



**CHAPTER-I:
OVERVIEW**

Chapter I: Overview

This Chapter describes the basis and approach to the Report and the underlying data, providing an overview of structure of Government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the fiscal/revenue deficits/surplus.

1.1 Profile of the State

Sikkim is a sparsely populated State situated in the Eastern Himalayas. It became part of the Indian Union on 16 May 1975. It has a total area of 7,096 sq. km. which constitutes 0.22 *per cent* of the total geographical area of India; and as per 2011 Census, the State's population was 6.11 lakh (approx.). Sikkim being landlocked state, National Highway-10 is the only lifeline, which connects the State with the rest of the country. Sikkim has four districts and nine sub-divisions. The State has been included in the North Eastern Council (NEC) since December 2002.

The State's Gross Domestic Product (GSDP) in 2019-20 at current prices was ₹ 32,496 crore. General and financial data relating to the Sikkim State as well as other States of the North Eastern Region is given in **Appendix 1.1 (Part-A)**.

1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) of Sikkim for the year ending 31 March 2020 has been prepared by the CAG for submission to the Governor of Sikkim under Article 151 (2) of the Constitution of India.

The office of Sr. Deputy Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans, initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government. These accounts are audited independently by the Principal Accountant General (Audit), and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State constitute the core data for this Report. Other sources include the following:

- ✓ **Budget of the State:** for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- ✓ **GSDP data** and other State related statistics;
- ✓ **Results of audit** carried out by the office of the Principal Accountant General (Audit) Sikkim at the State Secretariat as well as at the field level offices during the year;

- ✓ **Other data** with Departmental Authorities and Treasuries (accounting as well as MIS), and
- ✓ **Various Audit Reports** of the CAG of India.

The analysis is also carried out in the context of recommendations of the XIV Finance Commission (FC), Sikkim Fiscal Responsibility and Budget Management Act (SFRBM), best practices and guidelines of the Government of India (GoI).

1.3 Report Structure

The SFAR is structured into the following five Chapters:

Table 1.1: Structure of SFAR

Chapter - I	Overview: <i>This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of Government accounts, budgetary processes, macro-fiscal analysis of key indices and State’s fiscal position including the deficits/surplus.</i>
Chapter - II	Finances of the State: <i>This Chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2015-16 to 2019-20, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.</i>
Chapter - III	Budgetary Management: <i>This Chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.</i>
Chapter - IV	Quality of Accounts & Financial Reporting Practices: <i>This Chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various Departments of the State Government.</i>
Chapter V	Functioning of State Public Sector Enterprises: <i>This Chapter provides an overall picture on the functioning of the State Public Sector Enterprises (SPSEs). The term State Public Sector Enterprises (SPSEs) encompasses the State Government owned/controlled Government Companies set up under the Companies Act, 2013/Sikkim Registration of Companies Act 1961 and Statutory Corporations established under the proclamations of the erstwhile Chogyal (King) of Sikkim.</i>

1.4 Overview of Government Account Structure and Budgetary Processes

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a Statement of Estimated Receipts and Expenditures of the Government in respect of every financial year. This ‘Annual Financial Statement’ constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

This section provides a broad perspective of the finances of the Government of Sikkim (GoS) during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the

last five years. The analysis has been made based on State Finance Accounts and the information obtained from State Government. The structure and form of Government Accounts, layout of Finance Accounts, methodology adopted for the assessment of fiscal position and State Profile are given in **Appendix 1.1 (Parts A, B & C)**. The time series data on key fiscal variables/ parameters and fiscal ratios relating to the State Government finances for the period 2015-20 are presented in **Appendix 1.2**.

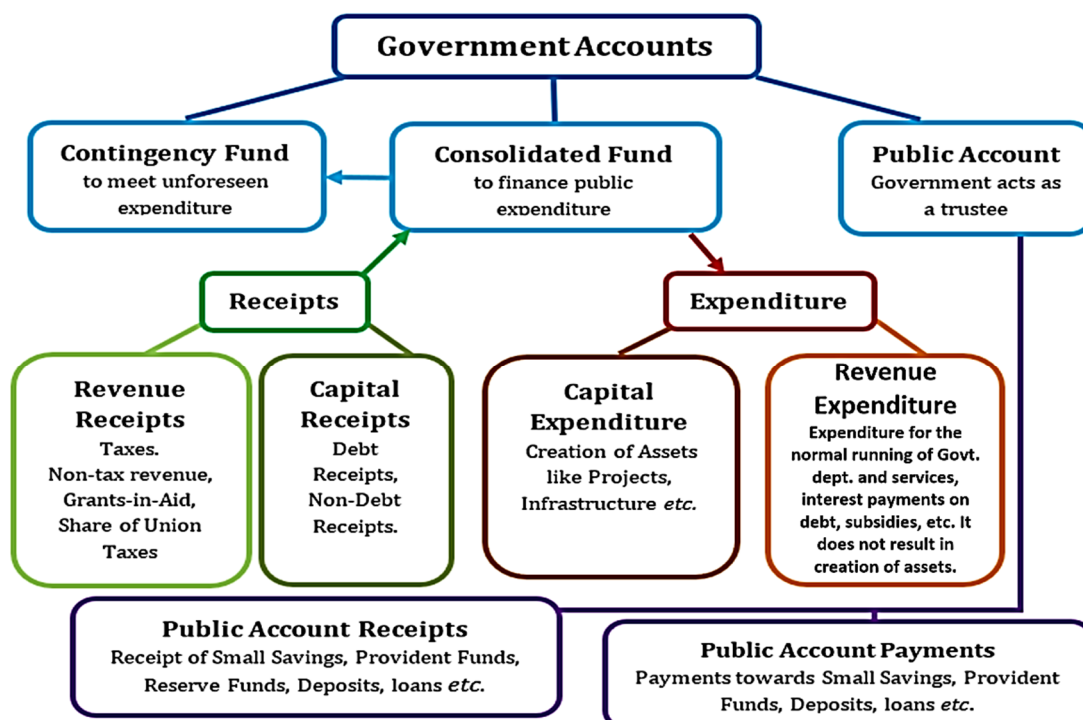
Revenue receipts consists of Tax revenue, Non-tax revenue, share of Union Taxes/ Duties, and Grants-in-Aid received from GoI.

