



**EXECUTIVE
SUMMARY**

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Background

This Report on the Finances of the Government of Sikkim is being brought out with a view to assess the financial performance of the State during the year 2018-19. The aim of this Report is to provide the State Government with timely inputs based on actual data so that there is a better insight into the performance of schemes/programmes of the Government. In order to give a perspective to the analysis, an effort has been made to compare with the normative assessment made by the XIV Finance Commission (XIV FC). A comparison has been made to see whether the State has given adequate fiscal priority to developmental as well as Social Sector and Capital Expenditure and whether the expenditure has been effectively absorbed by the intended beneficiaries.

The Report

Based on the audited accounts of the Government of Sikkim for the year ended March 2019, this Report provides an analytical review of the annual accounts of the State Government. The Report has three Chapters.

Chapter I is based on the audit of Finance Accounts and makes an assessment of the Government of Sikkim's fiscal position as on 31 March 2019. It provides an insight into trends in committed expenditure, borrowing pattern and a brief account of Central funds transferred directly to the State implementing agencies through off Budget route.

Chapter II is based on audit of Appropriation Accounts and gives the grant-by-grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter III is an inventory of Government of Sikkim's compliance with various reporting requirements and financial rules.

The Report also has an appendage of additional data collated from several sources in support of the findings.

Audit Findings

Chapter-I: Finances of the State Government

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 suffered Fiscal Deficit during 2018-19. Revenue Surplus recorded decrease (₹ 367.15 crore) during the year as compared to the previous year. This was due to significant increase of 25.89 *per cent* (₹ 1074.72 crore) in Revenue Expenditure as against the increase of 13.57 *per cent* (₹ 707.57 crore) in the Revenue Receipts only during 2018-19 as compared to 2017-18.

Further, Fiscal Deficit of ₹ 461.88 crore during 2017-18 increased to ₹ 642.32 crore during 2018-19.

➤ **Revenue Receipts**

Revenue Receipts increased by ₹ 707.57 crore (13.57 per cent) from ₹ 5,212.79 crore in 2017-18 to ₹ 5920.36 crore in 2018-19. During 2018-19, 73.81 per cent of the Revenue Receipts were from Government of India as Central transfers in the form of State's share of taxes and Grants-in-aid contributions while only 26.19 per cent revenue was collected from State's own sources (*i.e.* Tax and Non-Tax Revenue). The Tax Revenue Receipts at ₹ 892.92 crore was lower by ₹ 1334.08 crore than the projections made by XIV FC (₹ 2,227 crore). However, Non-Tax Revenue was higher by ₹ 198.78 crore as against the projections made by XIV FC (₹ 459 crore). Public Debt Receipts and Public Debt Repayments increased by ₹ 91.75 crore and ₹ 33.25 crore respectively over the previous year.

➤ **Expenditure**

During 2018-19, the Total Expenditure increased by 15.66 per cent from ₹ 5,675.58 crore in 2017-18 to ₹ 6,564.45 crore during 2018-19. Revenue Expenditure constituted 79.62 per cent, Capital Expenditure constituted 19.67 per cent and loans and advances constituted 0.71 per cent of Total Expenditure during 2018-19. The expenditure on Social and Economic Sectors, which is considered as Development Expenditure, accounted for 67.31 per cent of Total Expenditure in 2018-19. Capital Expenditure decreased by 14.30 per cent (₹ 215.47 crore) over the previous year.

➤ **Incomplete Projects**

There were 201 Incomplete Projects (estimated cost ₹ 1,508.53 crore) as on 31 March 2019 on which an expenditure amounting to ₹ 666.41 crore had been incurred, out of which, 90 projects were due for completion by 31 March 2019.

➤ **Cash Balances**

The State's Cash Balance investment was on increasing trend, as at the end of 2014-15, the balance was ₹ 1,050 crore which had increased to ₹ 2,656 crore at the end of 2018-19, an increase of 152.95 per cent (₹ 1,606 crore) and despite having monthly Cash Balance Investment ranged between ₹ 1,886 crore to ₹ 2,656 crore during 2018-19, the Government resorted to market borrowings to the tune of ₹ 1,088.00 crore during the 2018-19.

