

**CHAPTER-I:  
OVERVIEW**



## Chapter I: Overview

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

### 1.1 Profile of the State

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

The State's Gross Domestic Product (GSDP) in 2020-21 at current prices was ₹ 32,724.47 crore. General and financial data relating to the Sikkim State as well as other States of the North Eastern Region is given in **Appendix 1.1 (Part-A)**.

### 1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) of Sikkim for the year ending 31 March 2021 has been prepared by the CAG for submission to the Governor of Sikkim under Article 151 (2) of the Constitution of India.

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

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

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

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

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

### 1.3 Report Structure

The SFAR is structured into the following five Chapters:

**Table 1.1: Structure of SFAR**

<b>Chapter - I</b>	<b>Overview:</b> This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of Government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/surplus.
<b>Chapter - II</b>	<b>Finances of the State:</b> This Chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2016-17 to 2020-21, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.
<b>Chapter - III</b>	<b>Budgetary Management:</b> This Chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.
<b>Chapter - IV</b>	<b>Quality of Accounts &amp; Financial Reporting Practices:</b> This Chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various Departments of the State Government.
<b>Chapter V</b>	<b>Functioning of State Public Sector Enterprises:</b> This Chapter provides an overall picture on the functioning of the State Public Sector Enterprises (SPSEs). The term State Public Sector Enterprises (SPSEs) encompasses the State Government owned/controlled Government Companies set up under the Companies Act, 2013/Sikkim Registration of Companies Act 1961 and Statutory Corporations established under the proclamations of the erstwhile Chogyal (King) of Sikkim.

### 1.4 Overview of Government Account Structure and Budgetary Processes

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

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

last five years. The analysis has been made based on State Finance Accounts and the information obtained from State Government. The structure and form of Government Accounts, layout of Finance Accounts, methodology adopted for the assessment of fiscal position and State Profile are given in **Appendix 1.1 (Parts A, B & C)**. The time series data on key fiscal variables/ parameters and fiscal ratios relating to the State Government finances for the period 2016-21 are presented in **Appendix 1.2**.

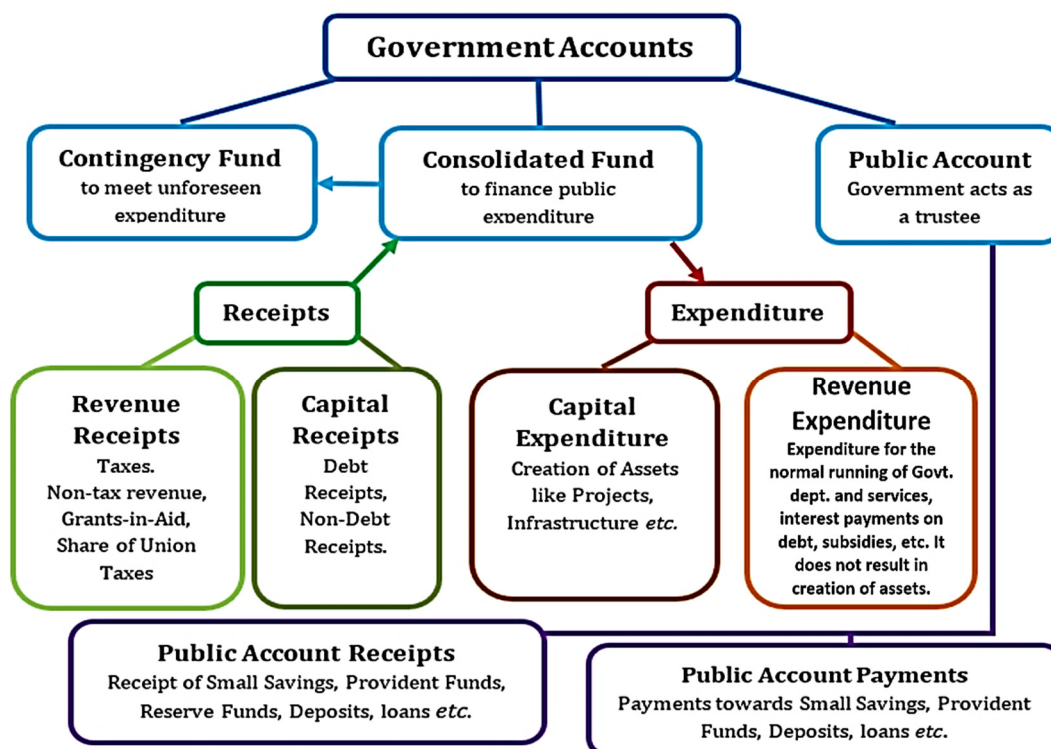
**Revenue receipts** consist of Tax revenue, Non-tax revenue, share of Union Taxes/ Duties, and Grants-in-aid received from GoI.

