

CHAPTER IV: FINANCIAL MANAGEMENT

4.1 Financial performance

The position of accruals and releases from the NLCPR fund during last five years is given in the Table below:

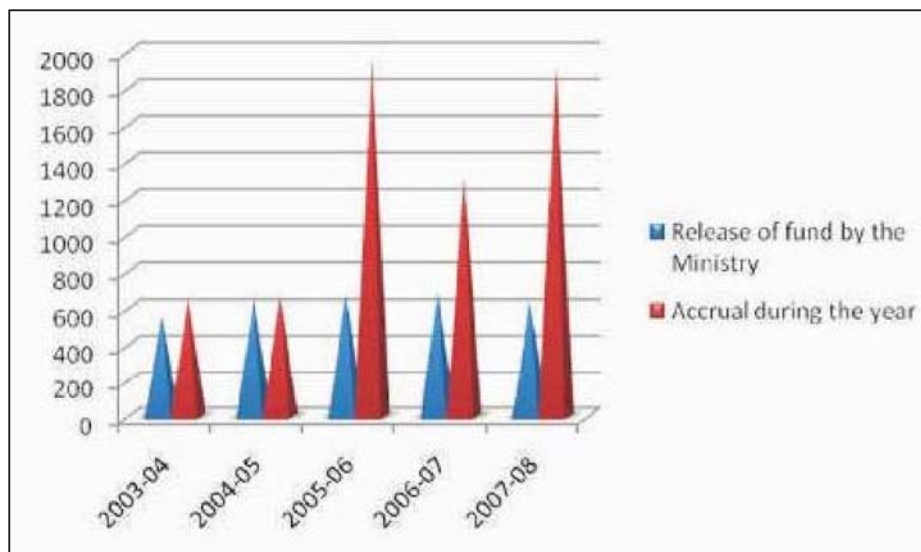
Table-15: Accruals and releases from the NLCPR fund

(Rupees in crore)

Sl. No.	Year	Amount of accruals	Releases during the year
1	2003-04	657.24	550.00
2	2004-05	663.35	650.00
3	2005-06	1960.12	679.17
4	2006-07	1311.08	689.83
5	2007-08	1933.33 *	636.00
Total		6525.12	3205.00

* The figure is provisional and is yet to be certified by Department of Expenditure, Ministry of Finance

Chart 1- Accrual and releases under NLCPR
(Rupees in crore)



The accumulations under the fund have been consistently increasing since inception and stood at Rs. 6963.79 crore as on 31 March 2008. Against the total accrual of Rs. 6525.12 crore in NLCPR during 2003-04 to 2007-08, the aggregate amount released to NE States was only Rs. 3205 crore constituting 49.12 *per cent* of the accruals. Relatively small amount of releases indicate poor implementation of the programme despite availability of funds.

4.2 Delay in release and utilisation of funds

According to the NLCPR guidelines, funds released by the Government of India are to be transferred to executing agencies by State Governments within 30 days. Scrutiny of records of projects test checked revealed that there were delays on the part of the State Governments in transferring the funds to the executing agencies in 51 out of 91 cases reviewed as given in Table 16.

Table-16: Delay in transferring funds to the executing agencies

Period of delay (in months)	Number of projects							
	Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Tripura	Total projects
1-6	1	1	1	4	-	1	4	12
6-12	2	1	3	3	1	1	1	12
12-18	-	6	5	-	1	1	2	15
18-24	-	2	-	-	-	-	-	2
24-30	-	4	-	-	1	-	-	5
Above 30	-	5	-	-	-	-	-	5
Total	3	19	9	7	3	3	7	51

The delays were ranged from one month to more than thirty months. Project-wise details of delay in releasing funds to the executing agencies are given in **Annex.6**

