

# **CHAPTER-I**

## **FINANCES OF THE STATE GOVERNMENT**



# Chapter I

## Finances of the State Government

### 1.1 Profile of Nagaland

Nagaland is a Special Category State<sup>1</sup>. It is the fourth smallest State in terms of geographical area (16,597 sq km) as well as by population. As per 2011 census, the State's population is 19,78,502. General data relating to the State is given in **Appendix 1.1 Part D**. The State has four regional disparities districts out of 11 districts viz, Tuensang, Mon, Kiphire and Longleng.

### 1.2 Gross State Domestic Product

Gross State Domestic Product (GSDP) is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of the State's economy as it indicates the standard of living of the people of the State. The Advance Estimates of GSDP for 2018-19 amounted to ₹ 26,637 crore. The growth rate of the State GDP for the period 2014-19 compared with India's GDP is presented in **Table 1.1** below:

**Table 1.1: Annual growth rate of GDP and GSDP at current prices**

Year	2014-15	2015-16	2016-17	2017-18	2018-19
Gross State Domestic Product (₹ in crore)	18,401	19,524	21,722	24,281	26,637*
Growth rate of GSDP (per cent)	10.77	6.10	11.26	11.78	9.70
India's GDP (₹ in crore)	1,24,67,959	1,37,71,874	1,53,62,386	1,70,95,005	190,10,164
Growth rate of GDP (per cent)	10.99	10.40	10.82	9.97	13.34

Source: Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation as on Feb 2020.

\* Information furnished by Directorate of Economics and Statistics, Govt. of Nagaland based on Advanced Estimates.

### 1.3 State FRBM/Fiscal Correction Path - Summary

#### 1.3.1 Nagaland Fiscal Responsibility and Budget Management Act, 2005

Twelfth Finance Commission (XII FC) (2005-10) recommended that each State should enact a fiscal responsibility legislation prescribing specific annual targets with a view to eliminating the Revenue Deficit by 2008-09 and reducing Fiscal Deficit based on a path for reduction of Borrowings and Guarantees. The State of Nagaland enacted the Nagaland Fiscal Responsibility and Budget Management (NFRBM) Act in 2005. The position of targets prescribed in NFRBM Act and projections made by the State Government in its Medium-Term Fiscal Policy (MTFP) Statement, XIV FC targets for the State *vis-à-vis* achievements during the year 2018-19 are depicted in **Table 1.2**:

<sup>1</sup> The Fifth Finance Commission accorded (1969) special status to three states on the basis of harsh terrain, backwardness and special problems prevailing in these states viz, Assam, Jammu & Kashmir and Nagaland. The number of such states increased.

**Table 1.2: Major Fiscal variables provided in XIV FC recommendations, targets in the NFRBM Act vis-à-vis actuals for the year 2018-19**

Fiscal parameters	2018-19			
	Projections as per			Actuals
	XIV FC	NFRBM	MTFP Statement	
Revenue Surplus (+)/ Deficit (-) (₹ in crore)	Maintain Revenue Surplus			517.43
Fiscal Deficit/ GSDP (in per cent)	3.25	3.00	3.24	4.06
Debt/ GSDP (in per cent)	38.73	*	39.05	43.74

Source: XIV FC Report, NFRBM and Finance Accounts. \* Not prescribed.

The Fiscal Deficit (₹ 1082.32 crore) stood at 4.06 per cent of GSDP during the current year. The Fiscal Deficit was not within the ceiling of 3.25 per cent prescribed for 2018-19 by the XIV FC and target of three per cent under Fiscal Responsibility and Budget Management (FRBM) Act.

The State registered a Revenue Surplus of ₹ 517.43 crore during 2018-19 as stated in FRBM Act and MTFP.

During 2018-19, the ratio of total outstanding Debt to GSDP (43.74 per cent) was more than the projected figures as per XIV FC (38.73 per cent) and MTFPS (39.05 per cent).

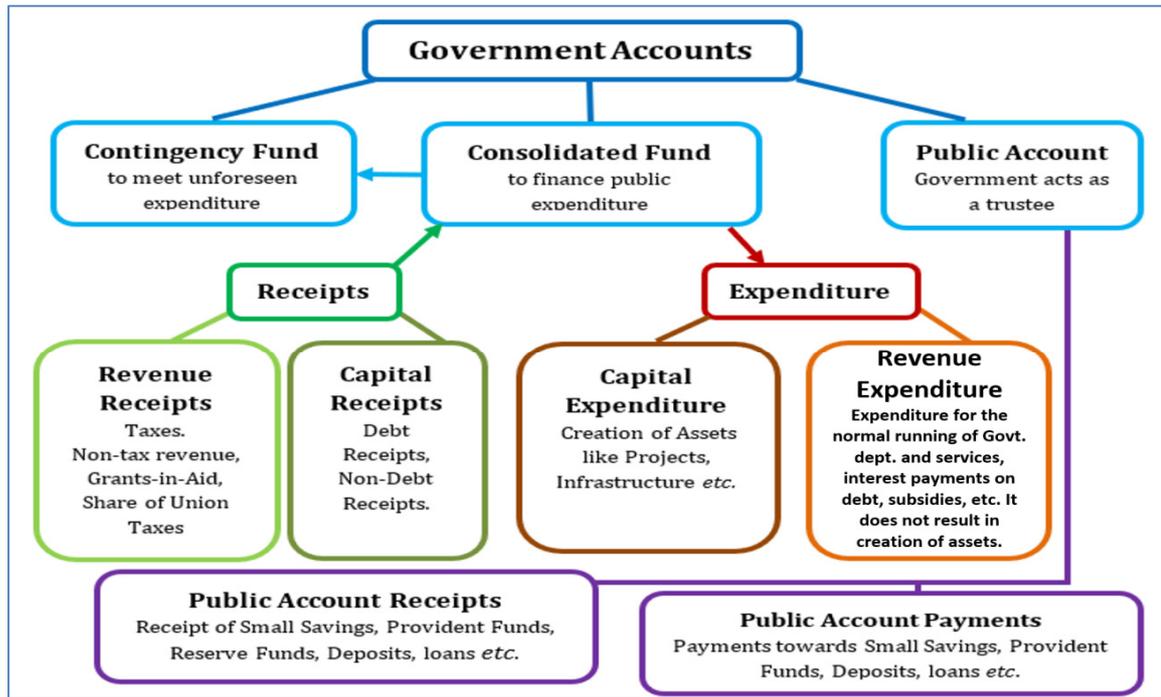
#### 1.4 Analysis of Finances of State Government

This report provides an analysis of the finances of the State Government, based on the audited accounts of the Government of Nagaland for the year ended March 2019.

This chapter provides a broad perspective of the finances of the Government of Nagaland in 2018-19. It analyses important changes in the major fiscal indicators keeping in view the overall trends during the last five years. The analysis is based on the Finance Accounts and information obtained from the State Government. The structure of the Government Accounts and layout of the Finance Accounts, Methodology Adopted for the Assessment of Fiscal Position have been explained in the **Chart 1.1** below and in **Appendix 1.1 – Parts A, B and C**.

The Government Accounts are maintained in three parts for maintaining the records of all sorts of financial transactions viz Consolidated Fund, Contingency Fund and Public Account. Consolidated Fund of the State includes Revenue Receipts and Expenditure, Capital Receipts and Disbursement and Debts, Loans and Advances. The Contingency Fund of the State is in the nature of an imprest. The fund is placed at the disposal of the Governor to enable him to pay advances out of this Fund for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature, under appropriation made by law. The Fund is financed from time to time by such sums as may be determined by the Act of the Legislature establishing it. Receipts and Disbursement in respect of certain transactions such as Small Savings, Provident fund, Reserve funds, Deposits, Suspense, Remittances, etc. which do not form part of the Consolidated Fund are kept in the Public Account set up under Article 266 (2) of the Constitution of India and are not subject to vote by the State Legislature.

Chart 1.1



1.4.1 Summary of Fiscal Transactions in 2018-19

Table 1.3 presents the summary of the State Government’s fiscal transactions during the current year (2018-19) vis-à-vis the previous year (2017-18) while Appendix 1.3 provides details of receipts and disbursements as well as overall fiscal position during the same period.

Table 1.3: Summary of Fiscal Transaction in 2018-19

(₹ in crore)

Receipts			Disbursements		
<b>Section-A: Revenue</b>					
Description	2017-18	2018-19	Description	2017-18	2018-19
<b>Revenue Receipts</b>	<b>11019.21</b>	<b>11437.41</b>	<b>Revenue Expenditure</b>	<b>10191.35</b>	<b>10919.98</b>
Tax Revenue	638.28	846.43	General Services	4319.41	5018.11
Non-Tax Revenue	388.53	255.24	Social Services	2558.56	3158.59
Share of Union Taxes/ Duties	3353.13	3792.41	Economic Services	3313.38	2743.28
Grants from Government of India	6639.27	6543.33	Grants-in-Aid and Contributions	0.00	0.00
<b>Section-B: Capital</b>					
Misc. Capital Receipts	0.00	0.00	Capital Outlay	<b>1274.85</b>	<b>1595.56</b>
Recoveries of Loans and Advances	1.09	1.08	Loans and Advances Disbursed	0.19	5.27
Public Debt Receipts*	1235.02	947.84	Repayment of Public Debt*	546.01	636.89
Contingency Fund	0.00	0.00	Contingency Fund	0.00	0.00
Public Account Receipts	3319.54	4114.23	Public Account Disbursements	3124.67	3184.11
Opening Cash Balance	1260.39	1698.18	Closing Cash Balance	1698.18	1856.93
<b>Total</b>	<b>16835.25</b>	<b>18198.74</b>	<b>Total</b>	<b>16835.25</b>	<b>18198.74</b>

Source: Finance Accounts for the respective years. \*Net of WMA/Overdraft

Significant changes in fiscal position of the State during 2018-19 over the previous year are given below:

- The Revenue Receipt increased by 3.80 *per cent* mainly due to increase of Tax Revenue (32.61 *per cent*) and Central Tax transfer (13.10 *per cent*) offset by decrease in Non-Tax Revenue (34.31 *per cent*) and GIA (1.44 *per cent*).
- The State's Own Resources continued to stagnate. During the year, State's Own Resources of ₹ 1101.67 crore (Own Tax and Non-Tax Resources) were a meagre 10 *per cent* of the total Revenue Receipts of the State. However, Government of Nagaland generated a revenue surplus of ₹ 517.43 crore during 2018-19.
- Revenue Expenditure increased by 7.15 *per cent* mainly due to increase in expenditure in General Service and Social Service.
- Capital Expenditure increased by 25.16 *per cent* mainly due to increase in expenditure on General Service (Police) and Economic Service.
- Recoveries of Loan & Advances decreased by 0.92 *per cent*. Disbursement of Loan & Advances increased by ₹ 5.08 crore (2673.68 *per cent*).
- Public debt receipts decreased by 23.25 *per cent*, as the State resorted to less market borrowing (₹ 943.86 crore in 2018-19 as against ₹ 1234.69 crore in 2017-18). The Repayment of Public Debt increased from ₹ 546.01 crore in 2017-18 to ₹ 636.89 crore in 2018-19 (16.65 *per cent*).
- Public Account Receipts (net) increased by ₹ 735.25 crore (377.30 *per cent*) from ₹ 194.87 crore in 2017-18 to ₹ 930.12 crore in 2018-19 mainly due to increase in Small Savings PF, etc. (₹ 555.10 crore) and Deposit and Advances (₹ 211.94 crore).

The total inflow increased<sup>2</sup> by ₹ 925.70 crore (5.94 *per cent*) from ₹ 15574.86 crore in 2017-18 to ₹ 16500.56 crore in 2018-19 largely due to increase in Public Account Receipts (₹ 794.69 crore). The total outflow also increased by ₹1204.74 crore (7.96 *per cent*) from ₹15137.07 crore in 2017-18 to ₹ 16341.81 crore in 2018-19.

## **1.5 Budget Estimates and Actuals**

The budget of the State Government provides descriptions 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. Deviations from the Budget Estimates are indicative of non-attainment and non-optimisation of the desired fiscal objectives due to a variety of reasons. Some of the causes are within the control of the Government and some beyond the control of the Government.

**Table 1.4** represents the Budget Estimates and Actuals for some important Fiscal Parameters during 2018-19.

<sup>2</sup>	<b>2017-18</b>	<b>2018-19</b>
Total Receipts	16835.25	18198.74
Less: OB	1260.39	1698.18
<b>Actual receipt</b>	<b>15574.86</b>	<b>16500.56</b>

**Table1.4: Variation in Actual Fiscal parameters vis a vis Estimates**

(₹ in crore)

Parameters	2017-18	2018-19				
	Actuals	Budget Estimates	Revised Estimates	Actuals	Per cent of gap w.r.t 2017-18	Per cent of gap w.r.t Revised
Own Tax Revenue	638.28	640.56	711.05	846.43	32.61	19.04
Non-Tax Revenue	388.53*	347.45	347.10	255.24	(-) 34.31	(-) 26.46
Revenue Receipts	11019.21*	12586.73	11975.02	11437.41	3.8	(-) 4.49
Non-Debt Capital Receipts	1.09	2.91	1.51	1.08	(-) 0.92	(-) 28.48
Revenue Expenditure	10191.35*	12112.83	11449.14	10919.98	7.15	(-) 4.62
Interest Payments	677.75	835.55	780.09	771.74	13.87	(-) 1.07
Capital Expenditure	1274.85	1341.09	1860.75	1595.56	25.16	(-) 14.25
Disbursement of Loans & Advances	0.19	0.40	0.40	5.27	2673.68	1217.5
Revenue Deficit (-)/Surplus (+)	827.86	473.90	525.88	517.43	(-) 37.5	(-) 1.61
Fiscal Deficit (-)/Surplus (+)	(-)446.09	(-)864.68	(-)1333.76	(-)1082.32	(-) 142.62	(-) 18.85
Primary Deficit(-)/Surplus (+)	231.66	(-)29.13	(-)553.67	(-)310.58	(-) 234.07	(-) 43.91

Source: Finance Accounts of respective year.

\*Figure of 2017-18 was net of State Lotteries receipt in RR & NTR; and RE excluding expenditure of State Lotteries.

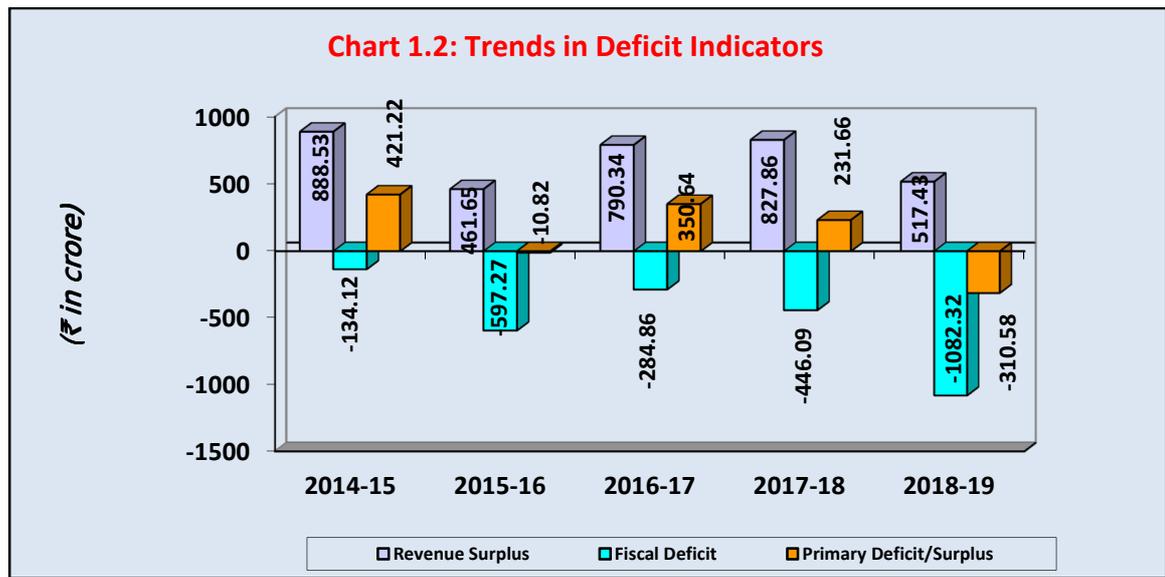
Gap between Revised Estimates and Actual under Non-Tax Revenue are about 26 per cent due to less revenue received in Education, Sports, Art and Culture.

