealers having a gross turnover of upto Rs. 30 lakh. Several measures have been undertaken to rationalise the tax system, including reduction in tax rates particularly on those commodities that subserve Delhi's economy and its pivotal position as a major centre of distributive trade. For a number of commodity groups, taxation has been shifted from the last point to the first point. Of the fifteen commodities selected for rationalisation of sales tax rates with the northern states, parity has been achieved in the case of ten commodities. It has also accepted in principle, to implement the value added tax (VAT) simultaneously with other states falling in the northern zone.

Table 25: Parity in Sales Tax Rates Between Delhi and Other Northern States

Item	Proposed uniform rate (floor rate)	Sales tax rates in	Rate of tax in		
		Delhi	Haryana	U.P.	Rajasthan
Air conditioners, refrigerators, washing machines, microwave ovens and other such high value gadgets etc.	12%	12%	12	12	16
Diesel	10%	10%	10	16	16
Tyres and tubes	10%	10%	10	8/10	12
Computers and computer software**	4%	4%	2	4	4
IMFL	20%	12%*	–	12	36
Country liquor	12%	12%	20	20	E+
Watches and clocks and spare parts and accessories thereof	12%	12%	12	12	12
Cement	10%	10%	–	8/10/12	12
Marble/granite/tile	12%	12%	10	6/12	16
Component parts and spare parts of motor-vehicles	4%	5%			

Note: * In case of IMFL, Sales Tax rate has been increased from 12% to 20% by an amendment in the *Delhi Sales Tax Act, 1975*, and the same will be notified after getting the Presidential assent.

** There is no sales tax on computer software in Delhi.

+ Included in additional excise duty.

Stamp duty and registration fees

These duties yielded a modest amount of Rs. 114.6 crore in 1996–97. While there was a quantum jump in the revenue receipts from stamp duties between 1993–94 and 1994–95, the last three years have seen a stagnation in the yields. What is more, the buoyancy of this tax, which was 1.04 during the 1985–86 to 1993–94 period, declined to 0.10 in the post-1993 period. Given the boom in Delhi's real estate market at least until 1996, the weakness of this tax and the manner in which it is levied gives rise to serious concerns. Moreover, apart from property-related papers and instruments that are subjected to stamp duty, other papers are of virtually no revenue significance. There are 65 different kinds of papers, that are subjected to stamp duty in Delhi, many of which carry stamp duty in terms of `paise'. Major reforms have been suggested in the structure and procedure of stamp duties by the State Finance Ministers as well as by a committee constituted by the Government by NCT, the introduction of which should help the government to rationalise and simplify the system of this levy, and generate far greater volumes of revenues than at present.

Motor vehicle tax

The revenue significance of motor vehicle taxes in Delhi is low, and has seen little vibrancy and buoyancy over the past three years. Its buoyancy was noted to have dropped from a high of 1.13 during the 1985–86 to 1993–94 period to 0.52 in the post-1993 period. The system of a life-time charge levied over one-and-a-half decade ago can hardly be justified in the light of the larger direct and indirect burdens of older vehicles on the upkeep of roads and environment. Also, the life-time charge continues to be arbitrarily low. A reform of this tax should comprise first, an upward revision of the charge, and second, the frequency at which it is collected. An upward revision should bear clear correspondence with the operation and maintenance cost of the road system in Delhi.

Better and wider use of the non–tax component of revenue sources

The non-tax component as indicated earlier, displays a complete lack of concern of the role of pricing and user-charges in both revenue generation and resource allocation. The result of this lack of attention is that Delhi is now distinguished as a city with high level of subsidies. The rate of cost recovery on goods that are clearly outside the merit goods category was noted to be only 0.55 percent in 1995–96. Even allowing for the fact that many of the non-merit goods of the government are tax-financed, such a low recovery rate is incompatible with a fiscally-solvent system of governance. Improvement in the recovery rate on such expenditure heads as technical education, medical services, and water supply is indispensable for mobilising resources and reducing subsidies.

Reprioritising of expenditure

The order of expenditure priorities in the case of Delhi is strikingly different from that of other states. Nearly 70 percent of the revenue expenditure and 26 percent of capital expenditure are directed to developmental activities; the non-development expenditure accounts for 24 percent and 1.7 percent of the revenue and capital expenditure, respectively. The balance is given to local bodies by way of compensation for meeting their revenue and capital expenditures. While the flexibility to significantly alter the pattern of expenditure stands pre-empted in the case of Delhi, there exists a strong case for enhancing the level of expenditure on three sectors, namely, roads, urban development, and environment. The projections are made under the assumption that the revenue and capital expenditure on these sectors as a percentage of the GSDP, at 1996–97 prices will double over the projection period of the study.

