

DELHI: INSIGHTS INTO ITS MANAGEMENT AND  
FINANCIAL STRUCTURES

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## *Abstract*

*Delhi is a Union territory with a legislature. With a population of 13.7 million persons (2001) and increasing at annual rates in excess of 4 per cent, and its management being shared between the three tiers of government and several special-purpose authorities, Delhi is among the more complex of the metropolises in the country. Its management and financial structures, embedded in a complex web of decision-making hierarchies, have been frequently altered and reorganized, ostensibly to effect improvements in service delivery and government-citizen interface. The public acceptance of such structures, however, is low. Questions continue to be raised about the efficiency and effectiveness of the existing structures, especially about the allocation of responsibilities between the three tiers of government and their responsiveness and accountability to citizens. Moreover, frequent reorganizations have impeded metropolitan institution-building. This paper presents key features of Delhi's management and financial structures, and sheds light on the challenges that Delhi faces.*

## **1. METROPOLITAN CITIES IN INDIA'S FEDERAL STRUCTURE**

India's federal structure<sup>1</sup> consists of three tiers of government, viz., the Union government, generally referred to as the Central government, state governments, and local governments.<sup>2</sup> The functions and powers of the Union government and state governments are laid out in the seventh schedule of the Constitution of India under two discrete lists, i.e., a Union List and a State list. In addition, there is a concurrent list of functions on which the two tiers of government have joint occupancy. However, in the event of a conflict, the Union has overriding powers in respect of subjects in the concurrent list. The functions of the Union government are generally those that are required to maintain macroeconomic stability, and those that are assigned on grounds of the economies of scale and cost efficient provision

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<sup>1</sup> India has a federal structure, although on account of a strong Centre, many scholars have described India as quasi-federal. See A. Bagchi, 1994. Intergovernmental Fiscal Relations: The Case of India and Indonesia, mimeo.

<sup>2</sup> The Indian federation comprises 28 states and 7 federally-administered territories, and nearly 225,000 rural local bodies called Panchayats and 5135 urban local bodies or municipalities as these are ordinarily referred to.

of public services. The state governments are responsible for public order, police, public health, agriculture, irrigation, land rights, fisheries, and industries, and minerals other than those in the Union government list.

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*India federal structure consists of three tiers of government, viz., the Union or the Central government, state governments, and local governments. Their functional and fiscal domain broadly adheres to the Musgravian division of functions between the different governmental tiers.*

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The distribution of tax powers between the Union and states is based on the principle of *separation*, in that the tax objects are either assigned to the Union or the states. Most of the broad-based and productive taxes comprising taxes on income and wealth from non-agricultural sources, corporation tax, excise duty on manufactures (excluding those on alcoholic liquors, opium, hemp and other narcotics), and custom duty fall within the tax powers of the Union government. Tax powers assigned to states comprise tax on sale and purchase of goods, land revenue, taxes on agricultural income, taxes on land and buildings, excise duties on alcoholic liquor, taxes on vehicles, taxes on goods and passengers carried by road or inland waterways, taxes on luxuries and entertainment, stamp duties, and taxes on trades, professions, and callings.

Local governments, both rural and urban, are a subject of state governments. The Constitution of India recognizes local governments as the third tier, lays down the criteria for their constitution, sets out the procedures for elections, and specifies their composition, in particular, the representation of women and other disadvantaged groups on local councils.<sup>3</sup> The Constitution of India, however, does not lay down either the functions or the fiscal powers of local governments. Local governments derive their powers from state-level statutes. Thus, out of the state list of subjects, state governments assign such functions as public health and sanitation, and functions relating to water, solid waste management,

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<sup>3</sup> The Constitution (seventy-fourth) Amendment Act, 1992 on municipalities has made important changes in the erstwhile arrangements in respect of the constitution and dissolution of municipalities. Article 243 Q of the Constitution, for instance, now requires the states to constitute:

- (i) a Nagar Panchayat for a transitional area, that is, an area in transition from a rural area to an urban area;
- (ii) a Municipal Council for a smaller urban area; and
- (iii) a Municipal Corporation for a larger urban area.

prevention of infectious diseases, public safety and several regulatory duties to municipalities (Annex Table 1). Similarly, the state governments also assign out of the tax powers enjoyed by them under the seventh schedule, such taxes as on land and buildings, taxes on the entry of goods into a local area for consumption, use or sale therein, taxes on entertainment, non-motorized vehicles, and a few others to local governments. The entire subject falls within the domain of state governments, although the division of functional and fiscal powers between the state and municipalities is guided by the established principle that they perform those functions whose benefits are geographically limited, and there are no inter-jurisdictional spillovers. For the reason that each state government has its own statute, municipal government roles, responsibilities, and fiscal powers differ in important respects. Thus, one state may devolve a large number of functions and responsibilities to municipal governments, and may decide either to give them adequate tax powers or meet out the expenditure responsibilities *via* a system of transfers. Another state may opt to take a different route. The discretion and autonomy of states in determining the powers and functions of municipal bodies explain the existence of large differences in the role that intergovernmental transfers play in different states. It is important to point out that an amendment to the Constitution of India in 1992 which aimed at empowering municipalities has not affected the provisions relating to the control of state governments on them, except that it mandates the state governments to constitute, once in five years, a finance commission to review the financial position of municipalities and make recommendations on the principles governing (i) the taxes, duties, tolls, and fees which should be assigned to municipalities, (ii) the distribution between the states and municipalities of the net proceeds of taxes, duties, tolls, and fees leviable by the states, and (iii) the grants-in-aid to municipalities.

Metropolitan cities are a special form of urban local government. The Constitution defines a metropolitan area as an area “having a population of one million or more, comprised in one or more districts and consisting of two or more municipalities or contiguous area”. There are 35 such cities in the country (Table 1) which account for 34 per cent of the country’s total urban population. The responsibility for such areas rests on state governments who, in most cases, have created special-purpose authorities for managing their growth and development, conforming to the widely-held notion that in order to ascertain who exercises power in a metropolis, one must “look outside the framework of municipal politics”.<sup>4</sup>

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<sup>4</sup> R. W. Jones, 1975. Urban Politics in India, New Delhi.

