

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

CHAPTER I

Finances of the State Government

Profile of Meghalaya

Meghalaya is a Special Category State which 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 23,18,822 in 2001 to 29,66,889 in 2011 recording a decadal growth of 27.95 *per cent*. The percentage of population below the poverty line of the State (11.90 *per cent*) was 10.00 *per cent* less than the all India average (21.90 *per cent*). The State's Gross Domestic Product (GSDP) in 2017-18 at current prices was ₹ 31,636 crore. The State's literacy rate increased from 62.56 *per cent* (2001) to 74.40 *per cent* (as per 2011 census). General data relating to the State is given in **Appendix 1.1 (Part-D)**.

Gross State Domestic Product

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 of time. 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. The trends in the annual growth of India's GDP *vis-à-vis* State's GSDP at current prices are indicated below:

Table 1.1 : Trends in Gross State Domestic Product

| Particulars | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|-------------|-------------|-------------|-------------|-------------|
| India's GDP (₹ in crore) | 1,12,33,522 | 1,24,67,959 | 1,37,64,037 | 1,52,53,714 | 1,67,73,145 |
| Growth rate of GDP (<i>per cent</i>) | 12.97 | 10.99 | 10.40 | 10.82 | 9.97 |
| Gross State Domestic Product (₹ in crore) | 22,938 | 23,235 | 25,967 | 28,446 | 31,636 |
| Growth rate of GSDP (<i>per cent</i>) | 4.87 | 1.29 | 11.76 | 9.55 | 11.21 |
| Per capita GDP of India | | | | | 1,29,800 |
| Per capita GSDP of Meghalaya | | | | | 92,694 |

Source: (1) For GDP, the information as released by Ministry of Statistics and Program Implementation, Government of India on 28 August 2018 (based on base year 2011-12 at current prices).

(2) GSDP figures for 2017-18 as per the Directorate of Economics and Statistics, Government of Meghalaya.

As per GSDP series, there was a fluctuating trend in the growth rate of GSDP. The GSDP increased from ₹ 28,446 crore in 2016-17 to ₹ 31,636 crore in 2017-18, representing an increase of 11.21 *per cent*. The growth of GSDP during 2017-18 at 11.21 *per cent* fell short of the assessment of the 14th FC (12.22 *per cent*). The average compound annual growth rate in respect of GSDP for Meghalaya between 2008-09 and 2017-18 was 11.77 *per cent* which was more than the all India average (11.50 *per cent*). The per capita GSDP of the State was less than the All India Average.

1.1 Introduction to Finances of the State Government

This chapter provides a broad perspective of the finances of the Government of Meghalaya (GoM) during the current year and analyses 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 shown 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 2013-18 are presented in **Appendix 1.2**. An exit conference to discuss the observations in the State Finances Audit Report was held on 10 January 2019 with the Additional Chief Secretary, Finance Department and replies/views of the Government as a result of the exit conference is incorporated at appropriate places in this report.

1.1.1 Summary of Current Year's Fiscal Transactions

Table 1.2 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 (2017-18) *vis-à-vis* the previous year (2016-17).

Table 1.2: Summary of Current Year's Fiscal Transactions (₹ in crore)

| Receipts | | | Disbursements | | |
|--|-----------------|-----------------|---|-----------------|-----------------|
| | 2016-17 | 2017-18 | | 2016-17 | 2017-18 |
| Section – A : Revenue | | | | | |
| Revenue Receipts | 8938.95 | 9273.48 | Revenue Expenditure | 8336.54 | 8422.68 |
| Tax revenue | 1186.01 | 1450.10 | General Services | 2480.16 | 2826.87 |
| Non-tax revenue | 685.24 | 366.63 | Social Services | 3099.13 | 3147.61 |
| Share of Union Taxes/Duties | 3911.05 | 4323.14 | Economic Services | 2757.25 | 2448.20 |
| Grants-in-aid from Government of India | 3156.65 | 3133.61 | | | |
| Section – B : Capital | | | | | |
| Miscellaneous Capital receipts | NIL | NIL | Capital Expenditure | 1289.80 | 983.44 |
| Recoveries of Loans and Advances | 18.81 | 17.45 | Loans and Advances disbursed | 30.83 | 22.05 |
| Public Debt Receipts ¹ | 1210.43 | 1225.14 | Repayment of Public Debt ¹ | 414.41 | 329.62 |
| Contingency Fund | 100.00 | 100.00 | Contingency Fund | 100.00 | 100.00 |
| Public Account Receipts ² | 4636.76 | 4187.87 | Public Account Disbursements ³ | 3589.59 | 4569.16 |
| Opening Balance | 195.91 | 1339.69 | Closing Balance | 1339.69 | 1716.68 |
| Total | 15100.86 | 16143.63 | Total | 15100.86 | 16143.63 |

Source: Finance Accounts 2017-18.

¹ Includes net Ways and Means Advances.

² Gross receipts.

³ Gross Disbursements.

Following are the significant changes during 2017-18 over the previous year:

- Revenue receipts increased by 3.74 *per cent* (₹ 334.53 crore) over the previous year. The increase was due to increase in State share of Union taxes and duties (₹ 412.09 crore) and in tax revenue (₹ 264.09 crore) though there was decrease in non-tax revenue by 46.50 *per cent* (₹ 318.61 crore) and Grants-in-aid from Government of India by 0.73 *per cent* (₹ 23.04 crore).
- Revenue expenditure increased by 1.03 *per cent* (₹ 86.14 crore) over the previous year. There was significant increase under both general services by 13.98 *per cent* (₹ 346.71 crore) and social services by 1.56 *per cent* (₹ 48.48 crore) and decrease in economic services by (-) 11.21 *per cent* (₹ 309.05 crore) compared to the previous year.
- Compared to previous year, the capital outlay of the State decreased by 23.75 *per cent* (₹ 306.36 crore), which was the net result of decrease under economic services (₹ 174.34 crore), social services (₹ 98.79 crore) and general services (₹ 33.23 crore).
- Recovery of loans and advances during the current year decreased marginally by ₹ 1.36 crore and disbursement of loans and advances also decreased by ₹ 8.78 crore (-28.48 *per cent*) compared to the previous year.
- Public debt receipts increased by ₹ 14.71 crore while the public debt repayments decreased by ₹ 84.79 crore over the previous year.
- Public account receipts decreased by ₹ 448.89 crore while the public account disbursement increased by ₹ 979.57 crore over the previous year.
- Closing cash balance increased by ₹ 376.99 crore over the previous year.

1.1.2 Review of fiscal situation

In accordance with the recommendations of the Twelfth Finance Commission (12th FC), the GoM has enacted the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006. In accordance with the recommendations of the 14th 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) ensure revenue surplus during the award period 2015-16 to 2019-20;
- (b) (i) maintain fiscal deficit to 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.
- (c) 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.

The MTFP, as prescribed in the MFRBM Act, 2006 (as amended), was notified by the State Government in June 2014 to provide details of all significant items on receipts and expenditure along with projection for the next three years *viz.*, 2015-16 to 2017-18.

The performance of the State during 2017-18 in terms of key fiscal targets set for selected parameters laid down in the MFRBM Act, 2006 and projections made in the MTFP Statement /Medium Term Fiscal Plan (MTF Plan) *vis-à-vis* achievements are given in **Table 1.3**.

Table 1.3: Trends in Major Fiscal Parameters *vis-à-vis* Projections for 2017-18

| Fiscal parameters | 2017-18 | | | |
|--|---|-----------------------------------|-------------------------------|--------|
| | 14 th FC targets for the State | Targets as prescribed in MTF Plan | Projections in MTFP Statement | Actual |
| Revenue Surplus (+)/ Deficit (-) (₹ in crore) | Maintain revenue surplus | 1687.33 | 616.10 | 850.80 |
| Revenue Surplus/Total Revenue Receipts (<i>per cent</i>) | * | * | 5.47 | 9.17 |
| Fiscal Deficit/GSDP (<i>per cent</i>) | 3.25 | 3.00 | 4.00 | 0.75 |
| Total Outstanding Liabilities/GSDP (<i>per cent</i>) | 27.62 | 25.02 | 31.14 | 29.98 |

Source: 14th FC Report, MTF Plan, MTFP Statement and Finance Accounts.

*Not prescribed.

During 2017-18, the State achieved revenue surplus but did not achieve the target for revenue surplus as prescribed in MTF Plan. The actual revenue surplus to total revenue receipts (as *per cent*) was 9.17 against projection of 5.47 made in MTFP Statement. The Fiscal Deficit-GSDP ratio was within the limit fixed in MTFP Statement/MTF Plan as well as that prescribed by 14th FC.

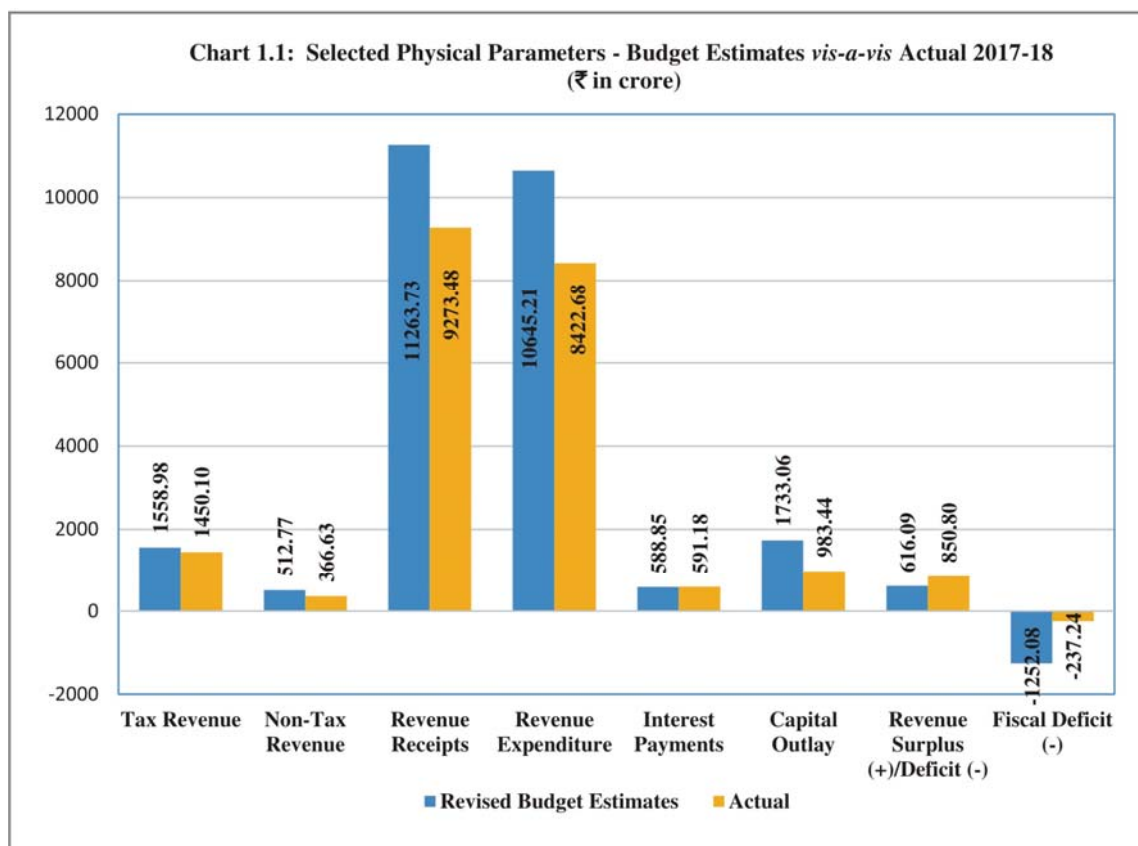
1.1.3 Budget Estimates and Actual

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 are indicative of non-attainment and non-optimisation of the desired fiscal objectives due to a variety of causes, 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 2016-17 (actual) and 2017-18 (budget estimates, revised estimates and actual) and **Chart 1.1** presents the budget estimates and actual for some important fiscal parameters.

Table 1.4: Variation in major items – Actual of 2017-18 over 2016-17, Actual of 2017-18 vis-à-vis Budget Estimates and Revised Estimates (₹ in crore)

| Parameters | 2016-17 | 2017-18 | | | Percentage of Excess (+)/ Shortfall (-) during 2017-18 with reference to | |
|----------------------------------|---------|-----------------------|------------------------|---------|--|------------------------|
| | Actual | Budget Estimates (BE) | Revised Estimates (RE) | Actual | Actual of 2016-17 | Revised Estimates (RE) |
| Tax Revenue | 1186.01 | 1558.98 | 1558.98 | 1450.10 | 22.27 | -6.98 |
| Non-Tax Revenue | 685.24 | 512.77 | 512.77 | 366.63 | -46.50 | -28.50 |
| Revenue Receipts | 8938.95 | 11279.80 | 11263.73 | 9273.48 | 3.74 | -17.67 |
| Non-debt Capital Receipts | 18.81 | 22.01 | 22.01 | 17.45 | -7.23 | -20.72 |
| Revenue Expenditure | 8336.54 | 10645.21 | 10645.21 | 8422.68 | 1.03 | -20.88 |
| Interest Payments | 522.23 | 588.85 | 588.85 | 591.18 | 13.20 | 0.40 |
| Capital Outlay | 1289.80 | 1733.06 | 1733.06 | 983.44 | -23.75 | -43.25 |
| Disbursement of Loans & Advances | 30.83 | 59.13 | 59.13 | 22.05 | -28.48 | -62.71 |
| Revenue Surplus (+)/Deficit (-) | 602.41 | 632.16 | 616.09 | 850.80 | 41.23 | 38.10 |
| Fiscal Deficit (-) | -699.41 | -1236.01 | -1252.08 | -237.24 | 66.08 | 81.05 |
| Primary Deficit (-)/ Surplus (+) | -177.18 | -647.16 | -663.23 | +353.94 | 299.76 | 153.37 |

Source: Budget Estimates and Finance Accounts.



- During 2017-18, actual revenue receipts fell short of the revised budget estimates by 17.67 per cent.
- The revenue expenditure of the State Government during 2017-18 was less than the revised budget estimate by 20.88 per cent (₹ 2222.53 crore).
- The capital outlay vis-à-vis revised budget estimate was less by 43.25 per cent (₹ 749.62 crore).
- The year 2017-18 ended with a revenue surplus of ₹ 850.80 crore against assessment for revenue surplus of ₹ 616.09 crore made in the revised estimate for the year. There was increase in revenue surplus compared to the revised budget estimate during 2017-18 by ₹ 234.71 crore and shortfall in capital expenditure by ₹ 749.62 crore. As a result, actual fiscal deficit during 2017-18 was lower than the assessment made in the revised budget estimate by 81.05 per cent (₹ 1014.84 crore). The wide variation between the revised budget estimates and the actuals indicated that the budgeting was unrealistic and lacked credibility.
- The primary surplus (₹ 353.94 crore) vis-à-vis revised budget estimate (- ₹ 663.23 crore) was higher by 153.37 per cent (₹ 1017.17 crore).

1.1.4 Gender Budgeting

Gender budget of a State discloses the expenditure proposed to be incurred within the overall budget on schemes which are designed to benefit women fully or partly. The budget documents for the year 2017-18 presented to the State Legislature did not include any separate volume on gender budget. During the exit conference, the Additional Chief Secretary, while agreeing with the observation stated that the matter would be looked into.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

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 from Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI. Besides the funds available in the public accounts after disbursement are also utilised by the Government to finance its deficit. **Chart 1.2** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.3** depicts the trends in various components of the receipts of the State during 2013-18 and **Chart 1.4** depicts the composition of resources of the State during the current year.

