

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

CHAPTER I

Finances of the State Government

1.1 Profile

Meghalaya is situated in the North Eastern region of India and is bound in the north and east by Assam and in the south and west by Bangladesh.

As indicated in **Appendix 1.1 (Part-D)**, the State's population increased from 26 lakh (approx.) in 2001 to 29 lakh (approx.) in 2011 recording a decadal growth of 11.60 per cent.

State's Gross Domestic Product (GSDP) in 2018-19 at current prices was ₹ 34,389 crore. General data relating to the State as well as interstate financial data of the North Eastern Region States is given in **Appendix 1.1 (Part-D)**.

1.2 GSDP Concept and Trend Analysis

Gross State Domestic Product (GSDP) is the market value of all officially recognised final goods and services produced within the State in a given period. The growth of GSDP of the State is an important indicator of the State's economy as it indicates the standard of living of the State's population. **Table 1.1** presents trends in annual growth of India's GDP *vis-à-vis* State's GSDP at current prices and **Charts 1.1 and 1.2** present a sectoral analysis of GSDP.

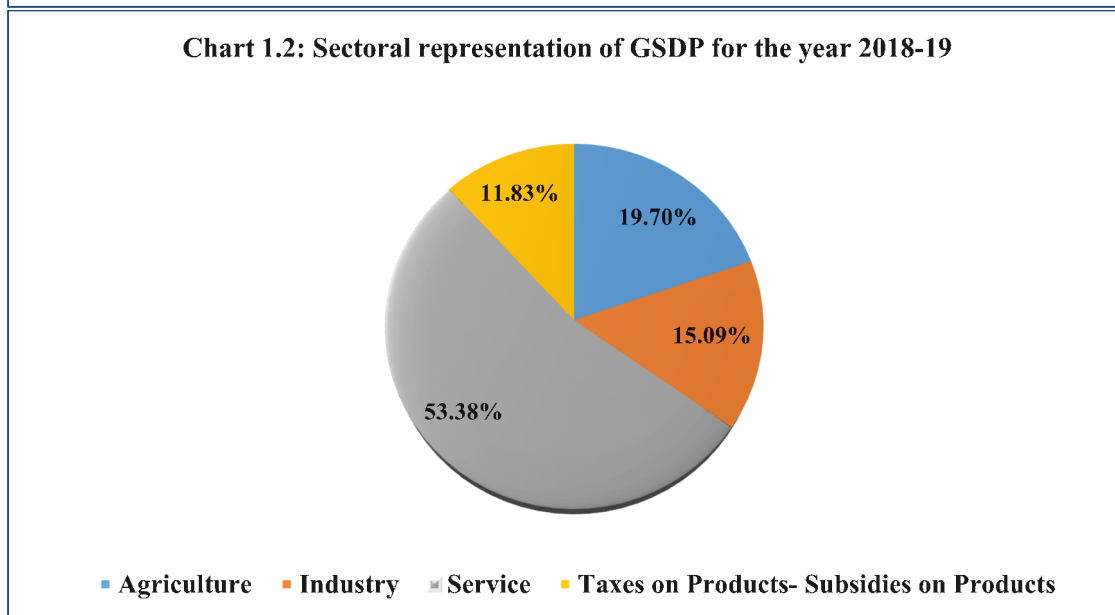
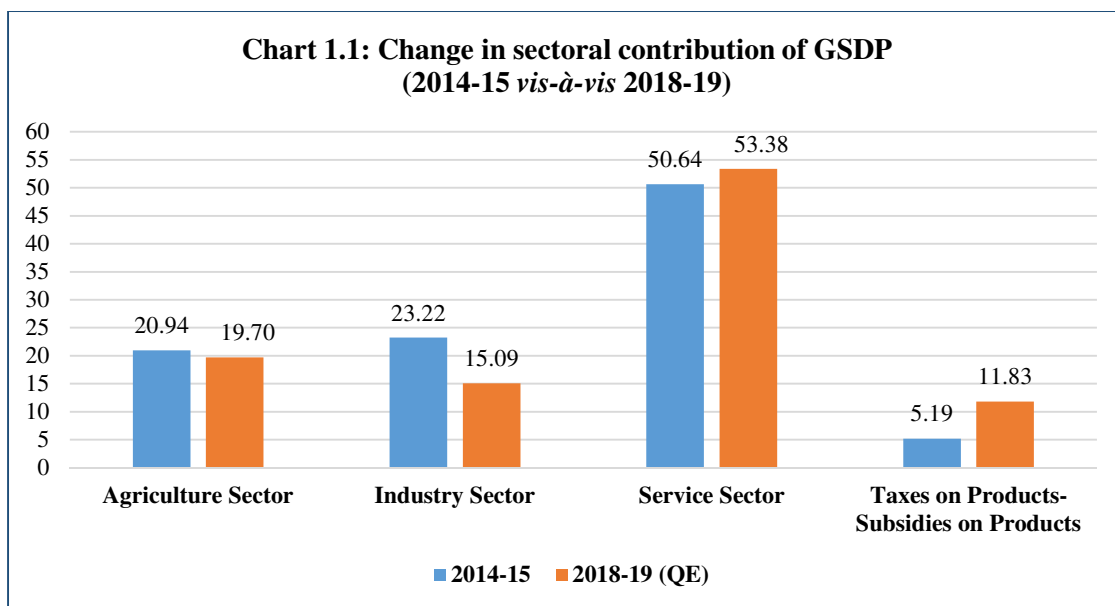
Table 1.1: Trends in Gross State Domestic Product

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
India's GDP (₹ in crore)	1,24,67,959	1,37,71,874	1,53,62,386	1,70,95,005	1,90,10,164
Growth rate of GDP (<i>per cent</i>)	10.99	10.40	10.82	9.97	13.34
Gross State Domestic Product (₹ in crore)	23,235	25,117	27,439	30,790	34,389
Growth rate of GSDP (<i>per cent</i>)	1.29	8.10	9.24	12.21	11.69
Per capita GDP of India					1,42,719
Per capita GSDP of Meghalaya					98,620

Source: (1) For GDP, Press Release, Ministry of Statistics and Program Implementation, Government of India. (31 May 2019).

(2) GSDP as per the Directorate of Economics and Statistics, Government of Meghalaya.

The GSDP increased from ₹ 30,790 crore in 2017-18 to ₹ 34,389 crore in 2018-19, representing an increase of 11.69 per cent. The growth of GSDP during 2018-19 at 11.69 per cent fell short of the assessment of the XIV Finance Commission (FC) (12.22 per cent). The average compound annual growth rate in respect of GSDP for Meghalaya between 2009-10 and 2018-19 was 11.90 per cent which was less than the all India average (13.44 per cent). The per capita GSDP of the State was less than the All India Average.



1.3 State FRBM/Fiscal Correction Path - Summary

1.3.1 Meghalaya Fiscal Responsibility and Budget Management Act, 2006

In accordance with the recommendations of XII FC, the GoM has enacted the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006. In accordance with the recommendations of the XIV FC, the MFRBM Act was amended by the State Government and came into force from 29 September 2015. The amended MFRBM Act (**Appendix 1.1- Part E**) laid down the following fiscal targets.

- (a) To ensure Revenue Surplus during the award period 2015-16 to 2019-20;
- (b) (i) to maintain fiscal deficit at an annual limit of 3 *per cent* of GSDP during the award period 2015-16 to 2019-20;

- (ii) provide for flexible limit of 0.25 *per cent* over and above the 3 *per cent* of GSDP for any given fiscal year to which its fiscal deficit is to be fixed if its debt-GSDP ratio is less than or equal to 25 *per cent* of the preceding year; and
- (iii) be further eligible for additional 0.25 *per cent* of the GSDP in a year for which the borrowing limits will be fixed if the interest payments are less than or equal to 10 *per cent* of the revenue receipts in the preceding year.
- (c) The government shall notify a Medium Term Fiscal Plan (MTFP) with three years rolling targets, giving details of all significant items of receipts and expenditure along with underlying assumptions made for projection purpose.

As prescribed in the MFRBM Act, 2006 (as amended), the State Government was to notify the MTFP to provide details of all significant items of receipts and expenditure along with projection for the years 2018-19 to 2020-21. The State Government had however, not notified the MTFP as required under the Act. On being pointed out (November 2019), the Finance Department notified (December 2019) the MTFP, 2019-20 showing projections for the years 2020-21, 2021-22 and 2022-23. No reason was furnished for failing to notify MTFP for the year 2018-19.

1.3.2 Performance of the State in terms of Key Fiscal Targets

The performance of the State during 2018-19 in terms of key fiscal targets set for selected parameters laid down in the MFRBM Act, 2006 *vis-à-vis* achievements are given in **Table 1.2**.

Table 1.2: Trends in Major Fiscal Parameters *vis-à-vis* Projections for 2018-19

Fiscal parameters	2018-19		Actual
	Projections as per		
	XIV FC	MFRBM	
Revenue Surplus (+)/ Deficit (-) (₹ in crore)	Maintain revenue surplus		-537.32
Fiscal Deficit/ GSDP (<i>per cent</i>)	3.00	3.25	5.89
Total Outstanding Liabilities/ GSDP (<i>per cent</i>)	27.86	*	30.89

Source: XIV FC Report, MFRBM and Finance Accounts.

*Not prescribed.

The above table indicated that during 2018-19, the State could not achieve any of the three projections set out in XIV FC and neither of the two projections set out in the MFRBM Act, 2006.

1.4 Analysis of Finances of State Government

This section provides a broad perspective of the finances of the Government of Meghalaya (GoM) during the current year and analysis critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The analysis has been made based on State Finance Accounts and the information obtained from State Government. The structure and form of Government Accounts, layout of Finance Accounts, methodology adopted for the assessment of fiscal position and State Profile are given in **Appendix 1.1 (Parts A, B, C & D)**. The time series data on key fiscal variables/ parameters and fiscal

ratios relating to the State Government finances for the period 2014-19 are presented in **Appendix 1.2**.

Government Accounts are maintained in three parts for maintaining the records of all sorts of financial transactions viz. Consolidated Fund, Contingency Fund and Public Account. ‘Consolidated Fund of the State includes Revenue Receipts and Expenditure; Capital Receipts and Disbursements; and Debts, Loans and Advances. The ‘Contingency Fund of the State’ is in the nature of an imprest. The Fund is placed at the disposal of the Governor to enable him to pay advances out of this Fund for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature, under appropriation made by law. Each such Fund is financed from time to time by such sums as may be determined by the Act of the Legislature establishing the Fund. Receipts and Disbursements in respect of certain transactions such as Small Savings, Provident Fund, Reserve Funds, Deposits, Suspense, Remittances, etc. which do not form part of the Consolidated Fund are kept in the Public Account set up under Article 266 (2) of the Constitution of India and are not subject to vote by the State Legislature.

The structure of Government Accounts is given below:

Chart 1.3: The Structure of Government Accounts

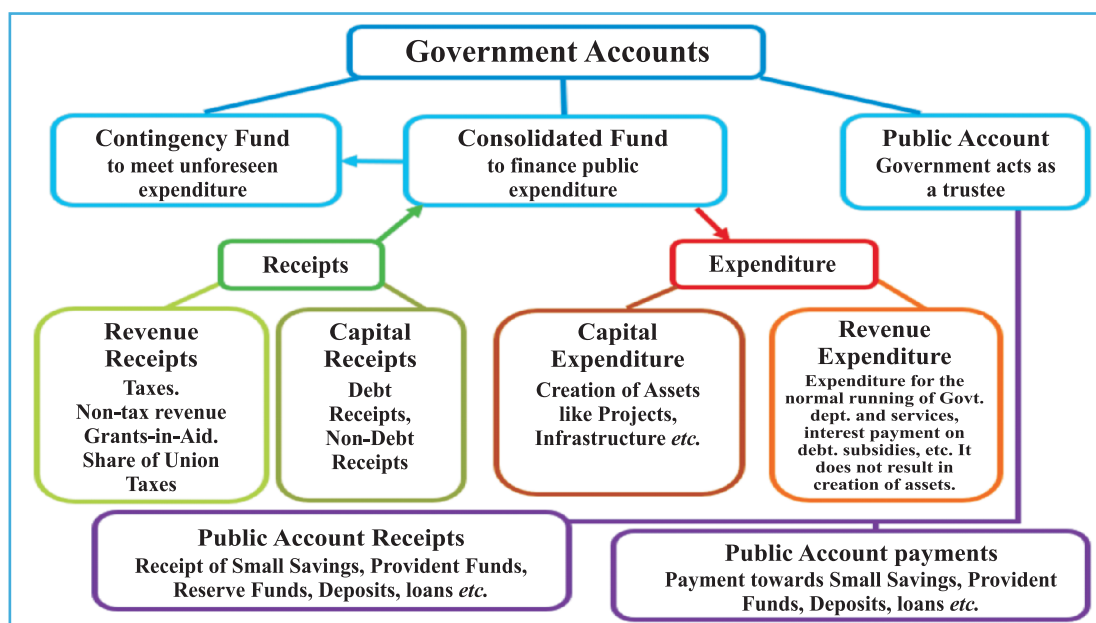


Table 1.3 presents the summary of the State Government’s fiscal transactions while **Appendix 1.3** provides details of receipts and disbursements as well as the overall fiscal position during the current year (2018-19) vis-à-vis the previous year (2017-18).

Table 1.3: Summary of Current Year’s Fiscal Transactions (₹ in crore)

Receipts			Disbursements		
	2017-18	2018-19		2017-18	2018-19
Section – A : Revenue					
Revenue Receipts	9273.48	9718.62	Revenue Expenditure	8422.68	10255.94
Tax revenue	1450.10	1793.24	General Services	2826.87	3535.88
Non-tax revenue	366.63	427.70	Social Services	3147.61	4100.07

Receipts			Disbursements		
	2017-18	2018-19		2017-18	2018-19
Share of Union Taxes/ Duties	4323.14	4889.07	Economic Services	2448.20	2619.99
Grants-in-Aid from Government of India	3133.61	2608.61			
Section – B : Capital					
Misc. Capital receipts	NIL	NIL	Capital Expenditure	983.44	1417.28
Recoveries of Loans and Advances	17.45	18.01	Loans and Advances disbursed	22.05	89.49
Public Debt Receipts	1225.14	1324.69	Repayment of Public Debt	329.62	395.94
Contingency Fund	100.00	NIL	Contingency Fund	100.00	NIL
Public Account Receipts ¹	4187.87	4568.43	Public Account Disbursements ²	4569.16	4373.19
Opening Cash Balance	1339.69	1716.68	Closing Cash Balance	1716.68	814.58
Total	16143.63	17346.43	Total	16143.63	17346.43

Source: Finance Accounts.