Notwithstanding the demographic weight and economy-wide importance of metropolitan cities, the Union government exercises no role in the affairs of such areas, except to supplement the resources of the states for augmenting the infrastructure in five mega-cities, viz., Mumbai, Kolkata, Ahmedabad, Bangalore, and Hyderabad.<sup>5</sup>

**Table 1: Population of Metropolitan Cities**

Cities	Population (million)			Growth Rate (%)	
	2001	1991	1981	1981-91	1991-2001
Mumbai	16.37	12.57	8.24	4.22	2.64
Calcutta	13.22	10.92	9.19	1.72	1.92
Delhi	12.79	8.38	5.73	3.80	4.23
Chennai	6.42	5.36	4.29	2.23	1.80
Bangalore	5.69	4.09	2.92	3.35	3.31
Hyderabad	5.53	4.28	2.55	5.20	2.56
Ahmedabad	4.52	3.30	2.55	2.58	3.15
Pune	3.75	2.49	1.69	3.88	4.11
Surat	2.81	1.52	0.91	5.07	6.16
Kanpur	2.69	2.11	1.64	2.53	2.42
Jaipur	2.32	1.15	1.02	4.00	4.27
Lucknow	2.27	1.64	1.01	4.88	3.24
Nagpur	2.12	1.66	1.30	2.44	2.44
Patna	1.71	1.10	0.92	1.79	4.42
Indore	1.64	1.10	0.83	2.86	3.96
Vadodara	1.49	1.12	0.74	4.04	2.90
Bhopal	1.45	1.06	0.67	4.61	3.10
Coimbatore	1.45	1.14	0.92	2.10	2.44
Ludhiana	1.40	1.01	0.61	5.11	3.25
Kochi	1.35	1.14	0.69	5.08	1.70
Vishakapatnam	1.30	1.06	0.60	5.60	2.07
Agra	1.32	0.95	0.75	2.38	3.31
Madurai	1.19	1.09	0.91	1.86	0.84
Meerut	1.17	0.85	0.54	4.48	3.20
Nashik	1.15	0.73	0.44	4.93	4.61
Jabalpur	1.12	0.89	0.76	1.60	2.31
Jamshedpur	1.10	0.83	0.68	1.98	2.83
Asansol	1.09	0.76	0.50	4.19	3.55
Dhanbad	1.06	0.82	0.69	1.74	2.63
Faridabad	1.05	0.62	0.33	6.24	5.31
Allahabad	1.05	0.84	0.65	2.62	2.18
Amritsar	1.01	0.71	0.59	1.75	3.54
Vijayawada	1.01	0.85	0.61	3.21	1.78
Rajkot	1.00	0.65	0.45	3.86	4.24

Source: Census of India, 2001.

<sup>5</sup> In Mumbai, besides the Mumabi Municipal Corporation, other authorities that influence the development of this metropolis include Mumbai Metropolitan Region Development Authority (MMRDA), City and Industrial Development Corporation of Maharashtra Ltd. (CIDCO), Maharashtra Housing Area Development Authority (MHADA), Mumbai Building Repairs and Reconstruction Board (MBRRB), Bombay Environment Action Group, Bombay Electric Supply and Transport Undertaking (BEST), and New Bombay Municipal Corporation.

## 2. THE METROPOLIS OF DELHI: WHO DOES WHAT?

Delhi is a Union territory (UT) with a legislature.<sup>6</sup> The legislature consists of 70 members who are directly elected, and is headed by a Chief Minister. This status provides to the Government of National Capital Territory of Delhi (GNCT) a unique position in the country's politico-administrative structure, particularly in respect of the division of functions and responsibilities between the Union government and the Government of Delhi and the financial arrangements between them. In the division of functions, the GNCT is endowed, in accordance with the provisions of the *Constitution (sixty-ninth) Amendment Act, 1991*, and the *Government of National Capital Territory of Delhi Act, 1991*, with all functions enumerated in the state list or in the concurrent list, excepting public order, police, and land. These subjects vest in the Union government. The GNCT of Delhi has thus a smaller functional jurisdiction compared to state governments.<sup>7</sup> The financial arrangement between the Union government and GNCT is complex in that while all taxation powers ordinarily available to states under the Constitution stand delegated to the GNCT, other financial dispensations to GNCT are determined outside of the established centre-state fiscal arrangements. Thus, the Union government, instead of having a revenue-sharing arrangement with GNCT, provides a grant-in-aid in lieu thereof; similarly, assistance for capital development to GNCT is determined annually but outside of the *formulae* used for allocating similar assistance to state governments. Owing to Delhi being a Union territory, the GNCT is permitted to borrow only from the Union government; the Government of Delhi has no access to market borrowing or institutional finance to supplement its resources, nor is it

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<sup>6</sup> A search for an optimal governance structure for Delhi has been an ongoing activity. The following registers the key changes that have taken place in Delhi's governance structure in recent decades: (i) 1952: Delhi was provided with a legislative assembly and a Council of Ministers to take decisions on Delhi's affairs, with the proviso that Delhi's legislative assembly will not have the power to make laws with respect to public order; police including railway police; constitution and powers of municipal corporations and other public utility authorities; land and buildings; and judicial matters; (ii) 1957: Delhi legislative assembly ceased to exist and a Municipal Corporation was created by merging eleven municipal councils, and was assigned higher order functions. This Corporation exercised jurisdiction over all of Delhi excepting the areas that were controlled by NDMC and Delhi Cantonment Board; (iii) 1966: when a Metropolitan Council – a representative body – was created under the Delhi Administration Act, 1966 with powers to *recommend* legislative and budget proposals; and (iv) 1993: a directly elected government for Delhi with powers as specified in the Government of National Capital Territory of Delhi Act of 1993.

