

Chapter 9

Financial Operating Plan

9.1 STRATEGY

The City Investment Plan is the multi- year scheduling of investments and public improvements. The scheduling or phasing of the plan is based on studies of the fiscal resources availability (for new investment and O&M), technical capacity for construction and O&M and the choice of specific improvements to be constructed for a period of seven years into the future.

In determining a long-term financial strategy, Government of Sikkim plans to raise resources through:

- Accessing the grants available under the JNNURM Framework (as % of identified investment in Urban Governance and infrastructure sectors- 90% Central Government Grants and 10% State Govt. Shares);
- Revision of water charges and imposition of sewerage charges at specific intervals and transfer of water and sewerage tax to the respective account heads;
- Maintaining the collection performance of taxes and charges at certain minimum levels for current and for arrears.
- Levying user charges on the facilities created.
- From the various remunerative projects identified in this document mainly through PPP module.
- Underlying the major assumptions, basic assumptions for growth in property tax assessment, growth in other taxes and miscellaneous income, as well as changes in the main expenditure heads have been made, including general administration, establishment, O&M, etc.
- The phasing/ scheduling of investments have been carried out through an interactive process and the principles of phasing have been taken into account.

9.1.1 Principles of Phasing

- Priority needs, with developed areas receiving priority over future development area;
- “Inter and intra-service linkages- investment” in one sector shall be complemented by corresponding improvements in other sectors;
- Size and duration of the requirements, including preparation and implementation period;

9.2 FINANCIAL OPERATING PLAN

The Financial Operating Plan (FOP) is essentially a multi year forecast of the Urban Local Body (the proposed municipal corporation as per the draft bill) in the area for medium term of 5 to 10 years. In order to assess the sustainability of the project and quantify the impact of the reform process, an attempt has been made to develop a Financial Plan based on the information available, analysis of the trend and the commitments received from the State Government. The Financial Plan charts out the revenue income and expenditure so as to ensure that the cash flows are sustainable.

FOP needs mention that the identified investment is phased from 2005-06 to 2012-13 and it has also been generated for the same plan period. The FOP is basically generated to assess the investment sustaining capacity of the corporation adopting a project funding structure comprising, 30% in the form of internal generation (in case of surplus revenue account) and the rest by way of grant. The major criterion for ascertaining the investment sustaining capacity of Govt. of Sikkim is that, they should have year-to year positive Opening Balance during the plan period.

The financial data for the Financial Years 2001-02 to 2005-06 procured from Urban Development and Housing Department, Govt. of Sikkim has been used as the base to prepare the FOP. A spreadsheet FOP model has been customized so as to work out the ultimate investment sustaining capacity of the corporation/department, based on the FOP assumptions.

As mentioned in financial section, the Govt. of Sikkim maintains its account on an accrual basis accounting system. The main item of income and expenditure have been classified into two accounts for assessing the financial position of UD&HD namely revenue account and capital account. The same has been adopted for the FOP and further revenue account receipts and expenditure were projected under following categories:

1. Revenue Account Receipts;
 - Taxes
 - Non Tax Sources, and

2. Revenue Account Expenditure
 - Establishment
 - Operation and Maintenance

9.2.1 Fund Requirements

The overall Fund Requirement is proposed, taking full efforts to expedite the project development. In line with JNNURM Guidelines for the North Eastern region, the Projects are proposed to be funded as per the following table:

Table 9.1: Project Funding Pattern

Mode of Financing	Source	Amount (Rs. In Lacs.)	% of Total Investment
Identified Investment		221700	100%
Grants	JNNURM	199530	90%
Loan/ ULBs	Open Market / FIS	22170	10%

9.2.2 Key Assumptions

- The projections have been based on the past trends and have been successfully escalated based on inflation and past trends.
- Property Tax has been proposed from the year 2008-09 i.e. after functionalisation of proposed Gangtok Municipal Corporation.
- Other taxes projected to be increased based on the present collection and past growth trends.
- The Corporation shall take strong measures for collection of the User Charges as described above and which shall be further spelt out in the Memorandum of Agreement proposed to be entered with the Government of India in due course. However complete cost recovery considering the present abysmal rate of recovery can be achieved only over a length of time and therefore there is a requirement of availability of funds in the interim period.
- An Operation and Maintenance Fund is thus proposed to be created for funding the deficit of O&M Recoveries so as to ensure that the assets created under the Mission is maintained and operated as per best practices. The Fund will be operational by 2010-11 when the projects shall be operational.

In order to leverage JNNURM Funding to attract Private Sector Resources and Efficiencies, projects for creation of LRTS, Monorail etc. shall be operated under PPP and shall bring in 100% O&M cost recovery.

On the basis of above assumptions, a detailed Financial Operating Plan has been prepared till the year 2012-13.

Table 9.2: Financial Operating Plan

(Rs. In Lacs)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue							
Tax from Water Supply, Sewerage and Solid waste Management	199.8	212.0	225.0	238.7	253.3	268.9	285.3
Non-Tax	137.1	185.7	251.5	340.7	461.6	625.2	846.9
Property Tax			221.1	227.0	233.0	237.2	241.5
Revenue from Parking Area in Market			337.8	354.7	372.4	391.0	410.6
Revenue form Parks			26.8	28.1	29.5	41.4	43.4
Commercial Tax			111.6	117.9	124.3	130.0	135.9
Total	336.8	397.7	1173.9	1307.1	1474.2	1693.7	1963.6
Expenditure							
Establishment (Wages and Salaries)	441.4	506.3	580.8	666.3	764.3	876.8	1005.8
O&M Expenses	230.6	249.6	270.1	292.3	316.4	342.4	370.6
Total	672.0	755.9	850.9	958.6	1080.7	1219.2	1376.4
Surplus / Deficit	-335.1	-358.2	322.9	348.5	393.4	474.5	587.2