

CHAPTER – I

Finances of the State Government



CHAPTER – I

Finances of the State Government

Profile of Sikkim

Sikkim is a small sparsely populated State situated in the Eastern Himalayas. It became a part of the Indian Union on 26 April 1975. Ethnically Sikkim has mainly three groups of people viz., Nepalis, Bhutias and Lepchas. It has a total area of 7,299 Sq Km which constitutes 0.22 *per cent* of the total geographical area of India. Sikkim being landlocked, National Highway 31A is the only lifeline which connects the State with the rest of the country. Sikkim categorised as a special category State¹ has four districts and nine sub-divisions and has also been included in the North Eastern Council since December 2002.

According to the Census of India 2001, the population of Sikkim stands at 5.40 lakh and the percentage of rural population of the State was more than the All India rural population. According to Census 2001, the literacy rate of Sikkim was 69.68 *per cent* as against All India literacy rate of 65 *per cent*. Similarly, the infant mortality rate at 33 per 1,000 live births is better than the All India Average of 53 per 1,000 live births. The population growth of NE States in 2009-10 over 2000-01 stood at 11.68 *per cent* while Sikkim registered population growth of 11.11 *per cent* during the same period (**Appendix-1.1 - Part-D**). The estimated per capita income of the State stood at ₹ 43,535² during 2009-10 which has increased by 122.95 *per cent* over 2000-01.

The average Compound Annual Growth Rate (CAGR) in respect of GSDP for Sikkim was 13.43 *per cent* between 2000-01 and 2008-09 which was higher than that of NE States (11.87 *per cent*) and Sikkim ranks second amongst the other NE States. The outstanding fiscal liabilities of the State as percentage to GSDP showed a persistent increase from 73.82 *per cent* in 2005-06 to 88.63 *per cent* in 2009-10.

The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The new format of Finance Accounts introduced from the year 2009-10, has been divided into two Volumes – Volume I and II. Volume I represents the financial statements of the Government in summarized form while Volume II represents detailed financial statement, the structure and lay out of which are depicted in **Appendix-1.1-Part B**.

¹Special privileges given to Sikkim includes financial assistance from Government of India in the ratio of 90 *per cent* grant and 10 *per cent* loan unlike non-special category States which get Central assistance in the ratio of 70 *per cent* grant and 30 *per cent* loan.

²The per capita income has been calculated on the basis of current year's GSDP at current prices with respect to the average population during 2009 and 2010 projected by Registrar General and Census Commissioner, Government of India.

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-1.1-Part C** of the chapter briefly outlines the methodology adopted for the assessment of the fiscal position of the State and **Appendix-1.2** presents the time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2005-10.

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 (2009-10) vis-à-vis the previous year while **Appendix-1.3** provides details of receipts and disbursements as well as overall fiscal position during the year.

Table 1.1: Summary of Current Year's Fiscal Operations

(₹ in crore)

Receipts			Disbursements				
2008-09		2009-10	2008-09		2009-10		
Section-A: Revenue					Non Plan	Plan	Total
2,671.25	Revenue receipts ³	3,254.39	2,293.60	Revenue expenditure ⁴			2,738.04
199.19	Tax revenue	223.65	1,359.21	General services ⁴	1,529.53	37.10	1,566.63
1,205.31	Non-tax revenue ³	1,356.44	540.24	Social services ⁵	410.86	280.42	691.28
364.20	Share of Union Taxes/ Duties	374.68	394.15	Economic services ⁵	224.97	255.16	480.13
902.55	Grants from Government of India	1,299.62					
Section-B: Capital							
--	Misc. Capital Receipts		611.78	Capital Outlay		648.53	648.53
0.38	Recoveries of Loans and Advances	0.30	0.25	Loans and Advances disbursed			36.98
337.46	Public Debt receipts	392.11	76.29	Repayment of Public Debt			86.29
	Contingency Fund		--	Contingency Fund			
2,414.37	Public Account receipts	2,967.71	2,305.07	Public Account disbursements			2,784.90
571.77	Opening Cash Balance	708.24	708.24	Closing Cash Balance			1,028.01
5,995.23	Total	7,322.75	5,995.23	Total			7,322.75

Following are the significant changes during 2009-10 over the previous year:

- Revenue receipts grew by ₹ 583.14 crore (21.83 per cent) over the previous year due to increase in non-tax revenue (₹ 151.13 crore), State's share in Central taxes and duties (₹ 10.48 crore), grants from Government of India (₹ 397.07 crore) and tax revenue (₹ 24.46 crore).

³ Revenue receipts and Non-tax revenue are inclusive of gross receipt (₹ 949.92 crore) from State Lotteries.

⁴ Revenue expenditure and General Services (Non-plan) are inclusive of expenditure (₹ 909.02 crore) on State Lotteries.

⁵ Includes grants-in-aid contribution under Social Services (₹ 166.01 crore) and Economic Services (₹ 21.45 crore) aggregating ₹ 187.46 crore.

- Revenue expenditure increased by ₹ 444.44 crore (19.38 *per cent*) over the previous year due to increase in General services (₹ 207.42 crore), Social services (₹ 151.04 crore) and Economic services (₹ 85.98 crore).
- Capital expenditure increased by ₹ 36.74 crore (6.01 *per cent*) over the previous year. The increase was mainly under General services (₹ 11.74 crore) and Social services (₹ 30.10 crore) which was offset by decrease under Economic services (₹ 5.09 crore).
- Public debt receipts and its repayments increased by ₹ 54.65 crore (16.19 *per cent*) and ₹ 10.00 crore (13.11 *per cent*) respectively over the previous year.
- Public Account receipts and disbursements increased by ₹ 553.34 crore (22.92 *per cent*) and ₹ 479.83 crore (20.82 *per cent*) respectively over the previous year.
- The total outflow of the Government (₹ 6,614.51 crore) was less than the total inflow (₹ 6,294.74 crore) resulting in an increase of ₹ 319.77 crore in the cash balance of the State at the end of the year 2009-10.

1.2 Fiscal Responsibility and Budget Management Act and Twelfth Finance Commission Recommendation

With the 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. Hence Sikkim has not been given any benefit of debt waiver under DCRF for the period 2005-2010. The Government of Sikkim has however, enacted the FRBM Act only in September 2010.

1.2.1 The Twelfth Finance Commission recommendation

The Twelfth Finance Commission has recommended growth of Tax and Non-Tax Revenue during 2005-10. The targets fixed by TFC vis-à-vis the actual are given below:

Table 1.2: TFC recommendations vis-à-vis the actuals

(₹ in crore)

Year	TFC Recommendation			Actual		
	Tax	Non-Tax	Total	Tax	Non-Tax	Total
2005-06	119.75	84.14	203.89	147.23	113.94	261.17
2006-07	136.99	90.01	227.00	173.18	171.75	344.93
2007-08	156.72	96.88	253.60	197.85	212.03	409.88
2008-09	179.29	104.94	284.23	199.19	292.26	491.45
2009-10	205.11	114.47	319.58	223.65	447.42	671.07

Source: Twelfth Finance Commission Report and Finance Accounts.

The State exceeded the targets fixed by the TFC in collection of revenue from own sources both under Tax and Non-Tax in all the five years.

The Twelfth Finance Commission has also fixed the sector-wise target for non-plan revenue expenditure for the period 2005-10. The targets fixed by TFC vis-à-vis the actual are given below:

Table 1.3: TFC recommendations vis-à-vis actual

(₹ in crore)

Sectors	TFC Recommendation					Actual				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
General	239.96	254.29	270.55	286.28	319.08	280.12	328.01	369.16	435.66	620.51
Social	171.64	187.31	204.48	223.27	243.85	191.46	190.68	230.89	275.83	410.86
Economic	66.67	70.11	73.74	77.55	81.55	125.66	118.93	127.03	151.34	224.97
Total	478.27	511.71	548.77	587.10	644.48	597.24	637.62	727.08	862.83	1,256.34

Source: Twelfth Finance Commission Report and Finance Accounts.

It can be seen from the above table that the State failed to contain its non-plan revenue expenditure to the terms of TFC recommendation during the entire period. During 2009-10, Non-plan revenue expenditure was 94.94 *per cent* more than the TFC recommendation mainly due to payment on account of Pay Revision. Nevertheless, the State continued to remain revenue surplus during the entire period.

1.2.2 Budget Analysis

The budget papers presented by State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Several reasons may account for the deviation of the actual realisation from the budget estimates. It may be because of unanticipated and unforeseen events or under or over estimation of expenditure or revenue at the budget stage, etc. Actual realisation of revenue and its disbursement however depends on a variety of factors, some internal and others external. **Table 1.4** presents the consolidated picture of State Finances during 2008-09 (Actuals), 2009-10-budget estimates (BE), 2009-10 revised estimates (RE) and 2009-10 (Actuals).

Table 1.4: Variation in Major items - 2009-10 (Actuals) over 2009-10 Budget Estimates & Revised Estimates and 2008-09 (Actuals)

(₹ in crore)

Parameters	2008-09	2009-10		
	Actual	Budget Estimates	Revised Estimates	Actuals
Tax Revenue	199.19	177.18	184.04	223.65
Non-Tax Revenue	292.26	258.88	409.30	447.42
Revenue Receipts	1,758.20	2,075.83	2,586.33	2,345.37
Non-debt Capital Receipts	0.38	0.42	0.08	0.30
Revenue Expenditure	1,380.55	1,653.73	1,937.45	1,829.02
Interest Payments	142.64	169.50	169.50	154.43
Capital Expenditure	611.78	858.97	960.92	648.53
Disbursement of Loans & Advances	0.25	20.48	40.48	36.98
Revenue Deficit/Surplus	377.65	422.10	648.88	516.35
Fiscal Deficit/Surplus	(-)234.00	(-)456.93	(-)352.44	(-)168.86
Primary Deficit/Surplus	(-)91.36	(-)287.43	(-)182.94	(-)14.43

There was considerable positive variation between budget estimates and actuals in all the key parameters except capital expenditure. Tax Revenue and Non-tax Revenue exceeded the budget provisions by 26.33 *per cent* and 72.82 *per cent* respectively. Revenue receipts and Revenue expenditure were higher by 12.98 *per cent* and 10.60 *per cent* respectively as compared to the budget estimates which resulted in increase in Revenue Surplus by 22.23 *per cent*. However, Capital Expenditure was less than budget estimate and revised estimate by 24.50 *per cent* and 32.51 *per cent* respectively.

Sikkim's own tax revenue increased by 12.28 *per cent* from ₹ 199.19 crore in 2008-09 to ₹ 223.65 crore in 2009-10. The revenue from sales tax not only contributed to the major share of tax revenue (54.13 *per cent*), but also increased by 19.71 *per cent* (₹ 19.93 crore) over the previous year. The increase in sales tax revenue over the previous year was mainly due to increase in Value Added Tax (₹ 6.11 crore), State Sales Tax (₹ 10.72 crore) and Central Sales Tax (₹ 3.10 crore). While there was increase in State Excise duty (₹ 10.81 crore) by 23.27 *per cent* and other taxes (₹ 7.05 crore) by 19.90 *per cent*, taxes on income other than Corporation tax decreased (₹ 13.32 crore) by 82.43 *per cent* mainly due to decrease in State Income Tax. Decrease in 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 1961 w.e.f 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 19.08 *per cent* of total revenue receipts, has increased by ₹ 155.16 crore from ₹ 292.26 crore in 2008-09 to ₹ 447.42 crore in 2009-10 recording a growth rate of 53.09 *per cent* over the previous year. The major contributors

to non-tax receipts of the State in 2009-10 include receipts from power (₹ 285.83 crore), interest receipts (₹ 44.18 crore) and net receipts from lotteries (₹ 40.91 crore). The increase in non-tax receipts during 2009-10 (₹ 155.16 crore) was mainly due to increase in receipts under power sector (₹ 131.09 crore), interest receipts (₹ 18.24 crore) and contribution on recoveries towards pension and other retirement benefits (₹ 5.01 crore). The increase was however, mainly offset by decrease in receipt under net receipts from lotteries (₹ 2.05 crore) and minor irrigation (₹ 1.02 crore).

The **State's share in Union taxes and duties** stood at ₹ 374.68 crore, an increase of ₹ 10.48 crore over the previous year mainly due to increase in the State's share in corporation tax (₹ 34.90 crore); income tax (₹ 10.87 crore); wealth tax (₹ 0.24 crore); and service tax (₹ 0.16 crore), which was counterbalanced by decrease in excise duties (₹ 18.50 crore) and custom duties (₹ 17.19 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.

Grants-in-aid from Centre to the State, a discretionary component of central transfers, is considered to be an integral element of the revenue receipts of the State which has an impact on the consolidated revenue deficit of the State. The grants-in-aid increased by ₹ 397.07 crore (43.99 *per cent*) from ₹ 902.55 crore in 2008-09 to ₹ 1,299.62 crore in 2009-10 mainly due to increase in grants for State plan schemes (₹ 390.96 crore), Centrally Sponsored Schemes (₹ 19.09 crore), Special Plan Schemes (NEC) (₹ 24.43 crore) and Central Plan Schemes (₹ 0.43 crore). This was counterbalanced by decrease in Non-Plan grants (₹ 37.83 crore). Grants for State Plan Schemes increased during 2009-10 mainly due to receipt of more Central assistance under Block grants (₹ 400.97 crore) which includes Basic Service to urban poor under Jawaharlal Nehru National Urban Renewal Mission, Backward Region Grant Fund, Accelerated Irrigation Benefit Programme, Additional Central Assistance for long term Reconstruction of Assets damaged during 2005-06 and Grants under Non-Lapsable Central Pool of Resources which was counterbalanced by decrease in Other Grants (₹ 10.01 crore) mainly comprising grant under 12th Finance Commission. Non-Plan Grants decreased mainly due to decrease in grant under the Constitution (Distribution of Revenue Order) (₹ 21.94 crore), grants towards Contribution to Calamity Relief fund (₹ 7.93 crore), grants for Local Bodies recommended by the 12th Finance Commission (₹ 7.80 crore) and grants for Civil Defence (reimbursement of expenditure by Government of India) (₹ 4.18 crore) which was offset by increase in grant for maintenance of public building recommended by the 12th Finance Commission (₹ 4.02 crore).

