



JANAAGRAHA CENTRE FOR CITIZENSHIP & DEMOCRACY

MCGM

MUNICIPAL CORPORATION OF GREATER MUMBAI

FINANCIAL ANALYSIS





Dear Engaged Citizen of Mumbai,

Greetings from Janaagraha Centre for Citizenship and Democracy! We are a Bengaluru-based non-profit working towards the mission of transforming quality of life in India's cities and towns. We work with citizens to catalyse active citizenship in city neighbourhoods and with governments to institute city-system reforms (i.e. reforms to city governance).

I am writing to share with you an exciting piece of related research that we have undertaken on the financial position and financial performance of the MCGM in collaboration with volunteers from Mumbai who are professional financial analysts. **This is essentially an analyst report on the MCGM, much like what thousands of analysts in Mumbai issue for companies.**

Our work in Janaagraha has revealed that there are four key drivers or root causes to quality of life in a city: 1) Urban Planning and Design, 2) Urban Capacities and Resources, 3) Empowered and Legitimate Political Representation and 4) Transparency, Accountability and Participation. We call them "city-systems". Unless we fix our city-systems, we cannot fix quality of life. **This analyst report pushes the envelope on both Urban Capacities and Resources and Transparency, Accountability and Participation.**

MCGM is uniquely positioned as India's richest municipality with a balance sheet size of over Rs 100,000 crores and annual budget size of over Rs 24,000 crores. **We believe a partnership between the best financial minds in Mumbai and the MCGM can produce transformative change in the return on investment on the MCGM's outlays. We seek to use this research to engage with the State Government, the MCGM and citizen groups to drive transformation in Mumbai's public financial management.**

I would like to express our heart-felt gratitude to all resident Mumbaikars and professionals with full time jobs, who have volunteered their time and professional skills for this unique effort. **Their effort is a new and innovative recipe for transformative change in our cities, combining the magic ingredients of active citizenship and city-systems reforms.**

I hope you find this to be an interesting read. I would be delighted to hear back from you on your feedback and comments.



Srikanth Viswanathan

Chief Executive Officer , Janaagraha



The Municipal Corporation of Greater Mumbai's (MCGM) FY16 financial statement highlights its financial might to undertake various large-ticket capital projects. While the corporation continues to be the richest municipality in India and has significant funds lying in bank deposits, several of the capital projects undertaken by it have been delayed and are yet to be commissioned. Receivables continue to remain high and may require accelerated provisioning going ahead. GST implementation and slow down in real estate sales may impact MCGM's earnings and cash flows going forward, impairing its ability to undertake big-ticket projects. MCGM certainly needs to improve its financial reporting and disclosures, given the size of its balance sheet and annual budget.

Balance sheet might enable undertaking of high capex projects

Investments in fixed deposits jumped from INR 121 bn in FY13 to INR 281 bn in FY16 (~26% of total assets). Further, underlying investments of earmarked funds (corpus of ~INR 147 bn as at FY16) such as asset replacement and depreciation fund etc., are also likely to have been invested (details not available) in bank deposits/securities. Thus, ~39% of MCGM's assets are represented by bank deposits. In addition to indigenous resources, it has the leeway to raise funds worth INR 767 bn (assuming ~30% hair cut) via municipal bonds anchored by a robust balance sheet. We believe, given strong balance sheet and borrowing capacity, the corporation has the capacity to undertake welfare projects in excess of INR 1 tn.

Project completion delays trigger high CWIP balances

MCGM undertakes various long gestation projects which are capitalised post their commissioning. Despite its best efforts, the corporation lags in capitalisation of projects, leading to slow conversion of CWIP into fixed assets. During FY13-16, it capitalised fixed assets (gross) of INR 80 bn against CWIP of INR 170 bn as at FY13. CWIP stood at INR 231 bn (~21% of total assets) at FY16 end.

Receivables continue to be high

The corporation has outstanding receivables (net of provisioning) of ~INR 112 bn, a significant portion of which is outstanding for more than 365 days. MCGM should strive to enhance its collection efficiency and improve cash flows so that there are no impediments to financing large infra projects. Recent news articles indicate that demonetisation augurs well for MCGM as its collections have improved significantly.