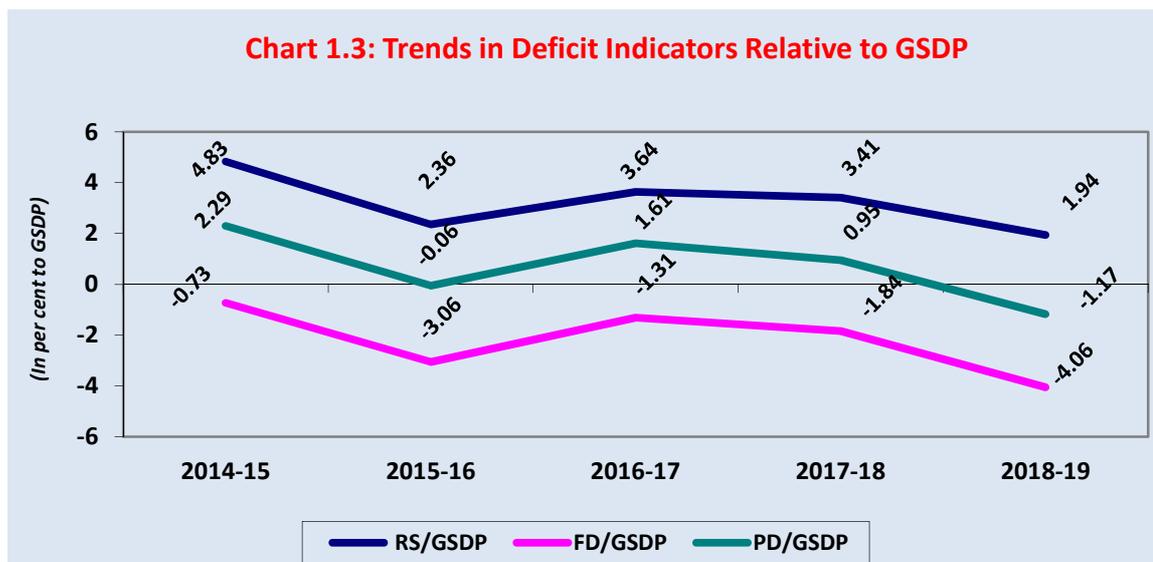
## 1.6 Fiscal Imbalances

Three key fiscal parameters - Revenue, Fiscal and Primary Deficits/Surplus - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit/surplus in the Government accounts represents the gap between its Receipts and Expenditure.

### 1.6.1 Trends in Deficits

Charts 1.2 and 1.3 present the trends in deficit indicators over the period 2014-15 to 2018-19:





### Revenue Surplus

The State continued to have Revenue Surplus during all five years, *i.e.* from 2014-15 to 2018-19. The Revenue Surplus during 2018-19 was ₹ 517.43 crore. Revenue Surplus decreased during the current year by ₹ 310.43 crore as compared to the previous year mainly on account of increase in Revenue Expenditure by ₹ 728.63 crore (7.15 per cent).

### Fiscal Deficit

Fiscal Deficit increased to ₹ 1082.32 crore in 2018-19 from the level of ₹ 446.09 crore in 2017-18. This was due to combination of following factors *viz.*, (i) decrease in Revenue Surplus (₹ 310.43 crore), (ii) increase of ₹ 320.71 crore in Capital Expenditure and disbursement of Loan and Advances (₹ 5.08 crore) during 2018-19 over the previous year.

### Primary Surplus

The Primary Surplus decreased by ₹ 542.24 crore (234.07 per cent) and turned into Primary Deficit in 2018-19. This was due to increase in Fiscal Deficit (₹ 636.23 crore) and increase in Interest Payment (₹ 93.99 crore) during the current year.

## 1.6.2 Composition of Fiscal Deficit and its Financing Patterns

The financing pattern of the Fiscal Deficit has undergone a compositional shift as reflected in **Table 1.5**:

**Table 1.5: Components of Fiscal Deficit and its Financing Pattern**

		(₹ in crore)				
	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Components of Fiscal Deficit (-)</b>		<b>(-)134.12</b>	<b>(-)597.27</b>	<b>(-)284.86</b>	<b>(-)446.09</b>	<b>(-)1082.32</b>
		<b>(0.73)</b>	<b>(3.06)</b>	<b>(1.31)</b>	<b>(1.84)</b>	<b>(4.06)</b>
1	Revenue Deficit (-)/ Surplus (+)	888.53	461.65	790.34	827.86	517.43
2	Net Capital Expenditure	(-)1023.17	(-)1059.23	(-)1076.10	(-)1274.85	(-)1595.56
3	Net Loans and Advances	0.52	0.31	0.90	0.90	(-) 4.19
<b>Financing Pattern of Fiscal Deficit</b>						
1	Market Borrowings	(-)452.04	(-)597.73	(-)442.38	(-)765.95	(-) 355.04
2	Loans from GOI	16.31	21.55	21.28	21.39	17.74
3	Special Securities Issued to National Small Savings Fund	(-)11.12	(-)26.47	12.28	12.66	12.82
4	Loans from Financial Institutions	338.06	(-)237.92	29.48	42.90	13.54
5	Small Savings, PF, etc.	(-)55.35	(-)11.76	(-)29.09	(-)61.54	(-)616.63

	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
6	Deposits and Advances	607.76	75.08	7.69	123.76	(-)88.19
7	Suspense and Miscellaneous	63.07	(-)152.76	77.30	101.05	111.06
8	Remittances	(-)277.53	(-)73.96	(-)32.00	(-)32.45	(-)2.10
9	Increase (-) /Decrease (+) in Cash Balances	(-)363.28	406.70	70.58	112.09	(-)175.52

*Figures in brackets indicate the per cent to GSDP.*

*Source: Finance Accounts of respective years*

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.

Fiscal deficits during the five year period ending 2018-19, peaked at ₹ 1082.32 crore during 2018-19.

During 2018-19, fiscal deficit was primarily financed by small savings, provident funds, etc. (₹ 616.63 crore), market borrowings (net) (₹ 355.04 crore), suspense and miscellaneous (₹ 111.06 crore), deposits and advances (₹ 88.19 crore) and cash balances (₹ 175.52 crore).

The increase in net capital outlay during the year indicated that borrowed funds were being utilised for productive uses more than in previous year. The Government should continue this trend as the solution to the Government debt problem lies in the productive application of borrowed funds. This would either provide returns directly or result in increased productivity of the economy. It may also result in increase in government revenue in future, making debt payments more manageable.

### 1.6.3 Quality of Deficit/Surplus

The ratio of Revenue Deficit (Surplus) to Fiscal Deficit (Surplus) indicates the quality of deficit in the State's finances. The ratio of Revenue Deficit/Surplus 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 supported by any asset backup. The ratio of Revenue Deficit/Surplus to Fiscal Deficit oscillates (**Paragraph 1.6.2**) between 0.47<sup>3</sup> (2018-19) to 6.62 (2014-15) during 2014-19.

## 1.7 Resources of the State

### 1.7.1 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 own tax revenue, non-tax revenue, State's share of Union Taxes and Duties and Grants-in-Aid (GIA) from the Government of India. Capital Receipts comprise miscellaneous capital receipts (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

<sup>3</sup> 2018-19:Revenue Surplus/Fiscal Deficit=517.43/1082.32=0.47; 2014-15:Revenue Surplus/Fiscal Deficit = 888.53/134.12=6.62.

Government of India. Besides, the funds available in the Public Accounts after disbursement is also utilised by the Government to finance its deficit.

**Chart 1.4** below depicts the composition of the receipts during 2018-19. **Chart 1.5** depicts the trends in various components of the receipts of the State during 2014-19. **Table 1.6** presents the trends in growth during 2018-19 and composition of receipts for the current year 2018-19.

**Chart 1.4**

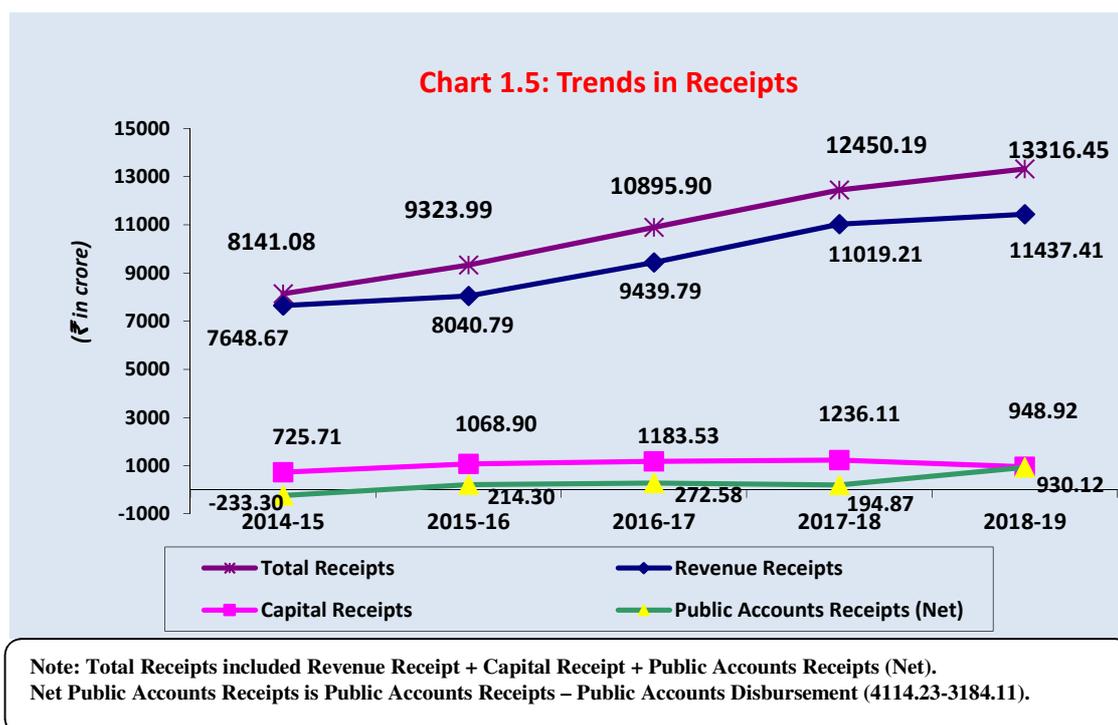
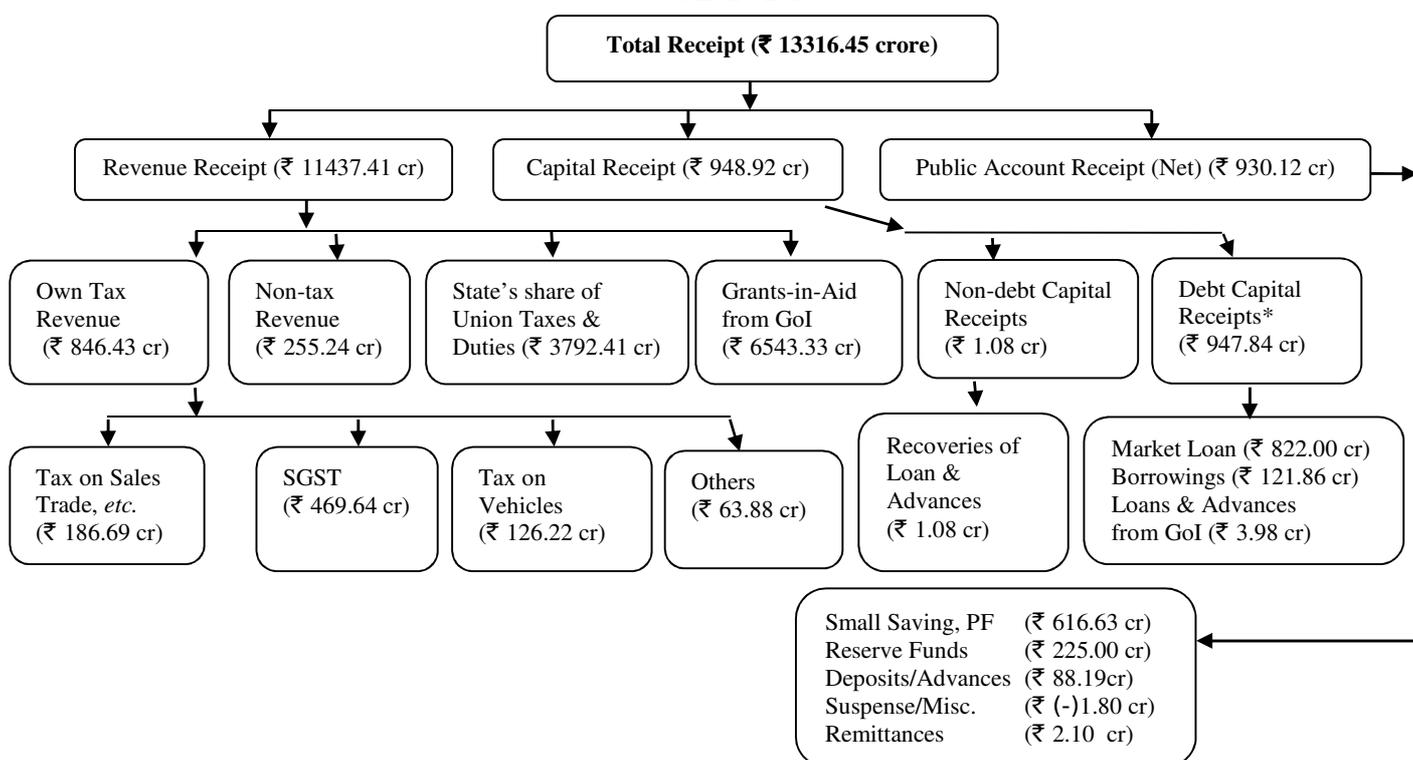


Table 1.6: Composition of Receipts

( $\text{₹}$  in crore)

	Sources of State receipts	2014-15	2015-16	2016-17	2017-18	2018-19
<b>I</b>	<b>Revenue Receipts</b>	<b>7648.67</b>	<b>8040.79</b>	<b>9439.79</b>	<b>11019.21*</b>	<b>11437.41</b>
	Tax Revenue	388.61	427.10	510.75	638.28	846.43
	Non-Tax Revenue	268.34	253.61	343.03	388.53*	255.24
	State's share of Union Taxes and Duties	1062.68	2540.72	3032.63	3353.13	3792.41
	Grants-in-Aid from GoI	5929.04	4819.36	5553.38	6639.27	6543.33
<b>II</b>	<b>Capital Receipts (CR)</b>	<b>725.71</b>	<b>1068.90</b>	<b>1183.53</b>	<b>1236.11</b>	<b>948.92</b>
	Recovery of Loans and Advances	0.71	0.50	1.09	1.09	1.08
	Public Debt Receipts	725.00	1068.40	1182.44	1235.02	947.84
<b>III</b>	<b>Public Account Receipts (Net)</b>	<b>(-)233.30</b>	<b>214.30</b>	<b>272.58</b>	<b>194.87</b>	<b>930.12</b>
	Receipt	2661.92	3226.12	2933.99	3319.54	4114.23
	Disbursement	2895.22	3011.82	2661.41	3124.67	3184.11
	<b>Total Receipts</b>	<b>8141.08</b>	<b>9323.99</b>	<b>10895.90</b>	<b>12450.19</b>	<b>13316.45</b>

Source: Finance Accounts of respective years) \*Figure of 2017-18 is net of State Lotteries receipt in RR & NTR.

