

# **CHAPTER-I: OVERVIEW**



# Chapter-I

## Overview

### 1.1 Profile of the State

Sikkim, a sparsely populated State situated in the Eastern Himalayas became part of the Indian Union on 16 May 1975. It has a total area of 7,096 sq. km. which constitutes 0.22 *per cent* of the total geographical area of India; and a population of 6.11 lakh. Sikkim being a landlocked State, National Highway 10 is the lifeline, which connects the State with the rest of the country. Sikkim has been organised into six districts. The districts have further been divided into 16 sub-divisions, 32 blocks and 199 gram panchayats. The State has been included in the North Eastern Council (NEC) since December 2002.

As per Population Projections by National Commission on Population, Ministry of Health & Family Welfare, the State's population was 6.89 lakh. The population density of the State at 97 persons per sq. km was lower than the national average of 422 persons per sq. km. The State's literacy rate is 81.40 *per cent* (as per 2011 Census) as shown in *Appendix 1.1 (Part-A)*.

Gross State Domestic Product (GSDP) of Sikkim in 2022-23 at current prices was ₹ 42,756 crore. General and financial data relating to Sikkim is given in *Appendix 1.1 (Part-A)*.

#### 1.1.1 Gross State Domestic Product of the State

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time.

Gross Value Added (GVA) is being used for economic analysis by GoI and international organisations like IMF and World Bank as GVA is considered better indicator of economic growth compared to GDP, as it ignores the impact of taxes and subsidies. While GDP can be and is also computed as the sum total of the various expenditures incurred in the economy including private consumption spending, government consumption spending and gross fixed capital formation or invest spending, reflecting essentially on the demand conditions in the economy. Both measures have difference in treatment of net taxes as a result of which the inclusion of taxes in GDP may differ from the real output situation. From a policymaker's perspective it is therefore vital to have a comparison of the GVA and GSV data for better analysis and making policy interventions.

Changes in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary Sector, which corresponds to the Agriculture, Industry and Service sectors.

The trends in GSDP and GVA compared to GDP and GSVA are shown in **Table 1.1**.

**Table 1.1: Trends in GSDP compared to the GDP (at current prices)**

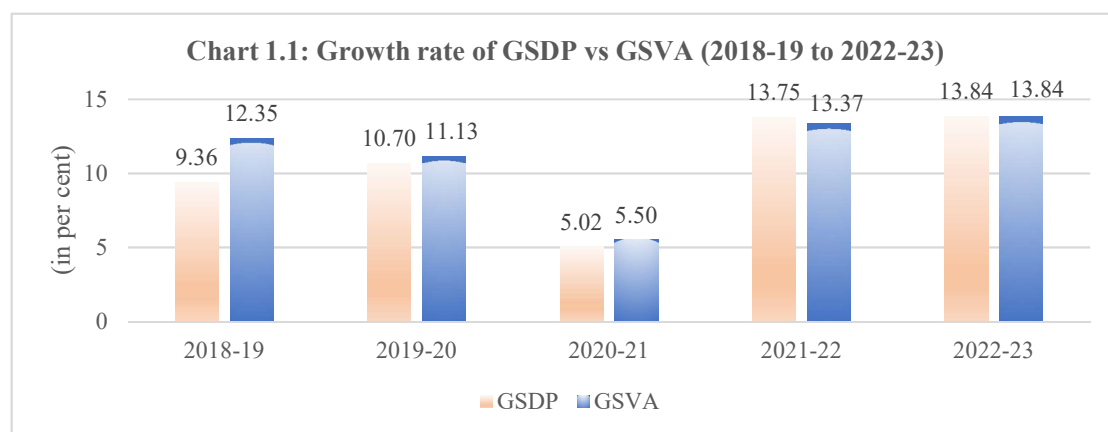
	(₹ in crore)				
Year	2018-19	2019-20	2020-21	2021-22	2022-23
<b>INDIA</b>					
GDP (2011-12 Series)	1,88,99,668	2,01,03,593	1,98,29,927	2,34,71,012 (PE)	2,72,40,712 (QE)
GVA	1,71,75,128	1,83,81,117	1,81,88,780	2,14,38,883	2,47,42,871
Growth rate of GDP over previous year (in per cent)	10.59	6.37	(-).1.36	18.36	16.06
Growth rate of GVA over previous year (in per cent)	10.77	7.02	(-).1.05	17.87	15.41
Per capita GDP (in ₹)	1,42,424	1,49,915	1,46,301	1,71,498	1,96,983
<b>State/ Union Territory</b>					
GSDP (2011-12 Series)	28,402	31,441	33,018	37,557 (PE)	42,756 (QE)
GSVA	26,955	29,954	31,600	35,825	40,784
Growth rate of GSDP over previous year (in per cent)	9.36	10.70	5.02	13.75	13.84
Growth rate of GSVA over previous year (in per cent)	12.35	11.13	5.50	13.37	13.84
Per capita GSDP (in ₹)	4,30,340	4,71,379	4,90,607	5,52,315	6,23,268

Source: Ministry of Statistics & Programme Implementation, GOI

PE – Provisional Estimate, QE- Quick Estimate

During 2022-23, the Gross State Domestic Product (GSDP) at current price was ₹ 42,756 crore, up from ₹ 37,557 crore in 2021-22, representing an increase of 13.84 per cent which was lower than that of GDP growth rate of 16.06 per cent and the GDP in 2022-23 at current prices was ₹ 2,72,40,712. The per capita GSDP of the State for the year 2022-23 was ₹ 6,23,268 while that of the country was ₹ 1,96,983 and the per capita GSDP (₹ 6,23,268) of 2022-23 was almost more than three times the per capita GDP (₹ 1,96,983) of the nation. The per capita GSDP is highest among the North Eastern & Himalayan (NE&H) States and highest in India. However, department in its reply stated that the high per capita GSDP does not give a true and fair picture as the major constituent of the state is the pharmaceutical industry whose business primarily occurs inter-state.

