

# 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-1.1: 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. The layout of the Finance Accounts is depicted in **Appendix-1.1: 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 July 2007 although a Memorandum of Understanding had been entered into with the Government of India (GOI) 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 for the year 2006-07 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements as emerging from Statement-**I** and other detailed Statements of Finance Accounts.

**Table – 1.1: SUMMARY OF RECEIPTS AND DISBURSEMENTS  
FOR THE YEAR 2006-07**

*(Rupees in crore)*

2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
					Non Plan	Plan	Total
<b>Section – A: Revenue</b>							
1,964.36	Revenue Receipts <sup>1</sup>	2,116.54	1,767.60	Revenue Expenditure <sup>5</sup>	1,550.90	336.65	1,887.56
147.23	Tax revenue	173.18	1,163.42	General services <sup>2</sup>	1,241.30	6.82	1,248.12
990.10	Non-tax revenue <sup>1</sup>	1,085.04	337.79	Social Services <sup>3</sup>	190.67	165.13	355.81
182.13	Share of Union Taxes/ Duties	222.78	266.39	Economic Services <sup>3</sup>	118.93	164.70	283.63
644.90	Grants from Government of India	635.54	--				
<b>Section – B: Capital</b>							
--	Miscellaneous Capital Receipts	--	345.73	Capital Outlay	--	326.42	326.42
0.14	Recoveries of Loans and Advances	0.78	0	Loans and Advances disbursed	0.20	--	0.20
145.06	Public debt receipts	142.75	32.40	Repayment Public Debt	39.03	--	39.03
--	Contingency Fund	0.10	0.10	Contingency Fund	--	--	0.00
1,456.53	Public Account receipts	1,705.54	1,470.09	Public Account disbursements	1,662.92	--	1,662.92
302.42	Opening Balance	252.59	252.59	Closing Balance	--	--	302.17
<b>3,868.51</b>	<b>Total</b>	<b>4,218.30</b>	<b>3,868.51</b>	<b>Total</b>		<b>--</b>	<b>4,218.30</b>

Source: Finance Accounts

Following are the significant changes during 2006-2007 over the previous year:

- Revenue receipts grew by Rs 152.18 crore over the previous year. The increase was mainly contributed by Non-tax revenue (Rs. 94.94 crore), State's share in Central taxes and duties (Rs. 40.65 crore) and tax revenue (Rs. 25.95 crore).
- Revenue expenditure increased by Rs 119.96 crore where as capital expenditure decreased by Rs. 19.31 crore over the previous year.
- Disbursement and recoveries of loans and advances increased by Rs. 0.20 crore and Rs. 0.64 crore respectively.

<sup>1</sup> Revenue receipts and Non-tax revenue are inclusive of gross receipt (Rs. 963.30 crore) from State Lotteries.

<sup>5</sup> Revenue expenditure and General Services (Non-plan) are inclusive of expenditure (Rs. 913.29 crore) on State Lotteries

<sup>3</sup> Includes grants-in-aid contribution under Social Services (Rs. 5.58 crore) and Economic Services (Rs. 26.40 crore) aggregating Rs. 31.98 crore.

- While Public debt receipts decreased by Rs 2.31 crore, its repayments increased by Rs 6.63 crore.
- Public Account receipts and disbursements increased by Rs 249.01 crore and Rs 192.83 crore respectively
- The total outflow of the Government (Rs.300.01 crore) was less than the total inflow (Rs. 349.79 crore) resulting in an increase of Rs.49.58 crore in the cash balance of the State at the end of the year 2006-07.

## 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:

**Table - 1.2**

<i>(Rupees in crore)</i>			
2005-06	Sl. No	Major Aggregates	2006-07
<b>1,088.20</b>	<b>1</b>	<b>Revenue Receipts (2+3+4+5)</b>	<b>1,203.25</b>
147.23	2	Tax Revenue	173.18
113.94	3	Non-Tax Revenue <sup>4</sup>	171.75
644.90	4	Other Receipts	635.54
182.13	5	State share of Union taxes and others	222.78
<b>0.14</b>	<b>6</b>	<b>Non-Debt Capital Receipts</b>	<b>0.78</b>
0.14	7	Of which, Recovery of Loan	0.78
<b>1,088.34</b>	<b>8</b>	<b>Total Receipts (1+6)</b>	<b>1,204.03</b>
<b>597.24</b>	<b>9</b>	<b>Non-Plan Expenditure (10+12+13)</b>	<b>637.62</b>
597.24	10	On Revenue Account <sup>5</sup>	637.62
102.60	11	Of which, Interest Payments	115.27
--	12	On Capital Account	--
--	13	On Loans disbursed	--
<b>639.93</b>	<b>14</b>	<b>Plan Expenditure (15+16+17)</b>	<b>663.27</b>
294.20	15	On Revenue Account	336.65
345.73	16	On Capital Account	326.42
--	17	On Loans disbursed	0.20
<b>1,237.17</b>	<b>18</b>	<b>Total Expenditure (9+14)</b>	<b>1,300.89</b>
<b>(+) 196.76</b>	<b>20</b>	<b>Revenue Deficit (-) / (+) Surplus (10+15-1)</b>	<b>(+) 228.98</b>
<b>(-)148.83</b>	<b>19</b>	<b>Fiscal Deficit (18-1-6)</b>	<b>(-)96.86</b>
<b>(-)46.23</b>	<b>21</b>	<b>Primary Deficit(-) / (+)Surplus (19-11)</b>	<b>(+)18.41</b>

Source: Finance Accounts

During the current year revenue receipts increased by 10.57 per cent (Rs 115.05 crore) while revenue expenditure increased by 9.29 per cent (Rs 82.83 crore) over the previous year resulting in increase in surplus of Rs 32.22 crore on revenue account during 2006-07. Given the increase in revenue surplus of Rs 32.22 crore and a marginal increase of Rs 0.64 crore in non-debt capital

<sup>4</sup> Non-tax revenue for the year 2006-07 includes net of gross receipt of Rs 963.30 crore from State Lotteries after adjustment of expenditure of Rs. 913.29 crore under the head.

<sup>5</sup> Expenditure excludes Rs. 913.29 crore on State Lotteries against which there was gross receipt of Rs. 963.30 crore under the same head.

receipts accompanied by a decrease of Rs 19.51 crore in capital expenditure and loan and advances disbursed during 2006-07 over the previous year resulted in a decrease of Rs 51.97 crore in fiscal deficit during the current year. The decrease in fiscal deficit together with an increase of Rs 12.67 crore in interest payments during 2006-07 over the previous year led to a primary surplus of Rs 18.41 crore during the current year from the level of primary deficit of Rs 46.23 crore in 2005-06.

### **1.3 Methodology adopted for the assessment of Fiscal position**

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analysed wherever necessary over the period of last five years (2002-03 to 2006-07) and observations have been made on their behaviour as per *Appendix-1.2 to 1.4* and Time Series Data (*Appendix-1.5*). In its Restructuring Plan of State finances, the Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates were used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP) is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than GSDP. The trends in the growth of GSDP as provided by the Department of Economic and Statistics, Government of Sikkim are given in **Table-1.3**.

**Table-1.3: Trends in GSDP**

	2002-03	2003-04	2004-05	2005-06	2006-07
GSDP <sup>6</sup> (Rs in Crore)	1,275.91	1,429.72	1,602.17	1,803.11(Q)	2,040(A)
Rate of Growth of GSDP (in percentage)	12.31	12.05	12.06	12.54	13.17

Source: Department of Economic, Statistics, Monitoring & Evaluation Government of Sikkim  
*Q=Quick estimate, A=Advance estimate.*

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Resources by Volume and Sources, (ii) Application of Resources, (iii)

<sup>6</sup> State Government has since revised GSDP figures taking 1999-00 as the base year. The GSDP figures along-with all the associated ratios and indices in this Report have accordingly been revised for the entire 5 year period (2002-07)

Assets and Liabilities, and (iv) Management of Deficits. 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. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in *Appendix-1 Part-C*.

