Executive Summary

Background

This Report on the Finances of the Government of Manipur is being brought out with a view to assess objectively the financial performance of the State during the year 2009-10. The aim of this Report is to provide the State Government with timely inputs based on actual data so that there is a better insight into both well performing as well as ill performing schemes/programmes of the Government. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government in Fiscal Responsibility and Budget Management Act, 2005 as well as in the Budget estimates of 2009-10. A comparison has been made to see whether the State has given adequate fiscal priority to developmental, social sector and capital expenditure compared to other Northeast (NE) states and whether the expenditure has been effectively absorbed by the intended beneficiaries.

The Comptroller and Auditor General (C&AG) has been commenting upon the Government's finances for over four years since the FRBM legislation and have published four Reports already. Since these comments formed part of the Civil Audit Report, it was felt that the audit findings on State finances remained camouflaged in the large body of audit findings on compliance and performance audits. The obvious fallout of this well-intentioned but all-inclusive reporting was that the financial management portion of these findings did not receive proper attention. In recognition of the need to bring State finances to centre-stage once again, a stand-alone Report on State Government finances is considered an appropriate audit response to this challenge. Accordingly, from the report year 2009 onwards, C&AG had decided to bring out a separate volume titled "Report on State Finances." This Report is the second in this endeavour.

The Report

Based on the audited accounts of the Government of Manipur for the year ending March 2010, this Report provides an analytical review of the Annual Accounts of the State Government. The Report is structured in three Chapters.

Chapter I is based on the audit of Finance Accounts and makes an assessment of the Government of Manipur's fiscal position as on 31 March 2010. It provides an insight into trends in committed expenditure, borrowing pattern besides a brief account of Central funds transferred directly to the State implementing agencies.

Chapter II is based on audit of Appropriation Accounts and gives the grant-by-grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter III is an inventory of Manipur Government's compliance with various reporting requirements and financial rules.

Audit findings and recommendations

FINANCES OF THE STATE GOVERNMENT

Revenue Receipts

During 2005-10, around 89 to 92 *per cent* of the Revenue receipt of the State came from the Central Government. The Revenue receipt in 2009-10 remained at the same amount of ₹ 3873 crore of 2008-09, mainly due to less devolution of Grants-in-Aid from the Central Government. As a result, there were incipient signs of financial stress to the economy of the State (Para 1.4). The Non-tax revenue collection under Power, Water Supply and Sanitation and Irrigation as percentage of their respective Non-plan revenue expenditure during 2008-09 and 2009-10 gave fluctuating figures, indicating that revenue collection for providing these services was not reliable. The cost of revenue collection of Sales tax/VAT *etc*. and Taxes on vehicles of the State was much higher than the corresponding figures of All India average. An amount of ₹ 102.58 crore due to non/short levy (including penalty) of Sales tax/VAT, and professional tax, loss of revenue (energy charges) and non-realization of registration fee in 67 cases was also noticed during 2009-10 (Para 1.5).

Grants-in-aid decreased from ₹ 2868 crore in 2008-09 to ₹ 2840 crore in 2009-10. This had an adverse impact on the Revenue receipt of the State and was the main factor of its stagnation. The **Share of Union Taxes/Duties** also increased marginally from ₹ 581 crore in 2008-09 to ₹ 598 crore in 2009-10. The **Tax revenue** increased by ₹ 25.97 crore (15 *per cent*) from ₹ 170.07 crore in 2008-09 to ₹ 196.04 crore in 2009-10, mainly due to increase in Sales Tax (₹ 21.90 crore). As in the previous years, Sales tax (₹ 163.28 crore) remained the major contributor of Tax revenue and accounted for 83 *per cent* of the tax. The **Non-tax revenue** declined by ₹ 13.71 crore (5 *per cent*) from ₹ 253.46 crore in 2008-09 to ₹ 239.75 crore in 2009-10, mainly due to Miscellaneous General Services (₹ 31.30 crore) and Interest Receipts of State Government (₹ 7.27 crore) offset by increase under Power (₹ 15.78 crore) and Public Works (₹ 9.69 crore) (Para 1.5).

