

CHAPTER – I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (**Appendix-1.1: Part A**). The Finance Accounts of the Government of Sikkim are laid out in 19 Statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account. The layout of the Finance Accounts is depicted in **Appendix-1.1: Part B**.

Functions of the Reserve Bank of India for Government transactions were not extended to Sikkim. State Bank of Sikkim has been vested with the responsibility of receiving money on behalf of the Government, making all payments and keeping custody of the balances of the Government in current account as well as in fixed deposits.

1.1.1 Summary of Receipts and Disbursements for the year

Table -1.1 summarises the finances of the State Government for the year 2007-08 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements as emerging from Statement-1 and other detailed Statements of Finance Accounts.

Table – 1.1:
Summary of Receipts and Disbursements for the year 2007-08

(Rupees in crore)

2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
					Non Plan	Plan	Total
Section – A: Revenue							
2,116.54	Revenue Receipts ¹	2,699.42	1,887.56	Revenue Expenditure ²	1,928.79	419.79	2,348.58
173.18	Tax revenue	197.85	1,248.12	General services ²	1,570.87	18.90	1,589.77
1,085.04	Non-tax revenue ¹	1,413.74	355.81	Social Services ³	230.89	207.34	438.23
222.78	Share of Union Taxes/ Duties	345.12	283.63	Economic Services ³	127.03	193.55	320.58
635.54	Grants from Government of India	742.71	--				
Section – B: Capital							
--	Miscellaneous Capital Receipts	--	326.42	Capital Outlay	--	415.47	415.47
0.78	Recoveries of Loans and Advances	0.38	0.20	Loans and Advances disbursed	--	--	--
142.75	Public debt receipts	279.64	39.03	Repayment Public Debt	55.57	--	55.57
0.10	Contingency Fund	-	0.00	Contingency Fund	--	--	00
1,705.54	Public Account receipts	1,899.53	1,662.92	Public Account disbursements	--	--	1,789.75
252.59	Opening Balance	302.17	302.17	Closing Balance	--	--	571.77
4,218.30	Total	5,181.14	4,218.30	Total	--	--	5,181.14

Source: Finance Accounts

¹ Revenue receipts and Non-tax revenue are inclusive of gross receipt (Rs. 1232.55 crore) from State Lotteries

² Revenue expenditure and General Services (Non-plan) are inclusive of expenditure (Rs. 1201.71 crore) on State Lotteries.

³ Includes grants-in-aid contribution under Social Services (Rs. 5.58 crore) and Economic Services (Rs. 26.40 crore) aggregating Rs. 31.98 crore

Following are the significant changes during 2007-2008 over the previous year:

- Revenue receipts grew by Rs. 582.88 crore over the previous year. The increase was mainly contributed by non-tax revenue (Rs. 328.70 crore), State's share in Central taxes and duties (Rs. 122.34 crore), Grants from Government of India (Rs. 107.17 crore) and tax revenue (Rs. 24.67 crore).
- Revenue and capital expenditure increased by Rs. 461.02 crore and by Rs. 89.05 crore respectively over the previous year.
- Recoveries of loans and advances decreased by Rs. 0.40 crore and there was no disbursement of loans and advances during 2007-08 as compared to Rs. 0.20 crore in previous year.
- While Public debt receipts decreased by Rs. 136.89 crore, its repayments increased by Rs. 16.54 crore.
- Public Account receipts and disbursements increased by Rs. 193.99 crore and Rs. 126.83 crore respectively.
- The total outflow of the Government (Rs. 4,609.37 crore) was less than the total inflow (Rs. 4,878.97 crore) resulting in an increase of Rs. 269.60 crore in the cash balance of the State at the end of the year 2007-08.

1.1.2 Impact of non-enactment of the FRBM Act

With enactment of a Fiscal Responsibility and Budget Management Act (FRBM Act) in 2003 at the Centre, the Twelfth Finance Commission (TFC) recommended that each State must enact a fiscal responsibility legislation prescribing specific annual targets with a view to eliminating the revenue deficit by 2008-09 and reducing fiscal deficit based on a path for reduction of borrowings and guarantees. Enacting the fiscal responsibility legislation is a necessary pre-condition for availing of debt relief. The Government of Sikkim has however, not enacted the FRBM Act as of July 2008. According to the Finance, Revenue & Expenditure Department (FRED) of the State, enactment of FRBM Legislation would require the State to reduce fiscal deficit to 3 *per cent* of GSDP and maintain revenue surplus at a certain level. However, due to substantial decrease in Non-Plan Revenue Deficit Grant awarded by the TFC to the State as compared to the award of the Eleventh Finance Commission, the State Government felt that it is very difficult to attain these fiscal targets and therefore FRBM Act could not be enacted in Sikkim.

According to the recommendation of TFC, the Central loans to States contracted till 31 March 2004 and outstanding as on 31 March 2005, may be consolidated and re-scheduled for a fresh term of 20 years resulting in repayment of 20 equal installments at an interest of 7.5 *per cent* per annum. The debt relief on the outstanding balances of Central loan, when re-scheduled as per the recommendation of TFC, would amount to Rs. 10.69 crore on principal and Rs. 22.15 crore on interest payment as at the end of 2007-08 out of the applicable period of 2005-10. Thus, the State could not avail of relief to

the tune of Rs. 32.84 crore (Rs. 10.69 crore plus Rs. 22.15 crore) due to non-enactment of the legislation.

1.2 Overview of Fiscal Situation of the State

1.2.1 Trend of Fiscal Aggregates

The fiscal position of the State Government during the current year as compared to the previous year is given in **Table-1.2** below:

Table - 1.2

(Rupees in crore)

2006-07	Sl. No	Major Aggregates	2007-08
1,203.25	1	Revenue Receipts (2+3+4+5)	1,497.71
173.18	2	Tax Revenue	197.85
171.75	3	Non-Tax Revenue ⁴	212.03
635.54	4	Other Receipts	742.71
222.78	5	State share of Union taxes and others	345.12
0.78	6	Non-Debt Capital Receipts	0.38
0.78	7	Of which, Recovery of Loan	0.38
1,204.03	8	Total Receipts (1+6)	1,498.09
637.62	9	Non-Plan Expenditure (10+12+13)	727.08
637.62	10	On Revenue Account ⁵	727.08
115.27	11	Of which, Interest Payment	117.74
--	12	On Capital Account	--
--	13	On Loans disbursed	--
663.27	14	Plan Expenditure (15+16+17)	835.26
336.65	15	On Revenue Account	419.79
326.42	16	On Capital Account	415.47
0.20	17	On Loans disbursement	-
1,300.89	18	Total Expenditure (9+14)	1,562.34
(+) 228.98	19	Revenue Deficit(-)/(+)Surplus {1-(10+15) }	(+) 350.84
(-) 96.86	20	Fiscal Deficit {(1+ 6)-18}	(-) 64.25
(+) 18.41	21	Primary Deficit(-) / (+)Surplus (20-11)	(+) 53.49

Source: Finance Accounts

During the current year, revenue receipts increased by 24.47 per cent (Rs. 294.46 crore) while revenue expenditure increased by 20.10 per cent (Rs. 172.60 crore) over the previous year resulting in an increase of Rs. 121.86 crore in revenue surplus during 2007-08. The increase in revenue surplus and a marginal decrease of Rs. 0.40 crore in non-debt capital receipts, accompanied by an increase of Rs. 88.85 crore in capital expenditure including disbursement of loan and advances during 2007-08 over the previous year, resulted in a decrease of Rs. 32.61 crore in fiscal deficit during the current year. The decrease in fiscal deficit together with an increase of Rs. 2.47 crore in interest payments during 2007-08 over the previous year led to a primary surplus of Rs. 53.49 crore during the current year from the level of primary surplus of Rs. 18.41 crore in 2006-07.

⁴ Non-tax revenue for the year 2007-08 is net of gross receipt of Rs 1,232.55 crore from State Lotteries after adjustment of expenditure of Rs. 1,201.71 crore under the head.

⁵ Revenue Expenditure excludes Rs. 1,201.71 crore on State Lotteries against which there was gross receipt of Rs. 1,232.55 crore under the same head

1.3 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analysed wherever necessary over the period of last five years (2003-08) and observations have been made on their behaviour as per **Appendix-1.2 to 1.4** and Time Series Data (**Appendix-1.5**). In its Restructuring Plan of State finances, the TFC recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates were used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP) is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than GSDP. The trends in the growth of GSDP as provided by the Department of Economic and Statistics, Government of Sikkim are given in **Table-1.3**.

