

# **EXECUTIVE SUMMARY**



## Executive Summary

### About the Report

*This Report of the CAG of India is on the State Finances for the year 2022-23. It provides an overview of the finances, budgetary management and quality of accounts, financial reporting practices and other matters relevant to State Finances.*

*This executive summary highlights the contents of this report and through snapshots of the important figures and aspects, provides insight into fiscal sustainability, performance against the budget intent, revenue and expenditure projection, the reasons for variations and its impact.*

Gross State Domestic Product (GSDP) (at current prices) grew at an average growth rate of 10.53 per cent from ₹ 28,402 crore in 2018-19 to ₹ 42,756 crore in 2022-23. Budget Outlay of the State grew at an average growth rate of 22.73 per cent from ₹ 6,564.45 crore in 2018-19 to ₹ 10,007.56 crore in 2022-23.

There was 13.84 per cent growth in GSDP over 2021-22. The revenue receipts grew at 14.45 per cent and the percentage of revenue receipts over GSDP improved from 18.85 per cent in 2021-22 to 18.95 per cent in 2022-23. The tax revenue increased by 18.05 per cent during the period and the State's own tax revenue increased by 19.36 per cent. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of Sikkim increased from ₹ 7,985.47 crore in 2021-22 to ₹ 10,007.56 crore in 2022-23 thus increasing by 25.32 per cent. Of this, revenue expenditure showed 14.42 per cent increase from 2021-22. Revenue surplus increased from ₹ 411.88 crore to ₹ 473.22 crore registering 14.89 per cent increase over 2021-22, while fiscal deficit increased from ₹ 904.30 crore in 2021-22 to ₹ 1,903.32 crore in 2022-23 increasing by 110.47 per cent.

### Receipt-Expenditure Mismatch

The continuous mismatch between receipts and expenditure indicates rising fiscal stress. The State has different sources of receipts such as State Own Tax Revenue, Non-tax Revenue, Devolution of States' share in taxes, Grants in aid and transfers from the Union Government and non-debt capital receipts. The State Government's expenditure includes expenditure on revenue account as well as capital expenditure (assets creation, loans and advances, investments, etc.).

From 2018-19 to 2022-23, revenue receipts grew from ₹ 5,920.36 crore to ₹ 8,103.80 crore, with an average annual growth rate of 10.38 per cent. Capital receipts also increased from ₹ 1,146.98 crore to ₹ 2,037.34 crore during this period. The share of Grants-in-aid in revenue receipts decreased from 26.60 per cent in 2018-19 to 21.79 per cent in 2022-23, indicating decreased reliance on support from the Government of India. The State Government received ₹ 1,118.22 crore as Central share for the Centrally Sponsored Schemes (CSSs) in the year.

Revenue expenditure is incurred to maintain the current level of services and payment for the past obligation. As such, it does not result in any addition to the State's infrastructure and service network. Between 2018-19 and 2022-23, revenue expenditure increased from ₹ 5,226.57 crore (18.40 *per cent* of GSDP) to ₹ 7,630.58 crore (17.85 *per cent* of GSDP). It consistently made up a significant portion (76 to 89 *per cent*) of the total expenditure during this period.

#### ***Result of expenditure beyond means***

The gap between the revenue receipt and revenue expenditure results in revenue deficit. 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.

The State Government spent ₹ 2,376.60 crore on capital account. This was 23.75 *per cent* of the total expenditure in the year 2022-23.

The gap between the total expenditure and total non-debt receipt of the State results in fiscal deficit. The fiscal deficit of the State increased to ₹ 1,903.32 crore (4.45 *per cent* of GSDP) in 2022-23 from ₹ 642.32 crore (2.26 *per cent* of GSDP) in 2018-19.