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

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

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

**Chart 1.1: Structure of Government Accounts**



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

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

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

**Table 1.2: Government Accounts Classification System**

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

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

### **Budgetary Processes**

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

In terms of Article 203, the Annual Financial Statement or Budget of Government of Sikkim for year 2020-21 was submitted to the State Legislature in the form of 47 Demands for Grants/Appropriations and after approval of these, the Appropriation Bill was passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

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

#### 1.4.1 Gross State Domestic Product of the State

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

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

**Table 1.3: Trends in growth of GDP and GSDP**

Year	2016-17	2017-18	2018-19	2019-20	2020-21
All India GDP (₹ in crore)	1,53,91,669	1,70,90,042	1,88,86,957	2,03,51,013	1,97,45,670*
Growth rate of GDP ( <i>per cent</i> )	11.76	11.03	10.51	7.75	-2.97
GSDP of State at current prices (₹ in crore)	20,687	25,971	28,402	30,809*	32,724**
Growth rate of GSDP at current prices ( <i>per cent</i> )	14.71	25.54	9.36	8.47	6.22
<i>Per capita GDP of India</i>					1,45,680
<i>Per capita GSDP of Sikkim</i>					4,86,248

Source: Central Statistical Office (CSO), Ministry of Statistics & Programme Implementation and Report of the Technical Group on Population Projections for India and States (2011-2036), Registrar General of India

\* Provisional Estimates; \*\* Quick Estimates

The growth rate of GSDP of the State at current price was higher than that of national growth rate except during 2018-19, when it was 9.36 *per cent* as against the national growth of 10.51 *per cent*. The growth rate of GSDP at current price during 2016-21 ranged between 6.22 *per cent* (2020-21) to 25.54 *per cent* (2017-18). During 2020-21, the GSDP of the State at current price was ₹ 32,724 crore, up from ₹ 30,809 crore in 2019-20, representing an increase of 6.22 *per cent* which was higher than that of national growth rate (-2.97 *per cent*).

The per capita GSDP of the State (₹ 4,86,248) of 2020-21 was more than three times the per capita GDP of India (₹ 1,45,680).

#### Sectoral components of GSDP

Changes in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which corresponds to the Agriculture, Industry and Service sectors respectively.

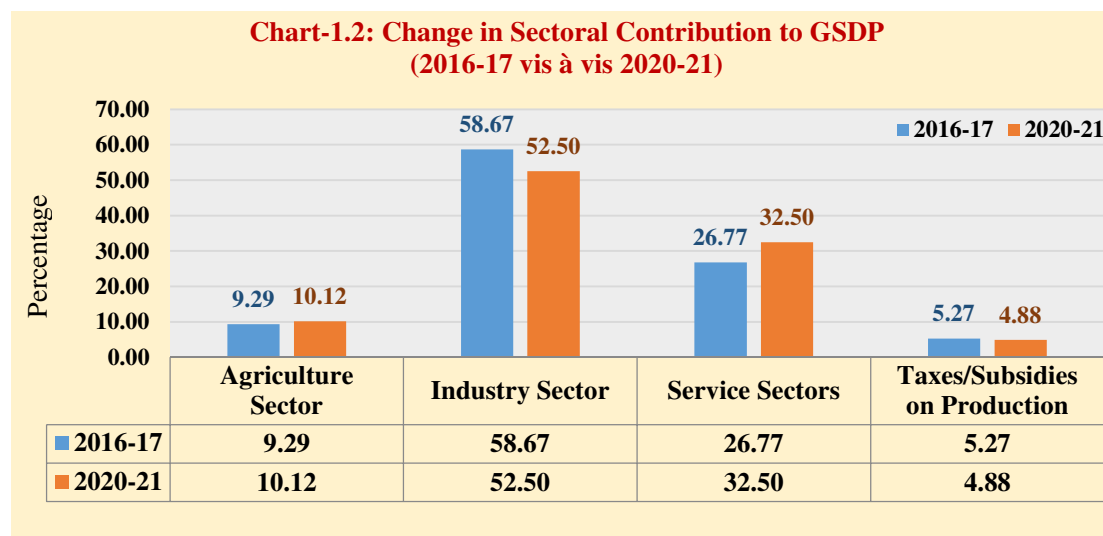
**Chart 1.2** reveals that during the five-year period 2016-21, there was a marginal increase in the relative share of Agriculture (Primary) Sector<sup>1</sup> in GSDP, as the share of this Sector grew from 9.29 *per cent* in 2016-17 to 10.12 *per cent* in 2020-21. However, the share of Industry Sector<sup>2</sup> (Secondary) dropped from 58.67 *per cent* in 2016-17 to 52.50 *per cent* in 2020-21. The share of Services (Tertiary) Sector<sup>3</sup> grew from

<sup>1</sup> Agriculture and Related Sector is also known as Primary Sectors

<sup>2</sup> Industry and related Sector is also known as Secondary Sector.