Table-1.3:
Trends in GSDP

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
GSDP ⁶ (Rs in Crore)	1,275.91	1,429.72	1,602.17	1,830.00	2,070.00(Q)	2,353.00(A)
Rate of Growth of GSDP (in percentage)	12.31	12.05	12.06	14.22	13.11	13.67

Source: Department of Economic, Statistics, Monitoring & Evaluation Government of Sikkim

Q=Quick estimate, A=Advance estimate.

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Resources by Volume and Sources, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix-1.1 Part-C**. Revenue receipts and revenue expenditure are inclusive of lottery receipts and lottery expenditure respectively in **Table 1.1**. Revenue receipts is net of lottery receipts and lottery expenditure and revenue expenditure is exclusive of lottery expenditure everywhere else in this chapter.

⁶ State Government has since revised GSDP figures taking 1999-00 as the base year. The GSDP figures along-with all the associated ratios and indices in this Report have accordingly been revised for the entire 5 year period (2003-08)

1.4 State Finances by Key Indicators

1.4.1 Resources by Volumes and Sources

The resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the GOI. Capital receipts comprise recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account and miscellaneous capital receipts such as proceeds from disinvestments. **Table-1.4** shows that the total receipts of the State Government for the year 2007-08 were Rs. 3,677.26 crore. Of these, the revenue receipts were Rs. 1,497.71 crore, constituting 40.73 per cent of the total receipts. The balance came from borrowings (7.61 per cent) and receipts from Public Account (51.66 per cent). Suspense & Miscellaneous and Remittances constitute 62.74 per cent and 28.04 per cent of the public account and the increases were mainly due to increase in treasury cheques and increase in public works remittances respectively.

Table-1.4
Trends in Growth and Composition of Aggregate Receipts

(Rupees in crore)

Sources of State's receipts		2003-04	2004-05	2005-06	2006-07	2007-08
I.	Revenue Receipts	898.99	1,011.29	1,088.20	1,203.25	1,497.71
II.	Capital Receipts	138.10	192.75	145.20	143.53	280.02
	Public Debt Receipts	137.02	192.99	145.06	142.75	279.64
	Recovery of Loans and Advances	1.08	(-0.24)	0.14	0.78	0.38
	Miscellaneous Capital Receipts	--	--	--	--	--
III	Contingency Fund	--	--	--	--	--
IV	Public Account Receipts	1,193.34	1,415.38	1,456.53	1,705.54	1,899.53
(a)	Small Savings, Provident Fund, etc	65.09	69.79	73.81	80.02	84.23
(b)	Reserve Fund	22.01	32.80	28.55	24.51	64.11
(c)	Deposits and Advances	24.77	21.22	28.23	24.70	26.88
(d)	Suspense and Miscellaneous	701.62	799.99	888.65	1,119.86	1,191.74
(e)	Remittances	379.85	491.58	437.29	456.45	532.57
	Total Receipts	2,230.43	2,619.42	2,689.93	3,052.32	3,677.26

Source: Finance Accounts

1.4.2 Revenue Receipts

Statement – 11 of the Finance Accounts details the revenue receipts of the Government. Revenue receipts of the State comprise mainly its own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and its buoyancy are indicated in **Table-1. 5**.

Table-1.5
Revenue Receipts- Basic Parameters

(Rupees in crore)

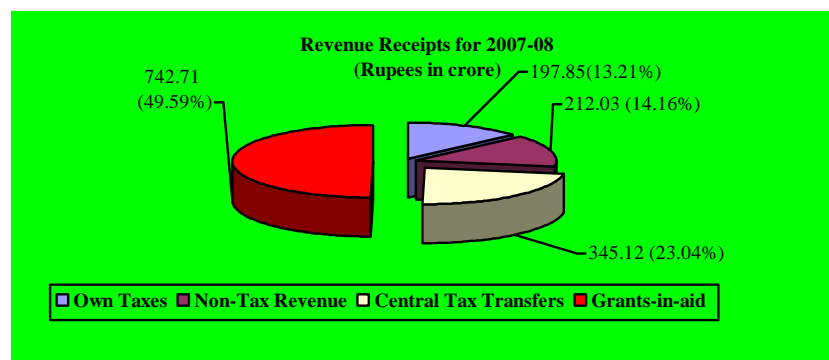
	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Receipts (RR) (Rupees in crore)	898.99	1,011.29	1,088.20	1,203.25	1,497.71
Own Taxes (per cent)	108.00 (12.01)	116.95 (11.56)	147.23 (13.53)	173.18 (14.39)	197.85 (13.21)
Non-tax Revenue (per cent)	95.04 (10.57)	111.36 (11.01)	113.94 (10.47)	171.75 (14.27)	212.03 (14.16)
Central tax Transfers (per cent)	112.33 (12.50)	107.35 (10.62)	182.13 (16.74)	222.78 (18.51)	345.12 (23.04)
Grants-in-aid (per cent)	583.56 (64.92)	675.63 (66.81)	644.90 (59.26)	635.54 (52.82)	742.71 (49.59)
Rate of Growth of RR (per cent)	(-1.00)	12.49	7.61	10.57	24.47
GSDP (Rs. in crore)**	1,429.72	1,602.17	1,830	2,070(Q)	2,353(A)
RR/GSDP (per cent)	62.88	63.12	59.46	58.13	63.65
Revenue Buoyancy (Ratio)	*	1.04	0.54	0.81	1.79
State's own taxes Buoyancy (ratio)	0.19	0.69	1.82	1.34	1.04
Revenue Buoyancy with reference to State's own taxes	*	1.51	0.29	0.60	1.72
GSDP Growth (per cent)	12.05	12.06	14.22	13.11	13.67
Rate of growth of own taxes	2.34	8.29	25.89	17.63	14.25

Source: Finance Accounts and information furnished by Department of Economic, Statistics, Monitoring & Evaluation, Government of Sikkim
Q=Quick estimate, A=Advance estimate. * Rate of growth of Revenue Receipts was negative. Central tax transfers include share of net proceeds of Income Tax.

1.4.3 General Trends

The revenue receipts have shown a progressive increase over the period 2003-2008. While 27 per cent of the revenue receipts during 2007-08 have come from the State's own resources comprising taxes and non-taxes as compared to 23 per cent in 2003-04, the share of Central transfers comprising State's share in Central taxes and duties and grants-in-aid from GOI has marginally declined from 77 per cent in 2003-04 to 73 per cent in 2007-08.

Chart-1.1



1.4.3.1 Tax Revenue

The tax revenue has increased by 14.25 *per cent* from Rs. 173.18 crore in 2006-07 to Rs. 197.85 crore during 2007-08. The revenue from sales tax not only contributed the major share of tax revenue (41.10 *per cent*) but also increased by 8.92 *per cent* (Rs. 6.66 crore) over the previous year. The increase in sales tax revenue over the previous year was mainly due to increase in Value Added Tax (Rs. 5.76 crore). Other taxes and duties on commodities and services increased by 75.78 *per cent* (Rs. 7.01 crore) over the previous year due to more realisation from cess. **Table-1.6** below shows the trend of tax revenue during 2003-2008.