<sup>7</sup> The interactions between the Union government and Government of NCT of Delhi tend to be fundamentally unequal.

empowered to give guarantees on the security of its consolidated fund. Like metropolitan governments in other Asian developing countries, the Government of NCT of Delhi is characterized by a relatively small scope of legal autonomy.

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***Delhi has a special functional and fiscal arrangement with the Union government which imparts to it certain fiscal advantages.***

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Besides the Government, the three local bodies viz., Municipal Corporation of Delhi (MCD); New Delhi Municipal Council (NDMC), and the Delhi Cantonment Board (DCB) and major public utilities namely, the Delhi Transport Corporation (DTC), the Delhi Water Board (DWB), and the recently privatized Delhi Vidyut (power) Board play vital roles in the governance of this territory. 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). Delhi is thus a capital that has a full-fledged two-tier system of popular participation – an elected legislature at the Union territory level and another at the level of the municipality.

The Municipal Corporation of Delhi (MCD) was constituted in 1957 as a body corporate under an Act of the Union government, amalgamating the eleven municipal bodies which were then responsible for the provision of basic services to areas that today constitute the Municipal Corporation of Delhi. 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*, the *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 adequately incorporated in the modified Act.

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***For the reason that the Delhi Municipal Corporation was created under an Act of national Parliament, it owes its allegiance and accountability to the Union government, creating what clearly is a departure from the basis canons of metropolitan management.***

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The New Delhi Municipal Council (NDMC), earlier called the New Delhi Municipal Committee and regulated by the provisions of the Punjab Municipal Act, 1911, is now governed by the New Delhi Municipal Council Act, 1994, and enjoys a greater measure of commonality with MCD in matters relating to functions, taxation, audit, and accounting procedures.<sup>8</sup> 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 Union government or the Government of NCT or their undertakings to be nominated by the Union government and two members to be nominated by the Union 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 *Delhi Municipal Corporation Act, 1957* lays down the obligatory and discretionary functions of the Corporation. The important obligatory functions of the Corporation include the 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, and the lighting, watering, and cleansing of public streets and other public places.

For the performance of these (and other) functions, the *Act* empowers the MCD to levy taxes on property; a tax on advertisements other than the advertisements published in national dailies; 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 authorized to levy an education cess, a tax on professions, trades, callings and employment, a betterment tax, and tolls. The *Act* also empowers the MCD to borrow in accordance with the conditions laid down therein. Many of the important functions earlier performed by the Municipal Corporation of Delhi (MCD) have been transferred to the newly created special-purpose authorities which are regulated by the GNCT of Delhi. The functions of NDMC are also

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<sup>8</sup> The jurisdiction of the New Delhi Municipal Council coincides with the seat of the Union government.



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

*Many of the important functions earlier performed by the Municipal Corporation of Delhi such as provision of water and sewerage facilities and power have been transferred to special-purpose authorities which are regulated by the Government of Delhi.*

The Delhi Transport Corporation (DTC) which is the responsibility of the GNCT of Delhi, provides and manages local bus service in the territory. The Delhi Vidyut (power) Board (DVB), with jurisdiction over the whole of the capital territory excluding the areas under the New Delhi Municipal Council (NDMC) and Delhi Cantonment Board (DCB) was the principal agency for the provision of power; power distribution in the capital has since been privatized. Similarly, the Delhi Water Board (DWB) is responsible for water and sewerage services in the territory.

**Table 2: Who Does What? Formal Allocation of Functions**

Services	Tier of Government and Others Authorities				
	Central Government	NCT of Delhi	Municipal	Special Purpose	Others
Public Order	✓				
Police	✓				
Land	✓			✓*	
Planning and Development	✓	✓			
Health and Medical		✓	✓		✓
Education	✓	✓	✓		✓
Transport		✓		✓	
Roads	✓	✓	✓		
Power		✓@			✓
Water		✓		✓	✓£
Solid Waste			✓		✓£
Street Lighting			✓		

\* Delhi Development Authority which is responsible for land acquisition, land development, as also for housing.

@ Power distribution has been privatized; however, the Government of National Capital Territory of Delhi has set up a regulatory authority to oversee and regulate the operations of the private operators.

£ There is a substantial presence of the informal sector in water provision and solid waste collection.

### 3. DELHI'S DEMOGRAPHIC, ECONOMIC AND SOCIAL PROFILE

Delhi's unique position is not confined to only the politico-administrative and institutional structures; it extends as much to its demographic, economic and social composition. Delhi is an overwhelmingly urban territory, resembling in its characteristics and structure of demand, a *city state* and a *mega city*.<sup>9</sup> In 2001, 9.3 per cent of its total population of 13.78 million was urban, with trends toward further consolidation of its urban base. It is also a territory with a rapidly growing population; during the census decade of 1991-2001, Delhi's population increased by 46.3 per cent compared to 31.6 per cent for the country's total urban population. Approximately 450,000 persons are added every year to Delhi's population, placing an enormous burden on its infrastructure and civic services, and also on the already distorted land and housing market. Delhi is additionally confronted with a large *floating, day time* population which further strains the availability of infrastructure and basic services. The key point to note is that Delhi's population is projected to continue to rise at an annual rate of about 4 per cent over the next decade, and to reach a massive total of 19.1 million by 2011 AD. It is one single fact that will significantly impact on the future management structures of this capital city. Future management structure of Delhi will be vitally influenced not only by its size but equally by the growth rate of population.

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*Delhi is an overwhelmingly urban territory, resembling in its characteristics and structure of demand, a city state and a mega-city.*

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**Table 3: National Capital Territory of Delhi  
Growth of Population**

Year	Population (in million)			
	Total	Per cent change	Urban	Per cent change
1971	4.07	—	3.65	—
1981	6.22	52.98	5.77	58.16
1991	9.42	51.46	8.47	46.88
1998	12.85	36.46	11.45	35.14
2001	13.78	46.3	12.82	51.32

<sup>9</sup> In terms of its population, Delhi is the fifteenth largest city in the world (United Nations 1997. World Urbanization Prospects. The 1996 Revision. Draft. New York). Delhi's 1998 population is estimated at (Registrar General, India. 1996. Population Projections for India and States: 1996-2016. New Delhi).