Delayed release of funds by the State Governments to the executing agencies adversely impacted implementation of the projects. Further, in terms of the guidelines, funds released by the Government of India were to be utilised within six months (as per pre-revised guidelines up to 6 July 2004) or nine months (after revision of guidelines in July 2004). Audit found that there were delays ranging from two months to 49 months beyond the permissible six/nine months in utilisation of the funds in 43 projects by the States (**Annex 7**). Delay of more than 25 months was noticed in some important projects viz., Vitalisation of State Referral Hospital, Nagaland, Upgradation of District Hospitals in Nagaland, Renovation of Jowai water supply scheme in Meghalaya, Greater Silchar Town water supply scheme in Assam and Improvement of Bhowraguri Kachugaon road in Kokrajhar, Assam. Details of outstanding UCs as on 31 March 2009 were as given in Table 17:

Table-17: Detail of pending Utilization Certificates

(Rupees in crore)				
Sl. no.	State	Amount released upto 2008-09	Amount spent	Amount of UCs pending
1	Arunachal Pradesh	702.94	512.00	190.94
2	Assam	1644.51	1256.52	387.99
3	Manipur	617.83	445.20	172.63
4	Meghalaya	383.82	275.64	108.18
5	Mizoram	529.35	495.77	33.58
6	Nagaland	696.61	578.07	118.54
7	Sikkim	495.22	431.10	64.12
8	Tripura	812.30	724.49	87.81
Total		5882.58	4718.79	1163.79

The Ministry stated (February 2010) that whenever delay in transfer of funds to the executing agency by the State Government was noticed, the State Government was advised to transfer the funds in a timely manner. The guidelines were amended in August 2009 to tighten the provisions and the States had to transfer the funds to executing agencies within 15 days. Area Officers for all eight NE States had been appointed to verify the fact during their visits. As regards utilization of funds, the Ministry stated that the delay in utilization was due to varied reasons which *inter alia*, include the restricted working season due to prolonged rainy season and limitations of technical and professional expertise. The period prescribed for utilization of funds was nine months, which was since revised to 12 months in August 2009.

For timely execution of projects, the Ministry should consider the absorptive capacity and technical and professional expertise of the States/implementing agencies and to rationalize funds flow arrangements, so that minimum unspent/excess amount is left with the implementing agencies.

4.3 States' share under NLCPR

Financial support available to the States under NLCPR was 90 *per cent* of the cost of the project as grant and 10 *per cent* as loan up to 2004-05. Thereafter, only 90 *per cent* grant was released by Government of India and the balance 10 *per cent* was to be contributed by the States. Scrutiny of records for the period 2005-08 revealed that State share aggregating to Rs. 113.93 crore had not been contributed by the respective States as detailed in Table 18:

Table-18: Non-release of State share (2005-08)

(Rupees in crore)

Name of the State	Central share (90%) released by the Ministry	State share (10%) to be released by the State	State share released	Short release of State share /due (col. 3-4)	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
Assam	696.21	77.34	5.02	72.32	In respect of all projects funded during 2005-08.
Nagaland	256.33	28.48	16.24	12.24	In respect of all projects funded during 2005-08
Tripura	198.24	22.03	2.46	19.57	In respect of 6 out of 9 reviewed projects.
Mizoram	35.16	3.66	1.79	1.87	In respect of 3 out of 9 reviewed projects.
Manipur	40.74	4.53	0.005	4.52	In respect of 9 out of 10 reviewed projects.
Meghalaya	25.88	2.87	Nil	2.87	In respect of 6 projects out of 10 reviewed projects.
Arunachal Pradesh	8.02	0.89	0.35	0.54	In respect of 5 projects out of 10 reviewed projects
Total	1260.58	139.8	25.87	113.93	

It was noticed that the State share was not released in some important projects like Government Medical College, Agartala (Tripura), Infrastructure development of Mizoram University, Construction of Motorable suspension bridge over Lohit River to connect Manchal Administrative Circle in Arunachal Pradesh and Construction of Link road from Lohu Nallah to Mukto circle, Arunachal Pradesh. This affected the execution of the projects and most of them are still incomplete.

