

**CHAPTER-I: FINANCES OF THE
STATE GOVERNMENT**

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

Profile of Sikkim

Sikkim is a sparsely populated State situated in the Eastern Himalayas. It became a part of the Indian Union on 16 May 1975. The State is categorised as a Special Category State (SCS) on account of which certain special privileges are given by Government of India (GoI) viz 90 *per cent* grants and 10 *per cent* State share against 70 *per cent* grants and 30 *per cent* State share to General Category States in all the Centrally Sponsored Schemes. It has a total area of 7,096 sq. km which constitutes 0.22 *per cent* of the total geographical area of India. Sikkim being landlocked, National Highway 10 is the only lifeline which connects the State with the rest of the country. Sikkim has four districts and nine sub-divisions and has also been included in the North Eastern Council (NEC) since December 2002.

According to the Census of India-2011, the population of Sikkim stood at 6.11 lakh and the percentage of rural population of the State (75 *per cent*) was more than the all India average (69 *per cent*). The percentage of population below the poverty line at 17.80¹ *per cent* is lower than the all India average of 29.50 *per cent*. The literacy rate of Sikkim was 81.42 *per cent* as against the all India literacy rate of 74.04 *per cent*. Similarly, the infant mortality rate at 19 per 1,000 live births was better than the all India average of 39 per 1,000 births as per Sample Registration System Bulletin of September 2014. Per capita Gross State Domestic Product (GSDP) for the year 2015-16 was ₹ 2,58,339 (**Appendix 1.1-Part A**).

Gross State Domestic Product

The growth of GSDP of the State is an important indicator of the State's economy. A trend analysis of growth of Gross Domestic Product (GDP) for a period of five years (base year 2011-12) at current prices indicates the performance of the Government in fiscal management of the State. The growth rate of GSDP for the period 2011-16 compared with the GDP is presented in the table below:

Annual growth rate of GDP and GSDP at current prices

(₹ in crore)

Year	2011-12	2012-13	2013-14	2014-15	2015-16
GSDP*	11,165	12,338	13,862	15,209**	16,637 ^s
Growth in per cent	@	10.51	12.35	9.72	9.39
GDP# (₹ in crore)	87,36,039	99,51,344	1,12,72,764	1,24,88,205	13,57,60,865
Growth in per cent	@	13.91	13.28	10.78	8.71

Source: *Department of Economics, Statistics, Monitoring and Evaluation, Government of Sikkim

Central Statistical Office, Ministry of Statistics and Programme Implementation, GoI

** Provisional estimate, \$ Quick estimate

The quantum of GDP and GSDP is measured in terms of constant and current prices and as per their respective arithmetical calculations; these figures differ from each other every

¹Report of the expert group (Rangarajan) to review the methodology for measurement of poverty, Planning Commission (June 2014). @ Growth rate of GDP and GSDP not indicated, since comparison with the year 2010-11 could not be made as the base year has been revised to 2011-12

year. For comparison between GDP and GSDP, the GDP figure calculated on the basis of current price at factor cost with base year 2011-12 has been taken.

1.1 Introduction

The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The Finance Accounts has been divided into two Volumes: Volume I and II. Volume I represents the financial statements of the Government in a summarised form while Volume II represents detailed financial statements.

This chapter provides a broad perspective of the Finances of the State Government during 2015-16. It analyses important changes in the major fiscal indicators compared to the previous year keeping in view the overall trends during the last five years. The analysis is based on the Finance Accounts and information obtained from the State Government. The structure of the Government Accounts and the layout of the Finance Accounts have been explained in **Appendix 1.1-Parts B and C. Appendix 1.2** presents the time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2011-16.

1.2 Summary of fiscal transactions

Table 1.1 and **Appendix 1.3** present the summary of the fiscal transactions of the State Government and provide details of Receipts and Disbursements as well as the overall fiscal position respectively during 2015-16 vis-à-vis the previous year.

Table 1.1: Summary of the fiscal transactions

(₹ in crore)

Receipts			Disbursements				
	2014-15	2015-16		2014-15	2015-16		
Section-A: Revenue				Total	Non Plan	Plan	Total
Revenue Receipts	4,461.95²	3,784.29	Revenue Expenditure	3,730.95³			3,644.58
Tax Revenue	527.54	566.82	General Services	1,588.43	1,221.93	21.87	1,243.80
Non-Tax Revenue	698.08	412.99	Social Services	1,279.72	676.97	559.22	1,236.19
Share of Union taxes and duties	809.33	1,870.28	Economic Services	820.96	436.20	689.59	1,125.79
Grants from GoI	2,427.00	934.20	Grants-in-aid and contributions	41.84	38.80		38.80
Section-B: Capital							
Misc. Capital Receipts	0.00	0.00	Capital Outlay	980.71	-	633.98	633.98
Recoveries of loans and advances	0.88	1.38	Loans and advances disbursed	26.57			27.03
Public Debt Receipts	411.79	654.88	Repayment of Public Debt	87.03			196.13
Contingency Fund	1.00	0.00	Contingency Fund	0.00			0.00
Public Account Receipts ⁴	5,090.42	7,114.68	Public Account Disbursements ⁵	4,887.44			6,865.88
Opening cash balance	1,283.60	1,536.94	Closing cash balance	1,536.94			1,724.57
Total	11,249.64	13,092.17		11,249.64			13,092.17

Source: Finance Accounts

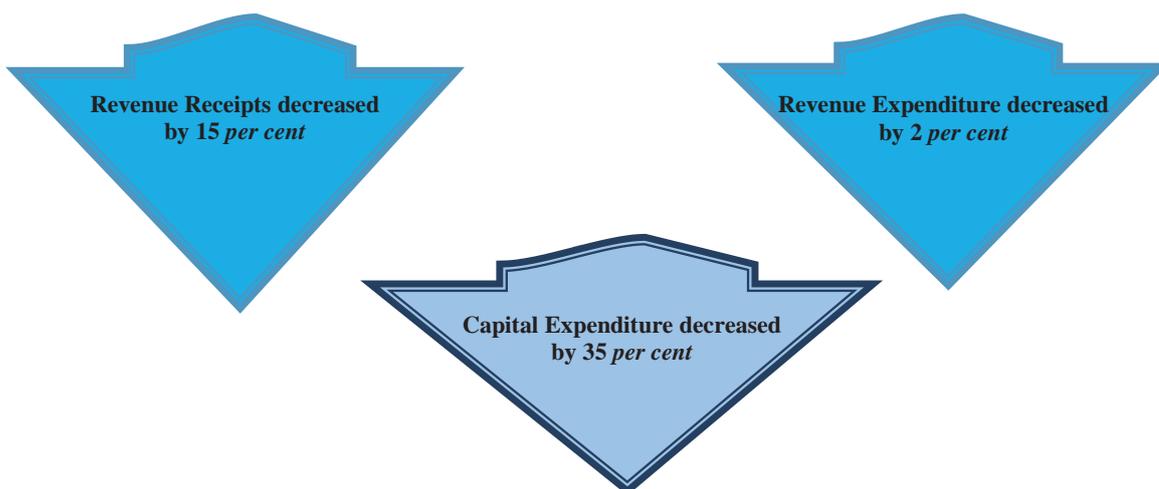
² Revenue Receipts and Non-Tax Revenue are inclusive of gross receipts (₹418.64 crore) from State Lotteries.

³ Revenue Expenditure and General Services Expenditure (Non-Plan) are inclusive of expenditure (₹374.31 crore) on State Lotteries.

⁴ Gross Public Accounts Receipts during the year.

⁵ Gross Public Accounts Disbursement during the year.

The following are the significant changes during 2015-16 over the previous year:



Revenue Receipts decreased by ₹ 677.66 crore (15 per cent) over the previous year mainly due to decrease in grants from GOI by ₹ 1,492.80 crore and Non-Tax Revenue by ₹ 285.09 crore offset by increase in Tax Revenue by ₹ 39.28 crore and share of Union taxes and duties by ₹ 1,060.95 crore as compared to previous year.

Revenue Expenditure decreased by ₹ 86.37 crore (2 per cent) over the previous year as a result of decrease in expenditure in General Services (₹ 344.63 crore), Social Services (₹ 43.53 crore), Grants-in-aid (₹ 3.04 crore) offset by increase in Economic Services (₹ 304.83 crore).

Capital Expenditure decreased by ₹ 346.73 crore (35 per cent) over the previous year.

Public Debt Receipts increased by ₹ 243.09 crore (59 per cent) and its repayment increased by ₹ 109.10 crore (125 per cent) over the previous year.

The total inflow and outflow of the Government during the year 2015-16 was ₹ 11,555.23 crore and ₹ 11,367.60 crore respectively leading to increase in cash balance by ₹ 187.63 crore.

1.3 Fiscal reforms path in Sikkim

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

- (a) Maintain revenue surplus from 2010 onwards;
- (b) Reduce the fiscal deficit to 3.5 per cent of the estimated GSDP in each of the financial years starting from 2011-12 and reduce the fiscal deficit to not more than

three *per cent* of the estimated GSDP at the end of 31 March 2014 and adhere to it thereafter;

- (c) Cap the total outstanding guarantees within the specific limit under the Sikkim Ceiling on Government Guarantees Act 2000 (21 of 2000);
- (d) Ensure that the outstanding debt-GSDP ratio follows a sustainable path emanating from the above targets of the deficit as specified by the Government beginning from the fiscal year 2011-12.

Revenue deficit and fiscal deficit may exceed the limits specified under the section on the ground or grounds of unforeseen demands on the finances of the Government due to national security or natural calamity subject to the condition that the excess beyond limits arising due to natural calamities does not exceed the actual fiscal cost. Provided further that the ground or grounds specified in the above proviso shall be placed before the Legislative Assembly as soon as may be, after it becomes likely that such deficit amount may exceed the aforesaid limit, with an accompanying report stating the likely extent of excess.

Major fiscal variables provided in the budget based on recommendations of the XIV Finance Commission (XIV FC) and as targeted in the FRBM Act of the State is depicted in **Table 1.2** as given below:

Table 1.2: Details of fiscal variables

Fiscal variables	2015-16				Actual
	XIV FC targets for the State	Targets as prescribed in FRBM Act	Targets proposed in the budget	Projections made in Five Year Fiscal Plan/Mid-Term Fiscal Plan	
Revenue deficit (-)/surplus (+) (₹ in crore)	266	-	540.93	543.40	139.71
Fiscal deficit/GSDP (in per cent)	3.50	3.00	3.31	3.00	3.13
Ratio of total outstanding debt of the Government to GSDP (in per cent)	20.63		23.81	23	29.27

Source: Information furnished by Finance, Revenue and Expenditure Department (FRED)

Revenue surplus was lower than the target fixed by XIV FC, budget proposal and projected in Five-year Fiscal Plan/Mid-Term Fiscal Plan (MTFP). Fiscal deficit was 3.13 *per cent* of the GSDP which was within the target fixed by XIV FC and budget proposal. However, it was higher than target prescribed in FRBM Act and Five-year Fiscal Plan/MTFP. Ratio of total outstanding debt of the Government to GSDP was higher than the target fixed by XIV FC, budget proposal and projected in Five-year Fiscal Plan/MTFP.

1.3.1 Migration to New Pension Scheme

GoI introduced (1 April 2004) a defined contribution based New Pension Scheme (NPS) to cover all new entrants to Government service. The interim Pension Fund Regulatory and Development Authority (PFRDA) was established by GoI (October 2003) to promote old age income security by establishing, developing and regulating pension funds and to protect the interest of subscribers subscribing to the scheme of pension funds. PFRDA being the regulator for the NPS had been authorised by GoI to appoint/establish various

intermediaries in the system, such as Central Record Keeping Agency (CRKA), Pension Funds Trust for the NPS, Custodian Banks, etc. PFRDA appointed National Securities Depository Limited (NSDL) as the CRKA for a period of 10 years from 1 December 2007 for performing the functions of record keeping, accounting, administration and customer services for subscribers to the schemes of pension funds approved by PFRDA. Further, three pension fund managers, a custodian and a trustee bank had also been appointed.

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

Although the State Government decided on implementation of the NPS in May 2006, it formally conveyed its decision to participate in the NPS in October 2007 and after a lapse of five years and seven months, the State Government finally drew an agreement with the CRKA (NSDL) on 11 November 2011.

State Government employees recruited with effect from 1 April 2006 are eligible for the NPS, which is a defined contributory pension scheme. According to the terms of Scheme, Government and employee each contribute 10 *per cent* of basic pay and dearness allowance and the entire amount is transferred to the designated fund manager through the NSDL/Trustee Bank. The actual amount payable by employees and the matching Government contribution was not estimated.

During the year 2015-16, the State Government deposited ₹ 55.55 crore under Major Head 8342-117 Defined Contribution Pension Scheme (employees' contribution of ₹ 27.81 crore, matching Government contribution of ₹ 27.74 crore) and there was balance of ₹ 27.00 crore of previous year in the fund. During the year, the Government transferred ₹ 59.10 crore to NSDL/Trustee Bank, leaving a balance of ₹ 23.45 crore in the fund as on 31 March 2016.

1.3.2 Power Sector-Financial support by the State Government

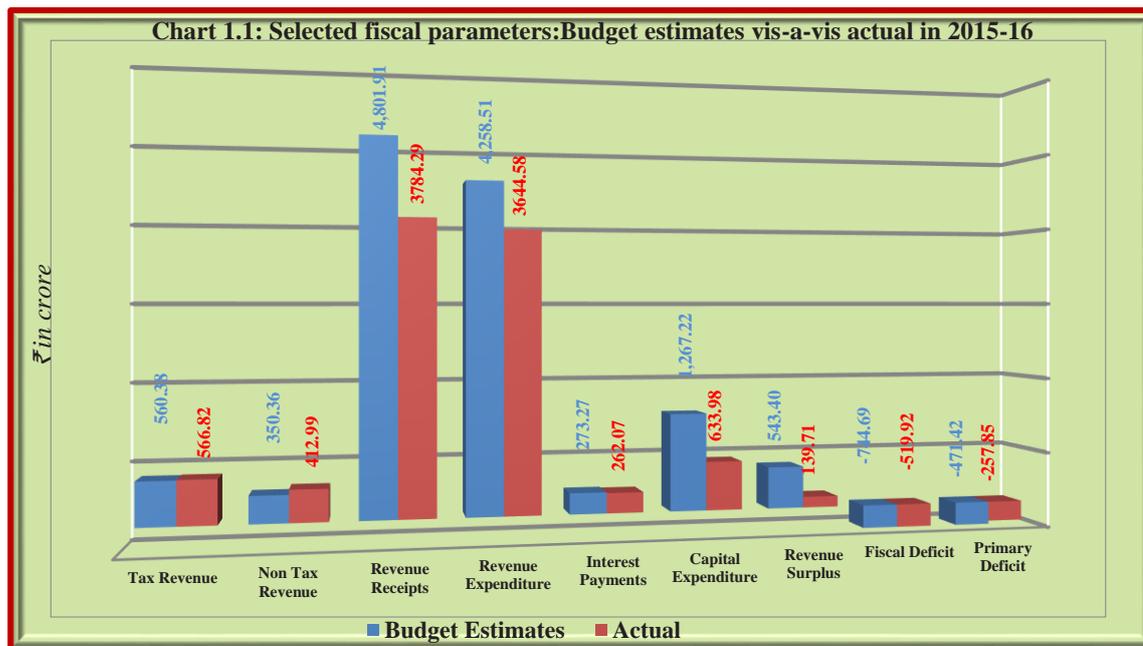
No financial support had been extended during the year by State Government to PSUs under power sector.

1.4 Budget 2015-16

1.4.1 Actual vis-à-vis budget estimates

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

Chart 1.1 presents the budget estimates and actual of some important fiscal parameters for the year 2015-16.



Source: Finance Accounts, Estimate of receipts and Demand book

The Tax Revenue exceeded the budget provision by 1.15 per cent (₹ 6.44 crore) and Non-Tax Revenue also exceeded the budget provision by 17.88 per cent (₹ 62.63 crore).

Revenue Receipts was lower than budget provision by 21.19 per cent (₹ 1,017.62 crore) and Revenue Expenditure was also lower than budget provision by 14.42 per cent (₹ 613.93 crore). Further, against an estimated revenue surplus of ₹ 543.40 crore, the financial year ended with revenue surplus of ₹ 139.71 crore, a decrease by 74.29 per cent over the budget provision. Capital Expenditure was less than the budget estimate by 49.97 per cent.