The trends of growth rate of GSDP and GSVA for the period 2018-19 to 2022-23 is indicated in the **Chart 1.1**:



Source: Ministry of Statistics and Programme Implementation, GoI

It can be seen from the above chart that during 2022-23, GSDP and GSVA both increased by 13.84 *per cent* as compared to the previous year. Lowest increase of GSDP and GSVA during the last five year was noticed during 2020-21.

### Sectoral components of GSVA and GSDP

Changes in sectoral contribution to the GSDP and GSVA is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary Sectors, which corresponds to the Agriculture, Industry and Service sectors respectively. Primary Sector (excluding mining and quarrying) is the representative of the Agriculture Sector, while the Secondary Sector together with mining and quarrying represents Industry Sector and Tertiary Sector equates Service Sector.

The contribution and growth of Agricultural, Industry and Service Sector in GSVA and growth is indicated in **Table 1.2(a)** and **1.2(b)**:

**Table 1.2(a): Sectoral Contribution in GSVA**

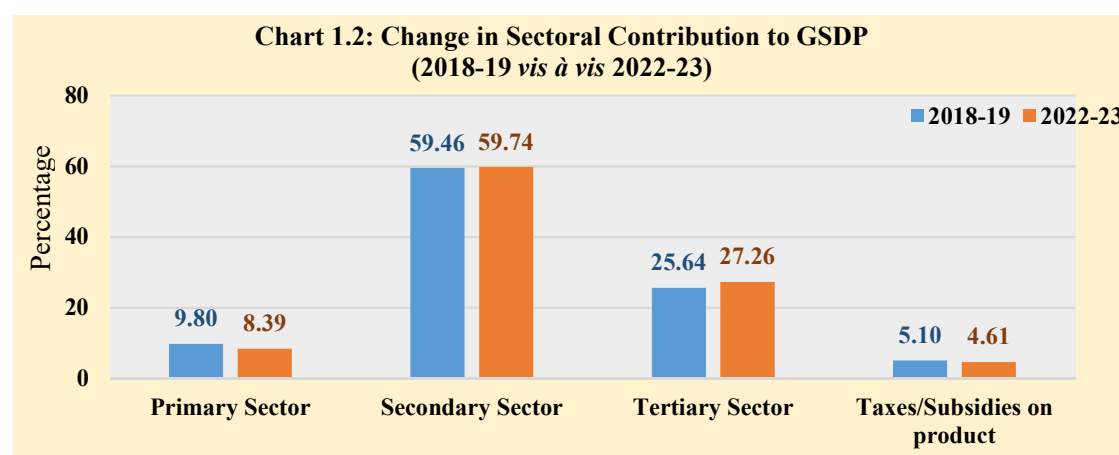
Year	2018-19	2019-20	2020-21	2021-22	2022-23
Agriculture	10.33	10.18	9.57	9.14	8.79
Industry	62.65	59.47	62.92	62.55	62.63
Service	27.02	30.35	27.51	28.30	28.58

**Table 1.2(b): Sectoral Growth in GSVA**

Year	2018-19	2019-20	2020-21	2021-22	2022-23
Agriculture	16.43	9.51	(-)0.88	8.34	9.50
Industry	9.07	5.47	11.62	12.71	13.98
Service	19.06	24.86	(-)4.37	16.62	14.93

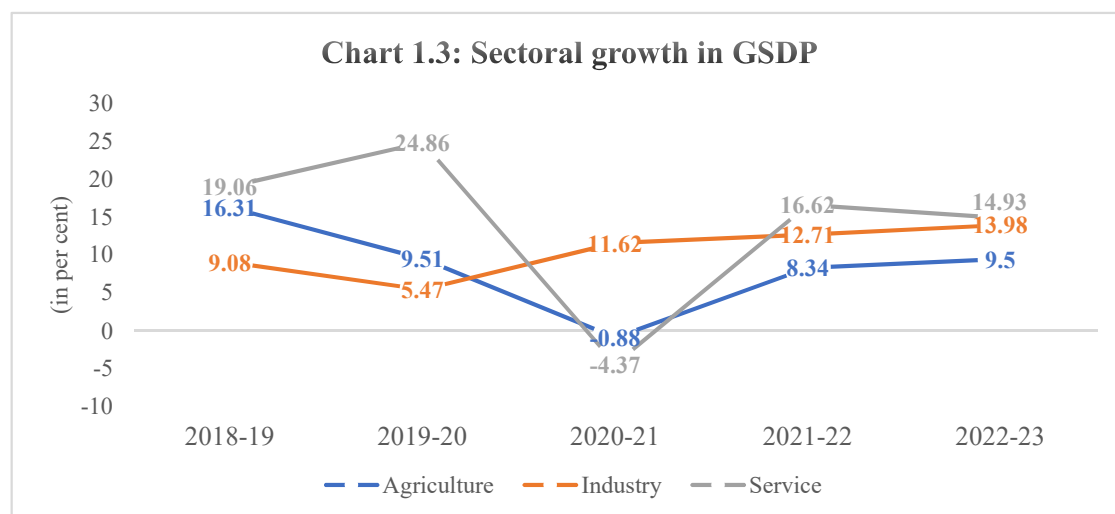
Source: Ministry of Statistics & Programme Implementation, GOI

**Chart 1.2** shows that during the five-year period 2018-23, there was a marginal decrease in the relative share of Primary Sector in GSDP, as the share of Primary Sector decreased from 9.80 *per cent* in 2018-19 to 8.39 *per cent* in 2022-23. In addition, the share of Secondary Sector increased from 59.46 *per cent* in 2018-19 to 59.74 *per cent* in 2022-23. However, the share of Tertiary Sector grew from 25.64 *per cent* in 2018-19 to 27.26 *per cent* in 2022-23.



