

**CHAPTER II**  
**FINANCES OF THE STATE**



## Chapter II: Finances of the State

### 2.1 Major changes in Key fiscal aggregates during 2019-20 vis-à-vis 2018-19

This Section gives a bird's eye view of the major changes in key fiscal aggregates of the State during the financial year, compared to the previous year.

**Table 2.1** gives a bird's eye view of the major changes in key fiscal aggregates of the State during 2019-20, compared to the previous year. Each of these indicators are analysed in the succeeding paragraphs.

**Table 2.1: Changes in key fiscal aggregates in 2019-20 compared to 2018-19**

<b>Revenue Receipts</b>	<ul style="list-style-type: none"> <li>➤ Revenue receipts of the State decreased by 0.12 per cent</li> <li>➤ Own Tax receipts of the State increased by 13.21 per cent</li> <li>➤ Own Non-tax receipts increased by 32.93 per cent</li> <li>➤ State's Share of Union Taxes and Duties decreased by 13.85 per cent</li> <li>➤ Grants-in-Aid from Government of India increased by 4.82 per cent</li> </ul>
<b>Revenue Expenditure</b>	<ul style="list-style-type: none"> <li>➤ Revenue expenditure increased by 6.57 per cent</li> <li>➤ Revenue expenditure on General Services increased by 8.18 per cent</li> <li>➤ Revenue expenditure on Social Services decreased by 4.07 per cent</li> <li>➤ Revenue expenditure on Economic Services increased by 15.85 per cent</li> </ul>
<b>Capital Expenditure</b>	<ul style="list-style-type: none"> <li>➤ Capital expenditure decreased by 24.39 per cent</li> <li>➤ Capital expenditure on General Services decreased by 60.49 per cent</li> <li>➤ Capital expenditure on Social Services increased by 38.54 per cent</li> <li>➤ Capital expenditure on Economic Services decreased by 31.04 per cent</li> </ul>
<b>Loans and Advances</b>	<ul style="list-style-type: none"> <li>➤ Disbursement of Loans and Advances increased by 75.71 per cent</li> <li>➤ Recoveries of Loans and Advances increased by 0.92 per cent</li> </ul>
<b>Public Debt</b>	<ul style="list-style-type: none"> <li>➤ Public Debt Receipts increased by 170.70 per cent</li> <li>➤ Repayment of Public Debt increased by 164.50 per cent</li> </ul>
<b>Public Account</b>	<ul style="list-style-type: none"> <li>➤ Public Account Receipts decreased by 0.87 per cent</li> <li>➤ Disbursement of Public Account decreased by 9.50 per cent</li> </ul>
<b>Cash Balance</b>	<ul style="list-style-type: none"> <li>➤ Cash balance increased by ₹ 770.90 crore (41.51 per cent) during 2019-20 compared to previous year</li> </ul>

### 2.2 Sources and Application of Funds

**Table 2.2** compares the sources and application of funds of the State during 2019-20 with 2018-19 in figures, while **Charts 2.1** and **2.2** give the details of receipts into and expenditure from the Consolidated Fund during 2019-20 in terms of percentages.

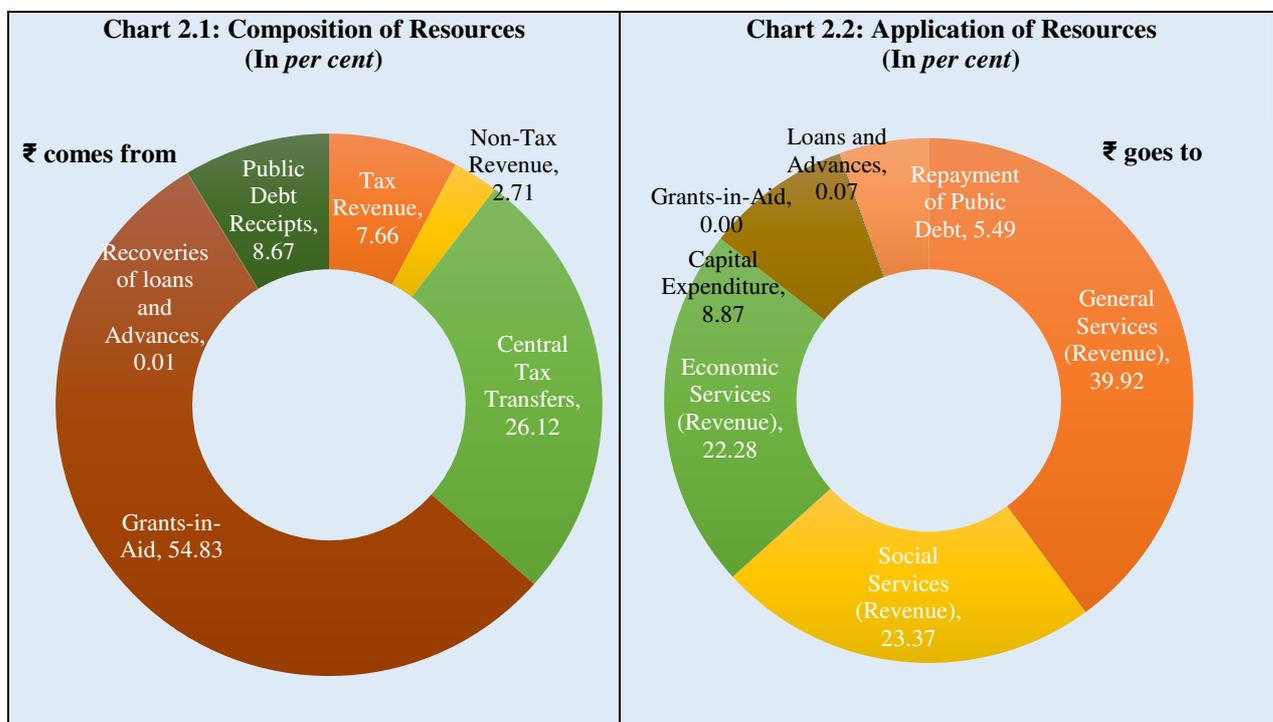
**Table 2.2: Details of Sources and Application of funds during 2018-19 and 2019-20**

(₹ in crore)

	Particulars	2018-19	2019-20	Increase/Decrease
<b>Sources</b>	Opening Cash Balance with RBI	1,698.18	1,856.93	158.75
	Revenue Receipts	11,437.41	11,423.29	(-)14.12
	Recoveries of Loans and Advances	1.08	1.09	0.01
	Public Debt Receipts (Net)	310.95	1,002.57	691.62
	Public Account Receipts (Net)	930.12	1,196.55	266.43
	<b>Total</b>	<b>14,377.74</b>	<b>15,480.43</b>	<b>1,102.69</b>

	Particulars	2018-19	2019-20	Increase/Decrease
Application	Revenue Expenditure	10,919.98	11,637.02	717.04
	Capital Expenditure	1,595.56	1,206.32	(-)389.24
	Disbursement of Loans and Advances	5.27	9.26	3.99
	Closing Cash Balance with RBI	1,856.93	2,627.83	770.90
	<b>Total</b>	<b>14,377.74</b>	<b>15,480.43</b>	<b>1,102.69</b>

Source: Finance Accounts, 2019-20



## 2.3 Resources of the State

The resources of the State are described below:

1. **Revenue receipts** consist of tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid from the Government of India (GoI).
2. **Capital receipts** comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI.

Both revenue and capital receipts form part of the Consolidated Fund of the State.

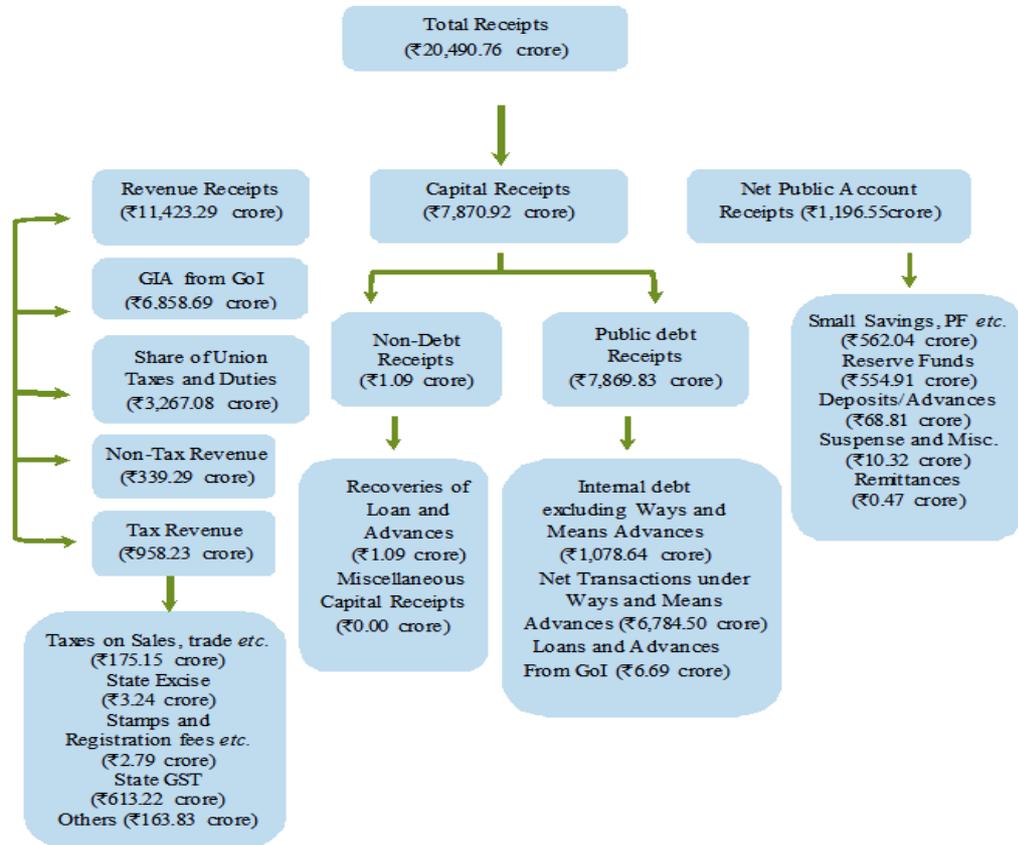
3. **Net Public Account receipts:** There are receipts and disbursements in respect of certain transactions such as small savings, provident fund, reserve funds, deposits, suspense, remittances, etc. which do not form part of the Consolidated Fund.

These 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. The balance after disbursements is the fund available with the Government for use.

### 2.3.1 Receipts of the State

Composition of receipts of the State during 2019-20 is given in **Chart 2.3**.

**Chart 2.3: Composition of receipts of the State during 2019-20**



Source: Finance Accounts, 2019-20

### 2.3.2 State's Revenue Receipts

This paragraph gives the trends in total revenue receipts and its components. It is followed by trends in the receipts bifurcated into receipts from the Central Government and State's own receipts.

#### 2.3.2.1 Trends and growth of Revenue Receipts

**Table 2.3** provides the trends and growth of Revenue Receipts as well as revenue buoyancy with respect to GSDP over the five-year period 2015-20. Further, trends in Revenue Receipts relative to GSDP and composition of Revenue Receipts are given in **Charts 2.4** and **2.5** respectively.

