



**CHAPTER-II:
FINANCES OF THE
STATE**

Chapter II: Finances of the State

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 five-year period from 2015-20, debt sustainability of the State and key Public Account transactions, based on the Finance Accounts of the State. For this purpose, information was also obtained from the State Government where necessary.

2.1 Major changes in Key fiscal aggregates in 2019-20 vis-à-vis 2018-19

A bird's eye view of the major changes in key fiscal aggregates of the State during the financial year, compared to the previous year is depicted below. Each of these indicators is analysed in detail in the subsequent paragraphs.

Table 2.1: The snapshot of changes in key fiscal aggregates in 2019-20 compared to 2018-19

Revenue Receipts	<ul style="list-style-type: none"> ✓ Revenue receipts of the State decreased by 18.23 per cent ✓ Own Tax receipts of the State increased by 8.68 per cent ✓ Own Non-tax receipts increased by 5.42 per cent ✓ State's Share of Union Taxes and Duties decreased by 17.86 per cent ✓ Grants-in-aid from GoI decreased by 44.01 per cent
Revenue Expenditure	<ul style="list-style-type: none"> ✓ Revenue expenditure increased by 18.34 per cent ✓ Revenue expenditure on General Services increased by 23.44 per cent ✓ Revenue expenditure on Social Services increased by 8.78 per cent ✓ Revenue expenditure on Economic Services increased by 26.56 per cent ✓ Expenditure on Grants-in-aid increased by 26.30 per cent
Capital Expenditure	<ul style="list-style-type: none"> ✓ Overall Capital expenditure decreased by 44.20 per cent ✓ Capital expenditure on General Services increased by 77.21 per cent ✓ Capital expenditure on Social Services decreased by 26.88 per cent ✓ Capital expenditure on Economic Services decreased by 61.88 per cent
Loans and Advances	<ul style="list-style-type: none"> ✓ Disbursement of Loans and Advances decreased by 63.37 per cent ✓ Recoveries of Loans and Advances decreased by 83.05 per cent
Public Debt	<ul style="list-style-type: none"> ✓ Public Debt Receipts decreased by 27.24 per cent ✓ Repayment of Public Debt increased by 10.08 per cent
Public Account	<ul style="list-style-type: none"> ✓ Public Account Receipts increased by 12.38 per cent ✓ Disbursement of Public Account increased by 8.71 per cent
Cash Balance	<ul style="list-style-type: none"> ✓ Cash balance decreased by ₹ 1195.99 crore (36.46 per cent) during 2019-20 compared to previous year

2.2 Sources and Application of Funds

Table 2.2 presents the summary of the State Government's fiscal transactions and compares the sources and application of funds of the State of 2019-20 with 2018-19. The details of receipts and disbursements as well as the overall fiscal position of the current year (2019-20) *vis-à-vis* the previous year (2018-19) are given in Appendix 2.1 (A) & (B).

Table 2.2: Details of Sources and Application of funds during 2018-19 and 2019-20

(₹ in crore)

	Particulars	2018-19	2019-20	Increase (+)/ Decrease (-)
Sources	Opening Cash Balance with Bank	2,994.87	3,280.55	285.68
	Revenue Receipts	5,920.36	4,841.27	-1,079.09
	Recoveries of Loans and Advances	1.77	0.30	-1.47
	Public Debt Receipts	1,145.21	833.21	-312.00
	Public Account Receipts	7,997.31	8,987.23	989.92
	Total	18,059.52	17,942.56	-116.96
Application	Revenue Expenditure	5,226.57	6,185.08	958.51
	Capital Expenditure	1,291.31	720.61	-570.70
	Disbursement of Loans and Advances	46.57	17.06	-29.51
	Repayment of Public Debt	375.88	413.78	37.90
	Contingency Fund	0.00	0.00	0.00
	Public Account Disbursements ²	7,838.63	8,521.46	682.83
	Closing Cash Balance with Bank	3,280.56	2,084.57	-1,195.99
	Total	18,059.52	17,942.56	-116.96

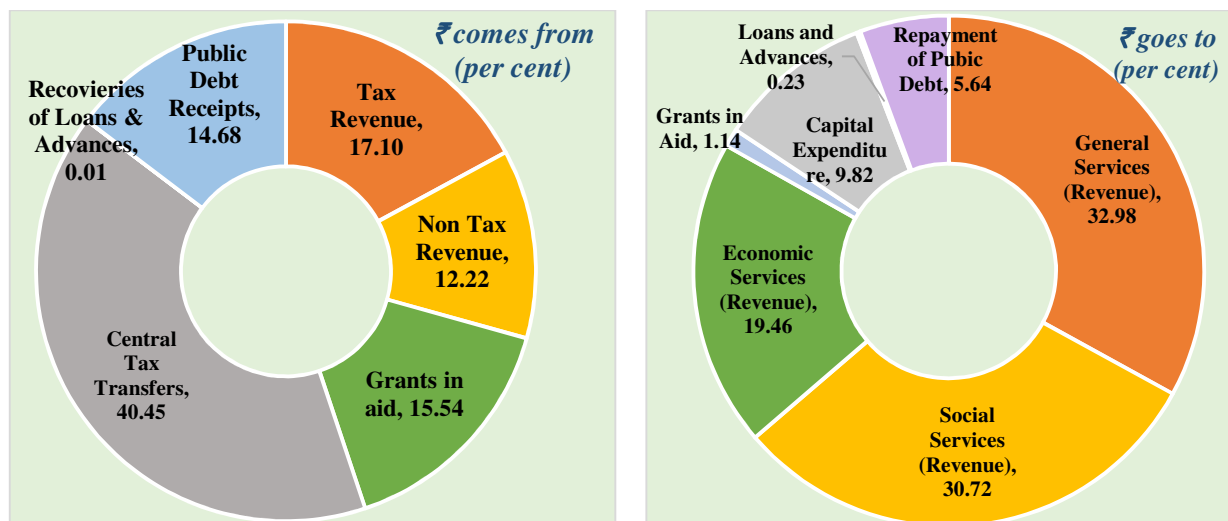
Source: Finance Accounts

The total inflow and outflow of the Government after deducting the cash balances during the year 2019-20 was ₹ 14,662.01 crore (₹ 17,942.56 – ₹ 3,280.55) and ₹ 15,857.99 crore (₹ 17,942.56 – ₹ 2,084.57) respectively leading to decrease in cash balance by ₹ 1,195.98 crore. There was huge decrease in Revenue Receipts of the Government during 2019-20 as compared to previous year but Revenue Expenditure witnessed increase during this period, thus State had huge Revenue Deficit during 2019-20. Capital Expenditure as well as borrowings of the State decreased in 2019-20 over the previous year. The Government had utilised the cash balance of ₹ 1195.99 crore of the previous year, during 2019-20.

The Charts 2.1 and 2.2 give the details of total receipts and expenditure from the Consolidated Fund during 2019-20 in terms of percentages.

² Gross Public Accounts Disbursement during the year.

Chart 2.1 & 2.2: Composition of sources and application of resources



2.3 Resources of the State

The resources of the State are sourced from three sources as described below:

1. **Revenue receipts** consist of Tax revenue, Non-tax revenue, State's share of Union Taxes and Duties and Grants-in-aid from the Government of India (GoI).
2. **Capital receipts** comprise miscellaneous Capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI.

Both revenue and capital receipts form part of the Consolidated Fund of the State.

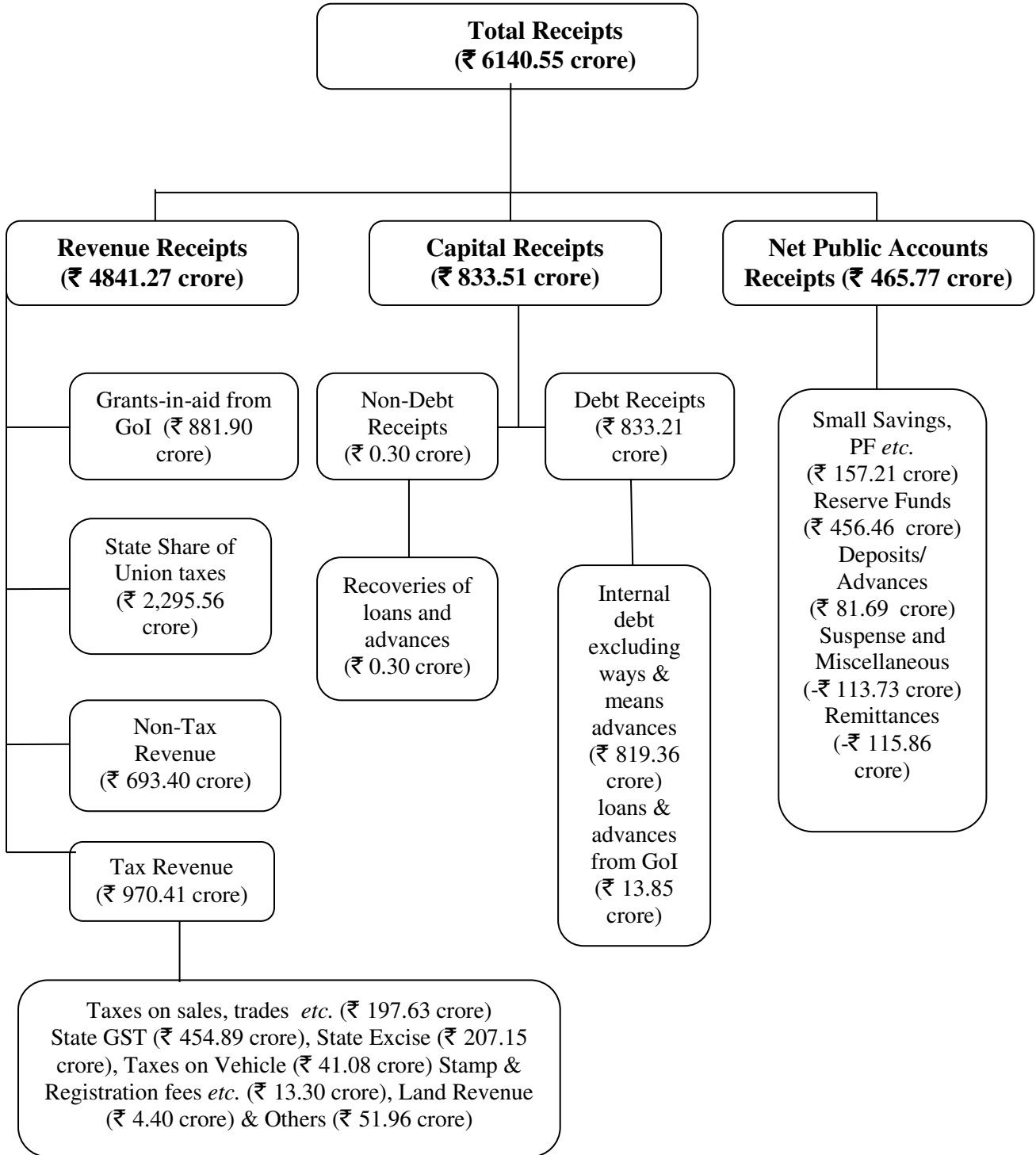
3. **Net Public Accounts receipts:** In Government accounts, there are receipts and disbursements in respect of certain transactions such as Small Savings, Provident Fund, Reserve Funds, Deposits, Suspense, Remittances, *etc.* which do not form part of the Consolidated Fund.

These are kept in the Public Account set up under Article 266 (2) of the Constitution and are not subject to vote by the State Legislature. Here, the Government acts as a banker. The balance after disbursements is the amount available with the Government for use.

2.3.1 Components of Receipts of the State

The **Chart 2.3** below depicts the sources of the State Government during 2019-20.

Chart 2.3: Components and sub-components of Resources



2.3.2 State's Revenue Receipts

The Revenue Receipts of the State Government consists of Tax and Non-tax revenues raised by the State and Central Transfers, which include Grants-in-aid and share of the State in Central Taxes. The details are also shown in **Appendix 2.2**.

Table 2.3: Sources of State's Revenue

(₹ in crore)

Sources of Revenue	2015-16	2016-17	2017-18	2018-19	2019-20
State's Own Revenue	979.81	1104.20	1342.71	1550.70	1663.81
Grants-in-aid from GoI	934.20	1436.91	1235.42	1574.99	881.90
Central Tax transfers	1870.28	2069.19	2634.66	2794.67	2295.56
Total Revenue Receipt	3784.29	4610.30	5212.79	5920.36	4841.27

Source: Finance Accounts

The State's revenues during 2019-20 were less than the revenues of previous two years. There were significant decreases in Central Tax Transfers and Grants-in-aid from GoI during 2019-20 as compared to 2018-19, though the collection of State's own revenue was higher in 2019-20 *vis-à-vis* 2018-19.

During the Exit Conference with the Finance Department (February 2021), on being asked about Revenue Deficit during 2019-20, the Secretary cum Controller of Accounts explained that deficit took place because of reduced Central transfers during the year.

2.3.2.1 Trends and growth of Revenue Receipts

This sub para provides the trends and growth of Revenue Receipts as well as Revenue Buoyancy with respect to GSDP over the five-year period 2015-20. Further, trends in Revenue Receipts relative to GSDP and composition of Revenue Receipts are depicted in Charts 2.4 and 2.5 respectively.

Table 2.4: Trends of growth and buoyancy of Revenue Receipts

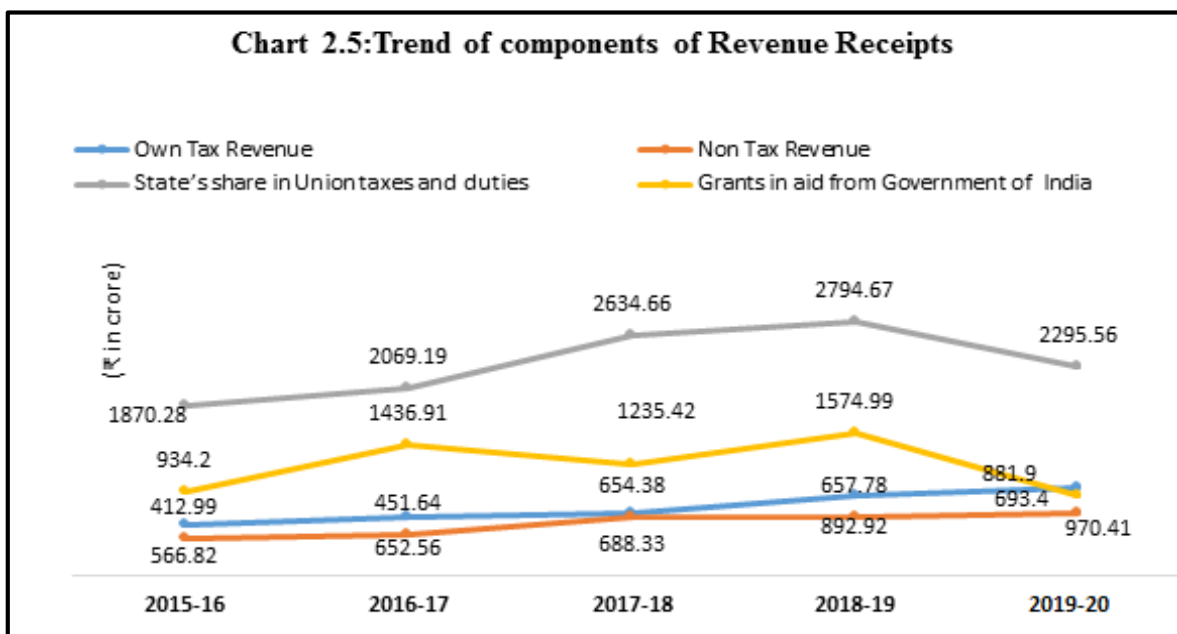
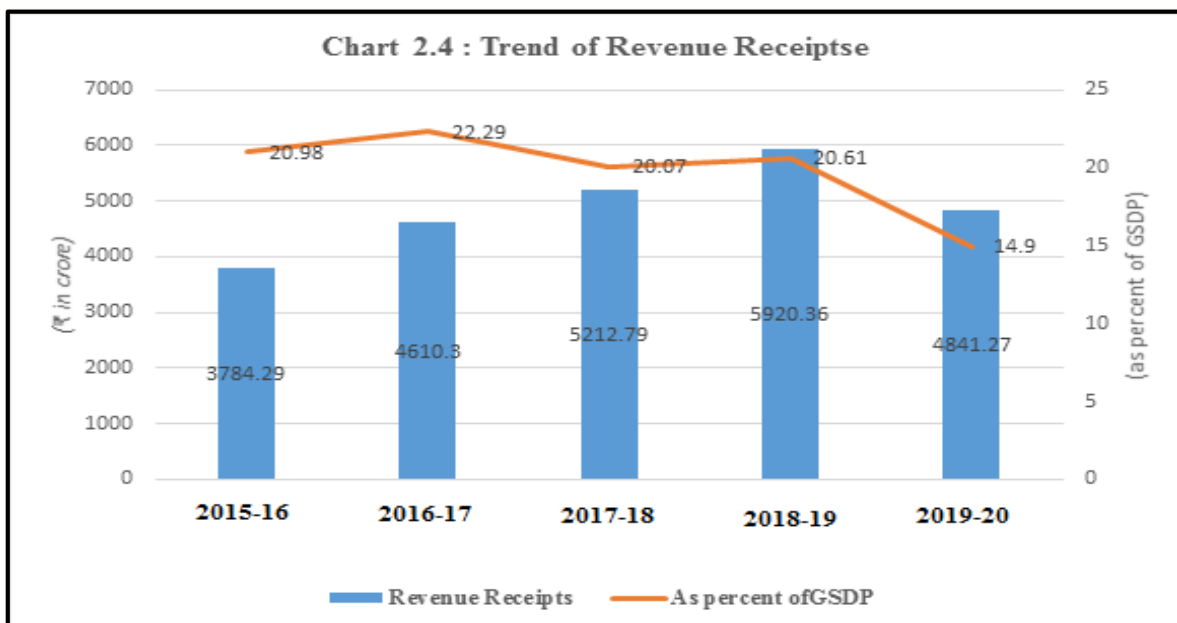
Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Receipts (RR) (₹ in crore)	3,784.29	4,610.30	5,212.79	5920.36	4841.27
Rate of growth of RR (<i>per cent</i>)	(-7.42)	(21.83)	(13.07)	(13.57)	(-18.23)
Own Tax Revenue (<i>per cent</i> of growth)	566.82 (7.45)	652.56 (15.13)	688.33 (5.48)	892.92 (29.72)	970.41 (8.68)
Non-Tax Revenue (<i>per cent</i> of growth)	412.99 (27.56)	451.64 (9.36)	654.38 (44.89)	657.78 (0.52)	693.40 (5.42)
Own Revenue Resources (Own Tax and Non-tax Revenue) (<i>per cent</i> of growth)	979.81 (15.09)	1104.20 (12.70)	1342.71 (21.60)	1550.70 (15.49)	1663.81 (7.29)
Gross State Domestic Product (₹ in crore)	18,034	20,687	25971	28723	32496
Rate of growth of GSDP (<i>per cent</i>)	17.05	14.71	25.54	10.60	13.14
RR/GSDP (<i>per cent</i>)	20.98	22.29	20.07	20.61	14.90
Buoyancy Ratios ³					
Revenue Buoyancy w.r.t GSDP	(-)0.44	1.48	0.51	1.28	(-) 1.39
State's Own Revenue Buoyancy w.r.t GSDP	0.89	0.86	0.85	1.46	0.55

Source of GSDP figures: Directorate of Economics and Statistics & Finance Account

The rate of growth of Revenue Receipts ranged between (-)18.23 *per cent* and 21.83 *per cent* during the period from 2015-20. The Revenue Receipts decreased by

³ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy with respect to GSDP at 1.85 implies that Revenue Receipts tend to increase by 1.85 percentage points, if the GSDP increases by one per cent.

