

**CHAPTER-I:  
FINANCES OF THE STATE  
GOVERNMENT**



# CHAPTER I

## FINANCES OF THE STATE GOVERNMENT

### Profile of Sikkim

Sikkim is a sparsely populated State situated in the Eastern Himalayas. It became a part of the Indian Union on 16 May 1975. The State is categorised as a Special Category State (SCS) on account of which certain special privileges are given by Government of India (GoI), for example, the State is entitled for 90 per cent grants and 10 per cent State share against 70 per cent grants and 30 per cent State share to General Category States under all the Centrally Sponsored Schemes (CSSs). 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 - 10 is the only lifeline which connects the State with the rest of the country. Sikkim has four districts and nine sub-divisions and has also been included in the North Eastern Council (NEC) since December 2002.

According to the Census of India - 2011, the population of Sikkim stood at 6.11 lakh and the percentage of rural population of the State at 75 per cent was more than the all India average (69 per cent). The percentage of population below the poverty line at 8.20 per cent<sup>1</sup> is lower than the all India average of 21.9 per cent. The literacy rate of Sikkim was 81.40 per cent<sup>2</sup> as against the all India literacy rate of 73 per cent. Per capita Gross State Domestic Product (GSDP) for the year 2017-18 was ₹ 2,97,765 (*Appendix 1.1-Part A*).

### Gross State Domestic Product

The growth of GSDP of the State is an important indicator of the State's economy. The trends in annual growth of Gross Domestic Product (GDP) of India and GSDP of the State at current prices and constant prices (Base year: 2011-12) are given in table below:

**Table 1.1 Annual growth rate of GDP and GSDP at current as well as constant prices**

Year	2013-14	2014-15	2015-16	2016-17	2017-18
All India GDP (₹ in crore)	1,12,33,522	1,24,67,959	1,37,64,037	1,52,53,114	1,67,73,145
Growth rate of GDP (in per cent)	12.97	10.99	10.40	10.82	9.97
GSDP of State at current prices (₹ in crore)	13,862	15,407	18,034	20,020*	22,248*
Growth rate of GSDP at current prices (in per cent)	12.35	11.14	17.05	11.02	11.13
GSDP of State at constant prices (₹ in crore)	12,114	13,071	14,370	15,339	16,390
Growth rate of GSDP at constant prices (in per cent)	6.07	7.90	9.93	6.75	6.85

Source: GDP/ GSDP figures issued by MoSPI dated 01.08.2017).\* Provisional figures

<sup>1</sup> Economic Survey 2017-18.

<sup>2</sup> Economic Survey 2017-18.

## 1.1 Introduction

The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The Finance Accounts 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.

This chapter provides a broad perspective of the Finances of the State Government during 2017-18. It analyses important changes in the major fiscal indicators compared to the previous year keeping in view the overall trends during the last five years. The analysis is based on the Finance Accounts and information obtained from the State Government. The structure of the Government Accounts and the layout of the Finance Accounts have been explained in **Appendix 1.1 (Part-B and C)** 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 2013-18.

## 1.2 Summary of fiscal transactions

**Table 1.2** and **Appendix 1.3 (A and B)** present the summary of the fiscal transactions of the State Government and provide details of Receipts and Disbursements as well as overall fiscal position respectively during 2017-18 *vis-à-vis* the previous year:

**Table 1.2: Summary of the fiscal transactions**

(₹ in crore)

Receipts			Disbursements		
	2016-17	2017-18		2016-17	2017-18
<b>Section-A: Revenue</b>					
<b>Revenue Receipts</b>	<b>4,610.30</b>	<b>5,212.79</b>	<b>Revenue Expenditure</b>	<b>3,788.08</b>	<b>4,151.85</b>
Tax Revenue	652.56	688.33	General Services	1,420.77	1,528.13
Non-Tax Revenue	451.64	654.38	Social Services	1,335.07	1,532.15
Share of Union taxes and duties	2,069.19	2,634.66	Economic Services	976.61	1,028.25
Grants from GoI	1,436.91	1,235.42	Grants-in-aid and contributions	55.63	63.32
<b>Section-B: Capital</b>					
<b>Misc. Capital Receipts</b>	<b>0.00</b>	<b>0.00</b>	<b>Capital Outlay</b>	<b>720.29</b>	<b>1,506.78</b>
Recoveries of loans and advances	1.37	0.91	Loans and advances disbursed	17.00	16.95
Public Debt Receipts	783.34	1,053.46	Repayment of Public Debt	246.26	342.63
Contingency Fund	0.00	0.00	Contingency Fund	0.31	(-) 0.31
Public Account Receipts <sup>3</sup>	6,335.06	7,429.63	Public Account Disbursements <sup>4</sup>	6,245.87	7,120.86
Opening cash balance	1,724.57	2,436.83	Closing cash balance	2,436.83	2,994.86
<b>TOTAL</b>	<b>13,454.64</b>	<b>16,133.62</b>		<b>13,454.64</b>	<b>16,133.62</b>

Source: Finance Accounts

The following are the significant changes during 2017-18 over the previous year:

Revenue Receipts increased by ₹ 602.49 crore (13.07 per cent) over the previous year mainly due to increase in share of Union taxes and duties by ₹ 565.47 crore, Non-Tax

<sup>3</sup> Gross Public Accounts Receipts during the year.

<sup>4</sup> Gross Public Accounts Disbursement during the year.

Revenue by ₹ 202.74 crore and Tax Revenue by ₹ 35.77 crore as compared to previous year. However, there was decrease in grants from GoI by ₹ 201.49 crore.

Revenue Expenditure increased by ₹ 363.77 crore (9.60 per cent) over the previous year as a result of increase in expenditure on Social Services (₹ 197.08 crore), General Services (₹ 107.37 crore), Economic Services (₹ 51.64 crore) and Grants-in-aid (₹ 7.69 crore).

Capital Expenditure increased by ₹ 786.49 crore (109.19 per cent) over the previous year.

Public Debt Receipts increased by ₹ 270.12 crore (34.48 per cent) and its repayment increased by ₹ 96.37 crore (39.13 per cent) over the previous year.

The total inflow and outflow of the Government after deducting the cash balances during the year 2017-18 was ₹ 13,696.79 crore and ₹ 13,138.76 crore respectively leading to increase in cash balance by ₹ 558.03 crore.

The trends of Revenue Receipts (RR)/Revenue Expenditure (RE)/Capital Expenditure (CE) relative to GSDP at current as well as constant prices are presented in table below:

**Table 1.3: Trends in Revenue Receipt/ Revenue Expenditure/Capital Expenditure relative to GSDP**

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Revenue receipts relative to GSDP</b>					
RR at current prices (₹ in crore)	3,894	4,088	3,784	4,610	5,213
Rate of growth of RR at current prices (in per cent)	18.40	4.98	(-) 7.44	21.83	13.08
RR at constant prices (₹ in crore)	3,386	3,464	3,127	3,688	4,041
Rate of growth of RR at constant prices (in per cent)	11.24	2.30	(-) 9.73	17.94	9.57
RR / GSDP	28.09	26.53	20.98	23.03	23.43
<b>Revenue expenditure relative to GSDP</b>					
RE at current prices (₹ in crore)	3,025	3,357	3,645	3,788	4,152
Rate of growth of RE at current prices (in per cent)	20.66	10.98	8.58	3.92	9.61
RE at constant prices (₹ in crore)	2,630	2,845	3,012	3,030	3,218
Rate of growth of RE at constant prices (in per cent)	13.31	8.17	5.87	0.60	6.20
RE/ GSDP	21.82	21.79	20.21	18.92	18.66
<b>Capital expenditure relative to GSDP</b>					
CE at current prices (₹ in crore)	912	981	633	720	1,507
Rate of growth of CE at current prices (in per cent)	8.26	7.57	(-) 35.47	13.74	109.31
CE at constant prices (₹ in crore)	793	831	523	576	1,168
Rate of growth of CE at constant prices (in per cent)	1.67	4.79	(-) 37.06	10.13	102.78
CE/ GSDP	6.58	6.37	3.51	3.60	6.77

As evident from the table above, revenue receipts, revenue expenditure and capital expenditure have increased from 2013-14 to 2017-18 (except for the year 2015-16) as a percentage of GSDP even after accounting for inflation.

### 1.3 Fiscal reforms path in Sikkim

The State Government enacted the Fiscal Responsibility and Budget Management (FRBM) Act in September 2010 and the Rules under the FRBM Act were notified in March 2011. The Act aims to ensure fiscal stability and sustainability through maintenance of balance in revenue account and planned reduction of fiscal deficit and prudent and sustainable debt management consistent with fiscal stability through limits on State Government borrowings, including off-budget borrowings and achieving greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal framework. To give effect to the fiscal management principles, the FRBM Act prescribed the following fiscal targets for the State Government:

- (a) Maintain revenue surplus from 2010 onwards;
- (b) Reduce the fiscal deficit to 3.50 *per cent* of the estimated GSDP in each of the financial years starting from 2011-12 and reduce the fiscal deficit to not more than three *per cent* of the estimated GSDP at the end of 31 March 2014 and adhere to it thereafter;
- (c) Cap the total outstanding guarantees within the specific limit under the Sikkim Ceiling on Government Guarantees Act, 2000; and
- (d) Ensure that the outstanding debt-GSDP ratio follows a sustainable path emanating from the above targets of the deficit as specified by the Government beginning from the fiscal year 2011-12.

Revenue deficit and fiscal deficit may exceed the limits specified under the section on the ground(s) of unforeseen demands on the finances of the Government due to national security or natural calamity subject to the condition that the excess beyond limits arising due to natural calamities does not exceed the actual fiscal cost, provided further that the ground(s) specified in the above provision shall be placed before the Legislative Assembly as soon as may be, after it becomes likely that such deficit amount may exceed the aforesaid limit, with an accompanying report stating the likely extent of excess.

Major fiscal variables provided in the budget based on recommendations of the XIV Finance Commission (XIV FC) and as targeted in the FRBM Act of the State are depicted in **Table 1.4** as given below:

**Table 1.4: Details of fiscal variables**

Fiscal variables	2017-18				
	XIV FC targets for the State	Targets as prescribed in FRBM Act	Targets proposed in the budget	Projections made in Five Year Fiscal Plan/ Mid-Term Fiscal Plan	Actual
Revenue deficit (-)/ surplus (+) (₹ in crore)	1,057	-	712.84	-	1,060.94
Fiscal deficit/GSDP (in <i>per cent</i> )	3.50	3.50	2.79	2.79	2.08
Ratio of total outstanding debt of the Government to GSDP (in <i>per cent</i> )	19.66	25.00	24.95	24.95	24.50

Source: Information furnished by Finance, Revenue and Expenditure Department (FRED).

Revenue surplus was marginally higher than the target fixed by XIV FC as well as budget proposal. The fiscal deficit at 2.08 *per cent* was within the FRBM limit, XIV FC target as well as budget estimate. Ratio of total outstanding debt of the Government to GSDP was higher than the target fixed by XIV FC but less than the target proposed in budget proposal and projected in Five-year Fiscal Plan/MTFP.

### 1.3.1 Migration to New Pension Scheme

State Government employees recruited on and after 01 April 2006 are eligible for the New Pension Scheme, which is a Defined Contributory Pension Scheme. In terms of the Scheme, the employee contributes 10 *per cent* of Basic Pay and Dearness Allowance, with a matching contribution by the State Government, and the entire amount is transferred to the designated fund manager through the National Securities Depository Limited (NSDL)/Trustee Bank.

The details of employee's share, Government contribution, interest accrued thereon and transfer to the trustee Bank/NSDL are given in **Table 1.5**.

**Table No. 1.5: Details of contribution and transfers to NSDL under NPS**

(₹ in crore)

Year	Opening Balance	Details of contribution by		Transfer to NSDL	Less transfer/ Closing Balance	Rate of Interest applicable <sup>5</sup>	Interest due on Opening Balance**
		Employees	Government				
2013-14	36.98	14.61	14.86	36.42	30.03	8.80	3.25
2014-15	30.03	20.80	20.79	44.62	27.00	8.80	2.64
2015-16	27.00	27.81	27.74	59.10	23.45	8.80	2.38
2016-17	23.45	33.10	33.07	61.11	28.52	8.00	1.88
2017-18	28.52	38.09	40.70	79.63	27.68	7.60	2.17
<b>TOTAL</b>		<b>134.41</b>	<b>137.15</b>	<b>280.88</b>			<b>12.32</b>

**Source:** Data furnished by Government of Sikkim. \*\* Interest has been calculated on the estimation that the Opening Balance was not transferred during the year

During the year 2017-18, there was an opening balance of ₹ 28.52 crore and deposit of ₹ 78.79 crore under Major Head 8342-117-‘Defined Contribution Pension Scheme’ (employees’ contribution of ₹ 38.09 crore, Government contribution of ₹ 40.70 crore), aggregating to ₹ 107.31 crore. Out of this (₹ 107.31 crore), the State Government transferred ₹ 79.63 crore to NSDL/Trustee Bank, leaving a balance of ₹ 27.68 crore in the Fund as on 31 March 2018. The accumulated balance was due to persistent short transfer of funds to NSDL/Trustee Bank over the years. Over the last five years, the State Government has acquired the interest liability amounting to ₹ 12.32 crore on the amount not transferred to NSDL, as the above Major Head is classified as ‘Deposits bearing Interest’ in the Government Accounts.

Failure of the State Government to transfer the entire amount of pension contribution to NSDL would not only eventually deplete the NPS Corpus but also increase the liability of the State Government and increase the risk of failure of the scheme.

<sup>5</sup> Estimated at GPF rate of interest during the respective year.

**Recommendation:** *The State Government needs to ensure that Government contribution is fully matched with that of the employees' contributions and the entire amount is transferred to NSDL in a timely manner.*

### 1.3.2 Power Sector-Financial support by the State Government

No financial support had been extended during the year by State Government to Public Sector Undertakings under power sector.

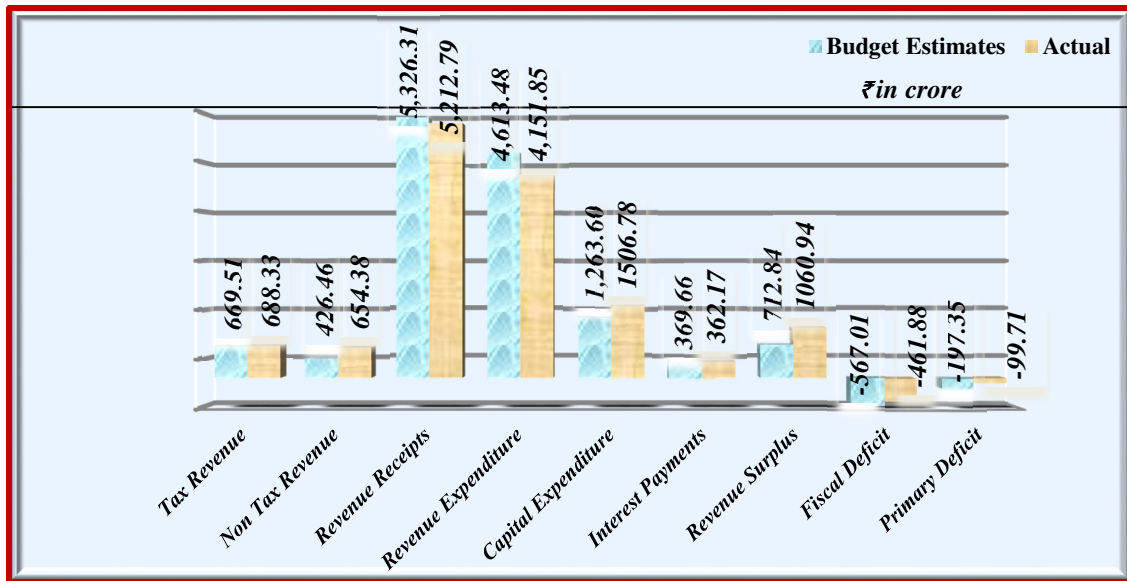
## 1.4 Budget 2017-18

### 1.4.1 Actual vis-à-vis Budget Estimates

Budget proposals presented by the State Government provide estimation of revenue and expenditure for a particular fiscal year. The importance of accuracy in estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management.

**Chart 1.1** presents the budget estimates and actuals of some important fiscal parameters for the year 2017-18:

**Chart 1.1: Selected fiscal parameters: Budget estimates vis-à-vis actuals in 2017-18**



Source: Finance Accounts, Estimate of receipts and Explanatory memorandum to the Annual Budget 2017-18

The Tax Revenue exceeded the budget provision by 2.81 per cent (₹ 18.82 crore) and Non-Tax Revenue also exceeded the budget provision by 53.44 per cent (₹ 227.92 crore).

Revenue Receipts was lower than budget provision by 2.13 per cent (₹ 113.52 crore) and Revenue Expenditure was also lower than budget provision by 10.01 per cent (₹ 461.63 crore). As against an estimated revenue surplus of ₹ 712.84 crore, the financial year ended with revenue surplus of ₹ 1,060.94 crore, an increase of 48.83 per cent (₹ 348.10 crore) over the budget provision. Capital Expenditure was more than the budget estimates by 19.25 per cent (₹ 243.18 crore).



Sikkim's Own Tax Revenue increased by 5.48 *per cent* (₹ 35.77 crore) from ₹ 652.56 crore in 2016-17 to ₹ 688.33 crore in 2017-18. The revenue from sales tax (including GST) contributed the major share of Tax Revenue (61.17 *per cent*) which increased by ₹ 56.23 crore. Taxes on vehicles increased by ₹ 4.47 crore, stamps and registration fees by ₹ one crore, Land Revenue by ₹ 1.05 crore and taxes on income other than Corporation tax and other taxes on Income and expenditure increased by ₹ 0.22 crore whereas State excise duty which contributed 21.86 *per cent* to the Own Tax Revenue decreased by ₹ 5.77 crore and other taxes, which consist of entertainment tax, receipts from cess, *etc.*, decreased by ₹ 21.42 crore.

