18. FINANCIAL PROFILE

Municipal Corporation of Greater Mumbai (MCGM), a municipal corporation, governed under The Mumbai Municipal Corporation (MMC) Act, 1888 is responsible for provision of basic services to the residents of Greater Mumbai. In doing so, it is of utmost importance that the financial implications of the projects identified for development and implementation are taken into account. The act provides for a 'Municipal Fund' to be kept with the corporation for receiving all proceeds/rents/moneys/interests and profit arising from any investment or transaction in connection with any money belonging to the corporation. Besides, the state government may, under appropriation, make a grant to the corporation as regards the proceeds of the entertainment duty levied and collected by it under the relevant acts

18.1. Introduction to Municipal Fund

Municipal Corporation of Greater Mumbai follows a cash-based system of accounting, across various heads (except in case of Budget G). Planning & management of separate responsibilities are governed by separate budgets as provided for, in the MMC Act, 1888. These heads constituting separate budgets are the following:

a. Budget A – General budget comprising all incomes and expenses pertaining primarily to General Tax, Octroi, Wheel tax, Fire tax, License tax, Market Fees, Secondary education, Deonar Abattoir and Entertainment tax

b. Budget B – comprising all incomes and expenses pertaining primarily to improvement schemes of trust properties taken over by the corporation in 1933

c. Budget C – comprising all incomes and expenses pertaining primarily as regards to B.E.S.T undertaking

d. Budget E – comprising all incomes and expenses pertaining primarily to primary education such as education cess and receipt on account of government grant

e. Budget G – comprising all incomes and expenses pertaining primarily on account of Water and Sewerage projects being undertaken by the corporation

f. Tree Authority Budget –pertains primarily for preservation, plantation and maintenance of trees in Greater Mumbai area

The Municipal Corporation maintains the budget heads A, B and E on cash basis. Presently, the accounts for Budget G are available on an accrual basis. The same is being maintained by BMC since 1974

It is intended that the accounts for Budget A, B and E would move to an accrual basis soon. BMC has appointed the agencies for assisting the corporation in maintaining its accounts in a double-entry system of book keeping

Budget C is primarily for B.E.S.T undertaking, an autonomous organization with independent management responsible for maintaining its accounts in a sustainable manner

Tree Authority Budget is primarily being funded from contributions by Budget A, B, E, G and C

18.2. Review of Budgets

The review of the budget accounts is based on the actual receipts and expenditures of the Corporation for the period 2001-02 to 2004-05 as provided in the Budget Estimates of BMC. The budget estimate books comprise of the actual revenues and expenditures as regards revenue and capital account of the preceding year, the revised estimates of the current financial year and the budget estimates of the next financial year. A review of the budgets A, B, E and G has been undertaken for the limited purpose of understanding the extent/implications of undertaking major capital intensive infrastructure projects, that have been identified and their impact on the Debt Servicing Capability of the corporation. Moreover, an assessment of this nature will facilitate in assessing broadly the corporations appetite for raising debt on an as-is basis

18.2.1 Budget A B and E: Revenue Receipts

The primary sources of revenue receipts for the corporation on this account is due to levy of Octroi and Property taxes. Octroi is a sort of an entry tax levied by the Municipal Corporation on all goods and commodities imported into its territorial jurisdiction. Maharashtra is among the few states in the country that permits the levy of Octroi by Urban Local Bodies. All the Municipal Corporations in the state are permitted to levy Octroi, while it has been abolished in Municipal Councils. Octroi is the single largest source of income for MCGM, accounting for 60 per cent of the revenue income. The Octroi receipts of the Corporation have grown from Rs 1530 crore in 2001-02 to Rs. 2432 crore in 2004-05 at a CAGR of about 12 per cent

MCGM levies a consolidated Property Tax upon all lands and buildings within the city, as per provisions under the MMC Act, 1881. This revenue head accounts for about 18 per cent of the total revenue income of MCGM

The consolidated Property Tax components are levied as a percentage of the Ratable Value (RV) of the property. The RV is deemed to be the gross annual rent that the property might at the time of assessment, reasonably be expected to be let from year to year, less an allowance of 10 per cent of the said annual rent for the cost of repairs and for all other expenses necessary to maintain the property in a state to command