Chart 1.2

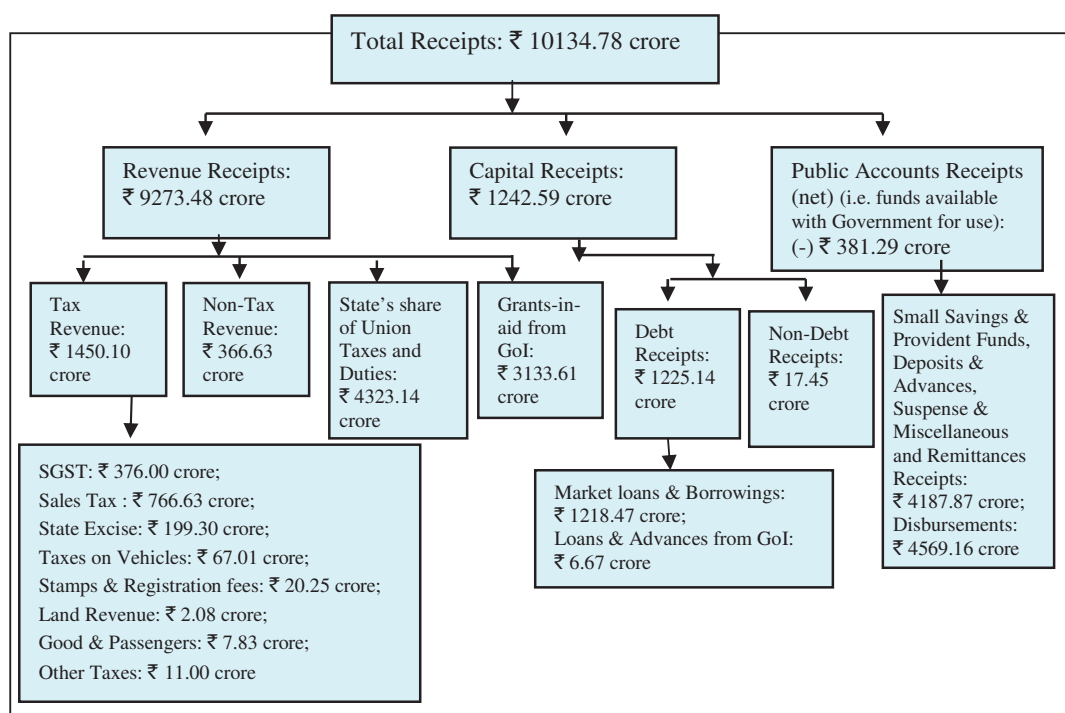
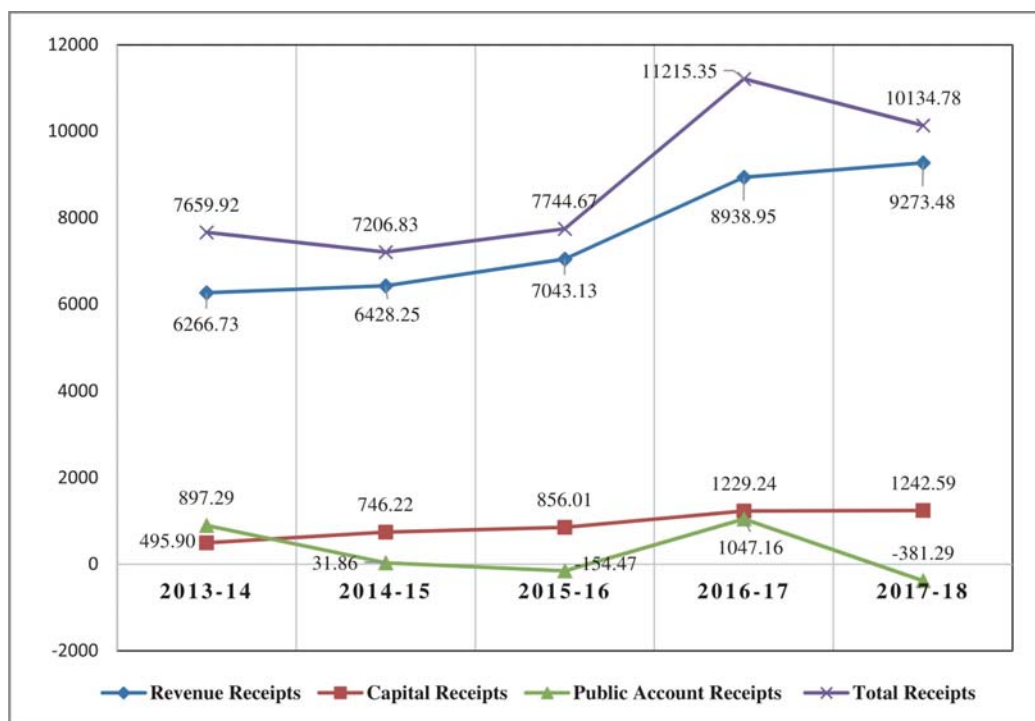


Chart 1.3: Trends in Receipts (₹ in crore)



The total receipts during the current year decreased by ₹ 1080.57 crore (9.63 per cent) over the previous year. This was mainly due to increase in revenue receipts and capital receipts and decrease in public account receipts during 2017-18 when compared to the previous year.

The total receipts of the State for 2017-18 was ₹ 10134.78 crore, of which ₹ 9273.48 crore (91.50 per cent) came from revenue receipts and ₹ 1242.59 crore (12.26 per cent) came from capital receipts and net borrowings ₹ (-)381.29 crore (-3.76 per cent). The total receipts of the State increased by 32.31 per cent from ₹ 7659.92 crore in 2013-14 to ₹ 10134.78 crore in 2017-18.

The debt capital receipts which create future repayment obligation increased by 157.70 per cent from ₹ 475.42 crore (6.21 per cent of total receipts) in 2013-14 to ₹ 1225.14 crore (12.09 per cent of total receipts) in 2017-18. The net public account receipts fluctuated widely during the period 2013-18, with a net receipt of ₹ (-)381.29 crore during 2017-18. During the current year, the capital receipts (recoveries of loans and advances plus public debt receipts) accounted for 12.26 per cent of total receipts.

1.2.2 Funds Transferred to State Implementing Agencies outside the State Budget

As per GoI decision (08 July 2015), all assistance to Centrally Sponsored Schemes (CSS) and Additional Central Assistance (ACA) under various schemes would be released directly to the State Government and not to the State Implementing Agencies⁴ and hence, these funds would be routed through the State budget from the year 2015-16 onwards. But as per records of the Public Financial Management System (PFMS) portal of Controller General of Accounts, it was seen that an approximate amount of ₹ 472.78 crore under 25 schemes (**Appendix 1.5**) was released directly to State Implementing Agencies during 2017-18, which were not routed through the budget of the State Government. The scheme-wise position, where more than ₹ 8 crore were transferred are given in **Table 1.5** below:

Table 1.5: Funds Transferred Directly to State Implementing Agencies (₹ in crore)

| Sl. No. | Programme/Scheme | Implementing Agency in the State | Funds transferred by the GoI |
|---------|--|--|------------------------------|
| 1. | North Eastern Council Schemes | North East Tourism Development Council | 8.08 |
| 2. | Solar Power – OFFGRID | Meghalaya Non-Conventional Rural Energy Development Agency | 8.16 |
| 3. | National Rural Employment Guarantee Scheme | State Rural Employment Society, Shillong, Meghalaya | 316.52 |
| 4. | MPs Local Area Development Scheme MPLADS | Deputy Commissioner | 20.00 |
| 5. | NER-Textile Promotion Scheme | Director of Sericulture and Weaving, Government of Meghalaya | 15.26 |
| 6. | Organic Value Chain Development of NE Region | Directorate of Horticulture | 9.41 |
| 7. | Pradhan Mantri Matri Vandana Yojna | Directorate of Health Services, Meghalaya | 8.75 |
| 8. | Sugar Subsidy Payable under PDS | Food Civil Supplies & Consumers Affairs Department Government of Meghalaya | 18.91 |
| 9. | Swadesh Darshan – Integrated Development of Theme Based Tourism Circuits | Meghalaya Tourism Development Corporation Ltd. | 24.78 |

Source: Finance Accounts.

⁴ State Implementing Agency includes any organisation/institution including non-Governmental Organisation which is authorised by the State Government to receive the funds from the Government of India for implementing specific programmes in the State.

With the release of these funds directly to the Implementing Agencies in the State, the resources of the State during the year 2017-18 stood at ₹ 15,276.72 crore (including the net receipts of ₹ 14,803.94 crore in the State) as on 31 March, 2018.

1.3 Revenue Receipts

Statement 14 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and Grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2013-18 are presented in **Appendix 1.2** and also depicted in **Charts 1.4** and **1.5** respectively. The trends in revenue receipts relative to GSDP are presented in **Table 1.6**.

Chart 1.4: Trends in Revenue Receipts (₹ in crore)

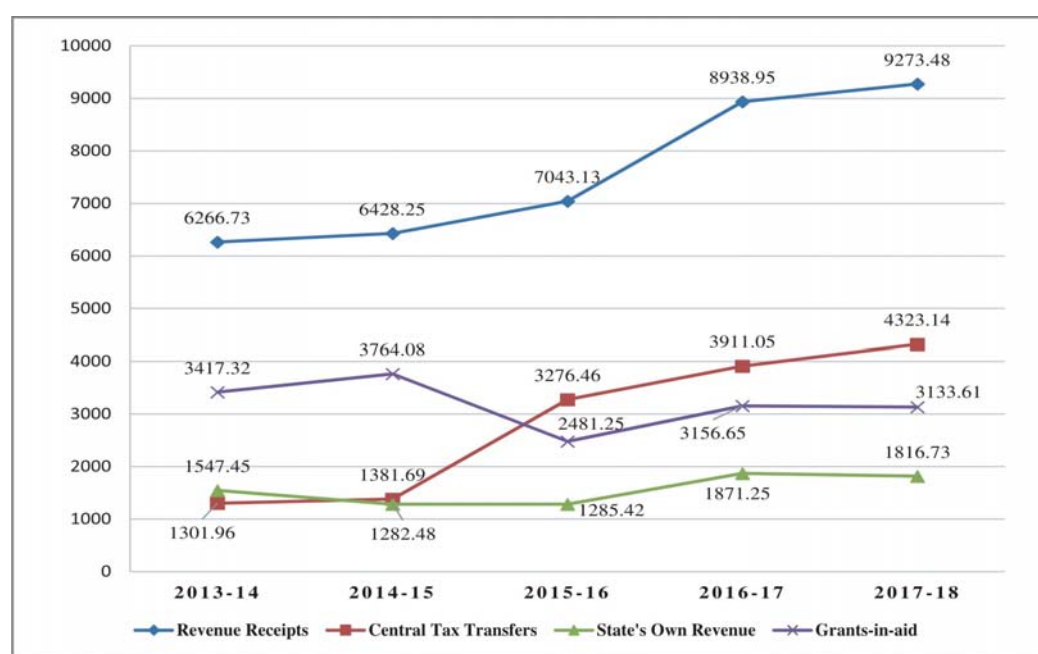


Chart 1.5: Composition of Revenue Receipts (₹ in crore)

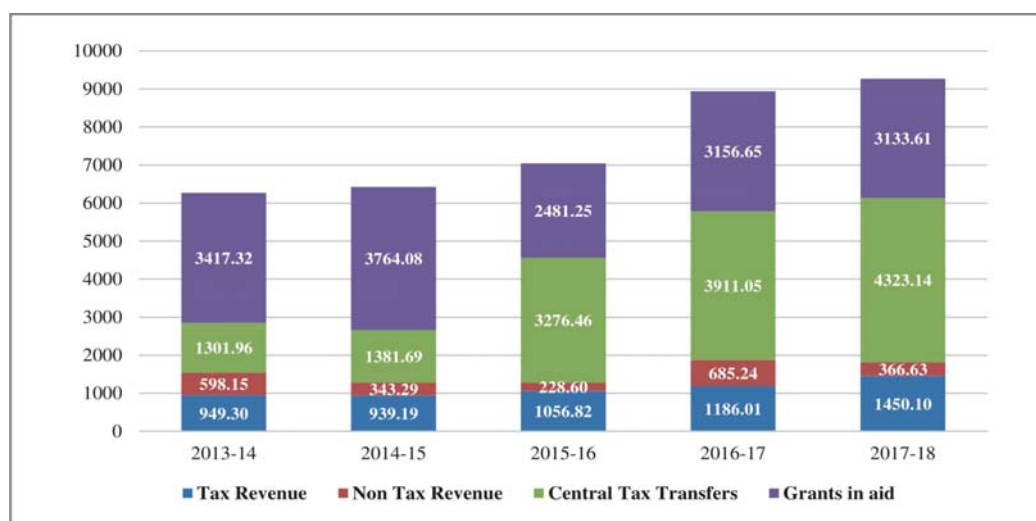


Table 1.6: Trends in Revenue Receipts relative to GSDP

| Particulars | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|----------------|----------------|----------------|----------------|----------------|
| Revenue Receipts (RR) at current prices (₹ in crore) | 6266.73 | 6428.25 | 7043.13 | 8938.95 | 9273.48 |
| Rate of Growth of RR (<i>per cent</i>) | 13.19 | 2.58 | 9.57 | 26.92 | 3.74 |
| Rate of Growth of Own Taxes (<i>per cent</i>) | 11.98 | -1.06 | 12.52 | 12.22 | 22.27 |
| RR/GSDP (<i>per cent</i>) | 27.32 | 27.67 | 27.12 | 31.42 | 29.31 |
| Revenue Receipts (RR) at constant prices (₹ in crore) | 5449.33 | 5447.67 | 5820.77 | 7151.16 | 7188.74 |
| Rate of Growth of RR (<i>per cent</i>) | 6.30 | -0.03 | 6.85 | 22.86 | 0.53 |
| GDP Deflator | 115 | 118 | 121 | 125 | 129 |
| Buoyancy Ratio⁵ | | | | | |
| Revenue Buoyancy Ratio with reference to GSDP | 2.71 | 2.00 | 0.81 | 2.82 | 0.33 |
| State's Own Taxes Buoyancy Ratio with reference to GSDP | 2.46 | -0.82 | 1.06 | 1.28 | 1.99 |
| State's Own Taxes Buoyancy Ratio with reference to Revenue Receipts | 0.91 | -0.41 | 1.31 | 0.45 | 5.95 |

Source: Finance Accounts.

Note: For converting current prices into constant prices, GDP deflator has been used to maintain uniformity across states in place of state specific GSDP deflator. Calculation: Constant Prices = Current Prices × 100 ÷ GDP Deflator of that year.

At current prices, rate of growth of Revenue Receipts ranged between 2.58 *per cent* and 26.92 *per cent* whereas at constant prices, it ranged between -0.03 *per cent* and 22.86 *per cent* during 2013-18.

