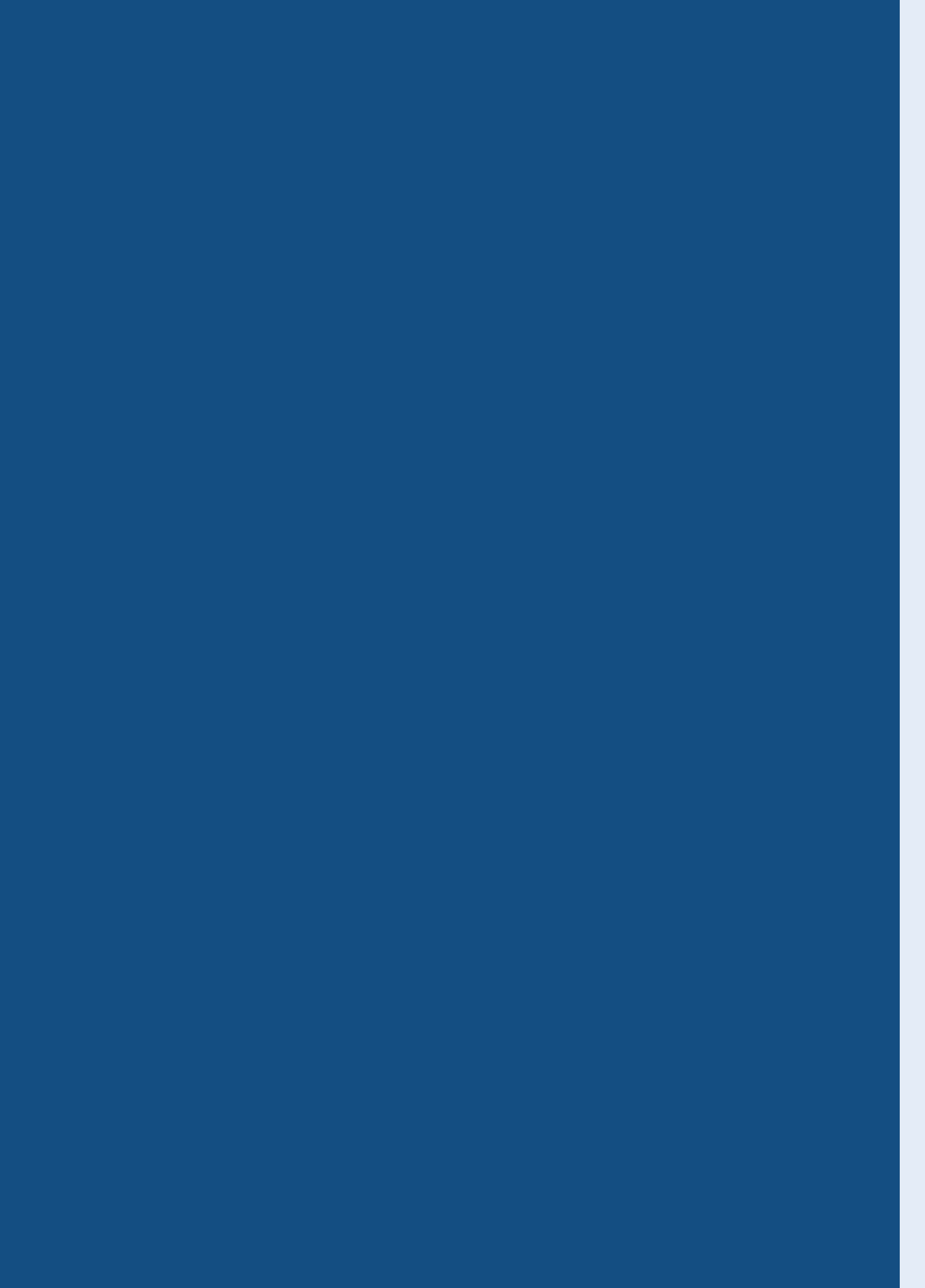




EXECUTIVE SUMMARY



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About the Report

This Report of the CAG of India is on the State Finances for the year 2022-23. It provides an overview of the finances, budgetary management and quality of accounts, financial reporting practices and other matters relevant to State Finances.

This executive summary highlights the contents of this report and through snapshots of the important figures and aspects, provides insight into fiscal sustainability, performance against the budget intent, revenue and expenditure projection, the reasons for variations and its impact.

Gross State Domestic Product (GSDP) (at current prices) grew at an average growth rate of 7.83 *per cent* from ₹ 32,176 crore in 2018-19 to ₹ 42,697 crore in 2022-23. Budget Outlay of the State grew at an average growth rate of 10.01 *per cent* from ₹ 15,391.87 crore in 2018-19 to ₹ 21,925.60 crore in 2022-23.

