

17. Financial Management

17.1 Delhi – a Rich Shell with a Poor Core

17.1.1 A Buoyant Economy

Comparatively, Delhi can be said to be a highly productive and rich city in India despite the presence of urban poverty in the city. The economy has benefited from the processes of economic liberalisation with the average income approximately twice the national average. The GNCTD's main tax base, the sales tax, is buoyant reflecting the city's economy. The State has earmarked 9.5 percent of its taxes for a global sharing with its local bodies to supplement their own revenue sources.

17.1.2 Poor Revenue-High Costs

Unfortunately, the local bodies and DJB are financially weak.

MCD has inadequate generation of its own-revenue and with excessive costs, particularly for its establishment. As a result, it has neither undertaken significant capital expenditure works on its own, nor is it in a position to repay loans.

NDMC does have a revenue surplus derived primarily from its function to distribute electricity - all other activities resulting in losses. Despite surpluses, it has decided to suspend repayment of loans to GNCTD since 1997-98.

The DJB has consistent deficit over the years. It does have a significant capital works programme, but due to the weak financial position it is unable to attract new external borrowing for additional works.

A root cause of many of the financial problems is the existing pricing distortions. Focus must be changed from a dependence on government subsidy to a more commercial orientation based on revenue from sales and to gain from the benefits of Private Sector Participation.

17.1.3 Resource Mobilisation

None of these agencies is realising its resource mobilisation potential, though all are capable of generating significantly more revenue and reducing costs. This is the case at the level of management and from within their existing revenue-raising powers, for example from improved collections. The need for management and policy changes to generate additional resources is well known and has been publicly debated. The situation of fiscal weakness stems from a lack of political will to improve institutional performance.

There is considerable scope to increase property tax revenue through periodic property enumeration, improved assessments of owner occupied properties, removal of tax exemptions for properties of central government and embassies, and improved collection.

17.1.4 Reducing Costs

There is a potential to reduce costs by reducing MCD's solid waste management staff through institutional and management reforms, e.g. voluntary retirement scheme. In addition, a monthly fee for solid waste collection and disposal should be levied on all consumers.

Without its electricity income, NDMC would incur huge revenue deficits. With any reallocation of electricity supply responsibility in its area, NDMC would find it difficult to finance its other responsibilities.

17.1.5 Low Water Tariffs

Water tariffs in Delhi attempt to cross-subsidise among user groups and consumption levels and between the priced and free supply. Water tariffs therefore, serve distributional rather than allocative-efficiency objectives. Delhi Jal Board's own efforts should first be directed to reduce its establishment costs; long term actions on this front lie through institutional and management reforms. The water and

sewerage charges need to be adjusted upward gradually to a level of full cost recovery, and be linked to an appropriate inflation index.

A good tariff policy balances four broad objectives: efficiency in resource allocation; equity; effectiveness (tariffs should be simple and enforceable); and financial viability of service providers. Simultaneously, it is necessary to ensure affordability of services for low-income consumers.

The DJB Act provides no equity base. All commercial utilities should have scope for a mix of loan and equity - the factor to determine this is the financial position of the undertaking. It is therefore desirable to attempt to establish a suitable capital structure for the DJB.

17.2 Strengthening Financial Management

17.2.1 System Accounting

The conclusion from the consideration of the fiscal position of these agencies is that the preparation of capital expenditure programmes for environmental improvements financed by borrowing can only be contemplated if there are parallel action programmes of policy and management leading to financial strengthening.

Local bodies operate on the traditional cash-based system of accounting. There is

general awareness of the limitations of this system and the need to improve the flow of financial information. There is a need to introduce more transparency and follow contemporary accounting standards having been adopted in municipal and parastatal bodies elsewhere in India.

The budget preparation and control exercise is weak. The budget planning should more effectively reflect the strategy, priorities and service outputs. Performance of operational activities and services should relate to the availability of financial and other resources to ensure that expected activities and outputs are being performed as scheduled or provide a basis for its revision.

17.2.2 Polluter to Pay

The water cess rates are set nationally (last set in 1992) with an extremely low rate structure. These need to be related to the conditions prevailing in Delhi. A change in legislation is therefore required to enable the states and union territories to fix their own cess rates. DPCC's assessment and collection of water cess needs an in-depth review.

Larger public outlays on pollution control in Delhi would call for an earmarked revenue source by the GNCTD (e.g. a differential surcharge on sales tax on petroleum fuel graded in terms of their pollution effect) for passing on to the DPCC.