## 1.4 State Finances by Key Indicators

### 1.4.1 Resources by Volumes and Sources

The 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 GOI. Capital receipts comprise 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 and miscellaneous capital receipts such as proceeds from disinvestments. **Table-1.4** shows that the total receipts of the State Government for the year 2006-2007 were Rs 3,052.32 crore. Of these, the revenue receipts were Rs 1203.25 crore, constituting 39.42 per cent of the total receipts. The balance came from borrowings (4.70 per cent) and receipts from Public Account (55.88 per cent).

**Table-1.4: Trends in Growth and Composition of Aggregate Receipts**

(Rupees in crore)

Sources of State's receipts		2002-03	2003-04	2004-05	2005-06	2006-07
I.	Revenue Receipts	908.04	898.99	1,011.29	1,088.20	1,203.25
II.	Capital Receipts	79.81	138.10	192.75	145.20	143.53
	Public Debt Receipts	78.53	137.02	192.99	145.06	142.75
	Recovery of Loans and Advances	1.28	1.08	(-0.24)	0.14	0.78
	Miscellaneous Capital Receipts	--	--	--	--	--
III.	Contingency Fund	--	--	--	--	--
IV.	Public Account Receipts	1,356.15	1,193.34	1,415.38	1,456.53	1,705.54
(a)	Small Savings, Provident Fund, etc	63.56	65.09	69.79	73.81	80.02
(b)	Reserve Fund	19.11	22.01	32.80	28.55	24.51
(c)	Deposits and Advances	32.19	24.77	21.22	28.23	24.70
(d)	Suspense and Miscellaneous	801.54	701.62	799.99	888.65	1,119.86
(e)	Remittances	439.75	379.85	491.58	437.29	456.45
	Total Receipts	2,344.00	2,230.37	2,619.42	2,689.93	3,052.32

Source: Finance Accounts

### 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-1.5**.

**Table-1.5: Revenue Receipts- Basic Parameters**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Revenue Receipts (RR)</b> (Rupees in crore)	<b>908.04</b>	<b>898.99</b>	<b>1,011.29</b>	<b>1,088.20</b>	<b>1,203.25</b>
Own Taxes (per cent)	105.53 (11.62)	108.00 (12.01)	116.95 (11.56)	147.23 (13.53)	173.18 (14.39)
Non-tax Revenue (per cent)	143.36 (15.79)	95.04 (10.57)	111.36 (11.01)	113.94 (10.47)	171.75 (14.27)
Central tax Transfers (per cent)	77.20 (8.50)	112.33 (12.50)	107.35 (10.62)	182.13 (16.74)	222.78 (18.51)
Grants-in-aid (per cent)	581.95 (64.09)	583.56 (64.92)	675.63 (66.81)	644.90 (59.26)	635.54 (52.82)
<b>Rate of Growth of RR</b> (per cent)	<b>21.06</b>	<b>(-1.00)</b>	<b>12.50</b>	<b>7.61</b>	<b>10.57</b>
GSDP (Rs. in crore)	1,275.91	1,429.72	1,602.17	1,803.11 (Q)	2,040.49 (A)
RR/GSDP (per cent)	71.17	62.88	63.12	60.35	58.97
Revenue Buoyancy (Ratio)	1.71	*	1.04	0.61	0.80
State's own taxes Buoyancy (ratio)	0.39	0.19	0.69	2.07	1.34
Revenue Buoyancy with reference to State's own taxes	0.67	*	1.51	0.29	0.60
GSDP Growth (per cent)	12.31	12.05	12.06	12.54	13.17
Rate of growth of own taxes	31.27	2.34	8.29	25.89	17.63

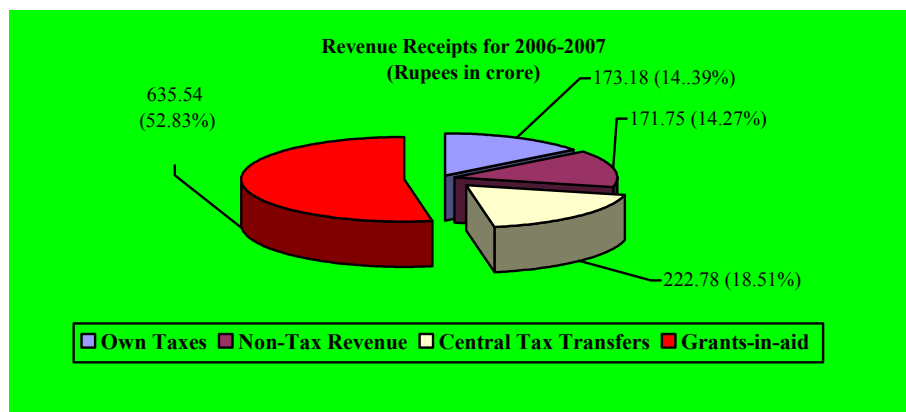
**Source:** Finance Accounts and information furnished by Department of Economic, Statistics, Monitoring & Evaluation, Government of Sikkim

**Q=Quick estimate, A=Advance estimate. \* Rate of growth of Revenue Receipts was negative.**

### 1.4.3 General Trends

The revenue receipts have shown a progressive increase over the period 2002-2007 except during 2003-04. While 29 per cent of the revenue receipts during 2006-2007 have come from the State's own resources comprising taxes and non-taxes and the remaining 71 per cent is contributed in the form of Central transfers comprising State's share in Central taxes and duties and grants-in-aid from GOI.

Chart-1.1



### 1.4.3.1 Tax Revenue

The tax revenue has increased by 14.39 per cent from Rs 147.23 crore in 2005-06 to Rs 173.18 crore during 2006-07. The revenue from sales tax not only contributed the major share of tax revenue (43.11 per cent) but also increased by 31.79 per cent (Rs 18.01 crore) over the previous year. The sharp increase in sales tax revenue over the previous year has been due to frequent monitoring of the target achievement, generation of internal efficiencies through input of information technology, monthly review meetings, TDS verifications, strict monitoring of import and export of goods at the check posts and focus on capacity building of the tax officials. However, tax on income other than corporation tax declined from Rs. 47.82 crore to Rs. 46.71 crore over the previous year mainly due to the deduction of income tax from dearness pay in 2005-06. **Table-1.6** below shows the trend of tax revenue during 2002-2007.

**Table-1.6: Tax Revenue**

(Rupees in crore)

Head of Revenue	2002-03	2003-04	2004-05	2005-06	2006-07	Percentage of increase(+)/decrease (-) in 2006-07 over 2005-06
Sales tax	41.42	48.87	48.18	56.65	74.66	(+) 31.79
Taxes on income other than corporation tax	32.67	26.76	29.09	47.82	46.71	(-) 2.32
State excise	22.45	25.25	32.69	32.96	33.31	(+) 1.06
Stamps and Registration fees	3.45	1.14	1.43	2.27	2.52	(+) 11.01
Taxes on vehicles	2.35	2.74	3.24	4.24	5.95	(+) 40.33
Other taxes and duties on commodities and services	2.79	3.06	1.88	2.68	9.25	(+) 245.15
Land revenue	0.40	0.18	0.44	0.61	0.78	(+) 27.87
<b>Total</b>	<b>105.53</b>	<b>108.00</b>	<b>116.95</b>	<b>147.23</b>	<b>173.18</b>	<b>(+)17.63</b>

Source: Finance Accounts

The receipts from own taxes at Rs. 173.18 crore during 2006-07 was higher by Rs. 36.19 crore than the normative projection of Rs. 136.99 crore made to the TFC by the State for 2006-07.

