

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 16 April 1975. It has a total area of 7,096 sq. km which constitutes 0.22 *per cent* of the total geographical area of India. Sikkim being landlocked, National Highway 31 A 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 2011, the population of Sikkim stood at 6.07 lakh and the percentage of rural population of the State (75 *per cent*) was more than the All India rural population (72 *per cent*). The literacy rate of Sikkim was 82.20 *per cent* as against the All India Literacy rate of 74.04 *per cent*. Similarly, the infant mortality rate at 34 per 1,000 live births was better than the All India Average of 53 per 1,000 births recorded in 2009 through the Sample Registration System of the Registrar General and Census Commissioner of India (**Appendix 1.1-Part A**).

Gross State Domestic Product (GSDP)

The growth of GDP of the State is an important indicator of the State's economy. A trend analysis of growth of GSDP for a period of five years at current prices are shown below, which would indicate the performance of the Government in fiscal management of the State. The growth rate of State GDP for the period 2007-12 compared with the National GDP is presented in the table below:

Annual growth rate of GDP and GSDP at current prices

Year	2007-08	2008-09	2009-10	2010-11	2011-12
State GDP* (₹ in crore)	2,506.09	3,229.08	6,132.76	7,144.55	8,399.88
Growth in <i>per cent</i>	15.96	28.85	89.92	16.50	17.57
National GDP# (₹ in crore)	45,82,086	53,03,567	60,91,485	71,57,412	82,79,975
Growth in <i>per cent</i>	15.91	15.75	14.86	17.50	15.68

Source: *Department of Economics, Statistics, Monitoring and Evaluation, Government of Sikkim and # Economic Survey 2011-12, Ministry of Finance, Government of India

The quantum of GDP (both State and National) is measured in terms of constant and current prices and as per their respective arithmetical calculations; these figures differ from each

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.

other every year. For comparison sake between both State and National GDPs, the GDP figure calculated on the basis of current price at factor cost with base year 2004-05 has been taken.

As can be seen from the above table, Sikkim achieved higher GSDP growth rate compared to National growth rate over the period 2007-12, except during 2010-11. Growth rate in respect of GSDP at current prices was 17.57 *per cent* compared to National growth rate of 15.68 *per cent* in 2011-12. The State also achieved higher growth rate during 2011-12 compared to national growth rate despite the year not being a normal year due to a devastating earthquake. The earthquake adversely affected the finances of the State in terms of the target fixed by the State Government in collection of own revenues and higher expenditure aimed at rehabilitation and reconstruction activities.

1.1 Introduction

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 a summarised form while Volume II represents detailed financial statements, the structure and layout of which are depicted in **Appendix 1.1-Part B**.

This chapter provides a broad perspective of the finances of the Government of Sikkim during 2011-12. It analyses important changes in the major fiscal indicators compared to the previous year keeping in view the overall trends during the last five years. The analysis is based on the Finance Accounts and information obtained from the State Government. The structure of the Government Accounts and the layout of the Finance Accounts have been explained in **Appendix 1.1-Parts B and C** 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 2007-12.

1.2 Summary of fiscal transactions

Table 1.1 and **Appendix 1.3** present the summary of the fiscal transactions of the State Government and provide details of receipts and disbursements as well as the overall fiscal position, respectively during 2011-12 vis-à-vis the previous year.

Table 1.1: Summary of the fiscal transactions

₹ in crore)

Receipts			Disbursements				
	2010-11	2011-12		2010-11	2011-12		
Section-A: Revenue				Total	Non-Plan	Plan	Total
Revenue Receipts²	3,047.31	3,672.64	Revenue Expenditure³	2,907.53			3,230.14
Tax revenue	279.54	293.92	General services	1,580.55	1,517.95	35.02	1,552.97
Non-tax revenue	1,137.76	1,044.57	Social services	816.43	679.13	352.56	1,031.69
Share of union taxes/ duties	524.99	611.65	Economic services	497.61	253.21	360.80	614.01
Grants from Government of India	1,105.02	1,722.50	Grants-in-aid and contributions	12.94	31.47		31.47
Section-B: Capital							
Misc. Capital receipts	-	42.25	Capital outlay	451.07			615.76
Recoveries of loans and advances	0.79	0.03	Loans and advances disbursed	5.75			49.17
Public debt receipts	95.03	87.44	Repayment of public debt	73.23			48.66
Contingency Fund	0.00	0.10	Contingency Fund	0.10			0.00
Public Account receipts	2,915.63	3,808.95	Public Account disbursements	2,898.78			3,487.98
Opening cash balance	1,028.01	750.31	Closing cash balance	750.31 ⁴			930.01
Total	7,086.77	8,361.72	Total	7,086.77			8,361.72

Source: Finance Accounts

The following are the significant changes during 2011-12 over the previous year:

Revenue receipts increased by ₹ 625.33 crore (20.52 per cent) over the previous year mainly due to increase in Grants from Government of India (₹ 617.48 crore). However, there was decrease in Non-tax revenue by ₹ 93.19 crore compared to previous year.

The share of Union Taxes and Duties increased by ₹ 86.66 crore (16.51 per cent) as compared to previous year.

Revenue expenditure increased by ₹ 322.61 crore (11.10 per cent) over the previous year due to increase in Social Services (₹ 215.26 crore), Economic Services (₹ 116.40 crore) and Grants-in-aid contribution (₹ 18.53 crore). However, there was marginal decrease in General Services by ₹ 27.58 crore.

Capital expenditure increased by ₹ 164.69 crore (36.51 per cent) over the previous year.

Public debt receipts and its repayments decreased by ₹ 7.59 crore (7.99 per cent) and ₹ 24.57 crore (33.55 per cent) respectively over the previous year.

The total outflow and inflow of the Government during the year 2011-12 was ₹ 7,431.71 crore and ₹ 7,611.41 crore respectively leading to increase in cash balance by ₹ 179.70 crore.

A total amount of ₹ 46.33 lakh was advanced during the year 2011-12 from contingency fund.

²Revenue receipts and Non-tax revenue are inclusive of gross receipt (₹ 844.15) from State Lotteries.

³Revenue expenditure and General Services (Non-plan) are inclusive of expenditure (₹ 800.53 crore) on State Lotteries.

⁴Differs by ₹ 3.50 crore from the Finance Accounts for 2010-11 due to proforma adjustment.

The same amount along with outstanding balance of ₹ 10 lakh of previous year was recouped at the end of the financial year 2011-12.

1.3 Fiscal reforms path in Sikkim

In Sikkim, fiscal reforms and consolidation were brought to the forefront with the State Government formulating the first Medium Term Fiscal Plan (MTFP) for the period 2011-12 to 2013-14 based on the broad parameters of fiscal management laid down by the Thirteenth Finance Commission (TFC) limiting fiscal deficit at the targeted level to ensure sustainable level of debt and improving transparency in a medium term framework during 2010-15. The fiscal management principles enshrined in the Fiscal Responsibility and Budget Management (FRBM) Act calls upon the State Government to ensure transparency in setting and implementation of fiscal policy, stability and predictability in policy making process, improve the management of public finance and improve efficiency in the design and implementation of fiscal policy related to management of assets and liabilities.

The Government of Sikkim enacted the FRBM Act in September 2010 and the Rules under the Act had been notified in March 2011. The Act aims to ensure fiscal stability and sustainability through maintaining balance in revenue account and planned reduction of fiscal deficit and prudent and sustainable debt management consistent with fiscal stability through limits on State Government borrowings, including off-budget borrowing and achieving greater transparency in fiscal operation of the Government and conduct of fiscal policy in a medium term fiscal framework. To give effect to the fiscal management principles, the Act prescribed the following fiscal targets for the State Government:

- (a) Maintain revenue account balance beginning from the year 2011-12;
- (b) Reduce the fiscal deficit to 3.5 *per cent* of the estimated Gross State Domestic Product in each of the financial years starting from 2011-12 and reduce the fiscal deficit to not more than three *per cent* of the estimated Gross State Domestic Product at the end of 31 March 2014 and adhere to it thereafter;
- (c) Cap the total outstanding guarantees within the specific limit under the Sikkim Ceiling on Government Guarantees Act 2000 (21 of 2000).
- (d) Ensure that the outstanding debt-GSDP ratio follows a sustainable path emanating from the above targets of the deficit as specified by the Government beginning from the fiscal year 2011-12.

Revenue deficit and fiscal deficit may exceed the limits specified under the section due to ground or grounds of unforeseen demands on the finances of the Government due to national security or natural calamity subject to the condition that the excess beyond limits arising due to natural calamities does not exceed the actual fiscal cost that can be attributed to the calamities.

Provided further that the ground or grounds specified in the above proviso shall be placed before the Legislative Assembly as soon as may be, after it becomes likely that such deficit amount may exceed the aforesaid limit, with an accompanying report stating the likely extent

of excess.

The outcome indicators reflecting the State's fiscal correction path for the period 2011-15 are given below:

Table 1.2: State Fiscal Outcome indicator

(As per cent to GSDP)

Parameters	2010-11		2011-12		2012-13	2013-14	2014-15
	Projections	Achievement	Projections	Achievement	Projections	Projections	Projections
Revenue Receipts⁵(a to d)	38.07	30.12	54.90	34.19	58.21	60.82	63.63
a. Own Tax Revenues	4.95	3.91	4.01	3.5	5.06	5.06	5.07
b. Own Non-Tax Revenues	4.28	3.39	4.09	2.91	4.22	4.32	4.42
c. Tax share	9.29	7.35	9.75	7.28	10.36	11.58	12.94
d. Grants-in-aid	19.55	15.47	37.05	20.51	38.56	39.86	41.21
Revenue Expenditure⁶	35.60	28.16	41.74	28.92	40.69	43.00	45.47
Capital Expenditure	8.07	6.31	18.59	7.33	21.02	20.82	21.16
Revenue Deficit	-2.47	-1.96	-13.16	-5.27	-17.52	-17.82	-18.16
Fiscal Deficit	5.60	4.43	4.75	2.14	3.50	3.00	3.00
Primary Deficit	2.29	1.81	1.89	0.13	0.61	0.00	0.08
Outstanding Debt	42.99	0	41.75	0	41.03	39.88	38.85

N.B: Negative sign indicates revenue surplus

Source: Medium Term Fiscal Plan for Sikkim 2011-12 to 2014-15 presented to State Assembly on March 2011 and Finance Accounts, Government of Sikkim

The State Government in their revised estimates for the year 2011-12, projected the fiscal deficit relative to GSDP at 4.75 per cent against the target of 3.50 per cent prescribed in the FRBM Act of the State. The year 2011-12, however, was not a normal year for the State. The earthquake that devastated part of the State adversely affected the finances of the State in terms of reduction in collection of own revenues and higher expenditure aimed at rehabilitation and reconstruction activities.

According to the Medium Term Fiscal parameters, Fiscal Deficit and Primary Deficit projected by the State Government during 2010-11 and 2011-12 were achieved. However, Revenue Surplus could not be maintained at the level projected during 2010-11 and 2011-12.

Further, according to the Sikkim Government Guarantee Act, 2000 (Act 21 of 2000) the ceiling on the total outstanding Government Guarantee in a year is restricted to three times of the State's tax revenue receipts of the second preceding year. The outstanding sums guaranteed by the State Government during 2010-11 was ₹ 246.69 crore, which was lower than the tax revenue of the State in the year 2008-09. However, the guarantee had increased to ₹ 310 crore in 2011-12 but remained within the permissible limit prescribed in the Guarantee Act 2000, when compared with the revenue receipts of the second preceding year (2009-10).

⁵Revenue Receipts in this column and henceforth in this Report are net of Lottery Receipts and Expenditure.

⁶Revenue Expenditure in this column and henceforth in this Report is excluding Lottery Expenditure.

1.3.1 Migration to New Pension Scheme (NPS)

The Government of India (GOI) introduced a defined, contribution based NPS with effect from 1 April 2004 to cover all new entrants to Government service. The interim Pension Fund Regulatory and Development Authority (PFRDA) was established by the GOI (October 2003) to promote old age income security by establishing, developing and regulating pension funds and to protect the interest of subscribers subscribing to the scheme of pension funds. PFRDA being the regulator for the NPS had been authorised by the GOI to appoint/establish various intermediaries in the system, such as Central Record Keeping Agency (CRA), Pension Funds (PFs) Trust for the NPS, Custodians Bank, etc. PFRDA appointed National Securities Depository Limited (NSDL) as the CRA for a period of 10 years from 1 December 2007 for performing the functions of record keeping, accounting, administration and customer services for subscribers to the schemes of pension funds approved by PFRDA. Further, three pension fund managers, a custodian and a trustee bank had also been appointed.

Under the NPS, the option to join the new system was available to the State Governments. The NPS Architecture, evolved and worked out by the PFRDA was capable of accommodating the various State Governments' request to join the NPS, within the overall framework of the Pension Architecture as devised by the PFRDA.

Although the State Government decided on implementation of the NPS in the State vide Gazette Notification issued in May 2006, it formally conveyed its decision to participate in the NPS in October 2007 and after a lapse of five years and seven months, the State Government finally drew an agreement with the CRA (NSDL) on 11 November 2011. To operationalise NPS, the following further procedures need to be adopted by the State Government:

Table 1.3: New Pension Scheme outcome indicator

Sl. No.	Procedure to be followed	Action taken as of September 2012
1	Execution of Agreement with NPS Trust: State Government in order to initiate the NPS proceedings will have to enter into an agreement with NPS Trust for availing the services of Pension Fund Managers (PFMs), Trustee Bank and Custodian.	State Government drew agreement with the NPS Trust on 6 March 2012 to initiate NPS proceedings.
2	Oversight Authority for Implementation of NPS: Directorate of Treasuries & Accounts (DTA) is required to register itself as an oversight office in CRA system. In addition, a circular regarding the NPS implementation in the State shall be issued to all nodal offices DTOs (District Treasury Offices)/DDOs (Drawing & Disbursing Officers) as well as for the subscribers.	Director, Pension, GIS&GPF (PGIPF) Cell, Finance, Revenue and Expenditure Department (FRED) had been nominated as Nodal Officer of NPS. All records are maintained by the PGIPF Cell. Director PGIPF Office had been registered under CRA as DTA (Registration No.3100554). FRED issued (March 2012) circular indicating that all the State Government employees appointed on or after 1 April 2006 come under NPS.
3	Model of Interface with CRA for contribution upload: The State Government shall intimate CRA about the model data and fund flow to be adopted i.e., Decentralised or Centralised or Quasi Centralised.	State Government adopted Centralised system for the model of data. However, the model of data and fund flow had not been prepared.

Sl. No.	Procedure to be followed	Action taken as of September 2012
4	Creation of appropriate accounting heads for accounting of contribution deductions and fund transfer: State Government needed to create appropriate head of accounts (Major head/Minor heads, etc.)	Accounting Head (8342-Other Deposit, 117-CPF contributions) had been created by the State Government for accounting of contribution deductions of employees and Government and for further transfer of NPS corpus to Trustee Bank, the Government created Major head/Minor head 2071-01-117-Government contribution.
5	Registration of Nodal Offices (Director of Treasuries), Treasury Offices and Drawing & Disbursement offices (DDOs) in the CRA system: DTA was to be registered by submitting duly filled up N1 form to CRA. DTOs were to be registered by submitting duly filled up N2 form to CRA. DDOs were also to be registered by submitting N3 form to CRA.	Till date, one Director of Treasury Office (DTO) (Registration No.4013365) and one DDO were registered in the CRA system (Registration code: SGV142541C).
6	Registration of NPS subscribers: Once the above mentioned steps were completed, the process of registration of subscribers in the CRA system could commence.	State Government from the date of implementation of NPS (1 April 2006) appointed 5,022 employees till September 2012. Out of which, 540 employees were allotted PRA numbers by the CRA and remaining employees had not submitted required forms to the FRED. The Department had also not taken any action to submit duly filled up N1 forms by the subscriber in time for registration.
7	Upload of Monthly Contribution: Once the subscribers were registered, the State Government DTA (in case of centralised model of operations) shall commence upload of monthly subscriber contribution in the CRA system.	No contribution in respect of subscriber had been uploaded in the CRA system.
8	Transfer of legacy data: The reconciled legacy data needs to be uploaded in any one of the following manners: (i) Subscriber-wise month wise upload (can be uploaded as regular contribution) (ii) Subscriber-wise year wise upload (must be uploaded as arrear contribution) (iii) One bullet payment per subscriber (must be uploaded as arrear contribution)	No legacy data uploaded in the CRA system.
9	Transfer of funds: After successful upload of the Subscriber details (regular or legacy data) in the CRA System, the State Government shall remit the corresponding amount to the Trustee Bank (TB) in favour of State's 'NPS Trust Account' along with the details of the uploading office's registration number allotted by CRA as well as the Transaction IDs generated by the CRA System.	No fund transferred to the TB in favour of State's NPS Trust.

Sl. No.	Procedure to be followed	Action taken as of September 2012								
10	<p>Proportion of funds to be allocated to Pension Fund Managers (PFMs): The ratio of allocation of funds (given below) across NPS fund managers was revised by the PFRDA for State and Central Government employees with effect from 1 July 2011.</p> <table border="1"> <thead> <tr> <th>Name of PFM of NPS</th> <th>Revised ratio decided by PFRDA for employees of State Government with effect from 1 July 2011</th> </tr> </thead> <tbody> <tr> <td>State Bank of India Pension Funds Private Limited</td> <td>31%</td> </tr> <tr> <td>Unit Trust of India Asset Management Company Limited</td> <td>35.5%</td> </tr> <tr> <td>Life Insurance Corporation Pension Fund Limited</td> <td>33.5%</td> </tr> </tbody> </table>	Name of PFM of NPS	Revised ratio decided by PFRDA for employees of State Government with effect from 1 July 2011	State Bank of India Pension Funds Private Limited	31%	Unit Trust of India Asset Management Company Limited	35.5%	Life Insurance Corporation Pension Fund Limited	33.5%	No funds allocated to PFMs.
Name of PFM of NPS	Revised ratio decided by PFRDA for employees of State Government with effect from 1 July 2011									
State Bank of India Pension Funds Private Limited	31%									
Unit Trust of India Asset Management Company Limited	35.5%									
Life Insurance Corporation Pension Fund Limited	33.5%									
11	<p>Billing for CRA charges: As mentioned in the contract agreement executed between Government of Sikkim and CRA, the bill for the CRA charges with regard to the services rendered for the employees of the State Government shall be raised quarterly against the designated nodal office of the State Government i.e., Director, PGIPF. The necessary accounting heads were to be created for payment of the bills to CRA.</p>	Creation of debit head of account for CRA charges was under process as proposal for the creation of head was submitted to Budget Cell by Pension Cell of FRED.								

Source: Departmental records

Further, for improving transparency in Government accounts, the Thirteenth Finance Commission recommended ₹ 5 crore as a grant to Sikkim State for creating a database of employees and pensioners. Creation and maintenance of an accurate and up to date employee and pension database aid the State Government to forecast the requirement of salary and pension and to focus on development expenditure.

The GOI, during 2010-11, released ₹ 2.50 crore to the State Government without any pre-conditions to commence work in 2010-11 and the work was to be completed within three years. As of September 2012, the State Government had spent the entire amount towards purchase of computers, collection of data, repairing and renovation of offices, etc. The works relating to creating database i.e., survey and data collection was completed and revalidation and authentication was under progress.

1.3.2 Power Sector-Financial support by the Government

No financial support had been extended during the year by Government of Sikkim to the Sikkim Power Development Corporation Limited, being the only PSU under power sector.

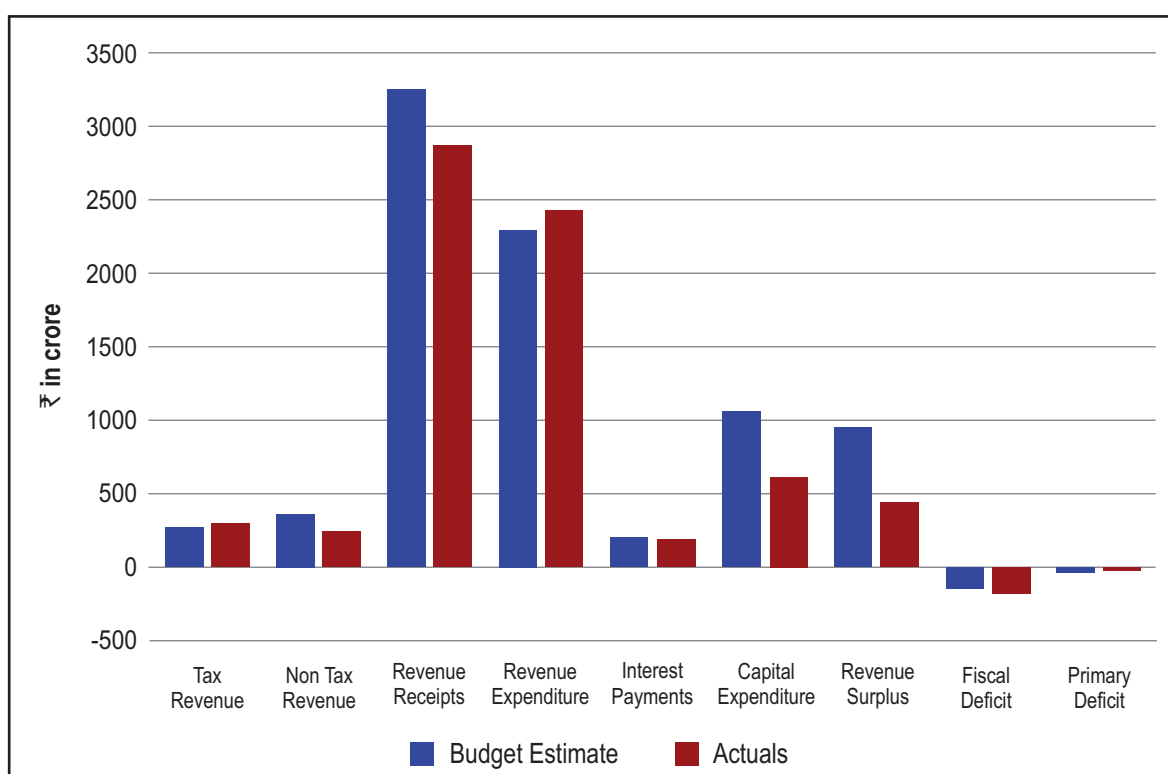
1.4 Budget 2011-12

1.4.1 Actuals vis-à-vis budget estimates

Budget papers presented by the State Government provide estimation of revenue and expenditure for a particular fiscal year. The importance of accuracy in estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from budget estimates are indicative of non-attainment and non-optimisation of desired fiscal objectives.