1.3.1 General trends

The revenue receipts of the State increased by ₹ 3006.75 crore from ₹ 6266.73 crore in 2013-14 to ₹ 9273.48 crore in 2017-18. There were, however, wide inter-year variations in the growth rates. The rate of growth of revenue receipts was 3.74 *per cent* in 2017-18 compared to growth rate of 26.92 *per cent* during the preceding year. The buoyancy ratio of revenue receipts in 2017-18 with reference to GSDP has decreased primarily due to significant decrease in the rate of growth of revenue receipts compared to previous year. The buoyancy ratio of the State's own tax revenue with reference to GSDP has increased because the rate of growth of own tax revenue in 2017-18 relative to the previous year was more. Buoyancy ratio of State's own taxes with reference to revenue receipts was 5.95 during the year 2017-18 against buoyancy ratio of 0.45 in 2016-17.

1.3.2 State's Own Resources

The State's share in central taxes and Grants-in-aid is determined on the basis of recommendations of the Finance Commission, collection of central tax receipts and central assistance for plan 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.

⁵ 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 0.33 during 2017-18 implies that revenue receipts tend to increase by 0.33 percentage points, if the GSDP increases by one *per cent*.

The State's actual tax and non-tax receipts for the year 2017-18 *vis-à-vis* assessments made by the 14th FC and the State Government in Budget Estimates (BE) are given below:

Table 1.7: State's actual tax and non-tax receipts for the year 2017-18 (₹ in crore)

| | 14 th FC projections | Budget Estimates | Actual |
|-----------------|---------------------------------|------------------|---------|
| Tax revenue | 1998.00 | 1558.98 | 1450.10 |
| Non tax revenue | 771.00 | 512.77 | 366.63 |

Source: 14th FC Report, Budget Estimates and Finance Accounts.

During the year, tax revenue was 27.42 *per cent* lower than the assessment made by the 14th FC and 6.98 *per cent* lower than the projection made in the budget estimate. The non-tax revenue was 52.45 *per cent* lower than the target of 14th FC and 28.50 *per cent* lower than the assessment made in the budget estimate for the year. State's own resources (tax and non-tax revenue) during 2017-18 (₹ 1816.73 crore) were 2.91 *per cent* less than those of previous year (₹ 1871.25 crore) but constituted only 19.59 *per cent* of the revenue receipts of the year. A quarterly review report of the trend in receipts and expenditure of the State for the quarter ending December 2017 was conducted as per the requirement of Section 9(1) of the MFRBM Act, 2006. The Report indicated that the decrease in State's tax receipts and non-tax revenue receipts over the budgeted amount was basically due to lower revenue collection. Actual reason for less receipts of tax and non-tax revenue was due to non-ferrous mining and Metallurgical Industries by 56 *per cent* and Forestry and Wildlife by 47 *per cent* respectively over previous year.

1.3.2.1 Tax Revenue

Table 1.8: Tax Revenue (₹ in crore)

| Heads | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | Variations* |
|-------------------------------------|---------------|---------------|----------------|----------------|---|---------------------------|
| State Goods and Services Tax (SGST) | - | - | - | - | 1142.63 ⁶ (SGST – 376.00 & Sales Tax – 766.63) | 211.57 (22.72) |
| Sales Tax | 723.65 | 726.20 | 811.79 | 931.06 | | |
| State Excise | 162.66 | 151.14 | 170.04 | 168.98 | 199.30 | 30.32 (17.94) |
| Taxes on Vehicles | 36.72 | 39.38 | 42.01 | 48.22 | 67.01 | 18.79 (38.97) |
| Stamps and Registration Fees | 9.78 | 9.90 | 12.74 | 17.19 | 20.25 | 3.06 (17.80) |
| Land Revenue | 3.47 | 0.08 | 3.18 | 1.27 | 2.08 | 0.81 (63.78) |
| Goods & Passengers | ... | ... | ... | ... | 7.83 | 7.83 (...) |
| Other Taxes ⁷ | 13.02 | 12.49 | 17.06 | 19.29 | 11.00 | -8.29 (-42.98) |
| Total | 949.30 | 939.19 | 1056.82 | 1186.01 | 1450.10 | 264.09 (22.27) |

Source: Finance Accounts.

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

Tax revenue had increased by 22.27 *per cent* during the current year (₹ 1450.10 crore) over the previous year (₹ 1186.01 crore). The revenue from 'sales tax' and 'SGST'⁸ contributed 78.80 *per cent* (₹ 1142.63 crore) of the total tax revenue (₹ 1450.10 crore). Revenue from taxes on State Excise, Taxes on Vehicles, Stamps &

⁶ Details in **Appendix 1.8**.

⁷ Other Taxes include taxes on professions, trades, callings and employment, taxes and duties on electricity and other taxes and duties on commodities and services.

⁸ W.e.f. 1 July 2017.

Registration Fees, Taxes on Goods & Passenger and Land Revenue were among the other contributors to the State's tax revenue. The Tax-GSDP ratio (4.58 per cent) during 2017-18 was less than the projection (5.93 per cent) made by the 14th FC as well as the Tax GSDP ratios of Special Category States which was 8.31 per cent.

1.3.2.2 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 in the State. 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 revenue⁹ taking 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 during the period from July 2017 to March 2018 was worked out to ₹ 620 crore¹⁰ (₹ 68.90 x 9 months).

Details of SGST, pre GST taxes and compensation received by the State during July 2017 to March 2018 is given in **Table 1.9** below.

Table 1.9: Details of SGST, pre GST taxes and compensation received by the State during July 2017 to March 2018. (₹ in crore)

| Particulars | |
|---|----------------------|
| Revenue to be protected | 620.00 |
| State Goods & Service Tax | 376.00 |
| Collection of Pre-GST Taxes (July 2017 to March 2018) | 104.00 |
| Total Collection | 480.00 |
| Compensation to be received during the year | 140.00 |
| Compensation received | 140.00 ¹¹ |

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.

1.3.2.3 Non-Tax Revenue

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

| Sl. No. | Heads | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | Variations* |
|---------|-----------------------|---------|---------|---------|---------|---------|---------------|
| 1. | Interest receipts | 33.57 | 37.73 | 39.34 | 46.25 | 52.50 | 6.25(13.51) |
| 2. | Dividends and Profits | 0.13 | 0.13 | 0.07 | 0.11 | 0.11 | 0 (0) |
| 3. | General Services | 29.29 | 18.00 | 30.99 | 41.57 | 26.87 | -14.70(35.36) |
| 4. | Social Services | 9.46 | 8.92 | 10.39 | 14.93 | 14.33 | -0.60(4.02) |

⁹ 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.

¹⁰ Ministry of Finance, GoI Office Memorandum No S-31011/03/2014-SO(ST)-Pt-1 dated 29 August 2017.

¹¹ ₹ 140.00 crore was released by Ministry of Finance, GoI as compensation during the year. Out of this, compensation of ₹ 16.00 crore for the month of March 2018 was received on 29 May 2018 by the State and hence is accounted for in the financial year 2018-19.

| Sl. No. | Heads | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | Variations* |
|---------|---|---------------|---------------|---------------|---------------|---------------|-----------------------|
| 5. | Economic Services | 525.70 | 278.51 | 147.81 | 582.38 | 272.82 | -309.56(53.15) |
| 5.1 | Non-ferrous Mining and Metallurgical Industries | 455.75 | 195.10 | 60.75 | 469.52 | 207.88 | -261.64(55.72) |
| 5.2 | Forestry and Wildlife | 60.12 | 71.99 | 72.08 | 103.99 | 55.61 | -48.38(46.52) |
| 5.3 | Other Economic Services | 9.83 | 11.42 | 14.98 | 8.87 | 9.33 | 0.46(5.19) |
| | Total (1 to 5) | 598.15 | 343.29 | 228.60 | 685.24 | 366.63 | -318.61(46.50) |

Source: Finance Accounts.

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

The Non-Tax Revenue (NTR), which constituted only 3.95 per cent of the total revenue receipts, had decreased by ₹ 318.61 crore during 2017-18 recording a negative growth rate of 46.50 per cent over the previous year. Over 74 per cent (₹ 272.82 crore) of NTR during 2017-18 was received from economic services. Within this category, receipts under non-ferrous mining and Metallurgical Industries alone contributed 76.20 per cent (₹ 207.88 crore).

1.3.3 Grants-in-Aid

The details of Grants-in-aid from GoI are given in **Table 1.11**.

Table 1.11: Grants-in-Aid from GoI (₹ in crore)

| Particulars | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|----------------|----------------|----------------|----------------|----------------|
| Non-Plan Grants | 921.41 | 803.71 | 673.86 | 640.47 | ... |
| Grants for State Plan Schemes | 2046.28 | 2580.17 | 1240.15 | 2263.52 | ... |
| Grants for Central Plan Schemes | 31.65 | 8.89 | 270.44 | 19.33 | ... |
| Grants for Centrally Sponsored Plan Schemes | 348.40 | 293.44 | 196.36 | 138.19 | 2145.85 |
| Grants for Special Plan Schemes | 69.58 | 77.87 | 100.44 | 95.14 | ... |
| Finance Commission's grant | ... | ... | ... | ... | 499.96 |
| Grants to State | ... | ... | ... | ... | 487.80 |
| Total | 3417.32 | 3764.08 | 2481.25 | 3156.65 | 3133.61 |
| Percentage of increase over previous year | 13.49 | 10.15 | -34.08 | 27.22 | -0.73 |

Source: Finance Accounts.

Grants-in-aid from GoI had decreased by 0.73 per cent (₹ 23.04 crore) from ₹ 3156.65 crore in 2016-17 to ₹ 3133.61 crore in the current year. Since there was no fund allocated under 'Non-plan and State/Central Plan Scheme', grants for Centrally Sponsored Plan Schemes (₹ 2145.85 crore) was increased by ₹ 2007.66 crore during the current year. In addition, GoI also allotted a separate Grants to State amounting to ₹ 487.80 crore during 2017-18.

1.3.4 Analysis of Receipts and Expenditure under Finance Commission

The Finance Commission (FC) is constituted by the President of India under Article 280 of the Constitution.

During 2013-18, FC awarded the following grants-in-aid to Government of Meghalaya as shown in the **Table 1.12** below:

Table 1.12: Details of Grants-in-aid received from GoI for 2013-18 (₹ in crore)

| Particulars | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|--|----------------|----------------|----------------|----------------|----------------|
| (A) Total Non-Plan Grants | 921.41 | 803.71 | 673.86 | 640.47 | ... |
| (i) FC's grants (Non-plan) | 150.54 | 163.71 | 0 | 0 | 499.96 |
| (ii) FC's grants (Non-plan) for meeting Non-Plan Revenue Deficit of the State | 708.93 | 571.00 | 618.00 | 535.00 | * |
| (iii) Other Non-Plan Grants | 61.94 | 69.00 | 55.86 | 105.47 | ... |
| (B) All other Grants-in-aid (Plan) received from GoI (viz., Grants for State Plan + Central Plan + Centrally Sponsored Plan + Special Plan Schemes + F.C's Grants + Other Grants) | 2495.91 | 2960.37 | 1807.39 | 2516.18 | 3133.61 |
| Grand Total (A+B) | 3417.32 | 3764.08 | 2481.25 | 3156.65 | 3133.61 |

Source: Finance Accounts.

* There was no Non-Plan revenue deficit grant for the year 2017-18.

Government of Meghalaya had not constituted the State Finance Commission, thus depriving the Municipalities and Urban Local Bodies of their due share of the net proceeds of revenue from the GoM as well as the GoI.

1.3.5 Impact of Finance Commission Grants-in-aid on State Budget

With the addition of FC's grants-in-aid, the Total Revenue Receipts of the State increased to that extent and as a result, Revenue Surplus increased and Fiscal Deficit decreased proportionately.

Table 1.13: Effect on Revenue Surplus and Fiscal Deficit (₹ in crore)

| Particulars ¹² | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|-----------------------------|---------|---------|---------|---------|---------|
| (A) Revenue Receipts | 6266.73 | 6428.25 | 7043.13 | 8938.95 | 9273.48 |
| (B) Revenue Expenditure | 5551.59 | 6251.86 | 6347.73 | 8336.54 | 8422.68 |
| (C) Total Revenue Receipts | 6287.21 | 6448.01 | 7062.21 | 8957.76 | 9290.93 |
| (D) Total Expenditure | 6669.39 | 7426.46 | 7616.97 | 9657.17 | 9528.17 |
| Revenue Surplus (+) = (A-B) | 715.14 | 176.39 | 695.40 | 602.41 | 850.80 |
| Fiscal Deficit(-) = (C-D) | 382.18 | -978.45 | -554.76 | -699.41 | -237.24 |

Source: Finance Accounts.

¹² (A) Revenue Receipts (₹ 9273.48 crore) includes Tax Revenue (₹ 1450.10 crore), Non-Tax Revenue (₹ 366.63 crore), State's Share of Union Taxes and Duties (₹ 4323.14 crore) and Grants-in-aid from GoI (₹ 3133.61 crore).

(B) Revenue Expenditure (₹ 8422.68 crore) includes expenditure on Social Services (₹ 3147.61 crore), Economic Services (₹ 2448.20 crore) and General Services (including interest paid) (₹ 2826.87 crore).

(C) Total Revenue Receipts (₹ 9290.93 crore) includes Tax Revenue (₹ 1450.10 crore), Non-Tax Revenue (₹ 366.63 crore), State's Share of Union Taxes and Duties (₹ 4323.14 crore) and Grants-in-aid from GoI including F.C's grants (₹ 3133.61 crore) and Recoveries of Loans & Advances (₹ 17.45 crore).

(D) Total Expenditure (₹ 9528.17 crore) includes Revenue Expenditure (₹ 8422.68 crore), Capital Expenditure (₹ 983.44 crore), Disbursement of Loans & Advances (₹ 22.05 crore) and Appropriation to Contingency Fund (₹ 100.00 crore).

1.3.6 Central Tax Transfers

The **Central Tax transfers** *i.e.* State's share of Union Taxes and Duties alone increased by ₹ 412.09 crore (10.54 *per cent*) over the previous year and constituted 46.62 *per cent* of revenue receipts. The increase was mainly due to transfer of additional amount under 'Central Goods and Services Tax' (₹ 61.44 crore), 'Integrated Goods and Services Tax' (₹ 436.56 crore), 'Taxes on Income other than Corporation Tax' (₹ 1118.20 crore), 'Corporation Tax' (₹ 1324.23 crore), 'Union Excise Duties' (₹ 456.20 crore), 'Service Tax' (₹ 490.15 crore), 'Customs' (₹ 436.40 crore) and offset by decrease in taxes on wealth (₹ 0.04 crore) during 2017-18 compared to previous year.

The Central tax transfers were the main source of revenue receipts for the State of Meghalaya. The State share of Central taxes and Grants-in-aid from GoI together contributed 80.41 *per cent* (₹ 7456.75 crore) of the total Revenue Receipts (₹ 9273.48 crore) during 2017-18.

