

Chapter I

Finances of the State Government

Profile of Nagaland

Nagaland was formed on 1 December 1963 as a Special Category State and is situated in the North-Eastern region of India bordering three States viz. Assam in North and West, Arunachal Pradesh in East and Manipur in the South. It has an international border with Myanmar in the East and runs parallel to the bank of Brahmaputra. With a geographical area of 16579 sq. kms i.e. about 0.51 *per cent* of country's total geographical area, Nagaland provides shelter to 0.19 *per cent* population of the country. Nagaland has a lower density of population, higher proportion of rural population, higher literacy rate and lower infant mortality rate as compared to the All India Average figures (**Appendix 1.1 D**). The compound annual growth rate of GSDP in respect of Nagaland for the period 2001-02 to 2010-11 was 12.05 *per cent*.

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (**Appendix 1.1 A**). The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts.

This chapter provides a broad perspective of the finances of the Government of Nagaland during the current year (2010-11) 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. The layout of the Finance Accounts is depicted in **Appendix 1.1 B**, **Appendix 1.1 C** of the chapter briefly outlines the methodology and selected terms 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 2006-11.

A summary of the FRBM Act, 2005 and FRBM (Amendment) Act, 2011 of the State is given in **Appendix 1.2 B**.

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 (2010-11) vis-à-vis the previous year while **Appendix 1.4 A** provides details of receipts and disbursements as well as overall fiscal position during the same period.

Table 1.1 Summary of Current Year's Fiscal Operations

(Rupees in crore)

2009-10	Receipts	2010-11	2009-10	Disbursements	2010-11		
Section-A: Revenue				Non Plan	Plan	Total	
3719.76	Revenue receipts ¹	4999.99	3252.44	Revenue expenditure ²	3304.39	883.45	4187.84
180.51	Tax revenue	227.32	1583.98	General services	1835.73	7.44	1843.17
126.35	Non-tax revenue	183.14	773.60	Social services	810.66	315.06	1125.72
434.03	Share of Union Taxes/ Duties	689.46	894.86	Economic services	658.00	560.95	1218.95
2978.87	Grants from Government of India	3900.07	0.00	Grants-in-aid and Contributions	0.00	0.00	0.00
Section-B: Capital							
0.00	Misc. Capital Receipts	0.00	989.53	Capital Outlay	0.01	1122.93	1122.94
4.20	Recoveries of Loans and Advances	2.31	3.55	Loans and Advances disbursed	0.09	4.03	4.12
805.25	Public Debt receipts	463.35	274.60	Repayment of Public Debt			261.16
0.00	Contingency Fund	0.00	0.00	Contingency Fund			0.00
2373.46	Public Account receipts	2267.53	2374.50	Public Account disbursements			2159.59
94.50	Opening Cash Balance	102.55	102.55	Closing Cash Balance	...	...	100.08
6997.17	Total	7835.73	6997.17	Total			7835.73

The following are the significant changes during 2010-11 over the previous year:

- Revenue receipts increased by ₹ 1280.23 crore (34.42 per cent) from ₹ 3719.76 crore in 2009-10 to ₹ 4999.99 crore in 2010-11 due to increase in grants from Government of India (GOI) (₹ 921.20 crore), State's Own Tax revenue (₹ 46.81 crore), State's Non-Tax revenue (₹ 56.79 crore) and State's share of Union taxes and duties (₹ 255.43 crore). The revenue receipts at ₹ 4999.99 crore was however, lower than the assessment made by the State Government in its Fiscal Consolidation Roadmap (FCR) (₹ 5162.08 crore) for the year 2010-11 by ₹ 162.09 crore.
- Revenue expenditure of the State, on the other hand increased by ₹ 935.40 crore (28.76 per cent) from ₹ 3252.44 crore in 2009-10 to ₹ 4187.84 crore in 2010-11, mainly under the heads Administrative Services (₹ 153.93 crore), Interest payment and Servicing of Debt (₹ 35.61 crore), Pension and Miscellaneous General Services (₹ 57.08 crore), Education, Sports and Art & Culture (₹ 198.40 crore), Health and Family Welfare (₹ 43.88 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 22.75 crore), Social Welfare & Nutrition (₹ 74.06 crore), Agriculture and Allied Activities (₹ 60.30 crore), Rural

¹ Revenue receipts and Non-tax revenue are inclusive of gross receipt (₹ 12.41 crore) from State Lotteries.

² Revenue expenditure and General Services (Non-Plan) are inclusive of expenditure (₹ 1.53 crore) on State Lotteries

Development (₹ 35.83 crore), Special Areas Programme (₹ 20.75 crore), Irrigation & Flood Control (₹ 42.28 crore), Energy (₹ 52.91 crore) and General Economic Services (₹ 90.73 crore). The revenue expenditure (₹ 4187.84 crore) was lower than the assessment made by the State Government in its FCR (₹ 4329.39 crore) for the year 2010-11 by ₹ 141.55 crore.

- Capital Expenditure increased by ₹ 133.41 crore (13.48 *per cent*) from ₹ 989.53 crore in 2009-10 to ₹ 1122.94 crore in 2010-11, mainly under the head General Service (₹ 23.60 crore), Education, Sports, Art & Culture (₹ 36.34 crore), Health & Family Welfare (₹ 20.02 crore), Agriculture & Allied Activities (₹ 17.33 crore), Transport (₹ 66.47 crore) and General Economic Services (₹ 21.49 crore) offset by decrease in Water Supply, Sanitation, Housing & Urban Development (₹ 50.69 crore) and Energy (₹ 8.96 crore).
- Recoveries of Loans and Advances decreased by ₹ 1.89 crore and disbursement increased by ₹ 0.57 crore in 2010-11 over the previous year.
- Public debt receipts³ decreased by ₹ 341.90 crore and repayment also decreased by ₹ 13.44 crore during 2010-11 over the previous year.
- Public Account Receipts decreased by ₹ 105.93 crore and disbursement also decreased by ₹ 214.91 crore during 2010-11 over the previous year.

The total inflow increased by ₹ 830.51 crore (12.03 *per cent*) from ₹ 6902.67 crore in 2009-10 to ₹ 7733.18 crore in 2010-11. The total outflow also increased by ₹ 841.03 crore (12.20 *per cent*) from ₹ 6894.62 crore in 2009-10 to ₹ 7735.65 crore in 2010-11. The cash balance of the State at the end of 2010-11 decreased by ₹ 2.47 crore (2.41 *per cent*) from ₹ 102.55 crore in 2009-10 to ₹ 100.08 crore in 2010-11.

1.2 Nagaland Fiscal Responsibility and Budget Management Act, 2005 and Thirteenth Finance Commission Recommendations

With the enactment of a Fiscal Responsibility and Budget Management Act (FRBM) Act, 2005 at the centre, Twelfth Finance Commission (TFC) recommended that each State enact a fiscal responsibility legislation prescribing specific annual targets with a view to eliminate the revenue deficit by 2008-09 and reduce fiscal deficit based on a path for reduction of borrowings and guarantees. The targets prescribed in NFRBM Act and projections made by State Government in its Medium Term Fiscal Policy Statement (MTFPS) vis-à-vis achievements during the year 2010-11 is detailed in the table below:

³ Public Debt Receipts includes market loans, special securities issued by RBI and loans and advances from GOI.

Table 1.2: Trends in major Fiscal Variables vis-à-vis Projections for 2010-11

Fiscal Parameters	Targets as prescribed in NFRBM Act.	Projections made by State Government in MTFPS*	Actual
Revenue deficit	Strive to remain revenue surplus by building up further surplus	No revenue deficit	Revenue surplus - 16.25 per cent of RR
Fiscal deficit	4 per cent of GSDP	3.87 per cent of GSDP	2.64 per cent of GSDP
Consolidated debt	40 per cent of GSDP	62.80 per cent of GSDP	48.83 per cent of GSDP

* Medium Term Fiscal Policy Statement.

It can be seen from the above table that the State Government was able to achieve two out of the three targets set in NFRBM Act but could not achieve the Consolidated debt of 40 per cent of GSDP (actual being 48.83 per cent of GSDP). However, the State Government could achieve the projections made in the MTFPS.

1.2.1 The Thirteenth Finance Commission Recommendations

The Thirteenth Finance Commission had recommended growth of Tax and Non-Tax Revenue during 2010-11. The targets fixed by XIII-FC vis-à-vis the actuals are given below:

Table 1.3: XIII-FC recommendations vis-à-vis the actuals

(Rupees in crore)

Year	XIII-FC recommendations			Actual		
	Tax revenue	Non-Tax revenue	Total	Tax revenue	Non-Tax revenue	Total
2010-11	203.78	31.56	235.34	227.32	181.61	408.93

(Source: Thirteenth Finance Commission Report and Finance Account)

The State achieved the target fixed by the XIII-FC in collection of revenue from own sources under Tax Revenue as well as Non-tax Revenue. The total tax collection was exceeded by ₹ 173.59 crore (73.76 per cent) as compared to XIII-FC recommendation.

The tax and non-tax revenue receipts vis-à-vis the normative assessment made by the Thirteenth Finance Commission and the assessment made by the State Government in 2010-11 were as under:

Table 1.4: Revenue receipts relative to XIII-FC and State's projections for 2010-11

(Rupees in crore)

	Assessment by the XIII-FC	Assessment made by the State Government in its FCR	Actual Receipts
Own Tax Revenue	203.78	204.30	227.32
Non-Tax Revenue	31.56	154.29	181.61

FCR: Fiscal Consolidation Roadmap

Though the assessment of Tax Revenue and Non-tax Revenue of the State in 2010-11 made by the State Government in its Fiscal Consolidation Roadmap (FCR) was less than the assessment made by XIII-FC, the actual achievement of OTR and NTR remained at 11.55 per cent and 475.44 per cent respectively higher than the assessment made by the

XIII-FC and 11.27 per cent and 17.71 per cent respectively higher than the assessment made by the State Government in its FCR during 2010-11.

The Thirteenth Finance Commission has also fixed the sector-wise target for non-plan revenue expenditure for the period 2010-15. The targets fixed by XIII FC vis-à-vis the actuals are given below:

Table 1.5: XIII-FC recommendations vis-à-vis actuals during 2010-11
(Non-plan Revenue Expenditure)

Sector	(Rupees in crore)	
	Recommendations of XIII-FC	Actuals
Salary	1440.05	1996.85
Interest Payment	334.97	394.33
Pension	392.95	335.97
Other General Service	225.68	316.73
Other Social Service	47.73	47.21
Other Economic Service	32.74	211.77
Total	2474.12	3302.86

(Source: Thirteenth Finance Commission Report and Finance Account)

The table indicates that the State failed to contain its non-plan revenue expenditure to the level recommended by the XIII-FC. During 2010-11 non-plan revenue expenditure was 33.50 per cent (₹ 828.74 crore) more than the XIII-FC recommendation.

1.3 Budget Analysis

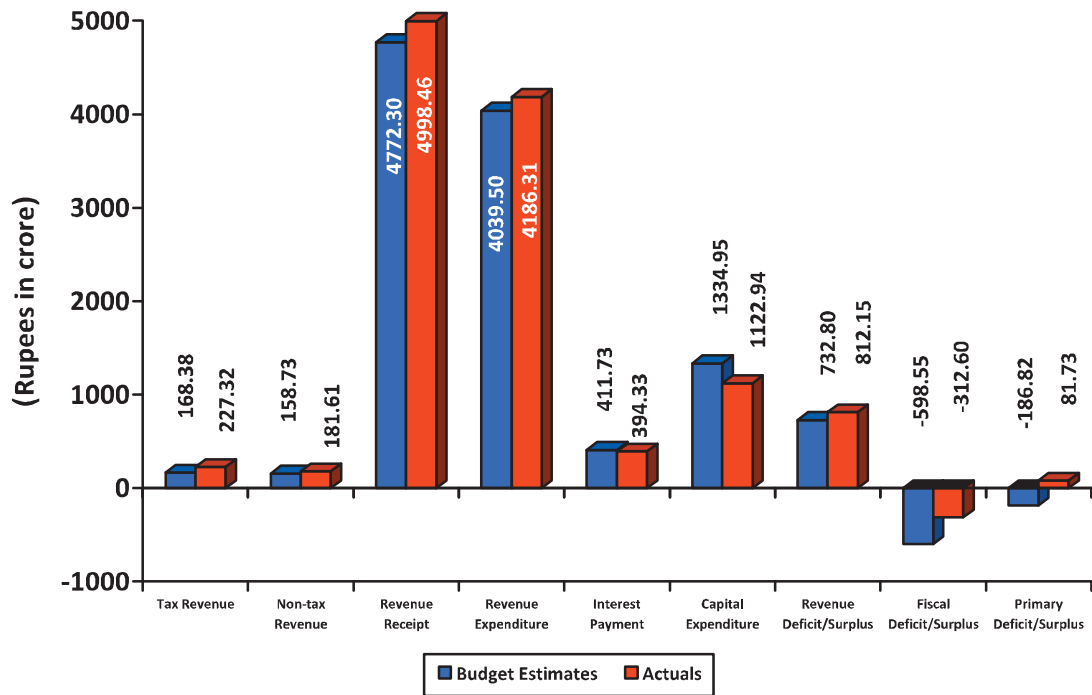
The budget papers presented by State Government provide description of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Several reasons may account for the deviation of the actual realisation/expenditure from the budget estimates. It may be because of unanticipated and unforeseen events or under or over estimation of expenditure or revenue at the budget stage etc. Actual realisation of revenue and its disbursement however, depends on a variety of factors, some internal and others external. **Table 1.6** presents the consolidated picture of State Finances during 2009-10 Actuals, 2010-11 Budget Estimates (BEs), 2010-11 Revised Estimates (REs) and 2010-11 Actuals.

