

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. Topographically, the State is mountainous and the altitude varies approximately between 194 metres and 3048 metres above the sea level. 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 0.16 *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 2011-12 was 10.99 *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 (2011-12) 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 2007-12.

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 (2011-12) 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)

2010-11	Receipts	2011-12	2010-11	Disbursements	2011-12		
Section-A: Revenue					Non Plan	Plan	Total
4999.99	Revenue receipts ¹	5586.38	4187.84	Revenue expenditure ²	4054.08	821.58	4875.66
227.32	Tax revenue	303.88	1843.17	General services	2295.97	22.30	2318.27
183.14	Non-tax revenue	232.95	1125.72	Social services	923.34	230.78	1154.12
689.46	Share of Union Taxes/ Duties	803.20	1218.95	Economic services	834.77	568.50	1403.27
3900.07	Grants from Government of India	4246.35	0.00	Grants-in-aid and Contributions	0.00	0.00	0.00
Section-B: Capital							
0.00	Misc. Capital Receipts	0.00	1122.94	Capital Outlay	0.04	1249.35	1249.39
2.31	Recoveries of Loans and Advances	2.44	4.12	Loans and Advances disbursed	0.33	2.42	2.75
463.35	Public Debt receipts	1318.85	261.16	Repayment of Public Debt			798.57
0.00	Contingency Fund	0.00	0.00	Contingency Fund			0.00
2267.53	Public Account receipts	2611.38	2159.59	Public Account disbursements			2364.57
102.55	Opening Cash Balance	100.08	100.08	Closing Cash Balance	...	...	328.19
7835.73	Total	9619.13	7835.73	Total			9619.13

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

- Revenue receipts increased by ₹ 586.39 crore (11.73 per cent) from ₹ 4999.99 crore in 2010-11 to ₹ 5586.38 crore in 2011-12 due to increase in grants from Government of India (GOI) (₹ 346.28 crore), State's Own Tax revenue (₹ 76.56 crore), State's Non-Tax revenue (₹ 49.81 crore) and State's share of Union taxes and duties (₹ 113.74 crore). The revenue receipts at ₹ 5586.38 crore was however, lower than the assessment made by the State Government in its Fiscal Consolidation Roadmap (FCR) (₹ 5777.64 crore) for the year 2011-12 by ₹ 191.26 crore.
- Revenue expenditure of the State, on the other hand increased by ₹ 687.82 crore (16.42 per cent) from ₹ 4187.84 crore in 2010-11 to ₹ 4875.66 crore in 2011-12, mainly under the heads Administrative services (₹.171.81 crore), Interest payment and Servicing of Debt (₹ 26.06 crore), Pension and Miscellaneous General Services (₹ 251.63 crore), Education, Sports and Art & Culture (₹ 16.95 crore), Health and Family Welfare (₹ 35.32 crore), Agriculture and Allied Activities (₹ 37.31 crore), Energy (₹ 71.94 crore) and Transport (₹ 70.29 crore) offset by

¹ Revenue receipts and Non-tax revenue are inclusive of gross receipt (₹13.11 crore) from State Lotteries.

² Revenue expenditure and General Services (Non-Plan) are inclusive of expenditure (₹1.76 crore) on State Lotteries

decrease in Rural Development (₹ 36.36 crore) and Social Welfare & Nutrition (₹29.53 crore). The revenue expenditure (₹ 4875.66 crore) was higher than the assessment made by the State Government in its FCR (₹ 4787.18 crore) for the year 2011-12 by ₹ 88.48 crore.

- Capital Expenditure increased by ₹ 126.45 crore (11.26 per cent) from ₹ 1122.94 crore in 2010-11 to ₹ 1249.39 crore in 2011-12, mainly under the head General Service (₹ 18.58 crore), Education, Sports, Art & Culture (₹ 18.45 crore), Water Supply, Sanitation, Housing & Urban Development (₹ 14.69 crore), Agriculture & Allied Activities (₹ 32.60 crore), Transport (₹ 26.30 crore) and Energy (₹ 23.53 crore) offset by decrease in Industry (₹ 4.91 crore), Social Welfare and Nutrition (₹ 2.32 crore) and Irrigation and Flood Control (₹ 1.15 crore).
- Recoveries of Loans and Advances increased by ₹ 0.13 crore and disbursement decreased by ₹ 1.37 crore in 2011-12 over the previous year.
- During the year 2011-12 public debt receipts³ increased by ₹ 855.50 crore from ₹ 463.35 crore in 2010-11 to ₹ 1318.85 crore in 2011-12 and repayment also increased by ₹ 537.41 crore from ₹ 261.16 crore in 2010-11 to ₹ 798.57 crore in 2011-12 over the previous year.
- Public Account Receipts increased by ₹ 343.85 crore and disbursement also increased by ₹ 204.98 crore during 2011-12 over the previous year.

The total inflow increased by ₹ 1785.87 crore (23.09 per cent) from ₹ 7733.18 crore in 2010-11 to ₹ 9519.05 crore in 2011-12. The total outflow also increased by ₹ 1555.29 crore (20.11 per cent) from ₹ 7735.65 crore in 2010-11 to ₹ 9290.94 crore in 2011-12. The cash balance of the State at the end of 2011-12 increased by ₹ 228.11 crore (227.93 per cent) from ₹ 100.08 crore in 2010-11 to ₹ 328.19 crore in 2011-12.

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 2011-12

Fiscal Parameters	Targets as prescribed in NFRBM Act.	Projections made by State Government in MTFPS*	Actual
Revenue deficit	Zero per cent of GSDP	No revenue deficit	Revenue surplus – 12.73 per cent of RR
Fiscal deficit	3.50 per cent of GSDP	3.50 per cent of GSDP	4.47 per cent of GSDP
Consolidated debt	55.80 per cent of GSDP	43.59 per cent of GSDP	55.03 per cent of GSDP

* *Medium Term Fiscal Policy Statement.*

The State Government could achieve two out of the three targets set in NFRBM Act and one projection out of the three 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 2011-12. 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			Actuals		
	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
2011-12	226.52	48.34	274.86	303.88	231.19	535.07

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 higher by ₹ 260.21 crore (94.67 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 2011-12 were as under:

Table 1.4: Revenue receipts relative to XIII-FC and State's projections for 2011-12

(Rupees in crore)

	Assessment by the XIII-FC	Assessment made by the State Government in its FCR	Actual Receipts
Own Tax Revenue	226.52	221.55	303.88
Non-Tax Revenue	48.34	158.16	231.19

FCR: Fiscal Consolidation Roadmap

Though the assessment of Tax Revenue and Non-tax Revenue of the State together in 2011-12 made by the State Government in its Fiscal Consolidation Roadmap (FCR) (**Appendix 1.2**) was higher than the assessment made by XIII-FC, the actual achievement of OTR and NTR remained at 34.15 per cent and 378.26 per cent respectively higher

than the assessment made by the XIII-FC and 37.16 *per cent* and 46.17 *per cent* respectively higher than the assessment made by the State Government in its FCR during 2011-12.

The Thirteenth Finance Commission had 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 2011-12
(Non-plan Revenue Expenditure)**

Sector	Recommendations of XIII-FC	Actuals
Salary	1474.85	2246.96
Interest Payment	358.72	417.39
Pension	432.24	586.68
Other General Service	241.61	454.10
Other Social Service	51.54	72.88
Other Economic Service	34.88	274.31
Total	2593.84	4052.32

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 2011-12 non-plan revenue expenditure was ₹ 1458.48 crore (56.23 *per cent*) more than the XIII-FC recommendation.

1.3 Budget Analysis

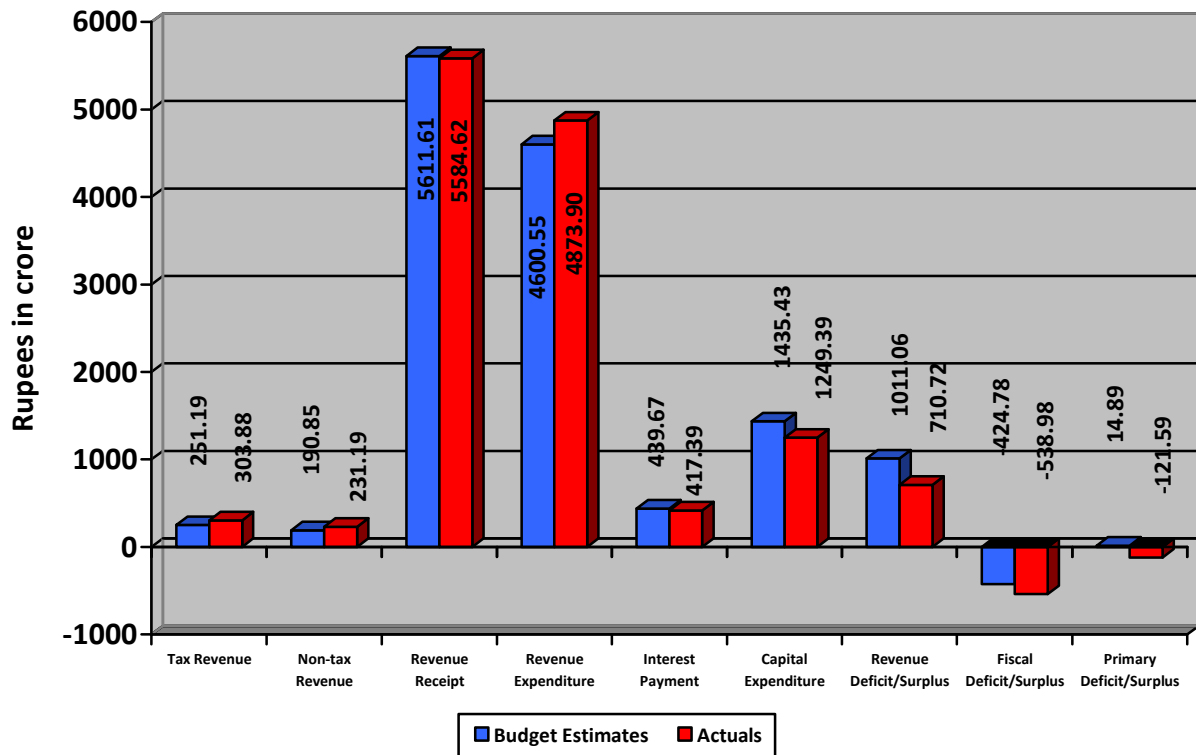
The budget papers presented by the State Government provide description of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal 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 2010-11 Actuals, 2011-12 Budget Estimates (BEs), 2011-12 Revised Estimates (REs) and 2011-12 Actuals.

