

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Background

This Report on the Finances of Government of Sikkim is being brought out with a view to assessing the financial performance of the State during the year 2021-22. 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 Finance Commission. 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 Government of Sikkim for the year ended March 2022, this Report provides an analytical review of the annual accounts of the State Government. The Report has four Chapters.

Chapter I describes the basis and approach to the Report and the underlying data, provides an overview of structure of Government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/surplus

Chapter II provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2017-18 to 2021-22, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.

Chapter III is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.

Chapter IV comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.

Audit Findings

Overview of State Finances

During 2021-22, Gross State Domestic Product (GSDP) at current price was ₹ 36,825 crore, up from ₹ 31,800 crore in 2020-21, representing an increase of 15.80 *per cent* which was lower than that of National growth rate. The per capita GSDP of the State (₹ 4,72,543) was more than the per capita Gross Domestic Product (GDP) of India (₹ 1,72,913) during 2021-22.

During the five-year period of 2017-22, share of Agriculture (Primary) Sector in the GSDP grew from 9.97 *per cent* in 2017-18 to 10.24 *per cent* in 2021-22 and the share

of Services (Tertiary) Sector grew from 23.67 *per cent* in 2017-18 to 29.23 *per cent* in 2021-22. However, Industry (Secondary) Sector's share shrunk from 60.25 *per cent* in 2017-18 to 55.01 *per cent* in 2021-22.

The State after maintaining Revenue Surplus for two years from 2017-18 to 2018-19, had run into Revenue Deficit of ₹ 1,343.81 crore in 2019-20 mainly due to decrease in Central transfers. The State was able to reduce Revenue Deficit to ₹ 760.83 crore in 2020-21 and maintained Revenue Surplus of ₹ 411.88 crore in 2021-22. Similarly, after successfully containing the Fiscal Deficit below three *per cent* of GSDP during 2017-19, the State's Fiscal Deficit was 6.62 *per cent* of GSDP during 2019-20 and 7.15 *per cent* of GSDP in 2020-21. However, the Fiscal Deficit during 2021-22 was contained to 2.46 *per cent* of GSDP. Fiscal Deficit decreased by ₹ 1,369.24 crore from ₹ 2,273.54 crore in 2020-21 to ₹ 904.30 crore in 2021-22, witnessing decrease of 60.23 *per cent*. Besides, the ratio of total outstanding debt to GSDP of the State which ranged between 20.99 *per cent* and 29.50 *per cent*, consistently exceeded the norms prescribed in the Sikkim Fiscal Responsibility and Budget Management (SFRBM) Act as well as projections of Finance Commission, during the period 2017-22.

Recommendations

- *The State Government needs to make efforts to achieve the projections/ targets on major fiscal parameters, as per Sikkim FRBM Act through prudent financial management.*
- *The State Government may ensure that receipts of Power Department of Sikkim is accounted for in the Accounts and that it makes budget provisions for the expenditure incurred by the Power Department.*

(Chapter I)

Finances of the State

During the five-year period of 2017-22, State had maintained Revenue Surplus till 2018-19, but had Revenue Deficit of ₹ 1,343.81 crore and ₹ 760.83 crore during 2019-20 and 2020-21 respectively. However, there was Revenue Surplus of ₹ 411.88 crore during 2021-22.

Similarly, after successfully containing the Fiscal Deficit below three *per cent* of GSDP during 2017-19, the State's Fiscal Deficit was 6.62 *per cent* and 7.15 *per cent* of GSDP during 2019-20 and 2020-21 respectively. However, Fiscal Deficit during 2021-22 was below three *per cent* of GSDP.

Revenue Receipts during the year 2021-22 increased (by ₹ 1472.90 crore) from ₹ 5607.82 crore in 2020-21 to ₹ 7080.92 crore in 2021-22 (by 26.27 *per cent*). State's Own Revenue (₹ 1,935.04 crore) increased by ₹ 306.05 crore (18.79 *per cent*) compared to the previous year (₹ 1,628.99 crore), while Grants-in-Aid from Government of India (GoI) increased by ₹ 181.56 crore (10.83 *per cent*) and State's Share of Union taxes and Duties increased by ₹ 985.28 crore (42.80 *per cent*) during 2021-22 as compared to the previous year.

About 27.33 *per cent* of the Revenue Receipts during 2021-22 came from the State's own resources, while Central Tax Transfers and Grants-in-aid together contributed

72.67 *per cent*. This is indicative of the fact that the State's fiscal position is largely dependent on Central Tax transfers and Grants-in-Aid from GoI.