The State's share of Union taxes and duties stood at ₹ 2,634.66 crore during 2017-18 and there was an increase of ₹ 565.47 crore over the previous year due to increase in taxes on income other than corporation tax by ₹ 202.36 crore (43.27 *per cent*), corporation tax by ₹ 197.03 crore (30.85 *per cent*), State's share of CGST & IGST of ₹ 284.84 crore and taxes and duties on commodities, tax on wealth by ₹ 0.39 crore (62.90 *per cent*) and other taxes and duties on commodities & services by ₹ 0.01 crore (100 *per cent*). However, the increase of State's share of Union taxes and duties was offset by ₹ 119.16 crore due to decrease of revenue under Union excise duties by ₹ 90.45 crore (25.71 *per cent*), taxes on customs by ₹ 17.54 crore (6.09 *per cent*) and Service tax by ₹ 11.17 crore (3.46 *per cent*).

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. Although, Grants-in-aid from GoI decreased by ₹ 201.49 crore from ₹ 1,436.91 crore in 2016-17 to ₹ 1,235.42 crore in 2017-18, the overall central transfers increased by ₹ 363.98 crore as compared to the previous year.

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 2017-18, the Capital Expenditure of the State was ₹ 1,506.78 crore and there was an increase of ₹ 786.49 crore in Capital Outlay in 2017-18 as compared to previous year which was due to increase in expenditure on Economic Services (₹ 416.60 crore), Social Services (₹ 291.32 crore) and General Services (₹ 78.58 crore).

### 1.4.2 Gender Budget

The Constitution of India has mandated equality for every citizen of the country as a Fundamental Right. Gender budgeting is a way for governments to promote equality through fiscal policy. It involves analysing a budget's differing impacts on men and women and allocating money accordingly, as well as setting targets. One of the tools that can be used to promote women's equality and empowerment is gender-responsive budgeting or Gender Budgeting as it is more commonly known in India.

Among others, Gender Budgeting serves in (i) identifying the felt needs of women and reprioritising increasing expenditure to meet those needs; (ii) supporting gender mainstreaming in macro-economics; (iii) strengthening civil society participation in economics;

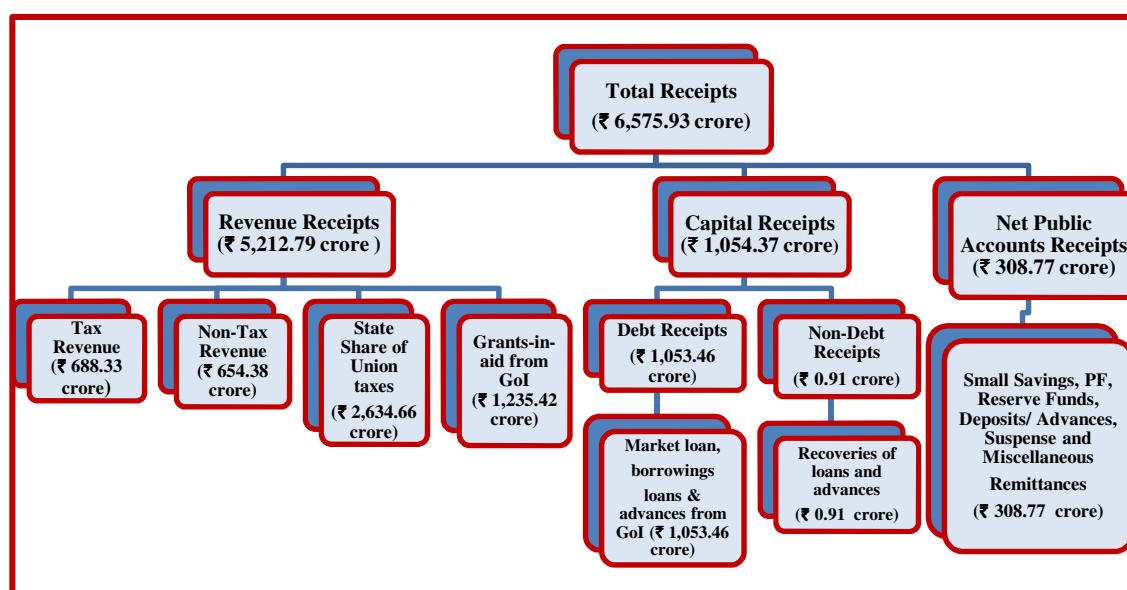
(iv) enhancing the linkages between economic and social policy outcomes; (v) tracking public expenditure against gender and development policy commitments, etc. However, it was seen that Gender Budget had never been formulated in Sikkim.

## 1.5 Resources of the State

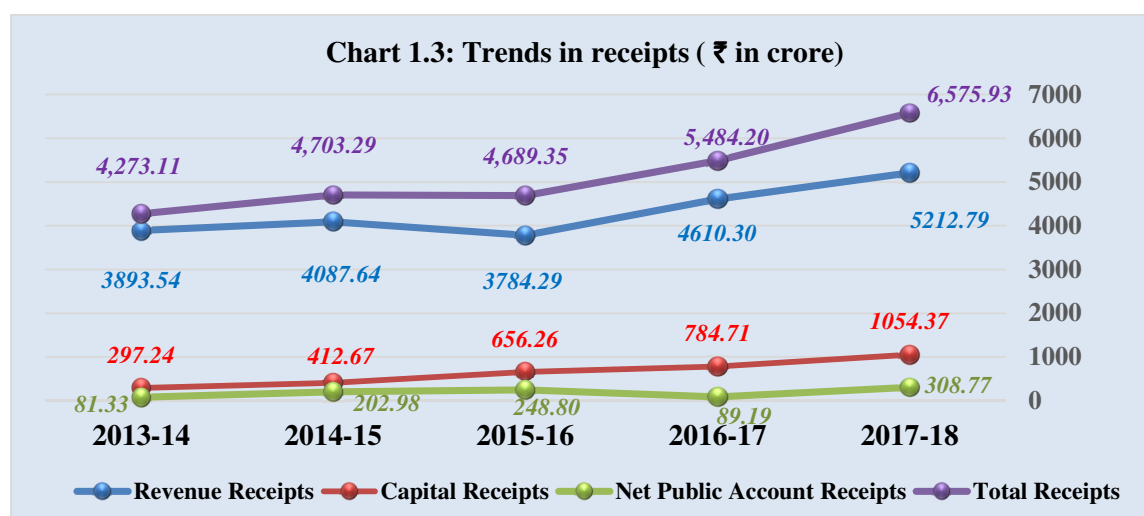
### 1.5.1 Resources of the State as per Finance Accounts

The progress of the Government’s programmes depends upon its resources and the quantum of resources in any particular financial year determines the expenditure threshold of the Government. The components and sub-components of State’s receipts have been categorised in **Chart 1.2:**

**Chart 1.2: Components and sub-components of resources**



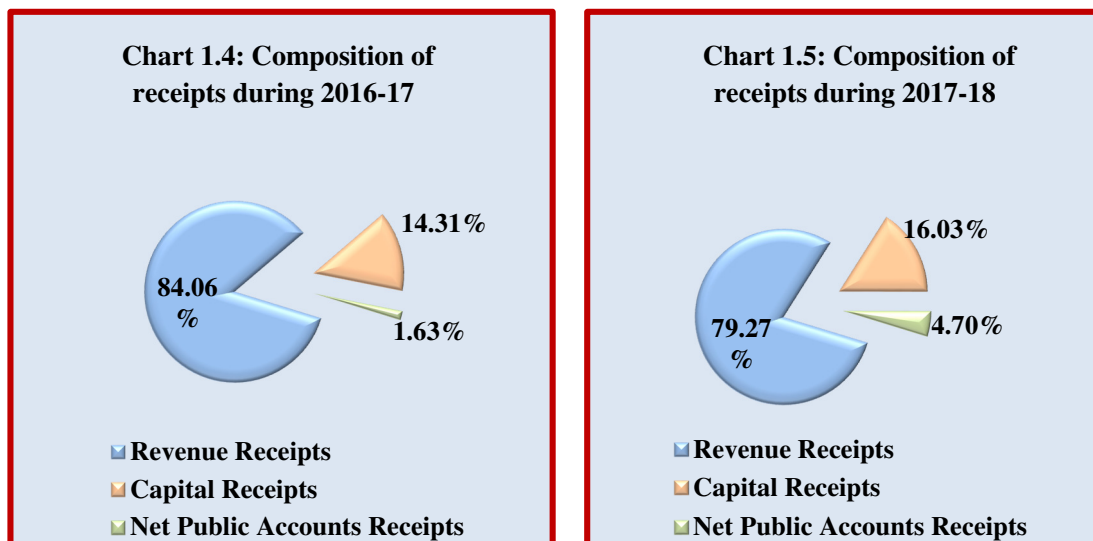
**Chart 1.3** depicts the trends in components of receipts during 2013-18.



Source: Finance Accounts

Total receipts increased by 53.89 *per cent* from ₹ 4,273.11 crore in 2013-14 to ₹ 6,575.93 crore in 2017-18. There was also increase of total receipts over the previous year by ₹ 1,091.73 crore (19.91 *per cent*).

**Chart 1.4** and **Chart 1.5** depict the composition of receipts during 2016-17 and 2017-18 respectively:



The share of Revenue Receipts in total receipts, which was 84.06 *per cent* in 2016-17, decreased to 79.27 *per cent* in 2017-18. Capital Receipts, consisting of Debt Receipts and Non-Debt Receipts such as recovery of loans and advances, increased from 14.31 *per cent* in 2016-17 to 16.03 *per cent* in 2017-18. Debt Receipts constituted 99.91 *per cent* of Capital Receipts and Non-Debt Receipts constituted 0.09 *per cent* during 2017-18. Debt Receipts increased by ₹ 270.12 crore from ₹ 783.34 crore during 2016-17 to ₹ 1,053.46 crore during 2017-18 and Non-Debt Receipts decreased by ₹ 0.46 crore from ₹ 1.37 crore during 2016-17 to ₹ 0.91 crore during 2017-18.

Public Accounts Receipts refer to those receipts for which the Government acts as a banker/ trustee for the public money. Net Public Account Receipts constituted 1.63 *per cent* of total receipts during 2016-17 as against 4.70 *per cent* of total receipts during 2017-18.

### **1.5.2 Funds transferred by Central Government to the State implementing agencies out-side the State budget**

The Central Government had been transferring a sizeable quantum of funds directly to the State Implementing Agencies (SIA)<sup>6</sup> for implementation of various schemes/ programmes in Social and Economic Sectors up to 2013-14. These funds were not being routed through the State budget/State Treasury System and hence, did not find mention in the Finance Accounts of the State due to which the Finance Accounts of the State were not providing a complete picture of the total funds received in the State. GoI decision to release all assistance directly to the State Government and not to the implementing agencies had

<sup>6</sup> State Implementing Agencies include Organisations/Institutions such as Non-Governmental Organisation which are authorised by the State Government to receive the funds from the GoI for implementing specific programmes in the State.

reduced the direct transfer of funds from ₹ 16.09 crore during 2015-16 to ₹ 13.31 crore in 2016-17 which again increased to ₹ 29.89 crore in 2017-18.

Out of ₹ 29.89 crore, ₹ 12.50 crore (41.82 per cent of the total funds transferred) was transferred under MPLAD (Member of Parliament Local Area Development) Scheme, ₹ 11.64 crore (38.94 per cent of the total funds transferred) to Registrar General, High Court of Sikkim and ₹ 3.19 crore (10.67 per cent of the total funds transferred) to the State Forest Development Agency, Sikkim. The details in this regard are shown in **Appendix 1.4**. With the release of these funds directly to the Implementing Agencies in the State, the resources of the State during the year 2017-18 stood at ₹ 13,726.68 crore (including the net receipt of ₹ 13,696.79 crore in the State) as on 31 March 2018.

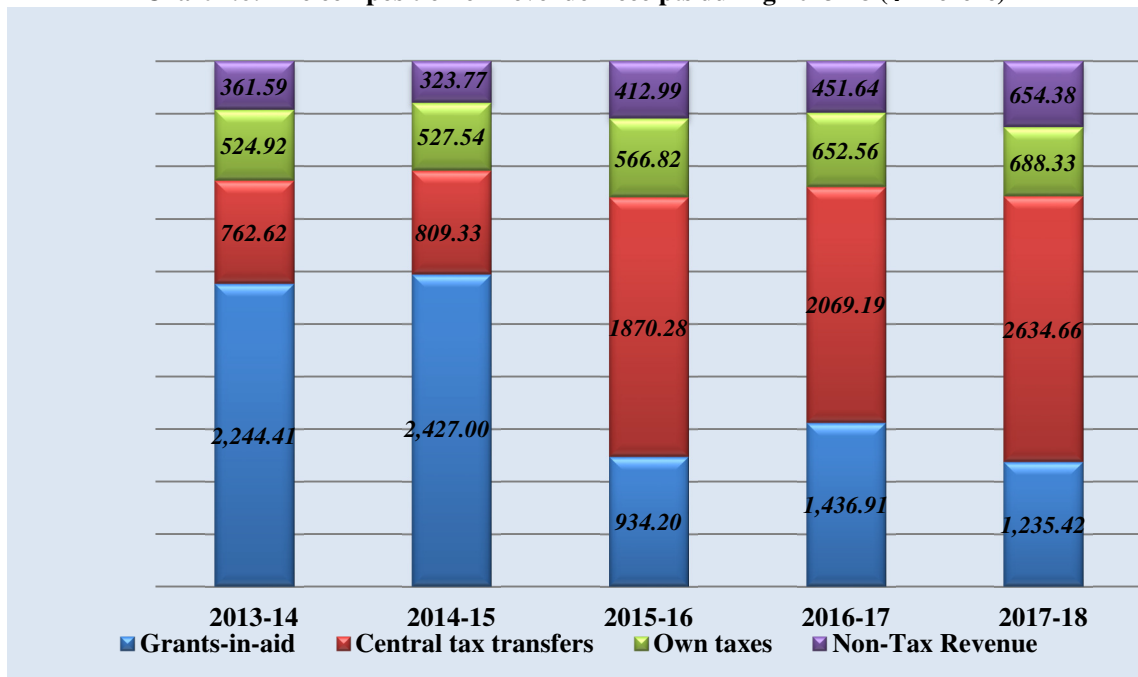
### 1.6 Revenue Receipts

The composition and trends of Revenue Receipts over the period 2013-18 are presented in **Appendix 1.5** and are also depicted in **Charts 1.6** and **1.7** respectively.

Revenue Receipts increased by ₹ 602.49 crore (13.07 per cent) from ₹ 4,610.30 crore in 2016-17 to ₹ 5,212.79 crore in 2017-18. The State's own resources, both Tax and Non-Tax Revenue contributed 25.76 per cent (₹ 1,342.71 crore) of the Revenue Receipts of the State during 2017-18. The balance was transferred from GoI in the form of State's share of taxes (₹ 2,634.66 crore) and Grants-in-aid contributions (₹ 1,235.42 crore).

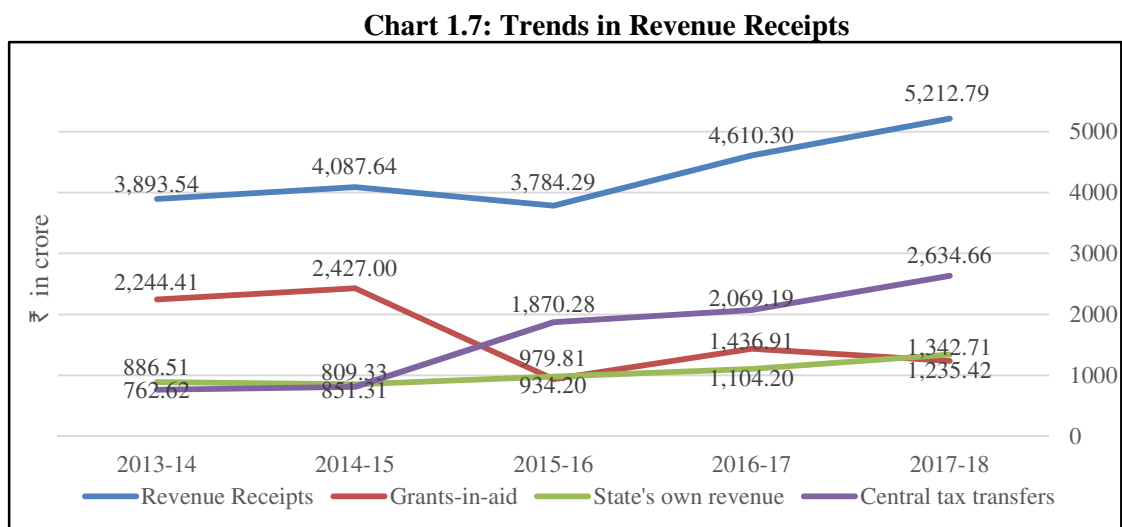
State's own resources consist of Tax Revenue and Non-Tax Revenue. The share of Tax Revenue in Revenue Receipts was 13.20 per cent (₹ 688.33 crore) and Non-Tax Revenue was 12.55 per cent (₹ 654.38 crore) during the year. Tax Revenue and Non-Tax Revenue both increased in 2017-18 compared to previous year. The compositions of Revenue Receipts during 2013-18 are depicted in **Chart 1.6**:

**Chart 1.6: The composition of Revenue Receipts during 2013-18 (₹ in crore)**



Source: Finance Accounts

Trends in Revenue Receipts during 2013-18 are depicted in **Chart 1.7:**



The trends in Revenue Receipts relating to GSDP are as reflected in the following **Table 1.6:**

**Table 1.6: Trends in Revenue Receipts relative to GSDP**

Particulars	(₹ in crore)				
	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue Receipts (RR)	3,893.54	4,087.64	3,784.29	4,610.30	5,212.79
Rate of growth of RR ( <i>per cent</i> )	18.4	4.99	(-)7.42	21.83	13.07
GSDP	13,862	15,407	18,034	20,020	22,248
Rate of growth of GSDP ( <i>per cent</i> )	12.35	11.14	17.05	11.01	11.13
Rate of growth of State's Own Tax ( <i>per cent</i> )	20.54	0.50	7.45	15.13	5.48
RR/GSDP ( <i>per cent</i> )	28.09	26.53	20.98	23.03	23.43
<b>Buoyancy ratios<sup>7</sup></b>					
Revenue buoyancy wrt GSDP	1.49	0.45	(-)0.44	1.98	1.17
State's Own Tax buoyancy wrt GSDP	1.66	0.05	0.44	1.37	0.49
Revenue buoyancy wrt State's Own taxes	0.90	9.99	(-)1	1.44	2.39

Source: Finance Accounts

The Revenue Receipts exhibited buoyancy *vis-à-vis* GSDP of more than one during 2017-18 due to significant high growth rate of Revenue Receipts in comparison to the growth rate of GSDP during the year. During 2016-17, Revenue Receipts buoyancy was 1.98 which became 1.17 during 2017-18. Growth rate in respect of Revenue Receipts for Sikkim for 2017-18 was 13.07 *per cent* as against 11.3 *per cent* for General Category States and 10.4 *per cent* for Special Category States.