Table 1.6: Variation in Actual Fiscal parameters over estimates

(Rupees in crore)

Parameters	2010-11	2011-12		
	Actuals	Budget Estimates	Revised Estimates	Actual
Tax Revenue	227.32	251.19	265.56	303.88
Non-Tax Revenue	181.61	190.85	169.64	231.19
Revenue Receipts	4998.46	5611.61	5846.32	5584.62
Non-debt Capital Receipts	2.31	3.50	3.75	2.44
Revenue Expenditure	4186.31	4600.55	5119.45	4873.90
Interest Payments	394.33	439.67	434.69	417.39
Capital Expenditure	1122.94	1435.43	1424.55	1249.39
Disbursement of Loans & Advances	4.12	3.91	6.28	2.75
Revenue Deficit/Surplus	812.15	1011.06	726.87	710.72
Fiscal deficit/Surplus	-312.60	-424.78	-700.21	-538.98
Primary Deficit/surplus	81.73	14.89	-265.52	-121.59

Chart 1.1: Selected fiscal Parameters: Estimates vis-a-vis Actual during 2011-12



- During 2011-12, the actual revenue receipts was less than the budget estimates by ₹ 26.99 crore (0.48 *per cent*) while actual revenue expenditure was higher by ₹ 273.35 crore (5.94 *per cent*) over budget estimates resulting in attaining a lower revenue surplus of ₹ 300.34 crore as compared to the projections made in the budget estimates.
- During the current year the tax revenue of the State increased by ₹ 76.56 crore (33.68 *per cent*) over the previous year. The actual collection of tax revenue during the year also increased by ₹ 52.69 crore (20.98 *per cent*) over the budget estimates for the year mainly due to higher collection of Sales Tax, Trade etc. (₹ 45.62 crore) and Taxes on vehicle (₹ 6.72 crore). The revenue from Sales Tax, Trade etc. contributed the major share of Tax Revenue (76.06 *per cent*) during the current year and it increased by 38.21 *per cent* over the previous year.
- The increase in Non-Tax Revenue by ₹ 40.34 crore as compared to the budget estimates for 2011-12 was due to increase in receipts mainly under Police (₹ 27.33 crore), Miscellaneous General Services (₹ 16.45 crore), Education, Sports, Arts & Culture (₹ 11.81 crore) offset mainly by decrease in Power (₹ 15.72 crore).
- The increase in Revenue Expenditure by ₹ 273.35 crore (5.94 *per cent*) over the budget provision for 2011-12 was due to increase in General Services ₹ 204.80 crore (74.92 *per cent*), Social Services by ₹ 14.25 crore (5.21 *per cent*) and Economic Services by ₹ 54.30 crore (19.87 *per cent*).
- During the year 2011-12, the actual Capital expenditure was less than the budget provision by ₹ 186.04 crore (12.96 *per cent*) which is attributable to decrease in General Services ₹ 250.49 crore (134.64 *per cent*) and Social Services ₹ 25.04 crore (13.46 *per cent*) offset by increase in Economic Services ₹ 89.49 crore (48.10 *per cent*).
- Actual fiscal deficit was increased over the assessment made in the budget estimates by ₹ 114.20 crore (26.88 *per cent*) mainly due to increase in Revenue Expenditure. The primary surplus of ₹ 81.73 crore in 2010-11 turned to primary deficit of ₹ 121.59 crore in 2011-12.

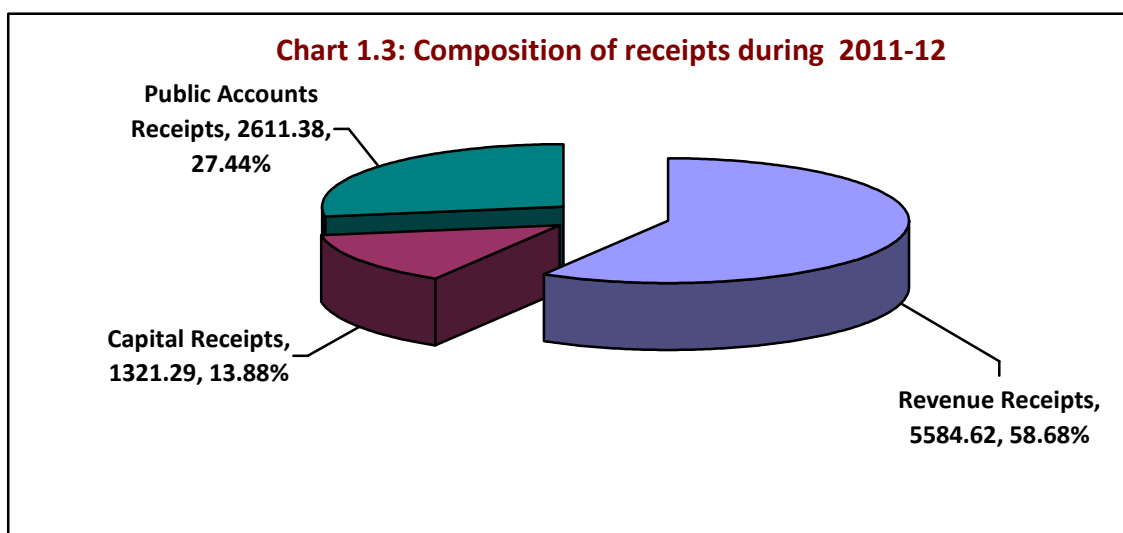
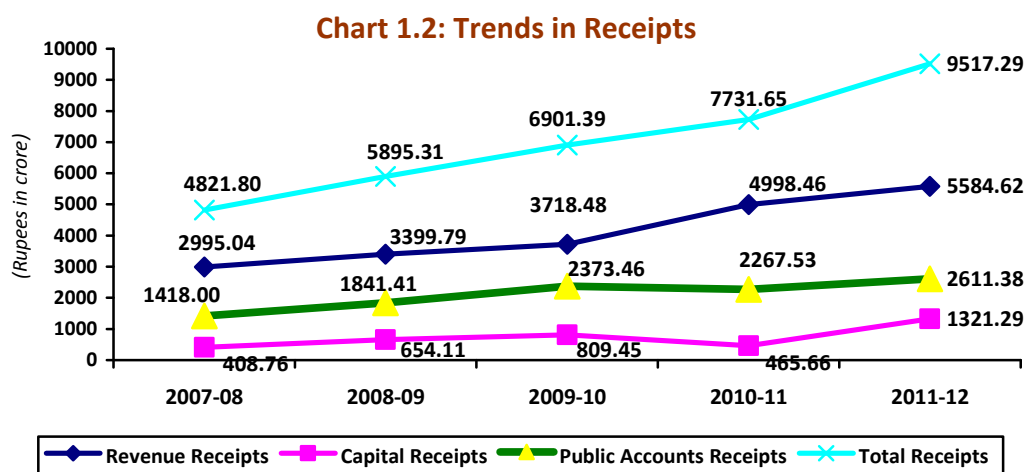
1.4 Resources of the State

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 2007-12. **Chart 1.3⁴** depicts the composition of resources of the State during the current year and **Table 1.7** presents the trends in growth and composition of receipts for the years 2007-08 to 2011-12.



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	2007-08	2008-09	2009-10	2010-11	2011-12
I	Revenue receipts	2995.04	3399.79	3718.48	4998.46	5584.62
II	Capital Receipts (CR)	408.76	654.11	809.45	465.66	1321.29
	Miscellaneous Capital Receipts	-	-	-	-	-
	Recovery of Loans and Advances	3.06	2.57	4.20	2.31	2.44
	Public Debt Receipts	405.70	651.54	805.25	463.35	1318.85
	Rate of growth of non-debt CR	(-)29.33	(-)16.01	63.42	(-)45.00	5.63
	Rate of growth of debt CR	(-)6.26	60.60	23.59	(-)42.46	184.63
	Rate of growth of Revenue Receipt	8.06	13.51	9.37	34.42	11.73
	Rate of growth of GSDP	11.27	16.85	8.87	8.26	8.48
	Rate of growth of CR	(-)6.49	60.02	23.75	(-)42.47	183.75
	Debt Capital buoyancy w.r.t GSDP	(-)0.56	3.60	2.66	(-)5.14	21.77
	Non Debt Capital Buoyancy w.r.t GSDP	(-)2.60	(-)0.95	7.15	(-)5.45	0.66
	Revenue Receipt Buoyancy w.r.t GSDP	0.72	0.80	1.06	4.16	1.38
III	Contingency Fund	-	-	-	-	-
IV	Public Account Receipts	1418.00	1841.41	2373.46	2267.53	2611.38
	Small Savings, Provident Fund etc	135.42	122.44	149.54	191.57	196.97
	Reserve Fund	6.85	5.37	26.49	36.96	29.00
	Deposits and Advances	209.02	134.09	786.40	545.72	718.11
	Suspense and Miscellaneous	51.07	27.29	52.94	21.17	24.79
	Remittances	1015.64	1057.59	1358.09	1472.11	1642.51
	Total Receipts	4821.80	5895.31	6901.39	7731.65	9517.29

Chart 1.3 shows that the total receipts of the State Government for the year 2011-12 was ₹ 9517.29 crore out of which, the revenue receipts was ₹ 5584.62 crore constituting 58.68 *per cent* of the total receipts. The balance came from capital receipts and Public Account receipts.

The revenue receipts of the State increased from ₹ 2995.04 crore in 2007-08 to ₹ 5584.62 crore in 2011-12 at a compound annual growth rate of 13.27 *per cent*. The buoyancy of Revenue receipts w.r.t GSDP during the year was 1.38 *per cent*.

The capital receipts (including Public Account receipts) constituted 41.32 *per cent* of the total receipts of the State during the year 2011-12, an increase of 115.28 *per cent* from ₹ 1826.76 crore in 2007-08 to ₹ 3932.67 crore in 2011-12.

Public Account receipts increased by ₹ 343.85 crore (15.16 *per cent*) in 2011-12 over the previous year due to increase in Deposit and Advances (₹ 172.39 crore), Remittances

(₹ 170.40 crore), Provident Fund (₹ 5.40 crore) and Suspense and Miscellaneous (₹ 3.62 crore) offset by decrease in Reserve Fund (₹ 7.96 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 ₹ 1284.05 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 2011-12
Mahatma Gandhi National Rural Employment Guarantee Programme	Project Directors, DRDA, 11 Districts	673.47
Sarva Shiksha Abhiyan (SSA)	SSA State Mission Authority	97.98
National Rural Health Mission (NRHM)	State Health Society	87.21
National Rural Drinking Water Programme	SWSM	80.91
Integrated Watershed Management Programme	State Level Nodal Agency	60.68
Rural Housing (Indira Awas Yojana)	Project Directors, DRDA	34.48
Rashtriya Madhyamik Siksha Abhiyan	Nagaland Education Mission Society	28.26
Capacity Building for Service Providers/Infrastructure development	Civil Aviation & Tourism	27.36
National aids Control Programme	Nagaland State AIDS Control Society	17.04
National Bamboo Mission	Nagaland Bamboo Mission Development Agency	17.00
Total		1124.39

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

An approximate amount of ₹ 1284.05 crore was directly transferred by GOI to the State Implementing Agencies during 2011-12, an increase of ₹ 250.43 crore (24.23 per cent) over the previous year. Out of an approximate amount of ₹ 1284.05 crore directly transferred to implementing agencies during the year, ₹ 1124.39 crore (87.57 per cent) was transferred to 10 Central Schemes viz. Mahatma Gandhi National Rural Employment

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.

Guarantee Programme, ₹ 673.47 crores (52.45 per cent), Sarva Shiksha Abhiyan (SSA) ₹ 97.98 crore (7.63 per cent), National Rural Health Mission (NRHM) ₹ 87.21 crores (6.79 per cent), National Rural Drinking Water Programme ₹ 80.91 crore (6.30 per cent), Integrated Watershed Management Programme ₹ 60.68 (4.73 per cent) Rural Housing (Indira Awas Yojana) ₹ 34.48 crore (2.69 per cent), Rashtriya Madhyamik Siksha Abhiyan ₹ 28.26 crore (2.20 per cent), Capacity Building for Service Providers/Infrastructure development ₹ 27.36 crore (2.13 per cent), National Aids Control Programme ₹ 17.04 crore (1.33 per cent) and National Bamboo Mission ₹ 17.00 crore (1.32 per cent).

With the transfer of an approximate amount of ₹ 1284.05 crore directly by GOI to the state Implementing Agencies, the total availability of State resources during 2011-12 had increased from ₹ 9519.05 crore to ₹ 10803.10 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 2007-12 are presented in **Appendix 1.3** and depicted in **Charts 1.4** and **1.5** respectively.

