State of Finances of the Autonomous District Councils in Meghalaya

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Abstract

There are 10 Autonomous District Councils (ADCs) in the states of North East India constituted under the Sixth Schedule of the Constitution towards promoting social, cultural and political autonomy of the people in tribal areas. These ADCs are operating in tribal areas of four states of Assam, Meghalaya, Mizoram and Tripura - where the provisions of the 73rd and 74th Constitutional Amendments Acts are not applicable. This paper examines the trends in the finances of the three ADCs in Meghalaya, looks at the budget accounting system and compares the trends in receipts and expenditures and also the extent of financial devolution to the councils so as to shed some light on the financial status of these institutions.

I. Background

All countries of the world have their own histories of local governance although not necessarily these are in institutional forms. India has one of the oldest traditions of strong governance at the local level. The year 1992 can be marked as a watershed of local governance system in India when the village level bodies (the *panchayats*) were given a Constitutional mandate with the 73rd amendment of the Constitution of India. In addition to this the 74th amendment of the Constitution endowed the municipalities in urban areas with powers and resources to enable them to function as third tier of government. However, some tribal areas in north east India have been exempted from the purview of the above amendments as they come under the jurisdiction of Autonomous District Councils (ADCs) constituted under the Sixth Schedule of the Constitution. At the time when the Constitution was adopted in 1950, the ADCs were constituted to provide tribal minorities in the then erstwhile composite state of Assam with a political and administrative framework which would work to safeguard and promote the rights and interests of the tribal in these areas, while at the same time preparing them to

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assimilate with the national mainstream.These institutions have been functioning since the early 1950s and represent sub-state government in tribal areas of Assam, Meghalaya, Mizoram and Tripura. Although ADCs are endowed with legislative, executive and judicial powers over subjects delegated to them, their main mandate is administration of tribal institutions and protection of the interest of the tribals by regulating trading and control of land ownership.

The entire state of Meghalaya comes under the jurisdiction of three ADCs, namely the Khasi Hills Autonomous District Council (KHADC), Jaintia Hills Autonomous District Council (JHADC) and Garo Hills Autonomous District Council (GHADC). The three ADCs have been functioning since the early 1950s, but we find very few studies that have examined the finances of these institutions in detail. There are, however, some studies that have commented on the finances of the councils in Meghalaya (Gassah, 1998; Jyrwa, 1998; Stuligross, 1999; Dutta, 2002; Syiem, 2007). This paper is an attempt to look at the budgetary data of the ADCs for an extended period and looks at the budget accounting system, followed by analysis and comparison of trends in receipts and expenditures of the councils. It is well understood that financial status of these institutions reflects the challenges faced by these Institutions to address the objective for which these institutions were created.

The data for this paper is sourced from the actual of revenues and expenditures collated from the budget documents of the three ADCs. The periods of analysis is as follows: (i) KHADC: 1993-94 to 2013-14 (ii) JHADC 1993-94 to 2012-13 (iii) GHADC: 1993-94 to 2011-12.

For analysing the trends in real revenues and expenditures of the ADCs there is need to eliminate the effect of inflation over period of time. For this we have used Gross Domestic Product deflator to convert nominal values of revenues and expenditures to their real values (Anderson, 2012). Further, we have computed 3-year moving average of revenues and expenditures to smooth out the year to year fluctuations and show the trends overtime more clearly. To account for the difference in population under jurisdiction of the three councils, we have computed the per capita revenues and expenditures by dividing real revenue and expenditures with the population of respective councils for different years under consideration. Population figures used in the study is based on census of 1991, 2001 and 2011 with population growth between two census years calculated with exponential growth equation $P_t=P_o e^{rt}$ (Bartlett, 1993). For projecting population from 2012 to 2014 we have used the base year 2011 and the population growth rate between census year 2001 and 2011.

The state of finances of the ADCs has been studied by using trend monitoring and analysis. Except where noted, average annual growth rates (AAGR) for revenues and expenditures have been calculated using least square growth rate, which is the most commonly used procedure for calculating growth (Kakwani, 1997). For the study of volatility of revenues and expenditures, we have used the measurement of coefficient of variation (CV) We have also used ratio analysis to study the extent of fiscal decentralisation (World Bank, 2000) enjoyed by the councils in Meghalaya using revenue decentralisation ratio (proportion of local revenue from own sources to total state government revenue) and expenditure decentralisation ratio (proportion of local expenditure to state government expenditure).

II. Budget Accounting Format of the ADCs

The statement of receipts and expenditures of the ADCs for a particularly year, which is conventionally called the budget, consist of two parts, namely (i)The Annual Financial Statements and (ii) Demand for Grants. The Annual Financial Statements consist of Abstract Financial Statement of Receipts, Abstract Financial Statement of Expenditure and the Detailed Financial Statement of Receipts. The Statement of Demand for Grants contains the detailed statement of expenditure of respective sections/departments of the councils.