### 1.6.1 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; the State's performance in mobilisation of

<sup>7</sup> Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.7 implies that Revenue Receipts tend to increase by 0.7 percentage points, if the GSDP increases by one *per cent*.

additional resources should be assessed in terms of revenue from its Own Tax and Non-Tax sources. The Tax and Non-Tax Revenue formed a major part of the States resources, and the performance of the State in mobilisation of Tax and Non-Tax is important in the long run for attaining self-sufficiency or reduced dependency on GoI.

The State's actual Tax and Non-Tax receipts for the year 2017-18 *vis-à-vis* assessment made by XIV FC are given in **Table 1.7:**

**Table 1.7: XIV FC recommendations and budget estimates *vis-à-vis* the actual**

(₹ in crore)			
Particulars	XIV FC projection	Budget Estimates	Actual
Tax Revenue	1,631	669.51	688.33
Non-Tax Revenue	398	426.46	654.38

The State exceeded the target set by XIV FC in respect of Non-Tax Revenue by ₹ 256.38 crore but fell short of target in respect of Tax Revenue by ₹ 942.67 crore in 2017-18. Further, the State succeeded in achieving the target set as per budget estimates in respect of Tax Revenue and Non-Tax Revenue.

### Tax Revenue

The main sources of State's Tax Revenue were taxes on sales, trade, *etc.* including State Goods and Services Tax with a contribution of 8.08 *per cent* in Revenue Receipts of the State followed by State Excise (2.89 *per cent*), Other Taxes (1.27 *per cent*), taxes on vehicles (0.56 *per cent*), stamps and registration fees (0.26 *per cent*) and land revenue (0.14 *per cent*). The trends in the major constituents of Tax Revenue during the period 2013-18 are shown in **Table 1.8:**

**Table 1.8: Tax Revenue**

(₹ in crore)					
Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Taxes on Sales, Trade etc.	286.33(26.09)	282.10(-1.48)	325.72(15.46)	364.82(12.00)	249.66 (-31.57)
State Goods & Service Tax (SGST)	0	0	0	0	171.39 (100)
State excise	120.64(8.57)	131.36(8.89)	142.08(8.16)	156.24(9.97)	150.47 (- 3.69)
Stamps and registration fees	6.46(20.75)	6.77(4.80)	8.51 (25.70)	12.57(47.71)	13.57(7.96)
Taxes on vehicles	18.52 (13.06)	19.42(4.86)	22.36 (15.14)	24.90(11.36)	29.37(17.95)
Land revenue	3.39(-40.11)	6.15(81.42)	1.85(-69.92)	6.39 (245.41)	7.44(16.43)
Taxes on goods and passengers	0.00	0.00	0.00	0.00	0.00
Other taxes	89.58 (28.17)	81.74(-8.75)	66.30(-18.89)	87.64(32.19)	66.43(- 24.20)
<b>Total</b>	<b>524.92</b>	<b>527.54</b>	<b>566.82</b>	<b>652.56</b>	<b>688.33</b>

Source: Finance Accounts. Figures in brackets indicate rate of growth in per cent.

Taxes on vehicles increased by 17.95 *per cent* due to increase in receipts under the motor vehicles. Similarly, taxes from land revenue and taxes on stamps & registration fees had increased by 16.43 *per cent* (₹ 1.05 crore) and 7.96 *per cent* (₹ 1.00 crore) respectively as compared to previous year. With the introduction of the Goods and Service Tax (GST) from July 2017, there was a new component in Tax Revenue of the State Goods & Service Tax (SGST) which was ₹ 171.39 crore.

The collection of taxes on sales, trade, *etc.*, decreased by 31.57 *per cent* (₹ 115.16 crore) during 2017-18 as compared to previous year due to implementation of GST. The collection of State Excise decreased by 3.69 *per cent* (₹ 5.77 crore) due to ban on sale of liquors in the State as well as on National Highways.

Other taxes had also decreased by 24.20 *per cent* (₹ 21.21 crore) due to decrease in receipts from cess under other Acts.

Growth rate in respect of Tax Revenue of Sikkim for the period 2016-17 to 2017-18 was 5.48 *per cent*. It was 12.2 *per cent* for General Category States and 49.3 *per cent* for Special Category States. Therefore, growth of Tax Revenue in Sikkim was lower than that of General Category and Special Category States. Moreover, Tax Revenue-GSDP ratio for the State was 3.09 *per cent* during 2017-18 as compared to 8.31 *per cent* for the Special Category States.

### Non-Tax Revenue

The Non-Tax Revenue, which constituted 12.55 *per cent* of total Revenue Receipts, had increased by ₹ 202.74 crore from ₹ 451.64 crore in 2016-17 to ₹ 654.38 crore in 2017-18 and was also higher than the budget projection by ₹ 227.92 crore. The main components which resulted in noticeable increase were 'Power' (₹ 140.22 crore) due to increase in other receipts under Hydel Generation, 'Interest receipts' (₹ 36.38 crore) and 'Miscellaneous General Service' (₹ 13.69 crore).

The main components of Non-Tax Revenue raised in the State during 2013-14 to 2017-18 are given in **Table 1.9**:

**Table 1.9: Composition of Non-Tax Revenue**

Revenue Head	2013-14	2014-15	2015-16	2016-17	2017-18
Interest receipts	67.02 (1.60)	66.44 (1.48)	72.52 (1.92)	78.38 (1.70)	114.76 (2.20)
Dividends and Profits	0.55 (0.01)	0.87 (0.02)	12.70 (0.34)	2.01 (0.04)	2.92 (0.06)
Other Non-Tax Receipts	294.02 (7.02)	256.46 (5.70)	327.77 (8.66)	371.25 (8.05)	536.70 (10.29)
<b>TOTAL</b>	<b>361.59</b>	<b>323.77</b>	<b>412.99</b>	<b>451.64</b>	<b>654.38</b>

Source: Finance Accounts. Figures in brackets indicate percentage to total Revenue Receipts.

During 2013-18, on an average, interest receipts contributed 1.78 *per cent* in the total Revenue receipts of the State. Similarly, dividends and profits contributed 0.09 *per cent* while 7.95 *per cent* came from other Non-Tax Receipts.

During 2013-18, the Non-Tax Revenue had constantly increased except during 2014-15.

### Cost recovery from Socio-Economic services

The ratio of Non-Tax Revenue to Revenue Expenditure is considered as an indicator of cost recovery from Socio-Economic Services. The details of recovery of current cost as ratio of Non-Tax Revenue Receipts to Revenue Expenditure in respect of Education, Health and Family Welfare, Water Supply and Sanitation and Irrigation during 2017-18 are given in **Table 1.10**:

**Table 1.10: Cost recovery from Socio-Economic Services**

(₹ in crore)

Service	Non-Tax Revenue Receipts (NTR)	Revenue Expenditure (RE)	Cost recovery (ratio of NTR/RE in per cent)
Education, Sports, Art and Culture	2.03	843.79	0.24
Health and Family Welfare	2.11	237.67	0.89
Water Supply and Sanitation	4.88	232.70	2.10
Minor Irrigation	0.34	43.56	0.78

Source: Finance Accounts

Cost recovery in respect of Education, Sports, Art and Culture during the year was 0.24 per cent being the lowest and the highest was 2.10 per cent pertaining to Water Supply and Sanitation.

### 1.6.2 Grants-in-aid from GoI

Grants-in-aid from GoI decreased from ₹ 1,436.91 crore in 2016-17 to ₹ 1,235.42 crore in 2017-18 as shown in **Table 1.11**.

**Table 1.11: Grants-in-aid from GoI**

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Non-Plan Grants	148.26	73.51	74.49	64.72	0.00
Grants for State Plan Schemes	1,803.20	1,738.54	321.57	684.64	6.26
Grants for Centrally Sponsored Schemes	--	--	--	0.31	919.17
Grants for Central Plan Schemes	0.20	2.91	2.32	0.00	0.00
Grants for Centrally Sponsored Plan Schemes	233.17	577.80	507.94	658.75	39.50
Grants for Special Plan Schemes	59.58	34.24	27.88	22.09	0.52
Grants under Finance Commission					70.52
Other Grants	-	-	-	6.40	199.45
<b>TOTAL</b>	<b>2,244.41</b>	<b>2,427.00</b>	<b>934.20</b>	<b>1,436.91</b>	<b>1,235.42</b>

Source: Finance Accounts

Grants-in-aid from GoI decreased by ₹ 201.49 crore (14.02 per cent) during 2017-18 over the previous year. Major component of Grants-in-aid from GoI were grants for Centrally Sponsored Schemes (₹ 919.17 crore) and Other Grants (₹ 199.45 crore).

### 1.6.3 Central tax transfers

There was an increase in the State's Share of Union taxes and duties in share of net proceeds on corporation tax, taxes on income other than corporation tax, wealth tax and other taxes and duties on commodities and services, as compared to the previous year. However, there was decrease in the State's Share of Union taxes and duties on customs, Union excise duties and service tax. There was new inclusion of Share of net proceeds on Central Goods and Service Tax (CGST) and Integrated Goods and Service Tax (IGST) with the implementation of GST.



Table 1.12: Central tax transfers

(₹ in crore)					
Share of net proceeds of taxes	2013-14	2014-15	2015-16	2016-17	2017-18
Central Goods and Service Tax (CGST)	-	-	-	-	35.28
Integrated Goods and Service Tax (IGST)	-	-	-	-	249.56
Corporation tax	256.44	282.58	592.56	638.61	835.64
Taxes on income other than corporation tax	168.86	201.79	415.18	467.69	670.05
Wealth tax	0.70	0.77	0.07	0.62	1.01
Customs	124.41	130.87	298.51	287.79	270.25
Union excise duties	87.87	73.90	245.23	351.79	261.34
Service tax	124.34	119.42	317.83	322.69	311.52
Other taxes and duties on commodities and services	-	-	0.90	0.00	0.01
<b>TOTAL</b>	<b>762.62</b>	<b>809.33</b>	<b>1,870.28</b>	<b>2,069.19</b>	<b>2,634.66</b>

Source: Finance Accounts

The Central tax transfers consist of share of corporation tax (₹ 835.64 crore), Taxes on income other than Corporation Tax (₹ 670.05 crore), Service Tax (₹ 311.52 crore), Union excise duties (₹ 261.34 crore), Customs (₹ 270.25 crore), Integrated Goods and Service Tax (IGST) (₹ 249.56 crore), Central Goods and Service Tax (CGST) (₹ 35.28 crore), wealth tax (₹ 1.01 crore) and Other Taxes and Duties on Commodities and Services (₹ 0.01 crore).

#### 1.6.4 XIV Finance Commission grants

The core mandate of the Finance Commission, as laid out in Article 280 of the Constitution, is to make recommendations regarding the distribution between the Union and the States of the net proceeds of taxes and the principles which should govern the Grants-in-aid of the revenues of the States out of the Consolidated Fund of India. The XIV FC was constituted by the President under Article 280 of the Constitution on 2 January 2013 to make recommendations for the period 2015-20. The XIV FC has made its recommendations for the period 2015-16 to 2019-20. Comparative statement of award of XIV FC in respect of Sikkim are given in **Table 1.13**:

Table 1.13: Statement of release of award of XIV FC

(₹ in crore)			
Grants for	Amount released		
	2015-16	2016-17	2017-18
Share of Union taxes	1,870.28	2,069.19	2,634.66
Finance Commission Grants (a+b+c)	46.34	62.48	70.53
a) Local bodies Grant	18.44	27.91	36.63
b) General Performance Grant	-	4.87	3.30
c) Disaster relief and others	27.90	29.70	30.60
<b>TOTAL</b>	<b>1,916.62</b>	<b>2,131.67</b>	<b>2,705.19</b>

Source: Information furnished by Finance, Revenue & Expenditure Department (FRED)

As seen from the above table, there was increase in the State's Share of Union taxes and duties during 2017-18 as well as in Finance Commission Grants during 2016-17 and 2017-18 as compared to 2015-16. Actual release of State's share of Union taxes and duties increased by ₹ 198.91 crore (10.64 per cent) during 2016-17 and by ₹ 764.38 crore (40.87 per cent) during 2017-18 as compared to release during 2015-16. There was an overall increase of ₹ 8.05 crore (12.88 per cent) in 2017-18 in release of XIV FC grant against the release during 2016-17.

### 1.6.5 Capital Receipts

The Capital Receipts of the State include non-debt and debt receipts, whose composition is discussed in Para 1.5.1 (Chart 1.2). The Public Debt Receipts during 2017-18 (₹ 1,053.46 crore) comprised internal debt receipts of ₹ 1,050.93 crore (99.76 per cent) and Loans & Advances from GoI ₹ 2.53 crore (0.24 per cent). Trends in growth and composition of Capital Receipts are depicted in **Table 1.14** below:

**Table 1.14: Trends in growth and composition of Capital Receipts**

(₹ in crore)

Sources of State's Receipts	2013-14	2014-15	2015-16	2016-17	2017-18
Capital Receipts (CR)	297.24	412.67	656.26	784.71	1,054.37
Miscellaneous Capital Receipts	-	-	--	-	-
Recovery of loans and advances	0.92	0.88	1.38	1.37	0.91
Public Debt Receipts	296.32	411.79	654.88	783.34	1,053.46
Growth rate of debt capital receipts (per cent)	50.56	38.97	59.03	19.62	34.48
Rate of growth of Non-Debt Capital Receipts (per cent)	2.22	(-) 4.35	56.82	(-) 0.72	(-) 33.58
Rate of growth of CR (per cent)	50.34	38.83	59.03	19.57	34.36
Public debt Repayments	88.74	87.03	196.13	246.26	342.63
Growth rate of debt repayments (per cent)	24.76	(-) 1.93	125.36	25.56	39.13

Source: Finance Accounts

As seen from the Table above, there was constant increase in Capital Receipts during 2013-14 to 2017-18 with an increase of ₹ 269.66 crore in 2017-18 over the previous year. The increase in growth rate of capital receipts was 34.36 per cent mainly due to increase in public debt over the previous year.

During 2017-18, the Public Debt Receipts recorded significant increase by 34.48 per cent (₹ 270.12 crore) and public repayment also increased by 39.13 per cent (₹ 96.37 crore) resulting in net increase of ₹ 173.75 crore in public debt receipts over the previous year. There was no miscellaneous Capital Receipt over the period.

### 1.6.6 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances, etc., which do not form part of the Consolidated Fund, are kept in the Public Accounts set up under Article 266 (2) of the Constitution of India and are not subject to vote by the State Legislature. Here, the Government acts as a banker. The balance after disbursements is the fund available with the Government for use. The details of balance in public account during 2013-18 is given in **Table 1.15**:

**Table 1.15: Details of balances in Public Accounts**

(₹ in crore)

Resources under various heads	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Public Accounts balances</b>					
a. Small savings, Provident fund, etc.	685.64	710.19	747.85	831.15	911.72
b. Reserve fund	313.15	430.61	441.38	507.06	505.99
c. Deposits and Advances	145.18	137.34	158.98	239.09	263.25
d. Suspense and Miscellaneous	99.03	158.75	254.99	186.04	211.26
e. Remittances	204.31	213.40	295.91	224.95	404.84
<b>TOTAL</b>	<b>1,447.31</b>	<b>1,650.29</b>	<b>1,899.11</b>	<b>1,988.29</b>	<b>2,297.06</b>

Source: Finance Accounts

Public Account balances steadily increased from ₹1,447.31 crore in 2013-14 to ₹ 2,297.06 crore in 2017-18.

### 1.6.7 Collection of Revenue under State Goods and Services Tax

The Sikkim Goods and Services Tax (SGST) Act, 2017 came into effect from 01 July 2017. The Protected revenue of the State for the year 2017-18 in accordance with Section 6 of GST (Compensation to States) Act, 2017, was fixed at ₹ 318.99 crore with monthly average protected revenue at the rate of ₹ 26.58 crore per month for the period.

Accordingly, the protected revenue of the State during the period from July 2017 to March 2018 was worked out to ₹ 239.22 crore (₹ 26.58 crore × nine months) whereas the actual revenue received by the State under SGST including arrears of Pre-GST taxes<sup>8</sup> (subsumed into the SGST) was ₹ 265.06 crore. Details of collection of revenue received by the State during the corresponding period are shown in the **Table 1.16**.