Table-1.6
Tax Revenue

(Rupees in crore)

Head of Revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase(+)/ decrease (-) in 2007-08 over 2006-07
Sales tax	48.87	48.18	56.65	74.66	81.32	(+) 8.92
Taxes on income of Sikkim residents imposed by Government	26.76	29.09	47.82	46.71	49.10	(+) 5.12
State excise	25.25	32.69	32.96	33.31	37.94	(+) 13.90
Stamps and Registration fees	1.14	1.43	2.27	2.52	4.26	(+) 69.05
Taxes on vehicles	2.74	3.24	4.24	5.95	6.22	(+) 4.54
Other taxes and duties on commodities and services	3.06	1.88	2.68	9.25	16.26	(+) 75.78
Land revenue	0.18	0.44	0.61	0.78	2.75	(+) 252.56
Total	108.00	116.95	147.23	173.18	197.85	

Source: Finance Accounts

1.4.3.2 Non-Tax Revenue

The non-tax revenue, which constituted 14 *per cent* of total revenue receipts, has increased by Rs. 40.28 crore from 171.75 crore in 2006-07 to Rs. 212.03 in 2007-08 recording a growth rate of 23.45 *per cent* over the previous year. The major contributors to non tax receipts of the State in 2007-08 include receipts from power (Rs 97.66 crore); net receipts from lotteries (Rs 30.84 crore); road transport (Rs 15.62 crore); interest receipts including profits and dividends (Rs 15.78 crore) and forests and wild life (Rs 10.95 crore). The increase in non tax receipts during 2007-08 (Rs 40.28 crore) was mainly due to increase in receipts under power sector (Rs. 39.50 crore), interest receipts (Rs. 9.76 crore), Forestry and Wildlife (Rs. 1.45 crore) and other components. The increase was however, offset by decrease in net receipts from lotteries amounting to Rs. 19.17 crore.

The position with regard to mobilisation of the State's own resources in 2007-08 vis-à-vis projections made by TFC and the State Government in its Budget is as under:

Table-1.7
Mobilisation of own resources

(Rupees in crore)

Year 2007-08	Assessment of TFC	Budget Estimate	Actuals	Percentage Change over	
				TFC Projection	BE
Tax Revenue (own tax)	156.72	147.72	197.85	41.13 (26.24)	50.13 (33.94)
Non-tax Revenue (excluding lottery of Rs. 1243.29 crore)	96.88	139.93	212.03	115.15 (118.86)	72.10 (51.53)

The trends in the Table reveal that the actual revenue receipts exceeded both the BE as well as the normative assessment by the TFC.

1.4.3.3 Central Tax Transfers

The State's share in Union taxes and duties at Rs. 345.12 crore increased by Rs. 122.34 crore over the previous year mainly due to increase in the State's share in corporation tax (Rs. 23 crore); income tax (Rs. 73.52 crore); custom duties (Rs. 11.87 crore); service tax (Rs. 8.21 crore) and excise duties (Rs. 5.61 crore). With effect from 2007-08 the State was given its share in income tax in pursuance of the amendment to the Income Tax Act, 1961.

1.4.3.4 Grants-in aid

Grants-in-aid increased by Rs. 107.17 crore (16.86 per cent) from Rs. 635.54 crore in 2006-07 to Rs. 742.71 crore in 2007-08 mainly due to increase in grants for State plan schemes (Rs. 11.75 crore), Non Plan grants (Rs. 22.76 crore) Centrally Sponsored schemes (Rs. 60.21 crore) and special plan schemes (Rs. 12.45 crore). Grants for State Plan Schemes increased during 2007-08 mainly due to receipt of more Central assistance under National E-governance Action Plan (Rs. 2.41 crore) and Jawaharlal Nehru National Urban Renewal Mission (Rs. 13.43 crore). Non Plan Grants increased mainly due to increase in Grants towards contribution to Calamity Relief Fund (Rs. 22.26 crore). Grants for Central Schemes/Centrally Sponsored Schemes increased mainly due to increase in grants-in-aid to various schemes for Tourism development (Rs. 42.98 crore) and Family Welfare (Rs. 10.98 crore), Mid-day meal scheme (Rs. 4.04 crore) and Accelerated Rural Water Supply Programme (Rs. 1.31 crore). Details of grants-in-aid from GOI are given in **Table 1.8**.

Table No-1.8
Grants-in-aid from GOI

(Rupees in crore)

	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
Grants for State plan schemes	370.56	435.85	366.36	443.47	455.22
Non Plan grants	150.47	155.92	158.71	64.26	87.02
Grants for Central Schemes/Centrally Sponsored Schemes	54.49	60.28	98.93	104.52	164.73
Grants for Special Plan Schemes (North Eastern Council)	8.05	23.58	20.90	23.29	35.74
Total	583.57	675.63	644.90	635.54	742.71
Percentage of increase/decrease over previous year	0.28	15.78	(-4.55)	(-1.45)	(+16.86)

Source: Finance Accounts

1.4.3.5 Revenue Arrears

In spite of reminders, details of arrears of revenue were not furnished by 16 Departments. Out of 27 Departments which furnished the information, 21 Departments had no revenue arrears. Arrears of revenue of the remaining six Departments were Rs. 36.73 crore at the end of 2007-08.

1.5 Application of resources

1.5.1 Growth of Expenditure

Statement-12 of the Finance Accounts depicts the detailed revenue expenditure minor head-wise and capital expenditure major head-wise. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, extend the network of these services through capital expenditure and investment and discharge their debt service obligations. The total expenditure of the State has increased by 20.10 *per cent* from Rs. 1,300.89 crore in 2006-07 to Rs. 1,562.34 crore in 2007-08. Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in **Table-1.9** below:

Table-1.9

Total Expenditure- Basic Parameters

	2003-04	2004-05	2005-06	2006-07	2007-08
Total Expenditure(TE)* (Rupees in crore)	950.27	1,196.60	1,237.17	1,300.89	1,562.34
Rate of Growth (<i>per cent</i>)	3.38	25.92	3.39	5.15	20.10
TE/GSDP Ratio (<i>per cent</i>)	66.47	74.69	67.60	62.84	66.40
Revenue Receipts/ TE Ratio (<i>per cent</i>)	94.60	84.51	87.96	92.49	95.86
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	0.28	2.15	0.23	0.39	1.47
R R (ratio)	**	2.07	0.45	0.49	0.82

Source: Finance Accounts

* Total expenditure includes revenue expenditure, capital expenditure and loans & advances.

** Not shown as it is negative

Total expenditure of Rs. 950.27 crore in 2003-04 increased to Rs. 1,562.34 crore in 2007-08. In relative terms, the revenue and capital components have increased by 55.26 *per cent* and 96.45 *per cent* respectively during the period 2003-08. However, in absolute terms, increase was of the order of Rs. 408.19 crore in revenue expenditure and Rs. 203.98 crore in capital account during 2007-08 as compared to 2003-04. This trend indicates that the increase in capital and revenue expenditure was in the ratio of 1:2 during the last 5 year period. An increase of Rs. 261.45 crore in total expenditure (20.10 *per cent*) during 2007-08 over the previous year was mainly due to increase of Rs. 172.60 crore and Rs. 89.05 crore in revenue expenditure and capital expenditure respectively and decrease of disbursement of loans and advances by Rs. 0.20 crore. The increase of Rs. 172.60 crore in revenue expenditure in 2007-08 over 2006-07 was due to increase of Rs. 53.23 crore (30.84 *per cent*) on General Services towards training, Police, maintenance and repairs under Public Works, Rs. 82.42 crore (47.75 *per cent*) on Economic Services towards expenditure on Agricultural Farms, Integrated Rural Development

Programme, Social Welfare and Rs. 36.95 crore (21.41 per cent) on Social Services towards Elementary and Secondary Education, Rural Allopathy under Medical and Public Health. The increase of Rs. 89.05 crore in capital outlay was due to increase on Economic Services (Rs. 54.72 crore: major components of which were development of Tourism: Rs. 11.25 crore, Rural Development: Rs. 13.10 crore, Roads and Bridges: Rs. 19.05 crore and Power projects: Rs. 9.36 crore), General Services (Rs. 29.23 crore: major components of which were Public Works: Rs. 17.82 crore and Urban Development: Rs. 4.98 crore) and Social Services (Rs. 5.10 crore on Social Welfare). During the current year, 95.86 per cent of total expenditure was met from revenue receipts and the remaining from capital receipts and borrowed funds. The buoyancy of total expenditure to GSDP stood at 1.47 in 2007-2008 indicating a tendency to spend less than the increase in income and lower elasticity of total expenditure with respect to GSDP.

1.5.2 Trends in Total Expenditure by Activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services, Interest payments, Social and Economic Services and grants-in-aid and other contributions to institutions. Relative share of these components in total expenditure is indicated in **Table-1.10** below:

Table-1.10
Components of Expenditure- Relative Share

	<i>(Rupees in crore)</i>				
	2003-04	2004-05	2005-06	2006-07	2007-08
General Services*	259.58 (27)	276.01 (23)	304.64 (25)	355.89 (27)	427.34(27)
Interest Payments	92.50 (10)	99.19 (8)	102.60 (8)	115.27 (9)	117.74(8)
Social Services	360.28 (38)	438.28 (37)	446.76 (36)	475.12 (37)	573.64(37)
Economic Services	330.31 (35)	481.63 (40)	485.77 (39)	469.68 (36)	561.36(36)
Grants in aid+	37.14 (3.91)	22.55 (1.88)	34.56 (3)	31.99 (2)	15.13(1)

Source: Finance Accounts

(Figures in brackets represent percentages). * General Services include interest payments.