Under the revenue expenditure, the quantum of committed expenditure constitutes the largest share. Committed expenditure has the first charge on the resources and consists of interest payments, expenditure on salaries and wages and pensions. Committed expenditure on interest payments, salaries and pensions constituted 67-78 *per cent* of revenue expenditure during 2018-19 (67.11 *per cent*) and 2022- 2023 (71.58 *per cent*). The Committed expenditure increased at an average rate of 12.72 *per cent* i.e. from ₹ 3,507.09 crore in 2018-19 to ₹ 5,462.70 crore in 2022-23 {an increase of 10.57 *per cent* over 2021-22 (₹ 522.05 crore)}.

In addition to the committed expenditure, inflexible expenditure increased from 4.12 *per cent* to 6.24 *per cent* of revenue expenditure during 2018-19 to 2022-23, indicating a rising trend. The inflexible expenditure increased from ₹ 416.76 crore in 2021-22 to ₹ 476.14 crore in 2022-23 registering an increase of 14.25 *per cent*. The average growth of inflexible expenditure during the period from 2018-19 (₹ 215.16 crore) to 2022-23 (₹ 476.14 crore) was 22.10 *per cent*.

Taken together, the committed and inflexible expenditure in 2022-23 was ₹ 5,938.84 crore; 77.83 *per cent* of the revenue expenditure. Upward trend on committed and inflexible expenditure leaves the Government with lesser flexibility for other priority sectors and capital creation.

#### ***Off-budget borrowings***

During the year 2022-23, the State Government repaid ₹ 198.95 crore as against outstanding of ₹ 1,000.15 crore worth of loans availed by three financial institutions<sup>1</sup> for implementation of various Government projects, and interest accrued thereupon.

<sup>1</sup> Sikkim Housing Development Board (SHDB), State Trading Corporation of Sikkim (STCS) and Sikkim Industrial Development and Investment Corporation Limited (SIDICO).

The borrowings by these Institutions had not formed part of the outstanding liabilities of the State Government during the respective years. Further, out of the total repayments made during the year, ₹ 113.08 crore was repayment of principal and ₹ 85.87 crore was interest payment.

#### ***Contingent Liabilities on account of Guarantees***

During 2022-23, State Government has issued one fresh guarantee to SIDICO (Housing Sector) amounting to ₹121.34 crore. The total guarantees (principal plus interest) outstanding as on 01 April 2022 was ₹4,878.29 crore, which exceeded the prescribed limit of thrice the total Tax Receipts (₹966.70 crore) of 2020-21.

#### ***Fiscal sustainability***

Fiscal sustainability is examined in terms of macro-fiscal parameters such as deficits, level of debt and liabilities, commitments on account of off-budget borrowings, guarantees, subsidies, etc. So far as revenue and expenditure mismatch is concerned, one of the important constraints is committed and inflexible expenditure, which includes salaries and wages, pension payments, interests, etc. and also other inflexible expenditure such as those arising out of commitment for centrally sponsored schemes, transfer to reserve funds, transfer to local bodies, etc.

#### ***FRBM requirements and compliance with fiscal parameters***

The FRBM Act / Rules prescribes certain limits within which, revenue deficit, fiscal deficit, debt as a percentage of the Gross State Domestic Product (GSDP) should be, and similarly for guarantees as a percentage of revenue receipts of the previous year. In 2022-23, there was a revenue surplus however, fiscal deficit was 4.45 *per cent* as against the limit of 3.5 *per cent*; debt was 29.02 *per cent* as against limit of 28.10 *per cent*.

Further, if the quantum of the off-budget borrowings is included as part of debt, the overall liability (Includes Public Debt and Public Account Liabilities) of the Government was 29.02 *per cent* of the GSDP.

As per the debt stabilisation analysis, the public debt of the Government of Sikkim has grown on an average at a rate of 20.26 *per cent* annually of the outstanding public debt between 2018-19 to 2022-23. Public debt-GSDP ratio of Sikkim has increased from 17.56 *per cent* in 2018-19 to 24.61 *per cent* in 2022-23.

The State had primary deficit during the years 2018-19 to 2022-23. In the pre-Covid period of 2018-19 and 2019-20, the real growth rate of GSDP was 5.02 *per cent* on an average while Domar gap deteriorated in 2019-20 due to falling GSDP growth rate and increasing interest rate. In the post-Covid period, the Domar gap has remained positive indicating that real interest rates have remained below the GSDP growth rates. However, the sustainability of public debt depends on whether the State economy maintains the real growth rate in the long run.