Table 1.14: State's Share of Central Taxes and Grants-in-aid with reference to total revenue receipts (₹ in crore)

| | 2016-17 | 2017-18 |
|---|----------------|----------------|
| State Share of Union Taxes and Duties | 3911.05 | 4323.14 |
| Grants in aid from GoI | 3156.65 | 3133.61 |
| Sub Total | 7067.70 | 7456.75 |
| Total Revenue Receipts | 8938.95 | 9273.48 |
| Percentage of Central Taxes and Grants-in-aid to Total Revenue Receipts | 79.07 | 80.41 |

1.4 Capital Receipts

The trends in Growth and Composition of Capital Receipts are given in **Table 1.15** below:

Table 1.15: Trends in Growth and Composition of Capital Receipts (₹ in crore)

| Sources of State's Receipts | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | |
|---|-----------------------------|---------------|---------------|----------------|----------------|---------|
| Capital Receipts (CR) | 495.90 | 746.72 | 856.01 | 1229.24 | 1242.59 | |
| Recovery of Loans and Advances | 20.48 | 19.76 | 19.08 | 18.81 | 17.45 | |
| Public Debt Receipts | Market Loans | 340.00 | 545.00 | 680.00 | 1001.00 | 1115.50 |
| | Other Internal Sources | 135.33 | 177.19 | 154.70 | 205.16 | 102.97 |
| | Loans and Advances from GoI | 0.09 | 4.77 | 2.23 | 4.27 | 6.67 |
| Rate of growth of debt capital receipts | - 9.14 | 52.91 | 15.13 | 44.63 | 1.22 | |
| Rate of growth of non-debt capital receipts | 11.91 | - 3.52 | -3.44 | -1.42 | -7.23 | |
| Rate of growth of CR (<i>per cent</i>) | - 9.26 | 50.58 | 14.64 | 43.60 | 1.09 | |

Source: Finance Accounts.

Capital Receipts increased by 150.57 *per cent* from ₹ 495.90 crore in 2013-14 to ₹ 1242.59 crore in 2017-18. The rate of growth of capital receipts decreased from 43.60 *per cent* in 2016-17 to 1.09 *per cent* in 2017-18. The rate of growth of debt capital receipts, which is the main component of capital receipts, decreased significantly from 44.63 *per cent* in 2016-17 to 1.22 *per cent* in 2017-18. The debt receipts from internal sources (market loans and other internal sources) increased by ₹ 12.31 crore and loans and advances from GoI increased by ₹ 2.40 crore during

2017-18 over previous year. Market loans constituted the major share of debt capital receipts during the current year which increased from ₹ 1001.00 crore in 2016-17 to ₹ 1115.50 crore during 2017-18. Non-debt capital receipts in the form of recoveries of loans and advances marginally decreased by ₹ 1.36 crore during 2017-18 over previous year.

1.5 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances *etc.* which do not form part of the Consolidated Fund, are kept in the public account set up Under 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. The Composition of Public Account Receipts is given in **Table 1.16**.

Table 1.16: Composition of Public Account Receipts (Net) (₹ in crore)

| Resources under various heads | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|---------------|--------------|----------------|----------------|----------------|
| Public Account Receipts (Net)¹³ | 897.29 | 31.86 | -154.47 | 1047.16 | -381.29 |
| (a) Small Savings, Provident Fund, <i>etc.</i> | 127.17 | 133.28 | 131.74 | 141.17 | 157.71 |
| (b) Reserve Fund | 18.08 | - 13.70 | 6.74 | 2.07 | -23.89 |
| (c) Deposits and Advances | 825.60 | - 161.66 | -234.84 | 889.57 | -527.76 |
| (d) Suspense and Miscellaneous | - 76.71 | 82.28 | -55.40 | 13.09 | 8.57 |
| (e) Remittances | 3.15 | - 8.34 | -2.71 | 1.26 | 4.08 |

Source: Finance Accounts.

Net Public Account Receipts decreased from ₹ 1047.16 crore during 2016-17 to ₹ (-)381.29 crore during the current year. Decrease in receipts under public account during 2017-18 was mainly due to substantial decrease under 'Deposits and Advances' from ₹ 889.57 crore during 2016-17 to a negative ₹ 527.76 crore during 2017-18.

1.6 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.

1.6.1 Growth and Composition of expenditure

The total expenditure and its composition during the years 2013-14 to 2017-18 are presented in the **Table 1.17**.

¹³ Public account receipts minus disbursements. Details in **Appendix 1.3**.

Table 1.17: Total Expenditure and its Composition (₹ in crore)

| Particulars | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|--|----------------|----------------|----------------|----------------|-----------------------|
| Total expenditure | 6669.39 | 7426.46 | 7616.97 | 9657.17 | 9428.17 |
| Revenue expenditure (RE) at current prices | 5551.59 | 6251.86 | 6347.73 | 8336.54 | 8422.68 ¹⁴ |
| Rate of Growth of RE | 11.04 | 12.61 | 1.53 | 31.33 | 1.03 |
| GDP Deflator¹⁵ | 115 | 118 | 121 | 125 | 129 |
| Revenue expenditure (RE) at constant prices | 4827.47 | 5298.19 | 5246.06 | 6669.23 | 6529.21 |
| Rate of Growth of RE | 4.28 | 9.75 | -0.98 | 27.13 | -2.10 |
| Capital Outlay (CO) at current prices | 1075.47 | 1118.49 | 1110.89 | 1289.80 | 983.44 |
| Rate of Growth of CO | 15.85 | 4.00 | -0.68 | 16.11 | -23.75 |
| Capital Outlay at constant prices | 935.19 | 947.87 | 918.09 | 1031.84 | 762.36 |
| Rate of Growth of CO | 8.80 | 1.36 | -3.14 | 12.39 | -26.12 |
| Loans and Advances | 42.33 | 56.11 | 158.35 | 30.83 | 22.05 |

Source: Finance Accounts.

At current prices, rate of growth of Revenue Expenditure ranged between 1.03 per cent and 31.33 per cent whereas at constant prices, it ranged between (-)2.10 per cent and 27.13 per cent during 2013-18.

At current prices, rate of growth of Capital Outlay ranged between (-)23.75 per cent and 16.11 per cent whereas at constant prices, it ranged between (-)26.12 per cent and 12.39 per cent during 2013-18.

Charts 1.6, 1.7 and 1.8 present the trends in total expenditure over a period of five years (2013-18) and its composition both in terms of 'economic classification' and 'expenditure by activities':

¹⁴ From 2017-18, expenditure is no longer bifurcated into 'Plan' and 'Non-Plan'.

¹⁵ For converting current prices into constant prices, GDP deflator has been used to maintain uniformity across states in place of state specific GSDP deflator. Calculation: Constant Prices = Current Prices × 100 ÷ GDP Deflator of that year.

Chart 1.6: Total Expenditure – Trends and Composition (₹ in crore)

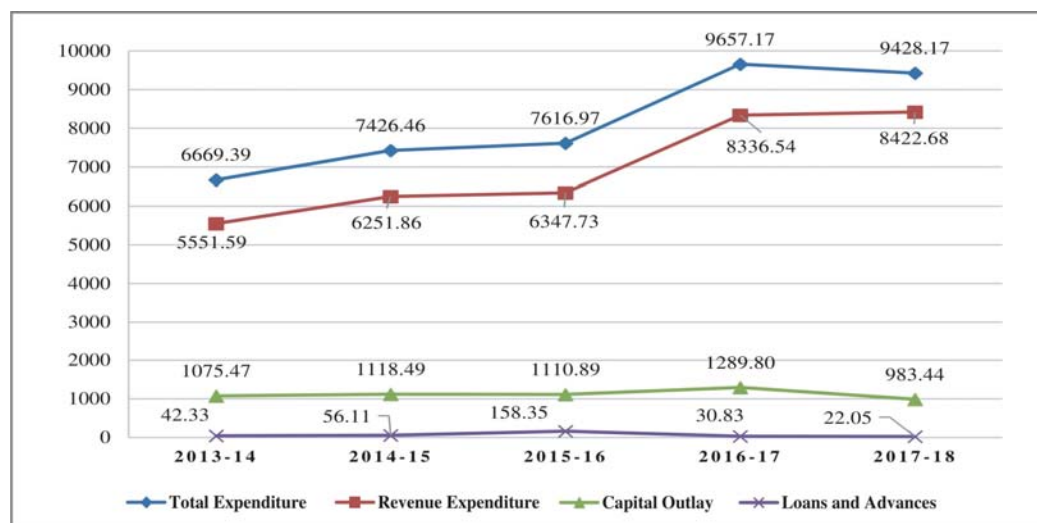


Chart 1.7: Total Expenditure: Trend in Share of its Components (per cent)

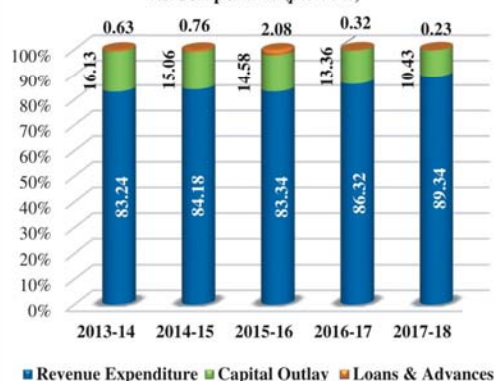
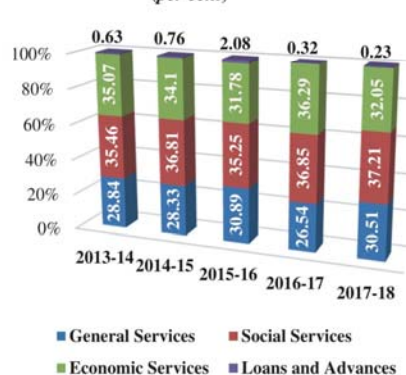


Chart 1.8: Total Expenditure - Trend by 'Activities' (per cent)



Charts 1.6, 1.7 and 1.8 shows that:

- The share of revenue expenditure (₹ 8422.68 crore) constituted 89.34 per cent of the total expenditure (₹ 9428.17 crore).
- In terms of the activities, total expenditure is composed of expenditure on general services including interest payments, social and economic services, Grants-in-aid and loans and advances. Of the total expenditure during 2017-18, expenditure on general services (Revenue + Capital expenditure) including interest payments, which is considered as non-developmental, together accounted for 30.51 per cent.
- Expenditure on social and economic services (excluding loans and advances) together accounted for 69.26 per cent during 2017-18. The relative share of social services expenditure to total expenditure increased from 36.85 per cent in 2016-17 to 37.21 per cent in 2017-18.
- The relative share of economic services expenditure to total expenditure decreased from 36.29 per cent during 2016-17 to 32.05 per cent during 2017-18. Loans and

advances revealed wide fluctuations during the period 2013-18 and stood at 0.23 per cent of total expenditure during 2017-18.

1.6.1.1 Trends in Total Expenditure

The total expenditure of the State decreased by ₹ 229.00 crore (2.37 per cent) from ₹ 9657.17 crore in 2016-17 to ₹ 9428.17 crore in 2017-18. The total expenditure, its annual growth rate, the ratio of expenditure to the GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.18**.

Table 1.18: Total Expenditure – Basic Parameters

| Particulars | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|----------------|----------------|----------------|----------------|----------------|
| Total expenditure (TE) (₹ in crore) | 6669.39 | 7426.46 | 7616.97 | 9657.17 | 9428.17 |
| Rate of growth (per cent) | 12.00 | 11.35 | 2.57 | 26.78 | -2.37 |
| TE/GSDP ratio (per cent) | 29.08 | 31.96 | 29.33 | 33.95 | 29.80 |
| RR/TE ratio (per cent) | 93.96 | 86.56 | 92.47 | 92.56 | 98.36 |
| Buoyancy of Total expenditure with reference to: | | | | | |
| GSDP (ratio) ¹⁶ | 2.46 | 8.80 | 0.22 | 2.80 | -0.21 |
| Revenue Receipts (ratio) ¹⁷ | 0.91 | 4.40 | 0.27 | 0.99 | -0.63 |

Source: Finance Accounts.

From the above table, the following were noticed:

- The decrease of ₹ 229.00 crore (2.37 per cent) in total expenditure during 2017-18 over the previous year was on account of decrease (₹ 306.36 crore) in capital expenditure and ₹ 8.78 crore in disbursement of loans and advances.
- During the current year, 98.36 per cent of the total expenditure (₹ 9428.17 crore) was met from revenue receipts (₹ 9273.48 crore).
- The buoyancy of total expenditure to GSDP stood at negative 0.21 in 2017-18, which indicated lower rate of growth of total expenditure (2.37 per cent) as compared to growth rate of GSDP (11.21 per cent).
- The buoyancy of total expenditure to Revenue Receipts (RR) declined from 0.99 during 2016-17 to negative 0.63 in 2017-18, which was a positive indicator.

1.6.1.2 Incidence of Revenue Expenditure

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure, economic growth and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table 1.19**.

¹⁶ GSDP (ratio) = Rate of Growth of Total expenditure ÷ Growth Rate of GSDP

¹⁷ RR (ratio) = Rate of Growth of Total expenditure ÷ Rate of Growth of Revenue Receipts

Table 1.19: Revenue Expenditure – Basic Parameters (₹ in crore)

| Particulars | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|---------|---------|---------|---------|---------|
| Revenue expenditure (RE) | 5551.59 | 6251.86 | 6347.73 | 8336.54 | 8422.68 |
| Rate of Growth of RE (<i>per cent</i>) | 11.04 | 12.61 | 1.53 | 31.33 | 1.03 |
| Total Expenditure (TE) | 6669.39 | 7426.46 | 7616.97 | 9657.17 | 9428.17 |
| RE as percentage of TE ¹⁸ | 83.24 | 84.18 | 83.34 | 86.32 | 89.34 |
| Buoyancy Ratio of Revenue expenditure with | | | | | |
| GSDP ¹⁹ | 2.27 | 9.78 | 0.13 | 3.28 | 0.09 |
| Revenue Receipts ²⁰ | 0.84 | 4.89 | 0.16 | 1.16 | 0.28 |

Source: Finance Accounts.

Revenue expenditure constituted 83.24 *per cent* to 89.34 *per cent* of total expenditure during 2013-18 and increased by ₹ 2871.09 crore (51.72 *per cent*) from ₹ 5551.59 crore in 2013-14 to ₹ 8422.68 crore in 2017-18.

In absolute terms, the increase in revenue expenditure (₹ 86.14 crore) during 2017-18 was net expenditure under general services (₹ 346.71 crore) and social services (₹ 48.50 crore) and economic services (₹ 309.07 crore).

During the exit conference, the Additional Chief Secretary stated that this issue arose since funds from Central Government was transferred under revenue head even if the expenditure was capital in nature. She also cited example where 60 *per cent* of the funds received under MGNREGA was for asset creation but the same was transferred under revenue head.

1.6.1.3 Components of Revenue Expenditure

The expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.20** presents the trends in the expenditure on these components during 2013-18.

Table 1.20: Components of Revenue expenditure (₹ in crore)

| Components of expenditure | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Salaries and Wages | 1820.13 (29.04) | 2037.65 (31.70) | 2181.80 (30.98) | 2305.16 (25.79) | 2669.48 (28.79) |
| Interest Payments | 371.50 (5.93) | 405.10 (6.30) | 465.88 (6.61) | 522.23 (5.84) | 591.18 (6.37) |
| Subsidies | 72.44 (1.16) | 123.60 (1.92) | 89.21 (1.27) | 46.14 (0.52) | 52.08 (0.56) |
| Expenditure on Pension and other retirement benefits | 450.87 (7.19) | 514.94 (8.01) | 589.44 (8.37) | 647.85 (7.25) | 750.90 (8.10) |
| Other Components of revenue expenditure, <i>i.e.</i> , other than salaries and wages, interest payments, pension and subsidies | 2836.65 (45.27) | 3170.57 (49.32) | 3021.40 (42.90) | 4815.16 (53.87) | 4359.04 (47.01) |

Source: Finance Accounts.