Sikkim's Own Tax Revenue increased by 7.45 per cent from ₹ 527.54 crore in 2014-15 to ₹ 566.82 crore in 2015-16. The revenue from sales tax contributed the major share of Tax Revenue (57.46 per cent) which increased by ₹ 43.62 crore. State excise duty which contributed 25.07 per cent to the Own Tax Revenue increased by ₹ 10.72 crore, taxes on vehicles increased by ₹ 2.94 crore, stamps and registration fees increased by ₹ 1.74 crore whereas other taxes, which consists of entertainment tax, receipts from cess etc. decreased by ₹ 15.43 crore. Land Revenue decreased by ₹ 4.30 crore and taxes on income other than corporation tax decreased by ₹ 0.01 crore.

The State's share of Union taxes and duties stood at ₹ 1,870.28 crore, an increase of ₹ 1,060.95 crore over the previous year due to increase in corporation tax by ₹ 309.98 crore (109.70 per cent), taxes on income other than corporation tax by ₹ 213.39 crore (105.75 per cent), customs by ₹ 167.64 crore (128.10 per cent), Union excise duties by ₹ 171.33 crore (231.84 per cent), service tax by ₹ 198.41 crore (166.14 per cent) and taxes and duties on commodities and services by ₹ 0.90 crore. However, there was decrease in taxes on wealth by ₹ 0.70 crore (90.91 per cent).

Grants-in-aid from Centre to the State, a discretionary component of Central transfers, is considered an integral element of the Revenue Receipts of the State, which has an impact on the consolidated revenue deficit of the State. Grants-in-aid from GoI decreased from ₹ 2,427 crore in 2014-15 to ₹ 934.20 crore in 2015-16.

Capital Expenditure assumes importance as it has a lasting impact on growth as compared to Revenue Expenditure. If spent efficiently, it also ensures a more productive economy and enhances the Government's net worth arising from augmented revenues. During 2015-16, the Capital Expenditure of the State was ₹ 633.98 crore and there was decrease of ₹ 346.73 crore in Capital Outlay in 2015-16 as compared to previous year which was due to decrease in expenditure in Economic Service (₹ 232.17 crore), Social Service (₹ 69.01 crore) and General Service (₹ 45.55 crore).

The main component of decrease in expenditure in Economic Service was under Tourism (₹ 178.22 crore). The components of decrease in General Service was under Public Works (₹ 30.26 crore) and Police (₹ 15.29 crore) and the major component of decrease in Social Service was under Urban Development (₹ 30.99 crore).

1.4.2 Gender Budget

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

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

Among others, Gender Budget serves in (i) identifying the felt needs of women and reprioritising and/or increasing expenditure to meet those needs; (ii) supporting gender mainstreaming in macroeconomics; (iii) strengthening civil society participation in economics; (iv) enhancing the linkages between economic and social policy outcomes; (v) tracking public expenditure against gender and development policy commitments and (vi) contributing to the attainment of the Millennium Development Goals.

However, it was seen that Gender Budget in Sikkim has never been formulated.

1.5 Resources of the State

1.5.1 Resources of the State as per Finance Accounts

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

Chart 1.2: Components and sub-components of resources

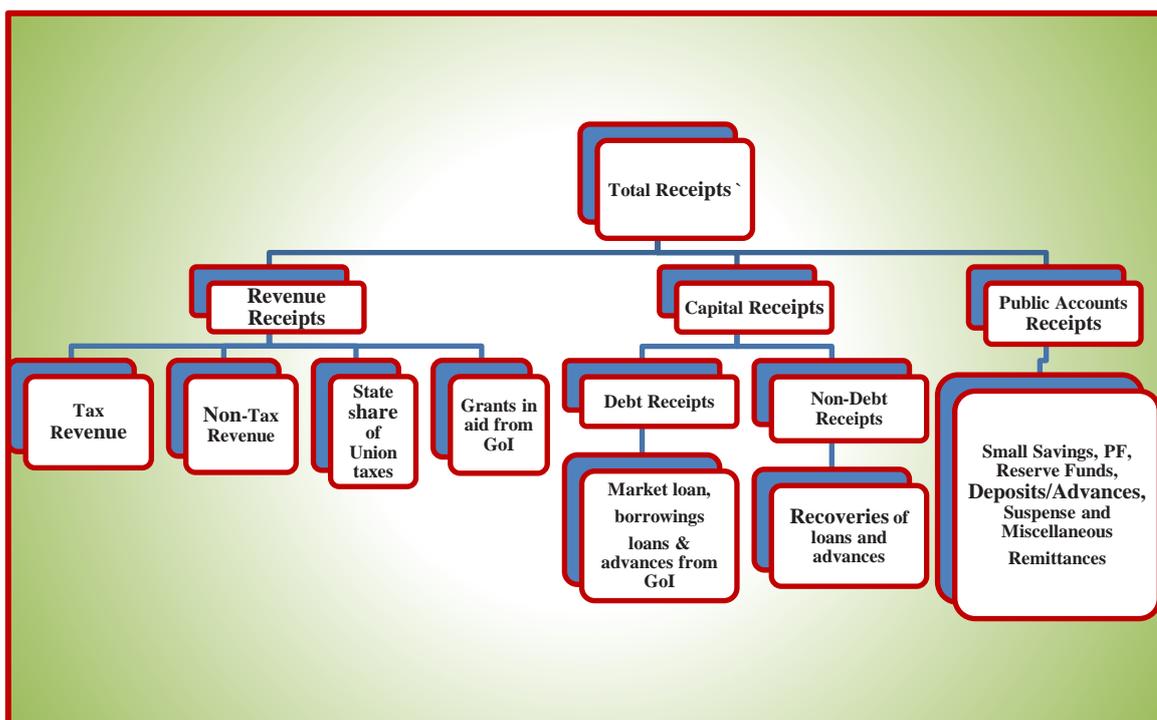
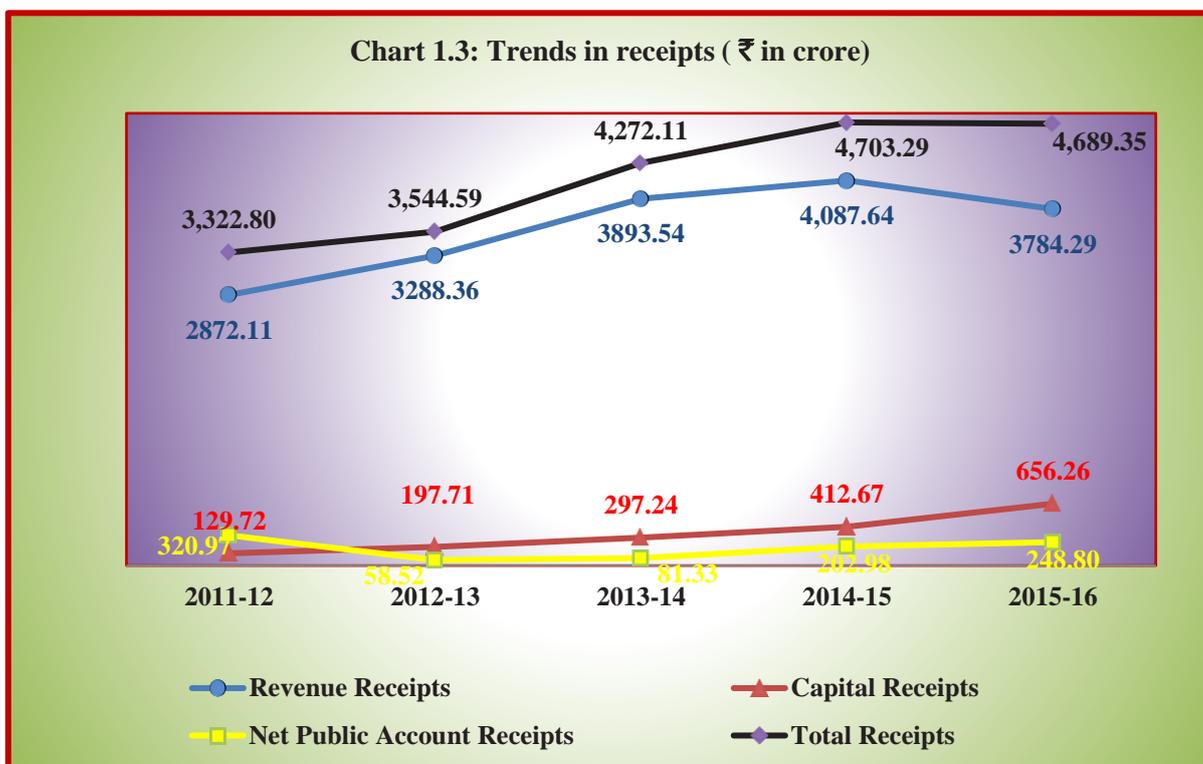
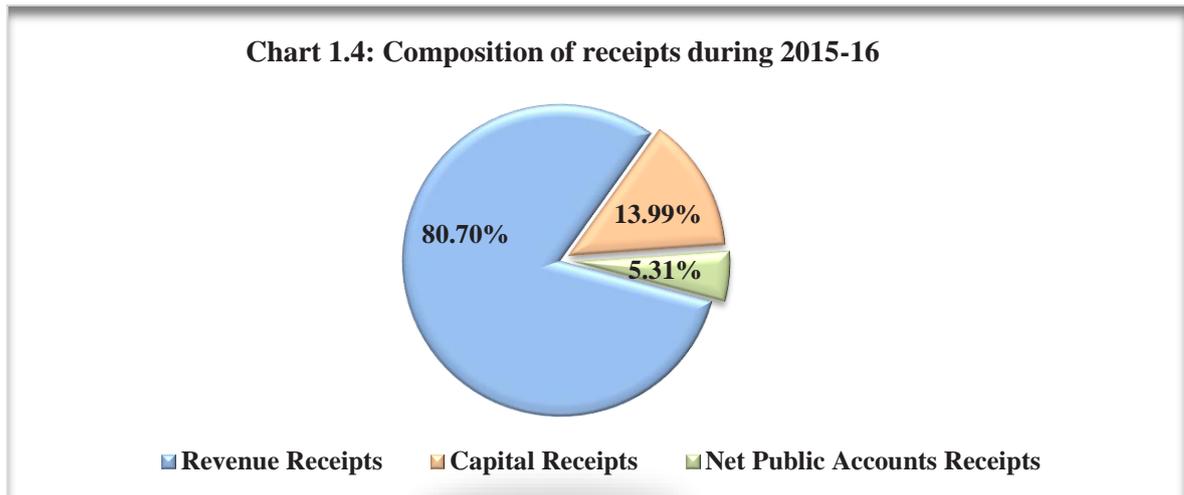


Chart 1.3 depicts the trends in components of receipts during 2011-16



Source: Finance Accounts

Chart 1.4 depicts the composition of receipts during 2015-16



Total receipts increased by 41.13 *per cent* from ₹ 3,322.80 crore in 2011-12 to ₹ 4,689.35 crore in 2015-16. However, there was a decrease of total receipts over the previous year by ₹ 13.94 crore (0.30 *per cent*).

The share of Revenue Receipts in total receipts, which was 86.91 *per cent* in 2014-15, decreased to 80.70 *per cent* in 2015-16.

Capital Receipts increased by 59.03 *per cent* from ₹ 412.67 crore in 2014-15 to ₹ 656.26 crore in 2015-16. Capital Receipts constituted 13.99 *per cent* of the total receipts in 2015-16. Capital Receipts constituted of Debt Receipts and Non-Debt Receipts such as recovery of loans and advances. Debt Receipts constituted 99.79 *per cent* of Capital Receipts and Non-Debt Receipts constituted 0.21 *per cent* during 2015-16. Debt Receipts increased by ₹ 43.09 crore from ₹ 411.79 crore during 2014-15 to ₹ 654.88 crore during 2015-16 and Non-Debt Receipts also increased by ₹ 0.50 crore from ₹ 0.88 crore during 2014-15 to ₹ 1.38 crore during 2015-16.

Public Accounts Receipts refer to those receipts for which the Government acts as a banker/trustee for the public money. Net Public Account Receipts which totalled ₹ 320.97 crore in 2011-12 decreased to ₹ 248.80 crore in 2015-16 with growth of 22.57 *per cent* during the year compared to 2014-15.

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

The Central Government had been transferring a sizeable quantum of funds directly to the State Implementing Agencies (SIA)⁶ for implementation of various schemes/programmes in Social and Economic Sectors up to 2013-14. These funds were not being routed through the State budget/State Treasury System and hence, did not find mention in the Finance Accounts of the State due to which the Finance Accounts of the State was not providing a complete picture of the total funds received in the State. GoI decision to release all

⁶ State Implementing Agencies include Organisations/Institutions including Non-Governmental Organisation which are authorised by the State Government to receive the funds from the GoI for implementing specific programmes in the State.

assistance directly to the State Government and not to the implementing agencies has reduced the direct transfer of funds from ₹ 24.48 crore in 2014-15 to ₹ 16.09 crore during 2015-16.

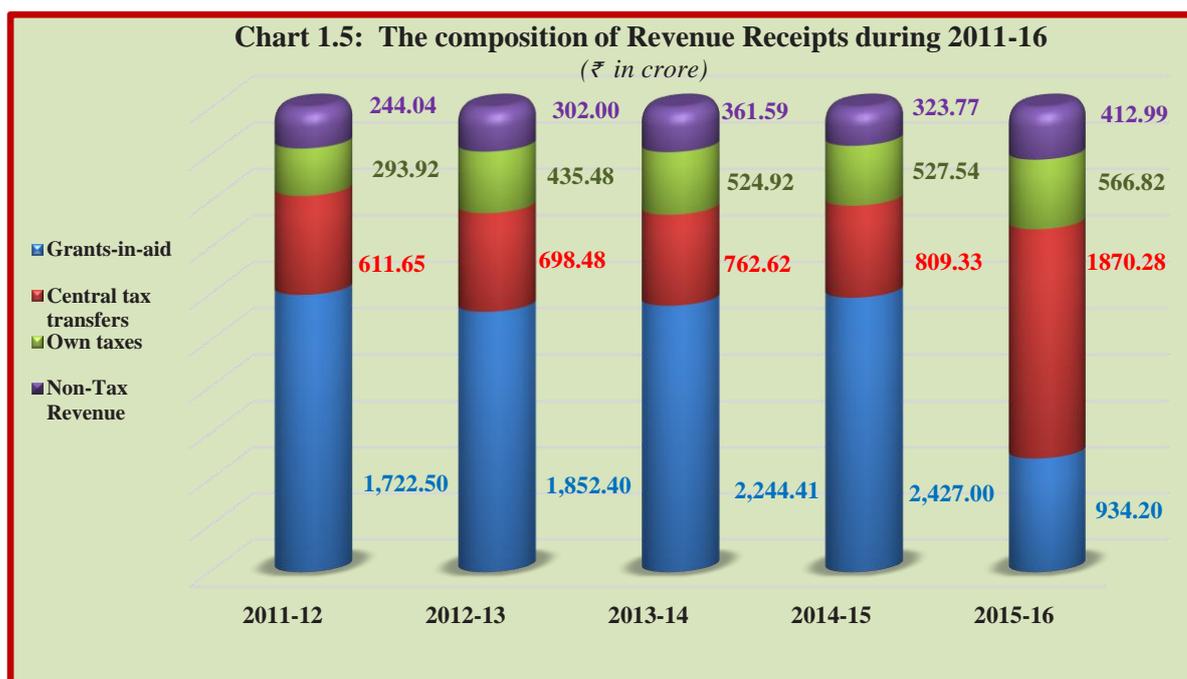
Out of ₹ 16.09 crore, ₹ 10.00 crore (62 *per cent* of the total funds transferred) was transferred under Member of Parliament Local Area Development Schemes and ₹ 4.52 crore (28.09 *per cent* of the total funds transferred) was given to State Forest Development Agency, Sikkim. The details in this regard are shown in **Appendix 1.4**.

1.6 Revenue Receipts

The composition and trends of Revenue Receipts over the period 2011-16 are presented in **Appendix 1.5** and are also depicted in **Charts 1.5** and **1.6** respectively.

