Chapter I

Finances of the State Government

The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The Financial Accounts of the Government of Nagaland are laid out in nineteen statements, the structure and lay out of which are depicted in **Appendix 1.1.**

This chapter provides a broad perspective of the finances of the Government of Nagaland during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. **Appendix 1.2** of the chapter briefly outlines the methodology adopted for the assessment of the fiscal position of the State and **Appendix 1.3** presents the time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2004-09.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2008-09) vis-à-vis the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1 Summary of Current Year's Fiscal Operations

(Rupees in crore)

2007-08	**Receipts**	**2008-09**	**2007-08**	**Disbursements**	**2008-09**		
Section-A: Revenue					**Non Plan**	**Plan**	**Total**
2996.02	Revenue receipts	3400.89	2572.27	Revenue expenditure	2345.89	543.65	2889.54
131.37	Tax revenue	156.02	1193.45	General services	1337.94	10.90	1348.84
119.48	Non-tax revenue	180.55	656.94	Social services	534.41	162.35	696.76
399.77	Share of Union Taxes/ Duties	421.84	721.88	Economic services	473.54	370.40	843.94
2345.40	Grants from Government of India	2642.48	…	Grants-in-aid and Contributions	…	…	…
Section-B: Capital							
…	Misc. Capital Receipts	…	821.48	Capital Outlay	0.01	853.08	853.09
3.06	Recoveries of Loans and Advances	2.57	2.61	Loans and Advances disbursed	0.63	0.83	1.46
405.70	Public Debt receipts*	651.54	166.55	Repayment of Public Debt*			205.38
…	Contingency Fund	…	…	Contingency Fund			…
1418.00	Public Account receipts	1841.41	1346.78	Public Account disbursements			1717.75
(-)61.96	Opening Cash Balance#	(-)134.69	(-)148.87	Closing Cash Balance	…	…	94.50
4760.82	**Total**	**5761.72**	**4760.82**	**Total**			**5761.72**

**** Excluding net transactions under ways and means advances and overdraft.***

 # OB differ from last year's CB due to detailed bifurcation made in Statement 16 of Finance Accounts under MH 8222 Sinking Fund

The following are the significant changes during 2008-09 over the previous year:

- Revenue receipts increased by Rs.404.87 crore (14 *per cent*) from Rs.2996.02 crore in 2007-08 to Rs.3400.89 crore in 2008-09 mainly due to increase in grants from Government of India (GOI) (Rs.297.08 crore), State's Own Tax revenue (Rs.24.65 crore), Non-Tax revenue (Rs.61.07 crore) and State's share of Union taxes and duties (Rs.22.07 crore). The revenue receipts at Rs.3400.89 crore is however, higher than the assessment made by the State Government in its fiscal Correction Path (FCP) for the year 2008-09.

- Revenue expenditure of the State, on the other hand increased by Rs.317.27 crore (12 *per cent*) from Rs.2572.27 crore in 2007-08 to Rs.2889.54 crore in 2008-09, mainly under the head Administration services (Rs.139.79 crore), Education, Sports and Art & Culture (Rs.16.05 crore), Energy (Rs.34.21 crore), Welfare of Scheduled Caste, Scheduled Tribes and Other Backward Classes (Rs.13.24 crore). The revenue expenditure exceeded the assessment made by the State Government in its FCP for the year 2008-09 by Rs.371.58 crore.

- Capital Expenditure increased by Rs.31.61 crore (4 *per cent*) from Rs.821.48 crore in 2007-08 to Rs.853.09 crore in 2008-09.

- Recoveries of Loans and Advances declined by Rs.0.49 crore, and disbursement also decreased by Rs.1.15 crore in 2008-09 over the previous year.

- Public debt receipts[1] increased by Rs.245.84 crore and repayment increased by Rs.38.83 crore during 2008-09 over the previous year.

- Public Account Receipts increased by Rs.423.41 crore against an increase in disbursement by Rs.370.97 crore during 2008-09 over the previous year.

The flow of funds under various major heads mentioned above, resulted in improvement in the cash balance position of the State, as the balance increased from (-) Rs.134.69 crore at the beginning of 2008-09 to Rs.94.50 crore at the close of the year.

[1] Public Debt Receipts includes market loans, special securities issued by RBI and loans and advances from GOI.

Chart 1.1 presents the budget estimates and actual for some important fiscal parameters.

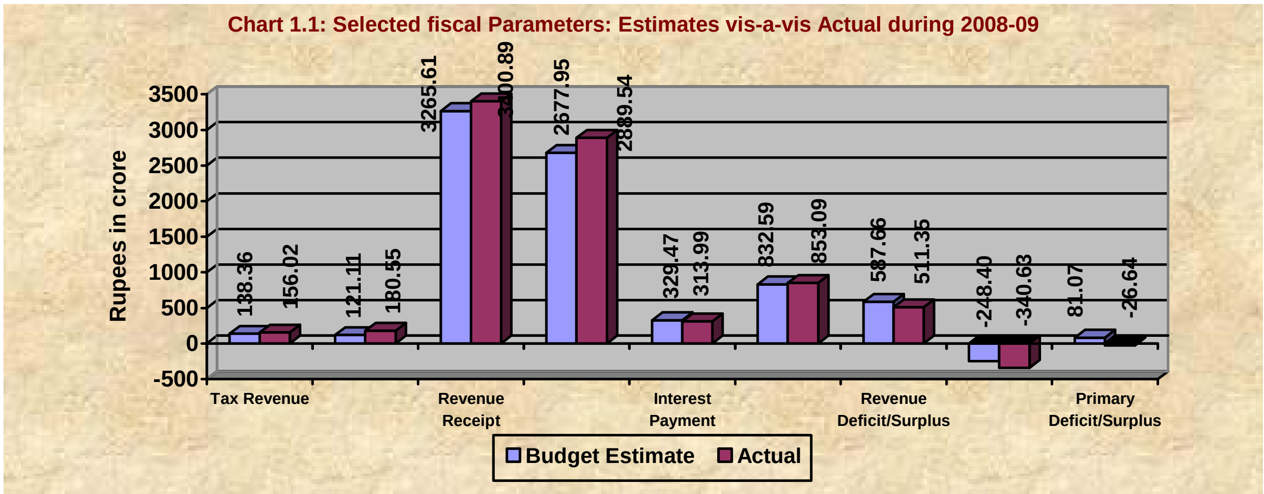
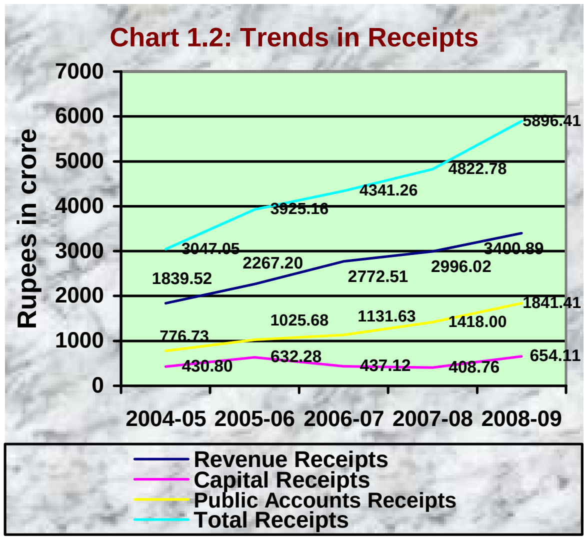


Chart 1.1: shows that the actual Revenue Receipts increased by Rs.135.28 crore while revenue expenditure increased by Rs.211.59 crore over the Budget estimates. Resultantly, the revenue surplus decreased by Rs.76.31 crore over the budget estimate. Actual fiscal deficit exceeded the assessment made by the State Government in budget estimates for the year 2008-09 by Rs.92.23 crore. The increase in fiscal deficit accompanied by a decrease of Rs.15.48 crore in actual interest payment over the budget estimates led to an increase of Rs.107.71 crore in primary deficit as the estimated primary surplus of Rs.81.07 crore turned into primary deficit of Rs.26.64 crore.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2004-09. **Chart 1.3** depicts the composition of resources of the State during the current year.



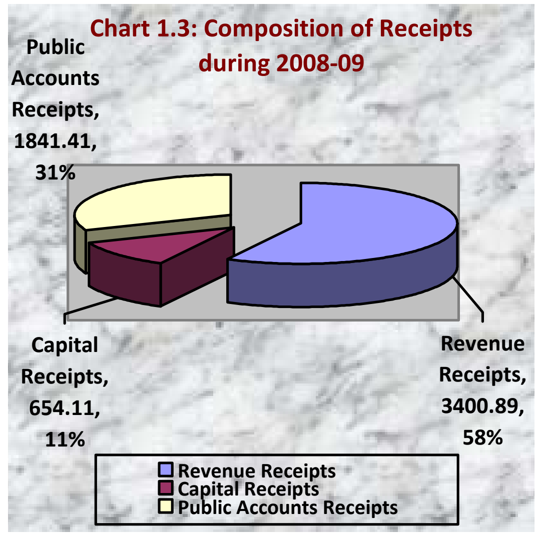


Chart 1.2: shows that total receipts of the State Government for the year 2008-09 was Rs.5896.41 crore out of which, the revenue receipts was Rs.3400.89 crore, constituting 57.68 *per cent* of the total receipts. The balance came from capital receipts, borrowings and Public Account receipts.

The revenue receipts of the State increased from Rs.1839.52 crore in 2004-05 to Rs.3400.89 crore in 2008-09 at an annual average rate of 9.01 *per cent*.