Table 1.6: Variation in Actual Fiscal parameters over estimates

(Rupees in crore)

Parameters	2009-10	2010-11		
	Actuals	Budget Estimates	Revised Estimates	Actuals
Tax Revenue	180.51	168.38	214.77	227.32
Non-Tax Revenue	125.07	158.73	154.29	181.61
Revenue Receipt	3718.48	4772.30	5290.82	4998.46
Non-debt Capital Receipt	4.20	4.00	4.00	2.31
Revenue Expenditure	3251.16	4039.50	4381.47	4186.31
Interest Payment	362.51	411.73	404.86	394.33
Capital Expenditure	989.53	1334.95	1221.03	1122.94
Disbursement of Loans & Advances	3.55	0.40	6.28	4.12
Revenue Deficit/Surplus	467.32	732.80	909.35	812.15
Fiscal deficit/Surplus	-521.56	-598.55	-313.96	-312.60
Primary Deficit/surplus	-159.05	-186.82	90.90	81.73

Chart 1.1: Selected fiscal Parameters: Estimates vis-a-vis Actual during 2010-11



- During 2010-11, the actual revenue receipts was more than the budget estimates by ₹ 226.16 crore (4.74 per cent) while actual revenue expenditure was higher by ₹ 146.81 crore (3.63 per cent) over budget estimates resulting in attaining a higher revenue surplus of ₹ 79.35 crore as compared to the projections made in the budget estimates.
- During the current year the tax revenue of the State increased by ₹ 46.81 crore (25.93 per cent) over the previous year. The actual collection of tax revenue during the year also increased by ₹ 58.94 crore (35 per cent) over the budget estimate for the year mainly due to higher collection of Sales Tax Trade etc. (₹ 42.33 crore), Taxes on vehicle (₹ 8.80 crore) and Tax on goods and passengers (₹ 4.08 crore). The revenue from Sales Tax, Trade etc. contributed the major share of Tax Revenue (73.56 per cent) during the current year and it increased by 26.47 per cent over the previous year.
- The increase in Non-Tax Revenue (₹ 22.88 crore) as compared to the budget estimates for 2010-11 was due to increase in receipts mainly under Police (₹ 31.13 crore), Interest receipt (₹ 9.85 crore), Education, Sports, Arts & Culture (₹ 8.41 crore) offset by decrease in Power (₹ 33.36 crore).
- The increase in Revenue Expenditure by ₹ 146.81 crore (3.63 per cent) over the budget provision was due to increase in Social Services by ₹ 115.19 crore (78.46 per cent) and Economic Services by ₹ 64.28 crore (43.79 per cent) offset by decrease in General Services ₹ 32.66 crore (22.25 per cent).
- During the year 2010-11, the actual Capital expenditure was less than the budget provision by ₹ 212.01 crore (15.88 per cent) which is attributable to decrease in General Services (₹ 217.79 crore) and Social Services (₹ 116.27 crore) offset by increase in Economic Services (₹ 122.05 crore).
- Actual fiscal deficit was less than the assessment made in the budget estimates by ₹ 285.95 crore (47.77 per cent) mainly due to decrease in Capital Expenditure. The primary deficit as compared with the previous year improved from minus ₹ 159.05 crore in 2009-10 to primary surplus of ₹ 81.73 crore in 2010-11.

1.4 Resources of the State

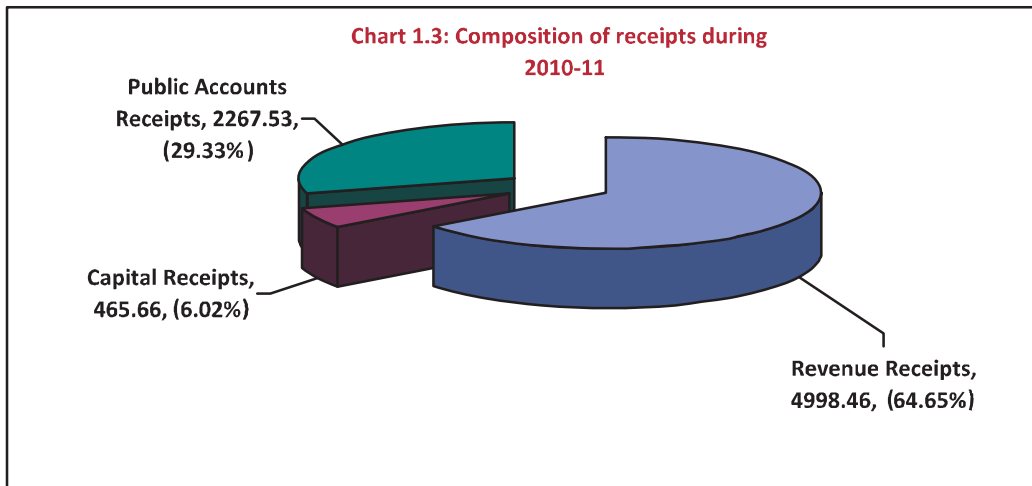
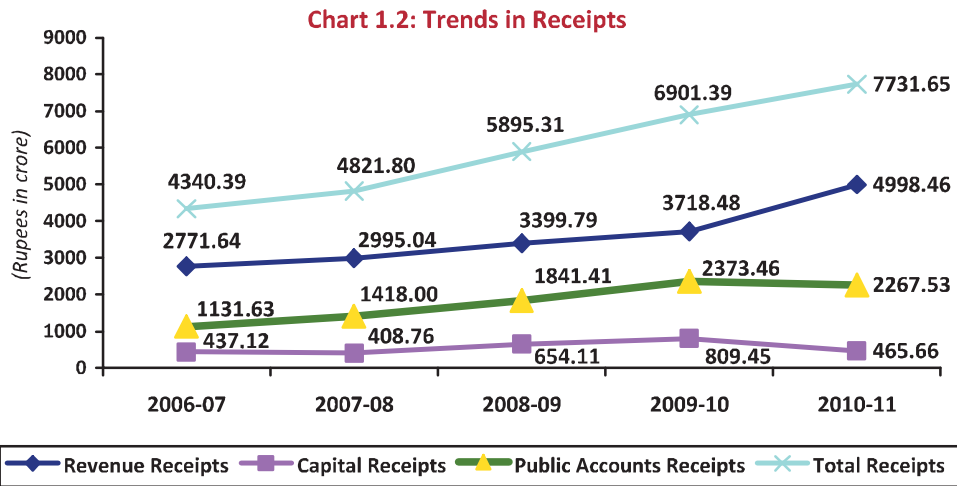
1.4.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenue, non-tax revenue, 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 last two years as recorded in its Annual Finance Accounts while **Chart 1.2⁴** depicts the trends in various components of the receipts of the State during 2006-11. **Chart 1.3⁴** depicts the composition of resources of the State during the current year.



⁴ Revenue receipts is net of receipts and expenditure under State Lottery.

Table 1.7: Trends in growth and composition of receipts*(Rupees in crore)*

	Sources of State receipts	2006-07	2007-08	2008-09	2009-10	2010-11
I	Revenue receipts	2771.64	2995.04	3399.79	3718.48	4998.46
II	Capital Receipts (CR)	437.12	408.76	654.11	809.45	465.66
	Miscellaneous Capital Receipts	-	-	-	-	-
	Recovery of Loans and Advances	4.33	3.06	2.57	4.20	2.31
	Public Debt Receipts	432.79	405.70	651.54	805.25	463.35
	Rate of growth of non-debt CR	(-)19.81	(-)29.33	(-)16.01	63.42	(-)45.00
	Rate of growth of debt CR	(-)30.96	(-)6.26	60.60	23.59	(-)42.46
	Rate of growth of GSDP	10.15	11.27	12.28	14.02	14.37
	Rate of growth of CR	(-)30.87	(-)6.49	60.02	23.75	(-)42.47
	Debt Capital buoyancy w.r.t GSDP	(-)3.05	(-)0.36	4.93	1.68	(-)2.95
	Non Debt Capital Buoyancy w.r.t GSDP	(-)1.95	(-)2.60	(-)1.30	4.52	(-)3.13
III	Contingency Fund	-	-	-	-	-
IV	Public Account Receipts	1131.63	1418.00	1841.41	2373.46	2267.53
	Small Savings, Provident Fund etc	95.22	135.42	122.44	149.54	191.57
	Reserve Fund	5.64	6.85	5.37	26.49	36.96
	Deposits and Advances	127.55	209.02	134.09	786.40	545.72
	Suspense and Miscellaneous	39.73	51.07	27.29	52.94	21.17
	Remittances	863.49	1015.64	1057.59	1358.09	1472.11
	Total Receipts	4340.39	4821.80	5895.31	6901.39	7731.65

Chart 1.3 shows that the total receipts of the State Government for the year 2010-11 was ₹ 7731.65 crore out of which, the revenue receipts was ₹ 4998.46 crore constituting 64.65 *per cent* of the total receipts. The balance came from capital receipts and public account receipts.

The revenue receipts of the State increased from ₹ 2771.64 crore in 2006-07 to ₹ 4998.46 crore in 2010-11 at a compound annual growth rate of 12.52 *per cent*. The buoyancy of Revenue receipts w.r.t GSDP during the year was 2.40 *per cent*.

The capital receipts (including Public Account receipts) constituted 35.35 *per cent* of the total receipts of the State during the year 2010-11, an increase of 74.23 *per cent* from ₹ 1568.75 crore in 2006-07 to ₹ 2733.19 crore in 2010-11.

Public Account receipts decreased by ₹ 105.93 crore (4.46 *per cent*) in 2010-11 over the previous year due to decrease in Deposit and Advances (₹ 240.68 crore) and Suspense and Miscellaneous (₹ 31.77 crore) offset by increase in Remittances (₹ 114.02 crore), Reserve Fund (₹ 10.47 crore) and Provident Fund (₹ 42.03 crore).

1.4.2 Funds Transferred to State Implementing Agencies Outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies⁵ for the implementation of various schemes/programmes in social and economic sectors recognised 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 picture on availability of aggregate resources, funds directly transferred to State Implementing Agencies are detailed in **Appendix 1.5**. An approximate amount of ₹ 1033.62 crore was directly transferred during the year. Significant amounts released for major programmes/schemes are presented in **Table 1.8**.