#### ***Budget performance***

##### ***Aggregate budget outturn***

Budget performance in terms of budgetary intent and budget implementation is examined to assess extent to which the aggregate expenditure outturn reflects the

amount originally approved both in terms of excess and saving. In Revenue section, deviation in outturn compared with BE was (-) 14.19 per cent. This was due to deviation between 0 and  $\pm 25$  per cent in 38 grants, between  $\pm 25$  per cent to  $\pm 50$  per cent in six grants and between 50 per cent to  $\pm 100$  per cent in three grants. In Capital section, deviation in outturn compared with BE was (+) 37.04 per cent. This was due to deviation between 0 and  $\pm 25$  per cent in nine grants, between  $\pm 25$  per cent to  $\pm 50$  per cent in seven grants, between 50 per cent to  $\pm 100$  per cent in six grants and equal to or more than 100 per cent in five grants. However, no provision was made in respect of 20 grants of the Capital section.

#### ***Expenditure composition outturn***

Budget performance also looks at the extent to which the re-allocation between the main budget categories during the execution have contributed to variance in expenditure composition. This measure indicates the extent of variation between the final budget and the actual expenditure. In Revenue section, deviation in outturn compared with RE was (-) 12.45 per cent. This was due to deviation between 0 and  $\pm 25$  per cent in 40 grants, between  $\pm 25$  per cent to  $\pm 50$  per cent in five grants and between 50 per cent to  $\pm 100$  per cent in two grants. In Capital section, deviation in outturn compared with RE was (-) 16.00 per cent. This was due to deviation between 0 and - 25 per cent in 16 grants and one grant namely Culture which was + 4.80 per cent, between -25 per cent to -50 per cent in four grants, between 50 per cent to -100 per cent in five grants and equal to or more than 100 per cent in one grant. However, no provision was made in respect of 20 grants of the Capital section.

It was noticed that supplementary provisions of ₹ 497.02 crore during the year 2022-23 in 22 cases (more than ₹ 50 lakh in each case) proved unnecessary, as the expenditure did not come up even to the level of original provisions.

*Budgetary assumptions of the State Government were not very realistic during 2022-23 and budgetary estimates were off the mark to a considerable extent, and control over the execution and monitoring of budget was inadequate. A reliable budget practice should need to deal with such deviations.*

#### ***Quality of Accounts and Financial Reporting***

Quality of accounts and financial reporting covers items, transactions and events which relate to gaps in compliance, regularity weaknesses and issues relating to delay in receipt of those accounting records or adjustment records which evidence the actual expenditure. It also highlights issues pertaining to the accounts and financial reporting such as parking of funds outside the Government accounts, non- or short – discharging of liabilities and misclassification of transactions and data gaps.

#### ***Regularization of Excess over Grants/ Appropriations***

The State Government has to get excesses over grants/appropriations regularised by the State Legislature as per article 204 and 205 (1) (b) of the constitution. It was observed that in 2022-23 there was excess expenditure of ₹ 9.41 crore under one grant which required regularization. Further, an excess expenditure of ₹ 12.82 crore

in respect of previous years (from 2014-15 to 2019-20) was pending for regularisation by the PAC/State Legislature.

### ***Compliance with IGAS***

As against the requirements of the Indian Government Accounting Standards (IGAS), the State Government complied with the notified three Indian Government Accounting Standards (IGAS) viz., IGAS 1- Guarantees given by the Government, IGAS 2- Accounting and classification of Grants-in-Aid and IGAS 3- Loans and Advances made by the Government.

