

CHAPTER I : FINANCES OF THE STATE GOVERNMENT

In Summary

Large revenue and fiscal deficits year after year indicated continued macro imbalances in the State. In Meghalaya, against revenue surplus during 2003-04, the State witnessed a revenue deficit of Rs.50 crore during 2004-05. Fiscal deficit of the State also increased by Rs.111 crore over the previous year.

Revenue of the State consists mainly of its own tax and non-tax revenue, Central tax transfers and grants-in-aid from Government of India. Overall revenue receipts increased from Rs.1,132 crore in 2000-01 to Rs.1,546 crore in 2004-05 at a trend rate of 9.7 *per cent*. There were, however, significant inter-year variations in the growth rates. During the current year, only 22 *per cent* of the total revenue came from State's own resources. The contribution of grants-in-aid from Government of India and Central tax transfers increased by 8 *per cent* and 20 *per cent* respectively over the last year.

Total expenditure of the State increased from Rs.1,394 crore in 2000-01 to Rs.1,878 crore in 2004-05 at a trend rate of 8.71 *per cent*. The rate of growth of expenditure in 2004-05 was 16 *per cent* which was higher than the trend rate (8.71 *per cent*) for the last five years.

Expenditure on General Services and interest payments, which are considered non-developmental, together accounted for about 32 *per cent* of total expenditure during 2004-05. Interest payments increased by 55 *per cent* from Rs.114 crore in 2000-01 to Rs.177 crore in 2004-05. Debt burden (fiscal liabilities) of the State at the end of 2004-05 was Rs.2,173 crore, up by 11.32 *per cent* over the previous year. Though the average rate of interest paid on the borrowings of the State during 2000-2005 remained less than the average rate of growth of GSDP, the interest spread had declined considerably.

The balance from current revenues of the State has continued to be negative, thereby reducing availability of funds for additional infrastructure support and other revenue generating investment.

It is through measures like reduction of revenue deficit/fiscal deficit by compressing non-developmental revenue expenditure and enhanced additional resource mobilisation through prudent tax reforms and debt management that the State Government can achieve long term fiscal stability.

1.1 Introduction

The Finance Accounts of the Government of Meghalaya are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The lay out of the Finance Accounts is depicted in Box 1.1.

Box 1.1

Lay out of Finance Accounts

Statement No. 1 presents the summary of transactions of the State Government - receipts and expenditure, revenue and capital, public debt receipts and disbursements, etc. in the Consolidated Fund, Contingency Fund and Public Account of the State.

Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of current year.

Statement No.3 - Financial results of irrigation works. However, the Government of Meghalaya has not declared any irrigation project as commercial/productive.

Statement No. 4 gives a summary of the debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.

Statement No. 5 gives a summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No. 6 gives a summary of guarantees given by the Government in respect of loans, etc. raised by the statutory corporations, Government companies, local bodies and other institutions.

Statement No. 7 gives a summary of cash balances and investments made out of such balances.

Statement No. 8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2005.

Statement No. 9 shows the revenue and expenditure under different heads for the current year as a percentage of total revenue/expenditure.

Statement No. 10 indicates the distribution between the charged and voted expenditure incurred during the year.

Statement No. 11 gives the detailed account of revenue receipts by minor heads.

Statement No. 12 provides accounts of revenue expenditure by minor heads under non-plan, State plan and Centrally sponsored schemes separately and capital expenditure major head-wise.

Statement No. 13 depicts the detailed capital expenditure incurred during and to the end of the current year.

Statement No. 14 shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, co-operative banks and societies, etc. up to the end of the current year.

Statement No. 15 depicts the capital and other expenditure (other than revenue account) to the end of the current year and the principal sources from which the funds were provided for that expenditure.

Statement No. 16 gives the detailed account of receipts, disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.

Statement No. 17 presents the detailed account of debt and other interest bearing obligations of the Government.

Statement No. 18 provides the detailed account of loans and advances given by the Government of Meghalaya, the amount of loans repaid during the year, the balances at the end of the year and the amount of interest received during the year.

Statement No. 19 gives the details of balances of earmarked funds.

1.2 Trend of Finances with reference to previous year

The trend of finances of the State Government during the current year compared to the previous year were as under:

Table 1.1

(Rupees in crore)

2003-04	Sl.No.	Major Aggregates	2004-05
1,399	1.	Revenue Receipts (2+3+4)	1,546
178	2.	Tax Revenue	208
129	3.	Non-Tax Revenue	133
1,092	4.	Other Receipts	1,205
18	5.	Non-Debt Capital Receipts	19
18	6.	Of which Recovery of Loans	19
1,417	7.	Total Receipts (1+5)	1,565
1,037	8.	Non-Plan Expenditure (9+11+12)	1,134
1004	9.	On Revenue Account	1,120
170	10.	Of which, Interest payments	177
Nil	11.	On Capital Account	5
33	12.	On Loans disbursed	9
582	13.	Plan Expenditure (14+15+16)	744
310	14.	On Revenue Account	476
235	15.	On Capital Account	241
37	16.	On Loans disbursed	27
1,619	17.	Total Expenditure (8+13)	1,878
202	18.	Fiscal Deficit (17-1-5)	313
(+) 85	19.	Revenue Surplus (+)/Deficit(-)(9+14-1)	(-) 50
32	20.	Primary Deficit (18-10)	136

1.3 Summary of Receipts and Disbursements for the year

Table 1.2 summarises the financial position of the State Government of Meghalaya for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements made during the year as emerging from Statement 1 of Finance Accounts and other detailed statements.