Table-1.8: Funds Transferred Directly to State Implementing Agencies

(Rupees in crore)

Name of the Programme/Scheme	Name of the Implementing Agency in the State	Total funds released by the GOI during 2010-11
Mahatma Gandhi National Rural Employment Guarantee Programme	Project Directors, DRDA, 11 Districts	511.59
Sarva Shiksha Abhiyan (SSA)	SSA State Mission Authority	86.37
National Rural Drinking Water Programme	SWSM	77.53
National Rural Health Mission (NRHM)	State Health Society	77.21
Rural Housing (Indira Awas Yojana)	Project Directors, DRDA, 11 Districts	44.54
Product/Infrastructure Development for Destination Circuits	Nagaland Tourism Board	31.17
Integrated Watershed Management Programme	State Level Nodal Agency	28.01
Total		856.42

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

An amount of ₹ 1033.62 crore was directly transferred by GOI to the State Implementing Agencies during 2010-11 an increase of ₹ 76.29 crore (7.97 per cent) from the previous year. Out of a total amount of ₹ 1033.62 crore directly transferred to implementing agencies during the year, ₹ 856.42 crore (82.86 per cent) was transferred to seven Central Schemes viz. Mahatma Gandhi National Rural Employment Guarantee Programme, ₹ 511.59 crores (49.49 per cent), Sarva Shiksha Abhiyan (SSA) ₹ 86.37 crore (8.36 per cent), National Rural Drinking Water Programme ₹ 77.53 crore (7.50 per cent), National Rural Health Mission (NRHM) ₹ 77.21 crores (7.47 per cent), Rural Housing (Indira Awas Yojana) ₹ 44.54 crore (4.31 per cent), Product/Infrastructure Development for Destination Circuits ₹ 31.17 crore (3.02 per cent) and Integrated Watershed Management Programme ₹ 28.01 crore (2.71 per cent).

⁵ State Implementing Agency includes any Organization/Institution including Non-Governmental Organization which is authorised 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.

With the transfer of an approximate amount of ₹ 1033.62 crore directly by GOI to the State Implementing Agencies, the total availability of State resources during 2010-11 had increased from ₹ 7733.18 crore to ₹ 8766.80 crore.

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.

1.5 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 2006-11 are presented in **Appendix 1.3** and depicted in **Charts 1.4** and **1.5** respectively.

Chart 1.4: Trends in Revenue Receipts

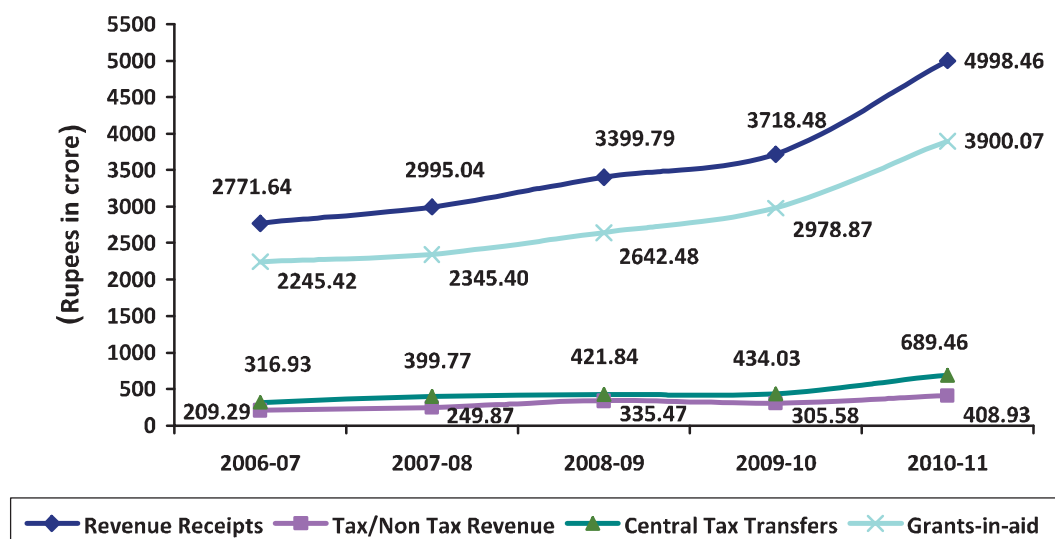
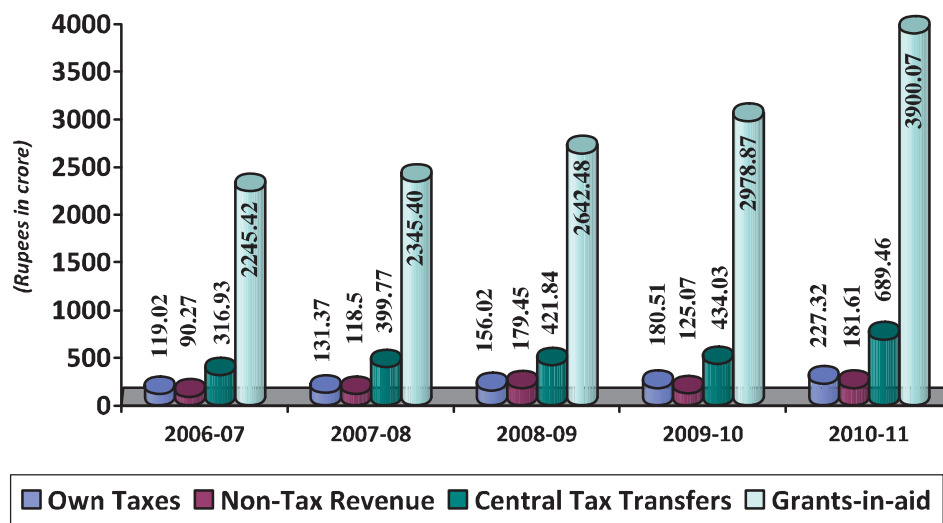


Chart 1.5: Composition of Revenue Receipts during 2006-11



The revenue receipts have shown a progressive increase with inter-year variations and changes in its composition i.e. the share of own taxes, non-tax revenue and Central transfers during the period 2006-11.

Tax and non-tax revenue receipt together increased from ₹ 209.29 crore in 2006-07 to ₹ 408.93 crore in 2010-11 at a compound annual growth rate of 14.34 per cent.

The Revenue Receipts of the State increased from ₹ 2771.64 crore in 2006-07 to ₹ 4998.46 crore in 2010-11 at a compound annual growth rate of 12.52 per cent. While 8.18 per cent of the revenue receipts during 2010-11 have come from the State's Own Resources comprising taxes and non-taxes, Central Tax Transfers and Grants-in-aid together contributed 91.82 per cent. The percentage share of State's Own Resources and the Central Transfers in Revenue receipts of the State exhibited relative stability during the last five years (2006-11).

Central tax transfers to the State increased by ₹ 255.43 crore (58.85 per cent) from ₹ 434.03 crore in 2009-10 to ₹ 689.46 crore in 2010-11. This was due to increase in Corporation Tax (₹ 90.91 crore), Tax on Income other than Corporation Tax (₹ 42.93 crore), Tax on Wealth (₹ 0.15 crore), Service Tax (₹ 22.80 crore), Customs (₹ 53.07 crore) and Union Excise Duties (₹ 45.57 crore).

The trends in revenue receipts relative to GSDP are presented in **Table 1.9** below:

Table 1.9: Trends in Revenue Receipts relative to GSDP

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Receipts (RR) (Rupees in crore)	2771.64	2995.04	3399.79	3718.48	4998.46
Rate of growth of RR (<i>per cent</i>)	22.29	8.06	13.51	9.37	34.42
R R/GSDP (<i>per cent</i>)	38.19	37.09	37.50	35.79	42.28
Buoyancy Ratios					
Revenue receipts Buoyancy w.r.t GSDP	2.20	0.72	1.10	0.67	2.40
State's Own Tax Buoyancy w.r.t GSDP	1.26	0.92	1.53	1.12	1.80
Gross State Domestic Product (Rupees in crore)	7257.09	8075.27	9066.59	10337.83	11823.45
Rate of growth of GSDP	10.15	11.27	12.28	14.02	14.37

The growth rate of Revenue Receipts was more than twice that of GSDP growth rate during the current year. The growth rate of Revenue Receipts was however, less than the growth rate of GSDP in 2007-08 and 2009-10. The State's own tax buoyancy with respect to GSDP was 1.26 in 2007-08 which increased to 1.80 in 2010-11.

The break-up of Grants-in-aid received from GOI during 2006-11 is given in the table below:

Table 1.10. : Grants-in-aid from Government of India

(Rupees in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Grants for State Plan Scheme	896.86	818.62	1003.27	1041.00	936.32
Non-Plan Grants	1072.10	1246.03	1316.76	1460.86	2658.28
Grants for Central Plan Schemes, Centrally Sponsored Plan Schemes and Special Plan Schemes	276.46	280.75	322.45	477.01	305.47
Total	2245.42	2345.40	2642.48	2978.87	3900.07
Percentage of increase/decrease over previous year	23.62	4.45	12.67	12.73	30.92

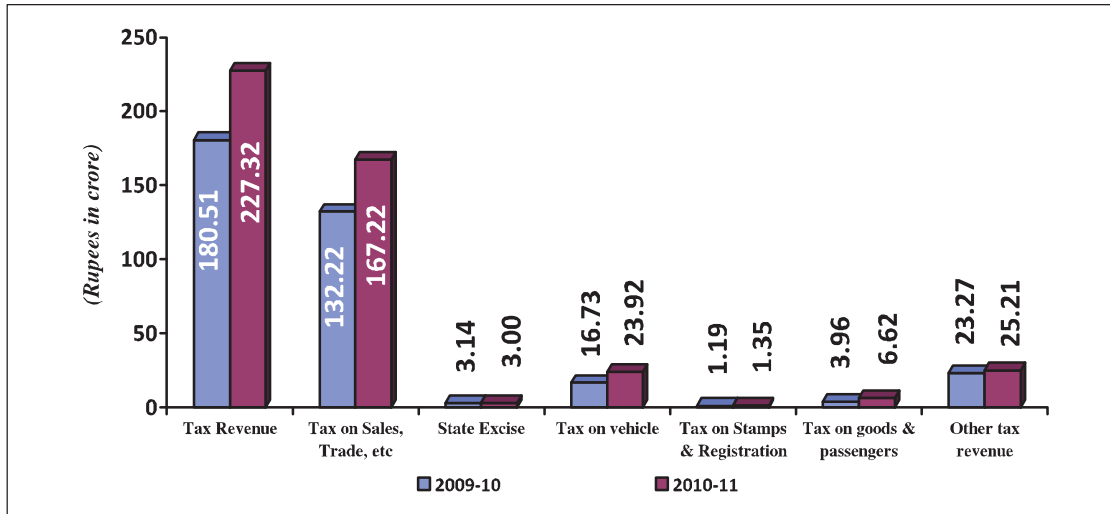
Grants-in-aid from Government of India have increased by ₹ 921.20 crore (30.92 *per cent*) from ₹ 2978.87 crore in 2009-10 to ₹ 3900.07 crore in 2010-11 contributing 78 *per cent* of the total Revenue Receipts during 2010-11. This increase was due to enhanced grants for non-plan grants (₹ 1197.42 crore) offset by decrease in Grants for State Plan Schemes (₹ 104.68 crore), Grants for Central Plan Scheme (₹ 135.85 crore), Centrally Sponsored Plan Schemes (₹ 26.57 crore) and Grants for Special Plan Schemes (₹ 9.12 crore).

1.5.1 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. **Appendix 1.3** presents 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 2006-07 to 2010-11. **Appendix 1.6 A & B** also presents the component-wise tax and non-tax revenue for the years 2006-11.

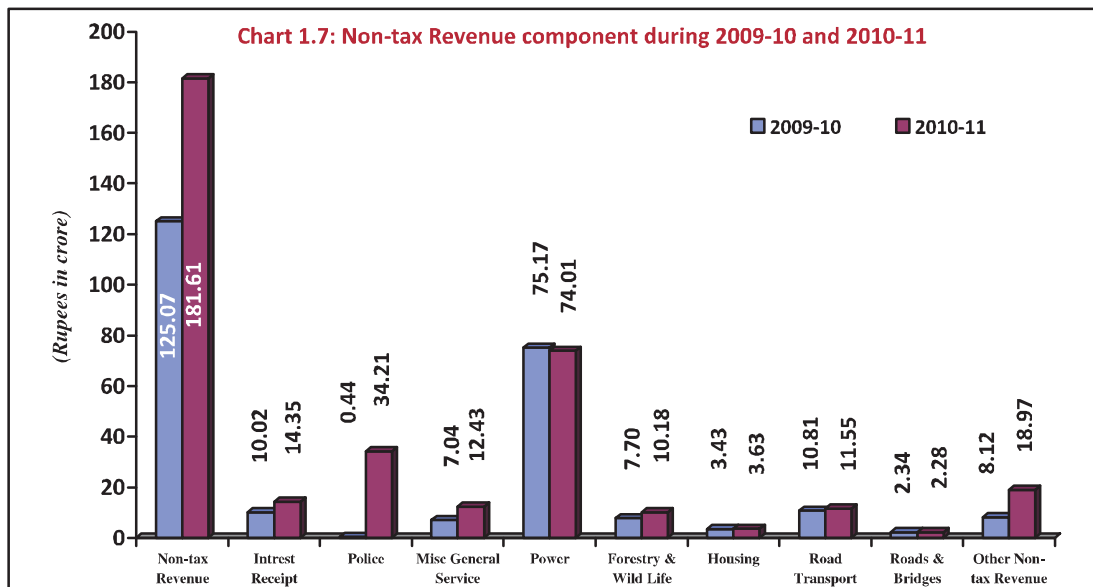
Tax Revenue

Chart 1.6 : Tax Revenue component during 2009-10 and 2010-11 (Rupees in crore)



The tax revenue increased by ₹ 46.81 crore (25.93 per cent) from ₹ 180.51 crore in 2009-10 to ₹ 227.32 crore in 2010-11. The major contribution to the State's tax revenue during the year were sales tax (₹ 167.22 crore), Taxes on Vehicles (₹ 23.92 crore) and Tax on Goods and Passengers (₹ 6.62 crore).