The increase of ₹ 448.48 crore in **revenue expenditure** in 2009-10 over 2008-09 was due to increase of ₹ 211.46 crore (47.40 *per cent*) on General Services mainly towards Election, Pension and other Retirement Benefits, Police, Administration of Justice, Training and Other Administrative Services, ₹ 85.98 crore (21.81 *per cent*) and on

Economic Services mainly towards Special Areas programmes and General Economic Services (Tourism and Civil Supplies) ₹ 151.04 crore (27.96 *per cent*) and on Social Services mainly towards Education, Sports, Art and Culture and Health and Family Welfare. However, there was a marginal decrease in Water Supply, Sanitation, Housing and Urban Development.

Capital expenditure assumes importance as it has a lasting impact on growth as compared to revenue expenditure. If spent efficiently, it also ensures a more productive economy and enhances the government's net worth arising from augmented revenues. During 2009-10 the capital expenditure of the State was ₹ 648.53 crore out of which ₹ 285.00 crore were blocked in 79 incomplete works which were due to be completed within 31 March 2010. The increase of ₹ 36.75 crore in capital outlay as compared to 2008-09 (₹ 611.78 crore) was due to increase on General Services (₹ 11.74 crore) major components of which were Public Works and on Social Services (₹ 30.10 crore) which was mainly due to increase in Urban Development, Social Security and Welfare offset by decrease on Economic Services (₹ 5.09 crore) mainly on account of Irrigation and Flood Control and Industry and Minerals.

Actual **fiscal deficit** fell short of the assessment made in the budget estimate by 63.04 *per cent* (₹ 228.07 crore) and revised estimate by 52.09 *per cent* (₹ 183.58 crore) mainly due to decrease in revenue expenditure and capital expenditure. Decrease in fiscal deficit together with decrease in interest payment of ₹ 14.97 crore (revised estimate) led to decrease in primary deficit by 92.11 *per cent* (₹ 168.51 crore) than the assessment made in revised estimate.

The **Table 1.4** also indicates that at the consolidated level, the State witnessed a marked improvement in key deficit indicators when the revised estimates of 2009-10 translated into actuals. An improvement in the fiscal situation in recent years (2005-06 to 2009-10) was achieved by the State by pursuing the fiscal correction and consolidation process coupled with larger devolution and transfer by the Twelfth Finance Commission through Central Taxes and Grants-in-aid. Consequent upon these developments, the State achieved surplus during the period from 2005-06 to 2009-10.

1.3 Resources of the State

1.3.1 Resources of the State as per Annual Finance Accounts

Revenue receipts and capital receipts 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.

While **Table 1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts, **Chart 1.1** depicts the trends in various components of the receipts of the State during 2005-10, **Chart 1.2** depicts the composition of resources of the State during the current year.

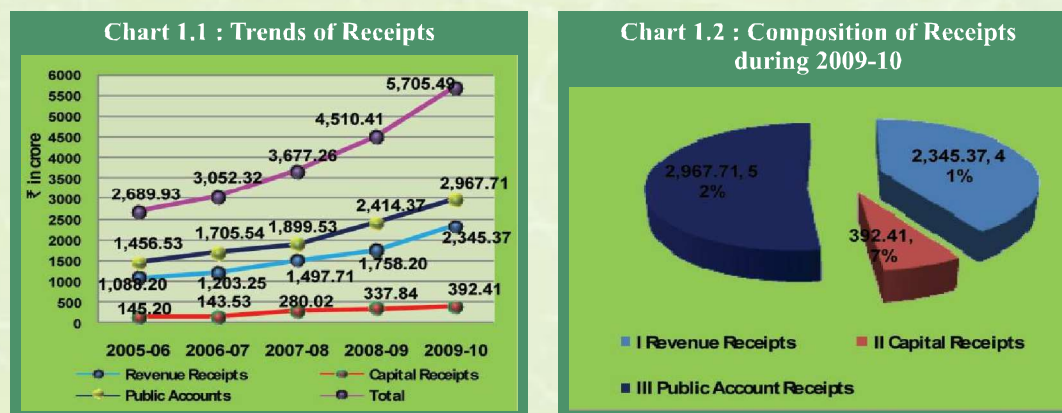


Table 1.5: Trends in growth and composition of receipts

(₹ in crore)

	Sources of State Receipts	2005-06	2006-07	2007-08	2008-09	2009-10
I	Revenue Receipts	1,088.20	1,203.25	1,497.71	1,758.20	2,345.37
II	Capital Receipts (CR)	145.20	143.53	280.02	337.84	392.41
	Miscellaneous Capital Receipts	-	-	-	-	-
	Recovery of Loans and Advances	0.14	0.78	0.38	0.38	0.30
	Public Debt Receipts	145.06	142.74	279.64	337.46	392.11
	Rate of growth of non-debt capital receipts	(-)158.33	457.14	(-)51.28	0.00	(-)21.05
	Rate of growth of debt capital receipts	(-)24.84	(-)1.60	95.91	20.68	16.19
	Rate of growth of GSDP ⁶	14.22	11.40	12.72	13.68	13.43
	Rate of growth of CR (per cent)	(-)24.67	(-)1.15	95.10	20.65	16.15
	Debt Capital buoyancy	(-)1.75	(-)0.14	7.54	1.51	1.21
III	Contingency Fund	-	-	-	-	-
IV	Public Account Receipts	1,456.53	1,705.54	1,899.53	2,414.37	2,967.71
	a. Small Savings, Provident Fund, etc.				97.39	107.84
	b. Reserve Fund				56.10	44.99
	c. Deposits and Advances				46.84	45.04
	d. Suspense and Miscellaneous				1,385.07	1,925.55
	e. Remittances				828.97	844.29
	Total Receipts	2,689.93	3,052.32	3,677.26	4,510.41	5,705.49

The total receipts of the State during 2009-10 was ₹ 5,705.49 crore as against ₹ 4,510.41 crore during 2008-09, an increase of 26.50 per cent. Of these, the revenue receipts were ₹ 2,345.37 crore, constituting 41.11 per cent of the total receipts. The balance came from

⁶The estimated GSDP for the year 2009-10 for the State of Sikkim was ₹ 2,962.90 crore, which is arrived at on the basis of figures for the last year (2008-09) of Advance Estimates of GSDP (₹ 2,612.10 crore) increased by 13.43 per cent (average growth rate during 1999-2000 to 2008-09) as State Government has not yet finalised the GSDP

capital receipts (6.88 *per cent*) and receipts from Public Account (52.01 *per cent*). The capital receipts increased by 16.15 *per cent* as compared to 2008-09, mainly due to increase in market loan (16.28 *per cent*). Similarly, Public Account receipts increased by 22.92 *per cent*, mainly due to increase in suspense and miscellaneous heads of accounts. Public debt receipts which create future repayment obligation were 99.92 *per cent* of the total capital receipts.

The rate of growth of debt capital receipts decreased from 20.68 *per cent* in 2008-09 to 16.19 *per cent* in 2009-10 and the ratio of growth of non-debt capital receipts decreased from 0 *per cent* in 2008-09 to (-) 21.05 *per cent* in 2009-10.

The rate of growth of debt capital receipts increased from (-) 24.84 *per cent* in 2005-06 to 16.19 *per cent* in 2009-10 while the rate of growth of GSDP decreased from 14.22 *per cent* in 2005-06 to 13.43 *per cent* in 2009-10 resulting in increase in the rate of growth of debt capital buoyancy from (-) 1.75 in 2005-06 to 1.21 in 2009-10.

The rate of growth of non-debt capital receipts increased from (-) 158.33 *per cent* in 2005-06 to (-) 21.05 *per cent* in 2009-10 resulting in increase in the rate of growth of non-debt capital buoyancy from (-) 11.13 in 2005-06 to 1.57 in 2009-10.

Compound Annual Growth Rate (CAGR) of Revenue Receipts for Sikkim (9.31 per cent) between 2000-01 and 2008-09 was much lower than the North Eastern (NE) States average (14.87 per cent) and thus needs improvement.

1.3.2 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 Agencies⁷ for the implementation of various schemes/programmes in social and economic sectors recognised as critical. As these funds are not routed through the State Budget/State Treasury System, State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated to that extent. To present a holistic picture on availability of aggregate resources, funds directly transferred to State Implementing Agencies (SIAs) are presented in **Appendix-1.4**. Significant amounts released for major programmes/schemes are detailed in **Table 1.6**.

⁷State Implementing Agencies include Organizations/Institutions including Non-Governmental Organizations 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.

Table 1.6: Funds transferred directly to State Implementing Agencies*(₹ in crore)*

Sl. No.	Name of the Agency/ Organisation	Name of the Scheme	Total Funds released by GOI during 2009-10	Funds received by SIAs during 2009-10	Closing balance as on 31 st March 2010
1.	Sarva Shiksha State Mission Authority (Human Resource Dev. Department)	Sarva Siksha Abhiyan	17.36	17.36	2.76
2.	Rural Management and Development Department	MG-NREGA	88.57	88.57	24.48
3.	Sikkim Rural Roads Development Agency	PMGSY Programme	21.80	70.00	0.43
4.	Rural Management and Development Department	State Water and Sanitation Mission Programme	10.80	10.80	0
5.	State Health Society (Health Care, Human Services & Family Welfare Department)	NRHM	25.75	17.14	0
		Total	164.28	203.87	27.67

Source: 'Central Plan Scheme Monitoring System' portal in Controller General of Accounts' website and information from State Government departments.

The GOI directly transferred ₹ 231.79 crore to State Implementing Agencies during 2009-10.

Table 1.6 shows that an amount of ₹ 164.28 crore (70.87 per cent of the total funds transferred) was given for (i) Pradhan Mantri Gram Sadak Yojana (9.41 per cent) (ii) Mahatma Gandhi National Rural Employment Guarantee Programme (38.21 per cent), (iii) Sarva Shiksha Abhiyan (7.49 per cent) (iv) National Rural Health Mission (11.11 per cent), and (v) State Water Supply and Sanitation Programme (4.66 per cent) during 2009-10 out of which ₹ 27.67 crore remained unutilised in these five programmes. With the transfer of an approximate amount of ₹ 231.79 crore directly by GOI to the State Implementing Agencies, the total availability of State resources during 2009-10 had increased from ₹ 5,705.49 crore to ₹ 5,937.28 crore. Small Farmer's Agri-business Consortium, Sikkim (Horticulture and Cash Crop Department) could not furnish the information in respect of funds under Technology Mission Scheme.

It is evident from **Appendix-1.4** 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 being implemented by the State Implementing Agencies and funded directly by the GOI.

Further, direct transfer of fund runs the risk of poor accountability. Unless uniform accounting practices are followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers.

1.4 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 during the period 2005-10 are presented in **Appendix- 1.2** and also depicted in **Charts 1.3** and **1.4** respectively.

Chart 1.3 : Trends in Revenue Receipts



Chart 1.4 : The Composition of Revenue Receipts during 2005-10



1.4.1 General Trends

- The revenue receipts have shown a progressive increase over the period 2005-2010. Revenue receipts grew by 33.40 *per cent* over the previous year. Increase in revenue expenditure of ₹ 448.47 (32.48 *per cent*) was slightly lower than the increase of ₹ 587.17 crore (33.40 *per cent*) in revenue receipts resulting in increase in revenue surplus by ₹ 138.70 crore.
- While 28.62 *per cent* of the revenue receipts during 2009-10 have come from the State's own resources comprising taxes and non-taxes as compared to 24 *per cent* in 2005-06, the share of Central transfers comprising State's share in Central taxes and duties and grants-in-aid from GOI has marginally declined from 76 *per cent* in 2005-06 to 71.38 *per cent* in 2009-10.
- Tax revenue constituted 9.54 *per cent* of the total revenue receipts and increased by ₹24.56 crore during 2009-10 recording a growth rate of 12.28 *per cent* over the previous year. The percentage of tax revenue to total revenue receipts ranged between 6.18 and 14.39 *per cent* during 2005-10.
- Non-tax revenue receipts constituted 19.08 *per cent* of the total revenue receipts and increased by ₹ 155.16 crore recording a growth rate of 53.09 *per cent* over the previous year. Non-tax revenue as a percentage of revenue receipts ranged between 10.47 and 53.09 *per cent* during 2005-10.

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

Table 1.7: Trends in Revenue Receipts relative to GSDP

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) (₹ in crore)	1,088.20	1,203.25	1,497.71	1,758.20	2,345.37
Rate of growth of Revenue Receipts (<i>per cent</i>)	7.61	10.57	24.47	17.39	33.40
Revenue Receipts / GSDP (<i>per cent</i>)	59.46	59.03	65.18	67.31	79.16
Rate of growth of Own taxes (<i>per cent</i>)	25.89	19.63	14.25	0.68	12.28
Buoyancy Ratios ⁸					
Revenue Buoyancy w.r.t. GSDP	0.53	0.93	1.92	1.27	2.49
State's Own Tax Buoyancy with respect to GSDP	1.82	1.55	1.12	0.05	0.91
Gross State Domestic Product (₹ in crore)	1,830	2,038.54	2,297.86P	2,612.10A	2,962.90
Rate of growth of GSDP	14.22	11.40	12.72	13.68	13.43

(P) – Quick, (A) – Advance Estimates

The rate of growth of revenue receipts during 2009-10 has sharply increased by 33.40 *per cent* as compared to 2008-09. However, the increase was mainly due to the increase in the Grants in aid from Government of India by 43.99 *per cent* over the previous year. Revenue Buoyancy was more than one during the last three years and State's Own Tax buoyancy was also more than one during the years 2005-08, which fell to 0.05 during last year and again increased to 0.91 during 2009-10. Ideally growth rate of revenue should be higher than GSDP growth rate so that over a time, the budget can be better balanced. If the State's own taxes are buoyant, then the Government will be in a better position to plan expenditure and improve welfare of the people.

1.4.2 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.

The gross collection in respect of major taxes and duties as well as the components of non-tax receipts vis-à-vis budget estimates during the years from 2005-06 to 2009-10 are given in **Appendix -1.5** and **1.6**

The tax revenue of the State increased from ₹ 116.95 crore in 2005-06 to ₹ 199.19 crore in 2009-10 at an annual rate of 14.06 *per cent*. The non-tax revenue (NTR), which constituted 19.08 *per cent* of the total revenue receipts, increased from ₹ 111.36 crore in 2005-06 to ₹ 447.42 crore in 2009-10 at an annual rate of 60.36 *per cent*.

⁸Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, State's own receipts buoyancy ratio with reference to its GSDP at 0.91 implies that revenue receipts tend to increase by 0.91 percentage points, if the GSDP increases by one per cent.