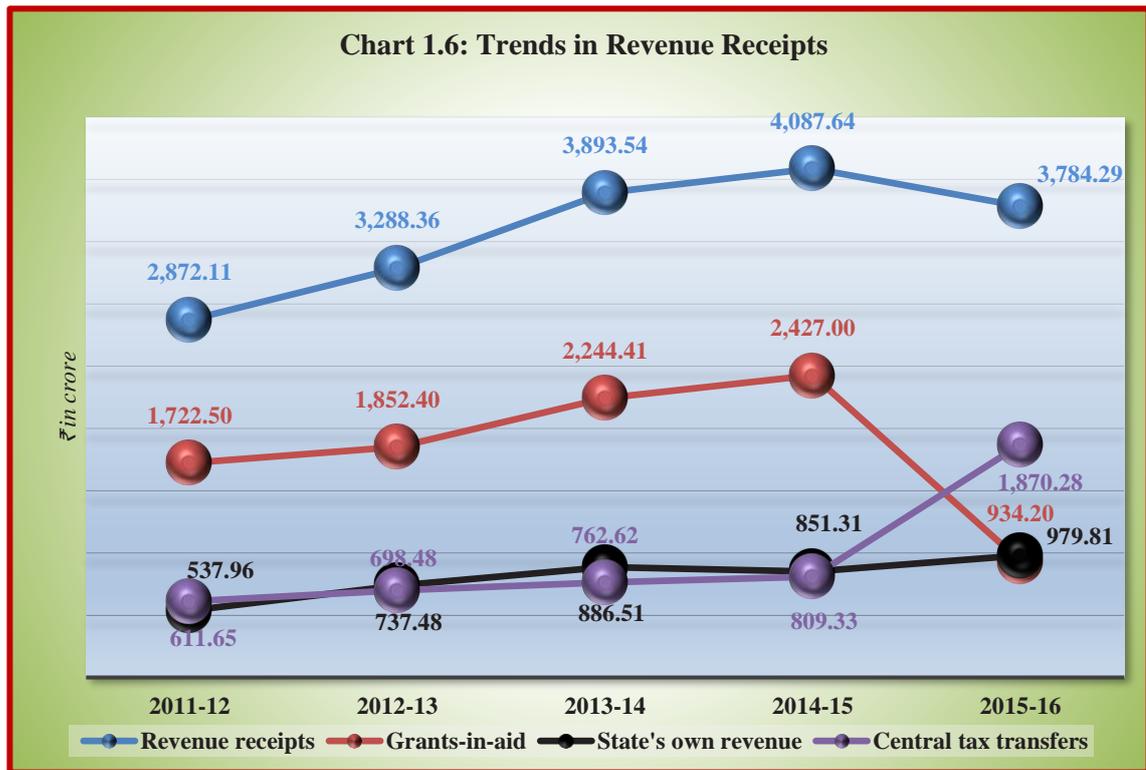
Revenue Receipts decreased by ₹ 303.35 crore (7.42 *per cent*) from ₹ 4,087.64 crore in 2014-15 to ₹ 3,784.29 crore in 2015-16. The State's own resources, both Tax and Non-Tax Revenue contributed 25.89 *per cent* (₹ 979.81 crore) in the Revenue Receipts of the State during 2015-16. The balance was transferred from GoI in the form of State's share of taxes and Grants-in-aid contributions.

State's own resources consist of Tax Revenue and Non-Tax Revenue. The share of Tax Revenue in Revenue Receipts was 14.98 *per cent* (₹ 566.82 crore) and Non-Tax Revenue was 10.91 *per cent* (₹ 412.99 crore) during the year. Tax Revenue and Non-Tax Revenue both increased in 2015-16 compared to previous year. The compositions of Revenue Receipts during 2011-16 are depicted in **Chart 1.5**.



Source: Finance Accounts

Trends in Revenue Receipts during 2011-16 are depicted in **Chart 1.6**.



Source: Finance Accounts

The trends in Revenue Receipts relating to GSDP are as reflected in Table below:

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue Receipts (RR)	2,872.11	3,288.36	3,893.54	4,087.64	3,784.29
Rate of growth of RR (<i>per cent</i>)	33.48	14.49	18.4	4.99	(-7.42)
GSDP	11,165.10	12,338.42	13,861.90	15,209.33	16,636.78
Rate of growth of GSDP (<i>per cent</i>)	-	10.51	12.35	9.72	9.39
Rate of growth of State's Own Tax (<i>per cent</i>)	5.14	48.16	20.54	0.5	7.45
RR/GSDP (<i>per cent</i>)	25.72	26.65	28.09	26.88	22.75
Buoyancy ratios⁷					
Revenue buoyancy wrt GSDP	-	1.38	1.49	0.51	(-0.79)
State's Own Tax buoyancy wrt GSDP	-	4.58	1.66	0.05	0.79
Revenue buoyancy wrt State's Own taxes	6.51	0.3	0.9	9.99	(-1)

Source: Finance Accounts

The Revenue Receipts decreased by 7.42 *per cent* during 2015-16 over the previous year. The Revenue Receipts exhibited buoyancy vis-à-vis GSDP less than one since 2014-15 due

⁷Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.7 implies that Revenue Receipts tend to increase by 0.7 percentage points, if the GSDP increases by one per cent.

to significantly lower growth rate of Revenue Receipts in comparison to the high growth rate of GSDP during the years.

Growth rate in respect of Revenue Receipts for Sikkim for the period 2014-15 to 2015-16 was negative (-7.42 per cent). It was 15 per cent for General Category⁸ States and 11.45 per cent for Special Category⁹ States.

1.6.1. State's own resources

As the State's share in Central taxes and Grants-in-aid are determined on the basis of recommendations of the Finance Commission, the State's performance in mobilisation of additional resources should be assessed in terms of revenue from its Own Tax and Non-Tax sources. Though the Tax and Non-Tax Revenue formed a minor part of the States resources, the performance of the State in mobilisation of Tax and Non-Tax is important in the long run for attaining self-sufficiency or reduced dependency on GoI.

The State's actual Tax and Non-Tax receipts for the year 2015-16 vis-à-vis assessment made by XIV FC are given in **Table 1.4**.

Table 1.4: XIV FC recommendations and budget estimates vis-à-vis the actual

(₹ in crore)

	XIV FC projection	Budget estimates	Actual
Tax Revenue	876	560.38	566.82
Non-Tax Revenue	293	350.36	412.99

The State exceeded the target set by XIV FC in respect of Non-Tax Revenue by ₹ 119.99 crore but fell short of target in respect of Tax Revenue by ₹ 309.18 crore in the current year. Further, the State succeeded in achieving the target set as per budget estimates in respect of Tax Revenue and Non-Tax Revenue.

Tax Revenue

The main sources of State's Tax Revenue were taxes on sales, trade, etc. with a contribution of 8.61 per cent in Revenue Receipts of the State followed by state excise (3.75 per cent), taxes on vehicles (0.59 per cent), stamps and registration fees (0.22 per cent), land revenue (0.05 per cent) and taxes on income other than corporation tax (0.21 per cent). The trends in the major constituents of Tax Revenue during the period 2011-16 are shown in **Table 1.5**.

⁸Based on 18 General Category States.

⁹Based on nine Special Category States.

Table 1.5: Tax Revenue

(₹ in crore)

	2011-12	2012-13	2013-14	2014-15	2015-16
Taxes on sales, trade, etc.	124.19 (-13.00)	227.08 (82.85)	286.33 (26.09)	282.10 (-1.48)	325.72 (15.46)
State excise	96.26 (36.27)	111.12 (15.44)	120.64 (8.57)	131.36 (8.89)	142.08 (8.16)
Stamps and registration fees	8.27 (45.09)	5.35 (-35.31)	6.46 (20.75)	6.77 (4.80)	8.51 (25.70)
Taxes on vehicles	16.56 (55.35)	16.38 (-1.09)	18.52 (13.06)	19.42 (4.86)	22.36 (15.14)
Land revenue	4.61 (-37.11)	5.66 (22.78)	3.39 (-40.11)	6.15 (81.42)	1.85 (-69.92)
Taxes on goods and passengers	0.00	0.00	0.00	0.00	0.00
Other taxes	44.03 (3.67)	69.89 (58.73)	89.58 (28.17)	81.74 (-8.75)	66.30 (-18.89)

Source: Finance Accounts. Figures in brackets indicate rate of growth in per cent

Taxes on sales, trade, etc., increased by 15.46 per cent (₹ 43.62 crore) during 2015-16 as compared to previous year due to increase in receipts under State sales tax. The growth rate of State excise was 8.16 per cent (₹ 10.72 crore) due to increase in collection pertaining to foreign liquors and spirits and medicinal and country fermented liquors.

Taxes on vehicles had increased by 15.14 per cent due to increase in receipts under the motor vehicles.

Growth rate in respect of Tax Revenue of Sikkim for the period 2014-15 to 2015-16 was 7.45 per cent. It was 13.28 per cent for General Category¹⁰ State and 19.80 per cent for Special Category¹¹ States. Therefore, growth of Tax Revenue in Sikkim was lower than that of Special Category States.

Non-Tax Revenue

The Non-Tax Revenue which constituted 10.91 per cent of total Revenue Receipts, had increased by ₹ 89.22 crore from ₹ 323.77 crore in 2014-15 to ₹ 412.99 crore in 2015-16 and was also higher than the budget projection by ₹ 65.30 crore (18.78 per cent). The main components which resulted in noticeable increase were 'Power' (₹ 34.12 crore), due to increase in other receipts under Hydel Generation, and 'Police' (₹ 44.08 crore), mainly due to collection from the deployment of police personnel to other Governments.

The main components of Non-Tax Revenue raised in the State during 2011-12 to 2015-16 are given in Table 1.6.

Table 1.6: Composition of Non-Tax Revenue

(₹ in crore)

Revenue Head	2011-12	2012-13	2013-14	2014-15	2015-16
Interest receipts	29.39 (0.98)	46.00 (1.32)	67.02 (1.60)	66.44 (1.48)	72.52 (1.92)
Dividends and Profits	0.00 (0.00)	1.53 (0.04)	0.55 (0.01)	0.87 (0.02)	12.70 (0.34)
Other Non-Tax Receipts	214.65 (7.15)	254.47 (7.30)	294.02 (7.02)	256.46 (5.70)	327.77 (8.66)
Total	244.04	302.00	361.59	323.77	412.99

Source: Finance Accounts. Figures in brackets indicate percentage to total Revenue Receipts

¹⁰Based on 18 General Category States.

¹¹Based on nine Special Category States.

During 2011-16, on an average, interest receipts contributed 1.40 *per cent* in the total receipts of the State. Similarly, dividends and profits contributed 0.08 *per cent* while 6.91 *per cent* came from other Non-Tax Receipts.

During 2011-16, the Non-Tax Revenue constantly increased except during 2014-15.

The ratio of Non-Tax Revenue to Non-Plan Revenue Expenditure is considered as an indicator of cost recovery from Socio-Economic Services. The details of recovery of current cost as ratio of Non-Tax Revenue Receipts to Non-Plan Revenue Expenditure in respect of Education, Health and Family Welfare, Water Supply and Sanitation and Irrigation during 2014-15 are given in **Table 1.7**.

Table 1.7: Cost recovery from Socio-Economic Services

(₹ in crore)

Service	Non-Tax Revenue Receipts (NTR)	Non-Plan Revenue Expenditure (NPRE)	Cost recovery (ratio of NTR/NPRE in <i>per cent</i>)
Education, Sports, Art and Culture	1.16	482.89	0.24
Health and Family Welfare	2.15	105.46	2.04
Water Supply and Sanitation	3.80	18.67	20.36
Irrigation	0.21	2.85	7.37

Source: Finance Accounts

Cost recovery in respect of Education, Sports, Art and Culture during the year was 0.24 *per cent* being the lowest and the highest was 20.36 *per cent* pertaining to Water Supply and Sanitation. In respect of Health and Family Welfare and Irrigation, the cost recovery was at 2.04 *per cent* and 7.37 *per cent* respectively.

1.6.2 Grants-in-aid from GoI

Grants-in-aid from GoI decreased from ₹ 2,427 crore in 2014-15 to ₹ 934.20 crore in 2015-16 as shown in **Table 1.8**.

Table 1.8: Grants-in-aid from GoI

(₹ in crore)

	2011-12	2012-13	2013-14	2014-15	2015-16
Non-Plan Grants	345.74	265.37	148.26	73.51	74.49
Grants for State Plan Schemes	1,145.02	1,345.21	1,803.20	1,738.54	321.57
Grants for Central Plan Schemes	3.56	1.03	0.20	2.91	2.32
Grants for Centrally Sponsored Plan Schemes	168.53	189.66	233.17	577.80	507.94
Grants for Special Plan Schemes (NEC)	59.65	51.13	59.58	34.24	27.88
Total	1,722.50	1,852.40	2,244.41	2,427.00	934.20

Source: Finance Accounts

Grants-in-aid from GoI decreased by ₹ 1,492.80 crore during 2015-16 over the previous year due to decrease in Grants for State Plan Schemes (₹ 1,416.97 crore), Centrally Sponsored Plan Schemes (CSS) (₹ 69.86 crore), Grants for Central Plan Schemes (₹ 0.59 crore) and Grants for Special Plan Schemes (₹ 6.36 crore). However, there was slight increase of ₹ 0.98 crore in Non-Plan Grants.

1.6.3 Central tax transfers

There was an increase in the State's Share of Union taxes and duties in all cases, as compared to the previous year except share of net proceeds on wealth tax. The Central tax

transfers consist of corporation tax (₹ 592.56 crore), taxes on income other than corporation tax (₹ 415.18 crore), customs (₹ 298.51 crore), Union excise duties (₹ 245.23 crore), service tax (₹ 317.83 crore), other taxes and duties on commodities and services (₹ 0.90 crore) and wealth tax (₹ 0.07 crore).

Table 1.9: Central tax transfers

	(₹ in crore)		
	2013-14	2014-15	2015-16
Share of net proceeds of taxes			
Share of net proceeds on corporation tax	256.44	282.58	592.56
Share of net proceeds on taxes on income other than corporation tax	168.86	201.79	415.18
Share of net proceeds on wealth tax	0.70	0.77	0.07
Share of net proceeds on customs	124.41	130.87	298.51
Share of net proceeds on Union excise duties	87.87	73.90	245.23
Share of net proceeds on service tax	124.34	119.42	317.83
Share of net other taxes and duties on commodities and services	-	-	0.90
Total	762.62	809.33	1870.28

1.6.4 XIV Finance Commission grants

The core mandate of the Finance Commission, as laid out in Article 280 of the Constitution, is to make recommendations regarding the distribution between the Union and the States of the net proceeds of taxes and the principles which should govern the Grants-in-aid of the revenues of the States out of the Consolidated Fund of India. The XIV FC was constituted by the President under Article 280 of the Constitution on 2 January 2013 to make recommendations for the period 2015-20 and the XIV FC has made its recommendations for the period 2015-16 to 2019-20. Comparative statement of award of XIII Finance Commission (XIII FC) and XIV FC in respect of Sikkim are given in **Table 1.10**.

Table 1.10: Comparative statement of award of XIII FC and XIVFC

Grants for	Fund released under grants recommended by XIII FC	Total grants recommended by XIV FC (2015-2020)	Amount released during 2014-15 (XIII FC)	Amount released during 2015-16 (XIV FC)
Share of Union taxes	3,407.07	1,4514.00	809.33	1,870.28
Local bodies (including general performance grant)	145.82	198.39	-	18.44
Disaster relief	130.70	155.00	-	27.90
Elementary education	2.00	-	-	-
Improving outcome	27.27	-	-	-
Environment related grant	38.02	-	7.60	-
Maintenance of Roads & Bridges	67.96	-	-	-
State specific grant	319.29	-	176.03	-

As seen from the above table, there was a huge increase (₹ 1,060.95 crore) in the State's Share of Union taxes and duties as compared to previous year. The increase was due to the recommendation of XIV FC to raise the tax devolution by 10 percentage points from 32 per cent to 42 per cent of the divisible taxes and duties. The objective was to increase the flow of unconditional transfers to States and this will give greater autonomy to States in prioritising their expenditure through untied funds. The XIV FC has not made any recommendation regarding the State specific-grants unlike the XIII FC. Recommendation

regarding the local bodies and disaster relief was slightly higher than what was released by the XIII FC.

1.6.5 Capital Receipts

The Capital Receipts showed constant increase during 2011-12 to 2015-16. It increased by ₹ 243.59 crore in 2015-16 over the previous year. Public Debt Receipts recorded significant increase during current year. The Non-Debt Capital Receipts registered a positive growth of 56.82 per cent in 2015-16 as compared to negative growth of 4.35 per cent in 2014-15. Trend in growth and composition of Capital Receipts is depicted in **Table 1.11** below:

Table 1.11: Trends in growth and composition of Capital Receipts

(₹ in crore)

Sources of State's receipts	2011-12	2012-13	2013-14	2014-15	2015-16
Capital Receipts (CR)	129.72	197.71	297.24	412.67	656.26
Miscellaneous Capital Receipts	42.25	-	-	-	--
Recovery of loans and advances	0.03	0.90	0.92	0.88	1.38
Public Debt Receipts	87.44	196.81	296.32	411.79	654.88
Rate of growth of Non-Debt Capital Receipts (per cent)	(-) 96.20	2900	2.22	(-) 4.35	56.82
Rate of growth of CR (per cent)	35.38	52.41	50.34	38.83	59.03

There was no miscellaneous Capital Receipts over the period except in 2011-12 which was the result of disinvestment made by the Government.