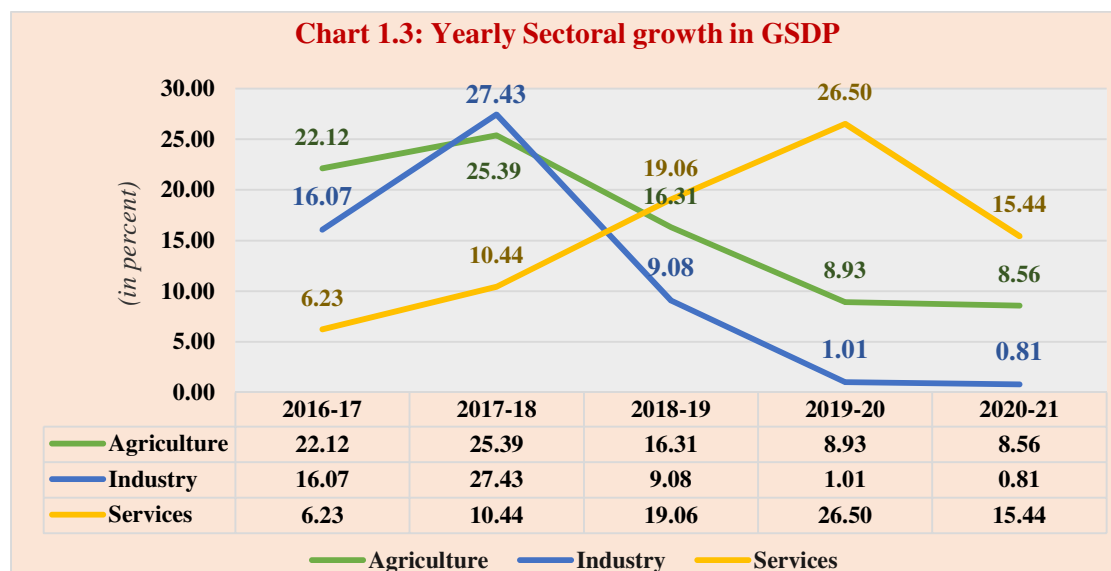
<sup>3</sup> Services and related Sector is also known as Tertiary Sector

26.77 per cent in 2016-17 to 32.50 per cent in 2020-21 and there was a slight decrease in share of Taxes on Products & Subsidies on Product from 5.27 per cent in 2016-17 to 4.88 per cent in 2020-21.



Source: Directorate of Economics, Statistics, Monitoring and Evaluation, Government of Sikkim

Further, it could be seen from **Chart 1.3** that rate of growth of all three Sectors viz., Agriculture, Industry and Service witnessed a fluctuating trend during 2016-21. The growth rate of Agriculture and Industry Sectors had peaked during 2017-18 with 25.39 per cent and 27.43 per cent respectively. Thereafter, the growth of these two Sectors decreased continuously. Similarly, the Service Sector registered a maximum growth of 26.50 per cent during 2019-20 and it decreased to 15.44 per cent in 2020-21.



Source: Directorate of Economics, Statistics, Monitoring and Evaluation, Government of Sikkim”

#### 1.4.2 Summarised Position of Finances of State

The following table provides the comparison of actual financial parameters of 2020-21 vis-à-vis Revised Estimates for the year 2020-21 and actuals of 2019-20.



Table 1.4: Summarised position of Finances of State

(*₹ in crore*)