Chart 1.4: Trends in Revenue Receipts

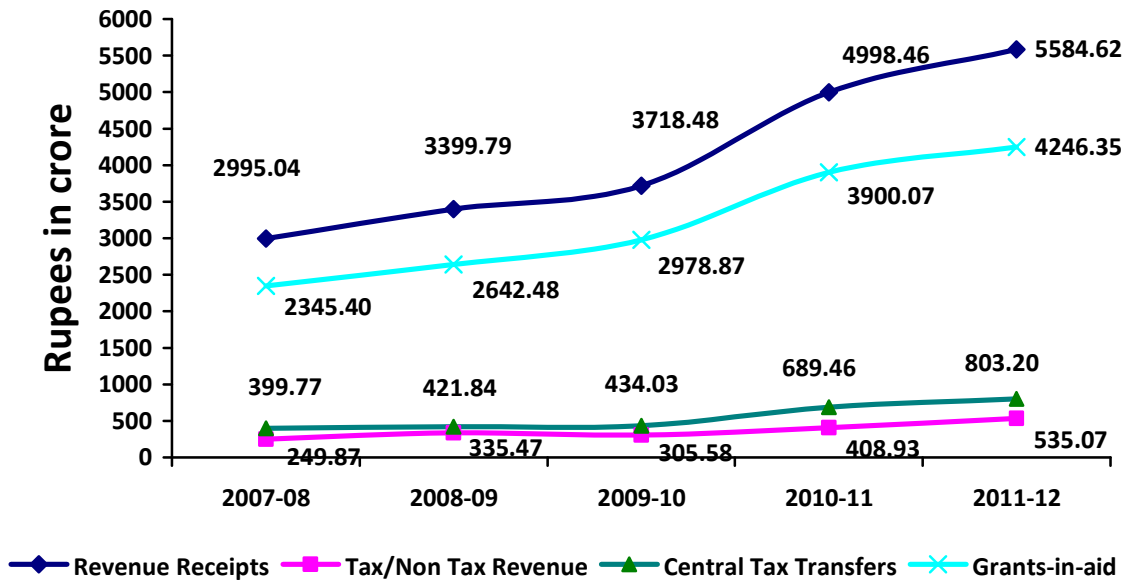
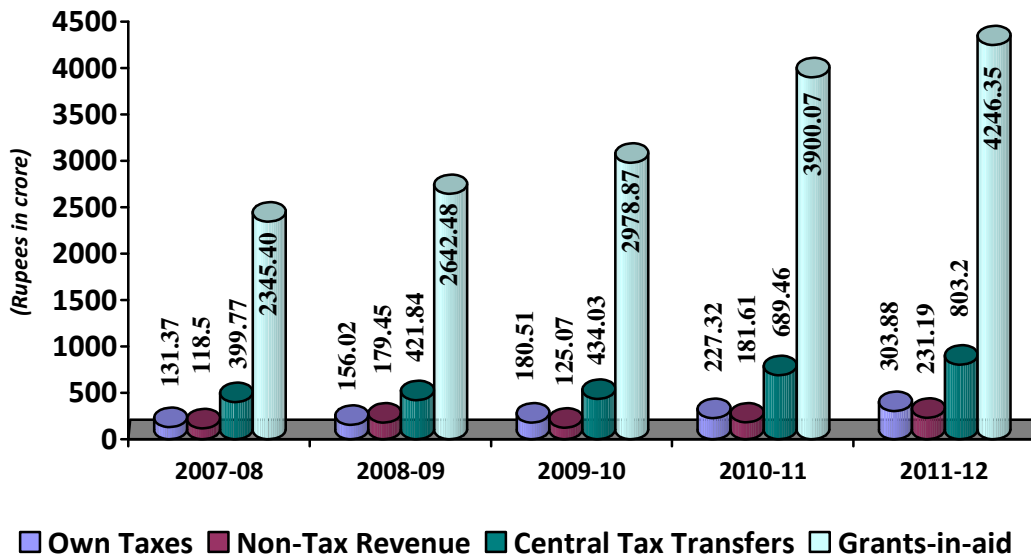


Chart 1.5: Composition of Revenue Receipts during 2007-12



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 2007-12.

Tax and non-tax revenue receipts together increased by ₹ 285.20 crore from ₹249.87 in 2007-08 to ₹ 535.07 crore in 2011-12 at a compound annual growth rate of 16.45 per cent.

The Revenue Receipts of the State increased from ₹ 2995.04 crore in 2007-08 to ₹ 5584.62 crore in 2011-12 at a compound annual growth rate of 13.27 per cent. While 9.58 per cent of the revenue receipts during 2011-12 have come from the State's Own Resources comprising taxes and non-taxes, Central Tax Transfers and Grants-in-aid together contributed 90.42 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 (2007-12).

Central tax transfers to the State increased by ₹ 113.74 crore (16.50 per cent) from ₹ 689.46 crore in 2010-11 to ₹ 803.20 crore in 2011-12. This was due to increase in Corporation Tax (₹ 46.70 crore), Tax on Income other than Corporation Tax (₹ 18.20 crore), Tax on Wealth (₹ 0.67 crore), Service Tax (₹ 27.06 crore), Customs (₹ 18.71 crore) and Union Excise Duties (₹ 2.40 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

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (Rupees in crore)	2995.04	3399.79	3718.48	4998.46	5584.62
Rate of growth of RR (<i>per cent</i>)	8.06	13.51	9.37	34.42	11.73
R R/GSDP (<i>per cent</i>)	37.09	36.03	36.20	44.95	46.29
Buoyancy Ratios					
Revenue receipts Buoyancy w.r.t GSDP	0.72	0.80	1.06	4.17	1.38
State's Own Tax Buoyancy w.r.t GSDP	0.92	1.11	1.77	3.14	3.97
Gross State Domestic Product (Rupees in crore)	8075.27	9436.07	10272.88	11121.00	12064.53
Rate of growth of GSDP	11.27	16.85	8.87	8.26	8.48

The Revenue Receipts buoyancy with respect to GSDP was 4.17 in 2010-11 which decreased to 1.38 in 2011-12. The growth rate of Revenue Receipts was however, less than the growth rate of GSDP in 2007-08 and 2008-09. The State's own tax buoyancy with respect to GSDP was 3.14 in 2010-11 which increased to 3.97 in 2011-12.

The break-up of Grants-in-aid received from GOI during 2007-12 is given in the table below:

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

(Rupees in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Grants for State Plan Schemes	818.62	1003.27	1041.00	936.32	985.20
Non-Plan Grants	1246.03	1316.76	1460.86	2658.28	2841.16
Grants for Central Plan Schemes, Centrally Sponsored Plan Schemes and Special Plan Schemes	280.75	322.45	477.01	305.47	419.99
Total	2345.40	2642.48	2978.87	3900.07	4246.35
Percentage of increase/decrease over previous year	4.45	12.67	12.73	30.92	8.88

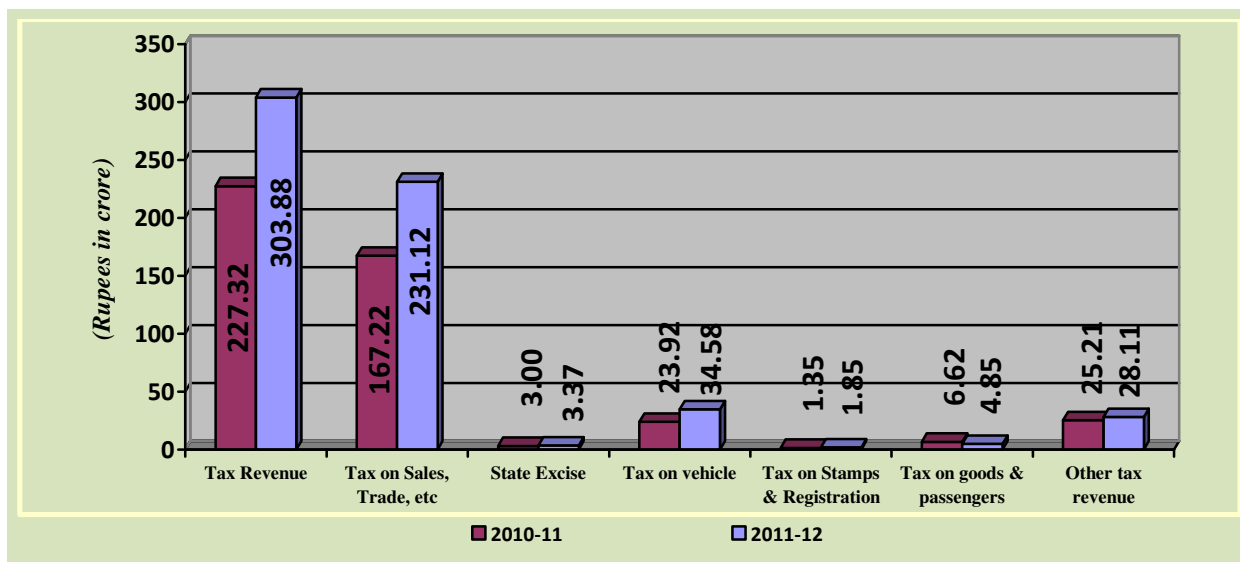
Grants-in-aid from Government of India have increased by ₹ 346.28 crore (8.88 per cent) from ₹ 3900.07 crore in 2010-11 to ₹ 4246.35 crore in 2011-12 contributing 76.04 per cent of the total Revenue Receipts during 2011-12. This increase was due to enhanced grants for non-plan grants (₹ 182.88 crore), Grants for State Plan Schemes (₹ 48.88 crore), Centrally Sponsored Plan Schemes (₹47.39 crore), Grants for Special Plan Schemes (₹ 35.98 crore) and Grants for Central Plan Schemes (₹ 31.15 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 mobilisation 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 2007-08 to 2011-12 are detailed in **Appendix 1.6**. The tax and non-tax revenue for the years 2010-11 and 2011-12 are detailed in **Charts 1.6** and **1.7** below.

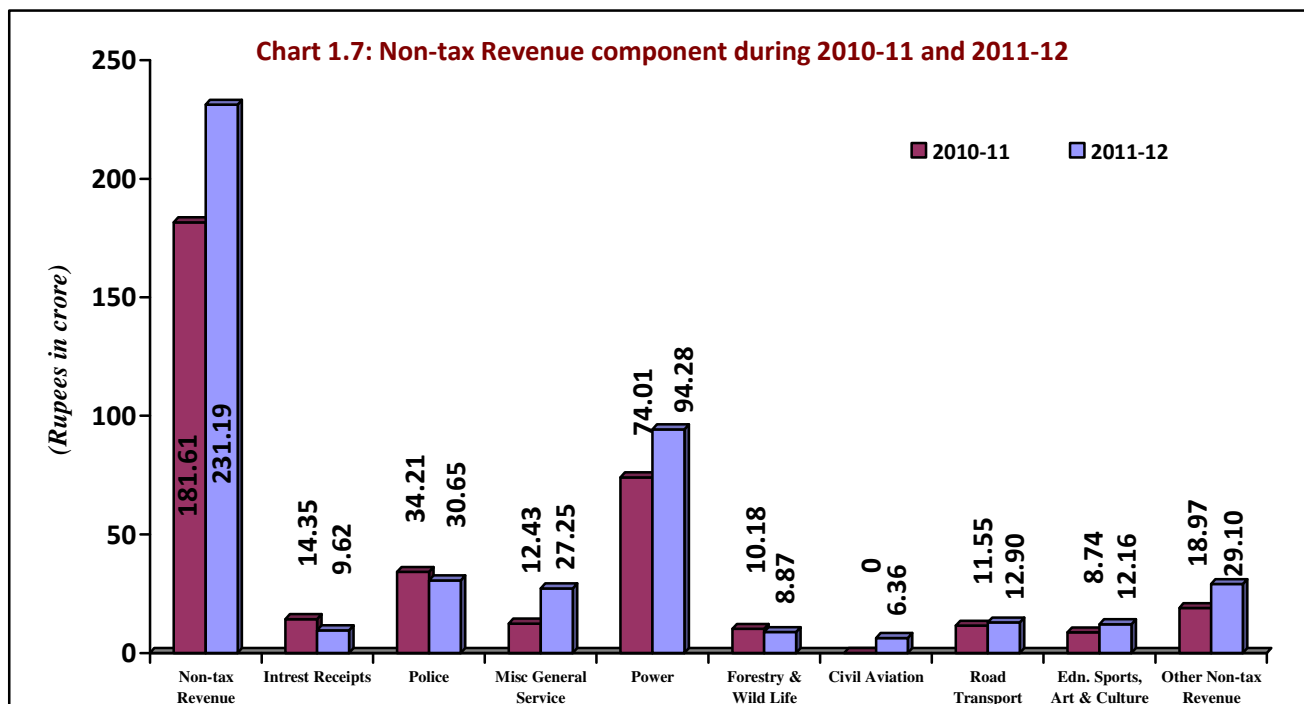
Tax Revenue

Chart 1.6 : Tax Revenue component during 2010-11 and 2011-12 (Rupees in crore)



The tax revenue increased by ₹ 76.56 crore (33.68 per cent) from ₹ 227.32 crore in 2010-11 to ₹ 303.88 crore in 2011-12. The major contribution to the State's tax revenue during the year were sales tax (₹ 231.12 crore), Taxes on Vehicles (₹ 34.58 crore) and Tax on Goods and Passengers (₹ 4.85 crore).