The increase in sales tax revenue by ₹ 35.00 crore from ₹132.22 crore in 2009-10 to ₹ 167.22 crore in 2010-11 was mainly on account of contribution of VAT representing around 74.77 per cent of incremental tax revenue of the State during the year.



The major contributors in the non-tax revenue during the year included Power (₹ 74.01

crore), Road Transport (₹ 11.55 crore), Miscellaneous General Services (₹12.43 crore), Forestry and Wildlife (₹ 10.18 crore), Housing (₹ 3.63 crore) and Roads and Bridges (₹ 2.28 crore). Increase in Non Tax Revenue (NTR) in 2010-11 (₹ 56.54 crore) over the previous year was mainly on account of Police (₹ 33.77 crore), Miscellaneous General Services (₹ 5.39 crore) and Interest Receipts (₹ 4.33 crore).

1.5.2 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the last three years (2008-09 to 2010-11) along with relevant all India average percentage of expenditure on collection to gross collection for 2009-10 are as follows:

Table 1.11 : Cost of collection

Sl. No	Heads of Revenue	Year	Collection (Rupees in crore)	Expenditure on collection of revenue (Rupees in crore)	Percentage of expenditure on collection	All India average percentages for the year 2009-10
1	Taxes on sales, Trade, etc.	2008-09	114.70	3.41	2.97	0.96
		2009-10	132.22	4.18	3.16	
		2010-11	167.22	5.59	3.34	
2	State Excise	2008-09	3.34	NA	NA	3.64
		2009-10	3.13			
		2010-11	3.00			
3	Taxes on Vehicles	2008-09	14.14	1.97	13.93	3.07
		2009-10	16.73	2.24	13.39	
		2010-11	23.92	3.20	13.38	
4	Stamps and Registration Fees	2008-09	1.01	0.38	37.62	2.47
		2009-10	1.19	0.16	13.45	
		2010-11	1.35	0.25	18.52	

(Source: Finance Accounts and information received from the Headquarters office)

Table 1.11 indicates that the percentage of expenditure on collection in respect of all the components of State's Own Tax revenue except State Excise (the percentage of collection was not available) was much higher than the All India Average cost of collection which indicates that the excess expenditure incurred on collection of revenue might impede the movement towards achieving a healthy fiscal path in the State.

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

The Sales Tax Department of the State Government furnished a nil report about the evasion of tax, details of tax refunds, write off and waiver of revenue during the year 2010-11.

1.5.4 Revenue Arrears

The Sales Tax Department could not furnish the information about revenue arrears for the year 2010-11. However, the position of arrear revenue and its recovery furnished up to the year 2009-10 are shown in the **Table 1.12** below:

Table 1.12: Position of outstanding Revenue and its recovery

(Rupees in crore)

Head of Revenue	Arrears of revenue as on Apr'09	Addition of arrears revenue during 2009-10	Total	Outstanding revenue recovered during 2009-10	Outstanding arrears at the end of 2009-10	Percentage of recovery
Sales Tax/VAT	12.05	2.78	14.83	2.80	12.03	18.88
Central Sales Tax	3.17	0.16	3.33	0.15	3.18	4.50
Petroleum Tax	1.57	0.05	1.62	0.29	1.33	17.90
Purchase Tax	1.70	-	1.70	0.43	1.27	25.29
Professional Tax	0.22	0.05	0.27	0.12	0.15	44.44
Total	18.71	3.04	21.75	3.79	17.96	17.43

(Source: Information furnished by the State Government)

Arrears of revenue at the end of March 2010 in respect of principal heads of revenue stood at ₹ 17.96 crore, of which ₹ 8.42 crore (46.88 per cent) were five to 34 years old. Though arrears of revenue decreased by ₹ 3.79 crore during 2009-10, the percentage of recovery stood at 17.43 per cent during 2009-10.

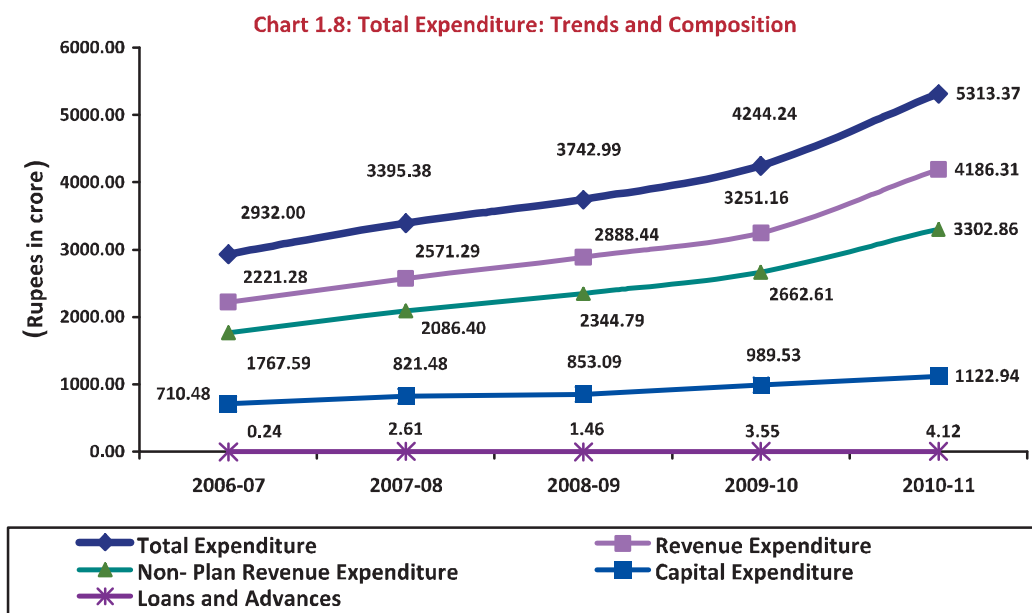
To mitigate the burden of fiscal liability of the State, appropriate steps need to be initiated by the State Government for recovery of revenue arrears of ₹ 17.96 crore up to 2009-10 which constitutes 9.95 per cent of the tax revenue of the State for 2009-10.

1.6 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since the Government is entrusted with major expenditure responsibilities. 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.

1.6.1 Growth and Composition of Expenditure

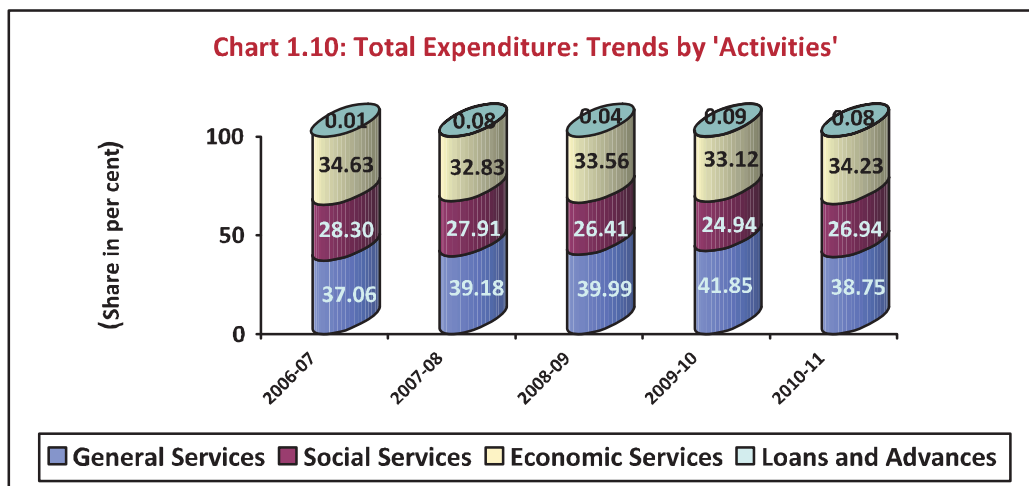
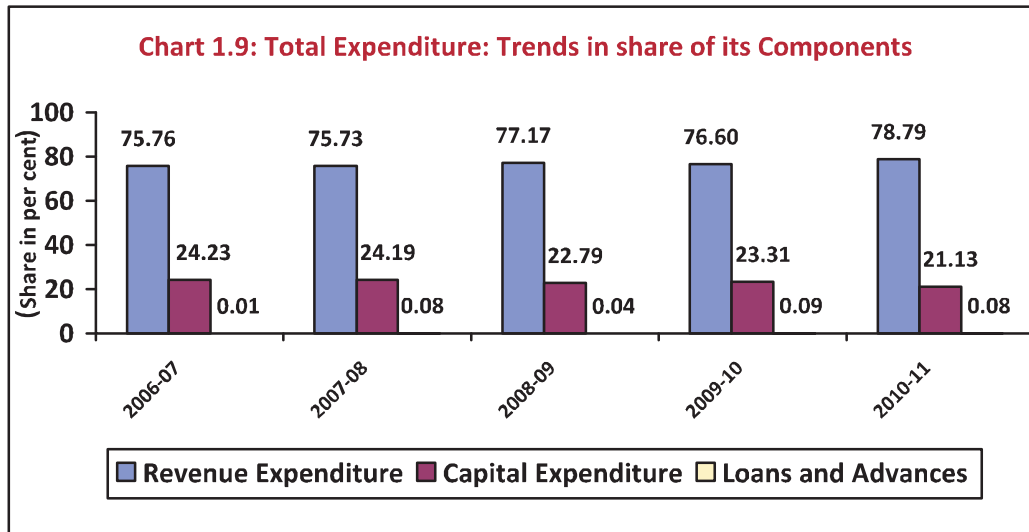
Chart 1.8 presents the trends in total expenditure over a period of five years (2006-11) and its composition both in terms of 'classification of expenditure' and 'expenditure by activities' is depicted respectively in **Charts 1.9 and 1.10**.



Statements 12 & 13 of the Finance Accounts depict the detailed revenue expenditure by minor heads and capital expenditure respectively. 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 ₹ 2932.00 crore in 2006-07 to ₹ 5313.37 crore in 2010-11.

Total expenditure during 2010-11 at ₹ 5313.37 crore increased by ₹ 1069.13 crore (25.19 per cent) over the previous year. Out of the total expenditure in 2010-11, revenue expenditure was 78.79 per cent (₹ 4186.31 crore) while capital expenditure was 21.13 per cent (₹ 1122.94 crore) and loans and advances was 0.08 per cent (₹ 4.12 crore). The break-up of total expenditure in terms of plan and non-plan reveals that while the share of plan expenditure constituted 37.84 per cent (₹ 2010.41 crore), the remaining 62.16 per cent was non-plan expenditure (₹ 3302.96 crore). The increase in total expenditure during 2010-11 over the previous year was due to increase of revenue expenditure by ₹ 935.15 crore and capital expenditure by ₹ 133.41 crore and disbursement of loans and advances by ₹ 0.57 crore.

The non-plan revenue expenditure (₹ 3302.86 crore) was lower by ₹ 80.04 crore (2.37 per cent) during the year as compared to the projection made by the State Government in its Fiscal Consolidation Roadmap (FCR) for 2010-11 (₹ 3382.90 crore). The capital expenditure (₹ 1122.94 crore) was also lower by ₹ 101.16 crore (8.26 per cent) as compared to the assessment made by the State Government in its FCR (₹ 1224.10 crore).



The total expenditure, its annual growth rate, the ratio of expenditure to the GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.13**.