There was 10.09 *per cent* growth in GSDP over 2021-22. The revenue receipts grew at 3.82 *per cent* and the percentage of revenue receipts over GSDP decreased from 36.80 *per cent* in 2021-22 to 34.71 *per cent* in 2022-23. The tax revenue increased by 11.89 *per cent* over 2021-22 and the State's own tax revenue increased by 15.23 *per cent*. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of Meghalaya increased from ₹ 16,457.34 crore in 2021-22 to ₹ 17,640.57 crore increasing by 7.19 *per cent*. Of this, revenue expenditure showed 9.13 *per cent* increase from 2021-22. Revenue surplus of ₹ 653.92 crore turned into revenue deficit of ₹ 43.90 crore registering 106.71 *per cent* decrease in Revenue Surplus over 2021-22, while fiscal deficit increased from ₹ 2,158.79 crore in 2021-22 to ₹ 2,796.15 crore in 2022-23 increasing by 29.52 *per cent*.

Receipt-Expenditure Mismatch

The continuous mismatch between receipts and expenditure indicates rising fiscal stress. The State has different sources of receipts such as State Own Tax Revenue, Non-tax Revenue, Devolution of States' share in taxes, Grants in aid and transfers from the Union Government and non-debt capital receipts. The State Government's expenditure includes expenditure on revenue account as well as capital expenditure (assets creation, loans and advances, investments, *etc.*).

From 2018-19 to 2022-23, revenue receipts grew from ₹ 9,718.62 crore to ₹ 14,819.97 crore, with an average annual growth rate of 10.52 *per cent*. Capital receipts also increased from ₹ 1,342.70 crore to ₹ 6,245.23 crore during this period. The share of Grants-in-aid in revenue receipts rose from 26.84 *per cent* in 2018-19 to 29.87 *per cent* in 2022-23, indicating increased reliance on support from the

Government of India. The State Government received ₹ 3,253.29 crore as Central share for the Centrally Sponsored Schemes (CSSs) in the year.

Revenue expenditure is incurred to maintain the current level of services and payment for the past obligation. As such, it does not result in any addition to the State's infrastructure and service network. Between 2018-19 and 2022-23, revenue expenditure increased from ₹ 10,255.94 crore (31.87 *per cent* of GSDP) to ₹ 14,863.77 crore (34.81 *per cent* of GSDP). It consistently made up a significant portion (82 to 91 *per cent*) of the total expenditure during this period, growing at an average annual rate of 12.57 *per cent*.

Result of expenditure beyond means

The gap between the revenue receipt and revenue expenditure results in revenue deficit. The revenue deficit of the State decreased to ₹ 43.90 crore (0.10 *per cent* of GSDP) in the current year from ₹ 537.32 crore (1.67 *per cent* of GSDP) in the year 2018-19.

The State Government spent ₹ 2,742.28 crore only on capital account. This was 15.54 *per cent* of the total expenditure in the year 2022-23. Capital expenditure was 44 *per cent* of the total borrowings. Thus, half of the borrowed funds were being used mainly for meeting current consumption and repayment of borrowings instead of capital creation/development activities.

The gap between the total expenditure and total non-debt receipt of the State results in fiscal deficit. The fiscal deficit of the State increased to ₹ 2,796.15 crore (6.55 *per cent* of GSDP) in 2022-23 from ₹ 2,026.08 crore (6.30 *per cent* of GSDP) in 2018-19.

Under the revenue expenditure, the quantum of committed expenditure constitutes the largest share. Committed expenditure has the first charge on the resources and consists of interest payments, expenditure on salaries and wages and pensions. Committed expenditure on interest payments, salaries and pensions constituted 45-56 *per cent* of revenue expenditure during 2018-19 (49 *per cent*) and 2022-23 (46 *per cent*). The Committed expenditure increased at a compound annual average rate of 7.93 *per cent i.e.* from ₹ 5,015.37 crore in 2018-19 to ₹ 6,806.02 crore in 2022-23 {an increase of 11.13 *per cent* over 2021-22 (₹ 6,124.11 crore)}.

In addition to the committed expenditure, inflexible expenditure decreased from 7.96 *per cent* to 5.75 *per cent* of revenue expenditure during 2018-19 to 2022-23, indicating a decreasing trend. The inflexible expenditure decreased from ₹ 1,033 crore in 2021-22 to ₹ 854 crore in 2022-23 registering a decrease of 17.29 *per cent*. The compound annual growth rate of inflexible expenditure during the period from 2018-19 (₹ 816 crore) to 2022-23 (₹ 854 crore) was 1.15 *per cent*.

Taken together, the committed and inflexible expenditure in 2022-23 was ₹ 7,660.07 crore; 51.54 *per cent* of revenue expenditure. Upward trend on committed

and inflexible expenditure leaves the Government with lesser flexibility for other priority sectors and capital creation.