The Ministry stated (February 2010) that the cases where States were yet to contribute their share were being taken up with the State Governments concerned.

4.4 Non-recovery of loan

In terms of the pre-revised guidelines up to 2004-05, assistance from NLCPR to States was 90 *per cent* of the cost of the project as grant and 10 *per cent* as loan. The loan was to be repaid in 20 annual equal installments together with interest on the outstanding balance commencing from the year following the release of assistance. In the event of default in the repayment of principal and/or interest, penal interest at applicable rates was chargeable on all such overdue installments. During the period from 1998-99 to 2004-05, Department/Ministry of DONER released loans amounting to Rs. 168.20 crore to NE States along with the grant. As per Principal Accounts Office, MHA loans (principal, interest and penal interest on repayment defaults)

amounting to Rs. 31.70 crore were outstanding from NE States as on 31st March 2009. The details are given in Table 19:

Table-19: Un-recovered loan from States

(Rupees in lakh)

State	Loan Amount released	Principal due	Interest due	Penal interest chargeable	Total amount recoverable
(1)	(2)	(3)	(4)	(5)	(6)= (3)+(4)+(5)
Arunachal Pradesh	1492.79	0	0.47	0.01	0.48
Assam	4451.29	458.18	1983.58	53.87	2495.63
Manipur	1519.64	7.50	40.05	3.32	50.87
Meghalaya	954.53	0	1.42	0.04	1.46
Mizoram	2208.50	29.30	130.46	3.47	163.23
Nagaland	2265.83	87.32	353.31	10.49	451.12
Sikkim	1571.75	0.94	1.62	0	2.56
Tripura	2356.01	0	4.93	0.08	5.01
Total	16820.34	583.24	2515.84	71.28	3170.36

4.5 Diversion of NLCPR funds

In terms of the NLCPR guidelines, funds available under the pool are not meant to supplement the normal Plan programmes either of the State Governments or Union Ministries/department/agencies. However, the Ministry of DONER diverted an amount of Rs. 1796.58 crore from NLCPR to fund other schemes resulting in incorrect utilization and shrinkage of the NLCPR pool. Some important cases are discussed below:

4.5.1 Debiting of NEC expenditure of Rs. 1605.38 crore to NLCPR pool

North Eastern Council (NEC), a separate entity under the Ministry of DONER, approves and implements schemes and projects, which benefit two or more States, and has a separate budget for implementing such projects. The Ministry decided (August 2002) to deduct an amount of Rs. 1605.38 crore spent by NEC during 1998-99 to 2001-02 from the NLCPR pool. This decision of the Ministry was against the norms stipulated in the guidelines. Ministry stated in August 2008 that the said expenditure was deducted from the NLCPR accruals since all of it was meant for North Eastern Region. The argument of the Ministry is not convincing as NEC and NLCPR are separate entities with separate budget provisions. Further, the deduction made from the NLCPR also resulted in reduction of annual accruals to the NLCPR funds from a level of approximately Rs. 1700 crore per year to about Rs. 1100 crore. The Committee of Secretaries in February 2007 decided that annual expenditures/outlays of NEC would not be debited to the NLCPR accounts for the next three years and that the decision would be reconsidered thereafter.

The Ministry stated (February 2010) that it did not support such deductions from the pool. Ministry, however, did not explain how it was going to improve the rate of utilization of funds under NLCPR where the amount of annual releases was much lower in comparison to annual accruals to the fund resulting in accumulation of balances under NLCPR.

