



JANAAGRAHA CENTRE FOR CITIZENSHIP & DEMOCRACY



# Financial brief on **Municipal Corporation of Greater Mumbai**

December 2018

The Municipal Corporation of Greater Mumbai's (MCGM, the corporation) FY17 financial statement highlights its financial might to undertake various large-ticket capital projects. While the corporation continues to be the richest municipality in India with a budget size of INR394 bn (budget estimate) and has significant funds lying in bank deposits (INR236bn), several of the capital projects undertaken by it have been delayed. Receivables continue to remain high (INR172bn) and may require accelerated provisioning going ahead. As a public institution and given its budget size, the MCGM definitely needs to improve its financial reporting and disclosures.

#### **Balance sheet might enable undertaking of high capex projects**

Investments in fixed deposits (general funds) more than doubled from ~INR107bn in FY13 to INR236bn in FY17 (~20% of total assets). Further, underlying investments of earmarked funds such as infrastructure, asset replacement and depreciation fund etc., are also invested in bank deposits. This amounts to INR20,971 per capita. Thus in aggregate, ~42% of MCGM's assets are represented by bank deposits. MCGM therefore has sufficient funds to finance Mumbai's infrastructure projects and make a significant difference to the quality of life in the city.

#### **Project completion delays trigger high CWIP balances**

MCGM undertakes various long gestation projects which are capitalised post their commissioning. The corporation lags in timely execution of projects, leading to slow conversion of CWIP into fixed assets. During FY13-17, it capitalised fixed assets (gross) of INR106bn against CWIP of INR170bn as at FY13. CWIP stood at INR243bn (~22% of total assets) at FY17 end. A full list of CWIP (or projects in progress) is not disclosed by the MCGM on its website or as part its audited annual accounts.

#### **Receivables continue to be high**

The corporation has outstanding receivables (gross) of ~INR171.6bn comprising mainly of receivable towards property tax, water and sewerage tax etc. Provision coverage towards bad and doubtful debts declined from ~40% in FY13 to 31% in FY17. MCGM should strive to enhance its collection efficiency and improve cash flows so that there are no impediments to financing large infra projects. An ageing schedule of these receivables is not disclosed by the MCGM on its website or as part its audited annual accounts.

#### **Quality of financial reporting needs to be improved**

MCGM should strive to improve the quality of financial reporting (including disclosures) and gradually bring it at par with corporate reporting standards. This will improve readability of financial statements and bring more transparency. Additionally MCGM should provide qualitative information (like schools/hospitals constructed, new parks opened, roads constructed etc).

## Income analysis

	INR (bn)					(% )				
Particulars	FY13	FY14	FY15	FY16	FY17	FY13	FY14	FY15	FY16	FY17
Tax Revenue	100	102	108	115	121	48	44	42	42	45
Fees & User Charges	49	69	75	85	74	24	30	29	31	28
Other Income	40	42	54	46	48	19	18	21	17	18
Income from Investments	14	12	14	17	19	7	5	5	6	7
Rev Grant,Contribution & subsidy	3	4	4	4	4	1	2	2	2	1
Interest Earned	1	1	2	2	1	0	1	1	1	0
Rental Income Fm Mun Properties	1	1	1	1	1	0	0	0	0	0
Sale & Hire Charges	0	0	0	0	0	0	0	0	0	0
Assigned Revenues & Compensation	0	0	0	1	0	0	0	0	0	0
<b>Total income</b>	<b>207</b>	<b>232</b>	<b>257</b>	<b>271</b>	<b>268</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source : MCGM Financial statements (<https://bit.ly/2ATLaDS>)

MCGM total income declined marginally during FY17 led primarily by lower premium income from fungible FSI and staircase and lift premium charges. MCGM receives nearly 71-74% of total revenue in the form of tax collections and fees & user charges.

