

# CHAPTER I

## FINANCES OF THE STATE GOVERNMENT

The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The Financial Accounts of the Government of Sikkim are laid out in nineteen statements, the structure and lay out of which are depicted in **Appendix 1.1**.

This chapter provides a broad perspective of the finances of the Government of Sikkim during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. **Appendix 1.2** of the chapter briefly outlines the methodology adopted for the assessment of the fiscal position of the State and **Appendix 1.3** presents the time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2004-09.

### 1.1 Summary of Current Year's Fiscal Transactions

**Table 1.1** presents the summary of the State Government's fiscal transactions during the current year (2008-09) vis-à-vis the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as overall fiscal position during the current year.

**Table 1.1: Summary of Current Year's Fiscal Operations**

(Rupees in crore)

| Receipts           |                                  |          | Disbursements |                                  |          |        |          |
|--------------------|----------------------------------|----------|---------------|----------------------------------|----------|--------|----------|
| 2007-08            |                                  | 2008-09  | 2007-08       |                                  | 2008-09  |        |          |
| Section-A: Revenue |                                  |          |               |                                  | Non Plan | Plan   | Total    |
| 2,699.42           | Revenue receipts <sup>1</sup>    | 2,671.25 | 2,348.58      | Revenue expenditure <sup>2</sup> | 1,775.88 | 517.72 | 2,293.60 |
| 197.85             | Tax revenue                      | 199.19   | 1,589.77      | General services <sup>2</sup>    | 1,348.71 | 10.50  | 1,359.21 |
| 1,413.74           | Non-tax revenue <sup>1</sup>     | 1,205.31 | 438.23        | Social services <sup>3</sup>     | 275.83   | 264.41 | 540.24   |
| 345.12             | Share of Union Taxes/ Duties     | 364.20   | 320.58        | Economic services <sup>3</sup>   | 151.34   | 242.81 | 394.15   |
| 742.71             | Grants from Government of India  | 902.55   | —             |                                  |          |        |          |
| Section-B: Capital |                                  |          |               |                                  |          |        |          |
| —                  | Misc. Capital Receipts           | —        | 415.47        | Capital Outlay                   | —        | 611.78 | 611.78   |
| 0.38               | Recoveries of Loans and Advances | 0.38     |               | Loans and Advances disbursed     |          |        | 0.25     |
| 279.64             | Public Debt receipts             | 337.46   | 55.57         | Repayment of Public Debt         |          |        | 76.29    |
| —                  | Contingency Fund                 | —        | —             | Contingency Fund                 | —        | —      | —        |
| 1,899.53           | Public Account receipts          | 2,414.37 | 1,789.75      | Public Account disbursements     |          |        | 2,305.07 |
| 302.17             | Opening Cash Balance             | 571.77   | 571.77        | Closing Cash Balance             |          |        | 708.24   |
| 5,181.14           | Total                            | 5,995.23 | 5,181.14      | Total                            |          |        | 5,995.23 |

<sup>1</sup> Revenue receipts and Non-tax revenue are inclusive of gross receipt (Rs. 957.00 crore) from State Lotteries.

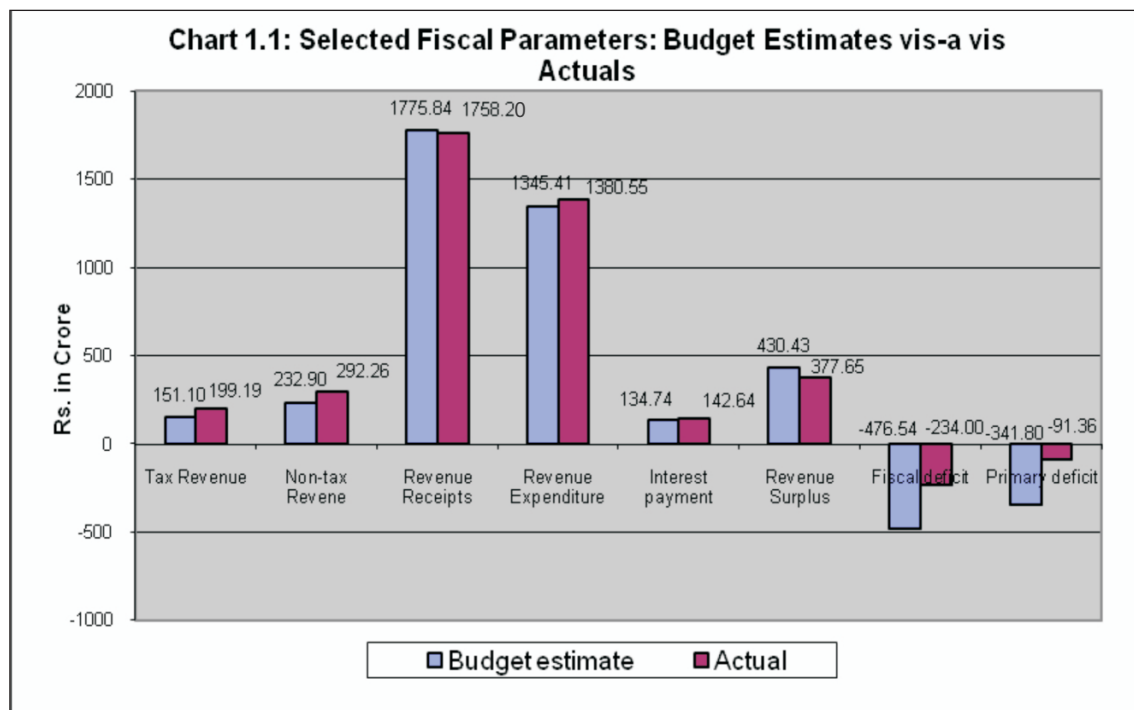
<sup>2</sup> Revenue expenditure and General Services (Non-plan) are inclusive of expenditure (Rs. 913.05 crore) on State Lotteries.

<sup>3</sup> Includes grants-in-aid contribution under Social Services (Rs. 110.26 crore) and Economic Services (Rs. 2.75 crore) aggregating Rs. 113.01 crore.

Following are the significant changes during 2008-2009 over the previous years

- Revenue receipts decreased by Rs. 28.17 crore (1.04 *per cent*) over the previous year. The decrease was mainly contributed by non-tax revenue (Rs. 208.43 crore), which was offset by increase in State's share in Central taxes and duties (Rs. 19.08 crore), grants from Government of India (Rs. 159.84 crore) and tax revenue (Rs. 1.34 crore). The non-tax revenue decreased due to less realisation of receipts from State Lotteries (Rs. 275.55 crore).
- Revenue expenditure decreased by Rs. 54.98 crore (2.34 *per cent*) while Capital expenditure increased by Rs. 196.31 crore (47.25 *per cent*) over the previous year. Decrease of Revenue Expenditure was mainly due to decrease in expenditure on lotteries by Rs. 288.66 crore. However, after netting the expenditure on lotteries there was an increase of revenue expenditure by Rs. 233.68 crore.
- Public debt receipts and its repayments increased by Rs. 57.82 crore (20.68 *per cent*) and Rs. 20.71 crore (37.27 *per cent*) respectively over the previous year.
- Public Account receipts and disbursements increased by Rs. 514.84 crore (27.10 *per cent*) and Rs. 515.33 crore (28.79 *per cent*) respectively over the previous year.
- The total outflow of the Government (Rs. 5,286.99 crore) was less than the total inflow (Rs. 5,423.46 crore) resulting in an increase of Rs. 136.47 crore in the cash balance of the State at the end of the year 2008-09.

**Chart 1.1** presents the budget estimates and actual for some important fiscal parameters.



Revenue receipts fell short of the budget estimates by Rs. 17.64 crore (0.99 *per cent*) and revenue expenditure exceeded the budget estimates by Rs. 35.14 crore (2.61 *per cent*) resulting in decrease in revenue surplus by Rs. 52.78 crore (12.26 *per cent*) over the budgeted level envisaged for 2008-09. Fiscal deficit was lower than budget estimate by Rs. 242.54 crore (49.10 *per cent*).

### Box 1.1: Non enactment of FRBM Act

With enactment of a Fiscal Responsibility and Budget Management Act (FRBM Act) in 2003 at the Centre, the Twelfth Finance Commission (TFC) recommended that each State must enact a fiscal responsibility legislation prescribing specific annual targets with a view to eliminate the revenue deficit by 2008-09 and reducing fiscal deficit based on a path for reduction of borrowings and guarantees. Enacting the fiscal responsibility legislation is a necessary pre-condition for availing of debt relief. The Government of Sikkim has however, not enacted the FRBM Act as of November 2009. According to the Finance, Revenue & Expenditure Department (FRED) of the State, enactment of FRBM Legislation would require the State to reduce fiscal deficit to 3 *per cent* of GSDP and maintain revenue surplus at a certain level. However, due to substantial decrease in Non-Plan Revenue Deficit Grant awarded by the TFC to the State as compared to the award of the Eleventh Finance Commission, the State Government felt that it is very difficult to attain these fiscal targets and therefore, FRBM Act could not be enacted in Sikkim.

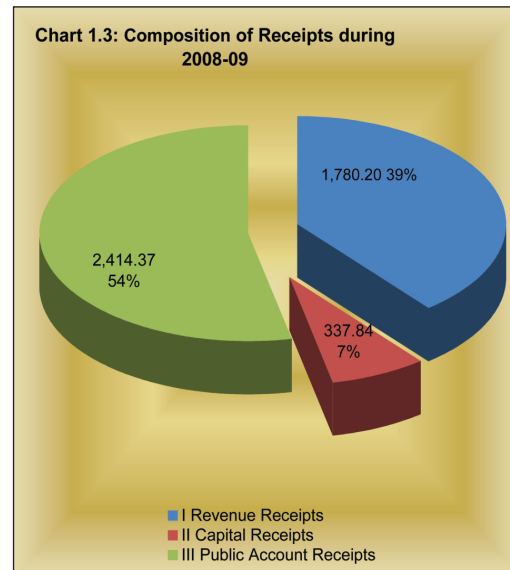
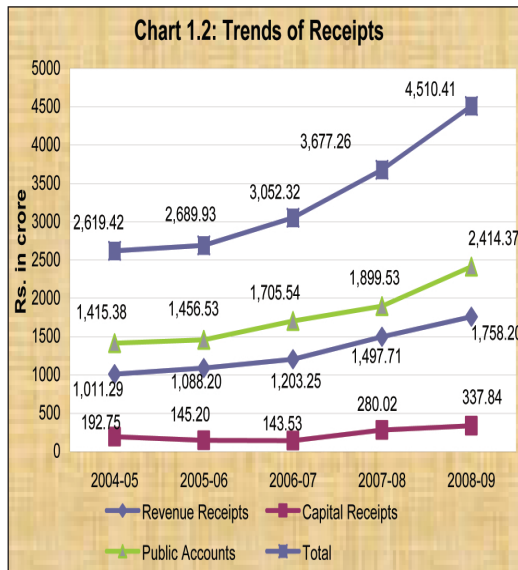
According to the recommendation of TFC, the Central loans to States contracted till 31 March 2004 and outstanding as on 31 March 2005 may be consolidated and re-scheduled for a fresh term of 20 years resulting in repayment of 20 equal instalments at an interest of 7.5 *per cent* per annum. The debt relief on the outstanding balances of Central loan, when re-scheduled as per the recommendation of TFC, would amount to Rs. 10.69 crore on principal and Rs. 33.96 crore on interest payment for the period 2005-10. The State failed to avail this relief due to non- enactment of the legislation.

## 1.2 Resources of the State

### 1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as 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. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts. While **Chart 1.2** depicts the trends in various components of the receipts of the

State during 2004-09, **Chart 1.3** depicts the composition of resources of the State during the current year.



The total receipts of the State during 2008-09 was Rs. 4,510.41 crore as against Rs. 3,677.26 crore during 2007-08, an increase of 23 *per cent*. Of these, the revenue receipts were Rs. 1,758.20 crore, constituting 39 *per cent* of the total receipts. The balance came from capital receipts (7 *per cent*) and receipts from Public Account (54 *per cent*). The capital receipts increased by 21 *per cent* as compared to 2007-08, mainly due to increase in market loan (17 *per cent*). Similarly, Public Account receipts increased by 27 *per cent*, mainly due to increase in Public Works Remittances and PWD & Security Deposit.

- Revenue receipts of the State increased by 73.85 *per cent* from Rs. 1,011.29 crore in 2004-05 to Rs. 1,758.20 crore in 2008-09.
- The tax revenue decreased from 11.56 *per cent* (2004-05) to 11.33 *per cent* (2008-09) of the total revenue receipts and non-tax revenue increased from 11.01 *per cent* in 2004-05 to 16.62 *per cent* in 2008-09 of the total revenue receipts.
- State's share of Union taxes and duties increased from 10.62 *per cent* (2004-05) to 20.72 *per cent* (2008-09) of the total revenue receipts, whereas grants-in-aid from GOI decreased from 66.81 *per cent* (2004-05) to 51.33 *per cent* in 2005-06 and gradually decreased to 69 *per cent* (2008-09) of the total revenue receipts.

