

CHAPTER – I

FINANCES OF THE STATE GOVERNMENT

Profile of Sikkim

Sikkim is a small sparsely populated State situated in the Eastern Himalayas. It became a part of the Indian Union on 26 April 1975. It has a total area of 7,096 Sq Km which constitutes 0.22 per cent of the total geographical area of India. Sikkim being landlocked, National Highway 31 A is the only lifeline which connects the State with the rest of the country. Sikkim, categorised as a special category State¹, has four districts and nine subdivisions and has also been included in the North Eastern Council since December 2002.

According to the Census of India 2011, the population of Sikkim stood at 6.07 lakh and the percentage of rural population of the State (75 per cent) was more than the All India rural population (72 per cent). The literacy rate of Sikkim was 82.20 per cent as against the All India Literacy rate of 74.04 per cent. Similarly, the infant mortality rate at 33 per 1,000 live births was better than the All India Average of 53 per 1,000 births as per the Sample Registration system of the Registrar General and Census Commissioner of India in 2008 (Appendix-1.1-Part D).

The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The new format of Finance Accounts introduced from the year 2009-10, has been divided into two Volumes- Volume I and II. Volume I represents the financial statements of the Government in a summarised form while Volume II represents detailed financial statements, the structure and layout of which are depicted in Appendix-1.1-Part B.

This chapter provides a broad perspective of the finances of the Government of Sikkim during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. **Appendix-1.1-Part C** of the chapter briefly outlines the methodology adopted for the assessment of the fiscal position of the State and **Appendix-1.2** presents the time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2006-11.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2010-11) vis-a-vis the previous year while **Appendix-1.3** provides details of receipts and disbursements as well as overall fiscal position during the year.

¹Special privileges given to Sikkim includes financial assistance from Government of India in the ratio of 90 per cent grant and 10 per cent loan unlike non-special category States which get Central Assistance in the ratio of 70 per cent grant and 30 per cent loan.

Table - 1.1: Summary of Current Year's Fiscal Operations

(₹ in crore)

Receipts			Disbursements				
2009-10		2010-11	2009-10		2010-11		
Section-A : Revenue					Non-Plan	Plan	Total
3,254.39	Revenue Receipts ²	3,047.31	2,738.04	Revenue Expenditure ³			2,907.53
223.65	Tax Revenue	279.54	1,566.63	General Services	1,559.97	20.58	1,580.55
1,356.44	Non-tax Revenue	1,137.76	691.28	Social Services	449.99	366.44	816.43
374.68	Share of Union Taxes/Duties	524.99	480.13	Economic Sservices	209.36	288.25	497.61
1,299.62	Grants from Govt. Of India	1,105.02		Grants-in aid and contribution	12.94	-	12.94
Section-B : Capital							
-	Misc. Capital Receipts	-	648.53	Capital Outlay	-	451.07	451.07
0.30	Recoveries of Loan	0.79	36.98	Loans & Advances disbursed			5.75
392.11	Public Debt receipts	95.03	86.29	Repayment of Public Debt			73.23
	Contingency Fund	-		Contingency Fund			0.10
2,967.71	Public Account receipts	2,915.63	2,784.90	Public Account disbursements			2,902.28
708.24	Opening Balance	1,028.01	1,028.01	Closing Cash Balance			746.81
7,322.75	Total	7,086.77	7,322.75	Total			7,086.77

Following are the significant changes during 2010-11 over the previous year:

- Revenue receipts decreased by ₹ 207.08 crore (6.36 per cent) over the previous year due to decrease in non-tax revenue (₹ 218.68 crore), grants from Government of India (₹ 194.60 crore). However there was an increase in tax revenue (₹ 55.89 crore) and State's share in Central taxes and duties (₹ 150.31 crore).
- Revenue expenditure increased by ₹ 169.49 crore (6.19 per cent) over the previous year due to increase in General services (₹ 13.92 crore), Social Services (₹ 125.15 crore), Economic Services (₹ 17.48 crore) and grants-in-aid by (₹ 12.94 crore).
- Capital expenditure decreased by ₹ 197.46 crore (30.45 per cent) over the previous year.
- Public debt receipts and its repayments decreased by ₹ 297.08 crore (75.76 per cent) and ₹ 13.06 crore (15.14 per cent) respectively over the previous year.
- Public Account receipts and disbursements decreased by ₹ 52.08 crore (1.75 per cent) and increased by ₹ 117.38 crore (4.21 per cent) respectively over the previous year.
- The total outflow of the Government (₹ 6,339.96 crore) was less than the total inflow

²Revenue receipts and Non-tax revenue are inclusive of gross receipt (₹ 938.15) from State Lotteries.

³Revenue expenditure and General Services (Non-Plan) are inclusive of expenditure (₹ 895.61 crore) on State Lotteries.

(₹ 6,058.76 crore) resulting in decrease of ₹ 281.20 crore in the cash balance of the State at the end of the year 2010-11.

1.2 Fiscal Responsibility and Budget Management Act and Thirteenth Finance Commission Recommendations

With the enactment of a Fiscal Responsibility and Budget Management Act (FRBM Act) in 2003 at the Centre, the Twelfth Finance Commission (TFC) recommended that each State must enact a fiscal responsibility legislation prescribing specific annual targets with a view to eliminate the revenue deficit by 2009-10 and reducing fiscal deficit based on a path for reduction of borrowings and guarantees. Enacting the fiscal responsibility legislation was a necessary pre-condition for availing of debt relief but the State Government had not enacted the legislation till March 2010. Hence, Sikkim had not been given any benefit of debt waiver under Debt Consolidation and Relief Facility (DCRF) for the period 2006-10. The Government of Sikkim enacted the FRBM Act only in September 2010 but the Rules under the Act had been notified only in March 2011. Hence, they were not eligible for any debt waiver relief for the year 2010-11.

1.2.1 The Finance Commission recommendation

The Thirteenth Finance Commission had recommended growth of Tax and Non-Tax Revenue during 2010-11. The targets fixed by the XIII FC vis-a-vis the actuals are given below:

Table - 1.2: XIII FC recommendations vis-a-vis the actuals

(₹ in crore)

Year	TFC Recommendations			Actuals		
	Tax	Non-Tax	Total	Tax	Non-Tax	Total
2010-11	205.16	308.73	513.89	279.54	242.15	521.69

Source : XIII Finance Commission Report and Finance Accounts

The State exceeded the targets fixed by the XIII FC in collection of revenue from own sources under Tax Revenue. However, the Non-Tax Revenue was less than the projection of XIII FC by ₹ 66.58 (21.57 per cent).

The Thirteenth Finance Commissions had also fixed the sector-wise target for non-plan revenue expenditure for the period 2010-11. The targets fixed by XIII FC vis-a-vis the actuals are given below:

Table - 1.3: XIII FC recommendation vis-a-vis the actuals of Non-Plan Revenue Expenditure during 2010-11

(₹ in crore)

Sectors	XIII FC	Actuals
Salary	566.28	629.63
Interest Payments	141.80	186.77
Pension	78.15	160.14
Other General Services	64.20	97.83
Social Services	53.27	206.64
Economic Services	32.54	55.64
Total	936.24	1,336.65

*Grants-in-Aid have been included in Other General Services.
Source : XII Finance Commission Report and Finance Accounts.

The table indicates that the State failed to contain its non-plan revenue expenditure to the level recommended by the XIII FC. During 2010-11 Non-plan revenue expenditure was 42.77 per cent (₹ 400.41 crore) more than the XIII FC recommendation.

1.2.2 Budget Analysis

The budget papers presented by the State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Several reasons may account for deviations from budget estimates. It may be because of unanticipated and unforeseen events or under or over estimation of expenditure or revenue at the budget stage, etc. Actual realisation of revenue and its disbursement however, depends on a variety of factors, some internal and others external. **Table 1.4** presents the consolidated picture of State Finances during 2009-10 (Actuals), 2010-11-budget estimates (BE), 2010-11 revised estimates (RE) and 2010-11 (Actuals).

Table - 1.4: Variation in Major items – 2010-11 (Actuals) over 2010-11 (Budget Estimates & Revised Estimates) and 2009-10 (Actuals)

(₹ in crore)

Parameters	2009-10	2010-11		
	Actual	Budget Estimates	Revised Estimates	Actuals
Tax Revenue	223.65	211.26	233.29	279.54
Non-Tax Revenue	447.42	362.31	251.52	242.15
Revenue Receipts	2,345.37	2,671.30	2,666.14	2,151.70
Non-debt Capital Receipts	0.30	0.83	0.80	0.79
Revenue Expenditure	1,829.02	2,139.22	2,205.09	2,011.92
Interest Payments	154.43	195.50	195.50	186.77
Capital Expenditure	648.53	889.38	958.39	451.07
Disbursement of Loans & Advances	36.98	4.05	6.05	5.75
Revenue Deficit/Surplus	516.35	532.09	461.05	139.78
Fiscal Deficit/Surplus	(-)168.86	(-)360.51	(-)502.59	(-)316.25
Primary Deficit/Surplus	(-)14.43	(-)165.02	307.09	(-)129.48

The Tax Revenue exceeded the budget provision by 32.32 per cent. However, Non-tax Revenue was less than the budget provisions by 33.16 per cent. Revenue receipts was lower

than the budget provision by 19.45 *per cent* and Revenue expenditure was also lower than the budget provision by 5.95 *per cent*. As a result, Revenue Surplus was 73.73 *per cent* lower than the projection in the budget estimate. Capital Expenditure was also less than the budget estimate and revised estimate by 49.28 *per cent* and 52.93 *per cent* respectively.

Sikkim's own tax revenue increased by 24.99 *per cent* from ₹ 223.65 crore in 2009-10 to ₹ 279.54 crore in 2010-11. The revenue from sales tax not only contributed to the major share of tax revenue (51.06 *per cent*), but also increased by 17.90 *per cent* (₹ 21.67 crore) over the previous year. The increase in sales tax revenue over the previous year was mainly due to increase in Value Added Tax (₹ 22.03 crore) and Central Sales Tax (₹ 0.85 crore) which was offset by decrease in State Sales Tax (₹ 1.21 crore). State Excise duty increased (₹ 13.37 crore) by 23.35 *per cent*, other taxes increased (₹ 10.12 crore) by 36.93 *per cent* and taxes on income other than Corporation tax increased (₹ 2.10 crore) by 73.94 *per cent*.

The **non-tax revenue**, which constituted 11.25 *per cent* of total revenue receipts, has decreased by ₹ 205.27 crore from ₹ 447.42 crore in 2009-10 to ₹ 242.15 crore in 2010-11 recording a decrease rate of 45.88 *per cent* over the previous year. The decrease was mainly resulted from less receipts from power (₹ 197.97 crore), interests receipts (₹ 16.04 crore) and from Police (₹ 4.95 crore).

The **State's share in Union taxes and duties** stood at ₹ 524.99 crore, an increase of ₹ 150.31 crore over the previous year mainly due to increase in the State's share in corporation tax (₹ 50.98 crore); income tax (₹ 22.54 crore); wealth tax (₹ 0.07 crore); service tax (₹ 12.83 crore), Customs (₹ 39.35 crore) and Union Excise Duties (₹ 24.54 crore). With effect from 2007-08, the State was given its share of income tax in pursuance of the amendment to the Income Tax Act, 1961.