Though the State's Own tax collection was more than its own projection of FCP/MTFPS/Budget estimates, it was lower than the normative assessment of Twelfth Finance Commission (TFC). Collection from own Non-Tax revenue (ONTR) was higher than such projections/assessments (Para 1.5).

In view of the deteriorating fiscal position of the State and mounting Fiscal Liabilities, the State Government should consider to take steps to mobilize additional resources both through tax and non-tax sources by expanding the tax base and rationalizing the user charges. Efforts should also be made to increase tax compliance, reduce tax administration costs, and collect revenue arrears *etc.*

so that sustainability of debt does not go out of control. Timely action on all conditionalities that are pre-requisites to release of funds and timely utilization of central funds would aid in increase of the total receipts of the State.

Expenditure status

During 2005-10, expenditure on capital accounts had increased significantly from ₹ 616 crore to ₹ 1588 crore, though as compared to previous years, there was a slower growth of capital expenditure in 2009-10. The State Government could fulfil most of the priority areas of capital expenditure highlighted in the budget. There was a healthy growth of Plan expenditure from 39 *per cent* in 2005-06 to 50 *per cent* in 2009-10. A similar trend was also noticed in terms of expenditure pattern by activities, and was orienting more towards developmental activities of Social Services and Economic Services. As per recommendations of TFC and FRBM Act target, the expenditure on salaries was to be confined at 35 *per cent* of Revenue expenditure, net of interest payment and pension. Against this, the expenditure in 2009-10 stood at 48 *per cent.* Non-plan Revenue Expenditure (NPRE) during 2009-10 exceeded the normative assessment of Twelfth Finance Commission projections of Fiscal Correction Path but was lower than the projection of Medium Term Fiscal Policy Statement. Although the State Government lived up to its budget commitment for reduction of NPRE by confining NPRE at 76 *per cent* of Revenue Expenditure in the current year from 81 *per cent* in the previous year, further NPRE needs utmost attention of State Government, especially in the worsening Fiscal deficit and re-occurrence of primary deficit in the current year and the fact that debt-sustainability indicators are showing discouraging results (Para 1.6).

The holistic picture of key criterion of expenditure pattern during 2005-10 reveals a positive note. The budget commitments of 2009-10 were also largely fulfilled. However, increase of expenditure under capital head will not necessarily materialize into actual asset creation unless projects/schemes are completed on time, or else valuable resources will remain locked up without any tangible gain to the beneficiaries. A coherent effort is required to select projects that are nearing completion so as to channelise more resources to these projects rather than spread out resources thinly. A monitoring mechanism to focus on timely completion of projects should be in place.

Fiscal position, Fiscal liabilities and sustainability of debt

During 2009-10 due to less devolution of Grants-in-aid from the Central Government and lesser Non-tax revenue, the Revenue surplus fell by ₹ 391 crore in 2009-10, and as a consequence and coupled with increase in expenditure in both revenue and capital accounts, Fiscal deficit in the current year increased more than three folds and stood at ₹ 733 crore from ₹ 217 crore in the previous year. The primary surplus of the previous two years also turned into a deficit of ₹ 410 crore, the highest during the last five years (Para 1.11).

The overall Fiscal liabilities of the State Government increased by ₹ 658 crore from ₹ 4861 crore in 2008-09 to ₹ 5519 crore in 2009-10 and exceeded the assessed figure of ₹ 4764 crore in the MTFPS. The increase was mainly due to two market loans of ₹ 188.78 crore and ₹ 314 crore. The ratio of Fiscal Liabilities to GSDP during 2005-10 remained above 60 *per cent;* much higher than the 13th Finance Commission's recommendations to limit the ratio at 25 *per cent* by 2014-15 (Para 1.9). As growth of Fiscal liabilities and servicing of liabilities in the current year is more than the growth of revenue, there is a likelihood of pressure on sustainability of debt of the State. For two consecutive years (2008-10), the incremental primary expenditure exceeded the non-debt receipt, and had resulted in re-occurrence of Primary deficit and has led to increase of resource gap. The State's receipts also had poor capacity to service the debt as 78 *per cent* of the borrowed funds was being utilized to service past liabilities of the State. All these, with the rising maturing profile of debt in coming years are an indication that the State's economy may face the problem of non-manageable debt scenario (Paras 1.10 and 1.11).

