

CHAPTER – I

FINANCES OF THE STATE GOVERNMENT

In Summary

Large revenue and fiscal deficits year after year indicate continued macro imbalances in the State. In Sikkim, fiscal deficit increased from Rs. 50.26 crore in 2003-04 to Rs. 185.55 crore in 2004-05.

The revenue of the State consisted mainly of its own tax and non-tax revenue, Central tax transfers and grants-in-aid from Government of India. Overall revenue receipts increased from Rs. 862.60 crore in 2000-01 to Rs. 1,892.40 crore in 2004-05 at an average trend rate of 7.67 *per cent*. While 59 *per cent* of the revenue receipts during 2004-05 came from State's own resources comprising taxes and non-taxes, Central tax transfers and grants-in-aid together contributed 41 *per cent* of the total revenue. However, after netting off the impact of gross receipts of Rs. 912.27 crore from state lotteries included under the non-tax revenue of the State against which an expenditure of Rs. 881.11 crore was incurred during 2004-05, the picture of State finances changed drastically. About 77.42 *per cent* of net revenue receipts of the State was constituted by Central tax transfers and grants-in-aid from Government of India.

Total expenditure of the State increased from Rs. 914.56 crore in 2000-01 to Rs. 2,077.71 crore in 2004-05 at an average trend rate of 7.90 *per cent* per annum. The rate of increase of total expenditure was higher than the rate of increase of revenue receipts during this period.

In 2004-05, Plan expenditure, Capital expenditure and Development expenditure (expenditure on Economic and Social Services) increased by 93 *per cent*, 134 *per cent* and 83 *per cent* respectively as compared to 2000-01. Interest payments increased steadily by 26 *per cent* from Rs. 78.67 crore in 2000-01 to Rs. 99.19 crore in 2004-05 primarily due to ever increasing borrowings. The fiscal liabilities of the State at the end of 2004-05 was Rs. 1,107.07 crore, up by 51.78 *per cent* from 2000-01 and 14.55 *per cent* over the previous year.

State Government has not yet passed any Fiscal Responsibility Act although a Memorandum of Understanding with Government of India was entered into in April 1999 for bringing about certain fiscal reforms.

Though it is not uncommon for a State to borrow for widening its infrastructure and for creating income generating assets, an ever increasing ratio of fiscal liabilities to GSDP could lead the State finances into a debt trap.

1.1 Introduction

The Finance Accounts of the Government of Sikkim are laid out in 19 statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The lay out of the Finance Accounts is depicted in **Box-1.1**.

Box-1.1

Layout of Finance Accounts

Statement No. 1 presents the summary of transactions of the State Government- receipts and expenditure, revenue and capital, public debt receipts and disbursements etc. in the Consolidated Fund, Contingency Fund and Public Account of the State.

Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of current year.

Statement No. 3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss etc.

Statement No. 4 indicates the summary of debt position of the State, which includes internal debt, borrowings from Government of India, other obligations and servicing of debt.

Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears etc.

Statement No. 6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporations, local bodies and other institutions.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No. 8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2005.

Statement No. 9 shows the revenue and expenditure under different heads for the current year as a percentage of total revenue/expenditure.

Statement No. 10 indicates the distribution between the charged and voted expenditure incurred during the year.

Statement No. 11 indicates the detailed account of revenue receipts by minor heads.

Statement No. 12 provides accounts of revenue expenditure by minor heads under non-plan, State plan and capital expenditure major head wise.

Statement No. 13 depicts the detailed capital expenditure incurred during and to the end of the current year.

Statement No. 14 shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, cooperative banks and societies etc. up to the end of the current year.

Statement No. 15 depicts the capital and other expenditure to the end of the current year and the principal sources from which the funds were provided for that expenditure.

Statement No. 16 gives the detailed account of receipts, disbursements and balance under heads of account relating to debt, Contingency Fund and Public Account.

Statement No. 17 presents the detailed account of debt and other interest bearing obligations of the Government.

Statement No. 18 provides the detailed account of loans and advances given by the Government of Sikkim, the amount of loans repaid during the year, the balances at the end of the year and the amount of interest received during the year.

Statement No. 19 gives the details of balances of earmarked funds.