Grants-in-aid from Centre to the State, a discretionary component of central transfers, is considered an integral element of the revenue receipts of the State which has an impact on the consolidated revenue deficit of the State. The grants-in-aid decreased by 194.60 crore (14.97 *per cent*) from 1,299.62 crore in 2009-10 to 1,105.02 crore in 2010-11 mainly due to decrease in grants for State plan schemes (₹ 226.30 crore), Centrally Sponsored Schemes (₹ 41.06 crore), Special Plan Schemes (NEC) (₹ 20.43 crore). This was counterbalanced by increase in Non-Plan grants (₹ 92.53 crore) and Central Plan Schemes (₹ 0.67 crore). The Block Grants were reduced in components which include Nutrition Programme for Adolescent Girls (₹ 12.03 crore), Jawaharlal Nehru National Urban Renewal Mission (₹ 23.76 crore), Backward Region Grant Fund (₹ 2.23 crore), National E-Governance (₹ 2.85 crore), Rashtriya Krishi Vikas Yojana, (₹ 8.83 crore), Additional Central Assistance for long term Reconstruction of Assets damaged during 2005-06 (₹ 37.62 crore) and One Time Additional Central Assistance, (₹ 75.65 crore).

Revenue expenditure increased by ₹ 182.90 crore (9.99 *per cent*) over the previous year due to increase in General services (₹ 27.32 crore), Social services (₹ 125.15 crore) and Economic services (₹ 17.48 crore).

Capital expenditure assumes importance as it has a lasting impact on growth as compared to revenue expenditure. If spent efficiently, it also ensures a more productive economy and enhances the government's net worth arising from augmented revenues. During 2010-11 the capital expenditure of the State was ₹ 451.07 crore out of which ₹ 270.89 crore were blocked in 58 incomplete works which were due to be completed by 31 March 2011. The decrease of ₹ 197.46 crore in capital outlay in 2010-11 was due to decrease on General Services (₹ 32.20 crore), major components of which were Public Works and Police Housing, on Social Services (₹ 54.79 crore) which was mainly due to decrease in Water Supply & Sanitation and on Economic Services (₹ 110.47 crore), mainly on account of Power Projects.

Actual **fiscal deficit** fell short of the assessment made in the budget estimate by 12.28 per cent (₹ 44.26 crore) and revised estimate by 37.08 per cent (₹ 186.34 crore) mainly due to decrease in capital expenditure.

1.3 Resources of the State

1.3.1 Resources of the State as per Annual Finance Accounts

Revenue receipts and capital receipts are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account.

While **Table 1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts, **Chart 1.1** depicts the trends in various components of the receipts of the State during 2006-11 and **Chart 1.2** depicts the composition of resources of the State during the current year.

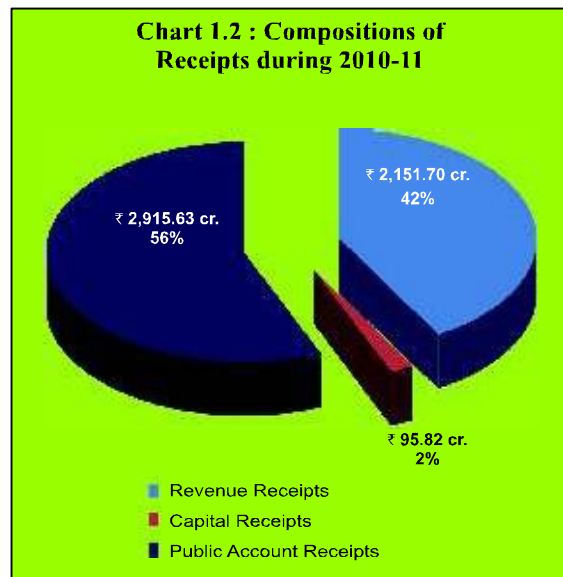
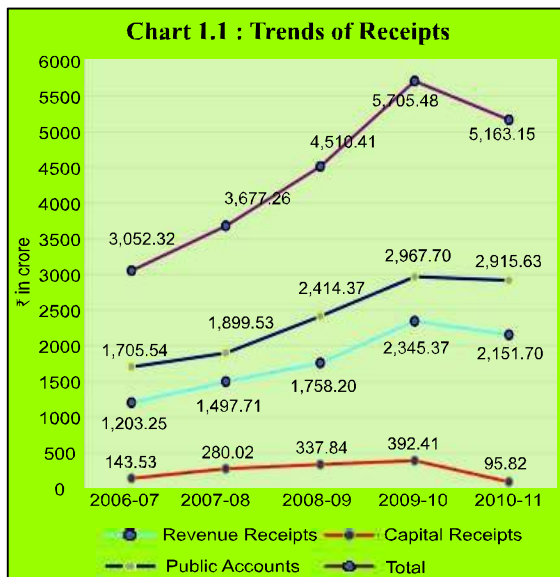


Table - 1.5: Trends in growth and composition of receipts.

(₹ in crore)

	Sources of State Receipts	2006-07	2007-08	2008-09	2009-10	2010-11
I	Revenue Receipts	1,203.25	1,497.71	1,758.20	2,345.37	2,151.70
II	Capital Receipts (CR)	143.53	280.02	337.84	392.41	95.82
	Miscellaneous Capital Receipts	-	-	-	-	-
	Recovery of Loans and Advances	0.78	0.38	0.38	0.30	0.79
	Public Debt Receipts	142.74	279.64	337.46	392.11	95.03
	Rate of growth of non-debt capital receipts	457.14	(-)51.28	0.00	(-)21.05	163.33
	Rate of growth of debt capital receipts	(-)1.60	95.91	20.68	16.19	(-)75.76
	Rate of growth of GSDP ⁴	8.44	15.95	28.85	46.79	19.23
	Rate of growth of CR (<i>per cent</i>)	(-)1.15	95.10	20.65	16.15	(-) 75.58
	Debt Capital buoyancy	(-)0.19	6.02	0.72	0.35	(-)3.94
	Non Debt Capital buoyancy	54.17	(-) 3.22	0.00	(-) 0.45	8.49
III	Contingency Fund	-	-	-	-	-
IV	Public Account Receipts	1,705.54	1,899.53	2,414.37	2,967.70	2,915.63
	a. Small Savings, Provident Fund, etc.	80.02	84.23	97.39	107.84	162.67
	b. Reserve Fund	24.51	64.11	56.10	44.99	59.56
	c. Deposits and Advances	24.70	26.88	46.84	45.04	51.43
	d. Suspense and Miscellaneous	1,119.86	1,191.74	1,385.07	1,925.55	1,966.87
	e. Remittances	456.45	532.57	828.97	844.29	675.10
	Total Receipts	3,052.32	3,677.26	4,510.41	5,705.48	5,163.15

The total receipts of the State during 2009-10 was ₹ 5,705.48 crore which decreased to ₹ 5,163.15 crore in 2010-11 (9.51 *per cent*). This was due to less receipt of non-tax revenue and Grants-in-Aid from GOI. The revenue receipts were ₹ 2,151.70 crore, constituting 41.67 *per cent* of the total receipts. The balance came from capital receipts (1.86 *per cent*) and receipts from Public Account (56.47 *per cent*). The capital receipts decreased by 75.58 *per cent* as compared to 2009-10, mainly due to decrease in internal debt (75.77 *per cent*) whereas the Public Account receipts decreased by 1.75 *per cent*. Public debt receipts which create future repayment obligation were 99.18 *per cent* of the total capital receipts.

The rate of growth of debt capital receipts decreased from 16.19 *per cent* in 2009-10 to (-) 75.76 *per cent* in 2010-11 and the ratio of growth of non-debt capital receipts increased from (-) 21.05 *per cent* in 2009-10 to 163.33 *per cent* in 2010-11.

The rate of growth of debt capital receipts decreased from (-) 1.60 *per cent* in 2006-07 to (-) 75.76 *per cent* in 2010-11 while the rate of growth of GSDP increased from 8.44 *per cent* in 2006-07 to 19.23 *per cent* in 2010-11 resulting in decrease in the rate of growth of debt capital buoyancy from (-) 0.19 in 2006-07 to (-) 3.94 in 2010-11.

The rate of growth of non-debt capital receipts decreased from 457.14 *per cent* in 2006-07 to 163.33 *per cent* in 2010-11 resulting in decrease in the rate of growth of non-debt capital buoyancy from 54.17 in 2006-07 to 8.49 in 2010-11.

⁴The GSDP for the year 2010-11 for the State of Sikkim was ₹ 5,652.01 crore

1.3.2 Funds transferred to State Implementing Agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies⁵ for the implementation of various schemes/ programmes in social and economic sectors recognised as critical. As these funds are not routed through the State Budget/State Treasury System, State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated to that extent. To present a holistic picture on availability of aggregate resources, funds directly transferred to State Implementing Agencies (SIAs) are presented in **Appendix-1.4**. Significant amounts released for major programmes/schemes are detailed in **Table 1.6**.

Table - 1.6: Funds transferred directly to State Implementing Agencies

(₹ in crore)

Sl. No.	Name of the Agency/ Organisation	Name of the Scheme	Total Funds released by GOI during 2010-11	Funds received by SIAs during 2010-11	Closing balance as on 31 March 2011
1.	Sarva Shiksha State Mission Authority (Human Resource Dev. Department)	Sarva Siksha Abhiyan	44.69	44.69	2.76
2.	Rural Management and Development Department	MNREGA	44.49	44.49	24.48
3.	Sikkim Rural Roads Development Agency	PMGSY Programme	79.38	79.38	0.43
4.	Rural Management and Development Department	National Rural Drinking Water Programmeme	23.20	23.20	10.78
5.	State Health Society (Health Care, Human Services & Family Welfare Department)	NRHM	21.27	21.26	13.33
6.	Public Health Engineering Department	National River Conservation Plan	26.14	37.28	3.95
		Total	239.17	250.30	55.73

Source: 'Central Plan Scheme Monitoring System' portal in Controller General of Accounts' website and information from State Government departments.

The GOI directly transferred ₹ 335.07 crore to State Implementing Agencies during 2010-11.

Table 1.6 shows that an amount of ₹ 239.17 crore i.e. 71.38 per cent of the total funds were released for (i) Pradhan Mantri Gram Sadak Yojana (23.69 per cent) (ii) Mahatma Gandhi National Rural Employment Guarantee Programme (13.28 per cent), (iii) Sarva Shiksha Abhiyan (13.34 per cent) (iv) National Rural Health Mission (6.35 per cent), (v) National Rural Drinking Water Programme (6.92 per cent) and (v) National River Conservation Plan (7.80 per cent) during 2010-11 out of which ₹ 55.73 crore remained unutilised in these six programmes. With the transfer of an approximate amount of ₹ 335.07 crore directly by GOI to

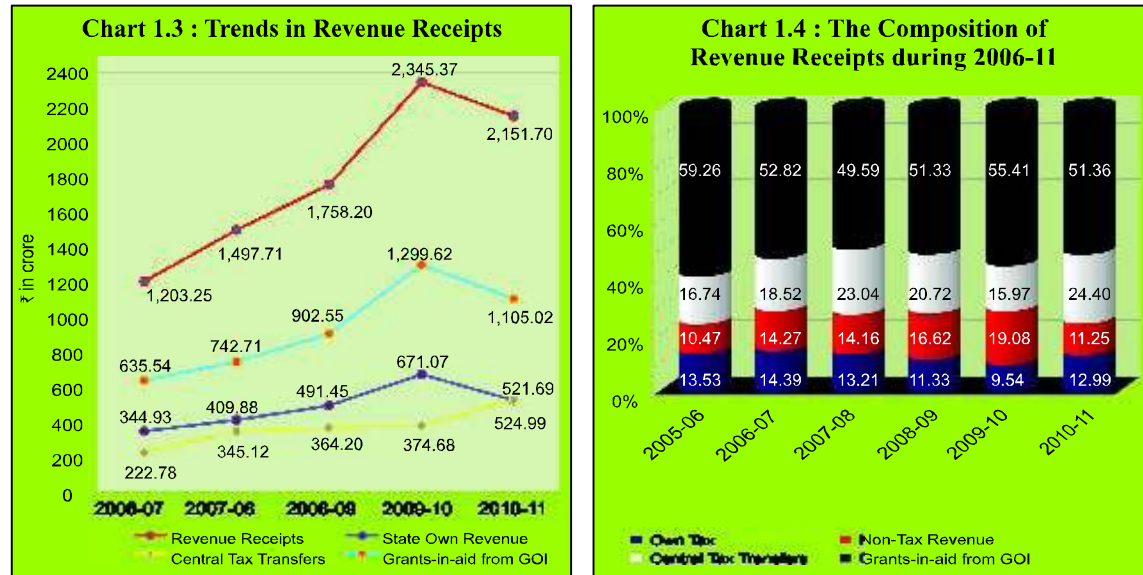
⁵State Implementing Agencies include Organisations/Institutions including Non-Governmental Organisation which are authorised by the State Government to receive the funds from the Government of India for implementing specific programmes in the State, e.g. State Health Mission for NRHM

the State Implementing Agencies, the total availability of State resources during 2010-11 had increased from ₹ 6,058.76 crore to ₹ 6,393.83 crore.