The buoyancy of Revenue receipts w.r.t GSDP during the year was 2.52 *per cent*.

The capital receipts (including Public Account receipts) constituted 42.32 *per cent* of total receipts of the State during the year 2008-09, an increase of 106.66 *per cent* from Rs.1207.53 crore in 2004-05 to Rs.2495.52 crore in 2008-09.

Public Account receipts increased by 29.86 *per cent* (Rs.423.41 crore) in 2008-09 over the previous year mainly due to Remittances (Rs.205.08 crore), Deposit and Advances (Rs.160.38 crore) and Provident Fund (Rs.9.21 crore).

The increase in remittance was due to increase in Public Works Remittance (Rs.195.53 crore), Cash Remittance between treasury and currency chest (Rs.4.69 crore) and Forest Remittance (Rs.4.52 crore).

1.2.2 Funds Transferred to State Implementing Agencies outside the State Budgets

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies[2] for the implementation of various schemes/programmes in social and economic sectors recognized as critical. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated. To present a holistic

[2] State Implementing Agency includes any Organization/Institution including Non-Governmental Organization which is authorized by the State Government to receive the funds from the Government of India for implementing specific programmes in the State, e.g. State Implementation Society for SSA and State Health Mission for NRHM etc.

picture on availability of aggregate resources, an approximate amount of Rs. 471.93 crores directly transferred to State Implementing Agencies is detailed in **Appendix 1.5.** Significant amounts released for major programmes/schemes are presented in **Table 1.2.**

Table-1.2: Funds Transferred Directly to State Implementing Agencies[3]

(Rs in crore)

Name of the Programme/Scheme	Name of the Implementing Agency in the State	Total funds released by the GOI during 2008-09
National Rural Employment Guarantee Programme	Project Directors, DRDA, 11 Districts	268.36
Rural Housing (Indira Awas Yojana)	Project Directors, DRDA, 11 Districts	39.52
National Rural Health Mission (NRHM)	State Health Society	30.02
Swarnajayanti Gramin Swarojgar Yojana	Project Directors, DRDA, 11 Districts	8.73
DRDA Administration Rural Development	Project Directors, DRDA, 11 Districts	5.33
Pradhan Mantri Gram Sadak Yojana	Public Works Department.	20.00
Sarva Shiksha Abhiyan (SSA)	SSA State Mission Authority	28.68
MPs Local Area Development Scheme	Dy. Commissioner, Dimapur	5.00
Total		**405.64**

Source: 'Central Plan Scheme Monitoring System' portal in Controller General of Account's website

Table 1.2 shows that an amount of Rs. 268.36 crores (56.86 *per cent* of total funds transferred) was transferred for National Rural Employment Guarantee Programme, Rs. 39.52 crores (8.37 *per cent*) for Rural Housing (Indira Awas Yojana), Rs. 30.02 crores (6.36 *per cent*) for National Rural Health Mission and Rs. 28.68 crores (6.08 *per cent*) for Sarva Shiksha Abhiyan during 2008-09. This data is yet to be verified by the Implementing Agencies. The consolidated data base at apex level was not maintained by the State Government. With the transfer of an approximate amount of Rs. 471.93 crores directly by Government of India to the State Implementing Agencies, the total availability of State resources during 2008-09 had increased by 8 *per cent* from 5896.41 crores to Rs. 6368.34 crores.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2004-09 are presented in **Appendix 1.3** and also depicted in **Charts 1.4** and **1.5** respectively.

[3] Table represents few selected Implementing Agencies.

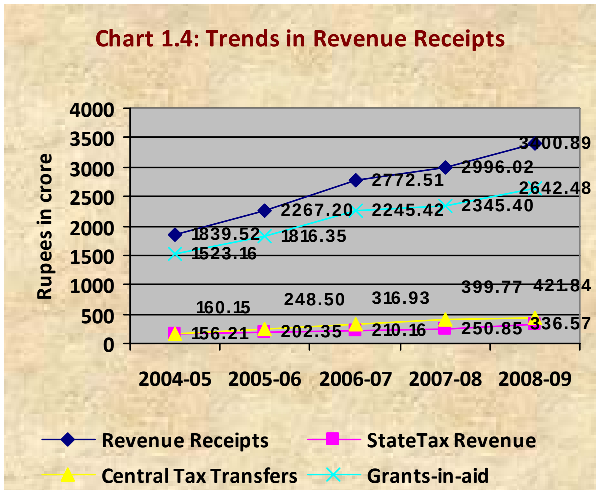


Chart 1.4: Trends in Revenue Receipts

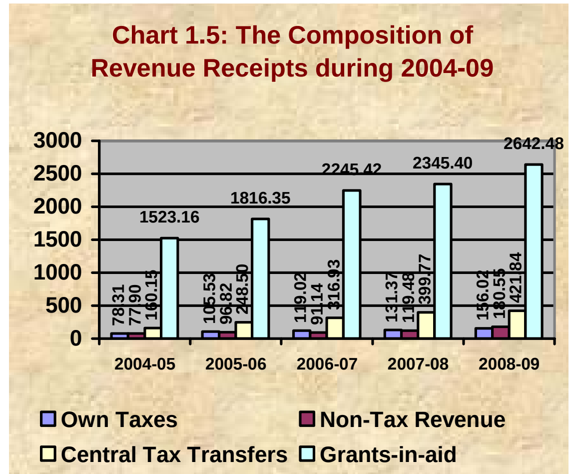


Chart 1.5: The Composition of Revenue Receipts during 2004-09

The revenue receipts have shown a progressive increase over the period 2004-09 with marginal inter-year variations and changes in its composition i.e. the share of own taxes, non-tax revenue and Central transfers during the period 2004-09.

The trends in revenue receipts relative to GSDP are presented in **Table 1.3** below:

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts (RR) (Rupees in crore)	**1839.52**	**2267.20**	**2772.51**	**2996.02**	**3400.89**
Rate of growth of RR (*per cent)*	(-)22.05	23.25	22.29	8.06	13.51
R R/GSDP (*per cent)*	31.83	35.57	39.85	41.79	45.03
Buoyancy Ratios[4]					
Revenue Buoyancy w.r.t GSDP	*	2.26	2.44	2.66	2.52
State's Own Tax Buoyancy w.r.t GSDP	1.38	3.37	1.40	3.43	3.50
Revenue Buoyancy with reference to State's own taxes	*	0.67	1.74	0.78	0.72

* ***Figure not shown since it is negative*.**

The Revenue Receipts of the State increased from Rs.1839.52 crore in 2004-05 to Rs.3400.89 crore in 2008-09 at an annual average rate of 9.01 *per cent.* While 9.90 *per cent* of the revenue receipts during 2008-09 have come from the State's Own Resources comprising taxes and non-taxes, Central Tax Transfers and Grants-in-aid together contributed 90.10 *per cent*. The share of State's Own Resources and the Central Transfers in Revenue receipts of the State exhibited relative stability during the last five years (2004-09).

Central tax transfers to the State increased by 5.52 *per cent* from Rs.399.77 crore in 2007-08 to Rs.421.84 crore in 2008-09. The increase was due to increase of Corporation Tax (Rs.11.29 crore), Customs (Rs.5.11 crore) and Service Tax (Rs.5.68 crore).

Grants-in-aid from Government of India have increased by 12.67 per cent from Rs.2345.40 crore in 2007-08 to Rs.2642.48 crore in 2008-09 contributing 77.70 *per cent* of the total Revenue Receipts during 2008-09. This increase was due to enhanced grants

[4]Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

for Centrally Sponsored Plan Schemes (Rs.73.95 crore) and non-plan grants (Rs.70.73 crore).

The growth rate of Revenue Receipts was more than twice that of GSDP growth rate for the past four years.

1.3.1 State's Own Resources

As the State's share in Central taxes and Grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts and Central assistance for plan schemes etc, the State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The gross collection in respect of major taxes and duties as well as the components of non-tax receipts vis-à-vis budget estimates, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2004-05 to 2008-09 are presented in **Appendix 1.3.**

The tax revenue increased by Rs.24.65 crore (18.76 *per cent*) from Rs.131.37 crore in 2007-08 to Rs.156.02 crore in 2008-09. The share of sales tax in total tax revenue not only remained significant but increased from 67.78 *per cent* in 2004-05 to 73.52 *per cent* in the current year. State Excise (Rs.3.34 crore), Taxes on Vehicles (Rs.14.14 crore), Stamps and Registration fees (Rs.1.01 crore) were the other contributors to the State's tax revenue.

The increase in sales tax revenue (Rs.19.91 crore) which was mainly on account of introduction of VAT, contributed around 80.77 *per cent* of incremental tax revenue of the State during the year.

Non-tax revenue exhibiting fluctuation over the period 2004-09 increased steeply from Rs.119.48 crore in 2007-08 to Rs.180.55 crore in 2008-09. The major contributors in the non-tax revenue included Power (Rs.111.49 crore), Miscellaneous General Services (Rs.28.05 crore) including incentive in the form of debt waiver granted by GOI under DCRF in 2008-09 (Rs.15.87 crore), Road Transport (Rs.9.38 crore), Forestry and Wildlife (Rs.4.78 crore), Housing (Rs.2.97 crore), other Rural Development Programme (Rs.2.25 crore) and Roads and Bridges (Rs.1.09 crore). Increase in Non Tax Revenue (NTR) in 2008-09 was primarily on account of Power (Rs.42.02 crore) which accounted for more than 68.81 *per cent* of incremental non tax receipts during the year.