1.2 Trend of Finances with reference to previous year

The trend of finances of the State Government during the current year compared with the previous year was as under:

(Rupees in crore)

2003-04	Sl. No	Major Aggregates	2004-05
1,341.18	1	Revenue Receipts (2+3+4+5)	1,892.40
108.00	2	Tax Revenue	116.95
537.29	3	Non Tax Revenue*	992.47
583.56	4	Other Receipts	675.63
112.33	5	State share of union taxes and others	107.35
1.08	6	Non-Debt Capital Receipts	(-) 0.24
1.08	7	<i>Of which</i> , Recovery of Loan	<i>(-) 0.24</i>
1,342.26	8	Receipts (1+6)	1,892.16
934.71	9	Non-Plan Expenditure (10+12+13)	1,486.15
934.61	10	On Revenue Account**	1,485.47
92.50	11	<i>Of which</i> , Interest Payment	99.19
-	12	On Capital Account	--
0.10	13	On Loans disbursement	0.68
457.81	14	Plan Expenditure (15+16+17)	591.56
246.32	15	On Revenue Account	238.02
211.49	16	On Capital Account	353.54
-	17	On Loans disbursement	--
1,392.52	18	Total Expenditure (9+14)	2,077.71
50.26	19	Fiscal Deficit (18-1-6)	185.55
(-)160.25	20	Revenue Deficit (10+15-1)	(-) 168.91
42.24	21	Primary Deficit (-) / Surplus (+) (19-11)	86.36

1.3 Summary of Receipts and Disbursements for the year

Table 1 summarises the finances of the State Government of Sikkim for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public accounts receipts and disbursements made during the year as emerging from *Statement-I* and other detailed statements of Finance Accounts.

* Non-tax revenue for the year 2004-05 includes gross receipt of Rs 912.27 crore from State Lotteries before adjustment of expenditure of Rs 881.11 crore under the head.

** Expenditure includes Rs. 881.11 crore on State Lotteries against which gross receipt was Rs. 912.27 crore under the same head.

Table -1: SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2004-05*(Rupees in crore)*

2003-04	Receipts	2004-05	2003-04	Disbursements	2004-05		
Section – A: Revenue							
					Non Plan	Plan	Total
1,341.18	I. Revenue receipts	1,892.40	1,180.93	I. Revenue Expenditure	1,485.47	238.02	1,723.49
108.00	Tax revenue	116.95	689.06	General services	1,136.24	4.39	1,140.63
537.29	Non-tax revenue	992.47	250.03	Social Services	165.00	128.85	293.85
112.33	Share of Union Taxes/ Duties	107.35	204.70	Economic Services	176.83	89.63	266.46
583.56	Grants from Government of India	675.63	37.14	Grants-in-aid contributions	7.40	15.15	22.55
Section – B: Capital							
-	II. Miscellaneous Capital Receipts	--	211.49	II. Capital Outlay	--	353.54	353.54
1.08	III. Recoveries of Loans and Advances	(-) 0.24	0.10	III. Loans and Advances disbursed	0.68	--	0.68
137.02	IV. Public debt receipts	192.99	84.17	IV. Repayment Public Debt	83.72	--	83.72
-	V. Contingency Fund	0.50	0.47	V. Contingency Fund	--	--	---
1,193.34	VI. Public account receipts	1,415.38	1,204.82	VI. Public account disbursements	1,244.65	--	1,244.65
216.83	Opening Balance	207.47	207.47	Closing Balance			302.42
2,889.45	Total	3,708.50	2,889.45	Total			3,708.50

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure and from the statements of the Finance Accounts for the year 2004-05 and, wherever necessary, show these in the light of time series data and periodic comparisons. The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of resources (iii) Assets and Liabilities, and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The reporting parameters are depicted in **Box 1.2**

Box-1.2
Reporting Parameters
<i>Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current prices. GSDP as published by the Bureau of Economics and Statistics Department of the State Government has been used.</i>
<i>For most series a trend growth during 2000-2005 has been indicated. The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in Appendix-I.</i>

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account as defined in **Box-1.3**.

Box – 1.3- State Government Funds and the Public Account

Consolidated Fund	Contingency Fund	Public Account
All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund titled "Consolidated Fund of State" established under Article 266(1) of the Constitution of India.	Contingency Fund of the State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent and unforeseen expenditure pending authorization by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.	Besides the normal receipts and expenditure of Government which related to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursements are made from it.

1.5 State finances by key indicators

1.5.1 Resources by volumes and sources: Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources *viz.*, market loans, borrowings from financial institutions/commercial banks etc., and loans and advances from Government of India as well as accruals from Public Account.

As Table 2 shows, the total receipts of the State Government for the year 2004-05 were Rs. 3,500.53 crore. Of these, the revenue receipts of the State Government were Rs. 1,892.40 crore only, constituting 54 *per cent* of the total receipts. The balance of the receipts came from borrowings and the Public Account.

Table - 2 : Resources of Sikkim

<i>(Rupees in crore)</i>			
I.		Revenue Receipts	1,892.40
II.		Capital Receipts	192.75
	(a)	Miscellaneous Receipts	--
	(b)	Recovery of Loans and Advances	(-) 0.24
	(c)	Public Debt Receipts	192.99
III.		Contingency Fund Receipts	--
IV.		Public Account Receipts	1,415.38
	(a)	Small Savings, Provident Fund etc.	69.79
	(b)	Reserve Fund	32.80
	(c)	Deposits and Advances	21.22
	(d)	Suspense and Miscellaneous	799.99
	(e)	Remittances	491.58
Total Receipts			3,500.53

1.5.2 Revenue Receipts: Statement – 11 of the Finance Accounts details the revenue receipts of the Government. Revenue receipts of the State comprise mainly its own tax and non-tax revenues, Central tax transfers and grants-in-aid from Government of India. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and buoyancy of the receipts are indicated in **Table-3**.