(Figures in the parentheses indicate percentage to revenue receipts).

¹⁸ RE as percentage of TE = RE/TE×100.

¹⁹ GSDP (ratio) = Rate of Growth of Revenue expenditure ÷ Growth Rate of GSDP.

²⁰ Revenue Receipt (ratio) = Rate of Growth of Revenue expenditure ÷ Rate of Growth of Revenue Receipts.

1.6.1.4 Salaries and Wages

Salaries and wages during 2017-18 accounted for 28.79 *per cent* of the revenue receipts of the State during the year. It also increased by 15.80 *per cent* from ₹ 2305.16 crore in 2016-17 to ₹ 2669.48 crore in 2017-18. Further, the State Government, in its Fiscal Policy Strategy (FPS) Statement for the year 2017-18, committed to reduce expenditure on salaries and wages, in an attempt to contain revenue expenditure. Increase in expenditure on salaries and wages by 15.80 *per cent* during 2017-18 indicated that the State Government failed to fulfil its commitment.

1.6.1.5 Interest Payments

Interest payments during 2017-18 were on market loans (₹ 355.84 crore), State Provident Funds (₹ 113.73 crore), Special Securities issued to National Small Savings Fund of the Central Government (₹ 71.56 crore), loans and advances received from Central Government (₹ 15.85 crore) and other internal debts including other obligations (₹ 34.20 crore). Compared to the previous year, interest payments during 2017-18 increased by 13.20 *per cent* (₹ 68.95 crore).

Of the total interest payments during the year, 60.19 *per cent* (₹ 355.84 crore) were on market borrowings. The overall interest payments (₹ 591.18 crore) were however, much higher than the projections made by the 14th FC (₹ 492.00 crore).

1.6.1.6 Subsidies

Table 1.21 shows that the expenditure on payment of subsidies increased by ₹ 5.94 crore²¹ (12.87 *per cent*) from ₹ 46.14 crore in 2016-17 to ₹ 52.08 crore during 2017-18. The increase was mainly due to increase in payment of subsidies under Animal Husbandry and Veterinary and Food and Civil Supplies.

1.6.1.7 Pension Payments

The pension payments (including other retirement benefits) indicated an increasing trend during the five year period 2013-18. Pension payments during the current year had increased by ₹ 103.05 crore, an increase of 15.91 *per cent* over the previous year. The actual pension payments (₹ 750.90 crore) compared with projection made by the 14th FC (₹ 533.00 crore) and State Government in its budget (₹ 730.24 crore) exceeded both the projections made by the 14th FC as well as the State Government in its Budget for the year 2017-18.

1.6.1.8 New Pension Scheme

State Government employees recruited on or after 1 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

²¹ ₹ 5.94 crore = {₹ 12.08 crore (Animal Husbandry and Veterinary) + ₹ 16.89 crore (Food and Civil Supplies)} – {₹ 3.41 crore (Fisheries) + ₹ 0.81 crore (Agriculture) + ₹ 1.70 crore (Transport) + ₹ 0.25 crore (Tourism) + ₹ 16.86 crore (Power)}.

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 2013-18 are shown in the table below:

Table 1.21: Details of funds under NPS during 2013-18 (₹ in crore)

| Year | Opening Balance | Contribution | | | Transfer to NSDL | Less Transfer |
|---------|-----------------|--------------|----------|-------|------------------|---------------|
| | | Employees | Employer | Total | | |
| 2013-14 | 0.19 | 6.25 | 6.25 | 12.50 | 12.42 | 0.27 |
| 2014-15 | 0.27 | 11.35 | 11.67 | 23.02 | 23.25 | 0.04 |
| 2015-16 | 0.04 | 15.31 | 15.00 | 30.31 | 30.33 | 0.02 |
| 2016-17 | 0.02 | 22.08 | 22.50 | 44.58 | 44.08 | 0.52 |
| 2017-18 | 0.52 | 30.60 | 31.36 | 61.96 | 61.63 | 0.85 |

Source: Finance Accounts.

As on March 2018, an amount of ₹ 0.85 crore remained to be transferred to NSDL since 130 out of 12439 employees under NPS were yet to be allotted Permanent Retirement Account Number (PRAN).

The State Government should ensure early allotment of PRAN to the 130 employees and transfer the outstanding amount along with interest on the balances to NSDL.

1.6.2 Capital Outlay

Capital outlay during the current year (2017-18) decreased by ₹ 306.36 crore over the previous year (**Appendix 1.2**). As compared to the total expenditure, the capital outlay showed a fluctuating trend over the period 2013-14 to 2017-18 and ranged between 10.43 per cent and 16.13 per cent. The State Government did not fulfil its commitment made in the budget as it fell short by 43.25 per cent (₹ 749.62 crore) of the budget estimate (₹ 1733.06 crore) for the year. It is further evident from **Appendix 1.2** that Central Tax Transfer on account of recommendations of 14th FC had increased more than threefold in the last five years from ₹ 1301.96 crore (2013-14) to ₹ 4323.14 crore (2017-18). On the other hand, the Capital Outlay had gone down to 10.43²² per cent from 16.13²³ per cent during the same period.

1.6.3 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 1.22**.

²² 10.43 per cent = ₹ 983.44 (Capital Outlay) ÷ ₹ 9428.17 (Total Expenditure) × 100 (for the year 2017-18).

²³ 16.13 per cent = ₹ 1075.47 (Capital Outlay) ÷ ₹ 6669.39 (Total Expenditure) × 100 (for the year 2013-14).

Table 1.22: Financial Assistance to Local Bodies and others**(₹ in crore)**

| Financial Assistance to Institutions | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | |
|---|---------------|---------------|---------------|----------------|-----------------|----------------|
| | | | | | Budget Estimate | Actual |
| University and Educational Institutions | 586.86 | 560.46 | 697.54 | 918.37 | 1764.48 | 915.75 |
| Co-operative Societies | 2.60 | 1.78 | 2.06 | 1.99 | 14.17 | 13.55 |
| District Councils | 5.98 | 1.60 | 0.36 | 262.58 | 19.68 | 19.68 |
| Municipalities, Meghalaya Urban Development Authority, etc. | 20.19 | 5.40 | 4.70 | 11.42 | 9.62 | 9.62 |
| Power Sector | 160.09 | 203.19 | 102.44 | 133.44 | 99.02 | 99.02 |
| Other Institutions ²⁴ | 71.65 | 68.07 | 53.19 | 293.62 | 185.93 | 217.74 |
| Total | 847.37 | 840.50 | 860.29 | 1621.42 | 2092.90 | 1275.36 |
| Assistance as percentage of RE | 15.26 | 13.44 | 13.55 | 19.45 | | 15.14 |

Source: Detailed Appropriation Accounts.

The financial assistance extended to the local bodies and other institutions with inter-year variations decreased by 21.34 *per cent* from ₹ 1621.42 crore in 2016-17 to ₹ 1275.36 crore in 2017-18. The share of financial assistance in revenue expenditure also decreased from 19.45 *per cent* in 2016-17 to 15.14 *per cent* during the current year. The State Government was successful in restricting the expenditure on payment of financial assistance within the projection (₹ 2092.90 crore) made in its annual budget for the year 2017-18.

University and Educational Institutions were the major recipients followed by Power Sector. The financial assistance to District Councils decreased substantially from ₹ 262.58 crore during 2016-17 to ₹ 19.68 crore during 2017-18. Around 72 *per cent* of the total financial assistance during 2017-18 was given to University and Educational Institutions. The assistance under this sector decreased by 0.29 *per cent*, i.e. from ₹ 918.37 crore during 2016-17 to ₹ 915.75 crore during the current year. Of ₹ 915.75 crore, ₹ 675.39 crore was given to Non-Government Primary Schools and ₹ 97.01 crore to Non-Government Colleges and Institutes.

1.7 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 & 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.

²⁴ Other Institutions (2017-18) : Details given in **Appendix 1.7**.

1.7.1 Devolution of funds to Urban Local Bodies

As per the information furnished (September 2018) by the Director, Urban Affairs, Meghalaya, the devolution of funds by the State Government to urban local bodies(ULBs) during 2013-14 to 2017-18 is as indicated in **Table 1.23**:

Table 1.23: Devolution of Funds to ULBs (₹ in crore)

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | Total |
|--|-------------|-------------|-------------|-------------|-------------|--------------|
| Amount sanctioned | | | | | | |
| Grants-in-aid | 4.47 | 4.41 | 4.22 | 9.36 | 4.65 | 27.11 |
| 13 th FC/ 14 th FC Award | 0.51 | 1.81 | NA | NA | NA | 2.32 |
| Total | 4.98 | 6.22 | 4.22 | 9.36 | 4.65 | 29.43 |
| Expenditure | | | | | | |
| Grants-in-aid | 4.39 | 4.41 | 3.33 | 2.67 | 2.52 | 17.32 |
| 13 th FC/14 th FC Award | 0.51 | 1.63 | NA | NA | NA | 2.14 |
| Total | 4.90 | 6.04 | 3.33 | 2.67 | 2.52 | 19.46 |

Source: Director, Urban Affairs Department.

From 2013-14 to 2017-18, the State Government had sanctioned an amount of ₹ 29.43 crore but expenditure incurred by the Director, Urban Affairs, Meghalaya was ₹ 19.46 crore only. During 2017-18, though an amount of ₹ 4.65 crore was sanctioned under Grants-in-aid, the Director, Urban Affairs Department stated (September 2018) that only ₹ 2.52 crore was released to the Boards.

1.8 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (*i.e.* adequate provision for providing public services), efficiency of expenditure and the effectiveness (assessment of outlay-outcome relationships for select services).

1.8.1 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 goods²⁵. 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 1.24** 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 the selected social and economic services.

²⁵ As defined in Appendix 1.1: Part C under List of Term used in Chapter I of this Audit Report.

Table 1.24: Fiscal Priority of the State in 2014-15 and 2017-18

| | AE/GSDP | SSE/AE | ESE/AE | DE/AE | CE/AE | Education/AE | Health/AE |
|---|---------|--------|--------|-------|-------|--------------|-----------|
| Special Category States Average (Ratio) 2014-15 | 23.50 | 37.60 | 29.30 | 64.00 | 13.80 | 18.30 | 5.40 |
| Meghalaya (Ratio) 2014-15 | 31.96 | 36.81 | 34.63 | 71.44 | 15.06 | 17.53 | 7.69 |
| Special Category States Average (Ratio) 2017-18 | 25.80 | 34.90 | 28.90 | 58.90 | 15.50 | 18.20 | 6.20 |
| Meghalaya (Ratio) 2017-18 | 29.80 | 37.21 | 32.11 | 69.32 | 10.43 | 18.42 | 7.45 |

AE: Aggregate Expenditure (total expenditure), GSDP: Gross State Domestic Product, 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 1.24 analyses the fiscal priority of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during 2017-18, taking 2014-15 as the base year.

Government of Meghalaya contributed a higher portion of its GSDP by way of aggregate expenditure both in 2014-15 and 2017-18 *vis-a-vis* Special Category States. The developmental expenditure-aggregate expenditure, economic sector expenditure-aggregate expenditure and expenditure on health-aggregate expenditure ratios were higher in 2014-15 and 2017-18. The ratio of capital expenditure-aggregate expenditure was however, higher in 2014-15 but lower in 2017-18 and expenditure on education-aggregate expenditure and social sector expenditure-aggregate expenditure were lower in 2014-15 and higher in 2017-18 *vis-a-vis* Special Category States.

The trends in the efficiency of expenditure in selected Social and Economic Services are depicted in **Table 1.25** below:

Table 1.25: Efficiency of Expenditure Use in Selected Social and Economic Services
(In per cent)

| Social/Economic Infrastructure | 2016-17 | | 2017-18 | |
|--|---|---|---|---|
| | Ratio of Capital Expenditure to Total Expenditure ²⁶ | In Revenue Expenditure, the share of Salaries and Wages | Ratio of Capital Expenditure to Total Expenditure ²⁶ | In Revenue Expenditure, the share of Salaries and Wages |
| Social Services (SS) | 12.91 | 29.09 | 10.28 | 33.14 |
| General Education | 0.70 | 26.94 | 0.11 | 27.48 |
| Technical Education, Sports, Arts and Culture | 0.28 | 17.75 | 0.12 | 15.73 |
| Health and Family Welfare | 12.04 | 50.97 | 4.87 | 54.30 |
| Water Supply & Sanitation, Housing and Urban Development | 54.23 | 38.56 | 52.99 | 41.57 |
| Other SS | 8.69 | 11.57 | 2.52 | 20.68 |

²⁶ Total revenue and capital expenditure of the services concerned.

| Social/Economic Infrastructure | 2016-17 | | 2017-18 | |
|-----------------------------------|---|---|---|---|
| | Ratio of Capital Expenditure to Total Expenditure ²⁶ | In Revenue Expenditure, the share of Salaries and Wages | Ratio of Capital Expenditure to Total Expenditure ²⁶ | In Revenue Expenditure, the share of Salaries and Wages |
| Economic Services (ES) | 21.33 | 17.36 | 18.97 | 22.14 |
| Agriculture and Allied Activities | 1.65 | 51.04 | 0.90 | 56.56 |
| Irrigation & Flood Control | 51.99 | 63.10 | 34.63 | 61.65 |
| Energy | 0.00 | 0.00 | 21.82 | 0.00 |
| Transport | 75.28 | 1.76 | 72.19 | 2.17 |
| Other ES | 6.40 | 8.75 | 3.82 | 11.95 |

Source: Finance Accounts.

Social Services

The trends presented in **Table 1.25** reveal that development capital expenditure as a percentage of total expenditure constituted only 10.28 *per cent* in 2017-18, which indicated that the revenue expenditure was dominant. Compared to 2016-17, there was no improvement in the share of capital expenditure during 2017-18 under all the infrastructure of social services.

Of the revenue expenditure on social services, the share of salaries and wages component increased from 29.09 *per cent* in 2016-17 to 33.14 *per cent* in 2017-18. Within the priority sectors, salaries and wages component continued to have the dominant share under health and family welfare. Around 54 *per cent* of revenue expenditure under this service during 2017-18 was incurred on salaries and wages.

Economic Services

The share of capital expenditure on economic services to total of revenue and capital expenditure on economic services decreased to 18.97 *per cent* during 2017-18 from 21.33 *per cent* in 2016-17. Salaries and wages component within the revenue expenditure on economic services as a percentage of the total expenditure on economic sector increased from 17.36 *per cent* in 2016-17 to 22.14 *per cent* during 2017-18. During 2017-18, share of expenditure on salaries and wages under irrigation and flood control was 61.65 *per cent* of revenue expenditure.