18.23 per cent in 2019-20, while it had increased by 13.57 per cent during the preceding year. The Revenue Receipts of the State increased by ₹ 1056.98 crore (27.93 per cent) from ₹ 3784.29 crore in 2015-16 to ₹ 4841.27 crore in 2019-20, with average annual growth rate of 5.39 per cent. There were, however, wide inter-year variations in the growth rates. The buoyancy ratio of Revenue Receipts in 2019-20 with reference to GSDP decreased to (-) 1.39 from 1.28 during previous year. The buoyancy ratio of the State's Own Tax Revenue with reference to GSDP increased sharply till 2018-19. However, there was sharp decrease in this ratio during 2019-20 which went down to 0.55 from 1.46 in 2018-19.



General trends relating to Revenue Receipts of the State are as follows:

- Revenue Receipts increased by 27.93 per cent from ₹ 3784.29 crore in 2015-16 to ₹ 4841.27 crore in 2019-20 at an annual average growth rate of 5.39 per cent. During 2019-20, Revenue Receipts decreased by ₹ 1,079.09 crore (18.23 per cent) as compared to previous year.

- About 34.37 per cent of the Revenue Receipts during 2019-20 came from the State's own resources, while Central Tax Transfers and Grants-in-aid together contributed 65.63 per cent. This is indicative of the fact that the State's fiscal position is largely dependent on Central Tax transfers and Grants-in-aid from GoI.
- During the current year, as the Revenue Receipts decreased by 18.23 per cent (₹ 1,079.09 crore), and the Revenue Expenditure increased by 18.34 per cent (₹ 958.51 crore), resulting in Revenue Deficit of ₹ 1343.81 crore.

2.3.2.2 State's Own Resources

State's share in Central taxes is determined on the basis of recommendations of the Finance Commission; share of Grants-in-Aid is determined by the quantum of collection of Central tax receipts and anticipated Central assistance for schemes, etc. Thus, State's performance in mobilisation of additional resources in terms of its own resources comprising revenue from its own Tax and Non-tax sources is important for generation of financial resources.

The status of collection of State's own tax revenue and non-tax revenue during the period 2015-20 is given in the table below:

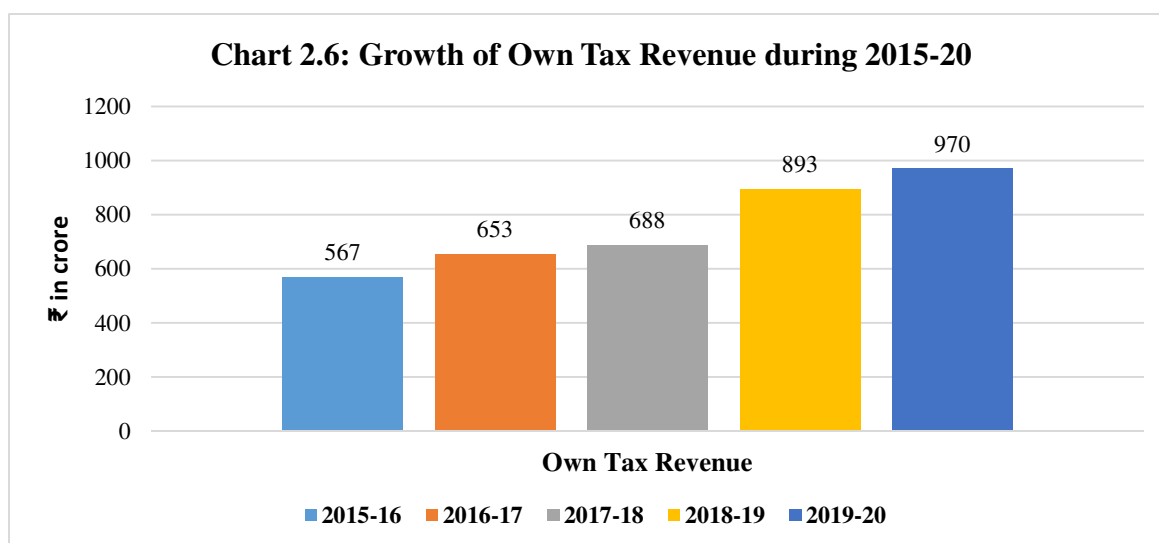
Table 2.5: State's own resources

Particulars	(₹ in crore)				
	2015-16	2016-17	2017-18	2018-19	2019-20
Tax Revenue	566.82	652.56	688.33	892.92	970.41
Non-tax Revenue	412.99	451.64	654.38	657.78	693.40
Total	979.81	1,104.20	1,342.71	1550.70	1663.81

The details of gross collections of Tax and Non-Tax Revenue and their relative share in GSDP during 2015-20 is given in *Appendix 2.2*.

(i) Own Tax revenue

Own Tax revenues consist of State GST, State Excise, Taxes on Vehicles, Stamp Duty and Registration Fees, Land Revenue, etc. The trend of collection of Own Tax revenues during the five-year period 2015-20 is depicted in the Chart below:



The component-wise details of Own Tax Revenue collected during the period 2015-20 as well as trend of growth of individual components of revenues is depicted in the following table.

Table 2.6: Components and growth of State’s Own Tax revenue

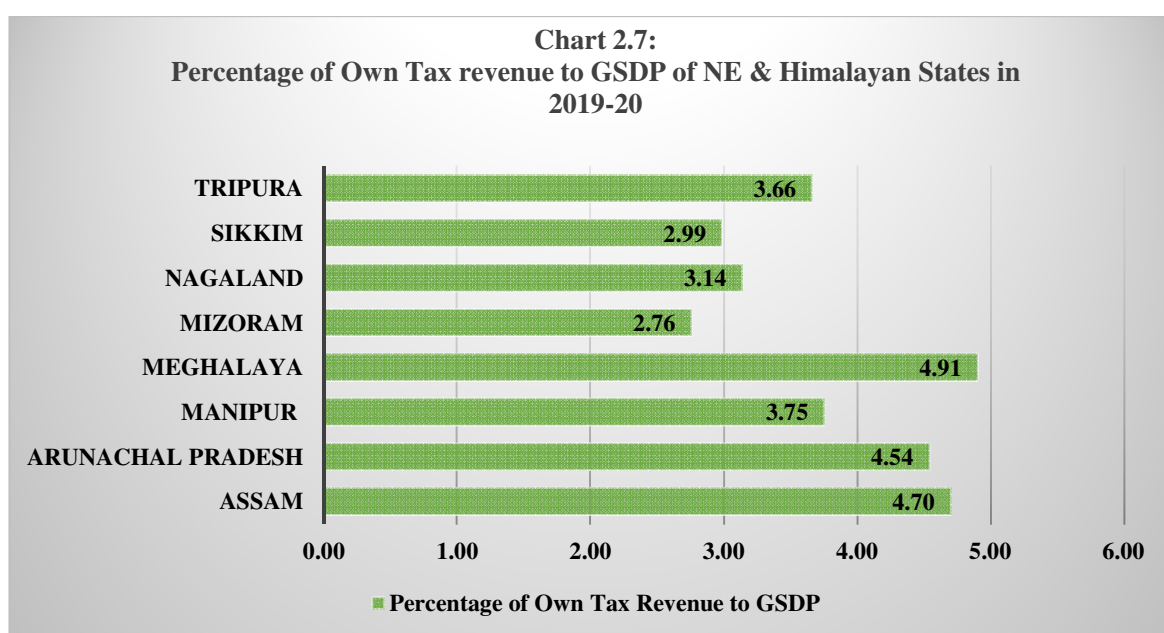
(₹ in crore)

Revenue Head	2015-16	2016-17	2017-18	2018-19	2019-20	Sparkline
Sales Tax	325.72	364.82	249.66	188.2	197.63	
SGST	0	0	171.39	405.72	454.89	
State excise	142.08	156.24	150.47	183.09	207.15	
Taxes on vehicles	22.36	24.9	29.37	33.11	41.08	
Stamp duty and Registration fees	8.51	12.57	13.57	14.95	13.3	
Land revenue	1.85	6.39	7.44	9.09	4.4	
Other taxes	66.3	87.64	66.43	58.76	51.96	
Total	566.82	652.56	688.33	892.92	970.41	
Rate of growth	7.45	15.13	5.48	29.72	8.68	

Source: Finance Accounts

It can be seen that the State’s Own Tax Revenues increased by ₹ 403.59 crore from ₹ 566.82 crore in 2015-16 to ₹ 970.41 crore in 2019-20 at an annual average growth rate of 14.24 per cent. In 2019-20, tax revenues increased from ₹ 892.92 crore in 2018-19 to ₹ 970.41 crore, representing an increase of 8.68 per cent. During the current year, major contributors of Tax Revenue were Goods and Services Tax (46.88 per cent), State Excise (21.35 per cent) and Taxes on Sales, Trades etc., (20.37 per cent).

State’s Own Tax Revenue of ₹ 970.41 crore at 2.99 per cent of GSDP, was higher than that of Mizoram (2.76 per cent) during 2019-20 but lower than the other NER States as shown in **Chart 2.7**.



➤ *State Goods and Services Tax (SGST)*

The Sikkim Goods and Service Tax (SGST) Act 2017, came into effect from 01 July 2017. Trends in SGST collection since July 2017 is as shown in the following table.

Table 2.7: Collection of SGST

Sl. No.	Year	SGST collection (₹ in crore)
1	2017-18	171.39 ⁴
2	2018-19	405.72
3	2019-20	454.89

As per the GST Act, any shortfall in revenue by the State is required to be compensated by the Central Government. Compensation under GST (Compensation to the States) Act 2017 is payable when the actual revenue collected by the State under GST and pre-GST arrears is less than the projected revenue. In Sikkim the actual revenue collected was more than the projected revenue hence compensation was not payable to Sikkim during 2017-18 to 2019-20. Details are shown below:

Table 2.8: Projected revenue for compensation and actual collection of SGST

Sl. No.	Year	Projected revenue ⁵ (₹ in crore)	SGST collection along with pre-GST arrears (₹ in crore)
1	2017-18	318.99	264.76
2	2018-19	363.65	428.00
3	2019-20	414.56	454.89

In Sikkim the Central Government has been releasing the State's share in IGST (transfer-in of tax, interest and penalty component to SGST *etc.*), but in Sikkim both SGST (Tax) and IGST⁶ are being credited under the same head 0006-101. The State Government operated only two Minor Heads 101-Tax and 800-Other Receipts under Major Head 0006- State GST. The matter has been already highlighted in the State Finances Audit Report 2018-19. However, no corrective measure was taken. Thus, due to non-operation of other Minor Heads, correct picture of components of SGST like interest, penalty, fees, input tax credit cross utilisation of SGST and IGST, apportionment of IGST *etc.*, is not reflected in the accounts, which is in violation of the principles of disclosure and transparency.

➤ *Details of evasion of tax detected by Department, refund cases, etc.*

The cases of evasion of tax detected by the Excise & Commercial Taxes Division and the demands for additional tax raised are important indicators of revenue collection efforts of the State Government. Promptness in disposal of refund cases is important indicator of performance of the Department. High pendency of refund cases may indicate red tape, vested interests, prevalence of speed money, *etc.*

⁴ The amount pertains to nine months only as GST was implemented from July 2017.

⁵ Projection = derived from annual increase of 14 per cent on previous year's revenue. (E.g. ₹ 363.65+ 14 per cent increase = ₹ 414.56)

⁶ As per the instruction of Controller General of Accounts, Ministry of Finance SGST is to be credited under 0006-101 and IGST is credited under the head 0006-106

Table 2.9: Evasion of Tax Detected

Sl. No.	Head of Revenue	Cases pending as on 31 March 2019	Cases detected during 2019-20	Total	No. of cases in which assessment / investigation completed and additional demand with penalty etc. raised		No. of cases pending for finalization as on 31 March 2020
					No. of cases	Amount of demand (in crore)	
1.	0006	0	1	1	Under Progress	-	1
2.	0039	00	0	0	NA	NA	0

Source: Departmental figure

Table 2.10: Details of refund cases

(₹ in crore)

Sl. No.	Particulars	GST		State Excise	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	4	0.05	Nil	Nil
2.	Claims received during the year	29	0.97	Nil	Nil
3.	Refunds made during the year	15	0.10	Nil	Nil
4.	Refunds rejected during the year	3	0.60	Nil	Nil
5.	Balance outstanding at the end of year	15	0.32	Nil	Nil

Source: Departmental figure

(ii) Non Tax Revenue

The component-wise details of Non-Tax revenues consisting of Interest receipts, Dividends and Profits, Power receipts, Departmental receipts, etc. collected during the years 2015-20 were as follows.

Table 2.11: Components of State's Non-tax revenue

(₹ in crore)

Revenue Head	2015-16	2016-17	2017-18	2018-19	2019-20
Interest receipts	72.52	78.38	114.76	125.33	143.82
Dividends and Profits	12.7	2.01	2.92	4.38	3.21
Other Non-tax receipts	327.77	371.25	536.7	528.07	546.37
a) Minor irrigation	0.21	0.3	0.34	0.31	0.12
b) Road transport	41.55	48.71	52.08	53.96	57.1
c) Urban development	1.15	1.4	2.03	5.69	4.16
d) Education	1.16	2.05	2.32	2.32	3.55
e) Non-ferrous mining	0.14	0.13	0.18	0.22	0.19
f) Power	147.68	170.03	310.26	269.44	256.37
g) State Lotteries	20.02	45.00	55.03	57.82	40.10
h) Others ⁷	115.86	103.63	114.46	138.31	144.68
Total	412.99	451.64	654.38	657.78	693.40

Source: Finance Accounts

Non-Tax Revenue, which ranged between 9.80 per cent and 14.32 per cent of Revenue Receipts of the State during the five-year period from 2015-20, increased marginally by ₹ 35.62 crore (5.42 per cent) during 2019-20 over the previous year.

Major contributors for the increase in Non-Tax Revenue were Interest receipts (₹ 18.49 crore), Road Transport (₹ 3.14 crore) and Others (₹ 6.37 crore). Interest Receipts during 2019-20 have shown increase of 14.75 per cent as compared to previous year and an increase of 98.32 per cent compared to 2015-16. Other Non-tax receipts also increased

⁷ Others includes departments like Water supply & sanitation, Housing, Information & Publicity, Labour & Employment, Social security & welfare, Animal Husbandry, Food, Co-operation, Other Rural Dev Programme, Industries and Tourism

from ₹ 327.76 crore in 2015-16 to ₹ 546.37 crore in 2019-20, an increase of 66.70 per cent. Revenues from Power and State Lotteries witnessed decrease of ₹ 40.82 crore (13.16 per cent) and ₹ 17.72 crore (44.19 per cent) respectively during 2019-20 as compared to previous year.

(iii) Transfers from the Centre

Since transfers from Centre are dependent on Finance Commission recommendation, the trends for 10 years is given in Chart 2.8 and details of central tax transfers to the State during 2015-20 is mentioned in Table 2.12.

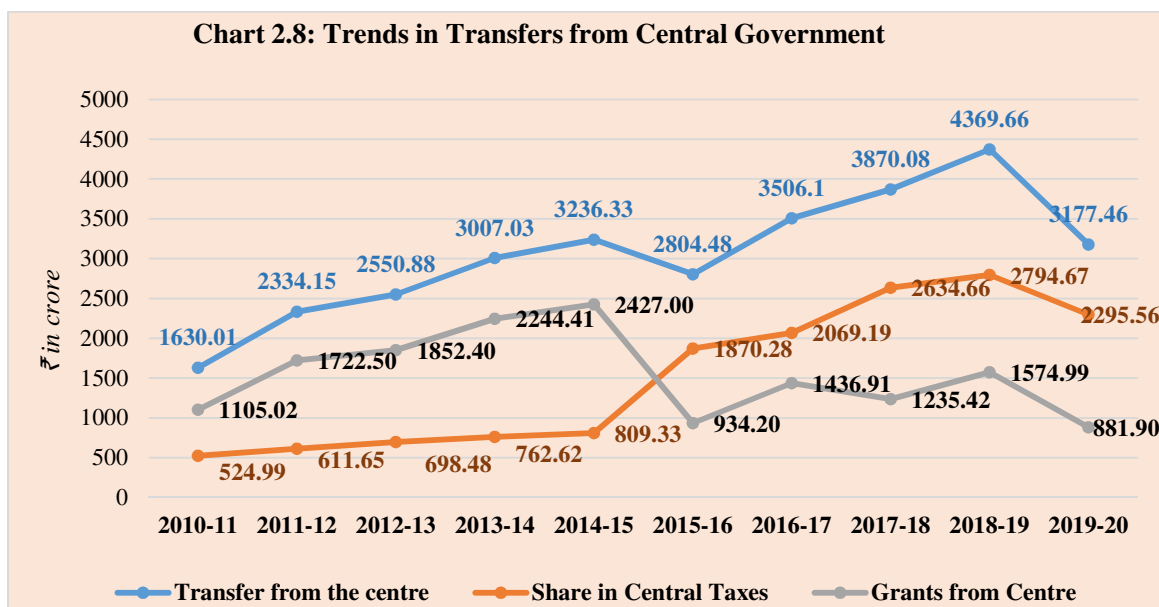


Table 2.12: Details of Central tax transfers to the State during 2015-20

Head	2015-16	2016-17	2017-18	2018-19	2019-20
Central Goods and Services Tax (CGST)	0	0	35.28	689.78	645.62
Integrated Goods and Services Tax (IGST)	0	0	249.56	55.10	0
Corporation Tax	592.56	638.61	835.64	971.97	788.90
Taxes on Income other than Corporation Tax	415.18	467.69	670.05	715.80	603.68
Other Taxes on Income and Expenditure	0	0	0	5.06	0
Customs	298.51	287.79	270.25	198.12	150.11
Union Excise Duties	245.23	351.79	261.34	131.66	106.08
Service Tax	317.83	322.69	311.52	25.39	0
Other Taxes ⁸	0.97	0.62	1.02	1.79	1.17
Central Tax transfers	1,870.28	2,069.19	2634.66	2794.67	2295.56
Percentage of increase over previous year	131.09	10.64	27.33	6.07	- 17.86
Percentage of Central tax transfers to Revenue Receipts	49.42	44.88	50.54	47.20	47.42

Source : Finance Accounts

Over the five-year period 2015-20, Central tax transfers increased by ₹ 425.28 crore (22.74 per cent) from ₹ 1,870.28 crore in 2015-16 to ₹ 2295.56 crore in 2019-20. During 2015-20, the Central tax transfers which had been increasing upto 2018-19, decreased sharply by 17.86 per cent (₹ 499.11 crore) in 2019-20 over the previous year. Central tax transfers constituted 47.42 per cent of the Revenue Receipts during 2019-20.

⁸ Include Taxes on Wealth, Other Taxes on Income and Expenditure, Other Taxes and Duties on commodities and Services

Table 2.13: State's share in Union taxes and duties: Actual devolution *vis-à-vis* Finance Commission projections

(₹ in crore)

Year	Finance Commission projections	Projections in FCR	Actual tax devolution	Difference
1	2	3	4	5 (4-3)
XIII Finance Commission				
2010-11	Net proceeds of all shareable taxes incl service tax	487.00	524.99	37.99
2011-12	Net proceeds of all shareable taxes incl service tax	572.00	611.65	39.65
2012-13	Net proceeds of all shareable taxes incl service tax	674.00	698.48	24.48
2013-14	Net proceeds of all shareable taxes incl service tax	796.00	762.62	-33.38
2014-15	Net proceeds of all shareable taxes incl service tax	938.00	809.32	-128.68
XIV Finance Commission				
2015-16	Net proceeds of all shareable taxes incl service tax	2129.00	1870.28	-258.72
2016-17	Net proceeds of all shareable taxes incl service tax	2457.00	2069.19	-387.81
2017-18	Net proceeds of all shareable taxes incl service tax	2839.00	2634.66	-204.34
2018-19	Net proceeds of all shareable taxes incl service tax	3285.00	2789.61	-495.39
2019-20	Net proceeds of all shareable taxes incl service tax	3804.00	2295.56	-1508.44

Source: Departmental Figure and Finance Commission Reports

From the table above it can be seen that the actual devolution of net proceeds of all shareable taxes including Service Tax was in excess of Finance Commission projections during 2010-11 to 2012-13 and it was less than the FC projections in 2013-14 & 2014-15 under XIII Finance Commission and during the entire period of XIV Finance Commission.