The tax and non-tax revenue receipts vis-à-vis the normative assessment made by the Twelfth Finance Commission (TFC) and the assessment made by the State Government in 2008-09 were as under:

(Rupees in crore)

	Assessment by the TFC	Assessment by the State Government	Actual Receipts
Own Tax Revenue	222.66	138.50	156.02
Non-Tax Revenue	57.69	107.03	180.55

The Own Tax Revenue (OTR) of the State was more than the assessment of the Government but remained 29.93 *per cent* less than the assessment of TFC for 2008-09 whereas the Non-Tax Revenue receipts exceeded both the assessment made by the

Government in 2008-09 by 68.69 *per cent* and the normative assessment of TFC by 212.97 *per cent*.

1.3.2. Loss of Revenue due to Evasion of Taxes, Write off/Waivers and Refunds

The Sales Tax Department of the State Government could not furnish the information about evasion of tax. The details of tax refunds, write off and waiver of revenue during the year 2008-09 was shown as nil.

1.3.3 Revenue Arrears

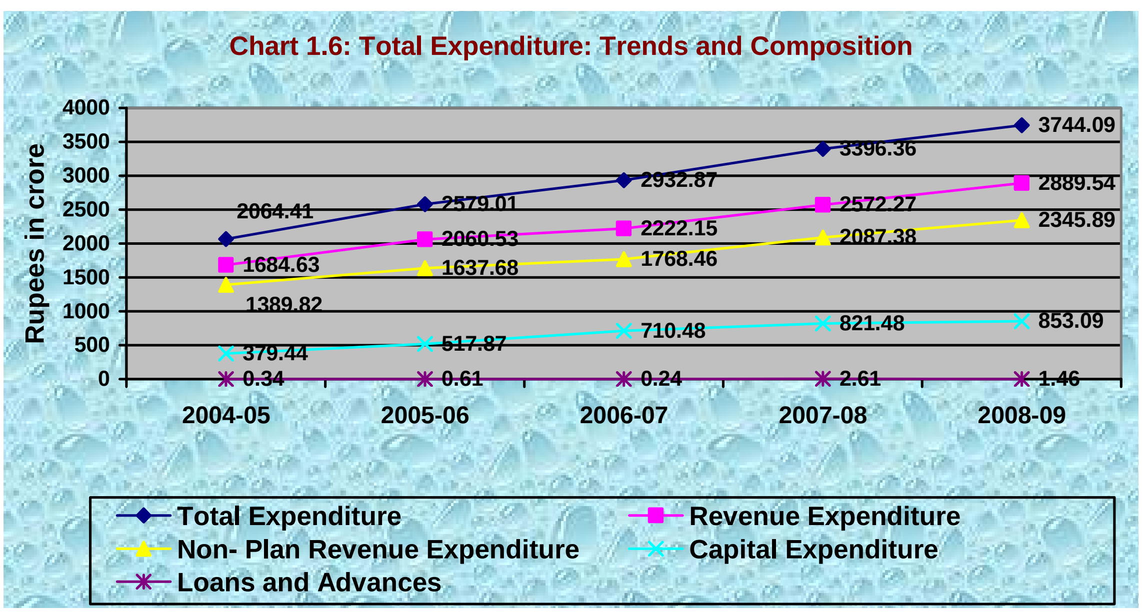
The Sales Tax Department could not furnish the information about revenue arrears for the year 2008-09. However, from the arrear revenue furnished up to the year 2007-08 (Rs. 15.73 crore) it was observed that the arrear of revenue increased by Rs. 3.43 crore during 2007-08 over the previous year. Arrears were mainly in respect of Taxes on Sales, Trades etc. (Rs. 8.98 crore), Central Sales Tax (Rs. 3.31 crore), Purchase Tax (Rs. 1.72 crore), Petroleum Tax (Rs. 1.49 crore) and Professional Tax (Rs. 0.23 crore).

1.4 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is therefore important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2004-09) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7 and 1.8.**



Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services and extend the network of these services through capital expenditure and investments to discharge their debt service obligations. The total expenditure of the State increased from Rs.2064.41 crore in 2004-05 to Rs.3744.09 crore in 2008-09.

Total expenditure during 2008-09 at Rs.3744.09 crore increased by Rs.347.73 crore (10.24 *per cent*) over the previous year. Out of the total expenditure in 2008-09, revenue expenditure was 77.18 *per cent* (Rs.2889.54 crore) while capital expenditure was 22.78 *per cent* (Rs.853.09 crore) and loans and advances was 0.04 *per cent* (Rs.1.46 crore). The breakup of total expenditure in terms of plan and non-plan reveals that while the share of plan expenditure constituted 37.33 *per cent* (Rs.1397.56 crore), the remaining 62.67 *per cent* was non-plan expenditure (Rs.2346.53 crore). The increase in total expenditure during 2008-09 over the previous year was due to increase of revenue expenditure by Rs.317.27 crore and capital expenditure by Rs.31.61 crore and decrease in disbursement of loans and advances by Rs.1.15 crore. The non-plan revenue expenditure increased by 12.38 *per cent* during the year compared to the projection of 5.78 *per cent* made by the State Government in Fiscal Correction Path (FCP) for 2008-09. The capital expenditure at Rs.853.09 crore exceeded the assessment made by State Government in its FCP (Rs.693.68 crore).

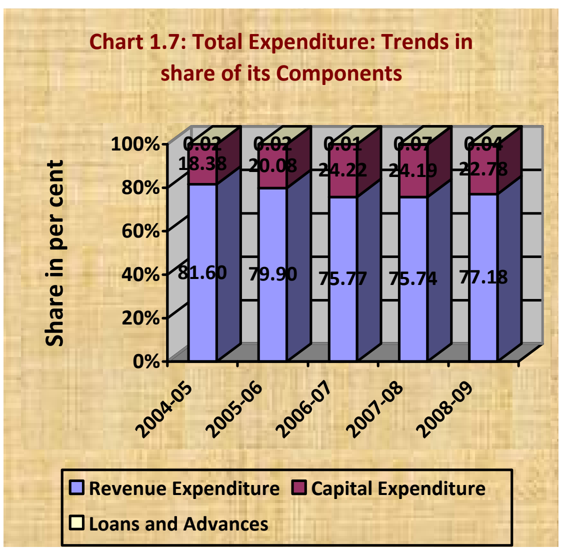


Chart 1.7: Total Expenditure: Trends in share of its Components

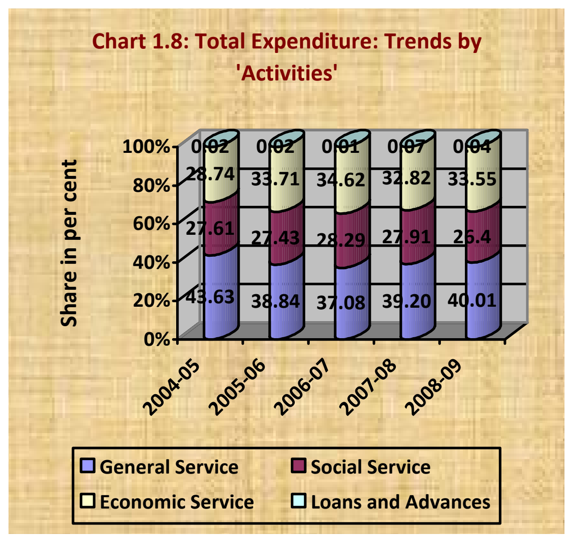


Chart 1.8: Total Expenditure: Trends by 'Activities'

Revenue expenditure had predominant share varying from 75.74 *per cent* to 81.60 *per cent* of the total expenditure of the State during 2004-09. Revenue expenditure is incurred to maintain the current level of services and payments for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The fall in Revenue expenditure as a percentage of total expenditure over the years is encouraging, as a greater proportion is being spent on Capital expenditure which will increase the productive asset base of the country.

Revenue expenditure of the State has increased by 71.52 *per cent* from Rs.1684.63 crore in 2004-05 to Rs.2889.54 crore in 2008-09 at an average annual rate of 10.23 *per cent*.

Both Non Plan Revenue expenditure (NPRE) and Plan Revenue expenditure (PRE) have shown a consistent increase over the period 2004-09. Of the total increase of Rs.317.27 crore in revenue expenditure during 2008-09, increase in NPRE contributed 81.48 *per cent* (Rs.258.51 crore) while PRE accounted for the remaining 18.52 *per cent* (Rs.58.76 crore). The increase of Rs.258.51 crore in NPRE during 2008-09 over the previous year was mainly due to increase in Police (Rs.108.59 crore), salary expenses (Rs.93.43 crore), General Education (Rs.28.44 crore) and Power (Rs.33.63 crore) which was offset mainly due to decrease in Pensions and Other Retirement Benefits (Rs. 30.77 crore). The PRE has increased by Rs.58.76 crore from Rs.484.89 crore in 2007-08 to Rs.543.65 crore in 2008-09 mainly due to increase of funds for Special Areas Programmes (Rs.54.27 crore). The actual non-plan revenue expenditure vis-à-vis assessment made by TFC and State Government are given below:-

(Rupees in crore)

	Assessment made by TFC	**Assessment made by State Government in FCP**	**Actual**
Non-Plan Revenue Expenditure	1811.81	1988.15	2345.89

The actual NPRE exceeded the normative assessment made by TFC by Rs.534.08 crore (29.48 *per cent*) and the assessment made by the State Government in its FCP for the year 2008-09 by Rs.357.74 crore (17.99 *per cent*).

1.4.2 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.4** and **Chart 1.9** present the trends in the expenditure on these components during 2004-09.