Following are the significant changes during 2018-19 over the previous year:

- Revenue receipts increased by 4.80 *per cent* (₹ 445.14 crore) over the previous year. The increase was due to increase in State share of Union taxes and duties (₹ 565.93 crore), tax revenue (₹ 343.14 crore) and non-tax revenue (₹ 61.07 crore), offset by decrease in Grants-in-Aid (₹ 525.00 crore) from Government of India.
- Revenue expenditure increased by 21.77 *per cent* (₹ 1,833.26 crore) over the previous year. There was significant increase under General Services by 25.08 *per cent* (₹ 709.01 crore), Social Services by 30.26 *per cent* (₹ 952.47 crore) and Economic Services by 7.02 *per cent* (₹ 171.79 crore) compared to the previous year.
- Compared to previous year, the capital outlay of the State increased by 44.11 *per cent* (₹ 433.84 crore), which was the net result of increase under Economic Services (₹ 399.20 crore) and General Services (₹ 35.21 crore).
- Recovery of loans and advances during the current year increased marginally by ₹ 0.56 crore while disbursement of loans and advances had increased by ₹ 67.44 crore (305.85 *per cent*) compared to the previous year.
- Public debt receipts and public debt repayments increased by ₹ 99.55 crore and ₹ 66.32 crore respectively over the previous year.
- Public account receipts increased by ₹ 380.56 crore while Public Account disbursements decreased by ₹ 195.97 crore over the previous year.
- Closing cash balance decreased significantly by ₹ 902.10 crore over the previous year.

¹ Gross Receipts.

² Gross Disbursements.

1.5 Budget Estimates and Actuals

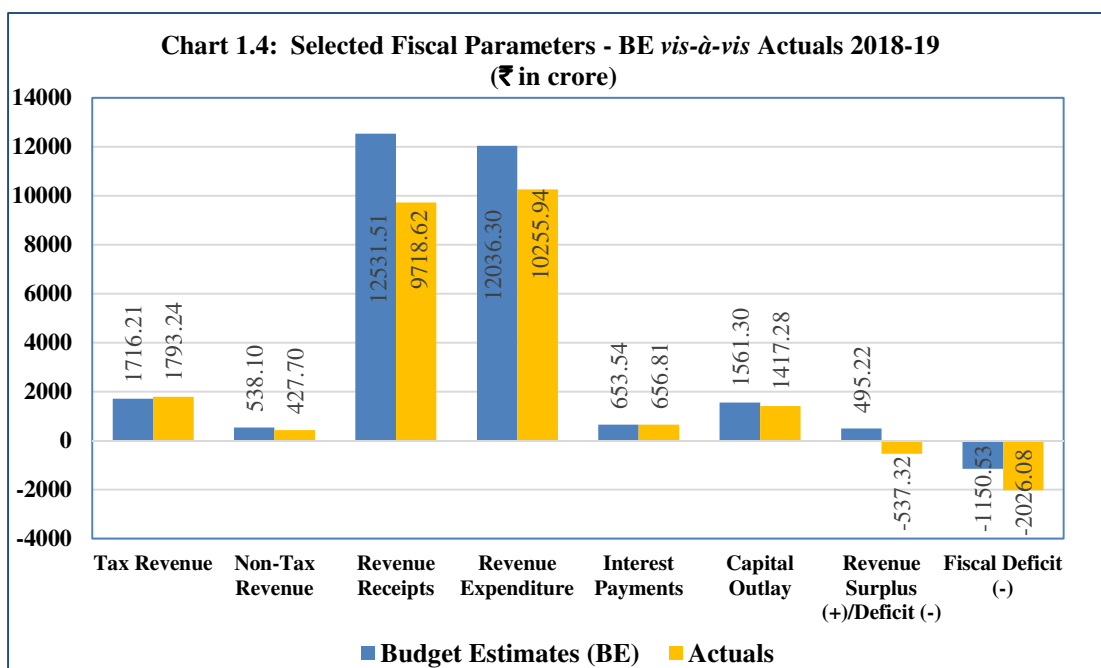
The budget papers presented by the State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviation from the Budget Estimates (BE) are indicative of non-attainment and non-optimisation of the desired fiscal objectives due to a variety of reasons, some within the control of the Government and some beyond the control of the Government. **Table 1.4** presents the consolidated picture of finances of the State during 2017-18 (actuals) and 2018-19 [BE, Revised Estimates (RE) and actuals] and **Chart 1.4** presents the BE and actuals for some important fiscal parameters.

Table 1.4: Variation in major items

(₹ in crore)

Parameters	2017-18	2018-19			Excess (+)/ Shortfall (-) with reference to (in per cent)	
	Actuals	BE	RE	Actuals	Actuals of 2017-18	RE
Tax Revenue	1450.10	1716.21	1716.21	1793.24	23.66	4.49
Non-Tax Revenue	366.63	538.10	538.10	427.70	16.66	-20.52
Revenue Receipts	9273.48	12531.51	12531.51	9718.62	4.80	-22.45
Non-debt Capital Receipts	17.45	22.67	22.67	18.01	3.21	-20.56
Revenue Expenditure	8422.68	12036.30	12036.30	10255.94	21.77	-14.79
Interest Payments	591.18	653.54	653.54	656.81	11.10	0.50
Capital Outlay	983.44	1561.30	1561.30	1417.28	44.11	-9.22
Disbursement of Loans & Advances	22.05	107.12	107.12	89.49	305.85	-16.46
Revenue Surplus (+)/Deficit (-)	850.80	495.22	495.22	-537.32	-163.15	-208.50
Fiscal Deficit (-)	-237.24	-1150.53	-1150.53	-2026.08	-754.02	-76.10
Primary Deficit (-)/ Surplus (+)	353.94	-496.99	-496.99	-1369.27	-486.87	-175.51

Source: Budget Estimates and Finance Accounts.



1.6 Fiscal Balance

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under FRBM Act/ Rules for the financial year 2018-19.

1.6.1 Review of Actuals of Deficit Variables *vis-à-vis* Prescription as per Fiscal Correction Path Adopted

Chart 1.5 presents the trends in deficit indicators over the period 2014-19.

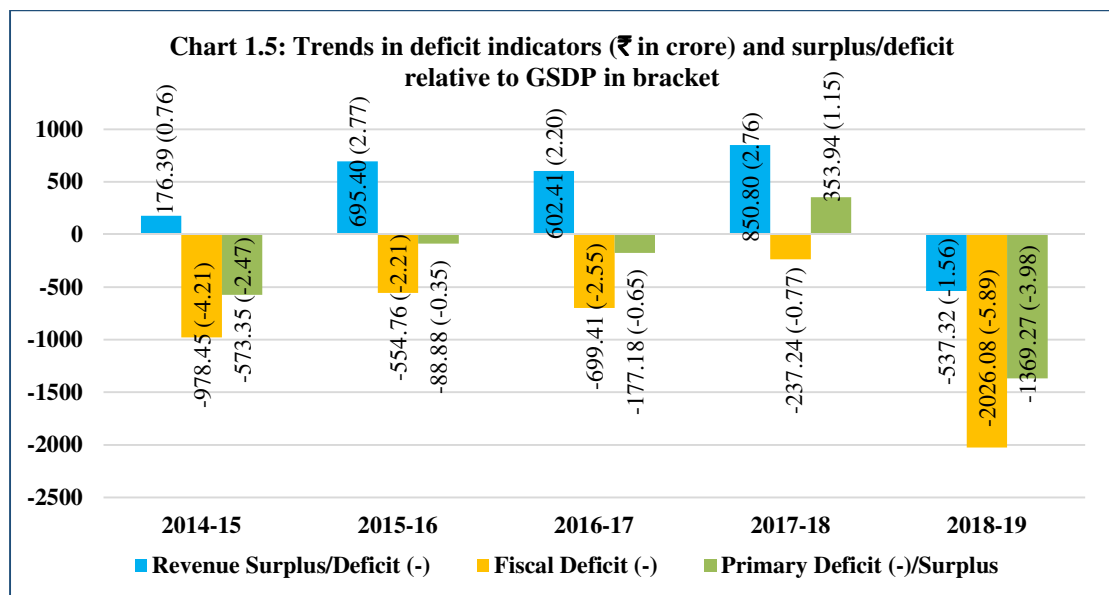


Chart 1.5 reveals that the State had a revenue deficit of (-) ₹ 537.32 crore during 2018-19, as against a revenue surplus of ₹ 850.80 crore in the previous year. This revenue imbalance was due to a considerable increase in revenue expenditure (₹ 1,833.26 crore). State Government was not able to meet the projections made in the MFRBM Act, 2006 (as amended) to maintain revenue surplus during 2018-19, as recommended by the XIV FC.

The fiscal deficit, which represents the total borrowings of the Government and total net debt available to the State significantly increased from ₹ 237.24 crore in 2017-18 to ₹ 2,026.08 crore in 2018-19. This was mainly due to the fact that the increase in revenue expenditure was more compared to increase in revenue receipts and non-debt capital receipts during the current year, relative to the previous year. During the current year, the revenue receipts and non-debt capital receipts increased by 4.80 per cent against increase of 3.72 per cent during the previous year, while the increase in revenue expenditure was 21.77 per cent against increase of 1.03 per cent during previous year.

As per the recommendations of the XIV FC, fiscal deficit of all States should be anchored to an annual limit of 3 per cent of GSDP. GoM also agreed in the MFRBM Act, 2006 (as amended) to reduce fiscal deficit to 3 per cent of GSDP or less during 2016-20 of the award period of the XIV FC. The fiscal deficit-GSDP ratio was at 5.89 per cent during 2018-19. GoM was unable to restrict this ratio as per recommendation of the XIV FC (3 per cent) and its own commitment in the amended MFRBM Act, 2006.

The primary surplus of ₹ 353.94 crore of the State during 2017-18 took a turnaround in 2018-19 and resulted in primary deficit of ₹ 1,369.27 crore. A sharp increase of ₹ 1,788.84 crore in fiscal deficit (from ₹ 237.24 crore in 2017-18 to ₹ 2,026.08 crore in 2018-19) and the moderate increase in interest payment of ₹ 65.63 crore (from ₹ 591.18 crore in 2017-18 to ₹ 656.81 crore in 2018-19) resulted in primary deficit of ₹ 1,369.27 crore during the current year.

1.6.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in Table 1.5.

Table 1.5: Components of Fiscal Deficit and its Financing Pattern (₹ in crore)

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Composition of Fiscal Deficit		978.45	554.76	699.41	237.24³	2026.08
1.	Revenue Surplus (+)/ Deficit (-)	176.39	695.40	602.41	850.80	-537.32
2.	Net Capital Outlay	-1118.49	-1110.89	-1289.80	-983.44	-1417.28
3.	Net Loans and Advances	-36.35	-139.27	-12.02	-4.60	-71.48
Financing Pattern of Fiscal Deficit^(a)						
1.	Market Borrowing	442.92	459.69	718.33	919.81	862.60
2.	Loans from GoI	-15.05	-17.61	-15.64	-13.67	1.79
3.	Special Securities issued to NSSF	84.12	59.76	-42.38	45.38	-49.62
4.	Loans from Financial Institutions	12.31	-2.25	135.71	34.76	113.98
5.	Small Savings, PF, etc.	133.28	131.74	141.17	157.71	179.36
6.	Reserve Funds	-13.70	6.74	2.07	-23.89	3.97
7.	Deposits and Advances	-161.66	-234.85	889.56	-527.76	26.52
8.	Suspense and Miscellaneous	82.28	-55.40	13.09	8.57	-17.21
9.	Remittances	-8.34	-2.70	1.26	4.09	2.59
10.	Overall Deficit	556.16	345.12	1843.17	605.00	1123.98
11.	Increase (-)/ Decrease (+) in Cash Balances	422.29	209.64	-1143.76	-467.76	902.10
12.	Appropriation to Contingency Fund	-	-	-	100.00	-
Gross Fiscal Deficit		978.45	554.76	699.41	237.24	2026.08
Fiscal Deficit (percentage to GSDP)		4.21	2.21	2.55	0.77	5.89

^(a) All these figures are net of disbursements/ outflows during the year.

Fiscal deficits during the five year period ending 2018-19, peaked at ₹ 2,026.08 crore during 2018-19.

During 2018-19, fiscal deficit was primarily financed by net market borrowings (₹ 862.60 crore), loans from financial institutions (₹ 113.98 crore), small savings, provident funds, etc. (₹ 179.36 crore) and cash balances (₹ 902.09 crore).

³ Includes Contingency Fund Appropriation of ₹ 100.00 crore.

The increase in net capital outlay during the year indicated that borrowed funds were being utilised for productive uses more than in previous year. The Government should continue this trend as the solution to the Government debt problem lies in the productive application of borrowed funds. This would either provide returns directly or result in increased productivity of the economy. It may also result in increase in Government revenue in future, making debt payments more manageable.

1.7 Resources of the State

Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Revenue Receipts consist of tax revenues, non-tax revenues, State's share of Union Taxes and Duties and Grants-in-Aid (GIA) from Government of India (GoI). Capital Receipts comprise of non-debt capital receipts and debt capital receipts. Non-debt capital receipts consist of miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances while debt capital receipts consist of debt receipts from internal sources (market loans, borrowings from financial institutions/ commercial banks) and loans and advances from GoI. Besides, funds available in the public accounts after disbursement are also utilised by the Government to finance its deficit. **Chart 1.6** presents the receipts of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.7** depicts trends in various components of the receipts of the State during 2014-19 and **Chart 1.8** depicts composition of resources of the State during the current year.