Involvement of the private sector in physical upgradation of squatter settlements with the grant of floor space index (FSI) concessions needs to be explored along the lines being experimented within other cities. Indeed, alongwith a doubling of the expenditure on urban development sector, there is need to review the slum policy, which if allowed to continue, will not only alter the demographic profile of Delhi, but result in serious deterioration in the quality of life of Delhi. In developing a slum policy, it is necessary to take note of the court orders which do not permit tenurial rights to slum dwellers. An important ingredient of expenditure prioritisation will be the freezing of expenditure on wages and salaries at the 1996–97 level with due allowance for the *Fifth Central Pay Commission* award.

Reform of public utilities

Perhaps no other reform agenda for Delhi is as compelling and as complex as the reform of its public utilities, namely DTC, DVB and DWB. Their mounting losses and inefficiencies are legion. Also, the reform of these bodies is now a subject of continual debate and discussion. Particularly, for the power sector, many states have embarked upon the following measures:

- fixing of tariffs at appropriate levels;[5]
- phasing out heavy cross-subsidies and limiting of life-line rates;
- utilities to be operated on commercial lines in a manner that there is no government interference;
- privatisation of power distribution under joint venture arrangements; and
- appointment of an independent regulator with a proper degree of authority and autonomy. It is essential for maximising the potential benefits of privatisation.

In line with these reforms, the DVB has now formulated a far-reaching reform programme under which–

- A state regulatory commission is to be established for the power sector with full authority over tariff fixation and issuance of licenses for private operators. The promulgation of the *Electricity Regulatory Commissions Ordinance, 1998* has provided a framework for the establishment of state-level regulatory commissions.[6]

- Its distribution is to be divided into four separate entities and privatised through a joint venture route with strategic partners having 51 percent of the shares.

While the DVB is working on this reform agenda which are steps in the right direction and which need to be expeditiously put into practice, several basic principles that are fundamental to any improvement in DVB's financial viability must be explicitly recognised.

(i) ***Reduction in losses and leakages to technical levels, amounting to no more than 20 percent of the total supply***. No organisational or other reform measure can restore DVB's financial credibility and

5 The Tamil Nadu Government is said to have offered a tariff escalation of 8 percent per annum to the build, operate, transfer (BOT) operator for the Tiruppur Water Supply Project, arrived at after factoring in the operations and maintenance cost, administrative cost, and a minimum rate of return to the project.

6 The Government of India have already promulgated the *Electricity Regulatory Commissions Ordinance, 1998*, providing for the establishment of a Central Electricity Regulatory Commission and State Electricity Regulatory Commissions, rationalisation of electricity tariff, transparent policies regarding subsidies, promotion of efficient and environmentally benign policies, and matters connected therewith.

viability without simultaneous action to plug the leakages, losses, and thefts. Even privatisation of power distribution can be put to severe test if leakages and illegal thefts and connections are protected, either directly or implicitly.

(ii) ***Tariff adjustment.*** Tariff adjustment in Delhi is linked to the purchase price of power from outside and the local cost of distribution. Purchase price of power is thus integral to any tariff system, irrespective of whether it is determined by a public agency or a private organisation.

(iii) ***Loan conditionalities.*** A proper use of loans, usually extended for meeting the capital requirements, is highly suspect. Furthermore, loan conditionalities are either not specified or not enforced. The result is that the DVB has accumulated loans in excess of Rs. 5,000 crore which are simply carried on from one year to the next. It is thus necessary that future loan agreements are drawn up in a way that these are linked to tariff adjustments. Writing off existing loans from the books, thus reducing interest payment burdens along with other measures, will be a useful step to place debt service on a sound footing.

The same prescription would seem to apply to the DWB. Reduction of thefts and unaccounted-for water, tariff adjustment, and writing off accumulated loans are central to the revival of the DWB. Its capital needs should be met on non-recourse basis, and be linked to cost recovery and escrow accounts. For the DTC, a basic requisite, in addition to the prescription set for DVB, will be to downsize it to normative levels and re-evaluate participation of the private sector in the provision of this service.