**Table 1.16: Details of Revenue collection by**

Sl No.	Particulars	Amount *(₹ in crore)
1	State Goods and Service Tax (SGST)	171.39
2	Arrears Pre-GST Taxes	93.67
<b>TOTAL</b>		<b>265.06</b>

Source: Finance Accounts, \*Provisional figures

It can be seen from the above table that the actual revenue collected by the Government of Sikkim was more than the protected revenue during the period (July 2017 to March 2018).

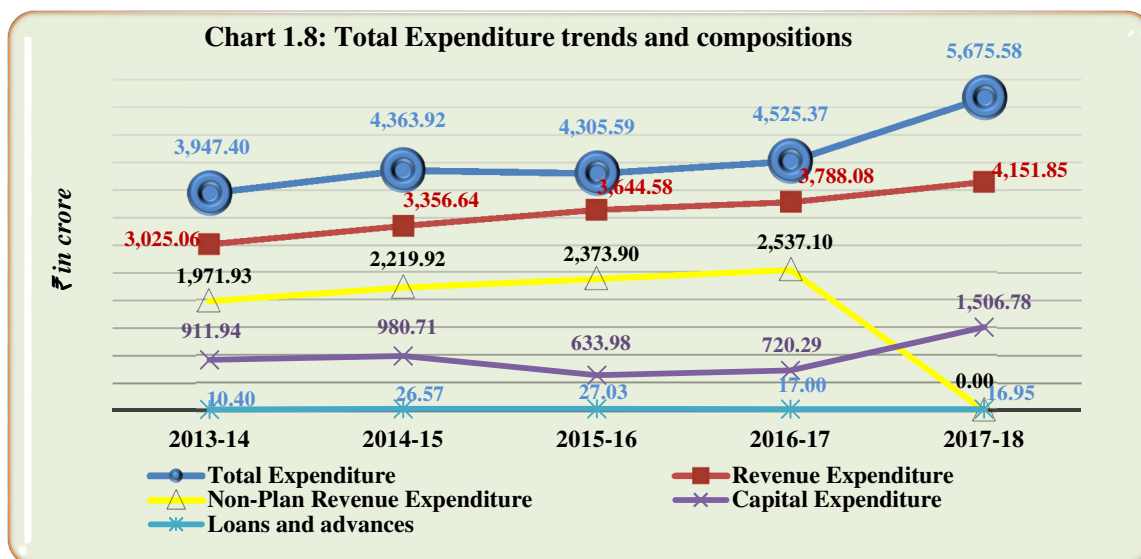
## 1.7 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance as it is an important aspect of fiscal policy to achieve developmental goals. Within the framework of fiscal responsibility legislation, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. At the same time, it is important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of vital expenditure, especially expenditure directed towards Development and Social Sectors.

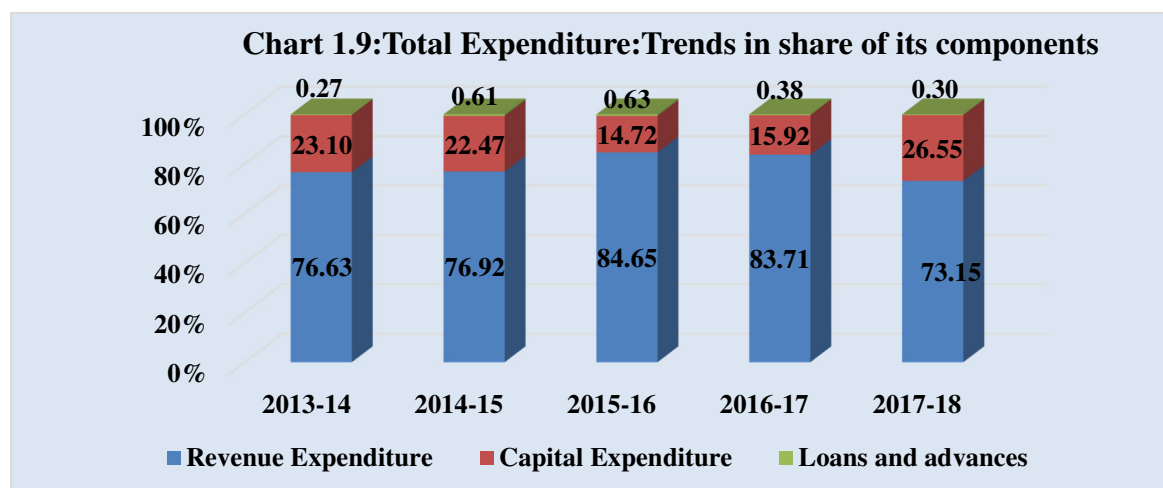
### 1.7.1 Growth and composition of expenditure

**Chart 1.8** presents the trends in Total Expenditure under revenue, capital and loans and advances, while **Chart 1.9** exhibits the share of these components in Total Expenditure.

<sup>8</sup> Value Added Tax, Central Sales Tax, Environment Cess and Medicine and Toilet Preparation are the revenue receipts subsumed to GST.



Source: Finance Accounts



Total Expenditure increased by 43.78 per cent (₹ 1,728.18 crore) from ₹ 3,947.40 crore in 2013-14 to ₹ 5,675.58 crore in 2017-18. Similarly, the total expenditure during 2017-18 increased by 25.42 per cent over the previous year.

During the period 2013-18, on an average, 79.01 per cent of the Total Expenditure was Revenue Expenditure. The share of Revenue Expenditure in the Total Expenditure constantly decreased from 84.65 per cent to 73.15 per cent during the last three years.

The share of Capital Expenditure in the Total Expenditure decreased from 23.10 per cent in 2013-14 to 15.92 per cent in 2016-17. However, it increased to 26.55 per cent in 2017-18.

Growth rate in respect of Total Expenditure for the State for the period 2016-17 to 2017-18 was 26.10 per cent. It was 4.7 per cent for the General Category States and 10.6 per cent for the Special Category States.

### 1.7.2 Buoyancy of expenditure

#### Buoyancy of Total Expenditure

Growth rates of Total Expenditure during 2013-18, its ratio and buoyancy with reference to GSDP and Revenue Receipts are presented in **Table 1.17**:

**Table 1.17: Total Expenditure - Basic parameters**

*(₹ in crore, ratio in per cent)*

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Total Expenditure (TE)	3,947.40	4,363.92	4,305.59	4,525.37	5,675.58
Rate of growth (in per cent)	17.66	10.55	(-1.34)	5.10	25.42
GSDP	13,861.90	15,406.72	18,033.94	20,020.46	22,247.91
Rate of growth of GSDP (per cent)	12.35	11.14	17.05	11.02	11.13
TE/GSDP (ratio)	28.48	28.32	23.87	22.60	25.51
Revenue Receipts/TE (ratio)	98.64	93.67	87.89	101.88	91.85
Revenue Expenditure	3,025.06	3,356.64	3,644.58	3,788.08	4,151.85
Rate of growth (in per cent)	20.65	10.96	8.58	3.94	9.60
Revenue Receipts	3,893.54	4,087.64	3,784.29	4,610.30	5,212.79
Rate of growth (in per cent)	18.4	4.99	(-7.42)	21.83	13.07
Capital expenditure	911.94	980.71	633.98	720.29	1,506.78
Rate of growth (in per cent)	8.26	7.54	(-35.35)	13.61	109.19
<b>Buoyancy of TE with</b>					
GSDP (ratio)	1.43	0.95	(-)0.08	0.46	2.28
Revenue Receipts (ratio)	0.96	2.11	0.18	0.23	1.94
<b>Buoyancy of Revenue Expenditure with</b>					
GSDP	1.67	0.98	0.50	0.36	0.86
Revenue Receipts	1.12	2.20	(-)1.16	0.18	0.73
<b>Buoyancy of Capital Expenditure with</b>					
GSDP	0.67	0.68	(-)2.07	1.24	9.81
Revenue Receipts	0.45	1.51	4.76	0.62	8.35

Source: Finance Accounts

During the period 2013-18, the growth rate of Total Expenditure was highest (25.42 per cent) in 2017-18 and lowest (-1.34 per cent) in 2015-16.

In 2017-18, Total Expenditure was 1.09 times of the Revenue Receipts. The buoyancy ratio of Total Expenditure to Revenue Receipts was 1.94 per cent.

The growth rate of Total Expenditure (25.42 per cent) in 2017-18 was higher than the growth rate of GSDP (11.13 per cent). The buoyancy of Total Expenditure to GSDP was 2.28 per cent in 2017-18. Revenue Receipts as a percentage of Total Expenditure stood at 91.85 per cent in 2017-18.

#### Buoyancy of Revenue Expenditure

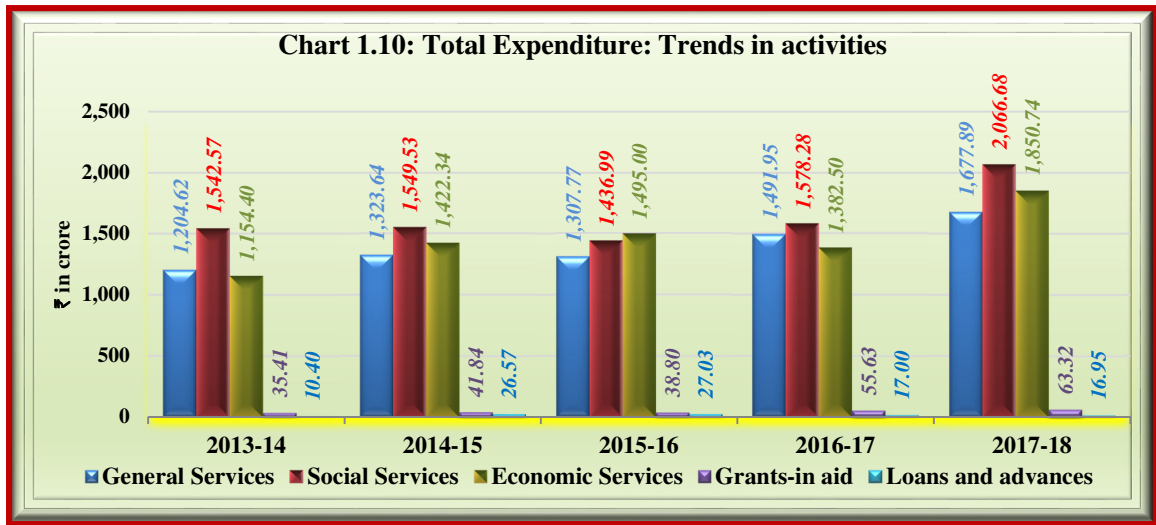
The growth in Revenue Receipts was higher than the growth of Revenue Expenditure in 2017-18. The growth of Revenue Expenditure (9.60 per cent) was lower than the growth of GSDP (11.13 per cent). However, growth of Revenue Receipts (13.07 per cent) was more than the growth of GSDP. For every one per cent growth in GSDP, Revenue Expenditure grew by 0.86 per cent.

### Buoyancy of Capital Expenditure

During 2017-18, the Capital Expenditure increased by 109.19 *per cent* as compared to previous year which was higher than the GSDP growth. For every one *per cent* growth in GSDP, Capital Expenditure grew by 9.81 *per cent*.

#### 1.7.3 Trends in expenditure by activities

In terms of activities, Total Expenditure is composed of expenditure on General Services (including interest payments), Social Services, Economic Services, Grants-in-aid and loans and advances. Relative shares of these components in Total Expenditure (including loans and advances) are indicated in **Chart 1.10**.



Source: Finance Accounts

The expenditure on General Services and interest together contributed 29.56 *per cent* in 2017-18 as against 32.97 *per cent* in 2016-17. On the other hand, expenditure on Social and Economic Services together accounted for 69.02 *per cent* in 2017-18 as against 65.43 *per cent* in 2016-17. The Grants-in-aid and loans and advances contributed 1.42 *per cent* during 2017-18 as against 1.60 *per cent* during 2016-17.

During 2017-18, expenditure on General Service, Social Services, Economic Services and Grants-in-aid increased against the previous year by ₹ 185.94 crore, ₹ 488.40 crore, ₹ 468.24 crore and ₹ 7.69 crore respectively. However, expenditure on Loans and advances decreased marginally by ₹ 0.05 crore over the previous year.

Some of the significant increases/ decreases in expenditure during 2017-18 are highlighted below:

- **General Services:** Increase in the services was mainly due to increase in expenditure under Public Works-Buildings (₹ 74.50 crore), Pension and retirement benefits (₹ 58.75 crore) and interest payment (₹ 37.78 crore)
- **Social Services:** Increase in the services was mainly due to increase in expenditure under Health and Family Welfare (₹ 179.76 crore), Water Supply (₹ 146.95 crore) and Education (₹ 126.26 crore).

- **Economic Services:** The increase was mainly due to increase in expenditure on Transport (₹ 410.37 crore).

#### 1.7.4 Incidence of Revenue Expenditure

The bulk of Total Expenditure goes towards Revenue Expenditure. Revenue Expenditure is incurred to maintain the current level of services and to make payment for past obligations and as such it does not result in any addition to the State's infrastructure and services network.

Revenue Expenditure increased by 37.25 per cent from ₹ 3,025.06 crore in 2013-14 to ₹ 4,151.85 crore in 2017-18 and it increased by 9.60 per cent from ₹ 3,788.08 crore in 2016-17 to ₹ 4,151.85 crore in 2017-18.

#### 1.7.5 Committed expenditure

Committed expenditure of the State Government on revenue account mainly consisted of interest payments, expenditure on salaries, pension and subsidies. **Table 1.18** presents the trends in the expenditure on these components during 2013-18:

**Table 1.18: Committed expenditure**

(₹ in crore)					
Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Salaries, of which	1,093.88 (55.47)	1,236.37 (55.69)	1,357.66 (57.19)	1,423.47 (56.11)	1,478.98
Non-Plan head	822.10	936.51	1,029.80	1,068.52	0 <sup>9</sup>
Plan head*	271.78	299.86	327.86	354.95	1,478.98
Interest payments	209.16 (10.61)	239.55 (10.79)	262.07 (10.09)	324.39 (12.79)	362.17
Expenditure on pension	260.63(13.20)	333.08(15.00)	402.35 (16.95)	446.43 (17.60)	505.18
Subsidies	15.60 (0.79)	14.78 (0.67)	8.03 (0.34)	2.24 (0.09)	2.21
<b>Total</b>	<b>1,578.86</b>	<b>1,823.78</b>	<b>2,030.11</b>	<b>2,196.53</b>	<b>2,348.54</b>
As per cent of Revenue Receipts					
Salaries	28.09	30.25	35.88	30.88	28.37
Interest payments	5.37	5.86	6.93	7.04	6.95
Pension	6.69	8.15	10.63	9.68	9.69
Subsidies	0.40	0.36	0.21	0.05	0.04
As per cent of Revenue Expenditure					
Salaries	36.16	36.83	37.25	37.58	35.62
Interest payments	6.91	7.14	7.19	8.56	8.72
Pension	8.62	9.92	11.04	11.79	12.17
Subsidies	0.52	0.44	0.22	0.06	0.05

Figures in the brackets indicate percentage to Non-Plan Revenue Expenditure except during 2017-18 where there was no Plan & Non Plan Head of accounts were operated.

\*Plan head also includes the salaries and wages paid under Centrally Sponsored Schemes for the years 2013-14 to 2016-17.

<sup>9</sup> During 2017-18, no Plan & Non Plan Head of accounts were operated.

### **Expenditure on salaries**

Salaries alone consumed 28.37 *per cent* of Revenue Receipts of the State during 2017-18. Salaries increased by 3.90 *per cent* from ₹ 1,423.47 crore in 2016-17 to ₹ 1,478.98 crore in 2017-18. During 2017-18, the expenditure on salaries was 35.62 *per cent* of the Revenue Expenditure.

### **Pension payments**

Pension payments increased by 13.15 *per cent* from ₹ 446.43 crore in 2016-17 to ₹ 505.18 crore in 2017-18. Pension payments take away 9.69 *per cent* of the Revenue Receipts and accounted for 12.17 *per cent* of Revenue Expenditure.

### **Interest payments**

Interest payments increased by 11.65 *per cent* from ₹ 324.39 crore in 2016-17 to ₹ 362.17 crore in 2017-18. Interest payments of ₹ 362.17 crore in 2017-18 consisted of payments on internal debt and market loans (₹ 277.50 crore), small savings, provident fund, *etc.* (₹ 74.66 crore) and loans received from GoI (₹ 10.01 crore). The interest payments during 2017-18 were less than the assessment of XIV FC (₹ 378 crore).

### **Subsidies**

In any welfare State, it is not uncommon to provide subsidies/ subventions to the disadvantaged sections of the society. Subsidies are dispensed not only explicitly but also implicitly by providing subsidised public service to the people. Budgetary support to financial institutions, inadequate returns on investments and poor recovery of user charges from Social and Economic Services provided by the Government fall in the category of implicit subsidies.

**Table 1.18** shows that expenditure on payment of subsidies shows a marginal decrease of 1.34 *per cent* from ₹ 2.24 crore in 2016-17 to ₹ 2.21 crore during 2017-18. It constituted 0.05 *per cent* of Revenue Expenditure.

During 2017-18, out of total subsidies of ₹ 2.21 crore, ₹ 2.08 crore was granted as Food Subsidies, ₹ 0.03 crore was granted as Transport Subsidies and ₹ 0.10 crore was granted for Science Centre at Marchak.