Chart 1.6: Composition of resources during 2018-19

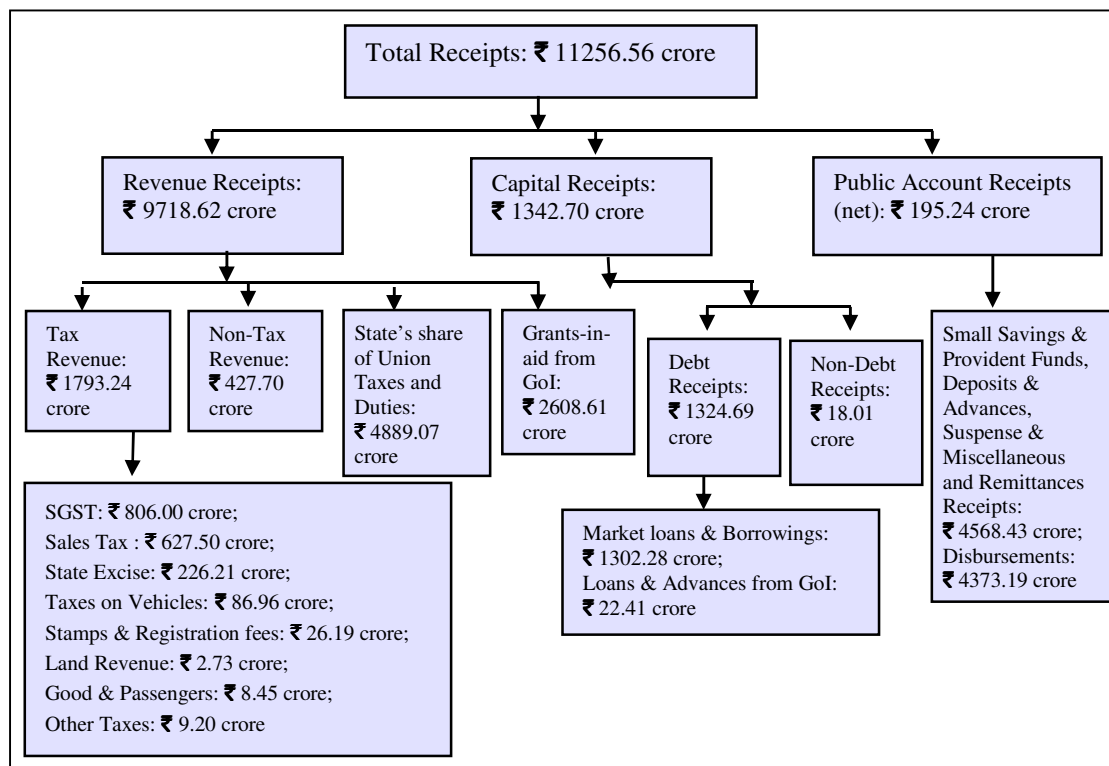
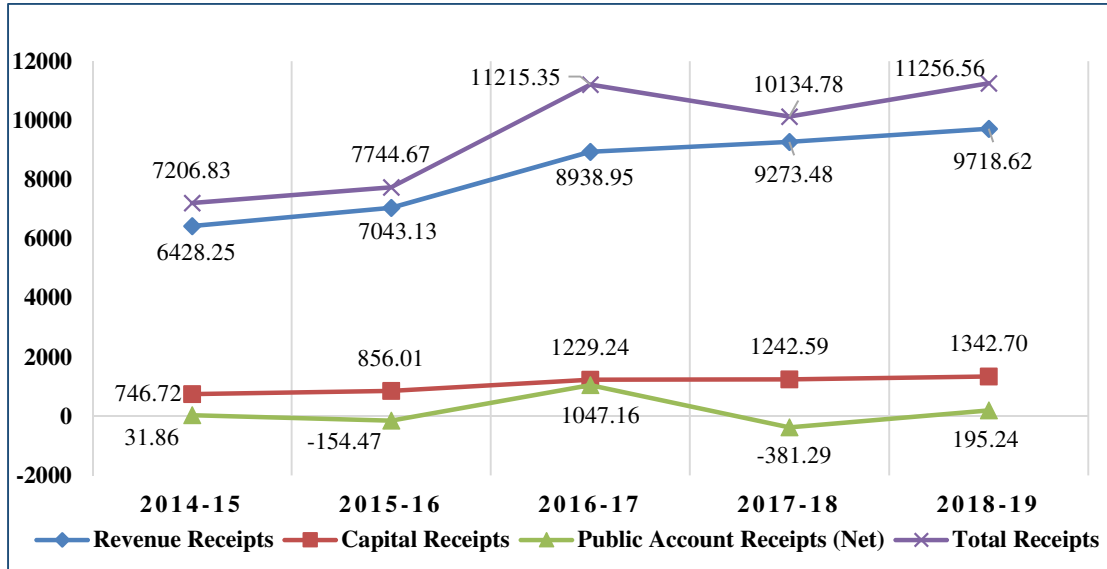


Chart 1.7 : Trends in Receipts (₹ in crore)



Total Receipts of the State during the current year increased by ₹ 1,121.78 crore (11.07 per cent) over the previous year. The increase is attributed to all receipts heads, Revenue Receipts, Capital Receipts and Public Account Receipts during 2018-19 when compared to the previous year.

Total receipts of the State for 2018-19 was ₹ 11,256.56 crore, of which ₹ 9,718.62 crore (86.34 per cent) came from Revenue Receipts, ₹ 1,342.70 crore (11.93 per cent) from Capital Receipts (recoveries of loans and advances plus public debt receipts) and ₹ 195.24 crore (1.73 per cent) from net receipts of Public Account. Total receipts of the State increased by 56.19 per cent over a five year period from ₹ 7,206.83 crore in 2014-15 to ₹ 11,256.56 crore in 2018-19.

Debt Capital Receipts which create future repayment obligation increased by 82.22 per cent from ₹ 726.96 crore (10.09 per cent of total receipts) in 2014-15 to ₹ 1,324.69 crore (11.77 per cent of total receipts) in 2018-19.

In addition to the total receipts, the State also received ₹ 704.79 crore under 41 schemes (Appendix 1.5) which was not routed through the budget of the State Government but released directly to the Implementing Agencies. With the release of these funds directly to the Implementing Agencies in the State, the resources of the State during the year 2018-19 stood at ₹ 16,334.57 crore (including the net receipts of ₹ 15,629.75 crore in the State) as on 31 March 2019.

1.7.1 State's Revenue Receipts

Revenue Receipts of the State increased by ₹ 3,290.37 crore from ₹ 6,428.25 crore in 2014-15 to ₹ 9,718.62 crore in 2018-19. There were, however, wide inter-year variations in the growth rates. The rate of growth of Revenue Receipts was 4.80 per cent in 2018-19 compared to growth rate of 3.74 per cent during the preceding year.

Statement 14 of the Finance Accounts details the Revenue Receipts of the Government. The trends and composition of revenue receipts over the period 2014-19 are presented in **Appendix 1.2** and also depicted in **Charts 1.8** and **1.9** respectively. The trends in revenue receipts relative to GSDP are presented in **Table 1.6**.

Chart 1.8: Trends in Revenue Receipts (₹ in crore)

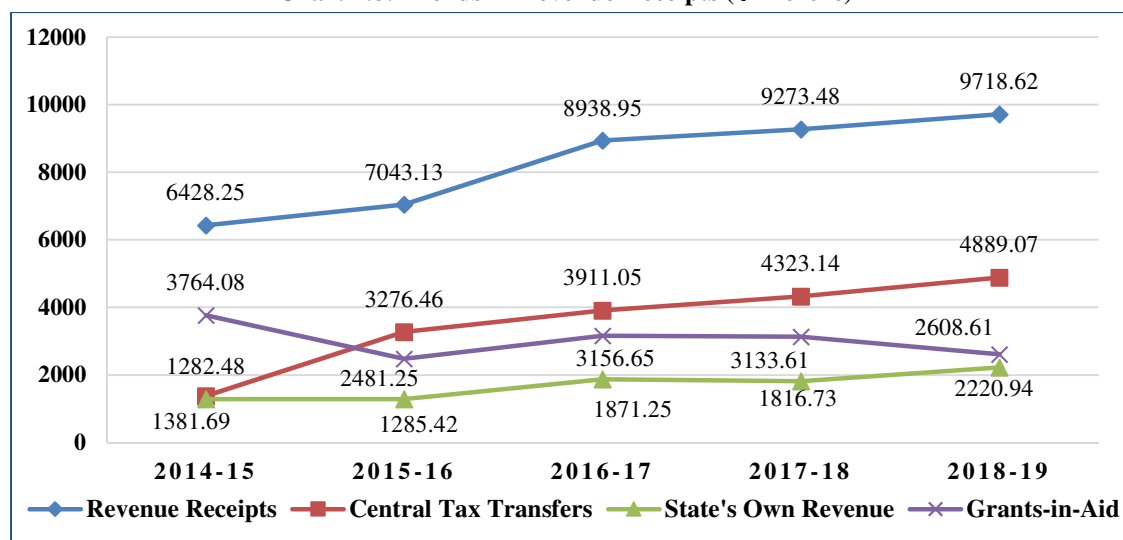


Chart 1.9: Composition of Revenue Receipts (figures in per cent)

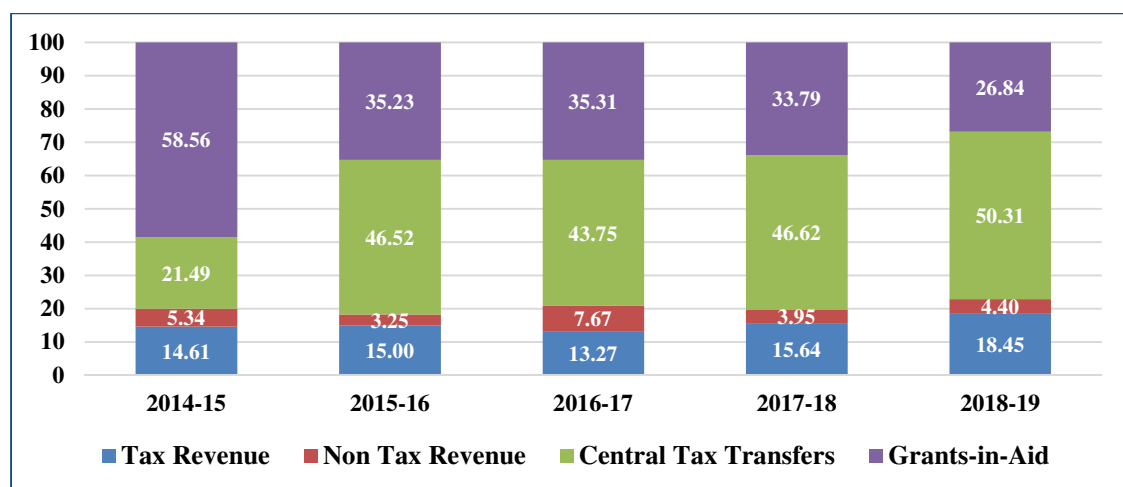


Table 1.6: Trends in Revenue Receipts relative to GSDP

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue Receipts (RR) (₹ in crore)	6428.25	7043.13	8938.95	9273.48	9718.62
Rate of Growth of RR (<i>per cent</i>)	2.58	9.57	26.92	3.74	4.80
Rate of Growth of Own Taxes (<i>per cent</i>)	-1.06	12.52	12.22	22.27	23.65
RR/GSDP (<i>per cent</i>)	27.67	28.04	36.13	30.12	28.26
Buoyancy Ratio⁴					
Revenue Buoyancy Ratio with reference to GSDP	2.00	1.18	2.91	0.31	0.41

⁴ Buoyancy 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 0.41 during 2018-19 implies that revenue receipts tend to increase by 0.41 percentage points, if the GSDP increases by one *per cent*.

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
State's Own Taxes Buoyancy Ratio with reference to GSDP	-0.82	1.55	1.32	1.82	2.02
State's Own Taxes Buoyancy Ratio with reference to Revenue Receipts	-0.41	1.31	0.45	5.95	4.93

Source: Finance Accounts.

The rate of growth of Revenue Receipts ranged between 2.58 per cent and 26.92 per cent during the period from 2014-15 to 2018-19.

The State's share in central taxes and GIA is determined on the basis of recommendations of the Finance Commission, collection of central tax receipts and central assistance for schemes, etc. The State's performance in mobilisation of resources should, therefore, be assessed in terms of its own resources comprising own tax and non-tax sources.

The State's own tax and non-tax receipts for the year 2018-19 vis-à-vis assessments made by the XIV FC and the State Government in BE are given below:

Table 1.7: State's tax and non-tax receipts for the year 2018-19 (₹ in crore)

	XIV FC projections	Budget Estimates	Actuals
Tax revenue	2365	1716.21	1793.24
Non tax revenue	834	538.10	427.70

Source: XIV FC Report, Budget Estimates and Finance Accounts.

During the year, tax revenue was 24.18 per cent lower than the assessment made by the XIV FC and 4.49 per cent higher than the projection made in the BE. The non-tax revenue was 48.72 per cent lower than the target of XIV FC and 20.52 per cent lower than the assessment made in the BE for the year. State's own resources (tax and non-tax revenue) during 2018-19 (₹ 2,220.94 crore) were 22.25 per cent more than the previous year (₹ 1,816.73 crore) but constituted only 22.85 per cent of the Revenue Receipts of the year.

1.7.1.1 Tax Revenue

Table 1.8: Tax Revenue (₹ in crore)

Heads	2014-15	2015-16	2016-17	2017-18	2018-19	Variations*
State Goods and Services Tax	-	-	-	376.00	805.96	290.83 (25.45)
Sales Tax	726.20	811.79	931.06	766.63	627.50	
State Excise	151.14	170.04	168.98	199.30	226.21	26.91 (13.50)
Taxes on Vehicles	39.38	42.01	48.22	67.01	86.95	19.94 (29.77)
Stamps and Registration Fees	9.90	12.74	17.19	20.25	26.19	5.94 (29.33)
Land Revenue	0.08	3.18	1.27	2.08	2.73	0.65 (31.25)
Goods & Passengers	...	...	...	7.83	8.45	0.62 (7.92)
Other Taxes ⁵	12.49	17.06	19.29	11.00	9.25	-1.75 (15.91)
Total	939.19	1056.82	1186.01	1450.10	1793.24	343.14 (23.66)

Source: Finance Accounts.

*Variations over previous year and percentage of increase (+)/decrease (-) given in bracket.

Tax revenue had increased by 23.66 per cent during the current year (₹ 1,793.24 crore) over the previous year (₹ 1,450.10 crore). The revenue from 'sales tax' and 'SGST' contributed 79.94 per cent (₹ 1,433.46 crore) of the total tax revenue

⁵ Other Taxes include taxes on professions, trades, callings and employment, taxes and duties on electricity and other taxes and duties on commodities and services.

(₹ 1,793.24 crore). Revenue from taxes on State Excise, Taxes on Vehicles, Stamps & Registration Fees, Taxes on Goods & Passenger and Land Revenue were among the other contributors to the State's tax revenue. The Tax-GSDP ratio (5.21 per cent) during 2018-19 was less than the projection (6.26 per cent) made by the XIV FC as well as the Tax-GSDP ratios of NER States which was 6.69 per cent.

1.7.1.2 Position of Protected Revenue to Actual Collection after Implementation of Goods & Service Tax (GST)

The Meghalaya Goods and Services Tax Act, 2017 was passed by the State Legislature on 15 June 2017 and made effective from 01 July 2017. According to GST (Compensation to the States) Act 2017, the Central Government will compensate the States for loss of revenue arising on account of implementation of GST for a period of five years. The compensation to be paid is calculated by taking into account the protected revenue⁶ with 2015-16 as the base year. In case of Meghalaya, the revenue during the base year 2015-16 was ₹ 636.17 crore. The protected revenue of the State for the year 2018-19 works out to ₹ 942.51 crore.