1.8.2 Effectiveness of the Expenditure, i.e. Outlay-Outcome Relationship

According to the information furnished (September 2018) by the Directorate of Programme Implementation & Evaluation, GoM, the position of implementation of flagship programmes/schemes till 2017-18 is given in **Appendix 1.6**. Details of significant shortfall in achievement of targets are given in **Table 1.26** below:

Table 1.26: Shortfall of Achievement of Targets

| Sl. No. | Programme/ Scheme | Financial Outlays and Expenditure (₹ in crore) | | Physical Achievement/Outcome of the Programme up to March 2018 | | | |
|---------|--|---|--|--|---------------------|------------------|--|
| | | Funds available up to 31 March 2018 | Actual expenditure up to 31 March 2018 | Performance Indicator | Unit of measurement | Physical Targets | Achievement/ Outcome (Shortfall in per cent) |
| 1. | Prime Minister's Awas Yojana – G (PMAY –G) | 248.93 | 51.18 | Houses constructed | Nos. | 3715 | 1208 (67.48) |
| 2. | National Rural Livelihoods Mission (NRLM) | 9.89 | 13.41 | Self Help Groups | Nos. | 8178 | 3267 (60.05) |
| 3. | Deen Dayal Upadhyay Gram Jyoti Yojana (DDUGJY) | 100.64 | 39.11 | Electrification of villages (On-grid) | Nos. | 481 | 363 (24.53) |
| 4. | Special Nutrition Programme (SNP) | 181.15 | 165.05 | AWCs ²⁷ /Mini AWCs | Nos. | 6,20,890 | 5,85,099 (5.76) |
| 5. | Pradhan Mantri Gram Sadak Yojana (PMGSY) | 71.48 | 110.12 | Phase II-Phase VIII | Km | 450 | 209 (53.56) |
| 6. | Jawaharlal Nehru National Urban Renewal Mission (JNNURM) | 20.99 | 5.90 | Purchase of 240 buses | Nos. | 103 | 2 (98.06) |

Source: Directorate of Programme Implementation & Evaluation, GoM.

As can be seen from the table, shortfall in achievement of targets under the above programmes/schemes ranged between 5.76 per cent and 98.06 per cent, the maximum being under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) (purchase of buses) (98.06 per cent) followed by Prime Minister Awas Yojana -G (PMAY-G) (67.48 per cent).

1.9 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 and 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 and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* previous years.

1.9.1 Incomplete Projects

According to the information available in Appendix IX and Statement 16 of the Finance Accounts for the year 2017-18, as on 31 March 2018, there were 79 ongoing projects *i.e.* incomplete projects in the State. The department-wise information pertaining to incomplete projects as on 31 March 2018 even after passage of target date(s) of completion is given in **Table 1.27**.

²⁷ AWC : Angan-Wadi Centers.

Table 1.27: Department-wise Profile of Incomplete Projects (₹ in crore)

| Department | Number of incomplete projects | Initial estimated cost | Progressive expenditure on all incomplete projects (as on March 2018) | Estimated cost of Projects which were revised | | | Actual/ Progressive expenditure incurred on revised projects (as on March 2018) | Cost overrun |
|---------------------------|-------------------------------|------------------------|---|---|---------------|---------------|---|--------------|
| | | | | Number | Original Cost | Revised Cost | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 (7-6) |
| Public Works (R& B) | 53 | 1027.82 | 780.53 | 2 | 37.25 | 49.42 | 38.17 | 12.17 |
| Public Health Engineering | 15 | 902.56 | 218.45 | 2 | 40.60 | 62.13 | 48.49 | 21.53 |
| Health & Family Welfare | 11 | 48.59 | 41.74 | 2 | 3.55 | 4.53 | 3.91 | 0.98 |
| Total | 79 | 1978.97 | 1040.72 | 6 | 81.40 | 116.08 | 90.57 | 34.68 |

Source: Finance Accounts.

As can be seen from the above table, 79 projects stipulated for completion on or before March 2018 at an estimated cost of ₹ 1978.97 crore, remained incomplete after incurring an expenditure of ₹ 1040.72 crore. Out of 79 incomplete projects, six projects (two projects in respect of Public Works Department (Roads & Bridges), two projects in respect of Health & Family Welfare Department and two projects in respect of Public Health Engineering Department) had been revised during 2017-18. The cost of two project under PW (R&B) Department, viz. 'MBT of a road from Bholaganj to Nongjri & construction of a major bridge at Tharia river, Wahrew in Meghalaya' and 'Reconstruction of Bridge No. 3/1 on Shangpung-Sutnga Road' were revised by 32.67 per cent from ₹ 37.25 crore to ₹ 49.42 crore. However, the actual expenditure on these two incomplete projects till March 2018 was ₹ 38.17 crore i.e. 29.47 per cent (₹ 11.25 crore) lesser than the revised cost (₹ 49.42 crore).

The cost of two project under PHE Department, viz. 'Greater Rymbai Water Supply Scheme' and 'Modification of Pumping System, etc. of Greater Shillong Water Supply Scheme' were revised by 53.03 per cent from ₹ 40.60 crore to ₹ 62.13 crore. However, the actual expenditure on these two incomplete projects till March 2018 was ₹ 48.49 crore i.e. 28.13 per cent (₹ 13.64 crore) lesser than the revised cost (₹ 62.13 crore).

The cost of two project under H&FW Department, viz. 'Construction of Bhaitbari CHC' and 'Construction of Kasiabari PHC' were revised by 27.61 per cent from ₹ 3.55 crore to ₹ 4.53 crore. However, the actual expenditure on these two incomplete project till March 2018 was ₹ 3.91 crore i.e. 15.86 per cent (₹ 0.62 crore) lesser than the revised cost (₹ 4.53 crore).

Effective steps need to be taken to complete all these above projects without further delay to avoid cost overrun due to time overrun.

1.9.2 Financial Results of Irrigation Works

The State Government had not declared any irrigation project as commercial/productive. Hence, the financial results in respect of irrigation projects have not been worked out.

1.9.3 Investment and Returns

As per Statements 8 and 19 of Finance Accounts for the year 2017-18, as on 31 March 2018, the State Government had invested ₹ 2628.56 crore which includes two Statutory Corporations (₹ 92.77 crore), nine Government Companies (₹ 2427.10 crore) and in 1444 Co-operative Banks and Societies (₹ 108.69 crore). Details are given in **Table 1.28**.

Table 1.28: Return on Investment

| Investment/Return/Cost of Borrowings | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|---------------|---------------|---------------|----------------|----------------|
| Investment at the end of the year (₹ in crore) | | | | | |
| (i) Statutory Corporations | 83.41 | 83.41 | 91.29 | 91.26 | 92.77 |
| (ii) Government Companies | 254.36 | 273.90 | 273.90 | 2274.58 | 2427.10 |
| (iii) Co-operative Societies | 92.01 | 97.68 | 101.74 | 105.79 | 108.69 |
| Total | 429.78 | 454.99 | 466.93 | 2471.63 | 2628.56 |
| Return (₹ in crore) | 0.13 | 0.13 | 0.07 | 0.11 | 0.11 |
| Return (<i>per cent</i>) | 0.03 | 0.03 | 0.02 | 0.02 | 0.01 |
| Average rate of interest paid on Government borrowing (<i>per cent</i>) | 6.61 | 6.22 | 6.70 | 6.47 | 6.40 |
| Difference between interest rate paid and return (<i>per cent</i>) | 6.58 | 6.19 | 6.68 | 6.45 | 6.39 |

Of the two Statutory Corporations, bulk of the investment (₹ 90.63 crore) was made in the Meghalaya Transport Corporation Limited during 1986-2018 which had accumulated loss of ₹ 99.62 crore till 2013-14. Out of ₹ 2427.10 crore invested in Government Companies, ₹ 2156.93 crore was invested in Meghalaya Energy Corporation Limited during 2012-13 to 2017-18, which had accumulated loss of ₹ 1510.82 crore, ₹ 162.79 crore was invested in Mawmluh Cherra Cements Limited during 1958-2015, which had accumulated loss of ₹ 155.06 crore up to 2016-17. Out of ₹ 2427.10 crore invested in Government Companies, ₹ 2427.05 crore was invested in eight loss making Government Companies, which had accumulated loss of ₹ 1746.14 crore, as detailed in **Table 1.29** below:

Table 1.29: Details of loss making Government Companies (₹ in crore)

| Sl. No. | Name of Companies | Amount invested up to March 2018 | Invested up to | Accumulated loss | Period up to ²⁸ |
|---------|--|----------------------------------|----------------|------------------|----------------------------|
| 1. | Mawmluh-Cherra Cements Limited (MCCL) | 162.79 | 2014-15 | 155.06 | 2016-17 |
| 2. | Meghalaya Energy Corporation Limited (MeECL) | 2156.93 | 2017-18 | 1510.82 | 2015-16 |
| 3. | Meghalaya Industrial Development Corporation (MIDC) | 91.59 | 2014-15 | 45.40 | 2014-15 |
| 4. | Meghalaya Mineral Development Corporation Limited (MMDC) | 2.32 | 2001-02 | 6.68 | 2017-18 |

²⁸ Working results for the subsequent years are in arrears.

| Sl. No. | Name of Companies | Amount invested up to March 2018 | Invested up to | Accumulated loss | Period up to ²⁸ |
|---------|---|----------------------------------|----------------|------------------|----------------------------|
| 5. | Forest Development Corporation of Meghalaya Limited (FDCML) | 1.97 | 2001-02 | 5.46 | 2010-11 |
| 6. | Meghalaya Government Construction Corporation Limited (MGCCCL) | 0.75 | 2000-01 | 8.66 | 2017-18 |
| 7. | Meghalaya Tourism Development Corporation Limited (MTDCL) | 7.96 | 1999-02 | 9.55 | 2014-15 |
| 8. | Meghalaya Handloom and Handicraft Development Corporation Limited (MHHDCCL) | 2.74 | 2009-10 | 4.51 | 2014-15 |
| | Total | 2427.05 | | 1746.14 | |

Further, out of ₹ 108.69 crore invested in co-operative banks/societies, ₹ 57.97 crore was invested in 1,141 loss making co-operative banks/societies, which had accumulated losses of ₹ 7.48 crore up to 31 March 2010. Working results of 126 co-operative banks/societies had not been intimated (October 2018). Non-preparation of working results are a cause of serious concern as it may 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 2013-18. However, Government paid interest on its borrowings at an average rate of interest of 6.22 *per cent* to 6.70 *per cent* during 2013-18. 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 close those which are no longer viable.

1.9.3.1 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 2018 is stated in **Table 1.30** below:

Table 1.30: Equity, Loans, Guarantees outstanding as per Finance Accounts *vis-a-vis* records of SPSUs
(₹ in crore)

| Outstanding in respect of | Amount as per Finance Accounts | Amount as per records of SPSUs | Difference |
|---------------------------|--------------------------------|--------------------------------|--------------|
| Equity | 2519.82 ²⁹ | 2551.78 | 18.00 |
| Loans | Not available ³⁰ | 577.40 | Not workable |
| Guarantees | 775.19 ³¹ | 775.17 | 0.02 |

Audit observed that the difference in equity occurred in respect of seven SPSUs³² and some of differences were pending reconciliation since 2012-13. The Principal Secretary, Finance Department, Government of Meghalaya as well as the management of the SPSUs concerned were apprised after every three months about the differences from time to time and stressed upon the need for early reconciliation. However, no significant progress was noticed in this regard. The matter was also regularly taken up with the Chief Secretary, Government of Meghalaya after every three months to take necessary steps. It was further noticed that out of the seven SPSUs, accounts of five SPSUs were in arrears ranging between one and four years. The Government and the SPSUs concerned should take concrete steps to reconcile the differences in a time-bound manner. During the exit conference, the Additional Chief Secretary assured that the matter would be taken up with the State PSUs concerned.

1.9.4 Loans and Advances by the State Government

In addition to investments in co-operative societies, corporations and companies, 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 1.31** presents the outstanding loans and advances, interest receipts *vis-à-vis* interest payments during the last five years.

²⁹ Includes ₹ 2.14 crore in Meghalaya State Warehousing Corporation (MSWC), ₹ 90.63 crore in Meghalaya Transport Corporation (MTC), ₹ 91.59 crore in MIDC, ₹ 162.79 crore in MCCL, ₹ 2.32 crore in MMDCL, ₹ 2156.93 crore in MeECL, ₹ 1.97 crore in FDCML, ₹ 0.75 crore in MGCL, ₹ 7.96 crore in MTDC and ₹ 2.74 crore in MH&HDCL.

³⁰ 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.

³¹ Guarantee commitment given by the State Government against loans were ₹ 775.19 crore (Principal: ₹ 768.99 crore and interest: ₹ 6.20 crore) for MeECL. Guarantee commitment given by the State Government against loans were ₹ 775.19 crore for MeECL.

³² Forest Development Corporation of Meghalaya Limited, Meghalaya Industrial Development Corporation, Meghalaya Energy Corporation Limited, Meghalaya Handloom & Handicraft Development Corporation Limited, Meghalaya Basin Management Agency, Meghalaya Transport Corporation and Meghalaya Infrastructure Development & Finance Corporation Limited.

Table 1.31: Average Interest Received on Loans and Advances given by the State Government (₹ in crore)

| Particulars | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|--|---------------|---------------|---------------|---------------|---------------|
| Opening Balance | 568.72 | 590.57 | 626.92 | 766.19 | 778.21 |
| Amount advanced during the year | 42.33 | 56.11 | 158.35 | 30.83 | 22.05 |
| Amount recovered during the year | 20.48 | 19.76 | 19.08 | 18.81 | 17.45 |
| Closing Balance | 590.57 | 626.92 | 766.19 | 778.21 | 782.81 |
| Net Addition | 21.85 | 36.35 | 139.27 | 12.02 | 4.60 |
| Interest Receipts | 6.76 | 8.28 | 7.69 | 8.27 | 7.61 |
| Interest received as <i>per cent</i> to outstanding Loans and Advances | 1.17 | 1.36 | 1.10 | 1.07 | 0.98 |
| Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government | 6.61 | 6.22 | 6.70 | 6.47 | 6.40 |
| Difference between interest payments and interest receipts (<i>per cent</i>) | 5.44 | 4.86 | 5.60 | 5.41 | 5.43 |

Loans and advances given by the State Government during 2017-18 decreased by 28.48 *per cent* over the previous year. The total outstanding loans and advances as on 31 March 2018 was ₹ 782.81 crore. Out of the loans of ₹ 22.05 crore advanced during 2017-18, ₹ 1.12 crore was given for power projects and ₹ 15.91 crore was given to Government servants and ₹ 5.02 crore to others. Interest receipt of ₹ 7.61 crore on loans and advances given by GoM during 2017-18 constituted 0.97 *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 6.40 *per cent* for the outstanding liabilities.

1.9.5 Cash Balances and Investment of Cash Balances

Table 1.32 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.32: Cash Balances and Investment of Cash Balances (₹ in crore)

| Particulars | Opening balance on 01 April 2017 | Closing balance on 31 March 2018 |
|--|----------------------------------|----------------------------------|
| (a) General Cash Balance- | | |
| Cash in Treasuries | 24.70 | 33.20 |
| Deposits with Reserve Bank | -54.53 | 2.10 |
| | -29.83 | 35.30 |
| Investments held in Cash Balance investment account | 1369.24 | 1680.66 |
| Total (a) | 1339.41 | 1715.96 |
| (b) Other Cash Balances and Investments | | |
| Cash with departmental officers of Forest and Public Works Department | 0.25 | 0.68 |
| Permanent advances for contingent expenditure with departmental officers | 0.03 | 0.04 |
| Investment of earmarked funds | 256.59 | 313.11 |
| - <i>Sinking Fund Investment Account</i> | 244.82 | 291.21 |
| - <i>Other Development and Welfare Fund</i> | 11.77 | 21.90 |
| Total (b) | 256.87 | 313.83 |
| Grand Total (a) + (b) | 1596.28 | 2029.79 |

Cash balances (excluding investment of earmarked funds) of the State Government at the end of the current year increased by 28 *per cent* from ₹ 1339.69 crore in 2016-17 to ₹ 1715.68 crore in 2017-18. The government borrowed ₹ 1225.14 crore in the

same year. The interest earned on the surplus cash was merely 2.67 *per cent* whereas interest paid on Government borrowings was 6.40 *per cent*. 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.