### **1.2.2 Funds Transferred to State Implementing Agencies outside the State Budget**

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies<sup>4</sup> for the implementation of various schemes/ programmes in

<sup>4</sup> State Implementing Agencies include Organization/Institution including Non-Governmental Organization which are authorised by the State Government to receive the funds from the Government of India for implementing specific programmes in the State, e.g. State Mission Authority for SSA and State Health Mission for NRHM etc.

social and economic sectors recognized as critical. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated. To present a holistic picture on availability of aggregate resources, funds directly transferred to State Implementing Agencies are presented in **Table 1.2**.

**Table 1.2: Funds Transferred Directly to State Implementing Agencies**

(Rs in crore)

| Programme/Scheme                                                                         | Implementing Agencies in the State                     | 2007-08       | 2008-09       |
|------------------------------------------------------------------------------------------|--------------------------------------------------------|---------------|---------------|
|                                                                                          |                                                        | Central Share | Central Share |
| Grants to ENVIS Centre-2007                                                              | Sikkim State Council of Science and Technology         | 0.06          | 0.10          |
| Micro Hydel Project, Thangu, N. Sikkim                                                   |                                                        | 0.50          | Nil           |
| Ceramic Membrane Based Iron removal Plant                                                |                                                        | 0.01          | Nil           |
| Grants to Secretariat, Sikkim State Council of Science & Technology                      |                                                        | 0.37          | Nil           |
| Sanitation Month Celebration - 2007                                                      |                                                        | 0.02          | Nil           |
| Grants to Sub-DICS-2007                                                                  |                                                        | 0.11          | 0.12          |
| Snow and Glacier Studies Project-2000                                                    |                                                        | 0.01          | Nil           |
| State & District Level Children Science Congress                                         |                                                        | 0.01          | 0.02          |
| National Wetland Inventory and Assessment Project Works                                  |                                                        | 0.04          | Nil           |
| DBT Mission of Quality Planting Materials Production                                     |                                                        | Nil           | 0.27          |
| National Science Day-Feb 2008                                                            |                                                        | 0.03          | Nil           |
| Networking for Wash "Eco-water Literacy Campaign-2008                                    |                                                        | Nil           | 0.02          |
| Vigyan Prasar Edusat Network-NCSTC (Regional Workshop) Sept.2008                         |                                                        | Nil           | 0.01          |
| "Science & Sanitation Month" Celebration - 2008                                          |                                                        | Nil           | 0.03          |
| Organising Two days BTIS net Interactive meeting for N/E Nov.2008                        |                                                        | Nil           | 0.06          |
| 1st International Vegetation Carbon Pol assessment Project                               |                                                        | Nil           | 0.01          |
| Fund to Scientific evaluation of Water purification system                               |                                                        | Nil           | 0.03          |
| Grant to Ecological Studies of Seabuckthron and Genetic Diversity of Frankia Association |                                                        | Nil           | 0.27          |
| National Event of National Children Science Congress - 2006                              |                                                        | 0.07          | Nil           |
| National wide Mapping of land degradation                                                |                                                        | Nil           | 0.01          |
| RCH Flexipool                                                                            | State Health Society                                   | 3.78          | 4.85          |
| NRHM Additionalities                                                                     |                                                        | 39.89         | 11.76         |
| National Aids Control Programme Phase III                                                | Sikkim State Aids Control Society                      | 4.25          | 3.47          |
| Sarva Shiksha Abhiyan                                                                    | Sarva Shiksha Abhiyan State Mission Authority (SSASMA) | 15.80         | 10.75         |

# Audit Report on State Finances for the year ended 31 March 2009

| Programme/Scheme                                                                                                                          | Implementing Agencies in the State                                      | 2007-08       | 2008-09       |
|-------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|---------------|---------------|
|                                                                                                                                           |                                                                         | Central Share | Central Share |
| Incentive for Girl Child                                                                                                                  | Human Resources Development Department                                  | Nil           | 0.17          |
| Border Trade Mart                                                                                                                         | SIDICO                                                                  | 2.82          | 10.79         |
| State Consumer Welfare Fund                                                                                                               | Weights & Measure and Consumer Protection, F&CS & CA Department         | 0.02          | 0.04          |
| Setting up of State Consumer Helpline                                                                                                     |                                                                         | Nil           | 0.22          |
| ASIDE scheme                                                                                                                              | Sikkim Industrial Development & Investment Corporation                  | 8.35          | 8.01          |
| TSC                                                                                                                                       | Sikkim Rural Development Agency                                         | Nil           | 2.55          |
| DRDA                                                                                                                                      |                                                                         | 0.68          | 0.75          |
| IAY                                                                                                                                       |                                                                         | 2.31          | 5.72          |
| SGSY                                                                                                                                      |                                                                         | 1.97          | 0.30          |
| NREGA                                                                                                                                     | Block Development Officer                                               | 8.80          | 41.04         |
| Solar Photovoltaic Programme                                                                                                              | Sikkim Renewable Energy Development Agency                              | 0.77          | 0.46          |
| Solar Thermal Programme(Water Heater)                                                                                                     |                                                                         | 0.07          | 0.10          |
| Micro Hydel Projects                                                                                                                      |                                                                         | 0.07          | 0.05          |
| National Biogas & Manure Management Programme                                                                                             |                                                                         | 0.33          | 0.30          |
| Energy Education Parks                                                                                                                    |                                                                         | 0.50          | 0.15          |
| Wind Solar Hybrid System                                                                                                                  |                                                                         | Nil           | 0.09          |
| Computerization of Finance Department                                                                                                     | Information and Technology Department                                   | 0.80          | 0.37          |
| State Data Centre                                                                                                                         |                                                                         | Nil           | 2.53          |
| Integrated Land Management & Administration Planning                                                                                      |                                                                         | Nil           | 0.75          |
| Capacity Building under JNNURM for implementation of BSUP & IHSDP                                                                         | Urban Development & Housing Deptt.                                      | 0.04          | Nil           |
| Urban Statistics for HR and Assessment (USHA)                                                                                             |                                                                         | Nil           | 0.02          |
| NPCBB                                                                                                                                     | Animal Husbandry, Livestock, Fisheries & Veterinary Services Department | 0.75          | 1.32          |
| IDDP                                                                                                                                      |                                                                         | Nil           | 0.68          |
| Support to State Extension Programme for Extension Reform                                                                                 | Food Security and Agriculture Development Department                    | 0.83          | 0.75          |
| Strengthening & Promoting Agriculture Information system                                                                                  |                                                                         | Nil           | 0.61          |
| Technology Mission Schemes                                                                                                                | Small Farmers' Agri-Business Consortium, Sikkim (SFACS)                 | 28.19         | 30.11         |
| National Bamboo Mission                                                                                                                   | Horticulture & Cash Crop Development                                    | 4.50          | 1.44          |
| UNDP Project on Capacity Building for Access to Information under RTI Act'2005                                                            | Accounts and Administrative Training Institute                          | 0.06          | 0.07          |
| Centrally Sponsored Plan Scheme on strengthening, Capacity Building and awareness generation for effective implementation of RTI Act 2005 |                                                                         | Nil           | 0.05          |
| Project for Capacity Building for Poverty Reduction                                                                                       |                                                                         | Nil           | 0.25          |
| MPLAD                                                                                                                                     | Development Planning, Economic Reform & NE Council Affairs Department   | 4.00          | 6.00          |
| Pradhan Mantri Gram Sadak Yojana                                                                                                          | Sikkim Rural Roads Development Agency                                   | 170.46        | 55.00         |
| <b>Total</b>                                                                                                                              |                                                                         | <b>301.27</b> | <b>202.47</b> |

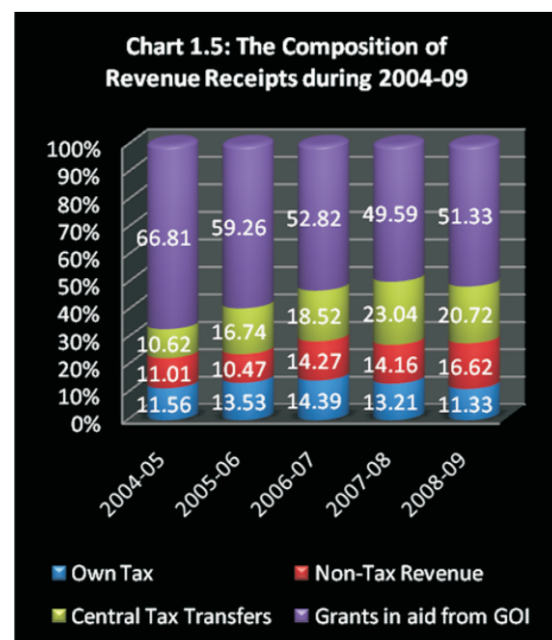
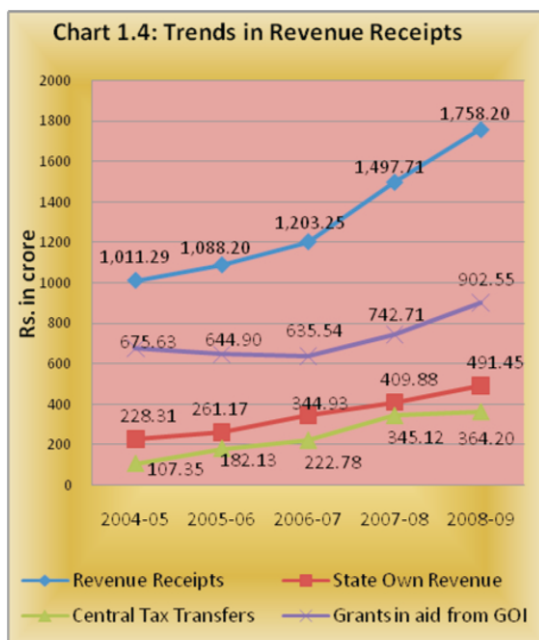
(Source: Information furnished by State Government Departments)

The GOI directly transferred to State Implementing Agencies Rs. 202.47 crore during 2008-09 against the release of Rs. 301.27 crore in 2007-08. The decrease of Rs. 98.80 crore (32.79 per cent) was mainly due to decrease in release of fund under Pradhan Mantri Gram Sadak Yojana (PMGSY). Out of Rs. 202.47 crore the major releases were Rs. 55.00 crore (27.16 per cent) under PMGSY, Rs. 41.04 crore (21.27 per cent) under NREGA and Rs. 30.11 crore (14.87 per cent) to Technological Mission for Horticulture Development. With the transfer of an amount of Rs. 202.47 crore directly by GOI to the State Implementing Agencies, the total availability of State resources during 2008-09 had increased from Rs. 4,510.41 crore to Rs. 4,712.88 crore.

It is evident from the above that there is no single agency monitoring the funds directly transferred by the GOI and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by State Implementing agencies and funded directly by the GOI.

### 1.3 Revenue Receipts

**Statement-11** of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2004-09 are presented in **Appendix 1.3** and also depicted in **Chart 1.4** and **1.5** respectively.



Revenue receipts of the State comprise mainly its own tax, Central tax transfers and grants-in-aid from GOI. Overall revenue receipts and its composition are depicted in **Charts 1.4** and **1.5**.

The revenue receipts have shown a progressive increase over the period 2004-2009. While 28 *per cent* of the revenue receipts during 2008-09 have come from the State's own resources comprising taxes and non-taxes as compared to 23 *per cent* in 2004-05, the share of Central transfers comprising State's share in Central taxes and duties and grants-in-aid from GOI has marginally declined from 77 *per cent* in 2004-05 to 72 *per cent* in 2008-09.

### **1.3.1 State's Own Resources**

As the State's share in central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of central tax receipts and central assistance for plan schemes etc, the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

Sikkim's own tax revenue increased by 0.68 *per cent* from Rs. 197.85 crore in 2007-08 to Rs. 199.19 crore in 2008-09. The revenue from sales tax not only contributed to the major share of tax revenue (51 *per cent*), but also increased by 24 *per cent* (Rs. 19.82 crore) over the previous year. The increase in sales tax revenue over the previous year was mainly due to increase in Value Added Tax (Rs. 21.81 crore) partly counter balanced by decrease in Central Sales tax (Rs. 1.45 crore). While there was increase of State Excise duty (Rs. 8.53 crore) by 22 *per cent* and Other taxes (Rs. 5.92 crore) by 36 *per cent*, taxes on income other than Corporation tax (State Income Tax) and Land Revenue decreased by 67 *per cent* and 29 *per cent* respectively. Decrease on taxes on income other than Corporation tax (State Income Tax) was due to abolition of State Income Tax as a result of implementation of Central Income Tax Act 1962 wef 16 June 2008. It may be mentioned that before the implementation of Central Income Tax in Sikkim, income earned in the State was being taxed under the Sikkim Income Tax Manual 1948.