~23% of revenue in form of octroi at risk

Octroi accounted for ~23% of total income during FY16. Post GST implementation MCGM will not be able to levy octroi and will thus have to chalk out a road map to fund the revenue shortfall. Further, recent government crackdown on black money will result in slowdown in income from sale of FSI.

Strong balance sheet enables fund raising via Municipal Bonds

MCGM can raise additional resources by way of issue of municipal bonds to meet the city's development needs. These bonds will be secured by a charge on the assets of the municipality having sufficient value to repay outstanding amounts. SEBI guidelines permit municipalities to issue bonds up to a tenure of 30 years. Further, guidelines also require maintenance of 100% asset cover sufficient to meet the principal amount at all times.

MCGM has total asset base of ~INR 1.1 tn. After considering appropriate haircuts, it is eligible (as per SEBI guidelines) to borrow up to INR 767 bn (post 30% hair cut).

Governance matters and suggestions

- 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 empaneled firm of Chartered Accountants and an Annual Report published by 30 September each year.
- Assets (specially fixed assets/receivables) should be periodically tested for impairment and the resulting loss should be charged to the income and expenditure account.
- MCGM should also provide qualitative information like number of schools/hospitals constructed, number of new parks opened, roads (in kms) constructed etc in its Annual Report for citizens to better understand its work, scale and challenges.
- An Annual General Meeting of the MCGM should be held on an annual basis to discuss its financial position and financial performance. Citizens should be encouraged to participate in such an AGM.
- 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.

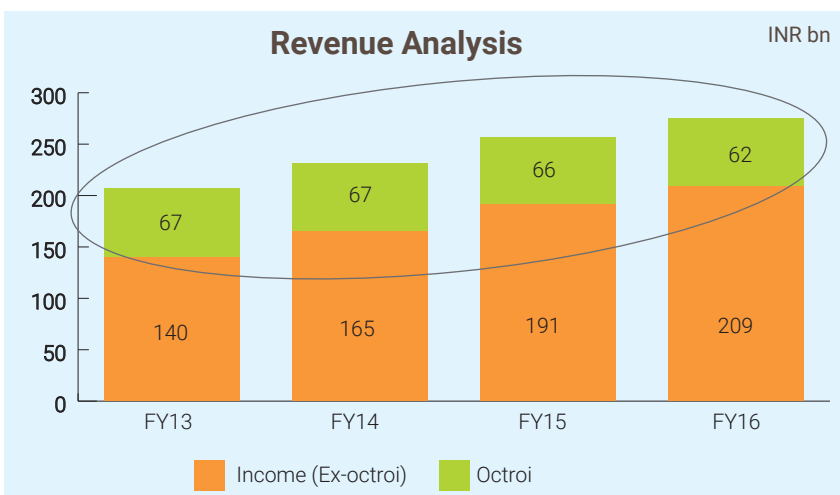
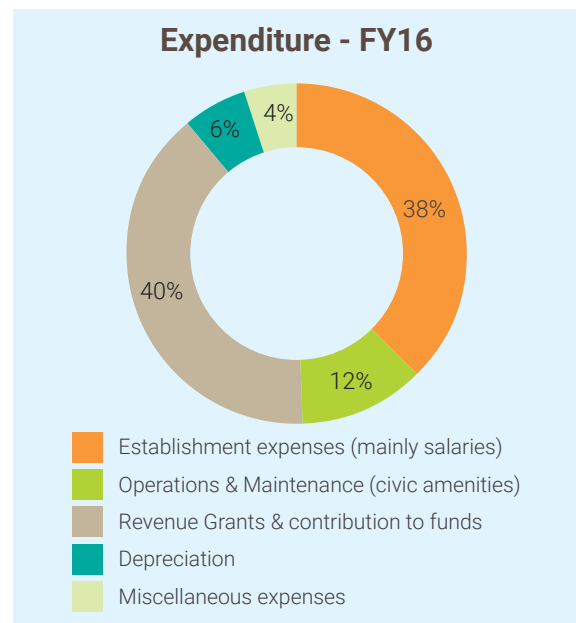
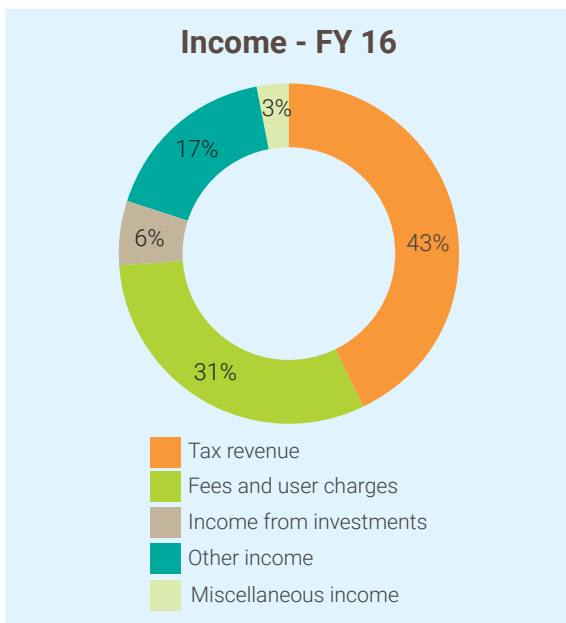