## Expenditure analysis

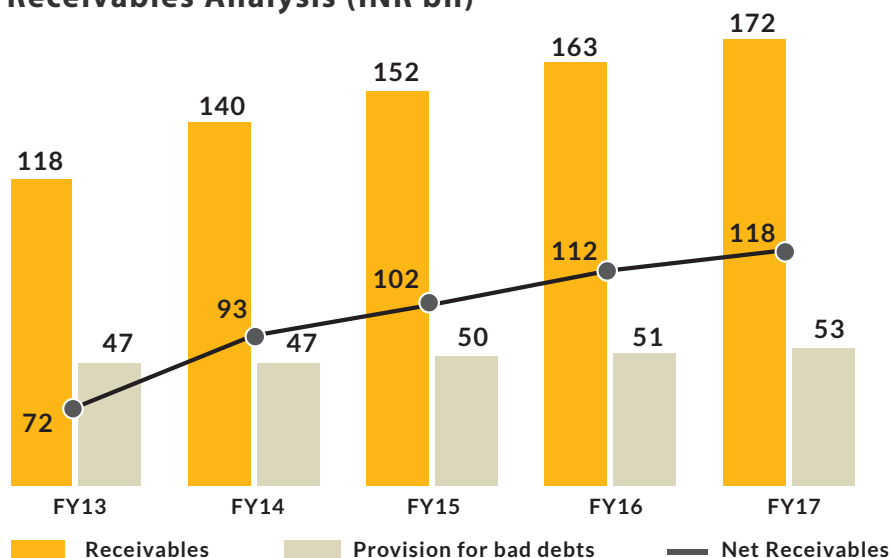
	INR (bn)					(% )				
Particulars	FY13	FY14	FY15	FY16	FY17	FY13	FY14	FY15	FY16	FY17
Establishment Expenses (mainly salaries)	70	71	80	79	80	41	36	37	38	37
Rev Grants,Contribution & subsidy	62	84	87	81	81	36	43	41	40	38
Operations & Maintenance (civic amenities)	18	20	22	23	26	10	10	10	11	12
Depreciation	12	13	13	12	14	7	7	6	6	6
Administrative Expenses	5	5	7	6	8	3	2	3	3	4
Provisions and Write off	2	1	4	1	2	1	0	2	0	1
Programme Expenses	1	1	1	1	2	1	1	1	1	1
Interest & Finance Expenses	1	1	1	1	1	1	1	1	0	0
<b>Total expenditure</b>	<b>171</b>	<b>195</b>	<b>215</b>	<b>205</b>	<b>212</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source : MCGM Financial statements (<https://bit.ly/2ATLaDS>)

Increase in MCGM expenditure was led primarily by higher operations & maintenance cost.

## Receivables

### Receivables Analysis (INR bn)



Source : MCGM Financial statements (<https://bit.ly/2ATLaDS>)

“ Receivables from property tax as on 31 March 2017 amounted to 188% of the property tax income for FY17 ”

### Receivable summary (INR bn)

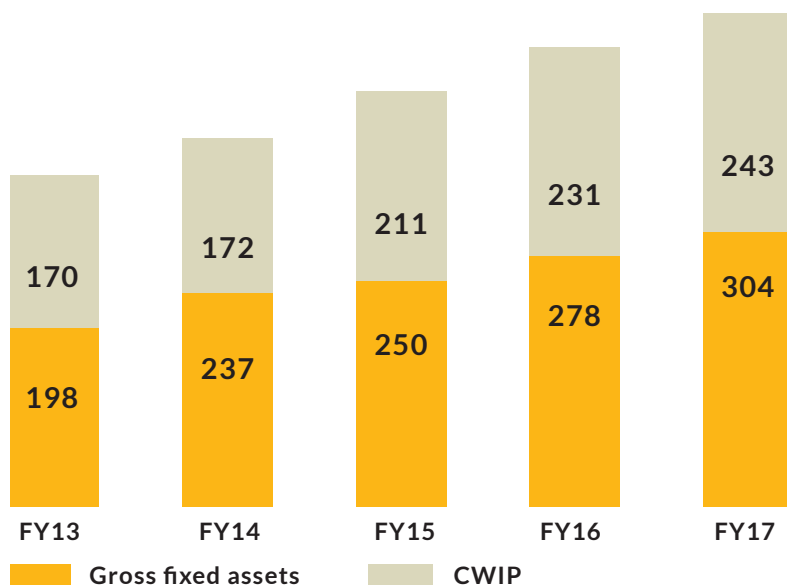
	Receivables (A)					Income for the year (B)					% [(A)/(B)*100]				
Particulars	FY13	FY14	FY15	FY16	FY17	FY13	FY14	FY15	FY16	FY17	FY13	FY14	FY15	FY16	FY17
Receivable-Property Taxes	15	20	22	24	24	9	10	12	14	13	177	203	188	170	188
Receivables-Street Tax	8	10	12	13	13	5	5	6	8	7	160	198	191	168	183
Receivables-Water & Sewerage Taxes	26	26	26	26	26	14	16	21	27	24	185	165	123	95	109
Receivables-Education Taxes	9	11	12	13	13	4	4	5	6	6	219	259	244	216	237
Receivable-Water & Sewerage Charges	13	15	15	17	20	13	15	15	18	18	100	100	100	98	114
Interest accrued on Fixed deposits	18	20	19	20	21	14	12	14	17	19	130	157	140	118	109
Receivable- State Education Cess	-	5	9	14	18	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Grant from Govt (Primary Education)	15	16	18	20	22	2	2	2	3	2	742	775	809	718	944
Others	16	18	19	17	15	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
<b>Gross Receivables</b>	<b>118</b>	<b>140</b>	<b>152</b>	<b>163</b>	<b>172</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Provision for bad debts	47	47	50	51	53	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
<b>Net receivables</b>	<b>72</b>	<b>93</b>	<b>102</b>	<b>112</b>	<b>118</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>

Source : MCGM Financial statements (<https://bit.ly/2ATLaDS>)

The corporation has outstanding receivables (gross) of ~INR171.6bn comprising mainly of receivable towards property tax, water and sewerage tax etc. Provision coverage towards bad and doubtful debts declined from ~40% in FY13 to 31% in FY17. MCGM should strive to enhance its collection efficiency and improve cash flows so that there are no impediments to financing large infra projects. An ageing schedule of these receivables is not disclosed by the MCGM on its website or as part its audited annual accounts.