Chart 1.1 presents the budget estimates and actuals of some important fiscal parameters for the year 2011-12.

Chart 1.1 : Selected fiscal parameters : Budget estimates vis-a-vis actuals in 2011-12



Source: Finance Accounts

The Tax Revenue exceeded the budget provision by 9.19 per cent (₹ 24.73 crore). However, Non-tax revenue was less than the budget provision by 32.64 per cent (₹ 118.27 crore). Revenue receipts was lower than budget provision by 11.50 per cent (₹ 373.11 crore) and Revenue expenditure was higher than budget provision by 5.98 per cent (₹ 137.17 crore). As a result, Revenue Surplus was 53.56 per cent lower than the projection in the budget estimate. Capital Expenditure was less than the budget estimate by 41.67 per cent.

Sikkim's own tax revenue increased by 5.14 per cent from ₹ 279.54 crore in 2010-11 to ₹ 293.92 crore in 2011-12. Although, the revenue from sales tax contributed to the major share of tax revenue (42.25 per cent) the tax revenue from sales tax, trade, etc. compared to previous

year, was lower by ₹ 18.55 crore (12.99 *per cent*). State Excise duty increased by ₹ 25.62 crore, Taxes on vehicles increased by ₹ 5.90 crore and other taxes increased by ₹ 1.64 crore. However, there was decrease in Land Revenue by ₹ 2.72 crore.

The Non-tax revenue which constituted 8.50 *per cent* of total revenue receipts, had increased by ₹ 1.89 crore from ₹ 242.15 crore in 2010-11 to ₹ 244.04 crore in 2011-12 but was lower than the budget projection by ₹ 118.27 crore (32.64 *per cent*). The main components which resulted in increase were Police (₹ 3.32 crore), Road Transport (₹ 6.13 crore) and Other Administrative Services (₹ 1.96 crore). However, there was decrease in some of the components of Non-tax revenue like Power (₹ 8.16 crore) and Dividends (₹ 2.37 crore).

The State's share of Union taxes and duties stood at ₹ 611.65 crore, an increase of ₹ 86.66 crore over the previous year due to increase in the State's share in Corporation Tax by ₹ 35.54 crore, ₹ 13.85 crore in Taxes on Income other than Corporation Tax, ₹ 0.51 crore in Wealth Tax, ₹ 14.26 crore in Customs, ₹ 1.83 crore in Union Excise duties and Service Tax by ₹ 20.67 crore.

Grants-in-aid from Centre to the State, a discretionary component of Central transfers, is considered 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 ₹ 617.48 crore (55.88 *per cent*) from ₹ 1,105.02 crore in 2010-11 to ₹ 1,722.50 crore in 2011-12. The increase in components were Non-Plan Grants (₹ 224.42 crore), State Plan Schemes (₹ 345.14 crore), Grants for Centrally Sponsored Plan Schemes (₹ 22.45 crore), Grants for Special Plan Schemes (₹ 27.21 crore) offset by decrease in the component of Central Plan Schemes (₹ 1.74 crore).

Revenue expenditure increased by ₹ 417.69 crore (20.76 *per cent*) over the previous year due to increase in General Services (₹ 67.50 crore), Social Services (₹ 215.26 crore), Economic Services (₹ 116.40 crore) and Grants-in-aid (₹ 18.53 crore).

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 2011-12, the Capital expenditure of the State was ₹ 615.76 crore out of which ₹ 180.53 crore were blocked in 59 incomplete works due to be completed by 31 March 2012. The increase of ₹ 164.69 crore in capital outlay in 2011-12 was due to increase in Social Services (₹ 111.26 crore). Major components were Education, Sports, Arts and Culture (₹ 23.51 crore), Health and Family Welfare (₹ 65.73 crore) and Water Supply, Sanitation, Housing and Urban Development (₹ 21.21 crore). In Economic Services, the increase was ₹ 84.81 crore. The major components of increase were Transport (₹ 43.73 crore), Rural Development (₹ 13.03 crore) and Agriculture and Allied Activities (₹ 11.27 crore). The increase of capital outlay in Social and Economic Sectors was offset by decrease in General Services by ₹ 31.38 crore. The components of decrease were noticed in Public Works (₹ 36.76 crore) offset by increase in Police (₹ 5.38 crore).

1.4.2 Gender Budgeting

The Constitution of India has mandated equality for every citizen of the country as a fundamental right. The Government of India has made international commitments in (i) The Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in 1980; (ii) World Conference on Human Rights in Vienna in 1993; (iii) International Conference on Population and Development (ICPD) in Cairo in 1994; (iv) Fourth World Conference of Women in Beijing in 1995; and (v) Commonwealth Plan of Action on Gender and Development in 1995 about the action to be taken for improvement in the life of women.

One of the tools that can be used to promote women's equality and empowerment is gender-responsive budgeting, or Gender Budgeting, as it is more commonly known in India.

Among others, Gender Budgeting serves in (i) identifying the felt needs of women and reprioritising and/or increasing expenditure to meet these needs; (ii) Supporting gender mainstreaming in macroeconomics; (iii) Strengthening civil society participation in economics; (iv) Enhancing the linkages between economic and social policy outcomes; (v) Tracking public expenditure against gender and development policy commitments; and (vi) Contributing to the attainment of the Millennium Development Goals (MDGs).

Notwithstanding the Constitutional mandate and Government of India's commitments in the international forums, Gender Budgeting in Sikkim had not been formulated. In response to the issue, DPER and NECAD stated (November 2012) that although separate budget head had not been created, gender equity and empowerment of women were being done through the women centric programmes and all the departments were being sensitised to incorporate gender budgeting in the annual plan documents.

1.4.3 Policy initiatives of Budget 2011-12

For socio-economic and cultural development of Sikkim, various policy initiatives were taken up in the Budget 2011-12. However, many of those initiatives were not adequately followed through, some of which are summarised below:

Table 1.4: Policy initiatives taken up

Sector	Major Policy Initiatives of the State Budget 2011-12	Action Taken
	₹ 1 crore to be set aside towards funding innovative projects, exhibitions and documentation to elevate Sikkim as the number one State in India.	Originally a provision of ₹ 1 crore was made in the budget, but it was revised to ₹ 0.43 crore. However, no expenditure was incurred during the year on the programme and the entire amount was reappropriated.
	₹ 0.50 crore to be set aside for preparation of a New Human Development Report in the year.	Originally a provision of ₹ 0.50 crore was made in the budget, but it was revised to ₹ 9.55 lakh. However, an amount of ₹ 9.54 lakh was incurred during the year on the programme.
	₹ 1 crore to be set aside for establishment of Mukhya Mantri Jyestha Nagrik Sewa Samman Kendra in the State.	Though a provision was made for ₹ 1 crore in the year, it was made 'nil' in the revised estimate and hence, this scheme was not implemented during the year.

Sector	Major Policy Initiatives of the State Budget 2011-12	Action Taken
Social	₹ 2.50 crore to be set aside for providing free uniform for the Integrated Child Development Services children in the State.	Neither any budget provision was made nor was any expenditure incurred for the purpose during 2011-12.
	Proposal to start giving monthly honorarium of ₹ 3,000 each to the ASHA workers under Health Department.	Neither any budget provision was made, nor was any expenditure incurred for the purpose during 2011-12.
	₹ 315 crore was being obtained for targeted intervention in the identified backward areas for the economic upliftment of the poor and eradication of poverty in Sikkim.	Originally a provision of ₹ 50 crore was made in the budget, but it was revised to ₹ 1 crore which was incurred during the year on the programme.
	₹ 3 crore to be set aside for Special Exposure Training Programme for batch of officers comprising 5 officers each from every Service in the State, to be organised in reputed Institute in the Country and abroad at regular intervals.	Neither any budget provision was made nor was there any expenditure for the purpose during 2011-12.
Economic	₹ 264.62 crore to be provided under 'Mukhya Mantri Awas Yojna Kutcha House Free Sikkim' campaign. Each house would cost approximately ₹ 4.40 lakh and in the first phase 6,000 units were to be built all over the State for those genuine households. ₹ 100 crore was to be set aside under this programme.	Neither any budget provision was made, nor was any expenditure incurred for the purpose during 2011-12.
	₹ 1 crore to be set aside for construction of Statue of Sleeping Buddha at Singhik.	Though the budget provision was made for ₹ 1 crore, the same was re-appropriated to other head and no expenditure was incurred during the year.
	₹ 3 crore to be set aside for construction of Kali Mandir at Gadi in Pendam.	Originally a provision of ₹ 3 crore was made in the budget, but it was revised to ₹ 0.11 crore and an amount of ₹ 0.12 crore was incurred during the year on the programme.
	₹ 1 crore to be set aside for construction of Pedestrian Flyovers in the Capital.	Originally a provision of ₹ 1 crore was made in the budget, but it was revised to ₹ 1.88 crore and an amount of ₹ 1.84 crore was incurred during the year on the programme.
	₹ 2 crore to be set aside for development of Fashion Street along the identified stretch from Deorali to Gangtok.	Originally a provision of ₹ 2 crore was made in the budget but it was revised to ₹ 0.50 crore. No expenditure was incurred during the year on the programme and entire amount was re-appropriated.
Fiscal	To levy parking tax on an annual basis at the time of renewal of documents for all vehicles parked along the national highway and state highways.	No such parking tax was either notified or collected during the year 2011-12.
	Proposed to impose environment cess on incoming tourists.	No such environment cess was either notified or collected from incoming tourists during the year 2011-12.
	Proposed to revise power tariff for domestic and commercial consumption.	Power tariff was revised with effect from 1 April 2012 (notified on 22 May 2012).

Source: Budget documents 2011-12 and records of the departments

1.5 Resources of the State

1.5.1 Resources of the State as per Finance Accounts

The progress of the Government's programmes depends on its resources and the quantum of resources in any particular financial year determines the expenditure threshold of the Government. The components of the State's receipts have been categorised in **Chart 1.2**.

Chart 1.2: Components and sub-components of Resources

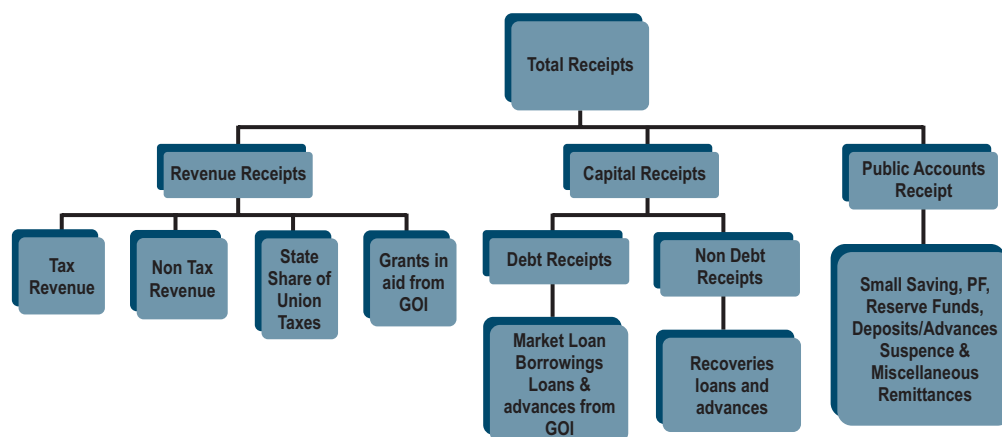
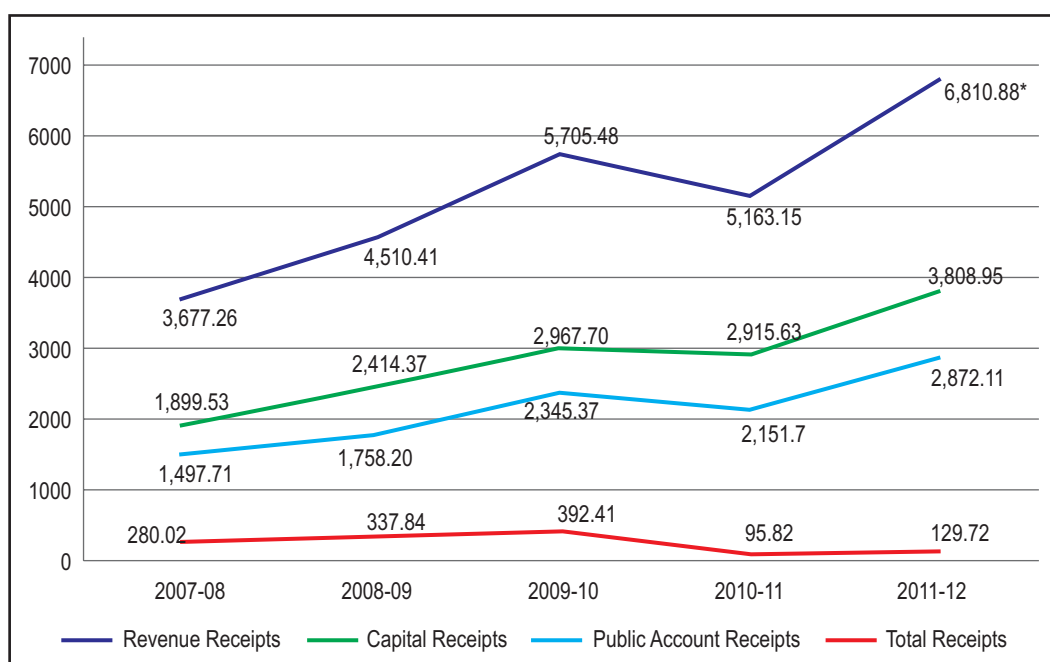


Table 1.1 depicting *inter-alia* the receipts of the State during 2011-12, as recorded in Finance Accounts, may also be referred to at page 3.

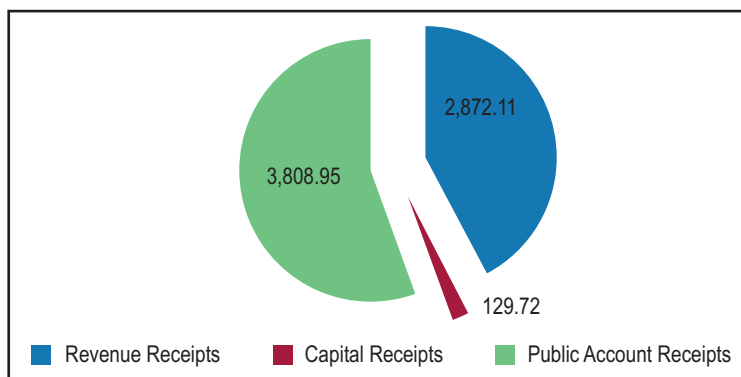
Chart 1.3 depicts the trends in components of receipts during 2007-12, while **Chart 1.4** depicts the composition of resources of the State during the current year.

Chart 1.3 : Trends in receipts



*Includes contingency fund receipt of ₹ 0.10 crore

Chart 1.4 : Composition of receipts during 2011-12



Source : Finance Accounts

Total receipts increased by 85.22 per cent from ₹ 3,677.26 crore in 2007-08 to ₹ 6,810.88 crore in 2011-12. Further, there was an increase of total receipts over the previous year by ₹ 1,647.73 crore (31.91 per cent).

Public Account receipts refer to those receipts for which the Government acts as a banker/trustee for the public money. It constitutes the single largest component of total receipts. On an average it constituted between 44 and 56 per cent of the total receipts during 2007-12. Public Account receipts which totalled ₹ 1,899.53 crore in 2007-08 increased to ₹ 3,808.95 crore in 2011-12. Public Account receipts grew by 30.64 per cent as compared to the previous year. The growth was maximum in Remittances (52.88 per cent) followed by Suspense and Miscellaneous (11.56 per cent), Small Savings/Provident Fund, etc. (20.08 per cent) and Reserve Fund (456.70 per cent).

The share of Revenue Receipts in total receipts which was 41.67 per cent in 2010-11 increased to 42.17 per cent in 2011-12.

Capital receipts increased by 35.38 per cent from ₹ 95.82 crore in 2010-11 to ₹ 129.72 crore in 2011-12. Capital Receipts constituted 3.53 per cent of the total receipts. Though debt receipts which mainly constituted Capital receipts, decreased by ₹ 7.59 crore from the previous year, its share was 99.97 per cent of capital receipts which was lower by 0.79 per cent over the previous year (99.18 per cent).

Apart from debt receipts, capital receipts include non-debt receipts such as recovery of loans and advances. During 2011-12, non-debt capital receipts showed negative growth (-) 96.20 per cent over the previous year due to less recovery of loan and advances.

1.5.2 Funds transferred by Central Government to the State implementing agencies outside the State Budget

Government of India transferred an approximate amount of ₹ 414.01 crore during 2011-12 directly to the State Implementing Agencies (SIA)⁷ for implementation of various

⁷State Implementing Agencies include Organisations/Institutions including Non-Governmental Organisation 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 Health Society for NRHM, etc.

schemes/programmes in social and economic sectors, recognised as critical, as against the transfer of ₹ 231.79 crore and ₹ 335.07 crore during 2009-10 and 2010-11, which was an increase of 45.40 *per cent* in 2010-11 and 23.56 *per cent* in 2011-12. As these funds were not routed through the State budget/State treasury system, Finance Accounts do not capture flow of these funds. Details of funds released in respect of major Central plan schemes are furnished in the table below:

Table 1.5: Funds transferred directly to the State implementing agencies for major plan schemes

(₹ in crore)

Sl. No.	Programme/scheme	Implementing agency in the State	Funds released by GOI			Funds received by SIAs during 2011-12	Closing balance as on 31 March 2012
			2009-10	2010-11	2011-12		
1	Sarva Shiksha Abhiyan	Sarva Shiksha State Mission Authority	17.36	44.69	40.23	40.23	5.19
2	MG-NREGA	Rural Management & Development Department.	88.57	44.49	100.79	100.79	0.10
3	PMGSY	Sikkim Rural Roads Development Agency	21.80	79.38	80.00	80.00	0.37
4	National Rural Drinking Water Programme	State Water & Sanitation Mission (Rural Management and Development Department)	10.80	23.20	69.19	69.19	1.03
5	NRHM	State Health Society (Health care, Human Services & Family Welfare Department)	25.75	21.27	25.19	21.11	18.10
6	MPLAD Scheme	Land Revenue and Disaster Management Department	3.00	4.00	10.00	10.00	6.54
7	Off Grid DRPS	Sikkim Renewable Energy Development Agency	0.46	0.71	10.33	10.33	5.97
8	National Afforestation Programme	Forest, Environment and Wildlife Management Department	8.86	11.99	6.75	11.00	0.02
		Total	176.60	229.73	342.48	342.65	37.32

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

Above table shows that an amount of ₹ 342.48 crore (82.72 *per cent* of the total funds transferred) was given for (i) Pradhan Mantri Gram Sadak Yojana (19.32 *per cent*), (ii) Mahatma Gandhi National Rural Employment Guarantee programme (24.34 *per cent*), (iii) Sarva Shiksha Abhiyan (9.72 *per cent*), (iv) National Rural Health Mission (6.08 *per cent*), (v) National Rural Drinking Water Programme (16.71 *per cent*), (vi) Member of Parliament Local Area Development Scheme (2.42 *per cent*), (vii) Off Grid DRPS (2.50 *per cent*) and (viii) National Afforestation Programme (1.63 *per cent*) during 2011-12, out of which ₹ 37.32 crore remained unutilised in these eight programmes. With transfer of an approximate amount of ₹ 414.01 crore directly by GOI to Implementing Agencies, the total availability of State

resources during 2011-12 had increased from ₹ 7,611.41 crore to ₹ 8,025.42 crore.

Analysis revealed that ₹ 4.08 crore released by GOI was not received under NRHM. Under National Afforestation Programme, the SIA had received ₹ 4.25 crore more than the amount shown in CPSMS. In 7 cases⁸, a sum of ₹ 477.06 lakh released by the Ministries under 20 sanction orders were not received by the SIAs. Letters were issued (September 2012) to Ministries concerned with copy to SIAs and Finance, Revenue and Expenditure Department, Government of Sikkim for reconciliation and intimation of factual position, which was awaited (January 2013).

In one case, involving ₹ 2.63 lakh released (Sanction Order dated 22 March 2012) by Ministry of Culture, the existence of the recipient (Himalayan Heritage, Research and Development Society) could not be traced in audit. Accordingly, the concerned Ministry was issued letter from Audit for intimation of exact address of the Society. However, the information was awaited (January 2013). Further, 4 SIAs (Zilla Panchayat, East: ₹ 86.17 lakh, Zilla Panchayat, West: ₹ 67.18 lakh, Sikkim Express, Gangtok: ₹ 0.03 lakh and Muyal Liang Trust, Pelling: ₹ 31.87 lakh) did not furnish the requisite information about the receipt and utilisation of the funds. Hence, receipt and utilisation of ₹ 185.25 lakh could not be ascertained.

To present a holistic picture on availability of aggregate resources, funds directly transferred to SIAs are presented in **Appendix 1.4**. It is evident from the Appendix that there was no single agency monitoring the funds directly transferred by the GOI and there was no readily available data on how much was actually spent in any particular year on major flagship schemes and other important schemes being implemented by the SIAs and funded directly by the GOI.

An analysis of two such schemes i.e., 'State Medicinal Plant Board (SMPB)' and 'Off Grid DRPS' are indicated below:

➤ ***State Medicinal Plant Board***

State Medicinal Plant Board (SMPB), Gangtok was constituted in July 2007 to look after policy formulation, coordination between departments/organisations ensuring sustained availability of medicinal plants and to coordinate all matters relating to their development and sustainable use as requested by the National Medicinal Plant Board (NMPB), New Delhi.