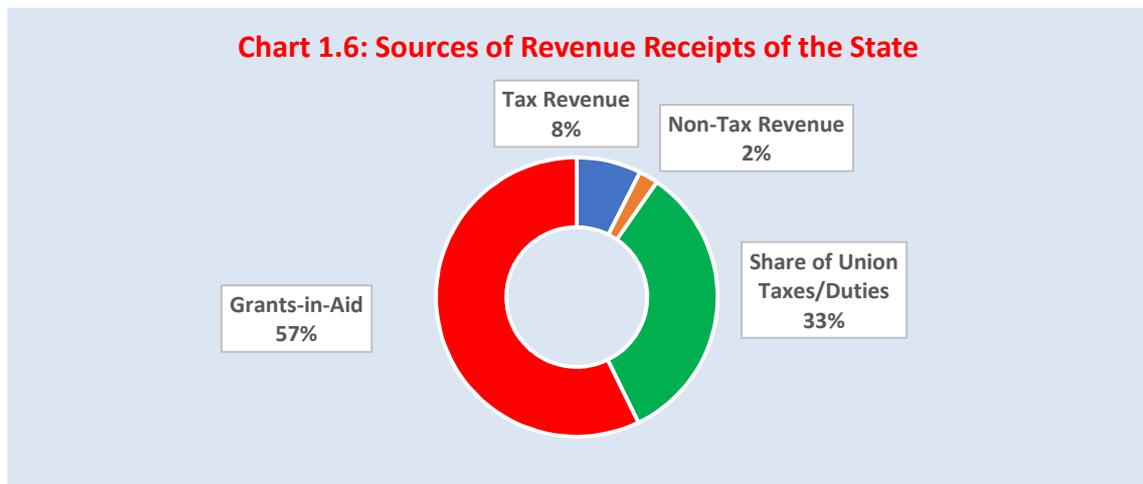
The total receipts for the year 2018-19 was ₹ 13316.45 crore, of which ₹ 11437.41 crore (85.89 per cent) came from Revenue Receipts.

The Revenue Receipts of the State increased by ₹ 418.20 crore (3.80 per cent) from ₹ 11019.21 crore in 2017-18 to ₹ 11437.41 crore in 2018-19 at an annual growth rate of 3.80 per cent. This increase was due to increase in Tax Revenue (₹ 208.15 crore) and State's share of Union Taxes and Duties (₹ 439.28 crore) offset by decrease in Non-Tax Revenue (₹ 133.29 crore) and GIA (₹ 95.94 crore).

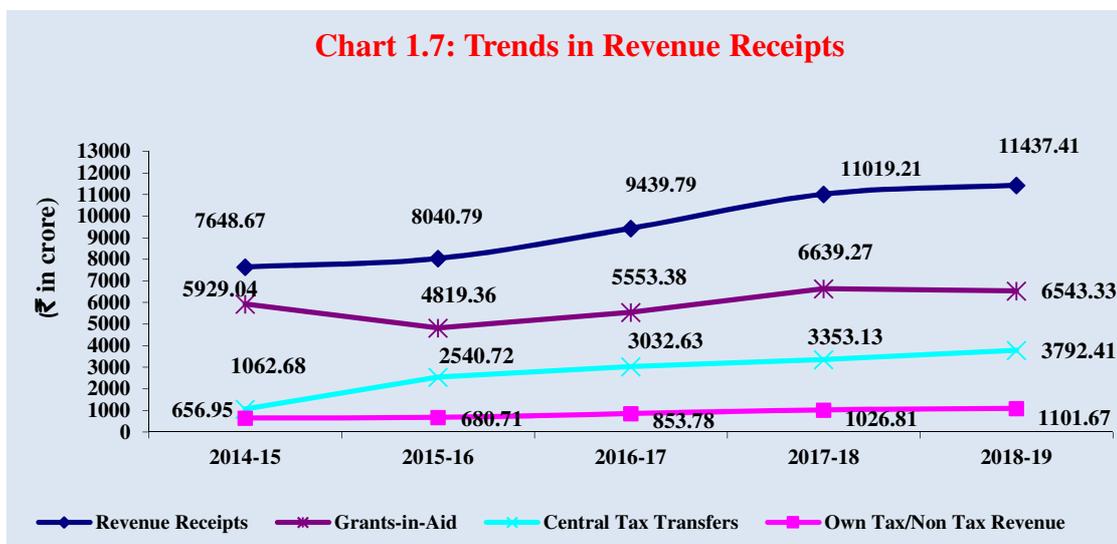
Capital Receipts of the State decreased by ₹ 287.19 crore (23.23 per cent) from ₹ 1236.11 crore in 2017-18 to ₹ 948.92 crore in 2018-19. The decrease was primarily due to less market borrowing.

Public Account Receipts (net) increased by ₹ 735.25 crore (377.30 per cent) from ₹ 194.87 crore in 2017-18 to ₹ 930.12 crore in 2018-19 mainly due to increase in Small Savings PF, etc. (₹ 555.10 crore) and Deposit and Advances (₹ 211.94 crore).

### 1.7.2 Revenue Receipts



The trends and composition of Revenue Receipts over the period 2014-19 are presented in **Appendix 1.2** and depicted in **Chart 1.7**:



Revenue Receipts have shown a progressive increase with inter-year variations and changes in composition, *i.e.*, the share of Own Taxes Revenue, Non-Tax Revenue and Central Transfers, during the period 2014-19.

The Revenue Receipts of the State increased from ₹ 7648.67 crore in 2014-15 to ₹ 11437.41 crore in 2018-19, at a compound annual growth rate of 10.58 *per cent*. While 9.63 *per cent* of the Revenue Receipts during 2018-19 have come from the State's Own Resources comprising Own Taxes and Non-Taxes, Central Tax Transfers and GIA together contributed 90.37 *per cent*. The percentage share of State's Own Resources and the Central Transfers in Revenue Receipts of the State remained static during the last five years (2014-19).

Central Tax transfers to the State increased by ₹ 439.28 crore (13.10 *per cent*) from ₹ 3353.13 crore in 2017-18 to ₹ 3792.41 crore in 2018-19. This was due to implementation of GST (CGST & IGST) (₹ 624.33 crore) and increase in Corporation Tax (₹ 291.72 crore), Tax on Income other than Corporation Tax (₹ 103.90 crore), Other Taxes on Income and Expenditure (₹ 6.87 crore), Tax on Wealth (₹ 0.51 crore) and Other Tax and Duties (₹ 1.96 crore) offset by decrease in Customs (₹ 69.67 crore), Union Excise Duties (₹ 175.24 crore), Service Tax (₹ 345.10 crore).

The trends in Revenue Receipts as well as Buoyancy Ratios<sup>4</sup> relative to GSDP are presented in **Table 1.7**:

**Table 1.7: Trends in Revenue Receipts and Buoyancy Ratios relative to GSDP**

	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Revenue Receipts (RR) (₹ in crore)</b>	<b>7648.67</b>	<b>8040.79</b>	<b>9439.79</b>	<b>11019.21</b>	<b>11437.41</b>
Rate of growth of RR ( <i>per cent</i> )	17.75	5.13	17.40	16.73	3.80
Rate of growth of Own Tax ( <i>per cent</i> )	16.56	9.90	19.59	24.97	32.61
RR/GSDP ( <i>per cent</i> )	41.57	41.18	43.46	45.38	42.94

<sup>4</sup> Buoyancy Ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable as explained in Appendix 1.1 Part C.

	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Buoyancy Ratios</b>					
Revenue receipts Buoyancy w.r.t GSDP <sup>5</sup>	1.65	0.84	1.55	1.42	0.39
State's Own Tax Buoyancy w.r.t GSDP <sup>6</sup>	1.54	1.62	1.74	2.12	3.36

Source: Finance Accounts of respective years.

During the year 2018-19, the growth rate of Revenue Receipt was 3.80 per cent, the lowest in the last five years.

The Revenue Receipts buoyancy with respect to GSDP was 1.42 in 2017-18 which decreased to 0.39 in 2018-19 mainly due to decrease in growth rate of Revenue Receipts. The State's Own Tax Buoyancy with respect to GSDP was 2.12 in 2017-18 which increased to 3.36 in 2018-19, due to increase in rate of growth of Own Tax.

### 1.7.2.1 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, the State's performance in mobilisation of resources was assessed in terms of its own resources comprising revenue from its Own Tax and Non-Tax sources. The trends of State's Own Resources for the last five years are given in **Table 1.8:**

**Table 1.8: State's Own Resources for 2014-19**

	2014-15	2015-16	2016-17	2017-18	2018-19
Tax Revenue	388.61	427.10	510.75	638.28	846.43
Non-Tax Revenue	268.34	253.61	343.03	388.53	255.24
<b>State's Own Resources</b>	<b>656.95</b>	<b>680.71</b>	<b>853.78</b>	<b>1026.81</b>	<b>1101.67</b>

(₹ in crore)

The State actual Tax and Non-Tax Receipts for the year 2018-19 vis-à-vis assessment made by XIV FC and MTFPS are given in **Table 1.9:**

**Table 1.9: Tax & Non-tax Receipts vis-à-vis assessment made by XIV FC and MTFPS**

	XIV FC Projections	Budget Estimates	MTFPS Projection	Actuals
Own Tax Revenue	1001.00	640.56	640.56	846.43
Non-Tax Revenue	339.00	347.45	NA	255.24

(₹ in crore)

Actual Non-Tax Revenue realised was lower than the estimates made by the Government (26.54 per cent) and by the XIV FC (24.71 per cent) due to less cost recovery collection by Education, Sports, Art and Culture Departments. The Revenue Surplus registered by the State was due to receipt of Revenue Deficit Grant of ₹ 3945.00 crore from the Government of India and not owing to its Own Tax mobilisation efforts. The State Government should strive to improving its Tax mobilisation resources in keeping with XIV FC projections.

<sup>5</sup> Revenue receipts Buoyancy w.r.t GSDP=Growth rate of RR/Growth rate of GSDP\*(3.8/9.70=0.39)

<sup>6</sup> State's Own Tax Buoyancy w.r.t GSDP= Growth rate of Own/ Growth rate of GSDP\*(32.4/9.70=3.36)

### 1.7.2.2 Tax Revenue

The gross collection in respect of Major Taxes and Duties are given in **Table 1.10**:

**Table 1.10: Collection of Tax Revenue 2014-19**

(₹ in crore)

Heads	2014-15	2015-16	2016-17	2017-18	2018-19		Percentage of Increase(+)/ Decrease(-) over previous year
					Budget Estimates	Actual	
Goods and Services Tax	0.00	0.00	0.00	187.57	250.00	469.64	150.38
Taxes on Sales, Trade, etc	294.29	328.58	400.12	287.55	225.00	186.69	(-)35.08
State Excise	4.70	5.12	4.63	4.20	5.10	4.65	10.71
Taxes on Vehicles	46.46	53.09	57.39	101.53	105.00	126.22	24.32
Stamps and Registration Fees	1.93	2.04	2.05	2.62	2.40	2.53	(-)3.44
Land Revenue	0.74	0.75	0.82	0.90	0.65	1.13	25.56
Taxes on Goods & Passengers	9.73	5.88	14.76	17.59	14.60	20.16	14.61
Other Taxes	30.76	31.64	30.98	36.32	37.81	35.41	(-)2.51
<b>Total</b>	<b>388.61</b>	<b>427.10</b>	<b>510.75</b>	<b>638.28</b>	<b>640.56</b>	<b>846.43</b>	<b>32.61</b>

Source: Finance Accounts of respective years

The major contributions to the State's Tax Revenue during the year were State Goods and Services Tax (SGST) (55.48 per cent), Tax on Sales, Trade, etc., (22.06 per cent), Taxes on Vehicles (14.91 per cent).

Growth rate in respect of Tax Revenue (₹ 208.15 crore) of Nagaland for the period 2017-18 to 2018-19 was 32.61 per cent as per details given in **Table 1.10**. It was 12.72 per cent for General Category States and 23.22 per cent for Special Category States. Therefore, the growth rate of Tax Revenue in Nagaland was better than that of General Category States as well as Special Category States. Tax Revenue-GSDP ratio for the State was 3.18 per cent during 2018-19 as compared to 6.69 per cent for the Special Category States.

### 1.7.2.3 Position of Protected Revenue to Actual Collection after Implementation of GST

The Nagaland Goods and Services Tax (GST) Act, 2017 was passed by the State Legislature in May 2017 and made effective from 01 July 2017 in the State. The Protected Revenue<sup>7</sup> of the State for the year 2018-19 in accordance with Section 6 of GST (Compensation to States) Act, 2017, was fixed at ₹ 379.43 crore<sup>8</sup>.

The actual revenue received by the State under Goods and Services Tax (SGST) was ₹ 656.33 crore including an amount of ₹ 373.19 crore on account of apportionment of Integrated Goods and Services Tax (IGST) and pre-GST arrear of VAT collection and other of ₹ 186.69 crore.

<sup>7</sup> The GST (Compensation to state) Act, 2017 provides that Union shall compensate the states for loss of revenue due to implementation of GST. Base year for calculating the compensation shall be the revenue collection of the State for 2015-16. Protected revenue is calculated/arrived at, by taking into consideration the revenue collection of base year plus 14 per cent increase for every following year.

<sup>8</sup> Ministry of Finance, GoI Office Memorandum No. S-31011/03/2014-SO(ST)-Pt-I dated 29 August 2017.

**Table 1.11: Details of SGST receipt of the Government of Nagaland including apportionment of IGST and pre-GST arrears of VAT during 2018-19***(₹ in crore)*

Sl. No	Components	Amount
1.	Protected Revenue of State for the year 2018-19	379.43
2.	State Goods and Services Tax (SGST)	
	(a) Tax	96.45
	(b) Apportionment of Taxes from IGST	331.41
	(c) Advance apportionment of Taxes from IGST	41.78
3.	VAT collection (Arrear pre-GST)	186.69
	<b>Total GST Collection</b>	<b>656.33</b>

Source: Finance Accounts.

Thus, the revenue collection of the Government of Nagaland was more than the protected revenue of the State during the period 2018-19. As such, the State Government did not receive any compensation from the Government of India during 2018-19 under Section 6 of GST (Compensation to States) Act, 2017.

With automation of the collection of Goods and Services Tax (GST) having taken place, it is essential for Audit to transition from sample checks to a comprehensive check of all transactions, to fulfil the CAG's Constitutional mandate of certifying the Accounts. The required access to data is yet to be provided. Not having access to the data pertaining to all GST transactions has come in the way of comprehensively auditing the GST receipt. The accounts for the year 2018-19 are, therefore, certified on the basis of test audit as was done when records were manually maintained, as a one-time exception.