Grants-in-aid is included in Social and Economic services.

Expenditure on General Services (which include interest payments also) considered as non-developmental expenditure, accounted for 27 per cent of the total expenditure in 2007-08 while expenditure on Social and Economic Services accounted for 73 per cent. The trends in the relative share of these components indicate only marginal changes in their share in total expenditure during the period 2003-08.

1.5.3 Incidence of Revenue expenditure

Of the total expenditure, predominant share was that of revenue expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in **Table-1.11** below:

Table-1.11

Revenue Expenditure: Basic Parameters

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Expenditure (Rupees in crore)	738.68	842.38	891.44	974.27	1146.87
Non -Plan Revenue Expenditure (NPRE)	492.36	604.36	597.24	637.62	727.08
Plan Revenue Expenditure (PRE)	246.32	238.02	294.20	336.65	419.79
Rate of Growth (per cent)					
NPRE	6.78	22.75	(-1.18)	6.76	14.03
PRE	(-0.69)	(-3.37)	23.60	14.43	24.70
NPRE as per cent of TE	51.81	50.51	48.27	49.01	46.54
NPRE as per cent of RR	54.77	59.76	54.88	52.99	48.55
RE/GSDP	51.67	52.58	48.71	47.07	48.74
RE as percentage of TE	77.73	70.40	72.05	74.89	73.41
RE as percentage of RR	82.17	83.30	81.92	80.97	76.57
Buoyancy of Revenue Expenditure with (per cent)					
GSDP	0.33	1.16	0.41	0.71	1.30
Revenue Receipts	-4.01	1.12	0.77	0.88	0.72

Source: Finance Accounts

Overall revenue expenditure of the State increased from Rs. 738.68 crore in 2003-04 to Rs. 1,146.87 crore in 2007-08, showing an increase of 55.26 per cent over the period. The non-plan revenue expenditure not only shared a dominant proportion in revenue expenditure (63.40 per cent) in 2007-08 but also increased by 14.03 per cent (Rs. 89.46 crore) during the year. The increase in NPRE during the year was mainly on account of increase in salaries (Rs. 30.20 crore); expenditure on account of calamity relief (Rs. 22.39 crore); collection of taxes (Rs. 16.02 crore) and on interest payments (Rs. 2.47 crore). The trends and pattern of revenue expenditure vis-à-vis the normative projection made by the TFC for various components of revenue expenditure are given in Table-1.12.

Table – 1.12

(Rupees in crore)

Particulars	Assessed by TFC	Actual	Excess (+) / deficit (-)
Interest payments	104.60	117.74	(+) 13.14
Pensions	41.86	50.19	(+) 8.33
Other general services	124.09	201.23	(+) 77.14
Social services	204.48	230.89	(+) 26.41
Economic Services	73.74	127.03	(+) 53.29

Source: Finance Accounts and TFC recommendations

The plan revenue expenditure (PRE) widely fluctuated during 2003-08 and increased by 24.7 per cent (Rs. 83.14 crore) in 2007-08 over the previous year. The increase in PRE during 2007-08 was primarily on account of increase under general education (Rs. 14.95 crore); medical and public health (Rs. 9.80 crore); special programmes for rural development (Rs. 6.49 crore); crop husbandry (Rs. 5.30 crore) and other agricultural programmes (Rs. 6.64 crore) etc.

1.5.4 Committed Expenditure

Expenditure on Salaries and Wages

Salaries alone accounted for nearly 32.91 *per cent* of the revenue receipts and 42.98 *per cent* of the revenue expenditure of the State during 2007-08. The expenditure on salaries increased from Rs. 355.97 crore during 2003-04 to Rs. 492.91 crore during 2007-08 registering an increase of 38.47 *per cent* as indicated in **Table-1.13** below:

Table – 1.13
Expenditure on Salaries

(Rupees in crore)

Heads	2003-04	2004-05	2005-06	2006-07	2007-08
Salary expenditure	355.97	347.02	426.04	438.81	492.91
Of which,					
Non-plan heads	237.71	260.34	320.42	332.26	362.46
Plan heads	118.26	86.68	105.62	106.55	130.45
As a percentage of GSDP	24.90	21.66	23.28	21.20	20.95
As a percentage of Revenue Receipts	39.60	34.31	39.15	36.47	32.91
As a percentage of Revenue Expenditure	48.19	41.20	47.79	45.04	42.98

Source: Finance Accounts

Salaries and wages accounted for 20.95 *per cent* of the State's GSDP and 32.91 *per cent* of the revenue receipts during 2007-08. The salary expenditure at Rs. 362.46 crore was 50.35 *per cent* of revenue expenditure net of interest and pension payments, which is significantly higher than the norm of 35 *per cent* recommended by the TFC.

Pension payments

Payment of pension and other retirement benefits increased by 26 *per cent* from Rs. 39.82 crore in 2003-04 to Rs. 50.19 crore in 2007-08 as indicated in **Table-1.14** below:

Table– 1.14
Retirement benefits

(Rupees in crore)

Year	Expenditure	Percentage to total RR	Percentage to total GSDP
2003-04	39.82	4.43	2.79
2004-05	30.77	3.04	1.92
2005-06	41.53	3.82	2.27
2006-07	49.24	4.09	2.38
2007-08	50.19	3.35	2.13

Source: Finance Accounts

Payment of pension and other retirement benefits as a percentage of GSDP also decreased marginally from 2.79 in 2003-04 to 2.13 in 2007-08. Pension payments during the current year have increased by Rs. 0.95 crore recording a growth rate of 1.93 *per cent* over the previous year. The Government has introduced a Contributory Pension Scheme for employees recruited on or after April 2006 to mitigate the impact of rising pension liabilities in future.

Interest payments

Interest payments and percentage of interest payment with reference to revenue receipts and revenue expenditure are shown in **Table-1.15** below:

Table-1.15
Interest payments

(Rupees in crore)

Year	Total Revenue Receipts	Interest payments	Percentage of interest payment with reference to	
			Revenue Receipts	Revenue Expenditure
2003-04	898.99	92.50	10.29	12.52
2004-05	1,011.29	99.19	9.81	11.77
2005-06	1,088.20	102.60	9.43	11.51
2006-07	1,203.25	115.27	9.58	11.83
2007-08	1497.71	117.74	7.86	10.27

Source: Finance Accounts

Interest payments increased by 27.29 per cent from Rs. 92.50 crore in 2003-04 to Rs. 117.74 crore in 2007-08 primarily due to increase in borrowings. The interest payments of Rs. 117.74 crore in 2007-08 pertained to internal debt (Rs. 70.98 crore), loans received from Central Government (Rs. 23.87 crore) and Small Savings, Provident Fund, etc. (Rs. 22.89 crore). The interest payment during 2007-08 although exceeded the normative projections of TFC (Rs. 104.6 crore) but relative to revenue receipts at 7.86 per cent remained well within the norms of 15 per cent recommended by the TFC.

Subsidies

The trend in subsidies given by the State Government is shown in **Table- 1.16** below:

Table-1.16
Subsidies

Year	Amount (Rupees in crore)	Percentage increase(+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2003-04	7.07	32	0.74
2004-05	8.23	16.41	0.69
2005-06	10.06	22	0.81
2006-07	5.91	(-) 41.25	0.45
2007-08	8.08	36.72	0.52

Source: Finance Accounts

The increase in payment of subsidies as compared to Rs. 5.91 crore in 2006-07 was mainly due to 47 per cent increase in the food subsidies (Rs. 2.37 crore) and 5 per cent in co-operatives (Rs. 0.03 crore). The major portion of expenditure on subsidies (92.20 per cent) was on account of issue of subsidised rice and wheat under public distribution system to the families living below the poverty line followed by assistance to co-operatives (7.80 per cent).