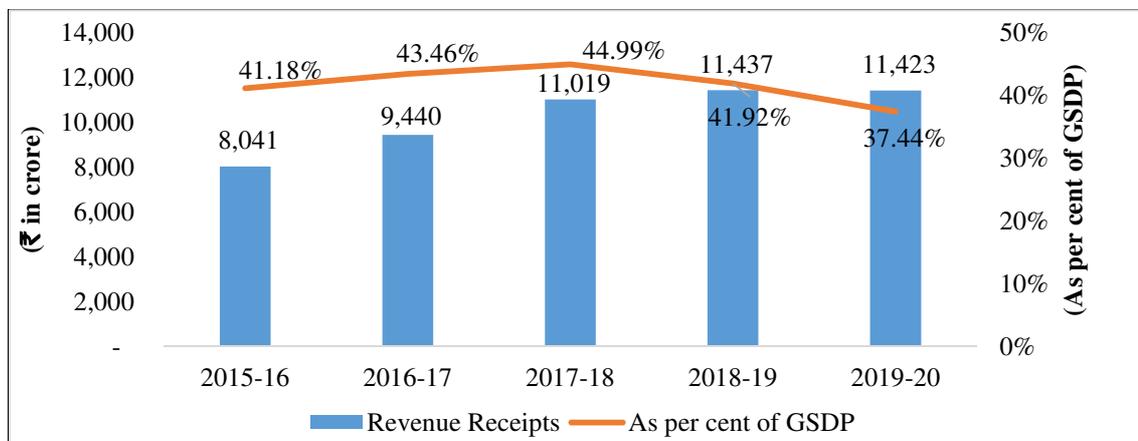
**Table 2.3: Trend in Revenue Receipts**

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Receipts (RR) (₹ in crore)	8,040.79	9,439.79	11,019.21	11,437.41	11,423.29
Rate of growth of RR (per cent)	5.13	17.40	16.73	3.80	-0.12
Own Tax Revenue (₹ in crore)	427.10	510.75	638.28	846.43	958.23
Non-Tax Revenue (₹ in crore)	253.61	343.03	388.53	255.24	339.29

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Rate of growth of Own Resources (Own Tax and Non-tax Revenue) (per cent)	3.62	25.42	20.27	7.29	17.78
Gross State Domestic Product (₹ in crore)	19,523.95	21,722.45	24,491.70	27,283.04	30,507.83
Rate of growth of GSDP (per cent)	6.10	11.26	12.75	11.40	11.82
RR/GSDP (per cent)	41.18	43.46	44.99	41.92	37.44
<b>Buoyancy Ratios<sup>1</sup></b>					
Revenue Buoyancy w.r.t. GSDP	0.84	1.55	1.31	0.33	-0.01
State's Own Revenue Buoyancy w.r.t. GSDP	0.59	2.26	1.59	0.64	1.50

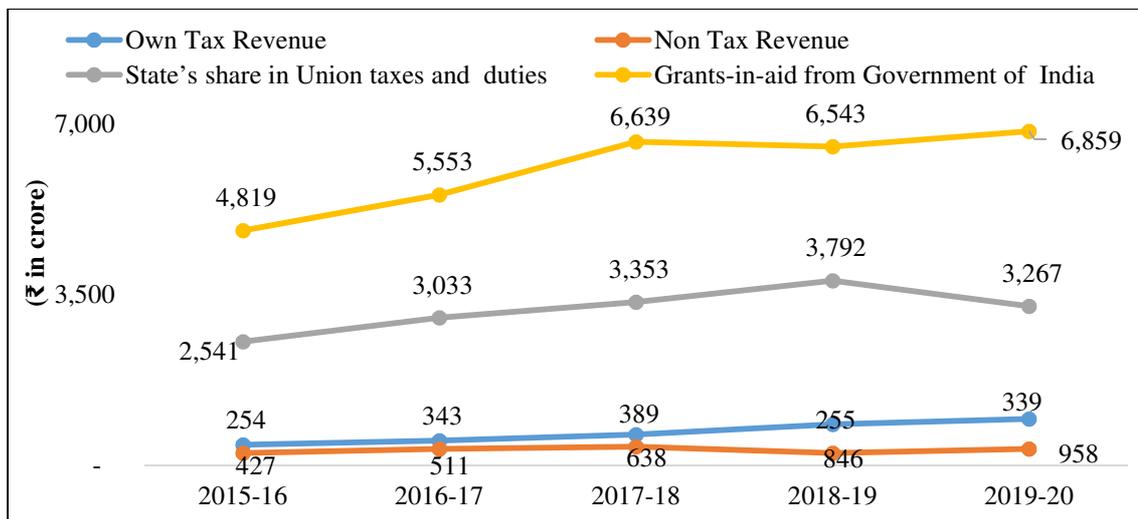
Source of GSDP figures: Directorate of Economics and Statistic, Government of Nagaland

Chart 2.4: Trend of Revenue Receipts



Source: Finance Accounts and GSDP-Directorate of Economics and Statistics, GoN

Chart 2.5: Trend of components of Revenue Receipts



Source: Finance Accounts of respective years

1 Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy with respect to GSDP at 1.85 implies that Revenue Receipts tend to increase by 1.85 percentage points, if the GSDP increases by one per cent.

General trends relating to Revenue Receipts of the State are as follows:

- Revenue Receipts increased by ₹ 3,382.50 crore (42.07 per cent) from ₹ 8,040.79 crore in 2015-16 to ₹ 11,423.29 crore in 2019-20 at a Compound Annual Growth Rate of 9.17 per cent. During 2019-20, Revenue Receipts decreased by ₹ 14.12 crore (0.12 per cent) over the previous year.
- Eleven per cent of the Revenue Receipts during 2019-20 came from the State's own resources, while Central Tax Transfers and Grants-in-Aid together contributed 88.64 per cent. This is indicative of the fact that Nagaland's fiscal position is largely dependent on the tax transfers and Grants-in-Aid from GoI.
- During the current year, there was decrease of 0.12 per cent (₹ 14.12 crore) in Revenue Receipts and increase of 6.57 per cent (₹ 717.04 crore) in Revenue Expenditure as compared to 2018-19, leading to a Revenue Deficit, as against a Revenue Surplus in the previous year.
- The Revenue Receipts buoyancy with respect to GSDP was 0.33 in 2018-19 which decreased to (-) 0.01 in 2019-20 mainly due to negative growth rate of Revenue Receipts. The State's Own Tax buoyancy with respect to GSDP was 0.64 in 2018-19 which increased to 1.50 in 2019-20, due to increase in rate of growth of Own Tax.

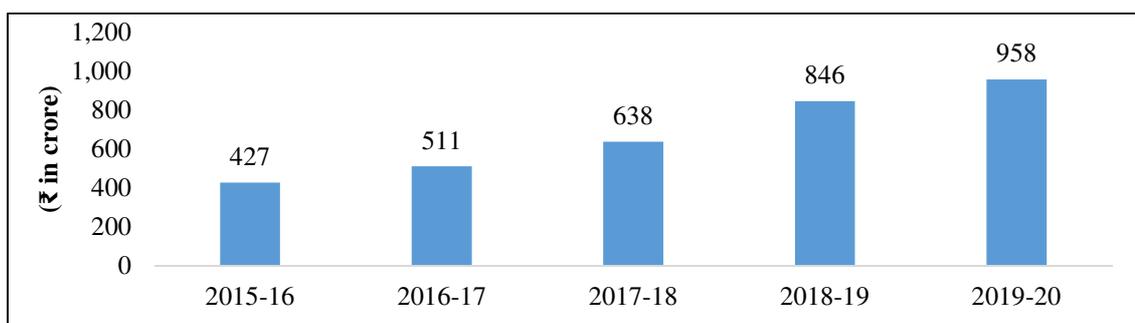
### 2.3.2.2 State's Own Resources

State's share in Central taxes is determined on the basis of recommendations of the Finance Commission. Grants-in-Aid from Central Government is determined by the quantum of collection of Central tax receipts and anticipated Central assistance for schemes. State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

#### Own Tax Revenue

Own tax revenues of the State consist of State GST, State excise, taxes on vehicles, Stamp duty and Registration fees, Land revenue, Taxes on goods and passengers, etc. The gross collection of Own Tax Revenue of the State during the five-year period 2015-20 is given below.

Chart 2.6: Growth of Own Tax Revenue during 2015-20



Source: Finance Accounts of respective years

The detail components of gross collections in respect of major Taxes and Duties collected during 2015-20 are given in **Table 2.4**.

**Table 2.4: Components of State's own tax revenue**

Revenue Head	₹ in crore					Sparkline
	2015-16	2016-17	2017-18	2018-19	2019-20	
Taxes on Sales, Trades etc.	328	400	287	187	175	
SGST	0	0	188	470	613	
State excise	5	5	4	5	3	
Taxes on vehicles	53	57	101	126	114	
Stamp duty and Registration fees	2	2	3	2	3	
Land revenue	1	1	1	1	1	
Taxes on goods and passengers	6	15	18	20	18	
Other taxes	32	31	36	35	31	
<b>Total</b>	<b>427</b>	<b>511</b>	<b>638</b>	<b>846</b>	<b>958</b>	

Source: Finance Accounts of respective years

State's Own Tax Revenue increased by ₹ 531 crore from ₹ 427 crore in 2015-16 to ₹ 958 crore in 2019-20 at Compound Annual Growth Rate (CAGR) of 22.39 per cent. During the current year, major contributors of Tax Revenue were Goods and Services Tax (63.99 per cent), Taxes on Sales, Trades etc., (18.27 per cent) and Taxes on vehicles (11.90 per cent).

The State Government should enforce adequate measures to increase own resources of revenue.

### State Goods and Services Tax (SGST)

As per the GST Act, any shortfall in revenue by the State is required to be compensated by the Central Government. The Centre levies the Integrated GST (IGST) on inter-state supply of goods and services, and apportions the state's share of tax to the state where the goods or services are consumed.

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 Projected revenue<sup>2</sup> of the State for the year 2019-20 in accordance with Section 6 of GST (Compensation to States) Act, 2017, was fixed at ₹ 432.54 crore<sup>3</sup>.

The actual revenue received by the State under Goods and Services Tax (SGST) was ₹ 613.22 crore<sup>4</sup>. This excludes the revenue receipt of ₹ 175.15 crore under pre- GST arrear of Value Added Tax (VAT) collection.

<sup>2</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>3</sup> Ministry of Finance, Office Memorandum No. S-31011/03/2014-SO (ST)-Pt-I dated 29 August 2017.

<sup>4</sup> Apportionment of Integrated Goods and Services Tax (IGST): ₹457.98 crore plus Tax: ₹144.68 crore plus advance apportionment from IGST: ₹10.56 crore

**Table 2.5: Details of SGST receipt of the State including apportionment of IGST and pre-GST arrears of VAT during 2019-20**

(₹ in crore)		
Sl. No.	Components	Amount
1.	Protected Revenue of State for the year 2019-20	432.54 <sup>5</sup>
2.	<b>State Goods and Services Tax (SGST)</b>	
	(a) Tax	144.68
	(b) Apportionment of Taxes from IGST	457.98
	(c) Advance apportionment of Taxes from IGST	10.56
3.	<b>VAT collection (Arrear pre-GST)</b>	175.15
<b>Total GST Collection</b>		<b>788.37</b>

Source: Finance Accounts, 2019-20 and GST (Compensation to States) Act, 2017

Thus, the revenue collection of the GoN was more than the protected revenue of the State during the period 2019-20. As such, the State Government did not receive any compensation from the GoI during 2019-20 under Section 6 of GST (Compensation to States) Act, 2017.

The GoI's decision to provide access to Pan-India data at GSTN premises to State Accountants General was conveyed on 22 June 2020. In line with implementation of the GoI's decision, the State Government has given access of the State data to the Principal Accountant General (Audit) on 17 November 2020 by providing user ID and passwords. The accounts for the year 2019-20 have therefore, been certified on the basis of test audit, as was being done when records were being maintained manually, pending full implementation of the GoI's decision to provide Audit access to GSTN data.

### **Analysis of arrears of revenue and arrears of assessment**

The arrear of revenue indicates delayed realisation of revenue due to the Government. Similarly, arrear of assessment indicates potential revenue which is blocked due to delayed assessment. Both deprive the State of potential revenue receipts and affect ultimately the revenue deficit.

The arrears of revenue as on 31 March 2020 on some principal heads of revenue was outstanding for more than five years, as detailed in **Table 2.6**.

**Table 2.6: Arrears of revenue**

(₹ in lakh)			
Sl. No.	Head of revenue	Total Amount outstanding as on 31 March 2020	Amount outstanding for more than five years as on 31 March 2020
1.	Nagaland VAT	492.17	68.17
2.	Petroleum Tax	388.09	58.82
3.	Central Sales Tax	67.78	60.83
4.	Purchase Tax	0.45	0.45
5.	Professional Tax	9.40	1.81
6.	Nagaland Sales Tax	33.48	33.48
<b>Total</b>		<b>991.37</b>	<b>223.56</b>

Source: Departmental figures

<sup>5</sup> Calculated at ₹256.10 crore X (1+14/100)<sup>2</sup> crore for subsequent year taking ₹256.10 crore as base year revenue of 2015-16

It can be seen from the table above that revenue arrear of ₹ 9.91 crore was outstanding as on 31 March 2020, of which ₹ 2.24 crore was pending for recovery for more than five years. Adequate efforts were not made to recover the arrears. Reasons for arrear and steps taken to recover the arrear were not intimated by the State Government (March 2021). Earnest efforts are required to be made to recover the arrears before expiry of the statutory period.

Further, the details of cases pending at the beginning of the year 2019-20, cases becoming due for assessment, cases disposed off during the year 2019-20 and number of cases pending for finalisation at the end of the year as furnished by the Sales Tax Department in respect of Sales Tax/VAT on Sales, Trades *etc.*, are shown in **Table 2.7**.