Subsidies constitute major portion of the non-committed expenditure

Within the non-committed expenditure, there is a decreasing trend of subsidies, which decreased from ₹ 58.80 crore in 2018 -2019 to ₹ 44.32 crore in 2022-23 *i.e.*, from 0.57 *per cent* of the total revenue expenditure in 2018-19 to 0.30 *per cent* in 2022-23. Subsidies to Food and Civil Supplies and Consumers Affairs Department constituted a significant portion of 64.69 *per cent* during the year.

Contingent Liabilities on account of Guarantees

In 2022-23, no guarantees were given by the Government. At the end of the year 2022-23, outstanding guarantees given by the State Government were ₹ 2,977.53 crore.

Fiscal sustainability

Fiscal sustainability is examined in terms of macro-fiscal parameters such as deficits, level of debt and liabilities, commitments on account of off-budget borrowings, guarantees, subsidies, *etc.* So far as revenue and expenditure mismatch is concerned, one of the important constraints is committed and inflexible expenditure, which includes salaries and wages, pension payments, interests, *etc.* and also other inflexible expenditure such as those arising out of commitment for centrally sponsored schemes, transfer to reserve funds, transfer to local bodies, *etc.*

FRBM requirements and compliance with fiscal parameters

The FRBM Act/Rules prescribes certain limits within which, revenue deficit, fiscal deficit, debt as a percentage of the Gross State Domestic Product (GSDP) should be, and similarly for guarantees as a percentage of revenue receipts of the previous year (this may require change based on the parameter). In 2022-23, revenue deficit was ₹ 43.90 crore as against the target Revenue Surplus; fiscal deficit was 6.55 *per cent* as against the limit of four *per cent*; debt was 43.19 *per cent* as against limit of 28 *per cent*. However, no limit is prescribed for guarantees given by the state government. At the end of the year 2022-23, outstanding guarantees was 6.97 *per cent* of GSDP.

As per the debt stabilisation analysis, the public debt of the Government of Meghalaya has grown on an average at a rate of 17.62 *per cent* annually of the outstanding public debt between 2018-19 to 2022-23. Public debt-GSDP ratio of Meghalaya has increased from 22.78 *per cent* in 2018-19 to 33.69 *per cent* in 2022-23, which indicates that debt stabilisation may not be possible in near future.

During the five-year period from 2018-19 to 2022-23, the State had primary deficit. In the pre Covid period of 2018-19 and 2019-20, the real growth rate of the GSDP

was an average of five *per cent* while Domar gap marginally improved in 2019-20 due to falling interest rate. In the post Covid period, the Domar gap has remained positive during 2021-22 and 2022-23 indicating that real interest rates have remained below the GSDP growth rates. However, the sustainability of public debt depends on whether the state economy maintains the real growth rate in the long run.

Budget performance

Aggregate expenditure outturn

In Revenue section, deviation in outturn compared with BE was (-) 3.30 *per cent*. This was due to deviation between 0 and ± 25 *per cent* in 39 grants and three non-grants. Between ± 25 *per cent* to ± 50 *per cent* in 17 grants, between ± 50 *per cent* to ± 100 *per cent* in four grants and more than or equal to 100 *per cent* in respect of one grant.

In Capital section, deviation in outturn compared with BE was (+) 86.18 *per cent*. This was due to deviation between 0 and ± 25 *per cent* in four grants and one non-grant, between ± 25 *per cent* to ± 50 *per cent* in eight grants, between ± 50 *per cent* to ± 100 *per cent* in 19 grants and more than or equal to 100 *per cent* in two grants and one non-grant. No provision was however made in respect of three grants of the Capital section.

Expenditure composition outturn

Budget performance also looks at the extent to which the re-allocation between the main budget categories during the execution have contributed to variance in expenditure composition. This measure indicates the extent of variation between the final budget and the actual expenditure. In Revenue section, deviation in outturn compared with RE was (-) 14.94 *per cent*. This was due to deviation between 0 and ± 25 *per cent* in 43 grants and three non-grants, between ± 25 *per cent* to ± 50 *per cent* in 14 grants, between ± 50 *per cent* to ± 100 *per cent* in four grants.

In Capital section, deviation in outturn compared with RE was (+) 46.77 *per cent*. This was due to deviation between 0 and ± 25 *per cent* in seven grants and one non-grant, between ± 25 *per cent* to ± 50 *per cent* in seven grants, between ± 50 *per cent* to ± 100 *per cent* in 18 grants and equal to or more than 100 *per cent* in one grant and one non-grant. No provision was, however, made in respect of three grants (grant 02, 15 and 32) of the Capital section.

