

MEGHALAYA ACT NO. 4 OF 2006

(As passed by the Meghalaya Legislative Assembly)

Received the assent of the Governor on the 5th April, 2006.

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THE MEGHALAYA FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT ACT, 2005

An

Act

*to provide for the responsibility of the State Government to ensure fiscal prudence, stability and efficiency and also to achieve fiscal consolidation so as to facilitate the generation of revenue surplus to enhance the scope for improvement of investment in the social and economic sectors/infrastructures of the State and to ensure fiscal and debt sustainability through progressive reduction of the fiscal deficit and proper debt management system and also to provide for a more transparent and accountable system of budgeting that will ensure an efficient and effective system of governance.*

Be it enacted by the Legislature of the State of Meghalaya in the Fifty-seventh Year of the Republic of India as follows:-

**Short title, operation and Commencement**

1. (1) This Act may be called the Meghalaya Fiscal Responsibility and Budget Management Act, 2006.
- (2) It shall be operative in the whole of Meghalaya.
- (3) It shall come into force on such date as the Government may, by notification in the Official Gazette, appoint on this behalf.

**Definitions**

2. In this Act, unless the context otherwise requires :-
  - (a) 'Act' means the Meghalaya Fiscal Responsibility and Budget Management Act, 2006;
  - (b) 'Administrative Approval' means authority to create liability and/or incur expenditure;
  - (c) 'Budget' means the Annual Financial Statement laid before the House of the Meghalaya Legislative Assembly under Article 202 of the Constitution;
  - (d) 'Balance from Current Revenue' (BCR) or 'non plan gap' is the difference between total revenue receipt (excluding Plan Assistance) and Non-Plan Expenditures;
  - (e) 'Current Year' means the financial year preceding the ensuing year;
  - (f) 'Ensuing year' means the financial year for which the budget is being presented;
  - (g) 'Financial year' means the year beginning on the 1st April and ending on the 31st March the following year;

- (h) 'Fiscal indicators' are such indicators as may be prescribed for evaluation of the fiscal position of the State Government;
- (i) 'Fiscal targets' are the numerical ceilings and proportion to total revenue receipts (TRR) or GSDP for the fiscal indicators;
- (j) 'Government' means Government of Meghalaya;
- (k) 'Legislature' means Legislative Assembly of the State of Meghalaya;
- (l) 'GSPD' means Gross State Domestic Product at current market prices;
- (m) 'Previous year' means year preceding the current year;
- (n) 'Primary Surplus/Deficit' means the non interest fiscal deficit/surplus;
- (o) 'Revenue Surplus/Deficit' means the difference between revenue expenditure and total revenue receipts; and

**Explanation :**

'Total revenue receipts' (TRR) includes State's own revenue receipts (both tax and non tax) and current transfers from the Centre (Comprising plan and non plan grants/assistance and State shares of Central taxes).

- (p) 'Total liabilities' means the liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments including guarantees where principal and/or interest are to be serviced out of the State Budgets.

**Fiscal management Objectives**

3. The State Government shall -

- (a) Undertake appropriate measures to facilitate generation of revenue surplus, contain BCR and reduce fiscal deficit in a phased manner and thereafter build up adequate surplus revenue and to utilize the same for the purpose of discharging the liabilities or for developmental expenditures;
- (b) Pursue policies to raise non tax revenue with due emphasis on cost recovery and equity;
- (c) Lay down norms to prioritize capital expenditure and to pursue expenditure policies that would provide impetus for economic growth with social equity and improvement in poverty reduction and human welfare.

**Fiscal targets**

4. (1) Government may prescribe such targets as may be deemed necessary for giving effect to the fiscal management objectives to -

- (a) Reduce revenue deficit as a percentage of GSDP in each financial year, beginning from 2006-07, in a manner that will enable the State to completely eliminate it by 2008-09;
- (b) Reduce fiscal deficit as a percentage of GSDP in each of the financial year as per yearly reduction to be indicated under the Rules, beginning from 2006-07, in a manner that will enable the State to achieve Fiscal Deficit of 3% of GSDP by 2008-09;
- (c) Ensure that total outstanding liabilities on the consolidated fund are not more than 28% of the GSDP;

- (d) Restrict issuing of guarantees except on selective basis where the quality and viability of the scheme to be guaranteed is properly analyzed;
- (e) Bring out an annual statement that gives a perspective on the State's economy and related fiscal strategy; and
- (f) Bring a special report along with the budget giving details of the number of employees in the Government, Public Sector undertakings and aided institutions and related salaries;

Provided that the limits specified above may be exceeded on account of unforeseen circumstances such as natural calamities, internal disturbances and shortfall in the transfer of financial resources from the Government of India.

- (2) The reasons for not being able to keep up with commitments the specified in the Act shall be placed before the House of the State Legislature as soon as may be possible after such limits have been exceeded.