Table-3: Revenue Receipts- Basic Parameters (Values in Rupees crore and others in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Receipts	862.60	1,807.18	2,080.52	1,341.18	1,892.40
Own Taxes	65.39	80.39	105.53	108.00	116.95
Non-tax Revenue	289.02	1,128.21	1,315.84	537.29	992.47
Central tax Transfers	72.20	84.83	77.20	112.33	107.35
Grants-in-aid	435.99	513.75	581.95	583.56	675.63
Rate of Growth	(-) 42.94	109.50	15.13	(-) 35.54	41.10
GSDP	976.34	1,072.37	1,234.24(P)	1,386.18(Q)	1,530.40(A)
GSDP Growth	16.23	9.84	15.09	12.31	10.40
Revenue Receipts/GSDP	168.52	168.57	96.75	98.75	128.78
Revenue Buoyancy	*	11.13	1.00	*	3.95
Buoyancy/Own Taxes	2.05	2.33	2.07	0.19	0.80

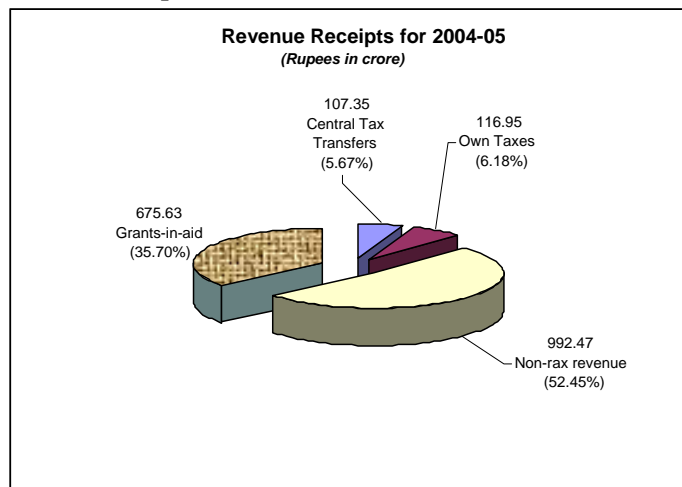
* Rate of growth of Revenue Receipts was negative

P=Provisional, Q=Quick, A=Advanced

The revenue receipts of the State increased from Rs. 862.60 crore in 2000-01 to Rs. 1,892.40 crore in 2004-05 at an average trend rate of 7.67 per cent. There were, however, significant inter-year variations in the growth rates. These were partly due to fluctuations in lottery receipt. During the five-year period 2000-2005, the State had a moderately buoyant economy with its GSDP growth averaging 12.72 per cent. Revenue receipts were particularly buoyant in 2001-02 and 2004-05. Revenue from the State's own taxes, however, recorded a better trend growth (19.11 per cent) and a relatively higher buoyancy (1.50 per cent) during 2000-05.

While 59 per cent of the revenue receipts during 2004-05 have come from State's own resources comprising taxes and non-taxes, Central tax transfers and grants-in-aid together contributed 41 per cent of the total revenue. Sales Tax was the major contributor (41 per cent) of State's own tax revenue followed by State Excise (28 per cent), taxes on Income other than Corporation Tax (25 per cent), taxes on vehicles (3 per cent), Stamps and Registration fees (1 per cent) and other tax (2 per cent). Of non-tax revenue sources principal contribution was receipts from State Lotteries (92 per cent) followed by Road Transport and Power (2 per cent each) and others (4 per cent). Central tax transfers as percentage to total revenue of the State witnessed a decrease from 8.37 per cent in 2000-01 to 5.67 per cent in 2004-05. Similarly, grants-in-aid from Government of India also decreased from 50.54 per cent in 2000-01 to 35.70 per cent in 2004-05. However, after netting off the impact of gross receipts of Rs. 992.47 crore from State lotteries included under the non-tax revenue of the State against which an expenditure of Rs. 881.11 crore was incurred during 2004-05, the picture of the State finance changed drastically. About 77.42 per cent of net revenue receipts of

the State was financed by Central tax transfers and grants-in-aid from Government of India. The contribution of State lotteries was 82.23 *per cent* of own tax and non-tax revenue indicating dependency of the State's finances to the fluctuations in receipts from lotteries.



Besides, the arrears of revenue increased by 265 *per cent* from Rs.1.07 crore in 2000-01 to Rs. 3.91 crore* at the end of 2004-05.