Table 1.13: Total expenditure-basic parameters

	2006-07	2007-08	2008-09	2009-10	2010-11
Total Expenditure (TE) (₹ in crore)	2932.00	3395.38	3742.99	4244.24	5313.37
Rate of growth of TE (<i>per cent</i>)	13.72	15.80	10.24	13.39	25.19
TE/GSDP ratio (<i>per cent</i>)	40.40	42.05	41.28	41.06	44.94
RR/TE (<i>per cent</i>)	94.53	88.21	90.83	87.66	94.07
Buoyancy of Total expenditure with reference to:					
GSDP (ratio)	1.35	1.40	0.83	0.96	1.75
Revenue Receipt (ratio)	0.62	1.96	0.76	1.43	0.73
GSDP (Rupees in crore)	7257.09	8075.27	9066.59	10337.83	11823.45
Rate of growth of GSDP (<i>per cent</i>)	10.15	11.27	12.28	14.02	14.37
Revenue Receipt (Rupees in crore)	2771.64	2995.04	3399.79	3718.48	4998.46
Rate of growth of RR (<i>per cent</i>)	22.29	8.06	13.51	9.37	34.42

During the current year, 94.07 *per cent* of the total expenditure was met from revenue receipts and the remaining from capital receipts and borrowed funds.

The General Service expenditure increased by 15.91 *per cent* (₹ 282.53 crore) from ₹ 1776.28 crore in 2009-10 to ₹ 2058.81 crore in 2010-11, Social Services expenditure increased by 35.25 *per cent* (₹ 373.19 crore) and Economic Services increased by 29.36 *per cent* (₹ 412.84 crore).

The pattern of total expenditure in the form of non-plan and plan expenditure during 2010-11 showed that they contributed 62.16 *per cent* and 37.84 *per cent* respectively. The non-plan expenditure increased by ₹ 627.36 crore as compared to the previous year due to increase in revenue expenditure under General Services, Social Services and Economic Services by ₹ 261.84 crore, ₹ 239.29 crore and ₹ 139.12 crore respectively offset by decrease in capital expenditure under General Services and Economic Services by ₹ 12.89 crore.

Plan expenditure increased by ₹ 441.20 crore as compared to the previous year due to increase in revenue expenditure under Social Services by ₹ 112.83 crore, Economic Services by ₹ 184.97 crore, plan capital expenditure under General Services by ₹ 24.00 crore, Social Services by ₹ 21.07 crore and Economic Services by ₹ 101.23 crore offset by decrease in revenue expenditure of ₹ 2.90 crore under General Services.

1.6.2 Trends in total expenditure in terms of activities

In terms of activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, Grants-in-aid and Loans and Advances.

The expenditure on General Services and Interest Payments, which are considered as non-developmental, together contributed 38.75 *per cent* in 2010-11 as against 41.85 *per cent* in 2009-10 and 37.06 *per cent* in 2006-07. On the other hand, developmental expenditure i.e., expenditure on Social and Economic Services together accounted for 61.17 *per cent* in 2010-11 as against 58.06 *per cent* in 2009-10 and 62.93 *per cent* in 2006-07. This indicates that the non-developmental expenditure had increased by 1.69 *per cent* in 2010-11 as compared to 2006-07 while the developmental expenditure had decreased by 1.76 *per cent* over the same period.

1.6.3 Revenue Expenditure

Revenue expenditure had predominant share varying from 75.73 *per cent* to 78.79 *per cent* of the total expenditure of the State during 2006-11. 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 revenue expenditure, its rate of growth, the ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy is indicated in **Table 1.14**.

Table 1.14: Revenue expenditure-basic parameters

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Expenditure (RE), of which	2221.28	2571.29	2888.44	3251.16	4186.31
Non-plan Revenue Expenditure (NPRE)	1767.59	2086.40	2344.79	2662.61	3302.86
Plan Revenue Expenditure (PRE)	453.69	484.89	543.65	588.55	883.45
Rate of growth of RE (<i>per cent</i>)	7.85	15.76	12.33	12.56	28.75
Rate of growth of NPRE (<i>per cent</i>)	7.99	18.04	12.38	13.55	24.05
Rate of growth of PRE (<i>per cent</i>)	7.29	6.88	12.12	8.26	50.11
RE as percentage to TE	75.76	75.73	77.17	76.60	78.79
NPRE/GSDP (<i>per cent</i>)	24.36	25.84	25.86	25.76	27.93
NPRE/TE (<i>per cent</i>)	60.24	61.45	62.64	62.73	62.16
NPRE/RR (<i>per cent</i>)	63.77	69.66	68.97	71.60	66.08
Buoyancy of RE with GSDP (ratio)	0.77	1.40	1.00	0.90	2.00
Buoyancy of RE with RR (ratio)	0.35	1.96	0.91	1.34	0.84

Revenue expenditure of the State had increased by ₹ 1965.03 crore (88.46 *per cent*) from ₹ 2221.28 crore in 2006-07 to ₹ 4186.31 crore in 2010-11 at a compound annual growth rate of 13.51 *per cent*. Both non plan revenue expenditure (NPRE) and plan revenue expenditure (PRE) have shown an increase over the period 2006-11. Of the total increase of ₹ 935.15 crore in revenue expenditure during 2010-11 over the previous year, increase in NPRE contributed 68.46 *per cent* (₹ 640.25 crore) while PRE accounted for the remaining 31.54 *per cent* (₹ 294.90 crore). The increase of ₹ 640.25 crore in NPRE

during 2010-11 over the previous year was mainly due to increase in General Education (₹ 140.89 crore), Police (₹ 91.23 crore), Pensions and Other Retirement Benefits (₹ 56.91 crore), Medical and Public Health (₹ 55.41 crore), Power (₹ 51.93 crore), Interest Payments (₹ 31.81 crore) and Public Works (₹ 20.98 crore). The PRE had increased by ₹ 294.90 crore from ₹ 588.55 crore in 2009-10 to ₹ 883.45 crore in 2010-11 mainly due to increase in expenditure under Secretariat-Economic Services (₹ 78.33 crore), General Education (₹ 65.00 crore), Minor Irrigation (₹ 37.48 crore), Social Security and Welfare (₹ 33.55 crore) and Nutrition (₹ 29.43 crore) offset by decrease in Medical and Public Health (₹ 12.86 crore) and Technical Education (₹ 10.71 crore).

The actual non-plan revenue expenditure vis-à-vis assessment made by XIII-FC and State Government are given below:-

Table 1.15: NPRE assessments made by XIII-FC and FCR

<i>(Rupees in crore)</i>			
	Assessment made by XIII-FC	Assessment made by State Government in FCR	Actual
Non-Plan Revenue Expenditure	2474.11	3382.90	3302.86

The actual NPRE exceeded the normative assessment made by XIII-FC by ₹ 828.75 crore (33.50 per cent) but was less than the assessment made by the State in FCR by ₹ 80.04 crore (2.37 per cent).

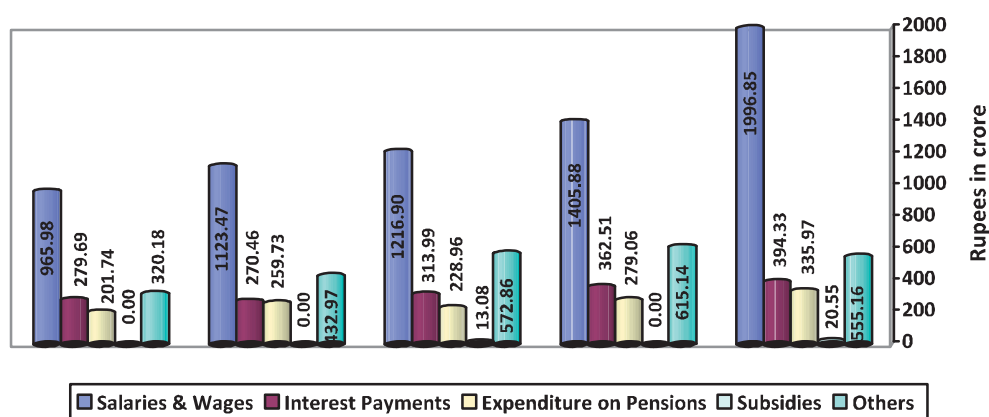
1.6.4 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.16** present the trends in the expenditure on these components during 2006-11.

Table 1.16: Components of Committed Expenditure

<i>(Rupees in crore)</i>					
	2006-07	2007-08	2008-09	2009-10	2010-11
Salaries & Wages, of which	1020.08	1143.25	1249.39	1442.85	2033.93
Non-plan	965.98	1123.47	1216.90	1405.90	1996.85
Plan	54.10	19.78	32.49	36.95	37.08
Interest Payments	279.69	270.46	313.99	362.51	394.33
Expenditure on Pension	201.74	259.73	228.96	279.06	335.97
Subsidies	0.00	0.00	13.08	0.00	20.55
Total	1501.51	1673.44	1805.42	2084.42	2784.78
<i>As per cent of RR</i>					
Salaries & Wages	36.80	38.17	36.75	38.80	40.69
Interest Payments	10.09	9.03	9.24	7.50	7.89
Expenditure on pensions	7.28	8.67	6.73	9.75	6.72
Subsidies	0.00	0.00	0.38	0.00	0.41

Chart 1.11: Share of Committed Expenditure in Non-Plan Revenue Expenditure during 2006-11

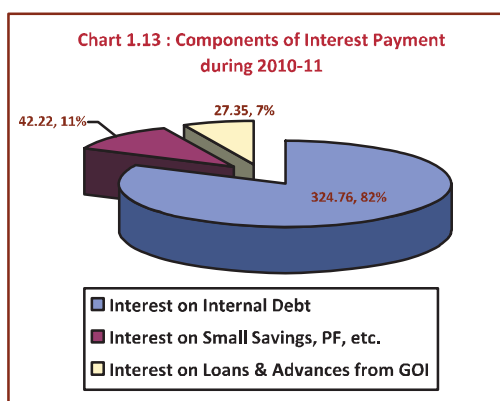
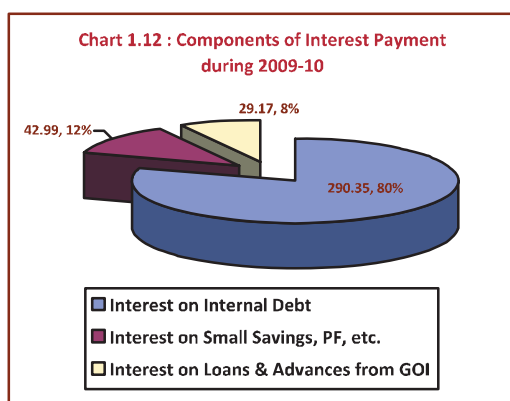


Salaries & Wages:

Expenditure on salaries under Non-Plan and Plan during the current year was ₹ 1996.85 crore and ₹ 37.08 crore respectively. The expenditure on salaries increased by ₹ 1013.85 crore (99.39 per cent) from ₹ 1020.08 crore in 2006-07 to ₹ 2033.93 crore in 2010-11. Expenditure on salaries and wages increased by ₹ 591.08 crore (40.97 per cent) over the previous year mainly due to implementation of Sixth Pay Commission, release of dearness allowance installments and incremental benefits. Salary and wages accounted for 40.69 per cent of the revenue receipts during 2010-11. Salary expenditure was 58.85 per cent of revenue expenditure, net of interest payment and pension, which was within the ceiling of 61 per cent targeted in Nagaland Fiscal Responsibility and Budget Management (NFRBM) Act.

Pension Payments:

The expenditure on pension had increased by ₹ 134.23 crore (66.54 per cent) from ₹ 201.74 crore in 2006-07 to ₹ 335.97 crore in 2010-11. The pension payments were ₹ 56.98 crore less than the assessment made by XIII-FC (₹ 392.95 crore) and also ₹ 160.36 crore less than the assessment made by the State Government in its MTFPS (₹ 496.33 crore) for the year 2010-11. The pension payments recorded a growth of 38.31 per cent over the previous year mainly due to introduction of new pension policy by the State Government.

Interest Payments:

Interest payments increased by ₹ 114.64 crore (40.99 per cent) from ₹ 279.69 crore in 2006-07 to ₹ 394.33 crore in 2010-11. The interest payments increased by ₹ 31.82 crore during 2010-11 over the previous year due to increase in Internal Debt (₹ 34.41 crore) offset by decrease in Small Savings, Provident Fund etc. (₹ 0.77 crore) and Interest on Loan and Advances from Central Government (₹ 1.82 crore).