(iv) Grants-in-aid from GoI

Grants-in-aid (GIA) received by the State Government from GoI during 2015-20 are detailed in Table below.

Table 2.14: Grants-in-aid (GIA) received by the State Government from GoI

(₹ in crore)

Head	2015-16	2016-17	2017-18	2018-19	2019-20
Non-Plan Grants	74.49	64.72	--	--	--
Grants for State Plan Schemes	321.57	684.64	6.26	--	--
Grants for Central Plan Schemes*	2.32	--	--	--	--
Grants for Centrally Sponsored Plan Schemes	507.94	658.75	39.50	4.19	(-) 0.48
Grants for Special Plan Schemes	27.88	22.09	0.52	--	--
Grants for Centrally Sponsored Schemes (CSS)	--	0.31	919.17	1147.81	609.52
Finance Commission (FC) Grants			70.52	125.86	76.50
Other transfers	-	6.40	199.45	297.13	196.36
Total	934.20	1,436.91	1235.42	1574.99	881.90
<i>Percentage of increase over the previous year</i>	<i>- 61.51</i>	<i>53.81</i>	<i>-14.02</i>	<i>27.49</i>	<i>-44.01</i>
<i>Percentage of GIA to Revenue Receipts</i>	<i>24.69</i>	<i>31.17</i>	<i>23.70</i>	<i>26.60</i>	<i>18.22</i>

There are no figures since the nomenclature of plan and non-plan grants was removed with effect from the year 2017-18 and replaced by Grants for CSS, Finance Commission Grants and Other Grants to States.

Source: Finance Accounts

The flow of Grants-in-Aid from GoI depicted fluctuating trend during 2015-20 and the transfers on this account were lowest in 2019-20. The Grants-in-aid from GoI decreased by ₹ 693.09 crore (44.01 per cent) during the current year compared to the previous year. There was substantial decrease in Grants-in-aid under CSS, FC grants and other grants during the year, as compared to the previous year. The Grants-in-Aid constituted 18.22 per cent of Revenue Receipts during the year 2019-20. The major portion of Grants-in-aid, constituting 69.11 per cent of total Grants-in-Aid, were received

for Centrally Sponsored Schemes, during the year. Grants for CSS decreased by ₹ 538.29 crore, from ₹1,147.81 crore in 2018-19 to ₹ 609.52 crore in 2019-20 (decrease of 47 per cent). Finance Commission Grants amounting to ₹ 76.50 crore were provided for Local Bodies and State Disaster Response Fund (SDRF) and constituted 8.67 per cent of total Grants-in-Aid during the year.

➤ Fourteenth Finance Commission Grants

The core mandate of the Finance Commission, as laid out in Article 280 of the Constitution, is to make recommendations on the distribution between the Union and the States of the Net Proceeds of Taxes and the principles that should govern the Grants-in-Aid of the revenue to the States out of the Consolidated Fund of India. The Fourteenth Finance Commission (XIV FC) was constituted on 2 January 2013, whose major recommendations were: increase in States' share in the Net Proceeds of Union Tax revenues to 42 per cent from 32 per cent earlier; distribution of grants to States for local bodies based on 2011 population data (90 per cent weightage) and area (10 per cent weightage) for the period 2015-20. Comparative statement of transfers to the State on account of awards of XIV FC during 2018-19 and 2019-20 is given in **Table 2.15**.

Table 2.15: Grants-in-aid released by GoI as per recommendation of XIV FC

(₹ in crore)

Department	Sectors	2018-19	2019-20	Increase (+)/ Decrease (-)
Panchayat and Rural Development	Panchayati Raj Institutions (PRIs)	29.67	40.09	+ 10.42
Urban Development	Urban Local Bodies (ULBs)	8.86	2.21	- 6.65
Land Revenue and Disaster Management	State Disaster Response Fund (SDRF)	87.33	34.20	- 53.13
Total		125.86	76.50	- 49.36

Source of data: Finance Accounts (ST 14 – 1601 MH)

There was an increase in Grants in Aid released by GoI under PRIs, but decrease under the ULBs and SDRF. As per reply of Revenue and Disaster Management Department, the significant decrease in transfer to State Disaster Response Fund in 2019-20 as compared to previous year was the result of release of additional fund by NDRF in 2018-19 (₹ 54.93 crore in June 2018) for flash floods that took place in 2017. The Central government had released ₹ 32.40 crore for SDRF during 2018-19. Other departments had not responded to the reasons for the increase/decrease of release of Grants in Aid by GoI as per the recommendation of XIV FC.

2.3.3 Capital receipts

Capital Receipts consist of public debt receipts, non-debt receipts like proceeds from disinvestments (under miscellaneous capital receipts), and recoveries of loans and advances. The net public debt receipts after discharging of public debt plus other capital receipts, is the net Capital Receipts.

The following table shows the trends in growth and composition of net Capital Receipts.

Table 2.16: Capital receipts of the State

(₹ in crore)

Sources of State's Receipts	2015-16	2016-17	2017-18	2018-19	2019-20
Capital Receipts	656.26	784.71	1,054.37	1,146.98	833.51
Miscellaneous Capital Receipts	654.88	783.34	1,053.46	1,145.21	833.21
Recovery of Loans and Advances	1.38	1.37	0.91	1.77	0.30
Public Debt Receipts	654.88	783.34	1,053.46	1,145.21	833.21
Internal Debt	652.05	776.61	1050.93	1,140.09	819.36
Growth rate of Internal Debt (in per cent)	59.77	19.10	35.32	8.50	-28.13
Loans and advances from GoI (in per cent)	2.83	6.73	2.53	5.12	13.85
Growth rate of loans and advances from GoI (in per cent)	-22.89	137.81	-62.41	102.37	170.51
Growth rate of debt Capital Receipts (in per cent)	59.03	19.62	34.48	8.71	-27.24
Growth rate of non-debt capital receipts (in per cent)	56.82	-0.72	-33.58	94.51	83.05
Rate of growth of GSDP (in per cent)	17.05	14.71	25.54	10.6	13.14
Rate of growth of Capital Receipts (in per cent)	59.03	19.57	34.36	8.78	-27.33

Source: Finance Accounts and for GSDP– Source: Official website of Economic & Statistical Organization, GOP (www.esop.gov.in)

During last five-year period, Capital Receipts increased by 27.01 per cent (₹ 177.25 crore) from ₹ 656.26 crore in 2015-16 to ₹ 833.51 crore in 2019-20. The rate of growth of Capital Receipts which was 8.78 per cent in 2018-19 decreased to (-)27.33 per cent in 2019-20. Internal debts constituting 98.30 per cent of Capital Receipts during the current year decreased from ₹ 1140.09 crore during 2018-19 to ₹ 819.36 crore in 2019-20. Non-debt Capital Receipts in the form of recoveries of Loans and Advances significantly decreased by ₹ 1.47 crore (83.05 per cent) during 2019-20 over previous year.

2.3.4 State's performance in mobilization of resources

State's performance in mobilization of resources in the form of its own sources comprising own-tax and non-tax sources can be judged against the projections of XIV FC and targets of budget. The table below shows the performance of State in mobilization of resources against the projections and targets during 2019-20.

Table 2.17: Tax and non-tax receipts vis-à-vis projections

(₹ in crore)

	XIV FC projections	Budget Estimates	Actual	Percentage variation of actual over	
				Budget estimates	XIV FC projections
Own Tax revenue	3039.00	1230.22	970.41	-26.77	- 213.17
Non-tax revenue	541.00	734.55	693.40	-5.93	21.98

Source: FC Report and Estimates of Receipts

As can be seen that the State could not mobilize resources from its own sources of Tax revenue and Non-tax revenue as per projections of XIV FC and targets of budget during 2019-20.

Finance Department (FD) stated that revenue projections by XIV FC were over optimistic in revenue projection. The FD further stated that the Government of Sikkim had entrusted National Institute of Public Finance and Policy (NIPFP), New Delhi to revisit the assumptions of XIVFC's GSDP and Tax Buoyancy. As per the findings of NIPFP the target for tax revenue for 2019-20 were ₹ 1032 crore (own tax revenue) and ₹ 541 crore

(non-tax revenue) against the projection of XIV FC of ₹ 3039 crore and ₹ 541 crore respectively. The fact remains that the State could not achieve its own budget targets.

2.4 Application of Resources

The State Government is vested with the responsibility of incurring expenditure within the framework of fiscal responsibility legislations, while at the same time ensuring that the ongoing fiscal correction and consolidation process of the State is not directed at the cost of expenditure towards development of capital infrastructure and social sector. This paragraph along with sub-paragraphs gives the analysis of allocation of expenditure in the State.

2.4.1 Growth and composition of expenditure

The Total Expenditure, its composition and relative share in GSDP during the years 2015-16 to 2019-20 is presented in Table below.

Table 2.18: Total expenditure and its composition

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Total Expenditure (TE)	4305.59	4525.37	5675.58	6564.45	6922.75
Revenue Expenditure (RE)	3644.58	3788.08	4151.85	5226.57	6185.08
Capital Expenditure (CE)	633.98	720.29	1506.78	1291.31	720.61
Loans and Advances	27.03	17	16.95	46.57	17.06
GSDP	18,034	20,687	25,971	28,723	32,496
As a percentage of GSDP					
TE/GSDP	23.87	21.88	21.85	22.85	21.30
RE/GSDP	20.21	18.31	15.99	18.20	19.03
CE/GSDP	3.52	3.48	5.80	4.50	2.22
Loans and Advances/GSDP	0.15	0.08	0.07	0.16	0.05

(₹ in crore)

Source: Finance Accounts

During the period 2015-20, Total Expenditure of the State increased by 60.79 per cent (₹ 2617.16 crore) from ₹ 4,305.59 crore in 2015-16 to ₹ 6,922.75 crore in 2019-20. During the current year, it increased by 5.49 per cent over the previous year. As a percentage of GSDP, the Total Expenditure remained stable and was in the range of 21.30 per cent to 23.87 per cent during 2015-16 to 2019-20.

The ratio of Total Expenditure of the State to GSDP showed fluctuating trend during the period 2015-16 to 2019-20. This fluctuation was mainly on account of Revenue and Capital Expenditure, with its ratios to GSDP that shows fluctuating trend during entire five year period.

Table 2.19: Relative share of various Sectors in Total Expenditure

Sectors	2015-16	2016-17	2017-18	2018-19	2019-20
General Services	1,307.77	1,491.95	1,677.89	2032.95	2548.62
Social Services	1,436.99	1,578.28	2,066.68	2435.22	2519.45
Economic Services	1,495.00	1382.5	1,850.74	1983.31	1753.76
Others (Grants to Local Bodies and Loans and Advances)	65.83	72.63	80.27	112.97	100.92
Total Expenditure	4,305.59	4525.37	5,675.58	6564.45	6922.75
Sectoral share in Total Expenditure (in per cent)					
General Services	30.37	32.97	29.56	30.97	36.82
Social Services	33.37	34.88	36.41	37.10	36.39

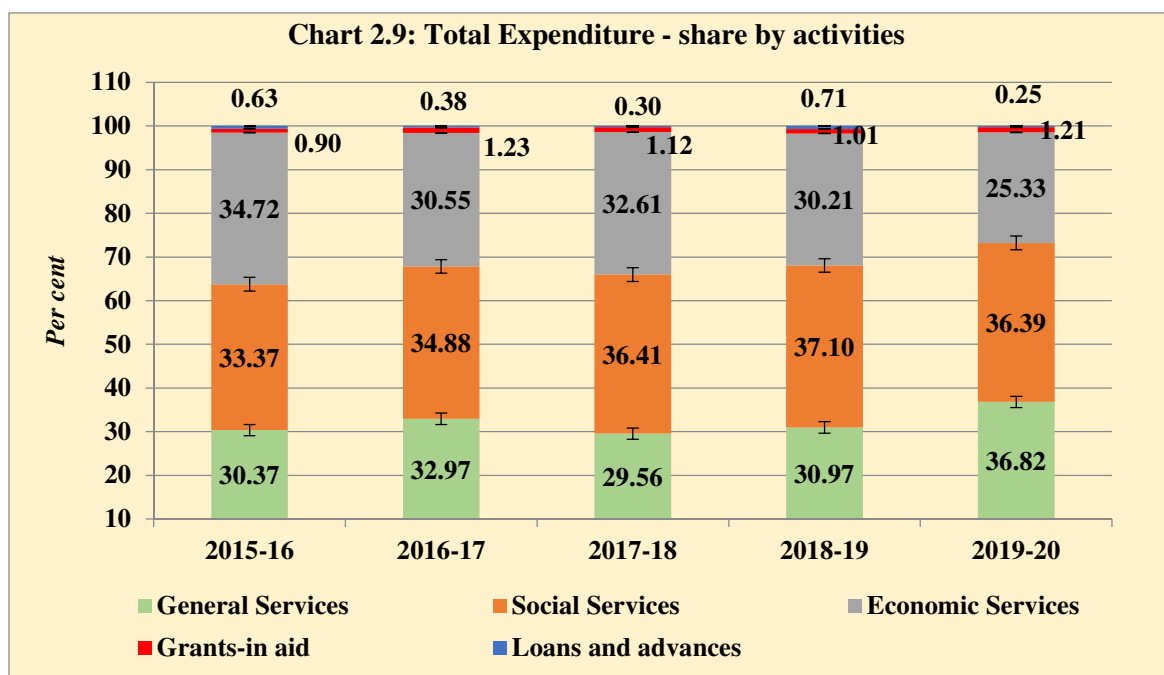
(₹ in crore)

State Finances Audit Report for the year ended 31 March 2020

Sectors	2015-16	2016-17	2017-18	2018-19	2019-20
Economic Services	34.72	30.55	32.61	30.21	25.33
Others (Grants to Local Bodies and Loans and Advances)	1.53	1.60	1.41	1.72	1.46
Total	100.00	100.00	100.00	100.00	100.00

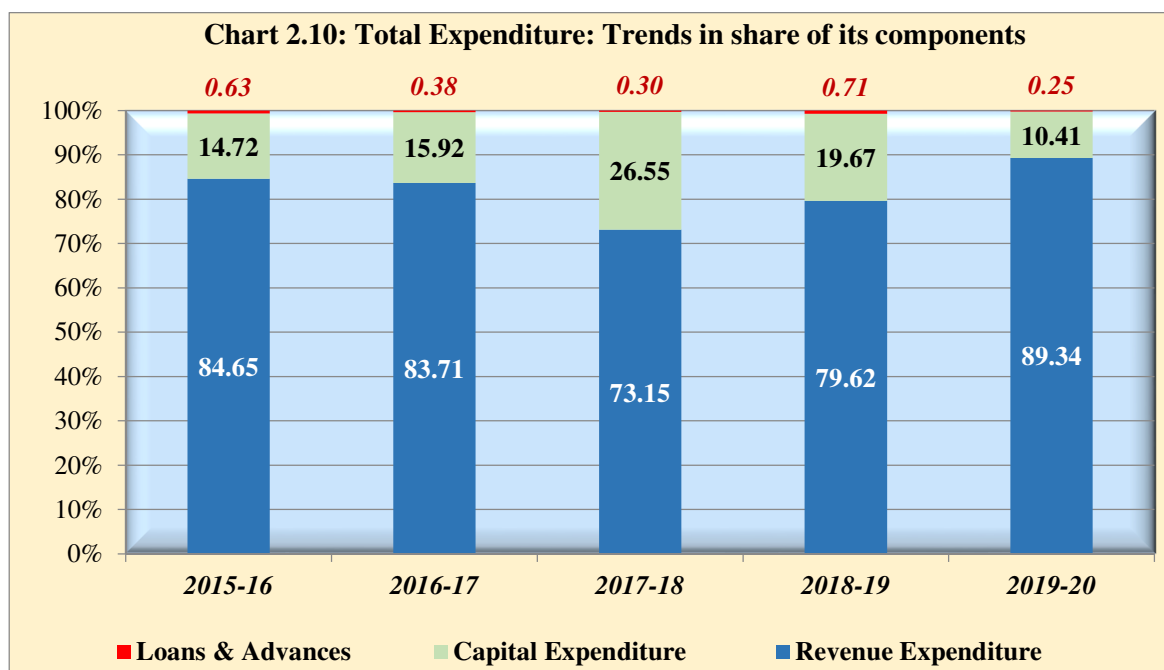
Source: Finance Account

The relative share of the above components of expenditure indicates that the share of Economic Services and Social Services decreased by 4.88 *per cent* and 0.71 *per cent* respectively during 2019-20 over the previous year, while relative share of General Services increased by 5.90 *per cent*. It can also be seen that except for 2017-18 the share of expenditure on Economic Services in Total Expenditure was on a declining trend.

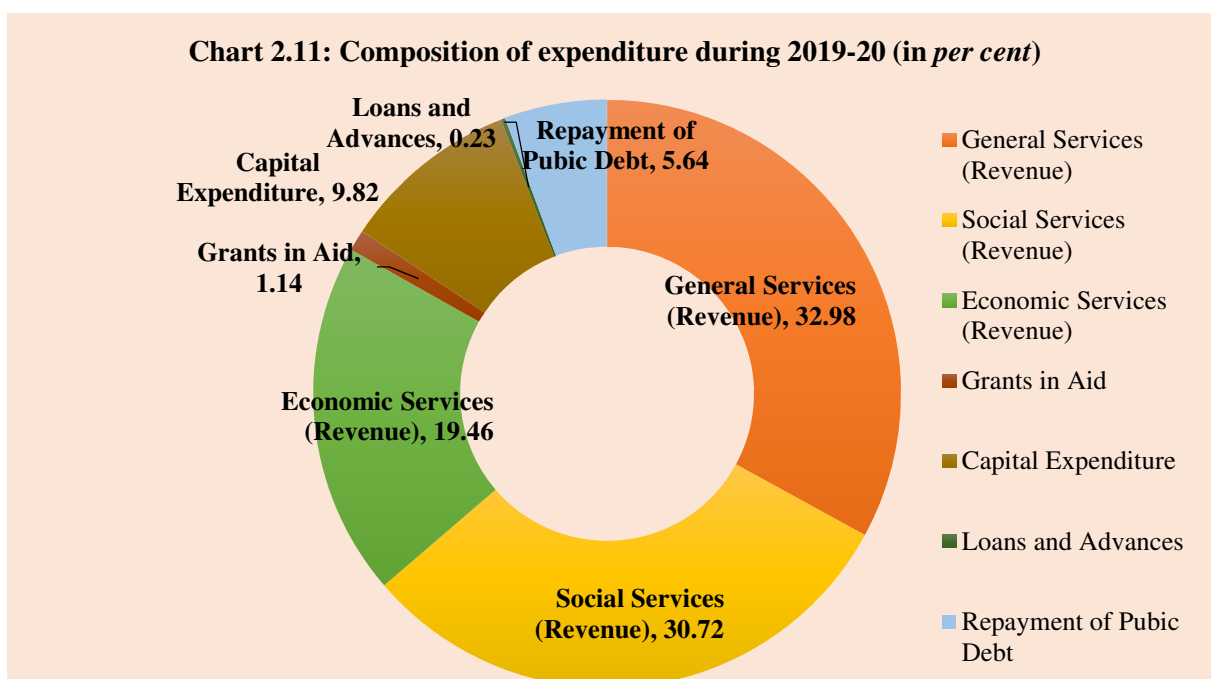


Trend of Expenditure: Revenue, Capital and Loans & Advances

During the period 2015-20, on average 82.09 *per cent* of Total Expenditure was spent as Revenue Expenditure every year, and annual average expenditure during this period on account of Capital Expenditure and Loans & Advances were 17.45 *per cent* and 0.45 *per cent* respectively. The share of Capital Expenditure was shrinking continuously since 2018-19.



