

CHAPTER – I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (*Appendix-I: Part A*). 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 layout of the Finance Accounts is depicted in *Appendix-I: Part B*.

Functions of the Reserve Bank of India for Government transactions were not extended to Sikkim. State Bank of Sikkim has been vested with the responsibility of receiving money on behalf of the Government, making all payments and keeping custody of the balances of the Government in current account as well as in fixed deposits.

The State Government had not enacted the Fiscal Responsibility and Budget Management (FRBM) Act as of September 2006 although a Memorandum of Understanding with the GOI had been entered into in April 1999 for bringing about fiscal reforms in the State.

1.1.1 Summary of Receipts and Disbursements for the year

Table -1.1 summarises the finances of the State Government of Sikkim for the year 2005-06 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements made during the year as emerging from *Statement-I* and other detailed Statements of Finance Accounts.

Table – 1.1
SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR
2005-06

(Rupees in crore)

2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
					Non Plan	Plan	Total
Section – A: Revenue							
1,892.40	Revenue Receipts*	1,964.36	1,723.49	Revenue Expenditure*	1,473.40	294.20	1,767.60
116.95	Tax revenue	147.23	1,140.63	General services*	1,156.27	7.15	1,163.42
992.47	Non-tax revenue*	990.10	306.64	Social Services*	191.46	146.33	337.79
107.35	Share of Union Taxes/ Duties	182.13	276.22	Economic Services*	125.66	140.73	266.39
675.63	Grants from Government of India	644.90	-				
Section – B: Capital							
--	Miscellaneous Capital Receipts	--	353.54	Capital Outlay	--	345.73	345.73
(-) 0.24	Recoveries of Loans and Advances	0.14	0.68	Loans and Advances disbursed	--	--	0
192.99	Public debt receipts	145.06	83.72	Repayment Public Debt	32.40	--	32.40
0.50	Contingency Fund	--	0	Contingency Fund	0.10	--	0.10
1,415.38	Public Account receipts	1,456.53	1,244.65	Public Account disbursements	1,470.09	--	1,470.09
207.47	Opening Balance	302.42	302.42	Closing Balance		--	252.59
3,708.50	Total	3,868.51	3,708.50	Total		--	3,868.51

Major portion of the total receipts of the State comprised revenue receipts of Rs. 1,964.36 crore (50.78 per cent) followed by Public Account receipts of Rs. 1,456.53 crore (37.65 per cent). The grants-in -aid from the Government of India (GOI) constitute 16.67 per cent of the total receipt. Similarly, bulk of the total disbursements was on account of revenue expenditure of Rs. 1,767.60 crore (45.69 per cent) followed by Public Account disbursements of Rs. 1,470.09 crore (38 per cent) and capital outlay of Rs. 345.73 crore (8.94 per cent). Revenue expenditure comprised general services (65.82 per cent), social services (19.11 per cent) and economic services (15.07 per cent).

1.2 Overview of Fiscal Situation of the State

1.2.1 Trend of Fiscal Aggregates

The fiscal position of the State Government during the current year as compared to the previous year is given in **Table-1.2** below:

* Revenue receipts and Non-tax revenue are inclusive of gross receipt (Rs. 898.35 crore) from State Lotteries.

* Revenue expenditure and General Services (Non-plan) are inclusive of expenditure (Rs. 876.16 crore) in State Lotteries.

* Includes grants-in-aid contribution under Social Services (Rs. 11.75 crore) and Economic Services (Rs. 22.81 crore) aggregating Rs. 34.56 crore.

Table - 1.2

(Rupees in crore)

2004-05	Sl. No	Major Aggregates	2005-06
1,011.29	1	Revenue Receipts (2+3+4+5)	1,088.20
116.95	2	Tax Revenue	147.23
111.36	3	Non-Tax Revenue*	113.94
675.63	4	Other Receipts	644.90
107.35	5	State share of Union taxes and others	182.13
(-) 0.24	6	Non-Debt Capital Receipts	0.14
(-) 0.24	7	Of which, Recovery of Loan	0.14
1,011.05	8	Total Receipts (1+6)	1,088.34
605.04	9	Non-Plan Expenditure (10+12+13)	597.24
604.36	10	On Revenue Account**	597.24
99.19	11	Of which, Interest Payment	102.60
--	12	On Capital Account	--
0.68	13	On Loans disbursed	--
591.56	14	Plan Expenditure (15+16+17)	639.93
238.02	15	On Revenue Account	294.20
353.54	16	On Capital Account	345.73
--	17	On Loans disbursement	--
1,196.60	18	Total Expenditure (9+14)	1,237.17
185.55	19	Fiscal Deficit (18-1-6)	148.83
(-) 168.91	20	Revenue Deficit (+) / (-) Surplus (10+15-1)	(-) 196.76
86.36	21	Primary Deficit(+) / (-) Surplus (19-11)	46.23

Revenue surplus increased from Rs. 168.91 crore in 2004-05 to Rs. 196.76 crore in 2005-06 primarily due to substantial increase in the revenue receipts of the State (Rs. 76.91 crore). Consequently, fiscal deficit decreased from Rs. 185.55 crore in 2004-05 to Rs. 148.83 crore in 2005-06 and primary deficit from Rs. 86.36 crore in 2004-05 to Rs. 46.23 crore in 2005-06. Interest payments increased from Rs. 99.19 crore in 2004-05 to Rs. 102.60 crore in 2005-06 which contributed to the decrease in primary deficit.

1.3 Audit Methodology

Audit observations on the Statements of Finance Accounts for the year 2005-06 bring out the trends in the major fiscal aggregates of receipts and expenditure; wherever necessary, these have been analysed in the light of time series data (*Appendix-II to V*) and periodic comparisons. Major 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 Gross State Domestic Product (GSDP) at current market prices. The new GSDP series with 1993-94 as base, as published by the Department of Economic, Statistics, Monitoring and Evaluation, Government of Sikkim have been used for the purpose. For tax revenues, non-tax revenues, revenue expenditure etc, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are (i) resources by volume and sources, (ii) application of resources, (iii) assets and liabilities and (iv) management of deficits. Audit observations also take into account the cumulative impact of resources mobilisation efforts, debt

* Non-tax revenue for the year 2005-06 includes net of gross receipt of Rs 898.35 crore from State Lotteries after adjustment of expenditure of Rs. 876.16 crore under the head.

** Expenditure excludes Rs. 876.16 crore on State Lotteries against which there was gross receipt of Rs. 898.35 crore under the same head.

servicing and corrective fiscal measures. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. In addition, selected indicators of financial performance of the Government are also listed in this Section; some of the terms used in this context are explained in *Appendix-I: Part C*.