The economic structure of Delhi is weighted in favour of services and small-scale manufacturing. Services comprising trade and commerce, transport and communications, public administration, and other services including the financial sectors such as banking account for nearly 70 per cent of the main work force. Approximately 27-28 per cent of the work force is engaged in highly diversified small-scale manufacturing composed of metal and engineering, textile and textile products, transport equipment, leather goods, and chemicals. Employment in agriculture and allied primary sector activities is infinitesimal (1.27 per cent).<sup>10</sup>

Delhi enjoys the highest per capita income in the country. At current prices, Delhi's per capita income, estimated at Rs.47,183 in 2000/01 is 85-95 per cent higher than the all-India average and about 35-45 per cent higher than the average for the five high income states.<sup>11</sup> Delhi's share in the country's gross domestic product (GDP) is about 3.1 per cent, making Delhi 2.34 times more productive compared to the country as a whole. Over a ten-year period, starting from a relatively high base by national standards, Delhi's gross state domestic product (GSDP) has increased at an annual average rate of 7.6 per cent which is 0.8 percentage points higher than the national average of 6.8 per cent. However, Delhi's GSDP growth rate has fluctuated in recent years, signaling the sensitivity of the territory to exogenous factors and forces.

A distinguishing feature of Delhi's GSDP lies in its structure. In the year 2000/01, 76.95 per cent of GSDP accrued from the services sector and 21.6 per cent from industry and other secondary sector activities. Agriculture contributed only 1.5 per cent of its GDP. Services and industry sectors have displayed consistently high growth rates.

Notwithstanding the unique position which Delhi enjoys as being an overwhelmingly urban territory, characterized by a diversified and expanding economic base and high GDP, poverty and deprivation continue to be a matter of concern. The incidence of poverty as

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<sup>10</sup> The 2001 figures on the economic structure are in process of being finalized. The shares of the primary sector, secondary sector and tertiary sector in the all-India urban work force are 23.3%, 28.5% and 41.5% respectively (Census of India: 1991).

<sup>11</sup> The five high income States are Punjab, Haryana, Maharashtra, and Gujarat. The gap between Delhi's per capita GDP and that of other states is beginning to narrow down. In the mid-1990s, Delhi's GSDP was more than twice that of all-India per capita GDP.

measured by the calorie intake criterion is about 4.48 per cent of its population. Non-food poverty, as manifest in such indicators as the number and proportion of households living in slums and squatter settlements and those without access to water supply and sanitation, continues to be high. An estimated 600,000-700,000 households live in slum settlements. According to a 1999/00 survey, 34 per cent of households in Delhi had no access to basic sanitation, 3.8 per cent had no source of potable water supply, and a little over 20 per cent households had no electricity. Given the fact that over 80 per cent of Delhi's population is *literate*, other social indicators such as the birth and death rates and infant mortality rates are high. Although air, water and waste-related pollution levels in Delhi have declined over the past three years, they continue to be high compared with most capital cities of the developing world.

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***Delhi's high per capita gross domestic product co-exists with the equally high incidence of poverty and deprivation.***

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Delhi thus presents a complex situation of having on the one hand, a highly diversified, growing and vibrant sector, continually in need of quality infrastructure and services, and on the other hand, a large subsistence sector seeking basic services and minimum quality of life.

#### **4. FINANCE AND FISCAL GOVERNANCE**

##### ***(i) Finances of the Government of the National Capital Territory of Delhi***

The fiscal base of the Government of Delhi is identical to that of the other states of India's federation consisting of taxes on property and capital transactions, state excises, sales tax, taxes on vehicles, taxes on passengers and goods, and taxes on entertainment, luxury and betting; numerous non-tax revenue heads including interest receipts and dividends and profits; and grant-in-aid contributions from the Union government.<sup>12</sup> Its expenditure comprises expenditure on general services, i.e., organs of state, fiscal services like collection cost of taxes, interest payments and other administrative services; expenditure on social

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<sup>12</sup> Grant-in-aid from the central government on the revenue receipts side are in lieu of an assumed share in central taxes.

services comprising, *inter alia*, education, health and family welfare, water supply, sanitation, housing, urban development, labour, employment, and social security; expenditure on economic services, and grant-in-aid and contributions, including assignment of tax revenues to local bodies and others. Added to the revenue receipts and expenditure are transactions of a capital nature. Capital receipts include loans received from the Government of India and recoveries of loans and advances, while capital expenditure is composed of loan repayments, loans and advances made by the Government of Delhi, besides expenditure on general services, social services, and economic services.

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*The fiscal base of the Government of Delhi is identical to that of the other states of India's federation.*

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Unlike other states and Union territories which are often and frequently faced with declining levels of budgetary expenditures, a cutback on capital investment, rising and often unsustainable debt burdens and contingent liabilities, and high revenue deficits, Delhi fiscal problems are rooted in sub-optimal exploitation of the vast tax potential that Delhi possesses, an extremely narrow non-tax revenue base, high implicit subsidies, and insufficient investment flows into such sectors as roads, urban development, and environment. These problems, in fact, overshadow what, *prima facie* may seem to be the positive aspects of Delhi's finances such as, moderate levels of capital expenditure and revenue account surpluses. The following provides important features of the finances of the Government of Delhi.

In 2001/02, the size of the Delhi Government's budget was placed at Rs.79,240 million, or 11.25 per cent of GSDP.<sup>13</sup> The budget size has registered an annual average increase of about 18 per cent over the ten-year period, 1996/97 to 2001/02. The budgetary expenditure as a percentage of GSDP was high in the mid-1980s, declined in the early 1990s, and has since recovered to reach the current level of 11.25 per cent. The relatively low level of budgetary expenditure in the case of Delhi is explained by the exclusion of expenditure on public order, police and land which is absorbed into the Union budget.