CAGR of Own tax Revenue of Sikkim (14.94 per cent) between 2000-01 and 2008-09 was slightly lower than the average of NE states (15.15 per cent). CAGR of Non-tax Revenue of Sikkim (0.14 per cent) between 2000-01 and 2008-09 was lower than the average of NE states (17.53 per cent). Government should therefore, explore the possibility of enhancing the Own tax and non tax-revenue.

1.4.3 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 2007-08, 2008-09 and 2009-10 along with the relevant all India average percentage of expenditure on collection to gross collection for 2008-09 was as follows:

Table 1.8: Cost of collection

(₹ 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 2008-09
1.	Sales tax	2007-08	81.32	1.72	2.12	0.88
		2008-09	101.14	1.95	1.93	
		2009-10	121.07	3.75	3.10	
2.	State excise	2007-08	37.94	1.97	5.19	3.66
		2008-09	46.46	2.36	5.08	
		2009-10	57.27	3.62	6.32	
3.	Taxes on vehicles	2007-08	6.22	0.60	9.65	2.93
		2008-09	6.94	0.77	11.10	
		2009-10	7.88	1.34	17.01	

Thus, the percentage of expenditure on collection during 2009-10 as compared to the corresponding all India average percentage for 2008-09 was high in the cases of sales tax, state excise and taxes on vehicles which is indicative of the fact that the excess expenditure incurred on collection of revenue might impede the path of improvement towards achieving a healthy fiscal path in the State.

The position with regard to mobilisation of the State's own resources in 2009-10 vis-à-vis projections made by TFC and the State Government in its Budget is as under:

Table 1.9: Mobilisation of own resources

(₹ in crore)

Year 2007-08	Assessment of TFC	Budget Estimate	Actual	Percentage Change over	
				TFC Projection	BE
Tax Revenue (own tax)	205.11	177.18	223.65	9.04	26.23
Non-tax Revenue	114.47	258.88	447.42	290.86	72.83

Source: Twelfth Finance Commission Report and Finance Accounts.

Table 1.9 reveals that the tax revenue as well as the non-tax revenue receipts exceeded both the normative assessments made by TFC and budget provision.

1.4.4 Cost recovery in supply of merit goods and services

The current levels of cost recovery (non-tax revenue receipts as a percentage of non-plan revenue expenditure) in supply of merit goods and services by Government were negligible, as depicted in **Table 1.10**.

Table 1.10: Cost recovery in supply of merit goods and services

(₹ in lakh)

	Non-tax revenue receipts	Non-plan revenue expenditure	Cost Recovery (per cent)
Elementary Education	19.97	12,792.00	0.16
Medical and Public Health	101.82	7,468.65	1.36
Water Supply & Sanitation	261.52	990.59	2.64
Roads & Bridges	00	3,613.10	00
Minor Irrigation	35.64	220.90	16.13

As can be seen from above table, while the cost recovery for Roads and Bridges during 2009-10 was nil, for Elementary Education, Medical and Public Health, Water Supply & Sanitation and Minor Irrigation the percentages were 0.16, 1.36, 2.64 and 16.13 respectively. While cost recovery from social services like education and health are expected to be lower than that of economic services, incremental raising of user charges will facilitate sustainable provision of these services over a period of time.

1.4.5 Revenue Arrears

The arrears of revenue as on 31 March 2010 in respect of some principal heads of revenue as furnished by the departments amounted to ₹ 126.31 crore of which ₹ 100.48 crore was outstanding for more than five years as mentioned in the following table:

Table 1.11: Revenue Arrears

(₹ in crore)

Sl. No.	Head of revenue	Amount outstanding as on 31 March 2010	Amount outstanding for more than five years as on 31 March 2010
1	Road transport (SNT)	1.73	nil
2	Police	23.17	nil
3	Printing & Stationeries	89.56	89.56
4	Food & Civil supplies & Consumer Affair	0.05	nil
5	Animal Husbandry, Livestock, Fishers and VS	0.57	0.57
6	Non-Ferrous Mining & Metallurgical Industries	3.30	2.55
7	Sales Tax/VAT	0.44	0.31
8	Income tax	7.49	7.49
	Total	126.31	100.48

Source: Information from State Government departments.

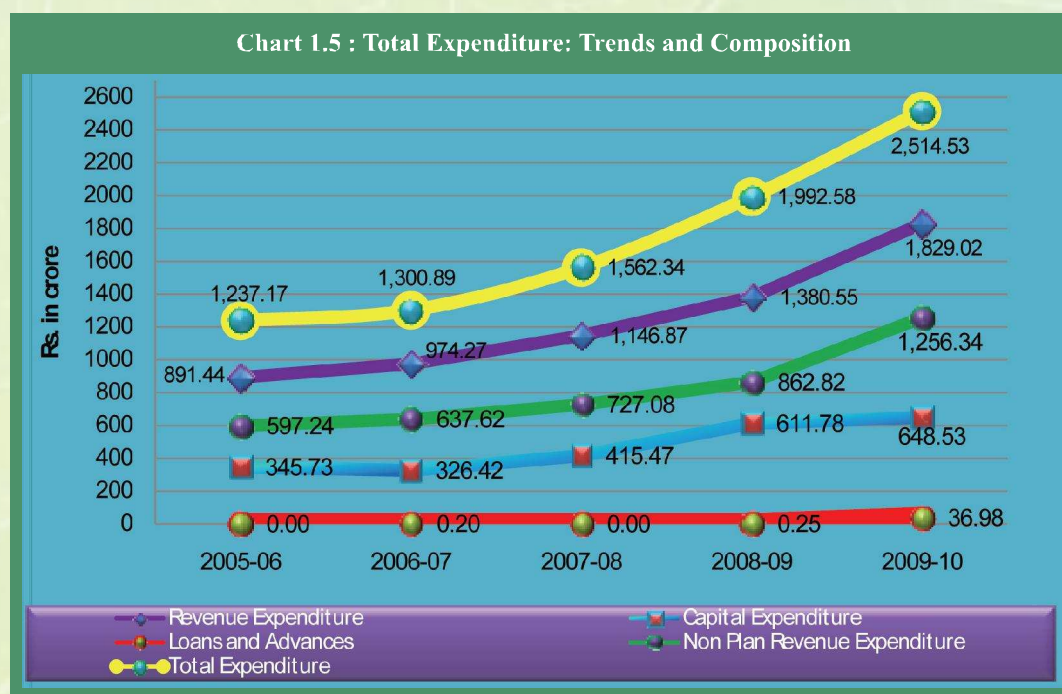
1.5 Application of Resources

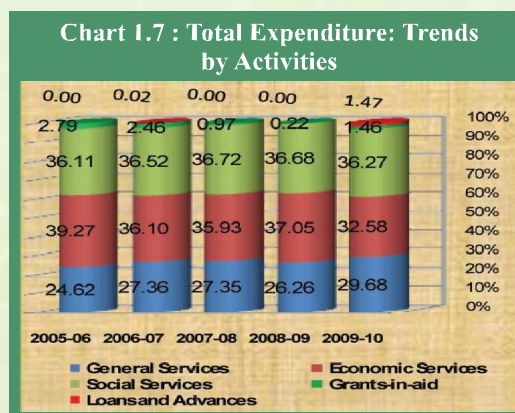
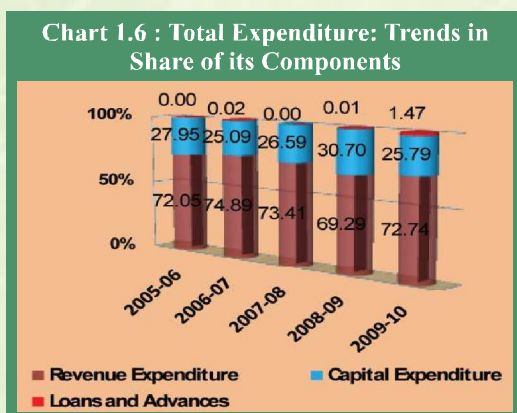
Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit 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.

1.5.1 Growth and Composition of Expenditure

Statement 12 of volume -2 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 1.5 presents the trends of total expenditure over a period of five years (2005-10) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.6** and **1.7**.





Total expenditure of ₹ 1,237.17 crore in 2005-06 increased to ₹ 2,514.53 crore in 2009-10. In relative terms, the revenue and capital components have increased by 105.18 *per cent* and 87.58 *per cent* respectively during the period 2005-10. However, in absolute terms, increase was of the order of ₹ 937.58 crore in revenue expenditure and ₹ 302.80 crore in capital outlay during 2009-10 as compared to 2005-06. This trend indicates that the increase in capital and revenue expenditure was in the ratio of 1:1.21 during the last 5 year period.

The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.12**.

Table 1.12: Total expenditure – basic parameters

	2005-06	2006-07	2007-08	2008-09	2009-10
Total Expenditure (TE) (₹ in crore)	1,237.17	1,300.89	1,562.34	1,992.58	2,514.53
Rate of growth (<i>per cent</i>)	3.39	5.15	20.10	27.54	26.19
TE/GSDP ratio (<i>per cent</i>)	67.60	63.81	67.99	76.20	84.87
RR/TE ratio (<i>per cent</i>)	87.96	92.49	95.86	88.23	93.27
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	0.24	0.45	1.58	2.01	1.95
RR (ratio)	0.45	0.49	0.82	1.58	0.78
Gross State Domestic Product (₹ in crore)	1,830	2,038.54	2,297.86P	2,612.10A	2,962.90
Rate of growth of GSDP	14.22	11.40	12.72	13.68	13.43
Revenue Receipts (RR) (₹ in crore)	1,088.20	1,203.25	1,497.71	1,758.20	2,345.37
Rate of growth of Revenue Receipts (<i>per cent</i>)	7.61	10.57	24.47	17.39	33.40

During the current year, 93.27 *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 1.95 in 2009-10 indicating a tendency to spend more than the increase in income and higher elasticity of total expenditure with respect to

GSDP.

The increase in revenue expenditure was mainly on:

- Administrative Services (₹ 105.50 crore) of which major increase of expenditure of ₹ 71.65 crore was in police.
- Education, Sports, Art and Culture (₹ 123.46 crore) of which major increase of expenditure of ₹ 122.21 crore was under General education due to revision of pay and expenditure incurred towards payment of arrear payment made for new pay commission.
- Agriculture and Allied Activities (₹ 37.18 crore) of which major increase of expenditure was under Forestry and Wild life (₹ 12.55 crore), Animal Husbandry (₹ 7.95 crore) and Co-operation (₹ 6.05 crore).
- Irrigation and Flood control (₹ 9.67 crore) of which major increase of expenditure was under Minor irrigation (₹ 23.37 crore) which was offset by decrease in flood control (₹ 14.23 crore).

The increase in Capital expenditure during 2009-10 was mainly on account of General Service ₹ 11.74 crore and Social Service by ₹ 30.10 crore which was offset by decrease in Economic Service by ₹ 5.09 crore. In General Service, expenditure was mainly increased in public works, which was partly offset by decrease in capital expenditure in Police. In Social Service, capital expenditure mainly increased in Urban development by injecting more funds under Jawaharlal Nehru National Urban Renewal Mission. In Economic Service capital expenditure mainly decreased in Transport which was offset by increase in Power Project. *CAGR of Capital expenditure for Sikkim (19.12 per cent) between 2000-01 and 2008-09 was marginally lower than that of NE States (19.67 per cent).*

The increase in disbursement of loans and advances during 2009-10 was mainly due to increase in loans for power projects by ₹ 35 crore.

The pattern of total expenditure in the form of plan and non-plan expenditure during 2009-10 revealed that non-plan expenditure and plan expenditure contributed 50-50 share. However, of the increase of ₹ 521.95 crore in total expenditure as compared to previous year, plan expenditure shared 25 per cent (₹ 128.43 crore) while non-plan expenditure contributed 75 per cent (₹ 393.52 crore) in 2009-10.

The increase in ratio of revenue receipts to total expenditure from 88.23 per cent in 2008-09 to 93.27 per cent in 2009-10 is to be viewed in the light of the increase in central grants by ₹ 397.07 crore (43.99 per cent) from ₹ 902.55 crore in 2008-09 to ₹ 1,299.62 crore in 2009-10. The buoyancy of total expenditure with reference to GSDP decreased to 1.95 during 2009-10 due to slight decrease in the rate of growth of

total expenditure as well as to the rate of growth of GSDP. Similarly, the buoyancy ratio of total expenditure to revenue receipts rose to 0.78 in 2009-10 indicating rate of increase of receipt was greater than rate of increase of expenditure.

1.5.2 Trends in total expenditure in terms of activities

In terms of activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, Grants-in-aid and loans and advances.

The trends in composition of total expenditure by activities as depicted in **Chart 1.7** show that while the share of General Services and Social Services was almost static, between 24.62 per cent to 29.68 per cent and 36.11 per cent to 36.72 per cent respectively during the last five years, the share of Economic Services decreased from 39.27 per cent in 2005-06 to 32.58 per cent in 2009-10.

The expenditure on general services and interest payments, which are considered as non-developmental, together contributed 29.68 per cent in 2009-10 as against 26.26 per cent in 2008-09 and increased from 24.62 per cent in 2005-06 to 29.69 per cent in 2009-10. On the other hand, developmental expenditure i.e., expenditure on social and economic services together accounted for 68.85 per cent in 2009-10 as against 73.73 per cent in 2008-09 and 75.38 per cent in 2005-06. This indicates that there was decrease in developmental expenditure and increase in non-developmental expenditure in comparison to previous year.

1.5.3 Revenue Expenditure

Revenue expenditure had predominant share (72.73 per cent) in total expenditure. Since increase in Revenue expenditure was to maintain the current level of services and payment for the past obligations, it did not result in any addition to the State's infrastructure and service network. The overall revenue expenditure of the State increased by 32.49 per cent from ₹ 1,380.55 crore in 2008-09 to ₹ 1,829.02 crore in 2009-10. The revenue expenditure, its rate of growth, the ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy is indicated in **Table 1.13**.