#### **1.7.6 Financial assistance to local bodies and others**

The quantum of assistance provided by way of grants to local bodies and others during 2017-18, relating to the previous five years, is presented in **Table 1.19**:



Table 1.19: Financial assistance to local bodies and other institutions

(₹ in crore)

Financial Assistance to Institutions	2013-14	2014-15	2015-16	2016-17	2017-18
Educational Institutions (Non-Government Aided School, etc.)	0.05	0.05	0.00	0.00	0.00
Zilla Parishads and Other Panchayati Raj Institutions	260.51	276.10	314.38	256.91	278.80
Cooperative societies	1.17	0.24	1.37	1.38	0.00
Other Institutions and Bodies (including statutory bodies)	0.63	2.43	2.03	46.61	90.47
Assistance to Municipalities/Municipal Councils	0.00	0.00	0.00	0.00	0.00
Assistance to local bodies, Corporations, Urban Development	0.00	0.00	0.00	0.00	0.00
Farmers	0.00	0.00	0.00	0.00	0.00
<b>TOTAL</b>	<b>262.36</b>	<b>278.82</b>	<b>317.78</b>	<b>304.90</b>	<b>369.27</b>
Assistance as percentage of Revenue Expenditure	8.67	8.31	8.72	8.05	8.89

Source: Finance Accounts

The total assistance during 2017-18 increased by 21.11 per cent over the previous year mainly due to increase in assistance to Panchayati Raj Institutions (PRIs).

### 1.7.7 Local bodies

The position regarding major issues relating to local bodies, i.e., PRI are summarised in the following paragraphs:

#### Panchayati Raj Institutions

The Sikkim Panchayat Act, 1993 was enacted to establish a two tier PRI system at village and district levels in the State following the 73rd Constitutional Amendment. The system envisaged elected bodies at village (Gram Panchayats (GPs)) and district level (Zilla Panchayat (ZP)). As of March 2018, there were four ZPs and 176 GPs in the State.

The PRIs are solely funded by the Government through Grants-in-aid from Central and State Governments for general administration as well as development activities. Funds are initially reflected in the State budget against the outlay of various administrative departments under Grants-in-aid. Individual departments thereafter transfer the funds to *Sachiva*, Zilla Panchayat for Zilla Panchayats and Additional District Collector (Development) for GPs as Grants-in-aid. The ZPs and GPs, in turn, deposit their funds in the savings account maintained with the nationalised banks.

Audit of the PRIs during 2017-18 revealed the following:

- As per the constitutional provisions, 29 functions, mentioned in the XI Schedule of the Constitution had to be transferred to the PRIs. The State Government through Notification dated 29 April 2008 had transferred only 20 functions to the PRIs. Remaining nine functions were still with the State Government. These functions were being discharged by the respective departments.
- Scrutiny of records in 88 GPs revealed that GPs had neither prepared Balance Sheet during the period under report nor maintained basic records and registers properly as required under Sikkim Panchayat Rules, 2004.
- The GPs had not initiated adequate steps to augment their revenue base despite having enabling provisions in Sikkim Panchayat Act, 1993 and recommendation of successive State Finance Commissions accepted by State Government.

- The Internal Controls in the GPs were not robust to ensure maintenance of accounts in appropriate format. Internal audit by Director, Local Fund Audit, supervision by Sachiva and Zilla Panchayat was also inadequate.
- Internal audit was inadequate as audit of only 47 GPs was undertaken against the plan for all the 176 GPs.

### **Urban Local Bodies**

Government of Sikkim enacted the Sikkim Municipalities Act, 2007 empowering the Urban Local Bodies (ULBs) to function as institutions of self-government to accelerate economic development in urban areas in the State following 74th Constitutional Amendment. The ULBs were formed only in 2010-11 having three tier structure viz., Municipal Corporation, Municipal Councils and Nagar Panchayats. As of March 2018, there was one Municipal Corporation, three Municipal Councils and three Nagar Panchayats.

The ULBs are largely funded through Grants-in-aid from Central and State Governments for general administration as well as development activities. The ULBs, in turn, deposit their funds in the savings account maintained with the nationalised banks.

Audit of the ULBs during 2017-18 revealed the following:

- Out of 18 functions listed in the XII Schedule of the Constitution, only five functions were partially transferred by the State Government to the Gangtok Municipal Corporation; four functions were partially transferred by the State Government to the Rangpo Nagar Panchayat and three functions were partially transferred by the State Government to the five ULBs (Namchi Municipal Council, Naya Bazar – Jorethang Municipal Council, Gyalshing Municipal Council, Singtam Nagar Panchayat and Mangan Nagar Panchayat) as of March 2018.
- The State Government had not set up Property Tax Board as of March 2018 for realisation of property tax.
- Internal audit was inadequate as none of the seven planned ULBs was audited.

## **1.8 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 of expenditure.

### **1.8.1 Adequacy of public expenditure**

The expenditure responsibilities relating to Social Sector and Economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key Social Services like education, health, *etc.* Low fiscal priority (ratio of expenditure category to aggregate expenditure) can be stated to have been attached to a particular sector if the priority given to that particular head of expenditure is decreasing over the years.

**Table 1.20** analyses the fiscal priority of the State Government with regard to Development Expenditure, Social Expenditure and Capital Expenditure in 2013-14, 2016-17 and the current year 2017-18:

**Table 1.20: Fiscal priority of the State in 2013-14, 2016-17 and 2017-18**

<i>(in per cent)</i>							
<b>Fiscal priority of the State</b>	<b>AE/GSDP*</b>	<b>DE/AE</b>	<b>SSE/AE</b>	<b>ESE/AE</b>	<b>CE/AE</b>	<b>Education/AE</b>	<b>Health/AE</b>
Sikkim 2013-14	28.50	68.60	39.30	29.20	23.10	17.90	6.50
Sikkim 2016-17	22.60	65.80	34.90	30.90	15.90	18.10	6.20
Sikkim 2017-18	25.50	69.30	42.90	32.80	26.60	16.70	8.10
Special Category States' (SCS) Average 2013-14	23.50	64.00	37.60	29.30	13.80	18.30	5.40
SCS' Average 2016-17	27.40	61.40	34.20	30.00	13.60	16.60	5.40
SCS Average 2017-18	25.80	58.90	34.90	28.90	15.50	18.20	6.20

*AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure ESE: Economic Sector Expenditure, CE Capital Expenditure., Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and loans and advances disbursed. GSDP: Figures available on CSO website as on 1 August 2017, except Arunachal Pradesh, Assam, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland and Tripura where the figures have been provided by respective PAsG/AsG.*

The fiscal priority given by the State Government to various expenditure heads during 2013-14, 2016-17 and 2017-18 as depicted in the table above is summarised below:

- The AE/GSDP ratio of the State Government in 2017-18 had decreased by three *per cent* as compared to 2013-14.
- The ratio of DE as a proportion to AE increased by 0.70 *per cent* and 3.50 *per cent* in 2017-18 as compared to 2013-14 and 2016-17 respectively which indicated that the State had given priority to this category of expenditure during 2017-18.
- Social Sector, expenditure as a percentage of AE during 2017-18, showed increase of 3.60 *per cent* and increase of eight *per cent* as compared to 2013-14 and 2016-17 respectively.
- In Economic Sector, expenditure as a percentage of AE had also increased by 1.90 *per cent* from 30.90 *per cent* in the year 2016-17 to 32.80 *per cent* in 2017-18.
- The percentage of Capital Sector expenditure to AE increased by 3.50 *per cent* and 10.70 *per cent* in 2017-18 as compared to 2013-14 and 2016-17 respectively indicating that the State Government had given more emphasis to Capital Expenditure during the year.
- The expenditure on education as a percentage of AE had decreased from 17.90 *per cent* in the year 2013-14 to 16.70 *per cent* in the year 2017-18 and the percentage of expenditure on health had increased from 6.50 *per cent* in 2013-14 to 8.10 *per cent*, an increase of 1.60 *per cent* in 2017-18.

### **1.8.2 Efficiency of expenditure use**

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

merit goods<sup>10</sup>. Apart from improving the allocation towards Development Expenditure<sup>11</sup>, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of Capital Expenditure to Total Expenditure and proportion of Revenue Expenditure being spent on operation and maintenance of the existing Social and Economic Services. The higher the ratio of Social and Economic Services to Total Expenditure, the better would be the quality of expenditure. **Table 1.21** presents the trends in Development Expenditure relating to the aggregate of the State during 2017-18 *vis-à-vis* the previous years:

**Table 1.21: Development Expenditure**

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Total Expenditure (TE)	3,947.40	4,363.92	4,305.59	4,525.37	5,675.58
Development Expenditure (DE)	2,706.97	2,998.37	2,958.95	2,977.78	3,933.92
Percentage of DE to total expenditure	68.58	68.71	68.72	65.80	69.31
Composition of DE					
Revenue	1,954.55 (72.20)	2,100.68 (70.06)	2,361.98 (79.83)	2,311.68 (77.63)	2,560.40 (65.08)
Capital	742.42 (27.43)	871.19 (29.06)	570.01 (19.26)	649.10 (21.80)	1,357.02 (34.50)
Loans and advances	10.00 (0.37)	26.50 (0.88)	26.96 (0.91)	17.00 (0.57)	16.50 (0.42)

Source: Finance Accounts. Figures in brackets indicate percentage to aggregate expenditure (Development Expenditure).

Development Expenditure comprising Revenue Expenditure, Capital Outlay and loans and advances on Socio-Economic Services increased from ₹ 2,706.97 crore in 2013-14 to ₹ 3,933.92 crore in 2017-18 and also increased as compared to 2016-17 (32.11 *per cent*). As a percentage of Total Expenditure, it increased from 68.58 *per cent* in 2013-14 to 69.31 *per cent* in 2017-18. On an average, 73 *per cent* of the Development Expenditure was on revenue account while Capital Expenditure including loans and advances accounted for balance 27 *per cent* during the years.

In 2017-18, Development Revenue Expenditure included, *inter alia*, expenditure on salary (₹ 1,032.76 crore), subsidy (₹ 2.21 crore) and financial assistance to local bodies and other institutions (₹ 369.27 crore).

<sup>10</sup> Core public goods are those which all citizens enjoy in common in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of those goods, *e.g.*, enforcement of law and order, security and protection of citizen's rights, pollution free air and other environmental goods and road infrastructure, *etc.*

Merit goods are commodities that the public sector provides free or at subsidised rates because an individual or society should have them based on some concept of need, rather than ability and willingness to pay the Government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidised food for the poor to support nutrition, delivery of health services to improve quality of life and reduce mortality, providing basic education to all, drinking water and sanitation, *etc.*

<sup>11</sup> The analysis of expenditure is segregated into Development and Non-Development Expenditure. All expenditure relating to revenue account, Capital Outlay and loans and advances is categorised into Social, Economic and General Services. Broadly, the Social and Economic Services constitute Development Expenditure, while expenditure on General Services is treated as Non-Development Expenditure.

The efficiency of Government expenditure on selected parameters in some major areas under Social and Economic Services is depicted in **Table 1.22**:

**Table 1.22: Efficiency of expenditure use**

(Ratio in per cent)

Particulars	2016-17		2017-18	
	Ratio of CE to TE	Share of salaries (excluding wages and O & M) in RE	Ratio of CE to TE	Share of salaries (excluding wages and O & M) in RE
<b>Social Services (SS)</b>				
Education, sports, art and culture	5.62	50.48	10.32	48.07
Health and family welfare	25.85	66.33	52.85	60.43
Water supply, sanitation, housing and urban development	40.57	19.64	45.89	9.00
Others	4.82	21.55	6.66	23.33
<b>Total (SS)</b>	<b>15.39</b>	<b>44.99</b>	<b>25.81</b>	<b>40.53</b>
<b>Economic Services (ES)</b>				
Agriculture and allied activities	3.06	54.96	4.44	50.85
Irrigation and flood control	2.58	34.50	4.20	23.19
Power and energy	21.32	42.62	26.66	45.19
Transport	64.33	52.75	77.30	18.55
Others	19.58	21.32	25.67	41.28
<b>Total (ES)</b>	<b>29.04</b>	<b>40.22</b>	<b>44.14</b>	<b>40.04</b>
<b>TOTAL (SS+ES)</b>	<b>21.80</b>	<b>42.97</b>	<b>34.50</b>	<b>40.34</b>

Source: Finance Accounts. TE-Total Expenditure [(CE+RE of the sub-sectors)]; CE-Capital Expenditure (sub sector); RE-Revenue Expenditure (sub sectors).

### Expenditure on Social Services

Capital Expenditure on Social Services increased from ₹ 243.21 crore in 2016-17 to ₹ 534.53 crore in 2017-18. There was increase in ratio of capital to Total Expenditure on Social Services by 10.42 *per cent* as compared to the previous year.

The share of salary expenditure under Social Services in Revenue Expenditure was 44.99 *per cent* in 2016-17, which decreased to 40.53 *per cent* in 2017-18.

### Expenditure on Economic Services

Capital Expenditure on Economic Services increased from ₹ 405.89 crore in 2016-17 to ₹ 822.49 crore in 2017-18. There was increase in ratio of capital to Total Expenditure on Economic Services by 15.10 *per cent*.

The share of salary expenditure under Economic Services which was 40.22 *per cent* in 2016-17 had marginally decreased to 40.04 *per cent* of Revenue Expenditure in 2017-18.

## 1.9 Financial analysis of Government expenditure and investments

In the post-Mid Term Fiscal Plan (MTFP) framework, the Government is expected to keep its fiscal deficit (borrowing) not only at low levels but also to meet its capital expenditure/ investment (including loans and advances) requirements. In addition, the State

Government needs to initiate measures to earn adequate return on its investments and recover cost of borrowed funds rather than bearing the same in its budget in the form of implicit subsidy and also needs to 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 2017-18 *vis-à-vis* previous years.

### **1.9.1 Incomplete projects**

The department-wise information pertaining to incomplete projects as on 31 March 2018 is given in **Table 1.23**:

**Table 1.23: Department wise profile of incomplete projects**

(₹ in crore)

Department	No. of incomplete projects as on 31 March 2018	Initial budgeted cost	Actual expenditure as on 31 March 2018	Projects scheduled to be completed within March 2018	
				No of Projects	Actual expenditure as on 31 March 2018
Human Resource Development	78	170.08	65.20	50	44.76
Urban Development and Housing	61	356.06	169.83	21	135.24
Building and Housing	07	102.18	67.93	07	67.93
<b>TOTAL</b>	<b>146</b>	<b>628.32</b>	<b>302.96</b>	<b>78</b>	<b>247.93</b>

Source: Finance Accounts

There were 146 incomplete projects (estimated cost ₹ 628.32 crore) as on 31 March 2018 on which an expenditure of ₹ 302.96 crore had been incurred. Out of 146 incomplete projects, 78 projects were due to be completed by 31 March 2018 and in case of 34 projects, target dates of completion were not furnished by the departments. Due to non-completion of projects in scheduled time, benefits of the projects did not reach the intended beneficiaries. Information from eight<sup>12</sup> departments were awaited (September 2018).

### **1.9.2 Investment and returns**

As of March 2018, Government had invested ₹ 102.43 crore in Statutory Corporations, Banks, Joint Stock Companies and Co-operatives as detailed in succeeding paragraphs. The return during 2017-18 was 2.85 *per cent* as detailed in **Table 1.24** below:

**Table 1.24: Return on investment**

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Investment at the end of the year	97.42	97.42	97.42	97.42	102.43
Return	0.55	0.87	12.70	2.01	2.92
Return ( <i>per cent</i> )	0.56	0.89	13.04	2.06	2.85
Average rate of interest on Government borrowings ( <i>per cent</i> )	8.33	8.38	8.17	8.22	8.12
Difference between interest rate and return ( <i>per cent</i> )	7.77	7.49	(-)4.87	6.16	5.27

Source: Finance Accounts

<sup>12</sup> Food, Civil Supplies & Consumer Affairs, Tourism & Civil Aviation, Rural Management & Development, Roads & Bridges, Energy & Power, Water Resources & River Development, Water Security & Public Health Engineering and Health Care, Human Service & Family welfare.

Returns during current year were due to receipt of dividend from companies and bank (State Bank of Sikkim: ₹ 1.33 crore, Sikkim Distilleries Limited: ₹ 1.45 crore, Denzong Cinema: ₹ 0.01 crore and Multipurpose Co-operative Society ₹ 0.13 crore).

Higher returns during 2015-16 was due to receipt of dividend from companies, bank and co-operatives (State Bank of Sikkim- ₹ 5.34 crore, Sikkim Distilleries Ltd- ₹ 7.24 crore, Denzong Cinema- ₹ 0.01 crore, Multipurpose Co-operative Society- ₹ 0.11 crore).

The details of investment of ₹ 102.43 crore up to the end of 2017-18 by the State Government in Statutory Corporations (three), Joint Stock Companies (21) and Banks and Co-operative Societies (eight) are detailed in **Appendix 1.6**.

It was noticed that the Government had invested ₹ 57.41 crore in the following Companies incurring recurring losses (**Table 1.25**):

**Table 1.25: Investment in Government Companies under perennial loss**

(₹ in crore)

Sl. No.	Name of the Government Company	Investment upto 2017-18		Cumulative loss*	Year of accounts approved by Board
		Equity and loans	Subsidy/ Grants		
1	Sikkim Power Investment Corporation Limited (SPICL)	0.01	Nil	782.84	2017-18
2	Sikkim Power Development Corporation (SPDC)	57.40	Nil	115.44	2017-18
	<b>TOTAL</b>	<b>57.41</b>	<b>Nil</b>	<b>898.28</b>	

Source: Financial Statements of the Companies

\*Accumulated loss as per the latest Annual Accounts approved by the Board.

Against 19 working Companies/ Corporations wherein State Government had invested ₹ 2,321.54 crore (₹ 2,319.51 crore as equity and ₹ 2.03 crore as loan), eight<sup>13</sup> companies/ corporations were earning profits as per their latest finalised annual accounts, while the remaining had incurred losses.

The aggregate net worth of the 19 PSUs was ₹ 2,813.53 crore as per their latest finalised accounts. The net worth in respect of two Companies<sup>14</sup> was negative (-₹ 785.14 crore) as the accumulated losses had completely eroded the equity capital as well as the reserves.