1.4 State finances by key indicators

1.4.1 Resources by volumes and sources

Resources of the State Government consist of revenue 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 GOI. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account.

The total receipts of the State Government for the year 2005-06 were Rs. 2,689.93 crore as shown in **Table-1.3** below. Of these, the revenue receipts of the State Government were Rs. 1,088.20 crore only, constituting 40 *per cent* of the total receipts. The balance receipts came from borrowings and the Public Account.

Table - 1. 3: Resources of State of Sikkim

<i>(Rupees in crore)</i>			
I.		Revenue Receipts	1,088.20
II.		Capital Receipts	145.20
	(a)	Miscellaneous Receipts	--
	(b)	Recovery of Loans and Advances	0.14
	(c)	Public Debt Receipts	145.06
III.		Contingency Fund Receipts	--
IV.		Public Account Receipts	1,456.53
	(a)	Small Savings, Provident Fund, etc.	73.81
	(b)	Reserve Fund	28.55
	(c)	Deposits and Advances	28.23
	(d)	Suspense and Miscellaneous	888.65
	(e)	Remittances	437.29
Total Receipts			2,689.93

Suspense and Miscellaneous balances constituted 61 *per cent* (Rs. 888.65 crore) of the Public Account receipts followed by remittances which constituted 30 *per cent* (437.29 crore). 92 *per cent* of the suspense and miscellaneous balances consisted of treasury cheques. 86 *per cent* of the remittance balance pertained to public works remittances, 10 *per cent* to other departmental remittances and the balance 4 *per cent* to forest remittances.

1.4.2 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 GOI. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and its buoyancy are indicated in **Table-1. 4**.

Table-1.4: Revenue Receipts- Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Receipts (RR) (Rupees in crore)	750.09	908.04	898.99	1,011.29	1,088.20
Own Taxes (<i>per cent</i>)	80.39 (10.72)	105.53 (11.62)	108 (12.01)	116.95 (11.56)	147.23 (13.53)
Non-tax Revenue (<i>per cent</i>)	71.12 (9.48)	143.36 (15.79)	95.04 (10.57)	111.36 (11.01)	113.94 (10.47)
Central tax Transfers (<i>per cent</i>)	84.83 (11.31)	77.20 (8.50)	112.33 (12.50)	107.35 (10.62)	182.13 (16.74)
Grants-in-aid (<i>per cent</i>)	513.75 (68.49)	581.95 (64.09)	583.56 (64.92)	675.63 (66.81)	644.90 (59.26)
Rate of Growth of RR(<i>per cent</i>)	17.35	21.06	(-1.00)	12.50	7.61
GSDP (Rs. in crore)	1,072.37	1,234.24(P)	1,386.18(P)	1,530.40(Q)	1,717.00(Q)
R R/GSDP (<i>per cent</i>)	69.95	73.57	64.85	66.08	63.38
Revenue Buoyancy (Ratio)	1.76	1.40	*	1.20	0.62
State's own taxes Buoyancy (ratio)	2.33	2.07	0.19	0.80	2.12
Revenue Buoyancy with reference to State's own taxes	0.76	0.67	*	1.51	0.29
GSDP Growth (<i>per cent</i>)	9.84	15.09	12.31	10.40	12.19
Rate of growth of own taxes	22.94	31.27	2.34	8.29	25.89

* Rate of growth of Revenue Receipts was negative. P=Provisional, Q=Quick

1.4.2.1 General Trends

The revenue receipts of the State increased by 45 *per cent* from Rs. 750.09 crore in 2001-02 to Rs. 1,088.20 crore in 2005-06.

While 76 *per cent* of the revenue receipts during 2005-06 came from Central tax transfers and grants-in-aid, State's own resources comprising taxes and non-taxes together contributed only 24 *per cent* of the total revenue.

1.4.2.2 Tax Revenue

The receipts from own taxes at Rs. 147.23 crore during 2005-06 was lower by Rs. 327.77 crore than the normative projection of Rs. 520 crore made by the Twelfth Finance Commission (TFC) for the State for 2005-06. Sales tax was the major contributor (38 *per cent*) of State's own tax revenue followed by taxes on Income other than Corporation Tax (32 *per cent*), State Excise (22 *per cent*), taxes on vehicles (3 *per cent*), Stamps and Registration fees (2 *per cent*), and other taxes (3 *per cent*). However, contribution of sales tax to tax revenue decreased from 44 *per cent* during 2001-02 to 38 *per cent* during 2005-06.

1.4.2.3 Non-Tax Revenue

Receipts from non-tax revenue sources (Rs. 113.94 crore) during 2005-06 was less by Rs. 401.06 crore as compared to the projection of Rs. 515 crore made by the TFC. Of the non-tax revenue sources, principal contribution came from Power (25 *per cent*) followed by State Lotteries (20 *per cent*), Road Transport and Police (12 *per cent* each) and Forest (8 *per cent*). Against the TFC projection of annual rate of growth of 12.5 *per cent* for revenue receipts under general services and 25 *per cent* for both social and economic services for the forecast period (2005-10), the growth recorded was 3.22, 8.66 and 4.19 *per cent* for general services, social services and economic services

respectively over the previous year, indicating the need for the State to achieve a greater degree of cost recovery in these services.

1.4.2.4 Central Tax Transfers

Central tax transfers increased by 70 *per cent* from Rs. 107.35 crore in 2004-05 to Rs. 182.13 crore in 2005-06 mainly due to phenomenal increase of 160 *per cent* in share of net proceeds of Service tax and 95 *per cent* share of net proceeds of Customs.

1.4.2.5 Grants-in aid

Grants-in-aid decreased by Rs. 30.73 crore (4.55 *per cent*) from Rs. 675.63 crore in 2004-05 to Rs. 644.90 crore in 2005-06 mainly due to decrease in grants for Central plan schemes (Rs. 122.28 crore) followed by grants for centrally sponsored schemes (Rs. 37.43 crore) and Non-plan grants (Rs. 2.79 crore).

1.4.2.6 Revenue Arrears

In spite of reminders, details of arrears of revenue were not furnished by 20 Departments. Out of 23 Departments which furnished the information, 13 Departments had no revenue arrears. Arrears of revenue of the remaining 7 Departments[§] increased by 617 *per cent* - from Rs. 12.08 crore in 2001-02 to Rs. 86.61 crore at the end of 2005-06. Major portion of the arrears of revenue amounting to Rs. 76.32 crore for the year 2005-06 pertained to State lotteries under Finance Department.