The increase in sales tax revenue by ₹ 63.90 crore from ₹167.22 crore in 2010-11 to ₹ 231.12 crore in 2011-12 represented around 83.46 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 (₹ 94.28 crore), Police (₹ 30.65 crore), Miscellaneous General Services (₹27.25 crore), Road Transport (₹ 12.90 crore), Education, Sports, Arts & Culture (₹ 12.16 crore), Interest Receipts (₹ 9.62 crore), Forestry and Wildlife (₹ 8.87 crore) and Civil Aviation (₹ 6.36 crore). Increase in Non Tax Revenue (NTR) in 2011-12 (₹ 49.58 crore) over the previous year was mainly on account of Power (₹ 20.27 crore), Miscellaneous General Service (₹ 14.82 crore) and Road Transport (₹ 1.35 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 (2009-10 to 2011-12) along with relevant all India average percentage of expenditure on collection to gross collection for 2010-11 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 2010-11
1	Taxes on sales, Trade, etc.	2009-10	132.22	4.18	3.16	0.75
		2010-11	167.22	5.59	3.34	
		2011-12	231.12	6.10	2.64	
2	State Excise	2009-10	3.13	NA	NA	3.05
		2010-11	3.00			
		2011-12	3.36			
3	Taxes on Vehicles	2009-10	16.73	2.24	13.39	3.71
		2010-11	23.92	3.20	13.38	
		2011-12	34.58	3.70	10.70	
4	Stamps and Registration Fees	2009-10	1.19	0.16	13.45	1.60
		2010-11	1.35	0.25	18.52	
		2011-12	1.85	0.25	13.51	

(Source: Finance Accounts and compilation of All India average)

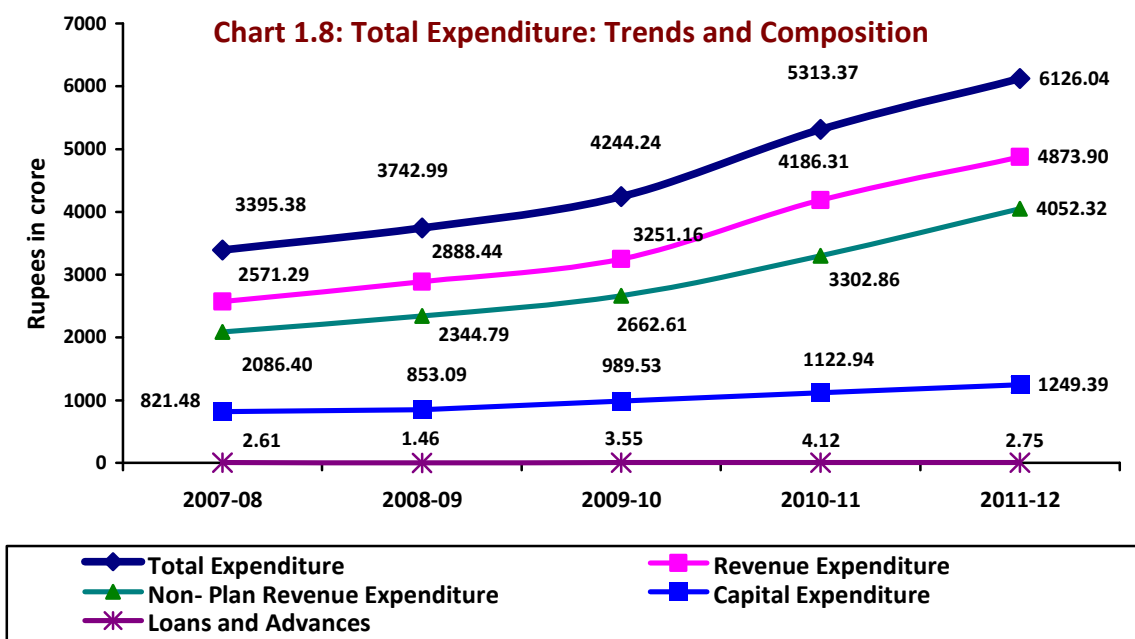
Table 1.11 indicates that the percentage of expenditure on collection in respect of all the components of State's Own Tax revenue except State Excise (the percentage of collection was not available) was much higher than the All India Average cost of collection which indicates that the excess expenditure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

1.6 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 (2007-12) 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 ₹ 3395.38 crore in 2007-08 to ₹ 6126.04 crore in 2011-12.

Total expenditure during 2011-12 at ₹ 6126.04 crore increased by ₹ 812.67 crore (15.29 *per cent*) over the previous year. Out of the total expenditure in 2011-12, revenue expenditure was 79.56 *per cent* (₹ 4873.90 crore) while capital expenditure was 20.39 *per cent* (₹ 1249.39 crore) and loans and advances was 0.05 *per cent* (₹ 2.75 crore). The increase in total expenditure during 2011-12 over the previous year was due to increase of revenue expenditure by ₹ 687.59 crore and capital expenditure by ₹ 126.45 crore offset by decrease in disbursement of loans and advances by ₹ 1.37 crore.

The non-plan revenue expenditure (₹ 4052.32 crore) increased by ₹ 352.06 crore (9.51 *per cent*) during the year as compared to the projection made by the State Government in its Fiscal Consolidation Roadmap (FCR) for 2011-12 (₹ 3700.26 crore). The capital expenditure (₹ 1249.39 crore) was lower by ₹ 165.99 crore (11.73 *per cent*) as compared to the assessment made by the State Government in its FCR (₹ 1415.38 crore).

Chart 1.9: Total Expenditure: Trends in share of its Components

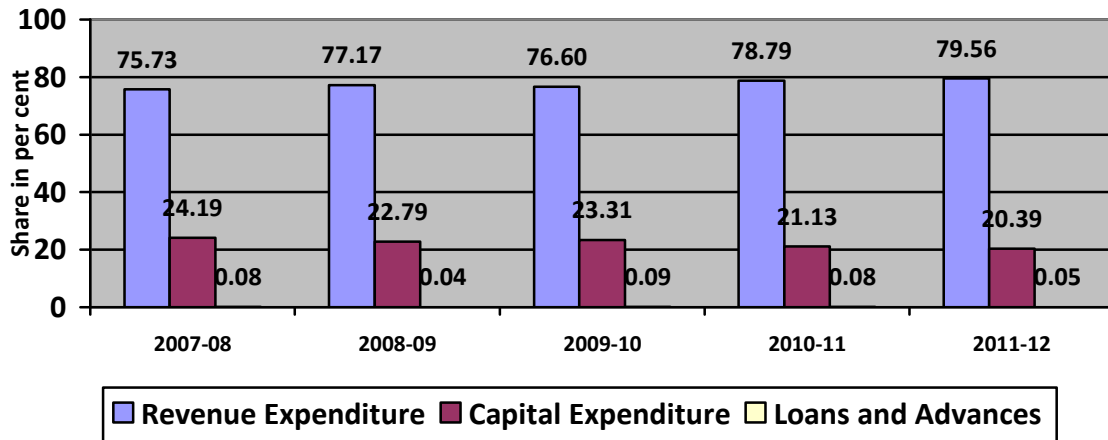
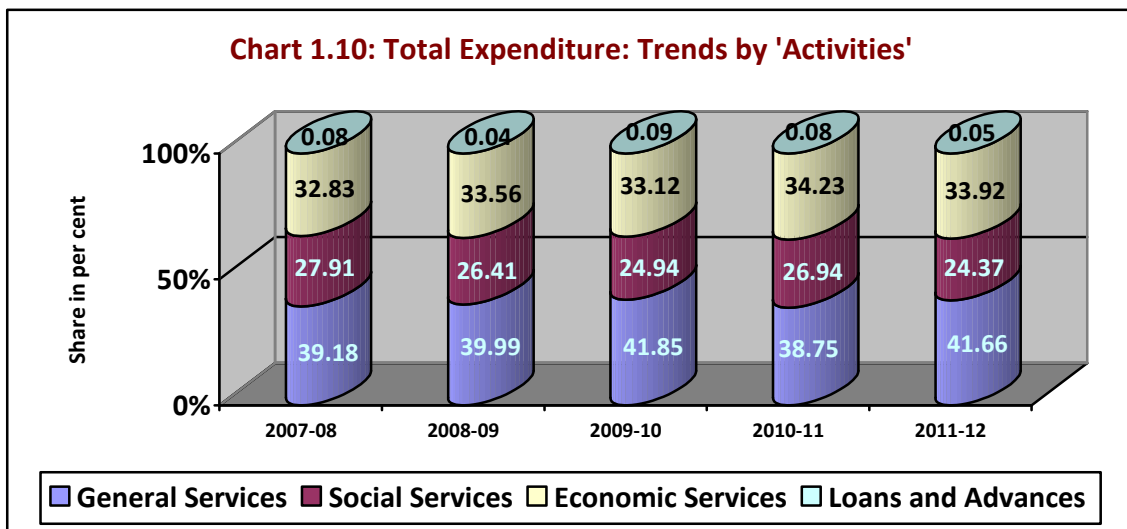


Chart 1.10: Total Expenditure: Trends by 'Activities'



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 1.12**.

Table 1.12: Total expenditure-basic parameters

	2007-08	2008-09	2009-10	2010-11	2011-12
Total Expenditure (TE) (₹ in crore)	3395.38	3742.99	4244.24	5313.37	6126.04
Rate of growth of TE (<i>per cent</i>)	15.80	10.24	13.39	25.19	15.29
TE/GSDP ratio (<i>per cent</i>)	42.05	39.67	41.31	47.78	50.78
RR/TE (<i>per cent</i>)	88.21	90.83	87.66	94.07	91.16
Buoyancy of Total expenditure with reference to:					
GSDP (ratio)	1.40	0.61	1.51	3.05	1.80
Revenue Receipt (ratio)	1.96	0.76	1.43	0.73	1.30
GSDP (Rupees in crore)	8075.27	9436.07	10272.88	11121.00	12064.53
Rate of growth of GSDP (<i>per cent</i>)	11.27	16.85	8.87	8.26	8.48
Revenue Receipts (Rupees in crore)	2995.04	3399.79	3718.48	4998.46	5584.62
Rate of growth of RR (<i>per cent</i>)	8.06	13.51	9.37	34.42	11.73

During the current year, 91.16 *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 ₹ 493.45 crore (23.97 *per cent*) from ₹ 2058.81 crore in 2010-11 to ₹ 2552.26 crore in 2011-12, Social Services expenditure increased by ₹ 61.08 crore (4.26 *per cent*) and Economic Services expenditure increased by ₹ 259.51 crore (14.27 *per cent*).