Sl. No.	Components	2019-20 Actuals	2020-21		Percentage of Actual to RE	Percentage of Actual to GSDP
			RE	Actuals		
1	Tax Revenue	970.41	928.51	966.70	106.56	3.02
2	Non-Tax Revenue	693.40	579.75	662.29	114.24	2.02
3	Share of Union taxes/duties	2,295.56	2,133.88	2,302.27	107.89	7.04
4	Grants-in-aid and Contributions	881.90	3,296.75	1,676.56	50.16	5.05
<b>5</b>	<b>Revenue Receipts (1+2+3+4)</b>	<b>4,841.27</b>	<b>6,938.89</b>	<b>5,607.82</b>	80.82	<b>17.14</b>
6	Recovery of Loans and Advances	0.30	0.08	1.17	1,462.50	0.00
7	Other Receipts	0.00	0.00	0.00	--	0.00
8	Borrowings and other Liabilities	2,081.18	1,867.18	2,273.54	121.76	6.95
9	Capital Receipts (6+7+8)	2,081.48	1,867.26	2,274.71	121.82	6.95
<b>10</b>	<b>Total Receipts (5+9)</b>	<b>6,922.75</b>	<b>8,806.15</b>	<b>7,882.53</b>	89.51	<b>24.09</b>
11	Revenue Expenditure of which	6185.08	7245.25	6368.65	87.90	19.46
12	<i>Interest payments</i>	509.68	562.04	548.41	97.57	1.68
13	<i>Grant in Aid for creation of capital assets</i>	0.00	0.00	0.00	--	--
14	Capital Expenditure of which	737.67	1697.08	1513.88	89.20	4.63
15	<i>Capital outlay</i>	720.61	1694.38	1513.88	89.35	4.63
16	<i>Loan and advances</i>	17.06	1.35	0.00	0.00	0.00
<b>17</b>	<b>Total Expenditure (11+14)</b>	<b>6,922.75</b>	<b>8,942.33</b>	<b>7,882.53</b>	88.15	<b>24.09</b>
<b>18</b>	<b>Revenue Deficit (5-11)</b>	<b>1,343.81</b>	<b>306.36</b>	<b>760.83</b>	248.35	2.32
<b>19</b>	<b>Fiscal Deficit {(5+6+7)-17}</b>	<b>2,081.18</b>	<b>2,003.36</b>	<b>2,273.54</b>	113.49	6.95
<b>20</b>	<b>Primary Deficit (19-12)</b>	<b>1,571.50</b>	<b>1,441.32</b>	<b>1,725.13</b>	119.69	5.27

Source: Finance Account, Estimates of Receipts and Expenditure

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

It can be seen from above table that Revenue Receipts of the State increased by ₹ 766.55 crore, from ₹ 4,841.27 crore in 2019-20 to ₹ 5,607.82 crore in 2020-21, mainly due to increase in Grants-in-aid and contributions from the Central Government. The increase in Capital receipts was mainly due to increase in borrowings and liabilities. The total expenditure increased to ₹ 7,882.53 crore in 2020-21 from ₹ 6,922.75 in the previous year, the increase (₹ 959.78 crore) comprised of increase of ₹ 793.27 crore in capital outlay.

During 2020-21, against the estimate of ₹ 306.36 crore, the State ended up with Revenue Deficit of ₹ 760.83 crore and Fiscal Deficit was ₹ 2,273.54 crore against the estimate of ₹ 2,003.36 crore. Further, there was Primary Deficit of ₹ 1,725.13 crore against ₹ 1,571.50 crore of previous year.

### 1.4.3 Summarised position of Assets and liabilities of the Government

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

liabilities for 2019-20 and 2020-21 with increase and decrease is given in **Table 1.5** below:

**Table 1.5: Summarised position of Assets and Liabilities**

(₹ in crore)

Liabilities				Assets			
Particulars	2019-20	2020-21	Per cent increase/decrease	Particulars	2019-20	2020-21	Per cent increase/decrease
<b>Consolidated Fund</b>							
a Internal Debt	5,305.00	6,598.09	24.37	a Gross Capital Outlay	13,200.22	14,714.10	11.47
b Loans and Advances from GoI	100.73	292.59	190.47	b Loans and Advances	254.06	252.89	-0.46
<b>Contingency Fund</b>							
	1.00	1.00	0.00		--		
<b>Public Account</b>							
a Small Savings, Provident Funds, etc.	1,162.86	1,318.29	13.37	a Advances	1.03	1.03	0.00
b Deposits	361.50	362.34	0.23	b Remittance	0.00	0.00	
c Reserve Funds	1,022.66	1,080.83	5.69	c Suspense and Miscellaneous	0.00	0.00	
d Remittances	158.33	513.66	224.42	Cash balance (including investment in Earmarked Fund)	2,084.57	1,992.24	-4.43
e Suspense and Miscellaneous	217.19	343.66	58.23				
<b>Total</b>	<b>8,329.27</b>	<b>10,510.46</b>	<b>26.19</b>				
Cumulative excess of receipts over expenditure	7,210.61	6,449.80	-10.55				
<b>Total</b>	<b>15,539.88</b>	<b>16,960.26</b>	<b>9.14</b>	<b>Total</b>	<b>15,539.88</b>	<b>16,960.26</b>	<b>9.14</b>

Source: Finance Accounts

As it can be seen from the above, during 2020-21, the assets increased by ₹ 1,420.38 crore and the liabilities (excluding surplus on Government Accounts) increased by ₹ 2,181.19 crore. Consequently, the growth rate of assets increased from (-)2.87 per cent in 2019-20 to 9.14 per cent in 2020-21 whereas, the growth rate of liabilities excluding surplus on Government Accounts increased to 26.19 per cent from 11.89 per cent in 2019-20.