The non-tax revenue, which constituted 17 *per cent* of total revenue receipts, has increased by Rs. 80.23 crore from Rs. 212.03 crore in 2007-08 to Rs. 292.26 crore in 2008-09 recording a growth rate of 38 *per cent* over the previous year. The major contributors to non tax receipts of the State in 2008-09 include receipts from power (Rs. 154.74 crore) and net receipts from lotteries (Rs. 43.96 crore). The increase in non tax receipts during 2008-09 (Rs. 80.23 crore) was mainly due to increase in receipts under power sector (Rs. 57.08 crore), net receipts from lotteries (Rs. 13.12 crore) interest receipts (Rs. 10.84 crore), Minor Irrigation (Rs. 1.22 crore) and other components. The increase was however, mainly offset by decrease in receipt under Police (Rs. 2.95 crore).

The gross collection in respect of major taxes and duties as well as the components of non-tax receipts vis-à-vis budget estimates, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2004-05 to 2008-09 are given in **Tables 1.3, 1.4 and 1.5** below.

Table 1.3: Tax and Non Tax Revenue collected during 2004-09

(Rupees in crore)

| Sl. No. | Head of Revenue                                    | 2004-05       | 2005-06       | 2006-07       | 2007-08       | 2008-09       | Percentage of increase (+)/ decrease (-) in 2008-09 over 2007-08 |
|---------|----------------------------------------------------|---------------|---------------|---------------|---------------|---------------|------------------------------------------------------------------|
|         | <b>Tax Revenue</b>                                 |               |               |               |               |               |                                                                  |
| 1       | Sales tax                                          | 48.18         | 56.65         | 74.66         | 81.32         | 101.14        | (+) 24.37                                                        |
| 2       | Taxes on income other than corporation tax         | 29.09         | 47.82         | 46.71         | 49.10         | 16.16         | (-) 67.09                                                        |
| 3       | State excise                                       | 32.69         | 32.96         | 33.31         | 37.94         | 46.47         | (+) 22.48                                                        |
| 4       | Stamps and registration fees                       | 1.43          | 2.27          | 2.52          | 4.26          | 4.35          | (+) 2.11                                                         |
| 5       | Taxes on vehicles                                  | 3.24          | 4.24          | 5.95          | 6.22          | 6.94          | (+) 11.58                                                        |
| 6       | Other taxes and duties on commodities and services | 1.88          | 2.68          | 9.25          | 16.26         | 22.18         | (+) 36.41                                                        |
| 7       | Land revenue                                       | 0.44          | 0.61          | 0.78          | 2.75          | 1.95          | (-) 29.09                                                        |
|         | <b>Total</b>                                       | <b>116.95</b> | <b>147.23</b> | <b>173.18</b> | <b>197.85</b> | <b>199.19</b> |                                                                  |
|         | <b>Non-Tax Revenue</b>                             |               |               |               |               |               |                                                                  |
| 1       | Interest receipts                                  | 8.03          | 6.31          | 5.34          | 15.10         | 25.94         | (+) 71.79                                                        |
| 2       | Road transport                                     | 21.52         | 13.67         | 14.86         | 15.62         | 17.64         | (+) 12.93                                                        |
| 3       | Plantations                                        | 1.63          | 2.01          | 1.95          | 2.10          | 2.35          | (+) 11.90                                                        |
| 4       | Dividends & profits                                | 0.92          | 1.14          | 0.76          | 0.68          | 1.31          | (+) 92.65                                                        |
| 5       | Forestry and wild life                             | 7.92          | 9.97          | 9.50          | 10.95         | 11.26         | (+) 2.83                                                         |
| 6       | Tourism                                            | 0.78          | 0.81          | 0.87          | 1.18          | 2.11          | (+) 78.81                                                        |
| 7       | Crop husbandry                                     | 0.31          | 0.36          | 0.50          | 1.64          | 0.71          | (-) 56.71                                                        |
| 8       | Power                                              | 21.41         | 28.00         | 58.16         | 97.66         | 154.74        | (+) 58.45                                                        |
| 9       | Printing & stationery                              | 1.07          | 1.65          | 1.69          | 1.98          | 1.50          | (-) 24.24                                                        |
| 10      | Medical and public health                          | 0.98          | 0.91          | 0.60          | 1.14          | 0.96          | (-) 15.79                                                        |
| 11      | Village & small industries                         | 0.08          | 0.14          | 0.10          | 0.23          | 0.08          | (-) 65.22                                                        |
| 12      | Public works                                       | 2.46          | 3.09          | 3.74          | 4.32          | 4.97          | (+) 15.05                                                        |
| 13      | Police                                             | 4.38          | 14.14         | 13.90         | 14.64         | 11.68         | (-) 20.22                                                        |
| 14      | Animal husbandry                                   | 0.31          | 0.41          | 0.39          | 0.43          | 0.30          | (-) 30.23                                                        |
| 15      | Industries                                         | 0.01          | 0.19          | 0.02          | 0.01          | 0.25          | (+) 2,400.00                                                     |
| 16      | State Lotteries#                                   | 31.16         | 22.19         | 50.01         | 30.84         | 43.95         | (-) 42.51                                                        |
| 17      | Others                                             | 8.39          | 8.95          | 9.36          | 13.51         | 12.51         | (-) 7.40                                                         |
|         | <b>Total</b>                                       | <b>111.36</b> | <b>113.94</b> | <b>171.75</b> | <b>212.03</b> | <b>292.26</b> |                                                                  |

# Net amount

The reason for variation in Income tax was due to less realisation of taxes on income levied under State law due to implementation of Central Income Tax Act 1961 and the variation under State lotteries was due to sudden closure of two digit lotteries.

### 1.3.2 Variations between the budget estimates and actual

The variations between the budget estimates (BE) and actual of revenue receipts for the year 2008-09 in respect of the principal heads of tax and non-tax revenue are mentioned below:

**Table 1.4: Budget estimates and actual**

(Rupees in crore)

| Sl. No. | Head of revenue                                    | BE            | Actuals       | Variations excess (+)/ shortfall(-) | Percentage of variation |
|---------|----------------------------------------------------|---------------|---------------|-------------------------------------|-------------------------|
| A       | Tax revenue                                        |               |               |                                     |                         |
| 1.      | Sales tax                                          | 56            | 101.14        | (+) 45.14                           | (+) 80.61               |
| 2.      | State excise                                       | 30.5          | 46.47         | (+) 15.97                           | (+) 52.36               |
| 3.      | Other taxes and duties on commodities and services | 14.86         | 22.18         | (+) 7.32                            | (+) 49.26               |
| 4.      | Taxes on vehicles                                  | 4             | 6.94          | (+) 2.94                            | (+) 73.50               |
| 5.      | Stamps and registration                            | 2.33          | 4.35          | (+) 2.02                            | (+) 86.70               |
| 6.      | Other taxes on income and expenditure.             | 42.3          | 16.16         | (-) 26.14                           | (-) 61.80               |
| 7.      | Land Revenue                                       | 1.11          | 1.95          | (+) 0.84                            | (+) 75.68               |
|         | <b>Total</b>                                       | <b>151.10</b> | <b>199.19</b> |                                     |                         |
| B       | Non-tax revenue                                    |               |               |                                     |                         |
| 8       | Miscellaneous general services                     | 30.04         | 43.96         | (+) 13.92                           | (+) 46.34               |
| 9       | Power                                              | 146           | 154.74        | (+) 8.74                            | (+) 5.99                |
| 10      | Police                                             | 16.3          | 11.68         | (-) 4.62                            | (-) 28.34               |
| 11      | Road transport                                     | 14            | 17.64         | (+) 3.64                            | (+) 26.00               |
| 12      | Forestry and wildlife                              | 8             | 11.26         | (+) 3.26                            | (+) 40.75               |
| 13      | Interest receipts                                  | 3.07          | 25.94         | (+) 22.87                           | (+) 744.95              |
| 14      | Public works                                       | 2.04          | 4.97          | (+) 2.93                            | (+) 143.63              |
| 15      | Other administrative services                      | 1.64          | 2.55          | (+) 0.91                            | (+) 55.49               |
| 16.     | Water supply and sanitation                        | 2.25          | 2.58          | (+) 0.33                            | (+) 14.67               |
| 17.     | Public Service Commission                          | 0.0001        | 0.05          | (+) 0.0499                          | (+) 49,900.00           |
| 18.     | Medical and Public Health                          | 0.5           | 0.96          | (+) 0.46                            | (+) 92.00               |
| 19.     | Tourism                                            | 1.23          | 2.11          | (+) 0.88                            | (+) 71.54               |
| 20.     | Dividends and profits                              | 0.75          | 1.31          | (+) 0.56                            | (+) 74.67               |
| 21.     | Urban Development                                  | 0.74          | 1.6           | (+) 0.86                            | (+) 116.22              |
| 22.     | Education, Sports, Art and Culture                 | 0.67          | 1.79          | (+) 1.12                            | (+) 167.16              |
| 23.     | Contributions and recoveries towards pension       | 0.02          | 0.19          | (+) 0.17                            | (+) 850.00              |
| 24.     | Housing                                            | 0.36          | 0.27          | (-) 0.09                            | (-) 25.00               |
| 25.     | Information and Publicity                          | 0.08          | 0.25          | (+) 0.17                            | (+) 212.50              |
| 26.     | Other Social Services                              | 0.02          | 0.07          | (+) 0.05                            | (+) 250.00              |
| 27.     | Crop Husbandry                                     | 0.34          | 0.71          | (+) 0.37                            | (+) 108.82              |
| 28.     | Animal Husbandry                                   | 0.4           | 0.3           | (-) 0.1                             | (-) 25.00               |
| 29.     | Fisheries                                          | 0.02          | 0.01          | (-) 0.01                            | (-) 50.00               |
| 30.     | Plantations                                        | 2.2           | 2.35          | (+) 0.15                            | (+) 6.82                |
| 31.     | Food storage and warehousing                       | 0.06          | 0.07          | (+) 0.01                            | (+) 16.67               |
| 32.     | Cooperation                                        | 0.0002        | 0.005         | (+) 0.0048                          | (+) 2,400.00            |
| 33.     | Other Rural Development Programme                  | 0.1           | 1.24          | (+) 1.14                            | (+) 1,140.00            |
| 34.     | Minor Irrigation                                   | 0.1           | 1.38          | (+) 1.28                            | (+) 1,280.00            |
| 35.     | Village and Small Industries                       | 0.15          | 0.08          | (-) 0.07                            | (-) 46.67               |
| 36.     | Labour and Employment                              | 0.08          | 0.24          | (+) 0.16                            | (+) 200.00              |
| 37.     | Industries                                         | 0.17          | 0.25          | (+) 0.08                            | (+) 47.06               |
| 38.     | Stationery and Printing                            | 1.4           | 1.5           | (+) 0.1                             | (+) 7.14                |
| 39.     | Non-Ferrous, Mining & Metallurgical Industries     | 0.09          | 0.1           | (+) 0.01                            | (+) 11.11               |
| 40.     | Other Social Security and Welfare Programme.       | 0.01          | 0.01          | 0                                   | 0                       |
| 41.     | Other General Economic Services                    | 0.07          | 0.09          | (+) 0.02                            | (+) 28.57               |
|         | <b>Total</b>                                       | <b>232.90</b> | <b>292.26</b> |                                     |                         |

The large variations under most of the heads point to the need for framing of budget estimates on a realistic basis.

### 1.3.3 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2006-07, 2007-08 and 2008-09 along with the relevant all India average percentage of expenditure on collection to gross collection for 2007-08 was as follows :

**Table 1.5: Cost of collection**

(Rupees in crore)

| Sl. No. | Head of revenue   | Year    | Collection | Expenditure on collection of revenue | Percentage of expenditure on collection | All India average percentage for the year 2007-08 |
|---------|-------------------|---------|------------|--------------------------------------|-----------------------------------------|---------------------------------------------------|
| 1.      | Sales tax         | 2006-07 | 74.66      | 1.57                                 | 2.10                                    | 0.83                                              |
|         |                   | 2007-08 | 81.32      | 1.72                                 | 2.12                                    |                                                   |
|         |                   | 2008-09 | 101.14     | 1.95                                 | 1.93                                    |                                                   |
| 2.      | State excise      | 2006-07 | 33.31      | 1.90                                 | 5.70                                    | 3.27                                              |
|         |                   | 2007-08 | 37.94      | 1.97                                 | 5.19                                    |                                                   |
|         |                   | 2008-09 | 46.46      | 2.36                                 | 5.08                                    |                                                   |
| 3.      | Taxes on vehicles | 2006-07 | 5.95       | 0.56                                 | 9.41                                    | 2.58                                              |
|         |                   | 2007-08 | 6.22       | 0.60                                 | 9.65                                    |                                                   |
|         |                   | 2008-09 | 6.94       | 0.77                                 | 11.10                                   |                                                   |

Thus, the percentage of expenditure on collection during 2008-09 as compared to the corresponding all India average percentage for 2007-08 was high in the cases of sales tax, state excise and taxes on vehicles which the Government needs to look into.