**Table 2.7: Statement showing arrears in assessments**

(₹ in crore)

Head of Revenue	Opening Balance of arrears in assessment as on 01 April 2019	New cases due for assessment during 2019-20	Total assessment due	Cases disposed-off during 2019-20	Balance at the end of the 31 March 2020	Percentage of cases disposed to the total assessment due
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7 (5 to 4)</i>
Nagaland VAT	503	206	709	291	418	41
Petroleum Tax	32	26	58	27	31	47
Central Sales Tax	468	52	520	118	402	23
Professional Tax	507	225	732	294	438	40
Amusement Tax	3	5	8	3	5	38
<b>Total</b>	<b>1,513</b>	<b>514</b>	<b>2,027</b>	<b>733</b>	<b>1,294</b>	<b>36</b>

Source: Departmental figures

The arrears in assessment decreased from 1,513 to 1,294 cases with the addition of 514 cases, which became due for assessment during 2019-20 and 733 cases were disposed off during the year. The cases disposed off during 2019-20 were only 36 *per cent* and the pace needs to be improved.

Thus, the outstanding arrears had deprived of potential revenue receipts and impacted upon the revenue deficit of the State to that extent.

#### ***Details of evasion of tax detected by Department, refund cases, etc.***

The cases of evasion of tax detected by the Excise and Taxation Department, cases finalised and the demands for additional tax raised are important indicators of revenue collection efforts of the State Government. Promptness in disposal of refund cases is important indicator of performance of the Department. High pendency of refund cases may indicate red tape, vested interests, prevalence of speed money, *etc.*

The details of the cases of evasion of taxes detected by the Department, cases finalised and additional demand with penalty *etc.* and cases of refund were requisitioned (September 2020) from The Commissioner of Taxes, Dimapur. The Commissioner of Taxes, Dimapur replied (October 2020) that there was no case of evasion of tax detected and refund case during the year.

### Non Tax Revenue

Non-Tax revenue consists of interest receipts, dividends and profits, mining receipts, departmental receipts, etc. The component-wise details of Non-Tax Revenue collected during the years 2015-20 were shown in **Table 2.8**.

**Table 2.8: Components of State's non-tax revenue**

Revenue Head	2015-16	2016-17	2017-18	2018-19	2019-20	(₹ in crore) Sparkline
Interest Receipts	5	7	7	12	5	
Dividends and Profits	5	0	0	1	3	
Other Non-Tax Receipts	244	336	382	242	331	
Misc. General Services	13	14	16	24	22	
Power	111	114	128	148	159	
Education, Sports, Arts and Culture	77	119	133	4	62	
Other Misc.	43	89	105	66	87	
<b>Total</b>	<b>254</b>	<b>343</b>	<b>389</b>	<b>255</b>	<b>339</b>	

Source: Finance Accounts of respective years

Non-Tax Revenue ranged between 2.23 and 3.63 *per cent* of Total Revenue Receipts of the State during the five-year period from 2015-20 to 2019-20. Non-Tax Revenue increased significantly by ₹ 85 crore from ₹ 254 crore in 2015-16 to ₹ 339 crore in 2019-20 at CAGR of 7.55 *per cent*. During the current year, major contributors for the increase in Non-Tax Revenue were Power (₹ 11 crore) and Education, Sports, Arts and Culture (₹ 58 crore).

### State's performance in mobilisation of resources

State's performance in mobilisation of resources is assessed in terms of its own resources comprising own-tax and non-tax sources. The trends of State's Own Resources for the last five years are given in **Table 2.9**.

**Table 2.9: State's Own Resources for 2015-20**

	2015-16	2016-17	2017-18	2018-19	2019-20	(₹ in crore)
Tax Revenue	427.10	510.75	638.28	846.43	958.23	
Non-Tax Revenue	253.61	343.03	388.53	255.24	339.29	
<b>State's Own Resources</b>	<b>680.71</b>	<b>853.78</b>	<b>1,026.81</b>	<b>1,101.67</b>	<b>1,297.52</b>	

Source: Finance Accounts of respective years

The State's actual Tax and Non-Tax Receipts for the year 2019-20 *vis-à-vis* assessment made in the Budget and projection made by the Fourteenth Finance Commission (XIV FC) is given in **Table 2.10**.

**Table 2.10: Tax and Non-Tax receipts *vis-à-vis* projections**

	XIV FC projections (₹ in crore)	Budget Estimates (₹ in crore)	Actual (₹ in crore)	Percentage variation of actual over	
				Budget estimates	FFC projections
Own Tax Revenue	1,200.00	780.14	958.23	22.83	-20.15
Non-Tax Revenue	420.00	329.02	339.29	3.12	-19.22

Source: XIV FC report, Budget documents and Finance Accounts, 2019-20

Actual own Tax and Non-Tax Revenue realised were lower than the projections made by the XIV FC. The Revenue Deficit registered by the State was despite receipt

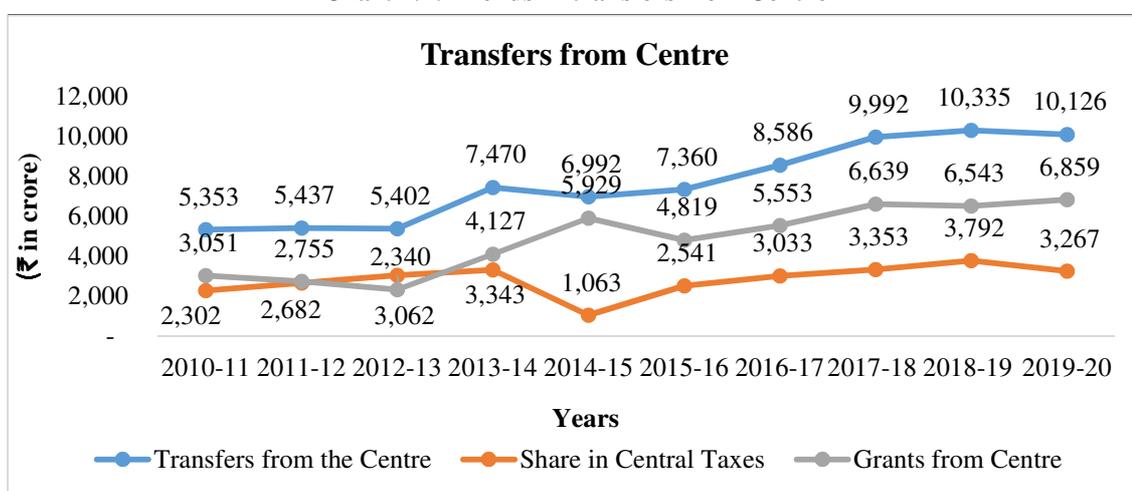
of Revenue Deficit Grant of ₹ 4,176.79 crore (from April 2020 to March 2021) from the GoI. The State Government should strive to improve its tax mobilisation resources in keeping with XIV FC projections.

### 2.3.2.3 Transfers from the Centre

The GoI accepted the recommendations of XIV FC to increase the States' share in the divisible pool of taxes from 32 to 42 per cent with effect from 2015-16 onwards. This significant increase in the State's share altered the composition of central transfers in favour of statutory transfers from discretionary transfers made earlier. It also led to greater predictability and certainty in the quantum of funds being transferred to States.

The trends in transfer from Centre for 10 years are given in **Chart 2.7**.

**Chart 2.7: Trends in transfers from Centre**



Source: Finance Accounts of respective years

### Central tax transfer

The details of the State's actual tax devolution *vis-à-vis* Finance Commission projections and State Government's projection in Fiscal Consolidation Roadmap (FCR) for ten years are given in **Table 2.11**.

**Table 2.11: State's share in Union taxes and duties - Actual devolution *vis-à-vis* Finance Commission projections**

(₹ in crore)				
Year	Finance Commission projections	Projections in FCR	Actual tax devolution	Difference
1	2	3	4	5 (4-3)
2010-11	0.314 per cent of net proceeds of all shareable taxes excluding service tax and 0.318 per cent of net proceeds of sharable service tax {As per recommendations of Thirteenth Finance Commission (TFC)}	689.46	689.46	0.00
2011-12		828.27	803.20	-25.07
2012-13		993.92	917.14	-76.78
2013-14		1,192.71	1,001.27	-191.44
2014-15		1,431.25	1,062.68	-368.57
2015-16	0.498 per cent of net proceeds of all shareable taxes excluding service tax and 0.503 per cent of net proceeds of sharable service tax (As per recommendations of FFC)	2,889.00	2,540.72	-348.28
2016-17		3,334.00	3,032.63	-301.37
2017-18		3,852.00	3,353.13	-498.87
2018-19		4,456.00	3,792.41	-663.59
2019-20		5,161.00	3,267.08	-1,893.92

Source: Reports of the TFC and FFC, Finance Accounts and Information furnished by the Finance Department, GoN.

The break-up of State's share of Union Taxes and Duties received during 2015-20 is given in **Table 2.12**.

**Table 2.12: Central Tax Transfers**

(₹ in crore)					
Head	2015-16	2016-17	2017-18	2018-19	2019-20
Central Goods and Services Tax	0.00	0.00	47.80	936.07	927.14
Integrated Goods and Services Tax	0.00	0.00	338.64	74.70	0.00
Corporation Tax	804.56	973.28	1,027.20	1,318.92	1,113.93
Taxes on Income other than Corporation Tax	564.00	676.44	867.42	971.32	872.84
Customs	405.10	418.66	338.5	268.83	207.09
Union Excise Duties	332.50	478.09	353.90	178.66	143.96
Service Tax	433.27	483.93	379.70	34.60	0.00
Other Taxes <sup>6</sup>	1.29	2.23	-0.03	9.31	2.12
<b>Central Tax transfers</b>	<b>2,540.72</b>	<b>3,032.63</b>	<b>3,353.13</b>	<b>3,792.41</b>	<b>3,267.08</b>
Percentage of increase over previous year	139.09	19.36	10.57	13.10	-13.85
Percentage of Central tax transfers to Revenue Receipts	31.60	32.13	30.43	33.16	28.60

Source: Finance Accounts of respective years

Central Tax transfers during the year (₹ 3,267.08 crore) were less than the assessment made in Budget Estimates (₹ 4,192.50 crore) by ₹ 925.42 crore (22.07 per cent). State's share of Union Taxes and Duties decreased by ₹ 525.33 crore (13.85 per cent) from ₹ 3,792.41 crore in 2018-19 to ₹ 3,267.08 crore in 2019-20 contributing 28.60 per cent of the total Revenue Receipts during 2019-20. The State's share of Union Taxes and Duties decreased during the current year over the previous year by ₹ 525.33 crore (13.85 per cent) mainly due to decrease under Corporation Tax, Taxes on Income other than Corporation Tax, Union Excise Duties, IGST and Customs.

### Grants-in-Aid from GoI

The break-up of Grants-in-Aid (GIA) received from Government of India during 2015-20 is given in **Table 2.13**.

**Table 2.13: Grants-in-Aid from GoI**

(₹ in crore)					
Head	2015-16	2016-17	2017-18	2018-19	2019-20
Non-Plan Grants/Grants for State/ Union Territory Schemes	193.05	214.71	290.01	601.16	312.57
Non Development Grants/Grants for State Plan Schemes (excluding Finance Commission Grants)	107.43	94.73	276.63	341.98	401.81
Finance Commission Grants	3,203.00	3,451.00	3,700.00	3,945.00	4,176.79
Grants for Central Plan Schemes	18.41	26.84	25.92	170.43	106.85
Grants for Centrally Sponsored Schemes	1,203.85	1,660.65	2,224.45	1,439.73	1,823.15
Grants for Special Plan Schemes	93.62	105.45	122.26	45.03	37.52
<b>Total</b>	<b>4,819.36</b>	<b>5,553.38</b>	<b>6,639.27</b>	<b>6,543.33</b>	<b>6,858.69</b>
Percentage of increase over the previous year	-18.72	15.23	19.55	-1.45	4.82
Percentage of GIA to Revenue Receipts	59.94	58.83	60.25	57.21	60.04

Source: Finance Accounts of respective years

<sup>6</sup> Include Taxes on Wealth, Other Taxes on Income and Expenditure, Other Taxes and Duties on commodities and Services

The total GIA from GoI showed fluctuating trend during the five-year period from 2015-16 to 2019-20. During 2019-20, it increased by ₹ 315.36 crore (4.82 per cent) as compared with the previous year mainly due to increase in Finance Commission Grants (₹ 231.79 crore) and grants for CSS. The GIA from GoI constituted 60.04 per cent of the total Revenue Receipts of the State during 2019-20.