There was no single agency monitoring the funds directly transferred by the GOI and there was no readily available data on how much was actually spent in any particular year on major flagship schemes and other important schemes being implemented by the State Implementing Agencies and funded directly by the GOI.

1.4 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts during the period 2006-11 are presented in **Appendix- 1.2** and also depicted in **Charts 1.3** and **1.4** respectively.



1.4.1 General Trends

The revenue receipts had shown a progressive increase over the period 2006-07 to 2009-10. However during 2010-11, revenue receipts decreased by 8.26 per cent. Increase in revenue expenditure of ₹ 182.90 (10 per cent) and the decrease of ₹ 193.67 crore (8.26 per cent) in revenue receipts resulted in decrease in revenue surplus by ₹ 376.57 crore.

- The decline in non-tax revenue by 45.88 per cent and Grants-in-Aid from GOI by 14.97 per cent as compared to previous year resulted in decrease of revenue receipts by 8.26 per cent.
- Tax revenue constituted 12.99 per cent of the total revenue receipts and increased by ₹ 55.89 crore (24.99 per cent) during 2010-11 over the previous year. The percentage of tax revenue to total revenue receipts ranged between 9.54 and 14.39 per cent during 2006-11.
- Non-tax revenue receipts constituted 11.25 per cent of the total revenue receipts and

decreased by ₹ 205.27 crore (45.88 *per cent*) over the previous year. Non-tax revenue as a percentage of revenue receipts ranged between 11.25 and 19.08 *per cent* during 2006-11.

The trends in revenue receipts relative to GSDP are presented in **Table 1.7**.

Table - 1.7: Trends in Revenue Receipts relative to GSDP

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Receipts (RR) (₹ in crore)	1,203.25	1,497.71	1,758.20	2,345.37	2,151.70
Rate of growth of Revenue Receipts (<i>per cent</i>)	10.57	24.47	17.39	33.40	(-) 8.26
Revenue Receipts / GSDP (<i>per cent</i>)	55.66	59.75	54.44	49.47	38.07
Rate of growth of Own taxes (<i>per cent</i>)	19.63	14.25	0.68	12.28	24.99
Buoyancy Ratios ⁶					
Revenue Buoyancy w.r.t. GSDP	1.25	1.53	0.60	0.71	(-) 0.43
State's Own Tax Buoyancy with respect to GSDP	1.55	1.12	0.05	0.91	1.55
Gross State Domestic Product (₹ in crore)	2,161.45	2,506.34	3,229.44	4,740.42(P)	5,652.01(Q)
Rate of growth of GSDP	8.44	15.95	28.85	46.79	19.23

(P) – Provisional Estimate; (Q) - Quick Estimate

The rate of growth of revenue receipts during 2010-11 had decreased by 8.26 *per cent* as compared to 2009-10. The decrease was mainly due to decline in non-tax revenue by 45.88 *per cent* and Grants-in-Aid from GOI by 14.97 *per cent* as compared to previous year. Revenue Buoyancy was more than one during the years 2006-07 and 2007-08 which gradually came down and was (-) 0.43 in 2010-11. State's Own Tax buoyancy increased from 0.91 in 2009-10 to 1.55 in 2010-11. Ideally growth rate of revenue should be higher than GSDP growth rate so that over a time, the budget can be better balanced. If the State's own taxes are buoyant, then the Government will be in a better position to plan expenditure and improve welfare of the people.

1.4.2 State's Own Resources

As the State's share in central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of central tax receipts and central assistance for plan schemes, etc., the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

The gross collection in respect of major taxes and duties as well as the components of non-tax receipts vis-à-vis budget estimates during the years from 2006-07 to 2010-11 are given in **Appendix -1.5** and **1.6**

The tax revenue of the State increased from ₹ 173.18 crore in 2006-07 to ₹ 279.54 crore in

⁶As detailed in Appendix 1.1 – Part-C

2010-11 at an average annual rate of 12.28 *per cent*. The non-tax revenue (NTR), which constituted 11.25 *per cent* of the total revenue receipts, decreased from ₹ 447.42 crore in 2009-10 to ₹ 242.15 crore 2010-11.

1.4.3 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the year 2008-09, 2009-10 and 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection for 2009-10 was as follows:

Table – 1.8: Cost of collection

(₹ in crore)

Sl. No	Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the year 2009-10
1.	Sales tax	2008-09	101.14	1.95	1.93	0.96
		2009-10	121.07	3.75	3.10	
		2010-11	142.74	3.28	2.30	
2.	State excise	2008-09	46.46	2.36	5.08	3.64
		2009-10	57.27	3.62	6.32	
		2010-11	70.64	3.93	5.56	
4.	Taxes on vehicles	2008-09	6.94	0.77	11.10	3.07
		2009-10	7.88	1.34	17.01	
		2010-11	10.66	1.13	10.60	

The percentage of expenditure on collection during 2010-11 as compared to the corresponding all India average percentage for 2009-10 was much higher in the cases of sales tax, state excise and taxes on vehicles which is indicative of the fact that the excess expenditure incurred on collection of revenue might impede the path of improvement towards achieving a healthy fiscal path in the State.

The position with regard to mobilisation of the State's own resources in 2010-11 vis-à-vis projections made by XIII FC and the State Government in its Budget is as under:

Table - 1.9: Mobilisation of own resources

(₹ in crore)

Year 2010-11	Assessment of XIII FC	Budget Estimate	Actual	Percentage Change over	
				XIII FC Projection	BE
Tax Revenue (own tax)	205.16	211.26	279.54	36.25	32.32
Non-tax Revenue	308.73	362.31	242.15	21.57	33.16

Source: Thirteenth Finance Commission Report and Finance Accounts

Table 1.9 shows that the tax revenue exceeded the normative projection of XIII FC and Budget Estimate of State Government whereas the Non-Tax Revenue was less than the XIII FC projection and Budget Estimate.

1.4.4 Cost recovery in supply of merit goods and services

The current levels of cost recovery (non-tax revenue receipts as a percentage of non- plan revenue expenditure) in supply of merit goods and services by Government were negligible, as depicted in **Table 1.10**.

Table 1.10: Cost recovery in supply of merit goods and services

(₹ in lakh)

	Non-tax Revenue receipts	Non-plan Revenue expenditure	Cost Recovery (per cent)
Elementary Education	51.88	15,462.60	0.34
Medical and Public Health	72.45	6,748.01	1.07
Water Supply & Sanitation	261.04	1,827.53	14.28
Roads & Bridges	Nil	3,411.11	Nil
Minor Irrigation	29.30	154.03	19.02

As can be seen from above table, the cost recovery for Roads and Bridges during 2010-11 was 'nil' and the cost recovery in respect of Elementary Education, Medical and Public Health, Water Supply & Sanitation and Minor Irrigation were 0.34, 1.07, 14.28 and 19.02 *per cent* respectively. While cost recovery from social services like education and health are expected to be lower than that of economic services, incremental increase in user charges will facilitate sustainable provision of these services over a period of time.

1.4.5 Revenue Arrears

The arrears of revenue as on 31 March 2011 in respect of some principal heads of revenue as furnished by the departments amounted to ₹ 158.02 crore of which ₹ 27.33 crore was outstanding for more than five years as mentioned in the following table:

Table - 1.11: Revenue Arrears

(₹ in crore)

Sl. No.	Head of revenue	Amount outstanding as on 31 March 2011	Amount outstanding for more than five years as on 31 March 2011
1	Road transport (SNT)	3.34	Nil
2	Water Supply	1.36	0.08
3	Power	117.55	25.17
4	Sewerage	0.14	0.01
5	Animal Husbandry, Livestock, Fishers and VS	0.57	0.57
6	Tourism	0.57	0.57
7	Lottery	27.27	Nil
8	Printing & Stationery	0.93	0.93
9	Food storage and warehousing	6.29	Nil
	Total	158.02	27.33