Restructuring of local bodies (MCD)

Recent years, particularly since the passage of the *Constitution (seventy–fourth) Amendment Act 1992*, have witnessed a widespread discussion on the strengthening of local bodies. The *Amendment Act 1992*, has indicated a list of illustrative functions (*12th schedule*) considered appropriate for urban local bodies and made it obligatory upon states to constitute finance commissions to determine–

- the distribution between the NCT of Delhi and the Corporation of the net proceeds of taxes, duties, tolls and fees leviable by the NCT of Delhi,
- the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the Corporation; and
- the grants-in-aid to the Corporation from the consolidated fund of the NCT of Delhi.

Set up under *Article 243*(y) of the *Constitution (seventy–fourth) Act 1992*, and the amended *Delhi Municipal Corporation Act, 1994,* the Delhi Finance Commission (DFC) has made extensive recommendations on the above. The report of the DFC is still to be laid before the legislature of the Government of NCT and is not yet in public domain.

In this study, therefore, only a tentative framework of reform is proposed for the MCD. This framework comprises following actions:

- widening of the property tax base, which is extremely narrow. It will call for a review of the existing exemption and rebates policy;

- re-examination of using the ARV for purposes of property taxation, from the standpoint of delinking properties from the provisions of the *Rent Control Act* and of capturing the appreciation in property values;

- improving revenue collection efficiencies to 80 percent of the tax and other revenues demanded;

- upward revision of rates of taxes on such taxes, such as, tax on animals and non-motorised vehicles to levels which cover at least the administration and enforcement cost;

- better and effective use of such taxes as on tax on advertisement, parking fees, and charges for building permits and the like which are directly linked to market expansion and buoyancy;

- changing the existing system of revenue sharing with the government to one that would permit the MCD to better plan its expenditure responsibilities. In several states, global sharing of revenues has replaced the sharing of individual state-level taxes.

Central to the reform agenda is the ability of MCD to deliver services on the basis of the strength of its own streams of revenues and expenditure. Several municipal corporations in India have taken the initiative of getting themselves credit-rated in order to borrow from the market for financing municipal infrastructure. Others, taking note of the deteriorating environmental conditions, have made it obligatory to "place before the Corporation a report on the status of environment within the city in respect of the last preceding official year."[7] These constitute the more obvious and urgent agendas for the MCD, both to improve its own functioning and instill a sense of accountability in its operations.

For purposes of projecting the fiscal variables of the NCT over a period of five years, a simulation exercise has been developed with the following important ingredients:

- fiscal deficit and primary deficit as a percentage of GSDP to be maintained at the 1996–97 level;

- revenue expenditure and capital expenditure on three crucial but underfunded sectors, namely, roads, urban development and environment as a percentage of GSDP to double from the first year of reform and to stay at that level over the remaining four years of the projected period. In view of the fact that there is no discrete information on expenditure on environment, it is assumed that both revenue and capital expenditure on this sector will be 0.5 percent of GSDP from the first year. Table 24 shows it as a part of *others*.

- expenditure on other heads assumed to follow the *no-change* (2) scenario; and

- taking the above as representing the level of expenditure, the simulation exercise is designed to estimate the rate of growth in revenue receipts from tax and non-tax sources. Tax revenue receipts are further disaggregated into sales tax, stamp duty, and motor vehicle taxes.

[7] *Article* 67A of the *Bombay Municipal Corporation Act*.