#### Fourteenth Finance Commission Grants

As per recommendation of the XIV FC, the GoI had released grants for Local Bodies and towards State Disaster Response Fund (SDRF) during FC Award period from 2015-16 to 2019-20. The details of release of funds to the State on the basis of recommendations of the XIV FC during the Award period 2015-20 and transfer by the State Government have been shown in **Table 2.14**.

**Table 2.14: Recommended amount, actual release and transfers of Grants-in-aid**  
(₹ in crore)

Transfers	Recommendation of the XIV-FC 2015-20	Recommendation of the XIV-FC			Actual release by GoI			Release by State Government		
		2015-19	2019-20	Total	2015-19	2019-20	Total	2015-19	2019-20	Total (percentage of column 8)
1	2	3	4	5	6	7	8	9	10	11
<b>(A) Local Bodies:</b>										
<b>(i) Grants to PRIs</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
(a) General Basic Grant	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(b) General Performance Grants	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>(ii) Grants to ULBs</b>	<b>127.48</b>	<b>88.48</b>	<b>39.00</b>	<b>127.48</b>	<b>0.00</b>	<b>95.86</b>	<b>95.86</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
(a) General Basic Grant	101.98	71.39	30.59	101.98	0.00	95.86	95.86	0.00	0.00	0.00
(b) General Performance Grants	25.50	17.09	8.41	25.50	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total for Local Bodies</b>	<b>127.48</b>	<b>88.48</b>	<b>39.00</b>	<b>127.48</b>	<b>0.00</b>	<b>95.86</b>	<b>95.86</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>(B) State Disaster Response Fund*</b>	<b>54.00</b>	<b>42.00</b>	<b>12.00</b>	<b>54.00</b>	<b>42.00</b>	<b>12.00</b>	<b>54.00</b>	<b>42.00</b>	<b>12.00</b>	<b>100</b>
<b>Grand Total (A+B)</b>	<b>181.48</b>	<b>130.48</b>	<b>51.00</b>	<b>181.48</b>	<b>42.00</b>	<b>107.86</b>	<b>149.86</b>	<b>42.00</b>	<b>12.00</b>	

\* Including State share of 10 per cent of total grant

Source: XIV-FC Report and Information furnished by Finance Department, GoN

As can be from the above table, out of the total XIV-FC recommended amount of ₹ 127.48 crore for grants to Local bodies for the State, the actual release from GoI was only ₹ 95.86 crore (75.20 per cent), which was released only in 2019-20. However, the same amount had not been released by the State Government to the implementing departments.

The Finance Department, GoN stated (December 2020) that the grants could not be released during 2019-20 due to the fact that the funds were received at the fag end of the financial year 2019-20 from the GoI. However, reasons for short release by the GoI were not furnished by the Department.

The Finance Department in its reply stated (March 2021) that GoI does not assign reason for short releases. The reply is an admission to the fact that the State had not taken up corrective measure on the issue of short release of fund by the GoI.

### 2.3.3 Capital Receipts

**Capital Receipts** comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/ commercial banks) and loans and advances from GoI.

**Table 2.15** shows the trends in growth and composition of Capital Receipts and net Public Debt Receipt.

**Table 2.15: Trends in growth and composition of capital receipts**

Sources of State's Receipts	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Capital Receipts</b>	<b>1,068.90</b>	<b>1,183.53</b>	<b>1,236.11</b>	<b>948.92</b>	<b>1,086.41</b>
Miscellaneous Capital Receipts	1,068.40	1,182.44	1,235.02	947.84	1,085.32
Recovery of Loans and Advances	0.50	1.09	1.09	1.08	1.09
<b>Net Public Debt Receipts</b>	<b>840.49</b>	<b>379.32</b>	<b>689.01</b>	<b>310.95</b>	<b>1,002.57</b>
<i>Internal Debt*</i>	<i>862.13</i>	<i>400.60</i>	<i>710.40</i>	<i>328.69</i>	<i>1,017.78</i>
<i>Growth rate</i>	<i>561.14</i>	<i>-53.50</i>	<i>77.33</i>	<i>-53.73</i>	<i>209.65</i>
<i>Loans and advances from GoI</i>	<i>-21.54</i>	<i>-21.54</i>	<i>-21.39</i>	<i>-17.74</i>	<i>-15.21</i>
<i>Growth rate</i>	<i>-0.32</i>	<i>0.00</i>	<i>-0.70</i>	<i>-17.06</i>	<i>-14.26</i>
Rate of growth of debt Capital Receipts	672.67	-54.87	81.64	-54.87	222.42
Rate of growth of non-debt capital receipts	-29.58	118	0.00	-0.92	0.93
Rate of growth of GSDP	6.10	11.26	12.75	11.40	11.82
Rate of growth of Capital Receipts ( <i>per cent</i> )	47.29	10.72	4.44	-23.23	14.49

Source: Finance Accounts and for GSDP– Source: Directorate of Economics and Statistics, GoN.

\* Including gross figure under Ways and Means Advances of ₹663.33 crore for the current year 2019-20.

Capital Receipts increased by 1.64 *per cent* from ₹ 1,068.90 crore in 2015-16 to ₹ 1,086.41 crore in 2019-20. Public debt receipts create future repayment obligation and these are taken from Market, Financial Institutions and Central Government. During 2019-20, the net Public Debt Receipts increased by ₹ 691.62 crore (including an outstanding amount of ₹ 663.33 crore under Ways and Means Advances from the Reserve Bank of India) from ₹ 310.95 crore in 2018-19 to ₹ 1,002.57 crore in 2019-20.

## 2.4 Application of Resources

The State Government is vested with the responsibility of incurring expenditure within the framework of fiscal responsibility legislations, while at the same time ensuring that the ongoing fiscal correction and consolidation process of the State is not at the cost of expenditure directed towards development of capital infrastructure and social sector. This paragraph along with sub-paragraphs gives the analysis of allocation of expenditure in the State.

### 2.4.1 Growth and composition of expenditure

The Total Expenditure, its composition and relative share in GSDP during the years 2015-16 to 2019-20 is presented in **Table 2.16**.

**Table 2.16: Total expenditure and its composition**

(₹ in crore)					
Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Total Expenditure (TE)</b>	<b>8,638.56</b>	<b>9,725.74</b>	<b>11,466.39</b>	<b>12,520.81</b>	<b>12,852.60</b>
Revenue Expenditure (RE)	7,579.14	8,649.45	10,191.35	10,919.98	11,637.02
Capital Expenditure (CE)	1,059.23	1,076.10	1,274.85	1,595.56	1,206.32
Loans and Advances	0.19	0.19	0.19	5.27	9.26
<b>As a percentage of GSDP</b>					
TE/GSDP	44.25	44.77	46.82	45.89	42.13
RE/GSDP	38.82	39.82	41.61	40.02	38.14
CE/GSDP	5.43	4.95	5.21	5.85	3.95
Loans and Advances/GSDP	0.00	0.00	0.00	0.02	0.03

Source: Finance Accounts of respective years

The above table shows that Total Expenditure of the State increased by 49 per cent from ₹ 8,638.56 crore in 2015-16 to ₹ 12,852.60 crore in 2019-20. During the year, it increased by three per cent over the previous year. As a percentage of GSDP, the Total Expenditure remained in the range between 42.13 and 46.82 per cent during 2015-20.

In terms of activities, the Total Expenditure is composed of expenditure on General Services including Interest Payments, Social Services, Economic Services and others. Relative share of these components in the Total Expenditure of ₹ 12,852.60 crore during 2019-20 (**Appendix 1.1 Part C**) is given in **Table 2.17**.

**Table 2.17: Relative share of various sectors of expenditure**

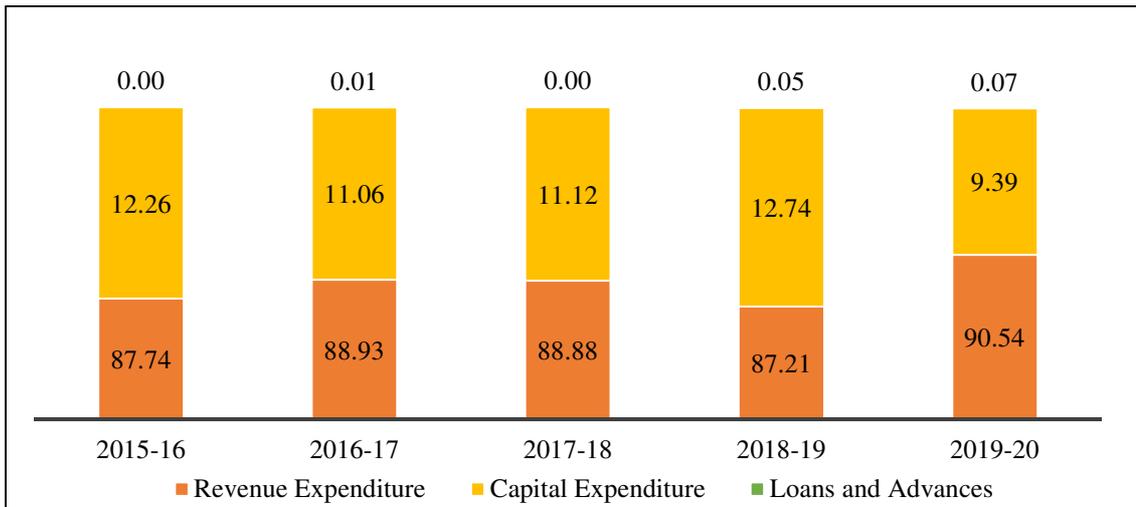
(In per cent)					
Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
General Services	43.14	41.40	40.00	43.43	43.53
Social Services	27.56	28.04	26.55	27.86	27.13
Economic Services	29.30	30.56	33.45	28.67	29.27
Others (Grants to Local Bodies and Loans and Advances)	0.00	0.00	0.00	0.04	0.07

Source: Finance Accounts of respective years

The relative share of the above components of expenditure indicates that the share of General Services, Economic Services and others in the Total Expenditure increased by 3.69 per cent during 2019-20 over the previous year. These increases were, however, offset by slight decrease in the share of Social Services.

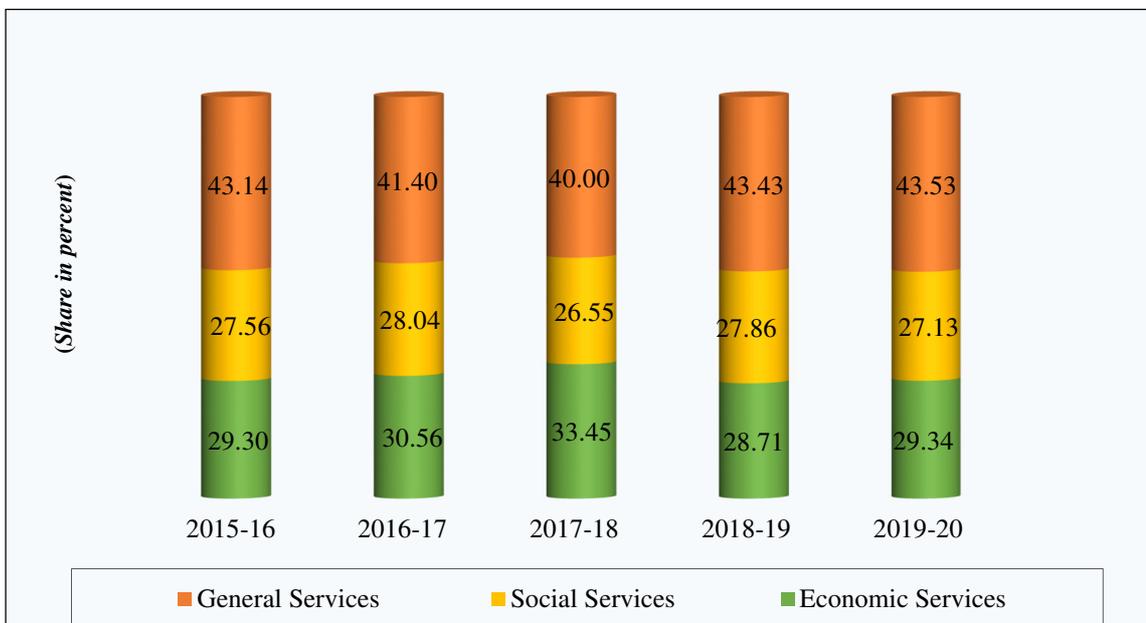
**Charts 2.8** and **2.9** present the trends in share of its components and expenditure by activities of Total Expenditure a period of five years (2015-20) whereas **Chart 2.10** depicts the composition of Total Expenditure out of the Consolidated Fund of the State during the year.