4.5.2 Shifting of liability of other projects to NLCPR

As per the guidelines, NLCPR funds would be an additionality to ongoing programmes. They are not to be used to substitute a budgeted ongoing project or scheme of the Centre/State Governments. Audit scrutiny, however, revealed that some State projects which were initially taken up by State Governments but were later discontinued/abandoned mainly due to funds constraints were funded subsequently through NLCPR, in violation of NLCPR guidelines indicating poor planning by the States. There were such 11 projects (with NLCPR funding to the tune of Rs. 191.20 crore as of March 2008) as given in Table 20:

Table 20: Details of projects

Sl. no	Name of the State	Name of the Project	Year in which the project was approved	Approved cost of the project	Expenditure already incurred	Funding from NLCPR	Reasons for taking up this project under NLCPR
1.	Assam	Amreng Minor Irrigation Scheme	1998-99	61.54	NA [∅]	12.00	NA
2.	Assam	Dhubri water supply scheme	1985	12.06	1.50	10.07	Due to funds constraint
3.	Assam	Greater Silchar Town water supply	2001-02	13.89	1.50	12.30	NA
4.	Assam	Champamati Irrigation Project	1980-81	147.24	67.42 with physical progress 70%.	43.85 (balance Rs. 79.82 crore to be met from AIBP* under BNY♦)	NA
5.	Meghalaya	Sub-Transmission & Distribution Scheme – Master Plan Distribution of power in Meghalaya	1989-90	74.16	33.24	24.00	Due to funds constraints

[∅] Not available on records

* Accelerated Irrigation Benefit Programme

♦ Bharat Nirman Yojana

Sl. no	Name of the State	Name of the Project	Year in which the project was approved	Approved cost of the project	Expenditure already incurred	Funding from NLCPR	Reasons for taking up this project under NLCPR
				(Rupees in crore)			
6	Meghalaya	Reconstruction of 10 bridges and approaches on Mawphlang – Balat road (Bridge No.9/1)	2002-03	0.80	0.15	1.05	Due to funds constraints
7	Manipur	Construction of bridge over Imphal river at Singjamei	1998-99	1.54	0.23	3.69	NA
8	Sikkim	Chakmakey WSS	2003-04	3.66	0.15	4.62	Due to lack of State funds.
9	Sikkim	Rabdentshe Water harvesting	2003-04	7.35	0.31	12.41	Due to lack of State funds.
10	Sikkim	132 KV transmission line on Melli-Rangit	1998-99	13.73	1.50	27.42	Due to lack of State funds.
11	Sikkim	Construction of ropeway from Namchi to Samdruptshe	2003-04	26.27	4.60	39.79	Due to lack of State funds.
Total				362.24	110.60	191.20	

Utilisation of NLCPR funds towards financing State Plan schemes was contrary to the NLCPR guidelines.

The Ministry stated (February 2010) that the guidelines stipulate that the funds from the pool were not meant to supplement the normal Plan programmes either of the State or Union Ministries. The reply of the ministry confirms the audit contention. It also indicates poor monitoring and failure to enforce scheme guidelines.

4.6 Release of funds by the Ministry on inadmissible components of the projects

In terms of the guidelines, no staff component, either work charged or regular, was to be created by the project implementing authorities from NLCPR funds. As per subsequent policy decision of the Ministry of DONER, components like agency charges, State Government taxes and quality control, departmental charges etc., were not admissible for funding under NLCPR. Scrutiny of records at the Ministry as well as in the States revealed release of Rs. 12.23 crore to States/implementing agencies towards inadmissible components in 27 projects as detailed in Table 21. The amount released on inadmissible components need to be recovered or adjusted from the concerned authorities by the Ministry/State Government.