The accounts of receipts and expenditures of the ADCs in Meghalaya are not maintained in the six-tier hierarchical structure followed by union and state governments (GoI, 2012). In the case of the three councils, the accounts under receipt and expenditure heads are shown at two to three levels of disaggregation namely as major heads, sub-heads and detailed heads. Accounts under receipt heads show proceeds from tax and non-tax sources and other receipts according to nature and source, while accounts under expenditure heads are reported in reference to the spending department rather than according to its objects or purposes. The three ADCs do not follow a uniform reporting of their sources of receipts. While the Abstract Financial Statement of Receipts of KHADC and JHADC shows 14 receipt major heads that of GHADC shows additional two more heads. In table 1 we present the main receipts major heads of the three ADCs in Meghalaya.

Table 1: Receipt major heads of the ADCs in Meghalaya

1.	Grants for civil works
2.	Share of royalty from minerals forest
3.	Share of motor vehicle tax
4.	Taxes on profession, trade, calling & employment
5.	Trades
6.	Markets
7.	Land revenue
8.	Administration of justice
9.	Revenue from toll gates
10.	Grant-in-aids to protect tribal lands and interest
11.	Stationary & printing
12.	Miscellaneous receipts
13.	Interest on investment

Source: Authors' compilation from Budgets of the ADCs in Meghalaya

Analysis of the receipts of ADCs at sub-heads and detailed heads shows that in many instances revenues from more than one sources of origin are included in one major head. For example, in KHADC budget the receipt major head 'Land revenue' includes both own revenue collected by the council as well as grants from the state government. Similarly, under receipt major head 'Forest' own revenue raised by the council and grants received from state government have been included. So also in the budget of GHADC receipt major head 'Forest' includes own revenue as well as share of mineral royalties received from the state government. In another case, GHADC receipt major head 'Taxation' includes both own revenue and share of vehicle tax received from the state government.

Table 2: Major heads of receipts with more than one source of revenue by origin

ADCs	Origin	Revenue type type
KHADC		
Major head:		
1. Land revenue		
Sub-head:		
(i) Income from fisheries	ADC	Own revenue
(ii) Land reforms and land records	State government	Grant
(iii) Mortgage fee etc.	ADC	Own revenue
Major head:		
2. Forest		
Sub-head:		
(i) Timbers	ADC	Own revenue
(ii) Other forest produces	ADC	Own revenue
(iii) Miscellaneous	ADC	Own revenue
(iv) State plan schemes	State government	Grant
GHADC		
Major head:		
1. Forest		
Sub-head:		
(i) Receipts from forest produces	ADC	Own revenue
(ii) Miscellaneous receipts including registration fees	ADC	Own revenue
(iii) Share of royalty on minor and major minerals from State government	State government	Shared revenue
Major head:		
2. Taxation		
Sub-head:		
(i) Taxes on carts, cycles, boats	ADC	Own revenue
(ii) Share of motor vehicle tax from state government	State government	Shared revenue
(iii) Taxes on trades, callings and employment	ADC	Own revenue
(iv) Income from trading by non-tribals	ADC	Own revenue
(v) Kisti money and security deposit of toll gates	ADC	Own revenue

Source: Same as Table 1

Therefore, in our analysis for each receipt major head we have separated revenue as per origin at sub-head and detailed head levels and reorganised source of revenues into three categories of Own revenue, Shared revenue and Grants as per source of origin. Own revenue are tax and non-tax receipts which are levied, collected and appropriated by the councils. Shared revenue which includes motor vehicle tax and share of royalties from minerals are sources of revenue levied and collected by the state government which are shared with the councils in a given proportion. Grants from the union and state governments constitute the third source of revenue for the councils which are meant for specific projects and also for supporting general administration of the councils.

Expenditure data is reported in reference to the spending department at three level of disaggregation as major heads, sub-heads and detailed heads. The Abstract Financial Statement of Expenditure provides details of expenditure under the major head of accounts which correspond to a particular function or department of the councils. Disaggregation of expenditure data by sub-heads and detailed heads are provided in the Demand for Grants. Expenditure sub-heads denote the different expenditure components within the function or department. Detailed heads provide the object or nature of expenditure such as salaries, allowances, establishment cost, office expenses, contingencies, etc. The expenditure data are not classified into revenue and capital expenditures or development and non-development expenditures. For our analysis we have classified expenditure into Revenue and Capital expenditures by reorganising expenditure items at detailed heads level.