With automation of the collection of GST having taken place, it is essential for Audit to transit from sample checks to a comprehensive check of all transactions, to fulfil the CAG's constitutional mandate of certifying the Accounts. The required access to data is yet to be provided. Not having access to the data pertaining to all GST transactions has come in the way of comprehensively auditing the GST receipts. The accounts for the year 2018-19 are, therefore, certified on the basis of test audit, as was done when records were manually maintained, as a one-time exception.

Details of SGST and compensation received by the State during April 2018 to March 2019 is given in **Table 1.9**.

Table 1.9: Details of SGST and compensation received by the State (₹ in crore)

Particulars	Amount
Revenue to be protected	942.51
State Goods & Service Tax	805.96
Collection of Pre-GST Taxes	21.98
Total Collection	827.94
Compensation to be received during the year	114.57
Compensation received	66.00 ⁷

Source: Finance Accounts and figures by Ministry of Finance, GoI.

The compensation amount released by GoI to the State was however, provisional and subject to adjustment in subsequent financial year on receipt of audited figures.

1.7.1.3 Non-Tax Revenue

Table 1.10: Non-Tax Revenue (₹ in crore)

Sl. No.	Heads	2014-15	2015-16	2016-17	2017-18	2018-19	Variations*
1.	Interest receipts	37.73	39.34	46.25	52.50	58.26	5.76 (10.97)
2.	Dividends and Profits	0.13	0.07	0.11	0.11	0.11	0

⁶ Projected revenue is calculated/ arrived at by taking into consideration the revenue collected during the base year (2015-16) plus 14 per cent increase for every following year.

⁷ This does not include ₹ 16.00 crore received on 29 May 2018 which relates to the previous year.

Sl. No.	Heads	2014-15	2015-16	2016-17	2017-18	2018-19	Variations*
3.	General Services	18.00	30.99	41.57	26.87	46.29	19.42 (72.27)
4.	Social Services	8.92	10.39	14.93	14.33	69.38	55.05 (384.16)
5.	Economic Services	278.51	147.81	582.38	272.82	253.66	-19.16 (7.02)
5.1	Non-ferrous Mining and Metallurgical Industries	195.10	60.75	469.52	207.88	147.56	-60.32 (29.02)
5.2	Forestry and Wildlife	71.99	72.08	103.99	55.61	78.31	22.70 (40.82)
5.3	Other Economic Services	11.42	14.98	8.87	9.33	27.79	18.46 (197.86)
Total (1 to 5)		343.29	228.60	685.24	366.63	427.70	61.07 (16.66)

Source: Finance Accounts.

*Variations over previous year and percentage of increase (+)/ decrease (-) given in bracket.

Non-Tax Revenue (NTR), which constituted only 4.39 per cent of the total revenue receipts, had increased by ₹ 61.07 crore during 2018-19 recording a positive growth rate of 16.66 per cent over the previous year. Over 59.31 per cent (₹ 253.66 crore) of NTR during 2018-19 was received from economic services. Within this category, receipts under non-ferrous Mining and Metallurgical Industries alone contributed 58.17 per cent (₹ 147.56 crore) although recording a decrease of 60.32 crore (29.02) vis-à-vis the previous year due to fresh ban on mining.

1.7.1.4 Central Tax Transfers

As per XIV FC recommendations, the share of the States in shareable Central Taxes increased from 32 per cent (XIII FC award period) to 42 per cent. The State share during the XIII FC award period was 0.41 per cent and 0.42 per cent for all shareable taxes and Service Tax respectively which increased to 0.64 per cent and 0.65 per cent respectively during XIV FC award period.

The Central Tax transfers i.e. State's share of Union Taxes and Duties alone increased by ₹ 565.93 crore (13.09 per cent) over the previous year and constituted 50.31 per cent of Revenue Receipts. The increase was mainly due to devolution of Central Goods and Services Tax (₹ 1,145.33 crore).

Central Tax Transfers were the main source of Revenue Receipts for the State of Meghalaya. The State share of Central taxes and GIA from GoI together contributed 77.00 per cent (₹ 7,497.68 crore) of the total Revenue Receipts (₹ 9,736.63 crore) during 2018-19.

Table 1.11: State's Share of Central Taxes and GIA with reference to total revenue receipts
(₹ in crore)

	2017-18	2018-19
State Share of Union Taxes and Duties	4323.14	4889.07
Grants in Aid from GoI	3133.61	2608.61
Sub Total	7456.75	7497.68
Total Revenue Receipts	9290.93	9736.63
Percentage of Central Taxes and Grants-in-Aid to Total Revenue Receipts	80.41	77.00

1.7.1.5 Grants-in-Aid from GoI

Details of GIA received from GoI are given in **Table 1.12**.

Table 1.12: Grants-in-Aid from GoI (₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Non-Plan Grants	803.71	673.86	640.47	...	...
Grants for State Plan Schemes	2580.17	1240.15	2263.52	...	...
Grants for Central Plan Schemes	8.89	270.44	19.33	...	...
Grants for Centrally Sponsored Schemes	293.44	196.36	138.19	2145.85	2011.17
Grants for Special Schemes	77.87	100.44	95.14	...	...
Finance Commission's grant	...	...	...	499.96	225.60
Grants to State	...	...	...	487.80	371.84
Total	3764.08	2481.25	3156.65	3133.61	2608.61
Percentage of increase over previous year	10.15	-34.08	27.22	-0.73	-16.75

Source: Finance Accounts.

Grants-in-Aid from GoI had decreased by 16.75 per cent (₹ 525.00 crore) from ₹ 3,133.61 crore in 2017-18 to ₹ 2,608.61 crore in the current year. Grants for Centrally Sponsored Schemes⁸ (₹ 2,011.17 crore) decreased by ₹ 134.68 crore during the current year. In addition, GoI also allotted a separate Grant to State amounting to ₹ 371.84 crore during 2018-19.

1.7.2 Capital Receipts

The trends in growth and composition of Capital Receipts are given in **Table 1.13**.

Table 1.13: Trends in Growth and Composition of Capital Receipts (₹ in crore)

Sources of State's Receipts	2014-15	2015-16	2016-17	2017-18	2018-19	
Capital Receipts (CR)	746.72	856.01	1229.24	1242.59	1342.69	
Recovery of Loans and Advances	19.76	19.08	18.81	17.45	18.01	
Public Debt Receipts	Market Loans	545.00	680.00	1001.00	1115.50	1122.00
	Other Internal Sources	177.19	154.70	205.16	102.97	180.27
	Loans & Advances from GoI	4.77	2.23	4.27	6.67	22.41
	Total	726.96	836.93	1210.43	1225.14	1324.68
Rate of growth of debt Capital Receipts	52.91	15.13	44.63	1.22	8.13	
Rate of growth of non-debt (Loans & Advances) Capital Receipts	-3.52	-3.44	-1.42	-7.23	3.21	
Rate of growth of CR (per cent)	50.58	14.64	43.60	1.09	8.06	

Source: Finance Accounts.

Capital Receipts increased by 79.81 per cent from ₹ 746.72 crore in 2014-15 to ₹ 1,342.70 crore in 2018-19. The rate of growth of Capital Receipts increased from 1.09 per cent in 2017-18 to 8.06 per cent in 2018-19. The rate of growth of debt Capital Receipts, which is the main component of Capital Receipts, increased from 1.22 per cent in 2017-18 to 8.13 per cent in 2018-19. The debt receipts from internal sources (market loans and other internal sources) increased by ₹ 83.81 crore and loans & advances from GoI increased by ₹ 15.74 crore during 2018-19, over previous year. Market loans constituted the major share of debt Capital Receipts during the current year and increased from ₹ 1,115.50 crore in 2017-18 to ₹ 1,122.00 crore during

⁸ National Rural Employment Guarantee Scheme, Sarva Shiksha Abhiyan, National Rural Drinking Water Programme, Shyama Prasad Mukherjee RUrban Mission and Pradhan Mantri Krishi Sinchai Yojana, etc.

2018-19. Non-debt Capital Receipts in the form of recoveries of loans & advances marginally increased by ₹ 0.56 crore during 2018-19 over previous year.

1.8 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards development and social sectors.

1.8.1 Growth and Composition of Expenditure

Total Expenditure and its composition during the years 2014-15 to 2018-19 are presented in **Table 1.14**.

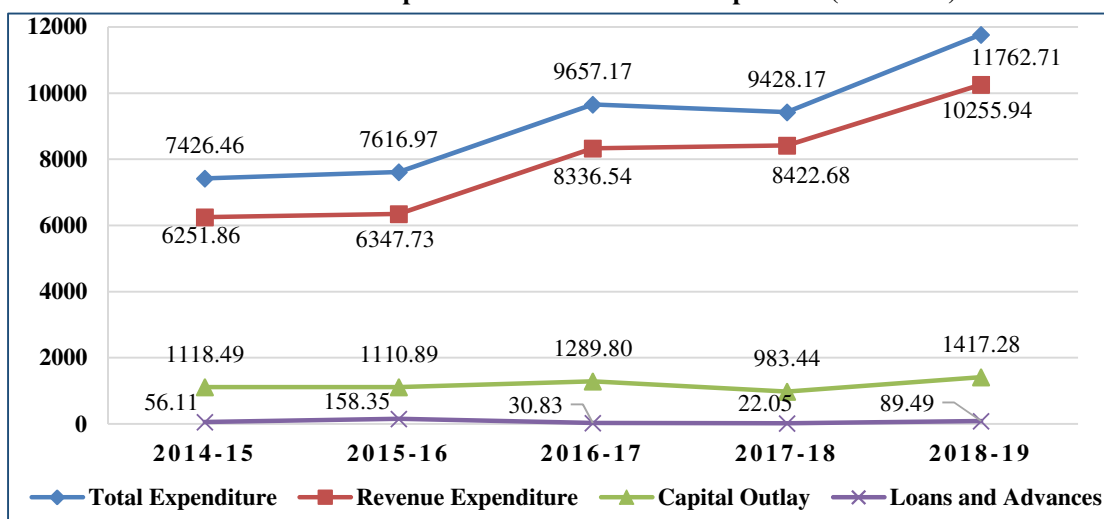
Table 1.14: Total Expenditure and its Composition (₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Total Expenditure	7426.46	7616.97	9657.17	9428.17	11762.71
Revenue Expenditure (RE)	6251.86	6347.73	8336.54	8422.68	10255.94
Rate of Growth of RE	12.61	1.53	31.33	1.03	21.77
Capital Outlay (CO)	1118.49	1110.89	1289.80	983.44	1417.28
Rate of Growth of CO	4.00	-0.68	16.11	-23.75	44.11
Loans and Advances	56.11	158.35	30.83	22.05	89.49

Source: Finance Accounts.

Charts 1.10, 1.11 and 1.12 present the trends in Total Expenditure over a period of five years (2014-19) and its composition both in terms of 'economic classification' and 'expenditure by activities':

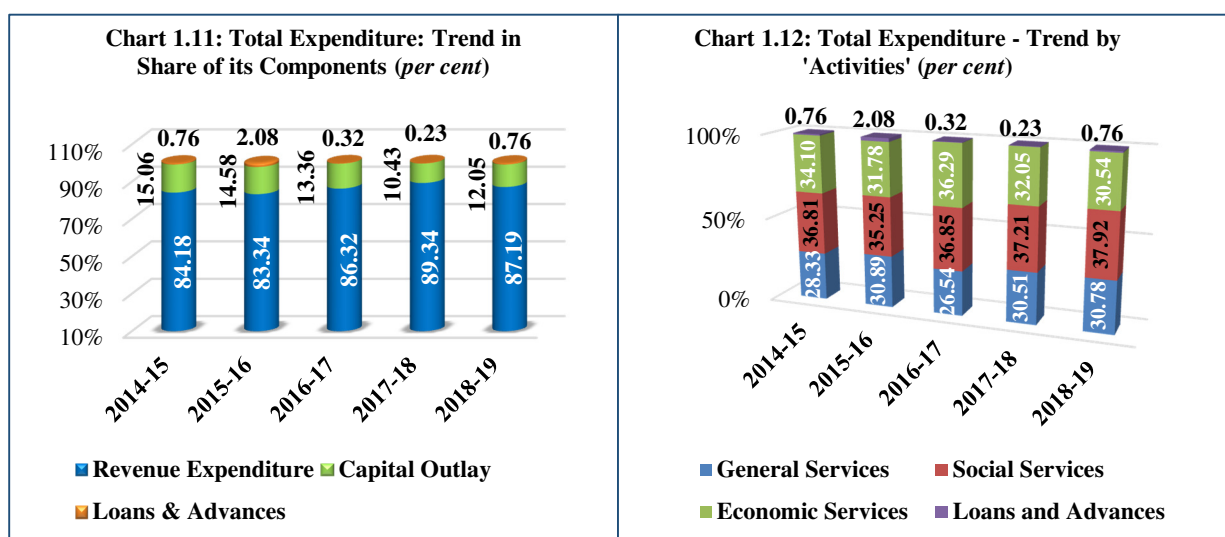
Chart 1.10: Total Expenditure – Trends and Composition (₹ in crore)



Charts 1.10, 1.11 and 1.12 show that:

- Share of Revenue Expenditure (₹ 10,255.94 crore) constituted 87.19 per cent of Total Expenditure (₹ 11,762.71 crore).

- In terms of activities, Total Expenditure comprises expenditure on General Services including interest payments, Social and Economic services, Grants-in-Aid and Loans & Advances. Of the Total Expenditure during 2018-19, expenditure on General Services (Revenue *plus* Capital Expenditure) including interest payments, which is considered as non-developmental, accounted for 30.77 per cent.
- Expenditure on Social and Economic Services (excluding loans & advances) together accounted for 68.46 per cent during 2018-19. The relative share of Social Services expenditure to Total Expenditure marginally increased from 37.21 per cent in 2017-18 to 37.92 per cent in 2018-19.
- The relative share of Economic Services expenditure to Total Expenditure decreased from 32.05 per cent during 2017-18 to 30.54 per cent during 2018-19.
- Loans & Advances revealed wide fluctuations during the period 2014-19 and stood at 0.76 per cent of Total Expenditure during 2018-19.



1.8.2 Revenue Expenditure

Revenue Expenditure had a predominant share in the total expenditure. Overall Revenue Expenditure, its rate of growth, ratio of Revenue Expenditure to GSDP and to Revenue Receipts and its buoyancy are indicated in **Table 1.15**.