Table 1.13: Revenue expenditure – basic parameters

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Expenditure (RE), of which	891.44	974.27	1,146.87	1,380.55	1,829.02
Non-Plan Revenue Expenditure (NPRE)	597.24	637.62	727.08	862.82	1,256.34
Plan Revenue Expenditure (PRE)	294.20	336.65	419.79	517.73	572.68
Rate of Growth of					
RE (per cent)		9.29	17.72	20.38	32.48
NPRE (per cent)		6.76	14.03	18.67	45.61
PRE (per cent)		14.43	24.70	23.33	10.61
Revenue Expenditure as percentage to TE	72.05	74.89	73.41	69.28	72.74
NPRE/GSDP (per cent)	32.64	31.28	31.64	33.03	42.40
NPRE as percentage of TE	48.27	49.01	46.54	43.30	49.96
NPRE as percentage of RR	54.88	52.99	48.55	49.07	53.57
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.00	0.81	1.39	1.49	2.42
Revenue Receipts (ratio)		1.14	1.38	0.85	1.03

The overall revenue expenditure of the State increased by 105.18 *per cent* from ₹ 891.44 crore in 2005-06 to ₹ 1,829.02 crore in 2009-10 at an annual average rate of 21.04 *per cent* and increased from ₹ 1,380.55 crore in 2008-09 to ₹ 1,829.02 crore in 2009-10. The NPRE constituted a dominant share of 68.69 *per cent* in the revenue expenditure and has increased by ₹ 393.52 crore over the previous year. The increase in NPRE during the current year was mainly due to increase in expenditure under Administrative Services (₹ 78.90 crore), Pensions and Miscellaneous General Services (₹ 64.45 crore), Education, Sports, Art and Culture (₹ 108.84 crore) and Agriculture and Allied Activities (₹ 36.19 crore).

The PRE increased by ₹ 54.95 crore from ₹ 517.73 crore in 2008-09 to ₹ 572.68 crore in 2009-10 mainly due to increase in expenditure in Health and Family Welfare (₹ 239 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 100 crore), Social Welfare and Nutrition (₹ 189 crore), Agriculture and Allied Activities (₹ 144 crore), Rural Development (₹ 121 crore) and Special Areas Programmes (₹ 106 crore).

The buoyancy of revenue expenditure with reference to both GSDP and revenue receipts were more than one during 2009-10 indicating that rate of increase of Revenue expenditure was more than revenue receipt and GSDP.

Non-plan revenue expenditure was a major component (68.69 *per cent*) during 2009-10. Only 31.31 *per cent* of revenue expenditure was Plan Revenue Expenditure. The trends in composition of revenue expenditure (both plan and Non-plan) during 2005-10 are depicted in the table below:

Table-14- Plan and Non –plan expenditure

	2005-06	2006-07	2007-08	2008-09	2009-10
Plan	294.20 (33.00)	336.65 (34.55)	419.79 (36.60)	517.73 (37.50)	572.68 (31.31)
Non Plan	597.24 (67.00)	637.62 (65.45)	727.08 (63.40)	862.82 (62.50)	1,256.34 (68.69)
Total	891.44	974.27	1,146.87	1,380.55	1,829.02

A comparative position of Non-plan Revenue Expenditure (NPRE) vis-a vis assessment made by TFC revealed that NPRE was ₹ 576.75 crore (84.86 per cent) more than the assessment made by TFC. The Plan Revenue Expenditure increased by ₹ 54.95 crore (10.61 per cent) from ₹ 517.73 crore in 2008-09 to ₹ 572.68 crore in 2009-10 and Non - plan Revenue Expenditure increased by ₹ 393.52 crore (45.61 per cent) from ₹ 862.82 crore in 2008-09 to ₹ 1,256.34 crore in 2009-10 mainly due to the increase of salaries by ₹ 298.57 crore from ₹ 345.80 crore in 2008-09 to ₹ 644.37 crore in 2009-10.

1.5.4 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 1.15** and **Chart 1.8** present the trends in the expenditure on these components during 2006-10.

The committed expenditure (i.e., interest payments, pensions, salaries and subsidies) of the State Government increased from ₹ 710.18 crore in 2008-09 to ₹ 1,117.45 crore in 2009-10. The overall percentage of committed expenditure on NPRE and total Revenue Receipts was 88.94 per cent and 47.33 per cent respectively during the current year.

The committed liabilities for the State projected by the TFC was ₹ 319.08 crore of total NPRE for 2009-10. Compared to this, there was an increase of 71.45 per cent in the actual expenditure during 2009-10.

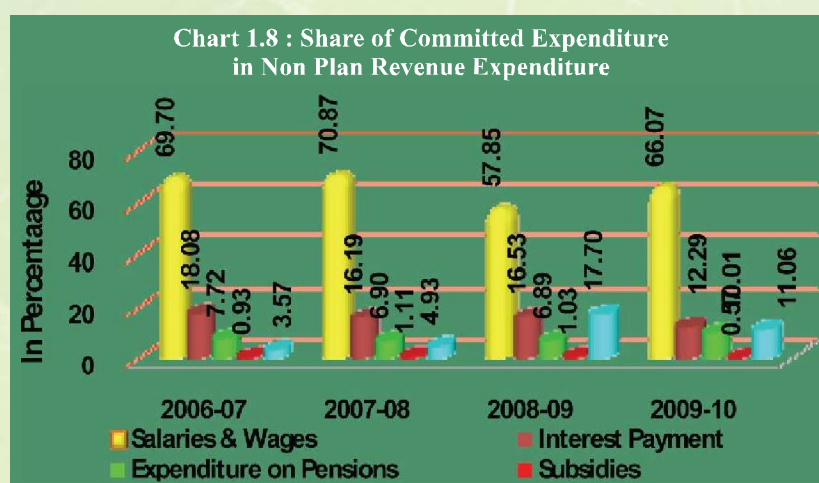
Table 1.15: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2006-07	2007-08	2008-09	2009-10
Salaries & Wages , Of which	444.42 (69.70)	515.28 (70.87)	499.16 (57.85)	830.05 (66.07)
Non-Plan Head	332.97	373.07	358.62	646.68
Plan Head**	111.45	142.21	140.54	183.37
Interest Payments	115.27 (18.08)	117.74 (16.19)	142.64 (16.53)	154.43 (12.29)
Expenditure on Pensions	49.24 (7.72)	50.19 (6.90)	59.45 (6.89)	125.75 (10.01)
Subsidies	5.91 (0.93)	8.08 (1.11)	8.93 (1.03)	7.22 (0.57)
Total :	614.84	691.29	710.18	1,117.45
<i>As per cent of Revenue Receipts</i>				
Salaries & Wages	36.93	34.40	28.39	35.39
Interest Payments	9.58	7.86	8.11	6.58
Expenditure on Pensions	4.09	3.35	3.38	5.36
Subsidies	0.49	0.54	0.51	0.003

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 66.29 per cent of revenue receipts of the State during the year. It increased by about 3.13 per cent from ₹ 499.16 crore in 2008-09 to ₹ 830.05 crore in 2009-10 mainly due to payment of arrear salaries as a result of implementation of report of State 4th Pay Commission. The expenditure on salaries was 53.59 per cent of the revenue expenditure, net of interest payments and pension as against TFC norm of 35 per cent and constituted 123.69 per cent of own tax and non-tax revenue during 2008-09.

Pension payment

Pension payments increased by 111.52 per cent from ₹ 59.45 crore in 2008-09 to ₹ 125.75 crore in 2009-10 which is more than the projection of ₹ 50.65 crore made by TFC. Increase in the Pension payment was due to the implementation of report of State 4th Pay Commission. Pension payment accounted for 5.36 per cent of revenue receipts and 6.88 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 8.27 per cent from ₹ 142.64 crore in 2008-09 to ₹ 154.43 crore in 2009-10. The interest payments of ₹ 154.43 crore in 2009-10 pertained to internal debt (₹ 102.81 crore), loans received from Central Government (₹ 21.48 crore) and Small Savings, Provident Fund, etc. (₹ 30.14 crore). The interest payment during 2009-10 although exceeded the normative projections of TFC (₹ 130.07 crore) but relative to revenue receipts at 6.58 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 ₹ 8.08 crore in 2007-08, ₹ 8.93 crore in 2008-09 and ₹ 7.22 crore in 2009-10 on various components like co-operation and food subsidies. During 2009-10, subsidy of ₹ 6.66 crore was paid on Food subsidies and ₹ 0.55 crore on Co-operation as transport and marketing subsidies and ₹ 0.01 crore on crops husbandry as price support to farmers.

1.5.5 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 1.16**

Table 1.16: Financial assistance to Local Bodies etc

(₹ in crore)

Financial Assistance to Institutions	2005-06	2006-07	2007-08	2008-09	2009-10
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	1.05	0.93	0.81	0.76	0.67
Zilla Parishads and Other Panchayati Raj Institutions	21.77	24.96	24.13	110.85	182.05
Cooperative societies	0.96	1.12	1.36	0.53	3.72
Other Institutions (Housing Board, etc.)	10.78	4.97	0.44	0.87	1.02
Total	34.56	31.98	26.74	113.01	187.46
Assistance as per percentage of RE	3.88	3.28	2.33	8.19	10.25

The total assistance at the end of the year 2009-10 had increased by 65.88 *per cent* over the level of 2008-09 mainly due to increase in assistance to cooperative societies and Zilla Parishads and Other Panchayati Raj Institutions. The assistance to Zilla Parishads and Other Panchayati Raj Institutions increased due to payment of arrear of salaries and increase of salaries of the State Government employees due to implementation of report of 4th Pay Commission as the expenditure on Salaries of Lower Primary Schools and Junior High Schools was transferred to Panchyati Raj Institutions as grants- in -aid by the State Government .

1.6 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).

1.6.1 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 require the States to step up their expenditure on key social services like, education, health, etc. **Table 1.17** analyses the fiscal priority of the State Government with regard to developmental expenditure, social sector expenditure and capital expenditure during the current year.

Table 1.17: Fiscal Priority and Fiscal capacity of the State in 2005-06 and 2009-10

Fiscal Priority of the State	AE/GSDP	DE [#] /AE	SSE/AE	CE/AE	Education/AE	Health/AE
All NE State's Average (Ratio) 2005-06 ^{\$}	29.92	65.98	32.91	16.21	18.06	4.63
Sikkim's Average (Ratio) 2005-06	67.60	75.38	36.11	27.95	18.02	4.84
All NE State's Average (Ratio) 2009-10 ^{\$}	37.18	64.98	34.64	17.55	16.47	5.65
Sikkim's Average (Ratio) 2009-10	85.46	70.30	36.33	25.79	17.41	4.95

Source: The estimated GSDP for the year 2009-10 for the State of Sikkim was ₹ 2,962.90 crore, which is arrived at on the basis of figures for the last year (2008-09) of Advance Estimates of GSDP (₹ 2,612.10 crore) increased by 13.43 *per cent* (average growth rate during 1999-2000 to 2008-09) as State Government has not yet finalised the GSDP

AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure, CE: Capital Expenditure

Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

^{\$} Excluding Manipur, Mizoram and Nagaland

Table 1.17 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. 2009-10. The Government of Sikkim had a much higher AE / GSDP ratio in both the years under consideration compared to the average of NE States.

The ratio of development expenditure as a proportion to aggregate expenditure is higher than NE States average which indicates that the State has given higher priority to this category of expenditure as compared to other States.

In Social Sector Expenditure Sikkim Government's expenditure as a percentage of AE was marginally less than the NE States during both the year indicating that the Sikkim Government is giving more emphasis on Economic Sectors as development expenditure in the sector is considerably higher.

The Government may consider giving greater emphasis to Social Sector considering the higher BPL population in the State.

1.6.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on developmental heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods⁹. Apart from improving the allocation towards developmental expenditure¹⁰, 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 1.18** 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 1.19** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

⁹Core 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 subsidised 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 subsidised 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.

¹⁰The 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 1.18: Developmental Expenditure*(₹in crore)*

Components of Developmental Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10
Developmental Expenditure (a to b)	932.53 (75.38)	944.80 (72.62)	1,135 (72.65)	1,469.04 (73.72)	1,768.05 (70.31)
a. Developmental Revenue Expenditure	604.17 (48.84)	639.44 (49.15)	758.81 (48.57)	934.39 (46.89)	1,171.41 (46.59)
b. Developmental Capital Expenditure	328.36 (26.54)	305.36 (23.47)	376.19 (24.08)	534.65 (26.83)	596.64 (23.82)

Figures in parentheses indicate percentage to aggregate expenditure

Developmental expenditure of ₹ 932.53 crore in 2005-06 increased to ₹ 1,768.05 crore in 2009-10. However, its share in aggregate expenditure decreased from 75.38 per cent to 70.31 per cent during the period. *Non-plan developmental revenue expenditure (SS + ES) of ₹ 635.83 crore was higher than the TFC Projection of ₹ 325.40 crore for the State during 2009-10.*

Table 1.19: Efficiency of Expenditure Use in Selected Social and Economic Services*(In per cent)*

	2008-09			2009-10		
Social/Economic Infrastructure	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**
Social Services (SS)						
General Education	9.38	42.51	0.00	6.58	50.66	0
Health and Family Welfare	7.40	63.22	1.28	2.74	76.47	0
Water Supply, Sanitation, & Housing & Urban Development	66.58	17.30	32.01	73.16	28.26	9.31
Other Social Services	3.35	20.47	22.14	6.95	29.43	0
Total (SS)	26.07	38.18	8.66	24.20	49.54	0.90
Economic Services (ES)						
Agri & Allied Activities	5.60	39.21	0.72	7.15	51.67	0
Irrigation and Flood Control	15.31	16.33	4.48	8.51	14.57	0
Power & Energy	55.44	43.49	17.74	54.41	55.63	0
Transport	72.21	62.06	1.97	63.14	36.52	0
Other Economic Services	48.50	28.05	0.01	48.73	23.59	0
Total (ES)	46.61	39.76	3.17	41.39	40.39	0
Total (SS+ES)	36.39	38.88	6.35	32.33	46.12	0.53

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). **Only maintenances

Table 1.19 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 2008-09 and 2009-10.

The ratio of development capital expenditure as a percentage of total expenditure decreased from 36.39 *per cent* in 2008-09 to 32.33 *per cent* in 2009-10. While the share of salary and wages in revenue expenditure increased from 38.88 *per cent* in 2008-09 to 46.12 *per cent* in 2009-10, operation and maintenance in revenue expenditure decreased from 6.35 *per cent* in 2008-09 to 0.53 *per cent* in 2009-10.