III. Trends in Revenue of the ADCs

The Sixth Schedule of the Constitution empowers the ADCs to collect taxes for generation of own revenue as well as sharing of revenue from mineral royalties collected by the state government from areas under jurisdiction of the councils. Another source of revenue for the ADCs is the financial assistance in the form of grants from state and union governments. We have reorganised and classified the receipts of the councils under three sources of revenue which is shown in Table 3.

Table 3: Typology of sources of revenue of the ADCs in Meghalaya

Sources	Type		Receipts	Remarks
(A) Own Revenue	Levied, collected and appropriated by ADCs	(i)	Taxes on profession, trade, callings and employment	Revenue collection from area under jurisdiction of respective ADCs
		(ii)	Land revenue- house tax, ordinary land revenue, mortgage and survey fees, land, valuation charges, grazing tax etc.	
		(iii)	Stamps and registration fees.	
		(iv)	Forest-sale of timbers, weight bridges, royalty on forest products, etc.	
		(v)	Administration of justice-court fee, application/certifying fees	

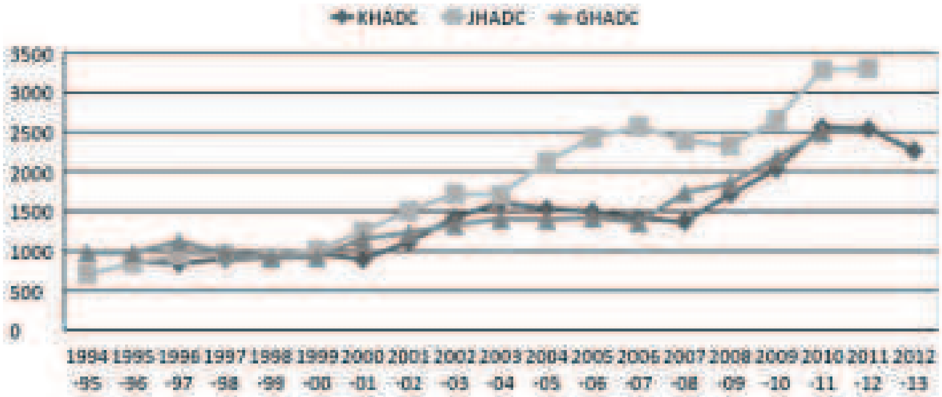
		(vi) Trades- trading license fees and fines. Markets-collection from councils markets and other markets (Hats) (vii) Stationery and printing-sale of forms, tender fees, etc. (viii) Toll gates-collection from toll gates. Water works-water supply charges (ix) Income from fisheries., receipts from traditional institutions and other receipts (x) Miscellaneous receipts-rents from councils' buildings, etc.	
(B) Shared revenue	Levied and collected by State government and shared with ADCs	(i) Motor vehicle tax (ii) Royalty on major minerals (iii) Royalty on minor minerals	Between State government and ADCs at 40:60 for Motor tax and minerals, except for Coal (75:25)
(C) Financial transfers as Grants	1. State government	(i) Enforcement of machinery under the schemes for trading by non-tribal. (ii) Land reforms schemes. (iii) Forest state plan schemes (iv) Rural communication schemes	Funds from Union Government are transferred to State government and are disburse by the department of District Council Affairs
	2.Union government	(i) Plan assistance from Ministry of Tribal Affairs, Government of India under Article 275(1) (ii) Non-lapsable central plan resources from Ministry of Development of North-Eastern Region (iii) Finance Commission award for the up-gradation of Tribal Administration	

Source: Same as in table 1

Own revenues comprises of tax and non-tax revenues. These are (i) Taxes on professionals, trades, callings and employment (ii) Forest (iii) Trades (iv) Toll gates (v) Land revenue (vi) Markets (vii) Administration of justice (viii) Stationary and printing (ix) Miscellaneous. Shared revenues are from taxes on motor vehicle and royalties on major and minor minerals levied and collected by the state government which are shared with the councils in a given ratio as shown in Table 3. Grants from the union and state governments are for specific projects and also for supporting general administration.

Our analysis of the budgetary data of the three ADCs show that annual revenue receipts of JHADC is the highest among the councils in the state. In 2010-11 the 3-year moving average real revenue of this council was Rs. 32.8 crore compared to Rs. 25.6 crore for KHADC and Rs. 25 crore for GHADC (chart 1). Across the three councils we see the dominance of shared revenue as the main source of revenue.