It was noticed that supplementary provisions of ₹ 1,440.18 crore during the year 2022-23 in 16 cases (more than ₹ one crore in each case) proved unnecessary, as the expenditure did not come up even to the level of original provisions.

Overall Budget reliability assessment indicates that the deviations between the actual expenditure and original budget as well as between the actual expenditure and the final budget were between (-)14.94 per cent and 86.18 per cent. Moreover, it was also

noticed that in several cases, there were supplementary grants where expenditure was not even up to the original grant. A reliable budget practice should be dealt with such deviations.

Quality of Accounts and Financial Reporting

Quality of accounts and financial reporting covers items, transactions and events which relate to gaps in compliance, regularity weaknesses and issues relating to delay in receipt of those accounting records or adjustment records which evidence the actual expenditure. It also highlights issues pertaining to the accounts and financial reporting such as parking of funds outside the Government accounts, non- or short – discharging of liabilities and misclassification of transactions and data gaps.

Regularisation of Excess over Grants/ Appropriations

The State Government has to get excesses over grants/appropriations regularised by the State Legislature as per article 204 and 205 (1) (b) of the constitution. It was observed that in 2022-23 there was excess expenditure of ₹ 3,439.41 crore under seven grants and one non-grant which required regularisation. Further, excess disbursements of ₹ 3,343.05 crore pertaining to from 1971-72 to 2021-22 were yet to be regularised.

Compliance with IGAS

As against the requirements of the Indian Government Accounting Standards (IGAS), the State Government did not make full compliance with IGAS-1: Guarantees Given by the Government- Disclosure requirements, IGAS-2: Accounting and Classification of Grants-in-Aid and IGAS-3: Loans and Advances made by the Government.

Funds to Single Nodal Agency

The Government of India and the State Government have introduced system of Single Nodal Agency (SNA) for implementation and fund flow for each Centrally Sponsored Scheme (CSS). The share of the Government of India and the State Government is transferred to the Bank Account of the SNA lying outside the Government Account. As per the PFMS Report, State Government received ₹ 2,639.55 crore being Central share of the Centrally Sponsored Schemes during the year in its Treasury Accounts. As on 31.03.2023, the State Government transferred ₹ 2,496.47 crore being Central share, State share of ₹ 638.65 crore and unclassified amount of ₹ 32.57 crore to the SNAs. There was short transfer of ₹ 143.08 crore of Central Share. As on 31 March 2023, ₹ 1,533.33 crore was lying unspent in the bank account of the SNAs.

However, the State Government intimated that it had received ₹ 2,650.39 crore being Central share during the year and transferred Central share of ₹ 2,529.04 crore, State share of ₹ 606.08 crore and Top-up of ₹ 32.57 crore to the SNAs during the year. Out of total transfer of ₹ 3,167.69 crore, ₹ 1,442.53 crore was transferred

through GIA bills and ₹ 1,725.16 crore through final (expenditure) bill. Detailed vouchers and supporting documents of actual expenditure were not received by office of Principal Accountant General (A&E) from the SNAs. The difference between the figures of SNA report of PFMS and as provided by the State Government needs reconciliation.

Utilisation Certificates against conditional grants

Despite the requirement of submitting Utilisation Certificates (UCs) against conditional grants within a stipulated time period, 454 outstanding UCs of ₹ 3,436.01 crore were pending as on 31 March 2023.

DC bills against AC bills

Similarly, despite the requirement of submitting Detailed Debit Contingency (DC) Bills against the advance money withdrawn through Abstract Contingency (AC) Bills, 53 AC bills of ₹ 98.25 crore were pending for submission of DC bills as on 31 March 2023, out of which six AC Bills amounting to ₹ 0.81 crore pertained to the period upto 2021-22.

Working of State Public Sector Undertakings

As on 31 March 2023, there were 21 State Public Sector Enterprises (SPSEs) in Meghalaya, including two Statutory Corporations and 19 Government Companies (including two non-working Government Companies) under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). Audit noticed that the prescribed timelines regarding submission of Financial Statements were not adhered to by 19 SPSEs whose 40 accounts were in arrears. Out of the total profit of ₹ 1.61 crore earned by three working SPSEs, 73.29 per cent was contributed by one SPSE (Meghalaya Tourism Development Corporation Limited). During the year 2022-23, around 65 per cent (₹ 371.17 crore) of the total loss (₹ 572.28 crore) incurred by 14 working SPSEs was contributed by two Power sector SPSEs (Meghalaya Power Generation Corporation Limited and Meghalaya Power Distribution Corporation Limited).

The State Government may impress upon the managements of SPSEs to ensure timely submission of their financial statements. In the absence of finalised accounts, Government investments in such SPSEs remain outside the oversight of the State Legislature. The State Government may also analyse the reasons of losses in loss making SPSEs and initiate steps to make their operations efficient and profitable.