Source: Ministry of Statistics and Programme Implementation, GoI

Furthermore, it is pertinent to mention that there were components of taxes and subsidies on the components pertaining to each of the sectors.



Source: Ministry of Statistics and Programme Implementation, GoI

Thus, it could be seen from **Chart 1.3** that rate of growth of all the three Sectors viz., Agriculture, Industry and Service witnessed a fluctuating trend during 2018-23.

During 2022-23, there was a slight growth in two sectors contributing to GSDP viz. Agriculture and Industry whereas the Service sector saw a declining growth rate.

## 1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of Constitution of India, the Reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. State Finances Audit Report (SFAR) of Sikkim for the year ending 31 March 2023 has been prepared by the CAG for submission to the Governor of Sikkim under Article 151 (2) of the Constitution of India.

The Office of the Sr. Deputy Accountant General (Accounts & Entitlements), Sikkim prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans, initial and subsidiary accounts rendered by the treasuries, offices, and departments responsible for keeping of such accounts functioning under the control of the State Government. These accounts are audited independently by the Accountant General (Audit) and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State constitute the core data for this Report. Other sources include the following:

- ✓ **Budget of the State:** for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- ✓ **GSDP data** and other State related statistics;
- ✓ **Results of audit** carried out by the Office of the Accountant General (Audit) Sikkim at the State Secretariat as well as at the field level offices during the year;

- ✓ Other data with Departmental Authorities and Treasuries (accounting as well as MIS); and
- ✓ Various Audit Reports of the CAG of India.

The analysis is also carried out in the context of recommendations of the Finance Commission (FC), Sikkim Fiscal Responsibility and Budget Management (SFRBM) Act, 2010 best practices and guidelines of Government of India (GoI).

### **1.3 Overview of Government Account Structure and Budgetary Processes**

The Accounts of the State Government are kept in three parts:

#### **I. Consolidated Fund of the State (Article 256(1) of the Constitution of India)**

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from financial institutions, special securities issued to National Small Savings Fund, *etc.*), Ways and Means Advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with the law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (e.g. salaries of Constitutional authorities, loan repayments, *etc.*) constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

#### **II. Contingency Fund of the State (Article 267(2) of the Constitution of India)**

This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

#### **III. Public Account of the State (Article 266(2) of the Constitution of India) I. 6 1.4**

Apart from above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes repayable like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

### **Budget Document**

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a Statement of Estimated Receipts and Expenditure of the Government in respect of every financial year. This 'Annual

Financial Statement’ constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditure.

This section provides a broad perspective of the finances of Government of Sikkim (GoS) during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The analysis has been made based on Finance Accounts and the information obtained from the State Government. The structure and form of Government Accounts, layout of Finance Accounts, methodology adopted for the assessment of fiscal position and State Profile are given in **Appendix 1.1 (Parts A, B & C)**. The time series data on key fiscal variables/ parameters and fiscal ratios relating to the State Government finances for the period 2018-23 are presented in **Appendix 1.2**.

**Revenue Receipts** consist of Tax Revenue, State’s share of Union Taxes/ Duties, Non-Tax Revenue and Grants-in-Aid received from GoI.

**Revenue Expenditure** consists of those expenditure of the Government which do not result in creation of physical or financial assets. It relates to expenses incurred for the normal functioning of Government departments and various services, interest payments on debt incurred by the Government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

The **Capital Receipts** consists of:

- **Debt receipts:** Market loans, bonds, loans from financial institutions, net transaction under Ways and Means Advances, loans and advances from Central Government, *etc.*; and
- **Non-debt receipts:** Proceeds from disinvestment, recoveries of loans and advances, *etc.*

**Capital Expenditure** includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the Government to PSUs and other parties.

In Government Accounts, classification system is based on both functional and economic properties, as detailed in **Table 1.3**.

**Table 1.3: Government Accounts Classification System**

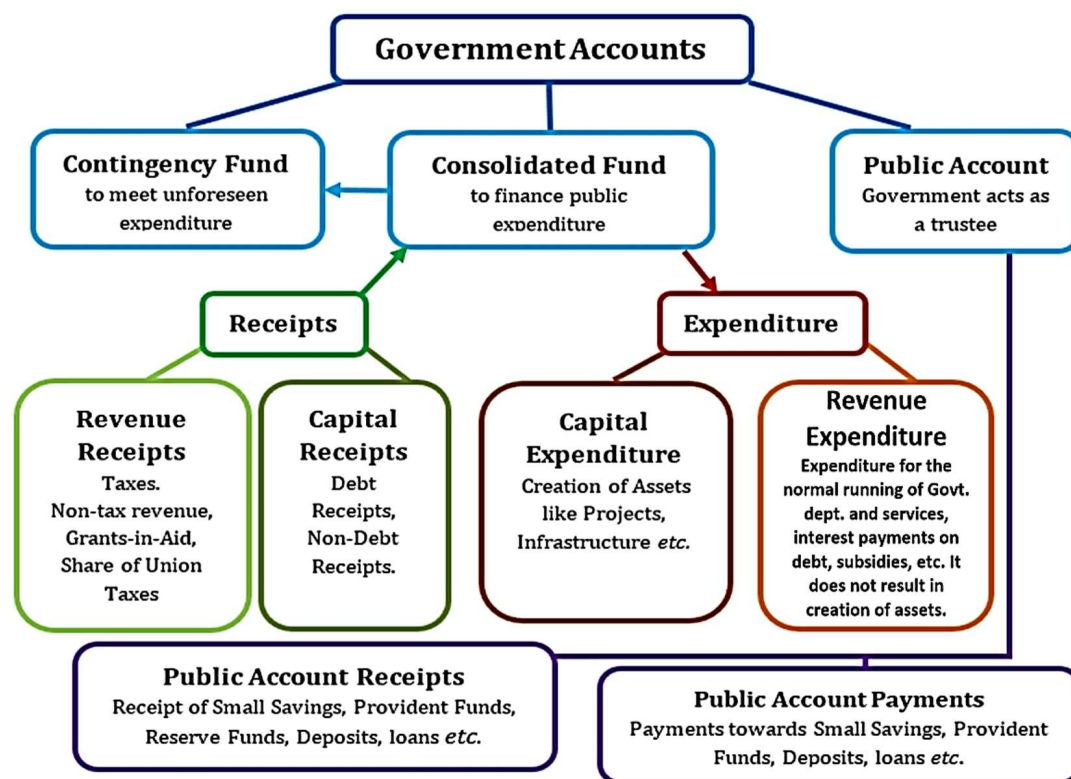
Particulars	Attribute of transaction	Classification
Standardised in LMMH by CGA	Function- Education, Health, <i>etc.</i> / Department	Major Head under Grants (four-digit)
	Sub-Function	Sub Major head (two-digit)
	Programme	Minor Head (three-digit)
Flexibility left for States	Scheme	Sub-Head (two or three digits)
	Sub scheme	Detailed Head (two or three digits)
	Economic nature/Activity	Object Head-salary, minor works, <i>etc.</i> (two-digit)