Chart 1: Trends in inflation adjusted revenues of the ADCs



Source: Authors' calculation

AAGR of real revenue was highest for JHADC at 9.6 per cent. All the three ADCs also recorded high AAGR in shared revenue with JHADC recording the highest growth at 12.3 per cent. However, shared revenue also showed high volatility among the three sources of revenues as reflected in the high coefficient of variation for all the three councils (between 42 to 53 per cent). We also find considerable volatility in receipts under grants across the three ADCs (Table 4) This surge and dip in the annual revenue is on account of fluctuation in receipts from the all the three sources particularly from shared revenue and grants. Both these two sources of revenue originating from higher governments show high revenue volatility, indicating unpredictability and irregularity in sharing of revenues between state government and the councils and also in the flow of grants from the state and union governments to the councils.

Table 4: Revenue volatility of the ADCs, 1995-96 to 2012-13

		Own revenue	Shared revenue	Grants	Total revenue
KHADC	Growth rate[#]	3.9*(9.6)	10.5*(11.8)	6.6*(4.5)	6.9*(11.6)
	Coefficient of variation	23%	53%	45%	39%
JHADC	Growth rate	4.0*(4.6)	12.3*(13.4)	4.7*(2.9)	9.6*(19.2)
	Coefficient of variation	32%	53%	48%	47%
GHADC	Growth rate	2.0[nc](1.3)	8.3*(11.0)	6.6*(5.4)	5.6*(9.3)
	Coefficient of variation	35%	42%	36%	33%

[#]Growth rates have been estimated by fitting a log linear trend equation of the form Ln(y) = a+bx. The t ratios of growth coefficients are given in brackets with the level of statistical significance (one tailed-t-test) denoted as: *= 1 per cent level); For the study of volatility we have used the measurement of coefficient of variation = (Standard deviation/Mean) *100

Source: Same as in Chart 1

The three major sources of own revenue of the councils are Professional tax, Forest, Trading licences, and Markets. Real revenue from professional tax has increased over the years for all the ADCs, but much more for KHADC as the state capital and trading centres are within the jurisdiction of the council. Revenue from Forest was the dominant source of own revenue for all the three ADCs till 1996-97. However, receipts from this source has dropped substantially in following years due to the implementation of the Supreme Court order in 1996 regulating felling of timber. It may be noted here that absence of any forms of regulation on logging and timber felling has done serious damage to the forests of the state. For KHADC and JHADC, revenue from trading licence fees charges from non-tribal business operating under councils' jurisdiction has seen a marked rise over the years due to increase in number of licenses issued over the period as well as enhancement of license fees levied on different trading activities from time to time. In case of GHADC, revenue from markets has emerged as the main source of own revenue followed by professional tax. Other minor own revenues of the three councils are from Toll gates, Land revenue, Administration of justice, Stationery and printing and other miscellaneous receipts. The trends in composition of own revenue receipts of the three ADCs are given in chart 2 to 4.

Chart 2: Trends in composition of real own source revenue of KHADC, 1995-96 to 2012-13

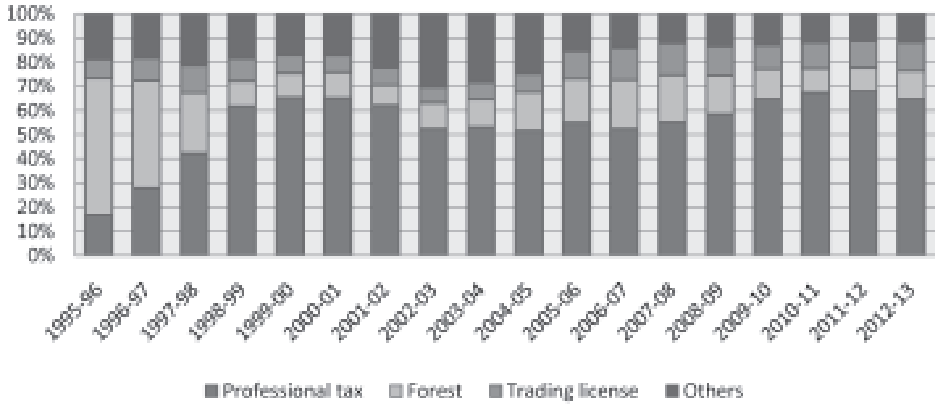


Chart 3: Trends in composition of real own source revenue of JHADC, 1994-95 to 2011-12