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<sup>13</sup> On a per capita basis, it works out to Rs.5,783.

*Low level of budgetary expenditure of the Government of Delhi compared with that of other states is explained by the exclusion of expenditure on public order, police, and land which is absorbed directly by the Union government.*

**Table 2: Basic Data on GNCT's Finances**

Key Finances Statistics	Years	
	1996/97	2000/01
<b>Revenue receipts (Rs.million)</b>	<b>27,959.8</b>	<b>54,439.8</b>
Tax revenues	25,348.6	44,006.2
Non-tax revenues	557.4	5,483.5
Grants	2,053.7	4,950.1
<b>Revenue expenditure (Rs. million)</b>	<b>20,318.0</b>	<b>44,132.6</b>
Developmental	14,286.8	24,098.9
Non-developmental of which:	4,743.4	10,490.1
Interest payments	1,898.8	7,167.6
Compensations to local bodies	1,287.7	2,376.0
<b>Capital receipts (Rs. million)</b>	<b>825.38</b>	<b>880.57</b>
Loans from the Centre	796.38	2,646.0
Recoveries of loans	29.00	4,268.9
<b>Capital expenditure (Rs. million)</b>	<b>14,835.2</b>	<b>35,626.7</b>
Developmental	3914.0	8,066.3
Non-developmental	255.6	627.8
Loans and advances by the government	10,665.4	26,088.6
Others	2.2	844.0
<b>GSDP (current prices, Rs. million)</b>	<b>27,5321</b>	<b>57,54,70</b>
Revenue surplus	-7641.7	-17475.0
Fiscal deficit	+6936.7	+16097.0
Revenue surplus as a % of GSDP	-2.78	-3.03
Fiscal deficit as a % of GSDP	+2.52	+2.79

Capital expenditure formed in 2000/01, 44.7 per cent of the total budgetary expenditure and 6.19 per cent of GSDP. Over the period 1996/97 to 2000/01, capital expenditure has risen substantially in Delhi—from Rs.14,835 million in 1996/97 by 240 per cent to Rs.32,626 million in 2000/01. While this position is in sharp contrast to other states which have uniformly seen a fall in the level of capital expenditure, reaching out in several states, to absurdly low levels of less than 15 per cent of total budgeted expenditure,<sup>14</sup> note should be made of the fact that 73-78 per cent of capital expenditure is accounted for by loans

<sup>14</sup> Figures of capital expenditure to total budgeted expenditure for some of the states are: Bihar 10.2%; Haryana 12.6%; Madhya Pradesh 13.7%; and Tamil Nadu 12.9%. See, Reserve Bank of India 1998. Finances of State Governments: 1997/98. Mumbai.

and advances to local bodies and public utility corporations. GNCT's own capital investment for development purposes are relatively low, forming in 2000/01, 1.4 per cent of the GSDP.

The growth performance of revenue expenditure appears to be generally satisfactory. Revenue and capital expenditures in the case of NCT have risen in tandem with each other; regressions show that over the years 1996/97 to 2000/01, an increase of Rs.100 in capital expenditure leads to an increase of Rs.115 in revenue expenditure.

**Table 3: NCT: Capital and Revenue Expenditure from to 1996/97 and 2000/01**

Year	Capital Expenditure		Revenue Expenditure		Total Expenditure	
	Rs.million	Per cent of GSDP	Rs.million	Per cent of GSDP	Rs.million	Per cent of GSDP
1996/97	14835.2	5.4	20318.0	7.4	35153.2	12.8
2000/01	35626.7	5.4	44132.6	7.7	79759.3	13.9

An important feature of Delhi's finances is that nearly three-quarters of the budgetary expenditure is financed by its own revenue resources.<sup>15</sup> Own revenues as a percentage of GSDP range between 9.4 per cent in 1996/97 and 7.6 per cent in 2000/01. When seen in the specific context of Delhi which has the highest per capita income in the country, a high turnover in trade and business, and which offers an extensive network of services, this level of revenue effort is unsatisfactory. In fact, Delhi fares far worse when its own revenue to GSDP ratio is compared with the ratio of own revenues to non-agricultural GSDP in the states where it ranges between 20-30 per cent.<sup>16</sup>

Tax revenues account for 80-90 per cent of the total own revenues. The non-tax component of own resources is insignificant, and has shown no sensitivity to the changes that have taken place in the administrative structure and fiscal and development policies of the territory. Although, the share of non-tax revenue sources in total revenues has risen to about 10 per cent in 2000/01 from 2 per cent in 1996/97, it is still far too low, raising questions about the seriousness and capacity of the government to be able to use instruments such as user charges for consolidation and augmentation of its revenue base, and for better allocation of resources.

<sup>15</sup> In other states, this percentage is anywhere between 40–60 per cent. See Reserve Bank of India, *Finances of State Governments: 1997/98*. Mumbai.

<sup>16</sup> The ratio of own revenues to non-agricultural GSDP is 28.6 per cent in Haryana, 23 per cent in Karnataka, 22.1 per cent in Kerala, 23.1 per cent in the Punjab, and 25.3 per cent in Rajasthan. In other states too, it is higher than in Delhi.

The non-tax component consisting of charges from the sale of general, economic and social services, and interest receipts and dividend and profits, hardly yields any revenue. Dividend on the government's investments in cooperative institutions and corporations which is another important non-tax component, is also abysmally low and has contributed little to the government's resources. The entire non-tax component in GNCT's revenue structure is a clear testimony of the indifference to its potential, and lies at the very root of the existence of large scale subsidies, many of which have questionable justification.

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*Non-tax revenue component of the Government of Delhi is insignificant, and lies at the very root of the existence of large scale subsidies.*

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Revenue expenditure of the Government of NCT is divided into three main heads: developmental, non-developmental, and compensation and assignments to local bodies. Expenditure on developmental heads accounts for 54 per cent of the total expenditure; compensation to local bodies accounts for approximately 5.4 per cent, and the balance of 43 per cent is non-developmental. These proportions have changed dramatically over the period 1996/97 to 2000/01. Developmental expenditure as a percentage of GSDP was 7.3 per cent in 1996/97 and has risen to over 7.7 per cent. Non- developmental expenditure in Delhi has faced fluctuations, largely in tandem with expenditure on development sectors. However, the central point is that the non-developmental expenditure has not encountered any acute pressure to rise.