Table 1.2 : Summary of Receipts and Disbursements for the year 2004-05

(Rupees in crore)

2003-04	Receipts	2004-05	2003-04	Disbursements	2004-05		
Section – A: Revenue							
					Non-Plan	Plan	Total
1398.83	I. Revenue Receipts	1546.13	1313.69	I. Revenue Expenditure	1119.69	476.65	1596.34
177.68	Tax revenue ^(a)	207.73	526.03	General Services	564.27	22.78	587.05
128.95	Non-tax revenue	133.49	479.14	Social Services	336.82	220.94	557.76
225.08	Share of Union Taxes/Duties	269.04	308.52	Economic Services	218.60	232.93	451.53
867.12	Grants-in-aid from Government of India	935.87	...	...	...	...	...
Section – B: Capital							
...	II. Miscellaneous Capital receipts	...	235.30	II. Capital Outlay	4.90	240.63	245.53
18.12	III. Recovery of Loans and Advances	18.46	69.80	III. Loans and Advances disbursed	9.38	26.55	35.93
319.21	IV. Public Debt Receipts^(b)	297.44	151.07	IV. Repayment of Public Debt	-	-	191.97
...	V. Contingency Fund	...	...	V. Contingency Fund	...	...	...
874.47	VI. Public Account Receipts	980.01	956.50	VI. Public Account Disbursements	...	...	827.14
127.46	Opening Balance	11.73	11.73	Closing Balance	...	...	(-) 43.14
2738.09	Total	2853.77	2738.09	Total			2853.77

(a) Excluding share of net proceeds of taxes and duties assigned to State.

(b) Includes net Ways and Means Advances also.

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure and from the statements of the Finance Accounts for the year 2004-05 and wherever necessary, show these in the light of time series data and periodic comparisons. The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of resources, (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The reporting parameters are depicted in Box 1.2.

Box 1.2
Reporting Parameters

Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt, and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current prices. The new GSDP series as base as furnished (October 2005) by the Directorate of Economics and Statistics of the State Government have been used.

For most series a trend growth during 2000-2005 has been indicated. The ratios with respect of GSDP have also been depicted. Some of the terms used here are explained in Appendix I.

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account as defined in Box 1.3.

Box 1.3 – State Government Funds and the Public Account

Consolidated Fund	Contingency Fund	Public Account
All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'The Consolidated Fund of State' established under Article 266(1) of the Constitution of India.	Contingency Fund of the State established under Article 267(2) of the Constitution is in nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.	Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, <i>etc.</i> are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursement are made from it.

1.5 State finances by key indicators

1.5.1 Resources by volumes and sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources, *viz.*, market loans, borrowings from financial institutions/commercial banks, *etc.* and loans

and advances from Government of India as well as accruals from Public Account.

Table 1.3 shows that the total receipts of the State Government for the year 2004-05 were Rs.2,842 crore. Of these, the revenue receipts of the State Government were Rs.1,546 crore only, constituting 54 per cent of the total receipts. The balance of receipts came from borrowings and public account receipts.

Table 1.3 - Resources of Meghalaya

(Rupees in crore)		
I.	Revenue Receipts	1,546
II.	Capital Receipts	316
	(a) Miscellaneous Receipts	...
	(b) Recovery of Loans and Advances	19
	(c) Public Debt Receipts*	297
III.	Contingency Fund Receipts	...
IV.	Public Account Receipts	980
	(a) Small Savings, Provident Fund, etc.	130
	(b) Reserve Fund	18
	(c) Deposits and Advances	165
	(d) Suspense and Miscellaneous	18
	(e) Remittances	649
	Total Receipts	2,842

(Details in Appendix IV)

* Included net (Nil) Ways and Means Advances also.

1.5.2 Revenue Receipts

Statement 11 of the Finance Accounts details the Revenue Receipts of the Government. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the State's GSDP and its buoyancy is indicated in Table 1.4.

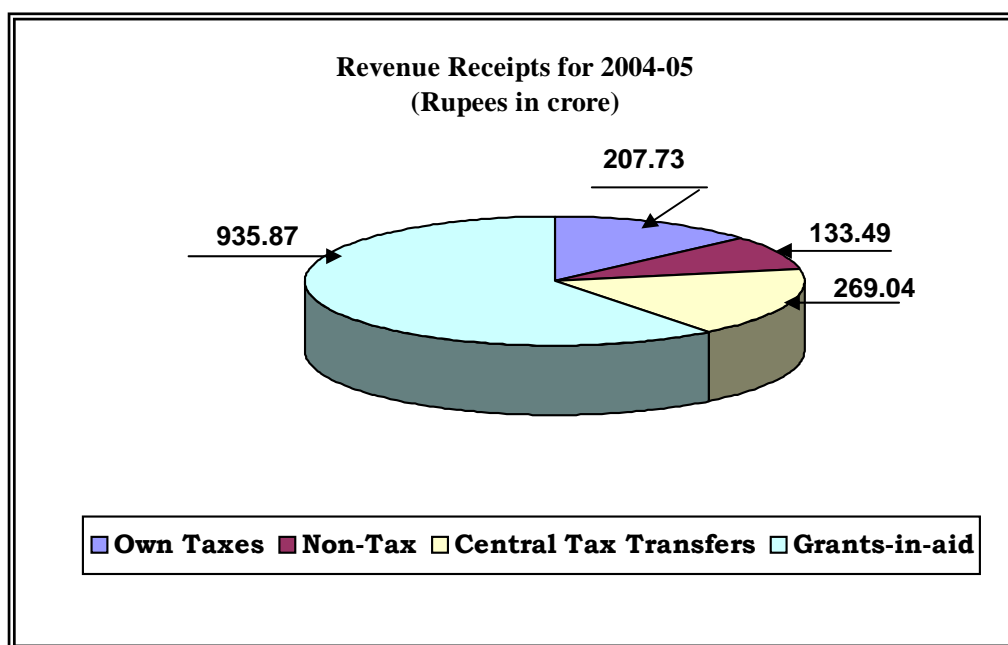
Table 1.4 – Revenue Receipts-Basic Parameters
(Values in Rupees crore and others in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue Receipts (RR)	1132	1123	1289	1399	1546	1298
Composition of RR (per cent)						
Own Taxes	10.51	12.11	11.25	12.72	13.46	12.01
Non-Tax Revenue	7.69	8.37	7.22	9.22	8.60	8.22
Central Tax Transfers	14.49	14.69	13.65	16.08	17.40	15.26
Grants-in-aid	67.31	64.83	67.88	61.98	60.54	64.51
Rate of Growth of RR	19.92	-0.80	14.78	8.53	10.51	9.70
RR/GSDP	30.36	27.13	29.18	29.05	29.37	29.02
Revenue Buoyancy	1.496	(a)	2.193	0.947	1.132	1.019
Rate of Growth of Own Taxes	15.53	14.29	6.62	22.76	16.85	14.65
Own Taxes Buoyancy	1.167	1.296	0.982	2.526	1.816	1.539
GSDP	3728	4139	4418	4816	5263	4473
GSDP Growth	13.31	11.02	6.74	9.01	9.28	9.52