### 1.9.3 State PSUs-finalisation of accounts and enhancing financial viability

The XIII FC recommended that all States should endeavour to ensure clearance of the accounts of all Public Sector Undertakings (PSUs).

Under Section 96 of the Companies Act, 2013, the Government Companies are also required to adopt their annual accounts within six months of the close of the financial year, i.e., by 30 September every year.

The Companies Act, 1956/Companies Act, 2013 as amended, has not been extended to the State of Sikkim. The Government Companies in Sikkim are registered under the

<sup>13</sup> SC, ST & OBC Development Corporation, Sikkim Industrial Development & Investment Corporation, Sikkim Tourism Development Corporation, State Bank of Sikkim, Government Fruit Preservation Factory, Sikkim Milk Union, Sikkim State Co-operative Bank & Sikkim Marketing Federation.

<sup>14</sup> Sikkim Power Investment Corporation & Government Fruit Preservation Factory.

Registration of Companies Act, Sikkim, 1961 while the Statutory Corporations are governed by the proclamation of the erstwhile Chogyal (King) of Sikkim. However, only four<sup>15</sup> state PSUs (out of 19 working State PSUs) operating within Sikkim have been incorporated under the Companies Act 2013, having their registered offices outside the State. As on 30 September 2018, three accounts<sup>16</sup> in respect of three out of the above mentioned four SPSUs are pending finalisation. Further, there are 52 arrear accounts pending finalisation in respect of the 14 SPSUs<sup>17</sup> out of the 19 State PSUs due to delay in completion/adoption of accounts by the Board of Directors of the respective State PSUs as detailed below:

**Table 1.26: Delay in completion/adoption of accounts by the Board of Directors**

Sl. No.	Name of the PSUs	Year for which annual accounts to be finalised	Number of accounts
1	Sikkim Poultry Development Corporation Ltd.(SPDCL)	2009-10 to 2017-18	9
2	Sikkim Hatcheries Ltd.(SHL)	2009-10 to 2017-18	9
3	Sikkim Livestock Processing and Development Corporation Ltd.	2013-14 to 2017-18	5
4	Scheduled Caste, Scheduled Tribe and Other Backward Class Development Corporation Ltd. (SABCCO)	2014-15 to 2017-18	4
5	Sikkim Tourism Development Corporation	2017-18	1
6	State Bank of Sikkim	2017-18	1
7	State Trading Corporation of Sikkim	2017-18	1
8	Temi Tea Estate	2014-15 to 2017-18	4
9	Sikkim Milk Union	2014-15 to 2017-18	4
10	Sikkim Sate Co-operative Bank	2017-18	1
11	Sikkim Marketing Federation	2015-16 to 2017-18	3
12	Sikkim Industrial Development and Investment Corporation	2016-17 to 2017-18	2
13	Teesta Urja Limited	2017-18	1
14	Government Food Preservation Factory	2011-12 to 2017-18	7
<b>TOTAL</b>			<b>52</b>

Source: Compilation figures of the Commercial Section

There is need for State Government to engage domain experts to clear arrears of accounts for clear financial picture of companies.

#### **1.9.4 Loans and advances by the State Government**

In addition to investments in Companies, Corporations and Co-operative Institutions, Government also provided loans and advances to Institutions/Organisations/Government servants. **Table 1.27** presents the position of outstanding loans and advances as of March 2018 and interest receipts *vis-à-vis* interest payments during the last five years:

<sup>15</sup> Teesta Urja Limited, Teesta Valley Transmission Limited, Gangtok Smart City Development Limited (GSCDT) and Namchi Smart City limited (NSCL). The first accounts of NSCL and GSCDL were yet to be prepared.

<sup>16</sup> Teesta Urja Limited, NSCL and GSCDL for the year 2017-18.

<sup>17</sup> Excluding the first accounts of NSCL and GSCDL, which were yet to be prepared.



Table 1.27: Average interest received on loans and advances by the State Government

(₹ in crore)					
Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Opening balance</b>	<b>99.99</b>	<b>109.48</b>	<b>135.17</b>	<b>160.83</b>	<b>176.46</b>
Amount advanced during the year	10.40	26.57	27.03	17.00	16.95
Amount repaid during the year	0.91	0.88	1.37	1.37	0.92
<b>Closing balance</b>	<b>109.48</b>	<b>135.17</b>	<b>160.83</b>	<b>176.46</b>	<b>192.49</b>
Net addition	(+)9.49	(+)25.69	(+)25.66	(+)15.63	(+) 16.03
Interest receipts	4.18	1.76	*00	*00	*0.00
Interest receipts as <i>per cent</i> to outstanding loans and advances	3.82	1.30	*00	*00	*0.00
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government	5.76	5.76	5.38	5.90	5.56
Difference between interest payments and interest receipts (in <i>per cent</i> )	1.94	4.46	5.38	5.90	5.56

Source: Finance Accounts. \*No interest on loans & advances was received.

Out of amount of ₹ 16.95 crore advanced during the year 2017-18, ₹ 12.50 crore was loan for general financial institutions, ₹ 4.00 crore was advance as the educational loans for higher studies in colleges and universities, and ₹ 0.45 crore was towards house building advance to the Government servants.

Loans and advances outstanding as of March 2018 aggregated to ₹ 192.49 crore. No interest on loans and advances was received by the Government during the financial year 2017-18.

### 1.9.5 Cash balances and investment of cash balances

Table 1.28 depicts the cash balances and investments made therefrom by the State Government during the year:

Table 1.28: Investment of cash balances

(₹ in crore)		
Particulars	As of 31 March 2017	As of 31 March 2018
(a) General Cash Balance -		
• Cash in Treasuries		
• Deposits with Reserve Bank		
• Deposits with other Banks	112.17	597.16
• Remittances in transit - local	-	-
<b>Total</b>	112.17	597.16
<b><i>Investments held in Cash Balance investment account</i></b>	1,910.00	1,948.39
<b>Total (a)</b>	<b>2,022.17</b>	<b>2,545.55</b>
(b) Other Cash Balances and Investments		
Cash with departmental officers viz. Public Works Department Officers, Forest Department Officers, District Collectors	0.95	0.95
Permanent advances for contingent expenditure with departmental officers	0.43	0.44
Investment of earmarked funds	413.28	447.93
<b>Total (b)</b>	<b>414.66</b>	<b>449.32</b>
<b>GRAND TOTAL (a)+(b)</b>	<b>2,436.83</b>	<b>2,994.87</b>

Source: Finance Accounts

Under a resolution passed by the State Government in the year 1968-69, the State Bank of Sikkim (SBS) was vested with the responsibility of receiving money on behalf of Government and making all Government payments and keeping custody of the balances of

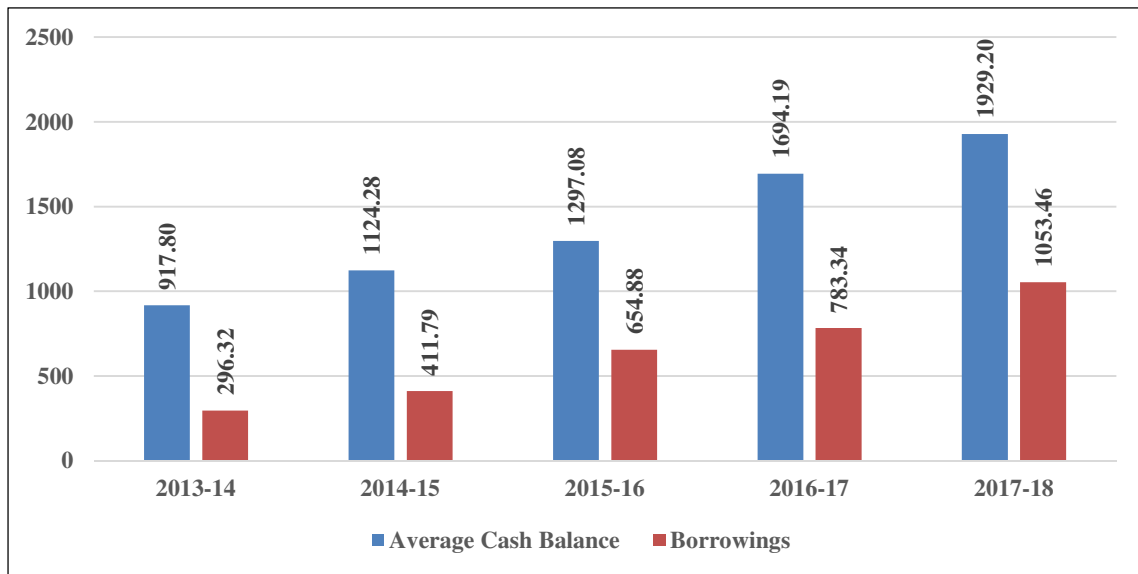
Government in current account as well as fixed deposits which could be made through the branches of the Bank. The arrangement continued after accession of Sikkim into the Indian Union. As per the Finance Accounts of 2017-18, there was a balance of ₹ 548.77 crore with the SBS as on 31 March 2018. However, as per the records of the SBS, the cash balance of the State Government stood at ₹ 514.56 crore leaving an un-reconciled balance of ₹ 34.21 crore.

It was noticed that the State Government’s opening general cash balance was ₹ 2,022.17 crore (‘Cash deposits with other Banks’- ₹ 112.17 crore and ‘Investments held in cash balance investment Account’- ₹ 1,910.00 crore) while the closing general cash balance showed an increase of 26 *per cent* (₹ 523.38 crore) and stood at ₹ 2,545.55 crore (‘Cash deposits with other Banks’- ₹ 597.16 crore and ‘Investments held in cash balance investment Account’- ₹ 1,948.39 crore). The increase in the general cash balance was mainly due to receipt of ₹ 530.81 crore into SBS in the month of March 2018. The State Government had earned an interest of ₹ 110.68 crore from the cash balance investments during 2017-18.

The average General cash balance *vis-à-vis* borrowings during the last five years is depicted in the **Chart 1.10 A**.

**Chart 1.10A: Average General Cash Balance *vis-à-vis* Borrowings**

(₹ in crore)



The above Chart shows that the State Government resorted to borrowings despite having huge average general cash balances during the period 2013-14 to 2016-17. During the year 2017-18, despite having average general cash balance of ₹ 1,929.20 crore in ‘Investments held in cash balance investment Account’, the Government resorted to market borrowings to the tune of ₹ 1,053.46 crore. Audit analysis showed that the interest realised on the cash balance investment account was only 5.74 *per cent*<sup>18</sup> while the Government paid an average interest of 8.12 *per cent* on its market borrowings during the year. Hence, it would have

<sup>18</sup> Interest received on investment ÷ Average General Cash Balance x 100.

been prudent for the State Government to have utilised the available cash balance to minimise its borrowing.

**Recommendation:** *The State Government should consider restricting to need-based borrowings and utilising the existing cash balances before resorting to market borrowings at higher rates of interest<sup>19</sup>.*

### Outstanding balances under the head ‘Cheques and Bills’

The head is an intermediate account for initial record of transactions which are to be cleared eventually. Outstanding balance under the major head 8670-Cheques and Bills represents the amount of un-encashed cheques. Under this head as on 1 April 2017, there was an opening balance of ₹ 183.35 crore. Further, during the year, cheques worth ₹ 4,230.25 crore were issued and cheques worth ₹ 4,204.31 crore were encashed leaving a closing balance of ₹ 209.29 crore as on 31 March 2018.

## 1.10 Assets and liabilities

### 1.10.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets 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 (B)** gives an abstract of such assets and liabilities as on 31 March 2018 compared with the corresponding position as on 31 March 2017.

Total liabilities, as defined, are the liabilities under the Consolidated Fund and the Public Accounts of the State. Consolidated Fund liabilities consist of Internal Debt and loans and advances from GoI.

The growth rate of components of assets and liabilities are summarised in the **Table 1.29**:

**Table 1.29: Summarised position of Assets and Liabilities**

(₹ in crore)

Liabilities	2015-16	2016-17	2017-18	Assets	2015-16	2016-17	2017-18
<i>Consolidated Fund</i>				<i>Consolidated Fund</i>			
a. Internal Debt	2,855.13	3,395.68	4,114.12	i) Gross capital Outlay	8,961.24	9,681.52	11,188.30
b. Loans and advances from GoI	113.93	110.45	102.85	ii) Loans and advances	160.83	176.46	192.49
	<b>2,969.06</b>	<b>3,506.13</b>	<b>4,216.97</b>	Advances	1.03	1.03	1.03
<i>Public Accounts</i>							
a. Small savings, Provident funds, etc	747.85	831.15	911.72	Cash	1,724.57	2,436.83	2,994.87
b. Reserve Funds	441.38	507.06	505.99				
c. Deposits	160.01	240.12	264.28				
d. Remittance balance	295.91	224.95	404.84				
e. Suspense and Miscellaneous balances	254.99	186.04	211.26				

<sup>19</sup> During 2017-18, average rate of interest on Government borrowings was 8.12 per cent.

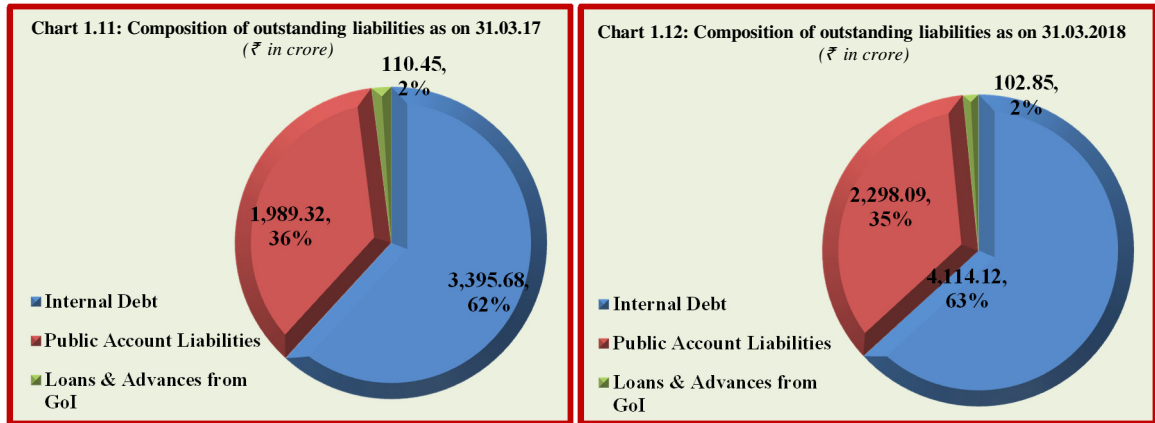
Liabilities	2015-16	2016-17	2017-18	Assets	2015-16	2016-17	2017-18
	1,900.14	1,989.32	2,298.09				
Total	4,869.20	5,495.45	6,515.06				
Surplus on Government Accounts	5,837.76	5,977.47	6,799.69				
Revenue surplus	139.71	822.22	1,060.94				
Contingency Fund	1.00	1.00	1.00	Contingency Fund		0.31	---
<b>GRAND TOTAL</b>	<b>10,847.67</b>	<b>12,296.15</b>	<b>14,376.69</b>		<b>10,847.67</b>	<b>12,296.15</b>	<b>14,376.69</b>

Source: Finance Accounts

The growth rate of assets was 16.92 per cent whereas the growth rate of liabilities excluding surplus on Government Accounts and Contingency Fund was 18.55 per cent in 2017-18 as compared to the previous year.

### 1.10.2 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.2**. The composition of fiscal liabilities during 2017-18 vis-à-vis the previous year is presented in **Charts 1.11** and **1.12**:



Source: Finance Accounts (Statement -1)

Fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP, Revenue Receipts and own resources as well as buoyancy of fiscal liabilities with respect to these parameters are brought out in **Table 1.30**:

**Table 1.30: Fiscal liabilities-basic parameters**

	2013-14	2014-15	2015-16	2016-17	2017-18
Fiscal liabilities(₹ in crore)	3,633.88	4,161.62	4,869.20	5,495.45	6,515.06
Rate of growth (per cent)	8.64	14.52	17.00	12.86	18.55
Revenue Receipts(₹ in crore)	3,893.54	4,087.64	3,784.29	4,610.30	5,212.79
<b>Percentage of fiscal liabilities to</b>					
GSDP	26.21	27.01	27.00	27.45	29.28
Revenue Receipts	93.33	101.81	128.67	119.20	124.98
Own resources	409.91	488.85	496.95	497.69	485.22
<b>Buoyancy ratio of fiscal liabilities to</b>					
GSDP	0.70	1.30	1.69	1.17	1.66
Revenue Receipts	0.47	2.91	(-) 2.29	0.59	1.42
Own resources	0.43	(-)3.66	1.13	1.01	0.86

Source: Finance Accounts

Fiscal liabilities of the State increased by ₹ 1,019.61 crore (18.55 *per cent*) from ₹ 5,495.45 crore in 2016-17 to ₹ 6,515.06 crore in 2017-18 comprising Public Account Liabilities of ₹ 2,298.09 crore (35.27 *per cent*), Internal Debt of ₹ 4,114.12 crore (63.15 *per cent*) and loans and advances of ₹ 102.85 crore (1.58 *per cent*).

The percentage of fiscal liabilities to GSDP stood at 29.28 *per cent* at the end of 2017-18. The growth rate of outstanding fiscal liabilities which was 12.86 *per cent* in 2016-17 increased to 18.55 *per cent* in 2017-18. The buoyancy of the liabilities with respect to GSDP during the year was 1.66 indicating that for each one *per cent* increase in GSDP fiscal liabilities grew by 1.66 *per cent*.