**Chart 2.8: Total Expenditure: Trends in share of its components**



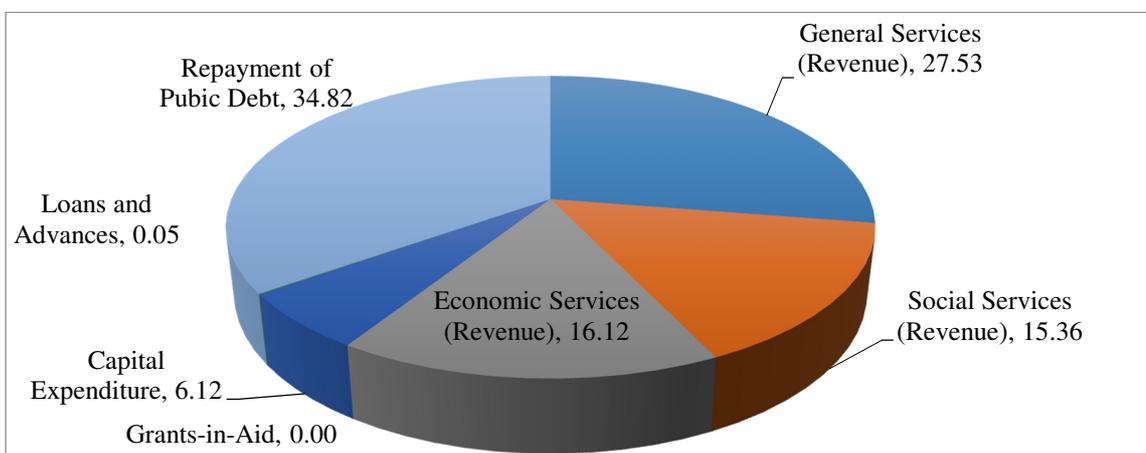
Source: Finance Accounts of respective years

**Chart 2.9: Total expenditure - Expenditure by activities**



Source: Finance Accounts of respective years

**Chart 2.10: Pie Chart for the composition of expenditure during 2019-20 (in per cent)**



Source: Finance Accounts, 2019-20

It could be seen that Capital Expenditure has shown a significant increase in the last four years from 2015-16 to 2018-19. However, it decreased during 2019-20 as compared to the previous year. The share of Capital Expenditure as a percentage of GSDP decreased from 5.43 *per cent* in 2015-16 to 3.95 *per cent* in 2019-20.

The shares (in percentage of total expenditure) in General, Social and Economic services remained stable during the five-year period 2015-20. Repayment of Public Debt constituted around 35 *per cent* of the total expenditure during the year.

#### 2.4.2 Revenue Expenditure

Revenue expenditure is incurred to maintain the current level of services and payment for past obligations. As such, it does not result in any addition to the State's infrastructure and service network.

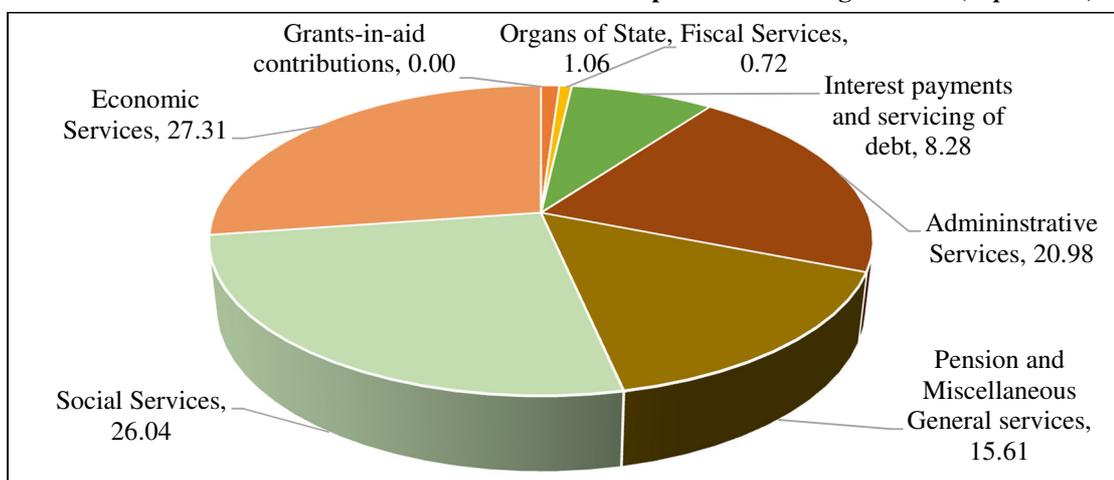
Revenue Expenditure constituted on an average 89 *per cent* (ranging from 87.21 *per cent* in 2018-19 to 90.54 *per cent* in 2019-20) of the total expenditure during the period 2015-20. Rate of growth of Revenue Expenditure has displayed wide fluctuation during the five-year period 2015-20. The overall Revenue Expenditure, its rate of growth, its ratio to Total Expenditure and buoyancy *vis-à-vis* GSDP and Revenue Receipts is indicated in **Table 2.18** and the sectoral distribution of Revenue Expenditure pertaining to 2019-20 is given in **Chart 2.11**.

**Table 2.18: Revenue Expenditure – Basic Parameters**

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Total Expenditure (TE)	8,638.56	9,725.74	11,466.39	12,520.81	12,852.60
Revenue Expenditure (RE)	7,579.14	8,649.45	10,191.35	10,919.98	11,637.02
Rate of Growth of RE ( <i>per cent</i> )	12.12	14.12	17.83	7.15	6.57
Revenue Expenditure as percentage of TE	87.74	88.93	88.88	87.21	90.54
RE/GSDP ( <i>per cent</i> )	38.82	39.82	41.61	40.02	38.14
RE as percentage of RR	94.26	91.63	92.49	95.48	101.87
<b>Buoyancy of Revenue Expenditure with:</b>					
GSDP (ratio)	1.99	1.25	1.40	0.63	0.56
Revenue Receipts (ratio)	2.36	0.81	1.07	1.88	-54.75

Source: Finance Accounts of respective years

**Chart 2.11: Sector-wise distribution of Revenue Expenditure during 2019-20 (in *per cent*)**



Source: Finance Accounts, 2019-20

During the five-year period of 2015-20, both Revenue Expenditure as a percentage of GSDP and growth rate of RE showed an increasing trend from 2015-16 to 2017-18 and thereafter a decreasing trend towards 2019-20.

#### 2.4.2.1 Major changes in Revenue Expenditure

**Table 2.19** details significant variations under various Heads of Account with regard to Revenue Expenditure of the State during the current year and the previous year.

**Table 2.19: Variation in Revenue Expenditure during 2019-20 compared to 2018-19**

(₹ in crore)

Major Heads of Account	2018-19	2019-20	Increase (+)/ Decrease (-)
2015 - Elections	96.45	16.27	(-) 80.18
2048 - Appropriation for reduction or avoidance of debt	225.00	150.00	(-) 75.00
2049 - Interest Payment	771.74	813.74	(+) 42.00
2052 - Secretariat General Services	120.97	150.97	(+) 30.00
2055 - Police	1,522.06	1,696.82	(+) 174.76
2071 - Pension and other retirement benefits	1,552.79	1,810.91	(+) 258.12
2202 - General Education	1,730.63	1,512.32	(-) 218.31
2210 - Medical and Public Health	580.80	624.31	(+) 43.51
2225 - Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities	49.6	23.58	(-) 26.02
2236 - Nutrition	71.07	103.99	(+) 32.92
2406 - Forestry and Wildlife	102.07	143.09	(+) 41.02
2408 - Food Storage and Warehousing	54.64	101.73	(+) 47.09
2501 - Special Programmes for Rural Development	137.66	274.86	(+) 137.20
2515 - Other Rural Development Programmes	136.25	168.16	(+) 31.91
2801 - Power	485.41	580.17	(+) 94.76

Source: Finance Accounts, 2019-20

**Table 2.19** indicates that Revenue Expenditure increased during 2019-20 over the previous year which was mainly due to increase under Pension and other retirement benefits, Police, Special Programmes for Rural Development and Power, which was offset mainly by decrease under General Education, Elections and Appropriation for reduction or avoidance of debt.

#### 2.4.2.2 Committed expenditure

The committed expenditure of the State Government on revenue account consists of interest payments; expenditure on salaries and wages; and pensions. It has first charge on Government resources. Upward trend on committed expenditure leaves the Government with lesser flexibility for development sector.

**Table 2.20** presents the trends in the components of committed expenditure during 2015-20. Percentage of committed expenditure to Revenue Receipts and Revenue Expenditure during 2015-20 is given in **Chart 2.12**.

**Table 2.20: Components of Committed Expenditure**

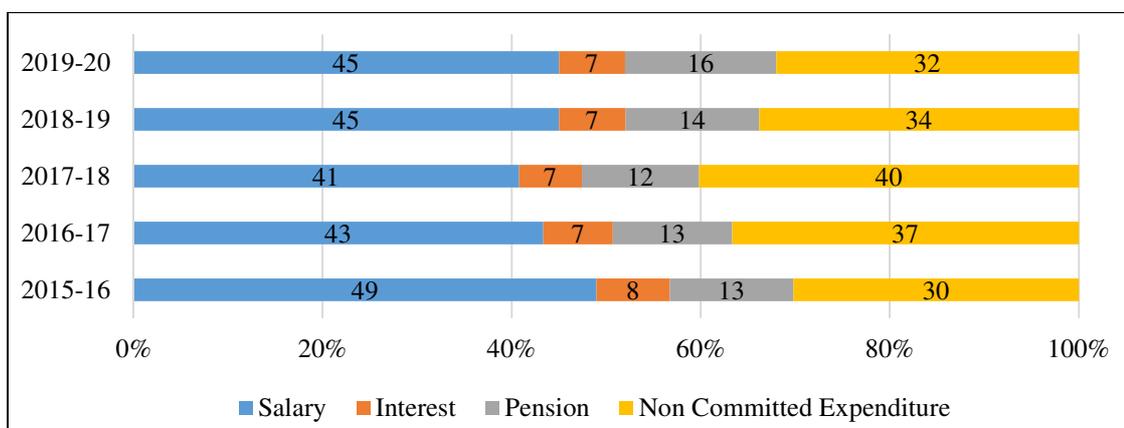
(₹ in crore)

Components of Committed Expenditure	2015-16	2016-17	2017-18	2018-19	2019-20
Salaries and Wages	3,688.50	3,750.05	4,155.72	4,944.95	5,249.81
Expenditure on Pensions	1,028.80	1,093.47	1,264.10	1,552.79	1,810.91
Interest Payments	586.45	635.50	677.75	771.74	813.74

Components of Committed Expenditure	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Total</b>	<b>5,303.75</b>	<b>5,479.02</b>	<b>6,097.57</b>	<b>7,269.48</b>	<b>7,874.46</b>
As a percentage of Revenue Receipts (RR)					
Salaries and Wages	45.87	39.73	37.71	43.23	45.96
Expenditure on Pensions	12.79	11.58	11.47	13.58	15.85
Interest Payments	7.29	6.73	6.15	6.75	7.12
<b>Total</b>	<b>65.95</b>	<b>58.04</b>	<b>55.33</b>	<b>63.56</b>	<b>68.93</b>
As a percentage of Revenue Expenditure (RE)					
Salaries and Wages	48.67	43.36	40.78	45.28	45.11
Expenditure on Pensions	13.57	12.64	12.40	14.22	15.56
Interest Payments	7.74	7.35	6.65	7.07	6.99
<b>Total</b>	<b>69.98</b>	<b>63.35</b>	<b>59.83</b>	<b>66.57</b>	<b>67.66</b>

Source: Finance Accounts of respective years

**Chart 2.12: Share of Committed expenditure in total Revenue Expenditure**



Source: Finance Accounts of respective years

As can be seen from the details tabulated above, the committed expenditure constituted 60 per cent or more of Revenue Expenditure during the five-year period from 2015-16 to 2019-20. It accounted for over 60 per cent of the receipts of the State during 2015-16, 2018-19 and 2019-20 as the committed liabilities fell below 60 per cent of Revenue Receipts during 2016-17 and 2017-18.