The functional classification provides us the Department, function, scheme or programme, and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, *etc.* Economic classification is achieved by the numbering logic embedded in the first digit of four-digit Major Heads. For instance, zero and one is



for revenue receipts, two and three for revenue expenditure, four and five for capital expenditure, *etc.* Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, while “salary” object head is Revenue Expenditure, “construction” object head is Capital Expenditure. Object Head is the primary unit of appropriation in the budget document.

Chart 1.4: Structure of Government Accounts



**Public Debt and Public Liability:** In this Report ‘Public Debt’ has been taken to comprise market borrowings, institutional loans, special securities issued to National Small Savings Fund (NSSF), loan given by Central Government *etc.* For this purpose, the major heads 6003 and 6004 - Public Debt have been taken into consideration. Further, the transactions relating to ‘Small Savings, Provident Fund, *etc.*’, ‘Reserve Funds’ and ‘Deposit and Advances’ under Public Account are such that the Government incurs a liability to repay the moneys received or has a claim to recover the amounts paid. The transactions relating to ‘Remittances’ and ‘Suspense’ under Public Account, includes merely adjusting heads such as transactions as remittances of cash between treasuries and currency chests and transfer between different accounting circles. In this Report, Public Liability’ has been taken to include the transactions under major heads 8001 to 8554 relating to ‘Small Savings, Provident Fund, *etc.*’, ‘Reserve Funds’ and ‘Deposit and Advances’ along with the transactions under major heads 6003 and 6004.

### Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of State causes to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year in form of an Annual Financial Statement. As per Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/

Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

In terms of Article 203, the Annual Financial Statement or Budget of Government of Sikkim for year 2022-23 was submitted to the State Legislature in the form of 47 Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill was passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter III** of this Report.

### 1.3.1 Snapshot of Finances

**Table 1.4** provides comparison of actual financial parameters of 2022-23 *vis-à-vis* Budget Estimates (BEs) for the year 2022-23 and actuals of 2021-22.

**Table 1.4: Summarised position of Finances of State**

(₹ in crore)

Sl. No.	Components	2021-22 Actuals	2022-23		Percentage of Actuals to	
			BEs	Actuals	BEs	GSDP
1	Tax Revenue	1,254.41	1,336.42	1,497.26	112.04	3.50
2	Non-Tax Revenue	680.63	990.09	976.11	98.59	2.28
3	Share of Union taxes/duties	3,287.55	3,168.59	3,864.75	121.97	9.04
4	Grants-in-Aid (GIA) and Contributions	1,858.13	2,925.50	1,765.68	60.35	4.13
<b>5</b>	<b>Revenue Receipts (1+2+3+4)</b>	<b>7,080.72</b>	<b>8,420.60</b>	<b>8,103.80</b>	<b>96.24</b>	<b>18.95</b>
6	Recovery of Loans and Advances	0.45	0.08	0.44	550.00	0.00
7	Other Receipts	0	0	0	-	0.00
8	Borrowings and other Liabilities	904.30	1,528.22	1,903.32	124.54	4.45
<b>9</b>	<b>Capital Receipts (6+7+8)</b>	<b>904.75</b>	<b>1,528.30</b>	<b>1,903.76</b>	<b>124.57</b>	<b>4.45</b>
<b>10</b>	<b>Total Receipts (5+9)</b>	<b>7,985.47</b>	<b>9,948.9</b>	<b>10,007.56</b>	<b>100.59</b>	<b>23.41</b>
<b>11</b>	<b>Revenue Expenditure</b>	<b>6,668.84</b>	<b>8,354.77</b>	<b>7,630.58</b>	<b>91.33</b>	<b>17.85</b>
12	a) Interest payments	635.04	732.45	718.18	98.05	1.68
13	b) GIA for creation of capital assets	0.00	0	0	-	0.00
<b>14</b>	<b>Capital Expenditure</b>	<b>1,315.78</b>	<b>1,592.78</b>	<b>2,376.60</b>	<b>149.21</b>	<b>5.56</b>
15	Loan and advances	0.85	1.35	0.38	28.15	0.00
<b>16</b>	<b>Total Expenditure (11+14+15)</b>	<b>7,985.47</b>	<b>9,948.9</b>	<b>10,007.56</b>	<b>100.59</b>	<b>23.41</b>
<b>17</b>	<b>Revenue Surplus (+)/ Deficit (-) (5-11)</b>	<b>411.88</b>	<b>65.83</b>	<b>473.22</b>	<b>718.85</b>	<b>1.11</b>
<b>18</b>	<b>Fiscal Deficit {(5+6+7)-16}</b>	<b>904.30</b>	<b>1,528.22</b>	<b>1,903.32</b>	<b>124.54</b>	<b>4.45</b>
<b>19</b>	<b>Primary Deficit (18-12)</b>	<b>269.26</b>	<b>2,260.67</b>	<b>1,185.14</b>	<b>116.62</b>	<b>6.17</b>

**Source:** Finance Accounts, Estimates of Receipts and Expenditure

Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance.