The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of some of the important social services by Government were 0.79 *per cent* for secondary education, 1.83 *per cent* for medical and public health and 8.91 *per cent* for water supply and sanitation. The sources of total receipts under different heads and GSDP during 2000-2005 are indicated in **Table 4**.

Table – 4: Sources of Receipts: Trends

Year	Revenue receipts	Capital Receipts			Total Receipts	Gross State Domestic product
		Non-debt Receipts	Debt Receipts	Accruals in Public Account		
2000-01	862.60	1.46	69.12	823.68	1,756.86	976.34
2001-02	1,807.18	1.14	91.37	967.41	2,867.10	1,072.37
2002-03	2,080.52	1.28	78.53	1,356.15	3,516.48	1,234.24 (P)
2003-04	1,341.18	1.08	137.02	1,193.34	2,672.62	1,386.18 (Q)
2004-05	1,892.40	(-) 0.24	192.99	1,415.38	3,500.53	1,530.40 (A)

P =Provisional, Q=Quick, A=Advanced

1.6 Application of resources

1.6.1 Trend of growth: Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs. 914.56 crore in 2000-01 to Rs. 2,077.71 crore in 2004-05 at an average trend rate of 7.90 *per cent* per annum. The rate of increase of total expenditure was higher than the rate of increase of revenue receipts during this period.

* Arrear of revenue furnished by Mines & Geology, SNT, Printing & Stationary, Food Security & Agriculture Development and Food & Civil Supplies departments

Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in **Table-5** below:

Table-5 : Total Expenditure- Basic Parameters (value in rupees crore and others in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Total Expenditure	914.56	1,875.17	2,091.66	1,392.52	2,077.71
Rate of Growth	(-)43.03	105.04	11.55	(-)33.43	49.21
TE/GSDP Ratio	93.67	174.86	169.47	100.46	135.76
Revenue Receipts/ TE Ratio	0.94	0.96	0.99	0.96	0.91
Buoyancy of Total Expenditure with					
GSDP	*	10.68	0.76	*	4.73
Revenue Receipts	1.00	0.96	0.76	0.94	1.20

Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans & Advances

- Total expenditure had a negative growth.

Total expenditure in 2004-05 increased by Rs. 685.19 crore over previous year. The increase was mainly due to more expenditure incurred on State on line lotteries (Rs. 440.16 crore), power (Rs. 55.54 crore), education (Rs. 16.80 crore), medical (Rs. 14.28 crore), natural calamities (Rs. 7.45 crore), road transport (Rs. 6.49 crore) and others (Rs. 144.47 crore).

In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services, Interest payments, Social and Economic Services, grants-in-aid and other contributions to institutions and loans and advances. Relative share of these components in total expenditure is indicated in **Table-6**.

Table-6: Components of Expenditure- Relative Share (in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
General Services	35.36	62.13	63.05	43.76	50.92
Interest Payments	8.60	4.49	4.28	6.64	4.77
Social Services	26.55	16.00	15.41	24.95	20.48
Economic Services	28.53	16.68	16.83	21.97	22.71
Loans and Advances	0.04	0.01	0.01	0.01	0.03
Grants in aid	0.92	0.64	0.37	2.67	1.09

The movement of relative share of these components of expenditure indicated that all components of expenditure had significant inter-year variations. The share of General Services excluding interest payments in total expenditure increased from 35.36 per cent in 2000-01 to 50.92 per cent in 2004-05, the relative share of interest payments, Social Services and Economic Services decreased. However, interest payment and expenditure on General Services considered as non-developmental together accounted for as much as 55.69 per cent of total expenditure in 2004-05 and 44.28 per cent of expenditure on Social and Economic Services.

Incidence of Revenue expenditure: In the total expenditure, revenue expenditure had the predominant share. Revenue expenditure is incurred to

maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in **Table-7**.

Table-7: Revenue Expenditure- Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Expenditure (Rupees in crore)	763.31	1,664.25	1,882.62	1,180.93	1,723.49
Rate of Growth (per cent)	(-)49.45	118.03	13.12	(-)37.27	45.94
RE/GSDP	78.18	155.19	152.53	85.19	112.62
RE as percentage of TE	83.46	88.75	90.01	84.81	82.95
RE as percentage of RR	88.49	92.09	90.49	88.05	91.07
Buoyancy of Revenue Expenditure with (per cent)					
GSDP	*	12.00	0.87	*	4.42
Revenue Receipts	1.15	1.08	0.87	1.05	1.12

* Indicate negative figures

Overall revenue expenditure of the State increased at an average trend rate of 6.16 per cent. On an average, 86 per cent of the total expenditure was on current consumption.

i) *High salary expenditure:* Salaries accounted for 18.34 per cent of the revenue receipts and 20.13 per cent of the revenue expenditure of the State during 2004-05. The expenditure on salaries increased from Rs.329.17 crore in 2002-03 to Rs. 347.02 crore in 2004-05 registering an increase of 5.42 per cent. The details are indicated in **Table 8**.