1.6.6 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances etc. which do not form part of the Consolidated Fund, are kept in the Public Accounts set up under Article 266 (2) of the Constitution of India and are not subject to vote by the State Legislature. Here, the Government acts as a banker. The balance after disbursements is the fund available with the Government for use.

Table 1.12: Details of balances in Public Accounts

(₹ in crore)

Resources under various heads	2011-12	2012-13	2013-14	2014-15	2015-16
Public Accounts balances					
a. Small savings, Provident fund, etc.	578.80	624.15	685.64	710.19	747.85
b. Reserve fund	254.22	246.00	313.15	430.61	441.38
c. Deposits and Advances	102.29	141.75	145.18	137.34	158.98
d. Suspense and Miscellaneous	115.31	157.34	99.03	158.75	254.99
e. Remittances	256.84	196.73	204.31	213.40	295.91
Total	1,307.46	1,365.97	1,447.31	1,650.29	1899.11

Source: Finance Accounts

Public Accounts balances steadily increased from ₹ 1,307.46 crore in 2011-12 to ₹ 1,899.11 crore in 2015-16.

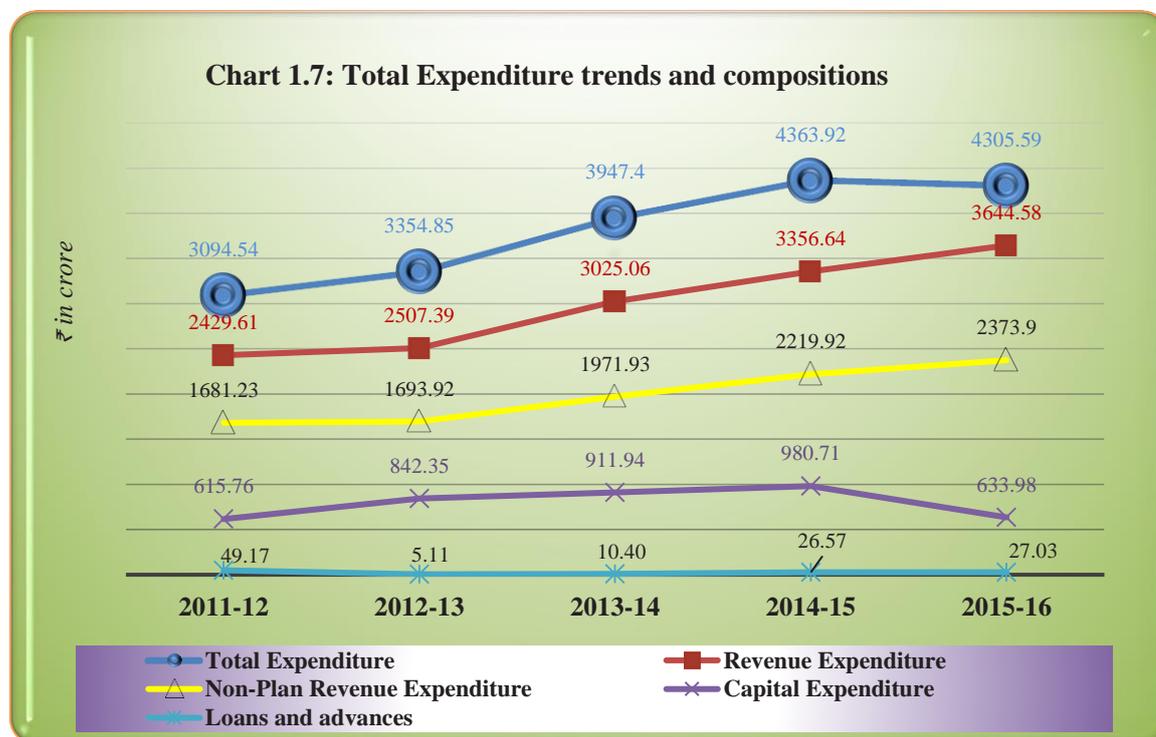
1.7 Application of resources

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

important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of vital expenditure, especially expenditure directed towards Development and Social Sectors.

1.7.1 Growth and composition of expenditure

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



Source: Finance Accounts



Total Expenditure increased by 39.14 *per cent* (₹ 1,211.05 crore) from ₹ 3,094.54 crore in 2011-12 to ₹ 4,305.59 crore in 2015-16. However, the Total Expenditure during 2015-16 decreased by 1.34 *per cent* over the previous year.

During the period 2011-16, on an average, 78 *per cent* of the Total Expenditure was Revenue Expenditure. The share of Revenue Expenditure in the Total Expenditure decreased from 78.51 *per cent* during 2011-12 to 74.74 *per cent* during 2012-13 and increased to 76.63 *per cent*, 76.92 *per cent* and 84.65 *per cent* during 2013-14, 2014-15 and 2015-16 respectively.

The share of Capital Expenditure in the Total Expenditure increased from 19.90 *per cent* in 2011-12 to 25.11 *per cent* in 2012-13, decreased to 22.47 *per cent* in 2014-15 and further decreased to 14.72 *per cent* in 2015-16.

Growth rate in respect of Total Expenditure for Sikkim for the period 2014-15 to 2015-16 was (-) 1.34 *per cent*. It was 16.42 *per cent* for General Category¹² States and 2.73 *per cent* for Special Category¹³ States.

1.7.2 Buoyancy of expenditure

Buoyancy of total expenditure

Growth rates of Total Expenditure during 2011-16, its ratio and buoyancy with reference to GSDP and Revenue Receipts are presented in **Table 1.13**.

Table 1.13: Total Expenditure - Basic parameters

(₹ in crore, ratio in per cent)

	2011-12	2012-13	2013-14	2014-15	2015-16
Total Expenditure (TE)	3,094.54	3,354.85	3,947.40	4,363.92	4,305.59
Rate of growth (in <i>per cent</i>)	25.34	8.41	17.66	10.55	(-)1.34
GSDP	11,165.10	12,338.42	13,861.90	15,209.33	16,636.78
Rate of growth of GSDP (<i>per cent</i>)	-	10.51	12.35	9.72	9.39
TE/GSDP (ratio)	27.72	27.19	28.48	28.69	25.88
Revenue Receipts/TE (ratio)	92.81	98.02	98.64	93.67	87.89
Revenue Expenditure	2,429.61	2,507.39	3,025.06	3,356.64	3,644.58
Rate of growth (in <i>per cent</i>)	20.76	3.2	20.65	10.96	8.58
Revenue Receipts	2,872.11	3,288.36	3,893.54	4,087.64	3,784.29
Rate of growth (in <i>per cent</i>)	33.48	14.49	18.4	4.99	(-)7.42
Capital expenditure	615.76	842.35	911.94	980.71	633.98
Rate of growth (in <i>per cent</i>)	36.51	36.8	8.26	7.54	(-)35.35
Buoyancy of TE with					
GSDP (ratio)	-	0.80	1.43	1.09	(-)0.14
Revenue Receipts (ratio)	0.76	0.58	0.96	2.12	0.18
Buoyancy of Revenue Expenditure with					
GSDP		0.3	1.67	1.13	0.91
Revenue Receipts	0.62	0.22	1.12	2.2	(-)1.16
Buoyancy of Capital Expenditure with					
GSDP	-	3.5	0.67	0.78	(-)3.77
Revenue Receipts	1.09	2.54	0.45	1.51	4.76

Source: Finance Accounts

¹²Based on 18 General Category States.

¹³Based on nine Special Category States.

During the period 2011-16, the growth rate of Total Expenditure was highest (25.34 per cent) in 2011-12 and lowest (-1.34 per cent) in 2015-16.

In 2015-16 Total Expenditure was 1.14 times the Revenue Receipts. The buoyancy ratio of Total Expenditure to Revenue Receipts was 0.18 per cent.

The growth rate of Total Expenditure (-1.34 per cent) in 2015-16 was lower than the growth rate of GSDP (9.39 per cent). The buoyancy of Total Expenditure to GSDP was (-) 0.14 per cent in 2015-16, which was 1.09 per cent in 2014-15. Revenue Receipts as a percentage of Total Expenditure stood at 87.89 per cent.

Buoyancy of Revenue Expenditure

The growth in Revenue Expenditure was higher than the growth of Revenue Receipts in 2015-16. However, the growth of Revenue Expenditure (8.58 per cent) was lower than the growth of GSDP (9.39 per cent). For every one per cent growth in GSDP Revenue Expenditure grew by 0.91 per cent.

Buoyancy of Capital expenditure

During 2015-16, the Capital Expenditure decreased by (-) 35.35 per cent as compared to previous year, however, GSDP showed a growth of 9.39 per cent during the year.

1.7.3 Plan and Non-Plan Expenditure

Finance Accounts provide a further classification of expenditure into Plan and Non-Plan. Plan expenditure normally relating to incremental developmental expenditure on new projects or schemes and involved both Revenue and Capital Expenditure. In order to maintain the level of services already achieved, Non-Plan Expenditure is normally utilised. **Table 1.14** presents the growth and composition of Plan and Non-Plan Expenditure over the last five years.

Table 1.14: Growth in Plan and Non-Plan Expenditure

		(₹ in crore)				
Particulars		2011-12	2012-13	2013-14	2014-15	2015-16
Plan	Revenue	748.38	813.47	1,053.13	1,136.72	1,270.68
	Capital	615.76	842.35	911.94	980.71	633.98
	Loan	49.17	5.11	10.40	26.57	27.03
	Total	1,413.31	1,660.93	1,975.47	2,144.00	1931.69
	Percentage of plan to Total Expenditure	45.67	49.51	51.04	49.13	44.86
Non-Plan	Revenue	1,681.23	1,693.92	1,971.93	2,219.92	2,373.90
	Capital	-	-	-	-	-
	Loan	-	-	-	-	-
	Total	1,681.23	1,693.92	1,971.93	2,219.92	2,373.90
	Percentage of Non-Plan to Total Expenditure	54.33	50.49	49.96	50.87	55.14
Total Expenditure	3,094.53	3,354.85	3,947.40	4,363.92	4,305.59	

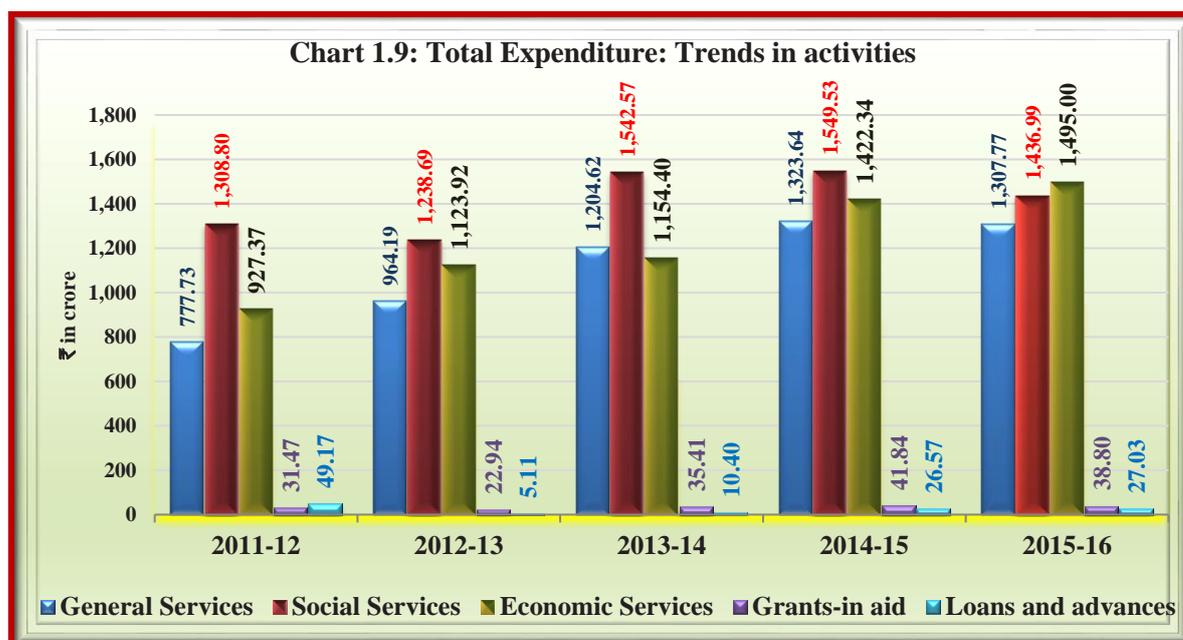
Source: Finance Accounts

During the period 2011-16, while the Plan Revenue Expenditure increased by 69.79 per cent from ₹ 748.38 crore in 2011-12 to ₹ 1,270.68 crore in 2015-16, Non-Plan Revenue Expenditure (NPRE) increased by 41.20 per cent from ₹ 1,681.23 crore to ₹ 2,373.90 crore.

The NPRE increased by ₹ 153.98 crore (6.94 *per cent*) as compared to the previous year. The increase was mainly on General Services by ₹ 34.91 crore, Economic Services by ₹ 70.66 crore and Social Services by ₹ 51.45 crore with a decrease in Grants-in-aid by ₹ 3.04 crore. The salary expenditure during 2015-16 under Social Services was ₹ 567.50 crore, Economic Services was ₹ 382.08 crore and General Services was ₹ 408.07 crore which contributed 45.91 *per cent*, 33.94 *per cent* and 32.81 *per cent* of Revenue Expenditure under each services respectively.

1.7.4 Trends in expenditure by activities

In terms of activities, Total Expenditure could be considered as being composed of expenditure on General Services (including interest payments), Social Services, Economic Services, Grants-in-aid and loans and advances. Relative shares of these components in Total Expenditure (including loans and advances) are indicated in **Chart 1.9**.



Source: Finance Accounts

The expenditure on General Services and interest together contributed 30.37 *per cent* in 2015-16 as against 30.33 *per cent* in 2014-15. On the other hand, expenditure on Social and Economic Services together accounted for 68.10 *per cent* in both 2014-15 and 2015-16. The Grants-in-aid and loans and advances contributed 1.53 *per cent* during 2015-16 as against 1.57 *per cent* during 2014-15.

During 2015-16, expenditure on General Service and Social Services decreased by ₹ 15.87 crore and ₹ 112.54 crore respectively, however, Economic Service increased by ₹ 72.66 crore over previous year. Loans and advances increased by ₹ 0.46 crore and Grants-in-aid decreased by ₹ 3.04 crore over the previous year.

Some of the significant increase and decrease in expenditure during 2015-16 have been highlighted below:

- General Services: Decrease in the services was mainly due to decrease in expenditure under Miscellaneous General Services (₹ 371.21 crore) which was offset by increase in expenditure on Pensions and Other Retirement Benefits (₹ 69.28 crore), Police (₹ 18.08 crore) and Interest Payment and Servicing of Debt (₹ 22.52 crore).
- Social Services: Decrease was mainly under Housing (₹ 106.91 crore).
- Economic Services: The increase was mainly due to increase in Secretariat-Economic Service (₹ 234.45 crore) which was offset by decrease in expenditure on Capital Outlay on Tourism (₹ 178.22 crore).

1.7.5 Incidence of Revenue Expenditure

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

Revenue Expenditure increased by 50.01 per cent from ₹ 2,429.61 crore in 2011-12 to ₹ 3,644.58 crore in 2015-16 and it increased by 8.58 per cent from ₹ 3,356.64 crore in 2014-15 to ₹ 3,644.58 crore in 2015-16. The NPRE decreased by ₹ 153.98 crore over the previous year. The Plan Revenue Expenditure (PRE) increased by ₹ 133.96 crore from ₹ 1,136.72 crore in 2014-15 to ₹ 1,270.68 crore in 2015-16.

NPRE was a major component (65.14 per cent) of Revenue Expenditure during 2015-16. Only 34.86 per cent of Revenue Expenditure was PRE.

1.7.6 Committed expenditure

Committed expenditure of the State Government on revenue account mainly consisted of interest payments, expenditure on salaries, pension and subsidies. **Table 1.15** presents the trends in the expenditure on these components during 2011-16.