The position with regard to mobilisation of the State's own resources in 2008-09 vis-à-vis projections made by TFC and the State Government in its Budget is as under:

**Table 1.6: Mobilisation of own resources**

(Rupees in crore)

| Year 2007-08          | Assessment of TFC | Budget Estimate | Actual | Percentage Change over |       |
|-----------------------|-------------------|-----------------|--------|------------------------|-------|
|                       |                   |                 |        | TFC Projection         | BE    |
| Tax Revenue (own tax) | 179.29            | 151.10          | 199.19 | 11.10                  | 31.83 |
| Non-tax Revenue       | 104.94            | 232.90          | 292.26 | 178.50                 | 25.49 |

**Table 1.6** reveals that the actual revenue receipts exceeded both the BE as well as the normative assessment by the TFC.

### **1.3.4 Central Tax Transfers**

The State's share in Union taxes and duties stood at Rs. 364.20 crore, an increase of Rs. 19.08 crore over the previous year mainly due to increase in the State's share in corporation tax (Rs. 9.77 crore); income tax (Rs. 1.50 crore); custom duties (Rs. 4.40 crore); service tax (Rs. 4.95 crore), which was counterbalanced by decrease in excise duties (Rs. 1.53 crore). With effect from 2007-08, the State was given its share of income tax in pursuance of the amendment to the Income Tax Act, 1961.

### **1.3.5 Grants-in-aid**

The grants-in-aid increased by Rs. 159.84 crore (22 *per cent*) from Rs. 742.71 crore in 2007-08 to Rs. 902.55 crore in 2008-09 mainly due to increase in grants for State plan schemes (Rs. 180.01 crore), Centrally Sponsored Schemes (Rs. 7.84 crore). This was counterbalanced by decrease in Non Plan grants (Rs. 20.40 crore), special plan schemes (Rs. 7.30 crore) and Grants for Central Plan Schemes (Rs. 0.31 crore).

Grants for State Plan Schemes increased during 2008-09 mainly due to receipt of more Central assistance under Upgradation and Special Problem Grants recommended by 12th Finance Commission (Rs. 50.00 crore), Block grants (Rs. 115.00 crore) which includes Basic Service to urban poor under JNNURM, Backward Region Grant Fund, Accelerated Irrigation Benefit Programme and Grants under Non-Lapsable Pool of Central Resources (Rs. 15 crore). Non Plan Grants decreased mainly due to decrease in grant under the Constitution (Distribution of Revenue Order) (Rs. 30.92 crore) which was counter balanced by increase in grant for Local Bodies recommended by the 12<sup>th</sup> Finance Commission (Rs. 9.10 crore).

### **1.3.6 Trends in revenue receipts**

The trends in revenue receipts relative to GSDP are presented in **Table 1.7** below :

**Table 1.7: Trends in Revenue Receipts relative to GSDP**

|                                                      | 2004-05  | 2005-06  | 2006-07  | 2007-08  | 2008-09  |
|------------------------------------------------------|----------|----------|----------|----------|----------|
| Revenue Receipts (RR) (Rupees in crore)              | 1,011.29 | 1,088.20 | 1,203.25 | 1,497.71 | 1,758.20 |
| Rate of growth of RR ( <i>per cent</i> )             | 12.49    | 7.61     | 10.57    | 24.47    | 17.39    |
| R R/GSDP ( <i>per cent</i> )                         | 63.12    | 59.46    | 58.13    | 63.65    | 67.31    |
| Buoyancy Ratios <sup>5</sup>                         |          |          |          |          |          |
| Revenue Buoyancy w.r.t GSDP                          | 1.04     | 0.54     | 0.81     | 1.92     | 1.27     |
| State's Own Tax Buoyancy w.r.t GSDP                  | 0.69     | 1.82     | 1.34     | 1.04     | 0.05     |
| Revenue Buoyancy with reference to State's own taxes | 1.51     | 0.29     | 0.60     | 1.72     | 25.68    |

<sup>5</sup> Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one per cent.

The Revenue Receipts of the State grew by 17.39 *per cent* during 2008-09 over the previous year. As seen from the above table Revenue Buoyancy was more than one during 2004-05 (1.04), 2007-08 (1.92) and 2008-09 (1.27). State's Own Tax buoyancy which was more than one during the last three years recorded only 0.05 during current year. This indicates that with every one *per cent* increase in GSDP, Revenue Receipts increased by 1.27 *per cent* and State's own taxes increased only by 0.05 *per cent* in 2008-09.

### 1.3.7 Revenue Arrears

The arrears of revenue as on 31 March 2009 in respect of some principal heads of revenue as furnished by the departments amounted to Rs. 25.35 crore of which Rs. 10.33 crore was outstanding for more than five years as mentioned in the following table:

**Table 1.8: Revenue Arrears**

(Rupees in crore)

| Sl. No. | Head of revenue                               | Amount outstanding as on 31 March 2009 | Amount outstanding for more than five years as on 31 March 2009 |
|---------|-----------------------------------------------|----------------------------------------|-----------------------------------------------------------------|
| 1.      | Road transport (SNT)                          | 1.90                                   | Nil                                                             |
| 2.      | Sales tax                                     | 0.65                                   | 0.20                                                            |
| 3.      | Income tax                                    | 8.23                                   | 7.58                                                            |
| 4.      | Police                                        | 11.27                                  | Nil                                                             |
| 5       | Non Ferrous Mining & Metallurgical Industries | 3.30                                   | 2.55                                                            |
|         | <b>Total</b>                                  | <b>25.35</b>                           | <b>10.33</b>                                                    |

## 1.4 Application of Resources

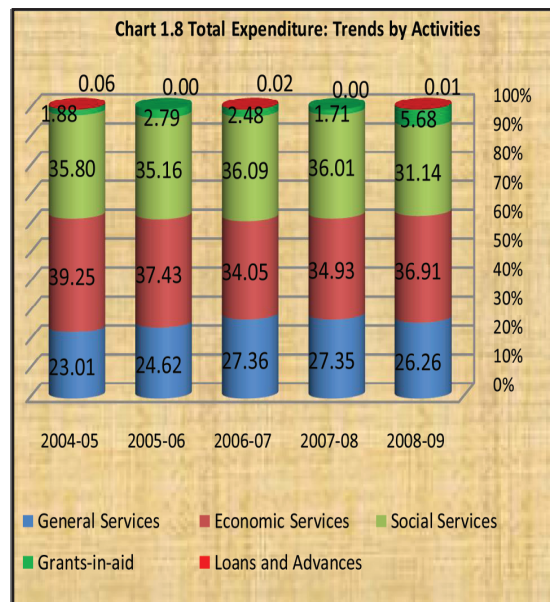
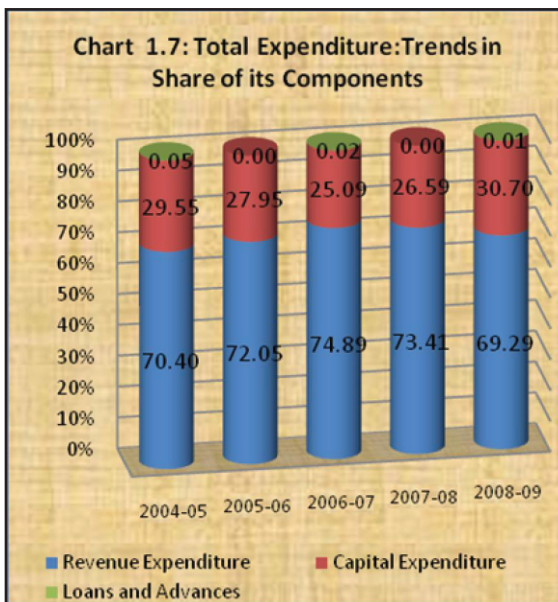
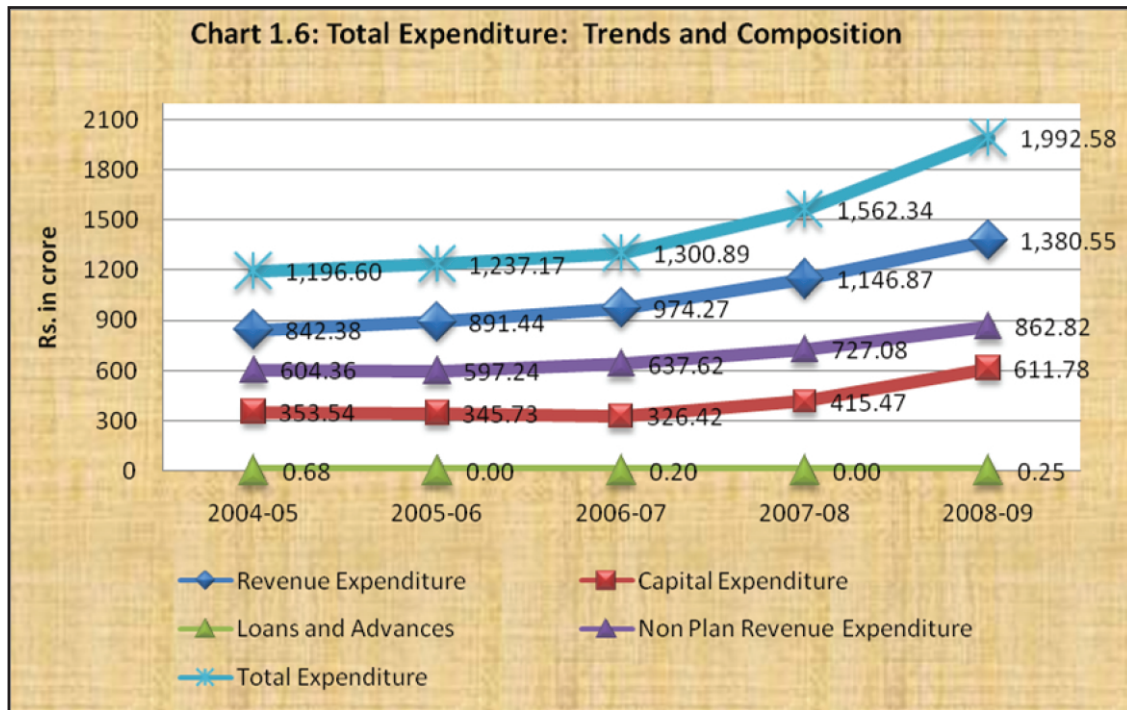
Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is therefore important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

### 1.4.1 Growth and Composition 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. **Chart 1.6** presents the trends of total expenditure over a period of five years (2004-09) and its composition both in terms of

'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7 and 1.8**.

The total expenditure of the State has increased by 28 *per cent* from Rs. 1,562.34 crore in 2007-08 to Rs. 1,992.58 crore in 2008-09.



Total expenditure of Rs. 1,196.60 crore in 2004-05 increased to Rs. 1,992.59 crore in 2008-09. In relative terms, the revenue and capital components have increased by 63.89 *per cent*

and 73.04 *per cent* respectively during the period 2004-09. However, in absolute terms, increase was of the order of Rs. 538.17 crore in revenue expenditure and Rs. 258.24 crore in capital outlay during 2008-09 as compared to 2004-05. This trend indicates that the increase in capital and revenue expenditure was in the ratio of 1:2 during the last 5 year period. An increase of Rs. 430.25 crore in total expenditure (27.54 *per cent*) during 2008-09 over the previous year was mainly due to increase of Rs. 233.69 crore, Rs. 196.31 crore and Rs. 0.25 crore in revenue expenditure, capital expenditure and disbursement of loans and advances respectively. The increase of Rs. 233.68 crore in revenue expenditure in 2008-09 over 2007-08 was due to increase of Rs. 58.10 crore (14.97 *per cent*) on General Services mainly towards Council of Ministers, Administration of Justice, Training and Other Administrative Services, Rs. 73.57 crore (22.95 *per cent*) on Economic Services mainly towards Dairy Development, Crop Husbandry and Land Reforms and Rs. 102.01 crore (23.28 *per cent*) on Social Services mainly towards Water Supply Sanitation, Housing and Urban Development, Labour and Labour Welfare. The increase of Rs. 196.31 crore in capital outlay was due to increase on Economic Services (Rs. 103.33 crore) mainly on account of Transport, Irrigation and Flood Control, Industry and Minerals, General Services (Rs. 37.85 crore) major components of which were Public Works and Social Services (Rs. 55.12 crore), mainly due to increase in Medical and Public Health, Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes. During the current year, 88.24 *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 0.50 in 2008-2009 indicating a tendency to spend more than the increase in income and higher elasticity of total expenditure with respect to GSDP.