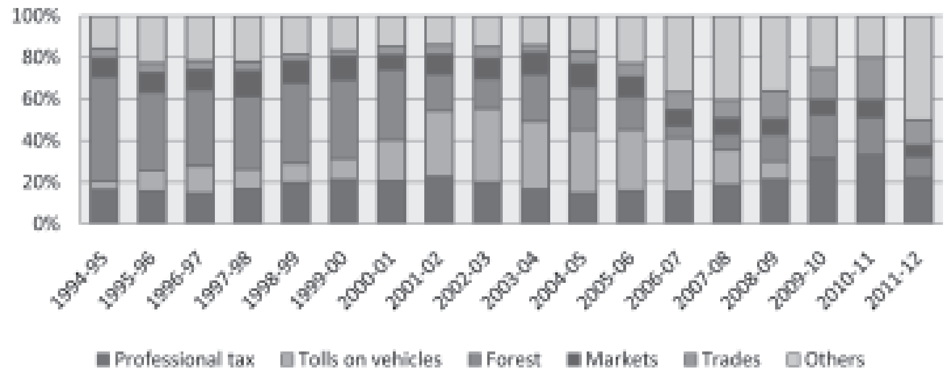
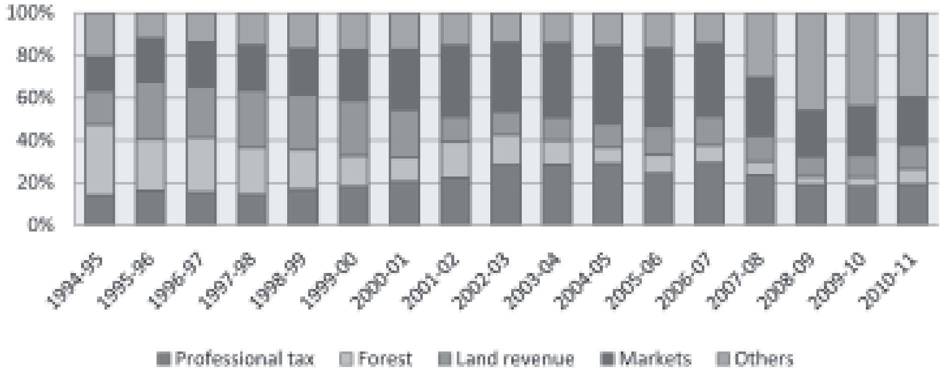


Chart 4: Trends in composition of real own source revenue of GHADC, 1994-95 to 2010-11



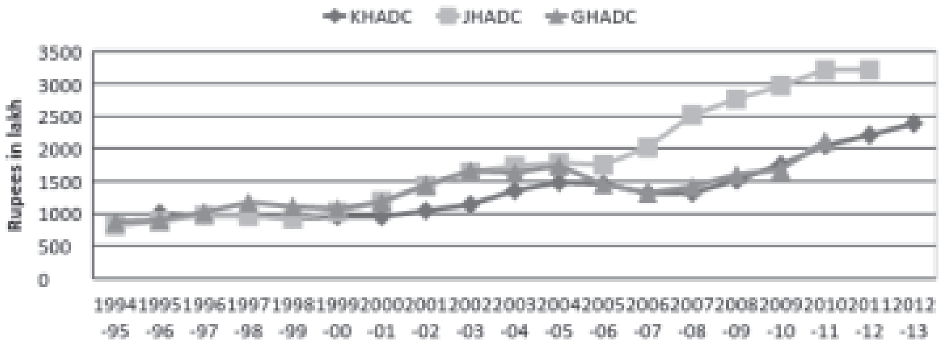
Source: Authors' calculation for all the charts

A comparison of the revenue base of ADCs with *panchayat raj* institutions (PRIs) shows that the Sixth Schedule has allotted very limited powers to the tribal councils to levy and collect taxes as compared to assignment of tax and non-tax powers to the latter. Alok (2012) has identified as many as 32 taxes or fees that are collected by the PRIs in different states in India, while Victovic and Kopanyi (2014) have listed out as many as 24 different principal revenue sources for local government across the world. In our case we could identify only about 20 sources of taxes and fees collected by the three ADCs in Meghalaya which falls under own revenue and shared revenue.

IV. Expenditure of the ADCs

Among the ADCs in the state, JHADC recorded the highest growth in expenditure in real terms at AAGR of 9.2 per cent compared to 5.5 per cent for KHADC and 4.4 per cent for GHADC. Chart 5 shows the trends in real expenditure of the three councils for respective study period under consideration. While expenditure of the ADCs has been growing overtime, bulk of spending of the councils is towards meeting revenue expenditure (between 63 to 88 per cent) with major proportion of it being on account salaries and pension liabilities. Another important component of revenue expenditure of the councils is travelling allowances and POL (petroleum, oil and lubricants) grouped under 'TA & POL'.

