

CHAPTER I : AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This Chapter discusses the financial position of the state government, based on the analysis of the information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the state government. In addition, the Chapter also contains a section on the analysis of indicators of financial performance of the Government, based on certain ratios and indices developed on the basis of the information contained in the Finance Accounts and other information furnished by the state government. Some of the terms used in this Chapter are described in the Appendix I-A.

1.2 Financial position of the State

1.2.1 In the Government accounting system comprehensive accounting of the fixed assets like land and buildings, etc., owned by the 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. The table below gives an abstract of such liabilities and the assets as on 31 March 2001, compared with the corresponding position on 31 March 2000:-

Table 1.1

(Rupees in crore)

As on 31 March 2000	Liabilities		As on 31 March 2001
...	External Debt		...
380.07	Internal Debt		478.33
308.69	Market loans bearing interest	378.69	
0.04	Market loans not bearing interest	0.04	
3.18	Loan from LIC	2.88	
68.16	Loans from other Institutions	96.72	
...	Ways and Means Advances	...	
...	Overdraft from Reserve Bank of India	...	
349.83	Loans and Advances from Central Government		362.91
14.88	Pre 1984-85 Loans	13.85	
121.91	Non-plan Loans	104.67	
198.28	Loans for State Plan Schemes	229.93	
0.32	Loans for Central Plan Schemes	0.33	
8.77	Loans for Centrally Sponsored Plan Schemes	8.12	
5.67	Loans from NEC	6.01	
6.00	Contingency Fund		6.00
146.61	Small Savings, Provident Funds, etc.		208.55
234.30	Deposits		332.87
13.97	Reserve Funds		17.09
33.77	Remittance Balances		56.90
904.95	Surplus on Government Accounts		957.63
889.09	(i) Revenue Surplus of the previous years	904.95	
15.86	(ii) Revenue Surplus of the current year	52.68	
2069.50			2420.28
	Assets		
1646.68	Gross Capital Outlay on Fixed Assets		1872.72
98.36	Investment in shares of Companies, Corporation etc.	125.54	
1548.32	Other Capital Outlay	1747.18	
255.51	Loans and Advances		331.71
159.26	Loans for power projects	207.92	
19.30	Other Development Loans	19.91	
76.95	Loans to Government Servants and miscellaneous loans	103.88	
0.32	Investment of Earmarked Funds		5.11
1.48	Advances		1.30
44.68	Suspense and Miscellaneous Balances		54.06
6.00	Appropriation to Contingency Fund		6.00
114.83	Cash		149.38
7.00	Cash in Treasuries and Local Remittances	8.56	
(-) 5.42	Deposits with Reserve Bank of India	37.20	
0.11	Departmental Cash Balance	0.11	
...	Permanent Advances	...	
113.14	Cash Balance Investment	103.51	
2069.50			2420.28

1.2.2 While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India (GOI) and 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. It would be seen from the above table that during 2000-2001 while the assets grew by 17 **per cent**, the liabilities increased by 26 **per cent** mainly as a result of a very high growth in remittance balance (68 **per cent**) and loans from other institutions (42 **per cent**). The financial condition of the Government deteriorated during the year.

1.3 Sources and applications of fund

1.3.1 The position of sources and applications of funds during the current and the preceding year is given in the table below :-

Table 1.2

(Rupees in crore)

1999-2000	SOURCES	2000-2001
943.65	1. Revenue receipts	1132.16
8.89	2. Recoveries of Loans and Advances	12.71
133.89	3. Increase in Public debt other than overdraft	111.34
85.51	4. Net receipts from Public Account	172.77
	28.63 -Increase in Small Savings 61.94	
	47.06 -Increase in Deposits and Advances 98.74	
	2.62- Reserve Fund (Net effect) (-) 1.67	
	-Net effect of Suspense and (-)14.61 Miscellaneous transactions (-) 9.38	
	21.81 -Net effect of Remittance transactions 23.14	
...	5. Net effect of Contingency Fund transactions	...
...	6. Decrease in closing cash balance	...
1171.94	Total	1428.98
	APPLICATIONS	
927.79	1. Revenue expenditure	1079.48
68.63	2. Lending for development and other purposes	88.91
165.17	3. Capital expenditure	226.04
...	4. Net effect of Contingency Fund transactions	...
10.35	5. Increase in closing cash balance	34.55
1171.94	Total	1428.98

1.3.2 The main sources of funds include the revenue receipts of the Government, recoveries of the loans and advances, public debt and the receipts in the Public Account. These are applied mainly on revenue and capital expenditure and the lending for developmental purposes. It would be seen that the revenue receipts constitute the most significant source of fund for

the state government. While their relative share went down marginally from 80.52 **per cent** in 1999-2000 to 79.23 **per cent** in 2000-2001, the receipts from public debt went down significantly from 11.42 **per cent** to 7.79 **per cent**. The net receipts from the Public Account went up from 7.30 **per cent** in 1999-2000 to 12.09 **per cent** in 2000-2001. This was mainly due to increase in deposits and advances and decrease in negative figure under suspense and miscellaneous transactions.

1.3.3 The funds were mainly applied for revenue expenditure, whose share went down from 79.17 **per cent** in 1999-2000 to 75.54 **per cent** in 2000-2001 and also lower than the share of revenue receipts (79.23 **per cent**) to the total receipts of the state government. This led to revenue surplus (Rs.52.68 crore). Despite having significant growth of revenue surplus (232 **per cent**) over previous year, the percentages of capital expenditure and lending for development purposes went up only marginally from 14.09 to 15.82 **per cent** and 5.86 to 6.22 **per cent** respectively.

1.4 Financial operation of the State Government

1.4.1 Exhibit I gives the details of the receipts and disbursements made by the state government. The Revenue expenditure (Rs.1079 crore) during the year fell short of the revenue receipts (Rs.1132 crore) resulting in a revenue surplus of Rs.53 crore. The Revenue receipts comprised tax revenue (Rs.119 crore), non-tax revenue (Rs.87 crore), state's share of Union Taxes and duties (Rs.164 crore) and grants-in-aid from the Central Government (Rs.762 crore). The main sources of tax revenue were sales tax (55 **per cent**), state excise (35 **per cent**) and taxes on vehicles (4 **per cent**). Non-tax revenue came mainly from Non-ferrous Mining and Metallurgical Industries (58 **per cent**), Interest Receipts (11 **per cent**) and Other Industries (8 **per cent**).