(a) Rate of growth of revenue receipt was negative.

The revenue receipts of the State increased from Rs.1,132 crore in 2000-01 to Rs.1,546 crore in 2004-05 at a trend rate of 9.7 *per cent*. There were, however, significant inter-year variations in the growth rates. The revenue receipts to GSDP ratio after reaching its peak of 30.36 *per cent* in 2000-01, declined to 29.37 *per cent* in 2004-05, with the five years average ratio being 29.02 *per cent*. Revenue buoyancy increased to 1.132 during 2004-05 due to moderate growth in both GSDP and revenue receipts compared to preceding year.

While 78 *per cent* of the revenue receipts during 2004-05 have come from central tax transfers and grants-in-aid from Government of India, the State's own sources of revenue comprising tax and non-tax sources together contributed around 22 *per cent* only. Sales Tax was the major contributor (61 *per cent*) of State's own tax revenue followed by State Excise (30 *per cent*). Of non-tax revenue sources, receipts from non-ferrous Mining and Metallurgical Industries (68 *per cent*) was the principal contributor.



The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government are 0.39 *per cent* for secondary education, 0.78 *per cent* for medical and public health and 1.05 *per cent* for water supply and sanitation.

The source of total receipts under different heads during 2000-2005 is indicated in Table 1.5.

Table 1.5 – Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account	
2000-01	1132	13	141	869	2155
2001-02	1123	16	156	774	2069
2002-03	1289	15	295	935	2534
2003-04	1399	18	319	874	2610
2004-05	1546	19	297	980	2842

1.6 Application of resources

1.6.1 Trend of growth

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs.1,394 crore in 2000-01 to Rs.1,878 crore in 2004-05 at a trend rate of 8.71 *per cent* per annum. The rate of growth (average) of total expenditure was less than that of revenue receipts (9.7 *per cent*) during this period. After reaching its peak of 19.97 *per cent* during 2000-01, it declined to a negative 2.44 *per cent* during 2001-02, but increased to a positive 16 *per cent* during 2004-05.

Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table 1.6 below:

Table 1.6 – Total Expenditure – Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Total Expenditure (TE) ^(a) (Rupees in crore)	1394	1360	1466	1619	1878	1543
Rate of Growth (<i>per cent</i>)	19.97	-2.44	7.79	10.44	16.00	8.71
TE/GSDP Ratio (<i>per cent</i>)	37.39	32.86	33.18	33.62	35.68	34.51
Revenue Receipts/ TE Ratio (<i>per cent</i>)	81.21	82.57	87.93	86.41	82.32	84.09
Buoyancy of Total Expenditure with						
GSDP	1.500	(b)	1.156	1.159	1.724	0.915
Revenue Receipts	1.003	(c)	0.527	1.223	1.522	0.899

(a) Total expenditure includes revenue expenditure, capital expenditure and loans & advances.

(b) Rate of growth of total expenditure was negative.

(c) Rate of growth of both revenue receipt and total expenditure was negative.

Consistent increase of total expenditure over the three-year period 2002-2005 was also reflected in the gradual increase in the percentage of total expenditure to GSDP. Total expenditure in 2004-05 has shown an increase of Rs.259 crore over that of the previous year. This was mainly due to increase in non-plan revenue expenditure by Rs.116 crore and in plan revenue expenditure by Rs.166 crore. Average buoyancy of the total expenditure with GSDP during 2000-2005 was 0.915 indicating that for every one-percentage point increase in GSDP, expenditure increased by 0.915 *per cent*. With regard to revenue receipts, the average buoyancy of total expenditure was less than one indicating relatively faster increase in revenue receipts compared to total expenditure.

In terms of activities, total expenditure could be considered as being composed of expenditure on general services, interest payments, social and economic services, grants-in-aid and other contributions to institutions and loans and advances. The relative share of these components in total expenditure is indicated in Table 1.7.