Table 26: The Reform Option

	Assumptions	1996–97	First year	Second year	Third year	Fourth year	Fifth year
Revenue receipts		**2795.97**	**4086.42**	**4713.22**	**5462.47**	**6336.73**	**7357.34**
Others (adjusted in additional resource mobilisation)			906.95	1040.13	1219.10	1434.50	1693.92
Tax revenue	15.53*	2534.86	2928.52	3383.32	3908.75	4515.78	5217.08
Additional resource mobilization under reform agenda							
Sales tax			797.73	914.88	1072.29	1261.75	1489.93
Stamps and registration			50.38	57.78	67.72	79.69	94.10
Taxes on vehicles			34.33	39.38	46.15	54.31	64.13
Non-tax revenue			24.50	28.10	32.93	38.75	45.76
Own-non-tax revenue	13.43*	55.74	63.23	71.72	81.35	92.27	104.67
Grants	0.59@	205.37	187.73	218.05	253.26	294.16	341.67
Capital receipts		**880.57**	**1004.94**	**1167.24**	**1355.75**	**1574.70**	**1829.02**
Recoveries of loans	0.13@	25.66	41.16	47.81	55.53	64.50	74.92
Other capital receipts	3.14@	854.91	963.78	1119.43	1300.22	1510.20	1754.10
Revenue expenditure		**2031.80**	**3128.64**	**3653.45**	**4291.22**	**5043.89**	**5932.21**
Revenue expenditure other than wages and salaries		1470.26	2050.36	2443.21	2911.33	3469.14	4133.82
Urban development and Roads and bridges	2.31cc	369.12	738.24	858.01	996.57	1157.52	1344.46
Other revenue expenditure	19.16#	1101.14	1312.12	1563.52	1863.09	2220.06	2645.42
Environment	0.5 bb		159.89	185.72	215.71	250.55	291.01
Wages and salaries	15 aa	561.54	742.64	854.03	982.14	1129.46	1298.87
Pensions	estimated		175.75	170.50	182.05	194.75	208.51
Capital expenditure		**1483.52**	**1804.81**	**2043.59**	**2313.95**	**2620.09**	**2966.73**
Urban development and roads & bridges	0.48 dd	25.70	154.12	178.29	207.08	240.52	279.37
Other capital expenditure	13.23*	1457.82	1650.69	1869.08	2116.35	2396.35	2713.39
GSDP at current prices	**16.15 $**	**27532.15**	**31978.59**	**37143.13**	**43141.75**	**50109.14**	**58201.77**
Revenue surplus		**–764.17**	**–957.79**	**–1059.77**	**–1171.25**	**–1292.84**	**–1425.13**
Fiscal deficit		**693.67**	**805.86**	**936.01**	**1087.17**	**1262.75**	**1466.68**
Primary deficit		**503.79**	**508.10**	**581.20**	**664.38**	**758.96**	**866.36**
As % of GSDP							
Revenue surplus		**–2.78**	**–3.00**	**–2.85**	**–2.71**	**–2.58**	**–2.45**
Fiscal deficit		**2.52**	**2.52**	**2.52**	**2.52**	**2.52**	**2.52**
Primary deficit		**1.83**	**1.59**	**1.56**	**1.54**	**1.51**	**1.49**

Note: * Indicates the annual average growth rate for the period of 1985–86 to 1996–97
- # Indicates the annual average growth rate for the period of 1994–95 to 1996–97
- @ Indicates a simple average of GSDP for three years i.e. 1994–95 to 1996–97, except in the case of interest liabilities where an average of two years is used.
- $ Indicates the annual average growth rate for the period of 1985–86 to 1995–96.
- aa Indicates an annual growth rate of 15%
- bb Represents expenditure on environment, assumed to be 0.5 percent of GSDP for all the years.
- cc Represents expenditure on urban development and roads, which is assumed to be twice the 1996–97 ratio of expenditure on these two sectors to GSDP.
- dd Arrived at by using the ratio of capital expenditure to GSDP for 1996–97 in the case of roads and for 1995–96 in the case of urban development, and doubling it for the reform period.

The results of the simulation exercise are given in table 26 show that revenues of the Government of NCT will need to increase by 16.19 percent annually, over and above the present rates, during the reform period in order to meet the additional expenditure on underfunded sectors, and keep the revenue account surpluses and fiscal and primary deficits at the 1996-97 level. The steps involved in the simulation exercise are given in the attachment to this section.

There are at least three non-fiscal initiatives which are integral to the proposed reform agenda.

(i) to prepare a policy and strategy paper on slums;

(ii) to recommended to the MCD to submit for public scrutiny an annual report on environment in Delhi by making necessary amendments to the *MCD Act;* and

(iii) to resume the preparation of economic and functional classification of accounts of the Government of Delhi.

A POSTSCRIPT

Over the past two years, a number of changes have taken place in the politico-administrative set-up of Delhi. In addition, provoked by the fact that the financial arrangements between the union government and UTs provided no incentive to UTs to raise resources, these arrangements have been reviewed by a committee of experts on funding of plans of UTs.[8] The DFC has submitted its report to the government on the nature of fiscal relations it should have with local bodies. A bill to accord full statehood to Delhi is to be introduced in the Parliament shortly. These changes are far-reaching in significance and will alter the fiscal position considerably. This study has, however, not examined the possible implications of such changes.

8 Known as the *Arjun Sengupta Committee*, it has suggested in its report that the accounts of receipts and expenditure of the UTs should be segregated from the centre. Further, the Ministry of Finance should identify the sums attributable to the UTs and their share on the basis of the norms adopted by the *Tenth Finance Commission* for the states and provide the same to the Government of NCT as a special plan grant.