#### ***1.4.3.2 Non-Tax Revenue***

The non-tax revenue, which constituted 14 *per cent* of total revenue receipts increased by Rs 57.81 crore recording a growth rate of 50.73 *per cent* over the previous year. The increase was mainly in power sector (Rs 30.16 crore) due to increase in more realization on sale of power and increase in net revenue from the lotteries (Rs 27.82 crore) during 2006-07 over the previous year. Receipts from non-tax revenue sources (Rs. 171.75 crore) during 2006-07 was higher by Rs. 81.74 crore as compared to the projection of Rs. 90.01 crore made by the State to the TFC.

The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government are 1.09 *per cent* for health and family welfare and 0.50 *per cent* for university and higher education. 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 7.08, 11.11 and 53.34 *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 General and Economic Services.

#### ***1.4.3.3 Central Tax Transfers***

The Central tax transfers increased by Rs 40.65 crore over the previous year and constituted 18.51 *per cent* of revenue receipts. The increase was under corporation tax (Rs 25.39 crore), customs duties (Rs 6.50 crore), and service tax (Rs 9.28 crore) and marginal decrease in Union excise duties (Rs 0.52 crore).

#### ***1.4.3.4 Grants-in aid***

Grants-in-aid decreased by Rs. 9.36 crore (1.45 *per cent*) from Rs. 644.90 crore in 2005-06 to Rs. 635.54 crore in 2006-07 mainly due to decrease in non-plan grants (Rs. 94.46 crore) offset by increase in grants for State plan schemes (Rs.77.11 crore), Centrally Sponsored plan schemes (Rs. 5.74 crore), and special plan schemes (Rs.2.39 crore). Decrease in non-plan grants was mainly due to decrease in grants to meet Non-plan revenue deficit by Rs. 96.20 crore. Steep decrease in non-plan revenue deficit grants was due to simultaneous release of grants for the year along with arrears of earlier years by the GOI during 2005-06. Details of grants-in-aid from GOI are given in **Table 1.7**



**Table No-1.7: Grants-in-aid from GOI***(Rupees in crore)*

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Grants for State plan schemes	309.31	370.56	435.85	366.36	443.47
Non Plan grants	213.86	150.47	155.92	158.71	64.26
Grants for Central Schemes/Centrally Sponsored Schemes	58.78	54.49	60.28	98.93	104.52
Grants for Special Plan Schemes (North Eastern Council)	-	8.05	23.58	20.90	23.29
Total	581.95	583.56	675.63	644.90	635.54
Percentage of increase/decrease over previous year	13.27	0.28	15.78	(-4.55)	(-1.45)

*Source: Finance Accounts***1.4.3.5 Revenue Arrears**

In spite of reminders, details of arrears of revenue were not furnished by 15 Departments. Out of 28 Departments which furnished the information, 20 Departments had no revenue arrears. Arrears of revenue of the remaining 8 Departments increased from Rs. 2.16 crore in 2002-03 to Rs. 41.61 crore at the end of 2006-07. Major portion of the arrears of revenue amounting to Rs. 24.75 crore for the year 2006-07 pertained to State lotteries under Finance 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 41.53 *per cent* from Rs. 919.18 crore in 2002-03 to Rs. 1300.89 crore in 2006-07. The rate of increase of total expenditure (5.15 *per cent*) was much lower than the rate of increase of revenue receipts (10.57 *per cent*) during 2006-07. 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-1.8** below:

**Table-1.8: Total Expenditure- Basic Parameters**

	2002-03	2003-04	2004-05	2005-06	2006-07
Total Expenditure(TE)* (Rupees in crore)	919.18	950.27	1,196.60	1,237.17	1,300.89
Rate of Growth ( per cent)	12.36	3.38	25.92	3.39	5.15
TE/GSDP Ratio ( per cent)	72.04	66.46	74.69	68.61	63.75
Revenue Receipts/ TE Ratio ( per cent)	77.26	77.74	70.44	72.05	92.49
<b>Buoyancy of Total Expenditure with reference to:</b>					
GSDP (ratio)	1.00	0.28	2.15	0.27	0.39
R R (ratio)	•	0.94	2.07	0.45	0.49

Source: Finance Accounts

\* Total expenditure includes revenue expenditure, capital expenditure & loans and advances.

- RR had a negative growth.

Total expenditure of Rs. 919.18 crore in 2002-03 increased to Rs. 1300.89 crore in 2006-07. In relative terms, the revenue and capital components have increased by 37.38 per cent and 56.20 per cent respectively during the period 2002-07. However, in absolute terms, increase was of the order of Rs. 265.13 crore in revenue expenditure and Rs. 117.44 crore in capital account during 2006-07 compared to 2002-03. This trend indicates that the increase in capital and revenue expenditure was in the ratio of 1:2.25 during the last 5 year period. An increase of Rs. 63.72 crore in total expenditure (5.15 per cent) during 2006-07 over the previous year was mainly due to increase in revenue expenditure by Rs. 82.83 crore partly offset by decrease of Rs.19.31 crore in capital expenditure. The increase of Rs. 82.83 crore in revenue expenditure in 2006-07 over 2005-06 was due to increase of Rs. 47.56 crore (16.56 per cent) on General Services, Rs. 17.24 crore (6.47 per cent) on Economic Services and decline of Rs. 1.97 crore (0.58 per cent) on Social Services. The decrease of Rs. 19.31 crore in capital outlay was due to decrease on Economic Services (Rs.33.34 crore) and increase in General Services (Rs.3.69 crore) and Social Services (Rs.10.34 crore). The decrease of capital outlay on economic services was mainly in Energy (Rs.49.86 crore), Transport (Rs. 9.15 crore) and Industries (Rs.4.16 crore) and increase in Rural Development (Rs. 18.60 crore), General Economic Service (Rs.8.29 crore) and Special Area Programme (Rs.1.31 crore).

During the current year, 92.50 per cent of total expenditure was met from revenue receipts and the remaining from capital receipts and borrowed funds. The buoyancy of total expenditure to GSDP stood at 0.39 in 2006-2007 indicating a tendency to spend less than the increase in income and lower elasticity of total expenditure with respect to GSDP.

### 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-1.9** below:

**Table-1.9: Components of Expenditure- Relative Share***(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07
<b>General Services*</b>	243.76 (27)	259.58 (27)	276.01 (23)	304.64 (25)	355.89 (27)
<b>Interest Payments</b>	89.53 (10)	92.50 (10)	99.19 (8)	102.60 (8)	115.27 (9)
<b>Social Services</b>	322.40 (35)	360.28 (38)	438.28 (37)	446.76 (36)	475.12 (37)
<b>Economic Services</b>	351.96 (38)	330.31 (35)	481.63 (40)	485.77 (39)	469.68 (36)
<b>Loans and Advances</b>	0.06 (0.01)	0.10 (0.01)	0.68 (0.06)	Nil	0.20 (0.01)
<b>Grants in aid</b>	7.80 (0.85)	37.14 (3.91)	22.55 (1.88)	34.56 (3)	31.99 (2)

*Source: Finance Accounts**(Figures in brackets represent percentages). \* General Services include interest payments.*

Expenditure on General Services (*which include interest payments also*) and considered as non-developmental expenditure, accounted for 27 *per cent* of the total expenditure in 2006-07 while expenditure on Social and Economic Services accounted for 73 *per cent*. The trends in the relative share of these components indicate only marginal changes in their share in total expenditure during the period 2002-07