To fulfil these objectives, NMPB provides grants-in-aid on the basis of proposal of various projects by SMPB.

Details of funds released and expenditure incurred by SMPB are given below:

⁸Sikkim Consultancy Centre (₹ 9.84 lakh), State Health Society (₹ 49.84 lakh), State Health Society (₹ 180.33 lakh), State Health Society (₹ 177.60 lakh), Centre for Research & Training in Informatic (₹ 26.74 lakh), Sikkim Handloom & Handicraft Development Society (₹ 10.35 lakh) and Sikkim State Aids Control Society (₹ 22.36 lakh).

Table 1.6: Funds received and expenditure incurred by SMPB

(₹ in lakh)

Sl. No.	Name of Scheme	Total outlay & period	OB as on 1 April 2009	Receipts during 2009-10 to 2011-12	Expenditure during 2009-10 to 2011-12	CB as on 31 March 2012
1	Resonance Energy Transfer (RET) Scheme	507.00 (2009-10 to 2011-12)	Nil	403.09	402.98	0.11
2	National Amla Scheme	88.00 (2010-11 to 2012-13)	Nil	50.00	49.95	0.05
3	Tree Species	80.00 (2007-08 to 2011-12)	10.62	25.00	35.62	Nil
4	Nucleus Centre	7.39	Nil	7.39	Nil	7.39
5	Foundation for Revitalisation & Local Health Tradition (FRLHT)	11.50 (2011-12)	Nil	11.50*	11.50	Nil
6	RET Scheme (New)	550.86 (2011-12 to 2015-16)	Nil	214.00	Nil	214.00

*₹10 lakh was paid as advance to FRLHT, Bangalore whose detailed expenditure remained to be obtained.

Source: Departmental records

The implementation of the scheme was marked by various inconsistencies. A sum of ₹ 6.24 lakh was sanctioned and sent (3 November 2008) by the NMPB which the SMPB became aware of only during June 2010. Under Nucleus Centre Scheme, although grant was credited into account of SMPB in April 2011, the Board became aware that the funds were in their bank account only in July 2012.

➤ **Off Grid Decentralised Renewable Power Scheme**

Off Grid Decentralised Renewable Power Scheme, a plan scheme of Jawaharlal Nehru National Solar Mission, aims at application of solar technology in rural and urban areas through domestic home lighting, street light, drinking water supply, irrigation pump in lift irrigation and cattle water supply in rural areas and installation of standalone Solar Photovoltaic Power Plants (SPPs) for conservation of energy in urban areas.

Details of funds released and expenditure incurred by SREDA are given below:

Table 1.7 Funds released and expenditure incurred by SREDA

(₹ in lakh)

Sl No	Component of Scheme	Amount sanctioned & GOI share	Scheduled date of completion	Receipts during 2009-10 to 2011-12	Expenditure during 2009-10 to 2011-12	CB as on 31.3.12	Revised date of completion	Remarks
1*	Solar Photo voltaic programme	93.99	NA	93.99	93.99	Nil	Completed	Completed
2	Solar power programme	91.37	31.03.12	20.00	20.00	Nil	30.11.11 UC 31.7.12	Under progress
3	530KW power plant	1,293.56	31.10.12	600.00	330.60	269.40	30.04.2012	--do--
4	5000 Solar home light (Earthquake)	510.00	31.03.12	250.00	Nil	250.00	31.12.12	--do--
5	Preparation of DPR of 3 MHP	6.00	NA	3.00	2.35	0.65	31.03.2012	-do-

*The details of schedule date of completion and CB could not be furnished by agency.

♦NA -Information not available with the Department

Source: Departmental records

The implementation of the Scheme was delayed due to delay in release of grants, irregular distribution in terms of beneficiaries selection criteria, wanting acknowledgement, improper documentation, non-deposit of sale proceeds of solar lamps, non-contribution by beneficiaries, delay in release of State share, absence of systematic arrangements to ensure effective utilisation of funds, absence of regular submission of Monthly and Quarterly Progress Reports (MPR and QPR) leading to poor monitoring of the Scheme. In some cases, there was misreporting in progress report and utilisation certificate. Ministry of Non-renewable Energy (MNRE) had entrusted one organisation for monitoring the scheme, but in the absence of report, its impact could not be ascertained. Maintenance of assets was deficient as asset register were not maintained and proper documentation were not made. There was absence of system to report interest earned on funds.

The component-wise details of irregularities are as under:

Solar photovoltaic (SPV) programme: Under this scheme, 750 solar home lights, 800 solar lanterns and 30 solar street lighting systems were to be distributed and one solar plant was to be installed. In the absence of stock register, receipt of full quantity of materials could not be ascertained. In the utilisation certificate submitted (October 2010) to MNRE, complete beneficiary-wise record of system installed under SPV programme was certified to have been compiled. However, as per records and as verified in Audit (October 2012), 46 solar home lights and 153 solar lamps were not found distributed. Reason for misreporting in progress report/UC was not stated. 30 solar street lights and one KW power plant were shown as installed but information about installed place and organisation who would take initiative for maintenance was not on record. Proper maintenance of assets could not be ensured as no complaint register was maintained for maintenance required to be done. Acknowledgement from beneficiaries in support of distribution was not obtained.

It was observed that though the SREDA asked Reshmi Enterprises, Kolkata to replace 176 Solar lantern batteries, 6 Solar home light batteries, 41 Luminaries, 54 Charge controllers due to defective supply, no replacement was made as no such receipt of material was found on records.

Solar Power Programme: Under this project, 10 street light systems, 512 Home lights and 1280 Solar lanterns were required to be installed/distributed by 31 March 2012 failing which MNRE was to impose penalty at the rate of 2 *per cent* of Central Financial Assistance if the delay was beyond four months. Due to non-completion (only 463 Solar home lights and 213 Solar lanterns were distributed) of work till October 2012, imposition of penalty by GOI cannot be ruled out.

Thus, due to non-maintenance of stock register, absence of beneficiaries selection norms, non-obtaining of beneficiaries' acknowledgement, non-submission of periodical progress reports, distribution of materials in instalments and free distribution, etc., the implementation got adversely impacted in the areas of monitoring, evaluation and planning process.

5,000 Solar home light for earthquake: The home lights had not been supplied by the supplier.

Monitoring: MNRE had entrusted monitoring of Scheme to M/s. Medhraj Techno Ltd., New Delhi, but its report was not on record. Therefore, the impact of the scheme could not be assessed.

1.6 Revenue Receipts

The trends and composition of revenue receipts over the period 2007-12 are presented in **Appendix 1.5** and **1.6** and are also depicted in **Charts 1.5** and **1.6** respectively.

Revenue receipts showed progressive increase from ₹ 1,497.71 crore in 2007-08 to ₹ 2,345.37 crore in 2009-10 but decreased to ₹ 2,151.70 crore in 2010-11. However, the revenue receipts increased in 2011-12 by ₹ 720.41 crore (33.48 *per cent*) compared to previous year. The State's own resources contributed 18.73 *per cent* (₹ 537.96 crore) in the revenue receipts of the State during 2011-12. The balance was transfers from Government of India in the form of State's share of taxes and grants-in-aid contributions.

State's own resources consist of tax revenue and non-tax revenue. The share of tax revenue in revenue receipts was 10.23 *per cent* (₹ 293.92 crore) and non-tax revenue was 8.50 *per cent* (₹ 244.04 crore) during the year. Both tax revenue and non-tax revenue showed increase in 2011-12 compared to previous year.

Chart 1.5 : Trends in Revenue Receipts

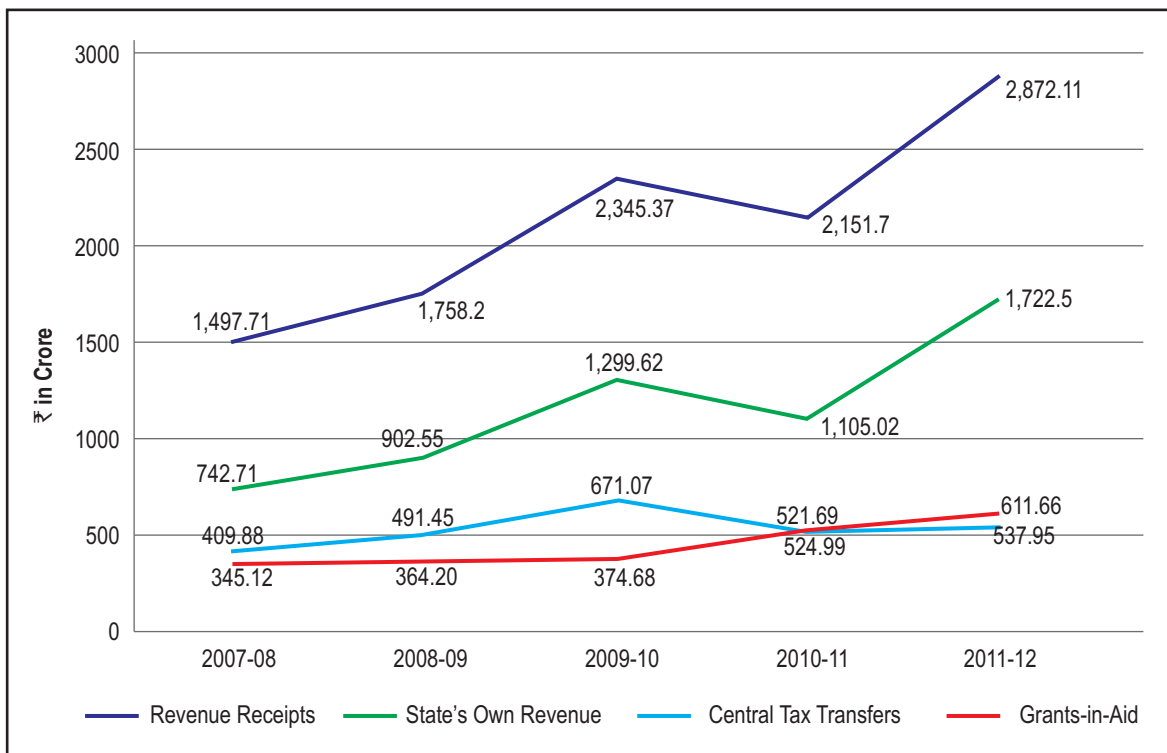
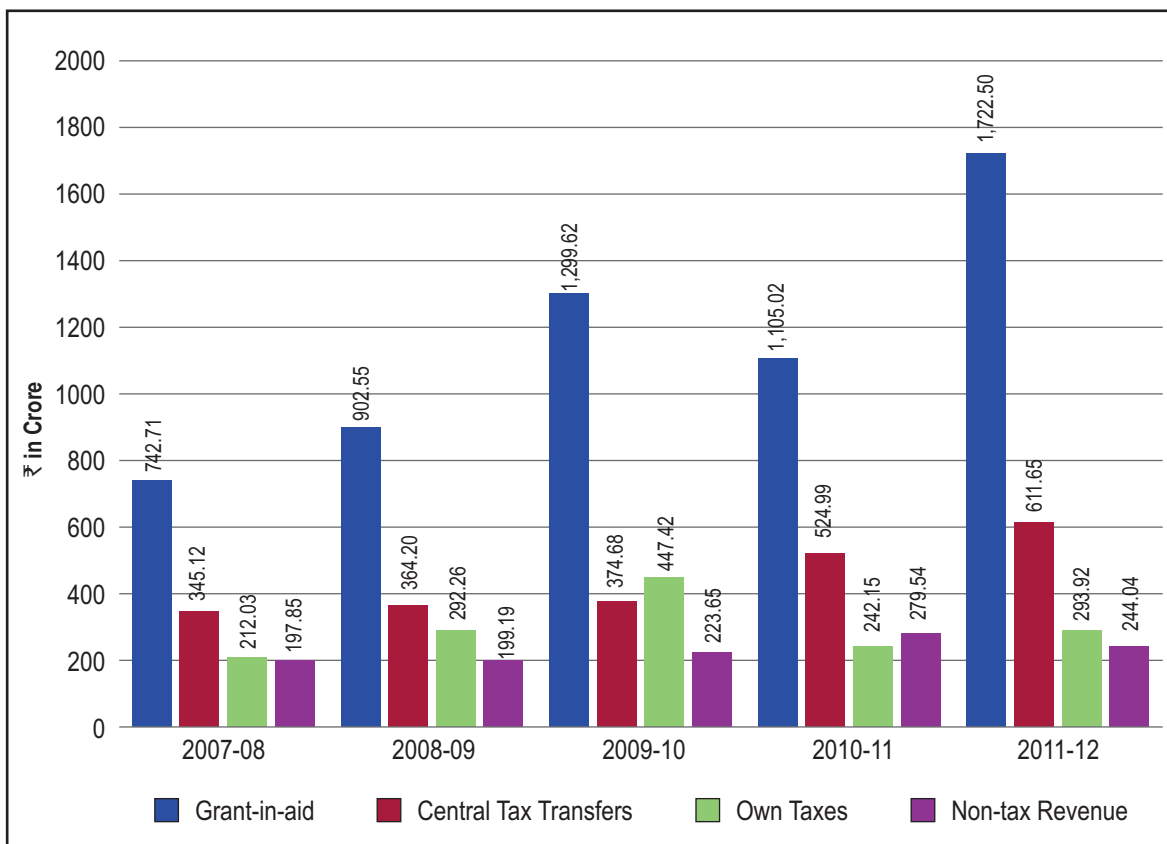


Chart 1.6 : Composition of Revenue Receipts



Source : Finance Accounts

The trends in revenue receipts relative to GSDP are presented in **Table 1.8**.

Table 1.8: Trends in revenue receipts relative to GSDP

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue receipts (RR) (₹ in crore)	1,497.71	1,758.20	2,345.37	2,151.70	2,872.11
GSDP (₹ in crore)	2,506.09	3,229.08	6,132.76	7,144.55	8,399.88
Rate of growth of GSDP (<i>per cent</i>)	15.96	28.85	89.92	16.50	17.57
Rate of Growth of RR (<i>per cent</i>)	24.47	17.39	33.40	(-) 8.26	33.48
Rate of Growth of State's own tax (<i>per cent</i>)	14.25	0.68	12.28	24.99	5.14
RR/GSDP (<i>per cent</i>)	59.76	54.44	38.24	30.11	34.19
Buoyancy ratios⁹					
Revenue buoyancy w.r.t. GSDP	1.53	0.60	0.37	(-) 0.50	1.91
State's own tax buoyancy w.r.t. GSDP	0.89	0.02	0.13	1.51	0.29
Revenue buoyancy w.r.t. State's own taxes	1.72	25.57	2.72	(-) 0.33	6.51

Source : Finance Accounts

The rate of growth of revenue receipts during 2011-12 had increased by 33.48 *per cent* as compared to previous year. Revenue buoyancy widely fluctuated during the period due to fluctuations in the growth rate of revenue receipts. Revenue buoyancy which was lowest during 2010-11 increased to 1.91 in 2011-12 due to increase in the growth rate of revenue receipts.

The tax revenue of the State during 2011-12 increased marginally by 5.14 *per cent* as compared to the previous year.

1.6.1. State's own resources

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

The State's actual tax and non-tax receipts for the year 2011-12 vis-à-vis assessment made by XIII FC and Medium Term Fiscal Plan (2009-13) are given in **Table 1.9**.

Table 1.9: XIII FC recommendations vis-à-vis the actuals

(₹ in crore)

Receipts	XIII FC projection	Budget Estimates	MTFP projections		Actuals
			Amount	(% to GSDP)	
Tax Revenue	228.38	269.19	336.84	4.01	293.91
Non-Tax Revenue	322.64	362.31	343.55	4.09	244.04

The State exceeded the target set by XIII FC in respect of Tax Revenue by ₹ 65.53 crore but fell short of target in respect of Non-Tax Revenue by ₹ 78.60 crore in the current year. However, the State failed to achieve the target set by the MTFP relative to GSDP percentage both in tax and non-tax revenue by 0.51 and 1.18 *per cent* respectively. Further, the State could not

⁹Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.7 implies that revenue receipts tend to increase by 0.7 percentage points, if the GSDP increases by one per cent.

achieve the target set as per budget estimates in respect of non-tax revenue which was lower by ₹ 118.27 crore. The tax revenue was more by ₹ 24.72 crore than the budget estimate during the year. As per MTFP, the relative share in the revised estimates for the year 2011-12 had considerably declined due to the disruption experienced to business and trade activities due to the earthquake in the State.

Tax Revenue

Taxes on sales, trade, etc. were the main sources of the State's tax revenue with a contribution of 42.25 per cent followed by State Excise (32.75 per cent), Taxes on vehicles (5.63 per cent), Stamps and Registration Fees (2.81 per cent), Land Revenue (1.57 per cent) and Taxes on Income other than Corporation Tax (1.65 per cent). The trends in the major constituents of tax revenue during the period 2007-12 are shown in **Table 1.10**.

Table 1.10: Tax Revenue

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Taxes on sales, trade, etc.	81.32	101.14	121.07	142.74	124.19
Rate of growth	8.18	19.59	16.46	15.18	(-)13.00
State Excise	37.94	46.47	57.27	70.64	96.26
Rate of Growth	12.20	18.35	18.85	18.92	36.27
Stamps & Registration Fees	4.26	4.35	4.48	5.70	8.27
Rate of Growth	40.84	2.06	2.90	21.60	45.09
Taxes on vehicles	6.22	6.94	7.88	10.66	16.56
Rate of Growth	4.34	10.37	11.92	26.07	55.35
Land Revenue	2.75	1.95	2.71	7.33	4.61
Rate of Growth	252.56	(-)29.09	38.97	170.48	(-)37.11

Source : Finance Accounts

The rate of growth of taxes on sales, trade, etc., during 2011-12 declined by 13 per cent (₹ 18.55 crore) due to decrease in receipts under Central Sales Tax, State Sales Tax and Trade Tax (SVAT) as compared to previous year. The growth rate of State Excise stood at 36.26 per cent (₹ 25.62 crore) as compared to previous year due to increase in collection in foreign liquors & spirits and medicinal & toilet preparations containing alcohol, opium, etc.

Stamps and Registration Fees had shown increase by 45.09 per cent (₹ 2.57 crore) due to increase in sale of Judicial Stamps. Taxes on vehicles had shown 55.35 per cent increase in 2011-12 due to increase in receipts under the State Motor Vehicles Taxation Acts whereas Land Revenue had decreased by 37.11 per cent due to less collection of Land Revenue.

Cost of collection

The gross collection of taxes on motor vehicles, taxes on sales, trade, etc., stamp duty and registration and State excise, expenditure incurred on their collection and its percentage to gross collection during the years 2009-12 along with their all India average cost of collection for the year 2010-11 are indicated in **Table 1.11**.

Table 1.11: Details of cost of collection

(₹ in crore)

Receipt	Year	Gross Collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average percentage for 2010-11
Motor vehicles	2009-10	7.88	1.34	17.01	3.71
	2010-11	10.66	1.13	10.60	
	2011-12	16.56	1.32	7.97	
Taxes on sales, trade, etc.	2009-10	121.07	3.75	3.10	0.75
	2010-11	142.74	3.28	2.30	
	2011-12	124.19	6.08	4.90	
Stamp duty and registration	2009-10	4.48	0.38	8.48	1.60
	2010-11	5.70	0.20	3.51	
	2011-12	8.27	0.13	1.57	
State excise	2009-10	52.27	3.62	6.32	3.05
	2010-11	70.64	3.93	5.56	
	2011-12	96.26	3.87	4.02	

Source : Finance Accounts

The percentage of expenditure on collection during 2011-12, as compared to the corresponding all India average percentage for 2010-11, was much higher except in case of Stamp duty and registration.

Non-tax revenue

During 2007-12, on an average, interest receipts, dividends and profits contributed 2.43 per cent in non-tax revenue and receipts (gross) from lotteries and fees, fines, etc., contributed 79.97 and 5.54 per cent respectively. User charges from Social and Economic Services contributed 0.36 and 13.13 per cent respectively on an average in non-tax revenue and the rest came from other receipts.

Table 1.12: Composition of non-tax revenue

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	Average percentage composition during 2007-12	
						Interest, dividends, user charges, fees, fines	Others
Interest receipts, dividends and profits	15.78 (1.12)	27.25 (2.26)	44.64 (3.29)	30.51 (2.68)	29.39 (2.81)	2.43	
General services							
Receipts (gross) from State Lotteries	1,232.55 (87.18)	957.00 (79.40)	949.92 (70.03)	938.15 (82.46)	844.15 (80.81)		79.97
Other general receipts	25.19 (1.78)	17.80 (1.48)	22.58 (1.66)	22.04 (1.94)	22.12 (2.12)	1.80	
Relief under DCRF	-	-	-	-	-	-	
Fees, fines, etc.	2.59 (0.18)	3.16 (0.26)	7.71 (0.57)	4.80 (0.42)	9.44 (0.90)	5.54	
Economic services	131.22	192.34	322.57	117.13	131.19		
Write-back from Public Account	-	-	-	-	-		
Pooling of cess collection	-	-	-	-	-		

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	Average percentage composition during 2007-12	
						Interest, dividends, user charges, fees, fines	Others
Other receipts	17.86 (1.26)	19.20 (1.59)	15.71 (1.16)	3.61 (0.32)	19.47 (1.86)		1.23
User charges	113.36 (8.02)	173.14 (14.36)	306.86 (22.62)	113.52 (9.98)	111.72 (10.70)	13.14	
Social services							
User charges	3.66 (0.26)	4.50 (0.37)	4.35 (0.32)	4.73 (0.42)	4.85 (0.46)	0.37	
Other receipts	2.75 (0.19)	3.26 (0.27)	4.67 (0.34)	20.41 (1.79)	3.43 (0.33)		0.58
Total	1,413.74	1,205.31	1,356.44	11,37.75	1,044.57		

Source: Finance Accounts

Figures in brackets indicate percentage on total receipts

The trend of non-tax revenue was fluctuating during all the years. During 2008-09, the non-tax revenue decreased by ₹ 208.43 crore (14.74 per cent) and increased during 2009-10 by ₹ 151.13 crore (12.54 per cent) and again decreased during 2010-11 and 2011-12 by ₹ 218.69 crore (19.22 per cent) and by ₹ 93.18 crore (8.19 per cent) respectively. There was positive growth of 0.36 per cent in General Services and 12.97 per cent in Economic Services during the year.