Revenue expenditure consists of all those expenditures of the Government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the Government departments and various services, interest payments on debt incurred by the Government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

The main items of **Capital receipts** are loans raised by the Government from the public which are called market borrowings, borrowing by the Government from the commercial banks and other financial institutions, and recoveries of loans granted by the Government. Other items include small savings (Post-Office Savings Accounts, National Savings Certificates, *etc.*), Provident funds and net receipts obtained from the sale of shares in Public Sector Undertakings (PSUs).

Capital Expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the government to PSUs and other parties.

Chart 1.1: Structure of Government Accounts



The Accounts of the State Government are kept in three parts:

1. Consolidated Fund of the State as per Article 266(1) of the Constitution of India.
2. Contingency Fund of the State as per Article 267(2) of the Constitution of India.
3. Public Accounts of the State is constituted under Article 266(2) of the Constitution.

In Government Accounts classification system is based on both functional and economic, as detailed below.

Table 1.2: Government Accounts Classification System

Particulars	Attribute of transaction	Classification
Standardized in LMMH by CGA	Function- Education, Health, <i>etc.</i> /Department	Major Head under Grants (four-digit)
	Sub-Function	Sub Major head (two-digit)
	Programme	Minor Head (three-digit)
Flexibility left for States	Scheme	Sub-Head (two-digit)
	Sub scheme	Detailed Head (two-digit)
	Economic nature/Activity	Object Head-salary, minor works, <i>etc.</i> (two-digit)

The functional classification provides us the Department, function, scheme or programme, and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, *etc.* Economic classification is achieved by the numbering logic embedded in the first digit of four-digit Major Heads. For instance, zero and one is for revenue receipts, two and three for revenue expenditure, four for capital expenditure *etc.* Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, while “salary” object head is revenue expenditure, “construction” object head is capital expenditure. Object head is the primary unit of appropriation in the budget documents.

Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of State causes to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year in the form of an **Annual Financial Statement**. As per Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund. Some States have more than one consolidated Budget – there could be sub-budgets like Child Budget, Agriculture Budget, Weaker sections (SC/ST) Budget, Disability Budget *etc.*

In terms of Article 203, the Annual Financial Statement or Budget of Government of Sikkim for year 2019-20 was submitted to the State Legislature in the form of 47 – Demands for Grants/Appropriations and after approval of these, the Appropriation Bill

was passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter 3** of this Report.

1.4.1 Gross State Domestic Product of the State

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time.

Trends in annual growth of Sikkim's GSDP *vis-à-vis* that of the country are given in **Table 1.3**.

Table 1.3: Trends in growth of GDP and GSDP

Year	2015-16	2016-17	2017-18	2018-19	2019-20
All India GDP (₹ in crore)	1,37,71,874	1,53,91,669	1,70,98,304	1,89,71,237	2,03,39,849
Growth rate of GDP (in per cent)	10.46	11.76	11.09	10.95	7.21
GSDP of State at current prices (₹ in crore)	18,034	20,687	25,971	28,723*	32,496**
Growth rate of GSDP at current prices (in per cent)	17.05	14.71	25.54	10.60*	13.14**
Per capita GDP of India					1,51,677
Per capita GSDP of Sikkim					4,87,196

Source: Economic Advisor Data and Department of Economics and Statistics, Directorate of Economic & Statistics of State Government.