Provision of economic services and, consequently, direct investment in these are not amongst the priority heads of expenditure of the Government of NCT. The share of economic services in the revenue account budgets is, therefore, low. On the other hand, social services are a priority budget head, accounting for about 58 per cent of the total revenue expenditure and about 50 per cent of the total capital expenditure. Several of the social services like education, health, urban development, and at least one economic service, namely, roads, represent the development priorities of the NCT, absorbing a greater part of its expenditure.



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*Education, health, urban development and roads represent the development priorities of the Government of Delhi.*

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By virtue of its character, urban development is an important sector in Delhi. It consists of expenditure on a mix of programmes aimed at physical and environmental improvement of slums, squatter settlements, construction of flats for *katra* dwellers in the walled city area, preparation of perspective development plans for sub-standard areas, establishment of “squatting zones”, land acquisition, urban basic services programmes, and a host of related programmes. The key component of the urban development sector, however, is improvement of slum and squatter settlements. Despite the steep rise in revenue expenditure, the fact that the living conditions in the slum and other similar settlements continue to be poor, shows the inadequacy of expenditure and lack of a slum policy that would, on the one hand, improve the living conditions, and on the other hand, prevent further proliferation of slums. The present policy is highly fragmented both in terms of programmes and institutional set-up; the institutional set-up consists of a slum and jhuggi-jhopri department (which is responsible for the implementation of the scheme of Environmental Improvement of Urban Slums (EIUS), structural repairs in Katras, construction of night shelters for pavement dwellers, and resettlement of squatter families), land and building department of Delhi Administration, MCD, Delhi Slum Improvement Board, and such agencies as the Railway Board for slums located on its land.

Explicit subsidies in the case of Delhi relate to minor heads, such as interest subsidy to small scale industries, fertilizer subsidy to small and marginal farmers, free supply of books and uniforms in elementary schools, promotion of non-conventional energy and the like, are of relatively minor significance. On the other hand, implicit subsidies are extremely large and relate to both merit and non-merit goods and services. For the year 1996/97, total subsidies on merit and non-merit goods after accounting for surplus sectors amounted to 9.39 per cent of GSDP. Of this, merit goods subsidies on elementary education, public health, sewerage and sanitation, social welfare, welfare of scheduled castes and tribes, nutrition, flood control and drainage, and roads and bridges accounted for 20.6 per cent of the total subsidy. Outside of the clearly defined merit goods sector, there are large scale subsidies in such sectors as technical education, medical services, water supply and sanitation, urban development, and power and transport sectors. The overall recovery rate was 0.14 per cent.

The recovery rate in the case of non-merit goods<sup>17</sup> was estimated at only 0.55 per cent. On a per capita basis, subsidy is phenomenally large. Delhi thus, has the distinction of having, compared to other states in the country, the lowest rate of recovery and highest per capita subsidy. The existence of subsidies on this scale is perhaps the most disconcerting feature of Delhi's finances and, if permitted to continue, will seriously jeopardize the future sustainability of Government investment and development programmes. In sum, the GNCT's finances are a mixed bag of a few positive features combined with those that suggest major weaknesses.

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*Delhi has the distinction of having a low rate of recovery and high per capita subsidy.*

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**(iv) *Finances of Municipal Bodies***

In addition to the Government of National Capital Territory of Delhi, the Municipal Corporation of Delhi (MCD) and New Delhi Municipal Council (NDMC) play a vital role in the provision of essential services to the Union territory of Delhi. The fiscal base of these two municipal bodies compares well with similar bodies in other states. The MCD derives its income from taxes such as property taxes, several non-tax levies, a share in the taxes leviable by the Government of NCT, and grants from the government. The share of government grants in the revenue income was 11.6 per cent. Over the years, MCD's own tax and non-tax sources as a percentage of total revenue receipts has risen from about 67 per cent in 1996/97 to 71 per cent in 2000/01; consequently its dependence on Government's transfers has declined.

Property tax is the single most important source of income for MCD, as also a key instrument for maintaining municipal services. 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.

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<sup>17</sup> Non-merit goods are those goods where in principle, cost recovery is possible through user charges.

Moreover, Delhi's property tax system is beset with an extremely narrow base; only about 30 per cent 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 per cent of the potential of property taxes in Delhi. From April, 2004 the Municipal Corporation of Delhi will shift to an area based system for property valuation.

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*Revenues from property taxes are barely representative of the phenomenal increase in property value and expansion of Delhi's property market.*

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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 a tax on consumption, sale or supply of electricity, and a tax on advertisement. There are other taxes too on the statute, e.g., a tax on non-motorized 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, and partly because of the growing obsolescence and irrelevance of such taxes.

As in the case of the finances of the Government of NCT, the MCD also derives income from a large number of non-tax revenue sources. 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 is not only low in absolute terms, it not even cover 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.

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 2000/01, the total income of NDMC was estimated at Rs.7,458 million. Of this, only about 13 per cent 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 municipal works, and about 3 per cent from the sale of water.

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.

(vi) ***Finances of the Special-Purpose Authorities***

Adequate provision of bus transport, electricity and water to the citizens of Delhi has historically been a subject of widespread debate and examination. The organizational set-up of agencies responsible for their provision has been frequently altered with a view to improving their performance and efficiency. For example, the MCD ran the transport services in Delhi from 1957 to 1970 by virtue of a provision in the *Delhi Municipal Corporation (DMC) Act, 1957*. This arrangement was, however, jettisoned in 1971 in favour of a new statutory corporation of the central government, created under the *Road Transport Corporation Act, 1950*. As a public sector corporation, DTC was required to function on commercial lines and be financially self-sufficient. Its financial position, however, continued to be grossly unsatisfactory. It had no equity capital and was financed wholly through interest-bearing repayable loans for funding the development schemes and ways and means assistance for meeting the annual revenue deficits. Far from being permitted to function as a corporation aimed at achieving financial viability, direct, often day-to-day, control was maintained over this body by the Ministry of Surface Transport (Government of India). The present status of DTC is that it has been transferred to the Government of NCT with effect from 5 August 1996, after writing off its loan liabilities and the interest accrued thereon. Its finances are in an unsatisfactory state and is dependent on subsidies from the Government of Delhi.