#### 2.4.2.3 Undischarged liabilities in National Pension System

The expenditure during the year on “Pension and other Retirement Benefits” to State Government employees recruited on or before 31 December 2009 was ₹ 1,764.17 crore which was 15.16 per cent of total revenue expenditure ₹ 11,637.02 crore. 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. All India Service officers are covered under the scheme *w.e.f.* 01 January 2004. In terms of the Scheme, employees contribute 10 per cent of their basic pay plus dearness allowances which the State Government is required to match. Both the employees and government contributions are transferred to the designated fund manager through the National Securities Depository Limited (NSDL)/Trustee Bank. The subscription received from employees is credited to MH-8342-117 ‘Defined Contributory Pension Scheme (DCPS)’ for Government servants. The State Government follows the accounting procedure while providing the employer’s matching contribution towards

the fund (MH-8342-117 employer contribution) by debiting to MH-2071 Pensions and Other Retirement Benefits.

As of 31 March 2020, total number of employees under NPS was 26,395, out of which 24,099 employees have been allotted Permanent Retirement Account Number (PRAN). Thus, 2,836 employees were yet to be allotted PRAN as of 31 March 2020.

During the year 2019-20, the State Government credited ₹ 127.25 crore (Employees' contribution ₹ 77.25 crore and Government contribution ₹ 46.74 crore and interest of ₹ 3.26 crore) to MH-8342-117 DCPS. Thus, short contribution by the State Government of ₹ 30.51 crore towards DCPS has understated revenue and fiscal deficit. State Government transferred only ₹ 94.03 crore to NSDL/Trustee Bank resulting in shortfall of ₹ 63.73 crore (short Government contribution of ₹ 30.51 crore and less transfer of ₹ 33.22 crore of deposit already collected). As on 31 March 2020, ₹ 170.35 crore are outstanding under the MH 8342-117 DCPS which had not been transferred to NSDL. Thus, uncollected, unmatched and un-transferred amounts, with accrued interest represent outstanding liabilities under the Scheme.

The Finance Department, GoN in its reply stated (March 2021) that the State matching share is being provided at the time of uploading to NSDL along with the applicable interests.

#### 2.4.2.4 Subsidies

During the period from 2015-16 to 2019-20, no amount was booked under subsidy.

#### 2.4.2.5 Financial assistance by the State Government to Local Bodies and Other Institutions

Financial assistance is provided by the State Government to Local bodies and other institutions by way of grants and loans.

The quantum of assistance provided by way of grants and loans to Local bodies and others during the period 2015-20 is presented in **Table 2.21**.

**Table 2.21: Financial Assistance to Local Bodies etc.**

	(₹ in crore)				
Financial Assistance to Institutions	2015-16	2016-17	2017-18	2018-19	2019-20
<b>(A) Local Bodies</b>					
Municipal Corporations and Municipalities	1.62	1.82	1.62	1.62	1.62
Panchayati Raj Institutions	0.00	0.00	0.00	0.00	0.00
<b>Total (A)</b>	<b>1.62</b>	<b>1.82</b>	<b>1.62</b>	<b>1.62</b>	<b>1.62</b>
<b>(B) Others</b>					
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	5.73	4.16	5.85	3.00	2.65
Development Authorities	33.83	32.22	51.55	53.92	56.72
Hospitals and Other Charitable Institutions	17.28	17.68	19.37	21.77	25.84
Other Institutions	62.17	114.99	250.00	86.75	73.87
<b>Total (B)</b>	<b>119.01</b>	<b>169.05</b>	<b>326.77</b>	<b>165.44</b>	<b>159.08</b>
<b>Total (A + B)</b>	<b>120.63</b>	<b>170.87</b>	<b>328.39</b>	<b>167.06</b>	<b>160.70</b>
Revenue Expenditure	7,579.14	8,649.45	10,191.35	10,919.98	11,637.02
Assistance as percentage of Revenue Expenditure	1.59	1.98	3.22	1.53	1.38

Source: Finance Accounts of respective years

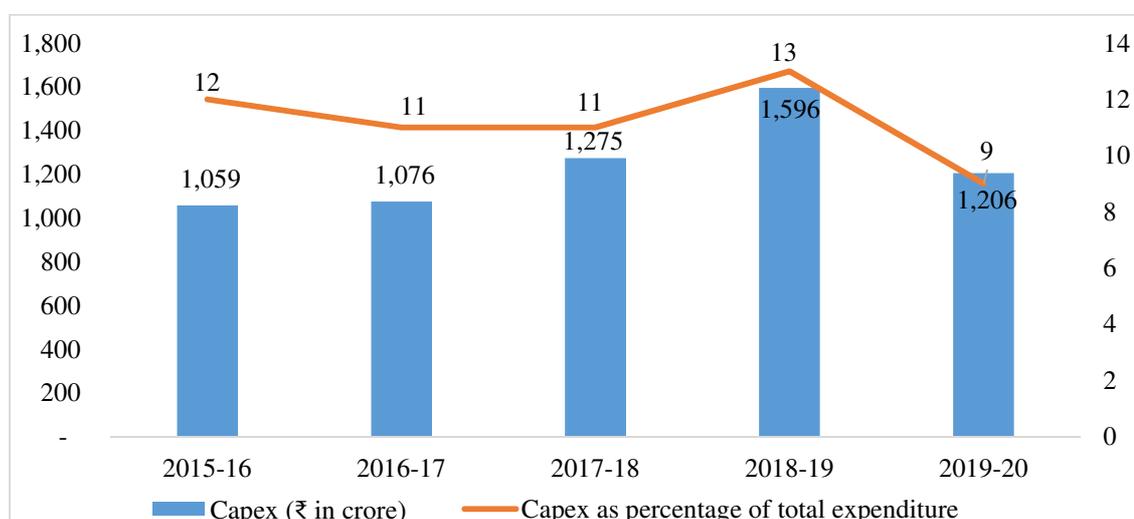
The total financial assistance to Local Bodies and Other Institutes, showed a fluctuating trend during 2015-16 to 2019-20. The decrease in financial assistance from ₹ 167.06 crore in 2018-19 to ₹ 160.70 crore was ₹ 6.36 crore (3.81 per cent). During 2019-20, financial assistance was 1.38 per cent of Revenue Expenditure.

The Finance Department, GoN while accepting the fact stated (March 2021) that this is due to the fluctuating amount received from GoI for grants to local bodies.

### 2.4.3 Capital Expenditure

Capital Expenditure (capex) is primarily expenditure on creation of fixed infrastructure assets such as roads, buildings, etc. The details of the capex and its percentage of total expenditure for the period from 2015-16 to 2019-20 are given in Chart 2.13.

Chart 2.13: Capital expenditure in the State



Source: Finance Accounts of respective years

Capital Expenditure (₹ 1,206 crore) during the current year (2019-20) decreased by ₹ 390 crore (24.44 per cent) over the previous year (₹ 1,596 crore) and was ₹ 660 crore (35.37 per cent) less than the Budget Estimates (₹ 1,866 crore). As compared to the total expenditure, the capital outlay showed a fluctuating trend (between nine and thirteen per cent) over the period 2015-16 to 2019-20.

#### 2.4.3.1 Major changes in Capital Expenditure

Table 2.22 highlights the cases of significant increase or decrease in various Heads of Account in Capital Expenditure during 2019-20 vis-à-vis the previous year.

Table 2.22: Capital expenditure during 2019-20 compared to 2018-19

Major Heads of Accounts	(₹ in crore)		
	2018-19	2019-20	Increase (+)/ Decrease (-)
4055-Capital Outlay on Police	294.75	60.64	(-) 234.11
4059-Capital Outlay on Public Works	123.73	104.21	(-) 19.52
4202-Capital Outlay on Education, Sports, Art and Culture	40.36	66.14	(+) 25.78
4215-Capital Outlay on Water Supply and Sanitation	106.01	76.69	(-) 29.32
4225-Capital Outlay on Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes and Minorities	0.00	41.87	(+) 41.87

Major Heads of Accounts	2018-19	2019-20	Increase (+)/ Decrease (-)
4235-Capital Outlay on Social Security and Welfare	0.00	24.47	(+)24.47
4575-Capital Outlay on Other Special Area Programme	161.21	136.00	(-) 25.21
4801-Capital Outlay on Power Projects	90.62	49.96	(-)40.66
5054-Capital Outlay on Roads and Bridges	473.53	264.62	(-)208.91

Source: Finance Accounts of respective years

The above table reveals that the decrease in Capital expenditure during 2019-20 over the previous year was mainly due to decrease under Roads and Bridges, Police and Power Projects, which was offset mainly by increase under Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes and Minorities.

#### 2.4.3.2 Quality of capital expenditure

If the State Government keeps on making investments in loss making government companies, whose net worth is completely eroded, there are no chances of return on investment. Similarly, experience has shown the inevitability of write off of the loans given to loss making corporations and other bodies such as sugar mills, financial corporations, etc. Requisite steps have to be taken to infuse transparency in such financial operations. This section presents an analysis of investments and other capital expenditure undertaken by the Government during the current year.

#### Quality of investments in the companies, corporations and other bodies

Capital expenditure in the companies, corporations, and other bodies, which are loss making or where net worth is completely eroded is not sustainable.

Investments made and loan given to companies (e.g. Discoms), Corporations (e.g. SC and ST Financial Corporations), and Co-operatives (e.g. sugar mills), which are loss making and those where net worth is completely eroded, affect quality of capital expenditure. Return on investment in share capital invested in PSUs and history of repayment of loans given to various bodies are important determinants of quality of capital expenditure.

The Government had invested ₹ 295.17 crore in Government Companies, Statutory Corporations, Joint Stock Companies and Co-operatives (Table 2.23), as on 31 March 2020. During the current year, an amount of ₹ One crore was invested in Nagaland State Mineral Development Corporation Limited during the current year.

Table 2.23: Return on Investment

Investment/return/ cost of borrowings	2015-16	2016-17	2017-18	2018-19	2019-20
Investment at the end of the year (₹ in crore)	290.60	291.75	293.20	294.17	295.17
Return (₹ in crore)	4.94	0.00	0.00	0.66	2.80
Return (per cent)	1.70	0.00	0.00	0.22	0.95
Average rate of interest on Government Borrowings (per cent)	6.95	6.87	6.79	7.37	7.14
Difference between interest rate and return (per cent)	5.25	6.87	6.79	7.15	6.19
Difference between interest on Government borrowings and return on investment (₹ in crore)#	118.86	576.78	613.63	667.92	688.20

Source: Finance Accounts of respective years # Investment at the end of the year \*Difference between interest rate and return

During the five-year period of 2015-20, the State Government's investments had increased by ₹ 4.57 crore. The average return on this investment was 'Nil' during the years 2016-17 and 2017-18, while the return in the remaining years of 2015-20 ranged between ₹ 0.66 crore and ₹ 4.94 crore. The Government paid an average interest rate ranging between 6.79 and 7.37 per cent on its borrowings during the same period.

Out of six Government companies in the State, one company viz., Nagaland Sugar Mills Ltd., along with Distillery Project (₹ 7.29 crore investment up to 2001-02) was non-working, whose accounts were in arrears for 18 years. As per the Finance Accounts, 2019-20, the five working companies with investment upto 2019-20 in parenthesis bracket include Nagaland Industrial Development Corporation Limited, Dimapur (₹ 8.39 crore), Nagaland Industrial Raw Materials and Supply Corporation, Dimapur, (₹ 4.05 crore), Nagaland State Mineral Development Corporation Limited (₹ 87.20 crore), Nagaland Handloom and Handicrafts Development Corporation, Dimapur (₹ 2.82 crore) and Nagaland Hotels Limited, Dimapur (₹ 86.11 crore). The accounts of the five working Government Companies were in arrears for periods ranging between two and 10 years as discussed in **Paragraph 4.12**. Hence, the actual financial status of the companies as of March 2020 could not be assessed by Audit.

The details of the investment made and loss incurred during the previous year as per the latest finalised accounts of the PSUs are detailed in **Table 2.24**:

**Table 2.24: Investments made in loss making companies (as per latest finalised accounts)**  
(₹ in crore)

Sl. No.	Company/ Corporation	Latest finalised Accounts	Net Loss	Investment made during the year	Cumulative investment as on 31 March 2020
1.	Nagaland Industrial Development Corporation Ltd. Dimapur	2017-18	(-)1.69	0.00	18.47
2.	Nagaland Hotel Ltd. Dimapur	2014-15	(-)1.92	0.00	1.95
3.	Nagaland Handloom and Handicrafts Development Corporation Ltd. Dimapur	2009-10	(-)0.14	0.00	7.58
4.	Nagaland Industrial Raw Materials and Supply Corporation Ltd. Dimapur	2017-18	(-)0.03	0.00	1.23
5.	Nagaland State Mineral Development Corporation Limited, Kohima	2017-18	(-) 2.25	0.00	1.60
<b>Total</b>					<b>30.83</b>

Source: Finalised accounts of the companies

As per their latest finalised accounts, accumulated losses (₹ 67.41 crore) of four out of these five working Government companies, had exceeded their aggregate paid-up capital (₹ 26.03 crore), meaning thereby, their net worth has been completely eroded (**Table 2.25**).