### 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-1.10** below:

**Table-1.10: Revenue Expenditure: Basic Parameters**

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure <i>(Rupees in crore)</i>	710.14	738.68	842.38	891.44	974.27
Non-Plan Revenue Expenditure (NPRE)	461.11	492.36	604.36	597.24	637.62
Plan Revenue Expenditure (PRE)	248.03	246.32	238.02	294.20	336.65
<b>Rate of Growth (<i>per cent</i>)</b>					
NPRE	11.49	6.55	22.75	(-)1.18	6.76
PRE	28.73	(-)0.69	(-)3.37	23.60	14.43
NPRE as <i>per cent</i> of TE	50.17	51.81	63.60	48.27	65.45
NPRE as <i>per cent</i> of RR	50.78	54.77	59.76	54.88	52.99
RE/GSDP	55.66	51.67	52.58	49.44	47.78
RE as percentage of TE	77.26	77.73	70.40	72.05	74.89
RE as percentage of RR	78.21	82.17	83.30	81.92	80.97
<b>Buoyancy of Revenue Expenditure with (<i>per cent</i>)</b>					
GSDP	1.38	0.33	1.16	0.46	0.71
Revenue Receipts	0.81	-4.01	1.12	0.77	0.88

*Source: Finance Accounts*

Overall revenue expenditure of the State increased from Rs. 710.14 crore in 2002-03 to Rs. 974.27 crore in 2006-07, showing an increase of 37.19 *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-1.11**. The non-plan revenue expenditure (NPRE) during the period 2002-03 to 2006-07 increased from Rs. 461.11 crore to Rs. 637.62 crore, showing an increase of 38.28 *per cent*. However, the share of NPRE in total revenue expenditure remained the same at 65 *per cent* in 2002-03 and 2006-07. Similarly, although the plan revenue expenditure (PRE) increased by Rs. 88.62 crore (35.73 *per cent*) during 2002-07, its share in total revenue expenditure remained constant at 35 *per cent* during 2002-03 and 2006-07.

The increase in NPRE by Rs 40.38 crore during the current year was mainly due to increase in payment towards prize money of lottery (Rs 44.04 crore) and interest payment (Rs.12.67 Crore) which was partly counter balanced by decrease in Relief on account of Natural Calamities (Rs.5.51 crore). Similarly, increase in PRE by Rs.42.45 crore was due to increase mainly in Agriculture and Allied Activities (Rs. 13.25 crore), Education, Sports, Art and culture (Rs.9.55 crore), Energy ( Rs.9.21 crore) Irrigation and flood control(Rs.7.01 crore) and Welfare of Schedule Castes, Schedule Tribes and Other Backward classes (Rs.3.31 crore) and decrease in Industries and Minerals (Rs.12.80 crore).

**Table – 1.11**

(Rupees in crore)

Particulars	Assessed by TFC	Actual	Excess (+) / deficit (-)
Interest payments	99.50	115.27	(+) 15.77
Pensions	38.05	49.24	(+) 11.19
Other general services	116.74	163.50	(+) 46.76
Social services	187.31	190.68	(+) 3.37
Economic Services	70.11	118.93	(+) 48.82
<b>Total</b>	<b>511.71</b>	<b>637.62</b>	<b>(+) 125.91</b>

Source: Finance Accounts and TFC recommendation

#### 1.5.4 Committed Expenditure

##### Expenditure on Salaries and Wages

Salaries alone accounted for nearly 35.19 *per cent* of the revenue receipts and 43.46 *per cent* of the revenue expenditure of the State during 2006-07. The expenditure on salaries increased from Rs. 355.97 crore during 2003-04 to Rs. 423.39 crore during 2006-07 registering an increase of 18.94 *per cent* as indicated in **Table-1.12** below:

**Table – 1.12: Expenditure on Salaries**

(Rupees in crore)

Heads	2003-04	2004-05	2005-06	2006-07
Salary expenditure	355.97	347.02	426.04	438.81
Of which,				
Non-plan Head	237.71	260.34	320.42	332.26
Plan Head	118.26	86.68	105.62	106.55
As a percentage of GSDP	24.90	21.66	23.63	21.51
As a percentage of Revenue Receipts	39.60	34.31	39.15	36.47
As a percentage of Revenue Expenditure	48.19	41.20	47.79	45.04

Source: Finance Accounts

Salaries and wages accounted for 21.51 *per cent* of the State's GSDP and 36.47 *per cent* of the revenue receipts during 2006-07. The salary expenditure is 54.19 *per cent* of revenue expenditure net of interest and pension payments, which is much higher than the norm of 35 *per cent* recommended by the TFC.

### ***Pension payments***

Payment of pension and other retirement benefits increased by 68.75 *per cent* from Rs. 29.18 crore in 2002-03 to Rs. 49.24 crore in 2006-07 as indicated in **Table-1.13** below:

**Table – 1.13**

*(Rupees in crore)*

Year	Expenditure	Percentage to total RR	Percentage to total GSDP
2002-03	29.18	3.21	2.29
2003-04	39.82	4.43	2.04
2004-05	30.77	3.04	1.92
2005-06	41.53	3.82	2.30
2006-07	49.24	4.09	2.41

*Source: Finance Accounts*

Payment of pension and other retirement benefits as a percentage of GSDP also increased marginally from 2.29 in 2002-03 to 2.41 in 2006-07.

Pension payments during the current year have increased by Rs 7.71 crore recording a growth rate of 18.56 *per cent* over the previous year. The increase in expenditure under pensions was mainly due to more expenditure incurred towards payment of superannuation and retirement allowances and gratuity. The Government has introduced a Contributory Pension Scheme for employees recruited on or after April 2006 to mitigate the impact of rising pension liabilities in future.

### ***Interest payments***

Interest payments and percentage of interest payment with reference to revenue receipts and revenue expenditure are shown in **Table-1.14** below:

**Table-1.14**

*(Rupees in crore)*

Year	Total Revenue Receipts	Interest payments	Percentage of interest payment with reference to	
			Revenue Receipts	Revenue Expenditure
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
2006-07	1,203.25	115.27	9.58	11.83

*Source: Finance Accounts*

Interest payments increased by 42 *per cent* from Rs. 89.53 crore in 2002-03 to Rs. 115.27 crore in 2006-07 primarily due to increase in borrowings which was

more than that projected by TFC (Rs 15.77 crore) for the year 2006-2007. The interest payments of Rs. 115.27 crore in 2006-07 pertained to internal debt (Rs. 53.47 crore), loans received from Central Government (Rs.39.30 crore) and Small Savings, Provident Fund, etc. (Rs. 22.50 crore).

### ***Subsidies***

The trend in subsidies given by the State Government is shown in **Table- 1.15** below:

**Table-1.15: Subsidies**

Year	Amount (Rupees in crore)	Percentage increase(+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
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
2006-07	5.91	(-) 41.25	0.45

*Source: Finance Accounts*

Payment of subsidies consistently increased from Rs. 5.36 crore in 2002-03 to Rs. 10.06 crore in 2005-06 but declined steeply to Rs 5.91 crore in 2006-07 mainly due to the decrease in the Food subsidies (Rs.4.45 crore) and subsidies to co-operatives (Rs0.33 crore). Percentage of subsidies in total expenditure also increased from 0.09 to 0.45 from 2002-03 to 2006-07. The major portion of expenditure on subsidies was on account of issue of subsidised rice and wheat under public distribution system (85.96 per cent) to the families living below the poverty line, followed by assistance to co-operatives (9.98 per cent) and manure and fertilisers (4.06 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-1.16** below gives these ratios during 2002- 03 to 2006-07.