Revenue expenditure had predominant share in total expenditure. Revenue expenditure increased to maintain the current level of services and payment for the past obligation and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure of the State increased by 63.89 *per cent* from Rs. 842.38 crore in 2004-05 to Rs. 1,380.55 crore in 2008-09 and *also* increased by 20.38 *per cent* from Rs. 1,146.87 crore in 2007-08 to Rs. 1,380.55 crore in 2008-09. *A comparative position of Non-Plan Revenue Expenditure (NPRE) vis-a vis assessment made by TFC revealed that NPRE was Rs. 243.06 crore (39.21 per cent) more than the assessment made by TFC.* The Plan Revenue Expenditure increased by Rs. 97.94 crore from Rs. 419.79 crore in 2007-08 to Rs. 517.73 crore in 2008-09.

The ratio of NPRE to GSDP remained constant at 33 *per cent* during 2004-09. The buoyancy of NPRE to GSDP increased from 1.11 in 2007-08 to 1.37 in 2008-09.

#### **1.4.2 Committed Expenditure**

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.9**

and **Chart 1.9** present the trends in the expenditure on these components during 2006-09.

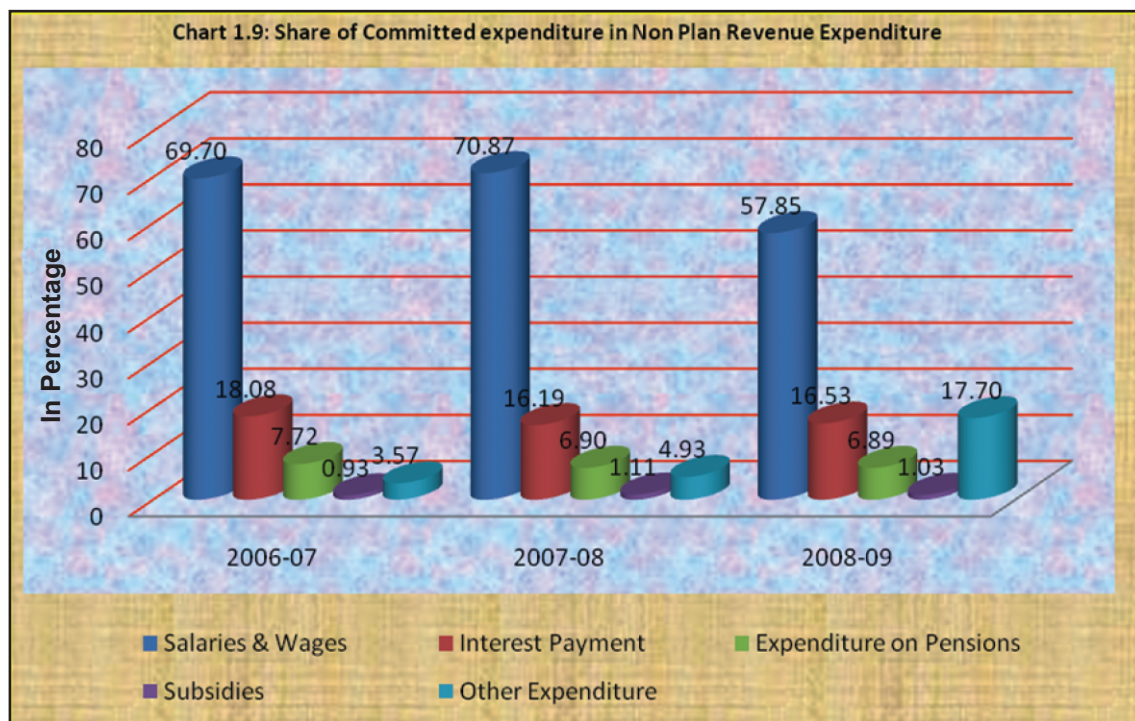
**Table 1.9: Components of Committed Expenditure**

(Rupees in crore)

| Components of Committed Expenditure    | 2006-07           | 2007-08           | 2008-09       |                   |
|----------------------------------------|-------------------|-------------------|---------------|-------------------|
|                                        |                   |                   | BE            | Actuals           |
| Salaries & Wages, Of which             | 444.42<br>(69.70) | 515.28<br>(70.87) | 418.98        | 499.16<br>(57.85) |
| Non-Plan Head                          | 332.97            | 373.07            | 310.51        | 358.62            |
| Plan Head**                            | 111.45            | 142.21            | 108.47        | 140.54            |
| Interest Payments                      | 115.27<br>(18.08) | 117.74<br>(16.19) | 134.74        | 142.64<br>(16.53) |
| Expenditure on Pensions                | 49.24<br>(7.72)   | 50.19<br>(6.90)   | 54.65         | 59.45<br>(6.89)   |
| Subsidies                              | 5.91<br>(0.93)    | 8.08<br>(1.11)    | 9.41          | 8.93<br>(1.03)    |
| <b>Total :</b>                         | <b>614.84</b>     | <b>691.29</b>     | <b>617.78</b> | <b>710.18</b>     |
| <b>As per cent of Revenue Receipts</b> |                   |                   |               |                   |
| Salaries & Wages                       | 36.93             | 34.40             |               | 28.39             |
| Interest Payments                      | 9.58              | 7.86              |               | 8.11              |
| Expenditure on Pensions                | 4.09              | 3.35              |               | 3.38              |
| Subsidies                              | 0.49              | 0.54              |               | 0.51              |

Figures in the parenthesis indicate percentage to Non-plan Revenue Expenditure

\*\*Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes



**Salaries & Wages**

Salaries & Wages alone accounted for more than 28 *per cent* of revenue receipts of the State during the year. It decreased by about 3.13 *per cent* from Rs. 515.28 crore in 2007-08 to Rs. 499.16 crore in 2008-09 mainly due to payment of salaries of teachers of Primary and Junior High School through Panchayats. *The expenditure on salaries was 42.36 per cent of the revenue expenditure, net of interest payments and pension as against TFC norm of 35 per cent and constituted 101.56 per cent of own total tax and non tax revenue during 2008-09.*

**Pension payment**

*Pension payments increased by 18.45 per cent from Rs. 50.19 crore in 2007-08 to Rs. 59.45 crore in 2008-09 which is more than the projection of Rs. 46.05 crore made by TFC.* Pension payment accounted for 3.38 *per cent* of revenue receipts and 4.30 *per cent* of total revenue expenditure. The Government has introduced a contributory pension for employees recruited on or after 2006 to mitigate the impact of rising pension liabilities in future.

**Interest payments**

Interest payment increased by 21.14 *per cent* from Rs. 117.74 crore in 2007-08 to Rs. 142.64 crore in 2008-09. The interest payments of Rs. 142.64 crore in 2008-09 pertained to internal debt (Rs. 92.60 crore), loans received from Central Government (Rs. 23.04 crore) and Small Savings, Provident Fund, etc. (Rs. 27.00 crore). *The interest payment during 2008-09 although exceeded the normative projections of TFC (Rs. 110.18 crore) but relative to revenue receipts at 8.11 per cent remained well within the norms of 15 per cent recommended by the TFC.*

**Subsidies**

The State Government paid subsidies to the extent of Rs. 5.91 crore in 2006-07, Rs. 8.08 crore in 2007-08 and Rs. 8.93 crore in 2008-09 on the various components like co-operation and food subsidies. During 2008-09, subsidy of Rs. 6.67 crore was paid on Food subsidies and Rs. 2.02 crore on marketing and quality control under Other Agricultural Programme.

**1.4.3 Financial Assistance by State Government to local bodies and other institutions**

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.10**.

**Table 1.10: Financial assistance to Local Bodies etc**

(Rupees in crore)

| Financial Assistance to Institutions                                         | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |        |
|------------------------------------------------------------------------------|---------|---------|---------|---------|---------|--------|
|                                                                              |         |         |         |         | BE      | Actual |
| Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.) | 1.35    | 1.05    | 0.93    | 0.81    | 1.24    | 0.76   |
| Zilla Parishads and Other Panchayati Raj Institutions                        | 6.91    | 21.77   | 24.96   | 24.13   | 113.19  | 110.85 |
| Cooperative societies                                                        | 2.65    | 0.96    | 1.12    | 1.36    | 0.50    | 0.53   |
| Other Institutions (Housing Board etc.)                                      | 11.64   | 10.78   | 4.97    | 0.44    | 1.12    | 0.87   |
| Total                                                                        | 22.55   | 34.56   | 31.98   | 26.74   | 116.05  | 113.01 |
| Assistance as per percentage of RE                                           | 2.68    | 3.88    | 3.28    | 2.33    |         | 8.19   |

The total assistance at the end of the year 2008-09 had increased by 322.62 *per cent* over the level of 2007-08 mainly due to the increase in assistance to Zilla Parishads and Other Panchayati Raj Institutions as the establishment expenses including salaries (Rs. 106.64 crore) of Lower Primary Schools and Junior High Schools was transferred to the Panchyati Raj Institutions as grants- in -aid by the State Government.

## 1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provision for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

### 1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human developmental levels requires the States to step up their expenditure on key social services like, education, health etc. The low level of spending on any sector by a particular State may be either due to low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both working together. The low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective national average while the low fiscal capacity would be reflected if the State's per capita expenditure is below the respective national average even after having a fiscal priority that is more than or equal to the national average. **Table 1.11** analyses the fiscal priority and fiscal capacity of the State Government with regard to developmental expenditure, social sector expenditure and capital expenditure during the

current year.

**Table 1.11: Fiscal Priority and Fiscal capacity of the State in 2005-06 and 2008-09**

| Fiscal Priority by the State                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | AE/GSDP | DE/AE  | SSE/AE | CE/AE |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|--------|--------|-------|
| All States/National Average* (Ratio) 2005-06                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 19.50   | 61.44  | 30.41  | 14.13 |
| Sikkim's Average (Ratio) 2005-06                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 72.04   | 75.34  | 36.14  | 27.97 |
| All States/National Average* (Ratio) 2008-09                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 19.16   | 65.68  | 33.90  | 16.87 |
| Sikkim's Average (Ratio)* 2008-09                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 76.28   | 73.72  | 36.67  | 30.70 |
| Fiscal Capacity of the State                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | DE#     | SSE    | CE     |       |
| All States Average per capita expenditure 2005-06                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 3,010   | 1,490  | 692    |       |
| Sikkim's per capita expenditure (Amount in Rs) in 2005-06                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 18,640  | 8,940  | 6,920  |       |
| Adjusted per capita** expenditure (Amount in Rs) in 2005-06                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | NR      | NR     | NR     |       |
| All States' Average per capita expenditure 2008-09                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 5,030   | 2,520  | 1,254  |       |
| Sikkim's per capita expenditure (Amount in Rs) in 2008-09                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 24,484  | 12,180 | 10,196 |       |
| Adjusted per capita** expenditure (Amount in Rs) in 2008-09                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | NR      | NR     | NR     |       |
| <p>* As per cent to GSDP<br/>** Calculated as per the methodology explained in the Appendix 1.2. Figures of Arunachal Pradesh not included in calculating the All States average.<br/>AE: Aggregate Expenditure DE: Developmental Expenditure SSE: Social Sector Expenditure<br/>CE: Capital Expenditure.<br/>Population of Sikkim: 0.05 crore in 2005-06 and 0.06 crore in 2008-09.<br/># Developmental Expenditure includes Developmental Revenue Expenditure, Developmental Capital Expenditure and Loans and Advances disbursed.<br/>Source : (1) For GSDP, the information was collected from the State's Directorate of Economics, Statistics, Monitoring &amp; Evaluation (2) Population figures were taken from Projection 2001-2026 of the Registrar General &amp; Census Commissioner , India (Website: <a href="http://www.censusindia.gov.in">http://www.censusindia.gov.in</a>) ,<br/>Population = Average of Projected population for 2005 and 2006.<br/>NR = No adjustment required since the State is giving adequate fiscal priority.</p> |         |        |        |       |

**Table 1.11** shows the fiscal priority given by the Sikkim Government to various expenditure heads in 2005-06 (the first year of the Twelfth Finance Commission Award Period) and the current year viz. 2008-09. The Government of Sikkim had a much higher AE / GSDP ratio in both years under consideration compared to the All States Average. This means that Sikkim is spending a much higher proportion of its GSDP as compared to other States. Similarly, the ratio of developmental expenditure, social sector expenditure and capital expenditure as a proportion of aggregate expenditure for Sikkim is also higher than the respective national averages. This indicates that Sikkim is giving adequate fiscal priority to all these categories of expenditure compared to other States.

Further, per capita expenditure in Sikkim is also much higher than the national average because its population base is relatively small compared to other States in India.