Table 1.7 – Components of Expenditure-Relative Share

(in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
General Services	21.16	22.50	23.19	23.53	22.26	22.53
Interest Payments	8.18	9.49	10.30	10.50	9.42	9.58
Social Services	35.08	36.84	33.70	34.78	35.52	35.18
Economic Services	29.20	28.01	27.69	26.87	30.88	28.53
Loans and Advances	6.38	3.16	5.12	4.32	1.92	4.18

The movement of the relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. Of the total expenditure during 2004-05, expenditure on General Services and interest payments, which are considered as non-developmental, together accounted for 31.68 *per cent*, development expenditure (on Social and Economic Services) accounted for 66.4 *per cent* and loans and advances accounted for around 2 *per cent*.

1.6.2 Incidence of Revenue expenditure

Of the total expenditure, revenue expenditure had the predominant share. 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 and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in Table 1.8.

Table 1.8 – Revenue Expenditure – Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue Expenditure (RE) (Rupees in crore)	1079	1157	1205	1314	1596	1270
Rate of Growth (<i>per cent</i>)	16.27	7.23	4.15	9.05	21.46	10.02
RE/GSDP	28.94	27.95	27.27	27.28	30.32	28.40
RE as percentage of TE	77.40	85.07	82.20	81.16	84.98	82.30
RE as percentage of RR	95.32	103.03	93.48	93.92	103.23	97.87
Buoyancy of Revenue Expenditure with						
GSDP	1.222	0.656	0.615	1.004	2.312	1.053
Revenue Receipts	0.817	(a)	0.281	1.060	2.042	1.033

(a) Rate of growth of revenue receipt was negative.

Overall revenue expenditure of the State increased at a trend rate of 10.02 *per cent*. Rate of growth of revenue expenditure reached its peak of 21.46 *per cent* in 2004-05 during the five-year period 2000-2005. As a result, revenue expenditure-GSDP ratio increased from 27.27 *per cent* in 2002-03 to 30.32 *per cent* in 2004-05. On an average 82 *per cent* of the total expenditure was on current consumption.

(i) High salary expenditure

The expenditure on salary (excluding grants-in-aid towards salary) increased by 27 *per cent* from Rs.462 crore in 2000-01 to Rs.587 crore in 2004-05 as indicated in the Table 1.9:

Table 1.9

(Rupees in crore)

Heads	2000-01	2001-02	2002-03	2003-04	2004-05 (Provisional)
Salary expenditure ^(a)	462	536	576	622	587
Grants-in-aid towards salaries	105	121	126	137	NA
Total	567	657	702	759	587
As a percentage of GSDP	15.21	15.87	15.88	15.47	...
As a percentage of Revenue Receipts	50.09	58.50	54.46	54.25	...
As a percentage of Revenue Expenditure	52.55	56.78	58.26	57.76	...

(a) As furnished (December 2005) by the Finance (Economic Affairs) Department, Government of Meghalaya.

(ii) Expenditure on payment of pension and other retirement benefits

Payments on pension and other retirement benefits have increased by 58 *per cent* from Rs.55 crore in 2000-01 to Rs.87 crore in 2004-05. Year-wise break-up of expenditure incurred on pension payments during the years 2000-01 to 2004-05 was as under:

Table 1.10**(Rupees in crore)**

Year	Expenditure	Percentage to total revenue expenditure
2000-01	55	5.10
2001-02	58	5.01
2002-03	67	5.56
2003-04	76	5.78
2004-05	87	5.45

With the increase in number of retirees, the pension liabilities are likely to increase further in future. The State Government had not yet constituted any fund to meet the fast rising pension liabilities of the retired State employees (November 2005).

(iii) Interest payments

Expenditure of the State on payment of interest during 2000-2005 and its percentage to revenue receipts and expenditure are indicated in Table 1.11 below:

Table 1.11

Year	Interest payment (Rupees in crore)	Percentage of interest with reference to	
		Revenue Receipts	Revenue Expenditure
2000-01	114	10.07	10.57
2001-02	129	11.49	11.15
2002-03	151	11.71	12.53
2003-04	170	12.15	12.94
2004-05	177	11.45	11.09

Interest payments increased steadily by 55 *per cent* from Rs.114 crore in 2000-01 to Rs.177 crore in 2004-05. The interest payment was on Internal Debt (Rs.110 crore), loans received from Central Government (Rs.47 crore) and Small Savings, Provident Fund, *etc.* (Rs.20 crore).

(iv) Subsidies by the Government

Though the finances of the State are under strain, the State Government has been paying subsidies to various sectors. According to the Finance (Economic Affairs) Department, Government of Meghalaya, during the last five years, State Government paid subsidies as under:

Table 1.12

(Rupees in crore)

Sl. No	Sector	2000-01	2001-02	2002-03	2003-04	2004-05 (Provisional)
1.	Power	10	11	11	11	11
2.	Housing	9	8	11	7	...
3.	Others	9	5	11	12	6
Total		28	24	33	30	17
Percentage of increase(+)/ decrease(-) over previous year		+ 33	-14	+ 37	- 9	- 43
Percentage of subsidy to total expenditure		2.15	1.82	2.37	1.94	0.92

(Total expenditure excludes Loans and Advances)

During the current year subsidies constituted 0.92 *per cent* of the total expenditure, out of which 65 *per cent* was paid to the power sector.

1.7 Expenditure by Allocative priorities

The expenditure of the State in the nature of plan expenditure, capital expenditure and development expenditure reflects its quality. Higher the ratio of these components to total expenditure, better is the quality of expenditure. Table 1.13 gives these ratios during 2000-2005, as follows:

Table 1.13 – Quality of Expenditure

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Total Expenditure (Rupees in crore)	1305	1317	1391	1549	1842	1481
Plan Expenditure (<i>per cent</i>)	38.31	32.73	31.78	35.18	38.93	35.59
Capital Expenditure (<i>per cent</i>)	17.32	12.15	13.37	15.17	13.36	14.22
Development Expenditure (<i>per cent</i>)	68.66	66.97	64.70	64.43	67.70	66.49

(Total Expenditure does not include Loans and Advances)

All the three components of quality of expenditure indicated inter-year variations. In the year 2004-05, the share of Plan expenditure was marginally higher when compared to 2000-01. But the decline in the shares of Capital expenditure and development expenditure (which did show a pick up in 2004-05) compared to 2000-01 is disturbing.