Table-1.4: Components of committed expenditure

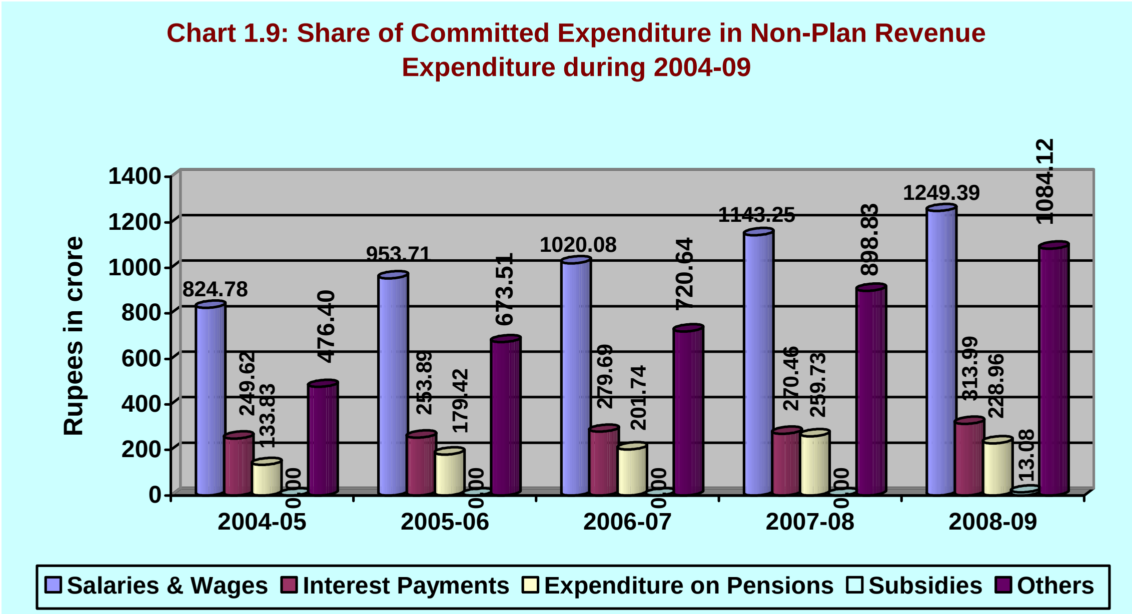
(Rupees in crore)

Components of committed expenditure	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	
					BE	**Actuals**
Salaries* & Wages **,** *Of which*	824.78 (44.84)	953.71 (42.07)	1020.08 (36.79)	1143.25 (38.16)	1212.34	1249.39 (36.74)
Non-Plan Head	774.04 (42.08)	898.32 (39.62)	965.98 (34.84)	1123.47 (37.49)	1187.74	1216.90 (35.78)
Plan Head**	50.74 (2.76)	55.39 (2.45)	54.10 (1.95)	19.78 (0.67)	24.60	32.49 (0.96)
Interest Payments	249.62 (13.57)	253.89 (11.20)	279.69 (10.09)	270.46 (9.03)	329.47	313.99 (9.23)
Expenditure on Pensions	133.83 (7.28)	179.42 (7.91)	201.74 (7.28)	259.73 (8.67)	290.95	228.96 (6.73)
Subsidies	…	…	…	…	15.24	13.08 (0.38)
Other Components	476.40 (25.90)	673.51 (29.71)	720.64 (25.99)	898.83 (30.00)	829.95	1084.12 (31.88)
Total	1684.63	2060.53	2222.15	2572.27	2677.95	2889.54

Figures in the parentheses indicate percentage to Revenue Receipts

* *Represents salaries only and includes salaries spent from grants-in-aid.*

***Plan Head also includes the salaries paid under Centrally Sponsored Schemes.*



Expenditure on salaries under Non-Plan and Plan during the current year is Rs.1216.90 crore and Rs.32.49 crore respectively. The increase in salaries by Rs.106.14 crore over the previous year was mainly due to release of dearness allowance installments and incremental benefits. Salary and wages accounted for 36.74 *per cent* of the revenue receipts during 2008-09. *Salary expenditure was 53.24 per cent of revenue expenditure, net of interest payment and pensions, which was within the ceiling of 61 per cent targeted in Nagaland Fiscal Responsibility and Budget Management (NFRBM) Act, but was much higher than the norm of 35 per cent recommended by the TFC.*

The expenditure on pensions has decreased by 11.85 *per cent* from Rs.259.73 crore in 2007-08 to Rs.228.96 crore in 2008-09 mainly due to increase of retirement age of Government employees by three years. The pension payments were Rs.52.97 crore less than the projection as made in the FCP (Rs.281.93 crore) while it was Rs.29.38 crore less than the assessment made by TFC (Rs.258.34 crore) for the year 2008-09. *The State Government has not introduced the new pension policy so far, to meet the pension liabilities*.

Interest payments increased by 25.79 *per cent* from Rs.249.62 crore in 2004-05 to Rs.313.99 crore in 2008-09. The interest payments increased during 2008-09 over the previous year mainly on Internal Debt (Rs.30.64 crore) and Small Savings, Provident Fund etc. (Rs.0.95 crore). There was also an increase in interest payment over previous year on Loans and Advances from Central Government (Rs.11.94 crore). Interest payments relative to revenue receipts at 9.23 *per cent* was well within the norm of 15 *per cent* as recommended by TFC.

Subsidy of Rs.13.08 crore was paid to (i) Nagaland Armed Police, Ration subsidies (Rs.13.03 crore) and (ii) Horticulture subsidy (Rs.0.05 crore) against the budget provision of Rs.15.24 crore during the year.

1.4.3 Financial Assistance by State Government to local bodies and other Institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.5**

Table 1.5: Financial Assistance to Local Bodies etc.

(Rupees in crore)

Financial Assistance to Institutions	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	3.05	6.24	2.55	2.40	2.40	2.90
Municipal Corporations and Municipalities	…	…	0.27	0.27	0.26	0.13
Zilla Parishads and Other Panchayati Raj Institutions	…	…	…	…	…	…
Development Agencies	24.67	0.28	…	29.03	24.36	24.83
Hospitals and Other Charitable Institutions	5.59	5.74	8.12	8.73	9.25	9.41
Other Institutions	1.02	21.17	23.10	1.41	0.62	2.53
Total	**34.33**	**33.43**	**34.04**	**41.84**	**36.89**	**39.80**
Assistance as per percentage of RE	2.04	1.62	1.53	1.63	1.28	1.38

The total assistance to local bodies has increased from Rs. 34.33 crore in 2004-05 to Rs.39.80 crore in 2008-09. Table 1.5 shows that the assistance declined gradually from Rs.6.24 crore in 2005-06 to Rs.2.90 crore in 2008-09 in respect of Educational Institutions due to less release of grants to non-Government Colleges and Institutions, whereas it increased in respect of Hospital and Charitable Institutions from Rs.5.59 crore in 2004-05 to Rs.9.41 crore in 2008-09 mainly due to increase of grants to Naga Hospital Authority. The financial assistance granted under the head Development Agencies constituted more than 62.39 *per cent* of the total assistance given by the State during the current year. Moreover, under this head all the assistance was given to Village Development Boards (Rs.24.83 crore) mainly for community development schemes (Rs.23.83 crore), matching grant (Rs.0.50 crore) and additional grants (Rs.0.50 crore).

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provision for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like, education, health etc. The low level of spending on any sector by a particular State may be either due to low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both working together. The low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective national average while the low fiscal capacity would be reflected if the State's per capita expenditure is below the respective national average even after having a fiscal priority that is more than or equal to the national average. **Table 1.6** analyses the fiscal priority and fiscal capacity of the State Government with regard to developmental expenditure, social sector expenditure and capital expenditure during the current year.

Table-1.6: Fiscal priority and fiscal capacity of the State during 2008-09

Fiscal priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States/National Average* (Ratio) 2005-06	19.50	61.44	30.41	14.13
Nagaland's Average (Ratio) 2005-06	40.45	61.15	27.41	20.09
All States/National Average* (Ratio) 2008-09	19.16	67.68	33.90	16.87
Nagaland's Average (Ratio) 2008-09	49.57	59.99	26.40	22.78
Fiscal Capacity of the State	DE#	SSE	CE	
All States Average Per capita expenditure 2005-06	3010	1490	692	
Nagaland's Per Capita expenditure (Amount in Rs) in 2005-06	7510	3367	2467	
Adjusted Per Capita** expenditure (Amount in Rs) in 2005-06	7545	3735	NR	
All States Average Per capita expenditure 2008-09	5030	2520	1254	
Nagaland's Per Capita expenditure (Amount in Rs) in 2008-09	10210	4493	3878	
Adjusted Per Capita** expenditure (Amount in Rs) in 2008-09	11517	5770	NR	

***As per cent to GDP**
****Calculated as per the methodology explained in the Appendix 1.2**
AE: Aggregate Expenditure DE: Developmental Expenditure SSE: Social Sector Expenditure
CE: Capital Expenditure
Population of Nagaland: 0.21 crore in 2005-06 and 0.22 crore in 2008-09.
 # Developmental expenditure includes Developmental Revenue Expenditure, Developmental Capital Expenditure and Loans and Advances disbursed.
Source: (1) For GSDP, the information was collected from the State's Directorate of Economics and Statistics (2)Population figures were taken from Projection 2001-2026 of the Registrar General & Census Commissioner, India (Website: http://www.censsusindia.gov.in) Population = Average of Projected population for 2005 and 2006.
NR = No adjustment required since the State is giving adequate fiscal priority. Data for Arunachal Pradesh has not been included in All States average.