* Provisional Estimates; ** Quick Estimates

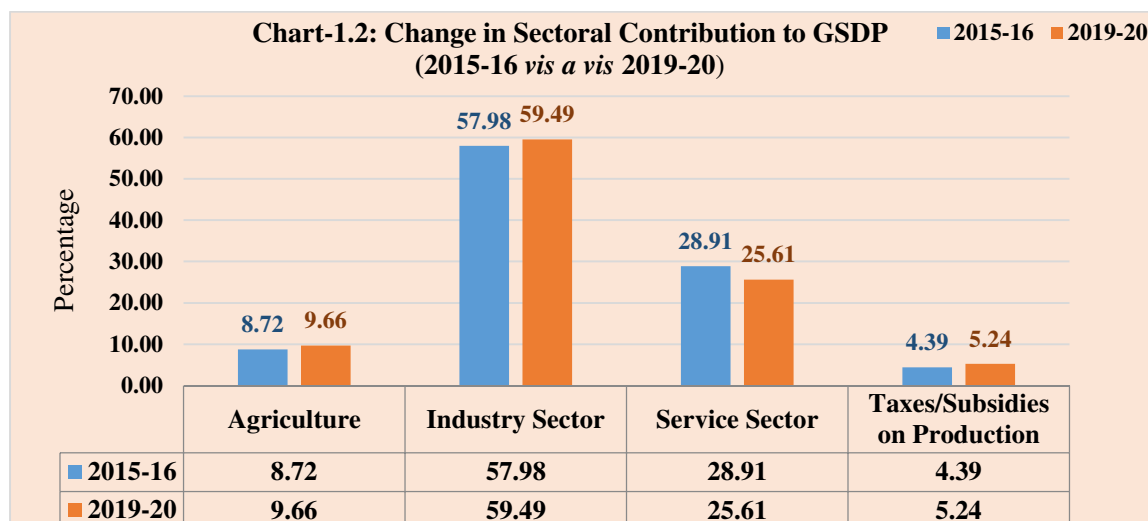
The growth rate of GSDP of the State at current price was higher than that of national growth rate except during 2018-19, when it was 10.60 per cent as against the national growth of 10.95 per cent. The growth rate of GSDP at current price during 2015-20 ranged between 10.60 per cent (2018-19) to 25.54 per cent (2017-18). During 2019-20, the GSDP at current price was ₹ 32,496 crore, up from ₹ 28,723 crore in 2018-19, representing an increase of 13.14 per cent which was much higher than that of national growth rate (7.21 per cent).

The per capita GSDP of the State (₹ 4,87,196) was also more than the per capita GDP of India (₹ 1,51,677) during 2019-20.

Sectoral components of GSDP

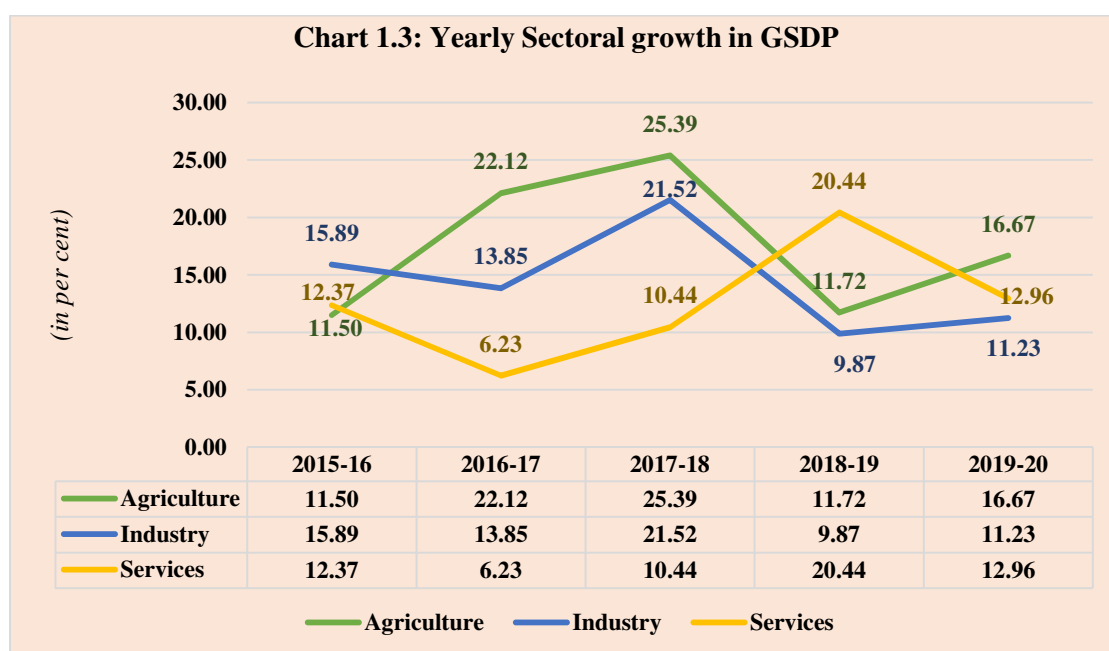
Chart 1.2 reveals that during the five-year period from 2015-20, there has been a marginal increase in the relative shares of Agriculture Sector and Industry Sector in GSDP, as the share of Agriculture (Primary) Sector grew from 8.72 per cent in 2015-16 to 9.66 per cent in 2019-20 and the share of Industry (Secondary) Sector grew from 57.98 per cent in 2015-16 to 59.49 per cent in 2019-20. The Agriculture and Industry sectors followed almost similar trend of growth during 2019-20 as compared to 2015-16. The Taxes on Products & Subsidies on Product has also shown growth in 2019-20 as compared to 2015-16 but, there was a slight decrease in the

share of Services (Tertiary) Sector from 28.91 *per cent* in 2015-16 to 25.61 *per cent* in 2019-20.