## 1.5 Fiscal Balance: Achievement of deficit and total debt targets

### Sikkim FRBM Targets on Key Fiscal Parameters and Achievements thereon

The State Government enacted the Sikkim Fiscal Responsibility and Budget Management (SFRBM) Act in September 2010 (last amended in June 2021), and the rules under the Sikkim FRBM Act were notified in March 2011 with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/ outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium-term framework. In this context,

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

As per the SFRBM Act, the State Government was to eliminate Revenue Deficit by 2011-12 and maintain Revenue Surplus thereafter and reduce Fiscal Deficit to three *per cent* of the estimated GSDP. Further, as per SFRBM (Amendment) Act, 2020, the Fiscal Deficit Target for the financial year 2020-21 was fixed at five *per cent* of the estimated GSDP. Further, the Act also envisaged that the State Government would limit the percentage of total outstanding debt to GSDP to 20.09 *per cent* in 2016-17 and 24.64 *per cent* in 2020-21 as shown in **Table 1.6** below.

Targets of key fiscal parameters envisaged in the SFRBM Act and their achievement during 2016-21 are given in **Table 1.6** below:

**Table 1.6: Compliance with State FRBM Act**

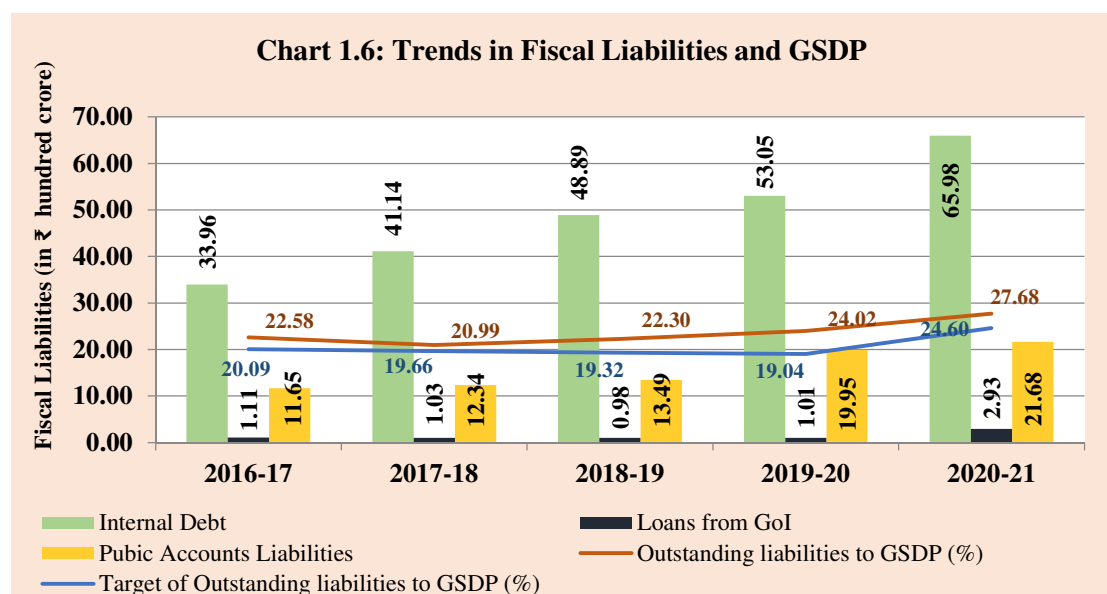
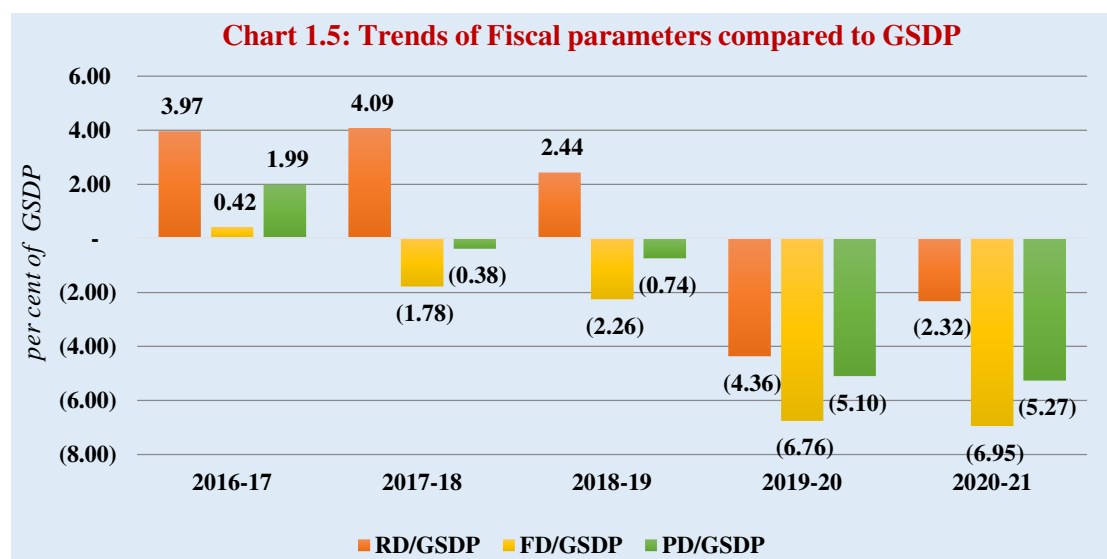
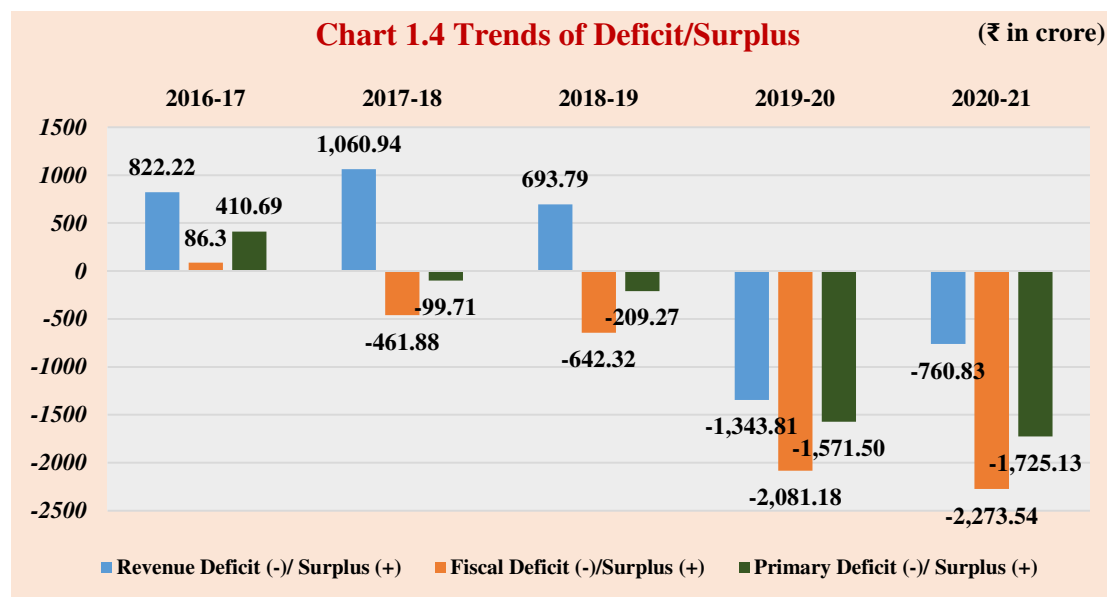
Fiscal Parameters	Fiscal targets set in the Act	Actuals (₹ in crore)				
		2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	Maintain Revenue Account Balance	822.22	1,060.94	693.79	- 1343.81	-760.83
		✓	✓	✓	✗	✗
Fiscal Deficit (-)/ Surplus (+) (as percentage of GSDP)	2016-20: 3 <i>per cent</i>	86.30 (0.42)	-461.88 (-1.78)	-642.32 (-2.26)	-2,081.18 (-6.76)	-2,273.54 (-6.95)
	2020-21: 5 <i>per cent</i>	✓	✓	✓	✗	✗
Ratio of total outstanding debt to GSDP (in <i>per cent</i> )	Target	20.09	19.66	19.32	19.04	24.64
	Achievement	22.58 (X)	20.99 (X)	22.30 (X)	24.02 (X)	27.68 (X)

Source: FRBM Act. and Departmental information

The State after maintaining Revenue Surplus for 2016-17 to 2018-19, ran into Revenue Deficit in 2019-20 and 2020-21. Similarly, after successfully containing the Fiscal Deficit below three *per cent* of GSDP during 2016-19, the State's Fiscal Deficit was 6.76 *per cent* of GSDP during 2019-20 and 6.95 *per cent* of GSDP during 2020-21.