**Table-1.16: Expenditure on Social and Economic Services**

*(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	208.98	211.49	353.54	345.73	326.42
Revenue Expenditure	710.14	738.68	842.38	891.44	974.27
<b>Of which</b>					
<b>Social and Economic Services with</b>					
(i) Salary & Wage component	206.92	248.32	262.18	323.49	332.54
(ii) Non-Salary & Wage component	467.43	442.28	657.73	609.04	592.26
<b>As per cent of Total Expenditure</b>					
Capital Expenditure	22.74	22.26	29.56	27.95	25.10
Revenue Expenditure	77.26	77.74	70.44	72.05	74.90

*Source: Finance Accounts*

Revenue expenditure increased consistently during the period 2002-07 and maintained a dominant share hovering around the mean of 74 *per cent* in total expenditure during the period. The share of capital expenditure to total expenditure showed fluctuating trend during 2002-07 and ranged between 22.26 *per cent* and 29.56 *per cent* during the period. The share of both salary and non salary components of revenue expenditure incurred on social and economic services have indicated consistent increases during the period but the increase was steeper in non salary expenditure relative to salary component indicating a shift towards better maintenance and delivery of these services. The fluctuating trends in the capital expenditure need to be stabilized and momentum for increasing its share in total expenditure need to be strengthened to give an impetus to asset creation and capital formation in the State.

### **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-1.17** summarises the expenditure incurred by the State Government in expanding and strengthening the social services in the State during 2002-07.

**Table-1.17: Expenditure on Social Services**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Education, Sports, Art and Culture</b>					
Revenue Expenditure	134.02	142.67	160.40	198.00	211.58
<i>Of which</i>					
(a) Salaries & Wage Component	114.60	116.81	138.53	171.30	175.33
(b) Non-salaries & wage component	19.42	25.87	21.87	26.70	36.25
Capital Expenditure	27.17	31.48	29.47	24.95	25.24
<b>Health and Family Welfare</b>					
Revenue Expenditure	39.91	38.95	53.55	51.89	54.84
<i>Of which</i>					
(a) Salaries & Wage Component	26.29	27.75	30.35	37.41	39.14
(b) Non-salaries & wage component	13.62	11.20	23.20	14.48	15.70
Capital Expenditure	3.33	3.86	3.41	7.94	1.92
<b>Water Supply, Sanitation, Housing and Urban Development</b>					
Revenue Expenditure	31.86	42.27	42.17	38.13	35.48
<i>Of which</i>					
(a) Salaries & Wage Component	5.84	28.58	7.84	9.20	9.66
(b) Non-salaries & wage component	26.02	13.69	34.33	28.93	25.82
Capital Expenditure	48.95	60.81	96.80	75.95	88.86
<b>Other Social Services</b>					
Revenue Expenditure	32.95	38.96	50.52	49.77	53.91
<i>Of which</i>					
(a) Salaries & Wage Component	5.15	6.62	7.39	8.85	9.78
(b) Non-salaries & wage component	27.80	32.34	43.13	40.92	44.13
Capital Expenditure	-	1.29	1.96	0.13	3.30
<b>Total Social Services</b>					
Revenue Expenditure	238.74	262.85	306.64	337.79	355.81
<i>Of which</i>					
(a) Salaries & Wage Component	139.83	179.75	184.11	226.76	233.91
(b) Non-salaries & wage component	98.91	83.10	122.53	111.03	121.90
Capital Expenditure	83.66	97.44	131.64	108.97	119.32

Source: Finance Accounts and departmental figures

Out of the development expenditure (revenue and capital expenditure on Social and Economic Services) of Rs. 924.80 crore during 2006-07, Social Services accounted for about 49.21 per cent (Rs. 455.13 crore). Expenditure on Education, Sports, Art & Culture, Health & Family Welfare, Water Supply & Sanitation and Urban Development & Housing constituted about Rs. 417.92 crore (91.83 per cent) of expenditure on Social Sector.

The trends in revenue and capital expenditure on Social Services during 2002-07 revealed that the share of capital expenditure drifted between 24 to 30 per cent which indicated that the revenue expenditure was dominant. Of the revenue expenditure, the share of salary and wage component has decreased from 67.13 per cent in 2005-06 to 55.74 per cent in 2006-07 implying increase in expenditure on non-salary component including on their maintenance which might result in improvement in quality of social sector services. The non-salary and wage expenditure on social services has increased by 9.79 per cent



(Rs.10.87 crore) from Rs. 111.03 crore in 2005-06 to Rs. 121.90 crore in 2006-07.

Recognising the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and health and family welfare should increase only by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. The trends in non-plan expenditure reveal that the salary and wage component under education sector increased by 3.05 *per cent* over 2005-2006 while non-salary and wage component increased by 130 *per cent*. However, in real terms it was only Rs.0.39 crore. Similarly under Health and Family Welfare sector, the salary and wage component increased by 3.39 *per cent* while non-salary and wage component increased only by 2.47 *per cent*. These trends indicate that allocation especially in health and family welfare sector need to be reprioritized in ensuing years.

### 1.6.3 Expenditure on Economic Services

The expenditure on Economic Services includes all such expenditure which is applied, directly or indirectly, to promote productive capacity within the States' economy. The expenditure on Economic Services (Rs. 469.68 crore) accounted for 36.10 *per cent* of the total expenditure (**Table-1.18**) during 2006-07. Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 68.87 *per cent* of the expenditure.

**Table-1.18: Expenditure on Economic Services**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Agriculture, Allied Activities</b>					
Revenue Expenditure	71.73	69.49	86.70	100.52	111.03
Of which					
(a) Salaries & Wage Component	31.14	33.21	40.30	44.75	78.27
(b) Non-salaries & wage component	40.59	36.27	46.40	55.77	32.76
Capital Expenditure	3.00	1.72	3.94	5.11	5.77
<b>Irrigation and Flood Control</b>					
Revenue Expenditure	19.00	13.56	6.76	8.56	15.50
Of which					
(a) Salaries & Wage Component	1.93	2.30	2.50	2.49	2.36
(b) Non-salaries & wage component	17.07	11.26	4.26	6.07	13.14
Capital Expenditure	2.91	1.64	2.45	1.95	2.47
<b>Power and Energy</b>					
Revenue Expenditure	50.67	36.35	92.20	41.89	38.19
Of which					
(a) Salaries & Wage Component	11.87	12.60	14.52	17.41	17.43
(b) Non-salaries & wage component	38.80	23.75	77.68	24.48	20.76
Capital Expenditure	53.83	43.78	99.58	88.02	38.16
<b>Transport</b>					
Revenue Expenditure	44.71	41.68	51.73	42.72	50.01
Of which					
(a) Salaries & Wage Component	13.52	13.79	14.05	18.29	18.29
(b) Non-salaries & wage component	31.19	27.89	37.68	24.43	31.72
Capital Expenditure	39.62	40.36	71.74	71.47	62.32
<b>Total Economic Services</b>					

Revenue Expenditure	238.12	229.03	276.23	266.39	283.63
Of which					
(a) Salaries & Wage Component	67.09	71.56	78.07	96.73	78.27
(b) Non-salaries & wage component	171.03	157.47	198.15	169.65	205.36
Capital Expenditure	113.83	101.28	205.41	219.38	186.05

*Source: Demand for Grants; Finance Accounts*

The expenditure on Economic Services during 2006-07 (Rs. 469.68 crore) accounted for 36.10 *per cent* of the total revenue and capital expenditure. The non-salary and wage expenditure on Economic Services has increased by Rs. 39.71 crore (21.05 *per cent*) during 2006-07 *i.e.* from Rs. 169.65 crore in 2005-06 to Rs. 205.36 crore in 2006-07 indicating improvement in maintenance of services. On the other hand, the share of salary and wage components decreased by 19.08 *per cent* from Rs. 96.73 crore in 2005-06 to Rs. 78.27 crore in 2006-07 indicating a decrease in committed revenue expenditure. The expenditure on salaries and wage component in Agriculture and Allied Activities increased significantly by 75 *per cent* while in case of other sectors, it has either remained constant or declined. Except in case of Agriculture and Allied Activities as well as Energy sectors, the non salary component of revenue expenditure indicated increasing trend during the period. The capital expenditure declined sharply in Transport and Power as a result of which, the overall capital expenditure under Economic Services have declined from 219 crore in 2005-06 to Rs 186 crore during the current year.