1.6.3 Effectiveness of the Expenditure, i.e. Outlay-outcome Relationship

Four performance reviews viz., 'Projects Funded under North Eastern Council', 'Macro Management of Agriculture', 'Public Distribution System' and 'Integrated Audit of the Sikkim Public Works Department (Roads & Bridges)' included in a separate Report of the Comptroller and Auditor General of India for the year ended 31 March 2010 highlight the following aspects:

Projects Funded Under North Eastern Council

With the objective of balanced socio-economic development, extension of North Eastern Council (NEC) funded projects in Sikkim came into effect from December 2002 with the release of funds for implementation starting from the year 2003-04. The programme being project specific in the context of Sikkim, implementation was to be strictly according to the stipulated conditions imposed by the NEC relating to time, cost and objective as approved in the detailed project reports of individual schemes.

The performance audit on the projects funded under NEC indicated that the very objective and the intended benefit of funding projects under NEC towards attaining balanced socio-economic development of the State remained largely unachieved due to improper survey and planning leading to preparation of defective project reports, non-completion of projects, delay in execution, cost overrun, unfruitful expenditure in implementation of projects, non-utilisation of assets created, etc. This was further compounded by irregular award of work, unrealistic budgeting, non-utilisation of fund, inadequate monitoring and absence of impact assessment. Some of the important observations are highlighted hereunder:

- **Only 62 *per cent* of works could be completed within the stipulated time frame of completion. The objectives were not achieved in 11 (44 *per cent*) out of 25 Schemes test-checked.**
- **There was an unfruitful expenditure of ₹ 60.88 lakh in the Establishment of Bio-fertilizer Unit in the State.**
- **Non-utilisation of Polyclinic State Veterinary Hospital resulted in idle investment of ₹ 1.71 crore.**
- **Unutilised Accident and Trauma Centre in Namchi resulted in unfruitful expenditure of ₹ 80.23 lakh.**
- **Improper management of Stores resulted in non-accountal of stock material valuing ₹ 18.09 lakh. Which seems to have been pilfered.**
- **Monitoring mechanism was inadequate and impact of the Schemes was never evaluated.**

Macro-Management of Agriculture

Macro-Management of Agriculture was launched in 2000-01 with the objectives of promoting high yielding varieties, encouraging value addition in farm output, increasing farmers' income and assisting employment generation through work plans by the State. A performance review of the implementation of the scheme revealed deficiencies in planning, absence of prescribed strategies required to achieve the growth rate of four per cent per annum, inordinate delay in release of fund to the implementing agencies and non-realisation of beneficiary contribution on distribution of agricultural inputs. Despite substantial financial support and technological intervention by the Government, productivity of two major crops (wheat and maize) declined from 1,602.79 to 1,125.00 and 1,664.85 to 1,500.00 kg per hectare. The area under cultivation remained almost static over the last five years though there was 113 per cent increase in purchase of six principal seeds during 2009-10 as compared to 2005-06. The Department was performing fairly well in the activities of the programme under NWDPPA except non-recovery of loan of ₹ 53.03 lakh given to self help group from revolving fund. Farmers were not provided the requisite training for raising of seedling by the RVP Division. There was lack of monitoring and evaluation of the programme. Consequently, the objectives of the programme remained largely unachieved. Significant points noticed were as under:

- **The Annual Work Plan (AWP)** neither indicated the expected outcomes nor set any bench marks against which the performance of the scheme could be evaluated
- **Agricultural growth** showed a declining trend and declined from 5.50 per cent in 2005-06 to 1.47 per cent in 2006-07, (-) 6.17 per cent in 2007-08, 4.58 per cent in 2008-09 and 1.86 per cent in 2009-10.
- **No standard criterion for selection of beneficiaries** was adopted to assess the extent of assistance to be rendered to the small and marginal framers.
- **The RVP Division** was inconsistent in utilisation of earmarked project fund. Seedlings raised in the nursery were not utilised for plantation in project area.
- **There was lack of monitoring and evaluation system** in the Department to oversee the performance of the district level officers as well as activities of the beneficiaries in the State.

Public Distribution System in Sikkim

Public Distribution System (PDS) is a major component of the overall food management strategy of the Central Government for ensuring availability of food-grain at affordable price and enhancing food security for the poor. The Food and Civil Supplies and Consumer Affairs Department (FCS&CAD) is the nodal Department for management of the PDS in the State. The Department did a commendable job in catering to 70,851 below poverty line beneficiaries and 4,30,547 above poverty line beneficiaries as of March 2010. Performance Audit of PDS however, revealed that the areas of concerns as pointed out in Comptroller and Auditor General's Audit Report 2005 and PAC's recommendation thereon was not acted upon especially in respect of identification mechanism for selection of BPL families and periodical review of BPL list; ensuring that the PDS commodities primarily wheat, reached the intended beneficiaries; reimbursement of Hill Transport Subsidy and differential cost of levy sugar, etc. Besides, non-lifting of allotted quantity of levy sugar; defects in issue and renewal of ration cards; defective price structure of food grains and lack of adequate monitoring mechanism to ensure flawless PDS in the state as highlighted below were noticed:

- The Department neither reviewed nor updated the list of beneficiaries under BPL categories despite repeated reminders from GOI and State Government's claim of reduction of BPL from 41.43 per cent to 19.33 per cent leading to extra financial burden of ₹ 3.47 crore to the State exchequer.
- Issue of ration cards which is one of the most important documents under PDS for issue of essential commodities was stopped since August 2009. 45,928 BPL beneficiaries possessed both APL and BPL cards in defiance of norms.
- Erroneous inclusion of higher handling and storage charges led to extra financial burden of ₹ 40.10 lakh to the PDS beneficiaries.
- The Department had not kept adequate vigil over lifting and distribution of iodised salt and atta by the agents. This restricted salt and atta to urban areas only. Short supply of 13,458.50 quintal (valuing ₹ 2.15 crore) of atta due to excess refraction availed by Mill owner led to undue benefit to the flour mill owner.
- Distribution of sugar under PDS was characterised by low off take, overcharging of price by ₹125 per quintal and excess burden to the consumer on account of higher retail issue price.
- Monitoring was deficient and needed strengthening as returns were not submitted by FPSs, quality control was not effective, meeting of Vigilance Committees not convened, absence of surprise check, etc.

Integrated Audit of

Sikkim Public Works Department (Roads & Bridges)

Road network is the only means of communication in Sikkim and is therefore the backbone of all economic and social activities. Keeping in perspective the role of road infrastructure in stirring economic and social development in the State and the State Government's commitment to transform Sikkim into an ideal State comparable to the best in the country, Audit undertook an integrated audit of the Sikkim Public Works (Roads & Bridges) Department (RBD) in May - July 2010. The functioning of the Department was evaluated against the backdrop of the Government's Mission and the SPW (R&B) Department's mandate. It was seen in audit that the Department had so far created 2,053 kilometres length of road network and constructed 198 bridges of various sizes besides ensuring smooth flow of traffic round the year by keeping the roads clear of blockades resulting from landslides and other natural calamities in the State's mountainous terrain, which was appreciable. Several areas of deficiencies were, however, noticed in the functioning of the Department, such as, non-incorporation of the Government's Mission into the functioning of the Department, non-formulation of State Road Policy, absence of master plan of communication conforming to the Government's Mission, absence of perspective planning, unrestrained sanction of projects without availability of funds leading to huge pending liabilities, lax project management and quality control, violation of codal provision and terms and conditions of contract leading to loss to Government. Major findings are highlighted below:

- Although the State Government envisaged developing Sikkim economically at par with the best in the country by 2015, the RBD had neither incorporated the Government's mission into its functioning nor formulated any Road Policy till date. Non-existence of policy on road and grant of right of way to private companies led to loss of ₹ 5.49 crore to

the State.

- Due to indiscriminate sanction of projects without any master plan of communication, the Department had a huge committed liability of ₹ 341.77 crore for which there was no financial resource to make payments to the contractors.
- There were delays in completion of projects ranging from 1 to 10 years due to defective DPRs, non-availability of funds, failure to obtain timely clearances and award of works to incompetent contractors.
- Despite registration of a large number of contractors under the Department (one contractor for every 26 citizens), the level of competition in the bidding process was very poor indicating cartelization by contractors.
- Quality control was not accorded due priority as the mandatory tests prescribed in MORTH and PWD (manual) was not carried out.

1.7 Financial Analysis of Government Expenditure and Investments

Though the FRBM Act has recently been enacted in the State Legislature in September 2010, the fiscal responsibility legislation is expected to not only keep the fiscal deficit (and borrowing) 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.

1.7.1 *Incomplete projects*

The department-wise information pertaining to incomplete projects as on 31 March 2010 is given in **Table 1.20**.

Table 1.20: Department-wise Profile of Incomplete Projects

(₹ in Crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost	Cost Overrun	Actual exp as on 31.3.2010
Energy and Power Department	13	253.76	291.80	38.04	264.48
Human Resources Development Department	56	72.28	-	-	40.33
Building & Housing Department	12	80.92	84.01	3.09	45.01
Health Care, Human Services & Family Welfare Department	4	3.82	-	-	1.39
Tourism Department	25	100.05	-	-	43.36
Rural Development and Management Department	5	223.47	-	-	184.16
Urban Development and Housing Department	27	106.47	107.17	0.70	7.94
Total	142	840.77		41.83	586.67

As per the information received from the State Government, there were 142 incomplete projects as on 31 March 2010 in which ₹ 586.67 crore were blocked, out of which 79 works (₹ 285.00 crore) were due to be completed within 31 March 2010. The cost of 10 incomplete projects was revised and increased by ₹ 147.79 crore (72.47 per cent). Out of the total cost overrun of ₹ 41.83 crore, ₹ 38.04 crore pertained to Energy and Power Department involving six works, ₹ 3.09 crore pertained to Building and Housing Department involving two works and ₹ 0.70 crore pertained to Urban Development and Housing Department involving one work. 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 in scope of works. A photograph depicting an incomplete project is given below:

<i>Name of project</i>	Municipal solid waste and compost (MSWC) production plant at Sipchu
<i>Implementing Department</i>	Urban Dev. and Housing Department
<i>Estimated Cost</i>	₹ 250 lakh
<i>Date of commencement</i>	2007
<i>Scheduled date of completion</i>	February 2009



Incomplete MSWC production plant at Sipchu

1.7.2 Investment and returns

As on 31 March 2010, Government had invested ₹ 89.31 crore in Statutory Corporations, Banks, Joint Stock Companies and Co-operatives (**Table 1.21**). The average return on this investment was 0.96 *per cent* in the last three years while the Government paid an average interest rate of 8.35 *per cent* on its borrowings during 2009-10.

Table 1.21: Return on Investment

Investment/Return/Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (₹ in crore)	82.48	83.40	83.41	85.59	89.31
Return (₹ in crore)	1.14	0.76	0.68	1.31	0.46
Return (<i>per cent</i>)	1.38	0.91	0.82	1.53	0.52
Average rate of interest on Govt borrowing (<i>per cent</i>)	9.10	8.74	8.83	8.40	8.35
Difference between interest rate and return (<i>per cent</i>)	7.72	7.83	8.01	6.87	7.83

The Companies Act, 1956 is not extended to the State of Sikkim. The Government companies in Sikkim are registered under 'The Registration of Companies Act, 1961' and the Statutory Corporations are governed under the proclamation of the erstwhile Chogyal (King) of Sikkim.

As on 31 March 2010, Government invested in three Statutory Corporations *viz*, State Bank of Sikkim, Sikkim Mining Corporation, State Trading Corporation of Sikkim (STCS) (₹ 8.26 crore), 21 Companies *viz*, Sikkim Time Corporation Limited, Sikkim Industrial Development & Investment Corporation Limited (SIDICO), Sikkim Tourism Development Corporation, Sikkim Jewels Limited, etc. (₹ 69.00 crore) and 8 Bank and Co-operative Societies (₹ 12.05 crore). The return on these investments were however negligible as most of the statutory corporations/companies and/or co-operative societies were incurring losses.

Out of 32 Public Sector Undertakings (PSUs) as reflected in the Finance Accounts, only 15 PSUs come under the purview of Audit. While 11 PSUs (nine Government Companies and two Statutory Corporations) are working, remaining four PSUs are non-working. None of these companies were listed on the stock exchange(s).

As per finalised accounts, six PSUs¹¹ incurred a loss of ₹ 2.62 crore whereas four PSUs¹² earned a profit of ₹ 3.61 crore during the year 2009-10. One Company, Sikkim Power

¹¹ Sikkim Poultry Development Corporation, Sikkim Hatcheries Limited, Scheduled Tribes/Scheduled Castes & Other Backward Classes Development Corporation Limited, Sikkim Jewels Limited, Sikkim Times Corporation Limited and Sikkim Precision Limited.

¹² Sikkim Industrial Development & Investment Corporation Limited, Sikkim Tourism Development Corporation Limited, State Bank of Sikkim and State Trading Corporation of Sikkim.

Development Corporation did not prepare any Profit & Loss Account on the plea that its projects were under construction. The major profit was earned by State Bank of Sikkim: ₹ 1.30 crore, STCS: ₹ 0.62 crore and SIDICO: ₹ 1.52 crore. The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, running their operations and monitoring.

The figures in respect of equity, loans as per records of State PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as on 31 March 2010 is stated below.

Table 1.22: Outstanding Equity and Loans

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	72.58	81.28	8.70
Loans	37.03	2.03	35.00

Audit observed that the differences occurred in respect of seven PSUs and some of the differences were pending reconciliation since 2004-05. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

1.7.3 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/organisations. **Table 1.23** presents the outstanding loans and advances as on 31 March 2010, interest receipts vis-à-vis interest payments during the last three years.

Table 1.23: Average Interest Received on Loans Advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2006-07	2007-08	2008-09	2009-10
Opening Balance	6.08	5.50	5.12	4.99
Amount advanced during the year	0.20	Nil	0.25	36.98
Amount repaid during the year	0.78	0.38	0.38	0.30
Closing Balance	5.50	5.12	4.99	41.67
Net addition	(-) 0.58	(-)0.38	(-)0.13	(+)31.99
Interest Receipts	Nil	Nil	Nil	Nil
Interest receipts as per cent to outstanding Loans and advances	Nil	Nil	Nil	Nil
Interest payments as per cent to outstanding fiscal liabilities of the State Government	7.77	6.56	6.62	5.88
Difference between interest payments and interest receipts (per cent)	7.77	6.56	6.62	5.88

Interest received was “Nil” during 2006-10 primarily due to the failure of the statutory corporations/Government companies/Co-operative societies to pay the interest on Government loans.