1.4.2 Against receipts of Rs.13 crore from recoveries of loans and advances and Rs.141 crore from public debt, the expenditure was Rs.226 crore on capital outlay, Rs.89 crore on disbursement of loans and advances and Rs.29 crore on repayment of public debt. The receipts in the Public Account amounted to Rs.869 crore, against which the disbursements of Rs.696 crore were made. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was an increase in the cash balance from Rs.115 crore at the beginning of the year to Rs.149 crore at the end of the year.

1.4.3 The financial operations of the state government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in Exhibit I and the time series data for the five years' period from 1996-97 to 2000-2001 presented below:-

Table 1.3

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Part A. Receipts					
1 Revenue Receipts	731	697	833	944	1132
(i) Tax Revenue	77	73	88	103	119
Taxes on Agricultural Income	Nil	Nil	Nil	Nil	Nil
Taxes on Sales, Trade, etc.	31	37	46	54	65
State Excise	31	28	33	40	41
Taxes on Vehicles	3	3	3	4	5
Stamps and Registration fees	1	2	2	3	3
Land Revenue	0.15	0.12	0.33	0.17	1
Other Taxes	10.85	2.88	3.67	1.83	4
(ii) Non Tax Revenue	48	30	52	84	87
(iii) State's share of Union Taxes and Duties	218	287	301	342	164
(iv) Grants in aid from GOI	388	307	392	415	762
2. Misc. Capital Receipts	...	...	...	...	...
3. Total revenue and Non-debt capital receipts (1+2)	731	697	833	944	1132
4. Recoveries of Loans and Advances	5	5	6	9	13
5. Public Debt Receipts	67	77	149	168	141
Internal Debt (excluding Ways and Means Advances and Overdrafts)	38	38	100	117	110
Net transactions under Ways and Means Advances and Overdraft	...	...	...	...	...
Loans and Advances from Government of India ^(a)	29	39	49	51	31
6. Total receipts in the Consolidated Fund (3+4+5)	803	779	988	1121	1286
7. Contingency Fund Receipts	...	...	...	...	...
8. Public Accounts Receipts	458	490	598	659	869
9. Total receipts of the state (6+7+8)	1261	1269	1586	1780	2155
Part B. Expenditure/Disbursement					
10. Revenue Expenditure	617	685	816	928	1079
Plan	165	163	186	209	274
Non-Plan	452	522	630	719	805
General Services (including Interest payments)	204	236	281	338	401
Social Services	227	254	300	356	410
Economic Services	186	195	235	234	268
Grants-in-aid and Contributions	...	...	...	...	...
11. Capital Expenditure	125	126	144	165	226
Plan	125	125	144	165	226
Non-Plan	0.28	0.47	Nil	Nil	Nil
General Services	6	5	6	9	8
Social Services	46	42	50	54	79
Economic Services	73	79	88	102	139

^(a) Includes Ways and Means Advances from GOI

	1996-97	1997-98	1998-99	1999-2000	2000-2001
12. Disbursement of Loans and Advances	17	17	26	69	89
13. Total (10+11+12)	759	828	986	1162	1394
14. Repayments of Public Debt	27	22	21	34	30
Internal Debt (excluding Ways and Means Advances and Overdrafts)	16	10	8	18	11
Net transactions under Ways and Means Advances and Overdraft	...	...	...	...	...
Loans and Advances from Government of India ^(a)	11	12	13	16	19
15. Appropriation to Contingency Fund	...	...	...	...	...
16. Total disbursement out of Consolidated Fund (13+14+15)	786	850	1007	1196	1424
17. Contingency Fund disbursements	...	...	...	...	...
18. Public Account disbursements	404	410	505	574	696
19. Total disbursement by the state (16+17+18)	1190	1260	1512	1770	2120
<i>Part C. Deficits</i>					
20. Revenue Surplus(1-10)	114	12	17	16	53
21. Fiscal Deficit (3+4-13)	23	126	147	209	249
22. Primary Deficit (21-23)	(-) 33	66	78	113	135
<i>Part D. Other data</i>					
23. Interest Payments (included in revenue expenditure)	56	60	69	96	114
24. Arrears of Revenue (Percentage of Tax and Non-tax Revenue Receipts)	NA	NA	NA	NA	NA
25. Financial Assistance to local bodies, etc.	69	95	89	142	185
26. Ways and Means Advances/ Overdraft availed (days)	28 (14)	Nil	15 (2)	Nil	Nil
27. Interest on WMA/Overdraft	0.06	Nil	0.76	Nil	Nil
28. Gross State Domestic Product (GSDP)	2149.84	2476.73	2886.63 ^(b)	3195.38 ^(c)	3625.09 ^(d)
29. Outstanding Debt (year end)	414	469	596	730	841
30. Outstanding guarantees (year end) including interest	NA	NA	NA	NA	215
31. Maximum amount guaranteed (year end)	NA	NA	NA	NA	243.07
32. Number of incomplete projects	70	53	64	312	190
33. Capital blocked in incomplete projects	11.96	18.91	6.45	NA	NA