**Fiscal Management Principles to ensure fiscal discipline in the State.**

5. The fiscal management principles to ensure Fiscal Discipline in the State shall be as follows -

**(A) Expenditure Management :**

- (i) To rationalize and pursue expenditure policies that would provide impetus to economic growth, poverty reduction and improvement in human welfare;
- (ii) Manage the expenditure of the State in relation to its receipts potential so as to prevent as far as possible deterioration in its fiscal position; especially on the revenue account;
- (iii) To make an effort to contain non plan expenditures with the sole objective of bringing down the deficit on the Balance from Current Revenue/Non Plan Gap;
- (iv) To reduce the expenditure on salaries and wages of the Government through an objective analysis on the relevancy of the existing posts and to abolish any identified vacant redundant posts;

**(B) Resource Management :**

**Tax :-**

- (i) Undertake measures to improve the State's own resources with an emphasis on cost recovery;
- (ii) To ensure a reasonable degree of stability and predictability with regard to rates in taxes and revenue expected from them;
- (iii) To pursue a tax policy with due regard to economic efficiency, social equity and compliance cost;
- (iv) To maintain the integrity of the tax system by minimizing special incentives, concessions and exemptions;

**Non-Tax :-**

Pursue non tax policies to increase revenues, with due regard to cost recovery and equity;

**(C) Debt Management :**

- (i) To ensure that the policy decisions of the Government have due regard to the financial implications on the future generations;
- (ii) Maintain Government debt at sustainable level by bringing down the fiscal deficit in a phased manner to the level of 3% of GSDP;
- (iii) Manage guarantees and other contingent liabilities prudently with particular reference to the quality and level of such liabilities;
- (iv) To ensure that borrowings are used for productive assets and accumulation of capital assets and are not used to finance revenue expenditures;

**(D) Management of Public Sector undertakings :**

Minimize the fiscal risk associated with management of public sector undertakings and the utilities providing goods and services through a review of the performance of the State Public Sector Undertakings, including restructuring of those that are absolutely essential and closure of those no longer viable;

**(E) Budget Management :**

Formulate a realistic budget with due regard to general economic outlook and revenue prospects and minimize deviation during the course of the year;

**(F) Transparency in Fiscal Management :**

Maintain transparency by allowing disclosure of sufficient information to allow public scrutiny on the conduct of fiscal policy and the state of public finances.

**Measure to ensure Fiscal Discipline.**

6. (1) Government or the authorities exercising delegated financial powers shall first issue administrative approval or financial sanction, for the work or the order of supply as the case may be, in compliance with the existing rules, procedures and guidelines and further rules, procedures and guidelines that may be prescribed from time to time before awarding any work or starting a construction work or awarding an order of supply of goods and services which create a liability on the Consolidated Fund of the State.
- (2) Each Department shall maintain a register of works and order of supplies of goods and services, liabilities incurred against these works and orders of supplies, liabilities cleared and liabilities awaiting clearance, in a format as may be prescribed and Government may make rules not to sanction new works if the outstanding liabilities in a department exceed such limit as may be prescribed.
- (3) Government or the appointing authorities under it shall give appointments only against sanctioned posts and in accordance with the laid down rules, procedures and orders.

**Explanation :** The appointing authorities under this clause shall include the appointing authorities of the autonomous bodies including Public Sector Undertakings, Companies, Statutory Bodies, Trust, Societies and Co-operative Societies under the State Government.

- (4) Notwithstanding any other provision contained in any Act or Rules, no new post shall be created in any Department of the State Government or in Autonomous Bodies including Public Sector Undertakings,

Companies, Statutory Bodies, Trust Societies and Cooperative Societies, which are under the State Government, without prior concurrence of the Finance Department of Government.

(5) No appointment shall be made by Government or the appointing authorities under it in leave vacancies.

(6) Notwithstanding any provision contained in any Act or Rules, the select list prepared for the fresh appointments to vacant sanctioned posts shall contain names equal to the number of vacant posts notified at the time of calling for applications for filling up the posts plus 10% of that number or two whichever is higher.

**Fiscal Policy Statement to be laid before the legislature.**

7. (1) Government shall in each financial year lay before the House of the Legislature the following statements of fiscal policy along with the budget, namely :-

(a) Macroeconomic Framework Statement;

(b) Medium Term Fiscal Policy Statement;

(c) Fiscal Policy Strategy Statement;

(2) The Macroeconomic Framework Statement, in such form as may be prescribed, shall contain an overview of the State's economy, an analysis of growth and sectoral composition of the GSDP, an assessment of Government finances and future prospects.

(3) Medium Term Fiscal Policy Statement shall set forth in such form as may be prescribed the fiscal management objectives of Government and three years' rolling targets for the prescribed fiscal indicators and clear enunciation of the underlying assumptions with respect to :-

(a) The balance between revenue receipts and revenue expenditure;

(b) The use of capital receipts for generating production assets;

(c) The estimated yearly pension liabilities for the next ten years on the basis of trend growth rate.