Source: Information from State Government departments

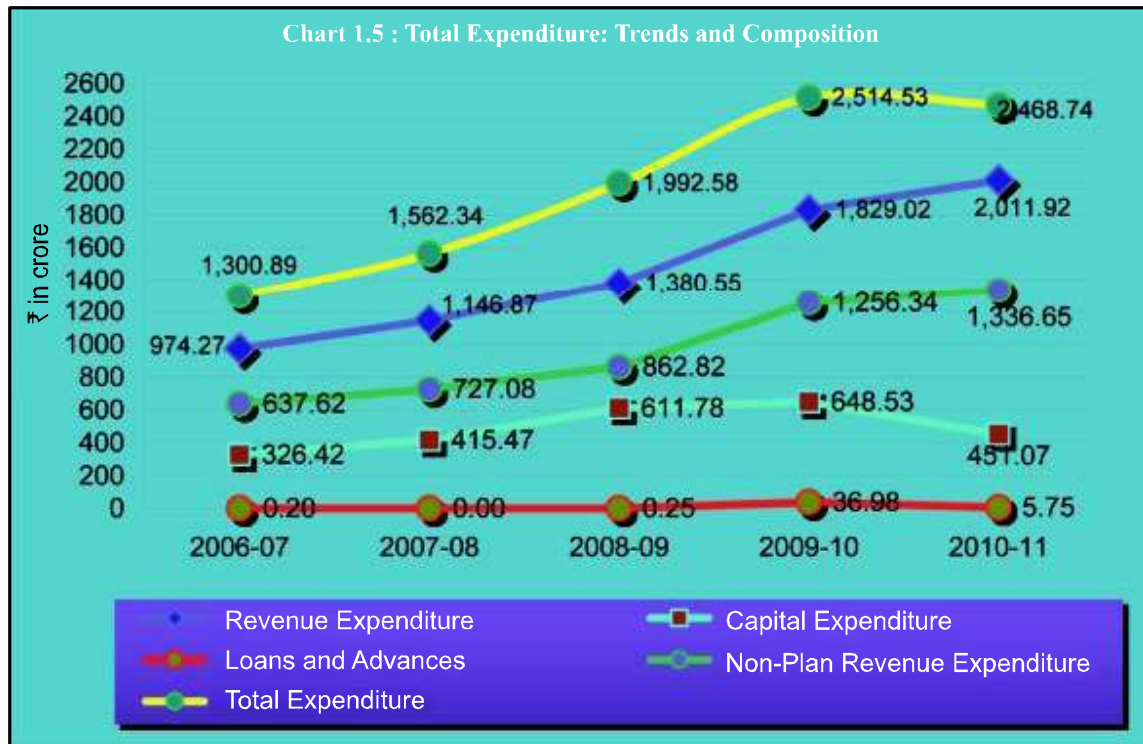
1.5 Application of Resources

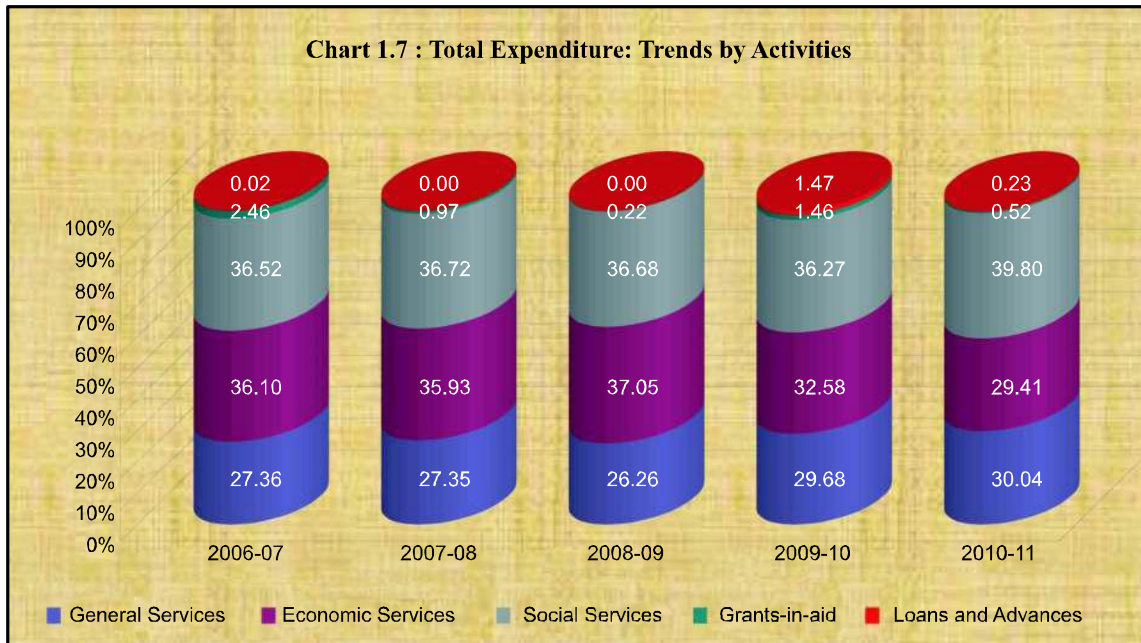
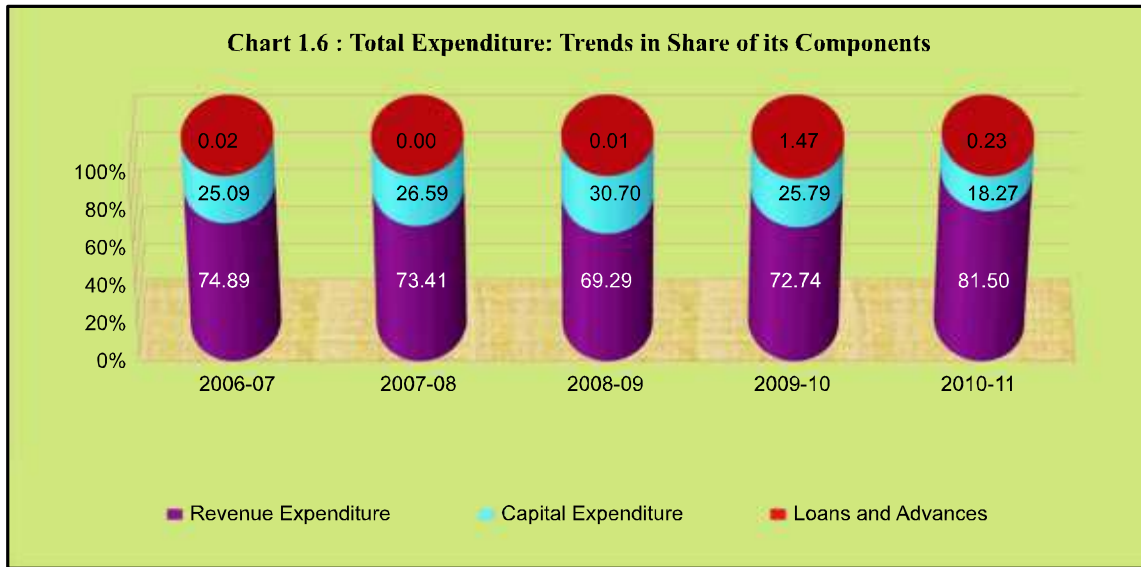
Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.5.1 Growth and Composition of Expenditure

Statement 12 of volume -2 of the Finance Accounts depicts the detailed revenue expenditure minor head-wise and capital expenditure major head-wise. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, extend the network of these services through capital expenditure and investment and discharge their debt service obligations.

Chart 1.5 presents the trends of total expenditure over a period of five years (2006-11) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.6 and 1.7**.





Total expenditure of ₹ 1,300.89 crore in 2006-07 increased to ₹ 2,468.74 crore in 2010-11. In absolute terms there was increase of ₹ 1,037.65 crore in revenue expenditure and 124.65 crore in capital outlay during 2010-11 as compared to 2006-07.

The total expenditure, its annual growth rate, the ratio of expenditure to the GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.12**.

Table - 1.12: Total expenditure – basic parameters

	2006-07	2007-08	2008-09	2009-10	2010-11
Total Expenditure (TE) (₹ in crore)	1,300.89	1,562.34	1,992.58	2,514.53	2,468.74
Rate of growth (<i>per cent</i>)	5.15	20.10	27.54	26.19	(-)1.82
TE/GSDP ratio (<i>per cent</i>)	60.19	62.34	61.70	53.04	43.68
RR/TE ratio (<i>per cent</i>)	92.49	95.86	88.23	93.27	87.16
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	0.61	1.26	0.95	0.56	0.09
RR (ratio)	0.49	0.82	1.58	0.78	0.22
Gross State Domestic Product (₹ in crore)	2,161.45	2,506.34	3,229.44	4,740.42	5,652.01
Rate of growth of GSDP	8.44	15.95	28.85	46.79	19.23
Revenue Receipts (RR) (₹ in crore)	1,203.25	1,497.71	1,758.20	2,345.37	2,151.70
Rate of growth of Revenue Receipts (<i>per cent</i>)	10.57	24.47	17.39	33.40	(-) 8.26

During the current year, 87.16 *per cent* of the total expenditure was met from revenue receipts and the remaining from capital receipts and borrowed funds.

The increase/decrease in revenue expenditure was in the following services:

The General Services expenditure in 2010-11 increased by ₹ 27.33 crore, Social Services expenditure by ₹ 125.15 crore and Economic Services by ₹ 17.48 crore which was offset by lesser disbursement of Grants-in-Aid and contributions by ₹ 174.52 crore.

The decrease in Capital expenditure during 2010-11 was mainly on account of General Service by ₹ 32.20 crore, Social Service by ₹ 54.79 and ₹ 110.47 crore in Economic Service.

The disbursement of loans and advances during 2010-11 was ₹ 2.00 crore for Social Services and ₹ 3.75 crore for Agriculture and Allied Activities. The decrease in disbursement of loans and advances of ₹ 31.23 crore as compared to the previous year was mainly due to the fact that no loans were given for the power sector which was ₹ 35 crore in the previous year.

The pattern of total expenditure in the form of plan and non-plan expenditure during 2010-11 revealed that non-plan expenditure and plan expenditure contributed 54.14 *per cent* and 45.86 *per cent* respectively. The Plan expenditure during the year decreased by ₹ 94.87 crore as compared to the previous year due to decrease in General Services-Revenue by ₹ 16.54 crore and General Services-Capital by ₹ 32.20 crore, increase in Social Services-Revenue by ₹ 86.02 crore and decrease in Social Services-Capital by ₹ 54.79 crore, increase in Economic services-Revenue by ₹ 33.10 crore and decrease in Economic Services-Capital by ₹ 110.46 crore.

The decrease in ratio of revenue receipts to total expenditure from 93.27 *per cent* in 2009-10 to 87.16 *per cent* in 2010-11 is to be viewed in the light of the decrease in central grants by ₹ 194.60 crore (14.97 *per cent*) from ₹ 1,299.62 crore in 2009-10 to 1,105.02 crore in 2010-11. The buoyancy of total expenditure with reference to GSDP decreased to 0.09 during 2010-11 due to decrease in the rate of growth of total expenditure as well as to the rate of growth of

GSDP. Similarly, the buoyancy ratio of total expenditure to revenue receipts was 0.78 in 2009-10 and 0.22 in 2010-11 indicating rate of decrease of receipt was higher than rate of decrease of expenditure during the current year.

1.5.2 Trends in total expenditure in terms of activities

In terms of activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, Grants-in-aid and loans and advances.

The expenditure on general services and interest payments, which are considered as non-developmental, together contributed 30.04 *per cent* in 2010-11 as against 29.68 *per cent* in 2009-10 and 27.36 *per cent* in 2006-07. On the other hand, developmental expenditure i.e., expenditure on social and economic services together accounted for 69.21 *per cent* in 2010-11 as against 68.85 *per cent* in 2009-10 and 72.62 *per cent* in 2006-07. This indicates that the non-developmental expenditure had increased by 2.68 *per cent* in 2010-11 as compared to 2006-07 while the developmental expenditure had decreased by 3.41 *per cent* over the same period.

1.5.3 Revenue Expenditure

Revenue expenditure had predominant share (81.50 *per cent*) in total expenditure. The overall revenue expenditure of the State during 2010-11 increased by 10 *per cent* from ₹ 1,829.02 crore in 2009-10 to ₹ 2,011.92 crore in 2010-11. The revenue expenditure, its rate of growth, the ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy is indicated in **Table 1.13**.

Table - 1.13: Revenue expenditure – basic parameters

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Expenditure (RE), of which	974.27	1,146.87	1,380.55	1,829.02	2,011.92
Non-Plan Revenue Expenditure (NPRE)	637.62	727.08	862.82	1,256.34	1,336.65
Plan Revenue Expenditure (PRE)	336.65	419.79	517.73	572.68	675.27
Rate of Growth of					
RE (<i>per cent</i>)	9.29	17.72	20.38	32.48	10.00
NPRE (<i>per cent</i>)	6.76	14.03	18.67	45.61	6.39
PRE (<i>per cent</i>)	14.43	24.70	23.33	10.61	17.91
Revenue Expenditure as percentage to TE	74.89	73.41	69.28	72.74	81.50
NPRE/GSDP (<i>per cent</i>)	29.50	29.01	26.72	26.50	23.65
NPRE as percentage of TE	49.01	46.54	43.30	49.96	54.14
NPRE as percentage of RR	52.99	48.55	49.07	53.57	62.12
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	1.10	1.11	0.71	0.69	0.52
Revenue Receipts (ratio)	0.88	0.72	1.17	0.97	(-)1.21

The overall revenue expenditure of the State increased by 10 *per cent* from ₹ 1,829.02 crore in 2009-10 to ₹ 2,011.92 crore in 2010-11 at an annual average rate of 17.97 *per cent*. The NPRE constituted 66.44 *per cent* of the revenue expenditure and had increased by ₹ 80.31 crore over the previous year. The PRE increased by ₹ 102.59 crore from ₹ 572.68 crore in 2009-10 to

₹ 675.27 crore in 2010-11.

The buoyancy of revenue expenditure with reference to GSDP was 0.52 *per cent* whereas the buoyancy of revenue expenditure with reference to receipts was (-) 1.21 during 2010-11. This indicated that rate of increase of Revenue expenditure was less than GSDP but was more than the revenue receipts.