Table 1.15: Committed expenditure

	2011-12	2012-13	2013-14	2014-15	2015-16
	(₹ in crore)				
Salaries, of which	874.83(52.04)	971.01(54.13)	1,093.88(55.47)	1,236.37(55.69)	1,357.66(57.19)
Non-Plan head	642.14	773.95	822.10	936.51	1,029.80
Plan head*	232.69	197.06	271.78	299.86	327.86
Interest payments	190.83(6.64)	198.92(11.09)	209.16(10.61)	239.55(10.79)	262.07(10.09)
Expenditure on pension	173.76 (6.04)	225.17(12.55)	260.63(13.20)	333.08(15.00)	402.35(16.95)
Subsidies	7.10 (0.24)	8.41(0.47)	15.60(0.79)	14.78(0.67)	8.03(0.34)
Total	1,246.52	1,403.51	1,578.86	1,823.78	2,030.11
<i>As per cent of Revenue Receipts</i>					
Salaries	30.45	29.53	28.09	30.25	35.88
Interest payments	6.64	6.05	5.37	5.86	6.93
Pension	6.04	6.85	6.69	8.15	10.63
Subsidies	0.24	0.26	0.40	0.36	0.21
<i>As per cent of Revenue Expenditure</i>					
Salaries	36.01	38.73	36.16	36.83	37.25
Interest payments	7.85	7.93	6.91	7.14	7.19
Pension	7.15	8.98	8.62	9.92	11.04
Subsidies	0.29	0.34	0.52	0.44	0.22

Figures in the brackets indicate percentage to Non-Plan Revenue Expenditure.

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

Expenditure on salaries

Salaries alone accounted for 35.88 *per cent* of Revenue Receipts of the State during the year. Salaries increased by 9.81 *per cent* from ₹ 1,236.37 crore in 2014-15 to ₹ 1,357.66 crore in 2015-16. The expenditure on salaries was 37.25 *per cent* of the Revenue Expenditure.

Pension payments

Pension payments increased by 20.80 *per cent* from ₹ 333.08 crore in 2014-15 to ₹ 402.35 crore in 2015-16. Pension payment accounted for 10.63 *per cent* of the Revenue Receipts and 11.04 *per cent* of Revenue Expenditure.

Interest payments

Interest payments increased by 9.40 *per cent* from ₹ 239.55 crore in 2014-15 to ₹ 262.07 crore in 2015-16. Interest payments of ₹ 262.07 crore in 2015-16 consisted of internal debt and market loans (₹ 195.44 crore), small savings, provident fund, etc. (₹ 55.75 crore) and loans received from GoI (₹ 10.88 crore). The interest payments during 2015-16 was within the assessment of XIV FC (₹ 270 crore).

Subsidies

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

Table 1.15 shows that expenditure on payment of subsidies decreased by 45.67 *per cent* from ₹ 14.78 crore in 2014-15 to ₹ 8.03 crore during the current year. It constituted 0.22 *per cent* of Revenue Expenditure.

During 2015-16 subsidies of ₹ 8.03 crore was granted to Food, Storage and Warehousing to meet the differential cost of food grains under Public Distribution System (PDS).

1.7.7 Financial assistance to local bodies and others

The quantum of assistance provided by way of grants to local bodies and others during the current year, relating to the previous five years, is presented in **Table 1.16**.

Table 1.16: Financial assistance to local bodies and other institutions

	(₹ in crore)				
Financial Assistance to institutions	2011-12	2012-13	2013-14	2014-15	2015-16
Educational Institutions (Non-Government Aided School, etc.)	0.00	0.60	0.05	0.05	0.00
Zilla Parishads and Other Panchayat Raj Institutions	248.22	220.66	260.51	276.10	314.38
Cooperative societies	1.19	2.33	1.17	0.24	1.37
Other Institutions and Bodies (including statutory bodies)	0.33	2.07	0.63	2.43	2.03
Assistance to Municipalities/ Municipal Councils	0.25	0.00	0.00	0.00	0.00
Assistance to local bodies, Corporations, Urban Development	1.18	0.00	0.00	0.00	0.00
Farmers	1.22	2.23	0.00	0.00	0.00
Total	252.39	227.89	262.36	278.82	317.78
Assistance as percentage of Revenue Expenditure	10.39	9.09	8.67	8.31	8.72

Source: Finance Accounts

The total assistance during 2015-16 had increased by 13.97 *per cent* over the previous year mainly due to increase in assistance to Zilla Parishads (ZPs), Other Panchayati Raj Institutions (PRI) and co-operative societies and by decrease in assistance to other institutions and bodies.

1.7.8 Local bodies

The position regarding major issues relating to local bodies, i.e., PRI(s) are summarised in the following paragraph.

Panchayati Raj Institutions

The Sikkim Panchayat Act 1993 was enacted to establish a two tier PRI system at village and district levels in the State following the 73rd Constitutional Amendment. The system envisaged elected bodies at village (Gram Panchayats (GPs)) and district level (Zilla Panchayat (ZP)). As of March 2016, there were 4 ZPs and 176 GPs in the State.

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

Audit of the PRIs during 2015-16 revealed the following:

- Absence of sound basis for transfer of funds to the PRIs by the departments constrained the PRIs to formulate any plan with certainty. Thus, the planning at the PRI level was on ad-hoc basis.
- Although the State Government delineated the role and responsibilities of each tier of PRIs by transferring 29 subjects for devolution of all the functions listed in the 11th schedule of the Constitution of India to the PRIs only 15 subjects were actually transferred to PRIs.
- Scrutiny of records in 88 GPs revealed that basic records and registers were not maintained properly as required under Sikkim Panchayat Rules 2004 indicating low level of accountability in the PRIs.
- Scrutiny of records in 88 GPs revealed that none of the 88 test checked GPs prepared Balance Sheet during the period under report.
- The GPs had not initiated adequate steps to augment their revenue base despite having enabling provisions in Sikkim Panchayat Act, 1993 and recommendation of successive State Finance Commissions accepted by State Government.
- The Internal Control in the GPs were lacking in respect to preparation of budget, maintenance of accounts in appropriate format, internal audit by Director, Local Fund Audit, supervision by Sachiva, ZP, etc.

Urban local bodies

The State Government enacted the Sikkim Municipalities Act, 2007 empowering the urban local bodies (ULBs) to function as institutions of self-government to accelerate economic development in urban areas in the State following 74th Constitutional Amendments. The ULBs in Sikkim were having three tier structures viz. Municipal Corporation, Municipal Councils and Nagar Panchayats. The ULBs were formed only in 2010-11. As of March 2016, there was one Municipal Corporation, three Municipal Councils and three Nagar Panchayats.

The ULBs are solely funded by the Government through Grants-in-aid from Central and State Governments for general administration as well as development activities. The ULBs in turn, deposit their funds in the savings account maintained with the nationalised banks.

Audit of the ULBs during 2015-16 revealed the following:

- Out of 18 functions listed in the XIIth Schedule of the Constitution of India, only 3 functions were partially transferred by the State Government to the ULBs as of March 2016.
- The State Government had not set up Property Tax Board and announced Service Level Delivery Benchmark for the ULBs (except Gangtok Municipal Corporation) as of March 2016 for realisation of property tax and providing better civic amenities to urban citizens respectively.
- The revenue income showed an increase during 2015-16 over 2014-15 in case of all ULBs except Namchi Municipal Council.

1.8 Quality of expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e., adequate provisions for providing public services); efficiency of expenditure and the effectiveness of expenditure.

1.8.1 Adequacy of public expenditure

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

Table 1.17 analyses the fiscal priority of the State Government with regard to Development Expenditure, Social Expenditure and Capital Expenditure in 2012-13, 2014-15 and the current year 2015-16.

Table 1.17: Fiscal priority of the State in 2012-13, 2014-15 and 2015-16

(in per cent)

Fiscal priority of the State	AE/ GSDP*	DE/ AE**	SSE/ AE**	ESE/ AE**	CE/ AE**	Education/ AE**	Health/ AE**
Sikkim's Average (Ratio) 2012-13	27.19	70.57	39.33	33.50	25.11	17.75	7.27
Sikkim's Average (Ratio) 2014-15	28.69	68.71	35.77	32.94	22.47	17.69	5.95
Sikkim's Average (Ratio) 2015-16	25.88	68.72	33.42	35.30	14.72	18.43	6.05
Special Category States' Average (ratio) 2012-13	22.23	69.92	38.42	31.50	15.53	20.86	5.58
Special Category States' Average (ratio) 2014-15	23.80	71.77	40.29	31.49	15.27	21.04	5.90
Special Category States' Average (ratio) 2015-16	21.66	70.41	39.78	30.63	13.95	20.63	6.41

AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure, ESE: Economic Sector Expenditure, CE Capital Expenditure., Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and loans and advances disbursed.

* Excluding Jammu & Kashmir and Manipur

**Excluding Jammu & Kashmir.

Table 1.17 shows the fiscal priority given by the State Government to various expenditure heads during 2012-13, 2014-15 and 2015-16 which is summarised below.

- The AE/GSDP ratio of the State Government in 2015-16 had decreased by 1.31 *per cent* as compared to 2012-13. However, AE/GSDP ratio in the State was higher than the SCS in all the three years.
- The ratio of DE as a proportion to AE decreased marginally by 1.85 *per cent* in 2015-16 as compared to 2012-13 which indicated that the State had given less priority to this category of expenditure during the current year. DE as a proportion of AE had been also lower in the State compared to the Special Category States' average during 2015-16 and was higher during 2012-13.
- In Social Sector, expenditure as a percentage of AE had decreased by 5.91 *per cent* in the year 2015-16 as compared to 2012-13. Expenditure on Social Sector as a proportion of AE was lower than the Special Category States' average during 2015-16. However, during 2012-13, it was higher than Special Category States.
- In Economic Sector expenditure as a percentage of AE had increased from 33.50 *per cent* in the year 2012-13 to 35.30 *per cent* in the year 2015-16. Expenditure on Economic Sector as a proportion of AE was higher than the Special Category States' average during 2012-13 and 2015-16.
- The expenditure on capital sector had decreased by 10.39 *per cent* in 2015-16 indicating that the State Government had given less emphasis to CE during the year. The share of CE was lower than the Special Category States' average during 2015-16. However, it was higher than Special Category States during 2012-13.

- The expenditure on education as a percentage of AE had increased from 17.75 *per cent* in the year 2012-13 to 18.43 *per cent* in the year 2015-16 and the percentage of expenditure on health had decreased from 7.27 *per cent* in 2012-13 to 6.05 *per cent* in 2015-16.

1.8.2 Efficiency of expenditure use

In view of the importance of public expenditure on development heads for social and economic development, it is imperative for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods¹⁴. Apart from improving the allocation towards Development Expenditure¹⁵, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of Capital Expenditure to Total Expenditure and proportion of Revenue Expenditure being spent on operation and maintenance of the existing Social and Economic Services. The higher the ratio of Social and Economic Services to Total Expenditure, the better would be the quality of expenditure. **Table 1.18** presents the trends in Development Expenditure relating to the aggregate of the State during the current year vis-à-vis the previous years.

Table 1.18: Development Expenditure

	2011-12	2012-13	2013-14	2014-15	2015-16
Development Expenditure (DE)	2,285.17	2,367.61	2,706.97	2,998.37	2958.95
Percentage of DE to total expenditure	73.85	70.57	68.58	68.71	68.72
Composition of DE					
Revenue	1645.70 (72.02)	1603.57 (67.73)	1954.55 (72.20)	2100.68 (70.06)	2361.98 (79.83)
Capital	590.47 (25.84)	759.04 (32.06)	742.42 (27.43)	871.19 (29.06)	570.01 (19.26)
Loans and advances	49.00 (2.14)	5.00 (0.21)	10.00 (0.37)	26.50 (0.88)	26.96 (0.91)

(₹ in crore)

Source: Finance Accounts. Figures in brackets indicate percentage to aggregate expenditure

Development Expenditure comprising Revenue Expenditure, Capital Outlay and loans and advances on Socio-Economic Services increased from ₹ 2,285.17 crore in 2011-12 to ₹ 2,958.95 crore in 2015-16 but slightly decreased as compared to 2014-15. As a percentage of Total Expenditure, it decreased from 73.85 *per cent* in 2011-12 to 68.72 *per cent* in 2015-16. On an average, 72 *per cent* of the Development Expenditure was on revenue account while Capital Expenditure including loans and advances accounted for the balance during the years.

14 Core public goods are those which all citizens enjoy in common in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of those goods, e.g., enforcement of law and order, security and protection of citizen's rights, pollution free air and other environmental goods and road infrastructure, etc.

Merit goods are commodities that the public sector provides free or at subsidised rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the Government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidised food for the poor to support nutrition, delivery of health services to improve quality of life and reduce mortality, providing basic education to all, drinking water and sanitation, etc.

15 The analysis of expenditure is segregated into Development and Non-Development Expenditure. All expenditure relating to revenue account, Capital Outlay and loans and advances is categorised into Social, Economic and General Services. Broadly, the Social and Economic Services constitute Development Expenditure, while expenditure on General Services is treated as Non-Development Expenditure.

In 2015-16, Development Revenue Expenditure included, *inter alia* expenditure on salary (₹ 841.56 crore), subsidy (₹ 8.03 crore) and financial assistance to local bodies and other institutions (₹ 317.78 crore).

The efficiency of Government expenditure on selected parameters in some major areas under Social and Economic Services is depicted in **Table 1.19**.

Table 1.19: Efficiency of expenditure use

(Ratio in per cent)

Particulars	2014-15		2015-16	
	Ratio of CE to TE	Share of salaries (excluding wages and O & M) in RE	Ratio of CE to TE	Share of Salaries (excluding wages and O & M) in RE
Social Services (SS)				
Education, sports, art and culture	4.17	46.36	2.35	46.36
Health and family welfare	23.60	62.74	25.39	69.57
Water supply, sanitation, housing and urban development	45.31	11.73	48.48	28.74
Others	3.27	27.83	8.30	26.68
Total (SS)	17.41	41.19	13.97	45.91
Economic Services (ES)				
Agriculture and allied activities	3.97	46.40	2.07	46.24
Irrigation & flood control	18.99	42.47	3.28	28.21
Power and energy	19.12	54.68	14.75	39.85
Transport	62.85	25.43	62.72	32.85
Others	56.28	26.94	20.51	16.62
Total (ES)	42.28	38.31	24.70	31.37
Total (SS+ES)	29.31	40.06	19.44	38.98

Source: Finance Accounts. TE-Total Expenditure ((CE+RE of the sub-sectors)); CE-Capital Expenditure (sub sector); RE-Revenue Expenditure (sub sectors)

Expenditure on Social Services

Capital Expenditure on Social Services decreased from ₹ 269.81 crore in 2014-15 to ₹ 0.80 crore in 2015-16. There was decrease in ratio of capital to Total Expenditure on Social Services by 3.44 per cent as compared to the previous year.

The share of salary expenditure under Social Services in Revenue Expenditure was 41.19 per cent in 2014-15, which slightly increased to 45.91 per cent in 2015-16.

Expenditure on Economic Services

Capital Expenditure on Economic Services decreased from ₹ 601.38 crore in 2014-15 to ₹ 369.21 crore in 2015-16. There was decrease in ratio of capital to Total Expenditure on Economic Services by 17.58 per cent.

The share of salary expenditure under Economic Services which was 38.31 per cent during 2014-15 had decreased to 31.37 per cent of Revenue Expenditure in 2015-16.

1.9 Financial analysis of Government expenditure and investments

In the post-Mid Term Fiscal Plan (MTFP) framework, the Government is expected to keep its fiscal deficit (borrowing) not only at low levels but also meet its capital

expenditure/investment (including loans and advances) requirements. In addition, the State Government needs to initiate measures to earn adequate return on its investments and recover cost of borrowed funds rather than bearing the same in its budget in the form of implicit subsidy and also needs to take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other Capital Expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.9.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2016 is given in **Table 1.20**.

Table 1.20: Department wise profile of incomplete projects

(₹ in crore)

Department	No. of incomplete projects as on 31 March 2016	Initial budgeted cost	Revised total Cost	Cost over run	Actual expenditure as on 31 March 2016
Rural Management and Development	18	170.61	170.61	0	100.88
Human Resource Development	20	217.44	217.44	0	76.84
Sikkim Public Works (Roads and Bridges)	170	1,860.80	1,860.80	0	641.96
Energy and Power	29	252.34	252.34		109.65
Water Supply and Public Health Engineering	20	174.92	174.92	0	108.53
Building and Housing	8	71.51	71.51	0	43.06
Total	265	2,747.62			1,080.92

Source: Finance Accounts

As per information received from the State Government, there were 265 incomplete projects (estimated cost ₹ 2,747.62 crore) as on 31 March 2016 in which an expenditure amounting to ₹ 1,080.92 crore had been incurred, out of which 24 works (Water Supply and Public Health Engineering- 7 works, estimated cost: ₹ 59.24 crore and actual expenditure incurred as on 31 March 2016: ₹ 3.60 crore and Human Resource Development- 17 works, estimated cost: ₹ 196.97 crore and actual expenditure incurred as on 31 March 2016: ₹ 15.19 crore) were due to be completed by 31 March 2016 and in case of 211 works (170 works- Roads and Bridges, 18 works - RMDD, 8 works - Building and Housing Department, 2 works- HRDD and 13 works - Energy and Power Department), year of commencement and target date of completion were not furnished by the Departments. Due to not completing of works in scheduled time, benefits of the projects did not reach the intended beneficiaries in time.