The chart given below depicts the breakup of Total Expenditure incurred on various components during 2019-20.



2.4.2 Revenue Expenditure

Revenue Expenditure is incurred to maintain the current level of services and payment for the past obligations. As such, it does not result in any addition to the State's infrastructure and service network.

Revenue Expenditure on an average formed 82.02 per cent (ranging from 73.15 per cent in 2017-18 to 89.34 per cent in 2019-20) of the Total Expenditure during the period 2015-20. Rate of growth of Revenue Expenditure displayed wide fluctuations during the five-year period 2015-20 as during 2018-19 it grew by 25.89 per cent and during 2016-17 its growth

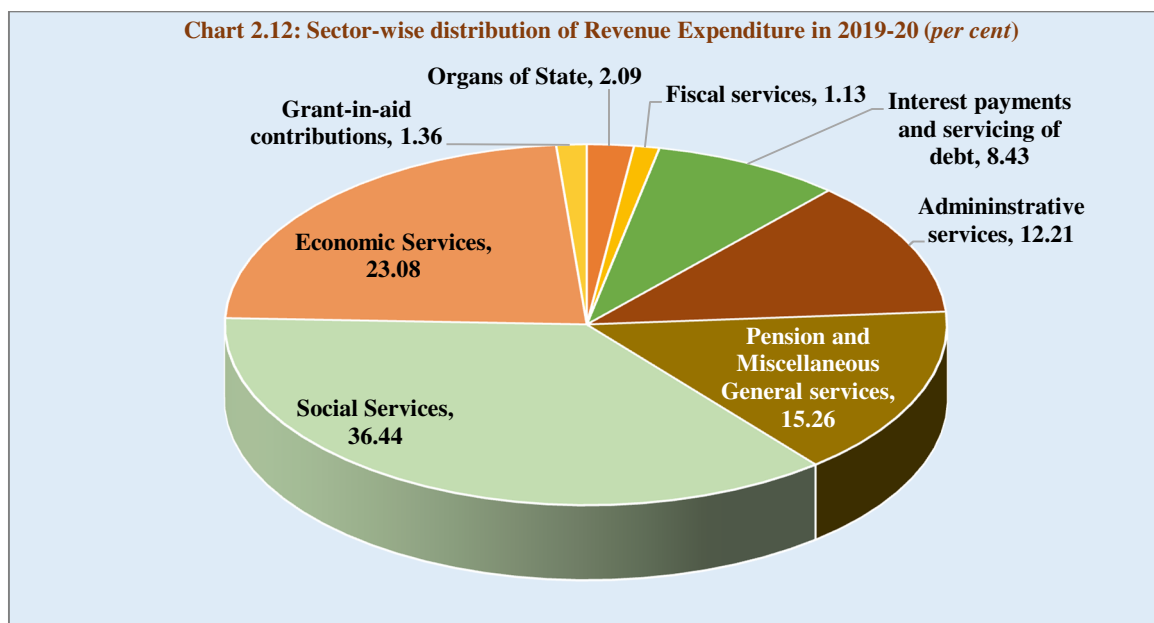
was only 3.94 per cent. The overall Revenue Expenditure, its rate of growth, its ratio to Total Expenditure and buoyancy vis-à-vis GSDP and Revenue Receipts are indicated in **Table 2.20** and the sectoral distribution of Revenue Expenditure pertaining to 2018-19 is given in **Chart 2.12**.

Table 2.20: Revenue Expenditure – Basic Parameters

(₹ in crore)

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Total Expenditure (TE)	4305.59	4525.37	5675.58	6564.45	6922.75
Revenue Expenditure (RE)	3644.58	3788.08	4151.85	5226.57	6185.08
Rate of Growth of RE (<i>per cent</i>)	8.58	3.94	9.6	25.89	18.34
Revenue Expenditure as percentage of TE	84.65	83.71	73.15	79.62	89.34
RE/GSDP (<i>per cent</i>)	20.21	18.31	15.99	18.2	19.03
RE as percentage of Revenue Receipt	96.31	82.17	79.65	88.28	127.76
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.50	0.27	0.38	2.44	1.40
Revenue Receipts (ratio)	-1.16	0.18	0.73	1.91	-1.01

Source: Finance Accounts



The Revenue Expenditure as a percentage of GSDP has been fluctuating for the entire period from 2015-16 to 2019-20. However as a percentage of GSDP, it has increased constantly from 15.99 per cent (₹ 4151.85 crore) in 2017-18 to 19.03 per cent (₹ 6185.08 crore) in 2019-20.

2.4.2.1 Major changes in Revenue Expenditure

Table 2.21, below details significant variations under various Heads of Account with regard to Revenue Expenditure of the State during the current year and the previous year.

Table 2.21: Variation in Revenue Expenditure during 2019-20 compared to 2018-19

(₹ in crore)

Major Heads of Account	2018-19	2019-20	Increase (+)/ Decrease (-)
2216-Housing	203.71	22.83	(-) 180.88
2801 - Power	203.59	282.33	78.74
2501-Special Programmes for Rural Development	36.19	62.41	26.22
2402 – Soil & Water Conservation	12.27	25.43	13.16
2505-Rural Employment	35.96	44.74	8.78
2515-Other Rural Development Programmes	66.64	74.38	7.74
2236 Nutrition	11.65	18.30	6.65
2217 – Urban Development	166.99	171.75	4.76
2029- Land Revenue	7.93	11.51	3.58
2205 – Arts and Culture	16.21	17.83	1.62

Source: Finance Accounts

Above table indicates that Revenue Expenditure under Housing declined significantly during the year over previous year. However, the Revenue Expenditure on Power increased by ₹ 78.74 crore (38.51 per cent) as compared to previous year. Similarly, other significant increase was seen in Special Programmes for Rural Development, Soil & Water Conservation, Other Rural Development Programme, Nutrition Programme, Urban Development, Land Revenue and Art& Culture during the current year over the previous year.

(i) Committed expenditure

Committed expenditure of Government on revenue account consists mainly of expenditure on salaries and wages, interest payments and pensions. The FRBM Act of the State requires the State to be Revenue Surplus, it is challenging to achieve it, given that a large proportion of Revenue Expenditure goes into committed items like salaries and wages, interest payments and pensions, as it is difficult to restrict these expenditures over short period of time.

Table 2.22 presents the trends in the components of Committed expenditure, ratio of Committed expenditure to Revenue Receipt and Revenue Expenditure during 2015-20. Further Chart 2.13 depicts percentage of Committed expenditure to Revenue Receipts and Revenue Expenditure during 2015-20.

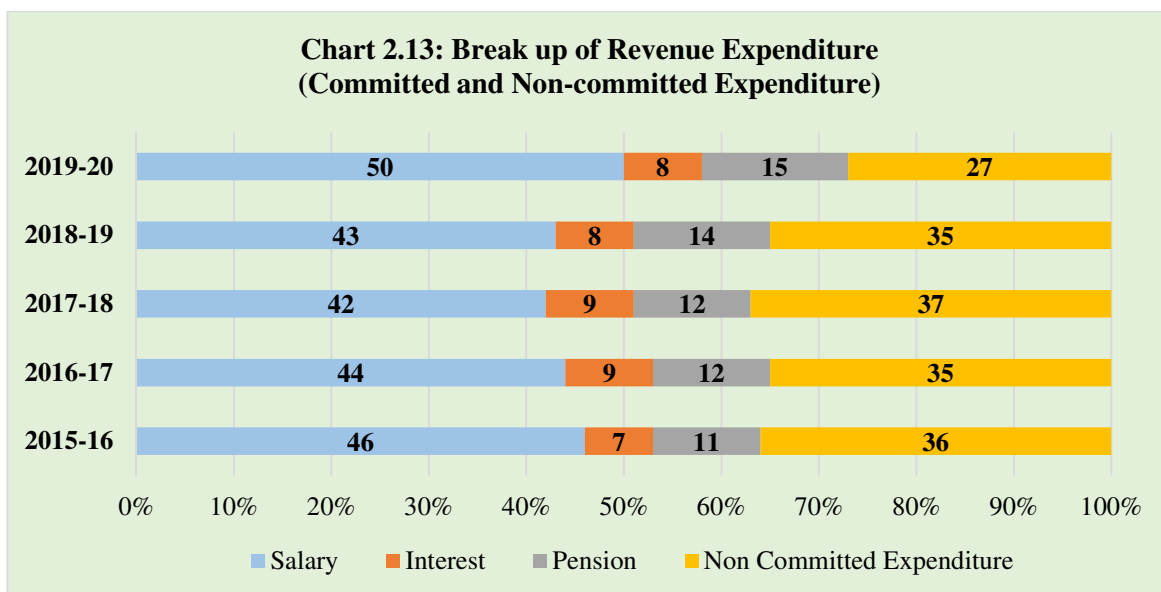
Table 2.22: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2015-16	2016-17	2017-18	2018-19	2019-20
Salaries & Wages	1357.66	1423.47	1478.98	1944.32	2932.74
Salaries paid through GIAs	304.37	256.90	278.80	322.14	184.13
Expenditure on Pensions	402.35	446.43	505.18	737.24	910.58
Interest Payments	262.07	324.39	362.17	433.05	509.68
Total	2326.45	2451.19	2625.13	3436.75	4537.13
As a percentage of Revenue Receipts (RR)					
Salaries & Wages	43.92	36.45	33.72	38.28	64.38
Expenditure on Pensions	10.63	9.68	9.69	12.45	18.81
Interest Payments	6.93	7.04	6.95	7.31	10.53
Total	61.48	53.17	50.36	58.04	93.72

Components of Committed Expenditure	2015-16	2016-17	2017-18	2018-19	2019-20
As a percentage of Revenue Expenditure (RE)					
Salaries & Wages	45.60	44.36	42.30	43.36	50.39
Expenditure on Pensions	11.04	11.79	12.17	14.11	14.72
Interest Payments	7.19	8.56	8.72	8.29	8.24
Total	63.83	64.71	63.19	65.76	73.35

Source: Finance Accounts



As can be seen from the details tabulated above, on an average the Committed expenditure constituted 66.17⁹ per cent of Revenue Expenditure and 63.35¹⁰ per cent of the Revenue Receipts of the State during the five-year period 2015-20. The Committed expenditures which were 58.04 per cent of Revenue Receipts in 2018-19, increased to 93.72 per cent in 2019-20 (an increase of 35.68 per cent). Similarly, the percentage of Committed expenditure to Revenue Expenditure increased from 65.76 per cent in 2018-19 to 73.35 per cent in 2019-20.

2.4.2.2 Undischarged liabilities in National Pension System

State Government employees recruited on and after 01 April 2006 are eligible for the National Pension System, which is a Defined Contributory Pension Scheme. In terms of the Scheme, the employee contributes 10 per cent of Basic Pay and Dearness Allowance, with a matching contribution by the State Government. The entire amount is to be transferred to the designated fund manager through the National Securities Depository Limited (NSDL)/ Trustee Bank.

As on 31 March 2020, the State had 23,062 eligible employees under NPS, out of them valid Permanent Retirement Account Number (PRAN) (Unique Number) were allotted to 22,104 employees, whereas 958 employees were awaiting allotment of PRAN. The details of employee's share, Government contribution, interest accrued thereon and transfer to the trustee Bank/NSDL during the period from 2014-15 to 2019-20 are given in **Table 2.23**.

⁹ 66.17 = 63.83+64.71+63.19+65.76+73.35=330.84/5

¹⁰ 63.35 = 61.48+53.17+50.36+58.04+93.72= 316.77/5

Table 2.23: Details of Contribution and Transfers to NSDL under NPS

(₹ in crore)

Year	Opening Balance	Details of contribution by		Total contribution	Transfer to NSDL	Short transfer/ Closing Balance	Rate of Interest	Interest due on Opening Balance**
		Employees	Government					
2014-15	30.02	20.80	20.79	41.59	44.62	26.99	8.80	2.64
2015-16	26.99	27.81	27.74	55.55	59.10	23.44	8.80	2.38
2016-17	23.44	33.10	33.07	66.17	61.10	28.51	8.00	1.88
2017-18	28.51	38.09	40.70	78.79	79.63	27.67	7.60	2.17
2018-19	27.67	46.94	49.48	96.42	94.54	29.55	7.60	2.10
2019-20	29.55	73.90	77.42	151.32	114.74	66.13	7.60	2.25
Total		240.64	249.20	489.84	453.73			13.42

Source: Notes to Accounts (Finance Accounts Vol-I). ** Interest (GPF Rate) has been calculated on the estimation that the Opening Balance was not transferred during the year

Audit analysed the overall functioning of NPS which revealed the following.

During 2019-20, the total deposit under Major Head 8342-117 Defined Contribution Pension Scheme was ₹ 151.32 crore (employees' contribution and matching Government contribution amounting ₹ 73.90 crore each in addition with ₹ 3.52 crore carried forward balance of previous year). Further, as of 31 March 2020, against the total collected funds of ₹ 582.13 crore (Employees share - ₹ 289.27 crore plus Government share - ₹ 292.86 crore including backlog amount, the Government transferred ₹ 516 crore only (Employees share - ₹ 241.22 crore plus Government share - ₹ 274.78 crore) to designated authority (NSDL); and did not transfer ₹ 66.13 crore to NSDL for further investment as per the provisions of the scheme. Thus, there was a short transfer of ₹ 66.13 crore to the NSDL.

Further, delays in investment of NPS contributions with Fund Managers creates an atmosphere of uncertainty about the return to accrue to the employees concerned for such periods on the investment of their NPS contribution, and also affects accuracy and transparency of accounts.

Besides, the State Government has created interest liability since the commencement of the scheme i.e. from 2006-07, due to short transfer of funds to NSDL, as the above Major Head is classified as 'Deposits bearing Interest' in Government Accounts.

While accepting the audit observation, the FD stated that the delay in transfer of fund to NSDL was mainly due to the non-submission of Common Subscriber Registration Form (CSRF) by the subscribers and delay in allotment of PRAN. The Department was making full efforts to sensitize subscribers by conducting regular workshops in all districts emphasizing the importance of PRAN and other nomination/registration forms. As soon as the PRAN are allotted/ generated, the un-transferred funds will be transferred to the NSDL. During the exit conference meeting with the FD regarding contribution and short transfers to NSDL under NPS, Director of Pension informed that some of the subscribers were not submitting the required documents for allotment of PRAN despite repeated request to do so. He said efforts would be continued, to spread awareness on NPS amongst the government employees.

2.4.2.3 Subsidies

There was no booking of expenditure on subsidies during the year 2019-20. The booking under expenditure on Subsidy decreased from ₹2.67 crore in 2018-19 to Nil in the current year, as can be seen from the details given in Table 2.24.

Table 2.24: Booking of Expenditure on subsidies during 2015-20

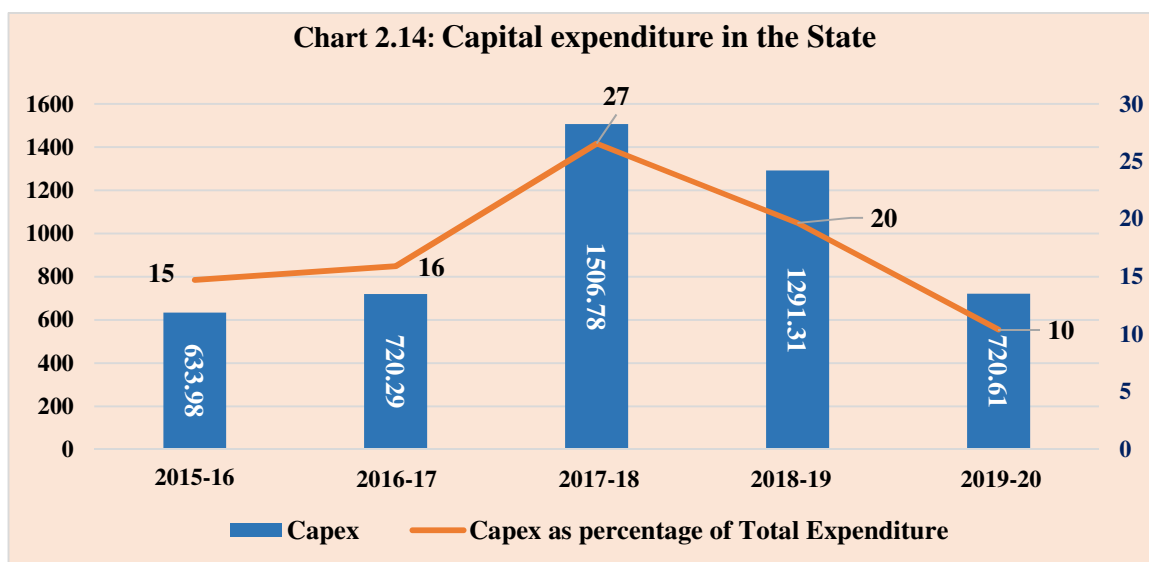
Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
Subsidies (₹ in crore)	8.03	2.24	2.21	2.67	0.00
Subsidies as a percentage of Revenue Receipts	0.12	0.05	0.04	0.05	0.00
Subsidies as a percentage of Revenue Expenditure	0.22	0.06	0.05	0.05	0.00

Source: Finance Accounts

2.4.3 Capital Expenditure

Capital Expenditure includes primarily expenditure on creation of fixed infrastructure assets, such as buildings, roads, bridges *etc.*

Capital Expenditure of the State showed sharp decrease during the last three years from ₹ 1,506.78 crore in 2017-18 to ₹ 720.61 crore in 2019-20. The decrease in 2019-20 was 44.20 per cent as compared to 2018-19.



2.4.3.1 Major changes in Capital Expenditure

Table 2.25 highlights the cases of significant increase or decrease of Capital Expenditure in various Heads of Account in during 2019-20 *vis-à-vis* the previous year.

Table 2.25: Capital expenditure during 2019-20 compared to 2018-19

Major Heads of Accounts	2018-19	2019-20	Increase (+)/ Decrease (-)
5054-Capital Outlay on Roads and Bridges	625.67	239.3	-386.37
5055-Capital Outlay on Road Transport	2.9	1.00	-1.90
4711-Capital Outlay on Flood Control Projects	51.88	0.82	-51.06
4059-Capital Outlay on Public Works	68.27	86.05	17.78
4210-Capital Outlay on Medical and Public Health	90.67	39.07	-51.60
4801-Capital Outlay on Power Projects	63.58	20.41	-43.17
4217- Capital Outlay on Urban Development	60.60	19.88	-40.72
5452- Capital Outlay on Tourism	54.59	29.81	-24.78

Source: Finance Accounts

During 2019-20, 33 per cent of total Capital Expenditure was incurred on Roads and Bridges followed by Public Works (12 per cent) though the Capital Expenditure on Roads & Bridges decreased substantially by 62 per cent in 2019-20 as compared to previous year, due to decrease in implementation of Road Works (District & other roads and roads of interstate/economic importance). Similarly, under Power Sector there was 65 per cent decrease due to decrease in expenditure on transmission & distribution under NLCPR, NEC and State Plan Schemes. Urban Development also showed decrease of 67 per cent in Capital Expenditure during current year as compared to previous year, due to decrease in expenditure on Integrated Development of Small & Medium Towns (IDSMT) Scheme. The reason for decrease in capital outlay for Medical & Public Health, which also decreased by 57 per cent as compared to previous year was due to less expenditure under Urban Health Services and Medical Training & Research. However, the Capital expenditure on Public Works increased by 89 per cent against the previous year's spending due to more expenditure under construction works.