### 1.10.3 Transactions under Reserve Funds

Reserve and Reserve Funds are created for specific and well defined purposes in the accounts of the State Government. These funds are fed by contributions or grants from the Consolidated Fund of India or State or from outside agencies. The contributions are treated as expenditure under the Consolidated Fund. The expenditure relating to the funds are initially accounted for under the Consolidated Fund itself for which the vote of the Legislature is obtained. At the end of the year, at the time of closure of accounts, the expenditure relating to the funds are transferred to the Public Accounts Fund through an operation of deduct entry in accounts. The funds may be further classified as 'funds carrying interest' and 'funds not carrying interest'. Generally, the Reserve Funds are classified under the following three categories based on the sources from which they are fed:

- Funds accumulated from grants made by another Government and at times aided by public subscriptions.
- Funds accumulated from sums set aside by the Union/State from the Consolidated Fund of India or Consolidated Fund of State, as the case may be, to provide reserves for expenditure to be incurred by them for particular purposes.
- Funds accumulated from contributions made by outside agencies to the State Government.

Analysis of transaction of reserve funds are enumerated in the subsequent paragraphs:

#### Consolidated Sinking Fund

The State Government constituted a Consolidated Sinking Fund for redemption of the open market loans of the Government commencing from 2004-05. As per guidelines, the Government is required to contribute to the fund at the rate of one to three *per cent* of the outstanding open market loans as at the end of the previous year. The scope of this fund has been extended to cover all outstanding liabilities of the Government through a notification by the State issued on 18 August 2007 on the basis of recommendations of the XII FC. The State Government had not adopted the recommendations of Reserve Bank of India (RBI) for minimum annual contribution of 0.5 *per cent* of outstanding liabilities. For the year 2017-18, the requirement for annual contribution was ₹ 23.37 crore (0.5 *per cent*

of outstanding liabilities of ₹ 4,674.18 crore) in terms of the guidelines of the RBI and ₹ 28.74 crore (at one *per cent* of outstanding open market loans of ₹ 2,873.94 crore) in terms of the guidelines of the State Government. During the year, Government transferred ₹ 12 crore to the fund against the minimum required contribution of ₹ 28.74 crore, as per its own guidelines, resulting in short contribution of ₹ 16.74 crore. Similarly, the shortfall in contribution as per the RBI guidelines worked out to ₹ 11.36 crore (₹ 23.36 crore - ₹ 12.00 crore). As on 31 March 2018, the fund had a balance of ₹ 386.79 crore (including ₹ 24.23 crore as accrued interest), which had been invested in fixed deposits in nationalised banks as per the directions of the RBI.

### **State Disaster Response Fund**

The State Government replaced the Calamity Relief Fund with the State Disaster Response Fund (SDRF) in 2010-11 as per the recommendations of the XIII FC. In terms of the guidelines of the fund, the Centre, and Special Category States like Sikkim, are required to contribute to the fund in the proportion of 90:10. Further, if the State does not have adequate balance under SDRF, the GoI provides additional assistance from the National Disaster Response Fund (NDRF). At the beginning of 2017-18, the fund had a corpus of ₹ 24.95 crore, out of which, ₹ 21.00 crore was invested. During the year 2017-18, the State Government transferred ₹ 35.27 crore to the SDRF (Central share: ₹ 30.60 crore and State share of ₹ 3.40 crore and accrued interest of ₹ 1.27 crore). After meeting the expenditure of ₹ 46.90 crore during the year, the fund had a closing balance of ₹ 13.32 crore as on 31 March 2018, as shown in the following **Table 1.31**:

**Table 1.31: State Disaster Response Fund**

(₹ in crore)				
Opening Balance	Funds received including interest	Total	Expenditure	Closing Balance
24.95	35.27	60.22	46.90	13.32

### **Guarantee Redemption Fund**

The State Government constituted a Guarantee Redemption Fund in the year 2005 for meeting the payment obligations arising out of the guarantees issued by the Government in respect of bonds issued and other borrowings by the State Undertakings or other bodies. The Government is required to contribute an amount equal to at least one-fifth of the outstanding invoked guarantees plus an amount likely to be invoked as a result of the incremental guarantees issued during the year. However, it is open to the Government to increase contribution to the fund at its discretion. During 2017-18, the State Government transferred ₹ 2 crore to the Guarantee Redemption Fund along with accrued interest of ₹ 2.90 crore. No guarantee was invoked during the year. The fund had a corpus of ₹ 46.89 crore at the end of the year which was entirely invested.

The detailed account of the fund as on 31 March 2018 is given below:

Table 1.32: Guarantee Redemption Fund

(₹ in crore)

Sl. No.	Particulars	Amount
1	Opening balance	41.99
2	Addition	2.00
3	Interest	2.90
	<b>Total</b>	<b>46.89</b>
4	Amount met from the fund for discharge of invoked guarantees (-)	Nil
5	Closing balance	46.89
6	Amount of investment made out of the Guarantee Redemption Fund	46.89

Source: Finance Accounts

### 1.10.4 Contingent liabilities

#### Status of guarantees

Guarantees are contingent liabilities on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee was extended. The details for the last five years are given in **Table 1.33**:

Table 1.33: Guarantees given by the State Government

(₹ in crore)

	2013-14	2014-15	2015-16	2016-17	2017-18
Maximum amount guaranteed	156.70	156.70	156.90	517.90	648.71
Outstanding amount of guarantees (including interest)	122.09	112.14	89.17	441.49	564.83
Maximum amount of guarantee as per criteria fixed by Sikkim Government Guarantee Act 2000	881.76	1,306.44	1,574.76	1,582.62	1,700.46

Source: Finance Accounts

The total guarantees (principal plus interest) outstanding as on 01 April 2017 was ₹ 441.49 crore, which was within the prescribed limit of thrice the total Tax Receipts of 2015-16 (₹ 566.82 crore × 3 = ₹ 1,700.46). During the year 2017-18, State Government extended guarantees of ₹ 123.98 crore. Against this, guarantee commission was not received by the Government. According to the Sikkim Government Guarantee Act, 2000 (Act No. 21 of 2000), the ceiling on the total outstanding Government Guarantees as on the first day of April shall not exceed thrice the State's tax receipt of the second preceding year which was within the limit in the State.

#### Off-budget borrowings

The borrowings of the State Government are governed by Article 293(1) of the Constitution of India. In addition to the contingent liabilities, the State Government also extended guarantees against loans availed of by Government Companies/Corporations. These Companies/Corporations borrowed funds from the market/ financial institutions for implementation of various State plan programmes envisaged from outside the State budget. Funds for those programmes were to be met out of resources mobilised by those Companies/Corporations outside the State budget but in reality the borrowings of those concerns ultimately turn out to be the liabilities of the State Government termed 'off-budget borrowings' and the Government had to repay the loans availed of by those Companies/Corporations including interest through regular budget provision under capital account.

State Government had not resorted to any off-budget borrowings during 2017-18.

**1.10.5 Analysis of Borrowings of Government**

Analysis of borrowings of the Government revealed that as on 1 April 2017, an amount of ₹ 4,337.28 crore was outstanding towards various loans and advances. Further, during the year 2017-18, there was an addition of ₹ 1,363.13 crore and payment/ discharge of ₹ 571.72 crore with a closing balance of ₹ 5,128.69 crore as on 31 March 2018. The increase in total outstanding loans and advances at the end of the year was 18 per cent. An interest of ₹ 362.20 crore was also paid by the Government in 2017-18 on various loans and advances. Details are given below:

**Table 1.34: Detailed Statement on Borrowings and Other Liabilities**

(₹ in crore)

Description of Debt	Balance as on 1 April 2017	Additions during the year	Discharges during the year	Balance as on 31 March 2018	Net increase(+)/decrease(-)(in percentage)	Interest paid during the year
Market loans	2,873.94	997.21	249.91	3,621.24	26	240.95
Loans from Life Insurance Corporation of India	93.54	0.00	10.20	83.34	(-) 11	8.08
Loans from General Insurance Corporation of India	0.02	0.00	0.01	0.01	(-) 50	0.02
Loans from NABARD	202.22	53.72	45.87	210.07	4	13.72
Loans from National Co-operative Development Corporation	2.55	0.00	0.80	1.75	(-) 31	0.32
Loans from other institutions	14.96	0.00	2.10	12.86	(-) 14	1.72
Special Securities issued to National Small Savings Fund of the Central Government	208.46	0.00	23.61	184.85	(-) 11	12.71
Non-plan loans from GoI	0.67	0.00	0.12	0.55	(-) 18	0.06
Block loans	33.34	2.54	4.00	31.88	(-) 4	4.11
State Plan loans consolidated in terms of recommendation of the XII FC	73.74	0.00	5.67	68.07	(-) 8	5.53
Loans for Centrally Sponsored Plan Schemes (Other loans)	1.02	0.00	0.12	0.90	12	0.13
Loans for Special Schemes of North Eastern Council	1.68	0.00	0.22	1.46	13	0.19
General Provident Funds	790.61	303.53	226.21	867.93	10	69.55
Insurance and Pension Funds	40.53	6.13	2.88	43.78	8	5.11
<b>TOTAL</b>	<b>4,337.28</b>	<b>1,363.13</b>	<b>571.72</b>	<b>5,128.69</b>	<b>18</b>	<b>362.20</b>

Source: Finance Accounts



### 1.10.6 Inoperative Reserve Funds

As mentioned under Paragraph 1.10.3, the Government was maintaining reserve funds. However, no reserve fund was found inoperative.

## 1.11 Debt management

Efficient debt management is an essential part of cash management. Inefficiencies either way can lead to higher interest costs, whether it is accumulation of cash due to unnecessary borrowings or availing of ways and means advances. With reduced fiscal deficit, it is essential that State follows the practice of borrowing on requirement rather than on availability.

Apart from the magnitude of the debt of the State Government, it is important to analyse various indicators that determine the debt sustainability of the State. The debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings and returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service the debt.

### Debt sustainability

Debt sustainability refers to the ability of a State to secure its debt obligation in future. It is generally measured in terms of level of debt, primary deficit and interest cost in relation to nominal GSDP. It implies the State's ability to service the debt in future. Apart from the magnitude of debt of the State Government, it is important to analyse the various indicators that determine the debt sustainability of the State. The analysis of various debt sustainability indicators of the State for the period of five years beginning from 2013-14 is presented in **Table 1.35**:

**Table 1.35: Debt Sustainability: Indicators and Trends**

Indicators of Debt Sustainability	2013-14	2014-15	2015-16	2016-17	2017-18
Outstanding Debt (₹ in crore)	3,633.88	4,161.63	4,869.20	5,495.45	6,515.06
Rate of growth of outstanding Debt (in per cent)	8.64	14.52	17.00	12.86	18.55
Rate of growth of GSDP (in per cent)	12.35	11.14	17.05	11.02	11.13
Debt/GSDP (in per cent)	0.26	0.27	0.27	0.27	0.29
Debt/RR (in per cent)	0.93	1.02	1.29	1.19	1.25
Average interest rate of outstanding debt (in per cent)	5.99	6.16	5.80	6.25	6.03
Burden of Interest payment in per cent (IP/RR)	5.23	5.87	6.92	7.03	6.94
Debt repayment/debt receipts	0.30	0.21	0.30	0.31	0.33
Public debt repayment/ tax revenue (in per cent)	16.91	16.50	34.60	37.74	49.78
Net Debt available to the State (₹ in crore)	79.75	288.20	445.50	301.86	657.44

Source: Finance Accounts of the State

The table above reveals that while outstanding debt increased from ₹ 3,633.88 crore in 2013-14 to ₹ 6,515.06 crore in 2017-18, the debt to GSDP ratio depicted a steady trend

from 0.26 *per cent* in 2013-14 to 0.27 *per cent* in 2016-17 with a marginal increase to 0.29 *per cent* during 2017-18. The ratio of outstanding debt to revenue receipt increased from 0.93 *per cent* in 2013-14 to 1.25 *per cent* in 2017-18, which is not a positive sign for the State.

The net funds available from borrowed funds after providing interest payment and repayment increased from ₹ 79.75 crore in 2013-14 to ₹ 445.50 crore in 2015-16. However, it decreased to ₹ 301.86 crore in 2016-17 and again increased to ₹ 657.44 crore in 2017-18. During the year 2017-18, Government raised internal debt of ₹ 1,050.93 crore, loans and advances from GoI of ₹ 2.54 crore and other obligations of ₹ 7,429.62 crore. The Government repaid internal debt of ₹ 332.49 crore, loans & advances ₹ 10.13 crore, discharged other obligation of ₹ 7,120.86 crore and paid interest of ₹ 362.17 crore resulting in net availability of debt receipts by ₹ 657.44 crore. It indicates an improvement in the debt sustainability of the State.

### **1.11.1 Debt-GSDP Ratio**

The trend in the debt-GSDP Ratio is an important indicator which signifies sustainability of the Public Debt. In the State, debt-GSDP Ratio increased from 21.96 *per cent* during 2015-16 to 24.50 *per cent* during 2017-18. Debt-GSDP Ratio for the year 2017-18 was higher than the recommended target (19.66 *per cent*) of XIV FC as shown in **Table 1.36**:

**Table 1.36: Debt-GSDP Ratio**

Year	Total debt*	GSDP	XIV FC recommendation (%)		Debt-GSDP (%)
	(₹ in crore)		All States	Sikkim	
2015-16	3,961.14	18,033.94	21.90	20.63	21.96
2016-17	4,671.18	20,020.46	22.06	20.09	23.33
2017-18	5,451.04	22,247.91	22.21	19.66	24.50

\* Total debt includes Public debt, Small Saving, Provident Fund, Reserved Fund and Deposit.

### **1.11.2 Interest payment**

The trend in the interest payment (IP)-Revenue Receipts (RR) ratio is another important indicator which measures sustainability of the Public Debt. In the State, IP-RR ratio was 5.37 *per cent* during 2013-14 which increased to 6.95 *per cent* during 2017-18:

**Table 1.37: Ratio of interest payment to Revenue Receipts**

Year	Revenue Receipts (RR) (₹ in crore)	Growth over previous year (per cent)	Interest payment(IP) (₹ in crore)	Growth over previous year (per cent)	IP/RR (per cent)
2013-14	3,893.54	18.40	209.16	5.15	5.37
2014-15	4,087.64	4.99	239.55	14.53	5.86
2015-16	3,784.29	(-) 7.42	262.07	9.4	6.93
2016-17	4,610.30	21.83	324.39	23.78	7.04
2017-18	5,212.79	13.07	362.17	11.65	6.95

### **1.11.3 Buoyancy of assets to liabilities**

The ratio of assets to aggregate fiscal liabilities could be considered a surrogate measure of quality of its application of borrowed funds. **Table 1.38** shows the buoyancy of assets with respect to liabilities:

**Table 1.38: Buoyancy of Assets to Liabilities***(₹ in crore)*

Year	Aggregate fiscal Liabilities	Aggregate Assets	Ratio of Assets to Liabilities	Annual Growth of fiscal Liabilities	Annual Growth of Assets	Buoyancy of Assets to Liabilities
2013-14	3,633.88	8,741.65	2.41	8.64	15.26	1.77
2014-15	4,161.62	10,000.39	2.40	14.52	14.40	0.99
2015-16	4,869.20	10,847.67	2.23	17.00	8.47	0.50
2016-17	5,495.45	12,296.15	2.24	12.86	13.35	1.04
2017-18	6,515.06	14,376.69	2.21	18.55	16.92	0.91

The growth rate of assets was higher than growth rate of liabilities during 2013-14 and 2016-17. However, it was lower during 2014-15, 2015-16 and 2017-18.

#### 1.11.4 Sufficiency of incremental non-debt receipts

Another indicator of debt sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be facilitated if the incremental Non-Debt Receipts could meet the incremental interest burden and the incremental primary expenditure. Negative resource gap indicates non-sustainability of debt while positive resource gap indicates sustainability of debt. The details for the last five years have been indicated in **Table 1.39**:

**Table 1.39: Indicator of incremental Non-Debt Receipts***(₹ in crore)*

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Incremental Non-Debt Receipts	605.20	194.06	(-)302.85	826.00	602.03
2	Incremental Interest Payments	10.24	30.39	22.52	62.32	37.78
3	Incremental Primary Expenditure	582.31	386.13	(-)80.85	157.46	1112.43
<i>Resource gap</i>		12.65	(-)222.46	(-)244.52	606.22	(-) 548.18

Source: Finance Accounts

The resource gap had remained positive during 2013-14 and 2016-17 whereas during 2014-15, 2015-16 and 2017-18, it was negative.

#### 1.11.5 Net availability of borrowed funds

Debt sustainability also depends on the ratio of debt redemption (principal plus interest payments) to total debt receipts and application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The net availability of borrowed funds during 2017-18 was positive with ₹ 657.44 crore and funds were available for meeting productive expenditure.

