



## **EXECUTIVE SUMMARY**



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## ***About the Report***

*This Report of the CAG of India is on the State Finances for the year 2023-24. 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 11.14 *per cent* from ₹ 34,770 crore in 2019-20 to ₹ 53,057 crore in 2023-24. Budget Outlay of the State grew at an average growth rate of 12.07 *per cent* from ₹ 16,970.71 crore in 2019-20 to ₹ 26,766.86 crore in 2023-24.

There was 13.98 *per cent* growth in GSDP over 2022-23. The revenue receipts grew at 21.31 *per cent* and the percentage of revenue receipts over GSDP increased from 31.84 *per cent* in 2022-23 to 33.88 *per cent* in 2023-24. The tax revenue increased by 19.55 *per cent* over 2022-23 and the State's own tax revenue increased by 21.35 *per cent*. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of Meghalaya increased 19.92 *per cent* from ₹ 17,640.57 in 2022-23 to ₹ 21,154.10 crore in 2023-24. Of this, revenue expenditure showed 11.57 *per cent* increase from 2022-23. Revenue deficit of ₹ 43.90 crore recovered to revenue surplus of ₹ 1,394.32 crore registering 3,276.13 *per cent* jump in revenue balance over 2022-23, while fiscal deficit increased from ₹ 2,796.15 crore in 2022-23 to ₹ 3,152.21 crore in 2023-24 increasing by 12.73 *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 2019-20 to 2023-24, revenue receipts grew from ₹ 9,413.52 crore to ₹ 17,977.86 crore, with an average annual growth rate of 17.56 *per cent*. Capital receipts also increased from ₹ 1,527.34 crore to ₹ 7,538.37 crore during this period. The share of Grants-in-aid in revenue receipts rose from 29.54 *per cent* in 2019-20 to 31.01 *per cent* in 2023-24 indicating increased reliance on support from the Government of India. The State Government received ₹ 4,651.43 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 2019-20 and 2023-24, revenue expenditure increased from ₹ 9,565.12 crore (27.51 *per cent* of GSDP) to ₹ 16,583.54 crore (31.26 *per cent* of GSDP). It consistently made up a significant portion (78 to 91 *per cent*) of the total expenditure during this period, growing at an average annual rate of 14.75 *per cent*.

### ***Result of expenditure beyond means***

The gap between the revenue receipt and revenue expenditure results in revenue deficit. The revenue balance of the State recovered to surplus of ₹ 1,394.32 crore (2.63 *per cent* of GSDP) in the current year from deficit of ₹ 43.90 crore in the year 2022-23.

The State Government spent ₹ 4,529.54 crore only on capital account. This was 21.41 *per cent* of the total expenditure in the year 2023-24. Capital expenditure was 60 *per cent* of the total borrowings. Thus, more than half of the borrowed funds were being used for 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 ₹ 3,152.21 crore (5.94 *per cent* of GSDP) in 2023-24 from ₹ 2,796.15 crore (6.01 *per cent* of GSDP) in 2022-23.

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 44-56 *per cent* of revenue expenditure during 2019-20 (56 *per cent*) and 2023-24 (44 *per cent*). The Committed expenditure increased at a compound annual average rate of 7.86 *per cent i.e.* from ₹ 5,329.88 crore in 2019-20 to ₹ 7,212.74 crore in 2023-24 {an increase of 5.97 *per cent* over 2022-23 (₹ 6,806.02 crore)}.

In addition to the committed expenditure, inflexible expenditure marginally decreased from 5.94 *per cent* to 5.49 *per cent* of revenue expenditure during 2019-20 to 2023-24, with fluctuations during the period. The inflexible expenditure increased by 7.54 *per cent* from ₹ 846.39 crore in 2022-23 to ₹ 910.23 crore in 2023-24. The compound annual growth rate of inflexible expenditure during the period from 2019-20 (₹ 568.40 crore) to 2023-24 (₹ 910.23 crore) was 12.49 *per cent*.

Taken together, the committed and inflexible expenditure in 2023-24 was ₹ 8,122.97 crore, *i.e.* 48.98 *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 as share of revenue expenditure from 0.44 *per cent* (₹ 41.72 crore) in 2019-20 to 0.36 *per cent* (₹ 59.01 crore) in 2023-24. Subsidies to Food and Civil Supplies and Consumers Affairs Department constituted a significant portion of 63.42 *per cent* during the year.

### ***Contingent Liabilities on account of Guarantees***

In 2023-24, State Government issued guarantee of ₹ 0.02 crore and withdrew guarantee of ₹ 69.35 crore. At the end of the year 2023-24, outstanding guarantees given by the State Government were ₹ 2,908.20 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 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). During 2023-24, revenue balance was surplus of ₹ 1,394.32 crore as against the target Revenue Surplus; fiscal deficit was 5.94 *per cent* as against the limit of 3.50 *per cent*; debt was 40.56 *per cent* of GSDP 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 2023-24, outstanding guarantees were 5.48 *per cent* of GSDP.