**Table 2.25: Investments made in companies, whose net worth is completely eroded (as per latest finalised accounts)**

(₹ in crore)					
Sl. No.	Company/Corporation	Latest finalised accounts	Net worth	Investment made during the year	Cumulative investment as on 31 March 2020
1.	Nagaland Industrial Development Corporation Ltd., Dimapur	2017-18	(-) 16.07	0.00	18.47
2.	Nagaland State Mineral Development Corporation Ltd., Kohima	2017-18	(-)8.73	0.00	1.60
3.	Nagaland Hotel Ltd., Dimapur	2014-15	(-)13.25	0.00	1.95
4.	Nagaland Handloom and Handicrafts Development Corporations Ltd., Dimapur	2009-10	(-) 3.33	0.00	7.58

Source: Finalised Accounts of the companies

In addition to investments in Co-operative Societies, Corporations and Companies, Government has also been providing Loans and Advances to many Institutions/Organisations. **Table 2.26** presents the outstanding Loans and Advances as on 31 March 2020 and interest receipts *vis-à-vis* interest payments during the last five years.

**Table 2.26: Quantum of loans disbursed and recovered during five years**

(₹ in crore)					
Quantum of loans disbursed and recovered	2015-16	2016-17	2017-18	2018-19	2019-20
Opening Balance of loans outstanding	26.81	26.50	25.60	24.70	28.89
Amount advanced during the year	0.19	0.19	0.19	5.27	9.26
Amount recovered during the year	0.50	1.09	1.09	1.08	1.09
Closing Balance of the loans outstanding	26.50	25.60	24.70	28.89	37.06
Net addition	-0.31	-0.90	-0.90	4.19	8.17
Interest received	1.81	3.11	2.18	2.23	3.59
Interest rate on Loans and Advances given by the Government.	6.79	11.94	8.67	8.32	10.89
Rate of Interest paid on the outstanding borrowings of the Government	6.95	6.87	6.79	7.37	7.14
Difference between the rate of interest paid and interest received ( <i>per cent</i> )	-0.16	5.07	1.88	0.95	3.75

Source: Finance Accounts of respective years

At the end of March 2020, the Government had outstanding Loans and Advances of ₹ 37.06 crore. The amount of loans outstanding during the year increased to ₹ 8.17 crore from ₹ 4.19 crore in 2018-19. Out of the total amount of ₹ 37.06 crore as on 31 March 2020, the break-up of Loans and Advances were ₹ 34.48 crore (93.01 *per cent*) for Agriculture and Allied Activities, ₹ 0.42 crore (1.13 *per cent*) to Government Servants and ₹ 2.17 crore (5.86 *per cent*) for Industry and Minerals.

The interest rate on Loans and Advances given by the Government increased from 8.32 *per cent* in 2018-19 to 10.89 *per cent* in 2019-20.

#### Capital locked in incomplete projects

An assessment of trends in capital blocked in incomplete capital works would also indicate quality of capital expenditure. Blocking of funds on incomplete projects/

works impinges negatively on the quality of expenditure and deprives the State of the intended benefits for prolonged periods.

As per the Finance Accounts of the State for the year 2019-20, there were 399 incomplete/ongoing projects in the State as on 31 March 2020. These were being executed by 36 Departments. Age profile of incomplete projects based on the year of sanction/year of start of these projects as on 31 March 2020 is given in **Tables 2.27** and **2.28**.

**Table 2.27: Age profile of incomplete projects as on 31 March 2020**

(₹ in crore)

Year	No of incomplete projects	Estimated cost	Cost over-run	Expenditure (as on 31 March 2020)
2003-11	60	1395.83	126.60	655.51
2011-12	20	175.20	0.01	116.05
2012-13	39	214.36	25.84	133.75
2013-14	132	121.84	0.00	41.34
2014-15	59	71.76	0.00	22.98
2015-16	21	199.88	0.00	109.16
2016-17	8	24.95	0.00	5.65
2017-18	30	132.66	1.23	63.93
2018-19	5	10.05	0.00	5.55
2019-20	1	1.20	0.00	0.00
Others*	24	215.02	0.00	155.38
<b>Total</b>	<b>399</b>	<b>2,562.75</b>	<b>153.68</b>	<b>1,309.30</b>

Source: Appendix-IX, Finance Accounts, 2019-20

\* Those projects without information on year of commencement

**Table 2.28: Department-wise profile of incomplete projects as on 31 March 2020**

(₹ in crore)

Department	No. of incomplete projects	Estimated cost	Cost over-run	Expenditure (as on 31 March 2020)
Veterinary and Animal Husbandry	62	49.78	13.65	19.30
Police Engineering Project	48	697.04	0.00	177.75
Civil Administration Works	47	56.91	0.00	15.33
PWD (Housing)	30	309.07	13.37	219.85
PWD (Roads and Bridges)	14	309.74	60.50	278.75
Urban Development	26	217.70	0.00	96.77
Geology and Mining	4	53.08	27.41	49.95
Other 29 Departments	168	869.43	38.75	451.60
<b>Total</b>	<b>399</b>	<b>2,562.75</b>	<b>153.68</b>	<b>1,309.30</b>

Source: Appendix-IX, Finance Accounts, 2019-20

Analysis of the above 399 incomplete projects revealed the following:

- In 62 out of 399 projects, target year of completion was not furnished by the Departments (March 2021);
- Works in respect two projects (estimated cost ₹ 10.93 crore) had been suspended after incurring an expenditure of ₹ 10.46 crore;
- In 168 projects, there was no financial progress during 2019-20;
- There was 100 per cent financial achievement in four projects; however, 100 per cent physical progress was not achieved, in one project physical progress was Nil;

- No expenditure was incurred in 63 projects which had an estimated cost of ₹ 33.46 crore;
- Despite expenditure of ₹ 1.85 crore incurred on 35 projects up to March 2020; there was no physical progress and
- Project cost in respect of 18 incomplete projects was revised from ₹ 237.38 crore to ₹ 391.06 crore. Increase of ₹ 153.68 crore in cost was related to projects under PWD (Roads and Bridges) - (₹ 60.50 crore), PWD (Housing) - (₹ 13.37 crore), Public Health Engineering Department (₹ 0.49 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 (₹ 9.25 crore) and Forest (₹ 24.71 crore).
- Out of 375 projects, sanctioned prior to 2013-14, 119 projects remained incomplete and reason for non-completion though called for had not been received (March 2021).

Thus, the Capital Expenditure of ₹ 1,309.20 crore incurred on these 399 incomplete projects remained blocked. Blocking of funds on incomplete projects/ works impinges negatively on the quality of expenditure and deprives the State of the intended benefits for prolonged periods. Further, delay in completion of the projects was fraught with the risk of cost overrun, which was evident in 60 projects which were pending since 2003-11. Therefore, effective steps need to be taken to complete all these projects without further delay to avoid time and cost inefficiencies.

#### 2.4.4 Expenditure priorities

Enhancing human development levels requires the States to step up their expenditure on key social services like education, health *etc.* Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if the allocation is below the respective national average. The higher the ratio of these components to total expenditure, the quality of expenditure is considered to be better.

**Table 2.29** analyses the fiscal priority of the State Government in 2015-16 and 2019-20 with regard to Social Sector Expenditure (Health and Education) and Capital Expenditure.

**Table 2.29: Priority of the State with regards to Health, Education and Capital expenditure**

(In per cent)

Fiscal priority of the State	AE/ GSDP	CE/ AE	Education/ AE	Health/ AE
<b>North Eastern &amp; Himalayan States Average (2015-16)</b>	<b>24.58</b>	<b>13.96</b>	<b>18.32</b>	<b>5.95</b>
State	44.25	12.26	14.79	5.38
<b>North Eastern &amp; Himalayan States Average (2019-20)</b>	<b>23.02</b>	<b>14.08</b>	<b>17.42</b>	<b>6.19</b>
State	42.13	9.39	12.92	5.20

Source: Fiscal Priority of State (circulated by the Economic Advisor) and Finance Accounts, 2019-20  
AE: Aggregate Expenditure; CE: Capital Expenditure

A comparison of the data related to Nagaland with that of North Eastern & Himalayan States (NE&H) showed the following:

- Aggregate Expenditure (AE) as a proportion of GSDP was almost twice the NE&H average in 2015-16 and 2019-20. However, the ratio of AE as a proportion of GSDP decreased from 44.25 *per cent* in 2015-16 to 42.13 *per cent* in 2019-20.
- The share of Capital Expenditure (CE) as a proportion of AE of the State was less than the NE&H average in 2015-16 and 2019-20. The proportion of CE to AE decreased during 2019-20 in comparison to 2015-16. It indicates that the State Government did not accord appropriate fiscal priorities to enhance the productive capacity of the State.
- The share of expenditure on Education as a proportion of AE was lower than the NE&H average in 2015-16 and 2019-20. The ratio decreased in 2019-20 as compared to 2015-16.
- The share of expenditure on Health Sector as a proportion of AE was lower than the with the NE&H average in 2015-16 and 2019-20. The ratio decreased during 2019-20 as compared to 2015-16.

## 2.5 Public Account

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. The Government acts as a banker in respect of these. The balance after disbursements during the year is the fund available with the Government for use for various purposes.

### 2.5.1 Net Public Account Balances

The component-wise net balances in Public Account of the State is given as follows.

**Table 2.30: Component-wise net balances in Public Account as of 31 March of the year**

		(₹ in crore)				
Sector	Sub Sector	2015-16	2016-17	2017-18	2018-19	2019-20
I. Small Savings, Provident Funds, <i>etc.</i>	Small Savings, Provident Funds, <i>etc.</i>	850.33	862.08	952.72	1569.34	2131.38
J. Reserve Funds	(a) Reserve Funds bearing Interest	-14.58	-14.58	-14.58	-14.58	-14.58
	(b) Reserve Funds not bearing Interest	-16.10	-16.10	-16.10	-16.10	-16.17
K. Deposits and Advances	(a) Deposits bearing Interest	59.05	79.66	103.68	137.13	170.35
	(b) Deposits not bearing Interest	950.86	855.14	699.66	754.45	790.03
	(c) Advances	-0.35	-0.33	-0.32	-0.37	-0.37
L. Suspense and Miscellaneous	(b) Suspense	-94.34	-91.36	-97.55	-99.34	-89.02
	(c) Other Accounts	-457.59	-307.83	-479.99	-589.26	-744.77

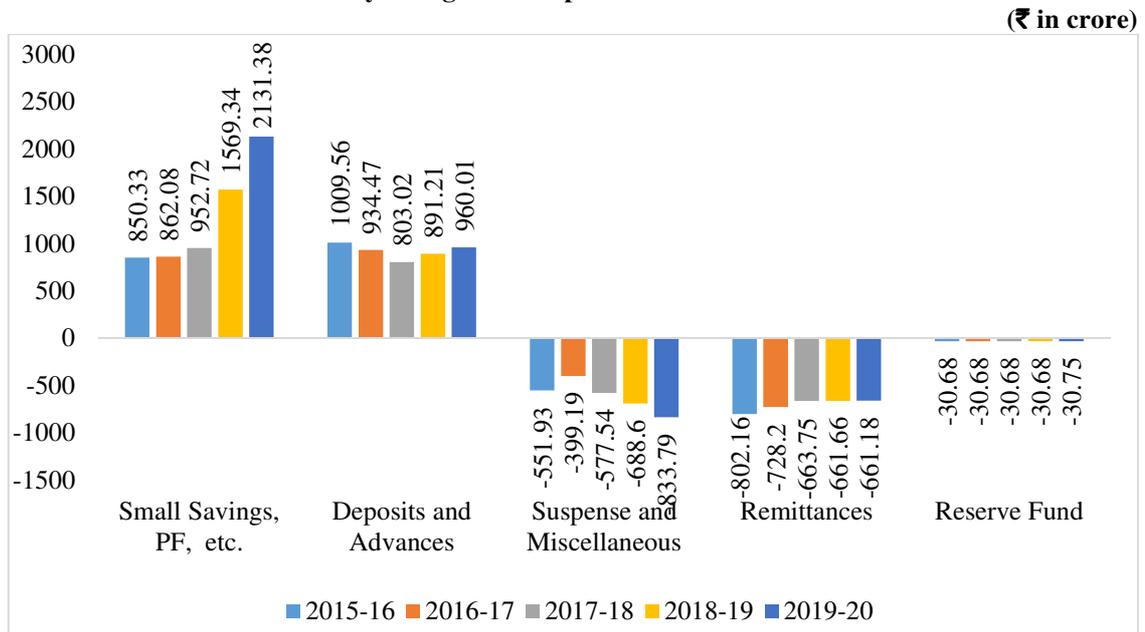
Sector	Sub Sector	2015-16	2016-17	2017-18	2018-19	2019-20
	(d) Accounts with Governments of Foreign Countries	0.00	0.00	0.00	0.00	0.00
	(e) Miscellaneous	0.00	0.00	0.00	0.00	0.00
M. Remittances	(a) Money Orders, and other Remittances	-801.23	-727.31	-663.10	-661.23	-660.82
	(b) Inter-Governmental Adjustment Account	-0.93	-0.89	-0.65	-0.43	-0.36
<b>Total</b>		<b>475.12</b>	<b>638.48</b>	<b>483.77</b>	<b>1,079.61</b>	<b>1,565.67</b>

Source: Finance Accounts of respective years

Note: +ve denotes debit balance and -ve denotes credit balances

The yearly changes in composition of balances in Public Account over the five-year period 2015-20 are given in **Chart 2.15**.