The pattern of total expenditure in the form of non-plan and plan expenditure during 2011-12 showed that they contributed 66.16 *per cent* (₹ 4052.69 crore) and 33.84 *per cent* (₹ 2073.35 crore) respectively. The non-plan expenditure increased by ₹ 749.73 crore as compared to the previous year due to increase in revenue expenditure under General Services, Social Services and Economic Services by ₹ 460.01 crore, ₹ 112.68 crore and ₹ 176.77 crore respectively, capital expenditure under Economic Services by ₹ 0.03 crore and Loans & Advances by 0.24 crore.

Plan expenditure increased by ₹ 62.94 crore as compared to the previous year due to increase in revenue expenditure under General Services by ₹ 14.87 crore, Economic Services by ₹ 7.54 crore, capital expenditure under General Services by ₹ 18.58 crore, Social Services by ₹ 32.68 crore and Economic Services by ₹ 75.16 crore offset by decrease in revenue expenditure under Social Services by ₹ 84.28 crore and Loans & Advances by ₹ 1.61 crore.

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 & Advances.

The expenditure on General Services and Interest Payments, which are considered as non-developmental, together contributed 41.66 *per cent* in 2011-12 as against 38.75 *per cent* in 2010-11 and 39.18 *per cent* in 2007-08. On the other hand, developmental expenditure i.e., expenditure on Social and Economic Services together accounted for 58.29 *per cent* in 2011-12 as against 61.17 *per cent* in 2010-11 and 60.74 *per cent* in 2007-08. This indicates that the non-developmental expenditure had increased by 2.91 *per cent* in 2011-12 as compared to previous year while the developmental expenditure had decreased by 2.88 *per cent* over the same period.

1.6.3 Revenue Expenditure

Revenue expenditure had predominant share varying from 75.73 *per cent* to 79.56 *per cent* of the total expenditure of the State during 2007-12. 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 1.13**.

Table 1.13: Revenue expenditure-basic parameters

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Expenditure (RE), of which (Rupees in crore)	2571.29	2888.44	3251.16	4186.31	4873.90
Non-plan Revenue Expenditure (NPRE) (Rupees in crore)	2086.40	2344.79	2662.61	3302.86	4052.32
Plan Revenue Expenditure (PRE) (Rupees in crore)	484.89	543.65	588.55	883.45	821.58
Rate of growth of RE (<i>per cent</i>)	15.76	12.33	12.56	28.75	16.42
Rate of growth of NPRE (<i>per cent</i>)	18.04	12.38	13.55	24.05	22.69
Rate of growth of PRE (<i>per cent</i>)	6.88	12.12	8.26	50.11	(-7.00)
RE as percentage to TE	75.73	77.17	76.60	78.79	79.56
NPRE/GSDP (<i>per cent</i>)	25.84	24.85	25.92	29.70	33.59
NPRE/TE (<i>per cent</i>)	61.45	62.64	62.73	62.16	66.15
NPRE/RR (<i>per cent</i>)	69.66	68.97	71.60	66.08	72.56
Buoyancy of RE with GSDP (ratio)	1.40	0.73	1.42	3.48	1.94
Buoyancy of RE with RR (ratio)	1.96	0.91	1.34	0.84	1.40

Revenue expenditure of the State had increased by ₹ 2302.61 crore (89.55 per cent) from ₹ 2571.29 crore in 2007-08 to ₹ 4873.90 crore in 2011-12 at a compound annual growth rate of 13.64 per cent. Both non plan revenue expenditure (NPRE) and plan revenue expenditure (PRE) had shown an increase over the period 2007-12. Of the total increase of ₹ 687.59 crore in revenue expenditure during 2011-12 over the previous year, increase in NPRE contributed 109.00 per cent (₹ 749.46 crore) while decrease in PRE accounted for 9.00 per cent (₹ 61.87 crore). The increase of ₹ 749.46 crore in NPRE during 2011-12 over the previous year was mainly due to increase in Education, Sports, Art & Culture by ₹ 79.73 crore, Pensions and Miscellaneous General Services ₹ 251.63 crore, Administrative Service ₹ 163.41 crore, Health and Family Welfare ₹ 30.82 crore, Energy ₹ 70.81 crore, Interest Payment and Servicing of Debt ₹ 26.06 crore and Transport ₹ 69.34 crore. The PRE had decreased by ₹ 61.87 crore from ₹ 883.45 crore in 2010-11 to ₹ 821.58 crore in 2011-12 mainly due to decrease in expenditure under Education, Sports, Art & Culture ₹ 62.78 crore, Social Welfare and Nutrition ₹ 26.99 crore and Rural Development ₹ 23.91 crore offset by increase in Irrigation and Flood Control by ₹ 17.01 crore, Administrative Services by ₹ 8.41 crore, Special Area Programmes by ₹ 7.11 crore, Fiscal Services by ₹ 5.84 crore, Agriculture & Allied Activities by ₹ 5.57 crore, Health & Family Welfare by ₹ 4.50 crore, Labour & Labour Welfare by ₹ 1.39 crore, Information & Broadcasting by ₹ 1.20 crore and Energy by ₹ 1.12 crore.

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

Table 1.14: NPRE assessments made by XIII-FC and FCR

	(Rupees in crore)		
	Assessment made by XIII-FC	Assessment made by State Government in FCR	Actual
Non-Plan Revenue Expenditure	2593.85	3700.26	4052.32

The actual NPRE exceeded the normative assessment made by XIII-FC by ₹ 1458.47 crore (56.23 per cent) and also assessment made by the State in FCR by ₹ 352.06 crore (9.51 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 1.15** present the trends in the expenditure on these components during 2007-12.

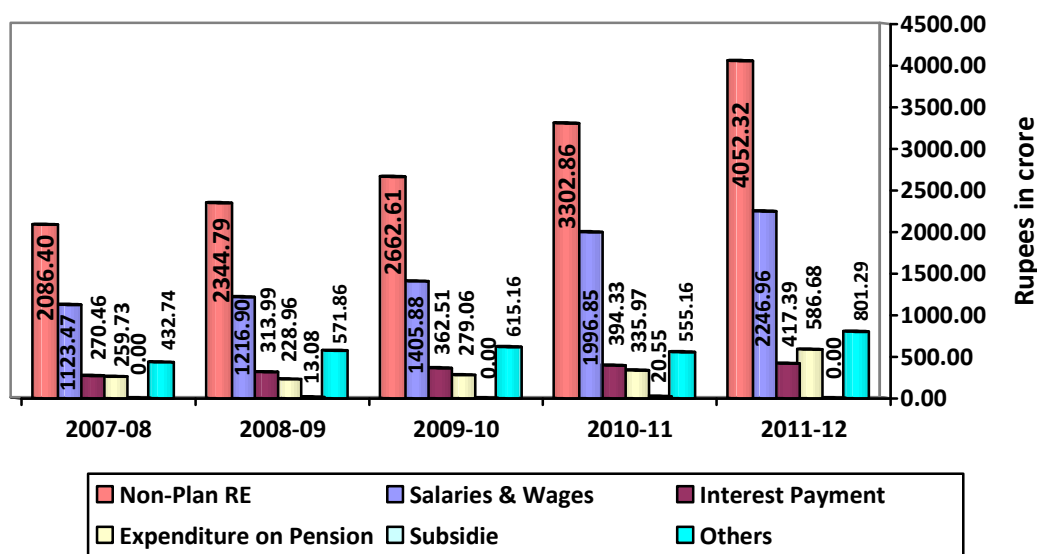
The committed expenditure (i.e., interest payment, pension, salaries and subsidies) of the State Government increased from ₹ 2784.78 crore in 2011-12 to ₹ 3287.82 crore in 2011-12. The overall percentage of committed expenditure on NPRE and total Revenue Receipts was 81.13 per cent and 58.87 per cent.

Table 1.15: Components of Committed Expenditure

(Rupees in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Salaries & Wages, of which	1143.25	1249.39	1442.85	2033.93	2283.75
Non-plan	1123.47	1216.90	1405.90	1996.85	2246.96
Plan	19.78	32.49	36.95	37.08	36.79
Interest Payment	270.46	313.99	362.51	394.33	417.39
Expenditure on Pension	259.73	228.96	279.06	335.97	586.68
Subsidies	0.00	13.08	0.00	20.55	0.00
Total	1673.44	1805.42	2084.42	2784.78	3287.82
As per cent of RR					
Salaries & Wages	38.17	36.75	38.80	40.69	40.89
Interest Payment	9.03	9.24	7.50	7.89	7.47
Expenditure on pension	8.67	6.73	9.75	6.72	10.51
Subsidies	0.00	0.38	0.00	0.41	0.00

Chart 1.11: Share of Committed Expenditure in Non-Plan Revenue Expenditure during 2007-12



Salaries & Wages:

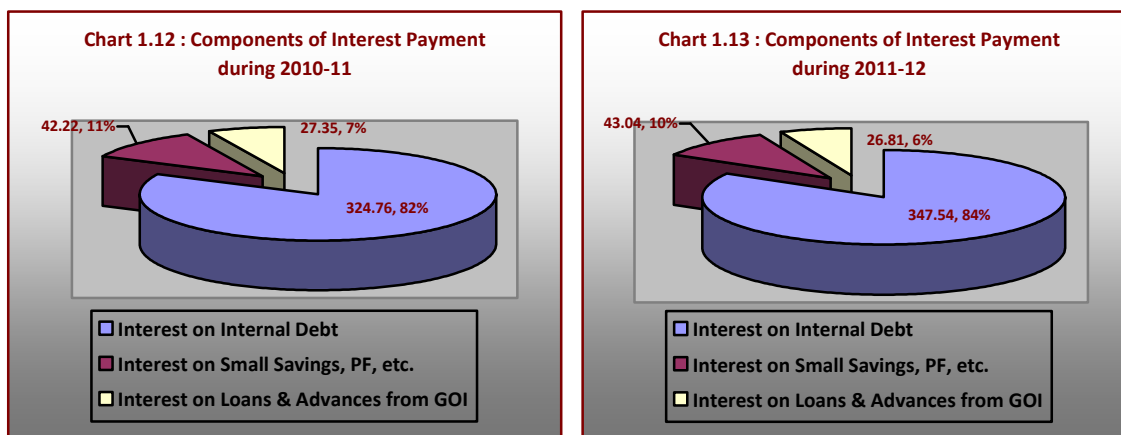
Expenditure on salaries under Non-Plan and Plan during the current year was ₹ 2246.96 crore and ₹ 36.79 crore respectively. The expenditure on salaries increased by ₹1140.50 crore (99.76 per cent) from ₹ 1143.25 crore in 2007-08 to ₹ 2283.75 crore in 2011-12 and was ₹ 808.90 crore more than the projection made in XIII-FC (₹ 1474.85 crore). Expenditure on salaries and wages increased by ₹ 249.82 crore (12.28 per cent) over the

previous year mainly due to release of dearness allowance installments and incremental benefits. Salary and wages accounted for 40.89 *per cent* of the revenue receipts during 2011-12.

Pension Payment:

The expenditure on pension had increased by ₹ 326.95 crore (125.88 *per cent*) from ₹ 259.73 crore in 2007-08 to ₹ 586.68 crore in 2011-12. The pension payment were ₹ 154.44 crore more than the assessment made by XIII-FC (₹ 432.24 crore) and also ₹ 10.39 crore more than the assessment made by the State Government in its MTFPS (₹ 576.29 crore) for the year 2011-12. The pension payment recorded a growth of 74.62 *per cent* (₹ 250.71 crore) over the previous year mainly due to introduction of new pension policy by the State Government.