During the five-year period 2016-21, the ratio of total outstanding debt to GSDP of the State consistently exceeded the norms prescribed in the SFRBM Act as well as projections<sup>4</sup> of Finance Commissions.

<sup>4</sup> XIV FC projections (Ratio): 2016-17: 20.09, 2017-18: 19.66, 2018-19: 19.32, 2019-20: 19.04 and XV FC projections (Ratio): 2020-21:24.60.



## Revenue Surplus/ Deficit

Revenue Deficit is the gap between Revenue Receipts and Revenue Expenditure. The State had Revenue Surplus from 2016-17 to 2018-19 but it turned into huge deficit of ₹ 1,343.81 crore in 2019-20, though in 2020-21 the position improved slightly as it stood at ₹ 760.83 crore. This indicates that the Revenue Receipts were insufficient to meet the Revenue Expenditure.

## Fiscal Deficit

Fiscal Deficit represents the gap between the Non-debt receipts and Total Expenditure. This gap can be met either by additional Public Debt (internal or external) or by the use of surplus funds from Public Accounts. Fiscal Deficit normally represents the net incremental liabilities of the Government or its additional borrowing requirements. Except for 2016-17, the State had Fiscal Deficit during the last five-year period (2015-21). During 2020-21 the Fiscal Deficit increased by ₹ 192.36 crore from ₹ 2,081.18 crore in 2019-20 to ₹ 2,273.54 crore, witnessing a growth of 9.24 per cent.

## Medium Term Fiscal Plan (MTFP)

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

**Table 1.7** indicates the variation between the projections made for 2020-21 in MTFP presented to the State Legislature and the Actuals of the year.

**Table 1.7: Actuals vis-à-vis projection in MTFP for 2020-21**

Sl. No.	Fiscal Variables	Projections as per MTFP	Actuals (2020-21)		Variation
1	Own Tax Revenue	928.51	966.70	38.19	
2	Non-Tax Revenue	579.75	662.29	82.54	
3	Share of Central Taxes	2,133.88	2,302.27	168.39	
4	Grants -in-aid from GoI	3,296.75	1,676.56	-1,620.19	
5	Revenue Receipts (1+2+3+4)	6,938.89	5,607.82	-1331.07	
6	Revenue Expenditure	7,245.25	6,368.65	-876.6	
7	Revenue Deficit (-)/ Surplus (+) (5-6)	-306.36	-760.83	-454.47	
8	Fiscal Deficit (-)/ Surplus (+)	-2,003.36	-2,273.54	-270.18	
9	Debt-GSDP ratio ( <i>per cent</i> )	24.64	27.68	3.04	
10	GSDP growth rate at current prices ( <i>per cent</i> )	11	6.22	-4.78	

(Source: Departmental information, Finance Accounts and MTFP Report)

From the table above it can be seen that except for Own Tax Revenue, Non-tax Revenue and Share of Central Taxes the State could not achieve the projections of the MTFP for 2020-21 in respect of other parameters. The Revenue Receipts of Government fell short by 19.18 per cent of the target. The State had projected the Revenue Deficit of ₹ 306.36 crore for 2020-21 against which actual Revenue Deficit was ₹ 760.83 crore. Similarly, the State projected the Fiscal Deficit target of ₹ 2,003.36 crore during 2020-21 was exceeded by ₹ 270.18 crore which was higher by 13.49 per cent. The targets of Debt-GSDP ratio and growth rate of GSDP also fell short of MTFP target.

## 1.6 Deficits and Total Debt after examination in audit

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

### 1.6.1 Post Audit – Deficits after Examination in Audit

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

The impact on Revenue Deficit/ Surplus and Fiscal Deficit of the Government of Sikkim during the year 2020-21, consequent to under-booking of expenditure or non-crediting of receipts, is detailed in **Table 1.8**.