1.7.4 Cash Balances and Investment of Cash balances

Table 1.24 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.24: Cash Balances and Investment of Cash Balances

(₹ in crore)

Particulars	As on 31 March 2009	As on 31 March 2010	Increase/ Decrease(-)
Cash Balances¹³	96.27	115.54	19.27
Investments held in Cash Balances (a to d)			
a. GOI Treasury Bills	-	-	
b. GOI Securities	-	-	
c. Other Securities, if any specify	-	-	
d. Other Investments	495.00	785.00	290.00
Fund-wise Break-up of Investment from Earmarked balances (a to c)			
a. Sinking fund	102.12	114.12	12.00
b. Calamity Relief fund	7.13	3.63	(-) 3.50
c. Guarantee Redemption Fund	7.72	9.72	2.00
Interest Realised	25.60	36.36	10.76

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 was vested with the responsibility by the Government of Sikkim for 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 the Bank. There is a balance of ₹ 114.99 crore with the State Bank of Sikkim as on 31st March 2010 as per the record of this office. But as per the record of the State Bank of Sikkim, the cash balance of Government stood at ₹ 105.02 crore leaving behind an unreconciled balance of ₹ 9.97 crore.

Unspent balances in the accounts of the implementing agencies

The State Government provides funds to State/district level Autonomous Bodies and Authorities, Societies, Non-Governmental Organisations, etc. for implementation of centrally sponsored schemes (State Share) and State schemes. Since the funds are generally not being spent fully by the implementing agencies in the same financial year,

¹³ Including cash with Departmental Officers and Permanent Advances for contingent expenditure with Departmental Officer

there remain unspent balances in the bank accounts of these implementing agencies. During 2009-10, ₹ 37.95 crore were lying as unspent balances in the bank accounts of the implementing agencies.

Further, there was unspent balance of ₹ 39.03 crore lying with the various implementing authorities who received fund directly from the Government of India as detailed in **Appendix-1.4**.

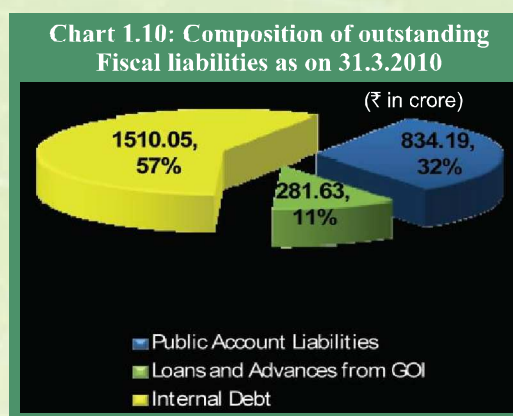
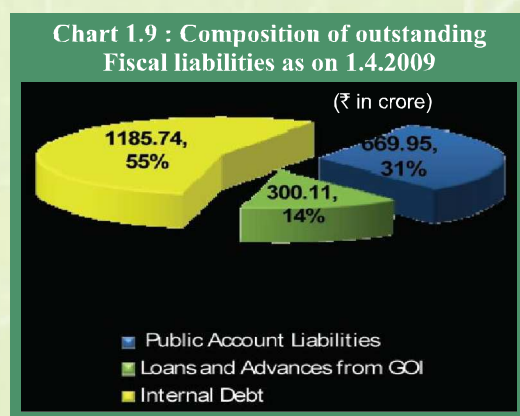
1.8 Assets and Liabilities

1.8.1 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-1.3** gives an abstract of such liabilities and the assets as on 1 April 2009, compared with the corresponding position on 31 March 2010. 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 of the capital outlay and loans and advances given by the State Government and cash balances.

1.8.2 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 1.9** and **1.10**.



Overall fiscal liabilities of the State increased by ₹ 470.86 crore (21.80 *per cent*) from ₹ 2,155.81 crore in 2008-09 to ₹ 2,625.87 crore in 2009-10. The increase in fiscal liabilities was mainly due to increase in Internal debt (₹ 324.31 crore) and Public Accounts liabilities (₹ 164.34 crore), which was partially offset by a decrease in loans and advances from GOI (₹ 18.48 crore). The ratio of these liabilities to GSDP increased from 83 *per cent* in 2008-09 to 89 *per cent* in 2009-10. The fiscal liabilities stood at

nearly 1.12 times the revenue receipts and 3.91 times of State's own resources at the end of 2009-10. The buoyancy of these liabilities with respect to GSDP during the year was 1.62 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.62 *per cent*. As of March 2010, sinking fund balances stood at ₹ 114.12 crore which were invested in fixed deposit of a nationalised bank.

1.8.3 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 9 of volume -2 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table 1.25**.

Table 1.25: Guarantees given by the Government of Sikkim

(₹ 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)
2009-10	75.00	75.00	197.85 (2007-08)

Government has guaranteed loans raised by two corporations (Sikkim Power Development Corporation Ltd - ₹ 50 crore and Scheduled Tribes/Scheduled Castes & Other Backward Classes Development Corporation Limited - ₹ 25 crore). At the end of 2009-10, outstanding guarantees stood at ₹ 75 crore. However, the records of the corporations showed that as on 31 March 2010 outstanding guarantee stood at ₹ 187.05 crore (₹ 50.01 crore, ₹ 37.04 crore and ₹ 100 crore were outstanding against Sikkim Power Development Corporation (SPDC), Scheduled Tribes/Scheduled Castes & Other Backward Classes Development Corporation Limited (SABCCO) and Sikkim Industrial Development and Investment Corporation (SIDICO) respectively). On any guarantee given to a public body, a guarantee commission at the rate of one *per cent* is charged by the State Government. An amount of ₹ 2.85 crore was paid in July 2010 by SIDICO. No guarantee commission was paid by other concerned PSUs.

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 ₹ 75 crore given by the Government as on 31 March 2010 were within the ceiling limit prescribed under the Act.

The State Government set up a Guarantee Redemption Fund in the year 2000 which

stood at ₹ 9.72 crore after transferring ₹ 3 crore during 2009-10.

1.9 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability¹⁴ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation¹⁵; sufficiency of non-debt receipts¹⁶; net availability of borrowed funds¹⁷; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.26** analyses the debt sustainability of the State according to these indicators for the period of three years beginning 2007-08.

Table 1.26: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2006-07	2007-08	2008-09	2009-10
Debt Stabilization (Quantum Spread + Primary Deficit)	25.67	135.72	207.38	274.38
Sufficiency of Non-debt Receipts (Resource Gap)	(+) 51.97	(+) 32.61	(-)169.76	(+) 65.14
Net Availability of Borrowed Funds	4.70	120.32	160.73	196.97
Burden of Interest Payments (IP/RR Ratio)	9.58	7.86	8.11	6.58
Maturity Profile of State Debt (In Years)				
0 – 1			76.28	158.80
1 – 3			157.37	141.72
3 – 5			127.55	142.47
5 – 7			120.29	346.82
7 and above			1,080.64	1,088.16

The sum of the quantum spread and primary deficits was positive during 2006-10 indicating declining trend of debt-GSDP ratio. Net fund available was positive indicating that ₹ 196.97 crore of the total debt receipts were utilised for other purposes

¹⁴The 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.

¹⁵A 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*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.

¹⁶Adequacy 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.

¹⁷Defined 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.

rather than for discharging past debt obligation. The maturity profile of the State Government indicates that 23.59 *per cent* of the total Public Debt are repayable within the next five years while the remaining 76.41 *per cent* loans to be paid in more than five years time.

1.10 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 for the financial year 2009-10.

1.10.1 Trends in Deficits

Charts 1.11 and 1.12 present the trends in deficit indicators over the period 2005-10.

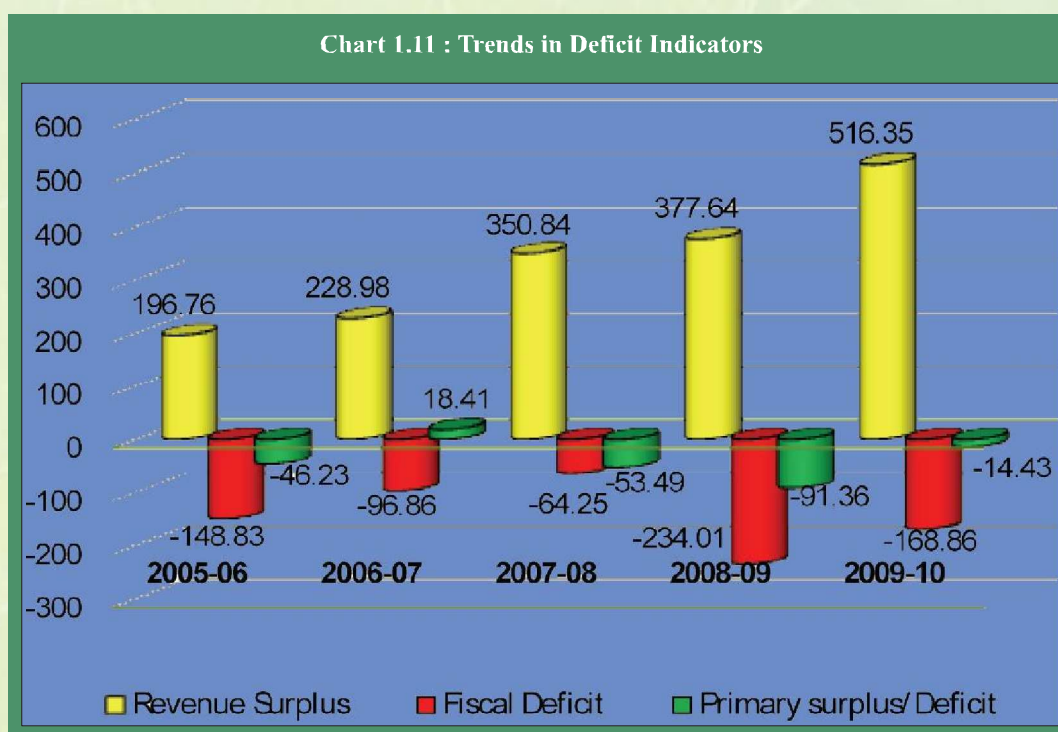
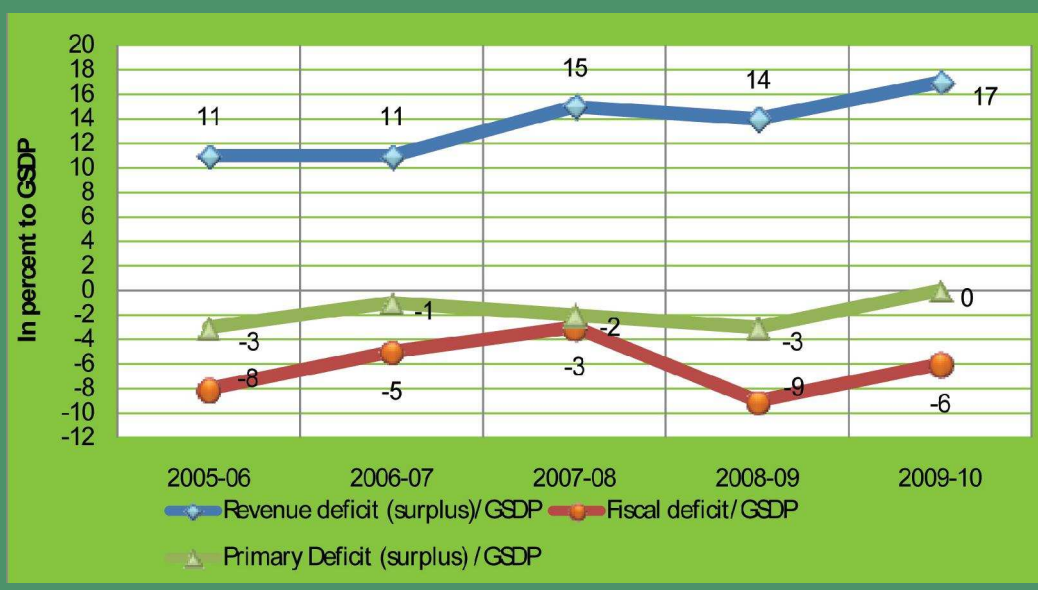


Chart 1.12 : Trends in Deficit Indicators Relative to GSDP



Deficit in Government Account represents the gap between its receipts and expenditure. The revenue account of the State had exhibited consistent improvement during the period 2005-10 as the State had not only maintained revenue surplus but its surplus position had improved during the last five years. An increase of ₹ 138.71 crore in revenue surplus during the current year was mainly on account of enhancement in revenue receipts by ₹ 587.18 crore as against the increase of ₹ 448.47 crore in revenue expenditure over the previous year. This improvement in revenue account during 2009-10 was mainly on account of steep increase of ₹ 407.55 crore in Central transfers comprising of State's share in Central taxes and duties and grants-in-aid from GOI which contributed around 71.39 per cent of total revenue receipts during the year.

Huge revenue surplus in 2009-10 accompanied by slight increase in capital expenditure (₹ 36.75 crore) in 2009-10 together with disbursement of loans and advances led to decrease of ₹ 65.14 crore in fiscal deficit during 2009-10 from previous year. Decrease in fiscal deficit accompanied by a minor increase in interest payment resulted in primary deficit of ₹ 14.43 crore against the primary deficit of ₹ 91.36 crore in 2008-09.

1.10.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1.27**.

Table 1.27: Components of Fiscal Deficit and its Financing Pattern

Particulars		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit		185.55	148.83	96.86	64.25	234.00	168.86
1	Revenue surplus	168.91	196.76	228.98	350.84	377.65	516.35
2	Net Capital Expenditure	353.54	345.73	326.42	415.47	611.78	648.53
3	Net Loans and Advances	0.92	-0.14	-0.58	-0.38	-0.13	36.68
Financing Pattern of Fiscal Deficit*							
1	Market Borrowings	66.67	101.72	106.46	233.17	276.88	324.31
2	Loans from GOI	42.60	10.94	-2.75	-9.10	-15.71	-18.49
3	Small Savings, PF, etc.	24.45	12.98	16.25	13.98	29.27	45.58
4	Deposits and Advances	3.43	3.09	5.46	3.59	23.24	9.9 0
5	Suspense and Misc.	53.92	11.09	5.63	31.28	-5.42	103.65
6	Remittances	74.47	-56.32	11.92	17.94	49.13	14.81
7	Reserve fund	14.47	15.60	3.37	42.99	13.08	8.87
8	Contingency fund transaction	0.50	-0.10	0.10	0	0	0
9	Overall Surplus/Deficit	94.96	-49.83	49.58	269.60	136.47	319.77
*All these figures are net of disbursements/outflows during the year							

The State had fiscal deficit during all the five years (2005-10) which increased from ₹ 148.83 crore in 2005-06 to ₹ 168.86 crore in 2009-10. The fiscal deficit was mainly financed by the market borrowings. Even though there was a huge revenue surplus of ₹ 516.35 crore during 2009-10, there was a fiscal deficit of ₹ 168.86 crore due to enhancement in capital expenditure mainly on account of increase of expenditure on Social Welfare and Nutrition, Crop Husbandry, Forest and Wild life, Rural Development, Power project, etc.