#### **1.6.4 Financial Assistance to Local Bodies and other Institutions**

The quantum of assistance provided by way of grants to different local bodies, cooperative societies etc, during the five year period 2002-07 is presented in **Table-1.19** below:

**Table- 1.19: Financial Assistance**

	<i>(Rupees in crore)</i>				
	2002-03	2003-04	2004-05	2005-06	2006-07
Zilla Parishads and other Panchayati Raj Institutions	4.47	24.05	6.91	21.77	24.96
Cooperative Societies	0.89	0.34	2.65	0.96	1.12
Universities and Educational Institutions	1.82	0.97	1.35	1.05	0.93
Others (including State Housing Corporation)	0.62	11.78	11.64	10.78	4.97
<b>Total</b>	<b>7.80</b>	<b>37.14</b>	<b>22.55</b>	<b>34.56</b>	<b>31.98</b>
Percentage of increase (+)/decrease (-) over previous year	(-)35.38	376.15	(-) 60.72	53.25	(-) 7.47
Assistance as a percentage of revenue expenditure	1.10	3.14	1.31	1.96	1.69

The total assistance at the end of 2006-07 had grown by 310 *per cent* over the level of 2002-03 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 1.10 *per cent* in 2002-03 to 1.69 *per cent* in 2006-07.

### 1.6.5 Delay in furnishing utilisation certificates

At the end of August 2007, 31 utilisation certificates (UCs) for grants amounting to Rs. 4.90 crore released upto March 2007 were outstanding from various Departments as detailed below:

**Table -1.20**

Department	Number of UCs outstanding	Amount (Rupees in crore)
Health Care, Human Services and Family Welfare	07	0.25
Sports and Youth Affairs Department	07	0.05
Tourism department	07	0.08
Food Security and Agriculture Department	04	0.09
Urban Development & Housing Department	02	4.31
Others	04	0.12
<b>Total</b>	<b>31</b>	<b>4.90</b>

### 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-1.6**.

## 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-1.2** gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. 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-1.2** shows that while the liabilities grew by 10.18 per cent, assets increased by 13.28 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 2006-07, Sources and Applications of funds and the Time Series Data on State Government Finances for the period 2002-07 are given in **Appendices- 1.3, 1.4 and 1.5** respectively.

### 1.7.1 Incomplete projects

As of March 2007, there were 105 incomplete projects in which Rs. 136.73 crore were blocked as given in **Table-1.21**.

**Table-1.21**

*(Rupees in crore)*

Department	Number of incomplete Projects	Initial budgeted cost	Revised total cost of Project	Actual Expenditure (As on 31 March 2007)	Cost overrun
Human Resources Development Department	81	21.51	22.00	19.93	0.49
Building & Housing Department	18	25.87	25.87	19.17	Nil
Energy and Power Department	6	112.91	112.91	97.63	Nil
Total	105	160.29	160.78	136.73	0.49

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

There was cost overrun of Rs. 0.49 crore only in 2 incomplete projects under Human Resources Development Department.

### **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 2007, there were two departmentally managed commercial and quasi-commercial undertakings under the control of Government of Sikkim. However, the preparation of proforma Accounts of one unit was in arrears for two years as follows:

**Table -1.22**

	Proforma Accounts received upto	Proforma Accounts due
Temi Tea Board	2004-05	2005-06 2006-07
Government Fruit Preservation Factory	2005-06	2006-07

### **1.7.3 Investments and returns**

As on 31 March 2007, Government had invested Rs. 83.40 crore in its Statutory Corporations, Government Companies, Joint Stock Companies and Co-operative Societies. Government's return on this investment was less than 1.38 per cent in the last three years. With an average interest rate of 8.74 per cent being paid by Government on its borrowings, the average annual subsidy amounted to 7.88 per cent and the implicit subsidy during the period 2004-07 was Rs. 18.75 crore.

**Table -1.23: Return on Investment**

	2004-05	2005-06	2006-07	Average
Investment ( <i>Rupees in crore</i> )	77.46	82.48	83.40	81.11
Return ( <i>Rupees in crore</i> )	0.92	1.14	0.76	0.94
Percentage of return	1.19	1.38	0.91	1.16
Average interest rate paid by Government	9.29	9.10	8.74	9.04
Difference between interest rate and return	8.10	7.72	7.83	7.88
Implicit subsidy ( <i>Rupees in crore</i> )	6.27	6.37	6.11	6.25

During the year 2006-07 Government invested Rs.0.92 crore in one company (Sikkim Tourism Development Corporation) and in two apex co-operative societies (Sikkim Consumers Co-operative Society (SIMFED) and Sikkim State Co-operative Bank). Sikkim Tourism Development Corporation incurred a loss of Rs. 0.42 crore during 2005-06 and two apex co-operative societies were earning profit. Financial performance of the Corporations and Government Companies is detailed in *Appendix-7.2*.

#### **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 2007 was Rs. 5.50 crore. Interest on these was not received in any of the years 2002-07 (**Table-1.24**). Total implicit subsidy during 2002-07 on such loans was Rs.3.10 crore.

**Table-1.24: Average interest received on loans advanced by the State Government***(Rupees in crore)*

<i>(Rupees in crore)</i>	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Balance	7.50	6.28	5.30	6.22	6.08
Amount advanced during the year	0.06	0.10	0.68	--	0.20
Amount repaid during the year	1.28	1.08	(-) 0.24	0.14	0.78
Closing Balance	6.28	5.30	6.22	6.08	5.50
<b>Net addition</b>	<b>(-) 1.22</b>	<b>(-) 0.98</b>	<b>0.92</b>	<b>0.14</b>	<b>(-) 0.58</b>
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> )	11.47	10.32	9.29	9.10	8.74
Difference between average interest paid and interest received ( <i>per cent</i> )	11.47	10.32	9.29	9.10	8.74
Implicit subsidy	0.86	0.65	0.49	0.57	0.53

Interest received was nil during 2002-07 primarily because the statutory corporations/ Government companies had failed to pay the interest on Government loans. 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 an 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-1.25** 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-1.25: Fiscal Liabilities - Basic Parameters**

	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities ( <i>Rupees in crore</i> )	867.68	966.45	1,107.07	1,350.87	1,483.99
Rate of Growth ( <i>per cent</i> )	7.64	11.38	14.55	22.02	9.85
<b>Ratio of Fiscal Liabilities to</b>					
GSDP( <i>per cent</i> )	68.00	67.60	69.10	74.92	72.73
Revenue Receipts ( <i>per cent</i> )	95.56	107.51	109.47	124.14	123.75
Own Resources ( <i>per cent</i> )	348.62	475.99	484.90	517.24	431.68
<b>Buoyancy of Fiscal Liabilities to</b>					
GSDP(ratio)	0.62	0.94	1.21	1.76	0.75
Revenue Receipts(ratio)	0.44	0.54	(-)14.50	2.90	0.93
Own resources (ratio)	0.12	(-)0.21	0.07	8.76	0.31

Overall fiscal liabilities of the State increased from Rs. 867.68 crore in 2002-03 to Rs. 1,483.99 crore in 2006-07 with an average growth rate of 14.21 *per cent* during 2002-07. Fiscal liabilities during 2006-07 included internal debt of the State Government (Rs. 675.68 crore), loans and advances from the GOI (Rs.324.93 crore), small savings, provident fund(Rs. 321.14 crore) and other obligations (Rs. 162.24 crore) The ratio of these liabilities to GSDP increased from 68.00 *per cent* in 2002-03 to 72.73 *per cent* in 2006-07. The buoyancy of these liabilities with respect to GSDP during the year was 0.75 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.75 *per cent*. As on March 2007, Sinking fund balances stood at Rs. 78.66 crore which were invested as a fixed deposit in a Nationalised bank.