It can be seen from **Table 1.4** that Revenue Receipts of the State increased by ₹ 1,023.08 crore compared to the year 2021-22, mainly due to increase in Tax Revenue, Non-Tax Revenue and Share of Union taxes/duties. Total Expenditure increased to ₹ 10,007.56 crore in 2022-23 from ₹ 7,985.47 crore in the previous year, an increase of ₹ 2022.09 crore.

During 2022-23, against an estimated Revenue Surplus of ₹ 65.83 crore, the State ended up with a Revenue Surplus of ₹ 473.22 crore and a Fiscal Deficit of ₹ 1,903.32 crore against the estimate of ₹ 1,528.22 crore.

### 1.3.2 Snapshot of Assets and Liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds, and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. The summarised position of assets and liabilities for 2021-22 and 2022-23 with increase and decrease is given in **Table 1.5**:

**Table 1.5: Summarised position of Assets and Liabilities**

(₹ in crore)

Liabilities				Assets					
Particulars	2021-22	2022-23	Per cent increase/decrease	Particulars	2021-22	2022-23	Per cent increase/decrease		
<b>Consolidated Fund</b>									
a	Internal Debt	8,068.39	9,395.94	16.45	a	Gross Capital Outlay	16,029.88	18,406.47	14.83
b	Loans and Advances from GoI	585.74	1,127.34	92.46	b	Loans and Advances	253.30	253.23	(-0.03)
<b>Contingency Fund</b>									
		1.00	1.00	0.00		--	--		
<b>Public Account</b>									
a	Small Savings, Provident Funds, etc.	1,416.31	1,453.36	2.62	a	Advances	1.03	1.03	0.00
b	Deposits	376.98	363.13	(-3.67)	b	Remittance	0.00	0.00	
c	Reserve Funds	1,034.72	1,003.84	(-2.98)	c	Suspense and Miscellaneous	0.00	0.00	
d	Remittances	369.98	451.61	22.06		Cash balance (incl. investment in Earmarked Fund)	2,789.19	2,682.73	(-3.82)
e	Suspense and Miscellaneous	359.35	213.11	(-40.69)					
	<b>Total</b>	<b>12,212.47</b>	<b>14,009.33</b>	<b>14.71</b>					
	Cumulative excess of receipts over expenditure	6,860.93	7,334.13	6.90					
	<b>Total</b>	<b>19,073.40</b>	<b>21,343.46</b>	<b>11.90</b>	<b>Total</b>	<b>19,073.40</b>	<b>21,343.46</b>	<b>11.90</b>	

Source: Finance Accounts, Statement No 1

As can be seen from **Table 1.5**, the assets of the state government increased by ₹ 2,270.06 crore and the liabilities (excluding surplus on Government Accounts) increased by ₹ 1,796.86 crore during 2022-23. Consequently, the growth rate of assets decreased from 12.46 per cent in 2021-22 to 11.90 per cent in 2022-23 whereas, the growth rate of liabilities excluding surplus on Government Accounts decreased to 14.71 per cent in 2022-23 from 16.19 per cent in 2021-22.

### 1.4 Fiscal Balance: Achievement of deficit and total debt targets

The State Government enacted the Sikkim Fiscal Responsibility and Budget Management (SFRBM) Act in September 2010 (last amended in June 2021). The Rules under the Sikkim FRBM Act were notified in March 2011 with the objective

of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/ outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium-term framework. In this context, the Act provides quantitative targets to be adhered by the State with regard to deficit measures and debt level.

As per the SFRBM Act, the State Government was to eliminate Revenue Deficit by 2011-12 and maintain Revenue Surplus thereafter and reduce Fiscal Deficit to three *per cent* of the estimated GSDP. Further, Government of Sikkim amended (June 2010) the state FRBM Act as per the recommendations of the FC-XV. According to the amendments, the fiscal deficit was pegged at four *per cent* of GSDP for the year 2021-22, 3.5 *per cent* for 2022-23, and maintain at three *per cent* in 2023-24 and thereafter. An annual additional borrowing space of 0.5 *per cent* of GSDP was allowed for the period 2021-22 to 2024-25 based on certain performance criteria in the power sector. The additional borrowing by the state was placed beyond the FRBM Act limit relating to the fiscal deficit.