#### 1.7.2.4 Non-Tax Revenue

Non-Tax revenue comprises receipts from services rendered and supplies made by various departments of Government and interest receipts. Non-Tax Revenue constituted 2.23 per cent of the total Revenue Receipts during the year. The gross collection of Non-Tax Revenue is given in **Table 1.12**:

**Table 1.12: Collection of Non-Tax Revenue 2014-19***(₹ in crore)*

Revenue Head	2014-15	2015-16	2016-17	2017-18	2018-19	Percentage Increase(+)/ Decrease(-) over previous year
Interest Receipts	7.23	5.19	6.73	6.97	12.06	73.03
Dividends and Profits	0.00	4.94	0.00	0.00	0.66	100.00
Misc. General Services	13.08	13.43	13.64	16.10	24.15	50.00
Power	98.91	111.10	114.58	127.89	147.97	15.70
Education, Sports, Art and Culture	103.56	76.52	119.40	132.84	4.33	(-) 96.74
Other Non-Tax Receipts	45.56	42.43	88.68	104.73	66.07	(-) 36.91
<b>Total</b>	<b>268.34</b>	<b>253.61</b>	<b>343.03</b>	<b>388.53</b>	<b>255.24</b>	<b>(-)34.31</b>

Source: Finance Accounts of respective years

#### 1.7.3 Grants-in-Aid from Government of India

The break-up of Grants-in-Aid (GIA) received from Government of India during 2014-19 is given in the **Table 1.13**:

**Table 1.13: Grants-in-Aid from Government of India**

(₹ in crore)

	2014-15	2015-16	2016-17	2017-18	2018-19
Grants for State Development Schemes	2257.17	193.05	214.71	290.01	601.16
Non-Development Grants	2068.04	3310.43	3545.73	3976.63	4286.98
Grants for Central Development Schemes	80.93	18.41	26.84	25.92	170.43
Grants for Centrally Sponsored Development Schemes	1428.26	1203.85	1660.65	2224.45	1439.73
Grants for Special Schemes	94.64	93.62	105.45	122.26	45.03
<b>Total</b>	<b>5929.04</b>	<b>4819.36</b>	<b>5553.38</b>	<b>6639.27</b>	<b>6543.33</b>
Percentage of Increase (+)/Decrease (-) over previous year	(+)19.86	(-)18.72	15.23	19.55	(-)1.45

Source: Finance Accounts of respective years.

- The significant increase under Grants for Central Development Schemes was due to increase in funding by Government of India for implementation of Pradhan Mantri Gramin Sadak Yojana.
- The decrease in Centrally Sponsored Development Schemes was due to decrease in funding by Government of India in respect of 37 different schemes.
- The decrease in Grants for Special Schemes was due to decrease in funding by Government of India under North Eastern Council funds.

The details of devolution of taxes as well as grants for the last one year of XIII FC (2014-15) and first four years of XIV FC (2015-19) are given in **Table 1.14**:

**Table 1.14: Devolution of Taxes as well as Grants**

(₹ in crore)

	2014-15	2015-16	2016-17	2017-18	2018-19
1. State share of Union Taxes and Duties	1062.68	2540.72	3032.63	3353.13	3792.41
2. Grants-in-Aid from GoI	5929.04	4819.36	5553.38	6639.27	6543.33
<b>TOTAL: (1+2)</b>	<b>6991.72</b>	<b>7360.08</b>	<b>8586.01</b>	<b>9992.40</b>	<b>10335.74</b>
Revenue Receipts	7648.67	8040.79	9439.79	11019.21	11437.41
Per cent of devolution to Revenue Receipts	91.41	91.53	90.96	90.68	90.37
Per cent of State's Own Resources	8.59	8.47	9.04	9.32	9.63

Source: Finance Account of respective years.

#### 1.7.4 Grants under XIV Finance Commission

The details of release of funds to the State on the basis of recommendations of the XIV FC during the years (2017-19) and expenditure there against have been shown in **Table 1.15**:

**Table 1.15: XIV Finance Commission Grants**

(₹ in crore)

Year	2017-18		2018-19	
	Received	Expenditure	Received	Expenditure
Disaster Management	9.90	11.00*	9.90	11.00*
Revenue Deficit Grant	3700.00	3700.00	3945.00	3945.00
<b>Total</b>	<b>3709.90</b>	<b>3711.00</b>	<b>3954.90</b>	<b>3956.00</b>

Source: Finance Accounts of respective years.

\*Including 10 per cent of State's matching share

The details of Revenue Receipts and its components (pre and post XIV FC), net Public Debt and fiscal parameters are given in **Table 1.16**:

**Table 1.16: Revenue Receipts (its components), Net Public Debt and Fiscal Parameters (2015-19)**

Year	2015-16	2016-17	2017-18	2018-19
<b>Revenue Receipt</b>	<b>8040.79</b>	<b>9439.79</b>	<b>11019.21</b>	<b>11437.41</b>
Own Tax Revenue	427.10	510.75	638.28	846.43
Non-tax Revenue	253.61	343.03	388.53	255.24
Central Transfers	2540.72	3032.63	3353.13	3792.41
Grants-in-Aid from GoI	4819.36	5553.38	6639.27	6543.33
FC Grant out of GIA	3203.00	3451.00	3700.00	3945.00
Net Public Debt	840.59	379.32	689.01	310.95
Own Tax and Non-Tax Revenue as percentage of Revenue Receipt	8.47	9.04	9.32	9.63

Source: Finance Accounts of respective years.

The State was hugely dependent on Central transfers and GIA.

### 1.7.5 Central Tax Transfers

The XIV FC had recommended that the States' share of central taxes may be increased to 42 per cent from 2015-16 onwards. Consequently, the State's share in the net proceeds of Central Taxes (excluding Service Tax) and net proceeds of Service Tax has been fixed at 0.498 per cent and 0.503 per cent of the net proceeds of Central Taxes and Service Tax respectively. The break-up of State's share of Union Taxes and Duties received during 2014-19 is given in **Table 1.17**:

**Table 1.17: Central Tax Transfers**

Head	2014-15	2015-16	2016-17	2017-18	2018-19
CGST/IGST	0.00	0.00	0.00	386.44	1010.77
Corporation Taxes	371.26	804.56	973.28	1027.20	1318.92
Taxes on Income other than Corporation Tax	265.11	564.00	676.44	867.42	971.32
Tax on Wealth	1.00	0.13	2.22	-0.03	0.48
Customs	171.94	405.10	418.66	338.50	268.83
Union Excise Duties	97.09	332.50	478.09	353.90	178.66
Service Tax	156.28	433.27	483.93	379.70	34.60
Other Taxes and Duties on Commodities and Services	0.00	1.16	0.01	0.00	1.96
Other taxes on Income and Expenditure	0.00	0.00	0.00	0.00	6.87
<b>Total</b>	<b>1062.68</b>	<b>2540.72</b>	<b>3032.63</b>	<b>3353.13</b>	<b>3792.41</b>
Central Tax Transfer to RR per cent	13.89	31.60	32.13	30.43	33.16

Source: Finance Accounts of respective years.

Central Tax transfers during the year (₹ 3792.41 crore) were more than the assessment made in Budget Estimate (₹ 3777.86 crore) by ₹ 14.55 crore (0.39 per cent). State's share of Union Taxes and Duties increased by ₹ 439.28 crore (13.10 per cent) from ₹ 3353.13 crore in 2017-18 to ₹ 3792.41 crore in 2018-19 contributing 33.16 per cent of the total Revenue Receipts during 2018-19. This increase was mainly due to implementation of GST and collection of revenue from CGST/IGST.

### 1.7.6 Capital Receipts

The details of Capital Receipts for the period from 2014-15 to 2018-19 are given in Table 1.18:

**Table 1.18: Capital Receipts**

Source of State's Receipt	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Capital Receipts (CR)</b>	<b>725.71</b>	<b>1068.90</b>	<b>1183.53</b>	<b>1236.11</b>	<b>948.92</b>
Recovery of Loans and Advances (₹ in crore)	0.71	0.50	1.09	1.09	1.08
Public Debt Receipt (₹ in crore)	725.00	1068.40	1182.44	1235.02	947.84
Rate of growth of Debt Capital Receipts (per cent)	17.09	47.37	10.67	4.45	(-) 23.25
Rate of growth of Non-Debt Capital Receipts (per cent)	(-)29.70	(-)29.58	118.00	0.00	(-)0.92
Rate of growth of CR (per cent)	17.02	47.29	10.72	4.44	(-) 23.23
Debt Capital buoyancy w.r.t GSDP	1.59	7.77	0.95	0.38	(-)2.40
Non Debt Capital Buoyancy w.r.t GSDP	(-)2.76	(-)4.85	10.48	0.00	(-)0.09

Source: Finance Accounts of respective years.

Public Debt Receipts constituted 99.89 per cent of the Capital Receipts in 2018-19. The Capital Receipts had decreased by ₹ 287.19 crore, which was the result of less market borrowings.

#### 1.7.6.1 Proceeds from Disinvestment

During the financial year 2018-19, the Government of Nagaland did not resort to any Disinvestment.

#### 1.7.6.2 Recoveries of Loans and Advances

The State Government in its Medium Term Fiscal Policy Statement (MTFPS) for the year 2018-19 targeted recovery of Loans and Advances of ₹ 2.91 crore. During the year, the actual recovery was only ₹ 1.08 crore which was marginally less than last year (₹ 1.09 crore).

#### 1.7.6.3 Debt Receipts from Internal Sources (Market Loans, Borrowings from Financial Institutions, Banks)

Debt Receipts from internal sources decreased by ₹ 287.18 crore (23.25 per cent) from ₹ 1235.02 crore in 2017-18 to ₹ 947.84 crore in 2018-19. Debt Receipts from internal sources of ₹ 947.84 crore comprised of Market loans (₹ 822.00 crore), Loans from NABARD (₹ 20.00 crore), Loans from Government of India (₹ 3.98 crore), Loans from other Institutions (₹ 79.23 crore) and Loan from National Co-operative Development Corporation (₹ 22.63 crore).

### 1.7.7 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances, etc., which do not form part of the Consolidated Fund are kept in the Public Account set up under Article 266 (2) of the Constitution and are not subject to vote by the State Legislature. Here, the Government acts as a banker.

**Table 1.19: Net transactions under Public Account**(*₹ in crore*)

Resources under various heads	2014-15	2015-16	2016-17	2017-18	2018-19
Small Savings, Provident Fund etc	55.35	11.76	29.10	61.53	616.63
Reserve Fund	41.01	200.67	225.00	225.00	225.00
Deposits and Advances	(-)607.76	(-)75.07	(-)7.69	(-)123.75	88.18
Suspense and Miscellaneous	0.56	2.98	(-)5.83	(-)0.36	(-)1.80
Remittances	277.54	73.96	32.00	32.45	2.10
<b>Total</b>	<b>(-)233.30</b>	<b>214.30</b>	<b>272.58</b>	<b>194.87</b>	<b>930.12</b>

Source: Finance Accounts of respective years.

The net availability of funds under Small Savings, Provident Funds, Reserve Fund and Remittances had a major share in financing of Fiscal Deficit.

The net receipts from Public Account increased by ₹ 735.25 crore (377.30 per cent) from ₹ 194.87 crore in 2017-18 to ₹ 930.12 crore in 2018-19. The increase was mainly due to increase under Provident Fund (₹ 555.10 crore) as the differential amount in increase of pay after implementation of 7<sup>th</sup> Pay Commission for State Government Employees was impounded in GPF accounts till February 2020. The increase in Deposits and Advances (₹ 88.18 crore) is mainly due to deposits of funds under Civil Deposit in the current year.

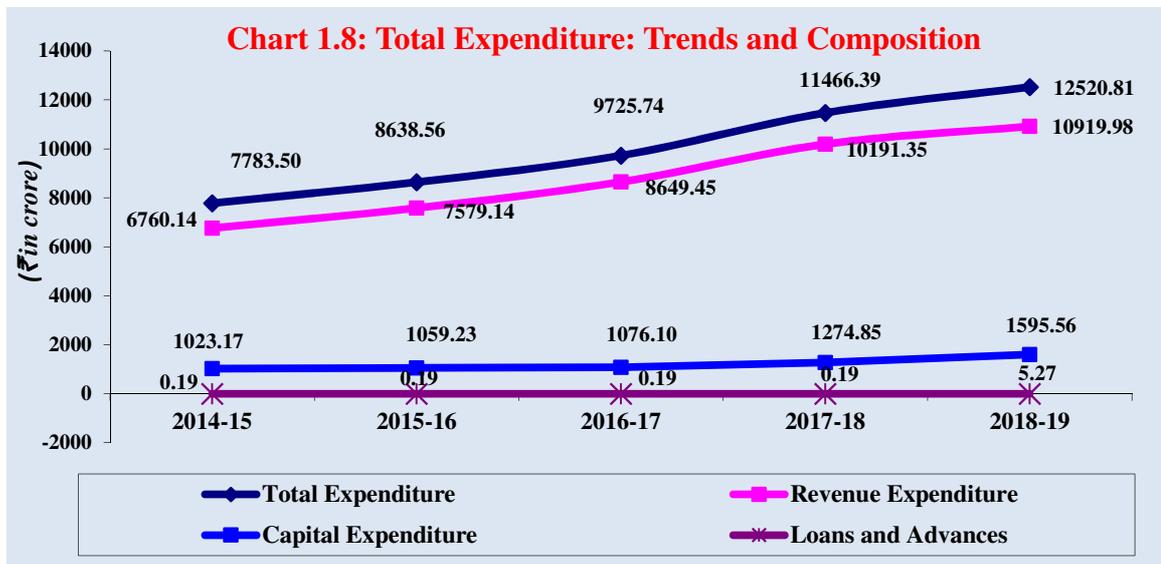
## 1.8 Application of Resources

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 directed towards development and social sectors.

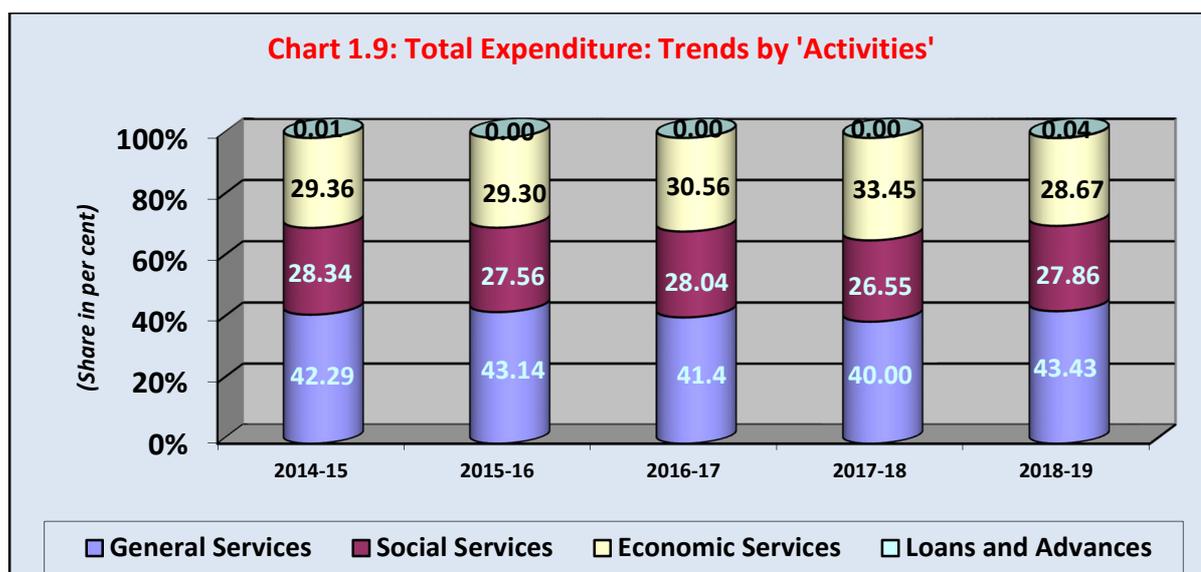
### 1.8.1 Growth and Composition of Expenditure

**Chart 1.8** presents the trends in Total Expenditure over a period of five years (2014-19) and its composition in terms of 'Expenditure by Activities' is depicted in **Charts 1.9**.