1.4.3 Source of Receipts

The sources of total receipts under different heads as well as GSDP during 2001-06 are indicated in **Table – 1.5** below:

Table – 1.5
Sources of Receipts- Trends

(Rupees in crore)

Year	Revenue receipts	Capital Receipts			Total Receipts	Gross State Domestic product
		Non-debt Receipts	Debt Receipts	Accruals in Public Account		
2001-02	750.09	1.14	91.37	967.41	1,810.01	1,072.37
2002-03	908.04	1.28	78.53	1,356.15	2,344.00	1,234.24 (P)
2003-04	898.93	1.08	137.02	1,193.34	2,230.37	1,386.18 (P)
2004-05	1,011.29	(-) 0.24	192.99	1,415.38	2,619.42	1,530.40 (Q)
2005-06	1,088.20	0.14	145.06	1,456.53	2,689.93	1,717.00 (Q)

P =Provisional, Q=Quick

The total receipts of the State increased from Rs. 1,810.01 crore in 2001-02 to Rs. 2,689.93 crore in 2005-06.

While only 40 *per cent* of the total receipts during 2005-06 have come from revenue receipts, debt receipts and accruals in Public Account contributed 60 *per cent* of the total revenue.

[§] Police Department; SPWD(R&B); SPWD (Buildings); Animal Husbandry, Livestock, fisheries & Veterinary Services Department; Department of Mines, Minerals & Geology; Finance Department and SNT Division of the Transport Department

1.5 Application of resources

1.5.1 Growth of Expenditure

Statement-12 of the Finance Accounts depicts the detailed revenue expenditure minor head-wise and capital expenditure major head-wise. States raise resources to perform their sovereign functions; maintain their existing nature of delivery of social and economic services, extend the network of these services through capital expenditure and investment and discharge their debt service obligations. The total expenditure of the State increased by 51.23 *per cent* from Rs. 818.08 crore in 2001-02 to Rs. 1,237.17 crore in 2005-06. The rate of increase of total expenditure (3.39 *per cent*) was lower than the rate of increase of revenue receipts (7.61 *per cent*) during 2005-06.

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-1.6** below:

Table-1.6
Total Expenditure- Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06
Total Expenditure(TE)* (Rupees in crore)	818.08	919.18	950.27	1,196.60	1,237.17
Rate of Growth (per cent)	18.36	12.36	3.38	25.92	3.39
TE/GSDP Ratio (per cent)	76.29	74.47	68.55	78.19	72.05
Revenue Receipts/ TE Ratio (per cent)	74.23	77.26	77.74	70.44	72.05
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	1.87	0.82	0.27	2.49	0.28
R R (ratio)	1.06	●	0.94	2.07	0.45

●RR had a negative growth.

Total expenditure of Rs. 818.08 crore in 2001-02 increased to Rs. 1,237.17 crore in 2005-06. The rate of growth of total expenditure did not show uniform trend as it declined from 18.36 *per cent* in 2001-02 to 12.36 *per cent* in 2002-03 which sharply declined to 3.38 *per cent* in 2003-04 and thereafter steeply increased to 25.92 *per cent* in 2004-05 and again dipped to 3.39 *per cent* in 2005-06. In relative terms, the revenue and capital components have increased by 46.82 *per cent* and 64.06 *per cent* respectively during the period 2001-06. However, in absolute terms, increase was of the order of Rs. 284.28 crore in revenue expenditure and Rs. 135 crore in capital account during 2005-06 compared to 2001-02. This trend indicates that the increase in capital and revenue expenditure was in the ratio of 1:2.13 during the last 5 year period. An increase of Rs. 40.57 crore in total expenditure (3.40 *per cent*) during 2005-06 over the previous year was mainly due to increase in revenue expenditure by Rs. 49.06 crore.

1.5.2 Trends in Total Expenditure by Activities

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-1.7** below:

Table-1.7
Components of Expenditure- Relative Share

	2001-02	2002-03	2003-04	2004-05	2005-06
General Services	205.07 (25)	243.76 (27)	259.58 (27)	276.01 (23)	304.64 (25)
Interest Payments	84.16 (10)	89.53 (10)	92.50 (10)	99.19 (8)	102.60 (8)
Social Services	308.25 (37)	322.40 (35)	360.28 (38)	438.28 (37)	446.76 (36)
Economic Services	312.71 (38)	351.96 (38)	330.31 (35)	481.63 (40)	485.77 (39)
Loans and Advances	0.19 (0.02)	0.06 (0.01)	0.10 (0.01)	0.68 (0.06)	Nil
Grants in aid	12.07 (1.48)	7.80 (0.85)	37.14 (3.91)	22.55 (1.88)	34.56 (3)

(Figures in brackets represent percentages)

Interest payments and expenditure on General Services, considered as non-developmental expenditure, together accounted for 25 *per cent* of total expenditure in 2005-06 while expenditure on Social and Economic Services accounted for 75 *per cent*. The trends in the relative share of these components indicate only marginal changes in their share in total expenditure during the period 2000-06.

1.5.3 Incidence of Revenue expenditure

Of the total expenditure, predominant share was that of revenue expenditure. 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-1.8** below:

Table-1.8
Revenue Expenditure: Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Expenditure (Rupees in crore)	607.16	710.14	738.68	842.38	891.44
Non-Plan Revenue Expenditure(NPRE)	414.49	461.11	492.36	604.36	597.24
Plan Revenue Expenditure(PRE)	192.67	248.03	246.32	238.02	294.20
Rate of Growth (<i>per cent</i>)					
NPRE	7.94	11.49	6.55	22.75	-1.18
PRE	23.56	28.73	-0.69	-3.37	23.60
NPRE as <i>per cent</i> of TE	50.67	50.17	51.81	63.60	48.27
NPRE as <i>per cent</i> of RR	55.26	50.78	54.77	59.76	54.88
RE/GSDP	56.62	57.54	53.29	55.04	51.92
RE as percentage of TE	74.22	77.26	77.73	70.40	72.05
RE as percentage of RR	80.94	78.21	82.17	83.30	81.92
Buoyancy of Revenue Expenditure with (<i>per cent</i>)					
GSDP	1.27	1.12	0.33	1.35	0.48
Revenue Receipts	0.72	0.81	-4.01	1.12	0.77

Overall revenue expenditure of the State increased from Rs. 607.16 crore in 2001-02 to Rs. 891.44 crore in 2005-06, showing an increase of 46.82 *per cent* over the period. The trends and pattern of revenue expenditure vis-à-vis the normative projection made by the TFC for various components of revenue expenditure are given in **Table-1.9**. The non-plan revenue expenditure during the period 2001-02 to 2005-06 increased from Rs. 414.49 crore to Rs. 597.24 crore, showing an increase of 44.09 *per cent*. However, the share of non-plan revenue expenditure (NPRE) in total revenue expenditure marginally declined

by 1.27 percentage points from 68.27 *per cent* in 2001-02 to 67 *per cent* in 2005-06. The plan revenue expenditure, on the other hand, increased by Rs. 101.53 crore (52.70 *per cent*) during 2001-06 increasing its share in revenue expenditure from 31.73 *per cent* to 33 *per cent* during the period.