Non-plan revenue expenditure was a major component (66.44 *per cent*) during 2010-11. Only 33.56 *per cent* of revenue expenditure was Plan Revenue Expenditure. The trends in composition of revenue expenditure (both plan and Non-plan) during 2006-11 are depicted in the table below:

Table – 1.14: Plan and Non –plan expenditure

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Plan	336.65 (34.55)	419.79 (36.60)	517.73 (37.50)	572.68 (31.31)	675.27 (33.56)
Non Plan	637.62 (65.45)	727.08 (63.40)	862.82 (62.50)	1,256.34 (68.69)	1,336.65 (66.44)
Total	974.27	1,146.87	1,380.55	1,829.02	2,011.92

A comparative position of Non-plan Revenue Expenditure (NPRE) vis-a vis assessment made by XIII FC revealed that NPRE was ₹ 400.41 crore (42.77 per cent) more than the assessment made by XIII FC.

1.5.4 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries & wages, pensions and subsidies. **Table 1.15** and **Chart 1.8** present the trends in the expenditure on these components during 2006-11.

The committed expenditure (i.e., interest payments, pensions, salaries and subsidies) of the State Government increased from ₹ 1,117.45 crore in 2009-10 to ₹ 1,237.27 crore in 2010-11. The overall percentage of committed expenditure on NPRE and total Revenue Receipts was 92.56 *per cent* and 57.50 *per cent* respectively during the current year.

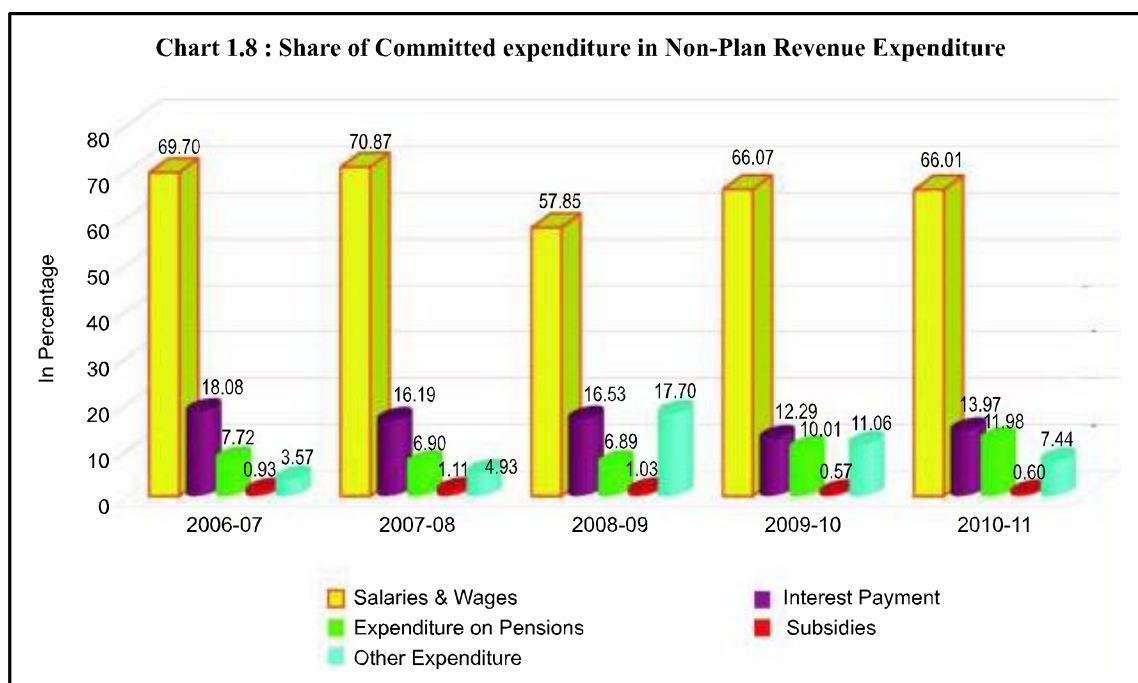
Table - 1.15: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11
Salaries & Wages , <i>Of which</i>	444.42 (69.70)	515.28 (70.87)	499.16 (57.85)	830.05 (66.07)	882.31 (66.01)
Non-Plan Head	332.97	373.07	358.62	646.68	629.64
Plan Head**	111.45	142.21	140.54	183.37	252.67
Interest Payments	115.27 (18.08)	117.74 (16.19)	142.64 (16.53)	154.43 (12.29)	186.77 (13.97)
Expenditure on Pensions	49.24 (7.72)	50.19 (6.90)	59.45 (6.89)	125.75 (10.01)	160.14 (11.98)
Subsidies	5.91 (0.93)	8.08 (1.11)	8.93 (1.03)	7.22 (0.57)	8.05 (0.60)
Total :	614.84	691.29	710.18	1,117.45	1,237.27
<i>As per cent of Revenue Receipts</i>					
Salaries & Wages	36.93	34.40	28.39	35.39	41.01
Interest Payments	9.58	7.86	8.11	6.58	8.68
Expenditure on Pensions	4.09	3.35	3.38	5.36	7.44
Subsidies	0.49	0.54	0.51	0.003	0.37

Figures in the parenthesis indicate percentage to Non-plan Revenue Expenditure

**Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes



Salaries & Wages

Salaries & Wages alone accounted for 41.01 *per cent* of revenue receipts of the State during the year. Salaries & Wages increased by about 6.30 *per cent* from ₹ 830.05 crore in 2009-10 to ₹ 882.31 crore in 2010-11. The expenditure on salaries was 43.85 *per cent* of the revenue expenditure.

Pension payment

Pension payments increased by 27.35 per cent from ₹ 125.75 crore in 2009-10 to ₹ 160.14 crore in 2010-11. Pension payments were also ₹ 81.99 crore more than the projection made by XIII FC. Increase in the Pension payment during the year was due to increase of 726 pensioners in the State. Pension payment accounted for 7.44 per cent of revenue receipts and 7.96 per cent of total revenue expenditure.

Interest payments

Interest payment increased by 20.94 per cent from ₹ 154.43 crore in 2009-10 to ₹ 186.77 crore in 2010-11. Interest payments of ₹ 186.77 crore in 2010-11 consisted of internal debt market loans (₹ 129.32 crore), loans received from Central Government (₹ 19.79 crore) and Small Savings, Provident Fund, etc. (₹ 37.66 crore). The interest payment during 2010-11 exceeded the normative projections of XIII FC by ₹ 44.97 crore.

Subsidies

During 2010-11, the State Government paid subsidy of ₹ 8.05 crore on Food & Warehousing (₹ 6.65 crore), on Co-operation as transport and marketing subsidies (₹ 1.25 crore) and on crop husbandry as price support to farmers (₹ 0.15 crore).

1.5.5 Financial Assistance by State Government to local bodies and other Institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years are presented in **Table 1.16**

Table - 1.16: Financial assistance to Local Bodies, etc.

(₹ in crore)

Financial Assistance to Institutions	2006-07	2007-08	2008-09	2009-10	2010-11
Educational Institutions (Non-Government Aided School, etc)	0.93	0.81	0.76	0.67	1.31
Zilla Parishads and Other Panchayati Raj Institutions	24.96	24.13	110.85	182.05	242.94
Cooperative societies	1.12	1.36	0.53	3.72	1.25
Other Institutions (Voluntary Organisation, Other Scientific Bodies, Housing Board, etc.)	4.97	0.44	0.87	1.02	0.30
Assistance to Municipalities/Municipal Councils	-	-	-	-	0.70
Assistance to Local Bodies Corporations, Urban Development	-	-	-	-	1.36
Total	31.98	26.74	113.01	187.46	247.86
Assistance as per percentage of RE	3.28	2.33	8.19	10.25	12.32

The total assistance at the end of the year 2010-11 had increased by 32.22 per cent over the level of 2009-10 mainly due to increase in assistance to Zilla Parishads and Other Panchayati Raj Institutions, assistance to Municipalities/Municipal Councils and assistance to Local Bodies Corporations and Urban Development.

1.6 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e., adequate provision for providing public services); efficiency of expenditure and the effectiveness (assessment of outlay-outcome relationships for select services).

1.6.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human developmental levels require the States to step up their expenditure on key social services like, education, health, etc. **Table 1.17** analyses the fiscal priority of the State Government with regard to developmental expenditure, social sector expenditure and capital expenditure during the current year.

Table-1.17: Fiscal Priority and Fiscal capacity of the State in 2007-08 and 2010-11

Fiscal Priority of the State	AE/GSDP	DE [#] /AE	SSE/AE	CE/AE	Education/AE	Health/AE
Sikkim's Average (Ratio) 2007-08	62.34	72.65	36.72	26.59	15.80	4.71
Sikkim's Average (Ratio) 2010-11	43.68	69.20	39.79	26.59	22.69	6.09

AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure, CE: Capital Expenditure
[#] Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans & Advances disbursed.

Table 1.17 shows the fiscal priority given by the Sikkim Government to various expenditure heads in 2007-08 (the middle of the Twelfth Finance Commission Award Period) and the current year viz. 2010-11. The AE / GSDP ratio of the Government of Sikkim had come down to 43.68 *per cent* i.e. a reduction of 18.66 *per cent* as compared to the year 2007-08.

The ratio of development expenditure as a proportion to aggregate expenditure had also come down by 3.45 *per cent* in 2010-11 as compared to the year 2007-08 which indicates that the State had given lower priority to this category of expenditure during the year 2010-11 as compared to 2007-08.

In Social Sector, Sikkim Government's expenditure as a percentage of AE had gone up by 3.07 *per cent* in the year 2010-11 as compared to the year 2007-08 indicating that the Sikkim Government was giving more emphasis on Social Sector. However, the capital expenditure remained stagnant at 26.59 *per cent* in the years 2007-08 and 2010-11 indicating that the State Government was not giving enough emphasis to increase the percentage of capital expenditure over the years.

1.6.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on developmental heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public

and merit goods⁷. Apart from improving the allocation towards developmental expenditure, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.18** presents the trends in developmental expenditure relative to the aggregate expenditure of the State during the current year vis-a-vis budgeted and the previous years, **Table 1.19** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table - 1.18: Developmental Expenditure

₹ in crore)

Components of Developmental Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11
Developmental Expenditure (a to b)	944.80 (72.62)	1,135 (72.65)	1,469.04 (73.72)	1,768.05 (70.31)	1,708.44 (69.20)
a. Developmental Revenue Expenditure	639.44 (49.15)	758.81 (48.57)	934.39 (46.89)	1,171.41 (46.59)	1,314.04 (53.23)
b. Developmental Capital Expenditure	305.36 (23.47)	376.19 (24.08)	534.65 (26.83)	596.64 (23.72)	394.40 (15.97)

Figures in parentheses indicate percentage to aggregate expenditure

Developmental expenditure of ₹ 944.80 crore in 2006-07 increased to ₹ 1,708.44 crore in 2010-11. However, its share in aggregate expenditure decreased from 72.62 *per cent* to 69.20 *per cent* during the period. It was also noticed that the developmental revenue expenditure comprised the dominant share with 53.23 *per cent* in 2010-11 whereas the development capital expenditure accounted for only 15.97 *per cent*.