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 (WMA) – Ordinary and Special – from Reserve Bank of India (RBI) has been put in place. Under an agreement with the RBI, the State Government was to maintain a minimum cash balance of ₹ 21.00 lakh with the Bank.

During the five-year period ending 2017-18, the Government did not have to resort to WMA and overdraft, except during 2013-14 (₹ 157.09 crore), indicating comfortable position of cash balances of the State in four out of five years.

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 2018, compared with the corresponding position on 31 March 2017. 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 liabilities/debt 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 1.9** and **1.10**.

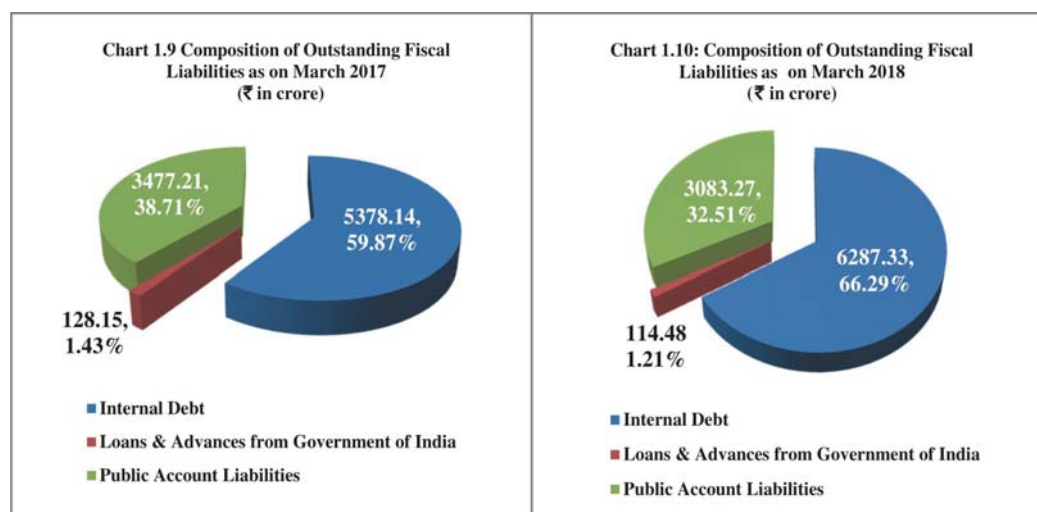


Table 1.33 gives the fiscal liabilities/debt of the State, their rate of growth, the ratio of these liabilities to GSDP, revenue receipts and State's own resources as also the buoyancy of fiscal liabilities with reference to these parameters.

Table 1.33: Fiscal Liabilities – Basic Parameters

| Particulars | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|---------|---------|---------|---------|---------|
| Fiscal Liabilities ³³ (₹ in crore) | 6269.23 | 6751.46 | 7154.68 | 8983.50 | 9485.08 |
| Rate of Growth (<i>per cent</i>) | 26.28 | 7.69 | 5.97 | 25.56 | 5.58 |
| Ratio of Fiscal Liabilities to | | | | | |
| GSDP (<i>per cent</i>) | 27.33 | 29.06 | 27.55 | 31.58 | 29.98 |
| Revenue Receipts (<i>per cent</i>) | 100.04 | 105.03 | 101.58 | 100.50 | 102.28 |
| Own Resources (<i>per cent</i>) | 405.13 | 526.44 | 556.60 | 480.08 | 522.10 |
| Buoyancy of Fiscal Liabilities to | | | | | |
| GSDP (ratio) | 5.40 | 5.96 | 0.51 | 2.68 | 0.50 |
| Revenue Receipts (ratio) | 1.99 | 2.98 | 0.62 | 0.95 | 1.49 |
| Own Resources (ratio) | 1.63 | -0.45 | 25.96 | 0.56 | -0.10 |

Fiscal liabilities of ₹ 9485.08 crore as on 31 March 2018 consist of internal debt, *e.g.*, market loans, loans from financial institutions, Special Securities issued to National Small Savings Fund, *etc.* (₹ 6287.33 crore), loans and advances from Central Government (₹ 114.48 crore), small savings, provident funds, *etc.* (₹ 1531.52 crore) and other liabilities, *e.g.*, Reserve Funds and Deposits (₹ 1551.75 crore).

³³ Includes Internal debt, Loans and Advances from Government of India, Small Savings, Provident Funds, *etc.*, Reserve Funds and Deposits.

Fiscal liabilities of the State increased from ₹ 6269.23 crore as on 31 March 2014 to ₹ 9485.08 crore as on 31 March 2018. Compared to previous year, the fiscal liabilities at the end of 2017-18 increased by 5.58 *per cent* (₹ 501.58 crore) mainly due to increase in internal debt in the form of market loans by ₹ 919.81 crore (22.01 *per cent*).

The ratio of fiscal liabilities to GSDP decreased from 31.58 *per cent* in 2016-17 to 29.98 *per cent* in 2017-18. These liabilities were a little above the revenue receipts and over five times of the State's own resources at the end of 2017-18. The buoyancy of these liabilities with respect to GSDP during the year was 0.50 indicating that for each one *per cent* increase in GSDP, fiscal liabilities increased by 0.50 *per cent*.

The State Government in its Medium Term Fiscal Plan (MTFP) Statement projected the total Outstanding Liabilities-GSDP ratio for the year 2017-18 as 31.14 *per cent*. As can be seen from the **Table 1.33** above, the Fiscal Liabilities-GSDP ratio of the State (29.98 *per cent*) was higher than the limit fixed by the 14th FC (27.62 *per cent*) and in the MTF Plan (25.02 *per cent*) but lower than the MTFP Statement (31.14 *per cent*).

1.10.3 Transactions under Reserve Funds

Reserves and Reserve Funds are created for specific and well defined purposes under the 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 may be further classified as 'Funds carrying interest' and 'Funds not carrying interest'.

The total accumulated balance as on 31 March 2018 was ₹ 325.48 crore (active funds: ₹ 323.44 crore; inactive funds: ₹ 2.04 crore) in ten reserve funds. However, only three funds were active and seven funds were inactive for more than 20 years. Investment out of these funds was ₹ 313.11 crore, which was 96.20 *per cent* of the accumulated balance. Out of the remaining funds not invested, ₹ 4.70 crore pertained to State Disaster Response Fund (SDRF) balance as on 31 March 2018. Further, as the SDRF is an interest bearing Reserve Fund, the liability of interest payment rests with the State Government. Non-payment of interest resulted in overstatement of Revenue Surplus to that extent. Action needs to be taken to close the inoperative reserve funds and remit the balances into the Consolidated Fund of the State.

During 1999-2000, the State Government constituted a 'Consolidated Sinking Fund' for redemption and amortisation of open market loans. During 2017-18, the Government had appropriated ₹ 46.38 crore from revenue and credited to this fund for investment in the Government of India Securities.

During the exit conference, the Finance Department stated that the matter was still pending since the Department could not trace the original records.

1.10.4 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 of the State, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2013-14 are given in **Table 1.34**.

Table 1.34: Guarantees given by GoM (₹ in crore)

| Particulars | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|---------|---------|---------|---------|---------|
| Maximum amount guaranteed | 1188.64 | 1054.43 | 868.09 | 860.04 | 1139.94 |
| Outstanding amount of guarantees (including interest) | 1610.55 | 1173.81 | 1042.19 | 983.11 | 820.68 |
| Percentage of maximum amount guaranteed to total revenue receipts | 18.97 | 16.40 | 12.33 | 9.62 | 12.29 |

Government had guaranteed loans raised by various Corporations and others, which at the end of 2017-18 stood at ₹ 820.68 crore (including interest). Bulk of the guaranteed amount (₹ 775.19 crore) was outstanding against the power sector for repayment of principal and payment of interest on loans from Rural Electrification Corporation (₹ 221.33 crore), and short term loans, bonds, *etc.* (₹ 553.86 crore). The outstanding amount of guarantees is in the nature of contingent liabilities, which was 12.29 *per cent* of revenue receipts of the State during 2017-18. In order to provide for sudden discharge of the States' obligations on guarantees, the 13th FC recommended that State should set up guarantee redemption funds. As per the Fiscal Policy Strategy Statement for the year 2017-18, to service contingent liabilities arising out of the invocation of State Government Guarantees, the Government had constituted the Meghalaya Guarantee Redemption Fund to be managed by the Reserve Bank of India.

As on 31 March 2018, commission/fee amounting to ₹ 36.14 crore for the guarantees given by the State Government was receivable.

The figure in respect of guarantees outstanding in respect of SPSUs as per their records (₹ 775.17 crore) differs with that shown in the Finance Accounts (₹ 775.19 crore). However, the discrepancies had not been reconciled as discussed in paragraph 1.9.3.1 above.

1.11 Debt Management

1.11.1 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 the 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 maturity profile of State Government securities. The rate of growth of GSDP ranged between 1.29 *per cent* and 11.76 *per cent* during 2013-14 to 2017-18 whereas average interest rate on outstanding debt ranged between 6.22 *per cent* and 6.70 *per cent* during 2013-14 to 2017-18. GSDP growth rate since 2015-16 is much more than the interest paid by the State Government on public debt. **Table 1.35** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2013-14.

Table 1.35: Debt Sustainability: Indicators and Trends (₹ in crore)

| Indicators of Debt Sustainability | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|---------|---------|---------|---------|---------|
| Outstanding debt (year-end) | 6269.23 | 6751.46 | 7154.68 | 8983.50 | 9485.08 |
| Rate of Growth of Outstanding debt | 26.28 | 7.69 | 5.97 | 25.56 | 5.58 |
| Gross State Domestic Product(GSDP) | 22938 | 23235 | 25967 | 28446 | 31636 |
| Rate of Growth of GSDP | 4.87 | 1.29 | 11.76 | 9.55 | 11.21 |
| Debt/GSDP(<i>in per cent</i>) | 27.33 | 29.06 | 27.55 | 31.58 | 29.98 |
| Tax Revenue | 949.30 | 939.19 | 1056.82 | 1186.81 | 1450.10 |
| Debt Repayment/Tax Revenue (<i>in per cent</i>) | 173.75 | 236.46 | 209.55 | 181.12 | 209.91 |
| Average interest rate of Outstanding debt | 6.61 | 6.22 | 6.70 | 6.47 | 6.40 |
| Interest Paid/Revenue Receipts(IP/RR) | 5.93 | 6.30 | 6.61 | 5.84 | 6.37 |
| Debt Repayment/Debt Receipts | 0.64 | 0.97 | 1.03 | 0.62 | 1.03 |
| Total Debt Receipts | 2582.57 | 2297.91 | 2151.92 | 3454.69 | 2954.36 |
| Total Debt Payments (including interest) | 1649.42 | 2220.78 | 2214.57 | 2148.10 | 3043.96 |
| Net Debt available to the State | 933.15 | 77.13 | -62.65 | 1306.59 | -89.60 |

Table 1.35 reveals that the Debt-GSDP ratio ranged between 27.33 *per cent* and 31.58 *per cent* during 2013-14 to 2017-18, whereas Debt-Repayment as a percentage of Tax Revenue ranged between 173.75 *per cent* and 236.46 *per cent* during 2013-18. At 29.98 *per cent*, the Debt³⁴-GSDP ratio during 2017-18 (**Appendix 1.2**) was well above the target of outstanding debt to GSDP (27.62 *per cent*) set forth by 14th FC for the State while below the assessment made by the State Government in the MTFP Statement (31.14 *per cent*). The trends in net Debt available to the State indicate the oscillation between positive and negative magnitudes. The net Debt available to the State has been negative in two out of five-year period ending 2017-18 indicating that the revenue receipts were not sufficient to meet the primary expenditure and interest burden. Compared to 2016-17, the situation had deteriorated during 2017-18, when the net Debt available to the State had turned negative at ₹ 89.60 crore against ₹ 1306.59 crore during 2016-17.

³⁴ Internal debt, Loans & Advances from GoI and Other Liabilities (Small Savings, Provident Funds, Reserve Funds, Deposits).

The trends in debt redemption ratio fluctuated widely during 2013-18 and increased to 103.03 *per cent* during 2017-18 against 62.18 *per cent* during the previous year (**Appendix 1.2**). During the current year, against total debt receipts of ₹ 2954.36 crore, Government repaid ₹ 3043.96 crore as principal and interest on internal debt (₹ 770.88 crore), loans and advances from Central Government (₹ 36.19 crore) and other liabilities³⁵ (₹ 2236.89 crore), as a result of which no borrowed fund was available at the end of the year. The negative availability of borrowed fund was indicative of poor fiscal management of the State Govt. as the borrowed funds could not be used for any productive expenditure rather the entire borrowing and additional resources out of the receipts were used to service debt and other liabilities.

1.11.2 Debt Profile

As per Annexure to Statement 17 of the Finance Accounts for the year 2017-18, the maturity profile of the State debt is as indicated in **Table 1.36**.

Table 1.36: Maturity Profile of State Debt (₹ in crore)

| Debt maturity | Maturity Profile | Amount | | | Per cent |
|---------------------------|-------------------------|-----------------|---------------------------|-----------------|------------|
| | | Internal Debt | Loans & Advances from GoI | Total | |
| During 2018-19 | 0-1 year | 374.11 | 20.62 | 394.73 | 3.49 |
| Between 2019-20 & 2020-21 | Over 1 year to 2 years | 717.66 | 41.26 | 758.92 | 6.71 |
| Between 2021-22 & 2022-23 | Over 2 years to 5 years | 938.29 | 41.46 | 979.75 | 8.66 |
| Between 2023-24 & 2024-25 | Over 5 years to 7 years | 1079.80 | 41.02 | 1120.82 | 9.91 |
| 2025-26 onwards | Over 7 years and above | 8003.37 | 55.56 | 8058.93 | 71.24 |
| Total | | 11113.23 | 199.92 | 11313.15 | 100 |

The maturity profile of outstanding stock of public debt as on 31 March 2018 indicated that out of the outstanding public debt of ₹ 11,313.15 crore, 28.76 *per cent* (₹ 3254.22 crore) is payable within the next seven years. The remaining 71.24 *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 98.23 *per cent* (₹ 11,113.23 crore).

During 2017-18, debt repayments (₹ 3043.96 crore) is more than the debt receipts (₹ 2954.36 crore) and this practice should be followed strictly.

1.12 Fiscal Imbalances

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 represent 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 2017-18.

³⁵ Small Savings, Provident Funds, Reserve Funds, Deposits, *etc.*

1.12.1 Trends in Deficits

Charts 1.11 and 1.12 present the trends in deficit indicators over the period 2013-18.