### 1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on developmental heads from the point of view of social and economic developmental, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods<sup>6</sup>. Apart from improving the allocation towards developmental expenditure<sup>7</sup>, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.12** presents the trends in developmental expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years, **Table 1.13** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

**Table 1.12: Developmental Expenditure**

(Rupees in crore)

| Components of Developmental Expenditure | 2004-05           | 2005-06           | 2006-07           | 2007-08           | 2008-09  |                     |
|-----------------------------------------|-------------------|-------------------|-------------------|-------------------|----------|---------------------|
|                                         |                   |                   |                   |                   | BE       | Actual              |
| Developmental Expenditure (a to b)      | 919.91<br>(76.88) | 932.53<br>(75.38) | 944.80<br>(72.62) | 1,135<br>(72.65)  | 1,530.53 | 1,469.04<br>(73.72) |
| a. Developmental Revenue Expenditure    | 582.86<br>(48.71) | 604.17<br>(48.84) | 639.44<br>(49.15) | 758.81<br>(48.57) | 967.82   | 934.39<br>(46.89)   |
| b. Developmental Capital Expenditure    | 337.05<br>(28.17) | 328.36<br>(26.54) | 305.36<br>(23.47) | 376.19<br>(24.08) | 562.71   | 534.65<br>(26.83)   |

Figures in parenthesis indicate percentage to aggregate expenditure

Developmental expenditure of Rs. 919.91 crore in 2004-05 increased to Rs. 1,469.04 crore in 2008-09. However, its share in aggregate expenditure decreased from 76.88 per cent to 73.72 per cent during the period. The developmental expenditure was below the level of Budget Estimates for the year. *Non-plan developmental revenue expenditure (SS + ES) of Rs. 427.16 crore was higher than the TFC Projection of Rs. 300.82 crore for the State during 2008-09.*

<sup>6</sup>Core public goods are which all citizens enjoy in common in the sense that each individual's consumption of such goods lead to no subtractions from any other individual's consumption of that goods, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

<sup>7</sup>The analysis of expenditure data is disaggregated into developmental and non developmental expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorised into social services, economic services and general services. Broadly, the social and economic services constitute developmental expenditure, while expenditure on general services is treated as non-developmental expenditure.

**Table 1.13: Efficiency of Expenditure Use in Selected Social and Economic Services***(In per cent)*

| Social/Economic Infrastructure                          | 2007-08           |                     |             | 2008-09           |                     |             |
|---------------------------------------------------------|-------------------|---------------------|-------------|-------------------|---------------------|-------------|
|                                                         | Ratio of CE to TE | In RE, the share of |             | Ratio of CE to TE | In RE, the share of |             |
|                                                         |                   | S & W               | O&M         |                   | S&W                 | O & M       |
| <b>Social Services (SS)</b>                             |                   |                     |             |                   |                     |             |
| General Education                                       | 7.62              | 82.86               | 0.00        | 9.38              | 42.51               | 0.00        |
| Health and Family Welfare                               | 3.40              | 61.01               | 0.51        | 7.40              | 63.22               | 1.28        |
| Water Supply, Sanitation, & Housing & Urban Development | 71.89             | 29.02               | 54.10       | 66.58             | 17.30               | 32.01       |
| Other Social Services                                   | 7.30              | 18.65               | 14.64       | 3.35              | 20.47               | 22.14       |
| <b>Total (SS)</b>                                       | <b>23.61</b>      | <b>61.39</b>        | <b>8.10</b> | <b>26.07</b>      | <b>38.18</b>        | <b>8.66</b> |
| <b>Economic Services (ES)</b>                           |                   |                     |             |                   |                     |             |
| Agri & Allied Activities                                | 5.06              | 39.06               | 0.75        | 5.60              | 39.21               | 0.72        |
| Irrigation and Flood Control                            | 17.21             | 28.99               | 5.40        | 15.31             | 16.33               | 4.48        |
| Power & Energy                                          | 55.51             | 47.31               | 19.14       | 55.44             | 43.49               | 17.74       |
| Transport                                               | 60.54             | 61.29               | 2.36        | 72.21             | 62.06               | 1.97        |
| Other Economic Services                                 | 55.42             | 25.66               | 0.02        | 48.50             | 28.05               | 0.01        |
| <b>Total (ES)</b>                                       | <b>42.89</b>      | <b>40.12</b>        | <b>3.23</b> | <b>46.61</b>      | <b>39.76</b>        | <b>3.17</b> |
| <b>Total (SS+ES)</b>                                    | <b>33.14</b>      | <b>52.48</b>        | <b>6.05</b> | <b>36.39</b>      | <b>38.88</b>        | <b>6.35</b> |

TE: Total Expenditure (CE+RE of the sub-sectors); CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations and Maintenance (includes Repairs and maintenance).

**Table 1.13** depicts the various component-wise percentage of Revenue and Capital expenditure, percentage of expenditure on salary and wages and operation and maintenance cost in relation to revenue expenditure in Social and Economic Services for the years 2007-08 and 2008-09.

The ratio of salary and wages component of expenditure decreased under economic services by 0.36 *per cent* and social services by 23.21 *per cent* as compared to previous year. The decrease however was mainly due to the increase in revenue expenditure which is the denominator in calculating the ratio and the transfer of salaries of Lower Primary Schools and Junior High Schools to the Panchyati Raj Institution as grants-in-aid by the State Government. The ratio of CE to TE and share of O & M of both Social Services and Economic Services had increased as compared to previous year. All these indicate positive trends of expenditure.

### **1.5.3 Effectiveness of the Expenditure, i.e. Outlay-outcome Relationship**

Two performance reviews pertaining to 'Development of Hydro Power Projects-Public Private Participation' and 'Implementations of Irrigation schemes' included in a separate Report of Comptroller and Auditor General of India for the year ended 31 March 2009 highlights the following aspects:

**(i) Development of Hydro Power Projects-Public Private Participation**

*The State Government considered harnessing the huge hydro power potential through private sector investment with a view to turnaround the State's economy and avoid its dependence upon central transfers for development. With the liberalisation of Power policy by the Government of India, the State Government identified 35 hydro power projects with an aggregate installed capacity of 5,741.20 MW and invited the Independent Power Producers (IPPs) for development of projects since 2001-02. Performance audit of Development of Hydro Power Projects by the State Government through Private Sector participation revealed that the State had neither finalised its hydro power policy nor prepared a time bound plan till date for implementation of the projects. Absence of a firm and well defined policy led to inconsistency in award of projects and lack of a well thought of revenue model resulted in loss of potential revenue. Besides, the State also did not take sufficient precaution against degradation of environment.*

*(Paragraph 1.1 of Audit Report 2008-09)*

**(ii) Implementation of Irrigation Schemes**

*Out of a total geographical area of 7,09,600 hectares, the estimated area to be brought under assured irrigation system was 86,000 hectares. As on 1 April 2005, the area under assured irrigation was 23,864.05 hectares and during 2004-09, an additional area of 4,055.30 hectares was brought under assured irrigation. The Department has ensured that implementation of Minor Irrigation Scheme (MIS) in Sikkim did not suffer from any cost overrun. However, performance review indicated that there was absence of positive impact on agricultural productivity, underperformance in the areas of survey, investigation and ensuring supply of water during lean period. There was also loss of revenue due to non imposition of water tax, defunct schemes with consequential unfruitful expenditure, avoidable expenditure due to absence of uniform design specification for channels and unfruitful construction of Minor Irrigation Schemes.*

*(Paragraph 1.2 of Audit Report 2008-09)*

**1.6 Financial Analysis of Government Expenditure and Investments**

Though the State has not enacted a fiscal responsibility legislation it is expected to keep its fiscal deficit (and borrowing) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the

Government during the current year vis-à-vis previous years.

### 1.6.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2009 is given in **Table 1.14**.

**Table 1.14: Department-wise Profile of Incomplete Projects**

(Rs in Crore)

| Department                                   | No. of Incomplete Projects | Initial Budgeted Cost | Revised Total Cost | Cost Over Run | Actual exp as on 31.3.2009 |
|----------------------------------------------|----------------------------|-----------------------|--------------------|---------------|----------------------------|
| Energy and Power Department                  | 18                         | 306.21                | 450.18             | 143.97        | 306.11                     |
| Human Resources Development Department       | 78                         | 77.19                 | 77.19              | -             | 25.44                      |
| Building & Housing Department                | 14                         | 84.34                 | 88.16              | 3.82          | 41.62                      |
| Health Care, Human Services & Family Welfare | 5                          | 6.08                  | 6.08               | -             | 3.03                       |
| Roads and Bridges Department                 | 9                          | 10.08                 | 10.08              | -             | 2.17                       |
| Irrigation and Flood Control Department      | 4                          | 1.86                  | 1.86               | -             | 0.77                       |
| <b>Total</b>                                 | <b>128</b>                 | <b>485.76</b>         | <b>633.55</b>      | <b>147.79</b> | <b>379.14</b>              |

As per the information received from the State Government, there were 128 incomplete projects as on 31 March 2009 in which Rs. 379.14 crore were blocked out of which 68 works were due to be completed within 31 March 2009. The cost of 10 incomplete projects was revised and increased by Rs. 147.79 crore (72.47 *per cent*). Out of the total cost overrun of Rs. 147.79 crore, Rs. 143.97 crore pertained to Energy and Power Department involving 8 works and Rs. 3.82 crore pertained to Building and Housing Department involving two works. Due to delay in completion of the projects, the intended benefits from these projects did not reach the beneficiaries in the State. The main reasons for delay as stated by the departments were natural calamities, non-availability of stock materials, and change of scope of works.

### 1.6.2 Investment and returns

As on 31 March 2009, Government had invested Rs. 85.59 crore in Statutory Corporations, Banks, Joint Stock Companies and Co-operatives (**Table 1.15**). The average return on this investment was 1.08 *per cent* in the last three years while the Government paid an average interest rate of 8.40 *per cent* on its borrowings during 2008-09.

**Table 1.15: Return on Investment**

| Investment/Return/Cost of Borrowings                   | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |        |
|--------------------------------------------------------|---------|---------|---------|---------|---------|--------|
|                                                        |         |         |         |         | BE      | Actual |
| Investment at the end of the year (Rs in crore)        | 77.46   | 82.48   | 83.40   | 83.41   | —       | 85.59  |
| Return (Rs in crore)                                   | 0.92    | 1.14    | 0.76    | 0.68    | 75      | 1.31   |
| Return (per cent)                                      | 1.19    | 1.38    | 0.91    | 0.82    | —       | 1.53   |
| Average rate of interest on Govt borrowing (per cent)  | 9.29    | 9.10    | 8.74    | 8.83    | —       | 8.40   |
| Difference between interest rate and return (per cent) | 8.10    | 7.72    | 7.83    | 8.01    | —       | 6.87   |

As on 31 March 2009, Government invested in three Statutory Corporations viz, SBS, SMC, STCS (Rs. 8.26 crore), 21 Companies viz, Sikkim Time Corporation Limited, Sikkim Industrial Development & Investment Corporation Limited, Sikkim Tourism Development Corporation, Sikkim Jewels Limited etc. (Rs. 65.29 crore) and 8 Bank and Co-operative Societies (Rs. 12.04 crore). The return on these investments were however negligible as most of the statutory corporations/companies and/or co-operative societies were incurring losses. During the year 2008-09 (as per finalised accounts as on 30 September 2009), six PSUs<sup>8</sup> incurred a loss of Rs. 3.50 crore whereas four PSUs<sup>9</sup> earned a profit of Rs. 3.18 crore. Sikkim Power Development Corporation did not prepare a Profit & Loss Account. The working statutory Corporations viz. State Bank of Sikkim and State Trading Corporation of Sikkim earned profit of Rs. 1.72 crore and Rs. 0.62 crore respectively. Sikkim Industrial Development & Investment Corporation Limited (SIDICO) earned a profit of Rs. 0.81 crore. The Sikkim Times Corporation Limited incurred a significant loss of Rs. 2.56 crore.<sup>10</sup>

A performance review on 'Performance of Sikkim Nationalised Transport' included in a separate Report of the Comptroller and Auditor General of India for the year ended 31 March 2009 highlights the following aspects:

<sup>8</sup> Sikkim Poultry Development Corporation, Sikkim Hatcheries Limited, Scheduled Tribe/Scheduled Caste & Other Backward Classes Development Corporation Limited, Sikkim Jewels Limited, Sikkim Time Corporation Limited and Sikkim Precision Limited.

<sup>9</sup> Sikkim Industrial Development & Investment Corporation Limited, Sikkim Tourism Development Corporation Limited, State Bank of Sikkim and State Trading Corporation of Sikkim.

<sup>10</sup> Accounts of Sikkim Time Corporation Limited for the year 2005-06 finalised during the year 2009-10.

### Performance of Sikkim Nationalised Transport

*The Sikkim Nationalised Transport (SNT) provides public transport in the State through its 12 depots. The SNT had fleet strength of 96 buses and 85 trucks & tankers as on 31 March 2009 and carried an average of 0.02 lakh passengers per day during 2004-09. The performance audit of the SNT was conducted to assess efficiency and economy of its operations, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the SNT. It was noticed that the SNT is incurring losses, mainly due to its operational inefficiencies which can be controlled by taking adequate measures to improve the fleet utilisation, creating a regulator to regulate fares and services on uneconomical routes, tapping non-conventional sources of revenue and creation of separate cost centres for buses, trucks and tankers.*

*(Paragraph 1.3 of Audit Report 2008-09)*

### 1.6.3 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/ organizations. **Table 1.16** presents the outstanding loans and advances as on 31 March 2009, interest receipts vis-à-vis interest payments during the last three years.