2.4.3.2 Quality of capital expenditure in PSUs and Corporations

Capital Expenditure in the Companies and Corporations, which are loss making and whose net worth is completely eroded, is not sustainable. Return on investment in share capital invested in Public Sector Undertakings (PSUs) is important determinant of quality of capital expenditure.

An assessment of trends in capital blocked in incomplete capital works would also indicate quality of capital expenditure. Blocking of funds on incomplete projects/ works impinges negatively on the quality of expenditure and deprives the State of the intended benefits for prolonged periods. Further, the funds borrowed for implementation of these projects during the respective years leads to the extra burden in terms of servicing of debt and interest liabilities.

(i) Investment and Returns

As of March 2020, Government had invested ₹ 104.18 crore in Statutory Corporations, Banks, Joint Stock Companies and Co-operatives as detailed in succeeding paragraphs. The return during 2019-20 was 2.94 per cent as detailed in **Table 2.26** below.

Table 2.26: Return on Investment

Investment/return/ cost of borrowings	2015-16	2016-17	2017-18	2018-19	2019-20
Investment at the end of the year (₹ in crore)	97.42	97.42	102.43	105.46	104.18
Return (₹ in crore)	12.70 ¹¹	2.01	2.92	4.38	3.06
Return (per cent)	13.04	2.06	2.85	4.15	2.94
Average rate of interest on Government Borrowings (per cent) ¹²	7.04	7.52	7.16	7.35	7.42
Difference between interest rate and return (per cent)	(-)6.00	5.46	4.31	3.20	4.48

¹¹ Higher returns during 2015-16 was due to receipt of dividend from Companies, Bank and Co-operatives (State Bank of Sikkim- ₹5.34 crore, Sikkim Distilleries Ltd- ₹7.24 crore, Denzong Cinema- ₹0.01 crore, Multipurpose Co-operative Society- ₹0.11 crore)

¹² Example for 2019-20 Average interest rate calculation=
 Total O/s debt ₹6335.06cr (2018-19)
 Plus Total O/s debt ₹7400.66 cr (2019-20)
 Average O/s Debt = ₹13735.72 cr/2= ₹6867.86 cr
 Interest paid during 2019-20= ₹509.68 cr
 Average interest rate in per cent = ₹509.68/₹6867.86= 7.42 per cent

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Investment/return/ cost of borrowings	2015-16	2016-17	2017-18	2018-19	2019-20
Difference between interest on Government borrowings and return on investment (₹ in crore) ^{#13}	(-) 5.85	5.32	4.41	3.37	4.67

Source: Finance Accounts # Investment at the end of the year *Difference between interest rate and return

The Returns on investment during the current year were due to dividend receipts from State Bank of Sikkim: ₹1.33 crore, Sikkim Distilleries Limited: ₹1.45 crore, Multipurpose Co-operative Society ₹ 0.01 crore and SISCO Bank ₹ 0.27 crore.

The details of investment of ₹ 104.18crore up to the end of 2019-20 by the State Government in Statutory Corporations (three), Joint Stock Companies (25) and Banks and Co-operative Societies (nine) are detailed in **Appendix 2.3**.

The State Government may seriously review the functioning of its Corporations, Companies and Societies, in view of the meagre returns on their investments. They may also ensure finalisation of financial statements of these PSUs in time and to consider closure of non-functional units.

(ii) State Public Sector Undertakings being audited by CAG of India

As on 31 March 2020, there were 17 SPSUs (including 13 Companies and four Statutory Corporations) which were being audited by the Comptroller and Auditor General of India (CAG), besides there were four non-working SPSUs¹⁴ for which audit entrustment had not been extended by the State Government.

As per latest finalised accounts of the SPSUs, State Government had invested ₹ 48.77¹⁵ crore (₹ 46.74 crore as equity and ₹ 2.03 crore as loan) in 17 working SPSUs. Seven¹⁶ companies/ corporations were earning profits as per their latest finalised annual accounts, while the remaining had incurred losses.

Government had invested ₹ 15.36 crore in the following Companies which had been incurring recurring losses (**Table 2.27**).

Table 2.27: Investment in Government Companies under Perennial Loss

(₹ in crore)

Sl. No.	Name of the Government Company	Investment up to 2019-20		Cumulative loss	Year of accounts approved by Board
		Equity loans	& Subsidy/ Grants		
1	Sikkim Power Investment Corporation Limited (SPICL)	0.01	Nil	1000.30	2019-20
2	Sikkim Power Development Corporation	15.35	Nil	115.47	2018-19
	Total	15.36	Nil	1115.77	

Source: Financial Statements of the Companies *Accumulated loss as per the latest Annual Accounts approved by the Board.

¹³ Calculation on difference between interest on government borrowings for 2019-20 Percentage of 4.48 on investment at the end of year – ₹ 104.19 crore
₹ 104.10 crx 4.48 / 100 = 4.67 %

¹⁴ SITCO, SPIL, SJL and SMC

¹⁵ It does not include the equity capital invested by SPICL on behalf of GoSamounting ₹ 1879.88 crore in Teesta Urja Limited.

¹⁶ SIDICO, TPTL, STDC, SBS, STCS, GFPP & Temi

The aggregate net worth of these 17 SPSUs was ₹ 1,675.32 crore, as per their latest finalised accounts. The net worth in respect of two Companies¹⁷ was negative (₹ (-) 1003.01 crore) as the accumulated losses had completely eroded the equity capital as well as the reserves.

(iii) State PSUs-finalisation of Accounts and enhancing financial viability

The XIII FC recommended that all States should endeavour to ensure clearance of the accounts of all Public Sector Undertakings (PSUs).

Under Section 96 of the Companies Act, 2013, the Government Companies are required to adopt their annual accounts within six months of the close of the financial year, *i.e.*, by 30 September every year.

The Companies Act, 1956/ Companies Act 2013 has not been extended to the State of Sikkim. The Government Companies in Sikkim are registered under the Registration of Companies Act, Sikkim, 1961 while the Statutory Corporations are governed by the Proclamations of the erstwhile Chogyal (King) of Sikkim. The Act of 1961 and Proclamations do not contain provision on time schedule for adoption of accounts by the PSUs. Out of 17 working state PSUs, only four¹⁸ State PSUs have been incorporated under the Companies Act 2013, having their registered offices outside the State. As on 30 September 2020, three¹⁹ accounts of three state PSU registered under the Companies Act 2013 were pending for finalization whereas one²⁰ PSU submitted its account on time. In respect of the other state PSUs, 29 accounts of 13 state PSUs were not finalised due to delay in their preparation/approval by the Board of Directors of the respective state PSUs. The State PSUs whose accounts were pending for finalisation are listed in **Appendix 2.4**.

(iv) Investment in Incomplete Projects

An assessment of trends in capital blocked in incomplete capital works indicates quality of capital expenditure. Blocking of funds on incomplete projects/ works impinges negatively on the quality of expenditure and deprives the State of the intended benefits for prolonged periods. Further, the funds borrowed for implementation of these projects during the respective years leads to the extra burden in terms of servicing of debt and interest liabilities.

Projects remaining incomplete indicate that the benefits as envisaged in project proposals have not fructified and scarce resources remain locked without any return.

According to the information available in Appendix IX and Statement 16 of the Finance Accounts for the year 2019-20, as on 31 March 2020 (details given in **Appendix 2.5**), wherein out of 19 Works executing Departments, only ten furnished the details of works executed and remaining nine²¹ departments did not furnish any details to Audit.

¹⁷ *Sikkim Hatcheries Limited and Sikkim Power Investment Corporation Limited*

¹⁸ *TeestaUrja Limited, Teestavalley power Transmission Limited, Gangtok Smart City Development Limited (GSCDT) and Namchi Smart City limited (NSCL).*

¹⁹ *TUL, NSCL & GSDCL*

²⁰ *Teesta Valley Power Transmission Limited*

²¹ *Culture, Forest, Health, Horticulture, Public Health Engineering, Roads & Bridges, Rural Development, Social Welfare and Tourism.*

Ten departments had 233 ongoing projects *i.e.* projects due to be completed on or before March 2020. The remaining Departments, did not furnish the details of incomplete projects, and thus actual number of incomplete projects could not be ascertained. The Department-wise and age-wise information pertaining to incomplete projects of these ten Departments as on 31 March 2020 is given in **Tables 2.28** and **2.29**.

Table 2.28 <i>Age profile of incomplete projects as on 31 March 2020 (₹ in crore)</i>				Table 2.29 <i>Department-wise profile of incomplete projects as on 31 March 2020 (₹ in crore)</i>			
Year	No. of incomplete projects	Estimated cost	Expenditure	Department	No. of incomplete projects	Estimated cost	Expenditure
Prior to 2011-12	2	18.39	15.67	Education	115	194.37	114.47
2011-12	3	15.67	6.67	Urban Dev	55	344.98	166.87
2012-13	9	37.68	11.73	Animal Husbandry	15	5.39	2.27
2013-14	8	51.38	40.04	Building & Housing	14	272.45	48.83
2014-15	3	3.99	3.47	Food	14	28.17	1.11
2015-16	22	140.08	63.46	Irrigation	6	172.59	107.44
2016-17	26	44.09	29.37	Police	2	23.00	15.15
2017-18	32	104.60	63.07	Sports	6	89.94	53.84
2018-19	33	113.82	76.29	Agriculture	4	1.41	0.73
2019-20	95	654.37	239.08	Power	2	51.77	38.15
Total	233	1184.07	548.86	Total	233	1184.07	548.86

Source: Finance Accounts

Out of these 233 projects, 25 projects (with sanctioned cost of ₹ 127.11 crore) for which the State had spent ₹ 77.58 crore were pending for more than five years while remaining 208 projects (with sanctioned cost of ₹ 1,056.96 crore) were pending for less than five years with an expenditure of ₹ 471.27 crore.

Further, department-wise analysis revealed that out of these 233 incomplete projects, which were scheduled to be completed by 31 March 2020, the Education Department had the highest number of incomplete projects(115) followed by Urban Development (55); Animal Husbandry (15); Building & Housing (14) and Food & Civil Supplies (14).

Blocking of funds on incomplete projects/ works impinges negatively on the quality of expenditure and deprives the State of the intended benefits for prolonged periods. Further, the funds borrowed for implementation of these projects during the respective years were also not utilized effectively and the State had to share the extra burden in terms of servicing of debt and interest liabilities. Effective steps need to be taken and closely monitored at the highest levels in Government, to complete all these above projects without further delay to avoid cost and time run inefficiencies.

During the Exit conference meeting held with the FD the matter was discussed and PAG affirmed that his office has asked all the departments of State Government which execute capital projects to furnish the details of incomplete projects; whereas, only 10 Departments out of 19 had furnished the same. The Secretary cum Controller of Accounts agreed to pursue the matter. Their comments on the delays were unavailable.

2.4.4 Expenditure priorities

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 under a category to aggregate expenditure) is attached to a particular sector, if the

allocation is below the respective national average. The higher the ratio of these components to total expenditure, the quality of expenditure is considered to be better.

Table 2.30 presents analysis of the fiscal priority of the State Government with regard to, Capital Expenditure, Expenditure on Education Sector and Health Sector with their comparison to North Eastern (NE) and Himalayan States in 2014-15 and the current year 2019-20 against Aggregate Expenditure.

Table 2.30: Expenditure priority of the State with regards to Health, Education and Capital expenditure

(In per cent)

Particulars	AE/GSDP	CE/AE	Education/AE	Health/ AE
NE and Himalayan States Average (2014-15)	26.00	14.46	18.28	5.46
Sikkim	28.32	22.47	17.69	5.95
NE and Himalayan States Average (2019-20)	23.02	14.08	17.42	6.19
Sikkim	21.30	10.41	19.77	6.14

AE: Aggregate Expenditure, CE: Capital Expenditure

GSDP: Figures furnished by Department of Economics, Statistics, Monitoring and Evaluation (DESME), Government of Sikkim

The ratio of Capital Expenditure against Aggregate Expenditure in Sikkim were higher than the expenditures of NE and Himalayan States in 2014-15 but was lower in 2019-20. Similarly, the Aggregate Expenditure against the GSDP in Sikkim was higher than the expenditures of NE and Himalayan States in 2014-15 but was lower in 2019-20.

The ratio of expenditure on Education to Aggregate Expenditure of the State was less as compared to NE and Himalayan States during 2014-15 but it was higher during 2019-20. On the other hand, the ratio of expenditure on Health to Aggregate Expenditure of the State were higher than the expenditures of NE and Himalayan States in 2014-15 but was slightly lower in 2019-20.

2.5 Public Account

Receipts and disbursements in respect of certain transactions such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances *etc.*, which do not form part of the Consolidated Fund, are accounted in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature. The Government acts as a banker in respect of these transactions. The balance after disbursements during the year is the fund available with the Government for use for various purposes.

2.5.1 Net Public Account Balances

The net balance in Public Account for a year is arrived by adding opening balance with fresh addition during the year and subtracting the disbursement therefrom. The sector-wise and sub-sector-wise net balances in Public Account of the State is given in this sub-para.

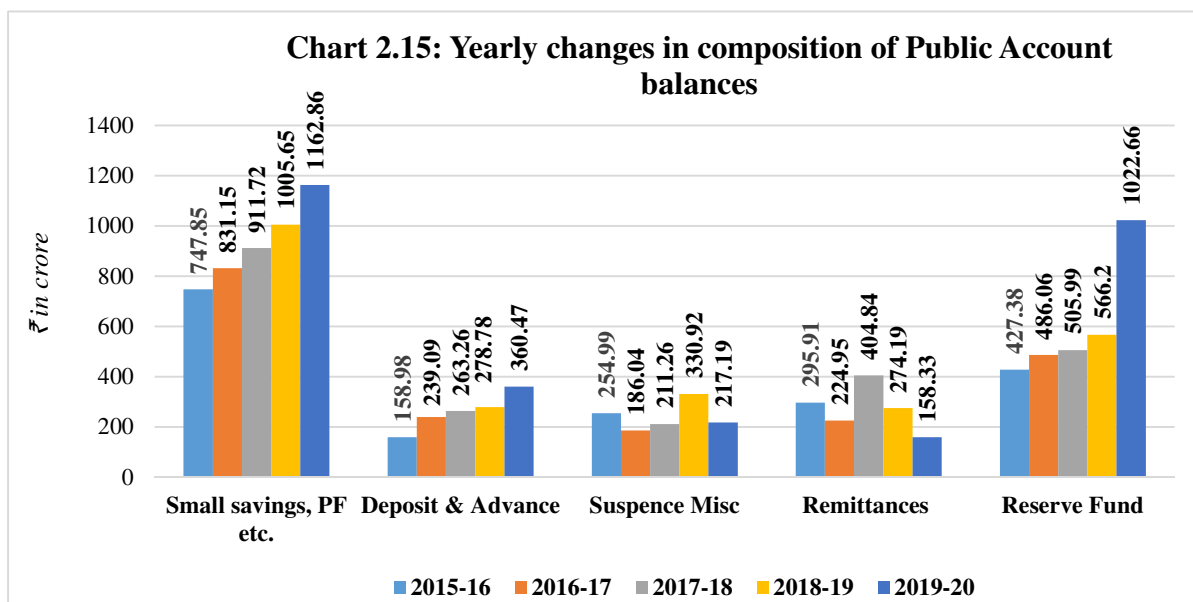
Table 2.31: Component-wise net balances in Public Account as of 31 March of the year

(₹ in crore)

Sector	Sub Sector	2015-16	2016-17	2017-18	2018-19	2019-20
I. Small Savings, Provident Funds, etc.	Small Savings, Provident Funds, etc.	747.85	831.15	911.72	1005.65	1162.86
J. Reserve Funds	(a) Reserve Funds bearing Interest	3.26	3.95	13.82	23.08	391.31
	(b) Reserve Funds not bearing Interest	424.12	482.11	492.17	543.12	631.35
	Sub total	427.38	486.06	505.99	566.2	1022.66
K. Deposits and Advances	(a) Deposits bearing Interest	23.44	28.51	27.67	29.54	66.12
	(b) Deposits not bearing Interest	136.57	211.61	236.62	250.27	295.38
	(c) Advances	-1.03	-1.03	-1.03	-1.03	-1.03
	Sub total	158.98	239.09	263.26	278.78	360.47
L. Suspense and Miscellaneous	(a) Suspense	0.3	2.69	1.97	6.58	4.56
	(b) Other Accounts	254.69	183.35	209.29	324.34	212.63
	(c) Accounts with Governments of Foreign Countries	0	0	0	0	0
	(d) Miscellaneous	0	0	0	0	0
	Sub total	254.99	186.04	211.26	330.92	217.19
M. Remittances	(a) Money Orders, and other Remittances	295.91	224.95	404.84	274.19	158.33
	(a) Inter- Governmental Adjustment Account	0	0	0	0	0
	Sub total	295.91	224.95	404.84	274.19	158.33
TOTAL		1885.11	1967.29	2297.07	2455.74	2921.51

Source : Finance Accounts, Note: +ve denotes debit balance and -ve denotes credit balances

The yearly changes in composition of balances in Public Account over the five-year period 2015-20 are given in **Chart 2.15**.



Source: Finance Accounts of respective years

2.5.2 Reserve Funds

Reserve Funds are created for specific and well defined purposes in the accounts of Government. These funds are fed by contributions or grants from the Consolidated Fund or from outside agencies.

Analysis of transactions of Reserve Funds is presented in the subsequent paragraphs.

2.5.2.1 Consolidated Sinking Fund

The State Government constituted a Consolidated Sinking Fund (CSF) for redemption of the open market loans of the Government commencing from 2004-05. As per guidelines of the Fund, the Government is required to contribute to the fund at the rate of one to three *per cent* of the outstanding open market loans as at the end of the previous year. The scope of this fund has been extended to cover all outstanding liabilities of the Government through a notification by the State issued on 18 August 2007 on the basis of recommendations of the XII FC. For the year 2015-20, the flow of Consolidated Sinking Fund is detailed below.

Table 2.32: Flow of Consolidated Sinking Fund during 2015-20

Year	Opening balance	Additions to the Fund (contribution and interest)			Payments out of the Fund	Closing balance
		Required contribution (one <i>per cent</i> of outstanding open market loans as on 31 March 2019) as per guidelines of the State Government	Actual contribution made	Interest accrued		
2015-16	269.87	18.39	12.00	3.32	Nil	309.92
2016-17	309.92	23.00	12.00	28.64	Nil	350.56
2017-18	350.56	28.74	12.00	24.23	Nil	386.79
2018-19	386.79	36.21	12.00	29.96	Nil	428.75
2019-20	428.75	44.16	12.00	36.17	Nil	476.92
Total				122.32		

(₹ in crore)

Source: Finance Accounts - Vol I (Notes to Account)

The State Government had invested entire available fund in the nationalised banks as per the guidelines. The investment under CSF increased from ₹ 309.92 crore in 2015-16 to ₹ 476.92 crore in 2019-20. The State Government was required to make annual contribution of ₹ 44.16 crore (at one *per cent* of outstanding open market loans of ₹ 4416.22 crore) to the fund for the year 2019-20 in terms of its own guidelines. However, the Government transferred only ₹ 12.00 crore to the fund leading to short contribution of ₹ 32.16 crore. This would have an effect of understatement of Revenue Deficit and Fiscal Deficit during the year. As on 31 March 2020, the fund had a balance of ₹ 476.92 crore (including ₹ 36.17 crore as accrued interest), which had been invested in fixed deposits in banks.