Adequate disclosures would be ideal to enhance readability of financial statements

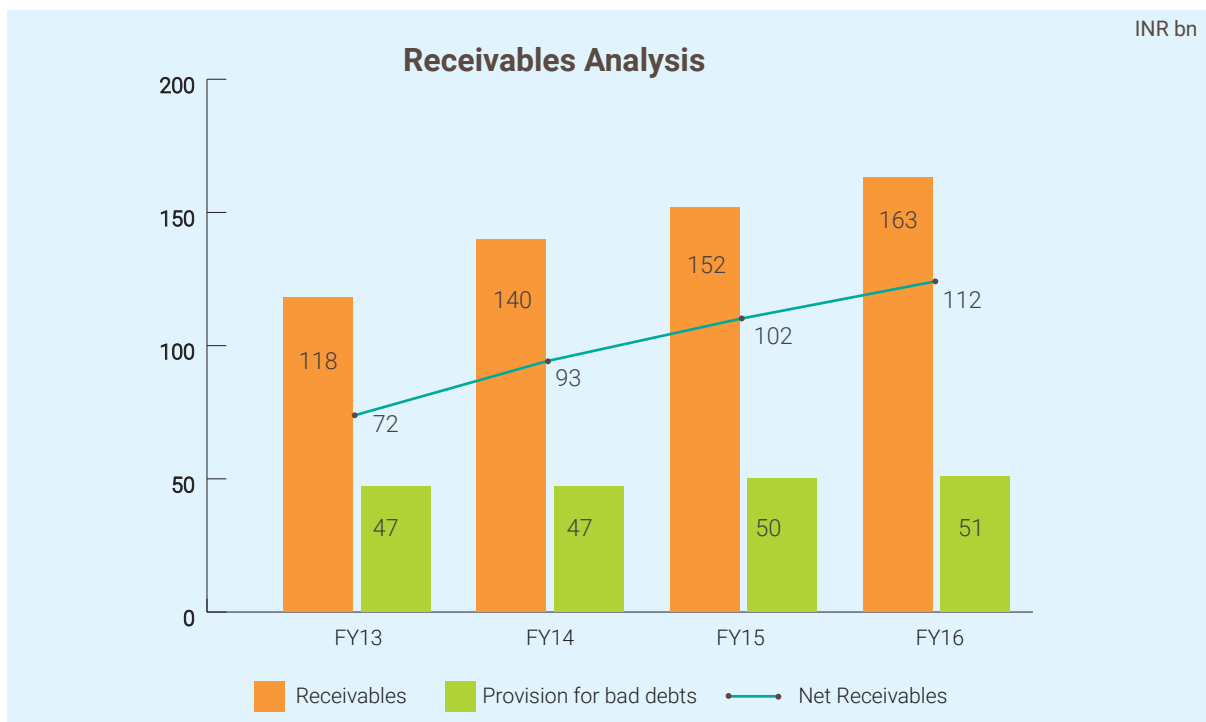
Income & Expenditure Analysis

Income and Expenditure account								
Sources of Income	(INR bn)				(%)			
Particulars	FY13	FY14	FY15	FY16	FY13	FY14	FY15	FY16
Tax Revenue	99.6	102.4	107.5	115.2	48.1	44.1	41.8	42.5
Assigned Revenues & Compensation	0.0	0.2	0.3	0.6	0.0	0.1	0.1	0.2
Rental Income from Mun. Properties	0.6	0.7	0.7	0.8	0.3	0.3	0.3	0.3
Fees & User Charges	48.7	68.9	75.3	85.3	23.6	29.7	29.3	31.5
Sale & Hire Charges	0.1	0.1	0.2	0.2	0.0	0.0	0.1	0.1
Rev. Grant, Contribution & Subsidies	2.9	3.8	4.2	4.3	1.4	1.6	1.6	1.6
Income from Investments	13.9	12.5	13.8	16.8	6.7	5.4	5.4	6.2