Table 1.15: Revenue Expenditure – Basic Parameters (₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue expenditure (RE)	6251.86	6347.73	8336.54	8422.68	10255.94
Rate of Growth of RE (per cent)	12.61	1.53	31.33	1.03	21.77
Total Expenditure (TE)	7426.46	7616.97	9657.17	9428.17	11762.71
RE as percentage of TE ⁹	84.18	83.34	86.32	89.34	87.19
Buoyancy Ratio of Revenue expenditure with					
GSDP ¹⁰	9.78	0.19	3.39	0.08	1.86
Revenue Receipts ¹¹	4.89	0.16	1.16	0.28	4.54

Source: Finance Accounts.

⁹ RE as percentage of TE = RE/TE×100.

¹⁰ GSDP (ratio) = Rate of Growth of Revenue Expenditure ÷ Growth Rate of GSDP.

¹¹ Revenue Receipt (ratio) = Rate of Growth of Revenue Expenditure ÷ Rate of Growth of Revenue Receipts.

Revenue Expenditure constituted 84.18 *per cent* to 89.34 *per cent* of Total Expenditure during 2014-19 and increased by ₹ 4,004.08 crore (64.05 *per cent*) from ₹ 6,251.86 crore in 2014-15 to ₹ 10,255.94 crore in 2018-19.

The increase in Revenue Expenditure (₹ 1,833.26 crore) during 2018-19 was collectively attributed to increase in expenditure under General Services (₹ 709.01 crore), Social Services (₹ 952.46 crore) and Economic Services (₹ 171.79 crore) over the previous year.

1.8.2.1 Components of Revenue Expenditure

The expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages and pensions. **Table 1.16** presents the trends in the expenditure on these components during 2014-19.

Table 1.16: Components of Revenue Expenditure (₹ in crore)

Components of expenditure	2014-15	2015-16	2016-17	2017-18	2018-19
Salaries and Wages	2037.65 (31.70)	2181.80 (30.98)	2305.16 (25.79)	2669.48 (28.79)	3353.65 (34.51)
Interest Payments	405.10 (6.30)	465.88 (6.61)	522.23 (5.84)	591.18 (6.37)	656.81 (6.76)
Expenditure on Pension and other retirement benefits	514.94 (8.01)	589.44 (8.37)	647.85 (7.25)	750.90 (8.10)	1004.91 (10.34)
Other Components of Revenue Expenditure, <i>i.e.</i> , other than salaries and wages, interest payments and pensionary benefits	3294.17 (51.24)	3110.61 (44.17)	4861.30 (54.39)	4411.12 (47.57)	5240.58 (53.92)

Source: Finance Accounts. (Figures in the parentheses indicate percentage to Revenue Receipts).

(A) Salaries and Wages

Increase in expenditure on salaries & wages by 25.63 *per cent* during 2018-19 was mainly due to the implementation of recommendation of the Fifth Meghalaya Pay Commission.

(B) Interest Payments

Compared to the previous year, interest payments during 2018-19 increased by 11.10 *per cent* (₹ 65.63 crore). Interest payments during 2018-19 were on market loans (₹ 414.31 crore), State Provident Funds (₹ 128.15 crore), Special Securities issued to National Small Savings Fund of the Central Government (₹ 65.53 crore), loans and advances received from Central Government (₹ 0.27 crore) and other internal debts including other obligations (₹ 48.55 crore). The overall interest payments were much higher than the projections made by the XIV FC (₹ 554.00 crore).

(C) Pension Payments

The pension payments (including other retirement benefits) indicated an increasing trend during the five-year period 2014-19. Pension payments during the current year had increased by ₹ 254.01 crore, an increase of 33.83 *per cent* over the previous year.

(i) National Pension System

State Government employees recruited on or after 01 April 2010 are covered under the ‘The New Defined Contribution Pension Scheme (NPS), 2010’.

In terms of the scheme, such employees contribute 10 *per cent* of basic pay and dearness allowance, which is matched by the State Government and the entire amount is to be transferred to the National Securities Depository Limited (NSDL) through the designated Fund Account. As per accounting procedure, both employee’s and employer’s contributions are at first transferred to the Public Account under the Major Head ‘8342-117-Defined Contributory Pension Scheme’ and the total amount is thereafter transferred to the NSDL, which is responsible for management of funds under the scheme. The details of funds under NPS and amount transferred to NSDL during 2014-19 are shown in the **Table 1.17** below:

Table 1.17: Details of funds under NPS during 2014-19 (₹ in crore)

Year	Opening Balance	Contribution			Transfer to NSDL	Less Transfer	Closing Balance
		Employees	Employer	Total			
2014-15	0.28	11.35	11.67	23.02	23.25	-0.23	0.05
2015-16	0.05	15.31	15.00	30.31	30.33	-0.02	0.03
2016-17	0.03	22.08	22.50	44.58	44.08	0.50	0.53
2017-18	0.53	30.60	31.36	61.96	61.63	0.33	0.86
2018-19	0.86	41.67	41.57	83.24	83.33	-0.09	0.77

Source: Finance Accounts.

As on March 2019, an amount of ₹ 0.77 crore remained to be transferred to NSDL since some employees under NPS were yet to be allotted Permanent Retirement Account Number (PRAN).

In terms of the guidelines, Government of Meghalaya is liable to pay interest on amount not transferred to NSDL.

1.8.3 Capital Expenditure

Capital outlay during the current year (2018-19) increased by ₹ 433.84 crore over the previous year (**Appendix 1.2**). As compared to the total expenditure, the capital outlay showed a fluctuating trend over the period 2014-15 to 2018-19. Capital Expenditure was less by 10.16 *per cent* (₹ 144.01 crore) of the BE (₹ 1,561.29 crore) for the year.

1.8.4 Financial Assistance by State Government to Local Bodies and Other Institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.18**.

Table 1.18: Financial Assistance to Local Bodies and others (₹ in crore)

Financial Assistance to Institutions	2014-15	2015-16	2016-17	2017-18	2018-19	
					BE	Actual
University and Educational Institutions	560.46	697.54	918.37	915.75	1223.08	1337.19
Co-operative Societies	1.78	2.06	1.99	13.55	2.51	2.09
District Councils	1.60	0.36	262.58	19.68	11.92	92.81
Municipalities, Meghalaya Urban Development Authority, etc.	5.40	4.70	11.42	9.62	11.72	12.74
Power Sector	203.19	102.44	133.44	99.02	19.32	19.77

Financial Assistance to Institutions	2014-15	2015-16	2016-17	2017-18	2018-19	
					BE	Actual
Other Institutions ¹²	68.07	53.19	293.62	217.74	21.69	29.71
Total	840.50	860.29	1621.42	1275.36	1290.24	1494.31
Assistance as percentage of RE	13.44	13.55	19.45	15.14	12.58	14.57

Source: Detailed Appropriation Accounts.

The financial assistance extended to the local bodies and other institutions increased by 17.17 per cent from ₹ 1,275.36 crore in 2017-18 to ₹ 1,494.31 crore in 2018-19. The share of financial assistance in revenue expenditure decreased from 15.14 per cent in 2017-18 to 14.57 per cent during the current year.

University and Educational Institutions were the major recipients followed by Power Sector. The financial assistance to District Councils increased from ₹ 19.68 crore during 2017-18 to ₹ 92.81 crore during 2018-19. Around 89.49 per cent of the total financial assistance during 2018-19 was given to University and Educational Institutions. The assistance under this sector increased by 46.02 per cent, i.e. from ₹ 915.75 crore during 2017-18 to ₹ 1,337.19 crore during the current year. Of ₹ 1,337.19 crore, ₹ 888.15 crore was given to Non-Government Primary Schools, ₹ 282.58 crore was given to Non-Government Secondary Schools and ₹ 129.24 crore to Non-Government Colleges and Institutes.

1.8.4.1 Local Bodies

There are no Panchayati Raj Institutions (PRIs) in Meghalaya. Instead, there are three Autonomous District Councils (ADCs) in Meghalaya viz. Khasi Hills, Garo Hills and Jaintia Hills ADCs. The Community and Rural Development Department (C&RD) governs the rural population in areas which are not covered by ADCs. Moreover, there are six Urban Local Bodies (ULBs), viz. (i) Shillong Municipal Board, (ii) Tura Municipal Board, (iii) Jowai Municipal Board, (iv) Williamnagar Municipal Board, (v) Baghmara Municipal Board and (vi) Resubelpara Municipal Board. The main function of these Municipal Boards is to provide civic amenities, e.g., water supply, street lighting, drainage and sanitation.

1.8.4.2 Devolution of Funds to Urban Local Bodies

As per the information furnished (November 2019) by the Director, Urban Affairs, Meghalaya, the devolution of funds by the State Government to Urban Local Bodies (ULBs) during 2014-15 to 2018-19 is as indicated in **Table 1.19**.

Table 1.19: Devolution of Funds to ULBs (₹ in crore)

	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Amount sanctioned						
Grants-in-Aid	4.41	4.22	9.36	4.65	0.30	22.94
XIII FC/ XIV FC Award	1.81	NA	NA	NA	NA	1.81
Total	6.22	4.22	9.36	4.65	0.30	24.75
Expenditure						
Grants-in-Aid	4.41	3.33	2.67	2.52	0.05	12.98
XIII FC/ XIV FC Award	1.63	NA	NA	NA	NA	1.63
Total	6.04	3.33	2.67	2.52	0.05	14.61

Source: Director, Urban Affairs Department.

¹² Other Institutions (2018-19) : Details given in **Appendix 1.6**.

From 2014-15 to 2018-19, the State Government had sanctioned an amount of ₹ 24.75 crore but expenditure incurred by the Director, Urban Affairs, Meghalaya was ₹ 14.61 crore only.

1.8.5 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 provision for providing public services), efficiency of expenditure and the effectiveness (assessment of outlay-outcome relationships for select services).

1.8.5.1 Adequacy of Public Expenditure

In view of the importance of public expenditure for social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods¹³. Apart from improving the allocation towards Development Expenditure, the efficiency of expenditure use is also reflected by the ratio of Capital Expenditure to Total Expenditure (and/ or GSDP) and proportion of Revenue Expenditure being spent on operation and maintenance of the existing Social and Economic Services. The higher the ratio of these components to Total Expenditure (and/ or GSDP), the better would be the quality of expenditure. **Table 1.20** presents the trends in Development Expenditure relative to the Aggregate Expenditure of the State during the current year *vis-à-vis* budgeted and the previous years and provides the details of capital outlay and the components of Revenue Expenditure incurred on selected Social and Economic Services.

Table 1.20: Fiscal Priority of the State in 2014-15 and 2018-19

	AE/ GSDP	SSE/ AE	ESE/ AE	DE/ AE	CE/ AE	Education/ AE	Health/ AE
SCS Average 2014-15 (Ratio)	26.00	36.27	30.49	66.76	14.46	18.52	5.60
Meghalaya 2014-15 (Ratio)	31.96	36.81	34.63	71.44	15.06	17.53	7.69
SCS Average 2018-19 (Ratio)	26.73	35.75	29.08	64.82	15.69	18.21	6.48
Meghalaya 2018-19 (Ratio)	34.20	37.92	31.03	68.95	12.05	17.90	9.06

SCS: Special Category States, AE: Aggregate Expenditure (Total Expenditure), SSE: Social Sector Expenditure, ESE: Economic Sector Expenditure, DE: Development Expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans & Advances disbursed, CE: Capital Expenditure.

Table 1.20 analyses the fiscal priority of the State Government with regard to Development Expenditure, Social Sector Expenditure and Capital Expenditure during 2018-19.

Government of Meghalaya's Aggregate Expenditure contributed a higher portion to GSDP *vis-à-vis* Special Category States in 2014-15 and 2018-19.

The trends in the efficiency of expenditure in selected Social and Economic Services are depicted in **Table 1.21**.

¹³ As defined in Appendix 1.1: Part C under List of Term used in Chapter I of this Audit Report.

Table 1.21: Efficiency of Expenditure use in selected Social and Economic Services*(In per cent)*

Social/ Economic Infrastructure	Ratio of Capital Expenditure to Total Expenditure ¹⁴		In Revenue Expenditure, share of Salaries & Wages	
	2017-18	2018-19	2017-18	2018-19
Social Services (SS)	10.28	8.07	33.14	32.32
General Education	0.11	0.13	27.48	28.52
Technical Education, Sports, Arts and Culture	0.12	0.12	15.73	38.45
Health and Family Welfare	4.87	3.99	54.30	46.63
Water Supply & Sanitation, Housing and Urban Development	52.99	45.31	41.57	39.46
Other SS	2.52	4.39	20.68	16.46
Economic Services (ES)	18.97	27.07	22.14	25.70
Agriculture and Allied Activities	0.90	1.37	56.56	49.88
Irrigation & Flood Control	34.63	61.88	61.65	64.29
Energy	21.82	1.97	0.00	0.03
Transport	72.19	81.02	2.17	0.00
Other ES	3.82	24.74	11.95	19.51

Source: Finance Accounts.

1.8.5.2 Social Services

The trends presented in **Table 1.21** reveal that Development Capital Expenditure as a percentage of Total Expenditure constituted only 8.07 *per cent* in 2018-19, which indicated that Revenue Expenditure was dominant. Compared to 2017-18, there was no improvement in the share of Capital Expenditure during 2018-19 under Social Services¹⁵.

Of the Revenue Expenditure on Social Services, the share of salaries and wages component decreased from 33.14 *per cent* in 2017-18 to 32.32 *per cent* in 2018-19.

1.8.5.3 Economic Services

The share of Capital Expenditure on Economic Services to Total Expenditure on Economic Services increased to 27.07 *per cent* during 2018-19 from 18.97 *per cent* in 2017-18. Salaries and wages component within the Revenue Expenditure on Economic Services as a percentage of Total Expenditure on Economic Sector increased from 22.14 *per cent* in 2017-18 to 25.70 *per cent* during 2018-19.

1.8.6 Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also meet its Capital Expenditure/ Investment (including loans & advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy, taking requisite steps to infuse transparency in financial operations. This section

¹⁴ Total Revenue and Capital Expenditure of the Services concerned.

¹⁵ Except General Education and other Social Sectors.

presents the broad financial analysis of investments undertaken by the Government during the current year *vis-à-vis* previous years.

1.8.6.1 Investment and Returns

As per Statements 8 and 19 of Finance Accounts for the year 2018-19, as on 31 March 2019, the State Government had invested ₹ 2,638.43 crore in three Statutory Corporations (₹ 2,253.06 crore), eight Government Companies (₹ 272.67 crore) and in 1,448 Co-operative Banks and Societies (₹ 112.70 crore) as detailed in **Table 1.22**.