**Table 1.8: Transactions impacting Revenue Deficit and Fiscal Deficit**

(₹ in crore)

Item	Impact on Revenue Deficit		Impact on Fiscal Deficit	
	Over-statement	Under-statement	Over-statement	Under-statement
Misclassification between revenue and capital heads of accounts	12.02	--	--	--
Non-provision of interest towards Defined Contribution Pension Scheme for Government Employees (National Pension System)	--	4.70	--	4.70
Receipts on account of sale of power(trading)	136.58	--	136.58	
Royalty from HEPs	204.61	--	204.61	
Expenditure towards purchase of Power	--	206.70	--	206.70
Royalty utilized for servicing loans	--	198.33	--	198.33
<b>Total (Net) Impact</b>	<b>56.52 (Understatement)</b>		<b>68.54 (Understatement)</b>	

Source: Notes to Account Volume I Finance Account

As could be seen from the table above the Revenue Deficit and Fiscal Deficit were understated by ₹ 56.52 crore and ₹ 68.54 crore respectively during the year 2020-21.

During 2020-21, GoS incorrectly booked expenditure of ₹ 12.02 crore under Revenue Section instead of Capital Section as has been determined from the purpose of expenditure. This led to understatement of revenue deficit to that extent.

GoS did not provide for interest towards Defined Contribution Pension Scheme for Government Employees (National Pension System). This resulted in understatement of Revenue Deficit and Fiscal Deficit by ₹ 4.70 crore (@ 7.10 per cent on ₹ 66.12 crore).

In addition to cases mentioned in Note to Accounts, Finance Accounts 2020-21, the following transactions performed without routing through Government Account also had impact on Government revenue and expenditure figures and consequently on Revenue deficit and Fiscal deficit.

- Power Department of Sikkim (PDS) had earned revenue of ₹ 136.58 crore by selling surplus power outside the State and had received royalty amounting to ₹ 204.61 crore during the financial year 2020-21. These receipts of ₹ 341.19 crore were not deposited in the Consolidated Fund of State by the PDS. This led to understatement of Government Revenue Receipts by ₹ 341.19 crore and overstatement of Revenue Deficit as well as Fiscal Deficit to that extent.
- During 2020-21, PDS had also incurred expenditure of ₹ 206.70 crore towards purchase of power without routing it through the Government account and they transferred ₹ 198.33 crore to SPICL during 2020-21 for repayment of loan availed on behalf of Government of Sikkim. These transactions were not reflected in Government accounts. This led to understatement of Government expenditure by ₹ 405.03 crore with consequential understatement of Revenue Deficit and Fiscal Deficit.

## 1.7 Conclusion

The growth rate of GSDP of the State at current prices, during 2016-21 ranged between 6.22 *per cent* (2020-21) to 25.54 *per cent* (2017-18). During 2020-21, the GSDP at current price was ₹ 32,724 crore, up from ₹ 30,809 crore in 2019-20, representing an increase of 6.21 *per cent* which was much higher than that of national growth rate. The per capita GSDP of the State (₹ 4,86,248) was also more than the per capita GDP of India (₹ 1,45,680) during 2020-21.

During the five-year period of 2016-21, the share of Agriculture (Primary) Sector in the GSDP grew from 9.29 *per cent* in 2016-17 to 10.12 *per cent* in 2020-21 and the share of Services (Tertiary) Sector grew from 26.77 *per cent* in 2016-17 to 32.50 *per cent* in 2020-21. However, Industry (Secondary) Sector's share shrunk from 58.67 *per cent* in 2016-17 to 52.50 *per cent* in 2020-21 and the share of Taxes on Products & Subsidies on Product decreased from 5.27 *per cent* in 2016-17 to 4.88 *per cent* in 2020-21.

The State after maintaining Revenue Surplus for three years from 2016-17 to 2018-19, had run into Revenue Deficit of ₹ 1,343.81 in 2019-20 mainly due to decrease in Central transfers. Though, the State was able to reduce Revenue Deficit to ₹ 760.83 crore in 2020-21. Similarly, after successfully containing the Fiscal Deficit below three *per cent* of GSDP during 2016-19, the State's Fiscal Deficit was 6.76 *per cent* of GSDP during 2019-20 and 6.95 *per cent* of GSDP in 2020-21. Fiscal Deficit increased by ₹ 192.39 crore from ₹ 2,081.18 crore in 2019-20 to ₹ 2,273.54 crore in 2020-21, witnessing growth of 9.24 *per cent*. Besides, the ratio of total outstanding debt to GSDP of the State which ranged between 20.99 *per cent* and 27.68 *per cent*, consistently exceeded the norms prescribed in the SFRBM Act as well as projections of Finance Commission, during the period 2016-21. The SFRBM Act had envisaged that the State Government would limit the percentage of total outstanding debt to GSDP to 20.09 *per cent* in 2016-17 and 24.64 *per cent* in 2020-21.

## **1.8 Recommendations**

- *The State Government needs to make efforts to achieve the projections/ targets on major fiscal parameters, made in the Sikkim FRBM Act through prudent financial management.*