(a) Includes Ways and Means Advances from GOI

(b) Provisional

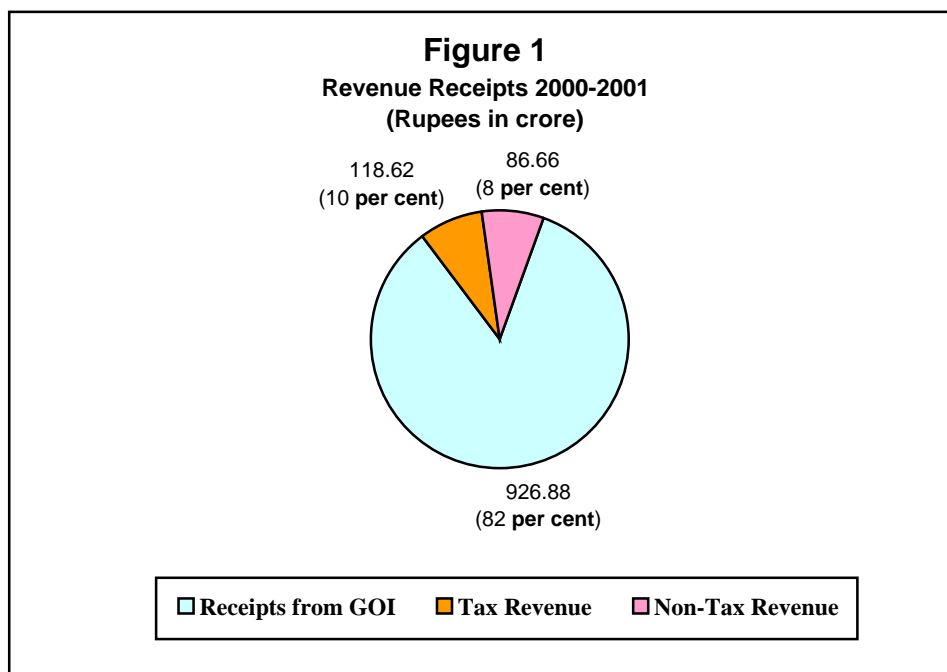
(c) Quick estimate

(d) Advance estimate

NA – Not available

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenue and receipts from GOI. Their relative shares are shown in Figure 1. The growth rate of revenue receipts increased from 7 **per cent** in 1996-97 to 20 **per cent** in 2000-2001 mainly due to 84 **per cent** increase in grants-in-aid from GOI.



Tax revenue

1.5.2 The table in Paragraph 1.4.3 shows Tax Revenue constituted 10.6 **per cent** (average) of the revenue receipts during 1996-97 to 2000-2001. The increase in the relative share of Taxes on Sales, Trade, etc. (3 **per cent**) and Other Taxes (1 **per cent**) to Tax Revenue during 2000-2001 was neutralised by decrease in the relative share under State Excise (5 **per cent**).

Non-tax revenue

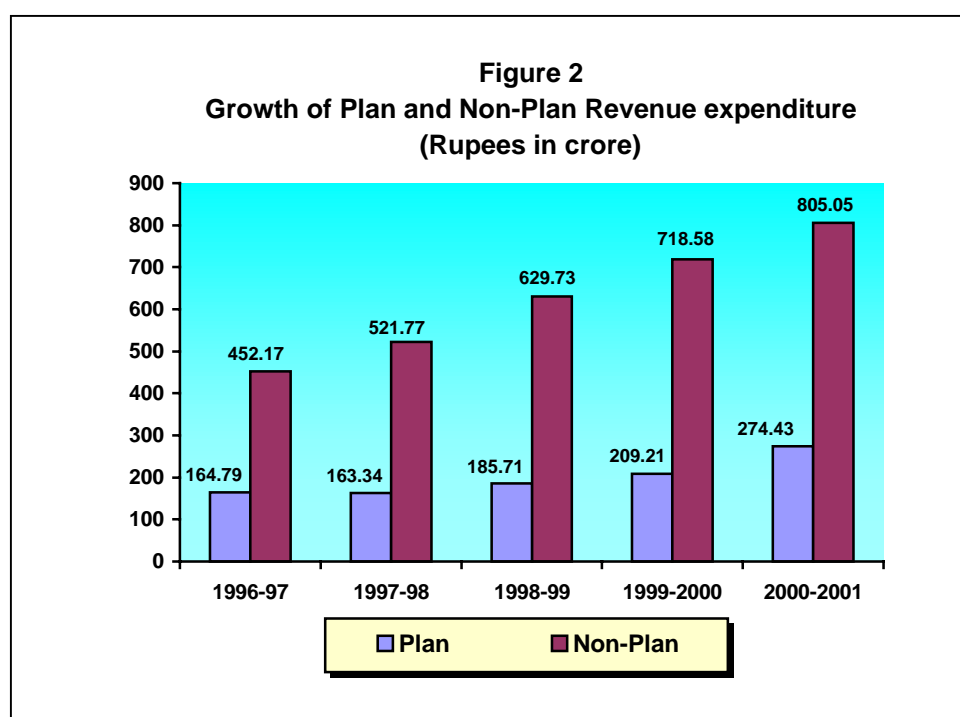
1.5.3 The non-tax revenue constituted 7.65 **per cent** of the revenue receipts of the Government and its share in the revenue receipts increased from 6.57 **per cent** as compared to 1996-97. The growth of non-tax revenue during 2000-2001 was 4 **per cent** against 62 **per cent** registered during 1999-2000. This was largely due to revenue under Non-ferrous Mining and Metallurgical Industries could not keep pace with the growth of 1999-2000 (Rs.49.75 crore from Rs.22.39 crore in 1998-99).

State's share of Union taxes and duties and grants-in-aid from the Central Government

1.5.4 While the grants-in-aid from GOI increased by 84 **per cent** in 2000-2001 as compared to the previous year, the state's share of Union Taxes (Excise, Duties and Taxes on Income other than Corporation Taxes) decreased by 52 **per cent**. The relative share of grants-in-aid from GOI to Revenue Receipts increased from 53 **per cent** in 1996-97 to 67 **per cent** in 2000-2001 while the state's share of Union Taxes decreased by 16 **per cent** from 30 **per cent** in 1996-97 to 14 **per cent** in 2000-2001.

1.6 Revenue expenditure

1.6.1 The revenue expenditure accounted for 83 **per cent** of the total of Revenue and Capital expenditure of the state government. The Revenue expenditure increased by 16 **per cent** as compared to the previous year. The increase was 31 **per cent** under Plan side and 12 **per cent** in Non-Plan side. The share in non-Plan expenditure during 2000-2001 was 75 **per cent** of revenue expenditure. The trend analysis showed the growth under non-Plan being faster than the Plan side as shown in Figure 2.



1.6.2 Sector wise analysis showed that while the expenditure on General Services increased by **97 per cent**, from Rs.204 crore in 1996-97 to Rs.401 crore in 2000-2001, increases in expenditure on Social Services and Economic Services for the corresponding period were 81 and 44 **per cent** respectively. As a proportion of total expenditure, the share of General Services increased from 33 **per cent** in 1996-97 to 37 **per cent** in 2000-2001, while under Social Services it was nearly constant between 37 and 38 **per cent** but under Economic Services there was a decrease from 30 to 25 **per cent**.