Table 1.22: Return on Investment

Investment/Return/Cost of Borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
Investment at the end of the year (₹ in crore)					
(i) Statutory Corporations	83.41	91.29	2095.67	2249.70	2253.06
(ii) Government Companies	273.90	273.90	270.17	270.17	272.67
(iii) Co-operative Societies	97.68	101.74	105.79	108.69	112.70
Total	454.99	466.93	2471.63	2628.56	2638.43
Return (₹ in crore)	0.13	0.07	0.11	0.11	0.11
Return (<i>per cent</i>)	0.03	0.02	0.02	0.01	0.01
Average rate of interest paid on Government borrowing (<i>per cent</i>)	6.22	6.70	6.47	6.40	6.53
Difference between interest rate paid and return (<i>per cent</i>)	6.19	6.68	6.45	6.39	6.52

Of the three Statutory Corporations, bulk of the investment (₹ 399.54 crore) was made in the Meghalaya Energy Corporation Limited during 2013-2019 which had accumulated loss of ₹ 1,836.03 crore till 2016-17. Out of ₹ 272.67 crore invested in Government Companies, ₹ 272.62 crore was invested in seven loss making Government Companies, which had accumulated loss of ₹ 287.18 crore, as detailed in **Table 1.23**:

Table 1.23: Details of loss making Government Companies (₹ in crore)

Name of Companies	Amount invested up to March 2019	Last investment made	Accumulated loss	Accounts finalised up to ¹⁶
Mawmluh-Cherra Cements Limited	165.29	2018-19	209.28	2017-18
Meghalaya Industrial Development Corporation	91.59	2014-15	45.99	2015-16
Meghalaya Tourism Development Corporation Limited	7.96	1999-02	9.55	2014-15
Meghalaya Handloom and Handicraft Development Corporation Limited	2.74	2009-10	4.83	2016-17
Meghalaya Mineral Development Corporation Limited	2.32	2001-02	6.89	2017-18
Forest Development Corporation of Meghalaya Limited	1.97	2001-02	1.98	2014-15
Meghalaya Government Construction Corporation Limited	0.75	2000-01	8.66	2016-17
Total	272.62		287.18	

Further, out of ₹ 112.70 crore invested in Co-operative Banks/ Societies, ₹ 80.53 crore was invested in 1,322 loss making Co-operative Banks/ Societies, which had accumulated losses of ₹ 8.09 crore up to 31 March 2010. Working results of these Co-operative Banks/ Societies had not been intimated (August 2019).

¹⁶ Working results for the subsequent years are in arrears.

Non-preparation of working results are a cause of serious concern as it may be indicative of erosion of working capital or serious fraud.

The average return on investment in Statutory Corporations, Government companies and Co-operative Banks/ Societies was less than one *per cent* during 2014-19. Government however, paid interest on its borrowings at an average rate of interest of 6.22 *per cent* to 6.70 *per cent* during 2014-19. The State Government should review the performance of the above units. The MFRBM Act 2006, also provides that the State Government should review the performance of the State PSUs including restructuring of those that are absolutely essential and closing those which are no longer viable.

1.8.6.2 Incomplete Projects

As per Appendix IX and Statement 16 of the Finance Accounts for the year 2018-19, there were 193 incomplete/ ongoing projects in the State as on 31 March 2019. Age profile of incomplete projects based on the year of sanction of these project as on 31 March 2019 is given in **Table 1.24**.

Table 1.24: Age Profile of Incomplete Projects as on 31 March 2019 (₹ in crore)

Year	Number of incomplete projects	Estimated cost	Expenditure (as on 31 March 2019)	Projects for which Estimated Cost were revised				
				Number	Original Cost	Revised Cost	Expenditure (as on 31 March 2019)	Cost overrun
1	2	3	4	5	6	7	8	9 (7-6)
Prior to 2005-06	4	46.96	58.36	2	24.40	42.20	34.50	17.80
2005-06 to 2009-10	16	253.03	239.36	3	30.71	42.37	38.47	11.66
2010-11 to 2014-15	71	1567.71	942.21	7	85.34	133.55	101.50	48.21
2015-16 to 2016-17	77	1188.52	558.47	0	0	0	0	0
2017-18 onwards	25	225.08	26.81	0	0	0	0	0
Total	193	3281.30	1825.21	12	140.45	218.12	174.47	77.67

Source: Finance Accounts.

The above incomplete projects had a total sanctioned estimated cost of ₹ 3,281.30 crore which was revised to ₹ 3,358.97 crore. Cumulative expenditure incurred on these projects as on 31 March 2019 was ₹ 1,825.21 crore. Out of these 193 incomplete projects, 25 projects had commenced after the year 2017; as such, scheduled date of completion of these projects were after 31 March 2019.

Out of the remaining 168 incomplete projects, audit analysed 32 projects which had overshoot their scheduled completion dates by over one to seven years. Department-wise details of these 32 incomplete projects as on 31 March 2019 is given in **Table 1.25**.

Table 1.25: Department-wise Profile of Incomplete Projects (₹ in crore)

Department	Number of incomplete projects	Estimated cost	Expenditure	Projects for which Estimated Cost were revised				
				No.	Estimated Cost	Revised Cost	Expenditure	Cost overrun
1	2	3	4	5	6	7	8	9 (7-6)
Public Works (R& B)	27	372.92	287.29	1	16.60	26.26	6.87	9.66
Public Health Engineering	2	163.46	19.01	1	12.04	17.34	12.04	5.30
Water Resources	1	9.61	9.43	1	9.61	12.11	9.43	2.50
Agriculture	1	6.66	6.43	1	6.66	14.45	6.43	7.79
Urban Affairs	1	6.00	7.44	1	6.00	7.44	7.44	1.44
Total	32	558.65	329.60	5	50.91	77.60	42.21	26.69

Source: Finance Accounts.

Out of these 32 projects, Audit noticed that the delay in completion of 18 incomplete project was attributed to land dispute, change in specifications, adoption of new technology, non-availability of funds, cost escalation, prolonged monsoon & less working season, scarcity of material & insurgency problem, *etc.* Audit further noticed that the scheduled date of completion of these projects was being extended year after year without assigning any reason. Neither the applications of the contractors seeking time extension nor the approval of the departments for such extension was found on record.

The reasons attributed by respective departments for delay such as prolonged monsoon & less working season, insurgency problem, *etc.* are known factors and should have been kept in mind by the departments concerned while framing the Detailed Project Reports (DPRs) whereas, land dispute, change in specification, adoption of new technology, *etc.* points towards lack of due diligence and survey of the proposed site at the time of preparation of DPRs.

Blocking of funds on incomplete projects/ works beyond their scheduled date of completion, adversely impinged on the quality of expenditure and deprived the State of intended benefits for prolonged periods. Further, the funds borrowed for implementation of these projects during the respective years proved ineffectual with the State having to bear additional burden for servicing the debt and interest liabilities. Effective steps need to be taken to complete all the above projects without further delay.

1.8.7 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per records of State Public Sector Undertakings (SPSUs) should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned SPSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2019 is stated in **Table 1.26**.

Table 1.26: Status of reconciliation between Finance Accounts and records of SPSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	2525.73 ¹⁷	2488.93	36.80
Loans	Not available ¹⁸	179.22	Not workable
Guarantees	1096.78 ¹⁹	1096.78	-

¹⁷ Includes ₹ 2.14 crore in Meghalaya State Warehousing Corporation (MSWC), ₹ 90.63 crore in Meghalaya Transport Corporation (MTC), ₹ 91.59 crore in MIDC, ₹ 165.29 crore in MCCL, ₹ 2.32 crore in MMDCL, ₹ 2,160.29 crore in MeECL ₹ 1.97 crore in FDCML, ₹ 0.75 crore in MGCCL, ₹ 7.96 crore in MTDCCL and ₹ 2.74 crore in MH&HDCL.

¹⁸ State Government's loans to State PSUs are extended through the Government Departments. These Government Departments reallocate the loan funds to different PSUs. Hence, the PSU-wise figures of State Government loans are not available in the Finance Accounts.

¹⁹ Guarantee given by the State Government against loans were ₹ 1,096.78 crore for MeECL.

Audit observed that the difference in equity occurred in respect of eight SPSUs²⁰ and some of the differences were pending reconciliation since 2012-13. The Additional Chief Secretary, Finance Department, Government of Meghalaya as well as the management of the SPSUs concerned were apprised of the differences from time to time and the need for early reconciliation emphasised. However, no significant progress was noticed in this regard. The Government and the SPSUs concerned should take concrete steps to reconcile the differences in a time-bound manner.

1.8.8 Loans and Advances by the State Government

Government has also been providing loans and advances for other purposes, e.g., loans for power projects, loans to Government servants, loans for tourism, etc. Table 1.27 presents the outstanding loans and advances, interest receipts vis-à-vis interest payments during the last five years.

Table 1.27: Average Interest Received on Loans and Advances given by the State Government
(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Opening Balance	590.57	626.92	766.19	778.21	782.82²¹
Amount advanced during the year	56.11	158.35	30.83	22.05	89.49
Amount recovered during the year	19.76	19.08	18.81	17.45	18.02
Closing Balance	626.92	766.19	778.21	782.81	854.29
Net Addition	36.35	139.27	12.02	4.60	71.48
Interest Receipts	8.28	7.69	8.27	7.61	6.06
Interest received as <i>per cent</i> to outstanding Loans and Advances	1.36	1.10	1.07	0.98	0.71
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government	6.22	6.70	6.47	6.40	6.53
Difference between interest payments and interest receipts (<i>per cent</i>)	4.86	5.60	5.41	5.43	5.78

Loans and advances given by the State Government during 2018-19 increased by 305.85 *per cent* over the previous year. The total outstanding loans and advances as on 31 March 2019 was ₹ 854.29 crore. Out of the loans of ₹ 89.49 crore advanced during 2018-19, ₹ 32.58 crore was given for power projects and ₹ 31.47 crore was given to Government servants and ₹ 25.44 crore to others. Interest receipt of ₹ 6.06 crore on loans and advances given by GoM during 2018-19 constituted 0.71 *per cent* only of the outstanding loans and advances given by the State Government, whereas the Government was paying interest at an average rate of 6.53 *per cent* for the outstanding liabilities.

1.9 Public Account

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 Account set up under

²⁰ Forest Development Corporation Limited, Meghalaya Industrial Development Corporation Limited, Meghalaya Infrastructure Development & Finance Corporation Limited, Mawluh Cherra Cements Limited, Meghalaya Energy Corporation Limited, Meghalaya Handloom & Handicraft Development Corporation Limited, Meghalaya Basin Management Agency and Meghalaya Transport Corporation.

²¹ Difference of ₹ 0.01 crore with last years' balance is due to rounding.

Article 266 (2) of the Constitution 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. Public Account Receipts and Disbursements during the period 2014-19 are given in **Table 1.28**.

Table 1.28: Public Account receipts and disbursement during 2014-19 (₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
A. Public Account Receipts					
(a) Small Savings, Provident Fund, etc.	252.74	275.08	297.89	319.15	395.04
(b) Reserve Fund	59.60	98.49	59.57	84.62	70.98
(c) Deposits and Advances	1330.53	975.20	1932.61	1363.48	1446.60
(d) Suspense and Miscellaneous	91.14	-67.23	1.77	15.87	2.21
(e) Remittances	2263.59	2245.61	2344.90	2404.74	2653.60
Total (A)	3997.60	3527.15	4636.74	4187.86	4568.43
B. Public Account Disbursements					
(a) Small Savings, Provident Fund, etc.	119.46	143.34	156.72	161.44	215.67
(b) Reserve Fund	73.29	91.75	57.50	108.51	67.01
(c) Deposits and Advances	1492.19	1210.06	1043.05	1891.25	1420.08
(d) Suspense and Miscellaneous	8.86	-11.83	-11.32	7.30	19.42
(e) Remittances	2271.93	2248.32	2343.64	2400.66	2651.01
Total (B)	3965.73	3681.64	3589.59	4569.16	4373.19
Public Account Net (A) – (B)	31.87	-154.49	1047.15	-381.30	195.24

Source: Finance Accounts.

- (i) Small Savings, Provident Fund, etc. are the fund where Government has to pay interest on moneys deposited in these funds at the prescribed rates, and in return use this money for investment in specified Government securities, and can eventually utilise for developmental purposes. The receipts as well as disbursement increased by ₹ 75.89 crore (23.78 per cent) and ₹ 54.23 crore (33.59 per cent) respectively over the previous year. The net fund available as on 31 March 2019 was ₹ 179.37 crore as compared to previous year balance of ₹ 157.71 crore.
- (ii) Reserve Funds *i.e.* (a) Reserve Funds bearing interest and (b) Reserve Funds not bearing interest, are created for specific purposes by the Government out of their own balances. The receipts as well as disbursement decreased by ₹ 13.64 crore (16.12 per cent) and ₹ 41.50 crore (38.24 per cent) respectively over the previous year. The net fund available as on 31 March 2019 was ₹ 3.97 crore as compared to previous year which had a negative balance of ₹ 23.89 crore.
- (iii) Deposits are received by Government for various purposes by or on behalf of various public bodies and members of the public, which are accounted for by repayment or otherwise. Government sometimes decides to set aside sums from the revenues of a year or a series of years, to be accumulated as a “fund”. The balance at the credit of such a “fund” is held as a deposit and expended on specified objects. The receipts under deposits and advances increased by ₹ 83.12 crore (6.10 per cent) while the disbursement decreased by ₹ 471.17 crore (24.91 per cent) respectively over the previous year. The net fund available as on 31 March 2019 was ₹ 26.52 crore as compared to previous year which had a negative balance of ₹ 527.77 crore.

- (iv) Suspense heads are operated in Government accounts to reflect transactions that cannot be booked initially to their final head of account for some reason or the other. These are finally cleared by minus debit or minus credit when the amount is taken to its final head of account. If the amounts under suspense heads remain unadjusted, the balances under these heads get accumulated resulting in understatement of Government's receipts and payments. The receipts decreased by ₹ 13.66 crore (86.07 per cent) while the disbursement increased by ₹ 12.12 crore (166.03 per cent) respectively over the previous year. The net fund available as on 31 March 2019 was (-) ₹ 17.21 crore as compared to ₹ 8.57 crore during the previous year.
- (v) Remittances embrace all transactions which are adjusting heads of account and the debits or credits under these heads are eventually cleared by corresponding credit or debit either within the same or in another circle of accounting. The receipts as well as disbursement increased by ₹ 248.86 crore (10.35 per cent) and ₹ 250.35 crore (10.43 per cent) respectively over the previous year. The net fund available as on 31 March 2019 was ₹ 2.59 crore as compared to ₹ 4.08 crore during the previous year.