1.6 Expenditure by allocative priorities**1.6.1 Quality of Expenditure**

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running the existing social and economic services efficiently and

effectively would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP, better is the quality of expenditure. **Table-1.17** below gives these ratios during 2003-04 to 2007-08.

Table-1.17

Expenditure on Social and Economic Services

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Capital Expenditure	211.49	353.54	345.73	326.42	415.47
Revenue Expenditure	738.68	842.38	891.44	974.27	1146.87
Of which					
Social and Economic Services with					
(i) Salary & Wage component	248.32	262.18	323.49	332.54	377.18
(ii) Non-Salary & Wage component	240.57	320.68	280.68	327.26	381.63
As per cent of Total Expenditure (excluding loans and advances)					
Capital Expenditure	22.26	29.56	27.95	25.10	26.59
Revenue Expenditure	77.74	70.44	72.05	74.90	73.42

Source: Finance Accounts

Revenue expenditure increased consistently during the period 2003-08 and maintained a dominant share hovering around the average of 74 *per cent* in total expenditure during the period. The share of capital expenditure to total expenditure showed fluctuating trend during 2003-08 and ranged between 22.26 *per cent* and 29.56 *per cent* during the period. The salary and non-salary components of revenue expenditure incurred on social and economic services have indicated an increasing trend during the period; however the share of salary and non-salary components of revenue expenditure exhibited relative stability during the period. These trends indicate need for change in allocative priorities for the improvement in the quality of expenditure and to give an impetus to asset formation.

1.6.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table-1.18** summarises the expenditure incurred by the State Government in expanding and strengthening the social services in the State during 2003-08.

Table-1.18
Expenditure on Social Services

(Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Education, Sports, Art and Culture					
Revenue Expenditure	142.67	160.40	198.00	211.58	239.03
<i>Of which</i>					
(a) Salaries & Wage Component	116.81	138.53	171.30	175.33	202.26
(b) Non-salaries & wage component	25.87	21.87	26.70	36.25	36.77
Capital Expenditure	31.48	29.47	24.95	25.24	19.72
Health and Family Welfare					
Revenue Expenditure	38.95	53.55	51.89	54.84	71.01
<i>Of which</i>					
(a) Salaries & Wage Component	27.75	30.35	37.41	39.14	42.72
(b) Non-salaries & wage component	11.20	23.20	14.48	15.70	28.29
Capital Expenditure	3.86	3.41	7.94	1.92	2.50
Water Supply, Sanitation, Housing and Urban Development					
Revenue Expenditure	42.27	42.17	38.13	35.48	41.59
<i>Of which</i>					
(a) Salaries & Wage Component	28.58	7.84	9.20	9.66	9.17
(b) Non-salaries & wage component	13.69	34.33	28.93	25.82	32.42
Capital Expenditure	60.81	96.80	75.95	88.86	106.37
Other Social Services					
Revenue Expenditure	38.96	50.52	49.77	53.91	86.60
<i>Of which</i>					
(a) Salaries & Wage Component	6.62	7.39	8.85	9.78	11.96
(b) Non-salaries & wage component	32.34	43.13	40.92	44.13	74.64
Capital Expenditure	1.29	1.96	0.13	3.30	6.82
Total Social Services					
Revenue Expenditure	262.85	306.64	337.79	355.81	438.23
<i>Of which</i>					
(a) Salaries & Wage Component	179.75	184.11	226.76	233.91	266.10
(b) Non-salaries & wage component	83.10	122.53	111.03	121.90	172.13
Capital Expenditure	97.44	131.64	108.97	119.32	135.41

Source: Finance Accounts and departmental figures

Out of the development expenditure (revenue and capital expenditure on Social and Economic Services) of Rs. 1,135 crore during 2007-08, Social Services accounted for about 50.54 per cent (Rs. 573.64 crore). Expenditure on Education, Sports, Art & Culture, Health & Family Welfare, Water Security & Sanitation and Urban Development & Housing constituted about Rs. 480.22 crore (83.71 per cent) of expenditure on Social Sector.

The trends in revenue and capital expenditure on Social Services during 2003-08 revealed that the share of capital expenditure drifted between 24 to 30 per cent which indicated that the revenue expenditure was dominant. Of the revenue expenditure, the share of salary and wage component has decreased from 65.74 per cent in 2006-07 to 60.72 per cent in 2007-08 implying increase in expenditure on non-salary component including their maintenance, which might result in an improvement in the quality of social sector services. The non-salary and wage expenditure on social services has increased by 41.20 per cent (Rs. 50.23 crore) from Rs. 121.90 crore in 2006-07 to Rs. 172.13 crore in 2007-08.

Recognising the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and health and family welfare should increase only by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. The trends in non-plan expenditure reveal that the salary and wage component under education sector (excluding Sports, Art & Culture) increased by 9.81 *per cent* (from Rs. 120.90 crore to Rs. 132.76 crore) over 2006-2007 while non-salary and wage component increased by 22.92 *per cent* from Rs. 0.48 crore to Rs. 0.59 crore. Similarly, under Health and Family Welfare sector, the salary and wage component increased by 9.02 *per cent* i.e., from Rs. 24.39 crore to Rs. 26.59 crore while non-salary and wage component increased only by 52.55 *per cent* i.e. from Rs. 7.06 crore to Rs. 10.77 crore.

Expenditure on Economic Services

The expenditure on Economic Services includes all such expenditure which is applied, directly or indirectly, to promote productive capacity within the State's economy.

Table-1.19
Expenditure on Economic Services

(Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Agriculture, Allied Activities					
Revenue Expenditure	69.49	86.70	100.52	111.03	134.45
Of which					
(a) Salaries & Wage Component	33.21	40.30	44.75	44.12	49.28
(b) Non-salaries & wage component	36.27	46.40	55.77	66.91	85.17
Capital Expenditure	1.72	3.94	5.11	5.77	7.16
Irrigation and Flood Control					
Revenue Expenditure	13.56	6.76	8.56	15.50	13.52
Of which					
(a) Salaries & Wage Component	2.30	2.50	2.49	2.36	2.63
(b) Non-salaries & wage component	11.26	4.26	6.07	13.14	10.89
Capital Expenditure	1.64	2.45	1.95	2.47	2.82
Power and Energy					
Revenue Expenditure	36.35	92.20	41.89	38.19	38.09
Of which					
(a) Salaries & Wage Component	12.60	14.52	17.41	17.43	18.02
(b) Non-salaries & wage component	23.75	77.68	24.48	20.76	20.07
Capital Expenditure	43.78	99.58	88.02	38.16	47.52
Transport					
Revenue Expenditure	41.68	51.73	42.72	50.01	55.20
Of which					
(a) Salaries & Wage Component	13.79	14.05	18.29	18.29	21.30
(b) Non-salaries & wage component	27.89	37.68	24.43	31.72	33.90
Capital Expenditure	40.36	71.74	71.47	62.32	84.69
Total Economic Services					
Revenue Expenditure	229.03	276.23	266.39	283.63	320.58
Of which					
(a) Salaries & Wage Component	71.56	78.07	96.73	78.27	111.08
(b) Non-salaries & wage component	157.47	198.15	169.65	205.36	209.50
Capital Expenditure	101.28	205.41	219.38	186.05	240.78

Source: Finance Accounts and departmental figures

The expenditure on Economic Services (Rs. 561.36 crore) accounted for 35.93 *per cent* of the total expenditure and 49.46 *per cent* of development expenditure (**Table-1.19**) during 2007-08. Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 68.31 *per cent* of the expenditure.

The trends in revenue and capital expenditure on economic services indicate that capital expenditure increased from Rs. 101.28 crore in 2003-04 to Rs. 240.78 crore (137.74 *per cent*) in 2007-08. Revenue expenditure also increased from Rs. 229.03 crore in 2003-04 to Rs. 320.58 crore (40 *per cent*) in the current year. Within the revenue expenditure, salary and wage component ranged between 22 and 36 *per cent* of the total revenue expenditure during 2003-08. It increased from Rs. 71.56 crore in 2003-04 to Rs. 111.08 crore (55.22 *per cent*) during the current year. The non-salary and wage component also increased from Rs. 157.47 crore in 2003-04 to Rs. 209.50 crore (33.04 *per cent*) indicating change in allocative priorities of the State Government.