Interest Payments:



Interest payment increased by ₹ 146.93 crore (54.33 *per cent*) from ₹ 270.46 crore in 2007-08 to ₹ 417.39 crore in 2011-12. The interest payment increased by ₹ 23.06 crore (5.85 *per cent*) during 2011-12 over the previous year due to increase in interest payment on Internal Debt (₹ 22.78 crore) and Small Savings, Provident Fund etc. (₹ 0.82 crore) offset by decrease in Interest on Loan and Advances from Central Government (₹ 0.54 crore).

The interest payment for the year 2011-12 was lower than the projection made by the State Government in MTFPS (₹ 439.67 crore) but higher than the projections made in XIII-FC (₹ 358.72 crore).

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 1.16**.

Table 1.16: Financial Assistance to Local Bodies etc.

(Rupees in crore)

Financial Assistance to Institutions	2007-08	2008-09	2009-10	2010-11	2011-12
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	2.40	14.70	18.44	5.50	6.40
Co-Operation	..	...	0.07	3.44	6.55
Municipal councils	0.27	2.11	1.20	...	2.98
Development Agencies	29.03	40.34	62.20	26.56	28.29
Hospitals and Other Charitable Institutions	8.73	10.16	10.78	12.59	14.70
Old Age Pension Scheme	...	...	...	16.67	1.43
Special Area Programme	---	---	---	---	4.75
Other Institutions	1.41	7.47	6.21	38.13	99.63
Total	41.84	74.78	98.90	102.89	164.73
Assistance as percentage of RE	1.40	2.20	2.66	2.46	3.38

The total assistance to local bodies etc. increased by ₹ 61.84 crore (60.10 *per cent*) from ₹ 102.89 crore in 2010-11 to ₹ 164.73 crore in 2011-12. **Table 1.16** shows that the assistance increased by ₹ 1.73 crore (6.51 *per cent*) from ₹ 26.56 crore in 2010-11 to ₹ 28.29 crore in 2011-12 in respect of development agencies whereas, it declined by ₹ 15.24 crore (91.42 *per cent*) from ₹ 16.67 crore in 2010-11 to ₹ 1.43 crore in 2011-12 in respect of Old Age Pension Scheme.

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 Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. **Table 1.17** analyses the fiscal priority given by the Nagaland Government to various expenditure heads in 2008-09 and the current year viz 2011-12 with regard to developmental expenditure, social sector expenditure and capital expenditure.

Table-1.17: Fiscal priority of the State in 2008-09 & 2011-12

Fiscal priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE	Education/AE	Health/AE
Nagaland 2008-09	39.67	60.01	26.41	22.79	11.79	3.97
Nagaland 2011-12	50.78	58.33	24.37	20.39	12.75	4.55

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 11.11 *per cent* from 39.67 *per cent* in 2008-09 to 50.78 *per cent* in 2011-12. The DE to AE marginally decreased by 1.68 *per cent* whereas, SSE to AE and CE to AE declined by 2.04 *per cent* and 2.40 *per cent* respectively as compared to 2008-09. Further, the expenditure on the education sector and health sector as proportion of Aggregate expenditure was 12.75 *per cent* and 4.55 *per cent* respectively in 2011-12 which is marginally higher as compared to 2008-09.

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 1.18** 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 1.19** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

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-1.18: Developmental Expenditure

(Rupees in crore)

Components of Developmental Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actual
Developmental Expenditure (a to c)	2065.21 (60.82)	2246.10 (60.01)	2467.96 (58.15)	3254.56 (61.25)	3441.95	3573.45 (58.33)
a. Developmental Revenue Expenditure	1378.83 (40.61)	1540.70 (41.16)	1668.46 (39.31)	2344.67 (44.13)	2488.84	2557.39 (41.74)
b. Developmental Capital Expenditure	683.77 (20.14)	703.94 (18.81)	795.95 (18.75)	905.77 (17.05)	949.20	1013.64 (16.55)
c. Developmental Loans and Advances	2.61 (0.08)	1.46 (0.04)	3.55 (0.09)	4.12 (0.08)	3.91	2.42 (0.04)

Figures in parentheses indicate percentage to aggregate expenditure

The developmental expenditure (₹ 3573.45 crore) exceeded the assessment made by the State Government in the budget by ₹ 131.50 crore. The developmental revenue and capital expenditure increased by ₹ 212.72 crore (9.07 per cent) and ₹ 107.87 crore (11.91 per cent) respectively over the previous year. The increase in developmental revenue expenditure was mainly under Education, Sports, Art & Culture (₹ 16.95 crore), Health & Family Welfare (₹ 35.32 crore), Agriculture & Allied Activities (₹ 37.30 crore), Energy (₹ 71.94 crore), Irrigation & Flood Control (₹ 19.42 crore) and Transport (₹ 70.29 crore) offset by decrease in Social Welfare & Nutrition (₹ 29.53 crore), Rural Development (₹ 36.36 crore).

Table 1.19 –Efficiency of Expenditure Use in Selected Social and Economic Services

(In per cent)

Social/Economic Infrastructure	2010-11		2011-12	
	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	6.51	78.84	6.25	88.63
Health and Family Welfare	16.36	92.24	14.86	85.79
WS, Sanitation, & HUD	69.10	67.19	76.85	91.78
Total (SS)	21.38	70.63	22.69	76.57
Economic Services (ES)				
Agri & Allied Activities	12.51	48.14	17.90	50.47
Irrigation and Flood Control	1.41	13.70	0.35	12.43
Power & Energy	21.88	24.67	22.57	19.51
Transport	71.69	94.68	63.90	70.72
Total (ES)	32.97	37.10	32.47	40.77
Total (SS+ES)	27.87	53.20	28.38	56.93

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

Table 1.19 shows that the ratio of CE to TE under Water Supply, Sanitation, Housing and Urban Development increased by 7.75 per cent whereas it decreased in General Education by 0.26 per cent and Health and Family Welfare by 1.50 per cent. The ratio of CE to TE under Social Services increased from 21.38 per cent in 2010-11 to 22.69 per

cent in 2011-12 whereas under Economic Services it decreased from 32.97 *per cent* in 2010-11 to 32.47 *per cent* in 2011-12.

The share of salary and wages on General Education under Social service was 88.63 *per cent* of its revenue expenditure and on Health & Family Welfare and Water Supply Sanitation, Housing & Urban Development the share was 85.79 *per cent* and 91.78 *per cent* respectively. The percentage of salary and wages relative to its revenue expenditure on Social services was 5.94 *per cent* higher than the previous year.

The salary and wage expenditure in terms of percentage of revenue expenditure under Economic services was higher by 3.67 *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 higher by 3.73 *per cent* during 2011-12 over the previous year.

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

During 2009-11, five performance reviews on the effectiveness of expenditure and the outcomes thereof were attempted and featured in the Audit Reports. Of the five performance reviews discussed in the Public Accounts Committee (PAC) meetings, the Report of the PAC was finalised only in respect of one performance review (Performance Audit of Department of Underdeveloped Areas (DUDA), the major recommendations of which are summarised below:

Major PAC recommendations

- The DUDA being a Government Department should not act as a Nodal agency. It does not require DLSC or SLSC but should act as a Government established Department at par with other Government departments by formulating concrete guidelines for UADP and strictly implement the guidelines of BADP of GOI. The Department should immediately move for such functions through official Notification to the effect with immediate effect.
- Since the Department lacks in administrative caliber, it should function under a Minister instead of an Advisor. The Directorate level Ministerial Staff should also be streamlined by recruiting regular staff by imparting accounting training henceforth.
- The Department should extend its wings to the Police Engineering Project under the establishment of Home Department. The Department should work out its modalities to achieve this in reality.
- The Department should intimate the fate of ₹ 4 crore released against Angphang Model Village and completion of all 11 components of work within the specific period.

- The Department should not maintain leniency to any pressure and abide by its guidelines and objectives framed under UDAP and BADP guidelines. Proper Monitoring System may also be formulated and all reports prepared based on ground reality.
- The SLSC meeting should be held timely to enable the State Government to submit the proposal and obtain sanction from GOI in time.
- Selection of projects should be done on need basis as envisaged in the perspective plan.
- The State Government should ensure timely release of funds and utilisation certificates should be based on actual utilisation of funds.
- Assets created should be promptly handed over to the end users and its proper utilisation ensured.
- Project monitoring should be streamlined and the impact of the scheme should be periodically assessed.

Action taken by the Government on the recommendations of the Public Accounts Committee, if any, was not 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 35 *per cent* of Non-plan Revenue Expenditure for 2011-12 in order to ensure viability of Irrigation Projects.

There was no commercial irrigation project in Nagaland. However, 936 minor irrigation projects covering 38708 hectares involving a cost of ₹ 378.19 crore were taken up under AIBP during 2000-2012.

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 had not operated such sub-head till 2011-12. 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 ₹ 11.63 crore for 2011-12 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 2012 is given in **Table 1.20**.

Table 1.20: Department-wise Profile of Incomplete Projects

<i>(Rupees in Crore)</i>				
Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Cost	Cumulative expenditure as on 31.3.2012
PHED	57	70.66	70.66	51.11
PWD	12	261.10	261.10	158.21
Veterinary	11	2.70	2.70	0.66
CAWD	10	31.44	31.44	19.70
Youth Resources	4	174.60	150.51	79.78
Technical Education	3	3.00	3.00	1.20
Geology & Mining	1	26.54	53.95	26.02
DUDA	7	21.00	21.00	13.37
SCERT	1	4.28	4.97	4.63
Transport Commissioner	2	17.35	17.35	12.05
Medical Engineering	2	26.82	26.82	4.00
Urban Development	16	382.75	382.75	150.04
Power	1	19.67	19.67	13.42
Police Engineering	6	443.99	443.99	145.19
Industry & Commerce	2	9.67	9.67	4.67
Evolution	2	1.39	1.39	1.39
School Education	1	2.51	2.51	0.85
Total	138	1499.47	1503.48	686.29

Source: Finance Accounts and Departmental records

There were 138 incomplete projects (estimated cost ₹ 1499.47 crore and actual expenditure incurred ₹ 686.29 crore as of March 2012) pertaining to 18 departments. Out of the 138 incomplete projects 57 projects (estimate cost ₹ 654.02 crore and actual expenditure ₹ 326.31 crore) were due to be completed by March 2012 but remained incomplete as of October 2012. The date of completion in respect of the remaining 81 projects could not be furnished by the departments. Hence, it could not be ascertained in audit as to whether the projects were incomplete or were in progress.

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 2012, Government had invested ₹ 228.01 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.21**). The average return on this investment was 'Nil' during the last five years while the Government paid an average interest rate of 6.73 *per cent* on its borrowings during 2011-12.

Table-1.21: Return on Investment

Investment/Return/Cost of Borrowings	(Rupees in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (a-e) (₹ in crore)	141.90	164.94	192.09	213.41	228.01
(a) Joint Stock Companies	28.66	32.10	32.10	32.10	32.11
(b) Government Companies	81.16	100.76	127.91	145.60	160.19
(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	32.04	32.04	32.04	35.67	35.67
Return (₹ in crore)	...	...	...	...	...
Return (<i>per cent</i> )	...	...	...	...	...
Average rate of interest on Govt borrowing (<i>per cent</i>)	7.28	7.43	7.27	7.68	6.73
Difference between interest rate and return (<i>per cent</i>)	7.28	7.43	7.27	7.68	6.73

Out of the total Government investment of ₹ 228.01 crore at the close of the current year, ₹ 160.19 crore was invested in seven Government companies, ₹ 32.11 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 ₹ 14.60 crore in these State public sector Undertakings.