The Delhi Water Board (DWB) is a recent entity having been constituted on 6 April, 1998 under the *Delhi Water Board Act, 1998*. It has replaced the Delhi Water Supply, Sewerage and Sewage Disposal Undertaking (DWSSDU) which had been constituted under the *Delhi Municipal Corporation Act, 1957*, and was obliged under the Act to provide wholesome water to citizens within the jurisdiction of MCD as also supply water in bulk to NDMC and DCB and receive their sewage for appropriate treatment and disposal. Like the

other boards, the revenue income of DWB has been unable to keep pace with its expenditure, and it has been incurring substantial deficits.

The Delhi Vidyut (power) Board (DVB) which replaced the Delhi Electricity Supply Undertaking (DESU) has passed through a similar phase of organizational restructuring. Prior to the inclusion of electricity as an obligatory function under the *Delhi Municipal Corporation Act, 1957*, generation and distribution of electricity in Delhi was the responsibility of the Delhi Central Electric Power Authority Ltd. (DCEPA), and subsequently of the Delhi State Electricity Board. DESU was set up under section 42 of the *Delhi Municipal Corporation Act, 1957*, with the object of developing and maintaining an efficient, coordinated and economical system of electric supply to the Union Territory. However, within a short period it accumulated massive losses. Taking note of the fact that Delhi generated only about 20-25 percent of the total demand for electricity and the balance had to be purchased from outside for which the DESU was not considered an appropriate body, DESU has, with effect from 24 February 1997, been replaced by an autonomous board, called the Delhi Vidyut Board (DVB). It has since been privatized.

The finances of Delhi's two most important public utilities are in a dismal state. Taken together, the total losses of DTC, DWB/DWSSDU, and DVB (until it was privatized) amounted to 3.5 per cent of Delhi's GSDP and nearly 35 per cent of GNCT's total revenue income. In reality, these losses are in the nature of perpetual loans, and merely carried over in the accounts from one year to the next. No other aspect of the finances of the Government of NCT is as disconcerting as the fact of the losses of DTC, DVB/DESU, and DWB/DWSSDU, collectively attributable to off-system leakages, thefts, relatively lower tariff, their infrequent adjustment to costs, and at least in the case of DTC, oversized organization. Moreover, these organizations appear to be in a vicious trap: because they incur losses on revenue account, they are unable to meet their interest obligations; and because they are not able to meet their interest obligations, the Government adjusts these obligations towards capital loans which in turn, affects their plans to augment the services. Breaking out of this trap constitutes one of the most important fiscal challenges for the Government of NCT.

## 5. THE CHALLENGE OF METROPOLITAN GOVERNANCE

Most studies of metropolitan areas in India have been dominated by public administration specialists. In many cases, they have pursued what is called a legal-institutional approach to metropolitan management.<sup>18</sup> These are focused on the powers granted to metropolitan bodies, their relationship with local-municipal governments, and how their structures relate to functions. Discussions have also taken place on the optimal combination of centralized and decentralized elements in decision-making in large urban agglomerations. In the case of Delhi, at least five issues are underlined in such discussions:

- (i) functional jurisdiction of the Government of National Capital Territory of Delhi (GNCT) not being comparable with that of other states;
- (ii) absence of control of the GNCT over key local bodies, viz., the Municipal Corporation of Delhi (MCD), New Delhi Municipal Council (NDMC), and Delhi Development Authority (DDA) who, on account of their being created under Acts of Parliament, owe their allegiance to the Union government;
- (iii) limited borrowing powers of the GNCT vis-a-vis, in this case the Municipal Corporation of Delhi – an anomaly wherein a lower-level body is permitted to borrow from the market, while a high-level body does not enjoy such powers; and
- (iv) limited autonomy for introducing legislations.

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<sup>18</sup> National Commission to Review the Working of the Constitution 2001. A Consultative Paper on Decentralization and Municipalities, New Delhi.

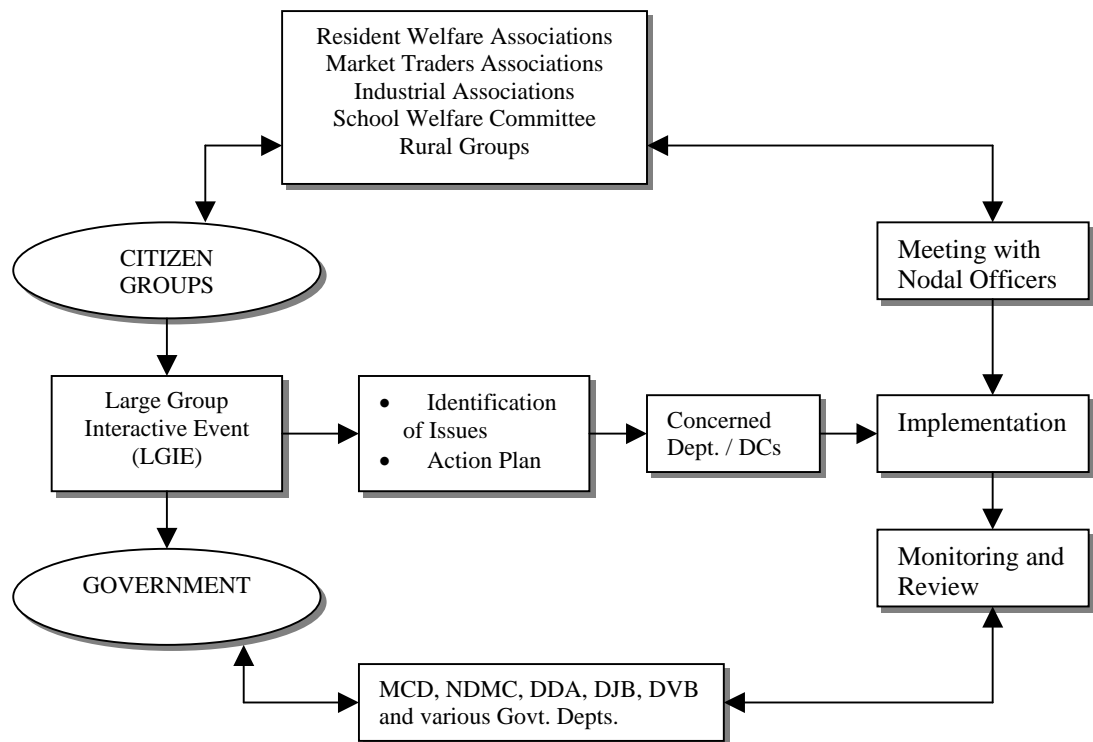
**Table 4: Institutional Interlinkages**