Chart 5: Trends in Inflation adjusted Expenditure of the ADCs



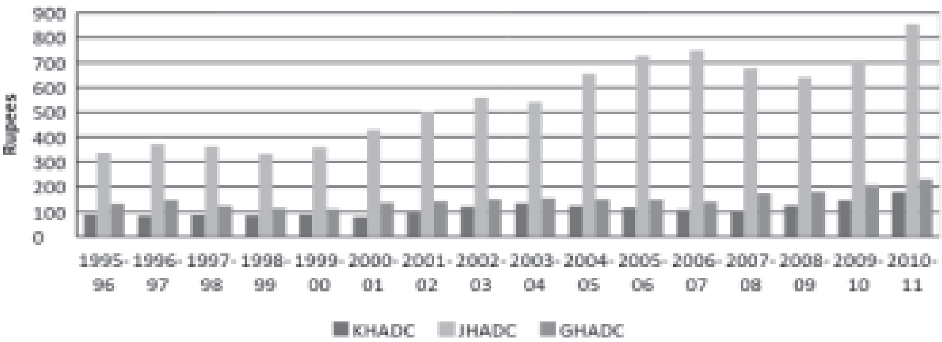
Source: Authors' calculation

On the capital expenditure side, bulk of spending is towards construction of buildings, markets and minor projects which is mostly funded by grants received from union government. Other two components of capital expenditure with substantial outlays are purchase of furniture, tools and vehicles and on plantation projects of the councils.

V. Comparison of Size and Composition of Revenue and Expenditure of the ADCs

In terms of comparison of revenue of the three ADCs in the state, per capita real revenue of JHADC is the highest for all the years under study primarily because of the high receipt under shared revenue and the comparatively lower population in the area under the council. This is seen in chart 6 which shows per capita revenue of JHADC several times higher than that of the others two ADCs. Per capita real revenue is least in KHADC as seen in Chart 6.

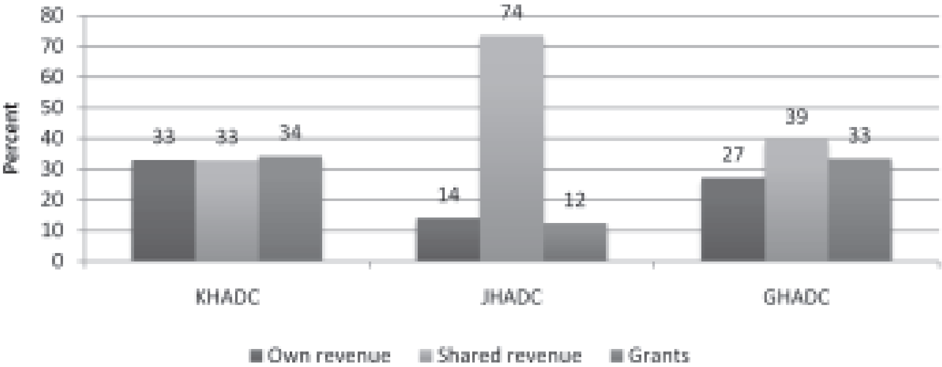
Chart 6: Per capita real revenue of the ADCs



Source: Authors' calculation

Comparison of the average percentage share of own revenue, shared revenue and grants of KHADC shows almost proportionate contribution of the three main sources of revenue(between 33 to 34 per cent), while for GHADC percentage share of shared revenue is highest (39 per cent) followed by grants (33 per cent) and own revenue (27 per cent). The picture is however very different in case of JHADC where we find percentage share of shared revenue (74 per cent) substantially higher than the other two sources of revenue (Chart 7).

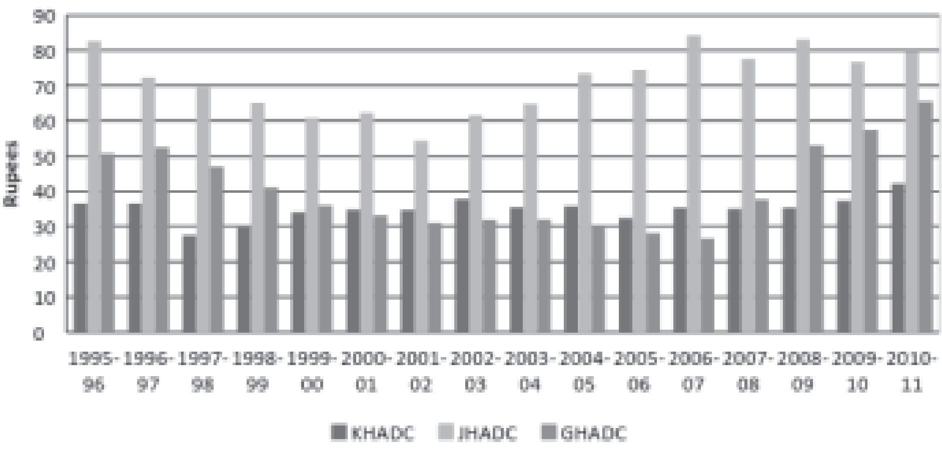
Chart 7: Average percentage share of three main components of revenue receipts of the ADCs



Source: Authors' calculation

The comparison of per capita own source revenue of the three ADCs shows JHADC with the highest amount throughout the studies period ranging between Rs. 54 (2001-02) and Rs. 84 (2006-07). In case of KHADC the per capita own source revenue is between Rs. 28 (1997-98) and Rs. 42 (2010-11) while for GHADC, the amount is between Rs. 27 (2006-07) and Rs. 66 (2010-11) (Chart 8).