(5) The Fiscal Policy Strategy Statement shall be in such form as may be prescribed and shall contain, inter alia :-

(i) The fiscal policies of Government for the ensuing year relating to taxation, expenditure, borrowings and other liabilities (including borrowings by Public Sector Undertakings and Special Purpose Vehicle and other equivalent instruments where the liability for repayment is on Government), lending, investments, other contingent liabilities, user charges on public goods/utilities and guarantees of Public Sector Undertakings which have potential budgetary implications;

(ii) The strategic priorities of Government in the fiscal area for the ensuing year;

(iii) The key fiscal measures and the rationale for any major deviation in fiscal measures pertaining to taxation, subsidy, expenditure, borrowings and user charges on public goods/utilities;

(iv) An evaluation of the current policies of Government vis-à-vis the fiscal management principles set out in section 5 the fiscal objectives set out in the Medium Term Fiscal Policy Statement under sub-section 3 of Section 7 and fiscal targets set out in Section 4.

**Measures of Fiscal Transparency.**

8. (1) Government shall take suitable measures to ensure greater transparency in its fiscal operations in the public interest and minimize, as far as practicable, secrecy in the preparation of the budget;

Provided that Government shall have the power to reserve any information which would adversely affect the interest of the State exchequer.

(2) In particular, and without prejudice to the generality of the foregoing provisions, Government shall, at the time of presentation of the budget, make disclosures on the following, along with detailed information in such forms as may be prescribed;

(a) Significant changes in accounting standards, policies and practices affecting or likely to affect the computation of the fiscal indicators;

(b) Details of borrowings by way of Ways and Means Advances/ Overdraft availed of from the Reserve Bank of India.

**Measures to enforce compliance.**

9. (1) The Minister-in-charge of the Department of Finance (herewith referred to as Minister of Finance) shall review, every quarter, the trend in receipts and expenditure in relation to the budget estimates and place before the House of the Legislature, the outcome of such reviews.

(2) Whenever there is either shortfall in revenue or excess of expenditure over the intra-year targets mentioned in the Fiscal Policy Strategy Statement or rules made under this Act, the State Government shall take appropriate measures for increasing revenue and/or reducing expenditures.

(3) Except as provided under this Act, no deviation in meeting the obligations cast on Government under this Act shall be permissible without the approval of the Legislature.

(4) Where owing to unforeseen circumstances any deviation is made in meeting the obligations cast on Government under this Act, the Minister of Finance shall make a statement before the Legislature explaining :-

(a) Any deviation in meeting the obligations cast on Government under this Act;

(b) Remedial measures that Government proposes to take.

(5) Any measures proposed in the course of the financial year, which may lead to an increase in revenue deficit, either through increase in expenditure or loss of revenue, shall be accompanied by a statement of remedial measures, proposed to neutralize such increase or loss and such statement shall be placed before the House of the Legislature.

(6) Government may set up an agency independent of the Government to review periodically the compliance of the provisions of this Act and table such reviews in the House of the Legislature.

**Power to make rules.**

10. (1) Government may, by notification in the Official Gazette, make rules for carrying out the provisions of this Act.

(2) In particular, and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely :-

- (a) The form of the Macroeconomic Framework statement under sub-clause (a) of sub-section (1) of section 7;
  - (b) The form of Medium Term Fiscal Policy Statement, including the targets for the fiscal indicators clause (b) of sub-section (1) of section 7;
  - (c) The form of Fiscal Policy Strategy Statement sub-section (4) of section 7;
  - (d) The forms for disclosure under sub-section (2) of section 8;
  - (e) Measures to enforce compliance;
  - (f) The manner of review of compliance of the provisions of this Act by the independent agency under sub-section (6) of section 9; and
  - (g) Any other matter which is required to be prescribed.
- (3) Every rule made under this Act shall be laid, as soon as may be after it is made, before the House of the Legislature.

**Protection of action taken in good faith.**

11. No suit; prosecution or other legal proceedings shall lie against the State Government or any Officer of the State Government for anything done or intended to be done in good faith under this Act or the rules made there under.

**Application of other laws not barred.**

12. Except as provided in this Act, the provisions of this Act, shall be in addition to, and not in derogation of, the provisions of any other law for the time being in force.

**Power to remove difficulties.**

13. (1) If any difficulty arises in giving effect to the provisions of this Act, Government may, by an order published in the Official Gazette, make such provisions not inconsistent with the provisions of this Act, as may appear to be necessary for removing the difficulty;

Provided that no order shall be made under this section after the expiry of two years from the commencement of this Act.

(2) Every order made under this section shall be laid, as soon as may be after it is made, before the House of the Legislature.

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