Interest Earned	0.9	1.5	1.6	1.5	0.4	0.6	0.6	0.6
Other Income	40.2	42.3	53.6	46.3	19.4	18.2	20.8	17.1
Total Income	206.9	232.3	257.2	271.1	100.0	100.0	100.0	100.0

MCGM receives nearly 71-74% of total revenue in the form of tax collections and fees & user charges. Further, octroi & toll and development & water charges contributed nearly 59-66% to tax collection and fees & user charges over FY13-16.



Octroi accounted for ~23% (FY16: INR 62 bn, FY15: INR 66 bn) of MCGM's total income during FY16. Post GST implementation the corporation will not be able to levy octroi & thus will have to chalk out a plan to fund the revenue shortfall



Receivables Summary

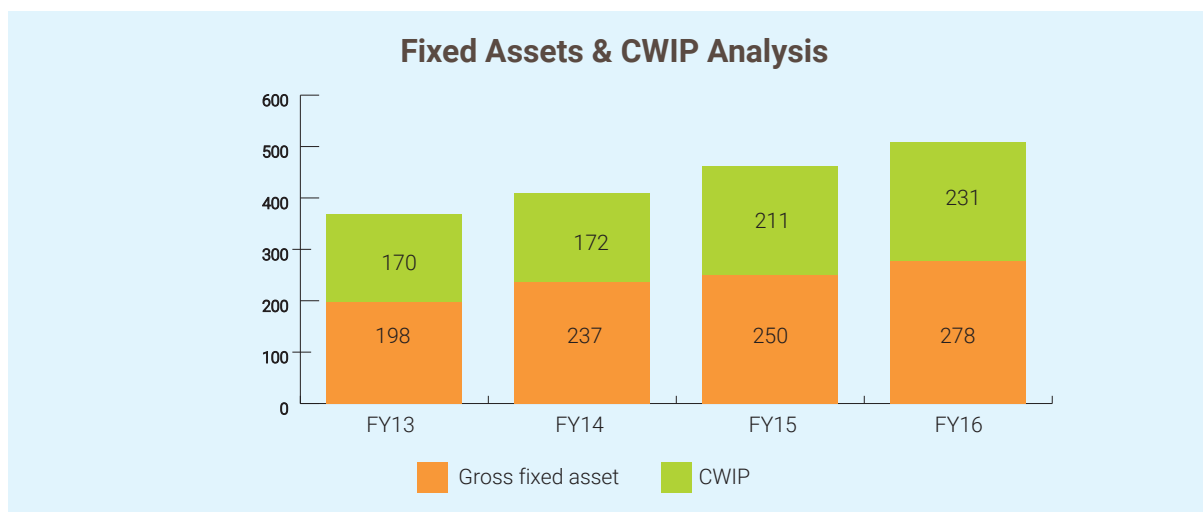
(INR bn)