Interest payments

1.6.3 Interest payments increased by 104 **per cent** from Rs.56 crore in 1996-97 to Rs.114 crore in 2000-2001. This is further discussed in the section on financial indicators.

1.6.4 While a substantial portion (14 **per cent**) of Non-Plan revenue expenditure was towards interest payments on public debt, the general fiscal management of state government left much to be desired. In 2 departments test-checked by Audit, sums totalling Rs.2.53 crore were drawn by respective departments and retained in civil deposit and in the form of banker's cheque/bank draft for periods ranging from 2 to 6 years (up to March 2001). The fiscal cost of such irregular withdrawal of funds and the effect of their non-utilisation are discussed in transactional audit observations in Paragraphs 3.5 and 3.11 of Chapter III. The fiscal cost of such irregular retention of funds worked out to Rs.45.86 lakh.

Financial assistance to local bodies and other institutions

1.6.5 The quantum of assistance in the form of grant provided to different local bodies, etc. during the period of five years ending 2000-2001 was as follows:

Table 1.4

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Universities and Educational Institutions	61.85	72.23	80.73	106.42	122.14
Municipalities	2.25	1.82	1.25	1.40	3.80
Co-operative Societies	0.88	4.14	0.96	1.93	1.43
District Councils	2.92	4.72	5.30	5.26	5.32
Other institutions	0.90	12.54	0.87	26.99	52.67
Total	68.80	95.45	89.11	142.00	185.36
Percentage of growth over previous year	26	39	(-) 7	59	31
Assistance as a percentage of revenue expenditure	11	14	11	15	17

1.6.6 Compared to 1999-2000, the assistance to the local bodies and others increased during 2000-2001. The financial assistance to Universities and Educational Institutions went up from Rs.61.85 crore in 1996-97 to Rs.122.14 crore in 2000-2001.

Loans and Advances by the State Government

1.6.7 The Government gives loans and advances to Government companies, corporations, local bodies, autonomous bodies, co-operatives, non-government institutions, etc. for developmental and non-developmental activities. The position for the last five years given below shows that compared to 1996-97, the increase in amount advanced (421 **per cent**) far surpassed the improvement in repayment (140 **per cent**), as a result of which the closing balance during 2000-2001 increased by 103 **per cent**.

1.6.8 Information about the arrears in recovery (principal and interest) as on 31 March 2001 have not been received from the departmental authorities in respect of the detailed accounts that are maintained by them.

Table 1.5

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Opening balance	151.76	163.52	175.74	195.77	255.51
Amount advanced during the year	17.07	17.25	25.77	68.63	88.91
Amount repaid during the year	5.30	5.04	5.74	8.89	12.71
Closing balance	163.53	175.73	195.77	255.51	331.71
Net addition	11.77	12.21	20.03	59.74	76.20
Interest received	1.38	0.34	0.36	0.42	0.55

1.7 Capital expenditure

1.7.1 Capital expenditure leads to asset creation. In addition, financial assets arise from moneys invested in institutions or undertakings outside Government, i.e., Public Sector Undertakings (PSUs), Corporations, etc. and loans and advances. The average share of capital expenditure to total expenditure (Revenue and Capital) was 16 **per cent** during the 5 years' period ending March 2001. The table in Paragraph 1.4.3 shows that most of the capital expenditure was under Social and Economic Services being 35 and 62 **per cent** of Capital expenditure respectively and on the Plan side.

1.8 Quality of expenditure

1.8.1 Government spends money for different activities ranging from maintenance of law and order, regulatory functions and various developmental activities. Government expenditure is broadly classified into Plan and Non-plan and revenue and capital. While the Plan and Capital expenditure are usually associated with asset creation, the Non-plan and revenue expenditure are identified with expenditure on establishment, maintenance and services.

1.8.2 Wastage in public expenditure, diversion of funds and funds blocked in incomplete projects would also impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account, after booking them as expenditure, can also to be considered as a negative factor in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned year it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General Services to the detriment of Economic and Social Services.

1.8.3 The following table lists out the trend in these indicators:

Table 1.6

	1996-97	1997-98	1998-99	1999-2000	2000-2001
1. Plan expenditure as a percentage of:					
- Revenue expenditure	27	24	23	23	25
- Capital expenditure	100	100	100	100	100
2. Capital expenditure (per cent of Capital and Revenue expenditure)	17	16	15	15	17
3. Expenditure on General Services (per cent)					
- Revenue	33	34	34	37	37
- Capital	5	4	4	5	4

1.8.4 It would be seen that while the share of Plan Revenue expenditure marginally improved by 2 **per cent** during 2000-2001 as compared to the previous year but remained constant under Capital. The expenditure on General Services, at the same time showed marginal variations under both Revenue and Capital during 1996-97 to 2000-2001.

1.9 Financial Management

1.9.1 The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this report deal extensively with these issues especially as they relate to the expenditure management in the Government, based on the findings of the test audit. Some other parameters, which can be segregated from the accounts and other related financial information of the Government, are discussed in this section.

Investment and returns

1.9.2 Investments are made out of the capital outlay by the Government to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as under:

Table 1.7

(Rupees in crore)

Sector	Number of concerns	Amount invested ^(a)	
		As on 31 March 2001	During 2000-2001
(1) Statutory Corporations	2 ^(b)	24.27	3.40
(2) Government Companies	8	82.04	20.37
(3) Co-operative Institutions	1438	19.23	3.41
Total	1448	125.54	27.18

1.9.3 The details of investments and the returns realised during the last five years by way of dividend and interest were as follows:

Table 1.8

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowing (per cent)
	(Rupees in crore)			
1996-97	88.92	0.0003	0.0003	13 to 13.85
1997-98	89.90	0.03	0.03	13.05
1998-99	92.86	0.03	0.03	12.15 to 12.5
1999-2000	98.36	0.60	0.61	11.85 and 12.25
2000-2001	125.54	0.0055	0.004	10.52 and 12

1.9.4 Thus, while the Government was raising high cost borrowings from the market, its investments in Government companies, etc. fetched insignificant returns.