Interest payments was the fastest growing component with an average annual growth of 13.45 *per cent* during 2000-2005. Activity-wise trend growth, ratio to GSDP, relative share of the various activities, shift in their relative share and buoyancy with GSDP and revenue receipt are indicated in Table 1.14 below:

Table 1.14 – Activity-wise Expenditure – Basic Parameters (in *per cent*)

	Rate of Growth	GSDP Share	Relative Share	Share Shift	Buoyancy with	
					GSDP	Revenue Receipt
General Services	10.27	7.78	22.53	1.44	1.079	1.059
Interest Payments	13.45	3.31	9.58	4.35	1.412	1.386
Social Services	8.46	12.14	35.18	-0.24	0.889	0.872
Economic Services	8.93	9.88	28.53	0.20	0.938	0.920
Loans and Advances	-9.30	1.40	4.18	-16.57	-0.977	-0.959

Out of the developmental expenditure of Rs.1,247 crore during the year, Social Services (revenue and capital) accounted for 53.49 *per cent* (Rs.667 crore). Expenditure on general education, health and family welfare and water supply and sanitation constituted 73 *per cent* of the expenditure on social sector.

Table 1.15 – Social Sector Expenditure

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
General Education	221	229	223	242	264
Health and Family Welfare	80	92	94	97	101
Water Supply and Sanitation	91	93	95	106	125
Total	392	414	412	445	490
As a percentage of expenditure on Social Sector	80.16	82.63	83.40	79.04	73.46

Similarly, the expenditure on Economic Services during 2004-05 (Rs.580 crore) accounted for 46.51 *per cent* of the development expenditure, of which, agriculture and allied services, rural development and transport accounted for 62 *per cent*.

Table 1.16 – Economic Sector Expenditure

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Agriculture and Allied Activities	116	128	122	126	150
Rural Development	53	54	61	60	68
Transport	128	86	126	132	140
Total	297	268	309	318	358
As a percentage of expenditure of Economic Sector	72.79	70.34	76.11	73.10	61.72

1.7.1 Financial Assistance to Local Bodies and other Institutions

(i) Extent of assistance

The quantum of assistance (Rs.992 crore) provided by the State Government by way of grants (Rs.778 crore) and loans (Rs.214 crore) to different local bodies, *etc.* during the five-year period ending 2000-2005 was as follows:

Table 1.17

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
University and Educational Institutions	122	128	130	129	150
Co-operative Societies	2	3	2	2	2
District Councils	5	5	0.21	6	4
Municipalities	4	2	2	1	2
Meghalaya State Electricity Board	49	29	56	50	26
Other Institutions	28	27	11	10	5
Total	210	194	201	198	189
Percentage of increase (+)/ decrease (-) over previous year	+ 45.83	- 7.62	+ 3.61	- 1.49	- 4.55
Assistance as a percentage of revenue expenditure	19.46	16.77	16.68	15.07	11.84

The total assistance during 2004-05 decreased by 4.55 *per cent* compared to the previous year mainly as a result of decreased assistance to energy sector. The assistance to local bodies, *etc.* as a percentage of total revenue expenditure had also decreased from 19.46 *per cent* in 2000-01 to 11.84 *per cent* in 2004-05.

(ii) Delay in submission of accounts

In order to identify the institutions which attract audit under Section 14/15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (Act, 1971), Government/Heads of Departments are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose for which assistance was sanctioned and the total expenditure of the institutions. Information for the year 2004-05 called for in May 2005 from eight departments^(a) was awaited as of October 2005.

The audit of accounts of the Meghalaya Khadi and Village Industries Board, Shillong up to 2004-05 was entrusted to the Comptroller and Auditor General of India under Section 19(3) of the Act, 1971. The Board had not submitted the accounts for the years 2003-04 and 2004-05.

^(a) Education, Health & Family Welfare, Community & Rural Development, Supply, Industries, Urban Affairs, Information & Public Relation and Mining & Geology Departments.

1.7.2 Misappropriation, losses, etc.

Cases of misappropriation, losses, etc. of Government money reported to Audit up to the end of March 2005 on which final action was pending at the end of October 2005 were as under:

Table 1.18

	Number	Amount (Rupees in lakh)
Cases reported up to the end of March 2004	86	154.59
Cases reported during 2004-05	1	1.81
Total	87	156.40

The year-wise/department-wise break-up of the cases is given in *Appendix II*.

1.8 Assets and liabilities

1.8.1 Financial position

In the Government accounting system, comprehensive accounting of the fixed assets like land and buildings, etc., owned by Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. *Appendix III* gives an abstract of such liabilities and the assets as on 31 March 2005 compared with the corresponding position on 31 March 2004. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. *Appendix III* shows that while the liabilities grew by 11.5 per cent, the assets increased by 5.77 per cent, mainly as a result of decrease in cash balance by 468 per cent over previous year. *Appendix IV, V and VI* depict the Abstract of Receipts and Disbursements for the year 2004-05, Sources and Application of Funds and Time series data on State Government Finances for the period 2000-2005 respectively.