The ratio of non-tax revenue to non-plan revenue expenditure is considered as an indicator of cost recovery from socio-economic services. The details of recovery of current cost as ratio of non-tax revenue receipts to non-plan revenue expenditure in respect of Education, Health & Family Welfare, Water Supply & Sanitation and Irrigation during 2011-12 are given in **Table 1.13**.

Table 1.13: Cost recovery from socio-economic services

(₹ in crore)

Service	Non-tax revenue receipts (NTR)	Non-plan revenue expenditure (NPRE)	Cost recovery (ratio of NTR/NPRE in per cent)
Education, sports, art and culture	1.35	301.75	0.45
Health and family welfare	1.27	73.90	1.72
Water supply and sanitation	2.90	9.50	30.53
Irrigation	0.28	2.22	12.61

Source: Finance Accounts

Cost recovery in respect of Education, Sports, Art and Culture during the year was 0.45 per cent being the lowest and the highest was 30.53 per cent pertaining to Water supply and sanitation. In respect of Health & Family Welfare and Irrigation, the cost recovery remained at 1.72 and 12.61 per cent respectively.

1.6.2 Grants-in-aid from GOI

Grants-in-aid from GOI increased from ₹ 1,105.02 crore in 2010-11 to ₹ 1,722.50 crore in 2011-12 as shown in **Table 1.14**.

Table 1.14: Grants in aid from GOI

(₹ in crore)

Grants	2007-08	2008-09	2009-10	2010-11	2011-12
Non-Plan Grants	27.46	66.61	28.79	121.32	345.74
Grants for State Plan schemes	455.22	635.23	1,026.19	799.88	1,145.02
Grants for Central Plan Schemes	4.51	4.20	4.63	5.30	3.56
Grants for Centrally Sponsored Plan Schemes	160.22	168.06	187.14	146.08	168.53
Grants for Special Plan Schemes (NEC)	35.74	28.44	52.87	32.44	59.65
Total	683.15	902.54	1,299.62	1,105.02	1,722.50

Source: Finance Accounts

The GOI grants increased by ₹ 617.48 during 2011-12 over the previous year due to increase in non-plan grants (₹ 224.42 crore), State Plan schemes (₹ 345.14 crore), Grants for Centrally Sponsored Plan Schemes (₹ 22.45 crore), and Grants for Special Plan Schemes (NEC) (₹ 27.21 crore). However, there was marginal decline of ₹ 1.74 crore in Grants for Central plan schemes. During 2011-12, grants-in-aid included Plan grants under XIII Finance Commission (FC) of ₹ 24.72 crore towards Environment related Grant (Forest) (₹ 5.07 crore) and State's Specific Grants (₹ 19.65 crore).

1.6.3 Central tax transfers

There was an increase in the State's Share of Union taxes and duties in all components as compared to the previous year, viz., Corporation Tax of ₹ 35.54 crore (17.32 per cent), Taxes on Income other than Corporation Tax of ₹ 13.85 crore (12.77 per cent), Wealth tax of ₹ 51.00 crore (121.42 per cent), Customs of ₹ 14.26 crore (15.54 per cent), Union Excise duties of ₹ 1.83 crore (2.74 per cent) and Service Tax of ₹ 20.67 crore (39.45 per cent).

1.6.4 Optimisation of XIII FC

The Commission had recommended ₹ 55.09 crore as transfer to the State in the areas indicated in the Table below during 2010-11:

Table 1.15 Funds received from GOI

(₹ in crore)

Sl No.	Transfers	Total Grant recommended by XIII FC for 5 years (2010-11 to 2014-15)	Recommendation of FC for 2010-11	Actual release	Expenditure under relevant revenue heads of account	Unutilised amount
1	Local Bodies					
	(i) General Basic Grant					
	(a) PRI	120.71	17.16	8.58	8.58	Nil
	(b) ULB	1.69	0.24	0.12	0.12	Nil
	(ii) General Performance Grant					
	(a) PRI	63.90	Nil	Nil	Nil	Nil
	(b) ULB	0.90	Nil	Nil	Nil	Nil
2	Disaster Relief					
	(i) Central Share (90%)	113.14	20.48	10.24	10.24	Nil
	(ii) State Share	12.56	2.27	2.27	2.27	Nil
	(iii) Capacity Building for disaster response	5.00	1.00	1.00	1.00	Nil
3	Elementary Education	5.00	1.00	1.00	1.00	Nil
4	Improving outcome grants					
	(i) Improvement in Justice Delivery	21.80	4.35	*4.36	0.52	3.84
	(ii) Incentives for issuing UIDS	1.10	0.22	0.11	Nil	0.11
	(iii) District Innovation Fund	4.00	Nil	Nil	Nil	Nil
	(iv) Statistical System Improvement	4.00	0.80	Nil	Nil	Nil
	(v) Employee & Pension Data Base	5.00	2.50	2.50	0.71	1.79
5	Environment related grant					
	(i) Forest	40.56	5.07	5.07	5.04	0.03
	(ii) Water Sector Management (Irrigation)	4.00	Nil	Nil	Nil	Nil
6	Maintenance of Roads & Bridges	68.00	Nil	Nil	Nil	Nil
	Total	471.36	55.09	35.25	29.48	5.77

*₹ 0.01 crore received in excess

As of March 2011, the State Government had received grants aggregating ₹ 35.24¹⁰ crore against recommendation of ₹ 55.09 crore. The balance (₹ 19.85 crore), pertaining to General Basic Grant (PRI) (₹ 8.58 crore), ULB (₹ 0.12 crore), Disaster Relief (Central share) (₹ 10.24 crore), Incentives for issuing UIDS (₹ 0.11 crore) and Statistical System Improvement (₹ 0.80 crore) was not received. Against the said release, ₹ 5.77 crore remained unutilised.

Similarly, Commission had recommended ₹ 180.93 crore (including State Specific Grant) as transfer to the State in the areas indicated in **Tables 1.16** and **1.17** during 2011-12.

¹⁰Excluding ₹ 0.01 crore received in excess in respect of 'Improvement in Justice Delivery'

Table 1.16: Grant received from GOI for the Specific areas

(₹ in crore)

Sl No.	Transfers	Recommendation of FC for 2011-12	Actual Release	Expenditure under relevant revenue heads of account	Unutilised amount
1	Local Bodies				
	(i) General Basic Grant				
	(a) PRI	19.92	21.73**	18.35	3.38
	(b) ULB	0.28	Nil	Nil	Nil
	(ii) General Performance Grant				
	(a) PRI	6.80	1.06	Nil	1.06
	(b) ULB	0.10	0.02	Nil	0.02
2	Disaster Relief				
	(i) Centre Share (90%)	21.50	21.50	21.50	Nil
	(ii) State Share	2.39	2.39	2.39	Nil
	(iii) Capacity Building for disaster response	1.00	1.00	0.47	0.53
3	Elementary Education	1.00	1.00	1.00	Nil
4	Improving outcome grants				
	(i) Improvement in Justice Delivery	4.35	Nil	Nil	Nil
	(ii) Incentives for issuing UIDS	0.22	Nil	Nil	Nil
	(iii) District Innovation Fund	2.00	2.00	1.85	0.15
	(iv) Statistical System Improvement	0.80	0.80	Nil	0.80
	(v) Employee & Pension Data Base	0.50	Nil	Nil	Nil
5	Environment related grant				
	(i) Forest	5.07	5.07	5.02	0.05
	(ii) Water Sector Management (Irrigation)	1.00	Nil	Nil	Nil
6	Maintenance of Roads & Bridges	14.00	14.00	13.86	0.14
	Total (A)	80.93	70.57	64.44	6.13

Table 1.17: State Specific Grant

(₹ in crore)

Sl No.	Transfers	Recommendation of FC for 2011-12	Actual Release	Expenditure under relevant revenue heads of account	Unutilised amount
1	Sky Walk at Bhalay Dhunga	50.00	50.00	Nil	50.00
2	Development of Village Tourism	20.00	20.00	Nil	20.00
3	Repairs and Renovation				
	(i) Suspension Bridges (North Sikkim)	8.75	8.75	5.42	3.33
	(ii) Upgradation of Namchi Water Supply and overhauling of Changay source for Gayalzing and Rabdentse Water supply	5.00	5.00	5.00	Nil
4	Police Training and Infrastructure				
	(i) Police Training Centre at Yangang	2.50	2.40	1.64	0.76
	(ii) Residential and Non-residential building for Police force	3.75	3.50	1.24	2.26
5	Border Area Development				
	(i) Additional storage facilities for commodities	1.50	1.58**	Nil	1.58
	(ii) Reinforcement of existing security infrastructure new checkpost, improving road, security equipment, etc.	3.75	7.95**	Nil	7.95
6	Establishment of a State Capacity Building Institute at Burtuk	2.50	Nil	Nil	Nil
7	Conservation of Heritage and Culture	2.25	Nil	Nil	Nil
	Total (B)	100.00	99.18	13.30	85.88
	Grand Total(A+B)	180.93	169.75	77.74	92.01

**₹ 6.09 crore received in excess.

As of March 2012, the State Government had received grants aggregating ₹ 163.66¹¹ crore including State Specific Grant of ₹ 99.18 crore as against recommendation of ₹ 180.93 crore. The balance (₹ 17.27 crore) pertaining to General Basic Grant (ULB) (₹ 0.28 crore), General Performance Grant (PRI) (₹ 5.74 crore) and ULB (₹ 0.08 crore), Incentives for issuing UIDS (₹ 0.22 crore), Improvement in Justice Delivery (₹ 4.35 crore), Employee and Pension Database (₹ 0.50 crore), Water Sector Management (₹ 1.00 crore), Police Training Centre (₹ 0.10 crore), Residential and Non-residential Building for Police Force (₹ 0.25 crore), Establishment of Capacity Building (₹ 2.50 crore) and Conservation of Heritage and Culture (₹ 2.25 crore) was not received. Against the said release, ₹ 92.01 crore remained unutilised.

¹¹Excluding ₹ 6.09 crore received in excess in respect of i) General Basic Grant PRI, ii) Additional storage facilities for commodities and iii) Reinforcement of existing security infrastructure, new checkpost, improving road, security improvement, etc.

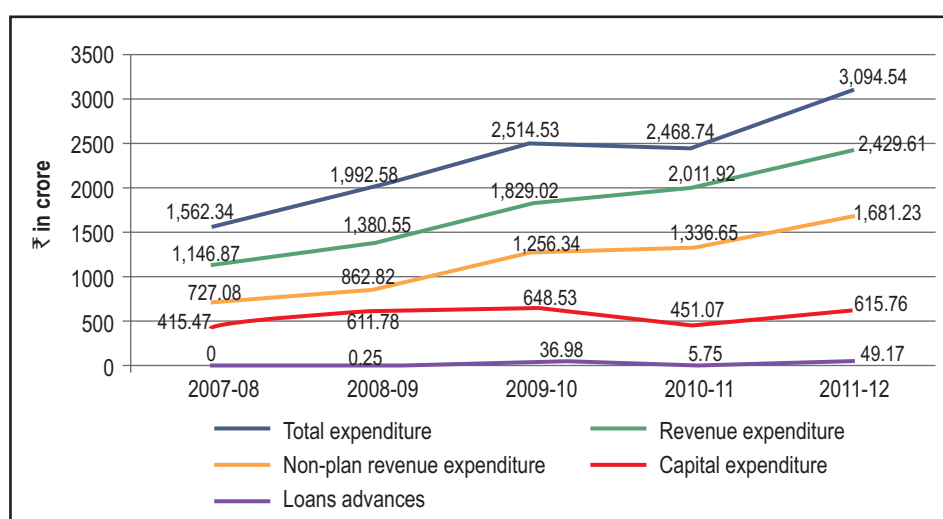
1.7 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance as it is an important aspect of fiscal policy to achieve developmental goals. Within the framework of fiscal responsibility legislation, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. At the same time, it is 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.

1.7.1 Growth and composition of expenditure

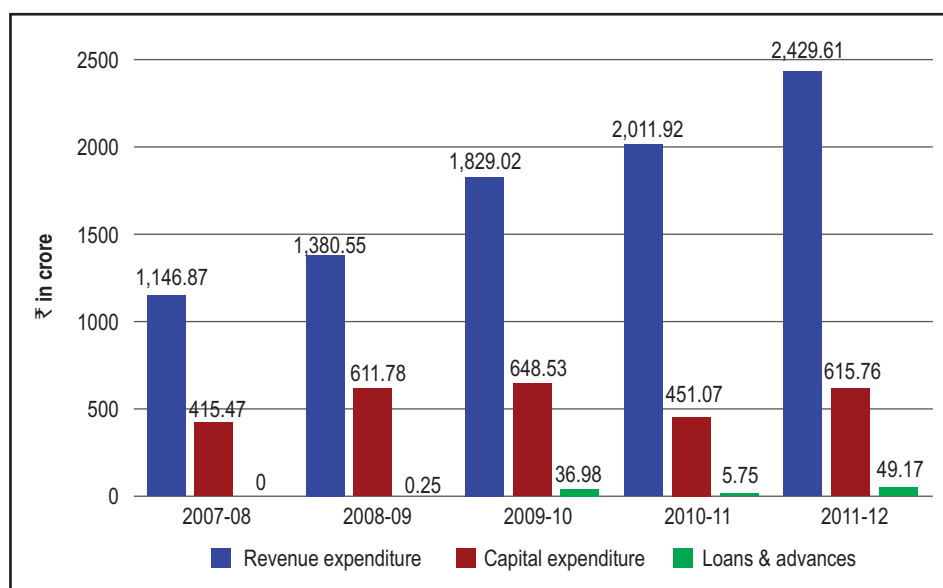
Chart 1.7 presents the trends in total expenditure under revenue, capital and loans and advances while **Chart 1.8** exhibits the share of these components in total expenditure.

Chart 1.7 : Total expenditure trends and compositions



Source : Finance Accounts

Chart 1.8 : Total expenditure: Trends in share of its components



Total expenditure increased by 98.07 per cent from ₹ 1,562.34 crore in 2007-08 to ₹ 3,094.54 crore in 2011-12 due to increase in revenue expenditure (₹ 1,282.74 crore), Capital outlay (₹ 200.29 crore) and disbursement of loan and advances (₹ 49.17 crore).

During the period 2007-12, on an average, 75 per cent of the total expenditure was revenue expenditure. The share of revenue expenditure in the total expenditure decreased from 73 per cent in 2007-08 to 69 per cent in 2008-09 and after recording increase during 2009-10 and 2010-11, it decreased to 79 per cent in 2011-12 from 81 per cent of 2010-11. The share of capital expenditure had been fluctuating during all the years. The expenditure on capital sector during 2010-11 decreased by ₹ 197.46 crore and again it increased by ₹ 164.69 crore during the current year.

1.7.2 Buoyancy of expenditure

Buoyancy of total expenditure

Growth rates of total expenditure during 2007-12, its ratio and buoyancy with reference to GSDP and revenue receipts are presented in **Table 1.18**.

Table 1.18: Total expenditure - Basic parameters

(₹ in crore, ratio in per cent)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Total Expenditure (TE)	1,562.34	1,992.58	2,514.53	2,468.74	3,094.54
Rate of Growth (in per cent)	20.10	27.54	26.19	(-1.82)	25.35
GSDP	2,506.09	3,229.08	6,132.76	7,144.55	8,399.88
TE/GSDP (ratio)	62.34	61.71	41.00	34.55	36.84
Revenue receipts/TE (ratio)	95.86	88.23	93.27	87.16	92.81
Revenue expenditure	1,146.87	1,380.55	1,829.02	2,011.92	2,429.61
Rate of Growth (in per cent)	17.71	20.37	32.48	9.99	20.76
Revenue Receipts	1,497.71	1,758.20	2,345.37	2,151.70	2,872.11
Rate of Growth (in per cent)	24.47	17.39	33.40	(-) 8.26	33.48
Capital expenditure	415.47	611.78	648.53	451.07	615.76
Rate of Growth (in per cent)	21.43	32.08	5.66	(-)30.45	36.51
Buoyancy of TE with					
GSDP (ratio)	1.26	0.95	0.29	0.11	1.44
Revenue Receipts (ratio)	0.82	1.58	0.78	0.22	0.76
Buoyancy of revenue expenditure with					
GSDP	1.11	0.71	0.69	0.52	1.18
Revenue Receipts	0.72	1.17	0.97	(-)1.21	0.62
Buoyancy of Capital expenditure with					
GSDP	1.34	1.11	0.12	(-)1.58	2.08
Revenue receipts	0.87	1.84	0.16	(-)38.71	1.09

Source : Finance Accounts

During the period 2007-12, the growth rate of total expenditure was highest (27.54 per cent) in 2008-09 and lowest (-1.82 per cent) in 2010-11. The growth rate of total expenditure which was at (-) 1.82 per cent increased to 25.35 per cent in 2011-12.

In 2011-12, total expenditure was 1.08 times the revenue receipts. The buoyancy ratio of total expenditure to revenue receipts was around 0.76 per cent and the growth rate of total expenditure was less than the growth rate of revenue receipts by 1.32 times.

The growth rate of total expenditure (25.35 per cent) in 2011-12 was higher than the growth rate of GSDP (17.57 per cent) and the buoyancy of total expenditure to GSDP was 1.44 per cent in 2011-12 as compared to 0.11 per cent in 2010-11. Revenue receipts as a percentage of total expenditure stood at 92.81 per cent which meant that 92.81 per cent of the total expenditure could be met out of revenue receipts.

Buoyancy of revenue expenditure

The growth in revenue expenditure was lower than the growth of revenue receipts in 2011-12 and the growth of revenue expenditure was higher than the growth of GSDP. For every one per cent growth in GSDP revenue expenditure grew by 1.18 per cent.

Buoyancy of capital expenditure

During 2008-12, the growth in capital expenditure was higher than the growth rate of GSDP but was less than the revenue receipts in 2007-08. In 2008-09, the capital expenditure growth was higher than the growth of revenue receipts but was less than the growth of GSDP. During 2011-12, the growth rate of capital expenditure was higher than the revenue receipts and GSDP.

1.7.3 Plan and non-plan expenditure

Finance Accounts provide a further classification of expenditure into plan and non-plan. Plan expenditure normally relates to incremental developmental expenditure on new projects or schemes and involves both revenue and capital expenditure. In order to maintain the level of services already achieved, non-plan expenditure is normally utilised. **Table 1.19** presents the growth and composition of plan and non-plan expenditure over the last five years.

Table 1.19: Growth in plan and non-plan expenditure

(₹ in crore)

Expenditure	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Plan	Revenue	419.79	517.73	572.68	675.27	748.38
	Capital	415.47	611.78	648.53	451.07	615.76
	Loan	Nil	0.25	36.98	5.75	49.17
	Total	835.26	1,129.76	1,258.19	1,132.09	1,413.31
	Percentage of plan to total expenditure	53	57	50	46	46
Non-plan	Revenue	727.08	862.82	1256.34	1336.65	1681.23
	Capital	-	-	-	-	-
	Loan	-	-	-	-	-
	Total	727.08	862.82	1,256.34	1,336.65	1,681.23
	Percentage of non-plan to total expenditure	47	43	50	54	54
Total Expenditure	1,562.34	1,992.58	2,514.53	2,468.74	3,094.53	

Source : Finance Accounts

The share of plan expenditure in the total expenditure, exhibiting increasing trend since 2007-08, indicates productive quality of expenditure.

During the period 2007-12, while the plan expenditure increased by 69.20 per cent from ₹ 835.26 crore in 2007-08 to ₹ 1,413.30 crore in 2011-12, non-plan expenditure increased by 131.23 per cent from ₹ 727.08 crore to ₹ 1,681.23 crore.

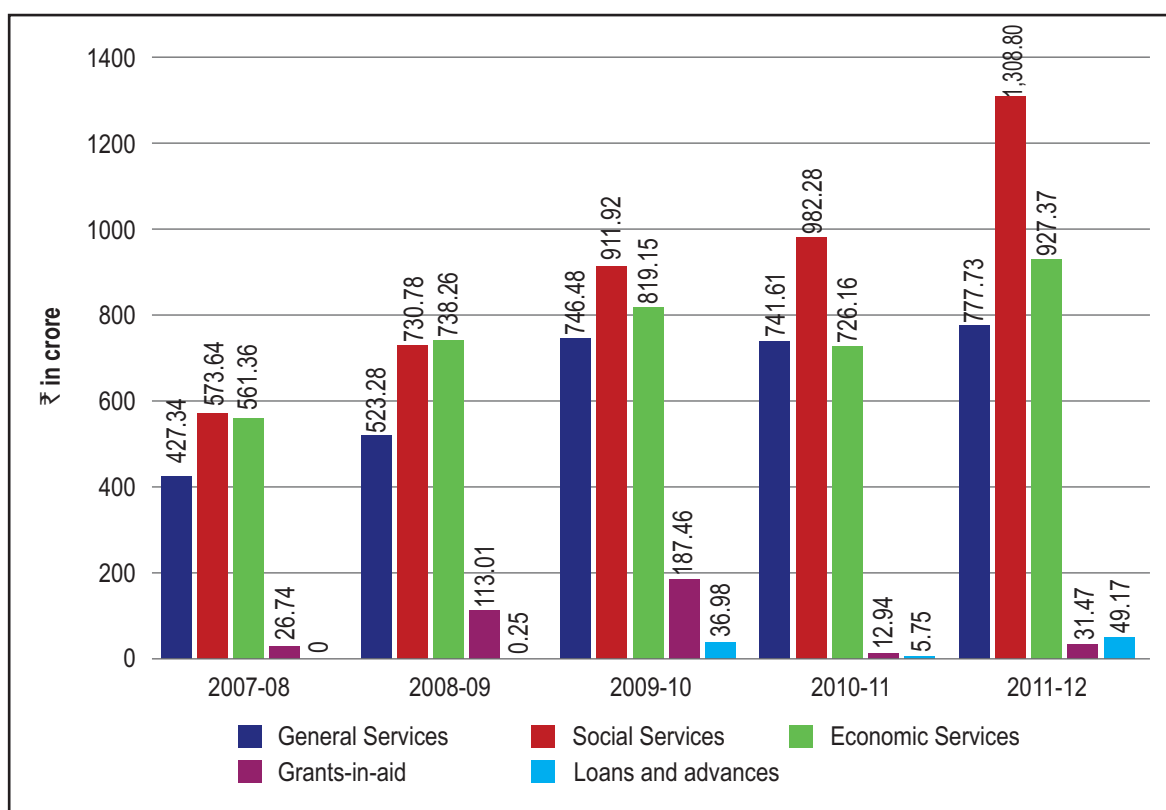
The NPRE increased by ₹ 344.58 crore (25.78 per cent) compared to previous year comprising General Services ₹ 53.06 crore, Social Services ₹ 229.14 crore and Economic Services ₹ 62.38 crore.