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.

Total Expenditure during 2018-19 (₹ 12520.81 crore) increased by 9.20 per cent over the previous year, and comprised of Revenue Expenditure of ₹ 10919.98 crore (87.22 per cent), Capital Expenditure ₹ 1595.56 crore (12.74 per cent) and Loans and Advances ₹ 5.27 crore (0.04 per cent).



### Buoyancy of Expenditure

Total Expenditure (TE), its annual growth rate, the ratio of expenditure to the GSDP and to Revenue Receipts (RR) and its buoyancy with respect to GSDP and Revenue Receipts are indicated in **Table 1.20**:

**Table 1.20: Total Expenditure-Basic Parameters**

	2014-15	2015-16	2016-17	2017-18	2018-19
Total Expenditure (TE) (₹ in crore)	7783.50	8638.56	9725.74	11466.39	12520.81 <sup>9</sup>
Growth rate of TE (per cent)	11.89	10.99	12.59	17.90	9.20
TE/GSDP ratio (per cent)	42.30	44.25	44.77	47.22	47.01
RR/TE (per cent)	98.27	93.08	97.06	96.10	91.35
<b>Buoyancy of total expenditure with reference to:</b>					
GSDP (ratio)	1.10	1.80	1.12	1.52	0.95*
Revenue Receipt (ratio)	0.67	2.14	0.72	1.07	2.42*

Source: Finance Accounts of respective years. \*Buoyancy of TE w.r.t GSDP=9.20/9.70=0.95, Buoyancy of TE w.r.t RR = 9.20/3.80=2.42.

During the current year, 91.35 per cent of Total Expenditure was met from Revenue Receipts and the remaining was met from Capital Receipts and borrowed funds.

In the context of State finances, the quality of expenditure has always been an important issue. During the current year, revenue expenditure, which is in the nature of current

<sup>9</sup> Total Expenditure = Revenue Expenditure + Capital Expenditure + Disbursement of Loan and Advances (During 2018-19 ₹ 12520.81 = ₹ 10919.98+₹ 1595.56+₹ 5.27)

consumption, accounted for around 87.22 *per cent* of the State's aggregate expenditure, leaving only 12.78 *per cent* for investment in infrastructure and asset creation.

General Services expenditure increased by 18.56 *per cent* from ₹ 4586.51 crore in 2017-18 to ₹ 5437.61 crore in 2018-19, Social Services expenditure increased by 14.59 *per cent* and Economic Services expenditure decreased by ₹ 245.99 crore (6.28 *per cent*).

### 1.8.2 Revenue Expenditure

Revenue Expenditure constituted 86.85 *per cent* to 88.93 *per cent* of the total expenditure of the State during 2014-19. The Revenue Expenditure, its rate of growth, the ratio of Revenue Expenditure to GSDP and to Revenue Receipts and its buoyancy are indicated in **Table 1.21**:

**Table 1.21: Revenue Expenditure-Basic Parameters**

	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue Expenditure (RE), of which (₹ in crore)	6760.14	7579.14	8649.45	10191.35	10919.98
Non-Development Revenue Expenditure (NDRE) (₹ in crore)	5530.84 (81.82%)	6456.48 (85.19%)	6917.82 (79.98%)	7602.23 (74.59%)	8661.46 (79.32%)
Development Revenue Expenditure (DRE) (₹ in crore)	1229.30 (18.18%)	1122.66 (14.81%)	1731.63 (20.02%)	2589.12 (25.41%)	2258.52 (20.68%)
Rate of growth of RE ( <i>per cent</i> )	17.61	12.12	14.12	17.83	7.15
RE as percentage to TE	86.85	87.74	88.93	88.88	87.21
Buoyancy of RE with GSDP ( <i>ratio</i> )	1.64	1.99	1.25	1.51	0.74
Buoyancy of RE with RR ( <i>ratio</i> )	0.99	2.36	0.81	1.07	1.88

Source: Finance Accounts of respective years. Parenthesis shows percentage on Revenue Expenditure

Non-Development Revenue Expenditure increased from 75 *per cent* of revenue expenditure in 2017-18 to 79 *per cent* during the current year. It ranged between 75 to 85 *per cent* during the last five years, which indicates that the expenditure of the State was not managed efficiently.

Revenue Expenditure of the State increased by ₹ 4159.84 crore (61.53 *per cent*) during the last five years from ₹ 6760.14 crore in 2014 -15 to ₹ 10919.98 crore in 2018-19, at a compound annual growth rate of 12.74 *per cent*. During 2018-19, Revenue Expenditure increased by ₹ 728.63 crore (7.15 *per cent*) as compared to previous year mainly due to increase in Education, Sports, Art and Culture (₹ 325.07 crore), Pension and Miscellaneous General Services (₹ 289.73 crore), Administrative Services (₹ 267.73 crore), Social Welfare and Nutrition (₹ 175.01 crore), Interest payment and Servicing of Debt (₹ 93.99 crore), Health and Family Welfare (₹ 78.19 crore), General Economic Services (₹ 75.70 crore) and Agriculture and Allied Activities (₹ 68.03 crore) offset by decrease in Rural Development (₹ 734.67 crore).

#### 1.8.2.1 Committed Expenditure

The expenditure of the State Government on Revenue Account mainly consists of Interest payments, expenditure on Salaries and Wages and Pensions. **Table 1.22** presents the trends in the expenditure on these components during 2014-19.

**Table 1.22: Components of Committed Expenditure**

(₹ in crore)

	2014-15	2015-16	2016-17	2017-18	2018-19
Salaries & Wages, of which	3274.16	3688.50	3750.05	4155.72	4944.95
<i>Non-Development</i>	3165.57	3503.94	3635.51	3968.07	4769.13
<i>Development</i>	108.59	184.56	115.54	187.65	175.82
Interest Payment	555.34	586.45	635.50	677.75	771.74
Expenditure on Pension	905.15	1028.80	1093.47	1264.10	1552.79
<b>Total</b>	<b>4734.65</b>	<b>5303.75</b>	<b>5479.02</b>	<b>6097.57</b>	<b>7269.48</b>
<b>As per cent of Revenue Receipts</b>					
Salaries & Wages	42.81	45.87	39.73	37.72	43.23
Interest Payment	7.26	7.29	6.73	6.15	6.75
Expenditure on pension	11.83	12.79	11.58	11.47	13.58
<b>As per cent of GSDP</b>					
Salaries & Wages	17.79	18.89	17.26	17.12	18.56
Interest Payment	3.02	3.00	2.93	2.79	2.90
Expenditure on pension	4.92	5.27	5.03	5.21	5.83

Source: Finance Accounts of respective years

### A. Salaries & Wages

Expenditure on Salaries and Wages increased by 51.03 *per cent* from ₹ 3274.16 crore in 2014-15 to ₹ 4944.95 crore in 2018-19 at a compound annual growth rate of 10.86 *per cent*. 18.99 *per cent* increase over the previous year was mainly due to revision of salaries as per 7<sup>th</sup> Pay Commission, release of dearness allowances and incremental benefits. It may be seen that 43.23 *per cent* of the Revenue Receipts and 45.28 *per cent* of Revenue Expenditure went towards disbursement of Salary and Wages during the year 2018-19. The total number of Government employees was 123686 during 2018-19 which comprised of 6.25 *per cent* of the total population of the State.

### B. Pension Payment

The expenditure on Pension had increased by ₹ 288.69 crore (22.84 *per cent*) from ₹ 1264.10 crore in 2017-18 to ₹ 1552.79 crore (including ₹ 58.17 crore on New Pension System) in 2018-19 mainly due to revision of Pension on implementation of 7<sup>th</sup> Pay Commission.

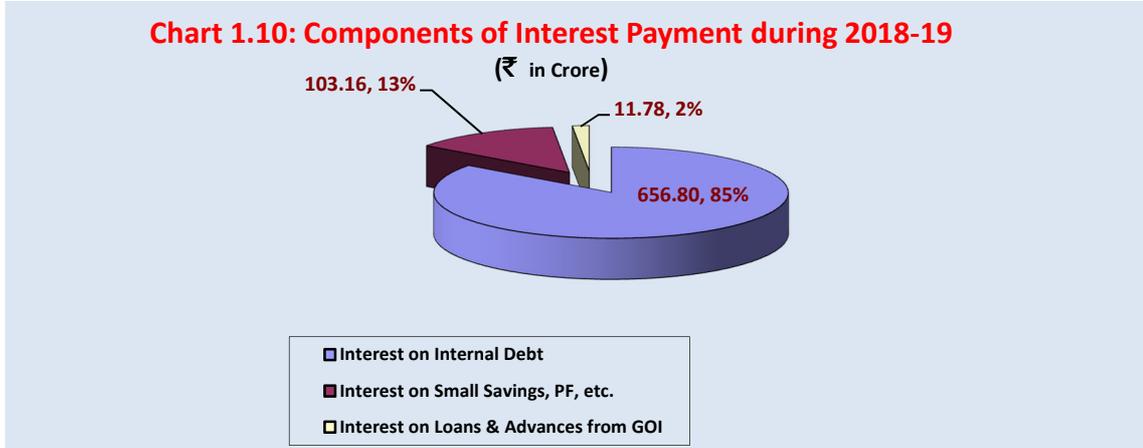
### C. National Pension System

State Government employees appointed on or after 01 January 2010 are covered under the National Pension System (NPS) which is a Defined Contributory Pension Scheme. In terms of the scheme, employees contribute 10 *per cent* of their basic pay plus Dearness Allowances and the State Government is required to make matching contribution.

Government collected ₹ 86.74 crore from employees as contribution towards NPS and contributed only ₹ 58.17 crore as Government's share towards the Scheme. Thus, Government did not discharge its statutory liability as it failed to contribute ₹ 28.57 crore as Government's matching share under NPS. Further, against the total collected funds of ₹ 144.91 crore, the Government transferred ₹ 111.47 crore only to the Designated Authority (NSDL) and did not transfer ₹ 33.44 crore to NSDL for further investment as per the provisions of the Scheme. Thus, there was a short transfer of ₹ 62.01 crore (₹ 33.44 crore not transferred + ₹ 28.57 crore short contribution) to the NSDL and the current liability stands deferred to future year(s). Further, the State Government has created interest liability on the amount not transferred to NSDL, incorrectly used the funds that

belong to its employees and created uncertainty in respect of benefits due to the employees affected/ avoidable financial liability of Government in future; thus leading to possible failure of the scheme itself.

#### D. Interest Payments



Interest payment increased by 38.97 per cent from ₹ 555.34 crore in 2014 -15 to ₹ 771.74 crore in 2018-19 at a compound annual growth rate of 8.57 per cent. The interest payment increased by ₹ 93.99 crore (13.87 per cent) during 2018-19 over the previous year due to increase in interest payment on Internal Debt (₹ 56.68 crore) and Small Savings, Provident Fund, etc. (₹ 39.03 crore) offset by decrease in interest payment on Loans and Advances from Central Government (₹ 1.72 crore).

#### 1.8.3 Capital Expenditure

Capital Expenditure is the part of government spending that goes into creation of assets. Capital Expenditure assumes importance as it has a lasting impact on the economic and social growth of the State. If spent wisely and efficiently, Capital Expenditure ensures a productive economy. Capital Expenditure (₹ 1,595.56 crore) during the current year (2018-19) increased by ₹ 320.71 crore over the previous year (₹ 1274.85 crore) but was ₹ 265.19 crore (14.25 per cent) less than the Budget Estimate (₹ 1860.75 crore) (Appendix 1.2). As compared to the total expenditure, the capital outlay showed a fluctuating trend (11.06 to 13.15 per cent) over the period 2014-15 to 2018-19.

#### 1.8.4 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 1.23:

**Table 1.23: Financial Assistance to Local bodies, etc.**

Financial Assistance to Institutions	(₹ in crore)	
	2017-18	2018-19
Urban Local Bodies	1.62	1.62
Public Sector Undertakings	25.96	23.82
Autonomous Bodies	44.66	51.38
Non-Government Organisations	6.15	3.50
Rural Local Bodies	185.09	66.19
District Rural Development Agencies	4.70	4.94

<b>Financial Assistance to Institutions</b>	<b>2017-18</b>	<b>2018-19</b>
Voluntary Cultural Organisation	2.00	1.65
Various Sports Associations	3.00	0.00
Indira Awas Yojana	16.11	0.00
Special Development Programme	8.00	0.00
Other Institutions	31.11	13.96
<b>Total</b>	<b>328.40</b>	<b>167.06</b>
Assistance as percentage of RE	3.22	1.53

*Source: Finance Accounts of respective years*

The total financial assistance to Local Bodies and Other Institutions, decreased by ₹ 161.34 crore (49.13 per cent) from ₹ 328.40 crore in 2017-18 to ₹ 167.06 crore in 2018-19 mainly due to decrease in assistance to Rural Local Bodies (₹ 118.90 crore) and non-release of assistance under Indira Awas Yojana, Various Sports Associations & Special Development Programme.

### **1.8.5 Quality of Expenditure**

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. 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).

#### **1.8.5.1 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 1.24** analyses the fiscal priority given by the Nagaland Government to various expenditure heads in 2014-15 and 2018-19 with regard to Developmental Expenditure, Social Sector Expenditure, Economic Sector Expenditure and Capital Expenditure.

**Table 1.24: Fiscal Priority of the State in 2018-19**

<b>Fiscal priority by the State</b>	<i>(in per cent)</i>						
	<b>AE/GSDP</b>	<b>*DE/AE</b>	<b>SSE/AE</b>	<b>ESE/AE</b>	<b>CE/AE</b>	<b>Education/AE</b>	<b>Health/AE</b>
Special Category States Average (Ratio) 2018-19	26.73	64.82	35.75	29.08	15.69	18.21	6.48
Nagaland's (Ratio) 2018-19	47.01	56.57	27.86	28.71	12.74	14.76	4.98
AE: Aggregate Expenditure; DE: Developmental Expenditure; SSE: Social Sector Expenditure CE: Capital Expenditure ESE: Economic Sector Expenditure. *Developmental expenditure includes Developmental Revenue Expenditure, Developmental Capital Expenditure and Loans & Advances disbursed. <i>Source: For GSDP, Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation website as on August 2019.</i>							

A comparison of the data related to Nagaland with that of the Special Category States (SCS) revealed that the state did not fare well in any sector in comparison to the SCS.

Development expenditure as a proportion of aggregate expenditure was lower in the State compared to the SCS average.

Expenditure on Social Sector as a proportion of aggregate expenditure was lower than the SCS average. The share of expenditure on education and health as a proportion of aggregate expenditure was also lower than the SCS averages.