1.8.2 Investments and returns

As on 31 March 2005, Government had invested Rs.170.42 crore in its Statutory Corporations, Government companies and Co-operative Societies. Government's return on this investment was less than one per cent in the last five years. With an average interest rate of 8.88 per cent being paid by Government on its borrowings, the average annual

subsidy amounted to 8.82 *per cent* and the implicit subsidy during the period 2000-2005 was Rs.6.41 crore.

Table 1.19 : Return on Investment

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Investment during the year (Rupees in crore)	27.18	14.84	11.93	10.58	7.53	14.41
Investment at the end of the year (Rupees in crore)	125.54	140.38	152.32	162.89	170.42 ^(a)	150.31
Returns (Rupees in crore)	0.0055	0.11	0.0051	0.18	0.18	0.10
Percentage of returns	0.004	0.08	0.003	0.11	0.11	0.06
Average interest rate paid by Government (<i>per cent</i>)	9.05	8.81	8.98	9.00	8.58	8.88
Difference between interest rates and return (<i>per cent</i>)	9.046	8.73	8.977	8.89	8.47	8.82
Implicit subsidy (Rupees in crore)	2.46	1.30	1.07	0.94	0.64	1.28

1.8.3 Loans and advances by State Government

In addition to investments in Co-operatives, Corporations and Companies, Government has also been providing support in terms of loans and advances to many of these parastatals. Total outstanding balance of such loans and advances as on 31 March 2005 was Rs.488 crore. Interest received on the same varied from 0.12 *per cent* to 0.63 *per cent* during 2000-2005 (Table 1.20). Total implicit subsidy during 2000-2005 on such loans was Rs.28 crore.

Table 1.20 – Average interest received on Loans and Advances advanced by the State Government

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Opening Balance	256	332	359	419	471
Amount Advanced during the year	89	43	75	70	36
Amount repaid during the year	13	16	15	18	19
Closing Balance	332	359	419	471	488
Net Addition	76	27	60	52	17
Interest Received	0.55	0.49	0.46	0.72	3
Interest received as <i>per cent</i> to Loans advanced	0.19	0.14	0.12	0.16	0.63
Average interest paid by the State (<i>per cent</i>)	9.05	8.81	8.98	9.00	8.58
Difference between interest paid and received (<i>per cent</i>)	8.86	8.67	8.86	8.84	7.95
Implicit Subsidy	8	4	7	6	3

^(a) Figures in Chapter VI are provisional.

1.8.4 Management of cash balances

It is 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 the expenditure obligations, a mechanism of Ways and Means Advances (WMA) and overdraft from Reserve Bank of India has been put in place. The State has shown improvement in management of cash balances as WMA facilities were used for six days during 2004-05 as against 44 days in previous year. The State Government has not availed of the overdraft during 2004-05.

1.8.5 Undischarged liabilities

(i) Fiscal liabilities - public debt and guarantees

The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its Legislature. However, no such law has been passed by the State. Table 1.21 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

Table 1.21 – Fiscal Liabilities – Basic Parameters
(Value in Rupees crore and others in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Fiscal Liabilities ^(a)	1395	1535	1827	1952	2173	1776
Rate of Growth	24.11	10.04	19.02	6.84	11.32	13.65
Ratio of Fiscal Liabilities to						
GSDP	37.42	37.09	41.35	40.53	41.29	39.72
Revenue Receipt	123.23	136.69	141.74	139.53	140.56	135.99
Own Resources	677.18	667.39	767.65	635.83	637.24	673.88
Buoyancy of Fiscal Liabilities to						
GSDP	1.811	0.910	2.822	0.759	1.220	1.434
Revenue Receipt	1.211	(b)	1.287	0.802	1.077	1.407
Own Resources	2.373	0.861	5.469	0.236	1.022	0.761

(b) Revenue receipts had a negative growth.

Overall fiscal liabilities of the State increased from Rs.1,395 crore in 2000-01 to Rs.2,173 crore in 2004-05 on an average rate of 13.65 *per cent* during 2000-2005. These liabilities as ratio to GSDP increased from 37.42 *per cent* in 2000-01 to 41.29 *per cent* in 2004-05 and stood

^(a) Includes Internal Debt, Loans and Advances from Government of India, Small Savings, Provident Funds, *etc.*, Deposits and other non-interest bearing obligations.

at 1.41 times of revenue receipts and 6.37 times of its own resources comprising own tax and non-tax revenue.

In addition to these liabilities, Government have guaranteed loans raised by various Corporations and others which at the end of 2004-05 stood at Rs.338 crore (including interest). The guarantees are in the nature of contingent liabilities. Currently the fiscal liabilities together with the contingent liabilities exceeded 1.62 times the revenue receipts of the State. Buoyancy of the direct fiscal liabilities with respect to GSDP and revenue receipts averaged greater than one indicating that for each 1 *per cent* increase in GSDP and revenue receipts, fiscal liabilities were growing at the rate of 1.43 and 1.41 *per cent*.

One of the indicators of fiscal sustainability is the existence of a positive spread between rate of growth of GSDP and average interest rate. In case of Meghalaya, average interest rate on fiscal liabilities at 8.88 *per cent* during 2000-2005 was lower than the rate of growth of GSDP by 0.64 *per cent* as indicated in table 1.22. Except 2002-03, average interest spread was positive during 2000-2005. Moderate interest rates and a fairly buoyant nominal GSDP growth had sustained this positive spread. The spread had declined from a peak of 4.26 *per cent* in 2000-01 to a nominal 0.7 *per cent* in 2004-05. Persistence of this phenomenon in later years may endanger debt sustainability.