Source of data: Department of Economics and Statistics, State Government

Further, it could be seen from **Chart 1.3** that rate of growth of all three Sectors *viz.*, Agriculture, Industry and Service of the State has witnessed a fluctuating trend during 2015-20. The Agriculture and Industry Sectors showed maximum growth during 2017-18 with 25.39 *per cent* and 21.52 *per cent* respectively during the last five years. Similarly, the Service Sector registered a maximum growth during 2018-19 of 20.44 *per cent* whereas the growth rate of Agriculture and Industry Sectors decreased sharply in 2018-19.



Source of data: Department of Economics and Statistics, State Government

1.4.2 Summarised Position of Finances of State

The following table provides the comparison of actual financial parameters of 2019-20 *vis-à-vis* Revised Estimates for the year 2019-20 and actuals of 2018-19.

Table 1.4: Summarised position of Finances of State

(₹ in crore)

Sl. No.	Components	2018-19 Actual	2019-20		Percentage of Actual to RE	Percentage of Actual to GSDP
			RE	Actual		
1	Tax Revenue	892.92	1230.22	970.41	78.88	2.99
2	Non-Tax Revenue	657.78	734.55	693.40	94.40	2.13
3	Share of Union taxes/duties	2794.67	2407.69	2295.56	95.34	7.06
4	Grants-in-aid and Contributions	1574.99	2668.62	881.90	33.05	2.71
5	Revenue Receipts (1+2+3+4)	5920.36	7041.08	4841.27	68.76	14.90
6	Recovery of Loans and Advances	1.77	0.83	0.30	36.14	0.00
7	Other Receipts	0.00	0.00	0.00	0.00	0.00
8	Borrowings and other Liabilities (b)	642.32	1687.88	2081.18	123.30	6.40
9	Capital Receipts (6+7+8)	644.09	1688.71	2081.48	123.24	6.41
10	Total Receipts (5+9)	6564.45	8729.79	6922.75	79.30	21.30
11	Revenue Expenditure of which	5226.57	6961.28	6185.08	88.85	19.03
12	<i>Interest payments</i>	<i>433.05</i>	<i>537.18</i>	<i>509.68</i>	<i>94.88</i>	<i>1.57</i>
13	<i>Grant in Aid for creation of capital</i>	<i>0</i>	<i>0</i>	<i>0</i>		<i>0.00</i>
14	Capital Expenditure of which	1337.88	1291.62	737.67	57.11	2.27
15	<i>Capital outlay</i>	<i>1291.31</i>	<i>1279.15</i>	<i>720.61</i>	<i>56.34</i>	<i>2.22</i>
16	<i>Loan and advances</i>	<i>46.57</i>	<i>12.47</i>	<i>17.06</i>	<i>136.81</i>	<i>0.05</i>
17	Total Expenditure (11+14)	6564.45	8252.9	6922.75	83.88	21.30
18	Revenue Surplus(+)/ Deficit(-) (5-11)	693.79	79.80	-1343.81	-1683.97	-4.14
19	Fiscal Deficit {17-(5+6+7)}	642.32	1210.99	2081.18	171.86	6.40
20	Primary Deficit (19-12)	209.27	673.81	1571.50	233.23	4.84

Source: Finance Account, Estimates of Receipts and Expenditure

Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance.

It can be seen from above table that Revenue Receipts of the State decreased by ₹ 1,079.09 crore, from ₹ 5,920.36 crore in 2018-19 to ₹ 4,841.27 crore in 2019-20, mainly due to decrease in the State's share of Union taxes and duties and less GIA received from the Central Government. The increase in Capital receipts was mainly due to increase in Borrowings and liabilities. The Total expenditure increased in 2019-20 from ₹ 6,564.45 of the previous year to ₹ 6,922.75 crore, of which revenue expenditure comprised of ₹ 6,185.08 crore.

During 2019-20, against the estimated Revenue Surplus of ₹ 79.80 crore, the State ended up with revenue deficit of ₹ 1,343.81 crore. Fiscal deficit was ₹ 2,081.18 crore against estimation of ₹ 1,210.99 crore and it increased by ₹ 1,438.86 crore over the previous year. Further, Primary deficit also increased from ₹ 209.27 crore in 2018-19 to ₹ 1,571.50 crore.