^(a) Figures in Chapter VIII are provisional.

^(b) Excludes Meghalaya State Electricity Board.

Ways and means advances and overdraft

1.9.5 Under an agreement with the Reserve Bank of India, the state government had to maintain with the Bank a minimum daily cash balance of Rs.21 lakh. If the balance fell below the agreed minimum on any day, the deficiency had to be made good by taking ways and means advances (WMA)/overdraft(OD) from the Bank. In addition, special ways and means advances are also made by the Bank whenever necessary. Recourse to WMA/OD means a mismatch between the receipts and expenditure of the Government and hence reflects poorly on the financial management by Government.

1.9.6 During 2000-2001, the state government maintained the minimum balance throughout the year without obtaining WMA/OD.

Funds raised by Public Sector Undertakings utilised by State Government

1.9.7 Based on the directives of the state government, the Meghalaya Government Construction Corporation Limited (MGCC) had transferred Rs.9 crore to Government account during 1993-94 to 1996-97 to meet the ways and means requirement. The funds were provided by the MGCC taking loans from Bank. The state government refunded the amount on piece meal basis with interest of Rs.5.69 lakh, while the MGCC had to pay interest amounting to Rs.50.95 lakh to the Bank for the said loan. As a result, the MGCC sustained a loss of Rs.45.26 lakh.

Deficit

1.9.8 Deficits in Government account represent gaps between the receipts and expenditure. The nature of deficit is an important indicator of the prudence of financial management in the Government. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers of the fiscal prudence of the Government. The discussion in this section relates to three concepts of deficit, viz., Revenue Deficit, Fiscal Deficit and Primary Deficit.

1.9.9 The Revenue Deficit is the excess of revenue expenditure over revenue receipts. The Fiscal Deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received). Primary Deficit is fiscal deficit less interest payments. The following exhibit gives a break-up of the deficit in Government account during 2000-2001 and how these were financed:-

Table 1.9
OVERALL FINANCIAL TRANSACTIONS OF GOVERNMENT
(Rupees in crore)

		CONSOLIDATED FUND(CF)			
Receipt	Amount			Disbursement	Amount
Revenue	1132	Revenue Surplus: 53		Revenue	1079
Miscellaneous capital receipts	Nil			Capital	226
Recovery of loans and advances	13			Loans and advances disbursement	89
Sub Total	1145	Fiscal Deficit: 249		Sub Total	1394
Public debt receipts	141			Public debt repayment	30
Total	1286	A: Deficit in CF: 138		Total	1424
		PUBLIC ACCOUNT (PA)			
Small savings, Provident Fund, etc.	91			Small savings, Provident Fund, etc.	29
Deposits and advances	271			Deposits and advances	172
Reserve funds	6			Reserve funds	8
Suspense and miscellaneous	4			Suspense and miscellaneous	13
Remittances	497			Remittances	474
Total	869	B: Surplus in PA: 173		Total	696
		C: Deficit in CF financed out of surplus in PA: 138			
		Increase in cash balance: (B – C) : 35			

1.9.10 The table shows that the Government had a revenue surplus of Rs.53 crore but sustained a gross fiscal deficit of Rs.249 crore as of 31 March 2001. This deficit was financed by net proceeds of the public debt (Rs.111 crore) and partly by the surplus from Public Account (Rs.138 crore). The table in Paragraph 1.4.3 shows that the fiscal deficit has increased from Rs.23 crore in 1996-97 to Rs.249 crore in 2000-2001.

Application of the borrowed funds (Fiscal Deficit)

1.9.11 The fiscal deficit (FD) represents total net borrowings of the Government. These borrowings are applied for meeting the Revenue Deficit (RD), for making the Capital Expenditure (CE) and for giving loans to various bodies for developmental and other purposes. The relative proportions of these applications would indicate the financial prudence of the state government and also the sustainability of its operations because continued

borrowing for revenue expenditure would not be sustainable in the long run. The following table shows the position in respect of the Government of Meghalaya for the last five years.

Table 1.10

Ratio	1996-97	1997-98	1998-99	1999-2000	2000-2001
RS/FD	(-) 4.91	(-) 0.10	(-) 0.12	(-) 0.08	(-) 0.21
CE/FD	5.40	1.00	0.98	0.79	0.91
Net loans/FD	0.51	0.10	0.14	0.29	0.30
Total	1.00	1.00	1.00	1.00	1.00

(RS – Revenue Surplus)

1.9.12 As there was revenue surplus in each of the year shown in the table above, revenue expenditure had not been met from borrowed funds.

Guarantees given by the State Government

1.9.13 Guarantees are given by the state government for due discharge of certain liabilities like repayment of loans, share capital, etc., raised by the statutory corporations, government companies and co-operative institutions etc., and payment of interest and dividend by them. They constitute contingent liability of the state. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limits within which Government may give guarantees on the security of the Consolidated Fund of the state.

1.9.14 According to the information furnished by the Government, guarantees given by the Government and outstanding at the end of March 2001 were as under:-

Table 1.11

Party on whose behalf the guarantee was given	Maximum amount guaranteed	Sums guaranteed outstanding as on 31 March 2001	
		Principal	Interest
(Rupees in crore)			
Statutory Corporation	231.97	135.78	70.53
Co-operative Societies	7.63	3.98	2.62
Other Institutions	3.47	1.73	...
Total	243.07	141.49	73.15

1.10 Public debt

1.10.1 The Constitution of India provides that a state may borrow within the territory of India, upon the security of Consolidated Fund of the state within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the state. No law had been passed by the State Legislature laying down any such limit. The details of the total liabilities of the state government as at the

end of the last five years are given in the following table. During the five years' period, the total liabilities of the Government had grown by 138 **per cent**. This was on account of 196 **per cent** growth in internal debt, 44 **per cent** growth in loans and advances from Government of India and 224 **per cent** growth in other liabilities. During 2000-2001, Government borrowed Rs.70 crore in the open market at the interest rates of 10.52 and 12 **per cent**.