Table 1.6 shows the fiscal priority given by the Nagaland Government to various expenditure heads in 2005-06 (the first year of the Twelfth Finance Commission Award Period) and the current year viz, 2008-09. The Government of Nagaland had a much higher AE/GSDP ratio in both years under consideration compared to all State's Average. In CE the Nagaland Government's expenditure as a percentage of AE was higher than the National average while in SSE the Government's expenditure as a percentage of AE was lower in both the years compared to national average. In DE, however the DE/AE ratio for Nagaland was marginally lower in 2005-06 (compared to all states average) and this ratio was even lower in 2008-09.

Since the population of Nagaland is low, the per capita expenditure in DE, SSE and CE in both the years was higher than the national average. Had the DE/AE ratio been as high as the national average for Nagaland, then the per capita expenditure for DE would have been much higher (as indicated in **Table 1.6** and calculated using the methodology in **Appendix 1.1**.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on developmental heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods[5]. Apart from improving the allocation towards developmental expenditure[6], particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.7** presents the trends in developmental expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years, **Table 1.8** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table-1.7: Developmental Expenditure

(Rupees in crore)

Components of Developmental Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Developmental Expenditure (a to c)	1163.66 (56.37)	1577.27 (61.15)	1845.39 (62.92)	2065.21 (60.81)	2037.01	2246.10 (59.99)
a. Developmental Revenue Expenditure	826.68 (40.04)	1120.63 (43.45)	1201.83 (40.98)	1378.83 (40.60)	1413.16	1540.70 (41.15)
b. Developmental Capital Expenditure	336.64 (16.31)	456.03 (17.68)	643.32 (21.93)	683.77 (20.13)	615.63	703.94 (18.80)
c. Developmental Loans and Advances	0.34 (0.02)	0.61 (0.02)	0.24 (0.01)	2.61 (0.08)	8.22	1.46 (0.04)
Figures in parentheses indicate percentage to aggregate expenditure						

The developmental expenditure exceeded the assessment made by the State Government in the budget by Rs.209.09 crore. The developmental revenue and capital expenditure increased by 11.74 *per cent* (Rs.161.87 crore) and 2.95 *per cent* (Rs.20.17 crore) respectively over the previous year. The increase of developmental revenue expenditure

[5] *Core public goods* are which all citizens enjoy in common in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of that goods, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. *Merit goods* are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

[6] The analysis of expenditure data is disaggregated into developmental and non-developmental expenditure. All expenditure relating to Revenue Account, Capital Account and Loans and Advances are categorized into social services, economic services and general services. Broadly, the social and economic services constitute developmental expenditure, while expenditure on general services is treated as non-developmental expenditure.

was mainly under General Education (Rs.21.46 crore), Health & Family Welfare (Rs.12.43 crore), Other Social Service (Rs.0.36 crore), Agriculture & Allied Activities (Rs.2.07 crore), Irrigation & Flood Control (Rs.5.24 crore) and Energy (Rs.34.21 crore), while it decreased in Water Supply, Sanitation, Housing and Urban Development (Rs.9.55 crore). During 2008-09, revenue expenditure on Social and Economic sector was Rs.696.76 crore and Rs.843.94 crore respectively.

Table 1.8 –Efficiency of Expenditure Use in Selected Social and Economic Services

(In per cent)

Social/Economic Infrastructure	2007-08		2008-09	
	Ratio of CE to TE	**In RE, the share of S&W**	**Ratio of CE to TE**	**In RE, the share of S&W**
Social Services (SS)				
General Education	3.19	82.69	4.71	86.06
Health and Family Welfare	21.03	83.19	9.42	81.17
WS, Sanitation, & HUD	80.39	49.80	83.43	66.47
Total (SS)	**30.68**	**71.77**	**29.52**	**73.15**
Economic Services (ES)				
Agri & Allied Activities	15.81	48.17	17.14	47.79
Irrigation and Flood Control	4.18	12.96	11.64	13.05
Power & Energy	29.87	23.02	41.68	19.46
Transport	66.94	71.98	47.75	59.81
Total (ES)	**35.25**	**35.90**	**32.81**	**32.22**
Total (SS+ES)	**33.15**	**52.99**	**31.36**	**50.73**
TE: Total Expenditure of respective section; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages				

Table 1.8 shows that the ratio of CE to TE under Social services decreased from 30.68 *per cent* in 2007-08 to 29.52 *per cent* in 2008-09 mainly due to decrease under Health and Family Welfare. The ratio under Economic services also decreased by 2.44 *per cent* over the previous year mainly due to decrease in Transport and Science & Technology.

The share of salary and wages on General Education under Social service was 86.06 *per cent* of its revenue expenditure and on Health & Family Welfare and Water Supply Sanitation, Housing & Urban Development, the share was 81.17 *per cent* and 66.17 *per cent* respectively. The percentage of salary and wages in relation to its revenue expenditure on Social services was higher by 1.38 *per cent* over the previous year. However, the percentage of salary expenditure in respect of Health & Family Welfare decreased by 2.02 *per cent* over the previous year.

The salary and wage expenditure in terms of percentage of revenue expenditure under Economic services was lower by 3.68 *per cent* over the previous year.

The percentage of salary and wage expenditure relative to revenue expenditure under Social and Economic services taken together was lower by 2.26 *per cent* during 2008-09 over the previous year.

1.5.3 Effectiveness of the Expenditure, i.e. Outlay-Outcome Relationship

Two performance reviews pertaining to **'**Modernisation of Police Force' and 'Implementations of Irrigation schemes' included in a separate Report of Comptroller and Auditor General of India for the year ended 31 March 2009 highlights the following aspects:

(a) Modernisation of Police Force

The scheme "Modernisation of Police Force" was revised by GOI with substantial outlay of Central assistance for a ten year period starting from 2000-01 to make good the deficiencies in basic police infrastructure as identified by the Bureau of Police Research and Development. Performance audit of the scheme revealed that the scheme was implemented in the State without a long term Perspective Plan as envisaged in guidelines and distribution of vehicles was skewed in favour of Headquarters/officers to the detriment of the field units. Though the State had been declared 'A' category by the Government of India, being maximum security threat, the Department had not endeavoured to gear up its weaponry to face the threat. The satellite based integrated Police Communication Network and Common Integrated Police Application system were not functioning in the State and Forensic Science Laboratory was not functioning in a modern environment. The training and housing needs of the force had not been adequately addressed by the Department and there was lack of monitoring and evaluation mechanism.

(Paragraph 1.1 of Audit Report 2008-09)

(b) Implementation of Irrigation Schemes

The Government of India introduced two schemes viz., Rural Infrastructure Development Fund (funded by NABARD) and Non-Lapsable Central Pool of Resources in 1996-97 and 2000-01 respectively and the Accelerated Irrigation Benefit Programme (AIBP) in 1999-2000 with the main aim of facilitating investment for improving infrastructure in agriculture and completion of projects delayed on account of financial constraints. A performance audit of the schemes revealed that the minor irrigation schemes were implemented in the State without adequate planning leading to non-completion/abandonment of projects. Water charges were not collected from the users to meet the operation and maintenance cost of the projects. The records of the Department were also not reliable as projects stated to be completed were found to be incomplete/abandoned during physical verification of the sites. Hence, the impact assessment of the projects on agriculture was neither undertaken by the Department nor could be ascertained in audit. Besides, there were several cases of fictitious, doubtful and unfruitful expenditure on the projects apart from inadequate monitoring of the implementation both at the State and Central Government levels. These issues indicate that irrigation projects in the State were not implemented efficiently.

(Paragraph 1.2 of Audit Report 2008-09)

1.6 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.6.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2009 is given in **Table 1.9.**

Table 1.9: Department-wise Profile of Incomplete Projects

(Rupees in Crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Total increase in Cost of Projects	Cost Over Runs	Cumulative actual exp as on 31.3.2009
Irrigation & Flood Control Department	1	5.39	-	-	4.80
Health & Family Welfare	1	36.00	-	-	30.00
Urban Development	6	40.27	10.96	-	31.62
Industries & Commerce	3	4.50	-	-	1.83
Public Health Engineering	63	62.54	20.54	-	40.88
Total	**74**	**148.70**	**31.50**	**-**	**109.13**

Source: Departmental records.

As per information received from the State Government, there were 74 incomplete projects as on 31 March 2009 pertaining to five departments in which Rs.109.13 crore were blocked. The revised cost of 3 incomplete projects under Urban Development Department increased by 125 *per cent* from Rs.8.76 crore (initial budget cost) to Rs.19.72 crore (total revised cost) and the revised cost of 63 incomplete projects under Public Health Engineering Department increased by 33 *per cent* from 62.54 crore (initial budget cost) to Rs.83.08 crore (total revised cost). The main reasons for delay in completion of works were non-release of balance amount by the State Government, non availability of site and revision of estimates.

1.6.2 Investment and returns

As on 31 March 2009, Government had invested Rs.164.94 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives **(Table 1.10)**. The average return on this investment was 'Nil' during the last five years while the Government paid an average interest rate of 11.50 *per cent* on its borrowings during 2006-2009.

Table-1.10: Return on Investment

Investment/Return/Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year (Rs in crore)	73.41	103.11	119.84	141.90	164.94
Return (Rs in crore)	…	…	…	…	…
Return *(per cent)*	…	…	…	…	…
Average rate of interest on Govt borrowing *(per cent)*	12.26	10.50	11.50	11.50	11.50
Difference between interest rate and return *(per cent)*	12.26	10.50	11.50	11.50	11.50

Out of the total Government investment of Rs.164.94 crore at the close of the current year, Rs.100.76 crore was invested in 6 Government companies, Rs.32.11 crore in 2 Joint Stock Companies and the remaining amount of Rs.32.07 crore was invested in Statutory Corporations, Co-operative Bank and Co-operative Societies etc. During the current year, the Government made additional investment of Rs.14.88 crore in State Mineral Development Corporation, Rs.4.72 crore in other State public sector Undertakings and Rs.3.44 crore in Nagaland Forest Products Limited.