The FD noted the observation and stated that efforts would be made to ensure minimum contribution every year.

2.5.2.2 State Disaster Response Fund

Government of India (GoI) replaced the erstwhile Calamity Relief Fund with the State Disaster Response Fund (SDRF) with effect from 1 April 2010 as per the recommendations of the Thirteenth Finance Commission. In terms of the guidelines of the Fund, the Centre and States are required to contribute to the Fund in the certain proportion. The contributions are to be transferred to Major Head – 8121 under Public Account. Expenditure is incurred by operating Major Head – 2245. The balance in the Fund would be invested as per provisions stipulated in the guidelines in Central Government dated securities, auctioned treasury bills and interest bearing deposits and certificates of deposit with scheduled commercial banks.

In terms of the guidelines of the Fund, the Centre and Sikkim Government (NE and Himalayan States) are required to contribute to the Fund in the proportion of 90:10. Further, if the State does not have adequate balance under SDRF, the Union Government provides additional assistance from the National Disaster Response Fund (NDRF). The flow of the Fund, during the last five-year period is given below.

Table 2.33: Flow of State Disaster Response Fund

(₹ in crore)

Year	Opening balance (01 April)	Contribution by Centre	State's Share	Additional assistance from NDRF	Accrued interest (on investment of Fund)	Total availability during the year	Amount spent (MH 2245-05)	Closing balance	Investment During the year
1	2	3	4	5	6	7=(1 to 6)	8	9=7-8	10
2015-16	18.06	27.99	3.01	-	6.15	55.21	37.95	17.26	14.00
2016-17	17.26	29.70	3.30	-	2.20	52.46	27.51	24.95	21.00
2017-18	24.95	30.60	3.40	-	1.27	60.22	46.90	13.32	12.00
2018-19	13.32	32.40	3.60	54.93	2.23	106.48	83.89	22.59	22.50
2019-20	22.59	34.20	3.80	-	2.19	62.78	34.81	27.96	17.50

Source: Finance Accounts

During the year 2019-20, the State Government transferred aggregate funds of ₹ 40.19 crore to the SDRF (Central share: ₹ 34.20 crore, State share of ₹ 3.80 crore, and interest of ₹ 2.19 crore on investment) and incurred an expenditure of ₹ 34.81 crore on natural calamities under Head 2245-05. As on 31 March 2020, the Fund had a closing balance of ₹ 27.96 crore.

Table 2.34: Details of expenditure charged to SDRF

(₹ in crore)

Major Head of Account	Minor Head of Account	Expenditure during 2019-20
2245- Relief on Account of Natural Calamities 02- Floods, Cyclones etc.	101-Gratuitous Relief	6.84
	106-Repairs and Restoration of Damaged Roads and Bridges	1.39
	122-Repairs and Restoration of Damaged Irrigation and Flood Control Works	--
	193-Assistance to Local Bodies and Other Non-Government Bodies/ Institutions	--
	911- Deduct-Recoveries of Overpayments	0
	Sub Total	8.24
2245- Relief on Account of Natural Calamities 80- General	800-Other Expenditure ²²	26.57
	911- Deduct-Recoveries of Overpayments	0
	Sub-Total	26.57
	Grand Total	34.81
05-State Disaster Response Fund	901- Deduct - Amount met from State Disaster Response Fund	(-) 34.81

Source: Finance Accounts

²² The minor head 800- other expenditure includes expenditure on ACA to calamity relief works executed under the detail head -73 for ₹ 1.02 crore (seven works) and on other works relief on account of natural calamities for ₹ 25.55 crore (54 works) executed under detail head 73.

2.5.2.3 Guarantee Redemption Fund

The State Government constituted Guarantee Redemption Fund in the year 2005 for meeting payment obligations arising out of the guarantees issued by the Government in respect of bonds issued and borrowings by the State Undertakings or other bodies, in case the same are revoked. The Government is required to contribute an amount equal to at least one-fifth of the outstanding invoked guarantees plus an amount likely to be invoked as a result of the incremental guarantees issued during the year. However, it is open to the Government to increase contribution to the fund at its discretion. The detailed account of the Fund as on 31 March 2020 is given following table.

Table 2.35: Guarantee Redemption Fund*(₹ in crore)*

Particulars	Amount
Opening Balance	52.35
Addition	2.00
Interest	4.02
Total	58.37
Amount expended from the Fund	Nil
Closing Balance	58.37
Amount invested	54.91
Amount not invested	3.46

Source: Finance Accounts

During 2019-20, the State Government transferred ₹ two crore to the Guarantee Redemption Fund along with accrued interest of ₹ 4.02 crore. No guarantees were invoked during the year. The fund had a corpus of ₹ 58.37 crore at the end of the year out of which ₹ 54.91 crore stood invested. Thus, there was an un-invested amount of ₹ 3.46 crore.

2.5.2.4 Educational Cess Fund

As per the Sikkim Educational Cess on Alcoholic Beverages Act, 2007 (Act No.9 of 2007) for the purpose of promoting education in the State of Sikkim, Government is levying and collecting Educational Cess on alcoholic beverages manufactured in Sikkim as well as imported from other states for consumption in Sikkim. However, the State Government has not formed any rule for creation of Educational Cess Fund. Therefore, the utilisation of Cess was not readily ascertainable. The details of Educational Cess collected for the period 2015-20 is given in the table below

Table 2.36: Position of Educational Cess Fund during 2015-20*(₹ in crore)*

Year	Total educational cess collected	Deposited into the Revenue Head 0045-112-03	Transferred to educational cess fund	Remarks
2015-16	5.62	5.62	Nil	Fund yet to be created
2016-17	4.78	4.78	Nil	
2017-18	4.45	4.45	Nil	
2018-19	7.37	7.37	Nil	
2019-20	7.21	7.21	Nil	

Source: Departmental and A&E Figure

During the Exit Conference, the Finance Department accepted the observation and Educational Cess fund not being created. The Secretary cum Controller of Accounts acceded to PAG's suggestion for early settlement of the matter.

2.5.2.5 Cess under Sikkim Transport Infrastructure Development Fund (STIDF)

The "Sikkim Transport Infrastructure Development Fund" was established to develop, maintain or improve transport infrastructure in Sikkim and for such purpose, it was decided to levy and collect cess on sale of motor spirit commonly known as petrol and high speed diesel and to provide for matters connected therewith or incidental thereto. The Act came into force since August 2004. During the year 2019-20, the total collections and transfers of the Fund is given in the table below:

Table 2.37: Details of Cess under STIDF

(₹ in crore)

Collections under 'MH 0045-112-01'	Amount transferred to 'Sikkim Transport Infrastructure Development Fund'	Amount yet to be transferred to 'Sikkim Transport Infrastructure Development Fund'
28.04	28.04	Nil

Source: Finance Accounts (NTA)

During the year, the State Government incurred an expenditure of ₹ 4.00 crore on road works by booking under M.H. 5054-05-337-61 and debiting the Fund.

2.5.2.6 Cess under Sikkim Ecology and Environment Fund

To protect and improve environment in Sikkim, Government of Sikkim established a fund known as "Sikkim Ecology and Environment Fund" in 2007 and the cess is levied on every dealer, manufacturer, Government department, PSU, Autonomous Body or other organisation who bring non-bio-degradable materials (as specified) from outside the State for selling, business, manufacturing, producing any products or use for whatsoever purpose in the State.

As per Section 14 of the Sikkim Ecology Fund and Environmental Cess, Act 2005, the cess levied shall first be credited to the Consolidated Fund of Sikkim and the State Legislature may by appropriation made by law in this behalf credit the proceeds of this collection to this fund from time to time, for being utilized exclusively for the purpose of this Act. It was seen that the State Government did not transfer the above-mentioned cess to the fund, it had also not utilised the fund under M.H. 3435-03-101-61. This Cess is being levied since April 2007. During the year 2019-20 total cess collection was ₹ 1.18 crore (M.H. 0045-112-02).

The details of Sikkim Ecology Fund and Environmental Cess collected and expenditure made thereof for the last five years is given in the table below:

Table 2.38: Details of Sikkim Ecology Fund and Environmental Cess

(₹ in crore)

Year	Receipts of CESS	Expenditure	Percentage of Expenditure
2015-16	37.27	18.59	49.88
2016-17	49.09	31.15	63.45
2017-18	31.10	58.88	189.32
2018-19	6.77	1.10	16.25
2019-20	1.18	Nil	00

Source: VLC data and Finance Accounts Volume I –NTA

From the table above it can be seen that the State has not spent the Cess collected under the Ecology & Environment Fund during 2019-20 and during 2018-19, the expenditure was only 16 *per cent* of the total cess collected during the year.

The State Government, may increase its spending out of the Cess collected.

2.5.2.7 Sikkim Compensatory Afforestation Fund

In compliance with the instructions issued by the Ministry of Environment and Forests, Government of India, vide their letter No.5-1/2009-FC dated 28 April, 2009 and guidelines of 2 July 2009, the State Governments are required to establish the State Compensatory Afforestation Fund Management and Planning Authority (State CAMPA) which will administer the amount received and utilisation of the monies collected for undertaking compensatory afforestation, assisted natural regeneration, conservation and protection of forests, infrastructure development, wildlife conservation and protection and other related activities and matters connected therewith or incidental thereto. Accordingly, the State Government constituted State CAPMA *vide* notification no. 107/Home/2009 dated 12 August 2009.

During the year 2019-20, the State Government received ₹ 3.70 crore through the user agencies on account of Net Present Value of Forest Land, Compensatory Afforestation, Dwarf species for credit to the CAMPA Fund, out of which ₹ 0.37 crore (10 *per cent*) crore has been transferred to the National Fund. The State Government credited total interest of ₹ 59.07 crore (₹ 0.00 crore under Major Head 8336 and ₹ 59.07 crore under Major Head 8121) during the year.

In terms of the provisions contained in the Compensatory Afforestation Fund Act (Section 4, Central Act 38 of 2016), the State Government established “State Compensatory Afforestation Fund” under Public Accounts of the State Government *vide* notification no. 03/Home/2019 dated 16 January 2019 and subsequent notification no. Bud/Fin/13 dated 26 March 2019 and managed by State CAMPA. The status of receipts and disbursements under the Fund as on 31 March 2020 was as follows:

Table 2.39: Status of the State Compensatory Afforestation Fund

(₹ in crore)

Opening Balance as on 01 April 2019	Receipt during the year	Disbursement during the year	Closing balance as on 31 March 2020
Nil	407.38	44.95	362.43

Source: Finance Accounts (Statement 21) and Notes to Account (Finance Accounts Vol-I)

The State received ₹ 407.38 crore during the year 2019-20 towards State Compensatory Fund out of which only ₹ 44.95 crore was spent and there was an unspent balance of ₹ 362.43 crore.

The State Government may review the status of the Fund for appropriate action.

2.5.3 Position of loans and advances and interest received/ paid by the State Government

In addition to investments in Corporations, Companies and Co-operative societies, State Government also provided loans and advances to many institutions/ organisations. **Table 2.40** presents the outstanding loans and advances as on 31 March 2020 along with interest receipts *vis-à-vis* interest rates of long term loans borrowed by government during the five-year period from 2015-20.

Table 2.40: Details of Loans advanced by State Government and interest received

(₹ in crore)

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
Opening balance	135.17	160.83	176.46	192.49	237.30
Amount advanced during the year	27.03	17.00	16.95	46.57	17.06
Amount repaid during the year	1.37	1.37	0.92	1.77	0.30
Closing balance	160.83	176.46	192.49	237.29	254.06
Net addition	(+)25.66	(+)15.63	(+) 16.03	(+) 44.80	(+) 16.76
Interest receipts	*00	*00	*0.00	0.00	0.00
Interest receipts as <i>per cent</i> to outstanding loans and advances	*00	*00	*0.00	0.00	0.00
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government	8.02	6.94	6.64	6.84	6.89
Net outgo on Interest Payments as proportion of outstanding fiscal liabilities (<i>per cent</i>).	8.02	6.94	6.64	6.84	6.89

*Source: Finance Accounts. *No interest on loans & advances was received.*

Out of ₹ 17.06 crore shown as advanced during the year 2019-20, ₹ 16.34 crore was paid to **three PSUs** (SIDICO, STCS and SBS) towards repayment of principal and interest against the loans taken by the Government through these PSUs from Financial Institutions (NABARD, HUDCO and Central Bank of India) though no grants/ loans had been given to PSUs by the Government of Sikkim during the year 2019-20. However, the State Government booked an expenditure of ₹ 16.34 crore²³ which was actually paid to three State's PSUs (SIDICO, STCS & State Bank of Sikkim) towards re-payment of principal and payment of interest against the loan taken by these PSUs from banks and financial institutions. The remaining ₹ 0.72 crore was paid towards House Building Advance to Government Servants. No interest on loans and advances was received by the Government during the financial year 2019-20.

During exit conference, the issue regarding interest rate on Advances & Loans was discussed and the Additional Director, FD intimated that the respective departments shall be requested to furnish the details of interests on loans given and the same will be forwarded to PAG office.

2.6 Components of Fiscal Deficit and its financing pattern

The financing pattern of Fiscal Deficit has undergone a compositional shift as reflected in **Table 2.41**. 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.

²³ Major Head 7475-Loans for other General Economic Services

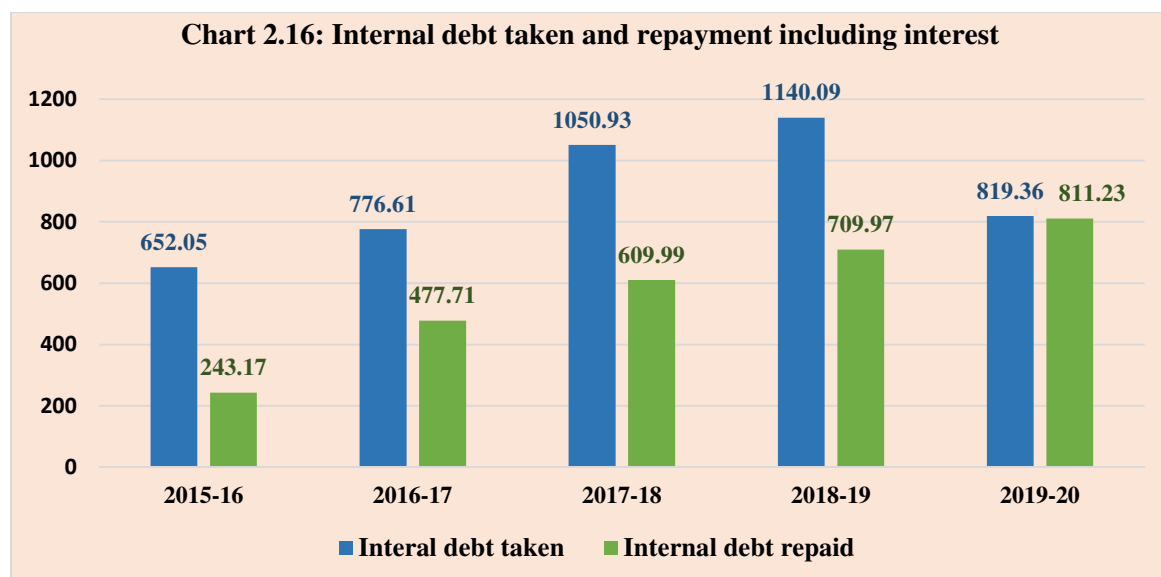
Table 2.41: Fiscal Surplus/Deficit and its financing pattern

(₹ in crore)

Particulars		2015-16	2016-17	2017-18	2018-19	2019-20
Composition of Fiscal Deficit		-519.92	86.30	-461.88	-642.32	-2081.18
1	Revenue Surplus (+)/Deficit (-)	(+) 139.71	(+) 822.22	(+)1,060.94	(+) 693.79	-1343.81
2	Net Capital Expenditure	(-) 633.98	(-)720.29	(-)1,506.78	(-)1291.31	-720.61
3	Net Loans and Advances	(-) 25.65	(-) 15.63	(-)16.04	(-) 44.80	-16.76
Financing Pattern of Fiscal Deficit						
1	Market Borrowings	449.46	550.41	744.13	790.29	432.07
2	Special Securities issued to NSSF	23.34	-7.72	-23.61	-15.05	-13.46
3	Loans from Financial Institutions	-6.91	-2.12	-2.1	-0.6	-2.39
4	Loans from GOI	-7.14	-3.48	-7.6	-5.33	3.21
5	Small Savings, PF, etc.	(+) 37.65	(+) 83.30	(+) 80.57	(+) 93.93	157.21
6	Deposits and Advances	21.64	80.11	24.17	15.53	81.69
7	Suspense and Miscellaneous	-5.42	-827.7	-13.18	-587.95	1392.35
8	Remittances	82.51	70.96	179.89	130.65	-115.86
9	Reserve Fund	59.89	124.82	35.72	5.25	407.27
10	Overall Deficit					
11	Increase/Decrease in cash balance (-)/(+)	(-) 36.86	(+) 102.63	(-) 484.99	(+) 476.90	(-) 260.91
12	Gross Fiscal Deficit	-519.92	86.30	-461.88	-642.32	-2081.18

Source: Finance Accounts *All these figures are net of disbursements/outflows during the year;

The State enjoyed Revenue Surplus from 2015-16 to 2018-19 which turned to Revenue Deficit of ₹ 1343.81 crore during the current year. The Fiscal Surplus of ₹ 86.30 crore in 2016-17 also turned into Fiscal Deficit of ₹ 461.88 crore and ₹ 642.32 crore in 2017-18 and 2018-19 which further increased to ₹ 2081.18 crore during 2019-20.



Source: Finance Accounts

Internal Debt of the Government which had grown persistently during the period 2015-19 which ranged between (-)28.13 per cent (in 2019-20) to 59.77 per cent (in 2015-16). There was sharp decrease of ₹ 320.73 crore in 2019-20 witnessing decrease of 28.13 per cent over previous year. The repayment of internal debt including interest has shown constant increase during the 2015-20 which ranged between 14.26 per cent (in 2019-20) to

207.42 per cent (in 2015-16). Further, the Government had borrowed internal debt of ₹ 819.36 crore and repaid internal debt and interest amounting to ₹ 811.23 crore during 2019-20, thus net internal debt available was of ₹ 8.13 crore.

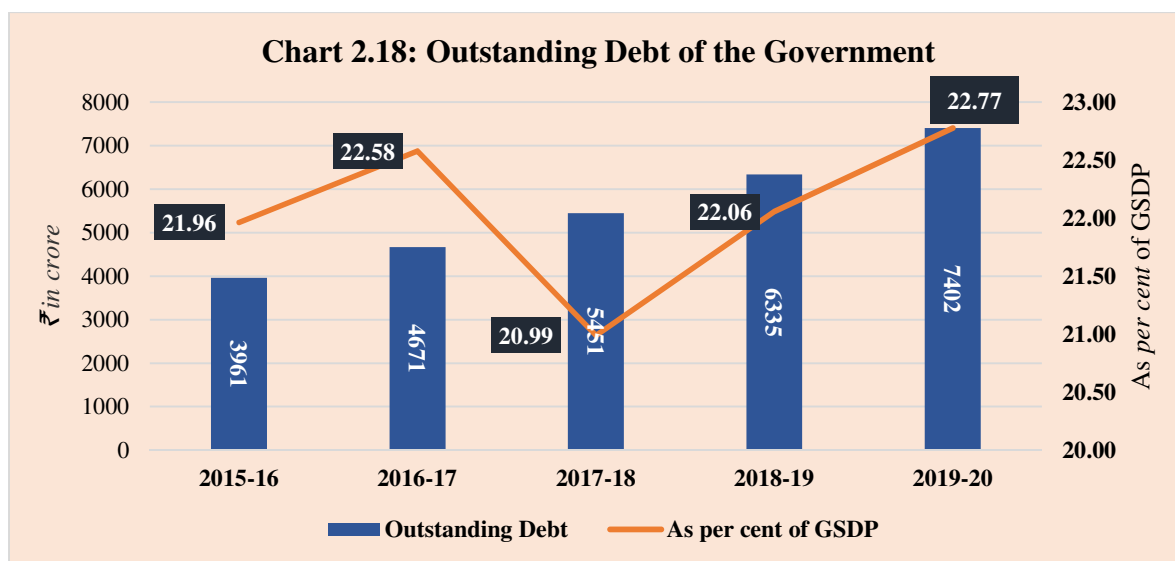
Chart 2.17: Financing of Fiscal Deficit expressed through a water flow chart

Fiscal liabilities (2019-20)	7400.66
Deposit	81.69
Reserve Fund	407.28
Small Savings, Provident Funds, etc.	157.21
Loans from GoI	3.2
Loans from Financial Institutions	49.09
Special Securities issued to National SS Fund	13.46
Market Loans	478.78
Fiscal liabilities (2018-19)	6335.05

■ Increase ■ Decrease

2.7 Debt management

Debt management is the process of establishing and executing a strategy for managing the Government's debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals that the Government may have set through enactment or any other annual budget announcements.