The interest payments for the year 2010-11 was lower than the projection made by the State Government in MTFPS (₹ 411.73 crore) but higher than the projections made in XIII-FC (₹ 334.97 crore).

Subsidies:

During 2010-11, the State Government paid subsidy of ₹ 20.55 crore to the Police Department mainly for ration subsidy representing 0.41 per cent of revenue receipts.

1.6.5 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 1.17**.

Table 1.17: Financial Assistance to Local Bodies etc.

(Rupees in crore)

Financial Assistance to Institutions	2006-07	2007-08	2008-09	2009-10	2010-11
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	2.55	2.40	14.70	18.44	5.50
Co-Operation	...	..	...	0.07	3.44
Municipal councils	0.27	0.27	2.11	1.20	...
Development Agencies	...	29.03	40.34	62.20	26.56
Hospitals and Other Charitable Institutions	8.12	8.73	10.16	10.78	12.59
Old Age Pension Scheme	...	...	...	...	16.67
Other Institutions	23.10	1.41	7.47	6.21	2.72
Total	34.04	41.84	74.78	98.90	67.48
Assistance as percentage of RE	1.23	1.40	2.20	2.66	1.35

The total assistance to local bodies decreased by ₹ 31.42 crore (31.77 *per cent*) from ₹ 98.90 crore in 2009-10 to ₹ 67.48 crore in 2010-11. **Table 1.18** shows that the assistance declined by ₹ 35.64 crore (57.30 *per cent*) from ₹62.20 crore in 2009-10 to ₹ 26.56 crore in 2010-11 in respect of development agencies and ₹ 12.94 crore (70.17 *per cent*) from ₹ 18.44 crore in 2009-10 to ₹ 5.50 crore in 2010-11 in respect of educational institutions.

1.7 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).

1.7.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to State Government. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. **Table 1.18** analyses the fiscal priority given by the Nagaland Government to various expenditure heads in 2007-08 and the current year viz 2010-11 with regard to developmental expenditure, social sector expenditure and capital expenditure.

Table-1.18: Fiscal priority of the State in 2007-08 & 2010-11

Fiscal priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE	Education/AE	Health/AE
Nagaland 2007-08	42.05	60.82	27.91	24.19	13.00	4.38
Nagaland 2010-11	44.94	61.25	26.95	21.13	14.03	4.54

AE: Aggregate Expenditure DE: Developmental Expenditure SSE: Social Sector Expenditure

CE: Capital Expenditure

Developmental expenditure includes Developmental Revenue Expenditure, Developmental Capital Expenditure and Loans and Advances disbursed.

(Source: For GSDP, the information was collected from the State's Directorate of Economics and Statistics)

The AE to GSDP ratio of the Government of Nagaland had increased by 2.89 *per cent* from 42.05 *per cent* in 2007-08 to 44.94 *per cent* in 2010-11. The DE to AE also marginally increased by 0.43 *per cent* whereas, SSE to AE and CE to AE declined by 0.96 *per cent* and 3.03 *per cent* respectively as compared to 2007-08. Further, the expenditure on the health sector as proportion of aggregate expenditure was only 4.54 *per cent* in 2010-11.

1.7.2 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 rationalisation measures and lay emphasis on provision of core public and merit goods⁶. Apart from improving the allocation towards developmental expenditure⁷, 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 1.19** 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 1.20** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table-1.19: Developmental Expenditure

Components of Developmental Expenditure	2006-07	2007-08	2008-09	2009-10	(Rupees in crore)	
					2010-11	
					BE	Actual
Developmental Expenditure (a to c)	1845.39 (62.94)	2065.21 (60.82)	2246.10 (60.01)	2467.96 (58.15)	3065.58	3254.56 (61.25)
a. Developmental Revenue Expenditure	1201.83 (40.99)	1378.83 (40.61)	1540.70 (41.16)	1668.46 (39.31)	2165.19	2344.67 (44.13)
b. Developmental Capital Expenditure	643.32 (21.94)	683.77 (20.14)	703.94 (18.81)	795.95 (18.75)	899.99	905.77 (17.05)
c. Developmental Loans and Advances	0.24 (0.01)	2.61 (0.08)	1.46 (0.04)	3.55 (0.09)	0.40	4.12 (0.08)

Figures in parentheses indicate percentage to aggregate expenditure

The developmental expenditure (₹ 3254.56 crore) exceeded the assessment made by the State Government in the budget by ₹ 188.98 crore. The developmental revenue and capital expenditure increased by ₹ 676.21 crore (40.53 per cent) and ₹ 109.82 crore (13.80 per cent) respectively over the previous year. The increase in developmental revenue expenditure was mainly under Education, Sports, Art & Culture (₹ 198.40 crore), Health & Family Welfare (₹ 43.88 crore), Water Supply, Sanitation, Housing & Urban Development (₹ 22.75 crore), Social Welfare & Nutrition (₹ 74.06 crore), Agriculture & Allied Activities (₹ 60.30 crore), Energy (₹ 52.91 crore), Rural Development (₹ 35.83 crore), Special Area Programmes (₹ 20.75 crore), Irrigation & Flood Control (₹ 42.28 crore) and General Economic Services (₹ 90.73 crore).

⁶ As detailed in Appendix 1.1 C

⁷ 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 categorised 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.

Table 1.20: Efficiency of Expenditure Use in Selected Social and Economic Services

(In per cent)

Social/Economic Infrastructure	2009-10		2010-11	
	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	2.62	81.23	6.51	78.84
Health and Family Welfare	10.97	80.89	16.36	92.24
WS, Sanitation, & HUD	63.30	27.62	69.10	67.19
Total (SS)	26.92	72.32	21.38	70.63
Economic Services (ES)				
Agri & Allied Activities	9.93	47.97	12.51	48.14
Irrigation and Flood Control	2.43	14.85	1.41	13.70
Power & Energy	29.59	21.25	21.88	24.67
Transport	68.82	76.91	71.69	94.68
Total (ES)	36.34	36.77	32.97	37.10
Total (SS+ES)	32.30	53.25	27.87	53.20

TE: Total Expenditure of respective section; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages

Table 1.20 shows that the ratio of CE to TE under General Education increased by 3.89 *per cent*, Health and Family Welfare 5.39 *per cent* and Water Supply, Sanitation, Housing and Urban Development 5.80 *per cent*. The ratio of CE to TE under Social Services and Economic Services decreased from 26.92 *per cent* and 36.34 *per cent* in 2009-10 to 21.38 *per cent* and 32.97 *per cent* in 2010-11 respectively.

The share of salary and wages on General Education under Social service was 78.84 *per cent* of its revenue expenditure and on Health & Family Welfare and Water Supply Sanitation, Housing & Urban Development the share was 92.24 *per cent* and 67.19 *per cent* respectively. The percentage of salary and wages relative to its revenue expenditure on Social Services was 1.69 *per cent* lower than the previous year.

The salary and wage expenditure in terms of percentage of revenue expenditure under Economic Services was higher by 0.33 *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 0.05 *per cent* during 2010-11 over the previous year.

1.8 Effectiveness of Expenditure, i.e Outlay-Outcome Relationship

During 2008-10, three performance reviews on the effectiveness of expenditure and the outcomes thereof were attempted and featured in the Audit Reports. Of the three performance reviews, two were discussed in Public Accounts Committee meetings. The results of such performance reviews are summarised below:

(a) Modernisation of Police Force

The scheme 'Modernisation of Police force' 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 was declared 'A' category being maximum security threat by the Government of India, 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)

PAC recommendations

- The Home (Police) Department and PHQ should prepare a long-term perspective plan coherently but not as a list of items. It should also be submitted on time.
- The Department should have a well-thought-out-plan and strategies on proper deployment of all departmental vehicles so that all units, especially field units are provided with enough vehicles in working condition to enable prompt response during any law and order situations etc.
- The Department may apprise the Committee whether it deems fit to continue with the installation process of the POLNET Project or to terminate it and whether any other hi-tech communication systems are available?
- The Department should take proper measures to phase out obsolete arms and ammunitions and fully implement the modernisation process without unnecessary delay in order to enhance the striking capabilities of the State Police Force.
- The Committee while observing that the Forensic Science Laboratory Division plays a major role in settling of crime cases, recommended that the Division should be strengthened with both modern equipment and trained personnel, so that Forensic Science Laboratory Division functions in systematic and proper manner.
- There should be no needless delay in imparting training to women police. A feedback system should be initiated in order to facilitate the new recruits to give their comments on the pros and cons of training imported.
- The Home Department and PHQ should give due importance to modernisation and the Chief Secretary being the head of the State Level

Empowered Committee (SLEC) should make efforts to hold meetings at least on a quarterly basis if not on a monthly basis.

Action taken by the Government on the recommendations of the Public Accounts Committee, if any, is yet to be communicated to Audit.

(b) Implementation of Irrigation Schemes

The minor irrigation projects 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, neither was impact assessment of the projects on agriculture undertaken by the Department nor could it 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)

PAC recommendation

- Before DPRs are being submitted to GOI/NABARD, all necessary documents and briefing on all matters should be co-ordinated amongst the Departments.
- The Department should release bills only after proper joint verification by the Executive Engineer of concerned Division and Village Council Chairman & Head G. B. of the user villages/Associations about the status of the work.
- The services of surveyors should be fully utilised for site selection taking the beneficiaries/villagers into confidence and also taking into account the coverage and impact on agricultural productivity.
- Complicated and controversial projects like Thizuru M.I Project should not be repeated in future.

Action taken by the Government on the recommendations of the Public Accounts Committee, if any, is yet to be communicated to Audit.

1.9 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.

1.9.1 Financial result of Irrigation Projects

According to Para 7.46 of XIII Finance Commission Report, the cost recovery rate of the receipts from irrigation should be 25 per cent of Non-plan Revenue Expenditure for 2010-11 in order to ensure viability of Irrigation Projects.

There is no commercial irrigation project in Nagaland. However, 812 minor irrigation projects involving ₹ 257.32 crore were taken up under AIBP during 2003-2011.

Further, according to para 7.138 of XIII-FC report the Controller General of Accounts (CGA) had issued instructions that the maintenance expenditure under the head Minor Irrigation should be divided into two sub heads - Work Charged Expenditure and Other Maintenance Expenditure. These changes should be brought into the State and Union Budget and Finance Accounts immediately. The State Government of Nagaland did not operate such sub-head as yet. Due to non-operation of these sub-heads the State was not able to provide budget provision for maintenance expenditure under the head Minor Irrigation. Against the XIII-FC projection of ₹ 11.07 crore for 2010-11 under minor irrigation projects, the State Government did not incur any maintenance expenditure. Thus, the viability of minor irrigation projects in the State remained un-assessed.

1.9.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2011 is given in Table 1.21.

Table 1.21: Department-wise Profile of Incomplete Projects

(Rupees in Crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Cost	Cumulative expenditure as on 31.3.2011
PHED	34	33.83	33.83	26.68
PWD	15	185.66	185.66	80.48
Veterinary	2	0.31	0.31	0.25
CAWD	1	1.13	1.13	0.75
Youth Resources	2	18.38	18.38	14.00
Total	54	239.31	239.31	122.16

(Source: Finance Accounts and Departmental records)

There were 54 incomplete projects (estimated cost ₹ 239.31 crore and actual expenditure incurred ₹ 122.16 crore as of March 2011) pertaining to 5 departments which were due to be completed by March 2011 but remained incomplete as of January 2012.

Delay in completion of works invites the risk of escalation in the cost of the works. The actual cost overrun would be available on closure of the claims of the construction agencies after completion. Besides, due to delay in completion of the projects, the intended benefits from those projects did not reach the beneficiaries in the State. Thus, works need to be completed in time to contain time and cost overruns.

1.9.3 Investment and returns

As on 31 March 2011, Government had invested ₹ 213.41 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (Table 1.22). The average return on this investment was 'Nil' during the last five years while the Government paid an average interest rate of 7.68 per cent on its borrowings during 2006-2011.