Table - 8

Heads	2002-03	2003-04	2004-05
Salary expenditure (Rupees in crore)	329.17	355.97	347.02
As a percentage of GSDP	26.31	26.21	22.68
As a percentage of Revenue Receipts	15.82	26.54	18.34
As a percentage of Revenue Expenditure	17.48	30.14	20.13

ii) *Huge expenditure on pension payments:* Payment of pension and other retirement benefits increased by 68.51 per cent from Rs. 18.26 crore in 2000-01 to Rs. 30.77 crore in 2004-05. Year-wise break-up of expenditure on pension payments during the years 2000-01 to 2004-05 was as under:

Table - 9

(Rupees in crore)

Year	Expenditure	Percentage to total revenue expenditure
2000-01	18.26	2.39
2001-02	21.29	1.28
2002-03	29.18	1.55
2003-04	39.82	3.37
2004-05	30.77	1.79

Expenditure on pension during the year 2004-05 has gone down by 23 per cent due to decrease in number of retirees both on superannuation and voluntary retirement scheme.

iii) *Interest payment:* The interest payments and percentage of interest payment with reference to revenue receipts and revenue expenditure were as shown below:

Table-10*(Rupees in crore)*

Year	Interest payments	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue Expenditure
2000-01	78.67	9.12	10.31
2001-02	84.16	4.66	5.06
2002-03	89.53	4.30	4.76
2003-04	92.50	6.90	7.83
2004-05	99.19	5.24	5.76

Interest payments increased steadily by 26.08 *per cent* from Rs. 78.67 crore in 2000-01 to Rs. 99.19 crore in 2004-05 primarily due to ever increasing borrowings. The interest payment was on Internal Debt (Rs. 45.04 crore), loans received from Central Government (Rs.32.65 crore) and Small Savings, Provident Fund, etc. (Rs.21.50 crore).

1.7 Expenditure by Allocative priorities

The expenditure of the State in the nature of Plan expenditure, Capital expenditure and Development expenditure reflects its quality. The higher the ratio of these components to total expenditure the better is the quality of expenditure. **Table-11** below gives these ratios during 2000-2005.

Table-11: Quality of Expenditure (per cent to total expenditure)

Heads	2000-01	2001-02	2002-03	2003-04	2004-05
Plan Expenditure	33.56	21.51	21.85	32.88	28.47
Capital Expenditure	16.51	11.24	9.99	15.19	17.02
Development Expenditure	55.10	32.71	32.24	49.60	44.28

(Total expenditure does not include Loans and Advances)

All the three components of quality of expenditure indicated inter-year variations. In the year 2004-05, Plan expenditure, Capital expenditure and Development expenditure (expenditure on Economic and Social Services) increased by 93 *per cent*, 134 *per cent* and 83 *per cent* respectively compared to 2000-01.

Out of the developmental expenditure of Rs. 919.91 crore during the year, Social Services accounted for 47.64 *per cent* (Rs. 438.28 crore). Expenditure on General Education, Health, Medical and Family Welfare and Water Supply and Sanitation constituted 73.62 *per cent* of the expenditure on Social sector.

Table-12: Social Sector Expenditure*(Rupees in crore)*

	2000-01	2001-02	2002-03	2003-04	2004-05
General Education	134.09	152.44	161.19	174.15	189.87
Health, Medical and Family Welfare	34.72	41.38	43.01	42.81	56.96
Water Supply and Sanitation	27.92	36.42	40.47	47.58	75.83
Total	196.73	230.24	244.67	264.54	322.66
Expenditure on Social Sector	242.81	300.11	322.40	360.28	438.28
As a percentage of expenditure on Social sector	81.02	76.72	76.00	73.43	73.62

Similarly, the expenditure on Economic Services (Rs. 481.63 crore) accounted for 52.35 per cent of the development expenditure, of which, Irrigation and Flood Control, Energy and Transport accounted for 67.37 per cent as shown in table below:

Table-13: Economic Sector Expenditure

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Irrigation and Flood Control	19.55	21.07	21.91	15.20	9.21
Energy	58.22	76.44	104.50	80.63	191.78
Transport	73.16	93.40	84.33	82.04	123.47
Total	150.93	190.91	210.74	177.87	324.46
Expenditure on Economic Sector	260.96	312.71	351.96	330.31	481.63
As a percentage of expenditure on Economic sector	57.83	61.05	60.00	53.85	67.37

1.7.1 Financial Assistance to Local Bodies and other Institutions

i) *Extent of assistance:* The quantum of assistance provided by way of grants (Rs. 22.55 crore) to different local bodies, Cooperative Societies etc, during the period of five years ending 2004-05 was as follows:

Table-14

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Zilla Parishads and other Panchayati Raj Institutions	-	2.42	4.47	24.05	6.91
Cooperative Societies	0.72	0.45	0.89	0.34	2.65
Universities and Educational Institutions	2.27	2.68	1.82	0.97	1.35
Others (including State Housing Corporation)	5.40	6.52	0.62	11.78	11.64
Total	8.39	12.07	7.80	37.14	22.55
Percentage of increase (+)/decrease (-) over previous year	140.40	43.86	(-35.38)	376.15	(-) 60.72
Assistance as a percentage of revenue expenditure	1.10	0.04	-	3.14	1.31

The total assistance at the end of 2004-05 had grown by 168.77 per cent over the level of 2000-01. The assistance to local bodies as a percentage of total revenue expenditure increased from 1.10 per cent in 2000-01 to 1.31 per cent in 2004-05.

ii) *Delay in furnishing utilisation certificates:* At the end of September 2005, 157 utilisation certificates (UCs) for grants amounting to Rs. 7.59 crore released upto March 2005 were outstanding from departments as detailed below:

Table -15

(Rupees in crore)

Sl. No	Department	Number of UCs outstanding	Amount
1	Panchayati Raj and Rural Development	35	3.68
2	Social Welfare (including Tribal Welfare)	2	0.20
3	Others	120	3.71
	Total	157	7.59

1.8 Assets and liabilities

In the Government accounting system, comprehensive accounting of the fixed assets like land, buildings etc, owned by Government is not done. However, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. **Appendix-II** gives an abstract of such liabilities and the assets as on 31 March 2005, compared with the corresponding position on 31 March 2004. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India and receipts from the Public Account and Reserve Funds, assets comprise mainly capital outlay, loans and advances given by the State Government and cash balances. **Appendix-II** shows that while the liabilities grew by 18.77 *per cent* and assets increased by 18.94 *per cent*. The liabilities of Government of Sikkim depicted in the Finance Accounts, however, do not include the pension and other retirement benefits payable to retired State employees. Abstract of receipts and disbursements for the year 2004-05, Sources and Applications of funds and the Time Series Data on State Government Finances for the period 2000-2005 are given in **Appendices III, IV and V** respectively.

1.8.1 Incomplete projects: As of March 2005, there were 60 incomplete projects in which Rs. 222.84 crore were blocked. This showed that Government was spreading its resources thinly. Details are given in **Appendix-VI**.

1.8.2 Investments and returns: As on 31 March 2005, Government had invested Rs. 77.46 crore in its statutory corporations, Government companies, joint stock companies and co-operative societies. Government's return on this investment was less than 2.53 *per cent* in the last three years. With an average interest rate of 10.36 *per cent* being paid by Government on its borrowings, the average annual subsidy amounted to 8.79 *per cent* and the implicit subsidy during the period 2002-2005 was Rs.19.55 crore.

Table -16: Return on Investment

	2002-03	2003-04	2004-05
Investment (<i>Rupees in crore</i>)	69.56	75.63	77.46
Returns (<i>Rupees in crore</i>)	1.76	0.74	0.92
Percentage of returns	2.53	0.98	1.19
Average interest rate paid by Government	11.47	10.32	9.29
Difference between interest rates and return	8.94	9.34	8.10
Implicit subsidy (<i>Rupees in crore</i>)	6.22	7.06	6.27

1.8.3 Loans and advances by State Government: In addition to investments in co-operatives, corporations and companies Government has also been providing support in terms of loans and advances to many of these bodies. Total outstanding balance as on 31 March 2005 was Rs. 6.22 crore. Interest on these was not received in any of the years 2000-2005 (**Table-17**). Total implicit subsidy during 2000-2005, on such loans was Rs. 3.09 crore.

Table-17: Average interest received on loans advanced by the State Government

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Opening Balance	9.95	8.45*	7.50	6.28	5.30
Amount advanced during the year	0.33	0.19	0.06	0.10	0.68
Amount repaid during the year	1.46	1.14	1.28	1.08	(-) 0.24
Closing Balance	8.82	7.50	6.28	5.30	6.22
Net addition	(-) 1.13	(-) 0.95	(-) 1.22	(-) 0.98	0.92
Interest Received	nil	nil	nil	nil	Nil
Interest Received as percentage to Loans advanced	nil	nil	nil	nil	Nil
Average interest paid by the State (<i>per cent</i>)	NA	12.14	11.47	10.32	9.29
Difference between interest paid and received (<i>per cent</i>)		12.14	11.47	10.32	9.29
Implicit subsidy	--	1.09	0.86	0.65	0.49

* The variation of opening balance for 2001-02 is due to proforma correction in the Finance Accounts

1.8.4 Commercial activities- Lack of accountability in the use of public funds in departmental commercial undertakings: Activities of quasi-commercial nature are performed by the departmental undertakings of certain Government Departments. These undertakings are required to prepare annually proforma accounts in prescribed formats showing the results of financial operations so that Government can assess their functioning. The Heads of departments in Government are to ensure that undertakings funded by budgetary releases prepare the accounts in time and submit them to Accountant General for Audit.