1.6.3 Financial Assistance to Local Bodies and other Institutions

The quantum of assistance provided by way of grants to different local bodies, cooperative societies etc, during the five year period 2003-08 is given in **Table-1.20** below:

Table- 1.20
Financial Assistance

(Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Zilla Parishads and other Panchayati Raj Institutions	24.05	6.91	21.77	24.96	24.13
Cooperative Societies	0.34	2.65	0.96	1.12	1.36
Universities and Educational Institutions	0.97	1.35	1.05	0.93	0.81
Others (including State Housing Corporation)	11.78	11.64	10.78	4.97	0.44
Total	37.14	22.55	34.56	31.98	26.74
Percentage of increase (+)/decrease (-) over previous year	376.15	(-)39.28	53.25	(-) 7.47	(-)16.39
Assistance as a percentage of revenue expenditure	5.02	2.68	3.88	3.28	2.33

The total assistance at the end of 2007-08 had decreased by 28 *per cent* over the year 2003-04 primarily owing to decrease in allocation to State Housing Corporation by the State Government. The assistance to local bodies as a percentage of total revenue expenditure decreased from 5.03 *per cent* in 2003-04 to 2.33 *per cent* in 2007-08.

1.6.4 Abstract of performance of autonomous bodies

The Audit of accounts of 23 bodies in the State has been entrusted to the Comptroller and Auditor General of India. The position of finalisation of accounts and audit of autonomous bodies is indicated in **Appendix-1.6**.

1.7 Assets and liabilities

In the Government accounting system, comprehensive accounting of the fixed assets like land, buildings etc, owned by Government is not done. However, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. **Appendix-1.2** gives an abstract of such liabilities and the assets as on 31 March 2008, compared with the corresponding position on 31 March 2007. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the GOI and receipts from the Public Account and Reserve Funds, assets comprise mainly of capital outlay, loans and advances given by the State Government and cash balances. **Appendix-1.2** shows that while the liabilities grew by 20.70 per cent, assets increased by 19.83 per cent. Liabilities had full back up of assets as defined. The liabilities of Government of Sikkim depicted in the Finance Accounts, however, do not include pension and other retirement benefits payable to retired State employees. Abstract of receipts and disbursements for the year 2007-08, Sources and Applications of funds and the Time Series Data on State Government Finances for the period 2003-08 are given in **Appendices- 1.3, 1.4 and 1.5** respectively.

1.7.1 Incomplete projects

As of March 2008, there were 61 incomplete projects in which Rs. 285.97 crore was blocked as given in **Table-1.21**.

Table-1.21

(Rupees in crore)

Department	Number of incomplete Projects	Initial budgeted cost	Revised total cost of Project	Actual Expenditure (As on 31 March 2008)	Cost overrun
Human Resources Development Department	24	17.36	17.36	10.42	00
Building & Housing Department	11	41.57	43.98	20.17	2.42
Energy and Power Department	12	239.05	395.89	252.61	156.84
Roads & Bridges	9	10.08	10.08	2.17	00
Health Care, Human Services & Family Welfare	5	5.65	5.65	0.60	00
Total	61	313.71	472.96	285.97	159.26

Source: Information furnished by respective departments to A&E office

There was a cost overrun of Rs. 159.26 crore in case of 11 incomplete projects under Energy and Power Department (9 projects) and Building & Housing Department (2 projects). Further, there was time over run ranging from one month to four and a half years.

1.7.2 Departmental Commercial Undertakings

Activities of quasi-commercial nature are performed by certain Government / Departmental Undertakings. These undertakings are required to prepare Proforma Accounts annually in prescribed formats showing the results of financial operations, so that Government can assess their functioning. The

Heads of Departments in Government are to ensure that undertakings funded by budgetary releases prepare the accounts in time and submit them to Accountant General for Audit.

As of 31 March 2008, there were two departmentally managed commercial and quasi-commercial undertakings under the control of Government of Sikkim. However, the preparation of proforma Accounts of one unit was in arrears for two years as follows:

Table -1.22

	Proforma Accounts received upto	Proforma Accounts due
Temi Tea Board	2005-06	2006-07 2007-08
Government Fruit Preservation Factory	2006-07	2007-08

1.7.3 Investments and returns

As on 31 March 2008, Government had invested Rs. 83.41 crore in its Statutory Corporations, Government Companies, Joint Stock Companies and Co-operative Societies. Government's return on this investment was around one *per cent* as against the average interest rate of 8.99 *per cent* being paid by the Government on its borrowings during the period 2004-08.

Table -1.23
Return on Investment

	2004-05	2005-06	2006-07	2007-08	Average
Investment (<i>Rupees in crore</i>)	77.46	82.48	83.40	83.41	81.69
Return (<i>Rupees in crore</i>)	0.92	1.14	0.76	0.68	0.87
Percentage of return	1.19	1.38	0.91	0.82	1.07
Average interest rate paid by Government	9.29	9.10	8.74	8.83	8.99
Difference between interest rate and return	8.10	7.72	7.83	8.01	7.92
Implicit subsidy (<i>Rupees in crore</i>)	6.27	6.37	6.53	6.68	6.47

As on 31 March 2008, Government invested in three Statutory Corporations viz SBS, SMC, STCS (Rs. 7.76 crore), 13 Companies viz SITCO, SIDICO, STDC, SJL etc. (Rs. 59.65 crore); multipurpose Co-operative Societies (Rs. 2.16 crore) and in private enterprises like Sikkim Distilleries, Star Cinema and Banks like SISCO, SBI etc. (Rs. 13.84 crore). The return on these investments were however negligible as most of the statutory corporations/companies and/or cooperative societies were incurring losses. For example, a Statutory Corporation viz. Sikkim Mining Corporation which finalised its accounts for 2006-07 indicated a loss of Rs. 2.17 crore during the year and had accumulated losses aggregating Rs. 11.88 crore wiping of 79 *per cent* of its paid up capital of Rs. 15.02 crore. Further, out of the seven loss incurring working Government Companies, Sikkim Hatcheries Limited, which had finalised its accounts for 2006-07, had accumulated losses aggregating Rs. 138.02 lakh, which exceeded its paid-up capital of Rs. 45.83 lakh.

1.7.4 Loans and advances by State Government

In addition to investments in Co-operatives, Corporations and Companies, Government has also been providing support in terms of loans and advances to many of these bodies. Total outstanding balance as on 31 March 2008 was Rs. 5.12 crore. Interest on these loans and advances was not received in any of the years 2003-08 (Table-1.24).

Table-1.24

Average interest received on loans advanced by the State Government

(Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance	6.28	5.30	6.22	6.08	5.50
Amount advanced during the year	0.10	0.68	--	0.20	--
Amount repaid during the year	1.08	(-) 0.24	0.14	0.78	0.38
Closing Balance	5.30	6.22	6.08	5.50	5.12
Net addition	(-) 0.98	0.92	(-) 0.14	(-) 0.58	(-) 0.38
Interest Received	Nil	Nil	Nil	Nil	Nil
Interest Received as percentage to Loans advanced	Nil	Nil	Nil	Nil	Nil
Average interest paid by the State (<i>per cent</i>)	10.32	9.29	9.10	8.74	8.83
Difference between average interest paid and interest received (<i>per cent</i>)	10.32	9.29	9.10	8.74	8.83
Implicit subsidy	0.65	0.49	0.57	0.53	0.49

Interest received was “nil” during 2003-08 primarily because the statutory corporations/ Government companies/ Co-operative Societies had failed to pay the interest on Government loans. Considering the scenario, it is unlikely that the State will achieve the targeted rate of growth of 7 *per cent* in interest receipts by the terminal year (2009-10) on outstanding loans and advances as recommended by the TFC.