Particulars	Receivables (A)				Income for the year (B)				% [(A)/(B)*100]			
	FY13	FY14	FY15	FY16	FY13	FY14	FY15	FY16	FY13	FY14	FY15	FY16
Receivables-Property Taxes	15.1	19.8	21.9	23.6	8.5	9.7	11.6	13.9	177.0	203.4	188.5	170.1
Receivables-Street Tax	7.8	10.3	11.9	12.7	4.9	5.2	6.2	7.5	160.4	198.1	190.8	168.5
Receivables-Water & Sewerage Taxes	25.8	25.8	25.8	25.8	13.9	15.6	20.9	27.2	185.3	165.2	123.0	94.6
Receivables-Education Taxes	8.6	10.8	12.1	12.8	3.9	4.2	5.0	5.9	219.5	258.8	244.0	216.0
Receivables-Water & Sewerage Charges	12.8	14.7	15.0	17.3	12.8	14.6	15.0	17.6	100.0	100.3	100.1	97.9
Interest accrued on Fixed deposits	18.1	19.5	19.2	19.8	13.9	12.5	13.8	16.8	130.0	156.6	139.6	117.6
Receivables- State Education Cess	-	4.7	9.4	13.8	NA	NA	NA	NA	NA	NA	NA	NA
Grant from Govt. (Primary Education)	14.6	16.2	18.0	20.3	2.0	2.1	2.2	2.8	741.8	775.3	808.5	718.4
Others	15.5	18.3	18.7	16.9	NA	NA	NA	NA	NA	NA	NA	NA
Gross Receivables	118	140.1	151.9	163.0	NA	NA	NA	NA	NA	NA	NA	NA
Provision for bad debts	46.7	47.2	50.3	51.2	NA	NA	NA	NA	NA	NA	NA	NA
Net Receivables	71.6	92.9	101.7	111.8	NA	NA	NA	NA	NA	NA	NA	NA

The corporation has outstanding receivables of ~INR 112 bn, a significant portion of which is outstanding for more than 365 days. MCGM should strive to enhance its collection efficiency and improve cash flows so that there are no impediments to financing large infra projects.

Further, ageing profile of receivables should also be disclosed, as done by corporates.

Recent news articles indicate that demonetisation augurs well for MCGM as its collections have improved significantly



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CWIP Analysis as on March 2015

Particulars					(INR bn)
	<6 months	6<12 months	12<36 months	>36 months	Amount
CWIP	38.9	0.0	3.0	109.5	151.4
CWIP - Old	-	-	-	55.4	55.4
CWIP - Maintenance	0.1	-0.0	-1.5	4.9	3.4
CWIP miscellaneous	0.1	-0.0	0.0	0.7	0.8
Total	39.0	-0.0	1.5	170.4	210.9

CWIP includes "Capital Work in Progress - old" of INR 55.4 bn. This amount has remained stagnant for the past 5 years and has not been transferred to fixed assets.

Investment Analysis

Particulars					(INR bn)
	FY13	FY14	FY15	FY16	
General Fund - Fixed Deposits	106.6	103.4	144.1	190.4	
Infrastructure Fund-Fixed Deposit	12.6	34.3	58.1	82.7	
Asset Replacement Fund @	53.3	68.3	61.2	63.2	
Pension Fund	37.9	44.2	51.0	58.0	
Provident Fund	37.8	40.7	43.5	46.5	
Development Fund DCR 64(b) @	4.9	10.0	16.6	23.9	
Asset Replacement & Rehabilitation Fund @	12.8	12.2	14.9	16.8	
Depreciation Fund @	8.9	11.3	13.8	16.5	
Land Acquisition & Development Fund @	9.3	10.2	9.6	10.4	
DCP-Sch-Fixed Deposit	2.1	3.3	5.1	7.5	
Other Investments @	13.6	16.7	15.6	16.4	
Total	299.7	354.4	433.5	532.4	



Slow progress in various projects as reflected in high CWIP outstanding

Investments in fixed deposits jumped from INR 121 bn in FY13 to INR 281 bn (~26% of total assets) in FY16. Further, details of underlying investments of earmarked funds (corpus of ~INR 147 bn as at FY16) such as asset replacement, depreciation fund and development fund are not available.

It seems that balance of ~INR 147 bn in these earmarked funds (excluding provident/pension funds) has been invested in bank deposits/securities.

Municipal Bonds

MCGM can raise additional resources by way of issue of municipal bonds to meet the city's development needs. These bonds will be secured by a charge on assets of the municipality having sufficient value to repay outstanding amounts. SEBI guidelines permit municipalities to issue bonds up to a tenure of 30 years. Further, guideline also require maintenance of 100% asset cover sufficient to meet principal amount at all times.

The corporation has total asset base of ~INR 1.1 tn. After considering appropriate haircuts, MCGM is eligible (as per SEBI guidelines) to borrow below mentioned amount by way of municipal bonds.

MCGM's municipal bonds issuance capacity

Hair cut (%)	Amount
10%	986
30%	767
50%	548
70%	329

(INR bn)



MCGM's balance sheet has the strength to raise funds worth INR 767 bn (assuming ~30% hair cut) via municipal bonds





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