⁷As detailed in Appendix I.1 – Part-C

Table - 1.19: Efficiency of Expenditure Use in Selected Social and Economic Service

(In per cent)

Social/Economic Infrastructure	2009-10			2010-11		
	Ratio of Capital Expenditure to Total Expenditure*	In Revenue Expenditure, the share of		Ratio of Capital Expenditure to Total Expenditure*	In Revenue Expenditure, the share of	
		Salary & Wages	Operations & Maintenance*		Salary & Wages	Operations & Maintenance*
Social Services (SS)						
General Education	1.83	28.59	0.26	1.81	32.51	0.15
Technical Education, Sports, Art & Culture	1.19	1.35	0	2.20	0.99	0
Health and Family Welfare	0.38	13.33	0.19	3.24	11.48	0.04
Water Supply, Sanitation, & Housing & Urban Development	19.87	1.89	0	9.43	1.97	0
Other Social Services	0.93	3.56	0	0.20	2.92	0
Total (SS)	24.20	48.72	0.45	16.88	49.87	0.19
Economic services (ES)						
Agriculture & Allied Activities	1.79	20.49	0	0.85	19.97	0
Irrigation and Flood Control	0.42	1.11	0.23	0.73	1.06	0.23
Power & Energy	8.79	6.99	0.06	4.53	8.35	0.08
Transport	18.03	7.69	0	13.57	8.11	0
Other Economic Services	12.36	9.35	0	11.79	10.67	0
Total (ES)	42.60	45.62	0.29	31.47	48.16	0.31

*TE: Total revenue and capital expenditure of the service

Social Services

The trends in capital expenditure on social services during 2009-11 revealed that the share of capital expenditure to total expenditure during these years was 24.20 and 16.88 per cent, which indicated that the revenue expenditure was dominant. While there was some improvement in the share of capital expenditure to total expenditure on the Health & Family Welfare and Technical Education, Sports, Arts & Culture during the current year, in respect of other categories of social services, there was deterioration in this category of expenditure. Water supply, Sanitation, Housing & Urban Development were the worst sufferers as only 9.43 per cent of total expenditure on this sector was incurred on capital account during 2010-11 as against 19.87 per cent during the preceding year.

Of the revenue expenditure on social services, the share of salary and wages component has increased from 48.72 *per cent* in 2009-10 to 49.87 *per cent* in 2010-11 implying less expenditure on non-salary expenditure including maintenance. Non-salary and wage expenditure on social services had decreased by 57.02 *per cent* during 2010-11 from ₹ 3.56 crore in 2009-10 to ₹ 2.03 crore in 2010-11.

Economic Services

The expenditure on economic services during 2010-11 (₹ 726.16 crore) accounted for about 29 *per cent* of the total expenditure and 43 *per cent* of the development expenditure during the year. Out of the total expenditure on economic services during the current year, 20 *per cent* was incurred on Agriculture and Allied Activities and 8 *per cent* each on Transport and Power & Energy.

The trends in revenue and capital expenditure on economic services indicate that capital expenditure consistently increased from ₹ 469.68 crore in 2006-07 to ₹ 726.16 crore (55 *per cent*) in 2010-11. However, the share of capital expenditure to total expenditure on economic services decreased from 39.61 *per cent* in 2006-07 to 31.47 *per cent* in 2010-11. Revenue expenditure also consistently increased from ₹ 283.63 crore in 2006-07 to ₹ 497.61 crore (75 *per cent*) in the current year. Within the revenue expenditure, salary and wage component constituted 46 and 48 *per cent* of the total revenue expenditure during 2009-10 and 2010-11 respectively. It increased from ₹ 219.07 crore in 2009-10 to ₹ 239.66 crore in 2010-11.

1.6.3 Effectiveness of the Expenditure, i.e. Outlay-Outcome Relationship

Three performance reviews viz. “Elementary Education in Sikkim”, Acquisition and Allotment of Land” and “Integrated Audit of Urban Development and Housing Department” included in a separate Report of the Comptroller and Auditor General of India for the year ended 31 March 2011 highlight the following aspects:

Elementary Education in Sikkim

The State was relatively successful in providing access for elementary education to all, equitable access to boys and girls and rural and urban children. Despite high priority accorded to education sector in budgetary allotment, small class size and availability of large number of teachers leading to favourable Pupil Teacher Ratio; the performance of students was poor as only 40 to 50 per cent class V children could do simple division and read standard II text; 30 to 40 per cent of class III students could do subtraction and could read standard I text. Maximum students fell under average and below average category and teachers were graded between C and D as per Advancement of Educational Performance through Teacher Support (ADEPTS) study indicating average quality primarily owing to lack of desired qualifications and training and low commitment of the teachers. The other areas of concern were high drop-out rate, considerable number of out-of-school children, children with special needs and skewed concentration of teachers in urban areas at the cost of rural areas which needs to be addressed by the Government in a more focused manner.

Acquisition and Allotment of Land

The Rules of Business of the Land Revenue and Disaster Management (LRDMD) Department were not clear about its role on the custody and safeguard of Government land and also its role about establishing stability of land acquired by the Government. The LRDMD had failed to create a comprehensive database of all Government land acquired so far. The LRDMD had time and again made excess payments even to those landowners willing to sell their land to the Government.

The Urban Development and Housing Department (UDHD) had not formulated any policy relating to allotment of housing sites in the State; the existing Act did not provide firm selection criteria on maximum ceiling limit in the absence of which allotment was made indiscriminately. There was no centralised data bank on total land available in urban notified areas of the State for allotment of house sites. Allotment was done on the basis of land identified by the applicant themselves. There was no segregation of land for allotment of house sites, development of bazaars and towns, industrial purpose and other development purposes. Even the land belonging to other Government departments not under the possession of the UDHD were transferred and mutated in favour of the UDHD for facilitating allotment of house sites to VIPs/MLAs and their relatives.

Urban Development and Housing Department

Integrated Audit of UDHD revealed that the Department had taken some effective steps such as banning of plastic carry bags, door to door collection of garbage, creation of footpath along the NH 31A, construction of multi-storeyed parking, establishment of ULBs, etc. However, there were areas of significant concern requiring remedial action like non-preparation of Annual Action Plan incidental to Master Plan, inadequate budgetary management, irregular permission for construction of buildings, unabated traffic congestion, absence of basic facilities in shopping complexes/ parking places, absence of quality control in execution of works, delay in execution of works, non-adherence to approved specifications, non-utilisation and non-maintenance of assets created and inept revenue management.

1.7 Financial Analysis of Government Expenditure and Investments

Though the FRBM Act was recently enacted in the State Legislature in September 2010, the fiscal responsibility legislation was expected to not only keep the fiscal deficit (and borrowing) at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-a-vis previous years.

1.7.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2011 is given in **Table 1.20**.

Table - 1.20: Department-wise Profile of Incomplete Projects

(₹ in crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost	Cost Overrun	Actual exp as on 31.3.2011
Energy and Power Department	13	234.36	353.77	119.41	228.09
Human Resources Development Department	113	106.13	106.94	0.81	25.69
Building & Housing Department	12	70.62	92.39	21.77	40.38
Total	138	411.11	553.10	141.99	294.16

As per the information received from the State Government, there were 138 incomplete projects as on 31 March 2011 in which ₹ 294.16 crore were blocked, out of which 58 works (estimated cost: ₹ 305.83 crore and actual expenditure incurred as on 31 March 2011: ₹ 270.89 crore) were due to be completed by 31 March 2011. Out of 58 works, the cost of 10 incomplete projects was revised and increased by 84.65 per cent i.e. ₹ 141.26 crore (Building and Housing Department: five works involving ₹ 21.05 crore, Human Resource Development Department: one work involving ₹ 0.81 crore and Energy and Power Department: four works involving ₹ 119.40 crore).

Due to delay in completion of the projects, the intended benefits from those projects did not reach the beneficiaries in the State. The main reasons for delay as stated by the departments were natural calamities, non-availability of stock materials and change in scope of works.

1.7.2 Investment and returns

As on 31 March 2011, Government had invested ₹ 90.31 crore in Statutory Corporations, Banks, Joint Stock Companies and Co-operatives (**Table 1.21**). The average return on this investment was 1.36 per cent in the last three years while the Government paid an average interest rate of 9 per cent on its borrowings during 2010-11.

Table - 1.21: Return on Investment

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year (₹ in crore)	83.40	83.41	85.59	89.31	90.31
Return (₹ in crore)	0.76	0.68	1.31	0.46	2.37
Return (per cent)	0.91	0.82	1.53	0.52	2.62
Average rate of interest on Govt borrowing (per cent)	8.74	8.83	8.40	8.35	9.00
Difference between interest rate and return (per cent)	7.83	8.01	6.87	7.83	6.38

The Companies Act, 1956 was not extended to the State of Sikkim. The Government companies in Sikkim were registered under 'The Registration of Companies Act, 1961' and the Statutory Corporations were governed under the proclamation of the erstwhile Chogyal (King) of Sikkim.

As on 31 March 2011, Government invested in three Statutory Corporations viz, State Bank of Sikkim, Sikkim Mining Corporation, State Trading Corporation of Sikkim (STCS) (₹ 8.26 crore) and in Companies viz, Sikkim Time Corporation Limited, Sikkim Industrial Development and Investment Corporation Limited (SIDICO), Sikkim Tourism Development Corporation, Sikkim Jewels Limited, Scheduled Castes Scheduled Tribes and Other Backward Classes Development Corporation Limited (SABCCO), Sikkim Livestock Development & Processing Corporation, Power Development Corporation, Sikkim Distilleries Limited, etc. (₹ 70 crore) and in banks and co-operatives (₹ 12.04 crore). The return on these investments were however, negligible as most of the statutory corporations/companies and/or co-operative societies were incurring losses.

Out of 15 Companies/ Corporations, 11 Companies/Corporations were working companies and the remaining 4 were non-working companies. None of the companies were listed on the stock exchange(s).

As per finalised accounts, out of 11 working PSUs, seven PSUs⁸ incurred loss of 13.72 crore whereas four PSUs⁹ earned profit of ₹ 2.32 crore during the year 2010-11. The major profit was earned by State Bank of Sikkim (₹ 1.30 crore), State Trading Corporation of Sikkim (₹ 0.62 crore) and Sikkim Industrial Development & Investment Corporation Limited (SIDICO) (₹ 0.23 crore). The losses of PSUs were mainly attributable to deficiencies in financial management, planning, implementation of projects, running their operations and inadequate monitoring.

The figures in respect of equity and loans as per records of State PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as on 31 March 2011 is stated below.

Table - 1.22: Outstanding Equity and Loans

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	73.57	80.40	6.83
Loans	37.03	2.03	35.00

⁸Sikkim Time Corporation Limited, Sikkim Industrial Development & Investment Corporation Limited (SIDICO), Sikkim Tourism Development Corporation, Sikkim Jewels Limited, Sikkim Poultry Development Corporation (SPDCL), Sikkim Hatcheries Limited (SHL), Scheduled Castes, Schedule Tribes and Other Backward Classes Development Corporation Limited (SABCCO)

⁹State Bank of Sikkim, Sikkim Industrial Development & Investment Corporation Limited (SIDICO) Sikkim Tourism Development Corporation, State Trading Corporation of Sikkim (STCS)

Audit observed that the differences occurred in respect of seven PSUs and some of the differences were pending reconciliation since 2004-05. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

1.7.3 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/ organisations. **Table 1.23** presents the outstanding loans and advances as on 31 March 2011, interest receipts vis-a-vis interest payments during the last three years.

Table - 1.23: Average Interest Received on Loans Advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2007-08	2008-09	2009-10	2010-11
Opening Balance	5.50	5.12	4.99	41.67
Amount advanced during the year	Nil	0.25	36.98	5.75
Amount repaid during the year	0.38	0.38	0.30	0.79
Closing Balance	5.12	4.99	41.67	46.63
Net addition	(-)0.38	(-)0.13	(+)36.68	(+)4.96
Interest Receipts	Nil	Nil	Nil	Nil
Interest receipts as <i>per cent</i> to outstanding Loans and advances	Nil	Nil	Nil	Nil
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government	6.56	6.62	5.59	6.68
Difference between interest payments and interest receipts (<i>per cent</i>)	6.56	6.62	5.88	6.86

Interest received was “Nil” during the financial years 2007-11 due to the poor performance of the Statutory corporations/Government Companies/Co-operative Societies.