1.8 Undischarged liabilities

1.8.1 Fiscal liabilities - Public debt and Guarantees

There are two sets of liabilities, namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund - Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by an Act of its Legislature and give guarantees within such limits as may be fixed. However, no such law has been passed by the State to lay down any such limit. Other liabilities, which are a part of Public Account, include deposits under small savings scheme, provident funds and other deposits. Table-1.25 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

Table-1.25
Fiscal Liabilities - Basic Parameters

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities (<i>Rupees in crore</i>)	966.45	1,107.07	1,350.87	1,483.99	1,795.82
Rate of Growth (<i>per cent</i>)	11.38	14.55	22.02	9.85	21.01
Ratio of Fiscal Liabilities to					
GSDP(<i>per cent</i>)	67.60	69.10	73.82	71.69	76.32
Revenue Receipts (<i>per cent</i>)	107.51	109.47	124.14	123.75	119.90
Own Resources (<i>per cent</i>)	475.99	484.90	517.24	430.23	438.13
Buoyancy of Fiscal Liabilities to					
GSDP(ratio)	0.94	1.21	1.55	0.75	1.54
Revenue Receipts(ratio)	*	1.16	2.89	0.93	0.86
Own resources (ratio)	(-)0.21	1.17	1.53	0.31	1.12

* Not shown as it is negative

Overall fiscal liabilities of the State increased from Rs. 966.45 crore in 2003-04 to Rs. 1,795.82 crore in 2007-08 at an average growth rate of 15.76 *per cent* during 2003-08. Fiscal liabilities at the close of 2007-08 included internal debt of the State Government (Rs. 908.86 crore), loans and advances from the GOI (Rs. 315.82 crore), small savings, provident fund (Rs. 335.12 crore) and other obligations (Rs. 236.02 crore). The ratio of these liabilities to GSDP increased from 67.60 *per cent* in 2003-04 to 76.32 *per cent* in 2007-08. The buoyancy of these liabilities with respect to GSDP during the year was 1.54 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.54 *per cent*. As of March 2008, sinking fund balances stood at Rs. 90.36 crore which were invested as a fixed deposit in a nationalised bank.

1.8.2 Status of guarantees – contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. Position of guarantees during the last five years was as under:

Table-1.26

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding guarantees	Tax revenue receipts of second preceding year
2003-04	Nil	86.10	Not applicable
2004-05	88.10	82.47	105.53 (2002-03)
2005-06	84.47	84.47	108.00 (2003-04)
2006-07	84.47	84.40	116.95 (2004-05)
2007-08	84.40	75.00	147.23 (2005-06)

Government has guaranteed loans raised by various Corporations and others. At the end of 2007-08 outstanding guarantees stood at Rs. 75 crore. The State Government passed the Sikkim Ceiling on Government Guarantees Act 2000 in December 2000 in terms of which, the total outstanding Government guarantees on the first of April of any year shall not exceed thrice the State's tax revenue receipts of the second preceding year. The outstanding guarantees amounting to Rs. 75 crore given by the Government as of 31 March 2008 were within the ceiling limit prescribed under the Act.

1.8.3 Debt sustainability

Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service the debt. A prior condition for debt sustainability is the debt stabilisation in terms of debt/GSDP ratio.

1.8.4 Debt stabilisation

A necessary condition for stability is that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate–interest rate) and quantum spread (Debt x rate spread), debt sustainability condition requires that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilisation are indicated in **Table 1.27** below giving the average Interest Rate, GSDP growth, Interest spread, and Primary deficit/surplus over the last five years.

Table-1.27
Debt sustainability

Interest rate and GSDP growth (in per cent)

	2003-04	2004-05	2005-06	2006-07	2007-08
Outstanding Debt (<i>Rs. in crore</i>)	867.68	966.45	1,107.07	1,350.87	1,483.99
Average Interest Rate paid by the Government	10.32	9.29	9.10	8.74	8.83
GSDP Growth	12.05	12.06	14.22	13.11	13.67
Interest spread	1.73	2.77	5.12	4.37	4.84
Quantum Spread (<i>Rs. in crore</i>)	15.01	26.77	56.68	59.03	71.82
Primary Surplus (+)/Deficit (-) (<i>Rs. in crore</i>)	(+) 42.24	(-) 86.36	(-) 46.23	(+) 18.42	(+)53.49

Table-1.27 reveals that except in 2004-05, primary surplus together with quantum spread remained positive during the period 2003-08. Prevalence of primary deficit thereafter in 2004-05 and 2005-06 led to a sharp increase in fiscal liabilities to GSDP ratio to 69 per cent in 2004-05 and further to 74 per cent in 2005-06. The ratio however declined marginally in 2006-07 and further increased sharply to 76 per cent in 2007-08 despite the positive quantum spread together with primary surplus during the year. The increase seems to be on account of increase in fiscal liabilities of the State unrelated to the fiscal deficit or the borrowing needs of the State during the year.

1.8.5 Incremental non-debt receipts and expenditure

Another indicator of debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table 1.28** indicates the resource gap as defined for the period 2003-08

Table- 1.28
Incremental revenue and expenditure

(Rupees in crore)

Year	Incremental				Resource Gap
	Non-debt receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2003-04	(-) 9.31	29.12	2.97	32.09	(-) 41.40
2004-05	111.04	239.64	6.69	246.33	(-) 135.29
2005-06	77.29	37.16	3.41	40.57	(+) 36.72
2006-07	115.69	51.05	12.67	63.72	(+) 51.97
2007-08	294.06	258.98	2.47	261.45	(+) 32.61

The resource gap was negative both relative to primary expenditure as well as the total expenditure successively in 2003-04 and 2004-05 indicating deteriorating debt position. However, the gap was positive thereafter in 2005-06 to 2007-08 reflecting improvement in the ability of the State to sustain the debt since 2005-06.

1.8.6 Net availability of funds

Debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payment) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e., they are (a) not being used for financing revenue expenditure and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

Table 1.29 gives the position of receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last five years.

Table -1.29
Net availability of borrowed funds

(Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Internal debt					
Receipts	75.96	110.32	122.07	132.22	274.08
Repayment (Principal + Interest)	59.96	88.69	65.56	79.23	111.88
Net Funds Available	16.00	21.63	56.51	52.99	162.20
Net Funds Available (<i>per cent</i>)	21.07	19.61	46.29	40.08	59.18
Loans and advances from GOI					
Receipts	61.06	82.67	22.99	10.52	5.56
Repayment (Principal + Interest)	97.83	72.73	49.11	52.57	38.53
Net Funds Available	(-)36.77	9.93	(-) 26.12	(-) 42.05	(-)32.97
Net Funds Available (<i>per cent</i>)	-	12.01	--	--	--
Other obligations					
Receipts	65.09	69.79	73.81	80.03	84.23
Repayment (Principal + Interest)	86.12	98.76	81.15	86.27	93.14
Net Funds Available	(-)21.03	(-) 28.97	(-)7.34	(-)6.24	(-8.91)
Net Funds Available (<i>per cent</i>)	-	-	-	--	--
Total liabilities					
Receipts	202.11	262.77	218.87	222.77	363.87
Repayment (Principal + Interest)	243.91	260.18	195.82	218.07	243.55
Net Funds Available	(-)41.80	2.59	23.05	4.70	120.32
Net Funds Available (<i>per cent</i>)	-	0.99	10.53	2.11	33.07

The debt redemption ratio remained less than unity during the period 2003-08 except during the year 2003-04. It was observed that debt repayments including debt service obligations were more than the debt receipts both with regard to loans and advances from GOI as well as under the head 'other obligations' during the period 2003-08 except in the year 2004-05 when receipts of GOI loans were slightly higher than the repayments. The debt redemption ratio being increasingly less than one under internal debt implies increasing availability of borrowed funds for application in other development purposes.

1.9 Management of deficits

1.9.1 Trends in deficits

The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table 1.30**.

Table-1.30**Fiscal Imbalances–Basic Parameters (Values in crore of rupees and ratios in per cent)***(Values in crore of rupees and ratios in per cent)*

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Surplus	160.25	168.91	196.76	228.98	350.84
Fiscal Deficit	(-)50.26	(-) 185.55	(-) 148.83	(-) 96.86	(-)64.25
Primary Deficit (-)/ Surplus (+)	(+) 42.24	(-) 86.36	(-) 46.23	(+) 18.41	(+)53.49
FD/GSDP	(-) 3.52	(-) 11.58	(-) 8.13	(-) 4.68	(-)2.73
PD/GSDP	(+) 2.95	(-) 5.39	(-) 2.53	(+) 0.89	(+)2.27

(Negative figures indicate deficit)

The revenue account of the State had exhibited consistent improvement during the period 2003-08 as the State had not only maintained revenue surplus but its surplus position has improved during the last five years. An increase of Rs. 121.86 crore in revenue surplus during the current year was mainly on account of enhancement in revenue receipts by Rs. 294.46 crore as against the increase of Rs. 172.60 crore in revenue expenditure over the previous year. This improvement in revenue account during 2007-08 was mainly on account of steep increase of Rs. 229.51 crore in Central transfers comprising of State's share in Central taxes and duties and grants-in-aid from GOI which contributed around 78 per cent of incremental receipts during the year.