As per the debt stabilisation analysis, the overall debt of the Government of Meghalaya has grown on an average at a rate of 16.87 *per cent* annually of the outstanding public debt between 2019-20 and 2023-24. Overall debt-GSDP ratio of Meghalaya has increased from 33.17 *per cent* in 2019-20 to 40.56 *per cent* in 2023-24, which indicates that debt stabilisation may not be possible in the near future.

During the five-year period from 2019-20 to 2023-24, 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 overall public debt depends on whether the state economy maintains the real growth in the long run and the Primary Balance is stable and consistent with the Debt to GSDP ratio rate.

## ***Budget Performance***

### ***Aggregate expenditure outturn***

In the Revenue section, deviation in outturn compared with BEs was (-) 3.41 *per cent*. This was due to deviation between 0 and  $\pm 25$  *per cent* in 43 grants and two non-grants. Between  $\pm 25$  *per cent* to  $\pm 50$  *per cent* in 12 grants and one non-grant, between  $\pm 50$  *per cent*

cent to  $\pm 100$  per cent in six grants and there was no grant for more than or equal to 100 per cent.

In the Capital section, deviation in outturn compared with BEs was (+) 93.84 per cent. This was due to deviation between 0 and  $\pm 25$  per cent in seven grants and one non-grant, between  $\pm 25$  per cent to  $\pm 50$  per cent in eight grants, between  $\pm 50$  per cent to  $\pm 100$  per cent in 10 grants and more than or equal to 100 per cent in six grants and one non grant. No provision was, however, made in respect of four grants (grant no. 18, 47, 53, and 64) in 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 (-) 16.26 per cent. This was due to deviation between 0 and  $\pm 25$  per cent in 45 grants and three non-grants, between  $\pm 25$  per cent to  $\pm 50$  per cent in 11 grants, between  $\pm 50$  per cent to  $\pm 100$  per cent in five grants.

In Capital section, deviation in outturn compared with RE was (+) 35.03 per cent. This was due to deviation between 0 and  $\pm 25$  per cent in eight grants and one non-grant, between  $\pm 25$  per cent to  $\pm 50$  per cent in 12 grants, between  $\pm 50$  per cent to  $\pm 100$  per cent in nine grants and equal to or more than 100 per cent in four grants and one non-grant. No provision was, however, made in respect of three grants (grant no. 18, 53, and 64) in the Capital section.

It was noticed that supplementary provision of ₹ 439.60 crore proved unnecessary as the actual expenditure did not even reach to the level of the original provision 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 (-) 16.26 per cent and (+) 93.84 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 deal 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 2023-24, there was excess expenditure of ₹ 3,819.91 crore under one Grants/appropriation in Revenue and two grants/appropriation in Capital which required regularisation. Further, excess disbursements of ₹ 6,833.02 crore pertaining to from 1971-72 to 2022-23 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, IGAS-3: Loans and Advances made by the Government and IGAS-4: Prior Period Adjustments.

### ***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 ₹ 4,013.24 crore being Central share of the Centrally Sponsored Schemes during the year in its Treasury Accounts. As on 31 March 2024, the State Government transferred ₹ 4,627.99 crore to the SNAs, ₹ 3,786.33 crore being Central share and ₹ 841.66 crore being State to the SNAs. There was short transfer of ₹ 226.91 crore of Central Share. As on 31 March 2024, an amount of ₹ 1,112.23 crore was lying unspent in the bank account of the SNAs. Moreover, ₹ 2,860.34 crore of Central and State share was not transferred to SNA within time limit prescribed which resulted in interest liability of ₹ 21.73 crore during the year 2023-24 for the State.

Out of total transfer of ₹ 4,627.99 crore, ₹ 2,935.05 crore was transferred through GIA bills and ₹ 1,692.94 crore through final (expenditure) bills. Detailed vouchers and supporting documents of actual expenditure were not received by PAG office from the SNAs. The difference of figures between the amount booked in the Accounts and SNA report is under reconciliation.

### ***Utilisation Certificates against conditional grants***

Despite the requirement of submitting Utilisation Certificates (UCs) against conditional grants within a stipulated time period, 733 outstanding UCs of ₹ 4,835.93 crore were pending as on 31 March 2024.

In the absence of UCs, it could not be ascertained whether the recipients had actually utilised the grants and whether it had been utilised for the purposes for which the grants were disbursed. Further, in the absence of UCs required to be submitted by the departments, assessing the status and progress of the scheme implementation, for which funds have been disbursed, is not feasible.

The substantial backlog in the submission of UCs poses a significant risk of potential fraud and misappropriation of funds.

***DCC bills against AC bills***

Similarly, despite the requirement of submitting Detailed Countersigned Contingent (DCC) Bills against the advance money withdrawn through Abstract Contingent (AC) Bills, 56 AC bills of ₹ 75.07 crore were pending for submission of DCC bills as on 31 March 2024, out of which 36 AC Bills amounting to ₹ 73.81 crore pertained to the period upto 2022-23.

To the extent of non-submission of DCC bills, the expenditure shown in the Finance Accounts cannot be assessed as actuals or final. Non-adjustment of advances for long periods is fraught with the risk of misappropriation and therefore, requires close monitoring.