Out of six Government companies in the State, one company viz., Nagaland Sugar Mills Ltd. (₹ 7.29 crore-investment upto 2001-02) was non-working whose accounts were in arrears for 34 years. The five working companies - 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), Nagaland Hotels Limited (₹ 78.36 crore) and Nagaland State Mineral Development Corporation Limited (₹ 59.28 crore) were incurring losses. Except Nagaland Industrial Development Corporation Ltd. whose accounts are in arrears for one year, the accounts of the remaining four working Government Companies was in arrears for periods ranging between 9 and 13 years. Hence, the actual financial status of the companies as of March 2012 could not be assessed.

Effective steps should be taken by the Government to increase profitability in the Government Companies/Statutory Corporations. 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. Besides, as no purpose is served by keeping the non-working company in existence, the Government may expedite closing down of the non-working company.

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 1.22** presents the outstanding loans and advances as on 31 March 2012 and interest receipts vis-à-vis interest payments during the last three years.

Table-1.22: Average Interest Received on Loans Advanced by the State Government

Quantum of loans/interest receipts/ cost of borrowings	2008-09	2009-10	2010-11	2011-12	
				BE	Actual
Opening Balance	25.74	24.64	23.99	25.80	25.80
Amount advanced during the year	1.46	3.55	4.12	3.91	2.75
Amount repaid during the year	2.56	4.20	2.31	3.50	2.44
Closing Balance	24.64	23.99	25.80	26.21	26.11
Net addition	(-1.11)	-0.65	1.81	-	0.31
Interest Receipts	1.04	0.39	0.46	-	1.10
Interest receipts as <i>per cent</i> to outstanding loans and advances	4.13	1.60	1.85	-	4.24
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	7.43	7.27	7.68	-	6.73
Difference between interest payments and interest receipts (<i>per cent</i>)	(-3.21)	(-5.67)	(-5.83)	-	(-2.49)

At the end of March 2012, the Government had outstanding loans and advances of ₹ 26.11 crore. The amount of loans disbursed during the year decreased by ₹ 1.37 crore from ₹ 4.12 crore in 2010-11 to ₹ 2.75 crore in 2011-12. Out of the total amount of loans

and advances of ₹ 26.11 crore as on 31 March 2012, ₹ 21.24 crore (81.35 per cent) were for Agriculture and Allied Activities, ₹ 2.17 crore (8.31 per cent) for Industry and Mineral, ₹ 2.67 crore (10.23 per cent) to Government Servants and ₹ 0.03 crore (0.11 per cent) for Water Supply, Sanitation, Housing and Urban Development.

The recovery of loans and advances increased by ₹ 0.13 crore (5.63 per cent) from ₹ 2.31 crore in 2010-11 to ₹ 2.44 crore in 2011-12. During 2011-12, 93.44 per cent (₹ 2.28 crore) loans were repaid by Government Servants, 5.74 per cent (₹ 0.14 crore) by Co-operatives and remaining 0.82 per cent (₹ 0.02 crore) by Water Supply, Sanitation, Housing and Urban Development.

The interest receipts as a percentage of outstanding loans increased from 1.85 per cent in 2010-11 to 4.24 per cent in 2011-12.

1.9.5 Cash Balances and Investment of Cash balances

Table 1.23 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table-1.23: Cash Balances and Investment of Cash balances

Particulars	(Rupees in crore)		
	As on 31 March 2011	As on 31 March 2012	Increase/ Decrease
Cash Balances	(-)296.14	176.79 ⁸	472.93
Investments from Cash Balances (a to d)	273.82	0.00	(-)273.82
a. GOI Treasury Bills	0.00	0.00	0.00
b. GOI Securities	0.00	0.00	0.00
c. Other Securities, if any specify	0.00	0.00	0.00
d. Other Investments	273.82	0.00	(-)273.82
Funds-wise Break-up of Investment from Earmarked balances (a to c)	122.40	151.40	29.00
a. Guarantee redemption fund Investment Account	4.00	5.00	1.00
b. CRF Investment Account	22.31	22.31	0.00
c. Sinking Fund Investment Account	96.09	124.09	28.00
Interest Realised	12.90	5.74	(-)7.16

The State Government's net cash balance at the end of the current year amounted to ₹ 176.79 crore as against a negative balance of ₹ 296.14 crore in 2010-11. Investments from Cash Balances was nil during 2011-12 as compared to ₹ 273.82 crore in 2010-11. An amount of ₹ 5.74 crore was realised during the year as interest on the amount invested, a decrease of ₹ 7.16 crore from the previous year.

⁸ Includes cash in treasuries ₹ 0.18 crore, lying with Departmental officers viz officers of Forest and PWD ₹ 375.65 crore and (-)₹ 199.04 crore deposited with RBI.

1.10 Assets and Liabilities

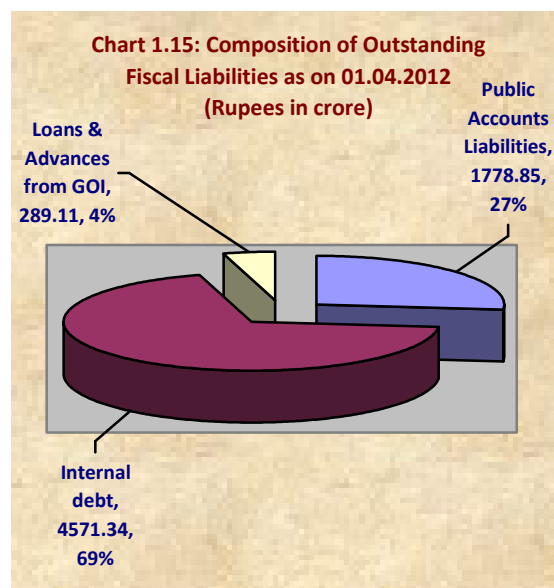
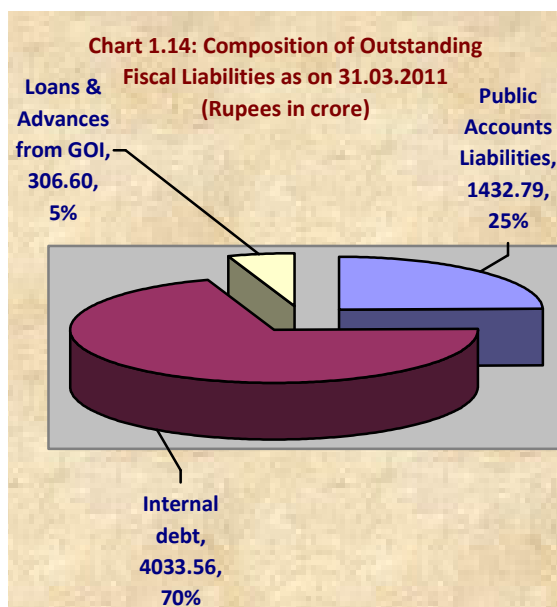
1.10.1 Growth and composition of Assets and Liabilities

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 2012, compared with the corresponding position on 31 March 2011. 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, 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 15.01 *per cent* during 2011-12 over the previous year. Fiscal Liabilities of the State comprise Consolidated Fund Liabilities and Public Account Liabilities. The Consolidated Fund Liability (₹ 4860.45 crore) comprised

market loan (₹ 3432.40 crore), loans from Government of India (₹ 289.11 crore) and other loans (₹ 1138.94 crore). The Public Account Liabilities (₹ 1778.85 crore) comprise Small Saving, Provident Fund (₹ 610.43 crore), interest bearing obligations (₹ 3.65 crore) and non-interest bearing obligations like deposits and other earmarked funds (₹ 1164.77 crore). The ratio of fiscal liabilities to GSDP had increased from 51.91 *per cent* in 2010-11 to 55.03 *per cent* in 2011-12. These fiscal liabilities stood at nearly 1.19 times the revenue receipts and 12.41 times of the State's own resources at the end of 2011-12. The fiscal liabilities to GSDP (55.03 *per cent*) was 11.44 *per cent* more than the assessment made by the State Government in its Medium Term Fiscal Policy Statement (MTFPS) (43.59 *per cent*) and 0.77 *per cent* lower than the norm of 55.80 *per cent* recommended by the XIII-FC for the year 2011-12.

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 guarantees had been extended. As per NFRBM Act 2005, the State Government set up a guarantee redemption fund in 2006-07 and decided to charge guarantee fee at the rate of 1 *per cent* of GSDP to cover the risk in the guarantees. During the year 2011-12, the State had given guarantee of ₹ 10 crore but no guarantee fee was received.

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 1.24**.

Table-1.24: Guarantees given by the Government of Nagaland

Guarantees	(Rupees in crore)		
	2009-10	2010-11	2011-12
Total amount of guarantees given up to	53.72	55.22	65.22
Outstanding amount of guarantees at the end of the year	53.72	55.22	65.22
Percentage of maximum amount guaranteed to total revenue receipts	1.44	1.10	1.17
Outstanding amount of guarantee as percentage of GSDP	0.50	0.50	0.54

The outstanding guarantees increased by ₹ 10.00 crore (18.11 *per cent*) from ₹ 55.22 crore in 2010-11 to ₹ 65.22 crore in 2011-12. The outstanding guarantees of ₹ 65.22 crore mainly pertained to Nagaland Industrial Development Corporation 51.99 *per cent* (₹ 33.91 crore) for repayment of principal and payment of interest on loan obtained. The outstanding guarantees were 1.17 *per cent* of the revenue receipts of the Government.

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 2011-12. Contribution to the Sinking Fund was ₹16.17 crore as of March 2012 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 receipts⁹; 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 1.25** analyses the debt sustainability of the State according to these indicators for a period of five years beginning from 2007-08.

During 2011-12, Government raised internal debt of ₹ 1297.88 crore and GOI loans of ₹ 20.97 crore. Government repaid internal debt of ₹ 760.10 crore and GOI loans of ₹ 38.47 crore along with interest of ₹ 417.39 crore resulting in net increase in debt receipts by ₹ 102.89 crore during the year.

Table 1.25: Debt Sustainability: Indicators and Trends

(Rupees in crore)

Indicators of Debt Sustainability	2007-08	2008-09	2009-10	2010-11	2011-12
Debt Stabilization (Quantum Spread + Primary Deficit)	28.03	403.95	-72.62	115.21	(-)5.40
Sufficiency of Non-debt Receipts (Resource Gap)	(-)241	57	(-)182	209	(-)226
Net Availability of Borrowed Funds	152.59	374.71	469.44	(-)18.58	258.96
Burden of Interest Payments (IP/RR Ratio) (in per cent)	9.03	9.23	9.75	7.89	7.47
Maturity Profile of State Debt (In Years)					
0 – 1	-	293.90(09)	274.60(6)	20.56(1)	193.31(4)
1 – 3	-	317.86(10)	551.94(13)	392.43(9)	303.93(6)
3 – 5	-	476.51(15)	303.74(7)	302.41(7)	617.90(13)
5 – 7	-	296.00(09)	596.65(13)	617.36(14)	702.57(14)
7 and above	-	1870.95(57)	2685.62(61)	3007.40(69)	3042.73(63)
Total	-	3255.22	4412.55	4340.16	4860.44

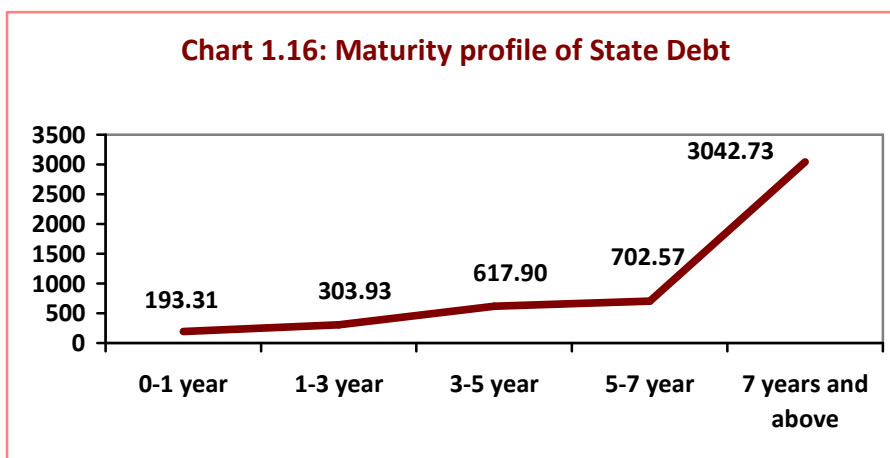
Figures in the parenthesis indicate percentage to total debt.