1.4.3 Summarised position of Assets and liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds, and the assets comprise mainly the capital outlay and loans and advances given

by the State Government and cash balances. The summarized position of assets and liabilities for 2018-19 and 2019-20 with increase and decrease is given in **Table 1.5** below:

Table 1.5: Summarised position of Assets and Liabilities

(₹ in crore)

Liabilities				Assets					
Particulars	2018-19	2019-20	Per cent increase/decrease	Particulars	2018-19	2019-20	Per cent increase/decrease		
Consolidated Fund									
a	Internal Debt	4888.77	5305.00	8.51	a	Gross Capital Outlay	12479.61	13200.22	5.77
b	Loans and Advances from GoI	97.52	100.73	3.29	b	Loans and Advances	237.30	254.06	7.06
Contingency Fund									
		1.00	1.00	0		--	--		
Public Account									
a	Small Savings, Provident Funds, etc.	1005.65	1162.86	15.63	a	Advances	1.03	1.03	0
b	Deposits	279.81	361.50	29.19	b	Remittance	0	0	0
c	Reserve Funds	566.20	1022.66	80.62	c	Suspense and Miscellaneous	0	00	0
d	Remittances	274.19	158.33	-42.26		Cash balance (including investment in Earmarked Fund)	3280.56	2084.57	-36.46
e	Suspense and Miscellaneous	330.92	217.19	-34.37					
	Total	7444.06	8329.27	11.89					
	Cumulative excess of receipts over expenditure	8554.44	7210.61	-15.71					
	Total	15998.50	15539.88	-2.87	Total	15998.50	15539.88	-2.87	

Source: Finance Accounts

As it can be seen from the above, during 2019-20, the assets decreased by ₹ 458.62 crore and the liabilities (excluding surplus on Government Accounts) increased by ₹ 885.21 crore. Consequently, the growth rate of assets decreased from 11.28 per cent in 2018-19 to (-)2.87 per cent in 2019-20 whereas, the growth rate of liabilities excluding surplus on Government Accounts decreased to 11.89 per cent from 16.22 per cent in 2018-19.

1.5 Fiscal Balance: Achievement of deficit and total debt targets

Sikkim FRBM Targets on Key Fiscal Parameters and Achievements thereon

The State Government enacted the Sikkim Fiscal Responsibility and Budget Management (SFRBM) Act in September 2010 (last amended in April 2016), and the rules under the Sikkim FRBM Act were notified in March 2011 with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/ outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium term framework. In this

context, the Act provides quantitative targets to be adhered by the State with regard to deficit measures and debt level.

As per the Act, the State Government was to eliminate Revenue Deficit by 2011-12 and maintain Revenue Surplus thereafter; reduce Fiscal Deficit to 3.5 *per cent* of the estimated GSDP in 2015-16 and three *per cent* from 2016-17 to 2019-20. Further, the Act also envisaged that the State Government would limit the percentage of total outstanding debt to GSDP to 20.63 *per cent* in 2015-16 and 19.04 *per cent* in 2019-20 as shown in table 1.6 below.

Targets of key fiscal parameters envisaged in the SFRBM Act and their achievement during the five-year period from 2015-20 are given in **Table 1.6** below:

Table 1.6: Compliance with State FRBM Act

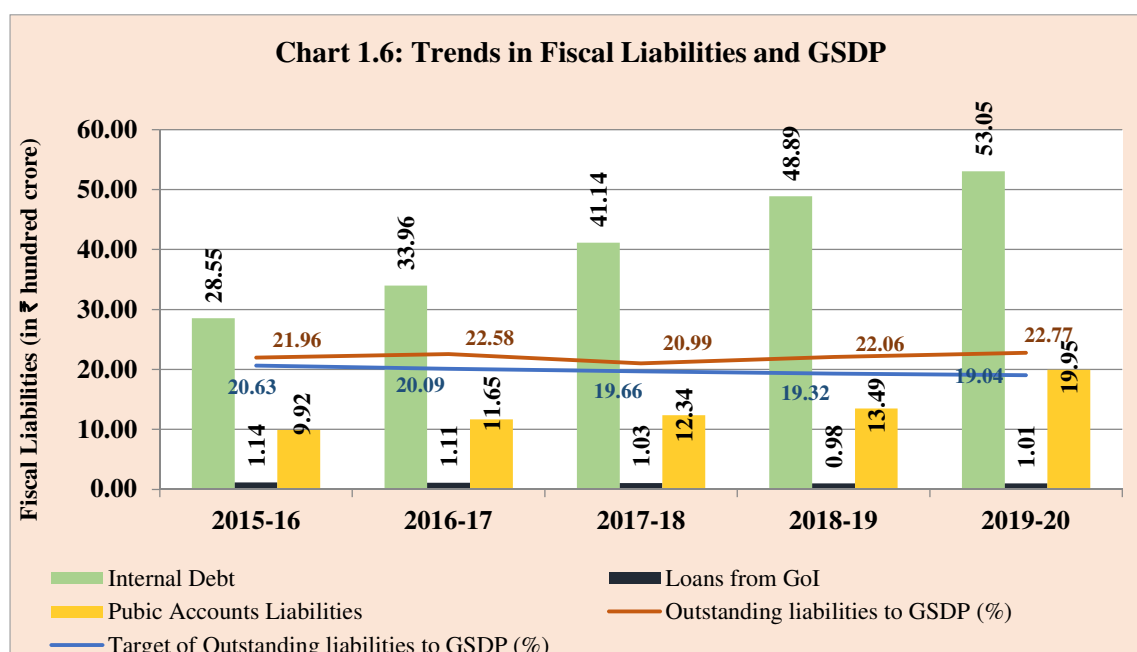
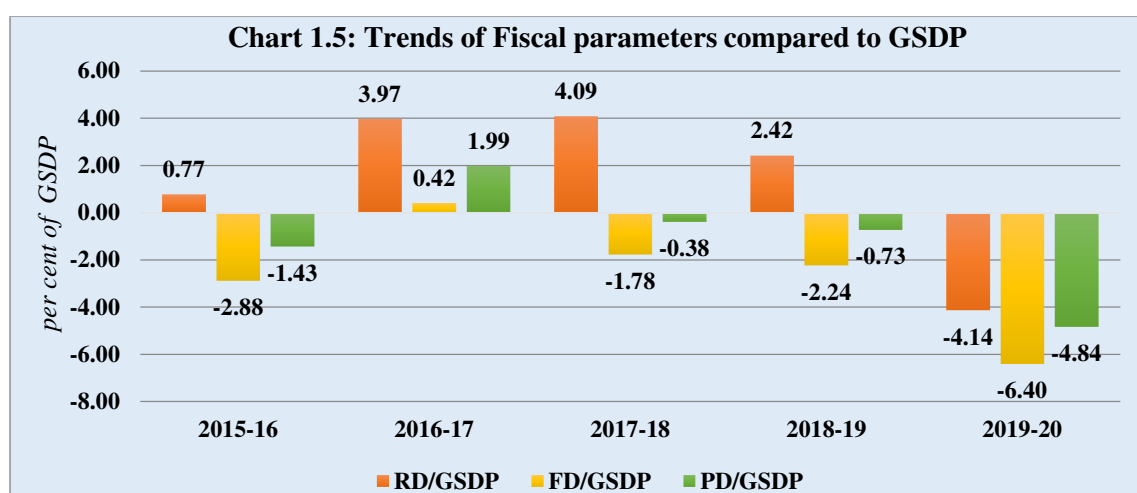
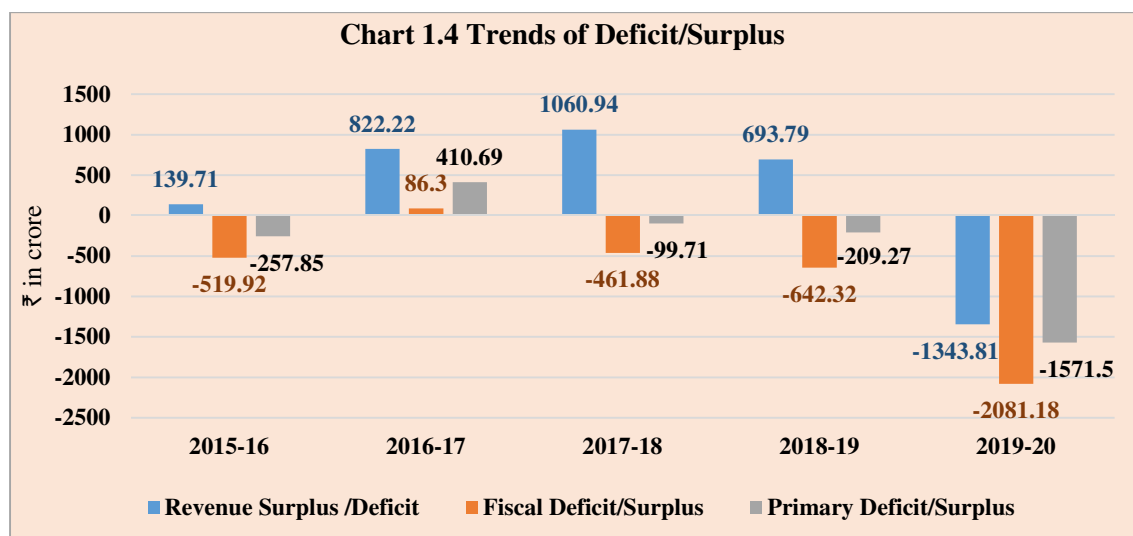
Fiscal Parameters	Fiscal targets set in the Act	Achievement (₹ in crore)				
		2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	Maintain Revenue Surplus	139.71	822.22	1060.94	693.79	(-) 1343.81
		✓	✓	✓	✓	✗
Fiscal Deficit (-)/ Surplus (+) (as percentage of GSDP)	2015-16 – 3.5 <i>per cent</i> of GSDP 2016-17 to 2019-20 – three <i>per cent</i>	(-)519.92 (-2.88)	86.30 (0.42)	(-)461.88 (-1.78)	(-)642.32 (-2.24)	(-)2081.18 (-6.40)
		✓	✓	✓	✓	✗
Ratio of total outstanding debt to GSDP (in <i>per cent</i>)	<i>Per cent</i> of GSDP 2015-16 – 20.63 2016-17 – 20.09 2017-18 – 19.66 2018-19 -- 19.32 2019-20 -- 19.04	21.96	22.58	20.99	22.06	22.77
		✗	✗	✗	✗	✗

The State after maintaining Revenue Surplus for four years from 2015-16 to 2018-19, ran into Revenue Deficit into 2019-20. Similarly, after successfully containing the Fiscal Deficit below three *per cent* of GSDP during 2015-19, the State's Fiscal Deficit was 6.40 *per cent* of GSDP during 2019-20.