Table 1.12

(Rupees in crore)

Year	Inter- nal debt	Loans and advances from Central Government	Total public debt	Other liabili- ties ^(a)	Total liabili- ties	Ratio of debt to GSDP
1996-97	161.47	252.49	413.96	171.05	585.01	0.27
1997-98	188.93	279.70	468.63	238.15	706.78	0.29
1998-99	280.89	315.12	596.01	315.59	911.60	0.32
1999-2000	380.07	349.83	729.90	394.56	1124.46	0.35
2000-2001	478.33	362.91	841.24	553.40	1394.64	0.38

1.10.2 The amount of funds raised through Public debt, the amount of repayment and net funds available are given in the following table:-

Table 1.13

(Rupees in crore)

	1996-97	1997-98	1998-99	1999- 2000	2000- 2001
Internal Debt ^(b)					
-Receipt	65.90	37.74	115.72	116.94	109.40
-Repayment ^(c)	64.91	33.20	50.24	62.32	65.57
-Net funds available (per cent)	0.99 (1.5)	4.54 (12)	65.48 (57)	54.62 (47)	43.83 (40)
Loans and advances from GOI					
-Receipt during the year	28.52	39.42	48.87	50.76	31.40
-Repayment ^(c)	38.16	43.02	47.27	54.72	61.70
-Net funds available (per cent)	(-) 9.64	(-) 3.60	1.60 (3)	(-) 3.96	(-) 30.30
Other liabilities ^(d)					
-Receipt during the year	115.54	136.14	178.53	193.04	342.65
-Repayment	83.24	69.05	101.09	114.08	199.66 ^(c)
-Net funds available (per cent)	32.30 (28)	67.09 (49)	77.44 (43)	78.96 (41)	142.99 (42)

(a) Other liabilities include small savings, provident funds, reserve funds, deposits and other non-interest bearing obligations.

(b) Includes ways and means advances.

(c) Principal plus interest.

(d) Small savings, provident funds, reserve funds and deposits.

1.10.3 It would be seen that very little of the borrowings (32 **per cent**) were available during 2000-2001 for investment and other expenditure after meeting the repayment obligations. Considering that the outstanding debt has been increasing year after year, the net availability of funds through public borrowings is going to reduce further.

1.11 Indicators of the financial performance

1.11.1 A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity it would be necessary to know how far the means of financing are sustainable. Similarly, if Government wishes to increase its level of activity it would be pertinent to examine the flexibility of the means of financing. Finally, Government's increased vulnerability in the process. All the state governments continue to increase the level of their activity principally through Five Year Plans which translate to Annual development plans and are provided for in the state Budget. Broadly, it can be stated that Non-Plan expenditure represents Government maintaining the existing level of activity^(a), while Plan expenditure entails expansion of activity. Both these activities require resource mobilization increasing Government's vulnerability. In short, financial health of a Government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows:

(i) Sustainability

Sustainability is the degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden.

(ii) Flexibility

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

(iii) Vulnerability

Vulnerability is the degree to which a Government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

^(a) There are exceptions to this, notably transfer of Plan to the Non-Plan at the end of Plan period.

(iv) Transparency

The issue of transparencies concerns the issue of financial information provided by the Government. This consists of Annual Financial Statement (Budget) and the Accounts. As regards the budget the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As regards accounts, timeliness in submission, for which milestones exist and completeness of accounts would be the principal criteria.

1.11.2 Information available in Finance Accounts can be used to flash out Sustainability, Flexibility and Vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in the Appendix I-B. Exhibit II indicates the behaviour of these indices/ratios over the period from 1996-97 to 2000-2001. The implications of these indices/ratios for the state of the financial health of the state government are discussed in the following paragraphs.

1.11.3 The behaviour of the indices/ratios is discussed below:

(i) Balance from current revenues (BCR)

BCR is defined as revenue receipts minus Plan assistance grants minus Non-Plan revenue expenditure. A positive BCR shows that the state government has surplus from its revenues for meeting Plan expenditure. The table shows that the state government had positive BCR only in 1996-97 out of the five years and in remaining four years the BCR was negative suggesting that Government had to depend only on borrowings for meeting its Plan expenditure.

(ii) Interest ratio^(a)

The higher the ratio the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In case of Meghalaya the ratio has increased from 0.07 in 1996-97 to 0.09 in 2000-2001.

(iii) Capital outlay/capital receipts

This ratio would indicate to what extent the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long term inasmuch as it indicates that a part of the capital receipt was being

^(a) Net interest payment ÷ (Revenue receipts – Interest receipts).

diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal performance of the state government and a rising trend would mean an improvement in performance. In the case of Meghalaya, the ratio has come down from 1.90 in 1996-97 to 1.79 in 2000-2001 indicating a worsening sustainability.

(iv) Tax receipts vs Gross State Domestic Product (GSDP)

Tax receipts consist of state taxes and state's share of Central taxes. The latter can also be viewed as Central taxes paid by people living in the state. Tax receipts suggest sustainability, but the ratio of tax receipts to GSDP would have implications for flexibility as well. While a low ratio would imply that the Government can tax more and hence its flexibility, a high ratio may not only point to the limits of this source of finance but also its inflexibility. Time series analysis shows that in case of Meghalaya the ratio has shown a declining trend and has come down from 0.15 in 1997-98 to 0.08 in 2000-2001. On the other hand, the ratio of state tax receipts compared to GSDP has been constant at 0.03 in four out of five years' period ending March 2001 while in 1996-97, the ratio was 0.04. This ratio suggests that the state government had the option to raise more resources through taxation to generate more revenue surplus for capital formation.

(v) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. The table presents the return on Government's investments in the statutory corporations, Government companies, joint stock companies and co-operative institutions. It shows that the ROI in case of Government of Meghalaya has been negligible during 1996-97 to 2000-2001. Compared to 1999-2000 (0.0061), the ratio has decreased during 2000-2001 (0.00004) indicating adverse implications for sustainability.

(vi) Capital repayments vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings are available for investment, after repayment of capital. The lower the ratio, the higher would be the availability of capital for investment. In case of Meghalaya Government this ratio has been in the range of 0.15 to 0.40 during the five years' period ending March 2001. Compared to 1999-2000 (0.20), the ratio increased during 2000-2001 (0.21) indicating decrease in the availability of capital for investment.