As of 31 March 2005, there were two departmentally managed commercial and quasi-commercial undertakings under the control of Government of Sikkim. However, the preparation of proforma accounts for these units was in arrears for one year as follows:

Table -18

Sl. No.	Name of departmentally managed commercial and quasi-commercial undertakings	Proforma Accounts received upto	Proforma Accounts due
1	Temi Tea	2002-03	2003-04
2	Government Fruit Preservation Factory	2002-03	2003-04

1.8.5 Undercharged liabilities

i) Fiscal liabilities- public debt and guarantees: The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its Legislature. However, no such law has been passed by the State to lay down any such limit. **Table-19** below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

Table-19: Fiscal Liabilities-Basic Parameters*(Value in rupees crore and ratios in per cent)*

	2000-01	2001-02	2002-03	2003-04	2004-05
Fiscal Liabilities*	729.37	806.06	867.68	966.45	1,107.07
Rate of Growth	7.84	10.51	7.64	11.38	14.55
Ratio of Fiscal Liabilities to					
GSDP	74.70	75.17	70.30	69.72	72.34
Revenue Receipts	84.55	44.60	41.70	71.94	58.48
Own Resources	205.80	66.69	61.05	149.25	100.00
Buoyancy of Fiscal Liabilities to					
GSDP	0.48	1.07	0.51	0.92	1.40
Revenue Receipts	(-) 0.18	1.38	0.07	0.75	(-) 0.41
Own resources	(-) 0.12	0.04	0.43	(-) 0.21	-

*Includes internal debt, loans and advances from GOI and other obligations

Overall fiscal liabilities of the State increased from Rs. 729.37 crore in 2000-01 to Rs. 1,107.07 crore in 2004-05 with an average growth rate of 10.14 per cent during 2000-05. The ratio of these liabilities to GSDP decreased from 74.70 per cent in 2000-01 to 72.34 per cent in 2004-05.

In addition to these liabilities, Government have guaranteed loans raised by various corporations and others which at the end of 2004-05 stood at Rs. 82.47 crore. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State.

Average buoyancy of the liabilities with respect to revenue receipts was 1.32 indicating that for each one per cent increase in revenue receipts fiscal liabilities were growing at the rate of 1.32 per cent.

The weighted interest rates witnessed a moderately declining trend as interest rates had generally softened and annual incremental borrowing attracted lower rates of interest. This also resulted in continuance of positive spread between GSDP growth and interest rates which is considered as one of the indicators of debt sustainability except in 2001-02.

Table-20: Debt Sustainability- interest Rate and GSDP Growth (in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Weighted Interest Rate	11.19	10.96	10.70	10.09	9.57
GSDP Growth	16.23	9.84	15.09	12.31	10.40
Interest spread	5.03	(-)1.13	4.40	2.22	0.84

Another important indicator of the debt sustainability is the net availability of the borrowed funds after payment of principal and interest. **Table 21** below gives the position of receipt and re-payment of internal debt and other fiscal liabilities of the State over the last five years. The net funds available from the total receipts on account of public debt, loans and advances from Government of India and other debt receipts (including Public Account) became 0.99 per cent in 2004-05 from 3.72 per cent during 2000-01, as depicted in the following table.

Table -21: Net Availability of Borrowed Funds*(Rupees in crore)*

	2000-01	2001-02	2002-03	2003-04	2004-05
Internal debt					
Receipt	32.94	39.10	34.81	75.96	110.32
Repayment (Principal + Interest)	35.41	37.83	45.33	59.96	88.69
Net Funds Available	(-)2.47	1.27	(-)10.52	16.00	21.63
Net Funds Available (per cent)	-	3.25	-	21.07	19.61
Loans and advances from GOI					
Receipt	36.18	52.27	43.73	61.06	82.67
Repayment (Principal + Interest)	55.97	60.49	64.71	97.83	72.73
Net Funds Available	(-)19.79	(-)8.22	(-)20.98	(-)36.77	9.93
Net Funds Available (per cent)	-	-	-	-	12.01
Other obligations					
Receipt	79.75	92.09	114.85	65.09	69.79
Repayment (Principal + Interest)	51.95	62.94	81.12	86.12	98.76
Net Funds Available	27.80	29.15	33.73	(-)21.03	(-) 28.97
Net Funds Available (per cent)	34.86	31.65	29.37	-	--
Total liabilities					
Receipt	148.87	183.46	193.39	202.11	262.77
Repayment (Principal + Interest)	143.33	161.26	191.16	243.91	260.18
Net Funds Available	5.54	22.20	2.23	(-)41.80	2.59
Net Funds Available (per cent)	3.72	12.10	1.15	-	0.99

1.9 Management of deficits

1.9.1 Fiscal imbalances: The deficit in Government accounts represents the gap between its receipts and expenditure. The extent of the deficit is an indicator of the prudence of fiscal management of the Government. Further, the manner in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. The fiscal deficit representing the total borrowings of the Government and the total resource gap increased from Rs. 50.50 crore in 2000-01 to Rs. 185.55 crore in 2004-05 (**Table-22**).