A Government company *viz*., Nagaland Sugar Mills Ltd. (Rs.7.29 crore-investment) and a Joint Stock Company, Nagaland Paper and Pulp Corporation (Rs.6.33 crore-investment) were closed down; while three Government Corporations- Nagaland Industrial Development Corporation Ltd. (Rs.8.39 crore), Nagaland Industrial Raw Materials & Supply Corporation Ltd., (Rs.4.05 crore) and Nagaland Handloom & Handicrafts Development Corporation Ltd., (Rs.2.82 crore) were incurring losses. Since the accounts of Nagaland State Mineral Development Corporation Ltd., (Rs.59.28 crore) are outstanding from 1998-99, the actual financial status of the company as of March 2009 could not be assessed.

A performance-based system of accountability should be put in place in the Government Companies/Statutory Corporations so as to derive profitability and improve efficiency in service. The 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 if high cost borrowings are worth to be channelised in those Companies/Corporations.

1.6.3 Departmental Commercial Undertakings

Activities of quasi-commercial nature are also performed by the departmental undertakings of certain Government departments. The department-wise position of the year up to which proforma accounts have been finalized in these undertakings are given in **Appendix 1.6.** It was noticed that:

As on 31 March 2009, there were eight departmentally managed Government commercial and quasi-commercial Undertakings.

A mention was made in paragraph 7.1.19 of the Report of the Comptroller and Auditor General of India for the year 2007-08 about delay in preparation of Proforma accounts of these undertakings. Despite this, accounts were in arrears for periods ranging from one to 29 years as on 30 September 2009.

The finalized accounts of departmentally managed commercial and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalization of accounts, Government's investment remains outside the scrutiny of the Audit/State Legislature. Consequently corrective measures, if any, required could not be taken in time. Besides, the delay also opens the system to risk of fraud and leakage of public money.

1.6.4 Loans and advances by State Government

In addition to investments in Co-Operative Societies, Corporations and Companies, Government has also been providing loans and advances to many Institutions/ Organizations. **Table 1.11** presents the outstanding loans and advances as on 31 March 2009, interest receipts vis-à-vis interest payments during the last three years**.**

Table-1.11: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

Quantum of loans/interest receipts/ cost of borrowings	2006-07	2007-08	2008-09	
			BE	Actual
Opening Balance	30.27	26.19	**22.27**	25.74
Amount advanced during the year	0.24	2.61	8.22	1.46
Amount repaid during the year	4.33	3.06	4.75	2.57
Closing Balance	**26.19**	**25.74**	**25.74**	**24.63**
Of which Outstanding balance for which terms and conditions have been settled				
Net addition	(-)4.09	(-)0.45	-	(-)1.11
Interest Receipts	1.38	1.68	-	1.04
Interest receipts as *per cent* to outstanding loans and advances	5.27	6.53	-	4.22
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	11.50	11.50	-	11.50
Difference between interest payments and interest receipts (*per cent*)	6.23	4.97	-	7.28

At the end of March 2009, the Government had outstanding loans and advances of Rs.24.63 crore mainly from Co-operative Societies (Rs.21.10 crore), Village & Small Industries (Rs.0.29 crore) and Government Servants (Rs.0.83 crore). The interest received as percentage of outstanding loans decreased from 5.27 to 4.22 *per cent* during the period 2006-09, which was much less than the interest paid by the Government on its own borrowings (11.50 *per cent*).

1.6.5 Cash Balances and Investment of Cash balances

Table 1.12 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table-1.12: Cash Balances and Investment of Cash balances

(Rs in crore)

Particulars	As on 1 April 2008	As on 31 March 2009	Increase/ Decrease
Cash Balances	(-)134.69	94.50	229.19
Investments from Cash Balances (a to d)	262.84	440.33	177.49
a. GOI Treasury Bills	81.50	164.57	83.07
b. GOI Securities	…	…	…
c. Other Securities, if any specify	…	…	…
d. Other Investments	181.34	275.76	94.42
Funds-wise Break-up of Investment from Earmarked balances (a to c)	49.42	67.44	18.02
a. Guarantee redemption fund Investment Account	1.00	2.00	1.00
b. CRF Investment Account	18.07	15.55	(-)2.52
c. Sinking Fund Investment Account	30.35	49.89	19.54
Interest Realized	3.83	8.90	5.07

The interest received against Investment on Cash Balance was 2 *per cent* during 2008-09 while Government paid interest at the rate of 11.50 *per cent* on its borrowing during the year.

The State Government's net cash balance at the end of current year amounted to Rs.94.50 crore, an increase of Rs.229.19 crore over the previous year. An amount of Rs.440.33 crore was invested in Government of India Securities and earned an interest of Rs. 8.90 crore during the year. Further, Rs.67.44 crore was invested in earmarked funds. However, balance with Reserve Bank of India was (-) Rs.413.26 crore during the year.

The efficiency of handling the cash balances by the State can also be assessed by monitoring the trends in monthly daily average of cash balances held by the State to meet its normal banking transactions. **Table 1.13** presents the trends in monthly average daily cash balances and the investments in Auction Treasury Bills for the last three years (2006-09).

Table-1.13: Trends in Monthly average daily cash balances and the investments in Auction Treasury bills

(Rs in crore)

Month	Monthly average daily cash balances			Investment in 14 days Treasury bills		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
April	0.91	1.74	2.15	102.73	146.84	203.74
May	2.78	2.71	3.61	252.68	215.98	362.00
June	1.47	2.25	2.92	300.45	360.51	361.30
July	0.83	3.41	4.61	204.81	325.49	456.47
August	2.81	4.81	7.46	311.33	463.36	659.08
September	2.17	3.02	7.29	358.17	337.94	624.36
October	1.13	0.81	6.87	255.58	399.71	565.14
November	1.05	1.69	7.39	182.24	212.62	526.45
December	1.50	1.08	3.18	304.91	150.84	650.18
January	…	1.91	2.40	249.64	123.85	401.99
February	…	1.38	5.40	174.50	197.10	410.17
March	3.17	2.72	5.49	339.57	319.45	555.15

State Government has maintained a minimum cash balance of Rs.0.25 crore as per agreement with the Reserve Bank of India during the last three years except in the month of January and February during the year 2006-07 as exhibited in the **Table 1.13.**

1.7 Assets and Liabilities

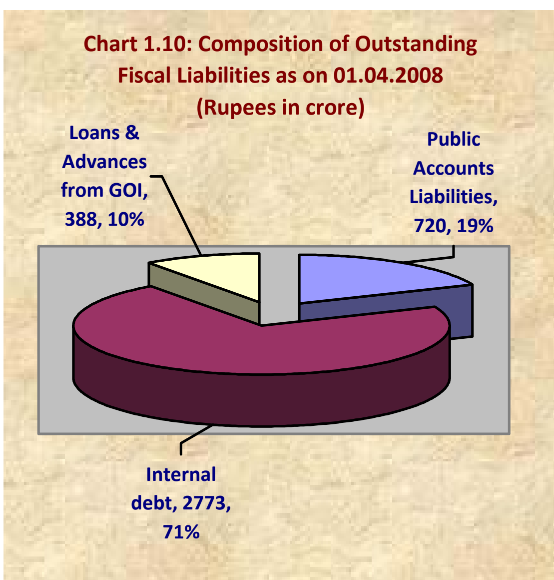
1.7.1 Growth and composition of Assets and Liabilities

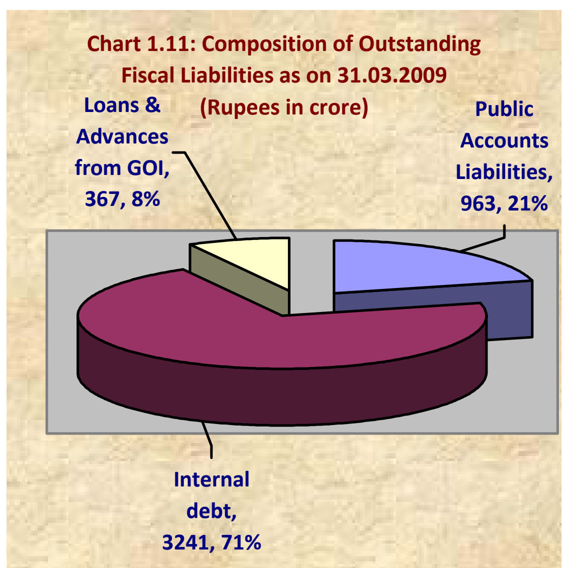
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital expenditure and loans and advances given by the State Government and cash balances.

'Total liabilities' as defined in NFRBM Act, 2005 means the liabilities under the Consolidated Fund of the State and the Public Accounts of the State. Other liabilities, which are a part of the Public Accounts, include deposits under Small Savings scheme, Provident Fund and Other deposits.

