



GOVERNMENT OF SIKKIM

**SUPPLEMENTARY MEMORANDUM
TO THE
FIFTEENTH FINANCE COMMISSION**

VOLUME –V

FINANCE, REVENUE & EXPENDITURE DEPARTMENT

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I. MAINTENANCE OF CAPITAL ASSETS

(This is in line with the Para No. 3 (Serial No. XV) of DO Letter No.3/8/SF/XVFC-2018 dated: 08.10.2018)

Capital expenditure for creating assets without a reference/provision to finance its maintenance by user charges or by a specific future charge on the revenues of the state is not an ideal development strategy. Without adequate provisions for maintenance, assets created may become unusable earlier than envisaged and have adverse implications for service delivery. The Twelfth Finance Commission, recognising the importance of proper maintenance of roads and bridges for the first time recommended additional specific grant of Rs 15,000 crore and Rs 5,000 crore, separately for maintenance of roads and buildings, respectively¹. Thirteenth Finance Commission also recognised that a vital infrastructure such as roads should not suffer due to poor maintenance and provided grants for maintenance of roads and bridges in addition to the normal maintenance expenditure as assessed within the overall revenue expenditure of the states. The grants-in-aid for roads maintenance amounting to Rs. 19,930 crore were to cover 50 per cent of the norm based requirement for non-PMGSY roads and 90 per cent for PMGSY roads for four years starting 2011-12. Commission had recommended Rs. 68 crore for maintenance of roads & bridges to Sikkim². The Fourteenth Finance Commission, however, did not provide any specific grant for maintenance of roads and buildings and incorporated that in their normative assessment of expenditure and subsumed in their overall resource allocation.

On maintenance of capital assets, two issues needs to be considered. First, there is need to incentivise the States for making adequate provisioning for maintenance of productive assets created over time. Providing norm based specific grants in full or on some matching principles is one clear way of incentivizing the States. In absence of such incentivisation, maintenance may become residual kind of expenditure with lower priority. Second, to have a wider coverage of maintenance it may be better to include all assets created and not restrict it to roads and buildings. Physical assets are, however, heterogeneous and each may have

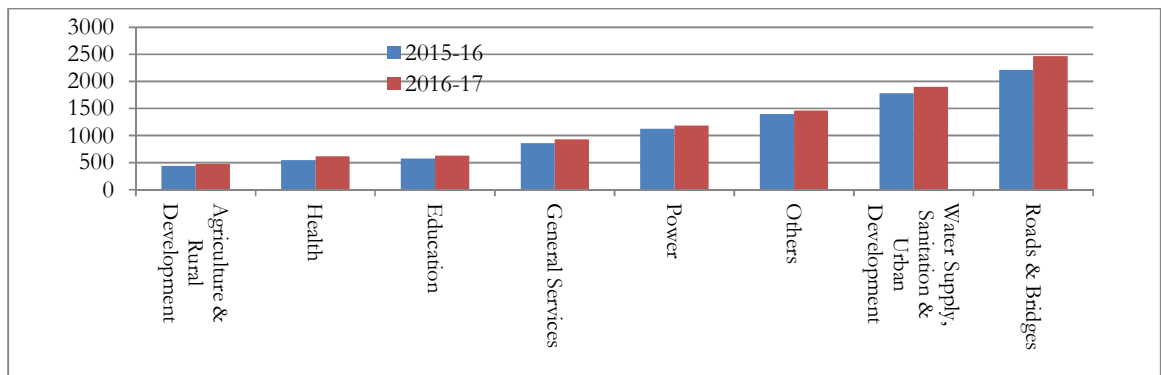
¹ Finance Commission Report (Twelfth Finance Commission), para 10.21

² Finance Commission Report (Thirteenth Finance Commission)- Annex 12.16 and 12.17

different norms for maintenance. Maintenance expenditure on roads varies depending on its nature and the terrain. Similarly, maintenance of buildings may vary depending on vintage, terrain and material used. Maintenance of miscellaneous equipments and machinery could vary according to their nature and use to which these are put to. Capital expenditure in aggregate may be an ideal surrogate for overall assessment of maintenance needs across the States.

Cumulative capital expenditure of Sikkim has increased from Rs. 5,592 crore in 2011-12 to Rs. 9,681 crore in 2016-17 and is expected to reach a level of over Rs. 12,000 crore by 2018-19. Roads & bridges, power and infrastructure of basic civic amenities account for nearly 60 per cent of total expenditure (Fig 1).

Fig. 1: Cumulative Capital Expenditure as at the end of the Financial Year (Rs in crore)



Source: Finance Accounts- Sikkim for 2016-17

It is proposed that the Commission may consider 1.5 per cent of the cumulative capital expenditure at the end of the preceding financial year, net of investment in equity and shares (which in 2016-17 at Rs. 97 crore was just one per cent of the aggregate capital expenditure). It is also requested that the entire allocation may be in the form of a specific grant for maintenance of assets.

II. CREATION OF CORPUS FUND FOR MAINTENANCE AND UPKEEP OF CULTURAL PROPERTIES

State Specific Needs Grant recommended by the Finance Commission is the only source of grant for Heritage Conservation and management in the State of Sikkim. We have received grants under 11th, 12th & 13th Finance Commission which was utilized judiciously for the purpose it was sanctioned therefore, activities and programmes for heritage conservation & management has grown manifold in the state. Under 14th Finance Commission the department did not receive any grant resulting in deficit of activities that needs to be carried forward for augmenting the programmes related to conservation and management.

Under 15th Finance Commission, the State envisages to carry out various schemes on preservation, conservation and restoration of cultural properties under the Culture Policy of Sikkim, 2016.

Since, the 'State Specific Needs Grant' is time bound and scope oriented, the State proposes to create corpus fund for maintenance and upkeep of following cultural properties in Sikkim:

- 1) Sikkim State Archives, Gangtok
- 2) Manan Bhawan, Gangtok.
- 3) State Museum, Gangtok.
- 4) 3 nos. of District Community Centers
- 5) 6 nos. of Sub-Division Community Centers.
- 6) Periodical maintenance of Cultural Heritage Sites and Precincts

The State has not been able to maintain any of the aforesaid properties due to lack of regular funding to its upkeep. Moreover, the State has received more than 170 applications from stakeholders for their maintenance and preservation of cultural heritage sites.

It is to be mentioned here that the State Central Library under Cultural Affairs and Heritage Department is already operating successfully from an accrued interest of such corpus fund created during the 11th Finance Commission. As a result the State Central Library along with other District and Sub divisional Libraries under the Department has been able to meet most of its expenditure towards annual purchase of books, periodicals and minor repairs for its libraries from the interest accrued from this Corpus Fund.

The State proposes for creation of a corpus fund of **Rs. 20.00 crores** to take up the above mentioned works under 15th Finance Commission.