Agency	Responsible To		Responsible For
	Delhi Govt. Department	GOI Ministries	
Municipal Corporation of Delhi (MCD)		Home/Urban	Obligatory civic services, including public health and hygiene, environment, sanitation
New Delhi Municipal Council (NDMC)		Home/Urban	Planned development of New Delhi, civic services as in MCD
Delhi Development Authority (DDA)		Urban	Planned development of Delhi
Delhi Jal Board (DJB)	Urban		Water supply, sewerage, drainage
Delhi Vidyut Board (DVB)	Power		Electricity
Delhi Transport Corporation (DTC)	Transport		Bus system
Delhi State Industries Development Corporation (DSIDC)	Industry		Industrial development
Delhi Pollution Control Committee (DPCC)	Environment		Control of air, water and noise pollution
Delhi Police (DP)		Home	Public order, auto emission, noise pollution
District Administration (DA)	Revenue		Revenue, civil and criminal administration

Most of these are rooted in the legal-constitutional framework under which the GNCT currently functions. It is here that the legal-constitutional approach has displayed major weaknesses. Studies have tended to be descriptive. Rarely do these studies have addressed the dynamics of metropolitan management: who manages, when, how, and with what effects. On another plane, questions have arisen with regard to the size of the Municipal Corporation of Delhi and its effectiveness to deliver services even when its role has been considerably reduced. The primary issue is: should it be restructured into smaller and more viable units? It is argued that the Municipal Corporation of Delhi have become unwieldy where diseconomies of scale have set in. Will smaller units be able to financially viable? Or will smaller units add to the cost?

At yet another level, the Government of NCT of Delhi has mounted a massive programme of 'partnership' with civil society organizations. The concept of partnerships aims at developing joint ownership by the citizens and government of the change process, making government responsive to people's needs, enhancing value in service organizations, and facilitating people's participation in governance. The experiment has spread out to nearly 1200 resident welfare associations.

**Chart: Process of Bhagidari Scheme**



Over the past 4-5 years, a number of changes have taken place in the politico-administrative set-up of Delhi. Provoked by the fact that the financial arrangements between the Union government and the Union Territory of Delhi provides no incentive to maximize resource mobilization, the arrangements are under review. The Delhi Finance Commission has made recommendations on the nature of fiscal relations that the Government of Delhi should have with the local bodies. A bill to accord full statehood to Delhi is awaiting to be introduced in the Parliament. These changes are far-reaching in importance and will alter the fiscal position considerably.



[ Graphic: Physical Growth of Delhi, 1803-1959 & Seven-Seventeen Delhis ]

Source: Urban and Regional Planning for the Delhi-New Delhi Area, Capital for Conquerors and Country' by Gerald Breese.

## Annex 1: Revenue Jurisdiction of State Governments

1. Land revenue, including the assessment and collection of revenue, the maintenance of land records, survey for revenue purposes and records of rights, and alienation of revenues.
2. Taxes on agricultural income.
3. Duties in respect of succession to agricultural land.
4. Estate duty in respect of agricultural land.
5. *Taxes on lands and buildings.*
6. Taxes on mineral rights subject to any limitations imposed by Parliament by law relating to mineral development.
7. Duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India:-
  - (a) Alcoholic liquors for human consumption; and
  - (b) Opium, Indian hemp and other narcotic drugs and narcotics, but not including medical and toilet preparations containing alcohol or any substance included in subparagraph (b) of this entry.
8. *Taxes on the entry of goods into a local area for consumption, use or sale therein.*
9. *Taxes on the consumption or sale of electricity.*
10. <sup>19</sup>Taxes on the sale or purchase of goods other than newspapers, subject to the provision of entry 92A of List I.
11. *Taxes on advertisements other than advertisements published in the newspapers<sup>20</sup> (and advertisements broadcast by radio or television).*
12. Taxes on goods and passengers carried by road or on inland waterways.
13. Taxes on vehicles, whether mechanically propelled or not, suitable for use on roads, including tramcars subject to the provisions of entry 35 of List III.
14. *Taxes on animals and boats.*
15. *Tolls.*
16. *Taxes on professions, trades, callings and employments.*
17. Capitation taxes.
18. *Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling.*
19. Rates of stamp duty in respect of documents other than those specified in the provision of List I with regard to rates of stamp duty.
20. Offences against laws with respect to any of the matters in this List.
21. Fees in respect of any of the matters in this List, but not including fees taken in any court.

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Note: Most state governments have tax objects in *italic* to municipal governments.

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<sup>19</sup> Subs. by the Constitution (Sixth Amendment) Act, 1956, sec.2, for entry 54.

<sup>20</sup> Ins. by the Constitution (Forty-Second Amendment) Act, 1976, sec.57 (w.e.f.3-1-1977).