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.3.** However the composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Charts 1.10** and **1.11.**





The growth rate of fiscal liability was 17.77 per cent during 2008-09 over previous year. Fiscal Liabilities of the State comprised of Consolidated Fund Liabilities and Public

Account Liabilities. The Consolidated Fund Liability (Rs.3607.33 crore) comprised of market loan (Rs.2437.95 crore), loans from Government of India (Rs 366.84 crore) and other loans (Rs.802.54 crore). The Public Account Liabilities (Rs.963.55 crore) comprise of Small Saving, Provident Fund (Rs.462.45 crore), interest bearing obligations (Rs. Nil) and non-interest bearing obligations like deposits and other earmarked funds (Rs.501.10 crore). *The ratio of fiscal liabilities to GSDP was 61 per cent in 2008-09 and was 10 per cent higher than assessment made by the State Government in its Medium Term Fiscal Policy Statement (MTFPS) for the year 2008-09*. These liabilities stood at 1.30 times of revenue receipts and 13.60 times of the State's own resources at the end of 2008-09.

1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per NFRBM Act 2005, the State Government set up a guarantee redemption fund in 2006-07 and decided to charge guarantee fees at the rate of 1 *per cent* of GSDP to cover the risk in the guarantees. During the year 2008-09 there was a balance of rupees two crore in the guarantee redemption fund investment account.

As per **Statement 6** of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table1.14.**

Table-1.14: Guarantees given by the Government of Nagaland

(Rupees in crore)

Guarantees	2006-07	2007-08	2008-09
Max amount guaranted	7.24	7.24	7.24
Outstanding amount of guarantees	NA	NA	NA
Percentage of maximum amount guaranteed to total revenue receipts	0.26	0.24	0.21
Criteria as per FRBM Act/any other Act or Order of the State	1 *per cent* of GSDP	1 *per cent* of GSDP	1 *per cent* of GSDP

Guarantee for Rs.7.24 crore has been given to four Government Companies up to 31 March 2009 but no information has been received from the Government regarding outstanding amount of guarantees. Hence, it could not be ascertained in audit whether the criteria regarding guarantees has been followed by Government of Nagaland.

1.7.4 Off - Budget Borrowings

The State Government had no off-budget borrowings during the year. However as per the recommendations of the TFC, the State Government has set up a Sinking Fund for amortization of market borrowings as well as other loans and debt obligations during 2008-09. Contribution to the Sinking Fund was Rs.16.17 crore as of March 2009 and the entire amount of the fund was invested.

1.8 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyze various indicators that determine the debt sustainability[7] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization[8]; sufficiency of non-debt receipts[9]; net availability of borrowed funds[10]; burden of interest payments **(**measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.15** analyzes the debt sustainability of the State according to these indicators for the period of three years beginning from 2004-05.

Table 1.15: Debt Sustainability: Indicators and Trends

(Rupees in crore)

Indicators of Debt Sustainability	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Debt Stabilization (Quantum Spread + Primary Deficit)	(-)23.62	(-)58.58	40.14	(-)455.54	(-)307.30
Sufficiency of Non-debt Receipts (Resource Gap)	(-)376	(-)88	150	(-)241	57.00
Net Availability of Borrowed Funds	(-)91.25	(-)41.30	1.47	(-)34.17	19.63
Burden of Interest Payments (IP/RR Ratio) (in *per cent)*	13.57	11.20	10.08	9.03	9.23
Maturity Profile of State Debt (In Years)					
0 – 1	-	-	-	-	293.90(09)
1 – 3	-	-	-	-	317.86(10)
3 – 5	-	-	-	-	476.51(15)
5 – 7	-	-	-	-	296.00(09)
7 and above	-	-	-	-	1870.95(57)
Total					**3255.22**

It would be seen from the above table that the sum of quantum spread and primary deficit remained negative in 2008-09. Though the resource gap of the State was positive

[7] The Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service the debt.

[8] A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

[9] Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

[10] Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

(Rs.57 crore) in 2008-09 against the negative (Rs.241 crore) in 2007-08, the sufficiency of the non-debt receipts was not adequate to cover the interest burden (9.23 *per cent*). These trends revealed that a lot more efforts are required by the State to stabilize the debt and then attain sustainability in ensuing years. Availability of borrowed funds was positive in 2008-09 while it was negative in the previous year.

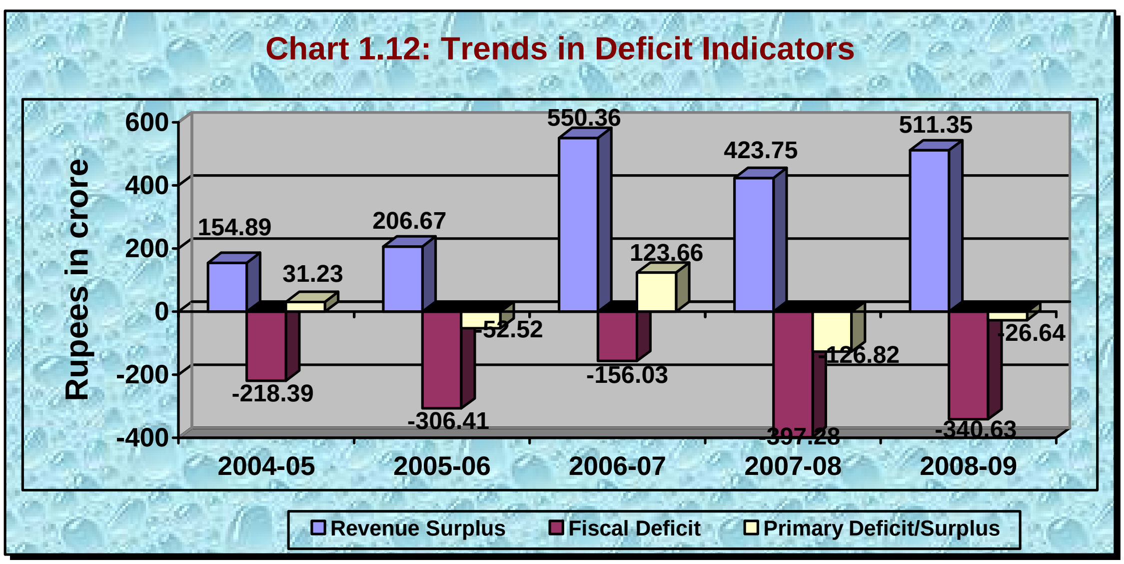
Of the total debt burden of Rs.3255.22 crore, Rs.293.90 crore matured and was paid during 2008-09 and maximum of the rest of the debt burden (Rs.1870.95 crore i.e. 57 *per cent*) would mature during the coming 7 years and above.

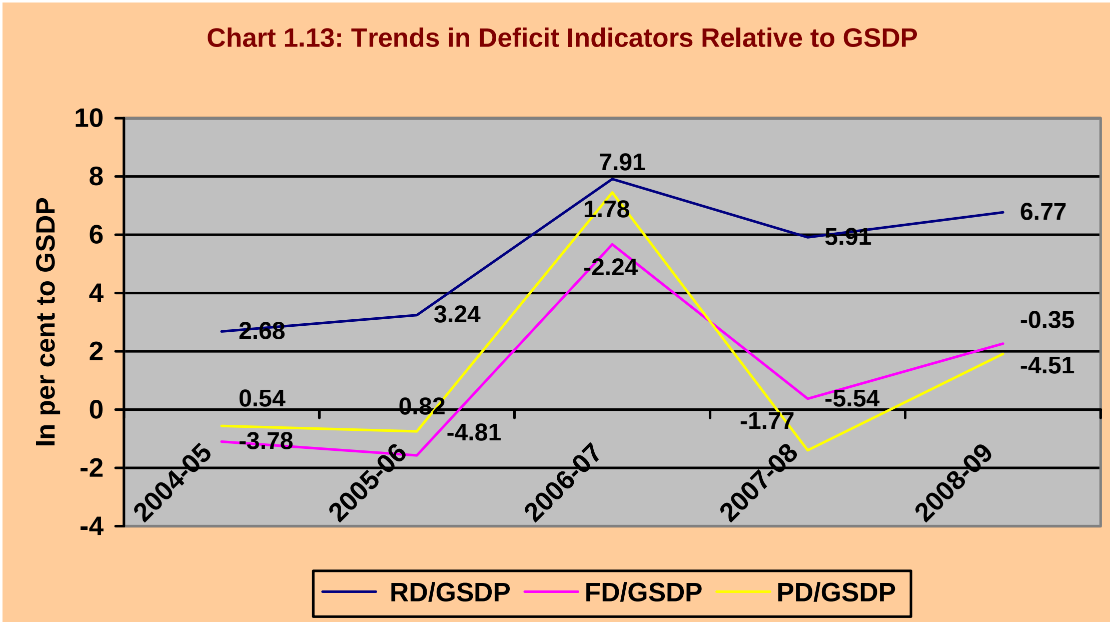
1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2008-09.

1.9.1 Trends in Deficits

Charts 1.12 and **1.13** present the trends in deficit indicators over the period 2004-09.





During the current year, revenue receipts increased by 13.51 *per cent* (Rs.404.87 crore) while revenue expenditure increased by 12.33 *per cent* (Rs.317.27 crore) over the previous year resulting in an increase of Rs.87.60 crore in revenue surplus during 2008-09 over the previous year. Given the increase in revenue surplus along with a marginal decline of Rs.0.49 crore in non-debt capital receipts accompanied by an increase of Rs.30.46 crore in capital expenditure including loans & advances disbursed during 2008-09 over the previous year, the fiscal deficit decreased by Rs.56.65 crore during the current year from the level of Rs.397.28 crore in 2007-08. The fiscal deficit is related to decrease in GSDP from 6 *per cent* in 2007-08 to 5 *per cent* in 2008-09 which was over the target of 3 *per cent* as prescribed in NFRBM Act for 2008-09. A decrease in fiscal deficit together with an increase in interest payment (Rs.43.53 crore) resulted in primary deficit of Rs.26.64 crore against Rs.126.82 crore in 2007-08.