2.7.1 Debt profile: Components

Total debt of the State Government constitutes of Internal debt of the State (market loans, ways and means advances from RBI, special securities issued to National Small Savings Fund and loans from financial institutions, etc.), and loans and advances from the Central Government and Public Account liabilities. The status of outstanding debt, Public Account liabilities, growth rate of debt, repayment of debt, ratio of debt to GSDP and the actual quantum of debt available to the State during the five-year period 2015-20 is given in **Table 2.42**, as also in **Chart 2.19**.

The receipts and payments of internal debt as per the Finance Accounts during the period 2015-20 is elaborated in **Chart 2.16**.

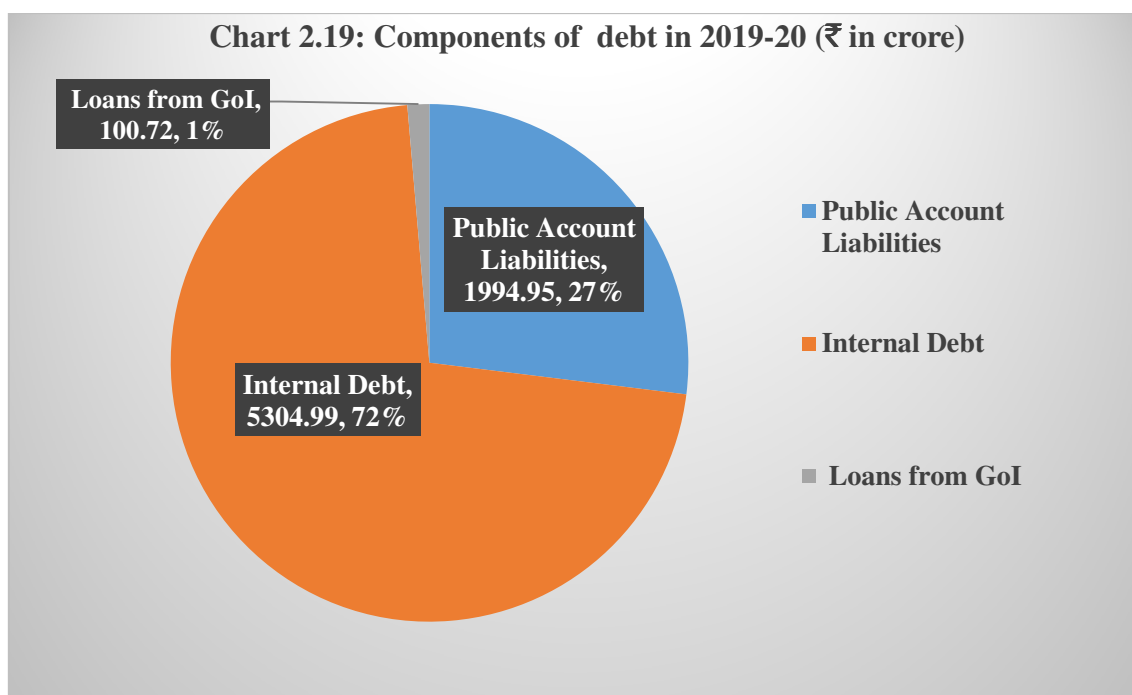
Table 2.42: Receipts and Payments of internal debt

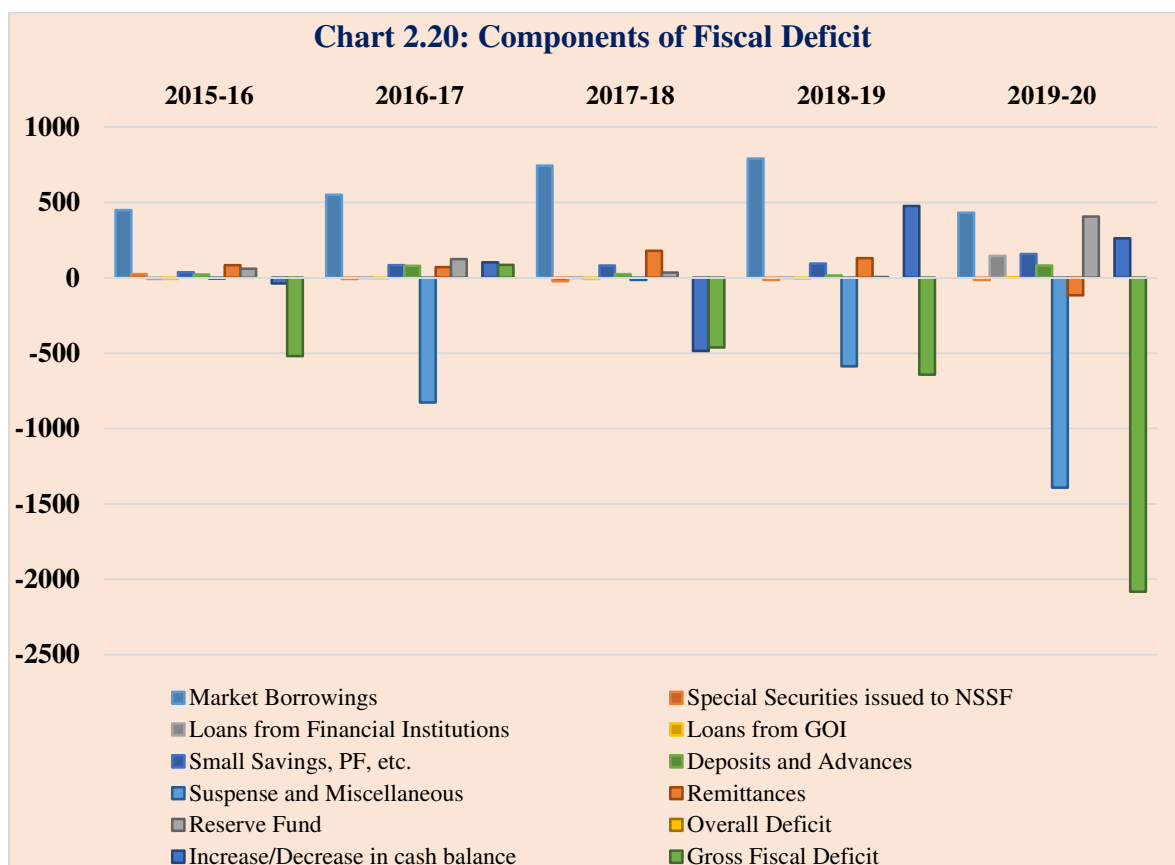
(₹ in crore)

Particulars		2015-16	2016-17	2017-18	2018-19	2019-20
Outstanding Debt		3,961.14	4,671.18	5,451.03	6,335.05	7,400.66
Public Debt	Internal Debt	2,855.14	3,395.68	4,114.12	4,888.77	5,304.99
	Loans from GoI	113.93	110.45	102.85	97.52	100.72
Public Account Liabilities		992.06	1,165.05	1,234.07	1,348.77	1,994.95
Rate of growth of outstanding Debt (in per cent)		13.78	17.93	16.69	16.22	16.82
GSDP		18,034	20,687	25,971	28,723	32,496
Debt/GSDP (in per cent)		21.96	22.58	20.99	22.06	22.77
Percentage of Interest payment to Revenue Receipt		6.93	7.04	6.95	7.31	10.53
Total Debt Receipts		3,088.54	2,038.98	2,016.99	2,007.04	2,294.67
Total Debt Repayment		2,608.85	1,328.94	1,237.13	1,123.01	1,229.06
Total Debt available		479.65	710.04	779.86	884.03	1,065.61
Debt Repayment/ Debt Receipts (in per cent)		84.47	65.18	61.34	55.95	53.54

Source: Finance Accounts

During the current year, against total debt receipts of ₹ 2,294.67 crore, the Government repaid ₹ 1,229.06 crore. As a result, a total debt of ₹ 1,065.61 crore was available to Government during the year. The debt receipts of the State decreased from ₹ 3,088.50 crore in 2015-16 to ₹ 2,294.67 crore in 2019-20. Though debt receipts were decreasing since 2016-17, during the current year (2019-20), the same increased by ₹ 288.63 crore (14.38 per cent) over previous year. Similarly, the debt repayment of the State also showed a decreasing trend from ₹ 2,608.85 crore in 2015-16 to ₹ 1,229.06 crore in 2019-20.





2.7.2 Debt profile: Maturity and Repayment

Debt maturity and repayment profile indicates commitment on the part of the Government for debt repayment or debt servicing.

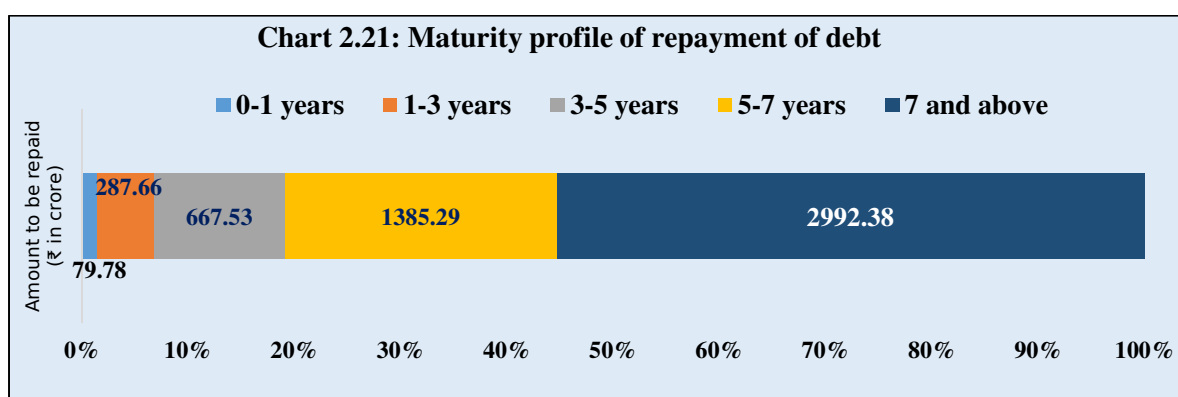
Table 2.43: Debt Maturity profile of repayment of State Debt

Period of repayment (Years)	Amount (₹ in crore)	Percentage (w.r.t. Public Debt)
0 – 1	79.78	1.47
2 – 3	287.66	5.31
4 – 5	667.53	12.33
6 – 7	1385.29	25.60
7 and above	2992.38	55.29
Total	5412.64	100.00

Source: Finance Accounts

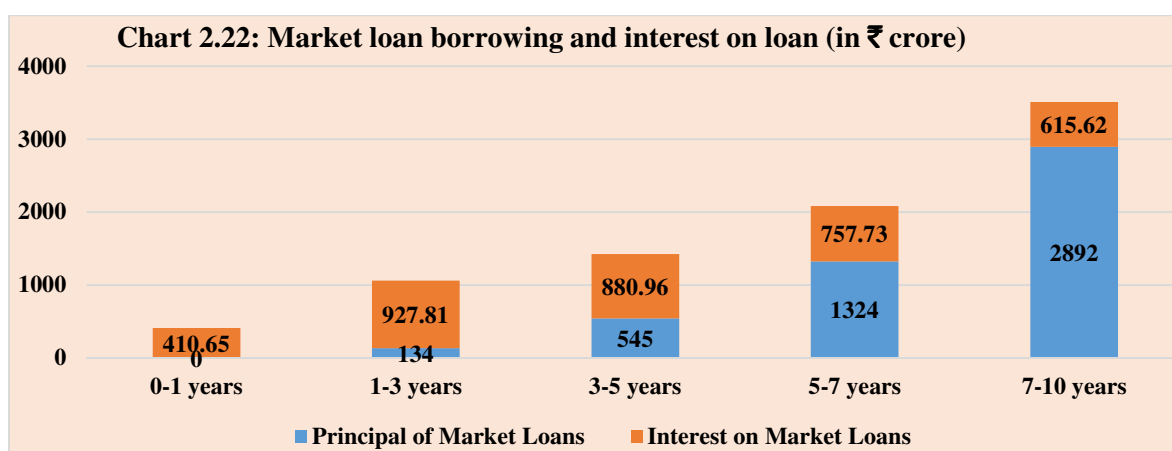
The maturity profile of outstanding stock of public debt as on 31 March 2020 indicates that out of the outstanding public debt of ₹ 5,412.64 crore, 44.71 per cent (₹ 2,420.26 crore) debt is payable within the next seven years while the remaining 55.29 per cent (₹ 2992.38 crore) is in the maturity bracket of more than seven years. Of the total outstanding public debt, internal debt consisting of market borrowings, loans from NABARD and special securities issued to NSSF constituted 97.64 per cent (₹ 5230.89 crore).

The year-wise maturity profile of repayment of debt is reflected in **Chart 2.21**.



Repayment schedule of Market Loans

Debt maturity and repayment profile indicate commitment on the part of the Government for debt repayment or debt servicing. The details of maturity profile of Principal due on Market Loans and interest thereon is given in the **Chart 2.22**.



Source: Finance Accounts and Departmental figure

From the Chart above it could be seen that the maximum burden on State finances on account of repayment of principal and interest falls in 7 to 10 years range when principal of ₹ 2,892 crore and interest of ₹ 615.62 crore is payable.

2.8 Debt Sustainability Analysis (DSA)

Debt sustainability is defined as the ability of the State to service its debt now and in future. However, higher the level of public debt, the more likely it is that fiscal policy and public debt are unsustainable, as a higher debt requires a higher primary surplus to sustain it. A high level of debt raises a number of challenges:

- large primary fiscal surpluses are needed to service a high level of debt; such surpluses may be difficult to sustain, both economically and politically.
- a high level of debt heightens an economy's vulnerability to interest rate and growth shocks.
- a high debt level is generally associated with higher borrowing requirements, and therefore a higher risk of a rollover crisis (i.e., being unable to fulfill borrowing requirements from private sources or being able to do so only at very high interest rates).
- high levels of debt may be detrimental to economic growth; while lower growth is a concern in itself, it also has a direct impact on debt dynamics and debt sustainability in the long term.

Debt vulnerability is also associated with its profile. A high share of short-term debt at original maturity, increases vulnerability to rollover (re-financing risk) and interest rate risks. Sustainability of Public debt ensures that it does not explode and governments are not forced to increase taxes, or decrease spending.

❖ **Debt Sustainability Indicators**

Ratio of total outstanding debt to GSDP (in per cent)	<p>The debt-to-GDP ratio is the metric comparing a state's public debt to its gross domestic product (GSDP). By comparing what a states owes with what it produces, the debt-to-GDP ratio reliably indicates that particular state's ability to pay back its debts.</p> <p>A falling debt/GSDP ratio can be considered as leading towards stability. If Debt/GSDP ratio is increasing rapidly and goes above a threshold, we can say that current level of the primary balance is not sufficient to stabilise the debt-to-GDP ratio, which is on an explosive path. Sufficient fiscal adjustment should be made by reducing the fiscal deficit (primary balance) to a level necessary to make public debt sustainable.</p>
Ratio of revenue receipts to total outstanding debt	If the ratio is increasing, it would be easy for the government to repay its debt using revenue receipts only without resorting to additional debt.
Ratio of State's own resources to total outstanding debt	If the ratio is increasing, it would be easier for the government to repay its debt using its own resources.
Rate of Growth of Outstanding Public Debt vis-à-vis Rate of Growth of GSDP	If the growth rate of public debt is higher than the GSDP growth rate, it will lead to higher debt to GSDP ratio.
Average interest Rate of Outstanding Debt (Interest paid/OB of Public Debt + CB of Public Debt/2)	Higher interest rate means that there is scope for restructuring of debt.
Percentage of Interest payments to Revenue Receipt	<p>Higher percentage of interest payments leaves less funds for priority areas. It measures the margin of safety a government has for paying interest on its debt during a given period. Governments need to have more than enough revenues to cover interest payments in order to survive future (and perhaps unforeseeable) financial hardships that may arise.</p> <p>If significant portion of borrowed funds are used for repayment of borrowings and interest thereon, the net debt available with State for development activities is curtailed.</p>
Percentage of Public Debt Repayment to Public Debt Receipt	Higher the percentage, the greater the proportion of debt utilised for debt servicing rather than productively.
Net Debt available to the State	It is the excess of Public Debt Receipts over Public Debt repayment and Interest payment of Public Debt.
Debt Maturity profile of repayment of State debt – including default history, if any	A high share of short-term debt at original maturity, increases vulnerability to rollover (re-financing risk) and interest rate risks. The past record of repayments as per schedule in conjunction with the proportion of debt repayable in the forthcoming seven years, is indicative of debt servicing position.

Table 2.44 shows the debt sustainability of the State according to these indicators for the five-year period beginning from 2015-16.

Table 2.44: Trends in debt Sustainability indicators

(₹ in crore)

Debt Sustainability Indicators	2015-16	2016-17	2017-18	2018-19	2019-20
Outstanding Public Debt*	2969.05	3506.13	4216.97	4986.29	5405.72
Rate of Growth of Outstanding Public Debt	18.27	18.09	20.27	18.24	8.41
Rate of Growth of GSDP	17.05	14.71	13.57	14.01	13.14
Debt/GSDP	16.46	16.95	17.95	18.62	16.64
Debt Maturity profile of repayment of State debt – including default history, if any	196.13	246.26	342.63	375.88	413.78
²⁴ Average interest Rate of Outstanding Public Debt (<i>per cent</i>)	2.48	7.82	7.45	7.69	8.03
Percentage of Interest payment (Public Debt) to Revenue Receipt	1.79	5.49	5.52	5.98	8.61
Percentage of Debt Repayment to Debt Receipt	0.9	0.82	0.81	0.78	0.76
Net Debt available to the State [#]	390.86	283.94	423.32	415.4	2.37
Net Debt available as <i>per cent</i> to Debt Receipts	12.66	13.93	20.99	20.70	0.10
²⁵ Debt Stabilization (Quantum spread + Primary Deficit)	174.74	652.26	158.37	105.86	-1295.27
Total o/s Debt at the end of year	3961.14	4671.18	5451.04	6335.06	5405.71
Total Debt Receipts	3088.54	2038.98	2016.99	2007.04	2294.67
Interest paid on public debt	67.89	253.14	287.51	353.93	417.06
GSDP	18,034	20,687	23,494	26,786	32,496
Primary Deficit/Surplus	-257.85	410.69	-99.71	-209.27	-1571.50

Source: Finance Accounts of the State and GSDP by DESME/Economic Advisor;

* Outstanding Public Debt is the sum of outstanding balances under the heads 6003-Internal Debt and 6004-Loans and Advances from the Central Government.