The share of salary expenditure (under social services) in total revenue expenditure in 2011-12 was 26.53 per cent as compared to 31.95 per cent in 2010-11 which was a decrease of 5.42 per cent.

1.7.4 Trends in expenditure by 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. Relative shares of these components in total expenditure (including loans and advances) are indicated in **Chart 1.9**.

Chart 1.9 : Total expenditure: Trends in activities



Source : Finance Accounts

The expenditure on general services and interest, which are considered as non-developmental, together contributed 25.13 per cent in 2011-12 as against 30.04 per cent in 2010-11 and 27.35 per cent in 2007-08. On the other hand, developmental expenditure i.e., expenditure on social and economic services together accounted for 55.10 per cent in 2011-12 as against 59.45 per

cent in 2010-11 and 63.28 per cent in 2007-08. This indicates that the non-developmental expenditure had decreased by 2.22 per cent as compared to 2007-08 and the developmental expenditure decreased by 8.18 per cent over the same period.

1.7.5 Incidence of revenue expenditure

The bulk of total expenditure goes towards revenue expenditure. Revenue expenditure is incurred to maintain the current level of services and make payment for past obligations and as such does not result in any addition to the State's infrastructure and services network.

Revenue expenditure increased by 111.85 per cent from ₹ 1,146.87 crore in 2007-08 to ₹ 2,429.61 crore in 2011-12. The revenue expenditure of the State increased by 20.76 per cent from ₹ 2,011.92 crore in 2010-11 to ₹ 2,429.61 crore in 2011-12. The Non-Plan Revenue Expenditure (NPRE) constituted 69.20 per cent of the revenue expenditure and had increased by ₹ 344.58 crore over the previous year. The Plan Revenue Expenditure (PRE) increased by ₹ 73.10 crore from ₹ 675.27 crore in 2010-11 to ₹ 748.38 crore in 2011-12.

The buoyancy of revenue expenditure with reference to GSDP was 1.18 per cent whereas the buoyancy of revenue expenditure with reference to receipts was 0.62 per cent during 2011-12.

NPRE was a major component (69.20 per cent) during 2011-12. Only 30.80 per cent of revenue expenditure was PRE.

1.7.6 Committed expenditure

Committed expenditure of the State Government on revenue account mainly consisted of interest payments, expenditure on salaries, pension and subsidies. **Table 1.20** and **Chart 1.10** present the trends in the expenditure on these components during 2007-12.

Table 1.20: Committed expenditure

(₹ in crore)

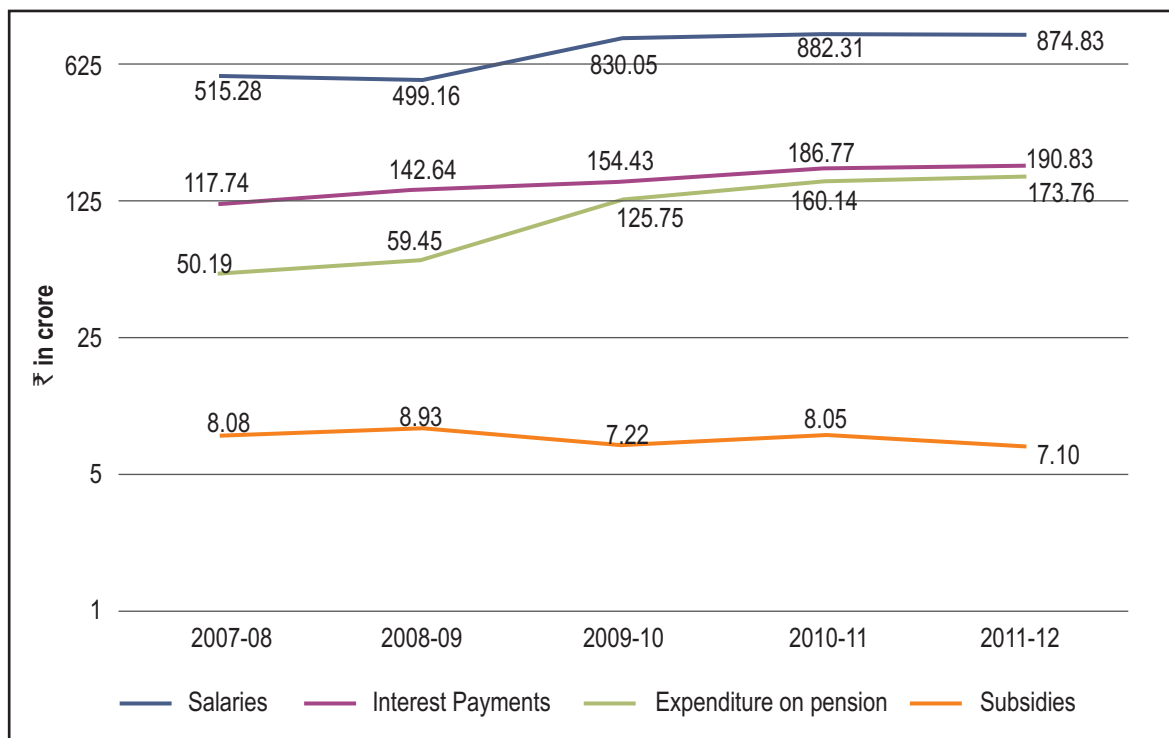
Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Salaries, of which	515.28 (70.87)	499.16 (57.85)	830.05 (66.07)	882.31 (66.01)	874.83 (52.03)
Non-plan head	373.07	358.62	646.68	629.64	642.14
Plan head*	142.21	140.54	183.37	252.68	232.69
Interest payments	117.74 (16.19)	142.64 (16.53)	154.43 (12.29)	186.77 (13.97)	190.83 (11.35)
Expenditure on pension	50.19 (6.90)	59.45 (6.89)	125.75 (10.01)	160.14 (11.98)	173.76 (10.33)
Subsidies	8.08 (1.11)	8.93 (1.03)	7.22 (0.57)	8.05 (0.60)	7.10 (0.42)
Total	691.29	710.18	1,117.45	1,237.27	1,246.52
<i>As per cent of Revenue Receipts</i>					
Salaries	34.40	28.39	35.39	41.01	30.45
Interest Payments	7.86	8.11	6.58	8.68	6.64
Pension	3.35	3.38	5.36	7.44	6.04
Subsidies	0.54	0.51	0.003	0.37	0.24

Figures in the brackets indicate percentage to non-plan revenue expenditure

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

Source: Finance Accounts

Chart 1.10 : Committed expenditure during 2007-12



Expenditure on salaries

Salaries alone accounted for 30.45 per cent of revenue receipts of the State during the year. Salaries decreased by 0.85 per cent from ₹ 882.31 crore in 2010-11 to ₹ 874.83 crore in 2011-12. The expenditure on salaries was 36.01 per cent of the revenue expenditure.

Pension payments

Pension payments increased by ₹ 13.62 crore from ₹ 160.14 crore in 2010-11 to ₹ 173.76 crore in 2011-12. Increase in pension payment during the year was due to increase of 587 pensioners in the State. Pension payment accounted for 6.04 per cent of the revenue receipts.

Interest payments

Interest payments increased by 2.17 per cent from ₹ 186.77 crore in 2010-11 to ₹ 190.83 crore in 2011-12. Interest payments of ₹ 190.83 crore in 2011-12 consisted of internal debt & market loans (₹ 137.18 crore), Small Savings, Provident Fund, etc. (₹ 43.57 crore) and loans received from Central Government (₹ 10.08 crore). The interest payments during 2011-12 exceeded the normative projections of XIII FC by ₹ 40.08 crore.

Table 1.21: XIII FC recommendation vis-à-vis the actual of Non-Plan Revenue Expenditure during 2011-12

Sectors	XIII FC	Actuals
Salary	600.26	642.14
Interest Payments	150.75	190.83
Pension	85.97	173.76
Other General Services	69.60	97.07
Social Services	57.53	445.58
Economic Services	34.79	100.38
Grants in aid	Nil	31.47
Total	998.90	1,681.23

The table indicates that the State failed to contain its NPRE to the level recommended by the XIII FC. During 2011-12, NPRE was 68.31 *per cent* (₹ 682.33 crore) more than the XIII FC recommendation.

Subsidies

In any welfare State, it is not uncommon to provide subsidies/subventions to the disadvantaged sections of the society. Subsidies are dispensed not only explicitly but also implicitly by providing subsidised public service to the people. Budgetary support to financial institutions, inadequate returns on investments and poor recovery of user charges from social and economic services provided by the Government fall in the category of implicit subsidies.

Finance Accounts (Appendix III) showed an explicit subsidy of ₹ 8.07 crore (2007-08), ₹ 8.93 crore (2008-09), ₹ 7.22 crore (2009-10), ₹ 8.05 crore (2010-11) and ₹ 7.10 crore (2011-12) during the last five years. Subsidy payments during the year were mainly for Food (₹ 7.10 crore). The details are given in **Box 1**.

Food, Civil Supplies and Consumer Affairs Department stated that the increase in Food subsidy was due to the Government policy of introducing a new scheme, allocating 15 kgs of rice to the 16,000 BPL families having more than 5 family members in addition to the normal quota of 35 kgs of rice per family.

BOX 1

Major subsidies

Horticulture

During 2008-09, a subsidy of ₹ 2.50 crore (₹ 200 lakh for Minimum Support Price (MSP) and ₹ 50 lakh for Transport Subsidy (TS)) was allocated for providing price support and subsidy to the vegetable, fruit and flower growers in the State. Out of ₹ 2.50 crore, the Department transferred (September 2008) an amount of ₹ 2 crore to the four district offices at the rate of ₹ 50 lakh. Besides, out of the Transport Subsidy of ₹ 50 lakh, an amount of ₹ 2.37 lakh was utilised and the balance of ₹ 47.63 lakh surrendered to the Government.

The Finance Accounts (2008-09) and departmental figure showed the expenditure on

subsidy (both Minimum Support Price and Transport Subsidy) during 2008-09 as ₹ 2.02 crore. However, scrutiny of records revealed the expenditure to be ₹ 40.84 lakh only. As such, balance under MSP subsidy fund at the end of year 2008-09 in the joint bank account worked out to ₹ 1.62 crore.

In spite of availability of ₹ 1.62 crore in the bank accounts, ₹ 50 lakh and ₹ 1 crore was allocated for MSP in the budget of 2009-10 and 2010-11 respectively. Out of this, ₹ 0.97 lakh was spent on TS and the balance of ₹ 49.03 lakh was surrendered in 2009-10 and the entire amount was reappropriated during 2010-11. An amount of ₹ 62.61 lakh was spent as of September 2010 on account of MSP.

Co-operation

Subsidy in the co-operative sector predominantly represented transport and marketing subsidy given to Multi-Purpose Co-operative Societies (MPCS) and Sikkim State Co-operative Supply & Marketing Federation (SIMFED). Such subsidies aggregated to ₹ 133.70 lakh during 2007-12.

The Government of Sikkim approved (September 2010) the proposal of SIMFED for a margin money assistance from National Cooperative Development Corporation, New Delhi to the tune of ₹ 5 crore comprising of 75 *per cent* Loan (₹ 3.75 crore) and 25 *per cent* Subsidy (₹ 1.25 crore) to strengthen the working capital base of consumer business and to strengthen the operations of consumer business by tying up with manufacturers and authorised agencies thereby providing consumer goods at the most effective price. Though the SIMFED certified that the subsidy of ₹ 1.25 crore was utilised during 2010-11 and 2011-12, the detailed records for expenditure on subsidy could not be made available to audit.

A subsidy of ₹ 7.25 lakh was given during 2007-08 as a 50 *per cent* financial assistance to the Sikkim Consumer Cooperative Society (SCCS) over the total project cost of ₹ 14.50 lakh for computerisation of the Society's office.

Food

Food subsidy is given to meet the differential cost of food grains under Public Distribution System (PDS). The Food, Civil Supplies and Consumer Affairs Department, under the PDS implemented six different rice subsidy schemes during 2007-12 for various categories of people as tabled below:

Table 1.22: Implementation of different rice subsidy schemes under PDS

Sl. No.	Scheme	Categories of beneficiaries	Rice entitlement
1	BPL Scheme	BPL	35 kg per month per family @ ₹ 4/ kg
2	Mukhya Mantri Antodaya Annadan Yojana	Poorest of the poor	35 kg per month per family free of cost
3	Expanded Antodaya Annadan Yojana	Poor	35 kg per month per family @ ₹ 3/kg
4	Annapura Scheme	Helpless aged people above 65 who have no one to support	10 kg per head free of cost
5	Mukhya Mantri Khadya Suraksha Abhiyan	Marginal BPL families	35 kg per month per family @ ₹ 4/kg
6	Welfare Institutions/ Nariniketan Scheme	Welfare Institutions, Orphanages, Monastic Schools where inmates/residents are provided with free meals	5 kg per inmate per month @ ₹ 4/kg

The Department provided subsidised rice to 47,434 General Caste families, 11,704 Scheduled Tribe families, 2,899 Scheduled Caste families and 2,278 inmates/persons under the Welfare Institutions, etc., during 2007-12 at a cost of ₹ 53.37 crore including ₹ 11.02 crore for 2011-12. Further, during 2011-12, the Government implemented a scheme by providing additional 15 kg of rice to the 16,000 BPL families having more than 5 family members and incurred an amount of ₹ 56.59 lakh.

Investment to the Co-operative Societies

The Co-operation Department invested in the Co-operative Societies during the last five years. Against the cumulative investment of ₹ 2.20 lakh in Multi-Purpose Co-operative Societies, no dividend had accrued to the Government till 2011-12.

Table 1.23: Investment to the Co-operative Societies*(₹ in lakh)*

Year	Name of Society	Investment during the year	Up to date investments	Interest/ dividend received	Rate of interest/ dividend per cent
2007-08	Smalick Marchak MPCs Ltd., East Sikkim.	0.30	0.30	Not received.	-
	Burtuk Chandmari MPCs Ltd., East Sikkim.	0.30	0.30	Not received	-
	Ravong Sangmo MPCs Ltd., South Sikkim.	0.30	0.30	Not received	-
	Dhupidara Narkhola MPCs Ltd., West Sikkim.	0.30	0.30	Not received	-
2008-09	Nil				
2009-10	Kewzing MPCs Ltd., South Sikkim	0.30	0.30	Not received	-
	Tingrihang MPCs Ltd., South Sikkim	0.30	0.30	Not received	-
	Nagi Phampok MPCs Ltd., South Sikkim	0.30	0.30	Not received	-
	Niya Manzing MPCs Ltd., South Sikkim	0.10	0.10	Not received	-
2010-11	Nil	Nil	Nil	Nil	-
2011-12	Nil	Nil	Nil	Nil	-
	Total:	2.20	2.20		

The Department had not produced the records relating to the terms and conditions of the investments made in the Societies and also failed to pursue the matter with the concerned

Societies regarding interest dividend.

Subsidies to Statutory Corporations/Banks/Government Companies/Co-operatives

Table 1.24 presents the trend of investment made in the Statutory Corporations and Government Companies for the last five years. The return on investments was ₹ 4.82 crore as under:

Table 1.24: Subsidies to SCs/GCs

(₹ in crore)

Year	Investment during the year	Up to date investment	Interest/Dividend received	Per cent of interest/Dividend to investment	Rate of interest
2007-08	0.01	83.41	0.68	0.82	*5%
2008-09	2.18	85.59	1.31	1.53	
2009-10	3.72	89.31	0.46	0.52	
2010-11	1.00	90.31	2.37	2.62	
2011-12	7.11	97.42	Nil	0	
Total			4.82		

**To enhance financial viability of State public sector undertakings, XIII FC recommended a minimum of five per cent dividend from all such enterprises. The same has been adopted for Government Companies/Statutory Corporations.*

1.7.7 Financial assistance to local bodies and others

The quantum of assistance provided by way of grants to local bodies and others during the current year, relative to the previous years, is presented in **Table 1.25**.

Table 1.25: Financial assistance to local bodies and other institutions

(₹ in crore)

Financial Assistance to Institutions	2007-08	2008-09	2009-10	2010-11	2011-12
Educational Institutions (Non-Government Aided School, etc.)	0.81	0.76	0.67	1.31	0.00
Panchayati Raj Institutions	24.13	110.85	182.05	242.94	248.22
Cooperative societies	1.36	0.53	3.72	1.25	1.19
Other Institutions and bodies (including statutory bodies)	0.44	0.87	1.02	0.30	0.33
Assistance to Municipalities/ Municipal Councils	-	-	-	0.70	0.25
Assistance to Local Bodies Corporations, Urban Development	-	-	-	1.36	1.18
Farmers					1.22
Total	26.74	113.01	187.46	247.86	252.39
Assistance as percentage of Revenue Expenditure	2.33	8.19	10.25	12.32	10.39

Source : Finance Accounts

The total assistance at the end of the year 2011-12 had increased by 1.83 per cent over the previous year mainly due to increase in assistance to farmers, local bodies, Corporations and Urban Development. The assistance to farmers was given for purchase of farming equipment and inputs whereas the assistance to Panchayat Raj institutions were for developmental works.

1.7.8. Local Bodies

The position regarding major issues related to Local Bodies, i.e. Panchayati Raj Institutions (PRIs) are summarised in the following paragraphs.

1.7.8.1 An overview of Local Bodies (Panchayat Raj Institutions)

The Sikkim Panchayat Act 1993 was enacted to establish a two tier PRI system at village and district levels in the State following the 73rd Constitutional Amendment. The system envisaged elected bodies at village (Gram Panchayats (GPs)) and district level (Zilla Panchayats (ZP)). The Act extended to the whole of Sikkim except 12 small towns. As of March 2012, there were 4 ZPs¹² and 165 GPs in the State.

The PRIs are solely funded by the Government through grants-in-aid from Central and State Governments for general administration as well as development activities. Funds are initially reflected in the State budget against the outlay of various administrative departments under grants-in-aid. Individual departments thereafter transfer the funds to Sachiva, Zilla Panchayats for Zilla Panchayat and District Development Officer for GPs as grants-in-aid. The ZPs and GPs, in turn, deposit their funds in the savings account maintained with the nationalised banks.

Audit of the PRIs during 2011-12 revealed the following:

- Despite the recommendation of the Commission for amendment of the Sikkim Panchayat Act 1993 and related Rules for levy and collection of taxes, the GPs had neither initiated any steps to levy taxes in the identified areas nor collected any revenue except for two GPs (Melli-dara and Lunchok Kamrang).
- Absence of sound basis for transfer of funds to the PRIs by the departments constrained the PRIs to formulate any plan with certainty. Thus, the planning at the PRI level was on ad-hoc basis.
- Although the State Government delineated the role and responsibilities of each tier of PRIs by transferring 29 subjects for devolution of all the functions listed in the 11th schedule of the Constitution to the PRIs, only 15 subjects were actually transferred to PRIs.
- Scrutiny of records in 69 GPs revealed that basic records and registers were not maintained properly as required under Sikkim Panchayat Rules 2004.
- Despite provision under Sikkim Panchayat Act 1993, none of the PRIs had maintained asset registers to indicate the assets possessed by the GPs/ZPs, cost of assets, maintenance cost, etc. Requirement of Annual Physical Verification of assets as required under the Sikkim Financial Rules were also not carried out in any of the GPs/ZPs.

1.8 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

¹²North, East, South and West.

services); efficiency of expenditure use and the effectiveness of expenditure.

1.8.1 Adequacy of public expenditure

The expenditure responsibilities relating to social sector and economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure category to aggregate expenditure) can be stated to have been attached to a particular sector if the priority given to that particular head of expenditure is decreasing over the years.

Table 1.26 analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure in 2008-09 and the current year 2011-12.

Table 1.26: Fiscal priority of the State in 2008-09 and 2011-12

(in per cent)

Fiscal priority of the State	AE/GSDP	DE*/AE	SSE/AE	CE/AE	Education/AE	Health/AE
Sikkim's Average (Ratio) 2008-09	61.71	77.61	36.68	30.70	14.31	8.80
Sikkim's Average (Ratio) 2011-12	36.84	75.68	42.29	19.90	15.28	7.26

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.

Table 1.26 shows the fiscal priority given by the Sikkim Government to various expenditure heads in 2008-09 and the current year viz., 2011-12. The AE/GSDP ratio of the Government of Sikkim had come down to 36.84 per cent i.e., reduction of 24.87 per cent as compared to the year 2008-09.

The ratio of development expenditure as a proportion to aggregate expenditure decreased marginally by 1.93 per cent in 2011-12 as compared to the year 2008-09.

In Social Sector, Sikkim Government's expenditure as a percentage of AE had gone up by 5.61 per cent in the year 2011-12 as compared to the year 2008-09 indicating that the Sikkim Government was giving more emphasis on Social Sector. The expenditure on Capital Sector had come down by 10.80 per cent in 2011-12 as compared to 2008-09 indicating that the State Government was not giving enough emphasis to capital expenditure during the years.

1.8.2 Efficiency of expenditure use

In view of the importance of public expenditure on development heads for social and economic development, it is imperative for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit

goods.¹³ Apart from improving the allocation towards development expenditure¹⁴, 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 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, the better would be the quality of expenditure. **Table 1.27** presents the trends in development expenditure relative to the aggregate of the State during the current year vis-à-vis that of the previous years. **Table 1.28** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected social and economic services.