Information from Food and Civil Supplies and Consumer Affairs Department, Urban Development and Housing Department, Department of Tourism and Civil Aviation, Department of Health Care, Human Service and Family Welfare and Irrigation Department were awaited (October 2016).

1.9.2 Investment and returns

As of March 2016, Government had invested ₹ 97.42 crore in Statutory Corporations, Banks, Joint Stock Companies and Co-operatives as detailed in succeeding paragraphs. The return during the current year was 13.04 per cent as detailed in **Table 1.21** below:

Table 1.21: Return on investment

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Investment at the end of the year	97.42	97.42	97.42	97.42	97.42
Return	Nil	1.53	0.55	0.87	12.70
Return (per cent)	Nil	1.57	0.56	0.89	13.04
Average rate of interest on Government borrowings (per cent)	9.00	9.50	8.33	8.38	8.17
Difference between interest rate and return (per cent)	9.00	7.93	7.77	7.49	(-)4.87

Source: Finance Accounts

Higher returns during current year was due to receipt of dividend from companies, bank and co-operatives (State Bank of Sikkim- ₹ 5.34 crore, Sikkim Distilleries Ltd- ₹ 7.24 crore, Denzong Cinema- ₹ 0.01 crore, Multipurpose Co-operative Society- ₹ 0.11 crore).

The details of investment of ₹ 97.42 crore up to the end of 2015-16 by the State Government in Statutory Corporations (3), Joint Stock Companies (21) and Banks and Co-operative Societies (8) are detailed in **Appendix 1.6**.

It was noticed that the Government had invested ₹ 20.46 crore in the following Companies incurring recurring loss (**Table 1.22**).

Table 1.22: Investment in Government Companies under perennial loss

(₹ in crore)

Sl. No.	Name of the Government Company	Investment upto 2015-16		Cumulative loss(**)	Year of accounts approved by Board
		Equity and loans	Subsidy/ Grants		
1	Sikkim Poultry Development Corporation Ltd. (SPDCL)	Nil	0.16	0.73	2008-09
2	Sikkim Hatcheries Limited (SHL)	0.46	Nil	1.67	2008-09
3	Sikkim Livestock Processing and Development Corporation (SLPDC)	0.35	Nil	1.02	2012-13
4	Sikkim Power Development Corporation	10.35	Nil	74.55	2015-16
5	Sikkim SC, ST and OBC Development Corporation (SABCCO)	9.30	Nil	15.26	2012-13
	Total	20.46	0.16	93.23	

Source: Information furnished by the departments. (**) Accumulated loss upto the latest annual accounts approved by Board

Against 12 working Companies/Corporations wherein State Government had invested ₹ 41.84 crore (₹ 39.81 crore as equity and ₹ 2.03 crore as loan), two were earning profits, as per their latest finalised annual accounts, while remaining had incurred losses.

1.9.3 State PSUs-finalisation of accounts and enhancing financial viability

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

The finalisation of 24 annual accounts in respect of 7 State PSUs were in arrears as of September 2016 due to delay in completion/adoption of accounts by the Board of Directors of the respective SPSUs as detailed below:

Table 1.23: Delay in completion/adoption of accounts by the Board of Directors

Sl. No.	Name of the PSUs	Year for which annual accounts to be finalised	Number of accounts
1	Sikkim Industrial Development and Investment Corporation Ltd.	2015-16	1
2	Scheduled Caste, Scheduled Tribe and Other Backward Class Development Corporation Ltd.	2013-14 to 2015-16	3
3	Sikkim Tourism Development Corporation Ltd	2015-16	1
4	Sikkim Poultry Development Corporation Ltd	2009-10 to 2015-16	7
5	Sikkim Hatcheries Ltd	2009-10 to 2015-16	7
6	Sikkim Livestock Processing and Development Corporation Ltd.	2014-15 and 2015-16	2
7	State Bank of Sikkim	2013-14 to 2015-16	3
Total			24

Source: Information furnished by the Companies/Corporations

1.9.4 Loans and advances by the State Government

In addition to investments in Companies, Corporations and Co-operative Institutions, Government also provided loans and advances to many Institutions/Organisations/ Government servants. **Table 1.24** presents the position of outstanding loans and advances as of March 2016 and interest receipts vis-à-vis interest payments during the last five years.

Table 1.24: Average interest received on loans and advanced by the State Government

Particulars	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Opening balance	46.63	95.78	99.99	109.48	135.17
Amount advanced during the year	49.18	5.11	10.40	26.57	27.03
Amount repaid during the year	0.03	0.89	0.91	0.88	1.37
Closing balance	95.78	99.99	109.48	135.17	160.83
Net addition	(+) 49.15	(+) 4.21	(+) 9.49	(+) 25.69	(+) 25.66
Interest receipts	1.84	2.61	4.18	1.76	00
Interest receipts as <i>per cent</i> to outstanding loans and advances	1.92	2.61	3.82	1.30	00
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government	6.04	5.95	5.76	5.76	5.38
Difference between interest payments and interest receipts (in <i>per cent</i>)	4.12	3.34	1.94	4.46	5.38

Source: Finance Accounts

Out of amount of ₹ 27.03 crore advanced during the year 2015-16, ₹ 20.86 crore was loan for general financial institutions, ₹ 4.10 crore was loans for co-operatives and ₹ 2.00 crore was against the educational loans for higher studies in colleges and universities. Further, ₹ 0.07 crore was against loans and advances paid to various Government servants for house building advance.

Loans and advances outstanding as of March 2016 aggregated to ₹ 160.83 crore. No interest on loans and advances was received by the Government during the financial year 2015-16.

1.9.5 Cash balances and investment of cash balances

Table 1.25 depicts the cash balances and investments made therefrom by the State Government during the year.

Table 1.25: Investment of cash balances

(₹ in crore)

	As of 31 March 2015	As of 31 March 2016
(a) General Cash Balance -	-	-
• Cash in Treasuries	-	-
• Deposits with Reserve Bank	-	-
• Deposits with other Banks	177.95	214.80
• Remittances in transit - local	-	-
Total	177.95	214.80
Investments held in Cash Balance investment account	1,050.00	1,151.40
Total (a)	1,227.95	1,366.20
(b) Other Cash Balances and Investments		
Cash with departmental officers viz. Public Works Department Officers, Forest Department Officers, District Collectors	0.55	0.80
Permanent advances for contingent expenditure with departmental officers	0.42	0.43
Investment of earmarked funds	308.02	3,587.14
Total (b)	308.99	358.37
Grand total (a)+ (b)	1,536.94	1,724.57

Source: Finance Accounts

Under a resolution passed in the year 1968-69, the State Bank of Sikkim was vested with the responsibility by the State Government for receiving money on behalf of Government and making all Government payments and keeping custody of the balances of Government in current account as well as fixed deposits which could be made through the branches of the Bank. The State Government's cash balances of ₹ 1,724.57 crore at the end of the current year showed an increase by 12.21 per cent (₹ 187.63 crore) over the previous year. The State Government had earned an interest of ₹ 65.80 crore from the cash balance investments during 2015-16.

As per the Finance Accounts 2015-16 there was a balance of ₹ 210.80 crore with the State Bank of Sikkim as on 31 March 2016. However, as per the records of the State Bank of Sikkim, the cash balance of the State Government stood at ₹ 135.71 crore leaving an un-reconciled balance of ₹ 75.09 crore.

Outstanding balances under the head 'Cheques and Bills'

The head is an intermediate account for initial record of transactions which are to be cleared eventually. Outstanding balance under the major head 8670- Cheques and Bills represents the amount of un-encashed cheques. Under this head as on 1 April 2015, there was an opening balance of ₹ 159.97 crore. Further, during the year, cheques worth ₹ 3,378.78 crore were issued and cheques worth ₹ 3,284.06 crore were encashed leaving a closing balance of ₹ 254.69 crore as on 31 March 2016.

1.10 Assets and liabilities

1.10.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of

the expenditure incurred. **Appendix 1.3** gives an abstract of such assets and liabilities as on 31 March 2016 compared with the corresponding position as on 31 March 2015.

Total liabilities, as defined are the liabilities under the Consolidated Fund and the Public Accounts of the State. Consolidated Fund liabilities consist of Internal Debt and loans and advances from GoI.

The growth rate of components of assets and liabilities are summarised in the **Table 1.26**.

Table 1.26: Summarised position of Assets and Liabilities

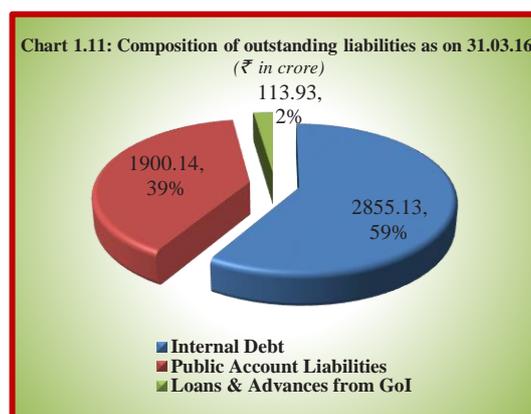
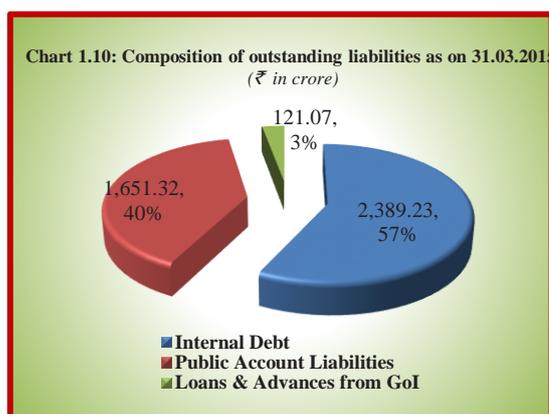
(₹ in crore)							
Liabilities	2013-14	2014-15	2015-16	Assets	2013-14	2014-15	2015-16
<i>Consolidated Fund</i>				<i>Consolidated Fund</i>			
a. Internal Debt	2,058.47	2,389.23	2,855.13	Gross capital Outlay	7,346.54	8,327.25	8,961.24
Loans and advances from GoI	127.07	121.07	113.93	ii) Loans and advances	109.48	135.17	160.83
	2,185.54	2,510.30	2,969.06	Advances	1.03	1.03	1.03
<i>Public Accounts</i>							
Small savings, Provident funds, etc.	685.64	710.19	747.85	Cash	1,283.60	1,536.94	1,724.57
b. Reserve Funds	313.15	430.61	441.38				
c. Deposits	146.21	138.37	160.01				
d. Remittance balance	204.31	213.40	295.91				
e. Suspense and Miscellaneous balances	99.03	158.75	254.99				
	1,448.34	1,651.32	1,900.14				
Surplus on Government Accounts	4,238.29	5,106.77	5,837.76				
Revenue surplus	868.48	731.00	139.71				
Contingency Fund	1.00	1.00	1.00	Contingency Fund	1.00		
Total	8,741.65	10,000.39	10,847.67		8,741.65	10,000.39	10,847.67

Source: Finance Accounts

The growth rate of assets was 8.47 per cent whereas the growth rate of liabilities was 17 per cent in 2015-16 as compared to the previous year.

1.10.2 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.2**. The composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Charts 1.10** and **1.11**.



Source: Finance Accounts

Fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP, Revenue Receipts and own resources as well as buoyancy of fiscal liabilities with respect to these parameters are brought out in **Table 1.27**.

Table 1.27: Fiscal liabilities-basic parameters

	2011-12	2012-13	2013-14	2014-15	2015-16
Fiscal liabilities(₹ in crore)	3,160.76	3,344.97	3,633.88	4,161.62	4,869.20
Rate of growth (per cent)	12.99	5.83	8.64	14.52	17.00
Revenue Receipts	2,872.11	3,288.36	3,893.54	4,087.64	3,784.29
Ratio of fiscal liabilities to					
GSDP	0.28	0.27	0.26	0.27	0.29
Revenue Receipts	1.10	1.02	0.93	1.02	1.29
Own resources	5.88	4.54	4.10	4.89	4.97
Buoyancy ratio of fiscal liabilities to					
GSDP		0.55	0.70	1.49	1.81
Revenue Receipts	0.39	0.40	0.47	2.91	(-) 2.29
Own resources	4.16	0.16	0.43	(-)3.66	1.13

Source: Finance Accounts

Fiscal liabilities of the State increased by ₹ 707.58 crore (17 per cent) from ₹ 4,161.62 crore in 2014-15 to ₹ 4,869.20 crore in 2015-16 comprising Public Accounts Liabilities of ₹ 1,900.14 crore (39.02 per cent), Internal Debt of ₹ 2,855.13 crore (58.64 per cent) and loans and advances of ₹ 113.93 crore (2.34 per cent).

The ratio of fiscal liabilities to GSDP stood at 0.29 at the end of 2015-16. The growth rate of outstanding fiscal liabilities which was 14.52 per cent in 2014-15 increased to 17 per cent in 2015-16. The buoyancy of the liabilities with respect to GSDP during the year were 1.81 indicating that for each one per cent increase in GSDP fiscal liabilities grew by 1.81 per cent.

1.10.3 Transactions under Reserve Funds

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

- Funds accumulated from grants made by another Government and at times aided by public subscriptions.
- Funds accumulated from sums set aside by the Union/State from the Consolidated Fund of India or Consolidated Fund of State, as the case may be, to provide reserves for expenditure to be incurred by them for particular purposes.
- Funds accumulated from contributions made by outside agencies to the State Government.

A total of five Reserve Funds had been created and maintained in the accounts of the State Government. Analyses of transaction of those funds are enumerated in the subsequent paragraphs:

Consolidated Sinking Fund:

The State Government constituted a Consolidated Sinking Fund for redemption of the open market loans of the Government commencing from 2004-05. As per guidelines, the Government is required to contribute to the fund at the rate of 1 to 3 *per cent* of the outstanding open market loans as at the end of the previous year. The scope of this fund has been extended to cover all outstanding liabilities of the Government through a notification issued on 18 August 2007 on the basis of recommendations of the XII FC. The State Government had not adopted the recommendations of Reserve Bank of India (RBI) for minimum annual contribution of 0.5 *per cent* of outstanding liabilities. For the year 2015-16, the requirement for annual contribution was ₹ 17.40 crore (0.5 *per cent* of outstanding liabilities of ₹ 3, 481.44 crore) in terms of the guidelines of the RBI and ₹ 18.39 crore (at 1 *per cent* of outstanding open market loans of ₹ 1,838.72 crore) in terms of the guidelines of the State Government. During the year Government transferred ₹ 12.00 crore to the fund against the minimum contribution of ₹ 18.39 crore, as per its own guidelines, resulting in short contribution of ₹ 6.39 crore. Similarly, the shortfall in contribution as per the RBI guidelines worked out to ₹ 5.40 crore. As on 31 March 2016, the fund had a balance of ₹ 309.92 crore (including ₹ 28.06 crore as accrued interest), which had been invested in fixed deposits in nationalised banks as per the directions of the RBI. However, ₹ 3.32 crore of interest accrued during the year has not been invested.

State Disaster Response Fund:

The State Government replaced the Calamity Relief Fund with the State Disaster Response Fund (SDRF) in 2010-11 as per the recommendations of the XIII FC. In terms of the guidelines of the fund, the Centre, and Special Category States like Sikkim, are required to contribute to the fund in the proportion of 90:10. Further, if the State does not have adequate balance under SDRF, GoI provides additional assistance from the National Disaster Response Fund (NDRF). As at the beginning of 2015-16, the fund had a corpus of ₹ 18.06 crore, out of which ₹ 14.00 crore was invested. During the year 2015-16, the State Government transferred ₹ 37.15 crore to the SDRF (Central share: ₹ 27.99 crore and State share of ₹ 3.01 crore and accrued interest of ₹ 6.15 crore). After meeting the expenditure of ₹ 37.95 crore during the year, the fund had a closing balance of ₹ 17.26 crore as on 31 March 2016 out of which ₹ 14.00 crore was invested.