[#]Net debt available to the State Government is calculated as excess of Public debt receipts over Public debt repayment and interest payment on Public Debt.

The growth rate of revenue receipts has generally been lower than the growth rate of debt during the last five years, except during 2016-17, where the debt decreased at a significantly lower rate than the Revenue Receipts. The burden of interest payment ranged from 1.79 *per cent* to 8.61 *per cent* of the Revenue Receipts during 2015-20. During 2019-20, it exceeded the target of 8.21 *per cent* recommended by the XIV FC in the Fiscal Consolidation Roadmap²⁶. This indicates sustainability of debt of the State.

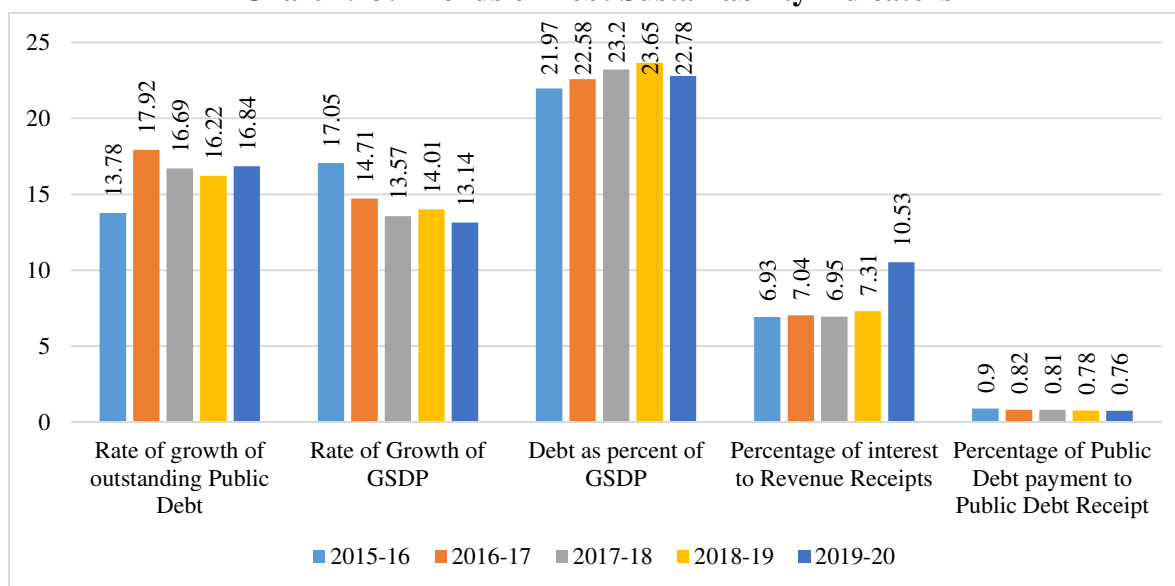
Net Debt available to the State was positive during the five years' period ending 2019-20. However, there was a significant decrease in Net Debt available, from ₹ 415.40 crore in 2018-19 to ₹ 2.37 crore (99 *per cent*) in 2019-20. This was mainly due to decrease in public debt received (27 *per cent*) and increase in interest payment by 18 *per cent* during 2019-20 as compared to previous year. The trends in Debt-repayment/ Debt receipts ratio fluctuated widely during 2015-16 to 2019-20, which ranged between 0.76 *per cent* to 0.90 *per cent* during 2015-20.

²⁴ Example for 2019-20 Average interest rate calculation = Total O/s debt ₹ 4986.29 cr (2018-19)
Plus Total O/s debt ₹ 5405.72 cr (2019-20)
Average O/s Debt = ₹ 10392.01 cr / 2 = ₹ 5196.01 cr
Interest paid during 2019-20 = ₹ 417.06 cr
Average interest rate in *per cent* = ₹ 417.06 / ₹ 5196.01 x 100 = 8.03 *per cent*

²⁴ Example for 2019-20 [(Rate of growth of GSDP – Average Interest rate on O/s Pub Debt)/100] * O/s Public Debt] + Primary Deficit or Surplus.

²⁶ Chapter 14: Fiscal Environment and Fiscal Consolidation Roadmap, Paragraph No. 14.64 (ii) of XIV Finance Commission Report.

Chart 2.23: Trends of Debt Sustainability indicators



2.8.1 Utilisation of borrowed funds

The table below shows the utilization of borrowed funds by the State.

Table 2.46: Utilisation of borrowed funds

		(₹ in crore)				
1	Year	2015-16	2016-17	2017-18	2018-19	2019-20
2	Total Borrowings	3088.50	2038.98	2016.99	2007.04	2294.67
3	Repayment of earlier borrowings (Principal)	2608.85	1328.94	1237.13	1123.01	1229.06
	(Percentage)	84.47	65.18	61.34	55.95	53.54
4	Net capital expenditure	633.98	720.29	1506.78	1291.31	720.61
	(Percentage)	20.53	35.33	74.70	64.34	31.39
5	Net loans and advances	25.65	15.63	16.04	44.80	16.76
	(percentage)	0.83	0.77	0.80	2.23	0.73
6=2-3-4-5	Portion of Revenue expenditure met out of net available borrowings	0	0	0	0	328.24

Source: Finance Accounts

During the period 2015-20, the total borrowings of the State have decreased from ₹ 3,088.54 crore in 2015-16 to ₹ 2,294.67 crore in 2019-20, a decrease of ₹ 793.87 crore (26 per cent). The repayments of earlier borrowings had also decreased from ₹ 2,608.85 crore in 2015-16 to ₹ 1,229.06 crore in 2019-20. Though the net capital expenditure of the State rose to ₹ 1,506.78 crore during 2017-18 as compared to 2015-16 and 2016-17, but it dipped down to ₹ 1,291.31 crore (in 2018-19) and ₹ 720.61 crore in 2019-20, a decrease of ₹ 786.17 crore (31 per cent of the total borrowings) as compared to 2017-18.

2.8.2 Status of Guarantees – Contingent Liabilities

Guarantees are contingent liabilities on the Consolidated Fund of the State in case of default by the borrower for whom the guarantees are extended. The Sikkim Government Guarantees Act, 2000, stipulates that the total outstanding Government guarantee as on the 1st day of April of any year shall not exceed thrice the State's Tax receipts of the second preceding year and that the State Government shall charge guarantee commission of minimum one per cent which shall not be waived under any circumstances. The details of

outstanding guarantees given by the State Government including interest liability during the five-year period 2015-20 are shown in **Table 2.47**.

Table 2.47: Guarantees given by the State Government

Guarantees	₹ in crore				
	2015-16	2016-17	2017-18	2018-19	2019-20
Ceiling applicable to the outstanding amount of guarantees including interest (Criteria)	1574.76	1582.62	1700.46	1957.68	2064.99
Outstanding amount of guarantees including interest at the beginning of the year	112.14	89.17	441.49	425.45	3455.04
Maximum Guarantee	1574.76	1582.62	1700.46	1957.68	2064.99

Source: Finance Accounts

The total guarantees (principal *plus* interest) outstanding as on 1 April 2019 was ₹ 3,455.04 crore, which exceeded the prescribed limit of thrice the total Tax Receipts (₹ 688.33 crore) of 2017-18. Further, despite being aware of the poor financial performance of Sikkim Power Investment Corporation Ltd. (SPICL) as discussed in **Paragraph 2.4.3.1 (ii)** of the Report, the State Government extended (December 2018) a revolving guarantee of ₹ 225.00 crore to Power Finance Corporation on behalf of the Company. The Company had not paid the guarantee commission amounting to ₹ 4.50 crore due for the years 2018-19 and 2019-20.

During 2019-20, out of committed guarantee State Government has issued guarantee to Sikkim Housing & Development Board (SHDB) and State Trading Corporation of Sikkim (STCS), ₹ 133.56 crore and ₹ 106.50 crore respectively and State Government has extended one fresh guarantee amounting to ₹ 92.78 crore to SIDICO (NABARD-II). During this financial year, guarantee commission of ₹ 0.93 crore was receivable, which was not credited in Government Accounts. The position of guarantees reported in Statement 9 and 20 of the Finance Accounts is based on information received from the State Government and annexure to Budget document and has been prepared as per the IGAS 1 notified by the GoI.

2.8.3 Cash Balances

Under a resolution passed by the State Government in the year 1968-69, the State Bank of Sikkim (SBS) is vested with the responsibility of receiving money on behalf of State Government and making all Government payments and keeping custody of the cash balances of the Government. The arrangement continued after merger of Sikkim into the Indian Union.

Position of cash balances and investments of cash balances of the State Government at the end of 2018-19 and 2019-20 is shown in **Table 2.48**.

Table 2.48: Cash Balances and their investments

Particulars	₹ in crore	
	Opening balance on 1 April 2019	Closing balance on 31 March 2020
A. General Cash Balance		
Cash in treasuries		
Deposits with State Bank of Sikkim	70.20	299.96
Deposits with other Banks	50.07	81.22
Remittances in transit – Local	0.00	0.00
Total	120.27	381.18
Investments held in Cash Balance investment account	2,656.00	1,149.90
Total (A)	2,776.27	1,531.08

State Finances Audit Report for the year ended 31 March 2020

Particulars	Opening balance on 1 April 2019	Closing balance on 31 March 2020
B. Other Cash Balances and Investments		
Cash with departmental officers viz., Public Works, Forest Officers	0.95	0.95
Permanent advances for contingent expenditure with department officers	0.45	0.46
Investment in earmarked funds	502.89	552.08
Total (B)	504.29	553.49
Total (A + B)	3,280.56	2,084.57
Interest realized	116.69	130.50

Source: Finance Accounts

There was a marked decrease of ₹ 1,195.99 crore (36.46 per cent) in cash balance of Government as on 31 March 2020 as compared to previous year's balance.

As per the Finance Accounts of 2019-20, as on 31 March 2020, Government's cash balance with banks was ₹ 381.18 crore. Out of this, balance of ₹ 299.96 crore and ₹ 81.22 crore were with SBS and other banks respectively. However, as per the records of the SBS, the Cash Balance of the Government stood at ₹ 265.23 crore, leaving an un-reconciled balance of ₹ 34.73 crore.

During the current year, i.e., 2019-20, the cash balance stood at 21.80 per cent of the budget of the State (₹ 9,562.79 crore).

The trend analysis of the cash balance investment of the State during 2015-20 revealed that investment was growing significantly till 2018-19, but during 2019-20, the cash balance investment dipped enormously by ₹ 1,506.10 crore (56.71 per cent) as compared to previous year. The status of cash balance investment for period 2015-20 is shown in **Table 2.49**.

Table 2.49: Cash Balance Investment Account (Major Head-8673)

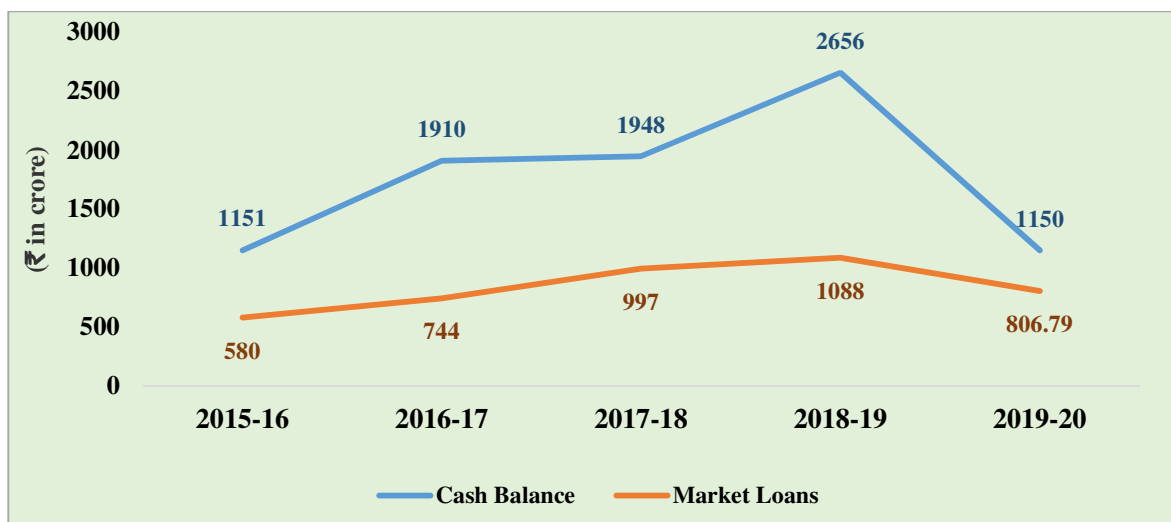
(₹ in crore)

Year	Opening Balance	Closing Balance	Increase (+) / decrease (-)	Interest earned
2015-16	1050.00	1151.00	101.00	65.80
2016-17	1151.00	1910.00	759.00	68.79
2017-18	1910.00	1948.00	38.00	110.68
2018-19	1948.00	2656.00	708.00	116.69
2019-20	2656.00	1150.00	-1506.00	130.50

Source: St. 21 and St. 14 of Finance Accounts

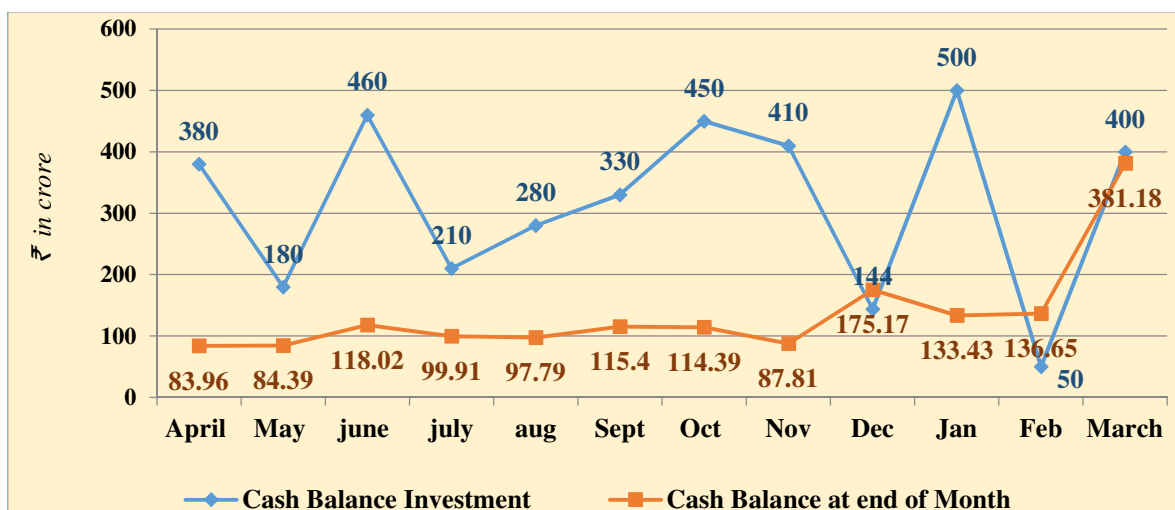
Chart 2.24 compares the balances available in the Cash Balance Investment Account and the Market Loans taken by the State during the period 2015-20. Market Loans were taken at higher interest rates whereas investment in Bank yielded interest at lower rates.

Chart 2.24: Market loans vis-à-vis Cash Balance



Source Finance Accounts

Chart 2.25: Month wise movement of Cash Balances and cash balance investments during the year 2019-20



The FD attributed inconsistent cash balances to festivals and long holidays. The FD also appreciated audit observation on maintaining prescribed minimum cash balances and assured that the action on this will be initiated in due course.

2.9 Conclusion

- During the five-year period of 2015-20, State had consistently maintained Revenue Surplus till 2018-19 but the State suffered huge Revenue Deficit of ₹ 1,343.81 crore during 2019-20 from Revenue Surplus of ₹ 693.79 crore in 2018-19. The State continued to have a Fiscal Deficit during the five-year period 2015 -20 (except 2016-17), and the deficit increased by 224.01 per cent to ₹ 2,081.18 crore in 2019-20 from 2018-19.
- On fiscal reforms front 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. Thus,

the State failed to achieve targets of SFRBM Act, in respect of these two parameters during 2019-20.

- Fiscal liabilities of the State increased by 16.84 *per cent* from ₹ 6,335.06 crore in 2018-19 to ₹ 7,400.66 crore in 2019-20. The fiscal liabilities grew at faster rate than the GSDP during 2019-20. Though debt receipts were decreasing since 2016-17, during the current year (2019-20), the same increased by ₹ 288.63 crore (14.38 *per cent*) over the previous year. The maturity profile of outstanding stock of public debt as on 31 March 2020 indicates that out of the outstanding public debt of ₹ 5,412.64 crore, 44.71 *per cent* (₹ 2,420.26 crore) debt is payable within the next seven years.
- The growth rate of revenue receipts has generally been lower than the growth rate of debt during the 2015-20 (except 2016-17). The burden of interest payment was 8.61 *per cent* of the Revenue Receipts during 2019-20. Though Net Debt available to the State was positive during the five years' period ending 2019-20, there was a significant decrease in Net Debt available, from ₹ 415.40 crore in 2018-19 to ₹ 2.37 crore (99 *per cent*) in 2019-20.
- The Government had not transferred ₹ 66.13 crore under National Pension System to the NSDL as on 31 March 2020. Thus, current liability stood deferred to future year(s) and State had created an interest liability of ₹ 13.42 crore, on un-transferred funds.
- There was un-reconciled cash balance of ₹ 34.73 crore as per accounts of the Government and the records of State Bank of Sikkim.
- The return from investments made in State Public Sector Undertakings (SPSUs) was only 2.94 *per cent* during 2019-20 and some of the PSUs were incurring recurring losses.
- Two hundred and thirty-three projects (estimated cost ₹ 1,184.07 crore) which were scheduled to be completed on 31 March 2020 were yet to be completed, on which an expenditure of ₹ 548.86 crore had been incurred.
- During 2019-20, the State Government received ₹ 407.38 crore towards State Compensatory Fund out of which only ₹ 44.95 crore was spent and there was an unspent balance of ₹ 362.43 crore. The State Government may review the status of the Fund for appropriate action.
- Out of ₹ 1.18 crore, collected under the Ecology & Environment during 2019-20 the State Government has not spent the Cess so collected and the expenditure was only 16 *per cent* of the total cess collected during 2018-19. The State Government, may increase its spending out of the Cess collected.
- Huge cash balances (Month-wise) ranging between ₹ 83.96 crore and ₹ 381.17 crore, were maintained in Government account with SBS during 2019-20 as no minimum cash limit had been prescribed by the Government.

2.10 Recommendations

- *To avoid liabilities under NPS, the State Government needs to transfer the outstanding funds already accumulated to NSDL for management of the NPS. They may strictly monitor the allotment of PRAN to the employees.*
- *The State Government may seriously review the functioning of the Corporations, Companies and Societies to ensure finalisation of the financial statements as per schedule, returns on the investments and to consider closing of non-functional units in a time bound manner. They may consider not giving/ sanctioning future financial assistance to such Corporations/ Companies where Accounts are heavily in arrears.*
- *The State Government needs to prioritise completion of incomplete projects in a planned manner with periodical review and monitoring mechanism at the highest level of administration so as to avoid time and cost inefficiencies. They need to specifically monitor those projects, which are being executed out of borrowed funds and pose a consequential extra financial burden on the Government.*
- *Increasing trend of debt maturity profile vis-à-vis the level of borrowings needs to be reviewed so as to ensure that mobilised financial resources are used adequately for incurring capital expenditure for creation of assets. The increasing trends of Revenue Expenditure be corrected by identifying potential wasteful expenditure and adopting economy measures across departments.*
- *The Government should frame a policy on prudent cash balance management and ensure reconciliation with State Bank of Sikkim.*