**Table 1.16: Average Interest Received on Loans Advanced by the State Government**

*(Rupees in crore)*

| Quantum of Loans/Interest Receipts/ Cost of Borrowings                                          | 2006-07  | 2007-08  | 2008-09  |
|-------------------------------------------------------------------------------------------------|----------|----------|----------|
| Opening Balance                                                                                 | 6.08     | 5.50     | 5.12     |
| Amount advanced during the year                                                                 | 0.20     | —        | 0.25     |
| Amount repaid during the year                                                                   | 0.78     | 0.38     | 0.38     |
| Closing Balance                                                                                 | 5.50     | 5.12     | 4.99     |
| Net addition                                                                                    | (-) 0.58 | (-) 0.38 | (-) 0.13 |
| Interest Receipts                                                                               | Nil      | Nil      | Nil      |
| Interest receipts as <i>per cent</i> to outstanding Loans and advances                          | Nil      | Nil      | Nil      |
| Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government. | 7.77     | 6.56     | 6.62     |
| Difference between interest payments and interest receipts ( <i>per cent</i> )                  | 7.77     | 6.56     | 6.62     |

Interest received was “nil” during 2006-09 primarily due to the failure of the statutory corporations/ Government companies/ co-operative societies 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.

#### 1.6.4 Cash Balances and Investment of Cash balances

**Table 1.17** depicts the cash balances and investments made by the State Government out of cash balances during the year.

**Table 1.17: Cash Balances and Investment of Cash balances**

(Rs in crore)

| Particulars                                                       | As on 1 April 2008 | As on 31 March 2009 | Increase/ Decrease |
|-------------------------------------------------------------------|--------------------|---------------------|--------------------|
| Cash Balances                                                     | 61.47              | 83.34               | 21.87              |
| Investments held in Cash Balances (a to d)                        |                    |                     |                    |
| a. GOI Treasury Bills                                             | -                  | -                   | -                  |
| b. GOI Securities                                                 | -                  | -                   | -                  |
| c. Other Securities, if any specify                               | -                  | -                   | -                  |
| d. Other Investments                                              | 386.00             | 495.00              | 109.00             |
| Fund-wise Break-up of Investment from Earmarked balances (a to c) |                    |                     |                    |
| a. Sinking fund                                                   | 90.39              | 102.12              | 11.73              |
| b. Calamity Relief fund                                           | 10.28              | 7.13                | (-)3.15            |
| c. Guarantee Redemption Fund                                      | 5.72               | 7.72                | 2.00               |
| Interest Realized                                                 | 9.70               | 25.60               | 15.90              |

Source: Information furnished by Finance, Revenue and Expenditure Department, Government of Sikkim and Finance Accounts

Under a resolution passed in the year 1968-69, the State Bank of Sikkim<sup>11</sup> has been vested with the responsibility by the Government of Sikkim of receiving money on behalf of Government and making all Government payments and keeping custody of the balances of Government in Current Account as well as in Fixed Deposits that may be made through the branches of Bank. There is a balance of Rs. 81.61 crore with State Bank of Sikkim as on 31 March 2009 as per the record of Office of the Accountant General (Accounts & Entitlement), Sikkim. However, as per the record of the State Bank of Sikkim, the Cash Balance of the Government amounts to Rs. 83.34 crore leaving behind an unreconciled balance of Rs. 1.73 crore.

The efficiency of handling the cash balances by the State can also be assessed by monitoring the trends in monthly daily average of cash balances held by the State to meet its normal banking transactions. **Table 1.18** presents the trends in monthly average daily cash balances and the investments in Auction Treasury Bills for the last three years (2006-09).

<sup>11</sup> 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

**Table 1.18: Trends in Monthly Average Daily Cash Balances and the Investments in Auction Treasury Bills, etc.**

(Rs in crore)

| Month     | Monthly Average Daily Cash Balances |         |         | Investment in other Fixed Deposits etc |         |         |
|-----------|-------------------------------------|---------|---------|----------------------------------------|---------|---------|
|           | 2006-07                             | 2007-08 | 2008-09 | 2006-07                                | 2007-08 | 2008-09 |
| April     | 27.48                               | 20.48   | 20.45   | 75.80                                  | 53.00   | 256.00  |
| May       | 16.97                               | 26.35   | 26.25   | 45.80                                  | 53.00   | 297.50  |
| June      | 30.04                               | 25.04   | 24.88   | 5.80                                   | 78.00   | 327.50  |
| July      | 31.05                               | 20.01   | 26.50   | 98.80                                  | 53.00   | 387.50  |
| August    | 17.96                               | 31.23   | 21.00   | 100.80                                 | 90.00   | 382.50  |
| September | 32.18                               | 28.01   | 31.11   | 40.80                                  | 232.11  | 372.50  |
| October   | 29.30                               | 27.72   | 34.21   | 35.80                                  | 227.11  | 256.50  |
| November  | 26.70                               | 20.54   | 32.23   | 110.80                                 | 227.11  | 285.00  |
| December  | 22.91                               | 18.77   | 29.91   | 105.80                                 | 272.11  | 649.00  |
| January   | 33.47                               | 44.29   | 22.68   | 110.80                                 | 267.11  | 604.00  |
| February  | 33.78                               | 29.97   | 14.85   | 160.80                                 | 398.11  | 609.00  |
| March     | 56.83                               | 29.20   | 29.21   | 153.00                                 | 386.00  | 495.00  |

Source: Information furnished by Finance, Revenue and Expenditure Department, Government of Sikkim

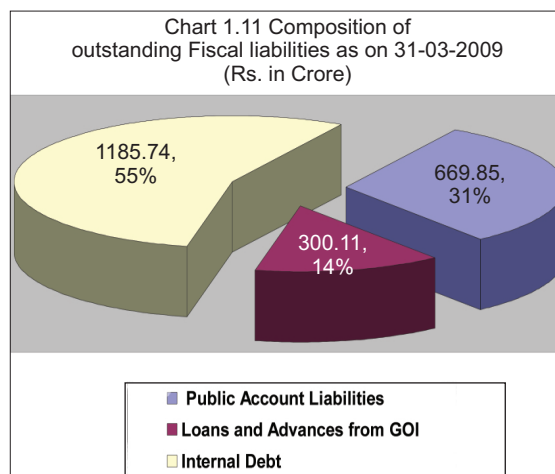
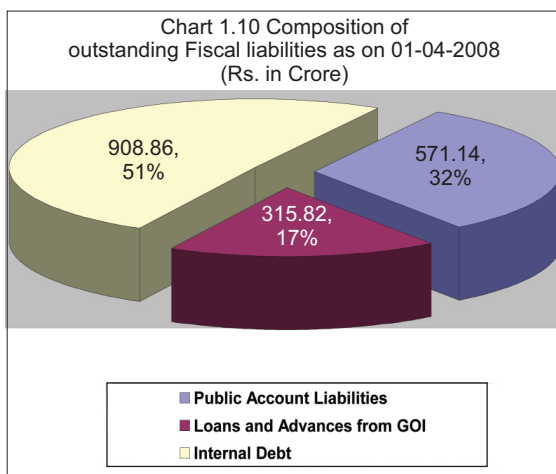
## 1.7 Assets and Liabilities

### 1.7.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

### 1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.3**. The composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Charts 1.10** and **1.11**.



Overall fiscal liabilities of the State increased by Rs. 359.88 crore (20 per cent) from Rs. 1,795.82 crore in 2007-08 to Rs. 2,155.70 crore in 2008-09. The increase in fiscal liabilities was mainly due to increase in Internal debt (Rs. 276.88 crore) and Public Accounts liabilities (Rs. 98.71 crore), which was partially offset by a decrease in loans and advances from GOI (Rs. 15.71 crore). The ratio of these liabilities to GSDP increased from 78 per cent in 2007-08 to 83 per cent in 2008-09. The fiscal liabilities stood at nearly 1.23 times the revenue receipts and 4.39 times of State's own resources at the end of 2008-09. The buoyancy of these liabilities with respect to GSDP during the year was 1.57 indicating that for each one per cent increase in GSDP, fiscal liabilities grew by 1.57 per cent. As of March 2009, sinking fund balances stood at Rs. 102.12 crore which were invested as a fixed deposit in a nationalised bank.

### 1.7.3 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. As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years are given in **Table 1.19**.

**Table 1.19: Guarantees given by the Government of Sikkim**

(Rupees in crore)

| Year    | Maximum amount guaranteed | Outstanding guarantees | Tax revenue receipts of second preceding year |
|---------|---------------------------|------------------------|-----------------------------------------------|
| 2004-05 | 88.10                     | 82.47                  | 105.53 (2002-03)                              |
| 2005-06 | 84.47                     | 84.47                  | 108.00 (2003-04)                              |
| 2006-07 | 84.47                     | 84.40                  | 116.95 (2004-05)                              |
| 2007-08 | 84.40                     | 75.00                  | 147.23 (2005-06)                              |
| 2008-09 | 75.00                     | 75.00                  | 173.18 (2006-07)                              |

Government has guaranteed loans raised by two corporations (Sikkim Power Development

Corporation Ltd - Rs. 50 crore and Sikkim State SC/ST/OBC Development Corporation Ltd - Rs. 25 crore). At the end of 2008-09, outstanding guarantees stood at Rs. 75 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 outstanding guarantees of Rs. 75 crore given by the Government as on 31 March 2008 were within the ceiling limit prescribed under the Act.

However, the records of the corporations showed that as on 31 March 2009, guarantee amounting to Rs. 50.01 crore and Rs. 35.09 crore were outstanding against Sikkim Power Development Corporation Limited and Scheduled Tribe/Scheduled Caste & Other Backward Classes Development Corporation Limited respectively. A guarantee commission @ one per cent is to be charged by the State Government on any guarantee given to a public body. It was noticed that an amount of Rs. 0.20 lakh only was received during 2008-09 from Scheduled Tribe/Scheduled Caste & Other Backward Classes Development Corporation Limited but no guarantee commission was received from Sikkim Power Development Corporation Limited.

## 1.8 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability<sup>12</sup> of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation<sup>13</sup>; sufficiency of non-debt receipts<sup>14</sup>; net availability of borrowed funds<sup>15</sup>; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.20** analyses the debt sustainability of the State according to these indicators for the period of three years beginning from 2006-07.

<sup>12</sup> The Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP 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 with the increase in capacity to service the debt.

<sup>13</sup> 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-GSDP 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 stabilize 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.

<sup>14</sup> Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

<sup>15</sup> Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

**Table 1.20: Debt Sustainability: Indicators and Trends**

| Indicators of Debt Sustainability                     | 2006-07   | 2007-08   | 2008-09   |
|-------------------------------------------------------|-----------|-----------|-----------|
| Debt Stabilization (Quantum Spread + Primary Deficit) | 25.67     | 135.72    | 207.38    |
| Sufficiency of Non-debt Receipts (Resource Gap)       | (+) 51.97 | (+) 32.61 | (-)169.76 |
| Net Availability of Borrowed Funds                    | 4.70      | 120.32    | 160.73    |
| Burden of Interest Payments(IP/RR Ratio)              | 9.58      | 7.86      | 8.11      |
| Maturity Profile of State Debt (In Years)             |           |           |           |
| 0 – 1                                                 |           |           | 76.28     |
| 1 – 3                                                 |           |           | 157.37    |
| 3 – 5                                                 |           |           | 127.55    |
| 5 – 7                                                 |           |           | 120.29    |
| 7 and above                                           |           |           | 1,080.64  |

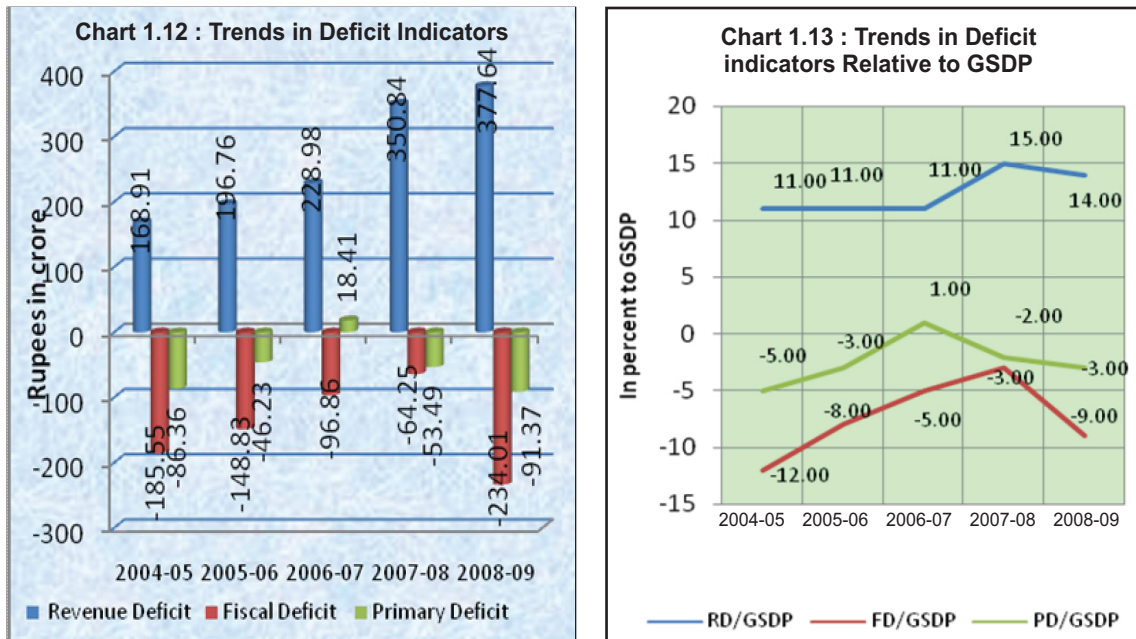
The sum of the quantum spread and primary deficit was positive during 2006-09 indicating declining trend of debt-GSDP ratio. Net fund available was positive indicating that Rs. 160.73 crore of the total debt receipts were utilised for other purposes rather than for discharging past debt obligation. The maturity profile of the State Government indicates that 23.12 *per cent* of the total Public Debt are repayable within the next five years while the remaining 76.88 *per cent* loans to be paid in more than five years time.