Further, the Act also envisaged that the State Government would limit the percentage of total outstanding debt to GSDP to 19.32 *per cent* in 2018-19 and 28.10 *per cent* in 2022-23. Targets of key fiscal parameters envisaged in the SFRBM Act and their achievement during 2018-23 are given in **Table 1.6(a)**:

**Table 1.6(a): Compliance with State FRBM Act**

Fiscal Parameters	Fiscal targets set in the Act	Actuals (in crore)				
		2018-19	2019-20	2020-21	2021-22	2022-23
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	Maintain Revenue Surplus	(+) 693.79	(-) 1,343.81	(-) 760.83	(+) 411.88	(+) 473.22 <sup>#</sup>
		✓	✗	✗	✓	✓
Fiscal Deficit (-)/ Surplus (+) (as per cent of GSDP)	2017-20: 3 <i>per cent</i> 2020-21: 5 <i>per cent</i> 2021-22: 4 <i>per cent</i> 2022-23: 3.5 <i>per cent</i>	(-) 642.32 (-2.26)	(-) 2,081.18 (-6.62)	(-) 2,273.54 (-7.15)	(-) 904.30 (-2.46)	(-) 1,903.32 <sup>#</sup> (-4.45)
		✓	✗	✗	✓	✗
Ratio of total outstanding liability to GSDP (in per cent)	Target	19.32	19.04	24.64	27.50	28.10
	Achievement	22.30	23.54	27.44	28.92	29.02*
		✗	✗	✗	✗	✗

**Source:** FRBM Act 2021 and Departmental information

<sup>#</sup> Revenue Surplus and Fiscal Deficit was before adjustment of understated amount of ₹393.65 crore and ₹30.80 crore respectively as mentioned in Para 1.5

\* Increase in Ratio of total outstanding liability to GSDP during 2022-23 is due to inclusion of outstanding off budget borrowing amounting to ₹ 1,000.15 crore in total liability of the State. The same is not included for the previous years due to non-availability of data.

During 2022-23 the ratio of total outstanding liability to GSDP exceeded the limit prescribed by the SFRBM Act, even after setting aside the loan provided by the Government of India under Special Assistance to State for Capital investment and allowing extra borrowing ceiling equivalent to the pension contribution actually deposited with the designated authority *i.e.* National Security Depository limited/trustee bank as per the guidelines of National Pension System for the year 2022-23.

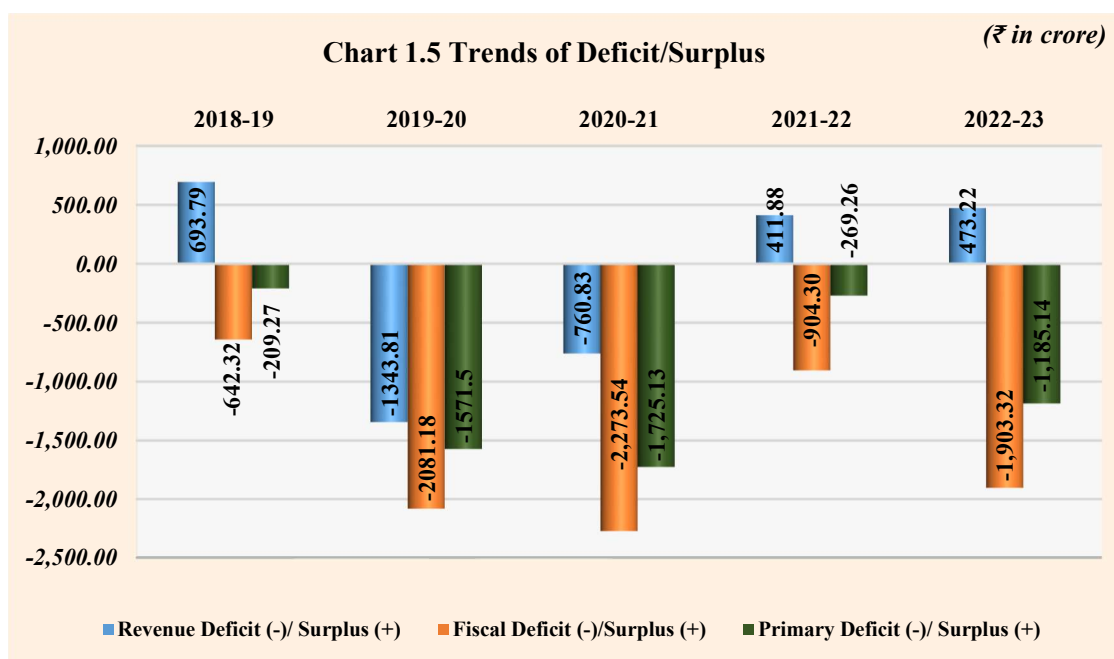
The targets set by the State budget vis-à-vis achievements in respect of major fiscal aggregates with reference to GSDP during 2022-23 are given in **Table 1.6(b)**.

Table 1.6(b): Compliance with State budget

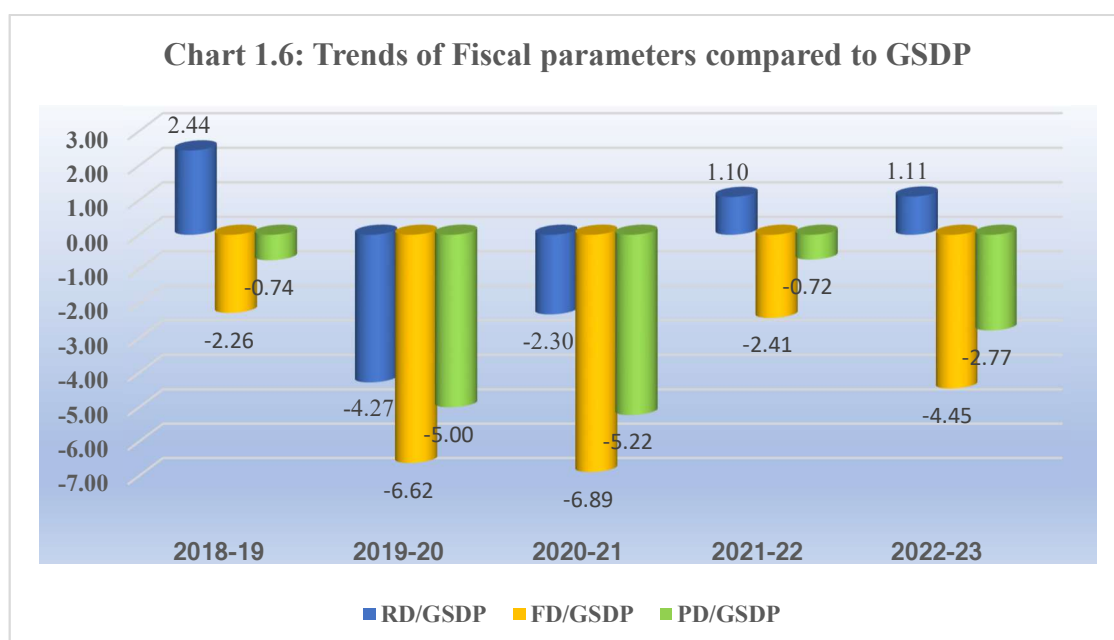
Fiscal Variables	Targets in the Budget	Actuals	Percentage variation of actuals over targets in Budget
Revenue Deficit (-)/ Surplus (+) (as per cent of GSDP)	(+)0.17	(+)1.11 <sup>#</sup>	(+)0.94
Fiscal Deficit (-)/ Surplus (+) (as per cent of GSDP)	(-)4.00	(-)4.45 <sup>#</sup>	(-)0.45
Ratio of total outstanding liability to GSDP (in per cent)	(+)32.51	(+)29.02 <sup>*</sup>	(-)3.49