Expenditure on Economic Sector as a proportion of aggregate expenditure was slightly lower than the SCS average.

Ratio of Capital Expenditure to Aggregate Expenditure stood at 12.74 *per cent* which was less than the combined average (15.69 *per cent*) of the SCS as well as compared to the states of Manipur and Sikkim (15.08 *per cent* and 19.67 *per cent* respectively) in 2018-19.

It indicates that the State Government did not accord appropriate fiscal priorities to enhance the productive capacity of the State.

### 1.8.6 Efficiency of Expenditure Use

Apart from improving the allocation for Developmental Expenditure<sup>10</sup>, particularly in view of the fiscal space being created on account of decline in debt servicing in the current year, 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. **Table 1.25** 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 1.25: Developmental Expenditure**

Components of Developmental Expenditure	2014-15	2015-16	2016-17	2017-18	2018-19	
					BEs	Actuals
<b>Developmental Expenditure (a to c)</b>	<b>4491.58</b> (57.71)	<b>4912.31</b> (56.86)	<b>5699.23</b> (58.60)	<b>6879.88</b> (60.01)	<b>7785.85</b>	<b>7083.20</b> (56.57)
a. Developmental Revenue Expenditure <sup>11</sup>	3629.17 (46.63)	3958.67 (45.82)	4755.49 (48.90)	5871.94 (51.22)	7024.36	5901.86 (47.14)
b. Developmental Capital <sup>12</sup> Expenditure	862.22 (11.08)	953.45 (11.04)	943.55 (9.70)	1007.75 (8.79)	761.09	1176.07 (9.39)
c. Developmental Loans and Advances	0.19 (0.00)	0.19 (0.00)	0.19 (0.00)	0.19 (0.00)	0.40	5.27 (0.04)

Source: Finance Accounts of respective years. Figures in parentheses indicate percentage to Total Expenditure.

The Developmental Expenditure (₹ 7083.20 crore) was less than the assessment made by the State Government in the Budget (₹ 7785.85 crore) by ₹ 702.65 crore (9.02 *per cent*) during 2018-19. The Developmental Revenue Expenditure increased by ₹ 29.92 crore (0.51 *per cent*) and Developmental Capital Expenditure by ₹ 168.32 crore (16.70 *per cent*) over the previous year. Overall, the Development Expenditure as percentage of Total Expenditure did not change much.

### 1.8.7 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

<sup>10</sup> 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.

<sup>11</sup> Development Revenue Expenditure = Social Service Expenditure + Economic Service Expenditure of RE

<sup>12</sup> Development Capital Expenditure = Social Service Expenditure + Economic Service Expenditure of CE

(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 to take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and Capital Expenditure incurred by the Government during the current year *vis-à-vis* previous years.

### 1.8.7.1 Incomplete Projects

The department-wise information pertaining to incomplete projects as on 31 March 2019 is given in **Table 1.26**:

**Table 1.26: Department-wise Profile of Incomplete Projects**

(₹ in crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Cost	Cumulative Expenditure as on 31.03.2019
Department of Under Developed Area	10	38.69	38.69	21.57
Police Engineering Projects	48	697.04	697.04	177.75
Veterinary and Animal Husbandry	65	50.62	50.76	19.52
Public Works Department (Road & Bridges)	13	309.03	369.53	278.71
Civil Administrative Works Department (CAWD)	26	68.85	68.85	25.83
Public Works Department (Housing)	15	222.38	222.38	150.13
Urban Development	32	402.98	402.98	165.58
Department of Higher Education	8	17.32	17.32	9.79
State Council of Educational Research and Training (SCERT)	14	80.88	81.57	30.29
Legal Metrology and Consumer Protection	5	6.80	6.80	2.46
Transport Commissioner	10	81.24	86.33	54.88
31 Other Departments	144	515.53	587.67	316.36
<b>Total</b>	<b>390</b>	<b>2491.36</b>	<b>2629.92</b>	<b>1252.87</b>

Source: Finance Accounts and Departmental records.

As on 31 March 2019, 390 projects involving an expenditure of ₹ 1252.87 crore were incomplete. Out of those, two projects involving an expenditure of ₹ 10.47 crore, which were taken up under PWD (Roads & Bridges), had been suspended.

Age-wise analysis of delay in completion of projects from the stipulated date of their completion showing status as on 31 March 2019 is given in **Table 1.27**:

**Table 1.27: Age Profile of Incomplete Projects**

(in number)

Sl. No	Delay of Projects in number of years from stipulated date of completion	Number of Incomplete Projects
1	0 to 3 years	145
2	3 to 5 years	134
3	5 to 7 years	7
4	Above 7 years	37
	<b>Total</b>	<b>323</b>

Source: Finance Accounts and Departmental records.

Information regarding target year of completion in respect of 67 out of 390 projects was not furnished by the Department, though called for. The remaining 323 projects were

stipulated to be completed on or before 31 March 2019, and remained incomplete as of December 2019. The possibilities of the incomplete projects being abandoned cannot be ruled out as many of the projects are over five years beyond scheduled completion date. Project cost in respect of 14 incomplete projects was revised from ₹ 200.90 crore to ₹ 339.46 crore. Increase in cost was related to projects under PWD (Road & Bridges- ₹ 60.50 crore), Geology and Mining (₹ 27.41 crore), State Council of Educational Research and Training (₹ 0.69 crore), Transport (₹ 5.09 crore), Veterinary and Animal Husbandry (₹ 0.14 crore), Youth Resources and Sports (₹ 12.02 crore), Agriculture (₹ 0.01 crore), Social Welfare (₹ 7.98 crore) and Forest (₹ 24.72 crore).

Blocking of funds on incomplete projects/ works beyond their scheduled date of completion, adversely impinged on the quality of expenditure and deprived the State of intended benefits for prolonged periods. Further, the funds borrowed for implementation of these projects during the respective years proved ineffectual with the State having to bear additional burden for debt servicing and interest liabilities. Effective steps need to be taken to complete all these above projects without further delay.

### 1.8.7.2 Investment and Returns

As on 31 March 2019, Government had invested ₹ 294.17 crore in Government Companies, Statutory Corporations, Joint Stock Companies and Co-operatives (Table 1.28). An amount of ₹ 0.97 crore was invested in State Mineral Development Corporation during the current year.

The average return on this investment was 'Nil' during the year 2014-15, 2016-17 and 2017-18, while there was a return of ₹ 4.94 crore during the year 2015-16 and 0.66 crore during the year 2018-19, which indicated non-performing investments. The Government paid an average interest rate of 7.14 per cent on its borrowings during the same period.

**Table 1.28: Return on Investment**

(₹ in crore)

Investment/Return/Cost of Borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
Investment at the end of the year (a-d)	278.44	290.60	291.75	293.20	294.17
(a) Joint Stock Companies	32.10	43.10	43.10	43.10	43.10
(b) Government Companies	190.48	191.60	192.75	194.20	195.17
(c) Statutory Corporations	0.04	0.04	0.04	0.04	0.04
(d) Co-operatives	55.82	55.86	55.86	55.86	55.86
Return	0.00	4.94	0.00	0.00	0.66
Return ( per cent)	0.00	1.70	0.00	0.00	0.22
Average rate of interest on Government borrowing ( per cent)	6.81	6.95	6.87	6.79	7.14
Difference between interest rate and return ( per cent)	6.81	5.25	6.87	6.79	6.92

Source: Finance Accounts of respective years.

Out of the total Government investment of ₹ 294.17 crore at the close of the current year, ₹ 195.17 crore was invested in five Government companies (₹ 108.76 crore), Distillery Project (part of Nagaland Sugar Mills Ltd.) (₹ 0.30 crore) and other Undertakings (Nagaland Hotels Ltd.) (₹ 86.11 crore). The remaining amount of ₹ 99.00 crore was invested in two Joint Stock Companies (₹ 43.10 crore) and Statutory Corporations, Co-operative Bank and Co-operative Societies, etc., (₹ 55.90 crore). During the current year, the Government made additional investment of ₹ 0.97 crore in State Mineral Development Corporation Ltd.

Out of six Government companies in the State, one company viz., Nagaland Sugar Mills Ltd., along with Distillery Project (₹ 7.59 crore investment up to 2001-02) was non-working, whose accounts were in arrears for 17 years. The five working companies include Nagaland Industrial Development Corporation Ltd. (₹ 8.39 crore), Nagaland Industrial Raw Materials and Supply Corporation Ltd., (₹ 4.05 crore), State Mineral Development Corporations (₹ 86.20 crore), Nagaland Handloom and Handicrafts Development Corporation Ltd. (₹ 2.82 crore) and Nagaland Hotels Ltd. (₹ 86.11 crore). The accounts of the five working Government Companies were in arrears for periods ranging between one and nine years. Hence, the actual financial status of the companies as of March 2019 could not be assessed by Audit.

In all five working Government Companies, accumulated losses (₹ 63.38 crore) had exceeded their paid-up capital (₹ 27.26 crore), meaning thereby, their net worth has been completely eroded.

### **1.8.8 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 1.29** presents the outstanding Loans and Advances as on 31 March 2019 and interest receipts *vis-à-vis* interest payments during the last five years:

**Table 1.29: Average Interest received on Loans advanced by the State Government**  
(₹ in crore)

Quantum of loans/interest receipts/ cost of borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Opening Balance</b>	27.33	26.81	26.50	25.60	24.70
Amount advanced during the year	0.19	0.19	0.19	0.19	5.27
Amount repaid during the year	0.71	0.50	1.09	1.09	1.08
<b>Closing Balance</b>	<b>26.81</b>	<b>26.50</b>	<b>25.60</b>	<b>24.70</b>	<b>28.89</b>
Net addition	(-) 0.52	(-) 0.31	(-) 0.90	(-) 0.90	4.19
Interest Receipts	3.29	1.81	3.11	2.18	2.23
Interest receipts as <i>per cent</i> to outstanding loans and advances	12.15	6.79	11.94	8.67	8.32
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government	6.81	6.95	6.87	6.79	7.00
Difference between interest receipts and interest payments ( <i>per cent</i> )	5.34	(-) 0.16	5.07	1.88	1.32

Source: Finance Accounts of respective years.

At the end of March 2019, the Government had outstanding Loans and Advances of ₹ 28.89 crore. The amount of loans disbursed during the year increased by ₹ 5.08 crore as compared with the previous year. Out of the total amount of ₹ 28.89 crore as on 31 March 2019, the break-up of Loans and Advances were ₹ 26.15 crore (90.52 *per cent*) for Agriculture and Allied Activities, ₹ 0.57 crore (1.97 *per cent*) to Government Servants and ₹ 2.17 crore (7.51 *per cent*) for Industry and Minerals.

The recovery of Loans and Advances during the year slightly declined as compared to the previous year. During 2018-19, ₹ 0.46 crore (42.59 *per cent*) of loans were repaid by the Government servants and ₹ 0.62 crore (57.41 *per cent*) by the Co-operatives. The interest receipts as a percentage of outstanding loans decreased from 8.67 *per cent* in 2017-18 to 8.32 *per cent* in 2018-19.

## 1.9 Transactions under Reserve fund

Out of the four Reserve funds operated by the State Government, three are operative and one (Depreciation/Renewal Reserve Fund- ₹ 0.07 crore) was dormant. The total accumulated balance at the end of 31 March 2018 in the Reserve Funds was ₹ 2177.72 crore, of which ₹ 1104.20 crore (50.70 per cent) had been invested.

Details of significant Reserve Funds of the Government of Nagaland are given below:

### (a) Consolidated Sinking Fund (CSF)

The State Government created a Consolidated Sinking Fund in 2006-07, for amortisation of liabilities, with an initial corpus of ₹ 12.17 crore. As per the constitution of CSF of Nagaland, the State Government was to contribute 1 to 3 per cent of the outstanding open market loans at the end of the previous years to the Fund. In terms of the revised guidelines of the RBI for fund management, the State Government is required to contribute a minimum of 0.5 per cent of its outstanding liabilities (Internal Debt + Public Account) as at the end of the previous year. During the year, the State Government transferred ₹ 224.00 crore to the Fund from Revenue Account which works out to 3.27 per cent of Total Outstanding Open Market Loans of ₹ 6849.76 crore as on 31 March 2018; and to 2.15 per cent of Total Outstanding Liability of ₹ 10409.15 crore (Internal Debt + Public Account) as on 31 March 2018. The Opening Balance of ₹ 16.17 crore in the Consolidated Sinking Fund as on 31 March 2018 remained as the closing balance at the end of 31 March 2019. However, the balance amount lying in the CSF was not being invested by the Government and as a result, no interest was credited to the Fund.

### (b) Guarantee Redemption Fund (GRF)

The State Government constituted a Guarantee Redemption Fund in 2006-07 with an initial corpus of ₹ 4.00 crore determined on the basis of guarantees invoked during the preceding five years. In terms of the Guarantee Redemption Fund Scheme of the Government of Nagaland, contributions shall be made to the Fund annually or at lesser intervals so as to reach the levels deemed sufficient to meet the amount of anticipated guarantees devolving on the Government as a result of the likely invocation of outstanding guarantees in the succeeding five years. No guarantees of the State Government were invoked since inception of the Scheme. During 2018-19, ₹ one crore was transferred by the State Government and the entire corpus of ₹ 11.34 crore as on 31 March 2019 was invested by the RBI in Government of India Securities.

### (c) State Disaster Response Fund (SDRF)

The State Government commenced operation of the State Disaster Response Fund (SDRF) in 2010-11 as recommended by the XIII FC. In terms of the guidelines applicable to Special Category States like Nagaland, the Central and State Governments are required to contribute to the fund in the proportion of 90:10. Further, Government of India may provide funds from the National Disaster Response Fund (NDRF) to make up the shortfall in the SDRF to meet expenditure requirement on natural calamities in the State during the year.

The status of funds under SDRF during the period 2014-15 to 2018-19 is given in **Table 1.30**:

**Table 1.30: Position of funds under SDRF during 2014-15 to 2018-19**

<i>(₹ in crore)</i>						
Year	Opening Balance	Central Share	State Share	Total Funds Available	Expenditure	Closing Balance
2014-15	0.86	5.44	3.48	9.78	8.92	0.86
2015-16	0.86	9.00	1.00	10.86	10.00	0.86
2016-17	0.86	9.00	1.00	10.86	10.00	0.86
2017-18	0.86	9.90	1.10	11.86	11.00	0.86
2018-19	0.86	9.90	1.10	11.86	11.00	0.86

*Source: Finance Accounts of respective years.*

Following Government of India's release of ₹ 9.90 crore in 2018-19, the State Government transferred ₹ 11.00 crore (including State's share of ₹ 1.10 crore) to SDRF. During the year, the State Government incurred an expenditure of ₹ 11.00 crore on natural calamities leaving a balance of ₹ 0.86 crore in the Fund as on 31 March 2019. However, interest amounting to ₹ 0.07 crore (calculated at the average interest rate applicable for Ways and Means Advances) was not credited to SDRF by the Government.