1.7.4 Cash Balances and Investment of Cash Balances

Table 1.24 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table - 1.24: Cash Balances and Investment of Cash balances*(₹ in crore)*

Particulars	As on 31 March 2010	As on 31 March 2011	Increase/ Decrease (-)
Cash Balances ¹⁰	115.54	155.34	39.80
Investments held in Cash Balances (a to d)			
a. GOI Treasury Bills	-	-	-
b. GOI Securities	-	-	-
c. Other Securities, if any specify	-	-	-
d. Other Investments	785.00	440.00	(-) 345
Fund-wise Break-up of Investment from Earmarked balances (a to c)			
a. Sinking fund	114.12	126.12	12.00
b. State Disaster Response Fund	3.63	13.63	10.00
c. Guarantee Redemption Fund	9.72	11.72	2.00
Interest Realised	36.36	24.78	(-) 11.58

Source: Finance Accounts

Under a resolution passed in the year 1968-69, the State Bank of Sikkim was vested with the responsibility by the Government of Sikkim for receiving money on behalf of Government and making all Government payments and keeping custody of the balances of Government in Current Account as well as in Fixed Deposits which could be made through the branches of the Bank. As per the Finance Accounts, there was a balance of ₹ 154.79 crore with the State Bank of Sikkim as on 31 March 2011. But as per the records of the State Bank of Sikkim, the cash balance of the State Government stood at ₹ 154.05 crore leaving behind an un-reconciled balance of ₹ 0.74 crore.

Unspent balances in the accounts of the implementing agencies

The State Government provides funds to State/district level Autonomous Bodies and Authorities, Societies, Non-Governmental Organisations, etc. for implementation of centrally sponsored schemes (State Share) and State schemes. Since the funds are generally not being spent fully by the implementing agencies in the same financial year, there remain unspent balances in the bank accounts of these implementing agencies. During 2010-11, ₹ 68.91 crore were lying as unspent balances in the bank accounts of the implementing agencies.

Further, there was unspent balance of ₹ 84.65 crore lying with the various implementing authorities who received funds directly from the Government of India as detailed in **Appendix-1.4**.

1.8 Assets and Liabilities

1.8.1 Growth and composition of Assets and Liabilities

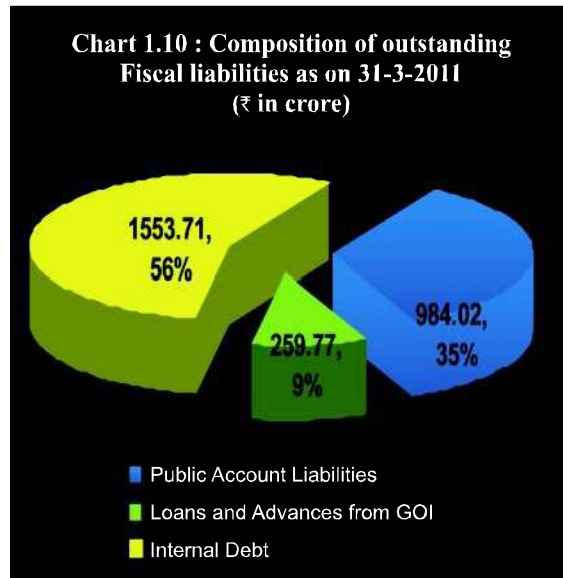
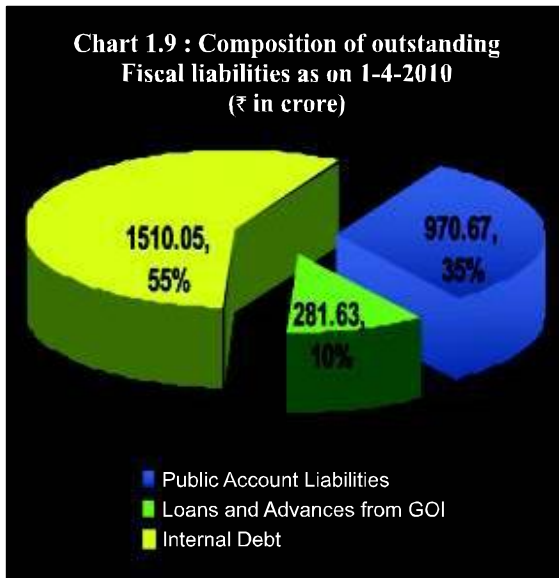
In the existing Government accounting system, comprehensive accounting of fixed assets

¹⁰Including cash with Departmental Officers and Permanent Advances for contingent expenditure with Departmental Officers

like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix-1.3** gives an abstract of such liabilities and the assets as on 1 April 2010, compared with the corresponding position on 31 March 2011. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly of the capital outlay and loans and advances given by the State Government and cash balances.

1.8.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix-1.2**. The composition of fiscal liabilities during the current year vis-a-vis the previous year is presented in **Charts 1.9** and **1.10**.



Overall fiscal liabilities of the State increased by ₹ 35.15 crore (1.27 per cent) from ₹ 2,762.35 crore in 2009-10 to ₹ 2,797.50 crore in 2010-11. The increase in fiscal liabilities was mainly due to increase in Internal debt (₹ 43.66 crore) and Public Accounts liabilities (₹ 13.35 crore), which was partially offset by a decrease in loans and advances from GOI (₹ 21.86 crore). The ratio of these liabilities to GSDP decreased from 58.27 per cent in 2009-10 to 49.50 per cent in 2010-11. The fiscal liabilities stood at nearly 1.30 times the revenue receipts and 5.36 times of State's own resources at the end of 2010-11. The buoyancy of these liabilities with respect to GSDP during the year was 0.07 indicating that for each one per cent increase in GSDP, fiscal liabilities grew by 0.07 per cent. As of March 2011, sinking fund balances stood at ₹ 126.12 crore which were invested in fixed deposit in the State Bank of Sikkim and other Commercial and Nationalised Banks.

1.8.3 Status of Guarantees - Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee had been extended. As per Statement 9 of volume 2 of

the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last five years is given in **Table 1.25**.

Table - 1.25: Guarantees given by the Government of Sikkim

(₹ in crore)

Year	Maximum amount guaranteed	Outstanding guarantees	Tax revenue receipts of second preceding year
2006-07	84.47	84.40	116.95 (2004-05)
2007-08	84.40	75.00	147.23 (2005-06)
2008-09	75.00	75.00	173.18 (2006-07)
2009-10	75.00	75.00	197.85 (2007-08)
2010-11	360.00	246.69	199.19 (2008-09)

Government had guaranteed loans raised by two corporations: Scheduled Tribes/Scheduled Castes and Other Backward Classes Development Corporation Limited (SABCCO) (₹ 35.92 crore) and Sikkim Industrial Development and Investment Corporation (SIDICO) ₹ 210.77 crore. On any guarantee given to a public body, a guarantee commission at the rate of one *per cent* was being charged by the State Government. However, no Guarantee commission was paid by the concerned PSUs during 2010-11.

The State Government passed the Sikkim Ceiling on Government Guarantees Act, 2000 in December 2000 which provided that the total outstanding Government guarantees on the first of April of any year shall not exceed thrice the State's tax revenue receipts of the second preceding year. The outstanding guarantees given by the Government as on 31 March 2011 were within the ceiling limit prescribed under the Act.

The State Government set up a Guarantee Redemption Fund in the year 2000 which stood at ₹ 11.72 crore after transferring ₹ 2 crore during 2010-11.

1.9 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability¹¹ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation¹²; sufficiency of non-debt receipts¹³; net availability of borrowed funds¹⁴; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.26** analyses the debt sustainability of the State according to these indicators for the period of five years beginning 2006-07.

¹¹As detailed in Appendix 1.1 – Part C

¹²As detailed in Appendix 1.1 – Part C

¹³As detailed in Appendix 1.1 – Part C

¹⁴As detailed in Appendix 1.1 – Part C

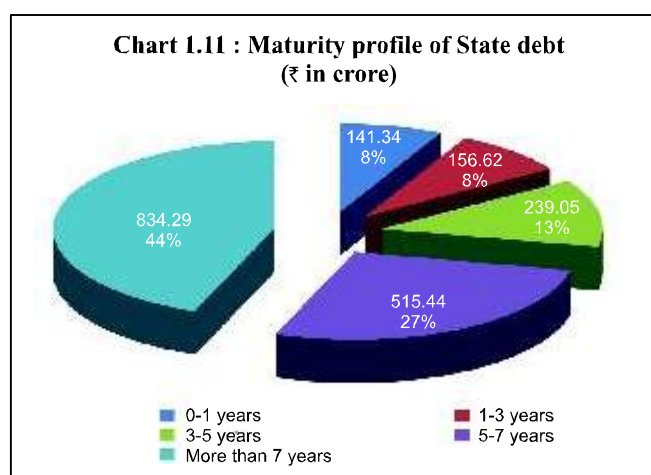
Table - 1.26: Debt Sustainability: Indicators and Trends(*₹ in crore*)

Indicators of Debt Sustainability	2006-07	2007-08	2008-09	2009-10	2010-11
Debt Stabilisation (Quantum Spread + Primary Deficit)	(-)16.48	104.00	374.92	110.69	220.49
Sufficiency of Non-debt Receipts (Resource Gap)	(+)51.97	(+)32.61	(-)169.76	(+)65.14	(+)147.39
Net Availability of Borrowed Funds	4.70	120.32	160.73	196.97	106.64
Burden of Interest Payments (IP/RR Ratio)	-	7.86	8.11	6.58	8.68

The sum of the quantum spread and primary deficit was positive during 2006-11 indicating declining trend of debt-GSDP ratio. These trends indicate the tendency towards debt stabilisation, which would eventually improve the debt stability of the State. The resource gap had been negative in 2008-09 out of the last five year period ending 2010-11. However, during the current year, the resource gap had been positive indicating that incremental non-debt receipts were sufficient to meet the incremental primary expenditure and interest burden. Availability of net fund was positive indicating that ₹ 106.64 crore of the total debt receipts in 2010-11 were utilised for other purposes rather than for discharging past debt obligations. The maturity profile of the State Government's Debt is given in **Table 1.27** and **Chart 1.11**.

Table 1.27: Maturity Profile of State Debt(*₹ in crore*)

Maturity profile	Amount	Percentage
0-1 years	141.34	7.49
1-3 years	156.62	8.30
3-5 years	239.05	12.67
5-7 years	515.44	27.32
More than 7 years	834.29	44.22
Total	1,886.74	100.00

Chart 1.11 : Maturity profile of State debt
(*₹ in crore*)

To discharge its expenditure obligations, the Government had to borrow further, since fiscal surplus was not available in any of the last five years. The maturity profile of outstanding stock of State Development Loans (SDLs) as on 31 March 2011 shows that 44 *per cent* of the SDLs are in the maturity bucket of seven years and above.