Net Public Account receipts increased from (-) ₹ 381.30 crore during 2017-18 to ₹ 195.24 crore during the current year.

1.9.1 Transactions under Reserve Funds

Reserve Funds are created for specific and well defined purposes under Sector 'J' in the accounts of the State Government (public account). These funds are fed by contributions or grants from the Consolidated Fund of India or State. The contributions are treated as expenditure under the Consolidated Fund. The expenditure relating to the fund is initially accounted 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 fund is transferred to public account under the concept of gross budgeting through an operation of deduct entry in accounts. The funds are further classified as 'Funds carrying interest' and 'Funds not carrying interest'.

The total accumulated balance as on 31 March 2019 was ₹ 382.46 crore in 10 reserve funds (three active funds: ₹ 380.42 crore and seven inactive funds: ₹ 2.04 crore). Investment out of these funds was ₹ 366.11 crore, which was 95.73 per cent of the accumulated balance. The transactions during the year 2018-19 under major Reserve Funds are detailed below:

1.9.1.1 Consolidated Sinking Fund

The Consolidated Sinking Fund (CSF) was constituted by the State Government in the year 1999-2000 for amortisation of liabilities which is administered by the Reserve Bank of India on the instructions of the State Government. Under the Scheme, the State Government is required to make annual contributions to the Fund at a minimum of 0.5 per cent of the total outstanding liabilities at the end of the previous year.

During 2018-19, against requirement of ₹ 47.42 crore²², an amount of ₹ 49.91 crore was added to CSF which includes ₹ 48.82 crore transferred by the State Government from MH 2048-01 and ₹ 1.09 crore as interest realised on investment on Government of India Securities. The balance under CSF was ₹ 346.50 crore as on 31 March 2019.

1.9.1.2 Guarantee Redemption Fund

The Government of Meghalaya constituted a Guarantee Redemption Fund (GRF) in 2014-15 with an amount of ₹ 11.74 crore for meeting its obligations arising out of the Guarantees issued on behalf of State level bodies through an Act dated 23 June 2014. As per the Act, the Fund shall be set up by the Government with an initial contribution of minimum one *per cent* of outstanding Guarantees at the end of the previous year and thereafter, minimum 0.50 *per cent* every year to achieve a minimum level of 3 *per cent* in the next five years. During the year 2018-19, contribution of ₹ 7.07 crore was made to the Fund Account (0.62 *per cent* of outstanding Guarantees of ₹ 1,135.85 crore as on April 2018) and the balances under the Fund as on 31 March 2019 was ₹ 29.23 crore. No Guarantees were invoked during the year 2018-19.

1.9.1.3 State Disaster Response Fund

Government of India (GoI) replaced the erstwhile Calamity Relief Fund with the State Disaster Response Fund (SDRF) with effect from 01 April 2010. In terms of the guidelines on constitution and administration of the Fund (30 July 2015), the Centre and Special Category States are required to contribute to the Fund, in the proportion of 90:10 and the contributions are to be transferred to the Public Account under the Major Head-8121-General and other Reserve Fund. The states were to make budget provisions under respective Sub/ minor head²³ within Major Head 2245-Relief on account of Natural Calamities for incurring expenditure. The expenditure to be charged to SDRF was to be shown as a negative entry under 2245-05-901 – Deduct amount met from SDRF for relief expenditure. Direct expenditure should not be made from the Public Account. Even if for some administrative reasons, expenditure on immediate relief has been made under heads of account other than MH: 2245, these should be finally booked under MH: 2245 through inter-account transfers.

As per Paragraph 4 of the Guidelines, the State Government shall pay interest to the SDRF at the rate applicable to overdrafts under overdraft Regulation Guidelines of the RBI. The interest will be credited on a half yearly basis. Further, as per Paragraph 19 of the said Guidelines, the accretions to the SDRF together with the income earned on the investment of SDRF shall be invested in Central Government dated Securities,

²² 0.5 *per cent* of outstanding liabilities of ₹ 9485.08 crore as on March 2018.

²³ Sub-Major Head 01 for draught, 02 for flood, 03 for cyclones, 04 for earthquake, 05 for hailstorm, 06 for landslides, 07 for cloud burst, 08 for fire, 09 for tsunami, 10 for avalanche, 11 for pest attack, 12 for cold wave/frost, 13 for other State specific disasters, 13.1 for specific disaster, 13.2 for specific disaster, 13.3 for specific disaster, 13.4 for specific disaster, 13.5 for specific disaster, etc.; 16 for “State Disaster Response Fund” and 80 for General.

auctioned Treasury Bills and other interest earning deposits with Scheduled Commercial Banks.

In terms of the guidelines, the Centre and the Special Category States are required to contribute to the Fund in the ratio of 90:10. During the year 2018-19, the State Government received ₹ 12.60 crore as grants towards SDRF. The SDRF had an opening balance of ₹ 4.70 crore at the beginning of 2018-19 and ₹ 14.00 crore (₹ 12.60 crore Central Share and ₹ 1.40 crore State Share) was transferred to the Fund. Against the total available funds of ₹ 18.70 crore, the State Government withdrew ₹ 14.00 crore from the funds leaving a balance of ₹ 4.70 crore unutilised at the end of the year.

Contrary to the above provision, the Department kept the withdrawn fund in State Bank of India's current account for utilisation in relief measures. The State Government should not divert the fund to current account and ensure that the expenditure incurred from the SDRF is shown as negative entry under '2245-05-901 – deduct amount met from SDRF for immediate relief expenditure'.

Moreover, as the SDRF is an interest bearing Reserve Fund, the liability of interest payment rests with the State Government. Non-payment of interest amounting to ₹ 0.35 crore²⁴ resulted in understatement of Revenue Deficit to that extent.

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, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2019, compared with the corresponding position on 31 March 2018. While the liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

1.10.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities²⁵ of the State are presented in **Appendix 1.2**. However, the composition of fiscal liabilities during the current year *vis-à-vis* the previous year are presented in **Charts 1.13** and **1.14**.

²⁴ ₹ 0.35 crore = Opening Balance of ₹ 4.70 crore X 7.5 per cent (WMAs of RBI)

²⁵ Includes Internal debt, Loans and Advances from Government of India, Small Savings, Provident Funds, etc., Reserve Funds and Deposits.

Chart 1.13: Composition of Outstanding Fiscal Liabilities as on March 2018

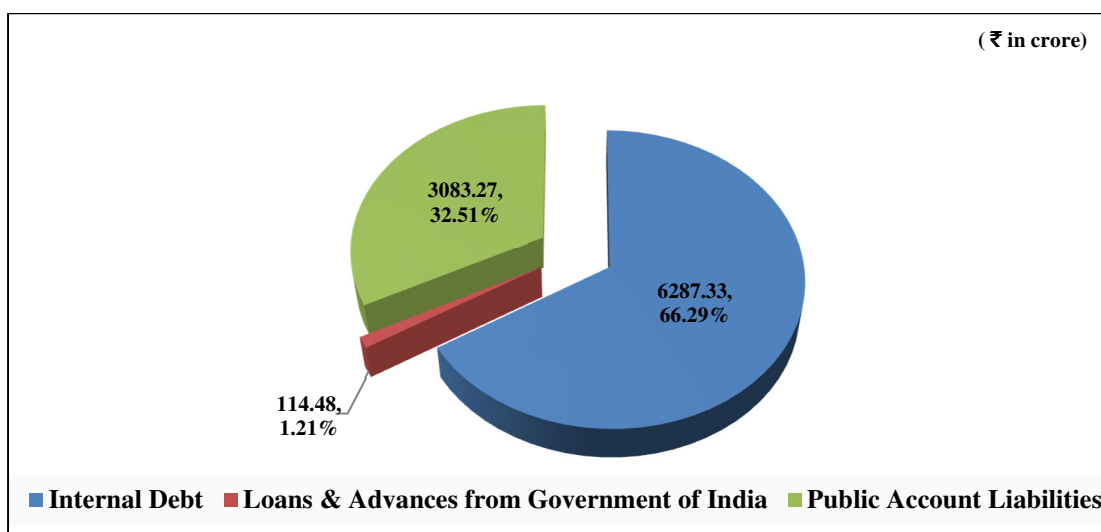


Chart 1.14: Composition of Outstanding Fiscal Liabilities as on March 2019

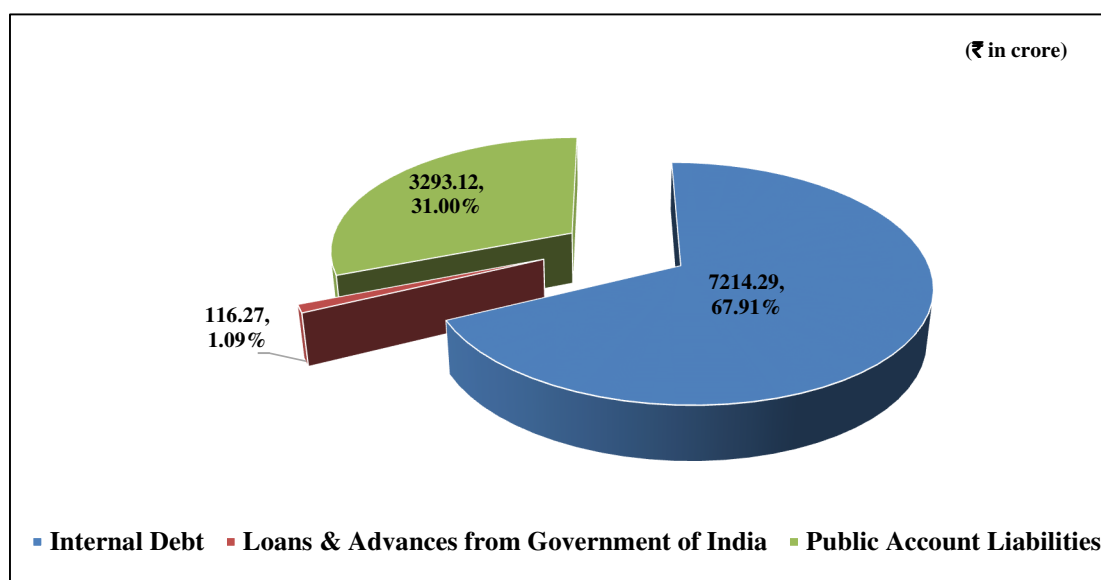


Table 1.29 gives the fiscal liabilities/ debt of the State, their rate of growth, the ratio of these liabilities to GSDP, revenue receipts and State's own resources as also the buoyancy of fiscal liabilities with reference to these parameters.

Table 1.29: Fiscal Liabilities – Basic Parameters

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Fiscal Liabilities (₹ in crore)	6751.46	7154.68	8983.50	9485.08	10623.68
Rate of Growth (<i>per cent</i>)	7.69	5.97	25.56	5.58	12.00
Ratio of Fiscal Liabilities to					
GSDP (<i>per cent</i>)	29.06	28.49	32.74	30.81	30.89
Revenue Receipts (<i>per cent</i>)	105.03	101.58	100.50	102.28	109.31
Own Resources (<i>per cent</i>)	526.44	556.60	480.08	522.10	478.34
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	5.96	0.74	2.77	0.46	1.03
Revenue Receipts (ratio)	2.98	0.62	0.95	1.49	2.50
Own Resources (ratio)	-0.45	25.96	0.56	-0.10	0.54

Fiscal liabilities of ₹ 10,623.68 crore as on 31 March 2019 consist of internal debt, e.g., market loans, loans from financial institutions, Special Securities issued to National Small Savings Fund, etc. (₹ 7,214.29 crore), loans and advances from Central Government (₹ 116.27 crore), small savings, provident funds, etc. (₹ 1,710.88 crore) and other liabilities, e.g., Reserve Funds and Deposits (₹ 1,582.24 crore).

Fiscal liabilities of the State increased from ₹ 6,751.46 crore as on 31 March 2015 to ₹ 10,623.68 crore as on 31 March 2019. Compared to previous year, the fiscal liabilities at the end of 2018-19 increased by 12.00 per cent (₹ 1,138.60 crore).

The ratio of fiscal liabilities to GSDP increased from 30.81 per cent in 2017-18 to 30.89 per cent in 2018-19. These liabilities were a little above the Revenue Receipts and almost five times of the State's own resources at the end of 2018-19. The buoyancy of these liabilities with respect to GSDP during the year was 1.03 indicating that for each one point increase in GSDP, fiscal liabilities increased by 1.03 point basis. As can be seen from the **Table 1.29** above, the Fiscal Liabilities-GSDP ratio of the State (30.89 per cent) was higher than the limit fixed by the XIV FC (27.86 per cent).

1.10.3 Status of Guarantees – Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2014-15 are given in **Table 1.30**.

Table 1.30: Guarantees given by GoM (₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Maximum amount guaranteed	1054.43	868.09	860.04	1139.94	1376.74
Outstanding amount of guarantees (including interest)	1173.81	1042.19	983.11	820.68	1163.09
Percentage of maximum amount guaranteed to Revenue Receipts	16.40	12.33	9.62	12.29	14.17

Government had guaranteed loans raised by various Corporations and others, which at the end of 2018-19 stood at ₹ 1,163.09 crore (including interest). Bulk of the guaranteed amount (₹ 1,096.78 crore) was outstanding against the power sector for repayment of principal on loans from Rural Electrification Corporation (₹ 321.78 crore), and short term loans, bonds, etc. (₹ 775.00 crore). The outstanding amount of guarantees is in the nature of contingent liabilities, which was 14.17 per cent of revenue receipts of the State during 2018-19. In order to provide for sudden discharge of the States' obligations on guarantees, the XIII FC recommended that State should set up guarantee redemption funds. The State Government had constituted (June 2014) the Meghalaya Guarantee Redemption Fund to be managed by the Reserve Bank of India to service contingent liabilities arising out of the invocation of State Government Guarantees.

As on 31 March 2019, commission/ fee amounting to ₹ 36.14 crore for the guarantees given by the State Government was receivable.

1.11 Debt Management and Sustainability

1.11.1 Debt Profile

The receipts and payments of debt of the Government such as internal debt, loans and advances from GoI and other liabilities (*i.e.* small savings, provident funds, reserve funds and deposits) as per Statements 15 (interest paid on debt) and 17 (receipts and repayment of debt) of the Finance Accounts during the period 2014-19 are given in **Table 1.31**.