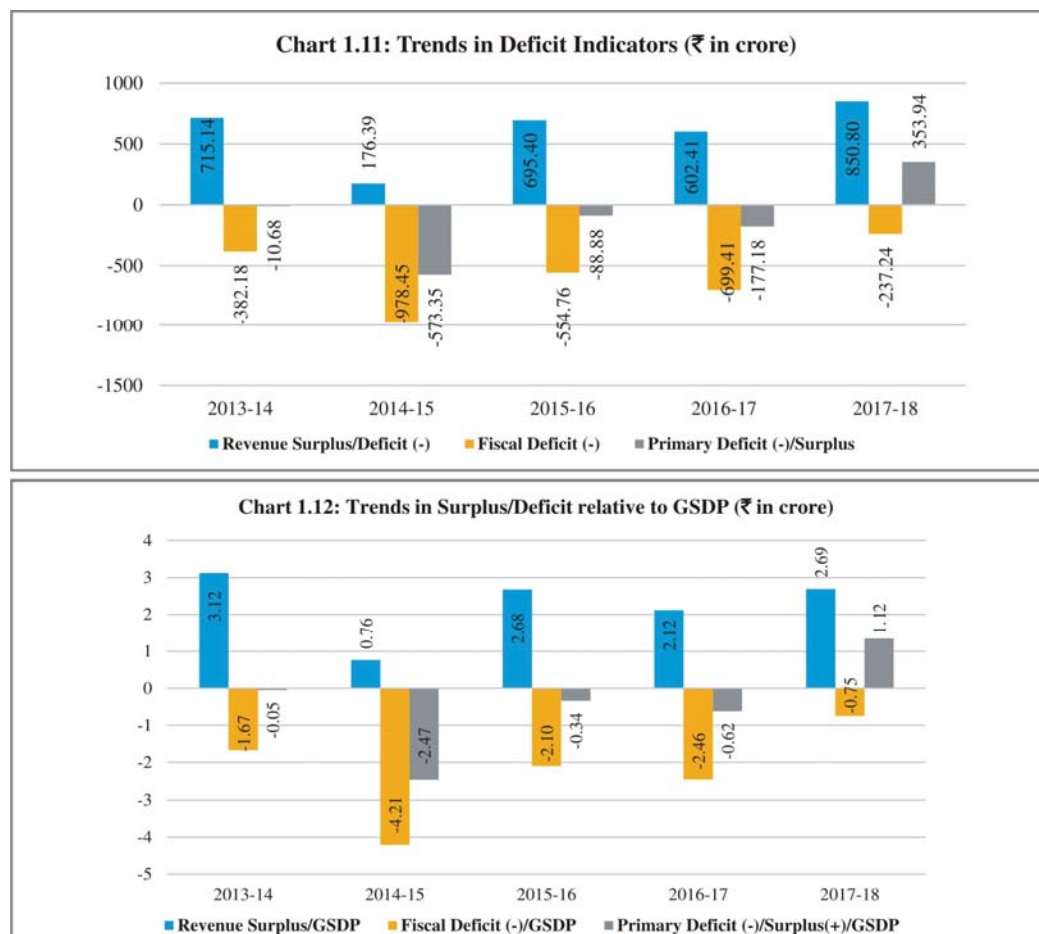


Chart 1.11 reveals that the State was able to attain a revenue surplus of ₹ 850.80 crore during 2017-18, which was 41.23 per cent (₹ 248.39 crore) more than the revenue surplus of previous year (₹ 602.41 crore). The rise in revenue surplus by ₹ 248.39 crore during 2017-18 from previous year was the effect of increase of revenue receipts (₹ 334.53 crore) as well as corresponding increase in revenue expenditure (₹ 86.14 crore). The State Government was successful in fulfilling the commitment made in the MFRBM Act, (as amended) to maintain revenue surplus during 2017-18, as recommended by the 14th FC.

The fiscal deficit, which represents the total borrowings of the Government and total net debt available to the State significantly decreased from ₹ 699.41 crore in 2016-17 to ₹ 237.24 crore in 2017-18. This was mainly due to the fact that the increase in revenue expenditure was less 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 3.72 per cent against increase of 26.84 per cent during the previous year, while the increase in revenue expenditure was 1.03 per cent against increase of 31.33 per cent during previous year.

As per the recommendations of the 14th FC, fiscal deficit of all States should be anchored to an annual limit of 3.25 *per cent* of GSDP. GoM also agreed in the MFRBM Act (as amended) to reduce fiscal deficit to 3 *per cent* of GSDP or less during 2016-20 of the award period of the 14th FC. The fiscal deficit-GSDP ratio was at 0.75 *per cent* during 2017-18 and thus, GoM succeeded to restrict this ratio as per recommendation of the 14th FC (3.25 *per cent*) and its own commitment in the amended MFRBM Act.

The primary deficit of ₹ 177.18 crore of the State during 2016-17 took a turnaround in 2017-18 and resulted in primary surplus of ₹ 353.94 crore. A sharp decrease of ₹ 462.17 crore in fiscal deficit and the moderate increase in interest payment of ₹ 68.95 crore resulted in primary surplus of ₹ 353.94 crore during the current year.

1.12.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.37**.

Table 1.37: Components of Fiscal Deficit and its Financing Pattern (₹ in crore)

| Sl. No. | Particulars | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|--|---|---------------|---------------|---------------|---------------|----------------------------|
| Decomposition of Fiscal Deficit (1 + 2 + 3) | | | | | | |
| Fiscal Deficit | | 382.18 | 978.45 | 554.76 | 699.41 | 237.24³⁶ |
| 1. | Revenue Surplus (+)/ Deficit (-) | 715.14 | 176.39 | 695.40 | 602.41 | 850.80 |
| 2. | Net Capital Outlay | 1075.47 | 1118.49 | 1110.89 | 1289.80 | 983.44 |
| 3. | Net Loans and Advances | 21.85 | 36.35 | 139.27 | 12.02 | 4.60 |
| Financing Pattern of Fiscal Deficit^(a) | | | | | | |
| 1. | Market Borrowing | 286.55 | 442.92 | 459.69 | 718.33 | 919.81 |
| 2. | Loans from GoI | - 19.26 | -15.05 | - 17.61 | - 15.64 | - 13.67 |
| 3. | Special Securities issued to NSSF | 69.02 | 84.12 | 59.76 | - 42.38 | 45.38 |
| 4. | Loans from Financial Institutions | - 2.51 | 12.31 | - 2.25 | 135.71 | 34.76 |
| 5. | Small Savings, PF, etc. | 127.17 | 133.28 | 131.74 | 141.17 | 157.71 |
| 6. | Reserve Funds | 18.08 | - 13.70 | 6.74 | 2.07 | - 23.89 |
| 7. | Deposits and Advances | 825.60 | - 161.66 | - 234.85 | 889.56 | - 527.76 |
| 8. | Suspense and Miscellaneous | - 76.71 | 82.28 | - 55.40 | 13.09 | 8.57 |
| 9. | Remittances | 3.15 | - 8.34 | - 2.70 | 1.26 | 4.09 |
| 10. | Increase (+) / Decrease (-) in Cash Balances | 848.91 | - 422.29 | - 209.64 | - 1143.76 | - 467.76 |
| 11. | Appropriation to Contingency Fund | - | - | - | - | 100.00 |
| Fiscal Deficit | | 382.18 | 978.45 | 554.76 | 699.41 | 237.24 |
| Fiscal Deficit (percentage to GSDP) | | 1.67 | 4.21 | 2.14 | 2.46 | 0.75 |

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

There were fiscal deficits during the five year period ending 2017-18, which peaked at ₹ 978.45 crore during 2014-15. A redeeming feature of the fiscal deficit is that the

³⁶ Inclusive of ₹ 100.00 crore transferred to Contingency Fund during the year.

State Government borrows fund from market *etc.* to finance Capital Expenditure. The fiscal deficit increased to ₹ 978.45 crore during 2014-15. However, it significantly decreased to ₹ 237.24 crore during 2017-18.

During 2017-18, fiscal deficit of ₹ 237.24 crore was financed from net market borrowings (₹ 919.81 crore), which was sufficient to finance the fiscal deficit alone. In spite of revenue surplus of ₹ 850.80 crore during the year, there was a decrease in capital expenditure, which is bad for State Finances. The increase of 28.05 *per cent* (₹ 201.48 crore) in market borrowings during current year over previous year for financing the deficit increased the interest burden for the year 2017-18.

It is evident from the above that Government raised excess market loans than was required for financing its deficit. During 2017-18, fiscal deficit was over financed through market borrowing and other heads of public account leading to an increase in cash balances from ₹ 1339.69 crore in 2016-17 to ₹ 1716.68 crore in 2017-18.

1.12.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital outlay as well as loans and advances would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicated the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicated that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (**Table 1.38**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.38: Primary Deficit/Surplus – Bifurcation of Factors (₹ in crore)

| Year | Non-debt Receipt | Primary Revenue Expenditure | Capital Outlay | Loans and Advances | Primary Expenditure ³⁷ | Primary Revenue Surplus | Primary Deficit (-)/ Surplus (+) |
|---------|------------------|-----------------------------|----------------|--------------------|-----------------------------------|-------------------------|----------------------------------|
| 1 | 2 | 3 | 4 | 5 | 6 (3+4+5) | 7 (2-3) | 8 (2-6) |
| 2013-14 | 6287.21 | 5180.09 | 1075.47 | 42.33 | 6297.89 | 1107.12 | - 10.68 |
| 2014-15 | 6448.01 | 5846.76 | 1118.49 | 56.11 | 7021.36 | 601.25 | - 573.35 |
| 2015-16 | 7062.21 | 5881.85 | 1110.89 | 158.35 | 7151.09 | 1180.36 | - 88.88 |
| 2016-17 | 8957.76 | 7814.31 | 1289.80 | 30.83 | 9134.94 | 1143.45 | -177.18 |
| 2017-18 | 9290.93 | 7931.50 ³⁸ | 983.44 | 22.05 | 8836.99 | 1359.43 | 353.94 |

The bifurcation of the factors resulting into primary deficit or surplus of the State during 2013-18 revealed that-

³⁷ Primary expenditure of the State, defined as the total expenditure net of the interest payments, indicates the expenditure incurred on transactions undertaken during the year.

³⁸ Inclusive of ₹ 100.00 crore transferred to Contingency Fund during the year.

- Non-debt receipts increased by 47.78 *per cent* from ₹ 6287.21 crore in 2013-14 to ₹ 9290.93 crore in 2017-18.
- During the period from 2013-14 to 2017-18, total primary expenditure increased by 40.32 *per cent* from ₹ 6297.89 crore to ₹ 8836.99 crore.
- The primary revenue surplus increased by 31.82 *per cent* from ₹ 1107.12 crore in 2013-14 to ₹ 1359.43 crore in 2017-18.
- In all the four years (2013-17), the State experienced primary deficit. During 2013-17, the non-debt receipts of the State were sufficient to meet the primary revenue expenditure³⁹ and loans and advances, but was not adequate for expenditure on capital outlay.
- During the current year, there was primary surplus of ₹ 353.94 crore which indicated that the non-debt receipts of the State were not only sufficient to meet the primary revenue expenditure as well as capital expenditure and loans and advances, but also left some amount for other purposes. The primary surplus during 2017-18 was because of decline in capital expenditure by ₹ 306.36 crore and loans and advances by ₹ 8.78 crore as compared to the previous year.

1.13 Significant Findings

The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit, primary deficit. During 2017-18, though the State continued to maintain the status of revenue surplus, this surplus increased to ₹ 850.80 crore against ₹ 602.41 crore during 2016-17. The revenue surplus was utilised to partially finance the capital expenditure of ₹ 983.44 crore during the year. The fiscal deficit of the State had decreased significantly during 2017-18 compared to previous year. Primary deficit turned into primary surplus during the current year.

Revenue Receipts

Revenue receipts during 2017-18 increased by 3.74 *per cent* (₹ 334.53 crore) over previous year. The tax revenue receipts fell short of normative assessment made by 14th FC by 27.42 *per cent* and the non-tax revenue was 52.45 *per cent* lower than the target of 14th FC. State's own resources (tax and non-tax revenue) during 2017-18 (₹ 1816.73 crore) were 2.91 *per cent* less than those of previous year (₹ 1871.25 crore) and constituted only 20.56 *per cent* of the revenue receipts of the year. The Central transfers comprising State's share of central taxes and Grants-in-aid from Government of India increased by ₹ 389.05 crore in 2017-18 compared to previous years and contributed 80.41 *per cent* of the revenue receipts during the year, indicating central transfers being the key in revenue receipts of the State.

³⁹ Primary revenue expenditure represents revenue expenditure less interest payments.

Revenue and Total Expenditure

Compared to the previous year, the revenue expenditure during 2017-18 increased by 0.97 *per cent*. The expenditure pattern of the State revealed that though the revenue expenditure as a percentage of total expenditure increased from 86.32 *per cent* in 2016-17 to 89.34 *per cent* in the current year, it hovered around 89 *per cent* during the period (2013-18) leaving inadequate resources for expansion of services and creation of assets. Further, expenditure on salaries and wages, pensions, interest payments and subsidies continued to consume a large share of revenue expenditure which was 48.25 *per cent* (₹ 4063.64 crore) during 2017-18. Capital outlay during 2017-18 (₹ 983.44 crore) decreased by ₹ 306.36 crore (23.75 *per cent*) less than the previous year. It decreased to 10.43 *per cent* of total expenditure during 2017-18 against 13.36 *per cent* during the preceding year and also fell short by 43.25 *per cent* (₹ 749.62 crore) of the projection (₹ 1733.06 crore) made by the State Government in its budget estimate for the year.

In view of this, it is recommended that the State needs to give more priority to capital expenditure and ensure that it does not decrease over the years.

Fiscal Correction Path

The revenue surplus increased to ₹ 850.80 crore during 2017-18 compared to the revenue surplus of ₹ 602.41 crore during 2016-17. The fiscal deficit decreased from ₹ 699.41 crore in 2016-17 to ₹ 237.24 crore during the current year. The last year primary deficit of ₹ 177.18 crore took a turnaround resulting in primary surplus of ₹ 353.94 crore during the current year. The fiscal deficit-GSDP ratio stood at -0.75 *per cent* during 2017-18 within the ceiling of 3 *per cent* or less prescribed in the MFRBM Act, 2006 (as amended) and also the recommendation of the 14th FC to maintain this ratio at 3.25 *per cent* of GSDP. The prevalence of fiscal deficit during 2013-18 indicated continued reliance of the State on borrowed funds resulting in increasing fiscal liabilities or debt of the State over the period 2013-18. Fiscal liabilities or debt increased by 5.58 *per cent* during 2017-18 as compared to previous year. The fiscal liabilities or debt during 2017-18 stood at 29.98 *per cent* of the GSDP during the current year against 31.58 *per cent* during 2016-17 and fell short of the limit of total outstanding Debt-GSDP ratio projected in MTFP Statement (31.14 *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 2013-18. However, the State Government paid interest at an average rate of 6.22 *per cent* to 6.70 *per cent* on its borrowings during the period. Interest received as *per cent* to outstanding Loans and Advances given by the State Government was also inadequate, which ranged between 0.97 *per cent* and 1.36 *per cent* during 2013-18 and stood at 0.97 *per cent* during 2017-18.

The increasing fiscal liabilities accompanied by a negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances

might lead to an unsustainable fiscal situation in medium to long term, unless suitable measures are initiated to compress the revenue expenditure and to mobilise additional resources both through the tax and non-tax sources in the ensuing years.

Therefore, it is recommended that the State Government may review the working of the units which were incurring losses and take appropriate action to avoid further financial burden on the Government.