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1. 16.**

Table1.16: Components of Fiscal Deficit and its Financing Pattern

(Rs in crore)

	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit		**(-)218 (**)**	**(-)306 (**)**	**(-)156 (**)**	**(-)397 (**)**	**(-)341 (**)**
1	Revenue Deficit	155 (2.68)	207 (3.25)	550 (7.90)	424 (5.91)	511 (6.77)
2	Net Capital Expenditure	379 (6.56)	518 (8.13)	710 (10.20)	821 (11.45)	853 (11.29)
3	Net Loans and Advances	(-)6 (**)	(-)5 (**)	(-)4 (**)	…	(-)1 (**)
Financing Pattern of Fiscal Deficit*		**220 (3.81)**	**313 (4.91)**	**207 (2.98)**	**231 (3.22)**	**374 (4.95)**
1	Market Borrowings	139 (2.41)	214 (3.36)	250 (3.59)	297 (4.14)	373 (4.94)
2	Loans from GOI	40 (0.69)	(-)14 (**)	(-)17 (**)	(-)15 (**)	(-)22 (**)
3	Special Securities Issued to National Small Savings Fund	11 (0.19)	11 (0.17)	15 (0.22)	…	(-)2 (**)
4	Loans from Financial Institutions	39 (0.67)	97 (1.52)	56 (0.80)	52 (0.73)	96 (1.27)
5	Small Savings, PF etc	11 (0.19)	4 (0.06)	(-)7 (**)	13 (0.18)	30 (0.40)
6	Deposits and Advances	42 (0.73)	(-)46 (**)	92 (1.32)	75 (1.05)	214 (2.83)
7	Suspense and Misc	(-)20 (**)	(-)27 (**)	(-)60 (**)	(-)58 (**)	(-)189 (**)
8	Remittances	(-)46 (**)	(-)32 (**)	(-)78 (**)	(-)42 (**)	(-)126 (**)
9	Others	4 (0.07)	106 (1.66)	(-)44 (**)	(-)91 (**)	…
10	Overall Surplus/Deficit	2 (0.03)	7 (0.11)	51 (0.73)	(-)166 (**)	33 (0.44)

Figures in brackets indicate the per cent to GSDP.
*All these figures are net of disbursements/outflows during the year
** Figure not shown since those are negative.

The fiscal deficit decreased by Rs.56.65 crore over the previous year mainly on account of increase of Rs.87.60 crore in revenue account. During 2008-09 the fiscal deficit of Rs.340.63 crore was mainly met from market borrowings of Rs.373.39 crore.

1.9.2 Quality of Deficit/Surplus

Table 1.17 indicates the extent to which the deficit/surplus has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.17: Primary deficit/surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and Advances	Primary expenditure[11]	Primary revenue surplus	Primary deficit (-) /surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2004-05	1846	1435	379	…	1814	411	32
2005-06	2273	1807	518	…	2325	466	52
2006-07	2777	1942	710	…	2652	835	125
2007-08	2999	2302	821	3	3126	697	(-)127
2008-09	3403	2576	853	1	3430	827	(-)27

The non-debt receipts of the State during 2004-09 were sufficient to meet the primary revenue expenditure. The non-debt receipts increased by 84 *per cent* from Rs.1846 crore in 2004-05 to Rs.3403 crore in 2008-09. The primary revenue expenditure, however, increased by 80 *per cent* from Rs.1435 crore in 2004-05 to Rs.2576 crore in 2008-09. During this period (2004-09) Capital Expenditure grew by 125 *per cent*. The State enjoyed a primary surplus during 2004-07 which however, turned to primary deficit during last two years and was Rs.27 crore in 2008-09.

1.9.3 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of the correction in deficit indicators. **Table 1.18** presents the change in revenue receipts of the State and the correction of the deficit during the last three years.

Table-1.18: Change in revenue receipts and correction of deficit

(Per cent of GSDP)

Parameters	2006-07	2007-08	2008-09	
			BE	Actual
Revenue Receipts (a to d)	39.85	41.79	43.23	45.03
a. State's Own Tax Revenue	1.71	1.83	1.83	2.06
b. State's Own Non- tax Revenue	1.31	1.66	1.60	2.39
c. State's Share in Central Taxes and Duties	4.56	5.58	6.23	5.59
d. Grants-in-Aid	32.27	32.72	33.57	34.99
Revenue Expenditure	31.94	35.88	35.46	38.26
Revenue Deficit/Surplus	7.91	5.91	7.78	6.77
Fiscal Deficit/Surplus	(-)2.24	(-)5.54	(-)3.29	(-)4.51

Table 1.18 shows that the percentage of revenue receipts relative to GSDP increased from 41.79 *per cent* in 2007-08 to 45.03 *per cent* in 2008-09 which was higher than the budget estimates. The percentage of revenue expenditure relative to GSDP (38.26) was higher than the budget estimates (35.46) during the current year. As a result, the percentage of revenue surplus (6.77) was lower than the budget estimate (7.78). The percentage of fiscal deficit decreased from 5.54 in 2007-08 to 4.51 in 2008-09.

[11] Primary expenditure of the State, defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

1.10 Conclusion /Recommendation

The fiscal position of the State viewed in terms of the key fiscal parameters indicates improvement during 2008-09 relative to the previous year. The State had maintained a revenue surplus of Rs.87.60 crore while the fiscal deficit decreased by Rs.56.65 crore and primary deficit also decreased by Rs.100.18 crore in 2008-09 relative to the previous year.

During 2008-09, 90 *per cent* of the total revenue came from the Government of India as Central transfers (12 *per cent*) and grants-in-aid (78 *per cent*) while the Own Tax Revenue (OTR) of the State constituted 5 *per cent* of total revenue receipts and remained far below the normative assessment made by the twelfth Finance Commission (TFC) for the State for 2008-09. The non-tax revenue (NTR) also constituted 5 *per cent* of the revenue receipts which was higher than both the TFC projection and State's own projection made in the budget estimates for the year 2008-09

During 2008-09, the revenue expenditure stood at Rs. 2889.54 crore (77.18 *per cent* of the total expenditure) which grew by Rs. 317.27 crore over the previous year while the expenditure incurred under capital head was Rs. 853.09 crore (22.78 *per cent* of the total expenditure) which grew by Rs 31.61 crore over the previous year.

During 2008-09 the developmental expenditure (Rs. 2246.10 crore) increased by Rs.180.89 crore over the previous year, which was above the budget estimates (Rs.2037.01 crore) for 2008-09. The relative share of revenue developmental expenditure was 41.15 *per cent* of the total expenditure while this share in respect of capital developmental expenditure was only 18.80 *per cent*. The expenditure pattern of the State thus revealed that there is an increasing pressure on revenue expenditure than on capital expenditure.

During 2008-09, there was an increase in revenue surplus by Rs.87.60 crore and yet the fiscal deficit decreased by Rs.56.65 crore over the previous year mainly due to increase in revenue receipts. The State, however, could not manage to attain the fiscal deficit target of 3 *per cent* of GSDP (actual 4.51 *per cent*) as prescribed in the NFRBM Act, 2005 for the year 2008-09.

The State had attached low fiscal priority towards developmental expenditure, as the developmental expenditure/aggregate expenditure ratio was lower than the national average in 2008-09. Since the population of Nagaland is low, the per capita expenditure in DE, SSE and CE was higher than the national average but if the DE/AE ratio had been as high as the national average for Nagaland, the per capita expenditure would have been much higher.

The percentage of outstanding liabilities to GSDP during 2008-09 was higher by 10 *per* *cent* than the projection (51 *per cent*) made in the Medium Term Fiscal Policy Statement (MTFPS).

The expenditure on salaries and wages increased by 9.28 *per cent* (from Rs.1143.25 crore in 2007-08 to Rs.1249.39 crore in 2008-09) against the TFC norms of growth rate of 6 *per cent.* According to recommendation of the TFC, the State should follow a recruitment and wages policy, in a manner such that the total salary bill relative to revenue expenditure net of interest payments and pensions does not exceed 35 *per cent.* This norm was not followed in the State and the salary and wages expenditure stood at 53.24 *per cent* during 2008-09. Interest receipts, as percentage of outstanding loans and advances was 4.22 against interest paid by the Government as percentage of outstanding liabilities at 11.50 during 2008-09.

Investment of the Government money in the Government companies and statutory corporations are increasing year after year, but no return from this investment has been received by the Government during 2008-09.

Greater priority to capital expenditure: There is an urgent need to prioritise spending under capital heads and contain revenue expenditure. An internal control mechanism should be put in place to watch if the Government money is expended prudently so that value for money is channelized in its entirety to the beneficiaries.

Enhancing fiscal priority: From the point of view of improving developmental expenditure, it is important for the Government of Nagaland to take appropriate expenditure measures and lay emphasis on provision of expending more under social and economic sectors. The increase in the ratio of developmental expenditure to aggregate expenditure indicates fiscal priority of the State which in turn improves its fiscal health.

Review of Government investments: A performance-based system of accountability should be put in place in the Government Companies/Statutory Corporations so as to derive profitability and improve efficiency in service. The 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 if high cost borrowings are worth to be channelised in those Companies/Corporations.

Oversight of funds transferred directly from the GOI to the State implementing agencies: As long as these funds remain outside the State budget, there is no single agency monitoring its use and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by State implementing agencies but are funded directly by the GOI. A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Accountant General (Accounts & Entitlement).