During the five-year period 2015-20, the ratio of total outstanding debt to GSDP of the State consistently exceeded the norms prescribed in the SFRBM Act as well as projections¹ of XIV Finance Commission.

In reply, the Department stated that target of 19.04 *per cent* set by XIV FC was based on illustrative operation of the Fiscal rule and not necessarily to be actual. The reply was not acceptable as this target was set in the FRBM Act of the State and the State could not achieve these norms prescribed in the Act, during 2015-20.

¹ XIV FC Projections (Ratio):2015-16- 20.63, 2016-17-20.09, 2017-18- 19.66, 2018-19-19.32 and 2019-20- 19.04.



Revenue Surplus/ Deficit

Revenue Deficit is the gap between Revenue Receipts and Revenue Expenditure. The State had Revenue Surplus during the last four years *i.e.* from 2015-16 to 2018-19 but during current year Revenue Surplus turned to Revenue Deficit with huge deficit of ₹ 1,343.81 crore. This indicates that the Revenue Receipts were insufficient to meet the Revenue Expenditure.

Fiscal Deficit

Fiscal Deficit represents the gap between the Non-debt receipts and Total Expenditure. This gap can be met either by additional Public Debt (internal or external) or by the use of surplus funds from Public Accounts. Fiscal Deficit normally represents the net incremental liabilities of the Government or its additional borrowing requirements. Except for 2016-17, the State had Fiscal Deficit in all the years during the last five-year period (2015-20). However, during 2019-20 the Fiscal Deficit increased by ₹ 1,438.86 crore from ₹ 642.32 crore in 2018-19, witnessing a growth of 224.01 *per cent*.

Medium Term Fiscal Plan (MTFP)

As per the SFRBM Act, the State Government has to lay before the State Legislature, a Five-Year Fiscal Plan along with the Annual Budget. The Medium Term Fiscal Plan (MTFP) sets forth a five-year rolling target for the prescribed fiscal indicators.

Table 1.7 indicates the variation between the projections made for 2019-20 in MTFP presented to the State Legislature along with the Actuals of the year.

Table 1.7: Actuals *vis-à-vis* projection in MTFP for 2019-20

(₹ in crore)

Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2019-20)	Variation
1	Own Tax Revenue	1230.22	970.41	(-) 259.81
2	Non-Tax Revenue	734.55	693.4	(-) 41.15
3	Share of Central Taxes	2407.69	2295.56	(-) 112.13
4	Grants -in-aid from GoI	2668.62	881.9	(-) 1786.72
5	Revenue Receipts (1+2+3+4)	7041.08	4841.27	(-) 2199.81
6	Revenue Expenditure	6961.28	6185.08	776.2
7	Revenue Deficit (-)/ Surplus (+) (5-6)	79.8	(-) 1343.81	(-)1264.01
8	Fiscal Deficit (-)/ Surplus (+)	(-) 1210.99	(-) 2081.18	(-) 870.19
9	Debt-GSDP ratio (<i>per cent</i>)	25.01	22.77	2.23
10	GSDP growth rate at current prices (<i>per cent</i>)	12.50	13.14	0.64

From the table above it can be seen that except for Revenue Expenditure, Debt-GSDP ratio and growth rate of GSDP, the State could not achieve the targets fixed in the MTFP for 2019-20 in respect of other parameters. The Revenue Receipts of Government fell short by 31.24 *per cent* during 2019-20 as compared to target of MTFP. Instead of Revenue Surplus as foreseen in the MTFP, the State had a huge Revenue Deficit. The State had projected the Revenue surplus of ₹ 79.80 crore that

could not be achieved and suffered Revenue Deficit of ₹ 1,343.81 crore. Similarly, the State projected the Fiscal Deficit target of ₹ 1,210.99 crore which was not achieved and exceeded by 71.86 per cent during 2019-20. However, the Debt-GSDP ratio was kept well within the target fixed under MTFP during the year and growth rate of GSDP was above the target fixed under MTFP. The Revenue Expenditure was also kept within the limit.

In reply, the Finance Department stated that the State suffered Revenue Deficit due to short transfer of State's share of Central Tax and Grants-in-Aid from the Centre. Further, outbreak of Pandemic Covid-19 impacted the State's revenue which was not directly under the control of the State Government.

1.6 Deficits and Total Debt after examination in audit

In order to present better picture of State Finances, there is a tendency to classify revenue expenditure as capital expenditure and to conduct off budget fiscal operations.