Sikkim Transport Infrastructure Development Fund

The State Government enacted Sikkim Transport Infrastructure Development Fund (STIDF) Act in 2004 and the Rules under the Act was also notified in 2004 and further amended in June 2009. The STIDF was constituted in the Public Accounts and classified under the head “8235-General and Other Reserve Fund, 200-Other Funds” in the accounts of the Government. The receipt to the fund shall initially be credited to the receipt head “0045-Other Taxes and Duties on Commodities and Services 112-Receipts from Cesses under Other Acts, Receipt under STIDF Act”. In order to transfer the amount to the fund, the State

Government shall make suitable budget provision on the expenditure side of the budget under the Head “2045-Other Taxes and Duties on Commodities and Services, 797-Transfer to Reserve Fund/Deposit Account, Transfer to the STIDF”. The fund shall be operated by FRED. Commercial Tax Division (CTD) of FRED shall collect the receipts and maintain the books of accounts. A Committee consisting of the Principal Secretary, FRED as Chairman and the Secretary, Roads and Bridges; Secretary, Transport Department and the Controller of Accounts as members shall administer the fund. The Additional Commissioner, CTD of FRED shall be the Member Secretary of the Committee. On receipt of the deposits, CTD shall take action for investment of the receipts. The fund shall be utilised for (a) the creation, development, maintenance or improvement of transport infrastructure, including roads, bridges and flyovers, (b) the improvement of traffic operations and road safety and (c) the purposes of such other projects as may be prescribed relating to transport infrastructure development with the approval of the Government. During 2015-16, total STIDF collection was ₹ 18.31 crore and ₹ 54.12 crore was transferred to Roads and Bridges Department for construction and maintenance of roads.

Sikkim Ecology Fund (SEF)

The Sikkim Ecology Fund and Environmental Cess Act was notified in 2005 and the Rules thereunder were framed in 2007. As per the Act, whoever brings non-biodegradable material to the State of Sikkim with whatsoever purpose, would be levied environmental cess at the rate of one *per cent* of total turnover on sale price and in respect of hotels, resorts and lodges, it would be levied at the rate of five *per cent*.

The broad objective of this fund was to protect and improve the quality of environment, control and abate environment pollution and to take measures for restoration of ecological balance of the State. During 2015-16, State Government collected Ecology Fund of ₹ 30.10 crore and incurred an expenditure of ₹ 35.16 crore during the year (including unspent balance of previous years).

Guarantee Redemption Fund

The State Government constituted a Guarantee Redemption Fund in the year 2005 for meeting the payment obligations arising out of the guarantees issued by the Government in respect of bonds issued and other borrowings by the State Undertakings or other bodies which stand invoked. The Government is required to contribute an amount equal to at least one-fifth of the outstanding invoked guarantees plus an amount likely to be invoked as a result of the incremental guarantees issued during the year. However, it was open to the Government to increase contribution to the fund at its discretion. During 2015-16, the State Government transferred ₹ 2 crore to the Guarantee Redemption Fund along with accrued interest of ₹ 10.39 crore. No guarantee was invoked during the year. The fund had a corpus of ₹ 36.54 crore at the end of the year which was entirely invested.

The detailed account of the fund as on 31 March 2016 is given below:

Table 1.28: Guarantee Redemption Fund

		(₹ in crore)
Sl. No.	Particulars	Amount
1	Opening balance	24.15
2	Addition	2.00
3	Interest	10.39
	Total	36.54
4	Amount met from the fund for discharge of invoked guarantees (-)	Nil
5	Closing balance	36.54
6	Amount of investment made out of the Guarantee Redemption Fund	36.54

Source: Finance Accounts

1.10.4 Contingent liabilities

Status of guarantees

Guarantees are contingent liabilities on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee was extended. The details for the last five years are given in **Table 1.29**.

Table 1.29: Guarantees given by the State Government

		(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16	
Maximum amount guaranteed	163.72	186.42	156.70	156.70	156.90	
Outstanding amount of guarantees (including interest)	164.21	187.72	122.09	112.14	89.17	
Maximum amount of guarantee as per criteria fixed by Sikkim Government Guarantee Act 2000	670.95	838.62	881.76	1,306.44	1,574.76	

Source: Finance Accounts

Government had not guaranteed any loans during the year 2015-16. As such, commission on guarantee was not received by the Government during the year. As per the Sikkim Government Guarantee Act 2000 (Act No. 21 of 2000), the ceiling on the total outstanding Government Guarantees as on the 1st day of April shall not exceed thrice the State's tax receipt of the second preceding year which was within the limit in the State. No Guarantee was invoked during the year.

Off-budget borrowings

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

State Government had not resorted to any off-budget borrowings during 2015-16.

1.10.5 Analysis of Borrowings of Government

Analysis of borrowings of the Government revealed that as on 1 April 2015, an amount of ₹ 3,220.50 crore was outstanding towards various loans and advances. Further, during the year 2015-16, there was an addition of ₹ 932.74 crore and payment/discharge of ₹ 436.33 crore with closing balance of ₹ 3,716.91 crore as on 31 March 2016. The increase in total outstanding loans and advances at the end of the year was 15.41 *per cent*. An interest of ₹ 123.64 crore was also paid by the Government on various loans and advances. Details are given below:

Table 1.30: Detailed Statement on Borrowings and Other Liabilities

(₹ in crore)

Description of Debt	Balance as on 1 st April 2015	Additions during the year	Discharges during the year	Balance as on 31 st March 2016	Net Increase(+)/ Decrease(-) (in percentage)	Interest paid during the year
Market loans	1838.72	580.00	119.02	2299.7	25	10.53
Loans from Life Insurance Corporation of India	102.00	10.00	8.90	103.10	1	8.69
Loans from General Insurance Corporation of India	0.06	0	0.02	0.04	(-33)	0.01
Loans from NABARD	231.28	29.07	44.67	215.68	(-7)	16.32
Compensation and other bonds	4.78	0	4.78	0	(-100)	0.30
Loans from National Co-operative Development Corporation	0.35	3.75	0.75	3.35	857	0.49
Loans from other institutions	19.21	0	2.13	17.08	(-11)	2.22
Special Securities issued to National Small Savings Fund of the Central Government	192.83	29.23	5.88	216.18	12	18.45
Non-Plan loans from GoI	0.85	0.07	0.13	0.79	(-7)	0.08
Block loans	31.73	2.76	3.82	30.67	(-3)	4.02
State Plan loans consolidated in terms of recommendation of the XII FC	85.09	0	5.67	79.42	(-7)	6.38
Loans for Centrally Sponsored Plan Schemes (Other loans)	1.28	0	0.13	1.15	(-10)	0.16
Loans for Special Schemes of North Eastern Council	2.12	0	0.22	1.90	(-10)	0.24
General Provident Funds	674.54	273.58	237.68	710.44	5	52.47
Insurance and Pension Funds	35.66	4.28	2.53	37.41	5	3.28
Total	3,220.50	932.74	436.33	3,716.91	15	123.64

Source: Finance Accounts

1.10.6 Inoperative Reserve Funds

As mentioned under **Paragraph 1.10.3**, the Government was maintaining five reserve funds. However, no reserve fund was found inoperative.

1.11 Debt management

Efficient debt management is an essential part of cash management. Inefficiencies either way can lead to higher interest costs, whether it is accumulation of cash due to unnecessary borrowings or availing of ways and means advances. With reduced fiscal deficit, it is essential that State follows the practice of borrowing on requirement rather than on availability.

Apart from the magnitude of the debt of the State Government, it is important to analyse various indicators that determine the debt sustainability of the State. The debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings and returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service the debt.

Debt sustainability

Debt sustainability is generally measured in terms of level of debt, primary deficit and interest cost in relation to nominal GSDP. A secular falling debt-GSDP ratio can be considered as leading towards stability. The ratio of interest payment to Revenue Receipts is also used to measure debt sustainability. In this section, assessment of the sustainability of public debt is made using observation variables.

1.11.1 Debt-GSDP Ratio

The trend in the debt-GSDP Ratio is an important indicator which signifies sustainability of the Public Debt. In the State, debt-GSDP Ratio increased from 28.31 *per cent* during 2011-12 to 29.27 *per cent* during 2015-16. Debt-GSDP Ratio for the year 2015-16 was higher than the recommended target (20.63 *per cent*) of XIV FC as shown in **Table 1.31**.

Table 1.31: Debt-GSDP Ratio

Year	Total debt	GSDP	XIII/XIV FC recommendation (%)		Debt-GSDP (%)
	(₹ in crore)		All States	Sikkim	
2011-12	3,160.76	11,165.10	26.10	65.20	28.31
2012-13	3,344.97	12,338.42	25.50	62.10	27.11
2013-14	3,633.88	13,861.90	24.80	58.80	26.21
2014-15	4,161.63	15,209.33	24.30	55.90	27.36
2015-16	4,869.20	16,636.78	21.90	20.63	29.27

1.11.2 Interest payment

The trend in the interest payment (IP)-Revenue Receipts (RR) ratio is another important indicator which measures sustainability of the Public Debt. In the State, IP-RR ratio was 6.64 *per cent* during 2011-12 which slightly increased to 6.93 *per cent* during 2015-16.

Table 1.32: Ratio of interest payment to Revenue Receipts

Year	Revenue Receipts (RR) (₹ in crore)	Growth over previous year (%)	Interest payment (IP) (₹ in crore)	Growth over previous year (%)	IP/RR (%)
2011-12	2,872.11	33.48	190.83	2.17	6.64
2012-13	3,288.36	14.49	198.92	4.24	6.05
2013-14	3,893.54	18.40	209.16	5.15	5.37
2014-15	4,087.64	4.99	239.55	14.53	5.86
2015-16	3,784.29	(-) 7.42	262.07	9.4	6.93

1.11.3 Buoyancy of assets to liabilities

The ratio of assets to aggregate fiscal liabilities could be considered a surrogate measure of quality of its application of borrowed funds. **Table 1.33** shows the buoyancy of assets with respect to liabilities.

Table 1.33: Buoyancy of Assets to Liabilities

(₹ in crore)

Year	Aggregate Liabilities	Aggregate Assets	Ratio of Assets to Liabilities	Annual Growth of Liabilities	Annual Growth of Assets	Buoyancy of Assets to Liabilities
2011-12	3,160.75	6,619.07	2.09	12.98	13.86	1.07
2012-13	3,344.97	7,584.26	2.27	5.83	14.58	2.50
2013-14	3,633.88	8,741.65	2.41	8.64	15.26	1.77
2014-15	4,161.62	10,000.39	2.40	14.52	14.40	0.99
2015-16	4,869.20	10,847.67	2.23	17.00	8.47	0.50

The growth rate of assets was higher than growth rate of liabilities during 2012-13 to 2013-14. However, it was lower during 2014-15 and 2015-16.

1.11.4 Sufficiency of incremental non-debt receipts

Another indicator of debt sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be facilitated if the incremental Non-Debt Receipts could meet the incremental interest burden and the incremental primary expenditure. Negative resource gap indicates non-sustainability of debt while positive resource gap indicates sustainability of debt. The details for the last five years have been indicated in **Table 1.34**.

Table 1.34: Indicator of incremental Non-Debt Receipts

(₹ in crore)

Sl. No.		2011-12	2012-13	2013-14	2014-15	2015-16
1	Incremental Non-Debt Receipts	761.89	374.87	605.20	194.06	(-)302.85
2	Incremental Interest Payments	4.06	8.09	10.24	30.39	22.52
3	Incremental Primary Expenditure	621.73	252.22	582.31	386.13	(-)80.85
	Resource gap	136.10	114.56	12.65	(-) 222.46	(-) 244.52

Source: Finance Accounts

The resource gap had remained positive during 2010-14 but from 2014-15, it became negative thereby indicating more dependency on borrowed funds.

1.11.5 Net availability of borrowed funds

Debt sustainability also depends on the ratio of debt redemption (principal plus interest payments) to total debt receipts and application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The net availability of

borrowed funds during the current year was positive and funds were available for meeting productive expenditure.

1.11.6 Maturity profile

To discharge its expenditure obligations, the Government had to borrow further, since fiscal surplus was not available in any of the last five years. The maturity profile of outstanding stock as on 31 March 2016 shows that 49.76 per cent of the loans are in the maturity bucket of less than seven years as shown in **Table 1.35**.

Table 1.35: Maturity profile

Maturity profile of State Public Debt (in years)	Year of maturity	Amount (₹ in crore)	Percentage
0 to 2	2016-17 to 2017-18	573.51	19.19
3 to 4	2018-19 to 2019-20	767.77	25.69
5 to 6	2020-21 to 2021-22	145.72	4.88
7 and above	2022-23 and onwards	1,501.66	50.24

Source: Finance Accounts

The Public Debt of the State Government as on 1 April 2015 was ₹ 2,510.30 crore with addition during the year 2015-16 of ₹ 654.88 crore. After discharging/re-payment of loan amount of ₹ 196.12 crore during the year (excluding an interest payment of ₹ 67.89 crore), there was a closing balance of ₹ 2,969.06 crore as on 31 March 2016. Details of the same are summarised in the table below:

Table 1.36: Summary of Public Debt

(₹ in crore)

Sl. No.	Description of the debt	Balance as on 1 April 2015	Additions during the year	Discharged/repaid during the year	Balance as on 31 March 2016	Interest paid during the year
1	Internal Debt of the State Government	2,389.23	652.05	186.15	2,855.13	57.01
2	Loans and advances from the Central Government					
	i. Non-Plan loans	0.85	0.07	0.13	0.79	0.08
	ii. Loans for State Plan Schemes	116.82	2.76	9.49	110.09	10.40
	iii. Loans for Centrally Sponsored Plan Schemes	1.28	0	0.13	1.15	0.16
	iv. Loans for Special Schemes	2.12	0	0.22	1.90	0.24
	Total 2 (i to iv)	121.07	2.83	9.97	113.93	10.88
	Total (1+2)	2,510.30	654.88	196.12	2,969.06	67.89

Source: Finance Accounts

The State Government had been contributing ₹ 12 crore per annum to the Sinking Fund (**Paragraph 1.10.3**) which had a balance of ₹ 306.60 crore at the end of March 2016. It is therefore, evident that the funds shall be insufficient to clear the future liabilities. State Government may consider enhancing its contribution to the fund to enable them to clear future liabilities.

1.11.7 Cost of Borrowings

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

The FRED was responsible for obtaining borrowings for State Government and their repayments. Though FRED was having a separate loans Wing which had been dealing with all loans and advances taken by the Government as well as by the employees of the State Government, FRED was not maintaining any record for the cost of establishment of borrowings taken for the Government. However, interest paid on various Public Debt of the State Government during the period 2013-14 to 2015-16 was as under:

Table 1.37: Trends of Public Debt of the State Government

(₹ in crore)

Sl. No.	Description of the debt	2013-14		2014-15		2015-16	
		Balance as on 31 March 2014	Interest paid during the year	Balance as on 31 March 2015	Interest paid during the year	Balance as on 31 March 2016	Interest paid during the year
1	Internal Debt of the State Government	2,058.46	147.47	2,389.23	174.29	2855.13	57.01
2	Loans and advances from the Central Government						
	i. Non-Plan loans	0.55	0.05	0.85	0.05	0.79	0.08
	ii. Loans for State Plan Schemes	122.78	11.22	116.82	10.55	110.09	10.40
	iii. Loans for Centrally Sponsored Plan Schemes	1.41	0.19	1.28	0.17	1.15	0.16
	iv. Loans for Special Schemes	2.34	0.30	2.12	0.27	1.90	0.24
	Total 2 (i to v)	127.08	11.76	121.07	11.04	113.93	10.88
	Total (1+2)	2,185.54	159.23	2,510.30	185.33	2,969.06	67.89

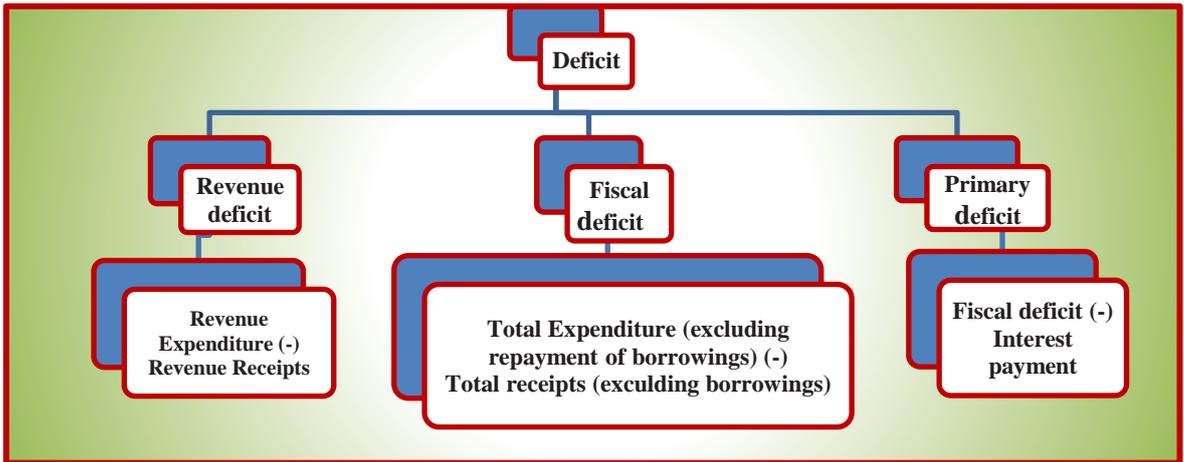
Source: Finance Accounts

From the above table it would be seen that at the end of the year 2013-14, Public Debt of the State Government was ₹ 2,185.54 crore which increased to ₹ 2,969.06 crore at the end of the year 2015-16. The cost of borrowings in terms of interest payment for the year 2013-14 was ₹ 159.23 crore which decreased to ₹ 67.89 crore during the year 2015-16 with average cost of borrowings of ₹ 137.48 crore during the period 2013-16.