Table-22: Fiscal Imbalances- Basic Parameters (Values in rupees crore and ratios in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Surplus	99.29	142.93	197.90	160.25	168.91
Fiscal Deficit	(-)50.50	(-)66.85	(-)9.86	(-)50.26	(-) 185.55
Primary Deficit/Surplus	28.17	17.31	79.67	42.24	86.36
FD/GSDP	(-)5.17	(-)6.23	(-)0.80	(-)3.63	(-) 12.12
PD/GSDP	2.89	1.61	6.45	3.05	5.64

(Negative figure indicates deficit)

1.10 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 23 below presents a summarised position of Government finances over 2000-05, with reference to certain key indicators that help assessing the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important features.

Table -23: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2000-01	2001-02	2002-03	2003-04	2004-05
I. Resource Mobilisation					
Revenue Receipts/ GSDP	168.52	168.57	96.75	98.75	128.78
Revenue Buoyancy	11.13	1.00	0.60	*	0.60
Own tax/ GSDP	6.70	7.50	8.55	7.79	7.64
II Expenditure Management					
Total Expenditure/GSDP	93.67	174.86	169.47	100.46	135.76
Revenue Receipts / Total Expenditure	94.32	96.37	99.47	96.31	91.00
Revenue Expenditure/ Total Expenditure	83.46	88.75	90.01	84.81	82.95
Plan Expenditure/ Total Expenditure	33.56	21.51	21.85	32.88	28.47
Capital Expenditure/ Total Expenditure	16.51	11.24	9.99	15.19	17.02
Development Expenditure/ Total Expenditure	55.10	32.68	32.24	49.60	44.28
Buoyancy of TE with RR	1.00	0.96	0.76	0.94	1.20
Buoyancy of RE with RR	1.15	1.08	(-)10.01	1.05	1.12
III. Management of Fiscal Imbalances					
Revenue Surplus (<i>Rupees in crore</i>)	99.29	142.93	197.90	160.25	168.91
Fiscal Deficit (<i>Rupees in crore</i>)	(-)50.50	(-)66.85	(-)9.86	(-)50.26	(-) 185.55
Primary Deficit/Surplus (<i>Rupees in crore</i>)	28.17	17.31	79.67	42.24	86.36
Revenue Deficit/ Fiscal Deficit	\$	\$	\$	\$	\$
IV. Management of Fiscal Liabilities (FL)					
Fiscal Liabilities/ GSDP	74.70	75.17	70.30	69.72	72.34
Fiscal Liabilities/ RR	84.55	44.60	41.70	71.94	58.48
Buoyancy of FL with RR	84.55	44.60	41.70	71.94	58.48
Buoyancy of FL with OR	205.80	66.69	61.05	149.25	100.00
Interest spread	5.03	(-)1.13	4.40	2.22	0.84
Net Funds Available	3.72	12.10	1.15	-	0.99
V. Other Fiscal Health Indicators					
Return on Investment	0.03	0.02	2.53	0.98	1.19
BCR (<i>Rupees in crore</i>)	(-)22.33	(-)38.83	77.84	(-) 15.64	(-) 101.78
Financial Assets/ Liabilities	1.66	1.73	1.88	1.97	1.13

* Rate of growth of Revenue Receipt was negative.

\$ State had a revenue surplus in all these years

The ratio of own taxes to GSDP had shown continuous improvement in the five-year period. The ratio of revenue receipts to GSDP and its buoyancy also were on a rising trend from 2000-01 to 2002-03, but the revenue buoyancy steeply declined in 2003-04 and again marginally increased during 2004-05. Various ratios concerning expenditure indicated quality of expenditure and sustainability in relation to resources. Revenue expenditure was on the increasing trend over the three-years period 2000-03 but slightly decreased during 2003-04 and 2004-05. Revenue expenditure comprised 82.95 per cent

of total expenditure in 2004-05 leaving very little for capital formation or asset creation. Increasing fiscal deficit over the last five years indicated growing fiscal imbalances of the State.

There was a sharp decline (negative) in net availability of funds from its borrowings due to a larger portion of these funds being used for debt servicing. The State's insignificant return on investment indicated huge implicit subsidy and utilisation of high cost borrowing for investments that yielded little. The balance from current revenue of the State also continued to be negative indicating continued dependence on borrowings for plan or developmental expenditure.