## **1.10 Assets and Liabilities**

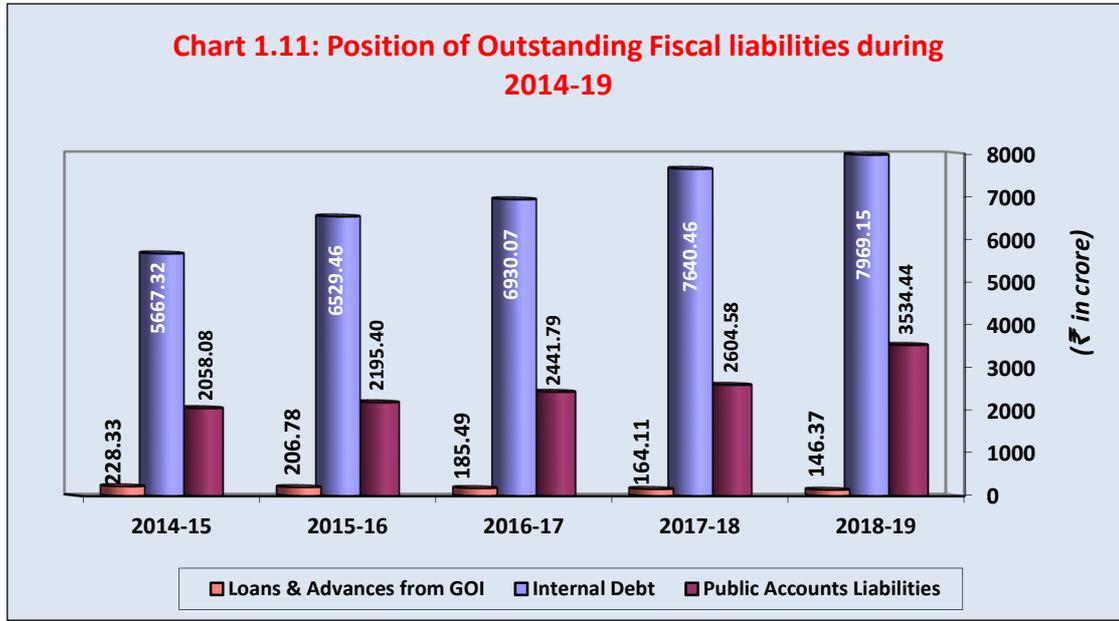
### **1.10.1 Growth and Composition of Assets and Liabilities**

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** gives an abstract of such liabilities and the assets as on 31 March 2019, compared with the corresponding position on 31 March 2018. While the liabilities in the Appendix consist mainly of internal borrowings, Loans and Advances from the Government of India, 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 NFRBM Act, 2005 means the liabilities under the Consolidated Fund of the State and the Public Accounts of the State. Other liabilities, which are a part of the Public Accounts include deposits under Small Savings scheme, Provident Fund and Other deposits.

### 1.10.2 Fiscal Liabilities

The Fiscal Liabilities at the end of the year stood at ₹ 11649.96 crore. **Chart 1.11** gives the position of outstanding Fiscal Liabilities during the last five years. Moreover, **Table 1.31** represents the trend of Fiscal Liabilities during 2014-15 to 2018-19 (**Appendix 1.2**).



**Table 1.31 Trend of Fiscal Liabilities during 2014-15 to 2018-19**

	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Fiscal liabilities</b>	<b>7953.73</b>	<b>8931.64</b>	<b>9557.35</b>	<b>10409.15</b>	<b>11649.96</b>
Revenue Receipts	7648.67	8040.79	9439.79	11019.21	11437.41
Rate of growth of Fiscal Liabilities ( <i>per cent</i> )	(- )4.82	12.29	7.01	8.91	11.92
Rate of growth of Revenue Receipts ( <i>per cent</i> )	17.75	5.13	17.40	16.73	3.80
<b>Fiscal liabilities/ Revenue Receipts (<i>per cent</i>)</b>	<b>103.99</b>	<b>111.08</b>	<b>101.25</b>	<b>94.46</b>	<b>101.86</b>
Buoyancy of <b>Fiscal liabilities</b> with Revenue Receipt (ratio) <sup>13</sup>	(-)0.27	2.40	0.40	0.53	3.14
Own Tax Revenue /Fiscal liabilities ( <i>per cent</i> )	4.89	4.78	5.34	6.13	7.27

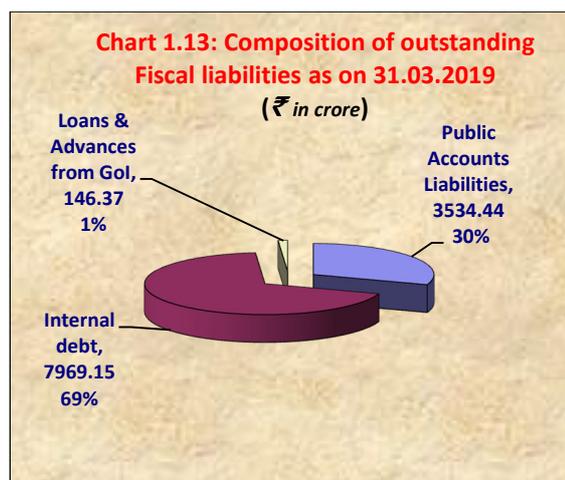
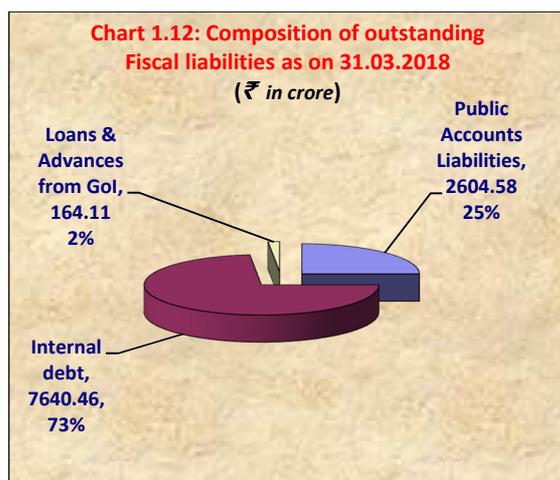
Source: Finance Accounts of respective years.

#### Fiscal Liability

Fiscal Liabilities of the State comprise Consolidated Fund liabilities and Public Account liabilities. The growth rate of Fiscal Liabilities was 11.92 *per cent* during 2018-19 over the previous year. The buoyancy of Fiscal Liabilities with reference to Revenue Receipt during the year was 3.14 *per cent*.

The composition of Fiscal Liabilities of the State during the current year *vis-à-vis* the previous year are presented in **Chart 1.12** and **Chart 1.13**.

<sup>13</sup> Buoyancy of Fiscal Liability with Revenue Receipt (RR) = Growth rate of Fiscal Liability/Growth rate of RR (During 2018-19 Buoyancy of Fiscal Liability with RR = 11.92/3.80 = 3.14)



The Consolidated Fund liability (₹ 8115.52 crore) comprised market loan (₹ 7204.80 crore), Loans from Government of India (₹ 146.37 crore) and other Loans (₹ 764.35 crore). The Public Account Liabilities (₹ 3534.44 crore) comprised of Small Savings, Provident Funds (₹ 1569.34 crore), Interest Bearing Obligations (₹ 137.12 crore) and Non-interest Bearing Obligations like Deposits and other Earmarked Funds (₹ 1827.98 crore).

The ratio of Fiscal Liabilities to GSDP had increased from 42.87 per cent in 2017-18 to 43.74 per cent in 2018-19. These Fiscal Liabilities stood at nearly 1.02 times the Revenue Receipts and 13.76 times of the State's Own Tax Revenue at the end of 2018-19. The Fiscal Liabilities to GSDP (43.74 per cent) were more than the assessment made by the State Government in its Medium Term Fiscal Policy Statement (MTFPS) (39.05 per cent).

### 1.10.3 Contingent Liabilities

#### Status of Guarantees

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 decided to charge guarantee fee at the rate of one per cent to cover the risk in the guarantees.

**Table-1.32: Guarantees given by the Government of Nagaland**

Guarantees	2014-15	2015-16	2016-17	2017-18	2018-19
Total amount of guarantees given up to end of the year	70.22	70.22	81.19	110.46	120.96
Outstanding amount of guarantees at the end of the year	70.22	70.22	81.19	110.46	120.96
Percentage guarantees to Revenue Receipts	0.92	0.87	0.86	1.00	1.06
Outstanding amount of guarantee as percentage of GSDP	0.38	0.36	0.37	0.45	0.45

Source: Finance Accounts of respective years

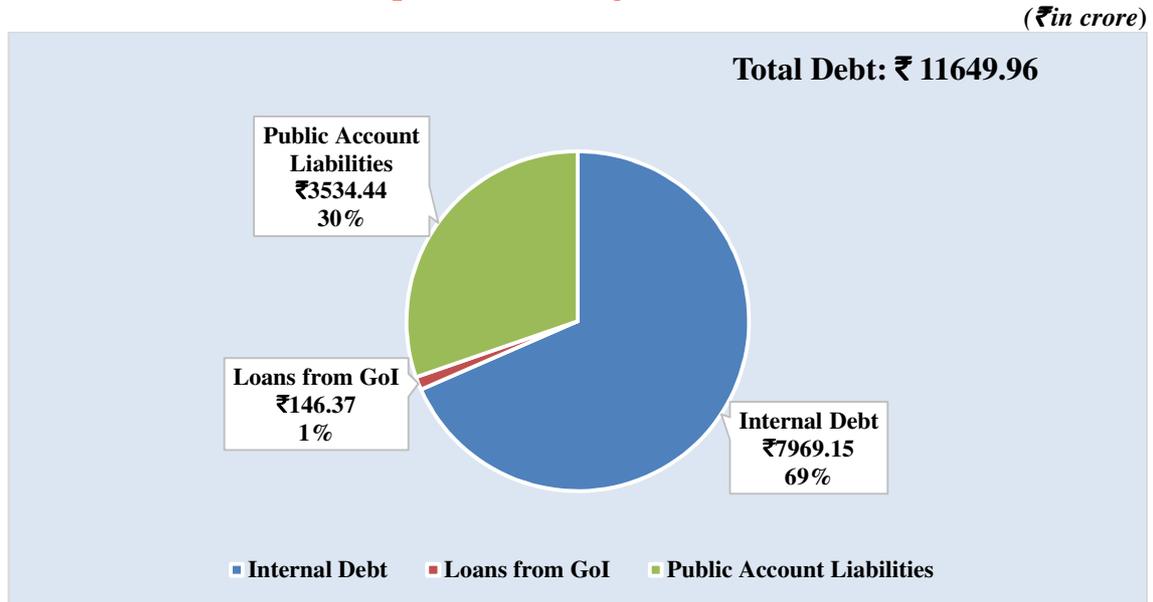
The Outstanding Guarantees increased by ₹ 10.50 crore (9.51 per cent) during 2018-19 over the previous year. The Outstanding Guarantees of ₹ 120.96 crore mainly pertained to Nagaland Industrial Development Corporation (₹ 44.24 crore) for repayment of principal and payment of interest on loan obtained. The Outstanding Guarantees were 1.06 per cent of the Revenue Receipts of the Government as on 31 March 2019.

## 1.11 Debt Management

### 1.11.1 Debt Management and Sustainability

The total outstanding debt of the State Government at the end of 2018-19 was ₹ 11649.96 crore. Component-wise break-up of debt is shown below in **Chart 1.14**.

**Chart 1.14: Break-up of Outstanding Debt at the end of FY 2018-19**



Internal debt, which is primarily market borrowings accounts for 69 *per cent* of the total outstanding debt.

### 1.11.2 Trend of Debt

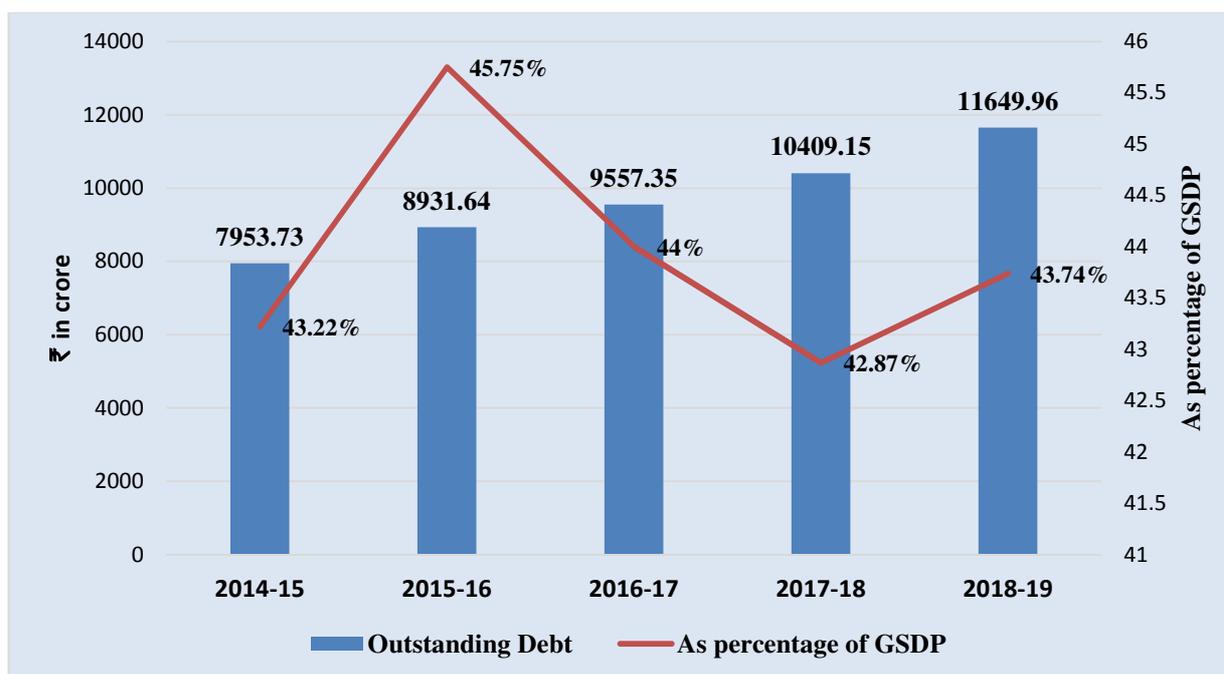
The details relating to total debt received, repayment of debt, ratio of debt to GSDP and the actual quantum of debt available to the State during the five-year period 2014-19 are given in **Table 1.33**, as also in **Chart 1.15**.

**Table 1.33: Trend of Debt**

(₹ in crore)

	2014-15	2015-16	2016-17	2017-18	2018-19	
<b>Outstanding Debt</b>	<b>7953.73</b>	<b>8931.64</b>	<b>9557.35</b>	<b>10409.15</b>	<b>11649.96</b>	
<i>Public Debt</i>	<i>Internal Debt</i>	5667.32	6529.46	6930.07	7640.46	7969.15
	<i>Loans from GoI</i>	228.33	206.78	185.49	164.11	146.37
<i>Public Account Liabilities</i>	2058.08	2195.40	2441.79	2604.58	3534.44	
Rate of growth of outstanding debt (in <i>per cent</i> )	(-) 4.82	12.29	7.01	8.91	11.92	
Gross State Domestic Product (GSDP)	18401	19524	21722	24281	26637	
Debt/GSDP (in <i>per cent</i> )	43.22	45.75	44.00	42.87	43.74	
Total Debt Receipts	1250.45	2227.83	2252.62	2311.03	2798.93	
Total Debt Repayments	1893.49	2126.39	1972.39	2136.98	2329.86	
Net Debt available to the State	-643.04	101.44	280.23	174.05	469.07	

**Chart 1.15: Trend of overall Debt**



### 1.11.3 Debt Sustainability

Debt is considered sustainable if the borrower, in this case the State, is in a position to service its debt now, and in future. Debt sustainability indicators accordingly seek to assess the credit worthiness and the liquidity position of the borrower by examining their ability to service the debt through timely interest payments and repay debt out of current and regular sources of revenue.