Table 1.27: Development expenditure

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Development expenditure (DE)	1,135.00	1,469.04	1,768.05	1,714.19	2,285.35
Percentage of DE to total expenditure	72.65	73.72	70.31	69.20	73.85
Composition of DE					
Revenue	758.81 (66.86)	934.39 (63.60)	1171.41 (66.25)	1314.04 (76.66)	1645.71 (72.01)
Capital	376.19 (33.14)	534.65 (36.39)	559.66 (31.65)	394.40 (23.00)	590.47 (25.84)
Loans and advances	-	0.25 (0.01)	36.98 (2.10)	5.75 (0.34)	49.17 (2.15)

Figures in brackets indicate percentage to aggregate expenditure

Source: Finance Accounts

Development expenditure comprising revenue expenditure, capital outlay and loans and advances on socio-economic services increased from ₹ 1,135 crore in 2007-08 to ₹ 2,285.35 crore in 2011-12. As a percentage of total expenditure, it increased from 72.65 per cent in 2007-08 to 73.85 per cent in 2011-12. In the current year, development expenditure increased by 33.32 per cent as compared to previous year due to increase in development loans disbursed and other components. On an average, 70 per cent of the development expenditure was on revenue account while capital expenditure including loans and advances accounted for the balance during the years.

In 2011-12, development revenue expenditure included, *inter alia* expenditure on salary (₹ 874.83 crore), subsidy (₹ 7.10 crore) and financial assistance to local bodies and other institutions (₹ 252.39 crore).

¹³Core public goods are those which all citizens enjoy in common in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of those goods, e.g., enforcement of law and order, security and protection of citizen's 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 mortality, providing basic education to all, drinking water and sanitation, etc.

¹⁴The analysis of expenditure is segregated into development and non-development expenditure. All expenditure relating to revenue account, capital outlay and loans and advances is categorised into social, economic and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

Table 1.28: Efficiency of expenditure use in selected social and economic services
(Ratio in per cent)

Particulars	2010-11		2011-12	
	Ratio of CE to TE	Share of salaries (excluding wages and O&M) in RE	Ratio of CE to TE	Share of Salaries (excluding wages and O&M) in RE
Social Services (SS)				
Education, sports, art and culture	1.59	13.60	2.03	10.15
Health and family welfare	1.28	4.66	3.15	3.83
Water supply, sanitation, housing and urban development	1.09	0.80	3.68	0.66
Others	2.35	12.89	0.09	11.89
Total (SS)	6.31	31.95	8.95	26.53
Economic Services (ES)				
Agriculture & allied activities	0.25	4.94	0.56	3.92
Irrigation & flood control	0.21	0.26	0.09	0.21
Power & Energy	1.33	2.07	1.21	1.57
Transport	3.99	2.01	4.60	1.73
Others	2.08	2.64	3.66	2.05
Total (ES)	7.86	11.92	10.12	9.48
Total (SS+ES)	14.17	43.87	19.07	36.01

Source: Finance Accounts

TE: Total expenditure; CE: Capital expenditure; RE: Revenue expenditure

Expenditure on social services

Capital expenditure on social services increased from ₹ 165.85 crore in 2010-11 to ₹ 277.11 crore in 2011-12 and there was increase in ratio of capital to total expenditure by 2.64 per cent as compared to the previous year.

The share of salary expenditure under social services in revenue expenditure was 31.95 per cent in 2010-11 which decreased to 26.53 per cent in 2011-12.

Expenditure on economic services

Capital expenditure on economic services increased from ₹ 228.55 crore in 2010-11 to ₹ 313.36 crore in 2011-12 with a growth rate of 37.10 per cent. The priority sectors identified by the Government in respect of economic services were Agriculture, Rural Development, Special Area Development Programme, Power & Energy and Transport. In 2011-12, Capital outlay on Agriculture, Rural Development, Special Area Development Programme, Power & Energy and Transport was more by ₹ 11.27, ₹ 13.03, ₹ 6.53, ₹ 4.73 and ₹ 43.73 crore respectively compared to the previous year.

The share of salary expenditure which was 11.92 per cent of revenue expenditure in 2010-11 had decreased to 9.48 per cent during 2011-12.

1.9 Analysis of Government expenditure and investments

In the post-MTFP framework, the Government is expected to keep its fiscal deficit (borrowing) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, the State Government needs to initiate

measures to earn adequate return on its investments and recover cost of borrowed funds rather than bearing the same in its budget in the form of implicit subsidy and also needs to 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.

1.9.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2012 is given in **Table 1.29**.

Table 1.29: Department wise profile of incomplete projects

(₹ in crore)

Department	No. of incomplete projects	Initial budgeted cost	Revised total Cost	Cost overrun	Actual expenditure as on 31 March 2012
Building and Housing	13	90.79	129.28	38.48	59.78
Energy and Power	18	136.16	158.34	22.18	65.25
Health Care, Human Services & Family Welfare	04	400.84	400.84	-	126.07
Irrigation & Flood Control	33	8.79	8.79	-	5.12
Tourism & Civil Aviation	45	166.91	166.91	-	92.09
Total	113	803.49	864.16	60.66	348.31

Source : Finance Accounts

As per information received from the State Government, there were 113 incomplete projects as on 31 March 2012 in which an expenditure amounting to ₹ 348.31 crore had been incurred, out of which 59 works (estimated cost: ₹ 301.85 crore and actual expenditure incurred as on 31 March 2012: ₹ 180.53 crore) were due to be completed by 31 March 2012. Out of 59 works, the cost of 8 incomplete projects was revised and increased by 52.90 *per cent* i.e., ₹ 43.86 crore (Building and Housing Department: seven works involving ₹ 38.48 crore and Energy and Power Department: one work involving ₹ 5.38 crore) leading to blocking up of funds to the tune of ₹ 180.53 crore and cost overrun of ₹ 43.86 crore.

1.9.2 Investment and returns

As of March 2012, Government had invested ₹ 97.42 crore in Statutory Corporations, Banks, Joint Stock Companies and Co-operatives as detailed in succeeding paragraphs and in **Table 1.33**. The return on this investment was 2.62 *per cent* in 2010-11 and the return during the current year was 'Nil' as detailed in **Table 1.30** below:

Table 1.30: Return on investment

(₹ in crore)					
Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (₹ in crore)	83.41	85.59	89.31	90.31	97.42
Return (₹ in crore)	0.68	1.31	0.46	2.37	Nil
Return (per cent)	0.82	1.53	0.52	2.62	Nil
Average rate of interest on Government borrowings (per cent)	8.83	8.40	8.35	9.00	9.00
Difference between interest rate and return (per cent)	8.01	6.87	7.83	6.38	9.00

Source : Finance Accounts

Out of the total investment of ₹ 97.42 crore up to the end of 2011-12, investments of ₹ 8.26 crore were made in three Statutory corporations, viz. State Bank of Sikkim (₹ 0.53 crore), Sikkim Mining Corporation (₹ 6.12 crore) and State Trading Corporation (₹ 1.61 crore) and 21 Companies, viz. Sikkim Time Corporation Ltd. (₹ 13.72 crore), Sikkim Industrial Development and Investment Corporation Ltd. (₹ 16.83 crore), Sikkim Livestock Development Corporation Ltd. (₹ 0.22 crore), Sikkim Livestock Development and Processing Corporation Ltd. (₹ 0.35 crore), Sikkim Tourism Development Corporation Ltd. (₹ 7.05 crore), Sikkim Power Development Corporation Ltd. (₹ 11.35 crore), Sikkim SC/ST/OBC Finance Development Corporation Ltd. (₹ 4.55 crore), Sikkim Jewels Ltd. (₹ 11.54 crore), Sikkim Distilleries Ltd. (₹ 2.42 crore), Star Cinema (₹ 0.01 crore), Denzong Cinema (₹ 0.01 crore), Sikkim Flour Mills Limited (₹ 2.44 crore), Cold Storage (₹ 0.28 crore), Indian Telephone Industries (₹ 0.26 crore), Ginger Processing Plant (₹ 0.01 crore), BOG Limited (₹ 0.14 crore), Chandmari Workshop and Automobiles Ltd. (₹ 0.30 crore), Sikkim Precision Industries Ltd. (₹ 4.30 crore), Sikkim Himalayan Orchid Ltd. (₹ 0.16 crore), Sikkim Flora Ltd. (₹ 0.15 crore) and Sikkim Handloom & Handicrafts (₹ 1.02 crore) and in 8 Banks and Co-operative Societies, viz. State Bank of India (₹ 0.02 Crore), Sikkim Consumers Co-operative Society (SIMFED) (₹ 0.99 crore), Multipurpose Co-operative Society (₹ 1.14 crore), Sikkim State Co-operative Bank (SISCO) (₹ 9.35 crore), Sikkim Dairy Co-operative Society (Sikkim Milk Union) (₹ 0.03 crore), Joint Ventures (₹ 0.51 crore), Wood Working Centre, Singtam (₹ 0.01 crore) and Sang Martam Tea Growers Co-operative Societies Ltd (₹ 0.01 crore). The investment includes ₹ 29.56 crore in the following Government Companies incurring perennial loss¹⁵ (Table 1.31).

Table 1.31: Investment in Government Companies under perennial loss

(₹ in crore)				
Sl. No	Name of the Government Company	Investment upto 2011-12	Cumulative loss(**)	Year of accounts approved by Board
1	Sikkim Jewels Limited (SJL)	11.54	14.39	2010-11
2	Sikkim Time Corporation Limited (SITCO)	13.72	19.21	2010-11
3	Sikkim Precision Industries Limited (SPIL)	4.30	1.10	2008-09
	TOTAL	29.56	34.70	

(**) Accumulated loss upto the latest annual accounts approved by Board.

¹⁵ Loss made during last five approved accounts

During the year 2011-12, the Government of Sikkim had discontinued the operations of SJL, SITCO and SPIL and paid ₹ 10.93 crore, ₹ 9.62 crore and ₹ 4.45 crore respectively towards severance package. The operations of these PSUs were discontinued and the employees were relieved w.e.f. May 2011, due to continuous losses.

Against eight working Companies/Corporations wherein State Government had invested ₹ 37.67 crore, four¹⁶ were earning profit, as per their latest finalised annual accounts, while remaining had incurred losses. Of the four profit earning Companies/Corporations, three had accumulated losses and hence, no dividend had been declared. However, State Trading Corporation of Sikkim, which had accumulated profit of ₹ 7.79 crore, had not declared any dividend.

Two undertakings¹⁷ of Government departments performed activities of quasi commercial nature. According to their latest accounts furnished by these two undertakings, the State Government's investment was ₹ 3.69 crore. The total loss incurred by these undertakings was ₹ 0.41 crore, as detailed below:

Table 1.32: Loss incurring undertakings

(₹ in crore)

Sl. No	Name of the Departmental undertaking	Year upto which accounts finalised	Capital	Accumulated profit/loss(-)	Profit/Loss(-)
1	Government Fruit Preservation Factory	2010-11	2.92	(-)1.54	(-)0.03
2	Temi Tea Estate	2010-11	0.77	2.34	(-)0.38
Total			3.69		(-)0.41

The return from investment was 'Nil' and some of the Companies/Corporations were under perennial loss. Effective steps need to be taken by the State Government either to revive the units or close down the units incurring losses to avoid further financial burden on the Government.

1.9.3 Departmental undertakings

Investments in Statutory Corporations/Government Companies

The following Table presents the trend of investment made in the Statutory Corporations and Government Companies for the last ten years as per Accounts of the Corporations and Companies. The figures differ from those in Finance Accounts for which reconciliation is required.

¹⁶Sikkim Industrial Development and Investment Corporation Limited – ₹ 1.13 crore (2010-11), Sikkim Tourism Development Corporation Limited – ₹ 0.08 crore (2009-10), State Bank of Sikkim – ₹ 11.84 crore (2007-08) and State Trading Corporation of Sikkim – ₹ 0.62 crore (2007-08)

¹⁷Temi Tea Estate (Commerce and Industries Department) and Government Fruit Preservation Factory (Agriculture Department)

Table 1.33: Investment made in Statutory Corporations/Government Companies
 (₹ in crore)

Year	Investment during the year*		Up to date investment	Interest/Dividend received	Per cent of Interest/Dividend to investment	Rate of interest #	Implicit Subsidy
	Equity & loans	Subsidy/Grants					
2002-03	3.85	-	55.76	-	-	5	2.60
2003-04	5.84	-	60.48	-	-	5	2.73
2004-05	1.17	-	61.65	-	-	5	3.02
2005-06	4.82	-	66.47	-	-	5	3.08
2006-07	0.30	-	68.94	-	-	5	3.43
2007-08	0.00	-	68.94	-	-	5	3.45
2008-09	3.05	1.21	81.20	1.00	1.23	5	2.90
2009-10	2.10	3.22	87.74	1.00	1.14	5	3.18
2010-11	0.96	1.79	88.65	-	-	5	4.30
2011-12	0.00	2.31	97.91	-	-	5	4.78

*Does not include investment in other Joint Stock Companies, Banks and Co-operatives.

To enhance financial viability of State public sector's undertaking, XIII FC recommended a minimum of five per cent dividend from all such enterprises. The same has been adopted for Government Companies/Statutory Corporations.

As of March 2012, the Government of Sikkim had invested ₹ 97.91 crore, which includes, ₹ 79.10 crore in 12 Government Companies and ₹ 8.26 crore in three Statutory Corporations.

State PSUs-finalisation of accounts and enhancing financial viability

The XIII Finance Commission recommended that all States should endeavour to ensure clearance of the accounts of all PSUs. All disinvestment receipts should be maintained in the Consolidated Fund and transfer of such receipts to the Public Account should be discouraged.

The finalisation of 32 Annual Accounts in respect of 15 PSUs pertaining to the year 2008-09 to 2011-12 are in arrears as of October 2012, due to delay in completion/adoption of accounts by the Board of Directors of the respective PSUs as detailed below:

Table 1.34: Delay in completion/adoption of accounts by the Board of Directors

Sl. No.	Name of PSUs	Years for which annual accounts to be finalised	Number of Accounts
1	Sikkim Industrial Development and Investment Corporation Limited	2011-12	1
2	Sikkim Scheduled Caste, Scheduled Tribe and Other Backward Class Development Corporation Limited	2010-11, 2011-12	2
3	Sikkim Tourism Development Corporation Limited	2010-11, 2011-12	2
4	Sikkim Power Development Corporation Limited	2011-12	1
5	Sikkim Poultry Development Corporation Limited	2009-10, 2010-11, 2011-12	3
6	Sikkim Hatcheries Limited	2009-10, 2010-11, 2011-12	3
7	Sikkim Livestock Processing and Development Corporation Limited	2008-09, 2009-10, 2010-11, 2011-12	4
8	Sikkim Jewels Limited	2011-12	1
9	Sikkim Times Corporation	2011-12	1
10	Sikkim Precision Industries Limited	2009-10, 2010-11, 2011-12	3
11	State Bank of Sikkim	2008-09, 2009-10, 2010-11, 2011-12	4
12	State Trading Corporation of Sikkim	2008-09, 2009-10, 2010-11, 2011-12	4
13	Sikkim Mining Corporation	2011-12	1
14	Government Fruit Preservation Factory	2011-12	1
15	Temu Tea Estate	2011-12	1
	Total		32

Source: Data collected from Commercial Audit Cell

The share capital subscribed by the State Government initially during setting up of the Sikkim Power Development Corporation (SPDCL) was ₹ 3.40 crore. The State Government decided to restructure SPDCL by inducting strategic partner in 2010-11. After restructuring, the grant to the tune of ₹ 16.90 crore provided to SPDCL over a period of time by the State Government for development of five hydro-electric projects, viz. Rongli HEP, Mangley HEP, Lachung HEP Stage-II, Rellichu HEP and Chatten HEP was converted to equity and consequently the total share capital of SPDCL stood at ₹ 20.30 crore. After signing of Share Transfer Agreement (STA), Athena Project Private Limited paid a sum of ₹ 42.25 crore to State Government for 49 *per cent* share holding in SPDCL. The sum of ₹ 42.25 crore consisted of ₹ 30 crore as goodwill amount of association with the Government and ₹ 12.25 crore as 49 *per cent* of the valuation of SPDCL. The entire sum of ₹ 42.25 crore had been deposited in government treasury under Statement of Receipts (Consolidated Fund).

1.9.4 Loans and advances by the State Government

In addition to investments in Companies, Corporations and Co-operative Institutions, Government also provided loans and advances to many Institutions/Organisations. **Table 1.35** presents the position of outstanding loans and advances as of March 2012 and interest receipts vis-à-vis interest payments during the last five years.

Table 1.35: Average interest received on loans advanced by the State Government

Particulars	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Opening balance	5.50	5.12	4.99	41.67	46.63
Amount advanced during the year	Nil	0.25	36.98	5.75	*49.18
Amount repaid during the year	0.38	0.38	0.30	0.79	0.03
Closing balance	5.12	4.99	41.67	46.63	95.78
Net addition	(-)0.38	(-)0.13	(+)36.68	(+)4.96	(+)49.15
Interest receipts	NIL	Nil	Nil	Nil	Nil
Interest receipts as <i>per cent</i> to outstanding loans and advances	NIL	Nil	Nil	Nil	Nil
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	6.56	6.62	5.59	6.68	6.04
Difference between interest payments and interest receipts (<i>per cent</i>)	6.56	6.62	5.59	6.68	6.04

Source: Finance Accounts

*Rupees one lakh added to round up for adjustment.

Interest received was 'NIL' during the financial year 2007-12 due to the poor performance of the Statutory Corporations/Government Companies/Co-operative Societies.

Loans outstanding as of March 2012 aggregated ₹ 95.78 crore. However, interest received during 2007-12 was 'Nil' primarily due to the failure of the Statutory Corporations/Government Companies/Co-operative Societies to pay the interest on Government loans.

Out of balance ₹ 95.78 crore, old outstanding loans amounting to ₹ 41.03 lakh remained unrecovered for the periods ranging from 20 to 27 years as of March 2012. Although the matter was reported in Audit Report for the year ended 31 March 2001, as of September 2012, no

action was taken by the departments to recover the loans, as detailed below:

Table 1.36: Old outstanding loans remained unrecovered

Sl. No	Particulars of the loan	Amount outstanding (₹ in lakh)	Administrative Department	Year from which outstanding
1	Dairy Development	13.13	Animal Husbandry, Livestock, Fisheries and Veterinary Services	1987-88
2	Poultry Development	3.26	-do-	1984-85
3	Piggery Development	4.16	-do-	1987-88
4	Agriculture loan to cultivators	16.00	Food Security & Agriculture	1987-88
5	Fisheries Development	4.48	Forest, Environment & Wildlife Management	1991-92
	Total	41.03		

In fact, the administrative departments, which disbursed the loans, and the Finance Department, which maintains accounts of the Government, do not even have the information relating to details of the loanees, actual dates of loans, terms and conditions of the loans, schedule of recovery, rate of interest, penal interest for default in repayment, fulfilment of objectives for which the loans were given, etc. Under such circumstances, there is little chance of recovery and the amount of ₹ 41.03 lakh which constitutes only the principal amount outstanding, is not only a potential loss to the State Government but also casts doubt about their utilisation for the purposes for which those loans were granted.

1.9.5 Cash balances and investment of cash balances

Table 1.37 depicts the cash balances and investments made therefrom by the State Government during the year.

Table 1.37: Cash balances and investment of cash balances

(₹ in crore)

Particulars	As of 31 March 2011	As of 31 March 2012	Increase (+)/ decrease(-)
Cash Balances ¹⁸	155.34	129.21	(-) 26.13
Investment held in cash balances (a to d)			
a. GOI Treasury Bills	-	-	-
b. GOI Securities	-	-	-
c. Other Securities	-	-	-
d. Other Investments	440.00	565.00	125.00
Fund-wise Break-up of Investment from Earmarked balances (a to c)			
a. Sinking fund	126.12	138.12	12.00
b. State Disaster Response Fund	17.13	83.96	70.32
c. Guarantee Redemption Fund	11.72	13.72	2.00
Interest realised	24.78	27.56	2.78

Source : Finance Accounts

¹⁸Including cash with departmental officers and permanent advances for contingent expenditure with departmental officers.

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 fixed deposits which could be made through the branches of the Bank. The cash balances as on 31 March 2012 was ₹ 129.21 crore which was less than the balance as compared to previous year.

As per the Finance Accounts 2011-12, there was a balance of ₹ 128.60 crore with the State Bank of Sikkim as on 31 March 2012. But as per the records of the State Bank of Sikkim, the cash balance of the State Government stood at ₹ 128.76 crore leaving an un-reconciled balance of ₹ 0.16 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 were not spent fully by the implementing agencies, during 2011-12, ₹ 137.54 crore were lying as unspent balances in the bank accounts of the implementing agencies.

Further, there was unspent balance of ₹ 70.59 crore lying with the various implementing Authorities who received funds directly from Government of India as detailed in **Appendix 1.4**.

1.10 Assets and liabilities

1.10.1 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 assets and liabilities as on 31 March 2012 compared with the corresponding position as on 31 March 2011.

Total liabilities, as defined are the liabilities under the Consolidated Fund and the Public Account of the State. Consolidated Fund liabilities consist of Internal Debt and Loans and Advances from GOI.

The growth rate of components of assets and liabilities are summarised in the **Table 1.38**.