Table – 1.9

(Rupees in crore)

Particulars	Assessed by TFC	Actual	Excess (+) / deficit (-)
Interest payments	94.75	102.60	7.85
Pensions	34.60	41.05	6.45
Other general services	110.61	15.60	(-) 95.01
Social services	171.64	191.46	19.82
Economic Services	66.67	125.66	58.99
Total	478.27	476.37	(-) 1.90

1.5.4 Committed Expenditure

Expenditure on Salaries and Wages

Salaries alone accounted for nearly 39.15 *per cent* of the revenue receipts and 47.79 *per cent* of the revenue expenditure of the State during 2005-06. The expenditure on salaries increased from Rs. 355.97 crore during 2003-04 to Rs. 426.04 crore during 2005-06 registering an increase of 19.68 *per cent* as indicated in **Table-1.10** below:

Table – 1.10

Expenditure on Salaries

(Rupees in crore)

Heads	2003-04	2004-05	2005-06
Salary expenditure	355.97	347.02	426.04
Of which			
Non-plan Head	237.71	260.34	320.42
Plan Head	118.26	86.68	105.62
As a percentage of GSDP	26.21	22.68	24.81
As a percentage of Revenue Receipts	39.60	34.31	39.15
As a percentage of Revenue Expenditure	48.19	41.20	47.79

Salaries and wages accounted for 24.81 *per cent* of State's GSDP and 39.15 *per cent* of the revenue receipts during 2005-06 as against the TFC norms of 35 *per cent*. The sharp increase in salary expenditure was due to payment of arrears arising out of merger of 50 *per cent* of dearness allowances with salary to bring it at par with Central Government employees.

Pension payments

Payment of pension and other retirement benefits increased by 95.07 *per cent* from Rs. 21.29 crore in 2001-02 to Rs. 41.53 crore in 2005-06 as indicated in **Table-1.11** below:

Table – 1.11

(Rupees in crore)

Year	Expenditure	Percentage to total RR	Percentage to total GSDP
2001-02	21.29	5.54	1.98
2002-03	29.18	3.21	2.37
2003-04	39.82	4.43	2.87
2004-05	30.77	3.04	2.01
2005-06	41.53	3.82	2.42

Payment of pension and other retirement benefits as a percentage of GSDP also increased from 1.98 in 2001-02 to 2.42 in 2005-06.

Pension payments registered an increase of 35 *per cent* in 2005-06 over 2004-05 primarily due to (i) increased number of retirees *i.e.* 280 against 210 in the previous year (2004-05) and (ii) payment of arrears on account of merger of 50 *per cent* of dearness allowances as dearness pay in the pay structure which was introduced by the State Government with effect from April 2004.

Interest payments

Interest payments and percentage of interest payment with reference to revenue receipts and revenue expenditure were as shown in **Table-1.12** below:

Table-1.12

(Rupees in crore)

Year	Total Revenue Receipts	Interest payments	Percentage of interest payment with reference to	
			Revenue Receipts	Revenue Expenditure
2001-02	750.09	84.16	11.22	13.86
2002-03	908.04	89.53	9.86	12.61
2003-04	898.93	92.50	10.29	12.52
2004-05	1,011.29	99.19	9.81	11.77
2005-06	1,088.20	102.60	9.43	11.51

Interest payments increased by 22 *per cent* from Rs. 84.16 crore in 2001-02 to Rs. 102.60 crore in 2005-06 primarily due to increase in borrowings. The interest payments of Rs. 102.60 crore in 2005-06 pertained to Internal Debt (Rs. 45.21 crore), loans received from Central Government (Rs. 37.06 crore) and Small Savings, Provident Fund, etc. (Rs. 20.33 crore).

Subsidies

The trend in the subsidies given by the State Government is shown in **Table-1.13** below:

Table-1.13

Subsidies

Year	Amount (Rupees in crore)	Percentage increase(+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2001-02	0.73	(-)270	0.09
2002-03	5.36	634	0.09
2003-04	7.07	32	0.74
2004-05	8.23	18	0.69
2005-06	10.06	22	0.81

Payment of subsidies steadily increased by 1278 *per cent* from Rs. 0.73 crore in 2001-02 to Rs. 10.06 crore in 2005-06. Percentage of subsidies also increased from 0.09 to 0.81 from 2001-02 to 2005-06. The major portion of expenditure on subsidies was on account of issue of subsidised rice and wheat under public distribution system (94.76 *per cent*) to the families living below the poverty line, followed by assistance to co-operatives (2.62 *per cent*) and manure and fertilisers (2.47 *per cent*) to farmers.

1.6 Expenditure by Allocative priorities

1.6.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running the existing social and economic services efficiently and effectively would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP, better is the quality of expenditure. **Table-1.14** below gives these ratios during 2000-01 to 2005-06.

Table-1.14
Expenditure on Social and Economic Services

(Rs. in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Capital Expenditure	150.92	210.73	208.98	211.49	353.54	345.73
Revenue Expenditure	539.92	607.16	710.14	738.68	842.38	891.44
Of which						
Social and Economic Services with						
(i) Salary & Wage component	180.49	185.20	206.92	248.32	262.18	323.49
(ii) Non-Salary & Wage component	338.62	435.76	467.43	442.28	657.73	609.04
As per cent of Total Expenditure						
Capital Expenditure	21.85	25.77	22.74	22.26	29.56	27.95
Revenue Expenditure	78.15	74.23	77.26	77.74	70.44	72.05

Revenue expenditure continues to have a dominant share in total expenditure, which is nearly 72.05 *per cent* in 2005-06. Though the increase of Rs. 49.06 crore in revenue expenditure during 2005-06 over that of 2004-05 was minimal (5.82 *per cent*), it increased by 65.11 *per cent* over 2000-01. The increase of Rs. 49.06 crore in revenue expenditure in 2005-06 over 2004-05 was due to increase of Rs. 27.75 crore (10.69 *per cent*) on general services, Rs. 31.14 crore (10.16 *per cent*) on social services and decline of Rs. 9.83 crore (3.56 *per cent*) on economic services. The share of capital expenditure to total expenditure showed fluctuating trend during 2000-06 and ranged between 21.85 *per cent* and 29.56 *per cent* respectively during 2000-01 and 2005-06.