This section assesses the sustainability of debt of the State Government in terms of debt/GSDP ratio, Fiscal Deficit, burden of interest payments (measured by ratio of interest payments to Revenue Receipts) and maturity profile of the State Government debt.

**Table 1.34** shows the debt sustainability of the State according to these indicators for the five-year period beginning from 2014-15.

**Table 1.34: Debt Sustainability: Indicators and Trends**

Indicators of Debt sustainability	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Outstanding Debt (₹ in crore)</b>	<b>7953.73</b>	<b>8931.64</b>	<b>9557.35</b>	<b>10409.15</b>	<b>11649.96</b>
Debt/GSDP ( <i>per cent</i> )	43.22	45.75	44.00	42.87	43.74
Fiscal Deficit/GSDP ( <i>per cent</i> )	(-) 0.73	(-) 3.06	(-) 1.31	(-) 1.84	(-) 4.06
Interest Payments/Revenue Receipts Ratio	7.26	7.29	6.73	6.15	6.75
Rate of growth of RR ( <i>per cent</i> )	17.75	5.13	17.40	16.73	3.80
Rate of growth of outstanding Debt ( <i>percentage</i> )	(-)4.82	12.29	7.01	8.91	11.92
Rate of growth of GSDP ( <i>percentage</i> )	10.77	6.10	11.26	11.78	9.70
Interest payment (₹ in crore)	555.34	586.45	635.50	677.75	771.74
Average interest rate on Outstanding debt ( <i>per cent</i> )	6.81	6.95	6.87	6.79	7.00
Available Debt as a percentage of Debt Receipts	(-) 51.42	4.55	12.44	7.53	16.76

The fiscal consolidation roadmap recommended by the XIV FC had set the following targets relating to debt sustainability –

- Debt should be less than 38.73 *per cent* of GSDP; and
- Interest payments should be less than 10 *per cent* of Revenue Receipts.

As can be seen from **Table 1.34**, in the last five years, the ratio of debt to GSDP of the State ranged from 42.87 to 45.75 *per cent*. At 43.74 *per cent*, the Debt-GSDP ratio during 2018-19 exceeded the target of Outstanding Debt to GSDP (38.73 *per cent*) determined by XIV FC for Nagaland. The growth rate of revenue receipts outpaced the growth rate of debt in 2014-15, 2016-17 and 2017-18, however, debt grew at a significantly faster rate of 12.29 and 11.92 *per cent* as compared to growth rate of Revenue Receipts of 5.13 and 3.80 *per cent* respectively during 2015-16 and 2018-19. Net Debt available to the State oscillated between positive and negative magnitudes. Compared to 2017-18, the situation improved during 2018-19, with the net debt available to the State ₹ 469.07 crore as against ₹ 174.05 crore during 2017-18. The trends in Debt-repayment/Debt receipts ratio fluctuated widely during 2014-19 and decreased to 0.83 during 2018-19 against 0.92 during the previous year. The burden of interest payment, which ranged from 6.15 to 7.29 *per cent* of the Revenue Receipts, has been less than 10 *per cent* recommended by the XIV FC. However, during the five-year period 2014-15 to 2018-19, while GSDP has grown at a CAGR of 9.69 *per cent*, the outstanding debt has grown at a faster rate of 10.01 *per cent*.

Sustainability of debt of the Government of Nagaland is also assessed in terms of the Domar model in **Table 1.35**, where the sustainability of debt is based on the relationship between the key fiscal values - public debt, growth rate, interest rate and primary balance. As per this model, for debt to be sustainable, the rate of interest payable on the outstanding debt should be lower than the rate of growth of GSDP (Domar gap); and there should be a primary surplus.

Debt sustainability of Government of Nagaland is given below as per the Domar model.

**Table 1.35: Debt sustainability as per the Domar model**

Year	Growth Rate (g) of GSDP	Average Interest Rate (r)	g-r	Primary Deficit/ Surplus (s) (₹ in crore)	Remarks
2014-15	10.77	6.81	3.96	421.22	As $g-r > 0$ and $s > 0$ , public debt will converge to a stable level less than zero leading to public savings
2015-16	6.10	6.95	(-) 0.85	(-) 10.82	As $g-r < 0$ and $s < 0$ , public debt will increase indefinitely, without converging to a stable level
2016-17	11.26	6.87	4.39	350.64	As $g-r > 0$ and $s > 0$ , public debt will converge to a stable level less than zero leading to public savings
2017-18	11.78	6.79	4.99	231.66	
2018-19	9.70	7.00	2.70	(-) 310.58	As $g-r > 0$ and $s < 0$ , public debt will converge to a stable level

Note: Since the CPI rate for the State is not available in almost all the NER States, the average interest rate, as featured in the SFARs of the respective years, has been taken as 'r' rather than the real interest rate. GSDP is nominal.

The positive Domar gap is, however, combined with a primary deficit in 2018-19. This related with the indicator analysis above as well as the fiscal consolidation roadmap recommended by the XIV FC, while indicating debt sustainability, warrants caution by the Government of Nagaland regarding its debt.

#### **1.11.4 Maturity Profile**

As per Annexure to Statement 17 of the Finance Accounts for the year 2018-19, the maturity profile of the State debt is as indicated in **Table 1.36**.

**Table 1.36: Maturity Profile of Outstanding Debt**

(₹ in crore)

Debt maturity	Maturity Profile	Amount			Per cent
		Internal Debt	Loans & Advances from GoI	Total	
During 2019-20	0-1 year	577.41	22.19	599.60	7.39
Between 2020-21 & 2021-22	Over 1 year to 2 years	1138.63	43.74	1182.37	14.57
Between 2022-23 & 2023-24	Over 2 years to 5 years	1075.00	39.55	1114.55	13.73
Between 2024-25 & 2025-26	Over 5 years to 7 years	1215.00	2.83	1217.83	15.01
2026-27 onwards	Over 7 years and above	3963.11	38.06	4001.17	49.30
<b>Total</b>		<b>7969.15</b>	<b>146.37</b>	<b>8115.52</b>	<b>100.00</b>

Source: Finance Account of respective years.

Maturity profile of outstanding stock of Public Debt as on 31 March 2019 indicates that out of Outstanding Public Debt of ₹ 8115.52 crore, 50.70 per cent of debt needs to be repaid within seven years. The remaining 49.30 per cent was in the maturity bracket of seven years and above. Of the total outstanding public debt, internal debt consisting of market borrowings, loans from LIC, GIC, NABARD, etc. constituted 98.20 per cent (₹ 7969.15 crore).

The State's track record in repayment of public debt as per amortisation schedule of the past 7 years is given below:

**Table 1.37: Schedule of Repayment vis-à-vis actual repayment of Debt of past seven years (2012-13 to 2018-19)**

(₹ in crore)

Year	Schedule of Repayment*	Repayment
2012-13	193.31	335.42
2013-14	144.56	268.82
2014-15	269.59	300.72
2015-16	326.67	517.84
2016-17	293.38	513.35
2017-18	400.49	546.01
2018-19	488.84	636.89

\* Schedule payment of debt shown is excluding loans from Financial Institution (viz. LIC, GIC, NABARD, NSSF, NCDC, etc.), as details of maturity year for this category of loans were not provided by the State government. This has resulted in mismatch between maturity and repayment.

**1.12 Cash Balances and Investment of Cash balances**

**Table 1.38** depicts the cash balances and investments made by the State Government out of cash balances during the year.

**Table 1.38: Cash Balances and Investment of Cash Balances***(₹ in crore)*

	Opening Balance on 01.04.2018	Closing Balance on 31.03.2019
<b>(a) General Cash Balance</b>		
Cash in Treasuries	0.00	0.00
Deposits with Reserve Bank	339.01	163.49
Deposits with other Banks	0.00	0.00
Remittances in Transit- Local	0.00	0.00
<b>Total</b>	<b>339.01</b>	<b>163.49</b>
Investments held in Cash Balance Investment Account	63.16	134.96
<b>Total (a)</b>	<b>402.17</b>	<b>298.45</b>
<b>(b) Other Cash Balances and Investments</b>		
Cash with Departmental Officers <i>viz.</i> , Public Works Department/ Officers, Forest Department Officers, District Collectors	416.81	454.28
Permanent Advances for Contingent Expenditure with Departmental Officers	0.00	0.00
Investment of Earmarked Funds	879.20	1104.20
<b>Total (b)</b>	<b>1296.01</b>	<b>1558.48</b>
<b>Total (a) + (b)</b>	<b>1698.18</b>	<b>1856.93</b>

Source: Finance Accounts of respective years.

It was noticed that State Government's opening general Cash Balance as on 01 April 2018 was ₹ 402.17 crore. The closing general Cash Balance (31 March 2019) showed a decrease of 25.79 per cent (₹ 103.72 crore) and stood at ₹ 298.45 crore. The State Government had earned ₹ 9.57 crore from the Cash Balance Investments during 2018-19.

The Cash Balance Investments of the State of Nagaland for last five years (2014-15 to 2018-19) are given in **Table 1.39**:

**Table 1.39: Cash Balance Investment MH: 8673***(₹ in crore)*

Year	Opening Balance	Closing Balance	Increase/Decrease
2014-15	0.00	141.48	141.48
2015-16	141.48	0.00	-141.48
2016-17	0.00	35.41	35.41
2017-18	35.41	63.16	27.75
2018-19	63.16	134.96	71.80

The trend analysis of the cash balance investment of the State Government revealed that there has been large fluctuation in cash balance of the State.

The total market loans outstanding for the state at the end of the 2018-19 were ₹ 7204.80 crore. The yearly Market Loans *vis-s-vis* Cash Balance during last five years are given below:

**Table 1.40: Market Loan vis-à-vis Cash Balance**

(₹ in crore)

Year	General Cash Balance	Other Cash Balance	Total Cash Balance	Market Loans availed	Loan and Advances from GoI	Total Loan availed
2014-15	(-)108.88	544.61	435.73	725.00	0.00	725.00
2015-16	156.34	737.01	893.35	1068.40	0.00	1068.40
2016-17	262.33	998.06	1260.39	1182.44	0.00	1182.44
2017-18	402.17	1296.01	1698.18	1234.69	0.33	1235.02
2018-19	298.45	1558.48	1856.93	943.86	3.98	947.84

The above table shows that during 2018-19, there was an opening general Cash Balance of ₹ 402.17 crore, the Government resorted to Market Borrowings to the tune of ₹ 947.84 crore (excluding WMA and Over draft). Audit analysis showed that interest realised on Cash Balance Investment Account was 2.38 per cent (₹ 9.57 crore) while Government paid an average interest of 9.70 per cent on its market borrowings during the year.

The State Government should examine whether it is prudent to borrow funds at higher rate of interest when there are large cash balance available which are earning lower rates of interest.

### 1.13 Ways and Means Advances

Under an agreement with the Reserve Bank of India (RBI), the State Government has to maintain a minimum Cash Balance of ₹ 0.25 crore with the Bank. If the balance falls below the agreed minimum amount on any day, the deficiency is made good by taking Ordinary and Special Ways and Means Advances/Overdrafts from time to time. The Ways and Means Advances are not sources of finance but are meant to provide support, for purely temporary difficulties that arise on account of mismatch/shortfall in revenue or other receipts for meeting Government liabilities.

The limit for ordinary<sup>14</sup> Ways and Means Advances to the State Government was ₹ 205.00 crore with effect from 1 April 2018. The extent to which the Government maintained the minimum Cash Balance with the RBI during 2018-19 is as given in Table 1.41:

**Table 1.41: Details of Cash Balance with RBI during 2017-18 and 2018-19**

(₹ in crore)

Sl. No.	Period	2017-18		2018-19	
		Days	Amount	Days	Amount
1	No of days on which the minimum balance was maintained without taking any Advance	261	0.00	317	0.00
2	No of days on which the minimum balance was maintained by taking Ordinary Means and Advance	14	611.95	16	877.23
3	No of days on which the minimum balance was maintained by taking Special Ways and Means Advances	81	3034.82	30	1033.62
4	Number of days on which there was a shortfall in minimum balance even after taking the above advances but no overdraft was taken	0	0.00	0	0.00
5	Number of days on which the overdrafts were taken	9	259.23	2	48.53
<b>Total</b>		<b>365</b>	<b>3906.00</b>	<b>365</b>	<b>1959.38</b>

<sup>14</sup> Normal WMAs are clean advances whereas Special WMAs are secured advances provided against the pledge of Government of India which attract higher interest rates.

During the year, the State Government availed Ways and Means Advances (WMA) of ₹ 1959.38 crore and discharged the full amount. State resorted to Special WMA of ₹ 1033.62 crore where the advances are provided against the pledge of Government of India (GoI), which attract higher interest rates. However, the overall position of minimum cash balance with RBI improved over previous year. The State Government had to pay an interest of ₹ 0.91 crore on the WMA as well. The analysis of the WMA revealed that:

- The WMA constituted 15.66 *per cent* of the Total Revenue and Capital Expenditure;
- It constituted 17.13 *per cent* of the Revenue Receipts of the State;
- During the year, the WMA stood at 7.36 *per cent* of the GSDP;

#### 1.14 Conclusion

- ❖ *State's Own Resources (Own Tax and Non-Tax Resources) were a meager 10 per cent or less, of the total Revenue Receipts, in last five years.*
- ❖ *The State registered Revenue Surplus of ₹ 517.43 crore during 2018-19 but recorded Fiscal Deficit (₹ 1082.32 crore) which was 4.06 per cent of GSDP and thus exceeded 3 per cent norms fixed by NFRBM Act and 3.25 per cent by XIV FC.*
- ❖ *Capital Expenditure (₹ 1595.56 crore) increased by 25.16 per cent. Its ratio to Total Expenditure stood at 12.74 per cent which was less than the combined average (15.69 per cent) of Special Category States.*
- ❖ *Under National Pension System, the Government failed to transfer ₹ 62.01 crore (short contribution ₹ 28.57 crore and short transfer ₹ 33.44 crore) to the NSDL and, incorrectly used the Funds that belong to its employees, and created uncertainty in respect of benefits due to the employees, leading to possible failure of the Scheme itself.*
- ❖ *Revenue Expenditure accounted for 87.22 per cent of the State's Aggregate Expenditure, leaving only 12.78 per cent for Capital Expenditure for Investment in Infrastructure and Asset Creation.*
- ❖ *The overall Development Expenditure of the State decreased by 3.44 per cent in respect of Total Expenditure as compared to previous year,*
- ❖ *Return from Investments (₹ 294.17 crore) in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives was ₹ 0.66 crore while Government paid 7.14 per cent on its borrowings. Accumulated losses in all the five working Government Companies had completely eroded their paid-up capital.*

#### 1.15 Recommendations

- ❖ *The State Government may explore the possibility of mobilising additional resources both through Tax and Non-Tax sources to bring down its fiscal deficit.*

- ❖ *Under National Pension System, the State Government should ensure that employees' contributions are fully deducted, fully matched by the Government contributions and fully transferred to NSDL/Trustee Bank in a timely manner to avoid interest liability.*
- ❖ *Efforts should be made to increase the Capital Expenditure in order to improve the productive capacity of the State's economy.*
- ❖ *State Government should review the working of loss making Corporations, Companies and Co-operative Societies and take appropriate action to avoid further financial burden.*
- ❖ *390 projects are lying incomplete in which ₹ 1252.87 crore are stuck up. The Government should thoroughly examine the reasons for their delay and take corrective action to complete them so that desired benefits of the projects reach the targeted group.*