1.12 Fiscal imbalances

In an emerging economy, balanced budget is rare and the Government resorts to borrowings to bridge the gap between expenditure requirements and inadequate Non-Debt Receipts. The gap between receipts and expenditure represents deficit. **Chart 1.12** gives an indication of the various kinds of deficit that occur if the Government borrows excessively to balance the budget.

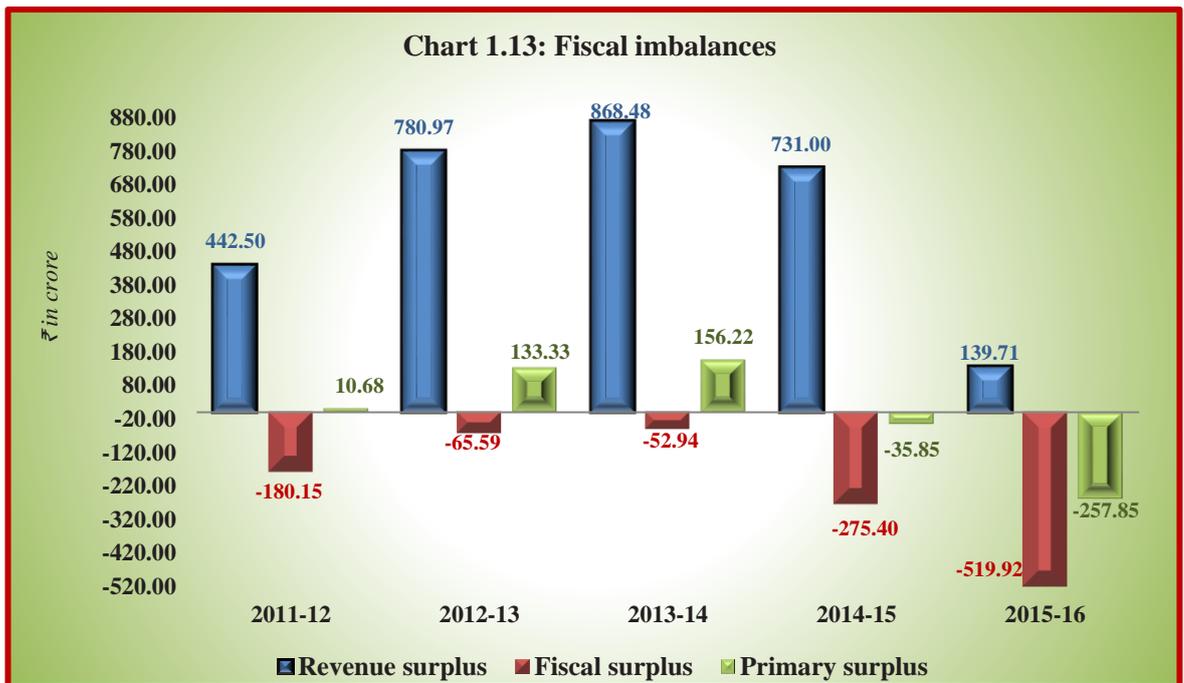
Chart 1.12: Type of deficit



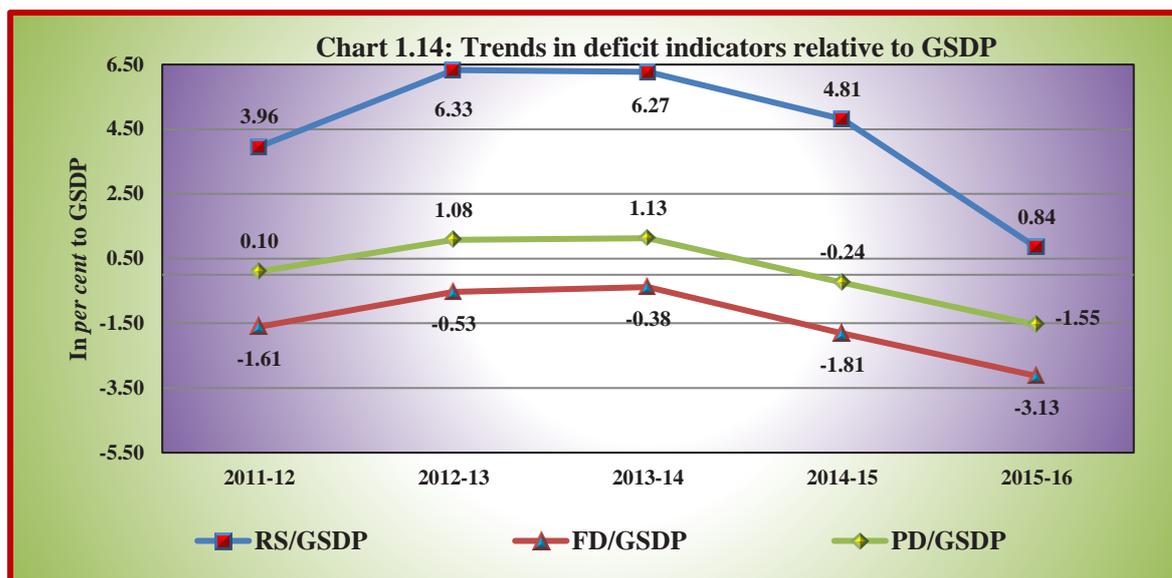
The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised and applied are important pointers to fiscal health. This section presents the trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficit vis-à-vis targets set for the financial year 2015-16.

12.1 Trends in deficit

Charts 1.13 presents the trends in deficit indicators over the period 2011-16.



Charts 1.14 presents the trends in deficit indicators relative to GSDP during the period 2011-16.



Revenue surplus

Revenue surplus represents the difference between Revenue Receipts and Revenue Expenditure. Revenue surplus helps to decrease borrowings.

The State continued to attain revenue surplus during all the years, i.e., from 2011-12 to 2015-16 with fluctuating trends. Revenue surplus decreased by ₹ 591.29 crore (80.89 per cent) during 2015-16 as compared to the previous year due to increase in Revenue Expenditure and decrease in Revenue Receipts.

Fiscal deficit

Fiscal deficit normally represents the net incremental liabilities of the Government or its additional borrowings. The shortfall could be met either by additional Public Debt (internal or external) or by the use of surplus funds from Public Accounts. Fiscal deficit trends along with the trends of the deficit relating to key components are indicated in **Table 1.38**.

Table 1.38: Fiscal deficit and its parameters

Period	Non-Debt Receipts	Total Expenditure	Fiscal surplus(+)/deficit(-)	Fiscal deficit as per cent to		
				GSDP	Non-Debt Receipt	Total Expenditure
₹ in crore						
2011-12	2,914.38	3,094.54	(-)180.15	1.61	6.18	5.82
2012-13	3,289.26	3,354.85	(-) 65.59	0.53	2.02	1.96
2013-14	3,894.46	3,947.40	(-)52.94	0.38	1.36	1.34
2014-15	4,088.52	4,363.92	(-)275.40	1.81	6.74	6.31
2015-16	3,785.67	4,305.59	(-)519.92	3.13	13.73	12.08

Source: Finance Accounts

Fiscal deficit as a percentage of GSDP, Non-Debt Receipts and Total Expenditure increased during the current year.

Primary deficit

While fiscal deficit represents the need for additional resources in general, a part of such resources may be needed to finance interest payments. Interest payments represent the expenditure of past obligations and are independent of current allocative priorities. To look

at the imbalances of the current nature, these payments need to be separated and deducted from the total imbalances. The primary deficit and its parameters for the last five years are indicated in **Table 1.39**.

Table 1.39: Primary deficit and its parameters

(₹ in crore)

Period	Fiscal deficit	Interest payments	Primary deficit (-)/ Surplus (+)
2011-12	180.15	190.83	(+)10.68
2012-13	65.59	198.92	(+)133.33
2013-14	52.94	209.16	(+)156.22
2014-15	275.40	239.55	(-)35.85
2015-16	519.92	262.07	(-)257.85

Source: Finance Accounts

There were primary surplus during 2011-12 to 2013-14 and primary deficit was recorded during 2014-15 and 2015-16.

1.12.2 Components of fiscal deficit and its financing pattern

The financing pattern of fiscal deficit has undergone a compositional shift as reflected in **Table 1.40**. Decomposition of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above Revenue and Non-Debt Receipts.

Table 1.40: Components of fiscal deficit and its financing pattern

(₹ in crore)

Particulars	2011-12		2012-13		2013-14		2014-15		2015-16	
	Amount	% of GSDP	Amount	% of GSDP	Amount	% of GSDP	Amount	% of GSDP	Amount	% of GSDP
Decomposition of fiscal deficit	180.15	2.14	65.59	0.63	52.94	0.43	275.40	1.90	519.92	3.12
1 Revenue surplus	442.5		780.97		868.48		731.00		139.71	
2 Misc. Capital Receipts	42.25		0		0		0		0	
3 Net Capital Expenditure	615.76		842.35		911.94		980.71		633.98	3.81
4 Net loans and advances	49.14	0.59	4.21	0.04	9.48	0.08	25.69	0.18	25.65	0.15
Financing pattern of fiscal deficit*										
1 Market borrowings	41.59	0.5	133.64	1.28	229.54	1.85	330.76	2.28	465.89	2.80
2 Loans from GoI	(-) 2.81	0.03	(-) 7.95	-0.08	(-) 21.96	(-) 0.18	(-) 6	(-) 0.04	(-) 7.14	
3 Special securities issued to NSSF**	0	0	0	0	0	0.00	00	0	0	0
4 Loans from financial institutions	0	0	0	0.00	0	0.00	0	0	0	0
5 Small savings, PF, etc.	68.52	0.82	(-) 45.35	(-) 0.43	61.49	0.50	24.55	0.17	37.65	0.23
6 Deposits and advances	17.92	0.21	0	0.00	3.43	0.03	(-)7.84	(-)0.05	21.64	0.13
7 Suspense and Miscellaneous	37.80	0.45	41.02	0.39	(-)58.31	(-) 0.47	59.72	0.41	(-) 5.42	0.03
8 Remittances	118.16	1.41	(-)60.11	(-) 0.57	7.58	0.06	9.09	0.06	82.51	0.50
9 Reserve funds	78.57	0.94	(-)8.22	(-)0.08	67.14	0.54	117.45	0.81	(-) 38.35	0.23
10 Increase (-)/ decrease (+) in cash balance	(-) 179.60	2.14	(-) 118.62	(-) 1.13	(-) 234.97	(-) 1.90	(-) 253.34	(-) 1.75	(-) 36.86	0.22
11 Net of Contingency Fund transactions	0	0	0	0.00	(-)1	(-) 0.01	1	0.01	0	
Total	180.15		65.59	0.63	52.94	0.43	275.40	1.90	519.92	3.13

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

** Included in Market borrowings

The components of fiscal deficit are revenue surplus, net Capital Expenditure and net loans and advances. The State had been attaining revenue surplus, which financed the fiscal

deficit along with market borrowings, loans from GoI, etc. The revenue surplus decreased by ₹ 591.29 crore during the current year due to decrease in Grants in aid from GoI. The Capital Expenditure and the net loans and advances decreased during the current year.

The Capital Expenditure could be financed by revenue surplus to the extent of 22.04 *per cent* during the current year.

1.12.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue and Capital Expenditure (including loans and advances) indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (**Table 1.41**) indicates the extent to which the deficit was on account of enhancement in Capital Expenditure which might be desirable to improve the productive capacity of the State's economy.

Table 1.41: Primary deficit/surplus-Bifurcation of factors

(₹ in crore)

Year	Non-Debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and advances	Primary expenditure (3+4+5)	Primary revenue deficit (-)/surplus (+)(2-3)	Primary deficit (-)/surplus (+) (2-6)
1	2	3	4	5	6	7	8
2011-12	2,914.38	2,238.77	615.76	49.17	2,903.70	(+)675.61	(+)10.68
2012-13	3,289.26	2,308.47	842.35	5.11	3,155.93	(+)980.79	(+)133.33
2013-14	3,894.46	2,815.90	911.94	10.40	3,738.24	(+)1,078.56	(+)156.22
2014-15	4,088.52	3,117.09	980.71	26.57	4,124.37	(+)971.43	(-)35.85
2015-16	3,785.67	3,382.51	633.98	27.03	4,043.52	(+)403.16	(-)257.85

Source: Finance Accounts

Non-Debt Receipts of the State were enough to meet the primary expenditure requirements in the revenue account. But, the Non-Debt Receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit during 2014-16.

1.13 Follow up

The preparation of Standalone Report of the State Finances started in 2008-09 and the Reports for the years 2009-10 and 2010-11 had been discussed by the Public Accounts Committee (PAC). Recommendations of the PAC were awaited.

1.14 Conclusion and Recommendations

Surplus/deficit

The fiscal position of the State viewed in terms of key fiscal parameters-revenue surplus, fiscal deficit, primary deficit, etc., indicated that the State had been able to maintain revenue surplus during the last five years. However, revenue surplus recorded decrease (₹ 591.29 crore) during the year as compared to the previous year. This was due to decrease in Revenue Receipts by 7.42 *per cent* (₹ 303.35 crore) and increase in Revenue Expenditure by

8.58 *per cent* (₹ 287.94 crore) during 2015-16 as compared to 2014-15. Further, fiscal deficit also increased by ₹ 244.52 crore from the previous year.

Revenue Receipts

Revenue Receipts decreased by ₹ 303.35 crore (7.42 *per cent*) from ₹ 4,087.64 crore in 2014-15 to ₹ 3,784.29 crore in 2015-16. During 2015-16, 74.11 *per cent* of the Revenue Receipts was from GoI as Central transfers in the form of State's share of taxes and Grants-in-aid contributions while only 25.89 *per cent* revenue was collected from State's own sources (i.e. Tax and Non-Tax Revenue). The Tax Revenue Receipts at ₹ 566.82 crore was lower by ₹ 309.18 crore than the projection made by XIV FC. However, Non-Tax Revenue was higher by ₹ 119.99 crore.

Expenditure

During 2015-16 the Total Expenditure decreased by 1.34 *per cent* from ₹ 4,363.92 crore in 2014-15 to ₹ 4,305.59 crore during 2015-16. Revenue Expenditure constituted 84.65 *per cent*, Capital Expenditure constituted 14.72 *per cent* and loans and advances constituted 0.63 *per cent* of Total Expenditure during 2015-16. The expenditure on Social and Economic Sectors, which are considered as Development Expenditure, accounted for 68.72 *per cent* in 2015-16. Capital Expenditure decreased by 35.35 *per cent* (₹ 346.73 crore) over the previous year.

The State needs to give more priority to Capital Expenditure and ensure that it does not decrease over the years.

Fiscal Correction Path

Revenue surplus was lower than the target fixed by XIV FC, budget proposal and projections in the Five-year Fiscal Plan/MTFP. Fiscal deficit was 3.13 *per cent* of the GSDP which was within the target fixed by XIV FC and budget proposal. However, it was higher than target prescribed in FRBM Act and Five-year Fiscal Plan/MTFP. Ratio of total outstanding debt of the Government to GSDP was higher than the target fixed by XIV FC, budget proposal and projections in Five-year Fiscal Plan/MTFP.

Fiscal Liabilities

Fiscal liabilities of the State increased by ₹ 707.58 crore (17 *per cent*) from ₹ 4,161.62 crore in 2014-15 to ₹ 4,869.20 crore in 2015-16. The growth rate of outstanding fiscal liabilities which was 14.52 *per cent* in 2014-15 increased to 17 *per cent* in 2015-16. The buoyancy of the liabilities with respect to GSDP during the year was 1.81 indicating that for each one *per cent* increase in GSDP fiscal liabilities grew by 1.81 *per cent*. The debt-GSDP Ratio for the year was higher than the recommended target of XIV FC.

Investment and Returns

The return from investments was 13.04 *per cent*. However, some of the Companies/Corporations were under recurring loss.

State Government may review the working of the units which were incurring losses to avoid further financial burden on the Government.