1.6.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient

provision of these services in the State. **Table-1.15** summarises the expenditure incurred by the State Government in expanding and strengthening the social services in the State during 2000-06.

Table-1.15
Expenditure on Social Services

(Rs. in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Education, Sports, Art and Culture						
Revenue Expenditure	113.78	121.47	134.02	142.67	160.40	198.00
<i>Of which</i>						
(a) Salaries & Wage Component	101.66	101.65	114.60	116.81	138.53	171.30
(b) Non-salaries & wage component	12.12	19.82	19.42	25.87	21.87	26.70
Capital Expenditure	20.31	30.97	27.17	31.48	29.47	24.95
Health and Family Welfare						
Revenue Expenditure	31.73	36.98	39.91	38.95	53.55	51.89
<i>Of which</i>						
(a) Salaries & Wage Component	20.38	20.38	26.29	27.75	30.35	37.41
(b) Non-salaries & wage component	11.35	16.60	13.62	11.20	23.20	14.48
Capital Expenditure	2.99	4.40	3.33	3.86	3.41	7.94
Water Supply, Sanitation, Housing and Urban Development						
Revenue Expenditure	25.47	36.94	31.86	42.27	42.17	38.13
<i>Of which</i>						
(a) Salaries & Wage Component	2.99	4.64	5.84	28.58	7.84	9.20
(b) Non-salaries & wage component	22.48	32.30	26.02	13.69	34.33	28.93
Capital Expenditure	25.74	25.96	48.95	60.81	96.80	75.95
Other Social Services						
Revenue Expenditure	21.51	31.27	32.95	38.96	50.52	49.77
<i>Of which</i>						
(a) Salaries & Wage Component	3.12	3.67	5.15	6.62	7.39	8.85
(b) Non-salaries & wage component	18.39	27.60	27.80	32.34	43.13	40.92
Capital Expenditure	1.29	-	-	1.29	1.96	0.13
Total Social Services						
Revenue Expenditure	192.49	226.68	238.74	262.85	306.64	337.79
<i>Of which</i>						
(a) Salaries & Wage Component	128.14	130.34	139.83	179.75	184.11	226.76
(b) Non-salaries & wage component	64.35	96.33	98.91	83.10	122.53	111.03
Capital Expenditure	50.33	81.58	83.66	97.44	131.64	108.97

Source: Demand for Grants

Out of the development expenditure (revenue and capital expenditure on social and economic services) of Rs. 932.53 crore during 2005-06, social services accounted for about 47.91 per cent (Rs. 446.76 crore). Expenditure on Education, Sports, Art & Culture, Health & Family Welfare, Water Supply & Sanitation, Urban Development & Housing constituted about Rs. 396.86 crore (88.83 per cent) of expenditure on social sector.

The trends in revenue and capital expenditure on social services during 2000-06 revealed that the share of capital expenditure remained static at around 24 per cent which indicated that the revenue expenditure was dominant. Of the revenue expenditure on social services, the share of salary and wage component has increased from 60.04 per cent in 2004-05 to 67.13 per cent in 2005-06 implying less expenditure on non-salary component including on their maintenance which might result in a deterioration in quality of social

sector services. The non-salary and wage expenditure on social services has decreased by 9.39 *per cent* (Rs. 11.51 crore) during 2004-06 from Rs. 122.53 crore in 2004-05 to Rs. 111.02 crore in 2005-06. Within the social sector, although the non-salary and wage component continues to have a dominant share in respect of Water Supply and Sanitation, Housing and Urban Development, Art and Culture, high salary and wage expenditure during 2000-06 under Health and Family Welfare and Education, without a commensurate increase in non-salary component might have a reflection on the quality of education and health services.

1.6.3 Expenditure on Economic Services

The expenditure on Economic Services includes all such expenditures which are applied, directly or indirectly, to promote productive capacity within the States' economy. The expenditure on economic services (Rs. 485.77 crore) accounted for 39.27 *per cent* of the total expenditure (**Table-1.16**) during 2005-06. Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 77 *per cent* of the expenditure.

Table-1.16
Expenditure on Economic Services

	(Rs. in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Agriculture, Allied Activities						
Revenue Expenditure	59.81	69.40	71.73	69.49	86.70	100.52
Of which						
(a) Salaries & Wage Component	21.32	29.22	31.14	33.21	40.30	44.75
(b) Non-salaries & wage component	38.49	40.18	40.59	36.27	46.40	55.77
Capital Expenditure	5.33	5.70	3.00	1.72	3.94	5.11
Irrigation and Flood Control						
Revenue Expenditure	16.48	15.91	19.00	13.56	6.76	8.56
Of which						
(a) Salaries & Wage Component	1.30	1.43	1.93	2.30	2.50	2.49
(b) Non-salaries & wage component	15.18	14.48	17.07	11.26	4.26	6.07
Capital Expenditure	3.07	5.16	2.91	1.64	2.45	1.95
Power and Energy						
Revenue Expenditure	25.87	26.75	50.67	36.35	92.20	41.89
Of which						
(a) Salaries & Wage Component	10.82	11.16	11.87	12.60	14.52	17.41
(b) Non-salaries & wage component	15.05	15.60	38.80	23.75	77.68	24.48
Capital Expenditure	32.35	49.69	53.83	43.78	99.58	88.02
Transport						
Revenue Expenditure	32.91	37.84	44.71	41.68	51.73	42.72
Of which						
(a) Salaries & Wage Component	12.07	12.71	13.52	13.79	14.05	18.29
(b) Non-salaries & wage component	20.84	25.13	31.19	27.89	37.68	24.43
Capital Expenditure	40.25	55.65	39.62	40.36	71.74	71.47
Total Economic Services						
Revenue Expenditure	180.16	183.56	238.12	229.03	276.23	266.39
Of which						
(a) Salaries & Wage Component	52.35	54.86	67.09	71.56	78.07	96.73
(b) Non-salaries & wage component	127.81	128.70	171.03	157.47	198.15	169.65
Capital Expenditure	96.13	129.15	113.83	101.28	205.41	219.38

Source: Demand for Grants

The expenditure on Economic Services during 2005-06 (Rs. 485.77 crore) accounted for 39.27 per cent of the total revenue and capital expenditure. The non-salary and wage expenditure on Economic Services has declined by Rs. 28.50 crore (14.38 per cent) during 2004-06 i.e. from Rs. 198.15 crore in 2004-05 to Rs. 169.65 crore in 2005-06 indicating low priority accorded to the maintenance of services. On the other hand, the share of salary and wage components increased by 23.90 per cent from Rs. 78.07 crore in 2004-05 to Rs. 96.73 crore in 2005-06 indicating increasing committed revenue expenditure.