Table 1.22 – Debt Sustainability – Interest Rate and GSDP Growth (in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Weighted Interest Rate	9.05	8.81	8.98	9.00	8.58	8.88
GSDP Growth	13.31	11.02	6.74	9.01	9.28	9.52
Interest spread	4.26	2.21	-2.24	0.01	0.70	0.64

Another important indicator of the debt sustainability is the net availability of the borrowed funds after repayment of principal and payment of interest. Table 1.23 below gives the position of receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years. The net funds available from the total receipts on account of internal debt, loans and advances from Government of India and other debt receipts (including Public Account) varied between 3.02 and 32.44 *per cent* during 2000-2003 and 2004-05 (no amount was available during 2003-04). During 2004-05, 53.68 *per cent* of the net available funds from other obligations was totally used up to meet the overwhelming repayment obligation of the internal debt and loans and advances from the Government of India. Considering that the fiscal liabilities have been increasing year after year, availability of borrowed funds would be reduced further.

Table 1.23 – Net Availability of Borrowed Funds (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Internal Debt^(a)						
Receipt	110	110	401	287	188	219
Repayment (Principal + Interest)	65	81	343	183	194	173
Net Fund Available	45	29	58	104	- 6	46
Net Fund Available (<i>per cent</i>)	40.91	26.36	14.46	36.24	...	21
Loans and Advances from Government of India						
Receipt	31	46	138	83	112	82
Repayment (Principal + Interest)	62	65	156	170	157	122
Net Fund Available	-31	-19	-18	-87	- 45	- 40
Net Fund Available (<i>per cent</i>)	...	...	...	...	...	...
Other obligations^(b)						
Receipt	343	241	329	255	281	290
Repayment (Principal + Interest)	200	239	228	318	186	234
Total Liabilities						
Receipt	484	397	868	625	581	591
Payments	327	385	727	671	537	529
Net receipts	157	12	141	-46	44	62
Net Fund Available (<i>per cent</i>)	32.44	3.02	16.24	...	7.57	10.49

1.9 Management of deficits

Fiscal imbalances

The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the 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 so raised are applied are important pointers to its fiscal health. The State had witnessed a revenue deficit in 2004-05 for the second time during 2000-2005. Fiscal deficit, which represents the total borrowings of the Government and the total resource gap, reached its peak of Rs.313 crore in 2004-05 against Rs.202 crore in 2003-04. As a proportion to GSDP, the fiscal deficit of the State varied significantly during 2000-2005. It reached 5.95 *per cent* of GSDP in the current year from 4.19 *per cent* in 2003-04. Some of the parameters of the State's fiscal imbalances are indicated in Table 1.24 below:

^(a) Included Ways and Means Advances and Overdrafts.

^(b) Small Savings, Provident Funds, *etc.*, Deposits and other non-interest bearing obligations.

Table 1.24 – Fiscal Imbalances – Basic Parameters

(Values in Rupees crore and Ratios in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue Surplus (RS) (+)/ Revenue Deficit (RD) (-)	+ 53	-34	+ 84	+ 85	- 50	+ 28
Fiscal Deficit (FD)	249	221	162	202	313	229
Primary Deficit (PD)	135	92	11	32	136	81
RD/GSDP	RS	0.82	RS	RS	0.95	RS
FD/GSDP	6.68	5.34	3.67	4.19	5.95	5.13
PD/GSDP	3.62	2.22	0.25	0.66	2.58	1.82
RD/FD	RS	15.38	RS		15.97	RS

1.10 Fiscal Reforms Programme

Government of Meghalaya had drawn up the Medium Term Fiscal Reform Programme (MTFRP) for 2000-01 to 2004-05 and entered into a Memorandum of Understanding (MOU) with Government of India on 16 January 2004, in pursuance of the recommendations of the Eleventh Finance Commission (EFC).

The fiscal targets projected for 2004-05 in the MTFRP and the actual achievements are given in Table 1.25.

Table 1.25

(Rupees in crore)

		2004-05		Excess (+) Less (-)	Percentage variation
		Projected	Actual		
1.	Revenue Receipts	1748	1546	(-) 202	11.56
(a)	Own Tax Revenue	205	208	(+) 3	1.46
(b)	Non-Tax Revenue	139	133	(-) 6	4.32
(c)	Transfer from Centre	1404	1205	(-) 199	14.17
2.	Revenue Expenditure	1841	1596	(-) 245	13.31
(a)	Interest Payment	196	177	(-) 19	9.69
(b)	Salaries	799	587 (Provisional)	(-) 212	26.53
(c)	Pension	92	87	(-) 5	5.43
3.	Revenue Deficit	93	50	(-) 43	46.24
4.	Fiscal Deficit	447	313	(-) 134	29.98

It would be seen from the above that Government has been successful in achieving the projection for reducing revenue expenditure and increasing its own tax revenue, but failed to achieve the overall projected targets of revenue receipts mainly due to shortfall in transfer of funds from the Centre which led to revenue deficit during 2004-05.

As per the MOU, Government was to take necessary steps for tax reforms, expenditure reforms and power sector reforms, such as –

- introduction of luxury tax on cigarettes during the budget session 2004-05, abolition of Sales Tax incentives by March 2004 and rationalisation of stamps and registration fees to realise its revenue potential fully;
- ban on creation of posts or upgradation of existing posts and identification and abolition of non-essential vacant posts by April 2004;
- reduction of salary grants to aided institutions from 2004-05;
- creation of a cell in the Finance Department by September 2003 to monitor Government debt, off budget borrowings as well as other contingent liabilities and formulate strategies to minimise the fiscal risks; and,
- bringing out a policy paper on power sector reforms with a concrete proposal of restructuring of the Meghalaya State Electricity Board.