<sup>#</sup> Revenue Surplus and Fiscal Deficit was before adjustment of understated amount of ₹393.65 crore and ₹30.80 crore respectively as mentioned in Para 1.5

<sup>\*</sup> including off-budget borrowings



Figures for 2022-23 have been taken from Table 1.6(a)



Ref: Appendix 1.2



## Revenue Surplus/ Deficit

Revenue Deficit is the gap between Revenue Receipts and Revenue Expenditure. As per the SFRBM Act, 2010 the State Government was to eliminate Revenue Deficit by 2011-12 and maintain Revenue Surplus thereafter. The State had Revenue Surplus on 2018-19 but it turned into huge deficit of ₹1,343.81 crore in 2019-20, though in 2020-21 the position improved slightly as it stood at ₹760.83 crore. However, the State could achieve Revenue Surplus of ₹ 411.88 crore in 2021-22 and ₹ 473.22 crore during 2022-23.

## Fiscal Deficit

Fiscal Deficit represents the gap between the Non-debt receipts and Total Expenditure. This gap can be met either by additional Public Debt (internal or external) or by the use of surplus funds from Public Account. Fiscal Deficit normally represents the net incremental liabilities of the Government or its additional borrowing requirements. The State had Fiscal Deficit during the last five-year period (2018-23). After successfully containing the Fiscal Deficit below three *per cent* of GSDP during 2018-19, the State's Fiscal Deficit increased from 6.62 *per cent* in 2019-20 to 6.89 *per cent* of GSDP during 2020-21, and in 2021-22, the State's Fiscal Deficit was contained to 2.41 *per cent* of GSDP, well within the target set in the SFRBM Act, 2021. However, in 2022-23, the State's Fiscal Deficit target could not be achieved as it increased to 4.45 *per cent* of GSDP. During 2022-23, the Fiscal Deficit increased by ₹999.02 crore (by 110.47 *per cent*) from ₹904.30 crore in 2021-22 to ₹1903.22 crore.

## Medium Term Fiscal Plan (MTFP)

As per the SFRBM Act, the State Government has to lay before the State Legislature, a Five-Year Fiscal Plan along with the Annual Budget. The Medium-Term Fiscal Plan (MTFP) sets forth a five-year rolling target for the prescribed fiscal indicators.

**Table 1.7** indicates the variation between the projections made for 2022-23 in MTFP presented to the State Legislature and the Actuals of the year.

**Table 1.7: Actuals vis-à-vis projection in MTFP for 2022-23**

Sl. No.	Fiscal Variables	Projections as per MTFP	Actuals (2022-23)	
			Actuals (2022-23)	Variation
1	Tax Revenue	1,336.42	1,497.26	160.84
2	Non-Tax Revenue	990.09	976.11	(-)13.98
3	Share of Central Taxes	3,168.59	3,864.75	696.16
4	Grants-in-Aid from GoI	2,925.50	1,765.68	(-) 1,159.82
5	<b>Revenue Receipts (1+2+3+4)</b>	<b>8,420.60</b>	<b>8,103.80</b>	(-)316.80
6	<b>Revenue Expenditure</b>	<b>8,354.32</b>	<b>7,630.58</b>	(-)723.74
7	Revenue Deficit (-)/ Surplus (+) (5-6)	(-) 72.69 <sup>^</sup>	(+)473.22 <sup>#</sup>	(+)545.91
8	Fiscal Deficit (-)/ Surplus (+)	(-)1,710.24 <sup>^</sup>	(-)1,903.32 <sup>#</sup>	(-)193.08
9	Debt-GSDP ratio ( <i>per cent</i> )	32.51	29.02 <sup>*</sup>	(-)2.37
10	GSDP growth rate at current prices ( <i>per cent</i> )	11	13.84	2.84
11	Fiscal Deficit-GSDP ratio ( <i>per cent</i> )	4.00	4.45	0.45

**Source:** Departmental information, Finance Accounts and MTFP Report

<sup>^</sup> Fiscal Deficit: 4 *per cent* of ₹ 42,756 crore (GSDP)=₹ 1,710.24 crore and Revenue Deficit: 0.17 *per cent* of GSDP = (-) ₹ 72.69 crore.

<sup>#</sup> Revenue Surplus and Fiscal Deficit was before adjustment of understated amount of ₹393.65 crore and ₹30.80 crore respectively as mentioned in para 1.5.

