EXECUTIVE SUMMARY

BACKGROUND

This Report on the Finances of the Government of Meghalaya is being brought out with a view to assess objectively the financial performance of the State during the year 2012-13. The aim of this Report is to provide the State Government with timely inputs based on actual data so that there is a better insight into both well performing as well as ill performing schemes/programmes of the Government. To give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government in the budget estimates of 2012-13, Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006 (amended in October 2011) and projections made by the Thirteenth Finance Commission (XIII FC).

Based on the audited accounts of the Government of Meghalaya for the year ending March 2013, this report provides an analytical review of the Annual Accounts of the State Government. The report is structured in three Chapters.

THE REPORT

Chapter I is based on the audit of Finance Accounts and makes an assessment of Meghalaya Government's fiscal position as on 31 March 2013. It provides an insight into trends in expenditure, borrowing pattern besides a brief account of central funds transferred directly to the State implementing agencies through off-budget route.

Chapter II is based on audit of Appropriation Accounts and it gives the grant-by-grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter III is an inventory of Meghalaya Government's compliance with various reporting requirements and financial rules.

The report also has an appendage of additional data collected from several sources in support of the findings.

AUDIT FINDINGS

❖ ***Return to fiscal correction***

The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit, primary deficit – indicated significant improvement in the financial health of the State during 2012-13 relative to previous four years (2008-12). During 2012-13, the State has returned to the status of revenue surplus as the revenue deficit which was ₹ 180.34 crore during 2011-12 turned to revenue surplus of a significant amount of ₹ 536.81 crore during the current year. This achievement was, however, mainly due to increase of central transfer in the form of share of Union Taxes and Duties and grants-in-aid by ₹ 614.98 crore (17.14 *per cent*) during 2012-13 against ₹ 201.19 crore (5.94 *per cent*) during the previous year and marginal increase in revenue expenditure by ₹ 164.73 crore (3.41 *per cent*) during the current year against a substantial increase of ₹ 822.07 crore (20.49 *per cent*) during the previous year. The fiscal deficit as well as primary deficit of the State have also significantly decreased during 2012-13 compared to previous year.

❖ *Revenue Receipts*

Revenue receipts during 2012-13 grew by 18.95 *per cent* (₹ 881.88 crore) over previous year. The tax revenue and non-tax revenue receipts exceeded normative assessment made by XIII FC by 32.52 *per cent* and 54.21 *per cent* respectively. But State's own resources (tax and non-tax revenue) contributed 30.26 *per cent* (₹ 266.90 crore) of the incremental revenue receipts during 2012-13 (₹ 881.88 crore). Whereas Central transfers comprising State's share of central taxes and grants-in-aid from the Government of India increased by ₹ 614.98 crore in 2012-13 and contributed 69.74 *per cent* of the incremental revenue receipts during the year, indicating central transfers being the key in the increase in revenue receipts of the State.

❖ *Revenue / Capital / Total Expenditure*

The revenue expenditure of the State increased by 86.36 *per cent* from ₹ 2682.78 crore in 2008-09 to ₹ 4999.54 crore in 2012-13. The expenditure pattern of the State reveals that though the revenue expenditure as a percentage of total expenditure marginally decreased by 0.23 *per cent* in the current year over previous year, hovered around 85 *per cent* during the period (2008-13) leaving inadequate resources for expansion of services and creation of assets. Within the revenue expenditure, Non-Plan Revenue Expenditure (NPRE) at ₹ 3280.13 crore in 2012-13 constituted 65.61 *per cent* and remained significantly higher (12.17 *per cent*) than the normatively assessed level of ₹ 2924.21 crore by XIII FC for the year. Further, expenditure on salaries, pensions, interest payments and subsidies continued to consume a large share of revenue expenditure which was 47.49 *per cent* during 2012-13. During 2012-13, though the development expenditure (₹ 4304.87 crore) increased by ₹ 118.51 crore (2.83 *per cent*) over previous year, it was much below the budget estimate (₹ 5848.58 crore) for 2012-13. The relative share of revenue development expenditure was 79.58 *per cent* of the total development expenditure, while this share in respect of capital development expenditure was only 20.16 *per cent.* Predominant share of revenue expenditure in development expenditure indicated that more emphasis was given on maintenance of the current level of services. Capital outlay during 2012-13 (₹ 928.34 crore) though increased by ₹ 73.10 crore over previous year, fell short by 33.63 *per cent*

(₹ 470.36 crore) of the projection (₹ 1398.70 crore) made by the State Government in its budget for the year.