## Fixed assets and CWIP

### Fixed assets and CWIP analysis (INR bn)



Source : MCGM Financial statements (<https://bit.ly/2ATLaDS>)

“Slow progress in projects reflected by significant increase in CWIP from INR170bn as at March 2013 to INR243bn as at March 2017”

MCGM undertakes various long gestation projects which are capitalised post their commissioning. The corporation lags in capitalisation of projects, leading to slow conversion of CWIP into fixed assets. During FY13-17, it capitalised fixed assets (gross) of INR106bn against CWIP of INR170bn as at FY13. CWIP stood at INR243bn (~20% of total assets) at FY17 end.

Since we don't have data on ageing profile of CWIP as at March17, we have analysed ageing profile at March15. ~80% of CWIP as at March15 has ageing of more than 36 months indicating slow completion process of fixed assets.

### CWIP analysis as at March 2015 (INR bn)

Particulars	<6 months	6<12 months	12<36 months	>36 months	Amount
CWIP	39	0	3	109	151
CWIP - Old	0	0	0	55	55
CWIP-Maintenance	0	-0	-2	5	3
CWIP-Miscellaneous	0	0	0	1	1
<b>Total</b>	<b>39</b>	<b>-0</b>	<b>1</b>	<b>170</b>	<b>211</b>

Source : MCGM Financial statements (<https://bit.ly/2ATLaDS>)

CWIP includes “Capital Work in Progress - old” of INR55.4bn. This amount has remained stagnant for the past 5 years and has not been transferred to fixed assets.





## **Investments**

### **Investment summary (INR bn)**

Particulars	FY13	FY14	FY15	FY16	FY17
General fund - Fixed deposits	107	103	144	190	236
Infrastructure fund-Fixed Deposit	13	34	58	83	102
Asset Replacement Fund	53	68	61	63	67
Pension Fund	38	44	51	58	62
Provident Fund	38	41	43	47	49
Development Fund	5	10	17	24	29
Asset replacement & rehabilitation fund	13	12	15	17	18
Depreciation Fund	9	11	14	16	19
Land Acquisition & Development Fund	9	10	10	10	11
DCP-Sch-Fixed Deposit	2	3	5	8	10
Other investments	14	17	16	16	18
<b>Total</b>	<b>300</b>	<b>354</b>	<b>433</b>	<b>532</b>	<b>622</b>

Source : MCGM Financial statements (<https://bit.ly/2ATLaDS>)

Details of underlying investments of the funds not available



**Fixed Deposits (General & Infrastructure)  
increased by 181% over 5 years**



Investments in fixed deposits (general fund) jumped from INR107bn in FY13 to INR236bn (~20% of total assets) in FY17. Further, details of underlying investments of earmarked funds (corpus of ~INR275bn as at FY17) such as Infrastructure fund, asset replacement and development fund are not available.

Thus, MCGM has fixed deposits (excluding earmarked funds for pension & provident fund) of ~INR511bn, representing ~42% of total assets.

## Governance matters and disclosure

- MCGM should prepare and report financials on a quarterly/half yearly basis. Further, disclosure levels should be enhanced to improve readability of financial statements.
- Annual financial statements should be audited by an independent third party and the audit report for the same must be published. Assets (specially fixed assets/receivables) should be periodically tested for impairment and the resulting loss should be charged to the income and expenditure account.
- Currently, budget estimates are prepared at department level while actual performance is reported at the consolidated level. Reconciliation of budgeted and actual numbers is recommended.
- MCGM should actively encourage citizen participation in budgeting.
- On comparing the provisions governing the financial disclosures required to be adhered to by MCGM (by the Bombay Provincial Municipal Corporation Act, 1949 and Maharashtra Municipal Account Code) to the disclosure provisions mandated for large listed companies (by SEBI regulations, Companies Act, 2013, Indian Accounting Standards), there are significant gaps in regulatory framework on disclosures for MCGM.

“Disclosure at par with corporate reporting standards is critical to enhance readability of financial statements”

### Comparison of disclosure provisions

Particulars	Companies	MCGM
Does the law prescribe the format in which financial statements are to be prepared?	Yes	Yes
Does the above mentioned format mandate the following -		
Notes, comprising a summary of significant accounting policies and other explanatory information	Yes	No
Segmental reporting of income, expenditure and assets	Yes	No
Quantitative information of key revenue and cost drivers	Yes	No
Disclosure of ageing of capital work in progress, receivables	Yes	No



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