<sup>\*</sup> including off-budget borrowings

From **Table 1.7**, it can be seen that the State could not achieve the projections of fiscal Deficits of the MTFP for 2022-23. During 2022-23 the Debt-GSDP ratio is within the projection as per MTFP. However, the Fiscal Deficit is not within the projection as per MTFP. There is a variation of Fiscal Deficit as per the projection and the actuals.

### 1.5 Deficits and Total Debt after examination in audit

As per the FRBM Act, the State Government must ensure compliance to the targets fixed for the fiscal indicators such as deficits, ceiling on debt and on guarantees, *etc.* The Revenue Deficit and the Fiscal Deficit as worked out for the states gets impacted due to various circumstances such as Misclassification of revenue expenditure as capital and off budget fiscal operations. Besides, deferment of clear-cut liabilities, not depositing Cess/ Royalty to Consolidated Fund, short contribution to New Pension Scheme, Sinking and Redemption funds, *etc.* also impact the Revenue and Fiscal Deficit figures. In order to arrive at actual deficit figures, the impact of such irregularities needs to be reversed.

In order to arrive at actual deficit figures, the effect of misclassification of revenue expenditure/ capital outlay and/ or any such misclassification needs to be included. The impact on Revenue Deficit/ Surplus and Fiscal Deficit of Government of Sikkim during the year 2022-23, consequent to under-booking of expenditure or noncrediting of receipts, is detailed in **Table 1.8**.

**Table 1.8: Transactions impacting Revenue Deficit and Fiscal Deficit**

(₹ in crore)

Item	Impact on Revenue Surplus		Impact on Fiscal Deficit	
	Over-statement	Under-statement	Over-statement	Under-statement
Interest Adjustment	8.99			8.99
Guarantees commission not transferred to Guarantee Redemption Fund	8.56			8.56
Short Contribution of National Pension System (NPS)	6.78			6.78
Receipts on account of sale of power (trading)	--	137.64	137.64	--
Royalty from HEPs	--	444.75	444.75	--
Expenditure towards purchase of Power	164.41		--	164.41
Royalty utilised for servicing loans	--	--	--	424.45
<b>Total (Net) Impact</b>		<b>393.65</b> <b>(Understatement)</b>		<b>30.80</b> <b>(Understatement)</b>

*Source: Notes to Finance Accounts, information from Department*

As could be seen from **Table 1.8**, the Revenue Surplus was understated by ₹ 393.65 crore and Fiscal Deficit were understated by ₹ 30.80 crore during the year 2022-23.

#### Role of Power Department of Sikkim in deficits

Power Department of Sikkim (PDS) had earned revenue of ₹ 137.64 crore by selling surplus power outside the State and had received royalty of ₹ 444.75 crore during the financial year 2022-23. These receipts of ₹ 582.39 crore were not deposited in the Consolidated Fund of State by the PDS. This is in violation of Article 266(1) of Constitution of India which states that all revenues received by the Government of a State, all loans raised by that Government and all moneys received by that

Government in repayment of loans shall form one Consolidated Fund to be entitled the Consolidated Fund of the State”. Similarly, Article 293 of Constitution of India states that “the executive power of a State extends to borrowing within the territory of India upon the security of the Consolidated Fund of the State within such limits, if any, as may from time to time be fixed by the Legislature of such State by law and to the giving of guarantees within such limits, if any, as may be so fixed”. Further, Rule 4 (1) of Sikkim Financial Rules, 1979 points out that “all moneys received by or on behalf of the Government shall be brought into the Government Account without delay”.

This has also led to understatement of Government Revenue Receipts by ₹ 582.39 crore, understatement of Revenue Surplus and overstatement of Fiscal Deficit to that extent. During 2022-23, PDS had also incurred expenditure of ₹ 164.41 crore towards purchase of power without routing it through the Government account. This led to overstatement of Revenue Surplus and understatement of Fiscal Deficit to that extent.

Further, PDS directly repaid the loan availed by SPICL on behalf of the Government of Sikkim amounting to ₹424.45 crore during 2022-23 from the royalties which was not routed through the Government Accounts. These transactions were not reflected in Government accounts. This led to understatement of Fiscal Deficit to that extent.

The matter was pointed out by the CAG in earlier Audit Reports also. However, the Department has persisted with same irregular practice. The act of receiving receipts and incurring expenses without routing through the Consolidated Fund of State is violative of Article 266 (2) of the Constitution of India.

## **1.6 Conclusion**

During 2022-23, the GSDP at current price was ₹ 42,756 crore, up from ₹ 37,557 crore in 2021-22, representing an increase of 13.84 *per cent* which was lower than that of GDP growth rate of 16.06 *per cent*.

During the five-year period 2018-23, there was a marginal decrease in the relative share of Primary Sector in GSDP, as the share of Primary Sector decreased from 9.80 *per cent* in 2018-19 to 8.39 *per cent* in 2022-23. However, the share of Secondary Sector increased from 59.46 *per cent* in 2018-19 by a little margin to 59.74 *per cent* in 2022-23. In addition, the share of Tertiary Sector grew from 25.64 *per cent* in 2018-19 to 27.26 *per cent* in 2022-23.

During 2022-23, against an estimated Revenue Surplus of ₹ 856.06 crore, the State ended up with a Revenue Surplus of ₹ 473.22 crore and a Fiscal Deficit of ₹ 1,903.32 crore against the estimate of ₹ 1,899.20 crore.

During the five-year period 2018-23, the ratio of total outstanding debt to GSDP of the State consistently exceeded the norms prescribed in the SFRBM Act as well as projections of Finance Commissions.

The State has maintained Revenue Surplus of ₹ 411.88 crore and ₹ 473.22 crore in 2021-22 and 2022-23 respectively.



## 1.7 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 Government Accounts and that it makes budget provisions for the expenditure incurred by the Power Department.*