❖ *Government investments*

The average return on Meghalaya Government's investments in Statutory Corporations, Government Companies and Co-operative Societies was less than one *per cent* during 2008-13, whereas its average interest outgo was in the range of 6.22 to 6.51 *per cent*.

❖ *Debt sustainability*

During 2012-13, there was improvement in all the three major fiscal indicators, *viz*., revenue surplus, fiscal deficit and primary deficit over previous year. The fiscal deficit decreased from ₹ 1065.25 crore in 2011-12 to ₹ 395.30 crore during the current year. Primary deficit also decreased significantly by around 90 *per cent* (₹ 698.10 crore) compared to the previous year. The fiscal deficit-GSDP ratio stood at 2.13 *per cent* during 2012-13 against the ceiling of 3 *per cent* or less prescribed in the MFRBM Act, 2006 (as amended) and also the recommendation of the XIII FC to maintain this ratio at 3 *per cent* of GSDP or less. The prevalence of fiscal deficit during 2008-13 indicates continued reliance of the State on borrowed funds, resulting in increasing fiscal liabilities of the State over the period 2008-12. However, fiscal liabilities during 2012-13 marginally decreased by 2.47 *per cent* (₹ 125.70 crore) and stood at 26.74 *per cent* of the GSDP during the current year against 30.97 *per cent* during 2011-12.

❖ *Funds transferred directly by GOI to the State Implementing Agencies*

Funds flowing directly to the implementing agencies through off-budget route inhibit fiscal responsibility legislation requirements of transparency and therefore escape accountability. During the current year, GOI transferred approximately ₹ 830.58 crore directly to the State Implementing Agencies for implementation of various schemes/programmes without routing the amount through the State Budget.

❖ *Financial management and budgetary control*

During 2012-13, there was an overall saving of ₹ 2546 crore, which was the result of saving of ₹ 2660.45 crore offset by excess of ₹ 114.45 crore. The excess of ₹ 114.45 crore requires regularisation under Article 205 of the Constitution of India. There were also instances of inadequate provision of funds and unnecessary/excessive re-appropriations. In many cases, the anticipated savings were either not surrendered or surrendered on the last day of the year leaving no scope for utilising these funds for other development purposes. Budgetary procedure and expenditure control of the Government was weak.

❖ *Financial reporting*

State Government's compliance with various rules, procedures and directives was unsatisfactory as evident from delay in furnishing utilisation certificates for grants given by Government departments. Delays also figured in submission of annual accounts by some autonomous bodies. Also, there were instances of losses and misappropriations.

RECOMMENDATIONS

Revenue Receipts: The State Government should explore the possibilities of mobilising additional resources both through tax and non-tax sources by expanding the tax base and rationalising the user charges.

Greater priority to capital expenditure: Expenditure pattern of the State Government needs correction in the ensuing years. The State should initiate action to restrict the components of non-plan revenue expenditure. Though expenditure incurred under capital heads had been increasing over the years, yet the expenditure pattern under this sector also needs correction. From the point of view of improving developmental expenditure, it is pertinent for the Government of Meghalaya to take appropriate expenditure measures and lay emphasis on provision of development capital expenditure.

Government investments: Considering the low return on investment in Statutory Corporations, Government Companies and Co-operatives, the State Government should ensure better value for money in investments by identifying the companies/corporations which are endowed with low financial but high socio-economic returns and justify the use of high cost borrowed funds for non-revenue generating investments through clear and transparent guideline.

Debt sustainability: Recourse to borrowed funds in future should be carefully assessed and managed so that the Fiscal Liabilities-GSDP ratio can be restricted to the projection made in the Medium Term Fiscal Policy Statement.

Funds transferred directly from the GOI to the State implementing agencies: Direct transfers from the Union Government to the State Implementing Agencies runs the risk of poor accountability. As such, the State Government may institute a mechanism for centralised monitoring of utilisation of funds.

Financial management and budgetary control: Efforts should be made by all departments to submit realistic budget estimates keeping in view the trends in receipts and expenditure in order to avoid large scale savings/excess. Savings should be surrendered as and when they are noticed and within the prescribed date. Last minute fund releases and issuance of re-appropriation/ surrender orders should be avoided.

Financial reporting: Departments should ensure timely submission of utilisation certificates for the grants released for specific purposes and the annual accounts of autonomous bodies. Departmental enquiries in all misappropriation cases should be expedited and internal controls strengthened to prevent such cases.