1.6.1 Post Audit – Deficits after Examination in Audit

Misclassification of revenue expenditure as capital and off budget fiscal operations impacts deficit figures. Besides, deferment of clear cut liabilities, not depositing Cess/Royalty to Consolidated Fund, short contribution to New Pension Scheme, Sinking and Redemption funds, etc. also impacts the Revenue and Fiscal Deficit figures. In order to arrive at actual deficit figures, the impact of such irregularities need to be reversed.

The impact on Revenue Deficit/Surplus and Fiscal Deficit of the Government Sikkim during the year 2019-20 consequent to under-booking of expenditure or non-crediting of receipts is detailed is shown in **Table 1.8**.

Table 1.8: Transactions impacting Revenue Deficit and Fiscal Deficit

(₹ in crore)

Para No. refer NTA	Item	Impact on Revenue Deficit		Impact on Fiscal Deficit	
		Over-Statement	Under-Statement	Over-Statement	Under-Statement
3.3.3.1	Short contribution to Consolidated Sinking Fund	--	32.16	--	32.16
4.4.1	Receipts on account of sale of Power (trading)	103.69	--	103.69	
	Royalty from HEPs	284.60	--	284.60	
	Expenditure towards purchase of Power	--	261.86	--	261.86
	Royalty utilized for servicing loans of SPICL	--	225.75	--	225.75
Total (Net) Impact		131.48 (Understatement)		131.48 (Understatement)	

Source: Notes to Account Volume I Finance Account

As could be seen from the table above, there was an overall understatement of ₹131.48 crore in Revenue deficit and fiscal deficit during the year 2019-20:

- There was short contribution of ₹ 32.16 crore by the State Government to the Consolidated Sinking Fund during the year 2019-20. This led to understatement of ₹ 32.16 crore in Revenue deficit and fiscal deficit during the year 2019-20.
- Power Department of Sikkim (PDS) had earned revenue of ₹ 103.69 crore by selling surplus power outside the State and had received royalty amounting to ₹ 284.60 crore during the financial year 2019-20. These receipts of ₹ 388.29 crore were not deposited in the Consolidated Fund of State by PDS. This led to understatement of Government Revenue Receipts by ₹ 388.29 crore and overstatement of Revenue Deficit as well as Fiscal Deficit to that extent.
- During 2019-20, PDS had also incurred expenditure of ₹ 261.86 crore towards purchase of power without routing it through the Government account and they transferred ₹ 225.75 (was transferred to Sikkim Power Investment Corporation Limited (SPICL)) during 2019-20 for repayment of loan availed on behalf of Government of Sikkim. These transactions were not reflected in Government accounts. This led to understatement of Government expenditure by ₹ 487.61 crore with consequential understatement of Revenue Deficit and Fiscal Deficit.

1.7 Conclusion

The growth rate of GSDP of the State at current prices, during 2015-20 ranged between 10.60 *per cent* (2018-19) to 25.54 *per cent* (2017-18). During 2019-20, the GSDP at current price was ₹ 32,496 crore, up from ₹ 28,723 crore in 2018-19, representing an increase of 13.14 *per cent* which was much higher than that of national growth rate (7.21 *per cent*). The per capita GSDP of the State (₹ 4,87,196) was also more than the per capita GDP of India (₹ 1,51,677) during 2019-20.

During the five-year period of 2015-20, the share of Agriculture (Primary) Sector in the GSDP grew from 8.72 *per cent* in 2015-16 to 9.66 *per cent* in 2019-20 and the share of Industry (Secondary) Sector grew from 57.98 *per cent* in 2015-16 to 59.49 *per cent* in 2019-20. The Taxes on Products & Subsidies on Product has also shown growth in 2019-20 as compared to 2015-16, but there was a slight decrease in the share of Services (Tertiary) Sector from 28.91 *per cent* in 2015-16 to 25.61 *per cent* in 2019-20.

The State after maintaining Revenue Surplus for four years from 2015-16 to 2018-19, ran into Revenue Deficit (₹ 1,343.81 crore) in 2019-20 mainly due to decrease in Central transfers. Similarly, after successfully containing the Fiscal Deficit below three *per cent* of GSDP during 2015-19, the State's Fiscal Deficit was 6.40 *per cent* of GSDP during 2019-20. Fiscal Deficit increased by ₹ 1,438.86 crore from ₹ 642.32 crore in 2018-19, witnessing growth 224.01 *per cent*. Besides, the ratio of total outstanding debt to GSDP of the State which ranged between 21.96 *per cent* and 22.77 *per cent*, consistently exceeded the norms prescribed in the SFRBM Act as well projections of XIV Finance Commission, during the period 2015-20. The Act had

envisaged that the State Government would limit the percentage of total outstanding debt to GSDP to 20.63 per cent in 2015-16 and 19.04 per cent in 2019-20.

1.8 Recommendations

- *The Government may explore the possibilities and take necessary steps to increase the share of Agriculture (Primary) Sector in the GSDP.*
- *They may take steps to increase their Revenue Receipts, so as to meet their total expenditure.*
- *The Government may adhere to quantitative targets of SFRBM Act with regard to deficit measures and debt level.*