Given the position of these key fiscal parameters, the fiscal position appears to be off track of fiscal correction path. Unless the State Government increases revenue collection and tax compliance, makes efforts for more devolution of funds from the Central Government, reduces tax collection costs, collects revenue arrears and prunes unproductive expenditure so that deficits are contained and also apply scare resources judiciously for timely completion of projects/schemes, the prospect of unmanageable fiscal situation cannot be ruled out.

The State should consider initiating steps on an urgent basis to make efforts to return to primary surplus as in previous years and continue to maintain revenue surplus. The State's flow of resources should keep up with the pace of expenditure obligation. In view of the rising maturity profile of debt, there is an urgent need to maintain a calendar of borrowings and monitor it very closely. Such mechanism may enable the State Government to resort to more need based borrowings at opportune times. The State may consider identifying a shelf of projects and chalk out a better synchronization of cash inflows and outflows as per its spending capacity so as to avoid unwarranted build-up of cash surplus. Unless measures are taken up to increase revenue receipts, tighten unproductive expenditure, reduce its dependency on borrowed funds to service its debt and initiate a prudent debt management system, the State faces the prospect of imminent financial hardship.

FINANCIAL MANAGEMENT AND BUDGETARY CONTROL

During 2009-10, an expenditure of ₹ 4,738.35 crore was incurred against a total budget provision of ₹ 5,283.91 crore, resulting in a saving of ₹ 545.56 crore. The overall savings was the net result of saving of ₹ 574.70 crore offset by excess of ₹ 29.14 crore. The excess requires regularization under Article 205 of the Constitution of India. Excess expenditure for the period 1997-2002 is still awaiting regularization, despite recommendation of the Public Accounts Committee (PAC) to regularize the excess expenditure (Paras 2.2 and 2.3).

Supplementary provision aggregating ₹ 52.80 crore obtained in 11 cases was unnecessary as the expenditure did not come up to the level of original provision while in 7 cases, supplementary provision of ₹ 162.88 crore proved insufficient by more than ₹ 10 lakh in each case. Substantial surrender (amount exceeding ₹ 25 lakh in each case) were made in respect of 29 sub-heads, out of which in three schemes/programmes, the whole provision amounting to ₹ 5.78 crore was surrendered. There were three cases in which an amount of ₹ 16.11 crore was surrendered despite having an excess expenditure over the total provision (Para 2.3).

Out of ₹ 1,656.65 crore paid through Abstract Contingent (AC) bills during 2003-10, Detailed Countersigned Contingent bills for ₹ 1,140.16 crore are outstanding as on October 2010 (Para 2.4).

The Government should regularize the excess expenditure as it is not only a violation of constitutional provision but also a disregard of the recommendations made by the PAC. Provision of funds through supplementary provisions should be used as an instrument to fine tune the flow of expenditure and should be applied in a judicious manner so that budget provisions and actual expenditure are convergent to each other as nearest as possible. A close and rigorous monitoring mechanism should be put in place to adjust AC bills within thirty days from the date of drawal of the amount.

FINANCIAL REPORTING

All the 2595 Utilization Certificates involving ₹ 767.60 crore in respect of grants and loans paid during 2006-10 were in arrear as of March 2010. There were also delays in placement of Separate Audit Reports to Legislature and huge arrears in finalization of accounts by the ADC/Autonomous Bodies. Out of 50 departments/Autonomous bodies, only four replies were received to ascertain the status of non-adjustment of temporary advances, misappropriation, losses *etc.* (Paras 3.1, 3.2, 3.3 and 3.4).