Debt will stabilize if the quantum spread plus primary deficit is positive. However, it would be seen from the above table that the sum of quantum spread together with primary deficit remained negative during the year 2011-12. The sum of quantum spread and primary deficit was ₹ 115.21 crore in 2010-11 against (-) ₹ 5.40 crore in 2011-12

⁹ As detailed in Appendix-1.1 C

which indicates that additional efforts are required by the State to stabilise the debt and then attain sustainability in the ensuing years.

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 positive during 2010-11 (₹ 209 crore), turned into negative in 2011-12 (₹ 226 crore). This meant that the State depends on borrowed funds for meeting current revenue and capital expenditure.



As per data shown in **Table 1.25**, out of the total debt burden of ₹ 4860.44 crore, there will be a bunching of repayments in around 1-3 years time (₹ 303.93 crore) and 3-5 years time (₹ 617.90 crore) as well as 5-7 years time (₹ 702.57 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 2011-12.

1.12.1 Trends in Deficits

Charts 1.17 and 1.18 present the trends in deficit indicators over the period 2007-12.

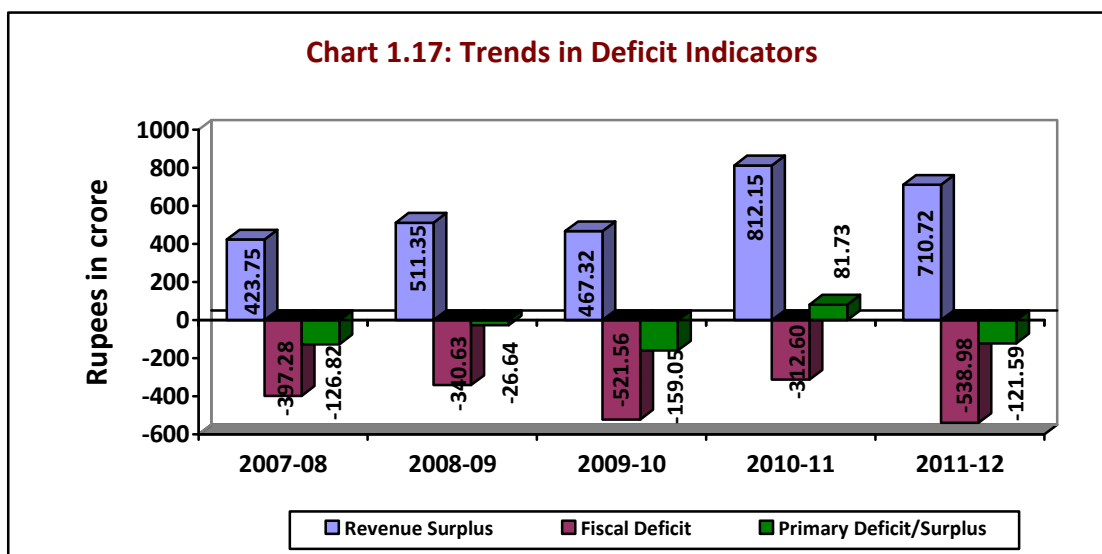


Chart 1.18: Trends in Deficit Indicators Relative to GDP

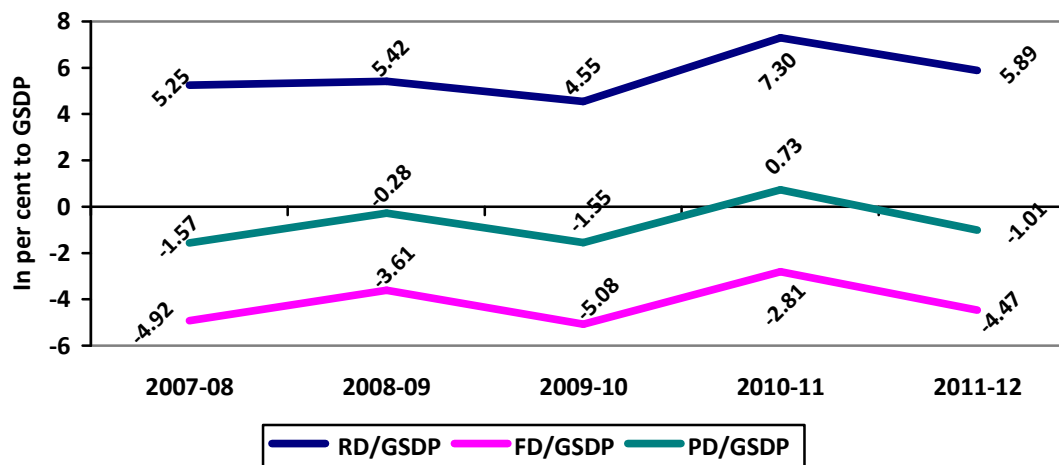


Chart 1.17 reveals that the revenue account experienced a surplus of ₹ 710.72 crore during 2011-12, an increase from ₹ 423.75 crore in 2007-08. However, the Revenue surplus decreased during the current year by ₹ 101.43 crore as compared to the previous year mainly on account of increase in revenue expenditure by ₹ 687.59 crore (16.42 per cent) against an increase of revenue receipts by ₹ 586.16 crore (11.73 per cent) over the previous year.

Due to the decrease in revenue surplus along with a marginal increase of ₹ 0.13 crore in non-debt capital receipts accompanied by an increase of ₹ 126.45 crore in capital expenditure and decrease in loans & advances disbursement ₹ 1.37 crore during 2011-12 over the previous year, the fiscal deficit increased by ₹ 226.38 crore during the current year from the level of ₹ 312.60 crore in 2010-11.

The primary surplus also turned into primary deficit from surplus of ₹ 81.73 crore in 2010-11 to deficit of ₹ 121.59 crore in 2011-12. The increase in primary deficit was due to increase of fiscal deficit (₹ 226.38 crore) which was offset by increase in interest payment (₹ 23.06 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 1.26**.

Table 1.26: Components of Fiscal Deficit and its Financing Pattern

		(Rupees in crore)				
	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Components of Fiscal Deficit		397	341	522	313	539
		(4.92)	(3.61)	(5.08)	(2.81)	(4.47)
1	Revenue Surplus	424	511	467	812	711
2	Net Capital Expenditure	821	853	990	1123	1249
3	Net Loans and Advances	...	-1	-1	2	1
Financing Pattern of Fiscal Deficit						
1	Market Borrowings			568	236	325
2	Loans from GOI			-38	-23	-18
3	Special Securities Issued to National Small Savings Fund			3	17	3
4	Loans from Financial Institutions			178	-28	210
5	Small Savings, PF etc			23	89	36
6	Deposits and Advances			277	80	310
7	Suspense and Misc			-147	41	35
8	Remittances			-350	-102	-134
9	Increase (-) Decrease (+) in Cash Balances			8	3	-228
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 1.26** that during 2011-12, the revenue surplus decreased by ₹ 101 crore from ₹ 812 crore in 2010-11 to ₹ 711 crore in 2011-12. The increase in fiscal deficit was the combined effect of increase in capital expenditure and decrease in revenue surplus.

The fiscal deficit increased by ₹ 226 crore from ₹ 313 crore in 2010-11 to ₹ 539 crore in 2011-12 mainly due to reduction in Revenue Surplus (₹ 101 crore) and increase in capital expenditure (₹ 126 crore). The increased fiscal deficit (₹ 226 crore) was financed through increase in Market Borrowings (₹ 89 crore), Deposits and Advances (₹ 230 crore) and Loans and Advances from Financial Institutions (₹ 238 crore) offset by decrease in Small Savings & Provident Fund (₹ 53 crore), Special Securities Issued to National Small Savings Fund (₹ 14 crore) and Remittances (₹ 32 crore) and increases in cash balances (₹ 231 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 1.27**) 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 1.27: Primary deficit/surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary revenue ¹⁰ 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)
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
2011-12	5587	4457	1249	3	5709	1130	(-)122

¹⁰ Primary revenue expenditure is revenue expenditure net of the interest payments.

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.

The non-debt receipts of the State during 2007-12 were sufficient to meet the primary revenue expenditure. The non-debt receipts increased by 86 *per cent* from ₹ 2998 crore in 2007-08 to ₹ 5587 crore in 2011-12 while the primary revenue expenditure increased by 94 *per cent* from ₹ 2301 crore in 2007-08 to ₹ 4457 crore in 2011-12. During this period (2007-12) capital expenditure grew by 52 *per cent*. The State had a primary deficit during 2007-08 to 2011-12 except 2010-11.

1.13 Conclusion

The fiscal position of the State viewed in terms of the key fiscal parameters during 2011-12 revealed that the State's revenue surplus had declined by ₹ 101.43 crore while the fiscal deficit had increased by ₹ 226.38 crore and the primary surplus had turned into primary deficit by a margin of ₹ 203.32 crore in 2011-12 relative to the previous year.

During 2011-12, 90 *per cent* of the total revenue came from the Government of India as Central transfers (14 *per cent*) and grants-in-aid (76 *per cent*). The State achieved the total revenue collection targets fixed by the XIII-FC during 2011-12.

During 2011-12, non-plan revenue expenditure was ₹ 1458.47 crore (56.23 *per cent*) more than the XIII-FC normative assessment. The expenditure on salary was 59.01 *per cent* of revenue expenditure, net of interest payment and pension and 40.89 *per cent* of revenue receipts during the year.

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 2011-12, the non-debt receipts were not sufficient and therefore, the State recorded a negative resource gap of ₹ 226 crore.

The overall fiscal liabilities of the State increased at a compound annual growth rate of 11.34 *per cent* during 2007-12. The fiscal liabilities increased by ₹ 866 crore (15 *per cent*) from ₹ 5773 crore in 2010-11 to ₹ 6639 crore in 2011-12. The committed liabilities for the State projected by the XIII-FC was 55.80 *per cent* of GSDP for the year 2011-12. Against this, the committed liabilities of the State was 55.03 *per cent* which was within the projections.

The Government had invested ₹ 228.01 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives at the end of March 2012. The average return on this investment was NIL during the last five years.

The State Government's net cash balance at the end of 2011-12 was ₹ 328.19 crore which had increased by ₹ 228.11 crore over the previous year. The interest received on investment of cash balance during 2011-12 was 1.53 *per cent*.

There were 138 incomplete projects (estimated cost ₹ 1499.47 crore and actual expenditure incurred ₹ 686.29 crore as of March 2012) pertaining to 18 departments. Out of the 138 incomplete projects 57 projects (estimate cost ₹ 654.02 crore and actual expenditure ₹ 326.31 crore) were due to be completed by March 2012 but remained incomplete as of October 2012. The date of completion in respect of the remaining 81 projects could not be furnished by the departments. Hence, it could not be ascertained in audit as to whether the projects were incomplete or were in progress. 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.