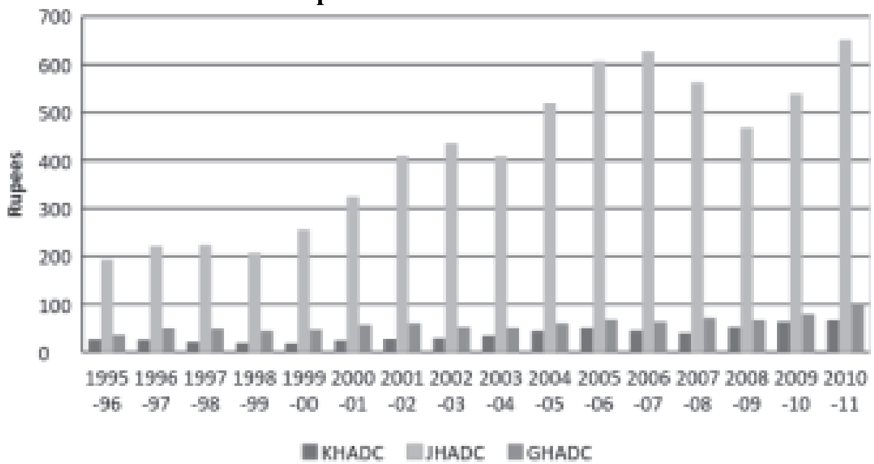
Chart 8: Per capita real own revenue of the ADCs



Source: Authors' calculation

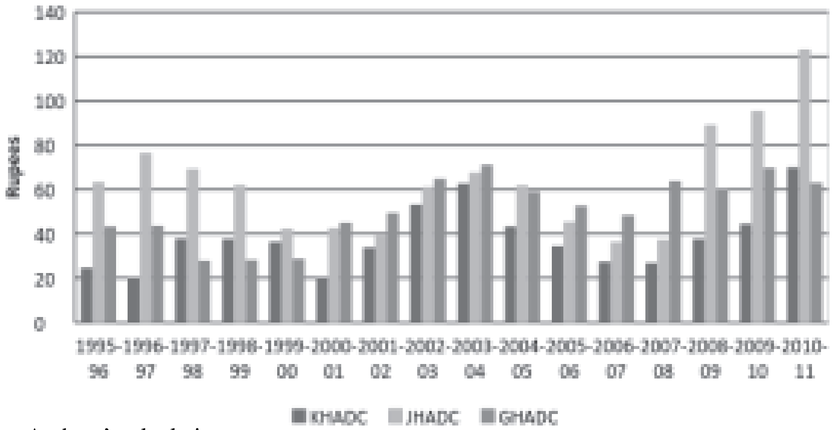
JHADC received huge amount of royalty from coal and limestone as the area is rich in minerals deposits. This coupled with relatively small population size of the council transalate into high per capita shared revenue which has risen from from rupees 193 in 1995-96 to Rs. 651 in 2010-11. For GHADC the per capita shared revenue rose from Rs. 37 in 1995-96 to Rs. 103 in 2010-11. The corresponding values in KHADC was Rs. 27 in1995-96 and Rs. 67 in 2010-2011 (Chart 9). In case of Grants, per capita amount received by the three ADCs fluctuated from year to year as shown in Chart 10. The councils received grants from both the State and Union government. In case of the latter, grants are routed through the state government. At present, there is no provision for statutory grants to the ADCs either form State or Union government. Much of the grants, particularly grants from Union government, received by the councils are discretionary in nature for supporting specific schemes/projectsof the three councils.

Chart 9: Per capita real shared revenue of the ADCs



Source: Authors' calculation

Chart 10: Per capita real grants of the ADCs



Source: Authors' calculation

VI. Financial Devolution to the ADCs

We have also tried to measure the ability of the ADCs to meet their revenue expenditure from own revenue and shared revenue separately and also when combined together. Table 5 shows the ratio of own revenue (O) to revenue expenditure (RE), shared revenue (SR) to revenue expenditure (RE) and combined own revenue and shared revenue (O+SR) to revenue expenditure (RE). Our analysis shows that the three councils are able to meet only a small percentage of their revenue expenditure from own revenue. Among the three councils, we find that KHADC is in much better position to cover revenue expenditure from own revenue as the council in a much better position to raise resources from professional tax and fees collected from trading licences as the state capital and main trading centres are within its jurisdiction.