➤ **Off Budget Borrowings**

Off-budget Borrowing amounting to ₹ 504.40 crore was availed through three Government entities during 2018-19 and as on 31 March 2019 off budget borrowings including interest amounting to ₹ 878.50 crore mobilised by five Government entities was outstanding. During 2018-19 the Net Availability of debt receipts was 43.22 per cent of borrowings of the year which was lower than Net Availability of borrowings for use of

previous year of 62.40 *per cent*. This indicated slight decline in the Debt Sustainability of the State as compared to previous year.

➤ **Fiscal Correction Path**

Revenue Surplus was higher than the targets proposed in the budget whereas it was less than the target fixed by XIV FC. There was Fiscal Deficit during the current year. Ratio of total outstanding debt of the Government to GSDP was higher than the target fixed by XIV FC but slightly lower than the targets proposed in the budget and projected in Five-Year Fiscal Plan/MTFP.

➤ **Fiscal Liabilities**

Fiscal Liabilities of the State increased by 16.22 *per cent* from ₹ 5,451.04 crore in 2017-18 to ₹ 6,335.06 crore in 2018-19. The Fiscal Liabilities grew at faster rate than the GSDP during 2018-19.

Debt-GSDP Ratio for the year 2018-19 was 23.65 *per cent* which was higher than the recommended target (19.32 *per cent*) of XIV FC.

➤ **Investment and Returns**

The return from investments was 4.15 *per cent* during 2018-19. Six companies/corporations were earning profits as per their latest finalised annual accounts, while the remaining had incurred losses.

Chapter- II: Financial Management and Budgetary Control

In Sikkim, Budget Manual containing the procedures for preparation of the estimates of budget, subsequent action in respect of the budget communication, distribution of grants, monitoring the progress of revenue and control over expenditure, *etc.* has not been laid down.

The State Government has not laid down a Budget Manual containing the procedures for preparation of the estimates of budget, subsequent action in respect of the budget communication, distribution of grants, monitoring the progress of revenue and control over expenditure, *etc.* Against the total provision of ₹ 8,427.95 crore during 2018-19, an expenditure of ₹ 7,083.41 crore was incurred. This resulted in an unspent provision of ₹ 1,344.54 crore (15.95 *per cent*). Excess expenditure of ₹ 83.28 crore during 2012-13 to 2018-19 required regularisation under Article 205 of the Constitution. The supplementary provision of ₹ 231.83 crore in 26 cases was found to be unnecessary.

Chapter- III: Financial Reporting

During the year 2018-19, all the Controlling Officers reconciled the Government receipts and expenditure with the figures in the books of the Accountant General.

However, the practice of not furnishing UCs in a timely manner resulted in pendency of large number of UCs. At the end of March 2019, 1108 UCs involving an aggregate amount of ₹ 101.90 crore were pending for submission even after a lapse of one to 16

years by various departments. Advances amounting to ₹ 120.77 crore remained unsettled as on March 2019 distorting the amount of expenditure being shown as spent. During the year 2018-19, the State government booked 6.53 *per cent* of total revenue receipts and 12.36 *per cent* of total expenditure under Minor Head 800- Other Receipts and Minor Head 800-Other Expenditure. Non-furnishing of detailed information about financial assistance given to various institutions and non-submission of accounts by 19 Autonomous Bodies/Authorities as per timelines indicated that financial rules were not fully complied with. There were also delays in placement of SARs to Legislature. There were five cases of misappropriation involving Government money in respect of three Departments with the money value of ₹ 1.06 crore at the end of 2018-19 where the final action was pending.

Recommendations

- *State Government should ensure transfer of due amount of New Pension System to NSDL in a timely manner.*
- *State Government should frame a policy on prudent cash balance management. State Government should consider restricting market borrowings by utilising the existing cash balances to the extent possible before resorting to market borrowings at higher rates of interest.*
- *State Government may review the working of the State PSUs making recurring losses and take appropriate action for their revival / closure.*
- *The Budget should be more realistic and cases of persistent non-utilisation of funds, excessive provision of funds should be avoided.*
- *All the existing cases of excess expenditure need to be got regularised at the earliest and, in future, expenditure should be limited within budget allocations strictly.*
- *Finance Department should chalk out action plan for ensuring submission of all pending UCs. Further release of grant should be linked with submission of outstanding UCs.*
- *Finance Department should make special efforts to settle old outstanding AC bills.*
- *There is a need to ensure that the Separate Audit Reports of the Autonomous Bodies are placed in the Legislature on time.*