Table-1.22: Return on Investment

	<i>(Rupees in crore)</i>				
Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year (a-e) (₹ in crore)	119.84	141.90	164.94	192.09	213.41
(a) Joint Stock Companies	24.66	28.66	32.10	32.10	32.10
(b) Government Companies	69.27	81.16	100.76	127.91	145.60
(c) Statutory Corporations	0.04	0.04	0.04	0.04	0.04
(d) Rural Banks	0.00	0.00	0.00	0.00	0.00
(e) Co-operatives	25.87	32.04	32.04	32.04	35.67
Return (₹ in crore)	...	...	...	...	...
Return (per cent)	...	...	...	...	...
Average rate of interest on Govt borrowing (per cent)	8.30	7.28	7.43	7.27	7.68
Difference between interest rate and return (per cent)	8.30	7.28	7.43	7.27	7.68

Out of the total Government investment of ₹ 213.41 crore at the close of the current year, ₹ 145.60 crore was invested in six Government companies, ₹ 32.10 crore in two Joint Stock Companies and the remaining amount of ₹ 35.71 crore was invested in Statutory Corporations, Co-operative Bank and Co-operative Societies etc. During the current year, the Government made additional investment of ₹ 21.32 crore in these State public sector Undertakings and Co-operatives.

A Government company viz., Nagaland Sugar Mills Ltd. (₹ 7.29 crore-investment) and a Joint Stock Company, Nagaland Paper and Pulp Corporation (₹ 6.33 crore-investment) were closed down, while three Government Corporations- Nagaland Industrial Development Corporation Ltd. (₹ 8.39 crore), Nagaland Industrial Raw Materials & Supply Corporation Ltd., (₹ 4.05 crore) and Nagaland Handloom & Handicrafts

Development Corporation Ltd., (₹ 2.82 crore) were incurring losses. Since the accounts of Nagaland State Mineral Development Corporation Ltd., (₹ 59.28 crore) are outstanding from 1988-89, the actual financial status of the company as of March 2011 could not be assessed.

A performance-based system of accountability should be put in place in the Government Companies/Statutory Corporations so as to increase 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 see if high cost borrowings need to be invested in those Companies/Corporations.

1.9.4 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/organisations. **Table 1.23** presents the outstanding loans and advances as on 31 March 2011 and interest receipts vis-à-vis interest payments during the last three years.

Table-1.23: Average Interest Received on Loans Advanced by the State Government

Quantum of loans/interest receipts/ cost of borrowings	2008-09	2009-10	2010-11	
			BE	Actual
Opening Balance	25.74	24.64	23.99	23.99
Amount advanced during the year	1.46	3.55	6.22	4.12
Amount repaid during the year	2.56	4.20	4.00	2.31
Closing Balance	24.64	23.99	26.21	25.80
Net addition	(-)1.11	-0.65	-	1.81
Interest Receipts	1.04	0.39	-	0.46
Interest receipts as <i>per cent</i> to outstanding loans and advances	4.13	1.60	-	1.85
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	7.43	7.27	-	7.68
Difference between interest payments and interest receipts (<i>per cent</i>)	(-)3.21	(-)5.67	-	(-)5.83

At the end of March 2011, the Government had outstanding loans and advances of ₹ 25.80 crore. The amount of loans disbursed during the year increased by ₹ 0.57 crore from ₹ 3.55 crore in 2009-10 to ₹ 4.12 crore in 2010-11. Out of the total amount of loans and advances of ₹ 25.80 crore as on 31 March 2011, ₹ 18.97 crore (73.53 *per cent*) were for Agriculture and Allied Activities, ₹ 2.16 crore (8.37 *per cent*) for Industry and Mineral, ₹ 4.62 crore (17.91 *per cent*) to Government Servants and ₹ 0.05 crore (0.19 *per cent*) for Water Supply, Sanitation, Housing and Urban Development.

The recovery of loans and advances decreased by ₹ 1.89 crore (45 *per cent*) from ₹ 4.20 crore in 2009-10 to ₹ 2.31 crore in 2010-11. During 2010-11, 61.90 *per cent* (₹ 1.43 crore) loans were repaid by Government Servants, 36.80 *per cent* (₹ 0.85 crore)

by Co-operatives and remaining 1.30 *per cent* (₹ 0.03 crore) by Water Supply, Sanitation, Housing and Urban Development.

The interest received as compared to the percentage of outstanding loans increased from 1.60 *per cent* in 2009-10 to 1.85 *per cent* in 2010-11, which was far less than the interest paid by the Government on its own borrowings (7.68 *per cent*).

1.9.5 Cash Balances and Investment of Cash balances

Table 1.24 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table-1.24: Cash Balances and Investment of Cash balances

Particulars	(Rupees in crore)		
	As on 1 April 2010	As on 31 March 2011	Increase/Decrease
Cash Balances	102.55	100.08	(-)2.47
Investments from Cash Balances (a to d)	612.12	580.38	(-)31.74
a. GOI Treasury Bills	311.05	273.82	(-)37.23
b. GOI Securities	...	...	...
c. Other Securities, if any specify	...	...	...
d. Other Investments	301.07	306.56	5.49
Funds-wise Break-up of Investment from Earmarked balances (a to c)	89.77	122.40	32.63
a. Guarantee redemption fund Investment Account	3.00	4.00	1.00
b. CRF Investment Account	15.68	22.31	6.63
c. Sinking Fund Investment Account	71.09	96.09	25.00
Interest Realized	7.87	12.90	5.03

The State Government's net cash balance at the end of current year amounted to ₹ 100.08 crore, a decrease of ₹ 2.47 crore over the previous year. Investments from cash balances decreased by ₹ 31.74 crore from ₹ 612.12 crore in 2009-10 to ₹ 580.83 crore in 2010-11. This was mainly due to increase in Sinking Fund Account (₹ 25.00 crore) offset by decrease in investment in Treasury bills (₹ 37.23 crore). An amount of ₹ 12.90 crore was realised during the year as interest on the amount invested, an increase of ₹ 5.03 crore from the previous year. The interest received against Investment on Cash Balance was around two *per cent* during 2010-11 while Government paid interest at the rate of 7.68 *per cent* on its borrowing during the year.

1.10 Assets and Liabilities

1.10.1 Growth and composition of Assets and Liabilities

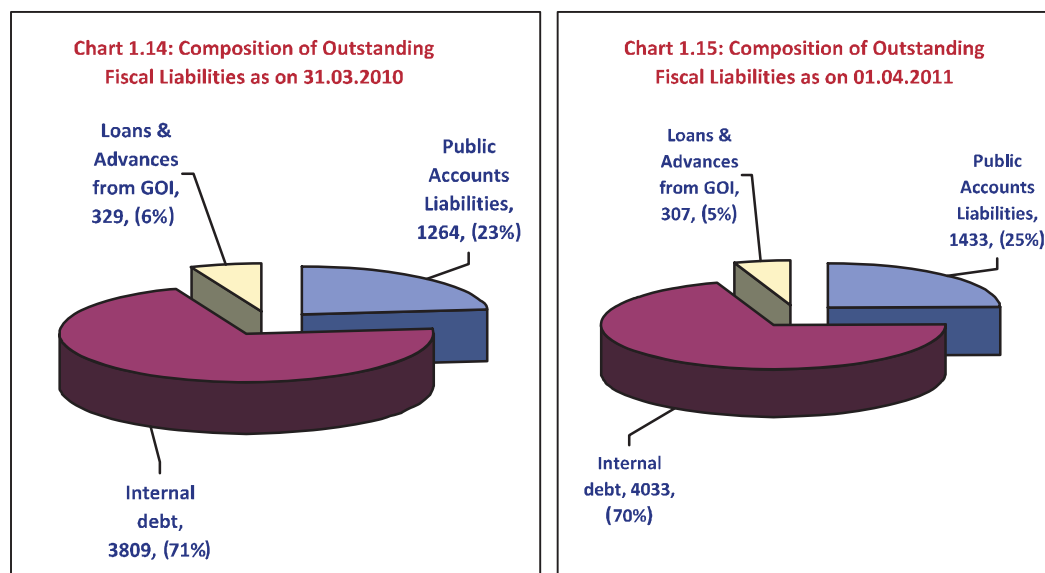
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government

accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4 B** gives an abstract of such liabilities and the assets as on 31 March 2011, compared with the corresponding position on 31 March 2010. 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 Nagaland Fiscal Responsibility and Budget Management 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.

1.10.2 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 1.14** and **1.15**.



The growth rate of fiscal liability was 6.87 *per cent* during 2010-11 over the previous year. Fiscal Liabilities of the State comprise Consolidated Fund Liabilities and Public Account Liabilities. The Consolidated Fund Liability (₹ 4340.16 crore) comprised market loan (₹ 3106.90 crore), loans from Government of India (₹ 306.60 crore) and other loans (₹ 926.66 crore). The Public Account Liabilities (₹ 1432.79 crore) comprise Small Saving, Provident Fund (₹ 574.01 crore), interest bearing obligations (₹ 0.17 crore) and non-interest bearing obligations like deposits and other earmarked funds (₹ 858.61 crore). The ratio of fiscal liabilities to GSDP had decreased from

52.25 per cent in 2009-10 to 48.83 per cent in 2010-11. These fiscal liabilities stood at nearly 1.15 times the revenue receipts and 14.12 times of the State's own resources at the end of 2010-11. The fiscal liabilities to GSDP (48.83 per cent) was 13.97 per cent lower than the assessment made by State Government in its Medium Term Fiscal Policy Statement (MTFPS) (62.80 per cent) and 7.97 per cent lower than the norm of 56.80 per cent recommended by the XIII-FC for the year 2010-11.

1.10.3 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 2010-11 there was a balance of rupees one crore in the guarantee redemption fund investment account.

As per **Statement 9** 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 **Table 1.25**.

Table-1.25: Guarantees given by the Government of Nagaland

Guarantees	(Rupees in crore)	
	2009-10	2010-11
Total amount of guarantees given up to	53.72	55.22
Outstanding amount of guarantees at the end of the year	53.72	55.22
Percentage of maximum amount guaranteed to total revenue receipts	1.44	1.10
Outstanding amount of guarantee as percentage of GSDP	0.50	0.47

The outstanding guarantees increased by ₹ 1.50 crore (2.79 per cent) from ₹ 53.72 crore in 2009-10 to ₹ 55.22 crore in 2010-11. The outstanding guarantees of ₹ 55.22 crore mainly pertained to Nagaland Sugar Mills Company Limited, Dimapur 52.35 per cent (₹ 28.91 crore) for repayment of principal and payment of interest on loan obtained from the Industrial Finance Corporation of India (NIDC). The outstanding guarantees were 1.10 per cent of the revenue receipts of the Government.

It is pertinent to note that if the liabilities arising out of the outstanding guarantees are added to the fiscal liabilities of the State Government at the close of the current year, the ratio of total liabilities to GSDP would increase to 49.29 per cent from the existing 48.83 per cent.

1.10.4 Off - Budget Borrowings

The State Government had no off-budget borrowings during the year. As per the recommendations of the XIII-FC, the State Government had set up a Sinking Fund for amortisation of market borrowings as well as other loans and debt obligations during 2010-11. Contribution to the Sinking Fund was ₹ 16.17 crore as of March 2011 and the entire amount of the fund was invested.

1.11 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation; sufficiency of non-debt receipts⁸; net availability of borrowed funds; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.26** analyses the debt sustainability of the State according to these indicators for a period of five years beginning from 2006-07.

During 2010-11, Government raised internal debt of ₹ 410.99 crore and other obligations of ₹ 52.36 crore. Government repaid internal debt of ₹ 166.08 crore, GOI loans of ₹ 22.88 crore and other obligations of ₹ 72.20 crore along with interest of ₹ 394.33 crore resulting in net decrease in debt receipts by ₹ 192.14 crore during the year.