### 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 guarantees during the last 5 years was as under:

**Table-1.26**

*(Rupees in crore)*

<i>Year</i>	<i>Maximum amount guaranteed</i>	<i>Outstanding guarantees</i>	<i>Percentage of maximum amount guaranteed to total revenue receipts</i>
2002-03	Nil	95.70	Nil
2003-04	Nil	86.10	Nil
2004-05	88.10	82.47	8.71
2005-06	84.47	84.47	7.76
2006-07	84.47	84.40	7.02

Government has guaranteed loans raised by various Corporations and others. At the end of 2006-07 outstanding guarantees stood at Rs. 84.40 crore. The State Government passed the Sikkim Ceiling on Government Guarantees Act 2000 in December 2000 in terms of which the total outstanding Government guarantees on the first of April of any year shall not exceed thrice the State's tax revenue receipts of the second preceding year. The guarantees given by the Government as of 31 March 2007 was within the limit prescribed by the Act.

### 1.8.3 Debt Sustainability

Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service the debt. A prior condition for debt sustainability is the debt stabilisation in terms of debt/GSDP ratio.

### 1.8.4 Debt Stabilisation

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate–interest rate) and quantum spread (Debt x rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilisation are indicated in **Table 1.27**.

**Table-1.27** below gives the average Interest Rate, GSDP growth, Interest spread, and Primary deficit/surplus over the last five years.

**Table-1.27: Debt Sustainability**

Interest Rate and GSDP Growth (in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07
Outstanding Debts (opening) (Rs. in crore)	806.06	867.68	966.45	1,107.07	1,350.87
Average Interest Rate paid by the Government	11.47	10.32	9.29	9.10	8.74
GSDP Growth	12.31	12.05	12.06	12.54	13.17
Interest spread	0.84	1.73	2.77	3.44	4.43
Quantum Spread (Rs. in crore)	6.77	15.01	26.77	38.08	59.84
Primary Surplus (+)/Deficit (-) (Rs. in crore)	(+)79.67	(+) 42.24	(-) 86.36	(-) 46.23	(+) 18.42

**Table-1.27** reveals that primary surplus together with quantum spread remained positive during 2002-03 and 2003-04 forcing fiscal liabilities to GSDP ratio to decline by one percentage point from 68 per cent in 2002-03 to 67 per cent in 2003-04. Due to prevalence of huge primary deficit thereafter in 2004-05 and 2005-06, its sum with quantum spread turned out to be negative resulting in a sharp increase in fiscal liabilities to GSDP ratio to 73 per cent in 2005-06 which remained almost at the same level in 2006-07 although state experienced a marginal surplus in primary account during the year.

#### 1.8.5 Incremental Revenue Receipts and expenditure

Another indicator of debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table 1.28** indicates the resource gap as defined for the period 2002-07.

**Table- 1.28: Incremental revenue and expenditure**

(Rupees in crore)

Year	Incremental				Resource Gap
	Non-debt receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2002-03	158.09	94.73	5.37	100.10	(+)57.99
2003-04	(-) 9.31	29.12	2.97	31.09	(-)41.40
2004-05	111.04	239.64	6.69	246.33	(-)135.29
2005-06	77.29	37.16	3.41	40.57	(+) 36.72
2006-07	115.69	51.05	12.67	63.72	(+) 51.97

The resource gap was negative both relative to primary expenditure as well as the total expenditure successively in 2003-04 and 2004-05 indicating deteriorating debt position. However, the gap was positive thereafter in 2005-06 and 2006-07 reflecting improvement in the ability of the State to sustain the debt since 2004-05.



### 1.8.6 Net Availability of Funds

The net availability of borrowed funds after payment of principal and interest is yet another important indicator of debt sustainability. **Table-1.29** below gives the position of receipts and re-payment of internal debt and other fiscal liabilities of the State over the last five years.

**Table -1.29 Net Availability of Borrowed Funds**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Internal debt</b>					
Receipts	34.81	75.96	110.32	122.07	132.22
Repayment (Principal + Interest)	45.33	59.96	88.69	65.56	79.23
Net Funds Available	(-)10.52	16.00	21.63	56.51	52.99
Net Funds Available ( <i>per cent</i> )	-	21.07	19.61	46.29	40.08
<b>Loans and advances from GOI</b>					
Receipts	43.73	61.06	82.67	22.99	10.52
Repayment (Principal + Interest)	64.71	97.83	72.73	49.11	52.57
Net Funds Available	(-)20.98	(-)36.77	9.93	(-) 26.12	(-) 42.05
Net Funds Available ( <i>per cent</i> )	-	-	12.01	--	--
<b>Other obligations</b>					
Receipts	114.85	65.09	69.79	73.81	80.03
Repayment (Principal + Interest)	81.12	86.12	98.76	81.15	86.27
Net Funds Available	33.73	(-)21.03	(-) 28.97	(-)7.34	(-)6.24
Net Funds Available ( <i>per cent</i> )	29.37	-	-	-	-
<b>Total liabilities</b>					
Receipts	193.39	202.11	262.77	218.87	222.77
Repayment (Principal + Interest)	191.16	243.91	260.18	195.82	218.07
Net Funds Available	2.23	(-)41.80	2.59	23.05	4.70
Net Funds Available ( <i>per cent</i> )	1.15	-	0.99	10.53	2.11

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 2.11 *per cent* in 2006-07 as against 10.53 *per cent* during the previous year.

The net funds available on account of the internal debt and loans and advances from GOI and other obligations after providing for the interest and repayments varied from minus during 2003-04 to 23.05 *per cent* during 2005-2006. The State Government raised the internal debt amounting to Rs 132.22 crore comprising of market loans (Rs. 9.64 crore) and NABARD and other institutions (Rs. 122.58 crore). Against these receipts, Government discharged the past debt obligations (principal + interest) amounting to Rs 79.23 crore leaving a net fund of Rs. 52.99 crore under the debt account. During the current year the Government repaid GOI loans including interest amounting to Rs. 10.52 crore and also discharged other obligations of Rs. 80.03 crore along with interest obligations which were less than the total receipts resulting in negative net availability of funds during the year. During 2005-06 and 2006-2007, the focus of the Government seems to be on discharging the past debt obligations both on account of principal and interest payment on loans raised from the GOI and other obligation.

## 1.9 Management of deficits

The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health.

### 1.9.1 Trends in Deficits

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table-1.30**.

**Table-1.30: Fiscal Imbalances–Basic Parameters (Values in crore of rupees and ratios in per cent)**

*(Values in crore of rupees and ratios in per cent)*

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Surplus	197.90	160.25	168.91	196.76	228.98
Fiscal Deficit	(-9.86)	(-50.26)	(-) 185.55	(-) 148.83	(-) 96.86
Primary Deficit (-)/ Surplus (+)	(+) 79.67	(+) 42.24	(-) 86.36	(-) 46.23	(+) 18.41
FD/GSDP	(-) 0.77	(-) 3.52	(-) 11.58	(-) 8.25	(-) 4.75
PD/GSDP	(+) 6.24	(+) 2.95	(-) 5.39	(-) 2.56	(+) 0.90

*(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 2002-07 as the State had not only maintained revenue surplus but its surplus position has improved during the last three years. An increase of Rs. 32.23 crore in revenue surplus during the current year was mainly on account of enhancement in revenue receipts by Rs. 115 crore due to increase in non-tax revenue (Rs. 58 crore), tax revenue (Rs. 26 crore) and State's share in Central pool of taxes and duties (Rs. 41 crore) as against the increase of Rs. 83 crore in revenue expenditure during 2006-07 over the previous year. Further, due to increase in revenue surplus by Rs. 32.23 crore and a decline in capital expenditure by Rs. 19.31 crore in 2006-07 over the previous year, fiscal deficit has decreased substantially by Rs. 52 crore in 2006-07 over the previous year. Although interest payments have consistently increased during the period 2002-07, 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.