1.6.4 Financial Assistance to Local Bodies and other Institutions

The quantum of assistance provided by way of grants (Rs. 34.56 crore) to different local bodies, cooperative societies etc, during the five year period 2001-06 is presented in **Table-1.17** below:

Table- 1.17
Financial Assistance

	<i>(Rupees in crore)</i>				
	2001-02	2002-03	2003-04	2004-05	2005-06
Zilla Parishads and other Panchayati Raj Institutions	2.42	4.47	24.05	6.91	21.77
Cooperative Societies	0.45	0.89	0.34	2.65	0.96
Universities and Educational Institutions	2.68	1.82	0.97	1.35	1.05
Others (including State Housing Corporation)	6.52	0.62	11.78	11.64	10.78
Total	12.07	7.80	37.14	22.55	34.56
Percentage of increase (+)/decrease (-) over previous year	43.86	(-)35.38	376.15	(-) 60.72	53.25
Assistance as a percentage of revenue expenditure	0.04	-	3.14	1.31	1.96

The total assistance at the end of 2005-06 had grown by 186.33 per cent over the level of 2001-02 primarily owing to increased allocation to Gram Panchayats by the State Government. The assistance to local bodies as a percentage of total revenue expenditure increased from 0.04 per cent in 2001-02 to 1.96 per cent in 2005-06.

1.6.5 Delay in furnishing utilisation certificates

At the end of September 2006, 80 utilisation certificates (UCs) for grants amounting to Rs. 3.95 crore released upto March 2006 were outstanding from Departments as detailed below:

Table -1.18

Sl. No	Department	Number of UCs outstanding	Amount (Rupees in crore)
1	Panchayati Raj and Rural Development	18	0.27
2	Others	62	3.68
	Total	80	3.95

1.6.6 Abstract of performance of autonomous bodies

The Audit of accounts of 23 bodies in the State has been entrusted to the Comptroller and Auditor General of India. The position of finalisation of accounts and Audit of autonomous bodies is indicated in **Appendix-VI**.

1.7 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 2006, compared with the corresponding position on 31 March 2005. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the GOI 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 6.78 per cent, assets increased by 11.38 per cent. Liabilities had full back up of assets as defined. The liabilities of Government of Sikkim depicted in the Finance Accounts, however, do not include pension and other retirement benefits payable to retired State employees. Abstract of receipts and disbursements for the year 2005-06, Sources and Applications of funds and the Time Series Data on State Government Finances for the period 2001-06 are given in *Appendices III, IV and V* respectively.

1.7.1 Incomplete projects

As of March 2006, there were 149 incomplete projects in which Rs. 313.16 crore were blocked as given in **Table-1.19**.

Table-1.19

(Rs. in Crore)

Department	Number of incomplete Project	Initial budgeted cost	Revised total cost of Project	Cum. Actual Exp. (As on 31.3.2006)
Human Resources Development Department	77	21.13	21.62	12.53
Building & Housing Department	14	44.13	44.99	17.73
Urban Development and Housing Department	16	109.32	109.32	9.31
Health Care, Human Services and Family Welfare Department	19	8.69	8.69	4.00
Energy and Power Department	14	313.81	434.23	268.87
Irrigation & Flood Control Department	9	38.42	38.42	0.72
Total	149	535.5	657.27	313.16

Source: Information furnished by respective departments to A&E office during the course of preparation of Finance Accounts

There was cost overrun of Rs. 121.77 crore in 149 incomplete projects indicating 22.74 per cent of the initial budgeted cost.

1.7.2 Departmental Commercial Undertaking

Activities of quasi-commercial nature are performed by certain Government / Departmental Undertakings. These undertakings are required to prepare Proforma Accounts annually 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 2006, there were two departmentally managed commercial and quasi-commercial undertakings under the control of Government of Sikkim. However, the preparation of Proforma Accounts for one unit was in arrears for two year as follows:

Table -1.20

Sl. No.	Name of departmentally managed commercial and quasi-commercial undertakings	Proforma Accounts received upto	Proforma Accounts due
1.	Temi Tea Board	2004-05	-
2.	Government Fruit Preservation Factory	2002-03	2003-04 2004-05

1.7.3 Investments and returns

As on 31 March 2006, Government had invested Rs. 82.48 crore in its Statutory Corporations, Government Companies, Joint Stock Companies and Co-operative Societies. Government's return on this investment was less than 1.19 per cent in the last three years. With an average interest rate of 9.57 per cent being paid by Government on its borrowings, the average annual subsidy amounted to 8.39 per cent and the implicit subsidy during the period 2003-06 was Rs. 19.70 crore.

Table -1.21: Return on Investment

	2003-04	2004-05	2005-06	Average
Investment (Rupees in crore)	75.63	77.46	82.48	78.52
Returns (Rupees in crore)	0.74	0.92	1.14	0.93
Percentage of return	0.98	1.19	1.38	1.18
Average interest rate paid by Government	10.32	9.29	9.10	9.57
Difference between interest rate and return	9.34	8.10	7.72	8.39
Implicit subsidy (Rupees in crore)	7.06	6.27	6.37	6.57

Financial performance of the Corporations and Government Companies is detailed in *Appendix-XVII*.

1.7.4 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 2006 was Rs. 6.08 crore. Interest on these was not received in any of the years 2001-06 (**Table-1.22**). Total implicit subsidy during 2001-06, on such loans was Rs. 3.66 crore.

Table-1.22
Average interest received on loans advanced by the State Government
(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Opening Balance	8.45*	7.50	6.28	5.30	6.22
Amount advanced during the year	0.19	0.06	0.10	0.68	--
Amount repaid during the year	1.14	1.28	1.08	(-) 0.24	0.14
Closing Balance	7.50	6.28	5.30	6.22	6.08
Net addition	(-) 0.95	(-) 1.22	(-) 0.98	0.92	0.14
Interest Received	Nil	Nil	Nil	Nil	Nil
Interest Received as percentage to Loans advanced	Nil	Nil	Nil	Nil	Nil
Weighted Interest Rate (in per cent) paid on borrowings by State Government	10.96	10.70	10.09	9.57	8.35
Average interest paid by the State (per cent)	12.14	11.47	10.32	9.29	9.10
Difference between Weighted interest paid and received (per cent)	10.96	10.70	10.09	9.57	8.35
Implicit subsidy	1.09	0.86	0.65	0.49	0.57

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

Interest received was negligible during 2001-06 primarily because loans and advances granted to statutory corporations/ Government companies had failed to pay the interest. Considering the scenario, it is unlikely that the State will achieve the targeted rate of growth of 7 *per cent* in interest receipts by the terminal year (2009-10) on outstanding loans and advances as recommended by the TFC.