(vii) Debt vs Gross State Domestic Product (GSDP)

The GSDP is the total internal resource base of the state government, which can be used to service debt. An increasing ratio of Debt/GSDP would signify a reduction in the Government's ability to meet its debt obligations and therefore, increasing risk for the lender. In the case of Meghalaya, this ratio has moved from 0.27 in 1996-97 to 0.38 in 2000-2001 showing reduction in the ability of Government to meet debt obligations.

(viii) Revenue deficit/Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings etc. Evidently, the higher the revenue deficit, the more vulnerable is the state. Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus, the higher the ratio the worse off the state because that would indicate that the debt burden is increasing without adding to the repayment capacity of the state. In case of Meghalaya, there was no revenue deficit throughout the five years' period ending March 2001.

(ix) Primary deficit vs Fiscal deficit

Primary deficit is the fiscal deficit minus interest payments. This means that the less the value of the ratio the less the availability of funds for capital investment. In the case of Meghalaya, the ratio of primary deficit to fiscal deficit during 2000-2001 was 0.54 which was the same as previous year indicating stagnation in the availability of funds for capital investment.

(x) Guarantees vs Revenue receipts

Outstanding guarantees, including the letters of comfort issued by the Government, indicate the risk exposure of a state government and should therefore be compared with the ability of the Government to pay, viz., its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the state government. In case of Meghalaya, this ratio could not be worked out as the state government had not furnished data for the period 1996-97 to 1999-2000. This ratio for 2000-2001 was 0.19.

(xi) Assets vs Liabilities

This ratio indicates the solvency of the Government. A ratio of more than 1 would indicate that the state government is solvent (assets are more than the liabilities) while a ratio of less than 1 would be a contra indicator. This ratio has declined from 2.45 in 1996-97 to 1.65 in 2000-2001 indicating lowering of solvency of the Government.

(xii) Budget

The details of submission of budget and its approval are as under:-

Table 1.14

Preparation	Month of submission	Month of approval
Vote on account	March 2000	March 2000
Budget	March 2000	June 2000
Supplementary I	March 2001	March 2001

1.11.4 Chapter II of this Report carries a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedure and control over expenditure. It indicates defective budgeting and inadequate control over expenditure, as evidenced by persistent resumption (surrenders) of significant amounts every year vis-a-vis the final modified grant. Significant savings between the final modified grant and actual expenditure were also persistent.

(xiii) Accounts

There were considerable delays in furnishing the accounts to the Accountant General (A&E) during 2000-2001 hampering their finalisation. The delays ranged between 13 and 54 days in respect of 8 Treasuries and more than 15 days in respect of 40 Forest Divisions (266 accounts) and 66 Public Works Divisions (126 accounts) adversely affecting the schedule of finalisation of the accounts for the year 2000-2001.

Conclusion

1.11.5 Though the state had revenue surplus for the five years' period ending 31 March 2001, the financial position of the state government was characterised by Negative BCR during four years' period ending March 2001 indicating that the state did not have any surplus for meeting Plan expenditure

from its revenue after excluding the Plan Central assistance received and meeting the Non-Plan expenditure. The increase in the ratio of Debt to GSDP indicated reduction in the ability of Government to meet debt obligations. This has adverse implications for sustainability.

EXHIBIT – I
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2000-2001

(Rupees in crore)

1999-2000	Receipts	2000-2001	1999-2000	Disbursements				2000-2001
	Section A: Revenue			I. Revenue Expenditure	Non-Plan	Plan	Total	
	I. Revenue Receipts							
102.99	Tax Revenue	118.62	337.44	General Services	388.44	12.90	401.34	401.34
83.86	Non-Tax Revenue	86.66	356.04	Social Services	258.88	151.09	409.97	409.97
341.76	State's Share of Union Taxes and Duties	164.20	207.06	Education, Sports, Art and Culture	159.06	76.47	235.53	
23.19	Non-Plan Grants	320.31	63.68	Health and Family Welfare	41.97	28.54	70.51	
342.66	Grants for State Plan Schemes	359.78	56.58	Water Supply, Sanitation, Housing and Urban Development	43.56	23.03	66.59	
44.26	Grants for Central Plan and Centrally Sponsored Plan Schemes	73.79	2.60	Information and Broadcasting	1.57	1.77	3.34	
4.93	Grants for Special Plan Schemes	8.80	5.13	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	0.68	9.62	10.30	
			4.23	Labour and Labour Welfare	3.67	0.55	4.22	
			14.95	Social Welfare and Nutrition	6.43	11.11	17.54	
			1.81	Others	1.94	...	1.94	
			234.31	Economic Services	157.73	110.44	268.17	268.17
			98.06	Agriculture and Allied Activities	63.26	48.74	112.00	
			41.04	Rural Development	8.76	40.50	49.26	
			0.45	Special Areas Programmes	...	1.29	1.29	
			7.67	Irrigation and Flood Control	6.30	3.21	9.51	
			9.86	Energy	10.25	0.55	10.80	
			31.05	Industries and Minerals	23.16	9.83	32.99	
			31.87	Transport	36.05	...	36.05	
			0.14	Science, Technology and Environment	0.12	...	0.12	
			14.17	General Economic Services	9.83	6.32	16.15	
			...	Grants in aid and contributions	...	...	...	...
			927.79	Total	805.05	274.43	1079.48	1079.48
...	II. Revenue Deficit carried over to Section B	...	15.86	II. Revenue Surplus carried over to Section B	...	...	...	52.68
943.65	Total	1132.16	943.65	Total				1132.16