1.10.3 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 1.28**) 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 1.28: Primary Deficit/Surplus – Bifurcation of factors*(₹ 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)
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	0.20	1,185.62	(+) 345.03	(+) 18.41
2007-08	1,498.09	1,029.13	415.47	0	1,444.60	(+) 468.96	(+) 53.49
2008-09	1,758.58	1,237.92	611.78	0.25	1,849.95	(+) 520.66	(-) 91.37
2009-10	2,345.68	1,674.60	648.53	36.98	2,360.11	(+) 671.08	(-) 14.43

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2005-10 reveals (**Table 1.28**) 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 deficit¹⁸ of ₹ 14.43 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.

1.10.4 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 1.29** presents the change in revenue receipts of the State and the correction of the deficit during the last three years.

Table 1.29: Change in Revenue Receipts and Correction of Deficit*(Per cent of GSDP)*

Parameters	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (a to d)	59.03	65.18	67.31	79.71
a. State's Own Tax Revenue	8.50	8.61	7.63	7.60
b. State's Own Non- tax Revenue	8.43	9.23	11.19	15.21
c. State's Share in Central Taxes and Duties	10.93	15.02	13.94	12.73
d. Grants-in-aid	31.18	32.32	34.55	44.17
Revenue Expenditure	47.79	49.91	52.85	62.16
Revenue Deficit/Surplus	11.23	15.27	14.46	17.55
Fiscal Deficit/Surplus	-4.75	-2.80	-8.96	-5.74

¹⁸Primary expenditure of the State, defined as the total expenditure net of the interest payments, indicates the expenditure incurred on the transactions undertaken during the year.

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 comprise 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 during 2009-10 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.

1.11 State Regulatory Bodies

A Regulatory Agency (Authority, Regulatory Body) is a public authority or Government agency responsible for exercising autonomous authority over some area of human activity in a regulatory or supervisory capacity. An independent regulatory agency is a regulatory agency that is independent from other branches or arms of the Government. Regulatory agencies are usually appointed in the areas of administrative law, regulation or rule making (codifying and enforcing rules and regulations and imposing supervision for the benefit of the public at large). An attempt was made in audit to ascertain whether the major regulatory bodies required in a State were actually formed. The functioning of a few major Regulatory Bodies formed in the State were also analysed in audit. The findings in this regard are detailed below:

1.11.1 Sikkim State Electricity Regulatory Commission

As per the Central Electricity Act 2003, State Government was to constitute a State Electricity Regulatory Commission. The main functions of the Regulatory Commission were to determine the tariff for generation, supply, transmission, regulate electricity purchase and procurement process of distribution licenses including the price at which electricity shall be procured from the generating companies, facilitate intra-State transmission and wheeling of electricity, fix the trade margin in the intra-State trading of electricity, etc. Further, the Commission is also required to advise the State Government on matters mentioned above including promotion of competition, promotion of investment in electricity industry, etc. However, the Government is still in the process of formation of Sikkim State Electricity Regulatory Commission even after the lapse of 6 years of implementation of the Electricity Act, 2003. In the absence of the State Electricity Regulatory Commission in the State, the functions of the Commission are attended to by the Power Department itself (Commercial and Revenue Division).

1.11.2 The State Pollution Control Board

The Water (Prevention and Control of Pollution) Act 1974 was enacted by the Parliament. The Land Use and Environment Board (LUEB) under the administrative control of Forest, Environment and Wildlife Management Department was entrusted

with the implementation of this Act. The Board also performed the functions of State Pollution Control Board (SPCB) till February 2008. The Sikkim Water (Prevention and Control of Pollution) Rules 1991 formulated in pursuance of this Act came into operation from December 1992. State Pollution Control Board was separated from the LUEB as a separate entity w.e.f. March 2008. The main objective for establishment of SPCB was to perform the activities relating to prevention and control of water pollution, abatement of air pollution and waste management. Scrutiny of records of the LUEB revealed the following:

- The SPCB was required to plan a comprehensive programme for the prevention, control or abatement of air/water/land pollution and to ensure the execution thereof. However, the Board did not prepare any action plan since its inception. Further, no target was fixed by the Board for execution.
- For the purposes of this Act, the Board shall meet at least once in every three months and shall observe such rules of procedure with regard to the transaction of business at its meetings as may be prescribed. The Board meeting was convened only seven times since its inception till date (September 2010) against the minimum requirement of 83 meetings.
- Every State Board shall, during each financial year, prepare, an annual report giving full account of its activities under this Act during the previous financial year and copies thereof shall be forwarded to the State Government within four months from the last date of the previous financial year and Government shall cause every such report to be laid before the State Legislature within a period of nine months from the date of the previous financial year. Against the above stipulation, the Board prepared only one report in 2004 against the total requirement of 20 annual reports.
- Every industry is required to obtain consent from the SPCB before establishing its operation. They were also required to renew the consent periodically (every year). Scrutiny of records revealed that 238 consent letters were issued for fresh and renewal cases during April 2007 to March 2010. However, proper mention regarding fresh consent, renewal of consent, purpose of the establishment of units was not on record. Due to this, number of existing units, new units established and details of renewal by the existing units could not be verified

1.11.3 Prevention of Food Adulteration (PFA) Cell

The PFA Cell under Health Care, Human Services & Family Welfare Department enforces the Prevention of Food Adulteration Act 1954 in the whole of the State. The Cell is headed by a Director, Health Services who has been notified as Food Health Authority and is overall in-charge for the implementation of the Act in the State. Besides, the Cell is responsible for general superintendence of the administration and

enforcement of the Act and the rules made thereunder. The Food Health Authority shall have the duties and powers to prohibit the sale or manufacture for sale, storage, distribution of any article of food in the interest of public health in the whole of the State or any area by Notification and for a period as may be specified therein, review the position of the implementation of the Act and suggest such measures as deemed fit from time to time for smooth and effective implementation of the Act and the rules, etc. Further, the PFA Cell also regulates and revises the licence fee structure from time to time. Scrutiny revealed the following:

- No target for collection of samples and testing of suspected samples and checking of sanitary conditions of the firms or establishments has been prescribed by the Authority.
- Though no targets have been prescribed for collection of samples for analysis, 342 samples were collected and sent for analysis to Guwahati during the last three years 2007 to 2010. Out of 342 samples sent for analysis, 37 samples representing 10.82 *per cent* were found adulterated and forwarded to legal counsel.
- It was intimated that a laboratory for analysis of samples was established in Singtam. However, the same could not be utilised due to non-providing of equipment. Thus, the laboratory remained idle for the last two years and the PFA Cell still depends on analysis by Public Analyst, Guwahati, Assam resulting in delay in initiating the Court cases, in case samples are found adulterated, and therefore, delay in disposal of the cases.
- Three cases are pending for settlement in court for more than three years as on 31 December 2009.

1.11.4. *Drugs and Cosmetics Cell*

The Drugs and Cosmetics Act 1940 came into effect in the State of Sikkim from September 1984. Accordingly, the State Government established a regulating agency, the Drugs and Cosmetics Cell under the Health Care, Human Services and Family Welfare Department. The Cell is primarily responsible for enforcement of the provision under the Drugs and Cosmetics Act 1940 and Rules made thereunder in the State of Sikkim. The Act was enforced in the State in the year 1985. The activities of the Cell include grant/renewal of Drug License for wholesale and retail of cosmetics and homeopathic drugs. Quality control of drugs and cosmetics is also the responsibility of the Drugs and Cosmetic Cell. The duties of the Cell also includes the inspection of wholesale and retail premises, manufacturing units and check the quality of the products. The sample of drugs collected are sent to the designated Drug Testing Laboratories at Guwahati, Kolkata and Ghaziabad, UP and ARBRO Pharmaceutical Ltd., Delhi. The Cell also checks and controls the illegal trafficking of drugs in the State. The Deputy Drugs Controller and Chief Drugs Inspector is the Licensing Authority.

Though no targets have been prescribed for collection of samples for analysis, number of inspections carried out, sample taken for analysis and other activities done by the Cell during the last five years from 2006 to 2010 (September 2010) are given below:

Table 1.30: Activity of Sale

No. of inspections carried out	No. of samples collected	No. of Licences issued	No. of illicit trafficking of drugs detected	Convicted	Total revenue collected
200	96	140	32	13	17.12 lakh

1.11.5. The State Transport Authority

As per the provision of sub-section 1 of section 68 of the Motor Vehicle Act 1988 (59 of 1988), the State Government constituted the State Transport Authority for the State of Sikkim under the Chairmanship of the Secretary, Transport Department vide Notification dated 21 April 1989. The State Transport Authority shall exercise and discharge the powers and functions to co-ordinate and regulate the activities and policies of the Regional Transport Authorities, if any, of the State. It shall perform the duties of a Regional Transport Authority where there is no such Authority, and if so required by a Regional Transport Authority, shall perform those duties in respect of any route common to two or more regions, etc.

Though the State Government constituted the State Transport Authority for the State of Sikkim under the provision of the Motor Vehicle Act 1988, its performance as prescribed under sub-section (3) of Section 68 under the Act could not be evaluated and verified as the Authority neither maintained any record, nor any report is being prepared and sent to the Government.

1.11.6 State Level Education Regulatory Commission

During the presentation of the Budget for the year 2007-08, on 26 March 2007 the Chief Minister who is also the Minister-in-charge of Finance announced the constitution of a State level Education Regulatory Commission consisting of officials, people from private sector, civil society members, professionals and experts to monitor the quality of education, oversee the performance of teachers, restructure the training facilities, supervise the maintenance of all the education related institution in the State and oversee the broad orientation of higher education policy and system in the State. However, till date, the State Level Education Regulatory Commission has not yet been constituted for uplifting the quality of education in the State.

1.12. Framing of Rules and Regulations in pursuance of Central Acts

1.12.1 Inadequate enforcement of Acts on Wild Life (Protection) Amendment Act 2002

The Wild Life (Protection) Act 1972 amended vide the Wild Life (Protection)

Amendment Act 2002 provides protection of wild animals, birds and plants and for matters connected therewith or ancillary or incidental thereto with a view to ensuring the ecological and environment security of the country. The State Government may for the purpose of this Act appoint Chief Wild Life Warden (CWLW) and such other officers and employees as may be necessary. In addition, the State Government shall, within a period of six months from the date of commencement of Wild Life (Protection) Amendment Act, 2002 constitute a State Board for Wild Life (SBWL) and should meet at least twice a year and advise the State Government in the selection and management of areas to be declared as protected areas, formulation of policy, amendment of any schedule and in any matter connected with the protection of wild life. As per Act, wildlife have been categorised into five schedules and no person shall hunt any wild animals as specified in schedule except under, and in accordance with, the conditions specified in a licence or the CWLW may, if satisfied that any wild animal specified in the schedule has become dangerous to human life or is so disabled or diseased as to be beyond recovery. No person other than CWLW and his staff can make entry into sanctuaries except on permits for special purpose *viz*, for education, scientific research and scientific management. Any person who contravenes any provision of this Act, rule or breach any conditions of licence or permit, shall be guilty of an offence and be punishable. In order to carry out the provisions of this Act, Section 64 of the Act requires the State Government through notification to frame rules.

It was noticed that the State Government have appointed CWLW and other officers and employees necessary to run day to day duties on wild life and have also constituted the SBWL and the rules had been framed in this regard.

Audit analysis revealed that as against the requirement of minimum ten meets of SBWL in last five years, they met only once. The State Government declared seven sanctuaries, one national park, one biosphere reserve and one wild life conservation reserve with an area of 399.10 sq km, 1,784 sq km, 2,931.12 sq km and 0.06 sq km respectively being inhabited by different species of animals. However, the Department has neither any data on number of each species of animal in each sanctuary or park nor the total number of animals. As regards offence, against a total of eleven offences, offenders in ten cases were punished during the last five years.

Thus, the Act was not enforced vigorously as was evident from the shortfall in holding meetings of SBWL, lack of data on number of different species of animals (whether in safe numbers or under the threat of extinction). The possibility of persons illegally sneaking into wild life areas and poaching of wild life also could not be ruled out. These indicate the half hearted approach of the State Government to provide protection to wild animals, birds and plants and ensuring the ecological and environment security of the Country.

1.12.2 *Casual implementation of Child Labour (Prohibition and Regulation) Act, 1986*

Child Labour (Prohibition and Regulation) Act, 1986 prohibit the engagement of children in certain employments and regulate the conditions of work of children in certain other employments. Every occupier shall cause to be displayed in a conspicuous and accessible place at the place of work, a notice in the local language and in the English language containing an abstract of sections 3 and 14 i.e, no child shall be employed or permitted to work in any of the occupations set forth in Part A of the Schedule or in any workshop wherein any of the processes set forth in Part B of the Schedule is carried on. Whoever employs any child or permits any child to work in contravention of the provisions of section 3 shall be punishable. In order to carry out the provisions of this Act, Section 19 of the Act requires the State Government to frame rules and provide for Child Labour Technical Advisory Committee (CLTAC) to advise the State Government for the purpose of addition of occupations and processes to the Schedule.

It was noticed that the State Government have framed rules to carry out the provisions of this Act. However, no CLTAC was constituted and no offence detected as yet.

Audit analysis revealed that in order to expand National Child Labour Project Scheme (NCLPS) to cover the entire country in the 11th Plan, the Planning Commission through the Union Ministry of Labour & Employment directed the State Governments during March 2007 to conduct an intensive child labour survey in the State. While no census report on child labour was available with the Labour Department (LD), the child labour in the State as per Census 2001 was 16,457 children since the Department has not enforced the Act in letter and spirit which resulted in non –detection of any offenders. The passiveness of the LD have not only failed in enforcing labour laws but have also deprived the intended benefits viz, stepping up of enforcement of child labour laws, formal/non-formal education, provision of vocational training, direct rehabilitation of child labour, etc. under the NCLP.