#### 1.11.6 Maturity profile

The maturity profile of outstanding stock as on 31 March 2018 showed that 33 per cent of the loans were in the maturity bucket of less than seven years as shown in **Table 1.40**:

Table 1.40: Maturity profile

Maturity profile of State Public Debt (in years)	Year of maturity	Amount (₹ in crore)	Percentage
0 to 2	2017-18 to 2019-20	788.15	19
3 to 4	2020-21 to 2021-22	188.23	04
5 to 6	2022-23 to 2023-24	424.12	10
7 and above	2024-25 and onwards	2,816.47	67

Source: Finance Accounts

The Public Debt of the State Government as on 1 April 2017 was ₹ 3,506.13 crore and an amount of ₹ 1,053.47 crore was added during the year 2017-18. After discharging/ re-payment of loan amount of ₹ 342.63 crore during the year (excluding an interest payment of ₹ 287.51 crore), there was a closing balance of ₹ 4,216.97 crore as on 31 March 2018. Details of the same are summarised in the table below:

Table 1.41: Summary of Public Debt

(₹ in crore)

Description of the debt	Balance as on 1 April 2017	Additions during the year	Discharged/ repaid during the year	Balance as on 31 March 2018	Interest paid during the year
Internal Debt of the State Government – <b>Total 1</b>	<b>3,395.68</b>	<b>1,050.93</b>	<b>332.49</b>	<b>4,114.12</b>	<b>277.50</b>
Loans and advances from the Central Government					
<i>i. Non-plan loans</i>	0.67	0	0.12	0.55	0.05
<i>ii. Loans for State Plan Schemes</i>	107.08	2.54	9.67	99.94	9.64
<i>iii. Loans for Centrally Sponsored Plan Schemes</i>	1.02	0	0.12	0.90	0.13
<i>iv. Loans for Special Schemes</i>	1.68	0	0.22	1.46	0.19
<b>Total 2 (i to iv)</b>	<b>110.45</b>	<b>2.54</b>	<b>10.13</b>	<b>102.85</b>	<b>10.01</b>
<b>TOTAL (1+2)</b>	<b>3,506.13</b>	<b>1,053.47</b>	<b>342.62</b>	<b>4,216.97</b>	<b>287.51</b>

Source: Finance Accounts

The State Government had been contributing ₹ 12 crore per annum to the Sinking Fund (**Paragraph 1.10.3**) which had a balance of ₹ 386.79 crore at the end of March 2018. It was, therefore, evident that the funds shall be insufficient to clear the future liabilities. State Government may consider enhancing its contribution to the fund to enable them to clear future liabilities. As for the year 2017-18, the requirement for annual contribution was ₹ 23.36 crore (0.5 per cent of outstanding liabilities of ₹ 4,674.18 crore) in terms of the guidelines of the RBI with the shortfall in contribution as per the RBI guidelines working out to ₹ 11.36 crore (₹ 23.36 crore - ₹ 12.00 crore).

### 1.11.7 Cost of Borrowings

Cost of borrowings means interest and other costs incurred by an enterprise in connection with the borrowing of funds which *prima-facie* also includes cost of establishment which is deployed exclusively for borrowing of funds and their repayments.

The Finance, Revenue and Expenditure Department (FRED) was responsible for obtaining borrowings for State Government and their repayments. Though FRED was having a separate loans Wing which had been dealing with all loans and advances taken by the Government as well as by the employees of the State Government, FRED was not

maintaining any record regarding the cost of establishment of borrowings taken for the Government. However, interest paid on various Public Debt of the State Government during the period 2015-16 to 2017-18 was as under:

Table 1.42: Trends of Public Debt of the State Government

(*₹ in crore*)

Sl. No.	Description of the debt	2015-16		2016-17		2017-18	
		Balance as on 31 March 2016	Interest paid during the year	Balance as on 31 March 2017	Interest paid during the year	Balance as on 31 March 2018	Interest paid during the year
1	<b>Internal Debt of the State Government</b>	<b>2,855.13</b>	<b>57.01</b>	<b>3,395.68</b>	<b>241.66</b>	<b>4,114.12</b>	<b>277.50</b>
2	<b>Loans and advances from the Central Government</b>						
	i. Non-Plan loans	0.79	0.08	0.67	0.07	0.55	0.06
	ii. Loans for State Plan Schemes	110.09	10.40	107.08	11.05	99.94	9.64
	iii. Loans for Centrally Sponsored Plan Schemes	1.15	0.16	1.02	0.14	0.90	0.13
	iv. Loans for Special Schemes	1.90	0.24	1.68	0.22	1.46	0.19
	<b>Total 2 (i to v)</b>	<b>113.93</b>	<b>10.88</b>	<b>110.45</b>	<b>11.48</b>	<b>102.85</b>	<b>10.02</b>
	<b>TOTAL (1+2)</b>	<b>2,969.06</b>	<b>67.89</b>	<b>3,506.13</b>	<b>253.14</b>	<b>4,216.97</b>	<b>287.52</b>

Source: Finance Accounts

From the above table it can be seen that at the end of the year 2015-16, Public Debt of the State Government was ₹ 2,969.06 crore which increased to ₹ 4,216.97 crore at the end of the year 2017-18. The cost of borrowings in terms of interest payment for the year 2015-16 was ₹ 67.89 crore which increased to ₹ 287.52 crore during the year 2017-18 with average cost of borrowings of ₹ 202.85 crore during the period 2015-18.

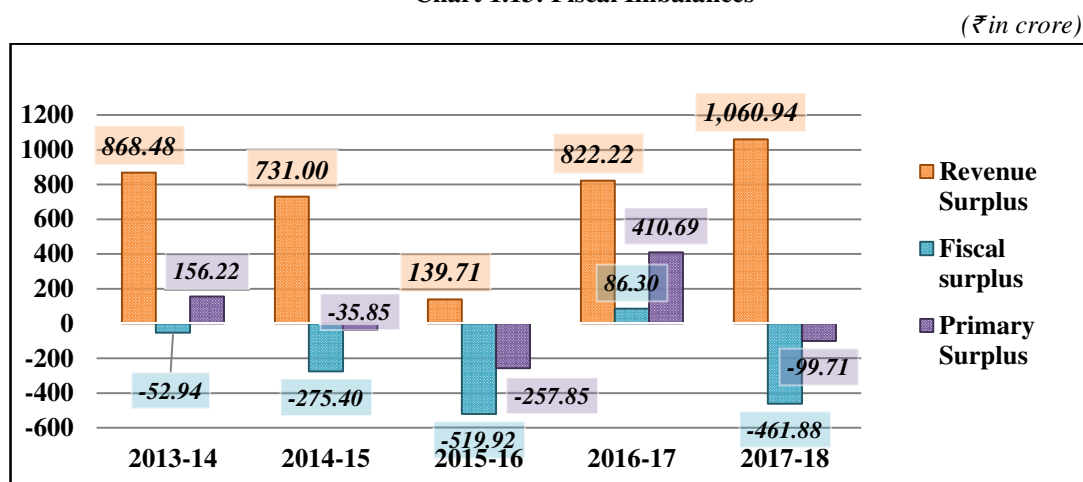
### 1.12 Fiscal imbalances

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 nature and quantum 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 and applied are important pointers to fiscal health. This section presents the trends, nature, magnitude and the manner of financing of these deficits and also the assessment of actual levels of revenue and fiscal deficit *vis-à-vis* targets set for the financial year 2017-18.

### 1.12.1 Trends in deficit

Charts 1.13 presents the trends in deficit indicators over the period 2013-18:

Chart 1.13: Fiscal Imbalances



#### Revenue surplus

Revenue surplus represents the difference between Revenue Receipts and Revenue Expenditure. Revenue surplus helps to decrease borrowings.

The State continued to attain revenue surplus during all the years, *i.e.*, from 2013-14 to 2017-18 with fluctuating trends. Revenue surplus increased by ₹ 238.72 crore (29.03 per cent) during 2017-18 as compared to the previous year.

#### Fiscal deficit

Fiscal deficit normally represents the net incremental liabilities of the Government or its additional borrowings. The shortfall could be met either by additional Public Debt (internal or external) or by the use of surplus funds from Public Accounts. Fiscal deficit trends along with the trends of the deficit relating to key components are indicated in **Table 1.43**:

Table 1.43: Fiscal deficit and its parameters

Period	Non-Debt Receipts	Total Expenditure	Fiscal surplus(+)/deficit(-)	Fiscal deficit/surplus as per cent to		
				GSDP	Non-Debt Receipt	Total Expenditure
₹ in crore						
2013-14	3,894.46	3,947.40	(-)52.94	-0.38	-1.36	-1.34
2014-15	4,088.52	4,363.92	(-)275.40	-1.79	-6.74	-6.31
2015-16	3,785.67	4,305.59	(-)519.92	-2.88	-13.73	-12.08
2016-17	4,611.67	4,525.37	(+)86.30	0.43	1.87	1.91
2017-18	5,213.70	5,675.58	(-) 461.88	-2.08	-8.86	-8.14

Source: Finance Accounts

There was fiscal surplus only in 2016-17.

#### Primary deficit

While fiscal deficit represents the need for additional resources in general, a part of such resources may be needed to finance interest payments. Interest payments represent the expenditure of past obligations and are independent of current allocative priorities. To look at the imbalances of the current nature, these payments need to be separated and deducted

from the total imbalances. The primary deficit and its parameters for the last five years are indicated in **Table 1.44**:

**Table 1.44: Primary deficit and its parameters***(₹ in crore)*

Period	Fiscal deficit	Interest payments	Primary deficit (-)/ Surplus (+)
2013-14	52.94	209.16	(+) 156.22
2014-15	275.40	239.55	(-) 35.85
2015-16	519.92	262.07	(-) 257.85
2016-17	(-) 86.30	324.39	(+) 410.69
2017-18	461.88	362.17	(-) 99.71

Source: Finance Accounts

There were primary surplus during 2013-14 and 2016-17. However, the primary deficit was recorded during 2014-15, 2015-16 and 2017-18.

### 1.12.2 Components of fiscal deficit and its financing pattern

The financing pattern of fiscal deficit has undergone a compositional shift as reflected in **Table 1.45**. Decomposition of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above Revenue and Non-Debt Receipts.

**Table 1.45: Components of fiscal deficit and its financing pattern***(₹ in crore)*

Particulars	2013-14		2014-15		2015-16		2016-17		2017-18	
	Amount	% of GSDP	Amount	% of GSDP	Amount	% of GSDP	Amount	% of GSDP	Amount	% of GSDP
<b>Decomposition of fiscal deficit</b>	<b>52.94</b>	<b>0.38</b>	<b>275.40</b>	<b>1.79</b>	<b>519.92</b>	<b>2.88</b>	<b>(-)86.30</b>	<b>(-)0.43</b>	<b>461.88</b>	<b>2.08</b>
1 Revenue surplus	868.48	6.27	731.00	4.74	139.71	0.77	822.22	4.11	1,060.94	4.77
2 Misc. capital receipt	0	0.00	0	0	0	0	0	0.00	0	0
3 Net capital expenditure	911.94	6.58	980.71	6.37	633.98	3.52	720.29	3.60	1,506.78	6.77
4 Net loans and advances	9.48	0.07	25.69	0.17	25.65	0.14	15.63	0.08	16.04	0.07
<b>Financing pattern of fiscal deficit*</b>										
1 Internal Debt	229.54	1.66	330.76	2.15	465.89	2.58	540.56	2.70	718.43	3.23
2 Loans from GoI	(-)21.96	(-) 0.16	(-)6	(-)0.04	(-)7.14	(-) 0.04	(-)3.48	(-) 0.02	(-)7.60	(-) 0.03
4 Small savings, PF, etc.	61.49	0.44	24.55	0.16	37.65	0.21	83.30	0.42	80.57	0.36
5 Deposits and advances	3.43	0.02	(-)7.84	(-)0.05	21.64	0.12	80.11	0.40	24.17	0.11
6 Suspense and Miscellaneous	(-)58.31	(-) 0.42	59.72	0.39	(-) 5.42	0.03	(-) 827.70	(-) 4.13	(-)13.18	(-) 0.06
7 Remittances	7.58	0.05	9.09	0.06	82.51	0.46	(-)70.96	(-) 0.35	179.89	0.81
8 Reserve funds	67.14	0.48	117.45	0.76	(-) 38.35	(-) 0.21	9.55	0.05	(-)35.72	(-) 0.16
9 Increase (-)/ decrease (+) in cash balance	(-) 234.97	(-) 1.70	(-)253.34	(-)1.64	(-)36.86	0.20	102.63	0.51	(-) 484.99	(-) 2.18
10 Net of Contingency Fund transactions	(-)1	(-) 0.01	1	0.01	0	0	(-)0.31	0.00	0.31	0
<b>TOTAL</b>	<b>52.94</b>	<b>0.38</b>	<b>275.40</b>	<b>1.79</b>	<b>519.92</b>	<b>2.88</b>	<b>(-)86.30</b>	<b>(-) 0.43</b>	<b>461.88</b>	<b>2.08</b>

Source: Finance Accounts

\*All these figures are net of disbursements/outflows during the year; \*\* Included in Market borrowings.

The components of fiscal deficit are revenue surplus, net Capital Expenditure and net loans and advances. The State had been attaining revenue surplus, which financed the fiscal deficit till 2017-18 except for the year 2016-17 along with market borrowing, loans from GoI, etc. The Fiscal surplus of ₹ 86.30 crore in 2016-17 turned to fiscal deficit of ₹ 461.88 crore in 2017-18.

### **1.12.3 Quality of deficit/surplus**

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue and Capital Expenditure (including loans and advances) indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds are used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State is continuously shrinking and a part of borrowings (fiscal liabilities) are not having any asset backup. The bifurcation of the primary deficit (**Table 1.46**) indicates the extent to which the deficit was on account of enhancement in Capital Expenditure which might be desirable to improve the productive capacity of the State's economy:

**Table 1.46: Primary deficit/surplus - Bifurcation of factors**

(₹ in crore)

Year	Non-Debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and advances	Primary expenditure (3+4+5)	Primary revenue deficit(-) / surplus(+) (2-3)	Primary deficit (-)/ surplus (+) (2-6)
1	2	3	4	5	6	7	8
2013-14	3,894.46	2,815.90	911.94	10.40	3,738.24	(+)1,078.56	(+)156.22
2014-15	4,088.52	3,117.09	980.71	26.57	4,124.37	(+)971.43	(-)35.85
2015-16	3,785.67	3,382.51	633.98	27.03	4,043.52	(+)403.16	(-) 257.85
2016-17	4,611.67	3,463.69	720.29	17.00	4,200.98	(+)1,147.98	(+)410.69
2017-18	5,213.70	3,789.68	1,506.78	16.95	5,313.41	(+) 1,424.02	(-)99.71

Source: Finance Accounts

Non-Debt Receipts of the State were enough to meet the primary expenditure requirements in the revenue account. But, the Non-Debt Receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit during 2014-15, 2015-16 and 2017-18.

### **1.13 Follow up**

The preparation of Report on State Finances started in 2008-09 and the Reports for the years 2009-10 and 2010-11 had been discussed by the Public Accounts Committee (PAC). PAC recommended compliance with the recommendations as contained in the Report of the Comptroller and Auditor General of India on State Finances for 2009-10. In respect of the Report for the year 2010-11, the PAC stated that it would appreciate the setting up of a prudent financial management mechanism and that persistent planning may be required wherever there is need to do so. Reports on State Finances for the years 2011-12, 2012-13, 2013-14, 2014-15, 2015-16 and 2016-17 have not been discussed by the PAC.



## 1.14 Conclusion

### Surplus/deficit

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 years and fiscal surplus during 2016-17. Revenue surplus recorded increase of 29.03 *per cent* (₹ 238.72 crore) during the year 2017-18 as compared to the previous year. This was due to increase in Revenue Receipts by 13.07 *per cent* (₹ 602.49 crore) and increase in Revenue Expenditure by 9.60 *per cent* (₹ 363.77 crore) during 2017-18 as compared to 2016-17. Further, fiscal surplus of ₹ 86.30 crore during 2016-17 turned to fiscal deficit of ₹ 461.88 crore during 2017-18.

### Revenue Receipts

Revenue Receipts increased by ₹ 602.49 crore (13.07 *per cent*) from ₹ 4,610.30 crore in 2016-17 to ₹ 5,212.79 crore in 2017-18. During 2017-18, 74.24 *per cent* of the Revenue Receipts was from GoI as Central transfers in the form of State's share of taxes and Grants-in-aid contributions while only 25.76 *per cent* revenue was collected from State's own sources (*i.e.* Tax and Non-Tax Revenue).

The State exceeded the target set by XIV FC in respect of Non-Tax Revenue by ₹ 256.38 crore but fell short of target in respect of Tax Revenue by ₹ 942.67 crore in 2017-18. However, the State succeeded in achieving the target set as per budget estimates in respect of Tax Revenue and Non-Tax Revenue.

### Expenditure

The Total Expenditure increased by 25.42 *per cent* from ₹ 4,525.37 crore in 2016-17 to ₹ 5,675.58 crore during 2017-18. Revenue Expenditure constituted 73.15 *per cent*, Capital Expenditure constituted 26.55 *per cent* and loans and advances constituted 0.30 *per cent* of Total Expenditure during 2017-18. The expenditure on Social and Economic Sectors, which are considered as Development Expenditure, accounted for 69.31 *per cent* in 2017-18 of total expenditure. Capital Expenditure increased by ₹ 786.49 crore (109.19 *per cent*) over the previous year.

There were 146 incomplete projects (estimated cost ₹ 628.32 crore) as on 31 March 2018 on which an expenditure amounting to ₹ 302.96 crore had been incurred, out of which, 78 projects were due to be completed by 31 March 2018.

Though Capital Expenditure increased, the State needs to ensure effective implementation of the schemes/works and to devise effective monitoring mechanism to avoid the incidence of time over run.

### Fiscal Correction Path

Revenue surplus was higher than the target fixed by XIV FC as well as budget proposal. There was fiscal deficit during the year. Ratio of total outstanding debt of the Government to GSDP was higher than the target fixed by XIV FC but less than the target proposed in budget proposal and projected in Five-year Fiscal Plan/ MTFP.

### **Fiscal Liabilities**

Fiscal liabilities of the State increased by ₹ 1,019.61 crore (18.55 *per cent*) from ₹ 5,495.45 crore in 2016-17 to ₹ 6,515.06 crore in 2017-18. The growth rate of outstanding fiscal liabilities which was 12.86 *per cent* in 2016-17 increased to 18.55 *per cent* in 2017-18. The buoyancy of the liabilities with respect to GSDP during the year was 1.66 indicating that for each one *per cent* increase in GSDP fiscal liabilities grew by 1.66 *per cent*. The debt-GSDP Ratio for the year was higher than the recommended target of XIV FC.

### **Investment and Returns**

The return from investments was only 2.85 *per cent* during 2017-18 and some of the Companies/Corporations were incurring recurring losses.

State Government may review the working of the units which were incurring losses and take appropriate action to avoid further financial burden on the Government.