1.8 Undischarged liabilities

1.8.1 Fiscal liabilities - Public debt and Guarantees

There are two sets of liabilities, namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund - Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from Central Government. 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 and give guarantees within such limits as may be fixed. However, no such law has been passed by the State to lay down any such limit. Other liabilities, which are a part of Public Account, include deposits under small savings scheme, provident funds and other deposits. **Table-1.23** 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-1.23: Fiscal Liabilities-Basic Parameters

	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities (<i>rupees in crore</i>)*	806.06	867.68	966.45	1,107.07	1,350.87
Rate of Growth (<i>per cent</i>)	10.51	7.64	11.38	14.55	22.02
Ratio of Fiscal Liabilities to					
GSDP(<i>per cent</i>)	75.17	70.30	69.72	72.34	78.68
Revenue Receipts (<i>per cent</i>)	107.46	95.56	107.51	109.47	124.14
Own Resources (<i>per cent</i>)	532.02	348.62	475.99	484.90	118.78
Buoyancy of Fiscal Liabilities to					
GSDP(ratio)	1.07	0.51	0.92	1.40	1.81
Revenue Receipts(ratio)	1.38	0.44	0.54	-14.50	2.90
Own resources (ratio)	0.67	0.12	-0.21	0.07	8.76

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

Overall fiscal liabilities of the State increased from Rs. 806.06 crore in 2001-02 to Rs. 1,350.87 crore in 2005-06 with an average growth rate of 22.02 *per cent* during 2001-06. The ratio of these liabilities to GSDP increased from 75.17 *per cent* in 2001-02 to 78.68 *per cent* in 2005-06. The buoyancy of these liabilities with respect to GSDP during the year was 1.81 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.81 *per cent*.

1.8.2 Status of guarantees - Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. Position of guarantee during the last 5 years was as under:

Table-1.24*(Rupees in crore)*

<i>Year</i>	<i>Maximum amount guaranteed</i>	<i>Outstanding guarantee</i>
2001-02	Nil	95.70
2002-03	Nil	95.70
2003-04	Nil	86.10
2004-05	88.10	82.47
2005-06	84.47	84.47

Government has guaranteed loans raised by various Corporations and others. At the end of 2005-06 outstanding guarantee stood at Rs. 84.47 crore which showed an increase over the previous year. 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.

1.8.3 Debt Stabilisation and its Sustainability

Debt sustainability is defined as the ability to maintain a constant debt-GDP ratio over a period of time and also the sufficiency of liquid assets to service the debt. In simple terms, public debt is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. Given the interest rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*interest rate spread), Debt sustainability condition states that if quantum spread together with primary deficit is zero, Debt-GSDP ratio would be constant or sustainable. On the other hand, if PD persistently exceeds QS, Debt-GSDP ratio would eventually rise and PD with QS is positive, debt-GSDP ratio would fall in coming years.

Table-1.25**Debt Sustainability- interest Rate and GSDP Growth (in per cent)**

	2001-02	2002-03	2003-04	2004-05	2005-06
Outstanding Debts	806.06	867.68	966.45	1,107.07	1,350.87
Interest Payment	84.16	89.53	92.50	99.19	102.60
Average Interest Rate paid by the Government	12.14	11.47	10.32	9.29	9.10
Weighted Interest Rate [*]	10.96	10.70	10.09	9.57	8.35
GSDP Growth	9.84	15.09	12.31	10.40	12.19
Interest spread	(-)1.13	4.40	2.22	0.84	3.84
Quantum Spread (Rs. in crore)	(-)9.11	38.18	21.46	9.30	51.87
Primary Deficit (Rs. in crore)	17.31	79.67	42.24	86.36	46.23

^{*}Interest Payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities) /2]*100. The declining trend is due to (i) fall in average interest rate paid by the Government and (ii) lower rate of increase in the quantum of interest payment as compared to the rate of increase in the quantum of outstanding debt.

Sustainability embodies concern about not only the ability of the State to service its debt but also to its stabilisation in terms of GSDP ratio. Debt would therefore be sustainable only if it stabilises and the borrowings are used for adding to the productive capacity of the economy so that adequate funds are generated to service the debt. **Table-1.25** reveals that primary deficit together with quantum spread was negative in four out of five years during 2000-06. It was only during 2005-06 that positive quantum spread exceeded the primary deficit, the impact of which might be reflected in coming years if this favourable condition continues to persist. Since the State has surplus in its revenue account, debt could be sustained in the short run but for its long term sustainability, the necessary condition would be that borrowed funds should be

able to generate adequate incremental revenue receipts to service their debt obligations.

1.8.4 Net Availability of Funds

Another important indicator of debt sustainability is the net availability of borrowed funds after payment of principal and interest. **Table-1.26** below gives the position of receipts and re-payment of internal debt and other fiscal liabilities of the State over the last five years. The net funds available from total receipts on account of public debt, loans and advances from GOI and other debt receipts (including Public Account) was 10.53 *per cent* in 2005-06 as against 12.10 *per cent* during 2001-02, as depicted in the following table.

Table -1.26
Net Availability of Borrowed Funds

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06
Internal debt					
Receipts	39.10	34.81	75.96	110.32	122.07
Repayment (Principal + Interest)	37.83	45.33	59.96	88.69	65.56
Net Funds Available	1.27	(-)10.52	16.00	21.63	56.51
Net Funds Available (<i>per cent</i>)	3.25	-	21.07	19.61	46.29
Loans and advances from GOI					
Receipts	52.27	43.73	61.06	82.67	22.99
Repayment (Principal + Interest)	60.49	64.71	97.83	72.73	49.11
Net Funds Available	(-)8.22	(-)20.98	(-)36.77	9.93	(-) 26.12
Net Funds Available (<i>per cent</i>)	-	-	-	12.01	--
Other obligations					
Receipts	92.09	114.85	65.09	69.79	73.81
Repayment (Principal + Interest)	62.94	81.12	86.12	98.76	81.15
Net Funds Available	29.15	33.73	(-)21.03	(-) 28.97	(-)7.34
Net Funds Available (<i>per cent</i>)	31.65	29.37	-	-	-
Total liabilities					
Receipts	183.46	193.39	202.11	262.77	218.87
Repayment (Principal + Interest)	161.26	191.16	243.91	260.18	195.82
Net Funds Available	22.20	2.23	(-)41.80	2.59	23.05
Net Funds Available (<i>per cent</i>)	12.10	1.15	-	0.99	10.53

1.9 Management of deficits

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 manners in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health.

Fiscal deficit representing the total borrowings of the Government and the total resource gap increased from Rs. 66.85 crore in 2001-02 to Rs. 148.83 crore in 2005-06 (**Table-1.27**).