The ability of the three ADCs to cover the revenue expenditure from own revenue and shared revenue combined together improves significantly in most of the years under consideration, particularly in case of JHADC. This shows the high dependence of the councils on taxes on major and minor minerals particularly on coal -which is main component of shared revenue- to finance their expenditure. However, the over reliance on this one source also indicate the financial vulnerability of the councils as any disruption in revenue flow from royalty from minerals would severely affect the functioning of the councils.

Table 5: Proportion of own revenue and shared revenue to revenue expenditure

Period	KHADC			JHADC			GHADC		
	O/RE	SR /RE	(O+SR)/RE	O/RE	SR /RE	(O+SR)/RE	O/RE	SR /RE	(O+SR)/RE
1995-96	51	38	89	29	67	95	51	38	89
1996-97	49	36	85	24	75	99	50	48	97
1997-98	35	28	64	23	75	98	42	44	87
1998-99	40	25	65	22	71	94	39	43	83
1999-00	47	25	72	19	79	98	37	48	84
2000-01	50	35	85	19	97	116	34	59	93
2001-02	46	37	84	15	114	129	29	56	85
2002-03	49	39	88	16	116	133	29	48	76
2003-04	47	46	93	17	105	122	28	45	73
2004-05	48	59	107	18	128	146	27	56	83
2005-06	44	69	114	19	153	171	28	67	94
2006-07	48	62	111	20	147	167	30	71	100
2007-08	48	56	104	15	109	125	40	77	117
2008-09	47	70	117	15	86	101	53	68	121
2009-10	44	75	119	13	92	105	51	71	121
2010-11	43	68	110	13	104	116	44	69	112

Source: Authors' calculation

The comparison of combined revenue and expenditure of the three councils to the revenue and expenditure of the state government is depicted by revenue decentralisation ratio (RDR) and expenditure decentralisation ratio (EDR), respectively. The values of these two ratios measure the extent of financial decentralisation in the state. Both RDR and EDR fall within the range of two to three per cent showing very limited financial decentralisation and negligible impact of the functions and activities of the ADCs in the state as indicated by meagre funds at the disposal of the three ADCs in Meghalaya (table 6).

Table 6: Fiscal decentralisation statistics of Meghalaya, 2001-02 to 2011-12

		2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
RDR	All ADCs	0.031	0.027	0.030	0.033	0.030	0.031	0.025	0.026	0.027	0.026	0.032
EDR	All ADCs	0.024	0.025	0.026	0.026	0.027	0.020	0.022	0.028	0.021	0.019	0.025

VII. Issues for Consideration

ADCs in Meghalaya have low revenue base as assigned tax and non-tax revenue sources are limited. Further, the ADCs have not fully exploited the powers to raise their own revenue as evident from the low per capita own revenue of the councils. Factors such as the lack of political will to raise resources through imposition of taxes and other charges/fees, particularly from tribal population, are partly to blame for the inability of the councils to generate sufficient resources. We find high volatility in revenue receipts across the three ADCs indicating unpredictability and irregularity in revenue receipts of the councils.

The high dependency of the councils on share of royalty on minerals particularly JHADC is major cause of concern as any disruption on the flow of revenue from this source will severely affect the functioning of the councils. Such a situation has occurred in the past when the Supreme Court in 1996 had banned unregulated timber felling in the State thereby severely affecting the revenue earned by the councils from royalty from timber trade, which was then a major source of own revenue for the three councils. The 2014 ruling of the National Green Tribunal banning rat hole coal mining practice in the State has also affected the finances of all the three ADCs.

Another problem facing the ADCs in the state is the unwillingness of state government to devolve part of their own revenue with the councils. At present there is no provision in the Sixth Schedule for constitution of state finance commission. Further, although the sharing of mineral royalties and motor vehicle taxes between state government and the councils is on stipulated percentage, the transfer of revenue from the former to the latter is plagued by delay and lack of transparency on the part of the state government. While ADCs also continue to be heavily dependent on financial support from higher government, even here it is seen that the councils often complain that grants provided by union government are not being released timely by state government.

ADCs in Meghalaya have a very limited mandate in promoting development activities with its role limited to regulation of local tribal bodies and land ownership. We find that much of the own resources of the councils is spent on revenue expenditure with component on salaries and administrative expenses. High administrative expenditure has severely affected the financial health of most of the councils.
Lastly, the ADCs in the state are yet to move towards adopting uniform and transparent accounting structures that will allow for capturing the receipts and expenditure under proper heads which will in turn facilitate better control and decision making based on the financial information derived from such an accounting format. This along with timely auditing of its account will brings clarity, transparency and accountability in the finances of the council.

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