1.12.3 *Non-implementation of the Motor Transport Workers Act, 1961*

The Motor Transport Workers Act 1961 regulates the motor transport workers on various aspects of their conditions of employment, work and wages, medical facilities, welfare facilities, hours of work spread-over, rest periods, overtime, annual leave with pay, etc. The motor transport workers bill received the assent of the President on 20th May 1961 after being passed by both the Houses of Parliament and came into force as the Motor Transport Workers Act 1961 (27 of 1961). It extends to the whole of India and applies to every motor transport undertaking employing five or more motor transport workers. “Motor Transport Worker” means a person who is employed in a motor transport undertaking directly or through an agency, whether for wages or not, to work in a professional capacity on a transport vehicle or to attend to duties in connection with the

arrival, departure, loading or unloading of such transport vehicle and includes a driver, conductor, cleaner, station staff, line checking staff, booking clerk, cash clerk, depot clerk, time-keeper, watchman or attendant. In order to carry out the purpose of this Act, Section 40 of the Act requires the State Government to frame rules.

The State Government have till date not framed the rules and stated that the said Act was yet to be extended to the State of Sikkim. The statement was not tenable as the Act extends to the whole of India and no exception was provided. Whereas it was upto the State Government to frame rules and implement it and further provides that the State Government may, after giving not less than two months' notice of its intention so to do, by notification in the Official Gazette, apply all or any of the provisions of this Act to any motor transport undertaking employing less than five motor transport workers.

It was noticed that the State Government have till date not taken initiative to implement this Act. However, Audit on its own conducted the sample check on registration of transport in Transport Department (East district of Motor Vehicle Division) and found that as much as eleven companies having the total registration of transport vehicles ranging from five to 44 were on record. The Act applies to every motor transport undertaking employing five or more motor transport workers and has also empowered the State Government to apply the provision of the Act even to the motor transport undertaking employing less than five motor transport workers. Thus, immediate action needed to be taken to frame rules and implement the Act to honour the objective and spirit of the Act.

1.13 Major Policy Initiatives by the State Government

Towards strengthening fiscal discipline and economical advancement in the State, the Government of Sikkim had taken certain institutional measures such as:

- Realising increasing outstanding liabilities also raise questions not only about debt sustainability, but also about inter-generational equity, State Government have set up Consolidated Sinking Funds and Guarantee Redemption Funds and placed ceilings on guarantees which are facilitated at containing the magnitude of outstanding liabilities. Further, the State Government also implemented New Pension Schemes (NPSs) with effect from 1 April 2006 and constituted Consolidated Sinking Fund (CSF) and Guarantee Redemption Fund (GRF).
- The State Government constituted Knowledge Commission (June 2006) with the object to prepare a Vision Document - Sikkim 2025 defining the long terms goals for all round development of the State of Sikkim and detailed blue print and an action plan for making Sikkim a knowledge economy and a knowledge society, prepare plans for comprehensive up-gradation of standards at all levels of school education, suggest specific programmes for skill development, capacity enhancement and up-gradation of the competitive ability of students coming out of educational Institutions and enable establishment of institutions to

implement such programmes, recommend measures for reforms in the regulatory environment, governing the State's education system etc.

- State Government constituted the Administrative Reform Commission (June 2006) with the objectives to bring about substantial, measurable and comprehensive improvements in the performance levels of the administrative machinery at the disposal of the Government of Sikkim and to enhance effectiveness, efficiency and responsiveness of the delivery systems at all levels and to formulate recommendations with respect to each of the areas of Governmental activity, calculated to achieve all round improvement in the apparatus along with strategies and programmes for implementation. The term of the Commission shall be two years. The Report of the Commission was submitted to Government and it is under examination by the committee headed by the Chief Secretary.
- Free admission and full scholarship for ten students to the best public school in the State and Country.
- Full sponsorship to students securing admission in 20 best Universities of the world under the Chief Minister Free Scholarship schemes.
- Under Mukhya Mantri scheme, monthly free distribution of 4 kg mixed daal to BPL families as also spectacles and hearing aid free of cost to all needy people is being implemented.

Further the following Initiatives were announced while presenting the State Budget 2009-10.

- Introduction of a workable Health Insurance Scheme, for every Sikkimese above the age of 45 years.
- Introduction of an ambitious program known as Chief Minister's Comprehensive Annual and Total Check up for Healthy Sikkim (CATCH) to provide comprehensive annual and periodical health services to citizens.
- Proposed to sponsor one lakh households under the Financial Inclusion Project in the State and plan to open a no frill Bank Account through the Business Correspondent Route of any nationalised or good private bank in the name of female member of the household for which the Government will provide grants as seed money. All cash transaction under different schemes covering old age pension, women's empowerment grants, etc. available to the member of a household can be directly credited to her account, This project also provides for insurance cover to maximum of six members of the household.

1.14 Public Private Partnership

As a measure to improve fiscal transparency, the Government of India outlined several

initiatives to assist the State Governments in their developmental and social roles. The Public Private Partnership (PPP) is such an initiation that enables implementation of Government programmes/schemes in partnership with the private sector. Under PPP, the public sector may collaborate with their private counterpart in three forms – as a funding agency, as a buyer and as a coordinator. The potential benefits derived from PPP are cost effectiveness of the project, higher productivity, accelerated delivery, enhanced social service and recovery of user charges. As under PPP, the Government can access the private sector funds in a non-debt creating manner, it is considered a good way of creating fiscal space for the developmental activities.

In view of the above, several State Governments across India are entering into PPP agreements in the areas of infrastructural projects, survey and exploitation of mines and minerals, development of industrial estates, development of hydro electricity projects etc.

Even though the Sikkim Government has not framed any PPP policy for the State the Government opened the power sector to private developers with the objective of rapidly harnessing the hydro power potential of the State and thereby gaining in a big way by exporting electricity to other power hungry States of the Country.

The hydro power potential of the State was assessed at 8,000 MW peak. The State Government as on date had identified 35 hydro power projects with a total capacity of 5,741.20 MW (*ranging between 27.50 MW and 1,200 MW*) to be developed with private participation. Letters of intents (LOIs) had been issued in respect of 33 projects for 5,681.20 MW capacity, out of which, agreements (MoU) had been signed in respect of 28 projects (*IPP- 24; NHPC - 4*) for a total of 5,421.70 MW. The details of the 35 power projects are depicted in the table below:

Table 1.31: Details of Project

SI No	Particulars	No of projects	Capacity (MW)
1	Total number of projects identified	35	5,741.20
2	LOIs issued	33	5,681.20
3	LOIs withdrawn	2	139
4	LOIs against which agreements are yet to be drawn	3	120.50
5	Agreements signed	28	5,421.70
6	Agreements withdrawn	5	314
7	Agreements valid	23	5,107.70
8	Projects awarded to NHPC	4	1300
9	Projects awarded to IPPs	19	3,807.70
10	Projects commissioned (NHPC)	2	570

Source: Information obtained from the Department.

The State Government commenced award of hydro power projects to IPPs without working out any effective modality and finalising any plan or policy. Projects were

awarded at throwaway charges which compared very poorly with the charges imposed by all other hydro power States in the country in respect of royalty revenue, upfront premium, penalty for delay, local area development, etc. Performance guarantee was not obtained to ensure earnestness of the developers to execute the projects resulting in cancellation of a number of agreements due to non-performance by the developers, which resulted in loss of substantial time and revenue receivable from the projects. Effective safeguards were not incorporated in the agreements against delay in completing various milestones laid down for completion of the projects and negligence in maintaining the projects after commissioning. Environmental issues such as identification of proper dumping sites, safe disposal of excavated material, compensatory afforestation, catchment area treatment and biodiversity preservation were neglected and delayed. Monitoring of execution of the projects was virtually non-existent. Some of the major findings are highlighted below:

- *The State Government had not finalised and notified private power policy as of September 2010 although the Administrative Staff College of India had prepared the draft private power policy for the State as early as September 2003.*
- *Imposition of upfront premium on the private developers at a meager rate of ₹ 10,000 per MW led to loss of revenue ranging between ₹ 60.08 crore and ₹ 279.87 crore as compared to other hydropower States like Himachal Pradesh (HP), Jammu & Kashmir (J&K), Uttarakhand and Arunachal Pradesh.*
- *Due to imposition of penalty at an abysmal low rate of ₹ 10,000 per MW per month for delay in commissioning of projects by the private developers, the State stood to lose between ₹ 2,514.49 crore and ₹ 2,622.76 crore per year as compared to Uttarakhand, HP and J&K and ₹ 137.08 crore per year as compared to Arunachal Pradesh.*
- *Non-imposition of specific condition in the agreements drawn with 16 private developers for regular contribution towards local area development led to loss of ₹ 245.20 crore annually.*
- *Award of two projects to one private developer Gati Infrastructures Ltd (November 2003) at a comparative low rate of 12 per cent royalty for the entire agreement period led to a potential loss of ₹ 143.50 crore per year from the 16th year of operation onwards.*
- *Adequate steps to safeguard the environment viz. catchment area treatment plans, protection and preservation of riverine fishes etc. had not been taken during implementation of hydro power projects.*

1.15 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. However, while the State continued with fiscal deficit in all the five years with fluctuating trend, the primary deficit also continued to prevail except in the year 2006-07 wherein surplus was recorded. During the current year, there was a significant improvement in all the key fiscal parameters over the previous year.

Revenue Receipts

The revenue receipts have shown a progressive increase over the period 2005-10 with a growth of 33.40 *per cent* over the previous year. While 28.62 *per cent* of the revenue receipts during 2009-10 have come from the State's own resources comprising taxes and non-taxes as compared to 24 *per cent* in 2005-06, the share of Central transfers comprising State's share in Central taxes and duties and grants-in-aid from GOI had marginally declined from 76 *per cent* in 2005-06 to 71.38 *per cent* in 2009-10. *The tax revenue as well as the non-tax revenue receipts exceeded both the normative assessments made by TFC and budget provision.*

Revenue and Capital expenditure

The overall revenue expenditure of the State increased by 32.49 *per cent* from ₹ 1,380.55 crore in 2008-09 to ₹ 1,829.02 crore in 2009-10. While revenue expenditure constituting 72.74 *per cent* of the total expenditure grew by ₹ 448.47 crore over the previous year, the expenditure incurred under capital head which constituted 25.79 *per cent* of the total expenditure grew by ₹ 36.75 crore over the previous year.

Out of the total capital expenditure of ₹ 648.53 crore, ₹ 285.00 crore were blocked in 79 incomplete works which were due to be completed within 31 March 2010.

Developmental expenditure of ₹ 932.53 crore in 2005-06 increased to ₹ 1,768.05 crore in 2009-10. However, its share in aggregate expenditure decreased from 75.38 *per cent* in 2005-06 to 70.31 *per cent* in 2009-10. The ratio of development expenditure as a proportion to aggregate expenditure is higher than the average of NE States which indicates that the State had given higher priority to this category of expenditure as compared to other States. However, *non-plan developmental revenue expenditure (SS + ES) of ₹ 635.83 crore was higher than the TFC Projection of ₹ 325.40 crore for the State during 2009-10.* The ratio of Social Sector expenditure which includes expenditure on Education and Health as a proportion of aggregate expenditure is lower than the average of NE States.

According to recommendation of the TFC, the State should follow a recruitment and wages policy in such a manner that the total salary bills relative to revenue expenditure

net of interest payments and pension does not exceed 35 per cent. The expenditure on salaries was 53.59 per cent of the revenue expenditure, net of interest payments and pension, as against TFC norm of 35 per cent and constituted 123.69 per cent of its own tax and non-tax revenue during 2008-09. Although the interest payment (₹ 154.43 crore) during 2009-10 exceeded the normative projections of TFC (₹ 130.07 crore), in absolute terms, the same at 6.58 per cent remained well within the limit of 15 per cent of revenue receipt recommended by the TFC.

Though expenditure incurred under Capital Heads had been increasing over the years, the State needs to ensure effective implementation of the schemes and devise an effective monitoring mechanism to avoid the incidences of time and cost overrun and ensure that value for money is channelised in its entirety to the intended beneficiaries. The State should initiate action to restrict the components of non-plan revenue expenditure by phasing out implicit subsidies and resort to need based borrowings to cut down interest payments. The State should enhance spending and accord the priority to Social Sector.

Funds transferred directly from the Government of India (GOI) to the State implementing agencies

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 (Accounts & Entitlement).

Government investment

Investment of the Government money in the Government Companies and Statutory Corporations is increasing year after year. However, while the return on the investment was 0.52 per cent, the Government paid an average interest rate of 8.40 per cent on its borrowings during the year.

The Government should ensure better value for money in investment by identifying the Companies/Corporations which are endowed with low financial but high socio-economic returns and justify if high cost borrowings are worth being channelised there. Initiative may be taken to revive or close down or sell out the huge loss making Corporations/Companies.

Cost of collection:

The percentage of expenditure on collection during 2009-10 as compared to the corresponding All India average percentage for 2008-09 was high in the cases of Sales

Tax, State Excise and Taxes on Vehicles.

Government should take suitable steps for minimising the cost of collection to make available more funds for development purposes.

State Regulatory bodies

State has not constituted State Electricity Regulatory Commission as stipulated in Electricity Act 2003. Though the State Government constituted the State Transport Authority as per the provision of sub-section 1 of section 68 of Motor Vehicle Act 1988, the Authority neither maintained any records nor are any reports being prepared. The State Level Education Regulatory Commission had not yet been constituted despite the announcement of the Chief Minister during the presentation of Budget for the year 2007-08 to constitute the same.

Public Private Partnership (PPP)

Even though the Sikkim Government had not framed any PPP policy for the State, the Government opened the power sector to private developers with the objective of gaining in a big way by exporting electricity to other States. The State Government commenced award of hydro power projects to Independent Power Producers (IPPs) without working out any effective modality and finalising any plan or policy. Projects were awarded at throwaway charges which compared very poorly with the charges imposed by all other hydro power States in the country in respect of royalty revenue, upfront premium, penalty for delay, local area development, etc. Environmental issues were also neglected and delayed.

State PPP policy particularly in respect of hydro power projects may be finalised and all projects awarded after following transparent bidding procedures.

State may consider levying appropriate application fee, upfront premium and royalty keeping in view the prevalent best practices.

Suitable conditions against non-performance/abandonment of the projects and negligence in proper maintenance of the assets may be imposed on the IPPs forthwith.

Strict vigil over the environmental concerns may be ensured.