### 1.9.2 Quality of Deficit/Surplus

The ratio of RD and FD and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for

current consumption. During the entire five year period, the State had a revenue surplus.

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2002-07 reveals (**Table 1.31**) that the non-debt receipts were enough to meet the requirements of primary revenue expenditure and some receipts were left to meet the capital expenditure. These were however not enough during 2004-05 and 2005-06 as substantial capital expenditure was incurred by the State Government during these two years relative to other years. This indicates the extent to which primary deficit has been on account of enhancement of capital expenditure which may be desirable to improve productive capacity of the State's economy.

**Table 1.31: Primary deficit / surplus – Bifurcation of factors**

*(Rupees in crore)*

Year	Non-debt receipts <sup>7</sup>	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure (3+4+5) <sup>8</sup>	Primary Revenue Deficit (-)/surplus (+) (2 – 3) <sup>9</sup>	Primary deficit (-)/surplus (+) (2 – 6)
1	2	3	4	5	6	7	8
2002-03	909.32	619.61	208.98	0.06	828.65	(+) 289.71	(+) 80.67
2003-04	900.01	646.18	211.49	0.100	857.77	(+) 253.83	(+) 42.24
2004-05	1011.05	743.19	353.54	0.68	1097.41	(+) 267.86	(-) 86.36
2005-06	1088.34	788.84	345.73	0.00	1134.57	(+) 299.50	(-) 46.23
2006-07	1204.03	859.00	326.42	0.20	1185.62	(+) 345.03	(+) 18.41

### 1.10 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.32** below presents a summarised position of Government finances over 2002-07, 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 -1.32: Indicators of Fiscal Health (in per cent)**

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07
<b>I. Resource Mobilisation</b>					
Revenue Receipts/GSDP	71.17	62.87	63.12	60.35	58.97
Revenue Buoyancy	1.71	*	1.04	0.61	0.80
Own tax/ GSDP	8.27	7.55	7.30	8.17	8.49
<b>II Expenditure Management</b>					
Total Expenditure/GSDP	72.04	66.46	74.69	68.61	63.74
Total Expenditure/Revenue Receipts	101.11	105.70	118.26	113.69	108.10
Revenue Expenditure/Total	77.26	77.74	70.44	72.05	74.90

<sup>7</sup> Includes Revenue receipts & recovery of loans and advances.

<sup>8</sup> Total expenditure net of interest payments.

<sup>9</sup> Fiscal deficit net of interest payments.

Expenditure					
Salary Expenditure on Social and Economic Services/RE	29.14	33.62	31.12	36.29	34.13
Non-Salary Expenditure on Social and Economic Services/RE	65.82	59.87	78.08	68.31	60.79
Capital Expenditure/Total Expenditure	22.74	22.26	29.56	27.95	25.10
Capital expenditure on Social and Economic Services/Total Expenditure	21.49	20.91	28.17	26.54	23.48
Buoyancy of TE with RR	**	0.94	2.07	0.45	0.49
Buoyancy of RE with RR	0.81	(-4.01)	1.12	0.77	0.88
<b>III. Management of Fiscal Imbalances</b>					
Revenue Surplus ( <i>Rupees in crore</i> )	197.90	160.25	168.91	196.76	228.98
Fiscal Deficit ( <i>Rupees in crore</i> )	(-) 9.86	(-)50.26	(-)185.55	(-)148.83	(-)96.86
Primary Deficit (-)/Surplus (+) ( <i>Rupees in crore</i> )	(+) 79.67	(+)42.24	(-) 86.36	(-)46.23	(+)18.41
Revenue Deficit/ Fiscal Deficit	\$	\$	\$	\$	\$
<b>IV. Management of Fiscal Liabilities (FL)</b>					
Fiscal Liabilities/GSDP	68.00	67.60	69.10	74.92	72.73
Fiscal Liabilities/RR	95.56	107.51	109.47	124.14	123.33
Buoyancy of FL with RR	0.44	0.54	(-)14.50	2.90	0.93
Buoyancy of FL with OR <sup>^</sup>	0.12	(-)0.21	0.07	1.53	0.31
Primary deficit <i>vis-à-vis</i> quantum spread	79.67/ 13.97	42.24/ 18.94	(-)86.36/ 27.57	(-)46.23/ 56.60	18.42/74.79
Net Funds Available	1.15	-	0.99	10.53	2.11
<b>V. Other Fiscal Health Indicators</b>					
Return on Investment	2.53	0.98	1.19	1.38	0.91
BCR ( <i>Rupees in crore</i> )	77.84	(-) 15.64	(-) 101.78	15.77	6.08
Financial Assets/ Liabilities	1.88	1.97	1.13	2.0	2.07

- Rate of growth of Revenue Receipts was negative. \*\* Rate of growth of expenditure was negative. \$ State had a revenue surplus in all these years. ^OR = Own Resources (State's Own Tax + Non-tax Revenue)

The ratio of own taxes to GSDP declined from 8.27 in 2002-03 to 7.30 in 2004-05 but thereafter it has increased sharply to 8.49 during 2006-07. The ratio of revenue and capital expenditure to total expenditure remained largely in the ratio of 1:4 with marginal inter year variations during the period 2002-07 indicating that revenue expenditure continued to share the dominant proportion of the total expenditure of the State during the period. The total expenditure continued to exceed the revenue receipts of the State during the period reflecting the fact that a part of its capital expenditure component is met through the borrowed funds. As result, the State has experienced a situation of fiscal deficit throughout the period despite the fact that it had revenue surplus in all these years. These trends indicate that the fiscal imbalances continued to persist in the State during the period.

The prevalence of revenue surplus and significant decline in fiscal deficit during 2005-06 and 2006-07 along with the positive BCR indicates an improvement in fiscal position of the State. This is also reflected in the declining tendency in

ratios of fiscal liabilities to revenue receipts and GSDP during the current year. The State's insignificant return on investment indicated huge implicit subsidy and utilisation of high cost borrowing for investments that yielded little return continued to be a cause of concern.

### **1.11 Conclusion**

The fiscal health of the State as reflected in terms of trends in key fiscal parameters- RD, FD & PD has shown significant improvement during 2006-07 over the previous year. However, the State finances are heavily dependent on Central transfers, which account for about 71 *per cent* of its revenue receipts and helped the State Government to maintain revenue surplus during the period 2002-07. Although the State had maintained revenue surplus throughout the period 2002-07, fiscal deficit continued to persist primarily on account of the fact that a part of capital expenditure is being financed through borrowed funds during these years. A further analysis of expenditure reveals that the NPRE at Rs 637 crore is significantly higher than the normative assessment of Rs 512 crore for the State for 2006-07. Moreover, its four components, viz. expenditure on salaries, pensions, interest payments and subsidies constituted 96 *per cent* of NPRE during 2006-07. The increasing fiscal liabilities accompanied by a zero rate of return on Government investments and inadequate recovery of cost on loans and advances continued to be cause of concern affecting the fiscal position of the State. The State Government needs to initiate suitable measures to contain the NPRE and to put the resources to productive use as well as to upgrade the quality of social and economic services in ensuing years.