Action taken by Government in accordance with the commitment made in the MOU and achievement thereagainst, though called for (September 2004), had not been intimated despite a reminder in July 2005.

1.11 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 1.26 below presents a summarised position of Government finances over 2000-2005, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

Table 1.26 – Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2000-01	2001-02	2002-03	2003-04	2004-05	Average
I. Resource Mobilisation						
Revenue Receipt (RR)/GSDP	30.36	27.13	29.18	29.05	29.37	29.02
Revenue Buoyancy	1.496	(a)	2.193	0.947	1.132	1.019
Own tax/GSDP	3.192	3.286	3.282	3.696	3.952	3.515
II. Expenditure Management						
Total Expenditure (TE)/GSDP	37.39	32.86	33.18	33.62	35.68	34.51
RR/TE	81.21	82.57	87.93	86.41	82.32	84.09
Revenue Expenditure (RE)/TE	77.40	85.07	82.20	81.16	84.98	82.30
Plan Expenditure/TE	38.31	32.73	31.78	35.18	38.93	35.59
Capital Expenditure/TE	17.32	12.15	13.37	15.17	13.36	14.22
Development Expenditure/TE	68.66	66.97	64.70	64.43	67.70	66.49
Buoyancy of TE with RR	1.003	(b)	0.527	1.223	1.522	0.899
Buoyancy of RE with RR	0.817	(a)	0.281	1.060	2.042	1.033
III. Management of Fiscal Imbalances						
Revenue Deficit (-)/ Surplus (+) (Rupees in crore)	(+) 53	(-) 34	(+) 84	(+) 85	(-) 50	(+) 28
Fiscal Deficit (Rupees in crore)	249	221	162	202	313	229
Primary Deficit (Rupees in crore)	135	92	11	32	136	81
Revenue Deficit/Fiscal Deficit	Revenue Surplus (RS)	15.38	RS		15.97	RS
IV. Management of Fiscal Liabilities						
Fiscal Liabilities (FL)/GSDP	37.42	37.09	41.35	40.53	41.29	39.72
FL/RR	123.23	136.69	141.74	139.53	140.56	135.99
Buoyancy of FL with RR	1.211	(a)	1.287	0.802	1.077	1.407
Buoyancy of FL with Own Resources	2.373	0.861	5.469	0.236	1.022	0.761
Interest spread	4.26	2.22	-2.24	0.01	0.70	0.64
Net Funds Available	32.44	3.02	16.24	...	7.57	10.49
V. Other Fiscal Health Indicators						
Return on Investment	0.004	0.08	0.003	0.11	0.11	0.06
BCR (Rupees in crore)	-115	-171	-128	-143	-142	-140
Financial Assets/Liabilities (Ratio)	1.65	1.57	1.55	1.55	1.47	1.56

(a) Revenue Receipts had a negative growth.

(b) Rate of growth of both revenue receipt and total expenditure was negative.

The ratio of revenue receipts and the State's own taxes to GSDP indicates the adequacy of resources. The buoyancy of revenue receipts indicates the nature of the tax regime and the State's increasing access to resources. Revenue receipts indicate the sum total of the State's access for which there is no direct service provision obligations, recovery of users' charges for the social and economic services provided by it and its entitlement from the

Central pool of resources. Ratios of revenue receipt to GSDP as well as the revenue buoyancy declined in 2004-05 when compared to 2000-01. A low revenue buoyancy and low own tax-GSDP ratio indicates that State was not optimally exploring its resource base.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resources mobilisation. Revenue expenditure of the State is on the increasing trend over the five-year period 2000-2005 and comprises 85 *per cent* of total expenditure in 2004-05 leaving very little for capital formation or asset creation. The development expenditure to total expenditure though increased in 2004-05 over previous year, it declined from a level of 68.66 *per cent* in 2000-01 to 67.7 *per cent* in 2004-05. All these indicate inadequate expansion of State's developmental activities.

1.12 Conclusions

The State witnessed a revenue deficit in 2004-05 for the second time during the five-year period 2000-2005. Its fiscal deficit also increased substantially and averaged Rs.229 crore. Increase in the ratio of fiscal liabilities to GSDP, which stood at 41 *per cent* during 2004-05 together with a large deficit indicates that the State may gradually be getting into a debt trap. Similarly, the higher buoyancy of debt both with regard to its revenue receipts and own resources indicates decreasing sustainability. Though the average interest paid by the State on its borrowings during 2000-2005 remained less than the rate of growth of its GSDP, the interest spread had declined considerably and persistence of this phenomenon may endanger debt sustainability. Availability of funds from its borrowings during 2004-05 was also marginal due to increased liability for debt servicing. The insignificant return on investment of high cost borrowings indicates an implicit subsidy. The ratio of the State's total financial assets to liabilities has also deteriorated indicating that a part of liabilities are without an asset back up. The balance from current revenue (BCR) continued to be negative. The BCR plays a critical role in determining the plan size and a negative BCR adversely affects the same and reduces availability of fund for additional infrastructure support and other revenue generating investment.

Thus, the State has either to generate more revenue from out of its existing assets or needs to provide from its current revenue for servicing its debt obligations. Long term fiscal stability can be achieved through the measures like reduction of revenue/fiscal deficit by compressing non-developmental revenue expenditure, enhancement of additional resource mobilisation through prudent tax reforms and debt management.

1.13 Impact of Government policies

Appendix VII depicts the progress achieved during 2004-05 as compared to 2003-04 in various sectors according to information furnished by Directors, Chief Engineer, *etc.* of various departments of the State Government.

The above matters were referred to Government in December 2005; reply had not been received (January 2006).