Huge revenue surplus in 2007-08 accompanied by moderate increase in capital expenditure (Rs. 89.05 crore) in 2007-08 together with disbursement of loans and advances led to a decline of Rs. 32.61 crore in fiscal deficit during 2007-08. A decline in fiscal deficit accompanied by an increase in interest payment resulted in primary surplus of Rs. 53.49 crore against the primary surplus of Rs. 18.41 crore in 2006-07.

1.9.2 Quality of deficit/ surplus

The ratio of RD and FD and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. During the entire five year period, the State had a revenue surplus.

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2003-08 reveals (**Table 1.31**) that the non-debt receipts were enough to meet the requirements of primary revenue expenditure and some receipts were left to meet the capital expenditure. These were, however, not enough during 2004-05 and 2005-06 as substantial capital expenditure was incurred by the State Government during these two years relative to other years except 2007-08. This indicates the extent to which primary deficit has been on account of enhancement of capital expenditure which to some extent may be desirable to improve productive capacity of the State's economy.

Table 1.31
Primary deficit / surplus – bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts ⁷	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure ⁸ (3+4+5)	(NDR vis-à-vis Primary RE) ⁹ (2 – 3)	Primary deficit (-) /surplus (+) (2 – 6)
1	2	3	4	5	6	7	8
2003-04	900.01	646.18	211.49	0.10	857.77	(+) 253.83	(+) 42.24
2004-05	1011.05	743.19	353.54	0.68	1097.41	(+) 267.86	(-) 86.36
2005-06	1088.34	788.84	345.73	0.00	1134.57	(+) 299.50	(-) 46.23
2006-07	1204.03	859.00	326.42	0.20	1185.62	(+) 345.03	(+) 18.41
2007-08	1498.09	1029.13	415.47	0.00	1444.60	(+)468.96	(+)53.49

1.10 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.32** below presents a summarised position of Government finances over 2003-08, with reference to certain key indicators that help in assessing the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important features.

⁷ Includes Revenue receipts & recovery of loans and advances.

⁸ Total expenditure net of interest payments.

⁹ Fiscal deficit net of interest payments.

Table -1.32
Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2003-04	2004-05	2005-06	2006-07	2007-08
I. Resource Mobilisation					
Revenue Receipts/GSDP	62.88	63.12	59.46	58.13	63.65
Revenue Buoyancy	*	1.04	0.54	0.81	1.79
Own tax/ GSDP	7.55	7.30	8.05	8.36	8.41
II Expenditure Management					
Total Expenditure/GSDP	66.46	74.69	67.60	62.84	66.40
Total Expenditure/Revenue Receipts	105.70	118.26	113.69	108.10	104.32
Revenue Expenditure/Total Expenditure	77.73	70.40	72.05	74.89	73.41
Salary Expenditure on Social and Economic Services/RE	33.62	31.12	36.29	34.13	32.89
Non-Salary Expenditure on Social and Economic Services/RE	32.57	38.07	31.49	33.59	33.28
Capital Expenditure/Total Expenditure	22.26	29.56	27.95	25.10	26.59
Capital expenditure on Social and Economic Services/Total Expenditure	20.91	28.17	26.54	23.48	26.59
Buoyancy of TE with RR	0.94	2.07	0.45	0.49	0.82
Buoyancy of RE with RR	(-)4.01	1.12	0.77	0.88	0.72
III. Management of Fiscal Imbalances					
Revenue Surplus (<i>Rupees in crore</i>)	160.25	168.91	196.76	228.98	350.84
Fiscal Deficit (<i>Rupees in crore</i>)	(-)50.26	(-)185.55	(-)148.83	(-)96.86	(-)64.25
Primary Deficit (-)/Surplus (+) (<i>Rupees in crore</i>)	(+)42.24	(-) 86.36	(-)46.23	(+)18.41	(+)53.49
Revenue Deficit/ Fiscal Deficit	\$	\$	\$	\$	\$
IV. Management of Fiscal Liabilities (FL)					
Fiscal Liabilities/GSDP	67.60	69.10	73.82	71.69	76.32
Fiscal Liabilities/RR	107.51	109.47	124.14	123.75	119.90
Buoyancy of FL with RR	0.54	(-)14.50	2.90	0.93	0.86
Buoyancy of FL with OR [^]	(-)0.21	0.07	1.53	0.31	1.12
Primary deficit <i>vis-à-vis</i> quantum spread (Rs. in crore)	57.25	(-) 59.59	10.45	77.44	125.31
Net Funds Available	-	0.99	10.53	2.11	33.07
V. Other Fiscal Health Indicators					
Return on Investment	0.98	1.19	1.38	0.91	0.82
BCR (<i>Rupees in crore</i>)	(-) 15.64	(-) 101.78	15.77	6.08	126.66
Financial Assets/ Liabilities (Ratio)	1.97	1.13	2.01	2.07	2.08

* Rate of growth of Revenue Receipts was negative. \$ State had a revenue surplus in all these years. ^OR = Own Resources (State's Own Tax + Non-tax Revenue)

The trends in ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy and accessibility of resources to State. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP remained quite high in the State mainly on account of large transfers from GOI and relatively low levels of GSDP. The ratio during the current year at 63.65 per cent was however lower by 5.52 percentage points over the previous year. The ratio of own taxes to GSDP indicated an improvement during 2003-08 and the ratio at 8.41 turned out to be more than the budget estimate indicating the enhanced tax efforts of the State Government in mobilisation of own resources.

Various ratios concerning expenditure indicate the quality of expenditure and sustainability in relation to resources. The revenue expenditure as a percentage to total expenditure remained over 70 *per cent* during 2003-08, indicating its dominant share in the total expenditure of the State leaving very little for capital formation or asset creation. The higher buoyancy ratio of revenue expenditure as compared to that of total expenditure with respect to revenue receipts during recent years also indicates the propensity of the State Government to incur more revenue expenditure relative to capital expenditure. The reliance on revenue receipts to finance the total expenditure reflected a decreasing trend during the period 2003-08 but also indicated that the dependence on borrowed funds still continued resulting in increasing fiscal liabilities. This is also reflected in the ratio of financial liabilities to revenue receipts which continued to exceed 100 *per cent*, although indicated a declining trend since 2004-05. Increasing proportion of plan expenditure and capital expenditure in the total expenditure also indicates improvement in both developmental and quality of expenditure.

Revenue surplus consistently improved during the last three years and increased by Rs. 121.86 crore during the current year as a result of which, the fiscal deficit declined by Rs. 32.61 crore. The positive Balance from Current Revenue and financial assets to liabilities ratio being greater than one indicates favourable trends which need to be sustained in the medium to long run.

1.11 Conclusion

The fiscal position of the State viewed in terms of key fiscal parameters showed a significant improvement in 2007-08 relative to the previous year. This improvement was mainly on account of steep increase of Rs. 229.51 crore in Central transfers comprising State's share in Central taxes and duties and grants-in-aid from GOI, which contributed around 78 *per cent* of the incremental receipts during the year. The expenditure pattern of the State reveals that the revenue expenditure as a percentage to total expenditure indicated a declining trend but constituted 73.41 *per cent* of the total expenditure during 2007-08. The NPRE component at Rs. 727 crore during 2007-08 was significantly higher than the normative projection of TFC at Rs 549 crore for the year. Moreover, within the NPRE three components i.e. salary expenditure, pension payments, and interest payments constituted 73 *per cent* during 2007-08. These trends in expenditure indicate the need for changing allocative priorities. The continued prevalence of fiscal deficit in the Finance Accounts of the State indicates increasing reliance on borrowed funds resulting in increasing fiscal liabilities of the State over this period. The increasing fiscal liabilities accompanied by a negligible rate of return on Government investments and inadequate recovery of cost on loans and advances continue to be cause for concern affecting the fiscal position of the State. The State Government needs to initiate suitable measures to contain the NPRE and to mobilise additional resources through both tax and non tax sources in the ensuing years.