During the period 2017-22, Total Expenditure of the State increased by 40.70 *per cent* (₹ 2,309.89 crore) from ₹ 5,675.58 crore in 2017-18 to ₹ 7,985.47 crore in 2021-22. During the current year, it increased by 1.31 *per cent* over the previous year. The ratio of Total Expenditure of the State to GSDP fluctuated between 22 *per cent* and 24 *per cent* during 2017-22.

Revenue Expenditure during the year 2021-22 was ₹ 6,668.84 crore (83.51 *per cent*) against the Total Expenditure of ₹ 7,985.47 crore. During the year, Committed Expenditure like salary & wages, pension, interest payments increased by ₹ 374 crore (9.07 *per cent*) from ₹ 4,125.13 crore during 2020-21 to ₹ 4,499.30 crore during 2021-22. The Committed Expenditure during 2021-22 was 63.55 *per cent* of the total Revenue Receipts and 67.46 *per cent* of the total Revenue Expenditure.

Capital Expenditure of the State had decreased from ₹ 1,506.78 crore in 2017-18 to ₹ 720.61 crore in 2019-20, but it increased to ₹ 1,513.88 crore in 2020-21. However, it again decreased to ₹ 1315.78 crore during 2021-22 registering a decrease of 13.09 *per cent* as compared to 2020-21.

Fiscal Liabilities of the State increased by 19.92 *per cent* from ₹ 9,058.84 crore in 2020-21 to ₹ 10,862.94 crore in 2021-22. During 2021-22, total Public Debt receipts was of ₹ 1,882.60 crore and the Government repaid ₹ 119.90 crore. There was an addition of ₹ 1,471 crore of Market Loans in 2021-22. The Public debt receipts of the State increased by ₹ 317.89 crore (20.32 *per cent*) over previous year.

Out of total outstanding Public Debt, 51.77 *per cent* (₹ 4,480.24 crore) of Public Debt is payable within the next seven years. Of the total outstanding Public Debt, internal debt consisting of market borrowings, loans from National Bank for Agriculture and Rural Development and Special Securities issued to National Small Saving Fund constituted 93.23 *per cent* (₹ 8,068.39 crore).

The growth rate of Revenue Receipts has generally been lower than the growth rate of debt during the 2017-22 (except 2021-22). The burden of interest payment was 8.10 *per cent* of the Revenue Receipts during 2021-22. Though Net Debt available to the State was positive during the five years period ending 2021-22, there was a sharp increase in Net Debt available from ₹ 2.37 crore in 2019-20 to ₹ 1,034.91 crore and ₹ 1,188.82 crore in 2020-21 and 2021-22 respectively.

The Government had not transferred ₹ 69.25 crore under National Pension System to the National Securities Depository Limited as on 31 March 2022. Thus, current liability stood deferred to future year(s) and State had created an interest liability on un-transferred funds.

The return from investments made in State Public Sector Enterprises (SPSEs) was only 1.35 *per cent* during 2021-22 and some of the SPSEs were incurring recurring losses.

Out of 311 incomplete projects, 26 projects for which the State had spent ₹ 47.70 crore as of 31 March 2022, were pending for five years or more.

During 2021-22, the State Government received ₹ 10 crore towards State Compensatory Afforestation Fund, out of total available fund of ₹ 342.29 crore, only ₹ 70.00 crore was spent and there was an unspent balance of ₹ 272.29 crore.

Out of ₹ 0.07 crore cess collected under the Ecology & Environment Fund during 2021-22 the State Government has not transferred to the Fund. Also, the State Government had not utilised the Cess for last three years.

There was un-reconciled cash balance of ₹ 43.00 crore as per accounts of the Government and the records of State Bank of Sikkim.

Huge cash balances (Month-wise) ranging between ₹ 34.77 crore and ₹ 129.13 crore, were maintained in Government account with SBS during 2021-22. No minimum cash limit had been prescribed by the Government.

The State Government did not provide complete details of the outstanding guarantees as on 31 March 2022.

Recommendations

- *Considering the increasing outstanding debt of the State, the Government may take appropriate steps to rationalise its committed revenue expenditure.*
- *To avoid liabilities under NPS, the State Government needs to transfer the outstanding funds already accumulated to NSDL, for management of the NPS. They may strictly monitor the allotment of Permanent Retirement Account Number to the employees.*
- *Accumulation of huge losses by above four SPSEs had eroded public wealth, which is a cause of serious concern and the State Government needs to review the working of these SPSEs for continuing their operations.*
- *The State Government needs to prioritise completion of incomplete projects in a planned manner with periodical review and monitoring mechanism at the highest level of administration so as to avoid time and cost inefficiencies. They need to specifically monitor those projects, which are being executed out of borrowed funds and pose a consequential extra financial burden on the Government.*
- *Increasing trend of debt maturity profile vis-à-vis the level of borrowings needs to be reviewed so as to ensure that mobilised financial resources are used adequately for incurring capital expenditure for creation of assets. The increasing trends of Revenue Expenditure be corrected by identifying potential wasteful expenditure and adopting economy measures across departments.*
- *The State Government needs to provide complete details of guarantees so that liabilities of the State Government are completely depicted in the Annual Accounts.*