Table 1.31: Receipts and payments of debt during 2014-19 (₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
A. Debt receipts					
(a) Internal Debt					
(i) Market loans	545.00	680.00	1001.00	1115.50	1122.00
(ii) Other loans	177.19	154.70	205.16	102.97	180.28
(b) Loans and advances from GoI	4.77	2.23	4.27	6.67	22.41
(c) Other liabilities ²⁶	1570.95	1314.99	2244.26	1729.22	1864.96
Total	2297.91	2151.92	3454.69	2954.36	3189.65
B. Debt repayment (including interest)					
(a) Internal Debt					
(i) Market loans	320.07	480.04	588.30	551.53	673.71
(ii) Other loans	165.59	191.18	206.52	219.35	215.99
(b) Loans and advances from GoI	38.81	37.58	36.25	36.19	34.90
(c) Other liabilities	1696.31	1505.77	1317.03	2236.89	1783.25
Total	2220.78	2214.57	2148.10	3043.96	2707.85

Source: Finance Accounts.

During the current year, against total debt receipts of ₹ 3,189.65 crore, Government repaid ₹ 2,707.85 crore as principal and interest on internal debt (₹ 889.70 crore), loans and advances from Central Government (₹ 34.90 crore) and other liabilities (₹ 1,783.25 crore). As a result, borrowed fund of ₹ 481.80 crore was available at the end of the year.

1.11.2 Maturity Profile of Outstanding Public Debt

As per Annexure to Statement 17 of the Finance Accounts for the year 2018-19, the maturity profile of the State public debt is as indicated in **Table 1.32**.

Table 1.32: Maturity Profile of Outstanding Debt (₹ in crore)

Debt maturity	Maturity Profile	Amount			Per cent of outstanding Public Debt
		Internal Debt	Loans & Advances from GoI	Total	
During 2019-20	0-1 year	395.46	14.64	410.1	5.59
Between 2020-21 & 2021-22	Over 1 year to 2 years	769.95	27.54	797.49	10.88
Between 2022-23 & 2023-24	Over 2 years to 5 years	1022.42	26.47	1048.89	14.31
Between 2024-25 & 2025-26	Over 5 years to 7 years	1435.13	22.19	1457.32	19.88
2026-27 onwards	Over 7 years and above	3591.33	25.43	3616.76	49.34
Total		7214.29	116.27	7330.56	100

²⁶ Small Savings, Provident Funds, Reserve Funds, Deposits, etc.

The maturity profile of outstanding stock of public debt as on 31 March 2019 indicated that out of the outstanding public debt of ₹ 7,330.56 crore, 50.66 per cent (₹ 3,713.80 crore) is payable within the next seven years. The remaining 49.34 per cent was in the maturity bracket of seven years and above. Of the total outstanding public debt, internal debt consisting of market borrowings, loans from LIC, GIC, NABARD, etc. constituted 98.41 per cent (₹ 7,214.29 crore).

The State's track record in repayment of public debt as per amortisation schedule of the past seven years is given below:

Table 1.33: Details of scheduled and actual repayment of public debt (₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Scheduled payment of Public Debt as per Maturity Profile	177.03	142.55	200.87	331.81	412.85	329.74	394.73
Actual payment	168.51	141.62	202.66	337.34	414.41	329.62	395.94

As evident from the above table, repayment of public debt was on track in Meghalaya during the last seven years.

The past record of repayments as per schedule in conjunction with the proportion of debt repayable in the forthcoming seven years, is indicative of an adequate debt servicing position.

1.11.3 Debt Sustainability

Debt sustainability is defined as the ability of the State to service its debt in future. Sustainability of debt therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with increase in capacity to service the debt.

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability of the State. This section assesses the sustainability of debt of the State Government in terms of debt/ GSDP ratio, burden of interest payments (measured by interest payments to revenue receipts ratio); and also the maturity profile of State Government securities as given in the preceding para 1.11.2.

The rate of growth of GSDP ranged between 1.29 per cent and 12.21 per cent during 2014-15 to 2018-19 whereas average interest rate on outstanding debt ranged between 6.22 per cent and 6.70 per cent during 2014-15 to 2018-19. **Table 1.34** analyses debt sustainability indicators of the State for the five years beginning from 2014-15.

Table 1.34: Debt Sustainability: Indicators and Trends (₹ in crore)

Indicators of Debt Sustainability	2014-15	2015-16	2016-17	2017-18	2018-19
Outstanding debt (year-end)	6751.46	7154.68	8983.50	9485.08	10623.68
Rate of Growth of Outstanding debt (ratio)	7.69	5.97	25.56	5.58	12.00
Gross State Domestic Product (GSDP)	23235	25117	27439	30790	34389
Rate of Growth of GSDP (ratio)	1.29	8.10	9.24	12.21	11.69
Debt/GSDP (in per cent)	29.06	28.49	32.74	30.81	30.89
Tax Revenue	939.19	1056.82	1186.81	1450.10	1793.24

Indicators of Debt Sustainability	2014-15	2015-16	2016-17	2017-18	2018-19
Debt Repayment/Tax Revenue (<i>in per cent</i>)	236.46	209.55	181.12	209.91	151.00
Average interest rate of Outstanding debt	6.22	6.70	6.47	6.40	6.53
Interest Payment/ Revenue Receipts (IP/RR)	6.30	6.61	5.84	6.37	6.76
Debt Repayment/Debt Receipts	0.97	1.03	0.62	1.03	0.85
Total Debt Receipts	2297.91	2151.92	3454.69	2954.36	3189.65
Total Debt Payments (including interest)	2220.78	2214.57	2148.10	3043.96	2707.85
Net Debt available to the State	77.13	-62.65	1306.59	-89.60	481.80

Table 1.34 reveals that the Debt-GSDP ratio ranged between 28.49 *per cent* and 32.74 *per cent* during the five year period, 2014-15 to 2018-19. Debt Repayment as a percentage of Tax Revenue had improved to 151 *per cent* during 2018-19 as compared to 209.91 *per cent* during the previous year and a high of 236.46 *per cent* during 2014-15. At 30.89 *per cent*, the Debt-GSDP ratio during 2018-19 (**Appendix 1.2**) was above the target of outstanding debt to GSDP (27.86 *per cent*) determined by XIV FC for Meghalaya. Net Debt available to the State oscillated between positive and negative magnitudes. It has been negative in two years of the five year period ending 2018-19. Compared to 2017-18, the situation had recovered during 2018-19, when the net debt available to the State turned positive at ₹ 481.80 crore against (-) ₹ 89.60 crore during 2017-18. The trends in Debt-repayment/ Debt receipts ratio fluctuated widely during 2014-19 and decreased to 0.85 during 2018-19 against 1.03 during the previous year (**Appendix 1.2**). The burden of interest payment, which ranged from 5.84 to 6.76 *per cent* of the Revenue Receipts, has been less than 10 *per cent* as recommended by the XIV FC.

Sustainability of debt of the Government of Meghalaya is also assessed in terms of the Domar model in **Table 1.35**, where the sustainability of debt is based on the relationship between the key fiscal values - public debt, growth rate, interest rate and primary balance. As per this model, for debt to be sustainable, the rate of interest payable on the outstanding debt should be lower than the rate of growth of GSDP (Domar gap); and there should be a primary surplus.

Debt sustainability of Government of Meghalaya is given below as per the Domar model.

Table 1.35: Debt sustainability as per the Domar model

Year	Growth Rate (g) of GSDP	Average Interest Rate (r)	g-r	Primary Deficit/ Surplus (s) (₹ in crore)	Remarks
2014-15	1.29	6.22	-4.93	-573.35	As $g-r < 0$ and $s < 0$, public debt will increase indefinitely, without converging to a stable level
2015-16	8.10	6.70	1.4	-88.88	As $g-r > 0$ and $s < 0$, public debt will converge to a stable level
2016-17	9.24	6.47	2.77	-177.18	As $g-r > 0$ and $s < 0$, public debt will converge to a stable level
2017-18	12.21	6.40	5.81	353.94	As $g-r > 0$ and $s > 0$, public debt will converge to a stable level less than zero leading to public savings
2018-19	11.69	6.53	5.16	-1369.27	As $g-r > 0$ and $s < 0$, public debt will converge to a stable level

Note: Since the CPI rate for the State is not available in almost all the NE States, the average interest rate, as featured in the SFARs of the respective years, has been taken as 'r' rather than the real interest rate, GSDP is nominal.

The positive Domar gap is, however, combined with a high primary deficit in 2018-19. This related with the indicator analysis above as well as the fiscal consolidation roadmap recommended by the XIV FC, is indicative of the need for Government of Meghalaya to exercise caution concerning its debt.

1.12 Effective Revenue Deficit & Fiscal Deficit

The impact on Revenue Deficit and Fiscal Deficit of the Government of Meghalaya during the year 2018-19 of under-booking of expenditure or non-crediting of receipts is detailed in **Table 1.36**.

Table 1.36: Impact on Revenue Deficit & Fiscal Deficit (₹ in crore)

Paragraph No & Name	Item	Impact on Revenue Deficit		Impact on Fiscal Deficit	
		Over-statement	Under-statement	Over-statement	Under-statement
1.6.1.8	Short Contribution by State Government	-	0.86	-	0.86
New Pension Scheme	Interest Liability due to non-transfer of funds to NSDL	-	0.17	-	0.17
1.10.3 (iii) SDRF	Non Discharge of Interest liabilities on SDRF	-	0.35	-	0.35
Impact		1.38		1.38	

As could be seen from the table above, the Revenue Deficit and Fiscal Deficit were understated by an amount of ₹ 1.38 crore due to short contribution under NPS and non-discharge of interest liability under NPS and SDRF.

1.13 Overall Cash Position of the Government

Table 1.37 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.37: Cash Balances and Investment of Cash Balances (₹ in crore)

Particulars	Opening balance on 01 April 2018	Closing balance on 31 March 2019
(a) General Cash Balance-		
Cash in Treasuries	33.20	20.20
Deposits with Reserve Bank	2.10	-275.91
	35.30	-255.71
Investments held in Cash Balance Investment Account	1680.66	1070.04
Total (a)	1715.96	814.33
(b) Other Cash Balances and Investments		
Cash with departmental officers of Forest and Public Works Department	0.68	0.22
Permanent advances for contingent expenditure with departmental officers	0.04	0.04
Investment of earmarked funds	313.11	366.11
- <i>Sinking Fund Investment Account</i>	<i>291.21</i>	<i>340.11</i>
- <i>Other Development and Welfare Fund</i>	<i>21.90</i>	<i>26.00</i>
Total (b)	313.83	366.37
Grand Total (a) + (b)	2029.79	1180.70

General Cash balance of the State Government at the end of the current year decreased by 52.54 per cent from ₹ 1,715.96 crore in 2017-18 to ₹ 814.33 crore in 2018-19. The Government borrowed ₹ 1,324.69 crore in the same year. The State

Government should examine whether it is prudent to borrow funds at higher rates of interest when there are large cash balances available which are earning lower rates of interest. Under an agreement with the RBI, the State Government was to maintain a minimum cash balance of ₹ 21.00 lakh only.

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMAs) – Ordinary and Special – from Reserve Bank of India (RBI) has been put in place.

During the five-year period ending 2018-19, the Government did not have to resort to WMAs and overdraft, indicating comfortable position of cash balances of the State.

1.14 Conclusion

Revenue receipts during 2018-19 increased by 4.80 *per cent* (₹ 445.14 crore) over previous year. The tax revenue receipts fell short by 24.18 *per cent* and the non-tax revenue by 48.72 *per cent* of the normative assessment made by XIV FC. The Central transfers comprising State's share of central taxes and Grants-in-aid from GoI increased by ₹ 40.93 crore in 2018-19 compared to previous years and contributed 77.15 *per cent* of the revenue receipts during the year, indicating central transfers being the key in revenue receipts of the State.

Compared to the previous year, the revenue expenditure during 2018-19 increased by 21.77 *per cent*. The expenditure pattern of the State revealed that though the revenue expenditure as a percentage of total expenditure decreased from 89.34 *per cent* in 2017-18 to 87.19 *per cent* in the current year, it hovered around 86 *per cent* during the period (2014-19) leaving inadequate resources for creation of assets. Expenditure on salaries and wages, pensions, interest payments and subsidies continued to consume a large share of revenue expenditure which was 49.47 *per cent* (₹ 5,074.17 crore) during 2018-19. Capital outlay during 2018-19 (₹ 1,417.28 crore) increased by ₹ 433.84 crore (44.11 *per cent*) more than the previous year. It increased to 12.05 *per cent* of total expenditure during 2018-19 against 10.43 *per cent* during the preceding year and also fell short by 31.39 *per cent* (₹ 648.31 crore) of the projection (₹ 2,065.59 crore) made by the State Government in its budget estimate for the year.

Revenue Surplus of ₹ 880.80 crore in 2017-18 turned into Revenue Deficit of ₹ 537.32 crore in 2018-19. The fiscal deficit increased from ₹ 237.24 crore in 2017-18 to ₹ 2,026.08 crore during the current year. The last year primary surplus of ₹ 353.94 crore took a turnaround resulting in primary deficit of ₹ 1,369.27 crore during the current year. The fiscal deficit-GSDP ratio stood at 5.89 *per cent* during 2018-19 which was above the ceiling of 3 *per cent* or less prescribed in the MFRBM Act, 2006 (as amended) and also the recommendation of the XIV FC to maintain this ratio at 3 *per cent* of GSDP. The prevalence of fiscal deficit during 2014-19 indicated

continued reliance of the State on borrowed funds resulting in increasing fiscal liabilities of the State over the period 2014-19. Fiscal liabilities increased by 12 per cent during 2018-19 as compared to previous year. The fiscal liabilities during 2018-19 stood at 30.89 per cent of the GSDP during the current year against 30.81 per cent during 2017-18 and was more than the limit of total outstanding Debt-GSDP ratio as recommended by XIV FC (27.86 per cent) for the year. The average return on investment in Statutory corporations, Government companies and Co-operative banks/ societies was less than one per cent during 2014-19. State Government paid interest at an average rate of 6.22 per cent to 6.70 per cent on its borrowings while the interest received on Loans and Advances given by the State Government was inadequate, ranging between 0.71 per cent and 1.36 per cent during 2014-19 and stood at 0.71 per cent during 2018-19.

1.15 Recommendations

The Government should exercise fiscal prudence to contain Revenue Expenditure and to mobilise additional resources both through the tax and non-tax sources to bring down its fiscal deficit and maintain revenue surplus.

Efforts should be made to increase developmental expenditure in order to improve the productive capacity of the State's economy.

State Government should review the working of the loss making corporations, companies and co-operative societies and take appropriate action to avoid further financial burden.

Thorough review of incomplete projects should be taken so that the projects are completed in time to achieve the desired objectives of the projects.

State Government should consider restricting market borrowing to need-based borrowing, by utilising existing cash balances before resorting to market borrowings at higher rates of interest.