## **1.9 Fiscal Imbalances**

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. 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 applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2008-09.

### 1.9.1 Trends in Deficits

Charts 1.12 and 1.13 present the trends in deficit indicators over the period 2004-09



The revenue account of the State had exhibited consistent improvement during the period 2004-09 as the State had not only maintained revenue surplus but its surplus position has improved during the last five years. An increase of Rs. 26.80 crore in revenue surplus during the current year was mainly on account of enhancement in revenue receipts by Rs. 260.48 crore as against the increase of Rs. 233.68 crore in revenue expenditure over the previous year. This improvement in revenue account during 2008-09 was mainly on account of steep increase of Rs. 178.92 crore in Central transfers comprising of State's share in Central taxes and duties and grants-in-aid from GOI which contributed around 72 per cent of total revenue receipts during the year.

Huge revenue surplus in 2008-09 accompanied by increase in capital expenditure (Rs. 198.31 crore) in 2008-09 together with disbursement of loans and advances led to an increase of Rs. 169.76 crore in fiscal deficit during 2008-09. Increase in fiscal deficit accompanied by an increase in interest payment resulted in primary deficit of Rs. 91.37 crore against the primary deficit of Rs. 53.49 crore in 2007-08.

### 1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in Table 1.21.

**Table 1.21: Components of Fiscal Deficit and its Financing Pattern**

(Rupees in crore)

|   | Particulars                          | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 |
|---|--------------------------------------|---------|---------|---------|---------|---------|
|   | Decomposition of Fiscal Deficit      | 185.55  | 148.83  | 96.86   | 64.25   | 234.00  |
| 1 | Revenue surplus                      | 168.91  | 196.76  | 228.98  | 350.84  | 377.65  |
| 2 | Net Capital Expenditure              | 353.54  | 345.73  | 326.42  | 415.47  | 611.78  |
| 3 | Net Loans and Advances               | 0.92    | -0.14   | -0.58   | -0.38   | -0.13   |
|   | Financing Pattern of Fiscal Deficit* |         |         |         |         |         |
| 1 | Market Borrowings                    | 66.67   | 101.72  | 106.46  | 233.17  | 276.88  |
| 2 | Loans from GOI                       | 42.60   | 10.94   | -2.75   | -9.10   | -15.71  |
| 3 | Small Savings, PF etc                | 24.45   | 12.98   | 16.25   | 13.98   | 29.27   |
| 4 | Deposits and Advances                | 3.43    | 3.09    | 5.46    | 3.59    | 23.24   |
| 5 | Suspense and Misc                    | 53.92   | 11.09   | 5.63    | 31.28   | -5.42   |
| 6 | Remittances                          | 74.47   | -56.32  | 11.92   | 17.94   | 49.13   |
| 7 | Reserve fund                         | 14.47   | 15.60   | 3.37    | 42.99   | 13.08   |
|   | Contingency fund transaction         | 0.50    | -0.10   | 0.10    | 0       | 0       |
| 8 | Overall Surplus/Deficit              | 94.96   | -49.83  | 49.58   | 269.6   | 136.47  |

\*All these figures are net of disbursements/outflows during the year

The State had fiscal deficit during all the five years (2004-09) which increased from Rs. 185.55 crore in 2004-05 to Rs. 234.01 crore in 2008-09. The fiscal deficit was mainly financed by the market borrowings. Even though there was huge revenue surplus of Rs. 377.65 crore during 2008-09, there was fiscal deficit of Rs. 234.00 crore due to enhancement in capital expenditure mainly on account of increase of expenditure on Transport, Irrigation and Flood Control, Public Works etc.

### **1.9.3 Quality of Deficit/Surplus**

The ratio of RD to 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 States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (**Table 1.22**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

**Table 1.22: Primary Deficit/Surplus – Bifurcation of factors***(Rupees in crore)*

| Year    | Non-debt receipts | Primary revenue expenditure | Capital expenditure | Loans and advances | Primary expenditure | Primary revenue deficit (-)/ surplus (+) | Primary deficit (-)/ surplus (+) |
|---------|-------------------|-----------------------------|---------------------|--------------------|---------------------|------------------------------------------|----------------------------------|
| 1       | 2                 | 3                           | 4                   | 5                  | 6                   | 7                                        | 8                                |
|         |                   |                             |                     |                    | (3+4+5)             | (2 – 3)                                  | (2 – 6)                          |
| 2004-05 | 1,011.05          | 743.19                      | 353.54              | 0.68               | 1,097.41            | (+) 267.86                               | (-) 86.36                        |
| 2005-06 | 1,088.34          | 788.84                      | 345.73              | 0                  | 1,134.57            | (+) 299.50                               | (-) 46.23                        |
| 2006-07 | 1,204.03          | 859.00                      | 326.42              | 0.2                | 1,185.62            | (+) 345.03                               | (+) 18.41                        |
| 2007-08 | 1,498.09          | 1,029.13                    | 415.47              | 0                  | 1444.6              | (+)468.96                                | (+)53.49                         |
| 2008-09 | 1,758.58          | 1,237.92                    | 611.78              | 0.25               | 1,849.95            | (+)520.66                                | (-)91.37                         |

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2004-09 reveals (**Table 1.18**) 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. Substantial capital expenditure was incurred by the State Government which resulted in primary deficit of Rs. 91.37 crore in the current year. This indicates the extent to which primary deficit has been on account of enhancement of capital expenditure which is desirable to improve productive capacity of the State's economy.

#### **1.9.4 State's Own Revenue and Deficit Correction**

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of the correction in deficit indicators. **Table 1.23** presents the change in revenue receipts of the State and the correction of the deficit during the last three years.

**Table 1.23: Change in revenue Receipts and Correction of Deficit***(Per cent of GSDP)*

| Parameters                                   | 2006-07 | 2007-08 | 2008-09 |        |
|----------------------------------------------|---------|---------|---------|--------|
|                                              |         |         | BE      | Actual |
| Revenue Receipts (a to d)                    | 59.03   | 65.18   | 67.99   | 67.31  |
| a. State's Own Tax Revenue                   | 8.50    | 8.61    | 5.78    | 7.63   |
| b. State's Own Non- tax Revenue              | 8.43    | 9.23    | 8.92    | 11.19  |
| c. State's Share in Central Taxes and Duties | 10.93   | 15.02   | 11.53   | 13.94  |
| d. Grants-in-aid                             | 31.18   | 32.32   | 41.76   | 34.55  |
| Revenue Expenditure                          | 47.79   | 49.91   | 51.51   | 52.85  |
| Revenue Deficit/Surplus                      | 11.23   | 15.27   | 16.48   | 14.46  |
| Fiscal Deficit/Surplus                       | -4.75   | -2.80   | -18.24  | -8.96  |

The trends in ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy and accessibility of resources to State. Revenue receipts are comprised not only

of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP remained quite high in the State mainly on account of large transfers from GOI and relatively low levels of GSDP. The ratio during the current year at 67.31 *per cent* had increased by 2.13 percentage points over the previous year. The ratio of own non-taxes to GSDP also indicated an improvement during 2006-09 and the ratio at 11.19 turned out to be more than the budget estimate indicating enhanced efforts on the part of the State Government in mobilisation of their own resources.

### **1.10 Conclusion and Recommendation**

The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit, primary deficit etc. indicated that the State had maintained revenue surplus during the last five year period but primary deficit continued to increase after recording surplus in 2006-07. During the current year, there was a significant improvement in revenue surplus over the previous years. Though there was an increase in revenue surplus by Rs. 26.80 crore, the fiscal deficit increased by Rs. 169.76 crore during 2008-09 over the previous year mainly due to increase in both the Revenue and capital heads. Capital expenditure increased by Rs. 196.31 crore (47.25 *per cent*) over the previous year.

During 2008-09, 72 *per cent* of the total revenue came from the Government of India as Central transfers (21 *per cent*) and grants-in-aid (51 *per cent*) while the Own Tax Revenue (OTR) of the State constituted 11 *per cent*. The OTR exceeded normative assessment made by the Twelfth Finance Commission (TFC) for the State for 2008-09 (Rs. 179.29 crore) and State's own projection in the Budget Estimates 2008-09. Similarly, non-tax revenue (NTR) also exceeded both the TFC projection and State's own projection made in the Budget Estimates as well as in Revised Estimates for the year 2008-09. The buoyancy of revenue with reference to GSDP reduced to 1.27 *per cent* in 2008-09 from 1.92 *per cent* in 2007-08 indicating that the rate of growth of revenue receipts though higher than the GSDP growth rate in the State, was falling.

During 2008-09, the revenue expenditure stood at Rs. 1,380.55 crore (69.28 *per cent* of the total expenditure) which grew by Rs. 233.68 crore over the previous year while the expenditure incurred under capital head was Rs. 611.78 crore (30.70 *per cent* of the total expenditure) which grew by Rs 196.31 crore over the previous year.

Developmental expenditure of Rs. 919.91 crore in 2004-05 increased to Rs. 1,469.04 crore in 2008-09. However, its share in aggregate expenditure decreased from 76.88 *per cent* to 73.73 *per cent* during the period. A comparative position of Non-Plan Revenue Expenditure (NPRE) vis-a vis assessment made by TFC revealed that NPRE was higher than the assessment made by TFC by Rs. 243.06 crore (39.21 *per cent*).

The percentage of outstanding liabilities to GSDP (83 *per cent*) during 2008-09 was higher than 2007-08 (78 *per cent*). According to recommendation of the TFC, the State should

follow a recruitment and wages policy, in a such manner that the total salary bills relative to revenue expenditure net of interest payments and pension does not exceed 35 *per cent*. However, the expenditure on salaries and wages (decreased by 3.13 *per cent* from Rs. 515.28 crore in 2007-08 to Rs. 499.16 crore in 2008-09) was 42.36 *per cent* of the revenue expenditure, net of interest payments and pension. During 2008-09, interest receipts as percentage of outstanding loans and advances was 'nil' against interest payments as percentage of outstanding fiscal liabilities of the State Government at 6.62. The interest payment during 2008-09 although exceeded the normative projections of TFC (Rs. 110.60 crore) but relative to revenue receipts at 8.11 *per cent* remained well within the norms of 15 *per cent* recommended by the TFC.

Investment of the Government money in the Government companies and statutory corporations are increasing year after year, but a return of only 1.53 *per cent* from this investment has been received by the Government during 2008-09.

There were either delay in implementation of projects in the State or the State was unable to commence implementation of projects and effectively implement schemes and programmes due to which 68 projects remained incomplete at the end of March 2009 even after expiry of its completion date inviting the risk of cost overrun on the projects.

**Review of Government investments:** A performance-based system of accountability should be put in place in the Government companies/statutory corporations so as to derive profitability and improve efficiency in service. The Government should ensure better value for money in investments by identifying the companies/corporations which are endowed with low financial but high socio-economic returns and justify if high cost borrowings are worth to be channelised there.

**Oversight of funds transferred directly from the Government of India (GOI) to the State implementing agencies:** As long as these funds remain outside the State budget, there is no single agency monitoring its use and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by State implementing agencies but are funded directly by the GOI. A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Accountant General.

**Cost of collection:** The percentage of expenditure on collection during 2008-09 as compared to the corresponding all India average percentage for 2007-08 was high in the cases of sales tax, state excise and taxes on vehicles which the Government needs to look into.