- *The Government should frame a policy on prudent cash balance management and ensure reconciliation with State Bank of Sikkim.*

(Chapter II)

Budgetary Management

Budgetary assumptions of the State Government were not very realistic during 2021-22 and despite carrying out an elaborate pre-budget exercise to bring about efficiency and transparency in budget formulation and execution, budgetary estimates were off the mark to a considerable extent, and control over the execution and monitoring of budget was inadequate.

Out of ₹ 2,293.87 crore savings during the year which was 22.06 *per cent* of the budget provision of ₹ 10399.38 crore. The Controlling Officers surrendered savings of ₹ 1959.71 crore (85.43 *per cent*) during last month of the year, with major portion of savings ₹ 1855.49 crore (80.89 *per cent*) of the total savings being surrendered on the last day of the financial year 2021-22.

During 2021-22, no excess expenditure had taken place. However, an excess expenditure of ₹ 12.82 crore in respect of previous years (from 2014-15 to 2019-20) was pending for regularisation by the Public Accounts Committee (PAC)/State Legislature.

Against the total Revenue Expenditure of ₹ 5,978.03 crore, State Government incurred an expenditure of ₹ 911.28 crore, constituting about 15.24 *per cent* in March 2022. However, out of ₹ 911.28 crore incurred in March 2022, ₹ 312.44 crore (34.29 *per cent*) was spent on the last day of the financial year i.e., 31 March 2022.

The explanations for variations in expenditure vis-à-vis allocations were not provided in respect of 117 sub-heads (22.99 *per cent*) out of 509 sub-heads to the office of Sr. DAG (A&E).

During the period 2017-22, the Government had substantial savings ranging between 15.95 *per cent* and 23.73 *per cent* of total budget allocation and could utilise between 76.27 *per cent* and 84.05 *per cent* of total allocation. Although the issue of persistent savings is being highlighted in the Reports of the CAG on State Finances every year, Departments had not taken any perceptible action in this regard.

Supplementary Grants/ Appropriations were obtained without adequate justification. During 2021-22, Supplementary provision aggregating ₹ 224.83 crore obtained in 18 cases (with ₹ 50.00 lakh or more), proved unnecessary as the total expenditure did not come up to the level of original provision and re-appropriations under 18 Heads of Account proved excessive or insufficient and resulted in saving/ excess of over ₹ 10.00 lakh. Despite flagging this issue every year over the last several years, the State Government had failed to take corrective measures in this regard.

Recommendations

- *State Government needs to formulate a realistic budget based on reliable estimates of the needs of the Departments and their capacity to utilise the*

allocated resources. Data from SIFMS of previous years may be used as indicator for fund requirement and incurring expenditure capacity.

- *An appropriate control mechanism needs to be instituted by the Government to enforce proper implementation and monitoring of budget to ensure that savings are curtailed, large savings within the Grant/ Appropriation are controlled, and anticipated savings are identified and surrendered within the specified time frame;*
- *Although the issue of persistent savings is being highlighted in the Reports of the CAG on State Finances every year, no corrective measure has been taken by the departments. This shows that there is inadequate monitoring, especially as the savings are taking place year after year. The Finance Department should take proactive measures to eliminate persistent savings.*
- *Controlling Officers need to be made aware of their responsibility to explain the variation in expenditure from the allocation to facilitate proper analysis of budget and preparation of meaningful Appropriation Accounts;*
- *Excess expenditure over grants approved by the Legislature needs to be viewed seriously and got regularised at the earliest; and*
- *The Education and Horticulture Department may strengthen its budgetary management on basis of realistic estimates so that financial resources can be allocated/ utilised efficiently and effectively to achieve the desired objectives.*

(Chapter III)

Quality of Accounts & Financial Reporting Practices

During the year 2021-22, all the Controlling Officers reconciled the Government receipts and expenditure with the figures in the books of the Sr. DAG (A&E).