Table 1.38: Summarised position of Assets and Liabilities

(₹ in crore)

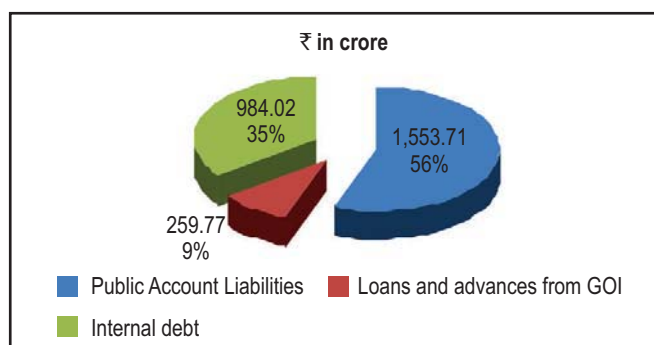
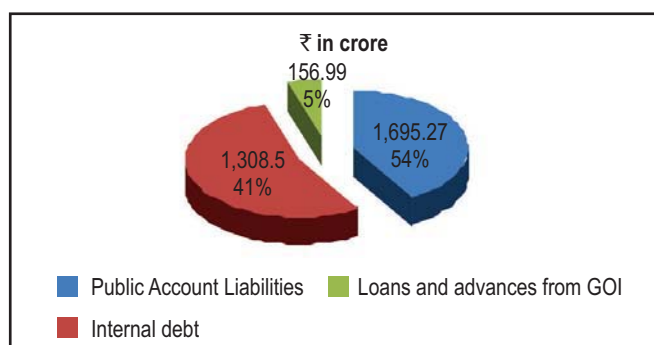
Liabilities	2010-11	2011-12	Assets	2010-11	2011-12
<i>Consolidated Fund</i>			<i>Consolidated Fund</i>		
a. Internal Debt	1,553.71	1,695.27	i) Gross Capital outlay	5,018.75	5,592.25
b. Loans and advances from GOI	259.77	156.99	ii) Loans and advances	46.64	95.78
<i>Public Account</i>			<i>Advances</i>		
a. Small savings, Provident funds, etc.	510.28	578.80	Cash Less Suspense & Miscellaneous Balances	746.81	930.01
b. Reserve Funds	172.15	254.22		(-) 77.51	(-) 115.31
c. Deposits	85.40	103.32			
d. Contingency Fund	1.00	1.00	Contingency Fund	0.10	
Surplus on Government Accounts	2,875.05	3,014.82			
Revenue Surplus	139.78	442.50			
Remittance Balance	138.68	256.84			
Total	5,735.82	6,503.76		5,735.82	6,503.76

Source : Finance Accounts

The growth rate of assets was 13.39 per cent in 2011-12.

1.10.2 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.2**. The composition of fiscal liabilities during the current year vis-à-vis the previous year, is presented in **Charts 1.11 and 1.12**.

Chart 1.11

Chart 1.12


Source : Finance Accounts

Fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources as well as buoyancy of fiscal liabilities with respect to these parameters are brought out in **Table 1.39**.

Table 1.39: Fiscal liabilities-basic parameters

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Fiscal liabilities (₹ in crore)	1,795.82	2,155.70	2,762.35	2,797.50	3,160.76
Rate of growth (per cent)	21.01	20.04	8.14	1.27	12.99
Ratio of fiscal liabilities to					
GSDP	0.71	0.67	0.45	0.39	0.38
Revenue receipts	1.20	1.23	1.18	1.30	1.10
Own resources	9.08	10.82	12.35	10.01	10.75
Buoyancy ratio of fiscal liabilities to					
GSDP	1.32	0.69	0.09	0.08	0.74
Revenue receipts	0.86	1.15	0.24	0.15	0.39
Own resources	1.47	29.47	0.66	0.05	2.53

Source : Finance Accounts

Fiscal liabilities of the State increased by ₹ 363.26 crore (12.99 per cent) from ₹ 2,797.50 crore in 2010-11 to ₹ 3,160.76 crore in 2011-12 comprising Public Account Liabilities of ₹ 1,695.27 crore (54 per cent), Internal Debt of ₹ 1,308.50 crore (41 per cent) and Loans and Advances of ₹ 156.99 crore (5 per cent).

The fiscal deficit remained at 2.14 per cent of the GSDP during the current year. However, the outstanding fiscal liabilities of the State increased by 12.99 per cent as compared to previous year. The growth rate of outstanding fiscal liabilities which was 1.27 per cent in 2010-11 increased to 12.99 per cent in 2011-12. The ratio of fiscal liabilities to GSDP stood at 0.38 per cent at the end of 2011-12.

The increase in components of revenue receipts and State's own resources was rather low as compared to increase in outstanding fiscal liabilities during all the years.

1.10.3 Transactions under Reserve Funds

Reserve and Reserve Funds are created for specific and well defined purposes in the accounts of the State Government. These funds are fed by contributions or grants from the Consolidated Fund of India or State or from outside agencies. The contributions are treated as expenditure under the Consolidated Fund. The expenditure relating to the fund is initially accounted under the Consolidated Fund itself for which the vote of the Legislature is obtained. At the end of the year, at the time of closure of accounts, the expenditure relating to the fund is transferred to the Public Account Fund through an operation of deduct entry in accounts. The Funds may be further classified as 'Funds carrying interest' and 'Funds not carrying interest'. Generally, the Reserve Funds are classified under the following three categories based on the sources from which they are fed:

- 1 Funds accumulated from grants made by another Government and at times aided by public subscriptions.
- 2 Funds accumulated from sums set aside by the Union/State from the Consolidated Fund

of India or Consolidated Fund of State, as the case may be, to provide reserves for expenditure to be incurred by them for particular purposes.

- 3 Funds accumulated from contributions made by outside agencies to the State Government.

A total of five Reserve Funds had been created and maintained in the accounts of the State Government. Analysis of transaction of these funds is enumerated in the subsequent paragraphs:

Sikkim Transport Infrastructure Development Fund (STIDF)

The Government of Sikkim enacted STIDF Act in 2004 and the Rules under the Act was also notified in 2004 and further amended in June 2009. The STIDF was constituted in the Public Account and classified under the head “8235-General and Other Reserve Fund, 200-Other Funds” in the accounts of the Government. The receipts to the fund shall initially be credited to the receipt head “0045-Other Taxes and Duties on Commodities and Services 112-Receipts from Cesses under Other Acts, Receipt under STIDF Act”. In order to transfer the amount to the Fund, the State Government shall make suitable budget provision on the expenditure side of the budget under the Head “2045-Other Taxes and Duties on Commodities and Services, 797-Transfer to Reserve Fund/Deposit Account, Transfer to the STIDF”. The Fund shall be operated by the Finance, Revenue and Expenditure Department (FRED). Income Tax and Commercial Tax Division (IT & CT) of the FRED shall collect the receipts and maintain the books of accounts. A Committee consisting of the Financial Commissioner/Principal Secretary, FRED as Chairman and the Secretary, Roads and Bridges Department; Secretary, Transport Department and the Controller of Accounts as members shall administer the Fund. The Additional Commissioner, IT & CT Division of the FRED shall be the Member Secretary of the Committee. On receipt of the deposits, IT & CT Division shall take action for investment of the receipts. The Fund shall be utilised for (a) the creation, development, maintenance or improvement of transport infrastructure, including roads, bridges and flyovers, (b) the improvement of traffic operations and road safety and (c) the purposes of such other projects as may be prescribed relating to transport infrastructure development with the approval of the Government. As of March 2012, total STIDF collection was ₹ 56.89 crore, out of which ₹ 45.66 crore was transferred to three departments, viz., Roads and Bridges Department (RBD), Transport Department (SNT) and Rural Management and Development Department (RMDD). The fund of ₹ 37.25 crore was utilised by the RBD for construction and maintenance of roads, ₹ 2 crore by the RMDD for maintenance of PMGSY road and ₹ 6.41 crore by the SNT for construction/installation of weighbridge at Rangpo and Melli, purchase of four trucks and one tanker, etc. The main object of the fund was to be utilised for creation, development, maintenance or improvement of transport infrastructure. However, funds of ₹ 75.61 lakh was utilised for the purchase of five chassis, four Truck bodies and one Tanker by the SNT which could not be justified to audit.

Sikkim Ecology Fund (SEF)

The Sikkim Ecology Fund and Environmental Cess Act was notified in 2005 and the Rules

thereunder were framed in 2007. As per the Act, whoever brings non-biodegradable materials to the State of Sikkim with whatsoever purpose, would be levied environmental cess at the rate of one *per cent* of total turnover on sale price and in respect of hotels, resorts and lodges, it would be levied at the rate of five *per cent*.

The broad objective of this fund was to protect and improve the quality of environment, control and reduce environment pollution and to take measures for restoration of ecological balance of the State. During 2007-08 to 2011-12, State Government collected Ecology Fund of ₹ 56.72 crore and incurred ₹ 9.83 crore during 2009-10 to 2011-12. Out of this, ₹ 20 lakh was incurred towards construction of view point, walls for the monastery, etc., which did not fall within the ambit of SEF.

Sinking Fund

The State Government created (1999-2000) a Fund called 'Government of Sikkim Consolidated Sinking Fund Scheme 1999' with the objective to utilise accrued interest as an amortisation fund for redemption of the open market loans of the Government commencing from the year 2004-05. The said scheme was revised during 2007-08 and renamed as 'Consolidated Sinking Fund Scheme' with the objective to utilise accrued interest as an amortisation fund for redemption of the outstanding liabilities of the Government commencing from the financial year 2011-12. Since creation of this Fund, an amount of ₹ 12 crore per annum had been contributed to this fund and till 2011-12, an amount of ₹ 215.76 crore (including an interest of ₹ 65.99 crore) was available in the fund. However, it was seen that though the State Government had been managing repayment of loans and its interest from their other sources, the accrued interest amount of ₹ 65.99 crore was withdrawn during 2011-12 and paid to Commerce and Industries Department (₹ 40.98 crore for repayment of balance loan raised from SBI Capital Market for purchase of land and ₹ 0.46 crore for payment of salary of employees of two sick companies) and Energy and Power Department (₹ 24.55 crore for payment to Sikkim Power Development Corporation to take over certain liabilities and assets before its restructuring).

From the above, it could be seen that out of the above payment of ₹ 65.99 crore, payment of ₹ 25.01 crore (₹ 0.46 crore + ₹ 24.55 crore) was beyond the scope and ambit of the scheme objectives and led to diversion of funds for other purposes.

State Disaster Response Fund

As per recommendations of the Thirteenth Finance Commission, the State Government was to constitute State Disaster Response Fund (SDRF) from 1 April 2010. As per guidelines from the GOI, State Government was required to issue appropriate notification(s) establishing SDRF as per Section 48(1) (a) of the Disaster Management Act 2005 and all balances under the Calamity Relief Fund (CRF) as on 31 March 2010 was to be transferred under SDRF. Further, as per guidelines, the accretions to the SDRF together with the income earned on the investment of the SDRF were to be invested in one or more of instruments viz., Central Government dated securities, auctioned treasury bills and interest earning deposits and

certificates of deposits with Scheduled Commercial Banks. While 75 per cent of the contribution was to be from GOI, and balance 25 per cent was to be contributed by the State Governments under general category States, whereas 90 per cent of the contribution was to be from GOI and balance 10 per cent was to be contributed by the State Governments under special category States like Sikkim.

It was seen that though SDRF was constituted from 1 April 2010, no notification(s) establishing SDRF was issued which was required under the guidelines. After creation of a specific detailed head under Major Head 8121 by the GOI on 21 April 2010, the balance under the CRF as on 31 March 2010 amounting to ₹ 18.94 crore was transferred to the SDRF account. Under SDRF, during the period 2010-11 to 2011-12, an amount of ₹ 243.54 crore (₹ 41.98 crore as normal grant, ₹ 200.38 crore from National Disaster Response Fund and ₹ 1.18 crore from Prime Minister's Office) was received from the GOI, ₹ 4.66 crore (11.10 per cent) received as State share and ₹ 2.35 crore as interest on the fixed deposits. The contribution of State share to the SDRF was more than the prescribed rate (10 per cent) of normal contribution by the GOI to the SDRF of ₹ 41.98 crore as required under the guidelines. However, expenditure during the period 2010-11 to 2011-12 was ₹ 174.93 crore with closing balance of unspent amount of ₹ 94.56 crore as on 31 March 2012.

Guarantee Redemption Fund

The State Government set up Guarantee Redemption Fund in the year 2000. The detail account of Fund as on 31 March 2012 is given below:

Table 1.40: Guarantee Redemption Fund

		(₹ in crore)
Sl. No.	Particulars	Amount
1	Opening Balance	11.72
2	Addition	2.00
3	Total	13.72
4	Amount met from the Fund for discharge of invoked guarantees (-)	Nil
5	Closing Balance	13.72
6	Amount of investment made out of the Guarantee Redemption Fund	13.72

As per the Sikkim Government Guarantee Act 2000 (Act No. 21 of 2000), the ceiling on the total outstanding Government Guarantees as on the 1st day of April shall not exceed thrice the State's Tax Receipt of the second preceding year which was within the limit in the State. No Guarantee was invoked during the year.

1.10.4 Contingent liabilities

Status of guarantees

Guarantees are contingent liabilities on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee was extended. The details for last five years are given in **Table 1.41**.

Table 1.41: Guarantees given by the State Government

Particulars	₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Maximum amount guaranteed	84.40	75.00	75.00	246.69	163.72
Outstanding amount of guarantees (including interest)	75.00	75.00	77.58	276.42	164.21
Percentage of outstanding amount guaranteed to total revenue receipts of the second preceding year	6.89	6.23	5.18	15.72	7.00

Source : Finance Accounts

Government had guaranteed loans raised by State Finance Corporation to the tune of ₹ 128.79 crore and other Institutions to the extent of ₹ 34.93 crore. The Government had received ₹ 2.85 crore and ₹ 0.25 crore in the form of guarantee commission or fee in respect of above during the current year.

Off-budget borrowings

The borrowings of the State Government are governed by Article 293(1) of the Constitution of India. In addition to the contingent liabilities, the State guaranteed loans availed of by Government Companies/Corporations. These Companies/Corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes envisaged from outside the State budget. Funds for these programmes were to be met out of resources mobilised by these Companies/Corporations outside the State budget but in reality the borrowings of these concerns ultimately turn out to be the liabilities of the State Government termed 'off-budget borrowings' and the Government had been repaying the loans availed of by these Companies/Corporations including interest through regular budget provision under capital account.

State Government had stood Government guarantee (March 2010) for drawal of loans of ₹ 285 crore for Sikkim Industrial Development and Investment Corporation (SIDICO) for payment of cost of land compensation for Sikkim University, cost of land compensation for acquisition of land at Pakyong, etc. Out of ₹ 285 crore, ₹ 49.91 crore for land compensation initially earmarked by the Chief Minister under Plan allocation was later removed and was to be funded under State Bank of India (SBI) Capital Market. Further, State Government stood Government guarantee of ₹ 25 crore for SISCO bank with a view to provide increased credit facilities to farmers. The total Government guarantee outstanding, as of March 2012, was ₹ 310 crore. However, the XIII Finance commission had recommended guarantee limit of ₹ 251 crore only. Further, limit prescribed by the Commission was also not incorporated in the Sikkim Ceiling on Government Guarantees Act 2000, so far.

1.11 Debt sustainability

Efficient debt management is an essential part of cash management. Inefficiencies either way can lead to higher interest costs, whether it is accumulation of cash due to unnecessary borrowings or availing of ways and means advances. With reduced fiscal deficits, it is essential that State follows the practice of borrowing on requirement rather than on availability. Overall, there should be a directed effort by the State with large balances towards

utilising their existing cash balances before resorting to fresh borrowings.

Though it was seen that as per Annual Financial Statements and Finance Accounts of the State, at the end of the years 2009-10, 2010-11 and 2011-12, there was surplus cash balances of ₹ 114.99 crore, ₹ 154.79 crore and ₹ 128.76 crore respectively, reason for these surplus cash balances as stated (August 2012) by the FRED was due to cheques issued but not encashed as on 31 March.

Apart from the magnitude of the debt of the State Government, it is important to analyse various indicators that determine the debt sustainability of the State. The debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings and returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service the debt. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation, sufficiency of non-debt receipts, net availability of borrowed funds, burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of the State Government securities. **Table 1.42** analyses the debt sustainability of the State according to these indicators for the period 2007-12.

Table 1.42: Debt sustainability: Indicators and trends

Debt sustainability indicators	2007-08	2008-09	2009-10	2010-11	2011-12
Debt stabilisation (₹ in crore) (Quantum spread-/+ Primary deficit/surplus)	104.00	374.92	110.69	220.49	301.52
Sufficiency of incremental non-debt receipts (resource gap) (₹ in crore)	(+) 32.61	(-) 169.76	(+) 65.14	(+) 147.39	(+) 136.10
Net availability of borrowed Funds (₹ in crore)	120.32	160.73	196.97	106.64	359.75
Burden of interest payments (IP/RR Ratio)	7.86	8.11	6.58	8.68	6.64
Maturity profile of State debt (in years)					
0-1	NA*	76.28(4.88)	158.80(8.46)	141.34(7.49)	120.88(6.31)
1-3	NA	157.37(10.07)	141.72(7.55)	156.62(8.30)	162.15(8.48)
3-5	NA	127.55(8.17)	142.47(7.59)	239.05(12.67)	380.28(19.88)
5-7	NA	120.29 (7.70)	346.82 (18.47)	515.44 (27.32)	637.92 (33.35)
7 and above	NA	1,080.64 (69.18)	1,088.16 (57.94)	834.29 (44.22)	611.84 (31.98)

Source: Finance Accounts

* Figures not available

1.11.1 Debt stability

Fiscal liabilities are considered sustainable if the Government is able to service these liabilities over the foreseeable future and the debt-GSDP ratio does not grow to unmanageable proportions. A necessary condition for stability is the Domar's Debt stability Equation. It states that if the rate of growth of economy exceeds the cost of borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are positive/zero/moderately negative. Primary

revenue balance is the difference between revenue receipts and primary revenue expenditure and indicates whether the balance of revenue receipts left out after meeting current revenue expenditure is sufficient for meeting the interest expenditure. During the current year, the primary revenue balance, although positive, was not sufficient to meet the expenditure on interest.

Interest spread is the difference between average lending rate and average borrowing rate. Quantum spread is a product of debt stock and interest spread. The interest spread and quantum spread will be positive/negative depending on whether the GSDP growth rate is more or less than the growth rate of interest payments. When the quantum spread and primary deficit are negative, debt-GSDP ratio will be high indicating unsustainable levels of public debt and when the quantum spread and primary deficit are positive, debt-GSDP ratio will be low indicating sustainable levels of public debt. During the current year, both interest and quantum spread were positive.

Stabilisation of debt is understood to mean debt as a constant *per cent* of GSDP which is a measure of the debt carrying capacity of the State. Even though the interest paid in 2011-12 was more than the previous year, the sum of the quantum spread and primary deficit was positive during the year resulting in a declining trend of debt-GSDP ratio thereby indicating a tendency towards debt stabilisation, which would eventually improve the debt stability of the State.

1.11.2 Sufficiency of incremental non-debt receipts

Another indicator of debt sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. Negative resource gap indicates non-sustainability of debt while positive resource gap indicates sustainability of debt. The details for the last five years have been indicated in **Table 1.43**.

Table 1.43: Indicator of incremental non-debt receipts

(₹ in crore)						
Sl.No	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1	Incremental Non-debt Receipts	294.06	260.49	587.09	(-) 193.18	761.89
2	Incremental Interest Payments	2.47	24.90	11.79	32.34	4.06
3	Incremental Primary expenditure	170.13	208.79	436.68	150.55	621.73
	<i>Resource Gap</i>	121.46	26.80	138.62	10.29	136.10

The resource gap had remained positive during 2007-12, and during the current year, the resource gap had shown upward trend in a positive way due to increase in revenue receipts over the previous year by 33.48 *per cent* thereby indicating less dependency on borrowed funds.

1.11.3 Net availability of borrowed funds

Debt sustainability also depends on the ratio of debt redemption (principal plus interest

payments) to total debt receipts and application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The net availability of borrowed funds during the current year was positive and funds were available for meeting productive expenditure.

1.11.4 Maturity profile

To discharge its expenditure obligations, the Government had to borrow further, since fiscal surplus was not available in any of the last five years. The maturity profile of outstanding stock as on 31 March 2012 shows that 32 per cent of the loans are in the maturity bucket of seven years and above.

The Public Debt of the State Government as on 1 April 2011 was ₹ 1,813.48 crore with addition during the year 2011-12 of ₹ 87.44 crore. After discharging/repayment of loan amount of ₹ 48.66 crore during the year (excluding an interest payment of ₹ 145.73 crore), there was a closing balance of ₹ 1,852.26 crore as on 31 March 2012. Details of the same are available in Statement-15 of Finance Accounts 2011-12 and can be seen in the table below:

Table 1.44: Maturity profile: Indicators and trends

(₹ in crore)

Sl. No.	Description of the Debt	Balance as on 1 April 2011	Additions during the year	Discharged / re- paid during the year	Balance as on 31 March 2012	Interest paid during the year
1	Internal Debt of the State Government	1,653.68	86.89	45.30	1,695.27	135.25
2	Loans and Advances from the Central Government					
	i. Non Plan Loans	0.57	0.00	0.10	0.47	0.05
	ii. Loans for State Plan Schemes	138.89	0.55	1.97	137.47	8.29
	iii. Loans for Centrally Sponsored Plan Schemes	17.35	0.00	1.07	16.28	1.80
	iv. Loans for Special Schemes	2.99	0.00	0.22	2.77	0.34
	Total 2 (i to iv)	159.80	0.55	3.36	156.99	10.48
	Total (1+2)	1,813.48	87.44	48.66	1,852.26	145.73

Maturity profile of the Internal Debt of the State Government showed that the repayment obligation of the State would increase manifold during the period 2015-16 to 2019-20 due to huge loans taken during 2005-06 to 2009-10.

Further, though the State Government had been contributing ₹ 12 crore per annum to the Sinking Fund (Paragraph 1.10.3), from the maturity profile as detailed in Statement-15 of the Finance Accounts 2011-12, it is seen that it may not be sufficient to clear its liabilities of future interest accrued. State Government may consider enhancing its contribution to the fund to enable them to clear future liabilities from the accrued interest portion of the fund.

1.11.5 Burden of interest payments

The ratio of interest payments to revenue determines the debt sustainability of the State. During the year, the interest payment was 6.79 *per cent* of the revenue receipts and was more by ₹ 40.08 crore (26.59 *per cent*) than the recommendation of XIII FC. The National Small Saving Fund (NSSF) accounts for around 9.95 *per cent* of the total interest payments during the year. ₹ 3.37 crore of interest was on Central Government loans on account of Plan schemes.