Table-1.27: Fiscal Imbalances- Basic Parameters
(Values in crore of rupees and ratios in *per cent*)

	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Surplus	142.93	197.90	160.25	168.91	196.76
Fiscal Deficit	(-)66.85	(-)9.86	(-)50.26	(-) 185.55	(-) 148.83
Primary Deficit/Surplus	17.31	79.67	42.24	86.36	46.23
FD/GSDP	(-)6.23	(-)0.80	(-)3.63	(-) 12.12	(-) 8.67
PD/GSDP	1.61	6.45	3.05	5.64	2.69

(Negative figures indicate deficit)

The revenue account of the State presents the trends in its revenue expenditure and revenue receipts over a definite time period. The revenue account of the State had exhibited consistent improvement during the period 2000-06 as the State had not only maintained revenue surplus but its surplus position has improved during the last two years. An increase of Rs. 28 crore in revenue surplus during the current year was mainly on account of enhancement in revenue receipts by Rs. 77 crore due to increase in tax revenue (Rs. 30 crore) and State's share in Central pool of taxes and duties (Rs. 75 crore) as against the increase of Rs. 77 crore in revenue expenditure during 2005-06 over the previous year. However, despite a revenue surplus of Rs. 169 crore in 2004-05, fiscal deficit has increased steeply over the previous year primarily on account of an increase of Rs. 142 crore (67 per cent) in capital expenditure during 2004-05 over the previous year. The momentum in capital expenditure continued in 2005-06 as it was maintained almost at the level of 2004-05. As a result, despite a revenue surplus in 2005-06, fiscal deficit continues to persist although it declined by about 20 per cent from the level of 2004-05. Although interest payments have consistently increased during the period 2000-06, the behaviour of primary account could largely be explained by the trends in revenue receipts affecting the primary revenue balance, non-interest revenue expenditure and capital expenditure during the period.

1.10 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.28** below presents a summarised position of Government finances over 2001-06, with reference to certain key indicators that help in assessing the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important features.

Table -1.28: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06
I. Resource Mobilisation					
Revenue Receipts/ GSDP	69.95	73.57	64.85	66.08	63.38
Revenue Buoyancy	1.76	1.40	*	1.20	0.62
Own tax/ GSDP	2.33	2.07	0.19	0.80	2.12
II Expenditure Management					
Total Expenditure/GSDP	76.29	74.47	68.55	78.19	72.05
Total Expenditure/ Revenue Receipts	91.69	98.79	94.60	84.51	87.96
Revenue Expenditure/ Total Expenditure	74.23	77.26	77.74	70.44	72.05
Salary Expenditure on Social and Economic Services/RE	30.50	29.14	33.62	31.12	36.29
Non-Salary Expenditure on Social and Economic Services/RE	71.77	65.82	59.87	78.08	68.31
Capital Expenditure/ Total Expenditure	25.77	22.74	22.26	29.56	27.95
Capital expenditure on Social and Economic Services/Total Expenditure	25.76	21.49	20.91	28.17	26.54
Buoyancy of TE with RR	1.06	**	0.94	2.07	0.45
Buoyancy of RE with RR	0.72	0.81	(-)4.01	1.12	0.77

III. Management of Fiscal Imbalances					
Revenue Surplus (<i>Rupees in crore</i>)	142.93	197.90	160.25	168.91	196.76
Fiscal Deficit (<i>Rupees in crore</i>)	(-) 66.85	(-) 9.86	(-) 50.26	(-) 185.55	(-) 148.83
Primary Deficit/Surplus (<i>Rupees in crore</i>)	17.31	79.67	42.24	86.36	46.23
Revenue Deficit/ Fiscal Deficit	\$	\$	\$	\$	\$
IV. Management of Fiscal Liabilities (FL)					
Fiscal Liabilities/ GSDP	75.17	70.30	69.72	72.34	78.68
Fiscal Liabilities/ RR	107.46	95.56	107.51	109.47	124.14
Buoyancy of FL with RR	1.38	0.44	0.54	(-)14.50	2.90
Buoyancy of FL with OR	0.67	0.12	(-)0.21	0.07	8.76
Primary deficit <i>vis a vis</i> quantum spread	17.31/ (-) 9.11	79.67/ 38.18	42.24/ 21.46	86.36/ 9.30	46.23/ 51.87
Net Funds Available	12.10	1.15	-	0.99	10.53
V. Other Fiscal Health Indicators					
Return on Investment	0.02	2.53	0.98	1.19	1.38
BCR (<i>Rupees in crore</i>)	(-)38.83	77.84	(-) 15.64	(-) 101.78	15.77
Financial Assets/ Liabilities	1.73	1.88	1.97	1.13	2.0

* Rate of growth of Revenue Receipts was negative. ** Rate of growth of expenditure was negative. \$ State had a revenue surplus in all these years

The ratio of own taxes to GSDP had shown continuous decline from 2.33 in 2001-02 to 0.19 in 2003-04 and thereafter an increasing trend from 0.80 to 2.12 during 2004-06. The ratio of revenue receipts to GSDP showed inter-year variations during 2001-06. Revenue expenditure comprised 72 per cent of total expenditure in 2005-06 leaving very little for capital formation or asset creation. Fiscal deficit over the last five years indicated growing fiscal imbalances of the State.

The net availability of funds from its borrowings was very negligible 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.

1.11 Conclusion

The fiscal health of the State as reflected in terms of trends in key fiscal parameters- RD, FD & PD has shown a sign of improvement during 2005-06 over the previous year. However, the State finances are heavily dependent on Central transfers, which account for about 76 per cent of its revenue receipts and helped the State Government to maintain revenue surplus during the period 2000-06. Although the State had maintained revenue surplus throughout the period 2000-06, fiscal deficit not only persisted during the period but it has increased steeply during the last two years primarily on account of substantial step up in capital expenditure during these years. The State's own resources mobilised in the form of its own tax revenue and non-tax revenue during 2005-06 being much lower than the normative projections made by the TFC indicates the large potential of raising them by exploiting untapped sources of revenue available in the State. On the other hand, the increasing fiscal liabilities accompanied by persistent fiscal deficit and primary deficit together with quantum spread being negative during most of

the years might result in a cycle of deficit, debt and debt service payments, unless suitable measures are taken to arrest the persistent increase in fiscal liabilities. Besides, zero rate of return on Government investments and inadequate recovery of cost on loans and advances also adversely affected the fiscal position of the State. In this context, an efficient and productive use of funds would be of critical importance both from the point of view of putting the State's economy in the high growth trajectory and providing qualitative social and economic services to the people and in enhancing the ability of the Government to meet its financial liabilities that will become due in future.