### ***Funds to Single Nodal Agency***

The Government of India and the State Government have introduced system of Single Nodal Agency (SNA) for implementation and fund flow for each Centrally Sponsored Scheme (CSS). The State Government received ₹408.09 crore, being Central share during the year, in its Treasury Accounts. As on 31 March 2023, the Government transferred Central share of ₹876.65 crore received in Treasury Accounts and State share of ₹160.22 crore to the SNAs. The entire amount of ₹ 1,036.87 crore was transferred through Fully Vouched Contingent Bills. Detailed vouchers and supporting documents of actual expenditure were not received by AG office from the SNAs. As per information available on PFMS portal, ₹418.98 crore are lying unspent in the bank accounts of SNAs as on 31 March 2023.

### ***Utilisation Certificates against conditional grants***

Despite the requirement of submitting Utilisation Certificates (UCs) against conditional grants within a stipulated time period, 947 outstanding UCs of ₹ 96.20 crore were pending as on 31<sup>st</sup> March 2023.

### ***DC bills against AC bills***

Similarly, despite the requirement of submitting Detailed Debit Contingency (DDC) Bills against the advance money withdrawn through Abstract Contingency (AC) Bills, 2,286 AC bills of ₹ 52.42 crore were pending for submission of DC bills as on 31<sup>st</sup> March 2023, out of which 1,987 AC Bills amounting to ₹ 34.98 crore pertained to the period upto 2021-22.

### ***Funds outside Government Account***

During 2022-23, an amount of ₹ 582.39 crore earned by Power Department, Sikkim (PDS) on account of receipts of royalty revenue (₹ 444.75 crore) and sale of power (₹ 137.64 crore). However, it was not deposited into the Government Account by the DDOs in contravention to the Article 266 (1) of the Constitution of India as well as Rule 4 (1) of the SFR. Further, PDS had also expended of ₹ 164.41 crore towards purchase of power and ₹424.45 crore towards repayment of the loan availed by SPICL on behalf of the Government of Sikkim without routing it through the Government account.

*Compliance with prevailing rules and codal provisions are meant to ensure control and accountability in accounting and financial reporting. Non-compliance and deviations impact the quality of accounting and financial reporting adversely. Non-timely submission*

*of UCs against conditional grants; non-submission of DC bills against AC bills; funds remaining outside Government accounts; and non-supply of details of expenditure from SNAs have impacted the quality of accounts adversely.*

### ***Working of State Public Sector Undertakings***

In Sikkim, there are four Government Companies which are incorporated under the Companies Act, 2013 and are audited under the provisions of the Companies Act, 2013. Besides, there are nine Companies which are incorporated under the Sikkim Registration of Companies Act, 1961. Further, there are four Statutory Corporations which were incorporated under the Proclamation of the erstwhile Chogyal (King) of Sikkim and registered under the Sikkim Registration of Companies Act, 1961. The companies incorporated under the Sikkim Registration of Companies Act, 1961 and the Statutory Corporations are audited on 'entrustment basis' under Section 19 (3) or 20 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (CAG's DPC Act).

Audit noticed that SPSEs did not adhere to the prescribed timeline regarding submission of their Financial Statements except for three SPSEs (Sikkim Urja Limited, Sikkim Power Transmission Limited and Sikkim Industrial Development and Investment Corporation Limited). There were total 58 Accounts of 14 SPSEs in arrears as on 30 September 2023, which included 47 Accounts of 10 Government companies and 11 Accounts of 4 Statutory Corporations

Out of the total profit of ₹ 1,384.13 crore earned by 11 SPSEs, 99.02 per cent was contributed by three SPSEs. Further, out of total loss of ₹ 212.45 crore incurred by six SPSEs, loss of ₹ 210.69 crore (99.17 per cent) was incurred by one SPSEs (Sikkim Power Investment Corporation Limited). Out of 11 SPSEs which earned profits as per the latest finalized accounts, only one SPSE (State Bank of Sikkim) declared dividend. Remaining 10 SPSEs, which earned aggregate profits of ₹ 1,347.09 crore did not declare any dividend.

*The State Government may impress upon the managements of SPSEs to ensure timely submission of their financial statements. In the absence of finalised accounts, Government investments in such SPSEs remain outside the oversight of the State Legislature. The State Government may also analyse the reasons of losses in loss making SPSEs and initiate steps to make their operations efficient and profitable.*