The following comprises of broad categories constituting the Budget A, B, E and G:

Octroi	60%
Property Tax	19%
Shops and Establishments	4%
Receipts from Development Department	7%
Receipt from GoM (Education/Entertainment)	4%

18.2.2 Budget A B and E: Revenue Expenditure

The revenue expenditure of MCGM comprises expenditures pertaining to:

a. *Establishment* - salaries and pensions (accounting for about 55 per cent of the total revenue expenditure)

b. *Operation and Maintenance* of civic services and contingencies on other operations, including power and fuel charges, stationery, spare parts for plant equipment and machinery, bulk water charges, etc. (accounting for about 9 per cent of the total revenue expenditure)

c. *Debt Servicing* (about 11 per cent of the total revenue expenditure)

The total revenue expenditure of MCGM has grown from Rs. 2444 crore in 2001-02 to Rs. 4200 crore in 2004-05 – a CAGR of 15 per cent (higher than the CAGR in income – 11 per cent - for the corresponding period). The following table presents broad categories constituting the revenue expenditure:

Wages and Salaries	55%
Operations and Maintenance	9%
Debt Servicing	11%

Moreover, significant proportion of revenue expenditures (over 20 per cent) are entailed as contributions to pre- committed capital expenditures and the other development/contributory funds

18.2.3 Overall Status: Revenue Account

The overall position of the revenue account for Budget head A, B and E is assessed based on the operating surplus attained by the corporation. As evident, the surplus of receipts over expenditures of MCGM on account of these budget heads is just about sufficient to cater to capital works and contribution to various funds. On cash basis, it can be seen that the fund has a surplus of approx Rs. 1000 crore in 2004-05. MCGM has managed to maintain an average account surplus of over Rs. 650 crore during the last four years. However, one must reflect on the significantly higher CAGR for revenue expenditure as compared to revenue receipts. There is a need for undertaking reforms that will bring about buoyancy in the revenue receipts of the corporation and provide for significant operating surpluses to cater to significant investments as envisioned by the corporation. MCGM is continuing its drive towards revenue enhancement, especially through privatization of Octroi collection, reforming Property Tax demand assessment and revising water tariffs, all of which are reform measures that could see MCGM's revenues maintain a sustainable growth.

18.2.3 Budget A B and E: Capital Account

The capital income comprises primarily of loans raised by MCGM for capital works from time-to time. During the period of review – 2001-02 to 2004-05 – MCGM has utilized the capital receipts including transfers from revenue account in undertaking implementation works on schemes such as traffic operations, roads and bridges, storm water drains, solid waste management, health and medical services, slum improvement and primary education

18.2.4 Budget G: Revenue Account

Budget G of the BMC comprises water tax, water benefit tax, sewerage tax, sewerage benefit tax, water charges and sewerage charges. Water charges and sewerage charges are the predominant components of the revenue account, followed by the benefit taxes. The water tax and the sewerage tax have witnessed decline in CAGR on account of metered connections taken by residents. In case the connections were not metered, the receipts in this budget head would be on account of water and sewerage charges. The benefit taxes would however continue to witness growth in so far as the contribution to the revenue account is concerned

The following table reflects on the share of various components:

Water Charges	31%
Sewerage Charges	18%
Water Benefit Tax	16%
Sewerage Benefit Tax	9%
Sewerage Tax	7%
Water Tax	5%

18.2.5 Budget G: Capital Account

The receipts in Budget G are primarily utilized for meeting routine establishment and O&M commitments, while the surpluses are applied towards capital expenditures on account of projects such as IIIA Stage II, MSDP Stage II and Old Tunneling work. Of these projects, IIIA Stage II is nearing completion and Middle Vaitarna project has commenced recently.

18.2.6 Budget G: Operating Status

The operating status of Budget G is comfortable on account of buoyancy in revenue receipts – the operating surplus in 2004-05 was about Rs. 596 crore. It can be seen that approx Rs 850 crore of cash surplus is available with the corporation on account of this budget. This reserve will be utilized on account of providing the MCGM contribution in implementation of projects and will be leveraged in mobilizing debt for the proposed projects.