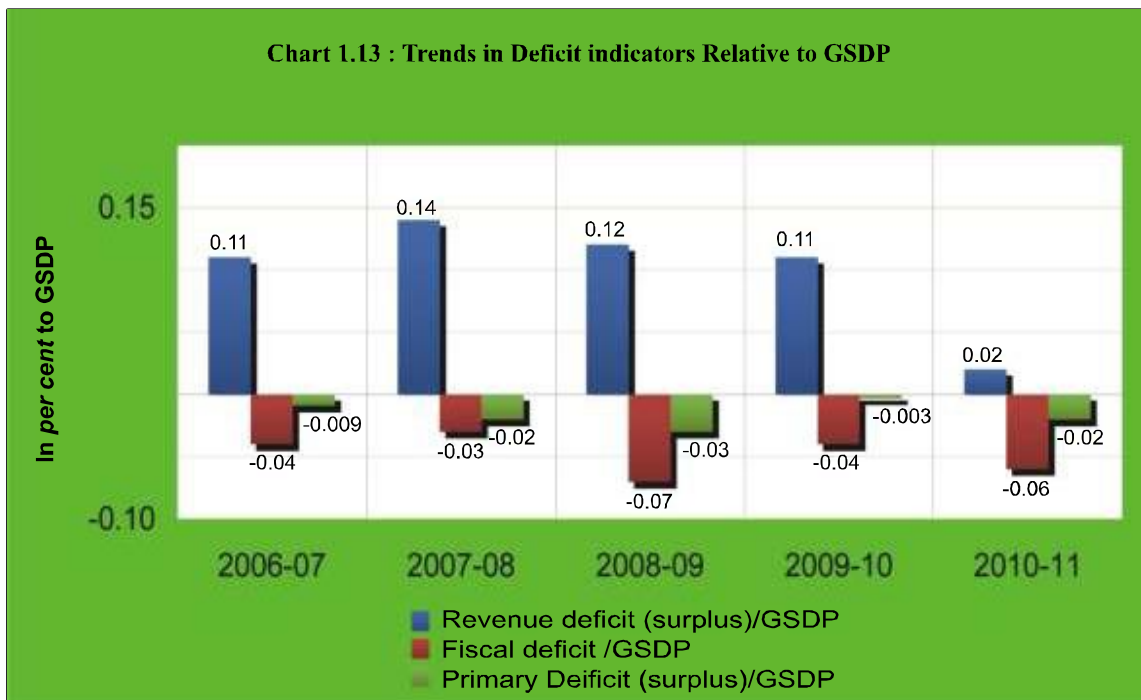
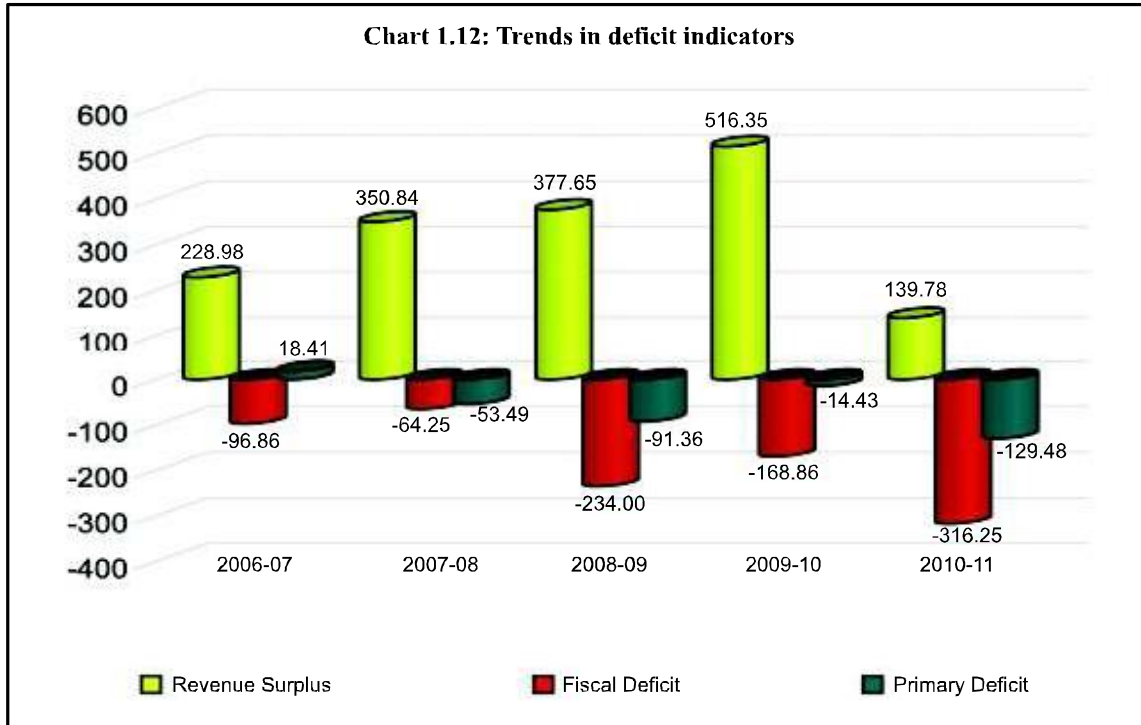
1.10 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represent the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised

applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits for the financial year 2010-11.

1.10.1 Trends in Deficits

Charts 1.12 and 1.13 present the trends in deficit indicators over the period 2006-11.



Deficit in Government Account represents the gap between its receipts and expenditure. The revenue account of the State had exhibited consistent improvement during the period 2006-10 as the State had not only maintained revenue surplus but its surplus position had improved year on year during the period. However, during the current year, the revenue surplus had decreased by ₹ 376.57 crore mainly on account of decrease in revenue receipts by ₹ 193.67 crore as against the increase of ₹ 182.90 crore in revenue expenditure over the previous year. This downward trend in revenue account during 2010-11 was mainly on account of decrease of ₹ 194.60 crore in grants-in-aid from GOI.

The reduction in revenue surplus in 2010-11 accompanied by slight decrease in capital expenditure (₹ 197.46 crore) in 2010-11 together with disbursement of loans and advances led to increase of ₹ 147.39 crore in fiscal deficit during 2010-11 over the previous year. Increase in fiscal deficit accompanied by a minor increase in interest payment resulted in primary deficit of ₹ 129.48 crore during the year against the primary deficit of ₹ 14.43 crore in 2009-10.

1.10.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1.28**.

Table - 1.28: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Decomposition of Fiscal Deficit	96.86	64.25	234.00	168.86	316.25
1 Revenue surplus	228.98	350.84	377.65	516.35	139.78
2 Net Capital Expenditure	326.42	415.47	611.78	648.53	451.07
3 Net Loans and Advances	-0.58	-0.38	-0.13	36.68	4.96
Financing Pattern of Fiscal Deficit*					
1 Market Borrowings	106.46	233.17	276.88	324.31	43.65
2 Loans from GOI	-2.75	-9.10	-15.71	-18.49	-21.86
3 Small Savings, PE, etc.	16.25	13.98	29.27	45.58	98.51
4 Deposits and Advances	5.46	3.59	23.24	9.90	20.01
5 Suspense and Misc.	5.63	31.28	-5.42	103.65	-97.87
6 Remittances	11.92	17.94	49.13	14.81	(-) 28.27
7 Reserve fund	3.37	42.99	13.08	8.87	20.78
8 Contingency fund transaction	0.10	0	0	0	0.10
9 Increase(-)/decrease (+) in cash balances	49.58	269.60	136.47	319.77	281.20
Overall Surplus/Deficit	96.86	64.25	234.00	168.86	316.25

*All these figures are net of disbursements/outflows during the year.

The State had fiscal deficit during all the five years (2006-11) which increased from 96.86 crore in 2006-07 to 316.25 crore in 2010-11. The fiscal deficit was mainly financed by market borrowings and small savings, PE, etc. Even though there was a revenue surplus of ₹ 139.78 crore during 2010-11, there was a fiscal deficit of ₹ 316.25 crore mainly due to decrease in revenue receipts.

1.10.3 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (**Table 1.29**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table - 1.29: Primary Deficit/Surplus - Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary revenue deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+)
					6	7	8
1	2	3	4	5	(3+4+5)	(2 - 3)	(2 - 6)
2006-07	1,204.03	859.00	326.42	0.20	1,185.62	(+) 345.03	(+) 18.41
2007-08	1,498.09	1,029.13	415.47	0	1,444.60	(+) 468.96	(-)53.49
2008-09	1,758.58	1,237.92	611.78	0.25	1,849.95	(+) 520.66	(-) 91.36
2009-10	2,345.67	1,674.60	648.53	3698	2,360.11	(+) 671.07	(-) 14.43
2010-11	2,152.49	1,825.15	451.07	5.75	2,281.97	(+)327.34	(-)129.48

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2006-11 reveals (**Table 1.28**) that the non-debt receipts were enough to meet the requirements of primary revenue expenditure and some receipts were left to meet the capital expenditure. However, increase in revenue expenditure and decrease in revenue receipts resulted in primary deficit¹⁵ of ₹ 129.48 crore in the current year. This indicates the extent to which primary deficit has been on account of enhancement in revenue expenditure which is not desirable to improve productive capacity of the State's economy.

1.10.4 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of the correction in deficit indicators. **Table 1.30** presents the change in revenue receipts of the State and the correction of the deficit during the last three years.

¹⁵ Primary expenditure of the State, defined as the total expenditure net of the interest payments, indicates the expenditure incurred on the transactions undertaken during the year.

Table - 1.30: Change in Revenue Receipts and Correction of Deficit*(Per cent of GSDP)*

Parameters	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Receipts (a to d)	55.69	59.76	54.44	49.48	38.07
a. State's Tax Revenue	8.02	7.90	6.17	4.72	4.95
b. State's Own Non-tax Revenue	7.95	8.46	9.05	9.44	4.28
c. State's Share in Central Taxes and Duties	10.31	13.76	11.27	7.90	9.29
d. Grants-in-aid	29.41	29.64	27.95	27.42	19.55
Revenue expenditure	45.07	45.75	42.75	38.59	35.60
Revenue Deficit/ Surplus	10.60	14.00	11.70	10.90	2.48
Fiscal Deficit/ Surplus	(-)4.49	(-)2.57	(-)7.25	(-)3.57	(-)5.60

The trends in ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy and accessibility of resources of the State. Revenue receipts comprise not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP remained quite high in the State mainly on account of large transfers from GOI. The ratio during the current year at 38.07 *per cent* had decreased by 11.41 percentage points over the previous year mainly due to increase in GSDP in absolute terms. The ratio of own taxes to GSDP remained at 4.95 during 2010-11 which was a slight improvement of 0.23 *per cent* as compared to 2009-10.

1.11 Conclusion

The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit, primary deficit, etc. indicated that the State had been able to maintain revenue surplus during the last five year period but the revenue surplus decreased by ₹ 376.57 crore in the current year from ₹ 516.35 crore in 2009-10 to ₹ 139.78 crore in 2010-11. The decrease was due to reduction in revenue receipts (8.26 *per cent*) during the current year coupled with the increase (10 *per cent*) in revenue expenditure. The share of committed expenditure in the NPRES was 92.56 *per cent* leaving meagre funds for developmental purposes. Despite decrease in capital expenditure by ₹ 197.46 crore over the previous year, the State Government could not bring down the fiscal deficit during the current year which increased by ₹ 147.39 crore in the current year from ₹ 168.86 crore in 2009-10 to ₹ 316.25 crore in 2010-11. The primary deficit also continued to prevail except in the year 2006-07 wherein surplus was recorded. The primary deficit increased by ₹ 115.05 crore from ₹ 14.43 crore in 2009-10 to ₹ 129.48 crore in 2010-11.

Although the grants-in-aid from GOI involving 51.36 *per cent* of the total receipts of the State had declined by ₹ 194.60 crore during 2010-11 over the previous year, the State continued to be dependent upon the central transfers and grants-in-aid, which is evident from the fact that 75.76 *per cent* of the revenue receipts during the year had come from the GOI.

Developmental expenditure of ₹ 944.80 crore in 2006-07 increased to ₹ 1,708.45 crore in 2010-11. However, its share in aggregate expenditure decreased from 72.62 *per cent* in 2006-07 to 69.20 *per cent* in 2010-11. The ratio of development expenditure as a proportion to

aggregate expenditure had also come down by 3.45 *per cent* in 2010-11 as compared to the year 2007-08 which indicates that the State had given lower priority to this category of expenditure during the year 2010-11 as compared to 2007-08.

The Debt-GSDP ratio decreased from 58.27 *per cent* in 2009-10 to 49.50 *per cent* in 2010-11. This ratio was much below the normative assessment made by the XIII F.C. for the current year. The fiscal liabilities stood at nearly 1.30 times of the revenue receipts and 5.36 times of the State's own resources at the end of 2010-11. The buoyancy of these liabilities with respect to GSDP during the year was 0.07 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.07 *per cent*.

Investment of the Government money in the Government Companies and Statutory Corporations was increasing year after year. However, while the return on the investment was 2.62 *per cent*, the Government paid an average interest rate of 9 *per cent* on its borrowings during the year.