Audit noticed that Revenue Receipts of ₹ 520.71 crore earned from sale proceeds of electricity sold outside the State and royalty receipts from the HEPs located in the State, were not deposited in the Consolidated Fund of State by Power Department of Sikkim. This led to understatement of Government Revenue Receipts by ₹ 520.71 crore. Further, an expenditure of ₹ 552.17 crore had been incurred without routing it through Government Accounts resulting in understatement of Government expenditure by ₹ 552.17 crore. This led to an overall overstatement of Revenue surplus and understatement of Fiscal Deficit by ₹ 31.46 crore during 2021-22.

As on 31 March 2022, the SSLSC Bank Account had a balance of ₹ 38.01 Lakh and due to non-creation of the State Legal Aid Fund, the grants, fee and other receipts collected by the SSLSC were being kept in a bank account.

As informed by 21 CCOs to the office of Sr. DAG (A&E) Sikkim, an amount of ₹ 193.20 crore was lying in the Savings/ Current Accounts of these CCOs as on 31 March 2022.

State Government has not opened State Nodal Account for all the schemes. A total of 98 SNA were opened in which 79 Central Schemes were linked.

During the year 2021-22, the State Government repaid ₹ 219.21 crore worth of loans availed by three financial institutions for implementation of various Government projects, and interest accrued thereupon. The borrowings by these Institutions had not formed part of the outstanding liabilities of the State Government during the respective years.

The Power Department have not adjusted the loan given to SPDC even after State Cabinet approval, the same has been appearing in the Finance Accounts as loans for power projects under MH 6801. This led to overstatement of Loans and Advances given by state government under MH 6801 in the Finance statements 7 and 18.

The GoI transferred ₹ 326.22 crore directly to Implementing Agencies (IAs) in the state, during 2021-22. The amount of such funds transferred by GoI to IAs during 2021-22, had increased as compared to the previous year's amount (₹ 201.99 crore).

During year 2020-21, the State government booked 6.49 *per cent* of total revenue receipts and 10.11 *per cent* of total expenditure under Minor Head 800- Other Receipts and Minor Head 800-Other Expenditure.

The practice of not furnishing UCs in a timely manner resulted in pendency of large number of UCs. At the end of March 2022, 1441 UCs involving an aggregate amount of ₹ 210.03 crore were pending for submission even after a lapse of one to nineteen years by various Departments.

Out of 539 AC bills amounting to ₹ 28.49 crore drawn during the year 2021-22, 78 AC bills amounting to ₹ 5.29 crore (14 *per cent*) were drawn in March 2022. DC Bills in respect of a total of 2497 AC bills amounting to ₹ 58.98 crore as on 31 March 2022 were not received.

Non-furnishing of detailed information about financial assistance given to various institutions and non-submission of accounts by 14 Autonomous Bodies/ Authorities as per timelines led to non-compliance with Financial Rules. There were also delays in placement of SARs to Legislature.

There were six cases of misappropriation involving Government money in respect of four Departments with the money value of ₹ 2.64 crore at the end of 2021-22 where final action was pending.

Recommendations

- *Departments should adhere to the Government Accounting Rules and all the financial transactions, should be routed through Government Accounts, to reflect actual financial position of the State.*
- *The Government may enhance the scope and coverage of budget provision by including the extra budgetary resources given to various State Government PSUs/ entities for implementation of various State Schemes/ Programmes etc.*

- *The Government may adjust the loan given to SPDC in their account properly which will fix the overstatement of Loan and Advance given by State government.*
- *Finance Department may draw up an action plan for monitoring and ensuring submission of all pending UCs especially keeping in view that UCs from 2002-03 onwards are still due for submission. Release of subsequent grants should be linked with submission of outstanding UCs.*
- *Finance Department may make special efforts to settle old outstanding AC bills specially keeping in view that submission of DC bills from 2001-02 onwards are still pending for submission. At the same time, the DDOs should be asked to ensure that the DC bills are submitted within prescribed time, in order to stem the accretion of unadjusted AC bills. Advances should be monitored closely for effective control and old outstanding AC bills should be adjusted by making special efforts in a time bound manner.*
- *Timely reconciliation may be done with figures of the PAO and AG's office to avoid discrepancies in Accounts. The special efforts to be taken for reconciliation of State Bank of Sikkim and PAO figures.*
- *To make accounts transparent, the Government should operate appropriate Minor Heads instead of booking under Minor Head 800.*
- *Finance Department should consider evolving a system to expedite the process of compilation and submission of annual accounts by autonomous bodies in order to assess their financial position.*
- *The Government may take appropriate measures to get the unspent money lying in the bank accounts, refunded into the Government account and may also frame suitable orders to this effect.*
- *The Government should prepare a time bound framework for taking prompt action in cases of misappropriation, loss, theft, etc. and strengthening the internal control system in Departments to prevent recurrence of such cases.*

(Chapter IV)