Table 1.26: Debt Sustainability: Indicators and Trends

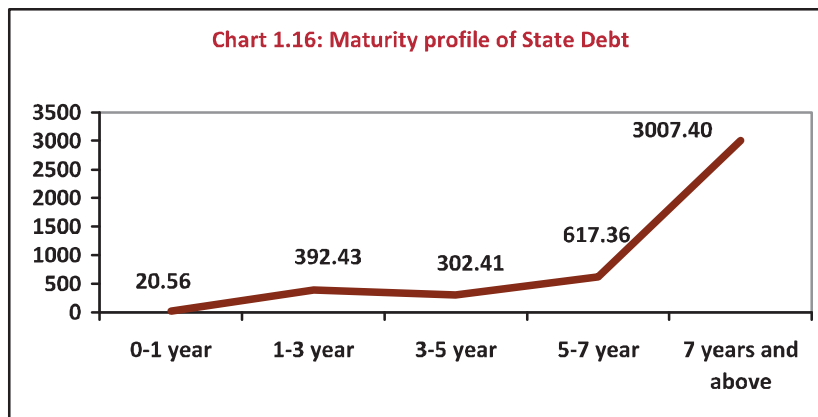
<i>(Rupees in crore)</i>					
Indicators of Debt Sustainability	2006-07	2007-08	2008-09	2009-10	2010-11
Debt Stabilization (Quantum Spread + Primary Deficit)	189.41	28.03	195.05	205.59	467.94
Sufficiency of Non-debt Receipts (Resource Gap)	150	(-)241	57	(-)182	209
Net Availability of Borrowed Funds	113.18	152.59	374.71	469.44	(-)18.58
Burden of Interest Payments (IP/RR Ratio) (in per cent)	10.09	9.03	9.23	9.75	7.89
Maturity Profile of State Debt (In Years)					
0 – 1	-	-	293.90(09)	274.60(6)	20.56(1)
1 – 3	-	-	317.86(10)	551.94(13)	392.43(9)
3 – 5	-	-	476.51(15)	303.74(7)	302.41(7)
5 – 7	-	-	296.00(09)	596.65(13)	617.36(14)
7 and above	-	-	1870.95(57)	2685.62(61)	3007.40(69)
Total			3255.22	4412.55	4340.16

Figures in the parenthesis indicate percentage to total debt.

It would be seen from the above table that the State is moving towards debt stabilisation as sum of quantum spread together with primary deficit remained positive during the period from 2006-07 to 2010-11 which, if continued would eventually improve the debt sustainability position of the State.

⁸ As detailed in Appendix-1.1 C

The persistent negative non-debt receipts (Resource Gap) indicate the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. The resource gap which was negative during 2009-10 (₹ 182 crore), turned into positive in 2010-11 (₹ 209 crore). This meant that the State did not depend on borrowed funds for meeting current revenue and capital expenditure.



As per data shown in **Table 1.26**, out of the total debt burden of ₹ 4340.16 crore, there will be a bunching of repayments in around 1-3 years time (₹ 392.43 crore) and 3-5 years time (₹ 302.41 crore) as well as 5-7 years time (₹ 617.36 crore). A well thought out debt repayment strategy will ensure that no additional borrowings which mature in these critical years are undertaken.

1.12 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 2010-11.

1.12.1 Trends in Deficits

Charts 1.17 and 1.18 present the trends in deficit indicators over the period 2006-11.

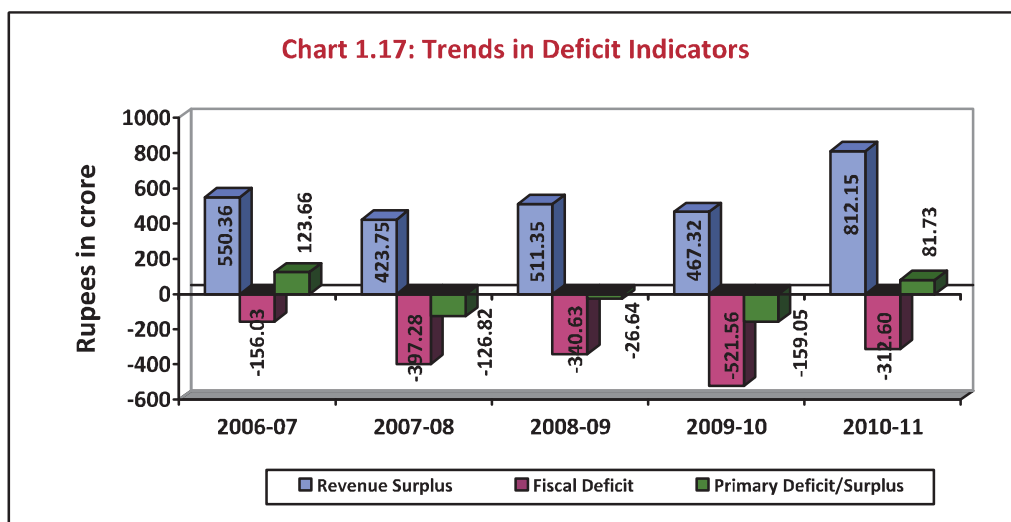


Chart 1.18: Trends in Deficit Indicators Relative to GDP

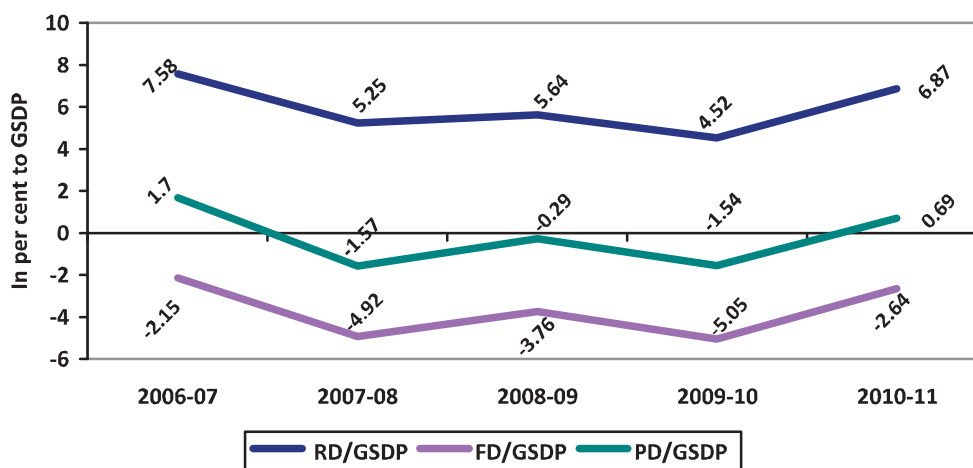


Chart 1.17 reveals that the revenue account experienced a surplus of ₹ 812.15 crore during 2010-11, an increase from ₹ 550.36 crore in 2006-07. However, the significant improvement in revenue account during the current year as compared to the previous year was mainly on account of increase in revenue expenditure by ₹ 935.15 crore

(28.76 per cent) against an increase of revenue receipts by ₹ 1279.98 crore (34.42 per cent) over the previous year.

Due to the increase in revenue surplus along with a marginal decrease of ₹ 1.89 crore in non-debt capital receipts accompanied by an increase of ₹ 133.41 crore in capital expenditure including loans & advances disbursement ₹ 0.57 crore during 2010-11 over the previous year, the fiscal deficit decreased by ₹ 208.96 crore during the current year from the level of ₹ 521.56 crore in 2009-10.

The primary deficit also turned into primary surplus from deficit of ₹ 159.05 crore in 2009-10 to surplus of ₹ 81.73 crore in 2010-11. The increase in primary surplus was due to decrease of fiscal deficit (₹ 208.96 crore) and increase of interest payment (₹ 31.82 crore) during the current year.

1.12.2 Composition of Fiscal deficit and its financing Patterns

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1.27**.

Table 1.27: Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Decomposition of Fiscal Deficit		156	397	341	522	313
		(2.15)	(4.92)	(3.76)	(5.05)	(2.65)
1	Revenue Deficit/Surplus	550	424	511	467	812
2	Net Capital Expenditure	710	821	853	990	1123
3	Net Loans and Advances	-4	...	-1	-1	2
Financing Pattern of Fiscal Deficit						
1	Market Borrowings				568	236
2	Loans from GOI				-38	-23
3	Special Securities Issued to National Small Savings Fund				3	17
4	Loans from Financial Institutions				178	-28
5	Small Savings, PF etc				23	89
6	Deposits and Advances				277	80
7	Suspense and Misc				-147	41
8	Remittances				-350	-102
9	Increase (-) Decrease (+) in Cash Balances				8	3
10	Others				...	...

Figures in brackets indicate the per cent to GSDP.

Fiscal deficit is the total borrowing of the State and is the excess of revenue expenditure and capital expenditure including loans and advances over revenue and non-debt receipts. Decomposition of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above revenue and non-debt receipts.

It can be seen from **Table 1.27** that during 2010-11, the revenue surplus increased by ₹ 345 crore from ₹ 467 crore in 2009-10 to ₹ 812 crore in 2010-11 thereby affecting the extent of fiscal deficit which could be financed by revenue surplus.

The fiscal deficit decreased by ₹ 209 crore from ₹ 522 crore in 2009-10 to ₹ 313 crore in 2010-11 mainly due to decrease in Market Borrowings (₹ 332 crore), Deposits and Advances (₹ 197 crore) offset by increase in Capital expenditure (₹ 133 crore) and Loans from Financial Institutions (₹ 206 crore).

The increase in capital expenditure indicated that borrowed funds were being allocated for productive use. The solution to the Government debt problem lies on the actual outcome of borrowed funds i.e., whether they are being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity to the economy which may result in increase in Government revenue in future, making debt payments manageable.

1.12.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (**Table 1.28**) would indicate the extent to which the deficit/surplus had been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.28: Primary deficit/surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary revenue ⁹ expenditure	Capital expenditure	Loans and Advances	Primary expenditure ¹⁰	Primary revenue surplus	Primary deficit (-) /surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2006-07	2776	1942	710	...	2652	836	124
2007-08	2998	2301	821	3	3125	697	(-)127
2008-09	3402	2574	853	1	3428	828	(-)26
2009-10	3723	2889	990	4	3883	834	(-)160
2010-11	5001	3792	1123	4	4919	1209	82

The non-debt receipts of the State during 2006-11 were sufficient to meet the primary revenue expenditure. The non-debt receipts increased by 80 per cent from ₹ 2776 crore in 2006-07 to ₹ 5001 crore in 2010-11 while the primary revenue expenditure increased by 95 per cent from ₹ 1942 crore in 2006-07 to ₹ 3792 crore in 2010-11. During this period (2006-11) capital expenditure grew by 58 per cent. The State had a primary deficit during

⁹ Primary revenue expenditure is revenue expenditure net of the interest payments.

¹⁰ 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.

2007-08 to 2009-10 which however, turned to primary surplus during the year (₹ 82 crore).

1.13 Conclusion

The fiscal position of the State viewed in terms of the key fiscal parameters during 2010-11 revealed that the State's revenue surplus had increased by ₹ 344.83 crore while the fiscal deficit had declined by ₹ 208.96 crore and the primary deficit had turned into primary surplus by a margin of ₹ 240.78 crore in 2010-11 relative to the previous year.

During 2010-11, 92 *per cent* of the total revenue came from the Government of India as Central transfers (14 *per cent*) and grants-in-aid (78 *per cent*). The State achieved the total revenue collection targets fixed by the XIII-FC during 2010-11.

During 2010-11, non-plan revenue expenditure was ₹ 828.75 crore (33.50 *per cent*) more than the XIII-FC normative assessment. The expenditure on salary was 58.85 *per cent* of revenue expenditure, net of interest payment and pensions, which was within the ceiling of 61 *per cent* targeted in NFRBM Act.

The State should have adequate incremental non-debt receipts to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could also be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. During 2010-11, the non-debt receipts were sufficient and therefore, the State recorded a positive resource gap of ₹ 209 crore.

The overall fiscal liabilities of the State increased at a compound annual growth rate of 10.19 *per cent* during 2006-11. The fiscal liabilities increased by ₹ 371 crore (6.87 *per cent*) from ₹ 5402 crore in 2009-10 to ₹ 5773 crore in 2010-11. The committed liabilities for the State projected by the XIII-FC was 56.80 *per cent* of GSDP for the year 2010-11. Against this, the committed liabilities of the State was 48.83 *per cent* which was well within the projections.

The Government had invested ₹ 213.41 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives at the end of March 2011. The average return on this investment was NIL during the last five years while the Government paid an average interest rate of 7.68 *per cent* on its borrowing during 2010-11.

The State Government's net cash balance at the end of 2010-11 was ₹ 100.08 crore which had decreased by ₹ 2.47 crore over the previous year. The interest received on investment of cash balance during 2010-11 was 2.22 *per cent* while the State Government paid interest at the rate of 7.68 *per cent* on its borrowing during the year.

There were 54 incomplete projects (estimated cost ₹ 239.31 crore and actual expenditure incurred ₹ 122.16 crore as of March 2011) pertaining to 5 departments which were due to be completed by March 2011 but remained incomplete as of January 2012. Delay in completion of works invites the risk of escalation in the cost of the works. The actual cost overrun would be available on closure of the claims of the construction agencies after completion. Besides, due to delay in completion of the projects, the intended benefits from those projects did not reach the beneficiaries in the State.