1999-2000	Receipts	2000-2001	1999-2000	Disbursements				2000-2001
	Section B: Others				Non-Plan	Plan	Total	
104.48	III. Opening Cash Balance including permanent advances and cash balance investment	114.83	...	III. Opening Overdraft from RBI	...	...	...	...
...	IV. Miscellaneous Capital Receipts	...	165.17	IV. Capital Outlay	...	226.04	226.04	226.04
			9.46	General Services	...	8.24	8.24	8.24
			53.76	Social Services	...	78.44	78.44	78.44
			1.86	Education, Sports, Art and Culture	...	1.53	1.53	
			11.43	Health and Family Welfare	...	9.92	9.92	
			38.74	Water Supply and Sanitation	...	53.08	53.08	
			1.73	Housing and Urban Development	...	13.91	13.91	
			...	Information and Broadcasting	...	...	...
			101.95	Economic Services	...	139.36	139.36	139.36
			2.47	Agriculture and Allied Activities	...	3.82	3.82	
			0.27	Rural Development	...	4.14	4.14	
			6.19	Special Areas Programmes	...	9.30	9.30	
			8.55	Irrigation and Flood Control	...	8.99	8.99	
			...	Energy	...	...	...
			3.98	Industries and Minerals	...	19.06	19.06	
			80.21	Transport	...	92.13	92.13	
			0.28	General Economic Services	...	1.92	1.92	

1999-2000	Receipts	2000-2001	1999-2000	Disbursements	2000-2001
8.89	V. Recoveries of Loans and Advances	12.71	68.63	V. Loans and Advances Disbursed	88.91
...	From Power Projects ...		13.00	For Power Projects 48.66	
8.70	From Government Servants 12.37		54.21	To Government Servants 39.31	
0.19	From Others 0.34		1.42	To Others 0.94	
15.86	VI. Revenue Surplus brought down	52.68	...	VI. Revenue Deficit brought down	...
167.70	VII. Public Debt receipts	140.80	33.81	VII. Repayment of Public Debt	29.46
116.94	Internal debt other than Ways and Means Advances and Overdraft 109.40		17.76	Internal debt other than Ways and Means Advances and Overdraft 11.14	
...	Net transactions under Ways and Means Advances including Overdraft ...		...	Net transactions under Ways and Means Advances including Overdraft ...	
50.76	Loans and Advances from Central Government 31.40		16.05	Repayment of Loans and Advances to Central Government 18.32	
...	VIII. Appropriation from the Consolidated Fund	...	...	VIII. Appropriation to Contingency Fund	...
...	IX Amount transferred to Contingency Fund	...	...	IX Expenditure from Contingency Fund	...
659.29	X. Public Account Receipts	868.72	573.78	X. Public Account Disbursements	695.95
46.05	Small Savings and Provident Fund 90.76		17.42	Small Savings and Provident Fund 28.82	
5.71	Reserve Funds 6.34		3.09	Reserve Funds 8.01	
166.06	Deposits and Advances 270.37		119.00	Deposits and Advances 171.63	
(-) 1.03	Suspense and Miscellaneous ^(a) 4.26		13.58	Suspense and Miscellaneous ^(a) 13.64	
442.50	Remittances 496.99		420.69	Remittances 473.85	
...	XI. Closing Overdraft from Reserve Bank of India	...	114.83	XI. Cash Balance at end	149.38
			7.00	Cash in Treasuries and Local Remittances 8.56	
			(-) 5.42	Deposits with Reserve Bank 37.20	
			0.11	Departmental Cash Balance including permanent advances 0.11	
			113.14	Cash Balance Investment 103.51	
956.22	Total	1189.74	956.22	Total	1189.74

Explanatory Notes

1. The abridged accounts in the foregoing statement have to be read with comments and explanations in the Finance Accounts.
2. Government accounts being mainly on cash basis, the surplus on Government account, as shown in Paragraph 1.2 indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation in stock figure etc., do not figure in the accounts.
3. Suspense and Miscellaneous balances include cheques issued but not paid, payment made on behalf of the State and other pending settlement etc.
4. There was a net difference of Rs.97.72 crore between the figures reflected in the accounts (Rs.37.20 crore) and that intimated by the RBI {(-)Rs.60.52 crore} due to (i) misclassification by Bank/Treasuries of adjustments made by RBI (Rs.96.33 crore) and (ii) non-receipt of details of adjustment made by RBI (Rs.1.39 crore).

^(a) Excluding 'Other Accounts'.

EXHIBIT – II
FINANCIAL INDICATORS FOR GOVERNMENT OF MEGHALAYA

	1996-97	1997-98	1998-99	1999-2000	2000-2001
(1)	(2)	(3)	(4)	(5)	(6)
Sustainability					
BCR (Rupees in crore)	18.05	(-) 79.52	(-) 160.89	(-) 166.78	(-) 115.26
Primary Deficit (PD) (Rs.in crore)	(-) 32.50	65.55	77.85	113.35	135.90
Interest Ratio	0.07	0.08	0.08	0.09	0.09
Capital outlay/Capital receipts	1.90	1.43	0.95	1.21	1.79
Total tax receipts/GSDP	0.14	0.15	0.13	0.14	0.08
State Tax Receipts/GSDP	0.04	0.03	0.03	0.03	0.03
Return on Investment ratio	-	0.0003	0.0003	0.0061	0.00004
Flexibility					
BCR (Rupees in crore)	18.05	(-) 79.52	(-) 160.89	(-) 166.78	(-) 115.26
Capital repayments/Capital borrowings	0.40	0.29	0.15	0.20	0.21
State Tax receipts/GSDP	0.04	0.03	0.03	0.03	0.03
Debt/GSDP	0.27	0.29	0.32	0.35	0.38
Vulnerability					
Revenue Deficit (RD) (Rs.in crore)	Nil	Nil	Nil	Nil	Nil
Fiscal Deficit (FD) (Rs. in crore)	23.12	126.45	147.29	209.05	249.56
Primary Deficit (PD) (Rs. in crore)	(-) 32.50	65.55	77.85	113.35	135.90
PD/FD	(-) 1.41	0.52	0.53	0.54	0.54
RD/FD	Nil	Nil	Nil	Nil	Nil
Outstanding Guarantees/Revenue receipts	NA	NA	NA	NA	0.19
Assets/Liabilities	2.45	2.22	1.96	1.78	1.65

- Note:1. The interest payments in 1996-97 were more than the fiscal deficit, hence the negative figure for primary deficit.
2. Fiscal deficit has been calculated as : Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts – Capital receipts.
 3. In the ratio Capital outlay vs. Capital receipts, the denominator has been taken as Internal loans + Loans and Advances from Government of India + Net receipts from small savings, PF etc. + Repayments received from loans advanced by the State Government – Loans advanced by State Government.
 4. 'NA' – Not available.