Table-21: Details of releases made for inadmissible components

Sl. No.	Name of the project	Inadmissible component as per policy decision/ guidelines	Amount released (Rupees in lakh)
Tripura			
1	State level para medical institute	Agency charges	59.92
2	1x21 MW Gas Thermal project at Rokhia (unit no. VIII)	Establishment charges	368.25
Nagaland			
3	Upgradation of district hospitals	Sales tax , work charged establishment charges and department charges	148.41
4	Dimapur to Ganeshnagar road	Quality control	10.62
5	Upgradation of Dimapur.-Khopanala-Jalukie-Peren Road	Departmental charges	13.00
6	Upgradation of Longkhum via Manglemong-Aliba Road	Departmental charges	4.00
7	Upgradation of old Phek via Khuza to Satakha Road	Departmental charges	8.00
8	Upgradation of Road from Rusomo to Kijumetuma.	Departmental charges	88.00
9	Construction of road from Phek to Chozuba	Departmental charges	70.00
10	Construction of Tohok-Chenlaiso-Wangti & Tang Jn.-Chenmoho Road	Departmental charges	6.00
11	Construction of Kiphire-Pungro Road	Departmental charges	5.00
12	Construction of Kiphire-Amahator-Lukhami Road	Departmental charges	13.00
13	Construction of two lane R.C.C. bridge over Dhansiri River in Nagaland	Departmental charges	26.00
Assam			
14	RCC bridge no. 35/2 and 53/2 on Moran Naharkotia road in Dibrugarh distt.	Quality control	0.38
Mizoram			
15	Improvement and widening of Bawngkawn to Durtland road	Work charged establishment	6.64
Manipur			
16	50 bedded district hospital at Tamenglong	Sales tax, agency charges	43.44
17	50 bedded hospital at Senapati district	-do-	43.13
18	50 bedded hospital at Ukhrul	-do-	42.24
19	50 bedded hospital at Chandel	-do-	39.79
20	50 bedded hospital at Jiribam	-do-	47.30
21	Dharamsala building in RIMS	Sales tax	4.83
22	10 PHC and barrack type quarters in valley areas	Sales tax, agency charges	8.86
23	18 PHC in valley areas	-do-	16.31
24	32 PHSC in hill areas	-do-	23.79
25	480 bedded JN hospital	-do-	21.66
26	National Sports Academy at Khuman Lampak	-do-	100.73
27	Infrastructure development of MU (Ph-II)	Sales tax	3.48
Total			1222.78

The Ministry stated (February 2010) that agency charges/departmental charges were admissible under NLCPR and were being sanctioned as per CPWD norms wherever

projects were executed by the agencies other than State Departments. It further stated that there was no restriction on sanction of quality control and sales tax under NLCPR in earlier projects. Reply of the Ministry is not acceptable in view of the fact that as per policy decision of August 2004, sanction on these components had been discontinued and it was noticed in audit that funds for agency charges, sales tax and quality control were released by the Ministry even after the said policy decision. In case of release of departmental charges, funds had been released even to State Departments in the cases cited above.

4.7 Inadmissible expenditure incurred by the States

In terms of the guidelines, NLCPR funds are not to be used for land acquisition cost and staff component. The staff component was to be met from redeployment of surplus manpower in the Department.

Audit, however, observed that inadmissible expenditure of Rs. 28.65 crore was incurred in 53 projects towards payment for pay and allowances/wages, land acquisition, on works not related to the projects and on the components not covered in the project proposals in NE States as shown in the Table 22.

Table-22: Inadmissible expenditure incurred by States

(Rupees in lakh)

State	Inadmissible expenditure on				
	Land acquisition	Wages/pay and allowances	Works not related to the project	Components not provided in the proposal	Total
Arunachal Pradesh	-	152.00	758.00	93.00	1003
Assam	27.39	3.00	-	38.58	68.97
Manipur	-	-	103.71	-	103.71
Mizoram	32.00	23.00	153.00	54.39	262.39
Meghalaya	-	2.53	95.54	37.34	135.41
Nagaland	48.94	302.00	400.04	54.90	805.88
Sikkim	238.29	-	-	124.36	362.65
Tripura	30.00	29.58	29.92	33.76	123.26
Total	376.62	512.11	1540.21	436.33	2865.27

The Project-wise details of inadmissible expenditure are given in **Annex 8**.

The Ministry stated (February 2010) that the issue of inadmissible expenditure observed by Audit was being taken up with the States.