The XIII FC, on condition of enactment of the FRBM Act in the State, recommended benefit of interest relief on NSSF and Central Loans not consolidated in 2005-10 for Centrally Sponsored Schemes/Central Plan Schemes through Ministry, other than Ministry of Finance, as outstanding at the end of 2009-10 be written off. As Sikkim had not enacted the FRBM Act, it did not get the benefit of consolidation of loans during the award period of XII Finance Commission. However, the XIII FC recommended that this facility be extended during XIII FC award period (2010-11 to 2014-15) on the condition that the State put in place the FRBM Act. On meeting this condition, the loans contracted by Sikkim till 31 March 2004 and outstanding at the end of the year preceding the year of legislation of such Act, shall be consolidated as per the same terms and conditions as recommended by XII Finance Commission.

XII Finance Commission had recommended the following relief on payment of interest and repayments of loans to the State.

Table 1.45: Burden of interest payments

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	Total (2005-10)
1. Restructuring & Rescheduling						
(I) Interest Payment	7.82	7.42	6.91	6.27	5.54	33.96
(ii) Loan Repayment	2.46	2.34	2.18	1.97	1.74	10.69
2. Fiscal Performance						
(i) Loan Repayment	9.61	9.61	9.61	9.61	9.61	48.05

Similar recommendation had been made by XIII FC as detailed below:

Table 1.46: Projected benefit of interest relief

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	Total (2010-15)
Interest Relief on NSSF Loans Base	0.84	0.80	0.75	0.70	0.65	3.74
Projected/assessed Fiscal Deficit	5.20	-	3.50	3.50	3.00	3.00
Projected/assessed Revenue Deficit	0.00	0.00	0.00	0.00	0.00	0.00

The Government of Sikkim enacted the FRBM Act in September 2010, but the Rules under the Act were notified only in March 2011. However, the proposal to avail the benefit of interest relief as above is under pursuance.

1.11.6 Cost of Borrowings

Cost of borrowings means interest and other costs incurred by an enterprise in connection with the borrowing of funds which prima-facie also includes cost of establishment which is deployed exclusively for borrowing of funds and their repayments.

The Finance, Revenue and Expenditure Department (FRED) was responsible for obtaining borrowings for Government of Sikkim and their repayments. Though the FRED was having a separate Loans Wing which had been dealing with all loans and advances taken by the Government as well as by the employees of the State Government, the FRED was not maintaining any record for the cost of establishment of borrowings taken for the Government. However, interest paid on various Public Debt of the State Government during the period 2009-10 to 2011-12 was as under:

Table 1.47: Trends of Public Debt of the State Government

(₹ in crore)

Sl. No.	Description of the Debt	2009-10		2010-11		2011-12	
		Balance as on 31 March 2010	Interest paid during the year	Balance as on 31 March 2011	Interest paid during the year	Balance as on 31 March 2012	Interest paid during the year
1	Internal Debt of the State Government	1,510.05	91.72	1,553.71	118.54	1,695.27	135.25
2	Loans and advances from the Central Government						
	i. Non-Plan Loans	86.66	11.16	81.78	10.85	0.47	0.05
	ii. Loans for State Plan Schemes	170.55	18.85	155.35	17.28	137.47	8.29
	iii. Loans for Centrally Sponsored Plan Schemes	18.53	1.96	17.54	1.86	16.28	1.80
	iv. Loans for Special Schemes	3.17	0.39	2.95	0.37	2.77	0.34
	v. Pre-1984-85 Loans	2.72	0.21	2.15	0.20	0.00	0.00
	Total 2 (i to v)	281.63	32.57	259.77	30.56	156.99	10.48
	Total (1+2)	1,791.68	124.29	1,813.48	149.10	1,852.26	145.73

Source : Finance Accounts

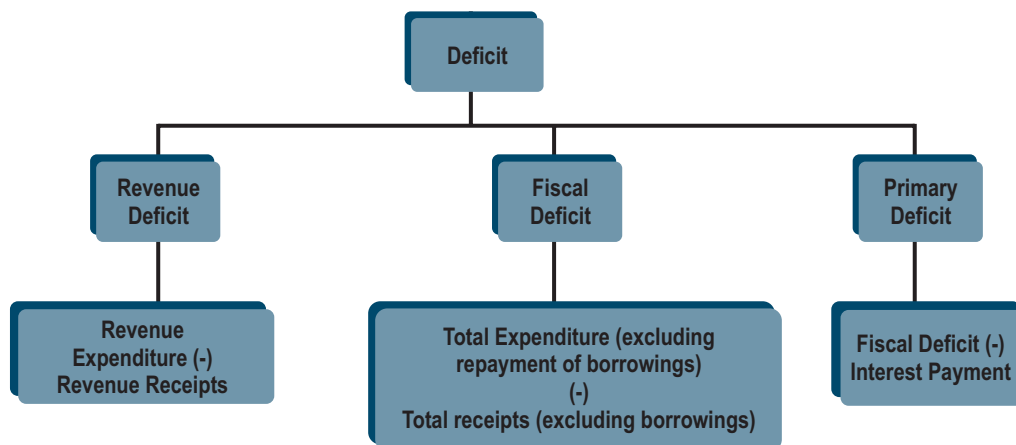
From the above table it is seen that at the end of the year 2009-10, Public Debt of the State Government was ₹ 1,791.68 crore which increased to ₹ 1,852.26 crore at the end of the year 2011-12 with an average borrowing of ₹ 1,819.14 crore during the period 2009-12. The cost of borrowings in terms of interest payment for the year 2009-10 was ₹ 124.29 crore which increased to ₹ 145.73 crore during the year 2011-12 with an average cost of borrowings of ₹ 139.71 crore during the period 2009-12.

1.12 Fiscal imbalances

In an emerging economy, balanced budget are rare and the Government resorts to borrowings to bridge the gap between expenditure requirements and inadequate non-debt receipts. The

gap between receipts and expenditure represents deficit. **Chart 1.13** gives an indication of the various kinds of deficits that occur if the Government borrows excessively to balance the budget.

Chart 1.13: Type of deficits



The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to fiscal health. This section presents the trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set for the financial year 2011-12.

1.12.1 Trends in deficits

Charts 1.14 and **1.15** present the trends in deficit indicators over the period 2007-12.

Chart 1.14 : Fiscal Imbalances

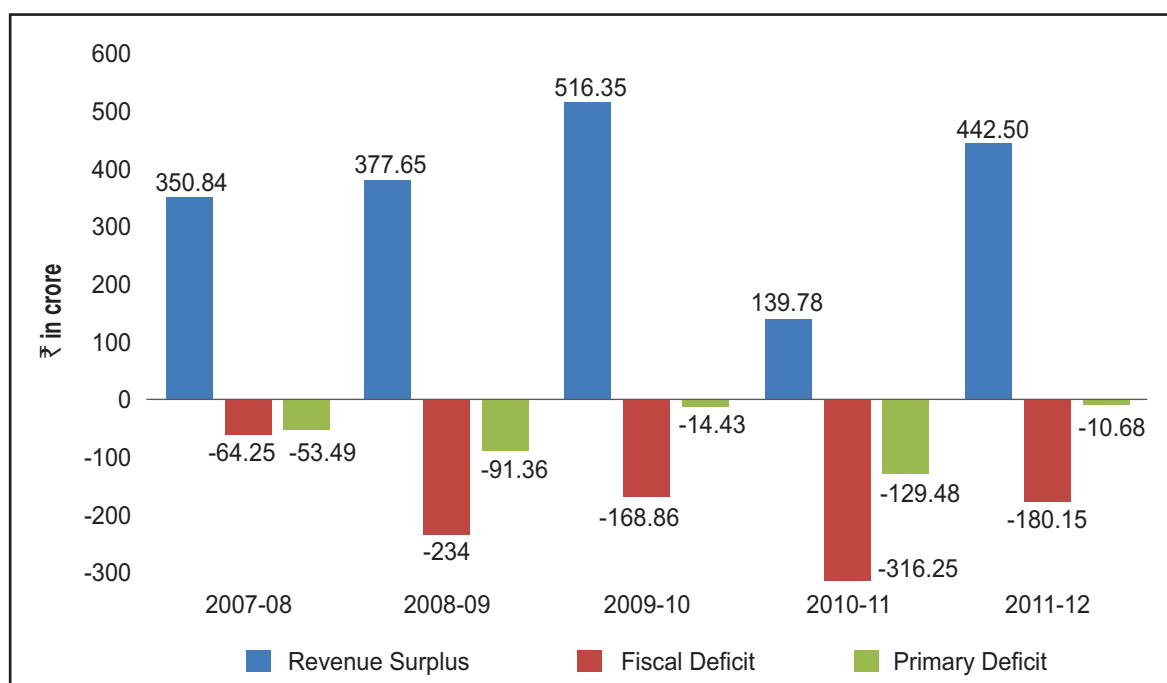
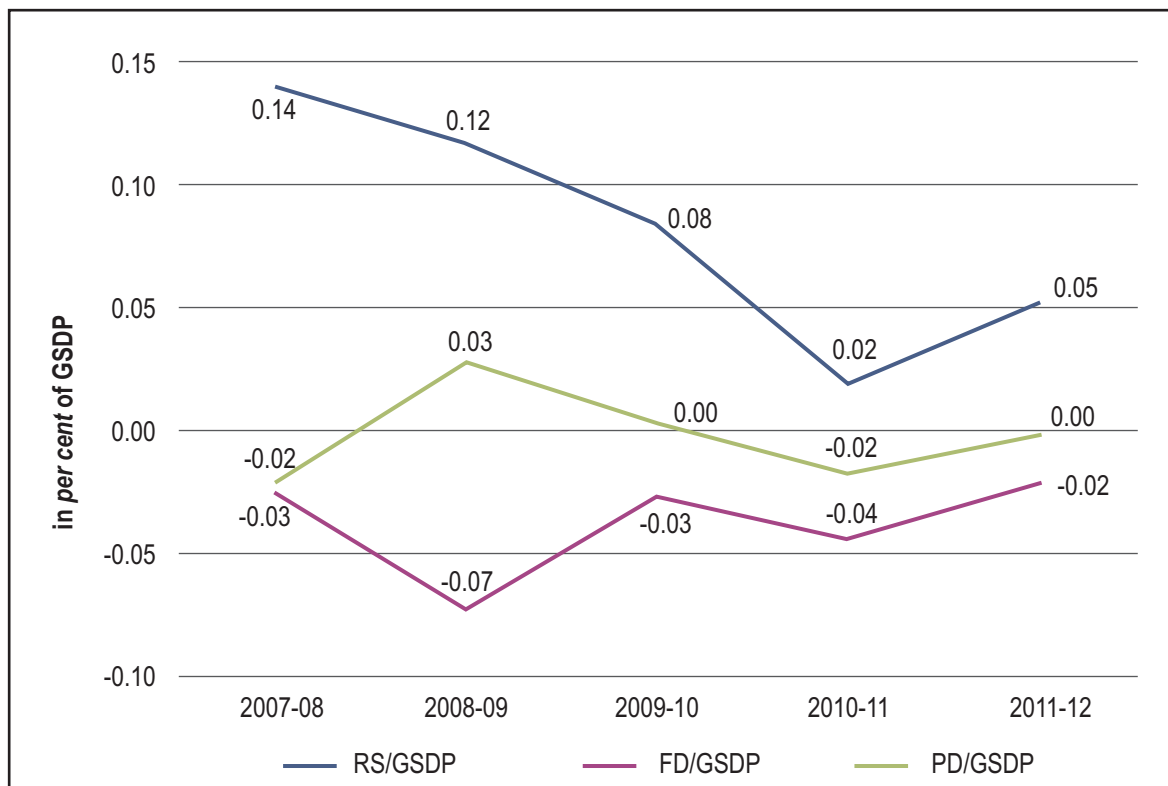


Chart 1.15 : Trends in deficit indicators relative to GSDP


While the percentage of revenue deficit as compared to GSDP was negative, the percentage of fiscal deficit as compared to GSDP was positive during 2008-09 and was negative during 2010-11. However, the State had achieved the targets set by the XIII FC with regard to fiscal deficits.

Revenue surplus

Revenue surplus represents the difference between revenue receipts and revenue expenditure. Revenue surplus helps to decrease borrowings.

The State continued to attain revenue surplus during all the years, i.e., from 2007-08 to 2011-12 with fluctuating trends during the years. The revenue surplus was highest in 2009-10 at ₹ 516.35 crore and lowest in 2010-11 at ₹ 139.78 crore. It increased by ₹ 302.72 crore (216.57 per cent) during 2011-12 as compared to the previous year due to increase in grants from Government of India and share of Union Taxes & duties.

Fiscal Deficit

Fiscal deficit normally represents the net incremental liabilities of the Government or its additional borrowings. The shortfall could be met either by additional public debt (internal or external) or by the use of surplus funds from Public Account. Fiscal deficit trends along with the trends of the deficit relative to key components are indicated in **Table 1.48**.

Table 1.48: Fiscal deficit and its parameters

Period	Non-debt receipts	Total expenditure	Fiscal deficit	Fiscal deficit as <i>per cent</i> to		
				GSDP	Non-debt receipt	Total expenditure
<i>₹ in crore</i>						
2007-08	1,498.09	1,562.34	(-)64.25	2.56	4.29	4.11
2008-09	1,758.58	1,992.58	(-)234.00	7.25	13.31	11.74
2009-10	2,345.67	2,514.53	(-)168.86	2.75	7.20	6.72
2010-11	2,152.49	2,468.74	(-)316.25	4.43	14.69	12.81
2011-12	2,914.38	3,094.53	(-)180.15	2.14	6.18	5.82

Source : Finance Accounts

Fiscal deficit as a percentage of GSDP was least during 2011-12. For Non-debt receipts and total expenditure as a percentage to fiscal deficit, the lowest was during 2007-08.

Primary Deficit

While fiscal deficit represents the need for additional resources in general, a part of such resources may be needed to finance interest payments. Interest payments represent the expenditure of past obligations and are independent of current allocative priorities. To look at the imbalances of the current nature, these payments need to be separated and deducted from the total imbalances. The primary deficit and its parameters for the last five years is indicated in **Table 1.49**.

Table 1.49: Primary deficit and its parameters

(₹ in crore)

Period	Fiscal Deficit	Interest Payments	Primary Deficit
2007-08	64.25	117.74	(+)53.49
2008-09	234.00	142.64	(-)91.36
2009-10	168.86	154.43	(-)14.43
2010-11	316.25	186.77	(-)129.48
2011-12	180.15	190.83	(+)10.68

The primary deficit was highest during 2010-11. However, the deficit recorded was lowest during 2009-10 and recorded surplus during 2007-08 and 2011-12.

1.12.2 Components of fiscal deficit and its financing pattern

The financing pattern of fiscal deficit has undergone a compositional shift as reflected in the **Table 1.50**. Decomposition of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above revenue and non-debt receipts.

Table 1.50: Components of fiscal deficit and its financing pattern

(₹ in crore)

Particulars	2007-08		2008-09		2009-10		2010-11		2011-12	
	Amount	Per cent of GSDP	Amount	Per cent of GSDP	Amount	Per cent of GSDP	Amount	Per cent of GSDP	Amount	Per cent of GSDP
Decomposition of fiscal deficit	64.25	2.56	234.00	7.25	168.86	2.75	316.25	4.43	180.15	2.14
1 Revenue Surplus	350.84		377.65		516.35		139.78		442.50	
2 Misc. Capital Receipts	-	-	-	-	-	-	-	-	42.25	0.50
3 Net capital expenditure	415.47	16.58	611.78	18.95	648.53	10.57	451.07	6.31	615.76	7.33
4 Net loans and advances	(-0.38)	0.02	(-0.13)	0.004	36.68	0.60	4.96	0.07	49.14	0.59
Financing pattern of fiscal deficit*										
1. Market borrowings	233.17	9.30	276.88	8.57	324.31	5.29	43.65	0.61	41.59	0.50
2. Loans from GOI	(-9.10)	(-) 0.36	(-)15.71	(-) 0.49	(-)18.49	(-) 0.30	(-)21.86	(-) 0.31	(-)2.81	0.03
3. Special securities issued to NSSF**	0	0	0	0	0	0	0	0	0	0
4. Loans from financial institutions	0	0	0	0	0	0	0	0	0	0
5. Small savings, PF, etc.	13.98	0.56	29.27	0.91	45.58	0.74	98.51	1.38	68.52	0.82
6. Deposits and advances	3.59	0.14	23.24	0.72	9.90	0.16	20.01	0.28	17.92	0.21
7. Suspense and misc.	31.28	1.25	-5.42	(-) 0.17	103.65	1.69	-97.71	(-) 1.37	37.80	0.45
8. Remittances	17.94	0.72	49.13	1.52	14.81	0.24	-28.26	(-) 0.40	118.16	1.41
9. Reserve funds	42.49	1.70	13.08	0.41	8.87	0.14	20.78	0.29	78.57	0.94
10. Increase (-)/ decrease (+) in cash balance	269.60	10.76	136.47	4.23	319.77	5.21	281.20	3.94	(-)179.60	2.14
11. Net of Contingency Fund transactions	0.10	0.003	0	0	0	0	0.10	0.001	0.00	0
Total	64.25		234.00		168.86		316.25		180.15	

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

** Included in Market borrowings

The components of fiscal deficit are Revenue Surplus, Net Capital Expenditure and Net Loans and Advances. The State had been attaining revenue surplus, which financed the fiscal deficit alongwith market borrowings, loans from GOI, etc. The revenue surplus which showed downward trend during 2010-11 however, increased in 2011-12. The capital expenditure as well as net loans and advances increased during the current year as compared to previous year.

In order to finance fiscal deficit, the Government increased its share in suspense and miscellaneous, remittances and reserve funds. Even though, there was a revenue surplus of ₹ 442.50 crore during 2011-12, there was fiscal deficit of ₹ 180.15 crore due to increase in capital expenditure.

1.12.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue and capital expenditure (including loans and advances) indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. 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 1.51**) indicates the extent to which the deficit was on account of enhancement in capital expenditure which might be desirable to improve the productive capacity of the State's economy.

Table 1.51: Primary deficit/surplus-Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure (3+4+5)	Primary revenue deficit (-) / surplus (+) (2-3)	Primary deficit (-)/surplus(+) (2-6)
1	2	3	4	5	6	7	8
2007-08	1,498.09	1,029.13	415.47	0.00	1,444.60	(+) 468.96	(+) 53.49
2008-09	1,758.58	1,237.92	611.78	0.25	1,849.95	(+) 520.66	(-) 91.36
2009-10	2,345.67	1,674.60	648.53	36.98	2,360.11	(+) 671.07	(-) 14.43
2010-11	2,152.49	1,825.15	451.07	5.75	2,281.97	(+) 327.34	(-) 129.48
2011-12	2,914.38	2,238.77	615.76	49.17	2,903.70	(+) 675.61	(+) 10.68

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2007-12 reveals that the non-debt receipts were enough to meet the requirements of primary revenue expenditure and some receipts were left to meet capital expenditure. However, increase in revenue expenditure and also increase in revenue receipts resulted in primary deficit¹⁹ of ₹ 10.68 crore in the current year.

1.13 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 been able to maintain revenue surplus during the last five years. The revenue surplus which decreased by ₹ 376.57 crore in the previous year increased by ₹ 302.72 crore in the current year. This was due to increase in revenue receipts (33.48 *per cent*). Similarly, the revenue expenditure also increased by 20.76 *per cent* (₹ 417.68 crore). The share of committed expenditure in the NPRES was 74.14 *per cent* leaving not much funds for developmental purposes. Capital expenditure increased by ₹ 164.69 crore over the previous year. The fiscal deficit showed a downward trend from ₹ 316.25 to ₹ 180.15 crore in 2011-12. The primary deficit decreased by ₹ 118.80 crore during the current year.

The grants-in-aid component constituting 59.97 *per cent* of the State's revenue receipts during the year increased by ₹ 617.48 crore. The State continued to be dependent upon central

¹⁹ Primary expenditure of the State, defined as the total expenditure net of the interest payments, indicates the expenditure incurred on the transaction undertaken during the year.

transfers and grants-in-aid, which is evident from the fact that 81.26 *per cent* of the revenue receipts during the year came from the Government of India.

Developmental expenditure of ₹ 1,135 crore in 2007-08 increased to ₹ 2,285.35 crore in 2011-12 and its share in aggregate expenditure increased from 72.64 *per cent* in 2007-08 to 73.85 *per cent* in 2011-12. The ratio of development expenditure as a proportion to aggregate expenditure increased by 0.01 *per cent* as compared to the year 2007-08 but the share of development expenditure in aggregate expenditure had always been over 70 *per cent*.

As compared to the previous year, the revenue receipts of the State had increased and there was a marginal increase in tax and non-tax revenue which is a positive development.

The growth in revenue receipts was higher than the growth of revenue expenditure in 2011-12, but the growth of revenue expenditure was also higher than the growth of GSDP. For every one *per cent* growth in GSDP, revenue expenditure grew by 1.18 *per cent*.

There was 26.36 and 23.39 *per cent* growth of revenue expenditure under social sector and economic sector respectively over the previous year, while growth in revenue expenditure on general services was 9.85 *per cent*.

51.30 *per cent* of revenue expenditure constituted committed expenditure on salaries, pension, interest payments and subsidies.

Nearly 20 *per cent* of the total expenditure constituted capital expenditure and as compared to the previous year capital expenditure increased by ₹ 164.69 crore (36.51 *per cent*).

Funds aggregating ₹ 180.53 crore remained blocked (31 March 2012) in incomplete projects. Effective steps need to be taken for expeditious completion of the projects to avoid further cost overrun and delay in achieving the objectives.

The debt-GSDP ratio decreased from 39.16 *per cent* in 2010-11 to 37.63 *per cent* in 2011-12. The ratio was much below the normative assessment made by the XIII FC for the current year. The fiscal liabilities stood at nearly 1.10 times of the revenue receipts and 5.88 times of the State's own resources at the end of 2011-12. The buoyancy of these liabilities with respect to GSDP during the year was 0.07 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.07 *per cent*.

The return from investment was 'Nil' and some of the Companies/Corporations were under perennial loss. Effective steps need to be taken by the State Government either to revive the units or close down the units incurring losses to avoid further financial burden on the Government.