**Chart 2.15: Yearly changes in composition of Public Account balances**



Source: Finance Accounts of respective years

## 2.5.2 Reserve Funds

Reserve Funds are created for specific and defined purposes under the Public Account of the State Government. These funds are met from contributions or grants from the Consolidated Fund of the State.

There are three Reserve funds operated by the State Government. The total accumulated balance at the end of 31 March 2020 in the Reserve Funds was ₹ 3,287.62 crore, of which ₹ 1,659.18 crore (50.47 per cent) had been invested.

Details of significant Reserve Funds of the GoN are given below:

### 2.5.2.1 Consolidated Sinking Fund

In terms of the recommendations of the Tenth Finance Commission, the State Government created (2006-07) Consolidated Sinking Fund to be administered by the Reserve Bank of India for the amortisation of all loans. In terms of the revised

guidelines of the Reserve Bank of India, States are required to contribute to the Fund a minimum of 0.50 *per cent* of their outstanding liabilities (Internal Debt + Public Account liabilities) as at the end of the previous year.

During the year, the State Government transferred ₹ 149 crore to the Fund from Revenue Account which works out to 2.07 *per cent* of total outstanding (Open Market Loans) of ₹ 7,204.80 crore as on 31 March 2019 and 1.28 *per cent* of total outstanding liability of ₹ 11,649.96 crore (Internal debt + Public Account liabilities) as on 31 March 2020. The balance in the Consolidated Sinking Fund as on 31 March 2020 was ₹ 16.17 crore.

#### 2.5.2.2 State Disaster Response Fund

The State Government replaced the Calamity Relief Fund, with the “State Disaster Response Fund” (SDRF) as recommended by the Thirteenth Finance Commission. In terms of the guidelines, the Central and State Governments are required to contribute to the Fund in the ratio of 90:10.

As per guidelines on Constitution and Administration of SDRF (September 2010), the SDRF Fund would be constituted in the Public Account under Reserve Fund bearing interest, under MH 8121 in the accounts of the State Government. The State government shall take the amount as receipts in its budget and account under MH 1601-01-109. In order to enable transfer of the total amount of the contribution to the fund, including the State share, the State government would make suitable budget provision on the expenditure side of the budget under MH 2245-05-101 (Relief on account of natural calamities). Immediately upon receipt of GoI share, the State would transfer the amount, along with its share to the Public Account head (MH 8121-122). The actual expenditure on relief works will be booked only under respective minor head under MH 2245 and the expenditure to be charged to the SDRF will be shown as a negative entry under 2245-05-901. Direct expenditure should not be made from the Public Account. The balance in the Fund would be invested as per provisions stipulated in the guidelines in Central Government dated securities, auctioned treasury bills and interest bearing deposits and certificates of deposit with scheduled commercial banks.

During 2019-20, the State Government received ₹ 10.80 crore from the Central Government as its share towards SDRF. The State Government transferred ₹ 12 crore to the SDRF (Central share: ₹ 10.80 crore and State share: ₹ 1.20 crore). The entire fund of ₹ 12 crore was spent by the State Government on natural calamities, leaving a balance of ₹ 0.86 crore.

It is also observed that the credit balance in the Fund of ₹ 0.86 crore as on 31 March 2019, was not invested, in violation of the fund guidelines.

The Finance Department, in its reply stated (March 2021) that the credit balance of ₹ 0.86 crore has been shown in accounts for many years and may be written off. It was also stated that the Nagaland State Disaster Management Authority (NSDMA) officials would furnish documents for necessary write off.

The State Government should initiate steps to transfer the balance fund of ₹ 0.86 crore in the accounts of NSDMA.

Government of India may provide fund from the National Disaster Response Fund (NDRF) to make good the shortfall in the State Disaster Response Fund to meet expenditure on natural calamities. During the year, Central Government has provided ₹ 176.52 crore from National Disaster Response Fund to the State Government. Following Government of India's release of ₹ 176.52 crore, the State Government transferred ₹ 176.52 crore to NDRF and the same was spent during the year without leaving any balance at the end of the year.

### 2.5.2.3 Guarantee Redemption Fund

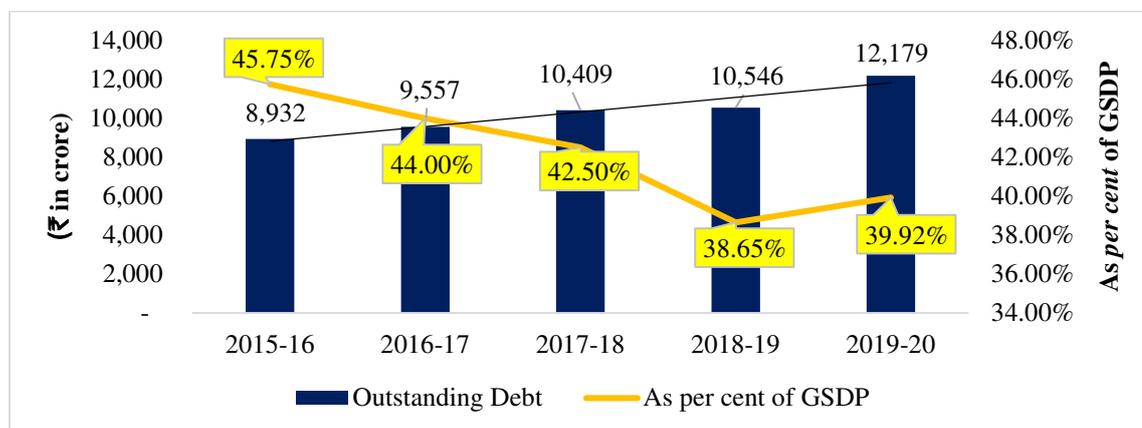
The State Government constituted a Guarantee Redemption Fund in 2006-07 with an initial corpus of ₹four crore determined on the basis of guarantees invoked during the preceding five years. In terms of the Guarantee Redemption Fund Scheme of the Government of Nagaland, contributions shall be made to the 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 possible invocation of outstanding guarantees in the succeeding five years. No guarantees of the State Government were invoked since inception of the Scheme. During 2019-20, ₹ One crore was transferred by the State Government and the entire corpus of ₹ 32.20 crore as on 31 March 2020 was invested by the Reserve Bank of India in Government of India Securities.

## 2.6 Debt management

Debt management is the process of establishing and executing a strategy for managing the Government's debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals that the Government may have set through enactment or any other annual budget announcements.

The details relating to outstanding debt and ratio of debt to GSDP during the five-year period 2015-20 are given in **Chart 2.16**.

**Chart 2.16: Trend of overall Debt**



Source:-Finance Accounts of respective years and GSDP-Directorate of Economics and Statistics, GoN

### 2.6.1 Debt profile: Components

Total debt of the State Government constitutes of Internal debt of the State (market loans, ways and means advances from RBI, special securities issued to National Small Savings Fund and loans from financial institutions, etc.), and loans and advances from the Central Government.

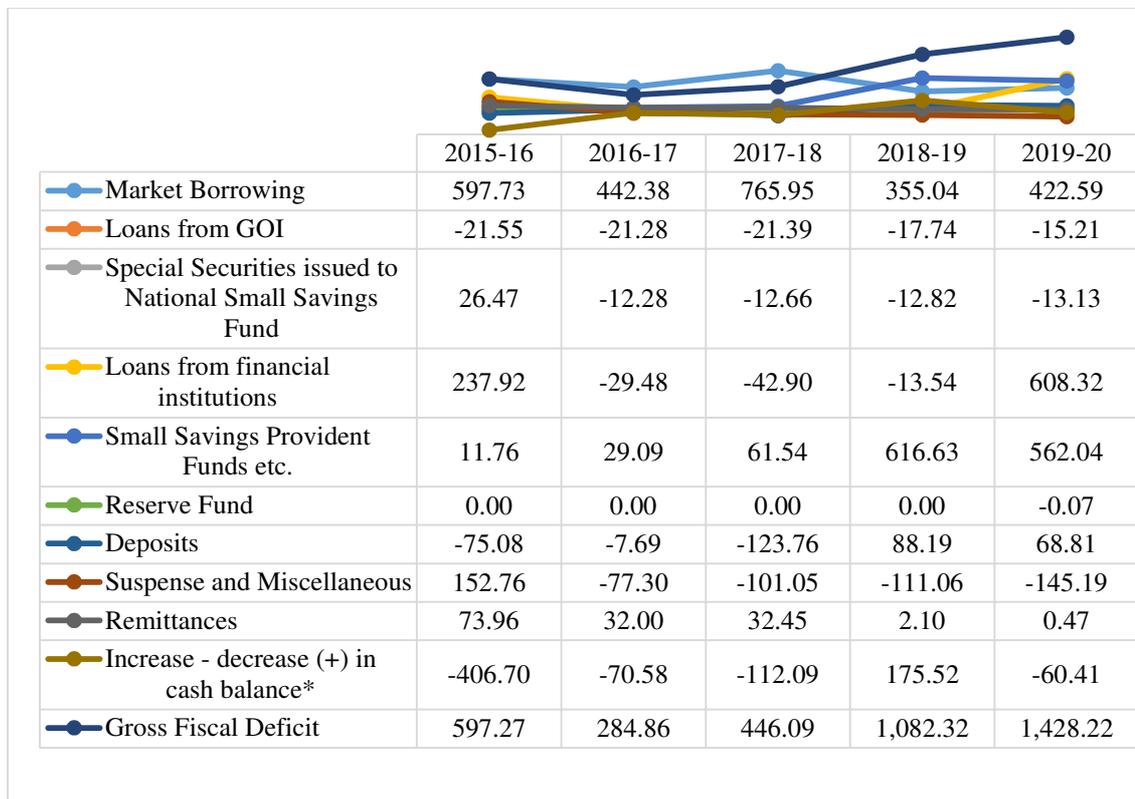
The details relating to total debt received, repayment of debt, ratio of debt to GSDP and the actual quantum of debt available to the State during the five-year period 2015-20 are given in **Table 2.31**, as is **Chart 2.17**.

**Table 2.31: Component wise debt trends**

		(₹ in crore)				
		2015-16	2016-17	2017-18	2018-19	2019-20
<b>Outstanding Debt</b>		<b>8,931.65</b>	<b>9,557.35</b>	<b>10,409.15</b>	<b>10,545.76</b>	<b>12,179.10</b>
Public Debt	Internal Debt	6,529.46	6,930.06	7,640.46	7,969.15	8,986.93
	Loans from GoI	206.78	185.50	164.11	146.37	131.16
Public Account Liabilities		2,195.41	2,441.79	2,604.58	2,430.24	3,061.01
Rate of growth of outstanding debt (percent)		12.30	7.01	8.91	1.31	15.49
Gross State Domestic Product (GSDP)		19,523.95	21,722.45	24,491.70	27,283.04	30,507.83
Debt/GSDP (per cent)		45.75	44.00	42.50	38.65	39.92
Total Debt Receipts		4,705.37	6,514.27	6,217.03	4,758.32	10,059.01
Total Debt Repayments		4,313.90	6,524.07	6,042.98	4,289.24	8,681.42
Total Debt Available		391.47	-9.80	174.05	469.08	1,377.59
Debt Repayments/Debt Receipts (In per cent)		91.68	100.15	97.20	90.14	86.30

Source: Finance Accounts of respective years and GSDP- Directorate of Economics and Statistics, GoN

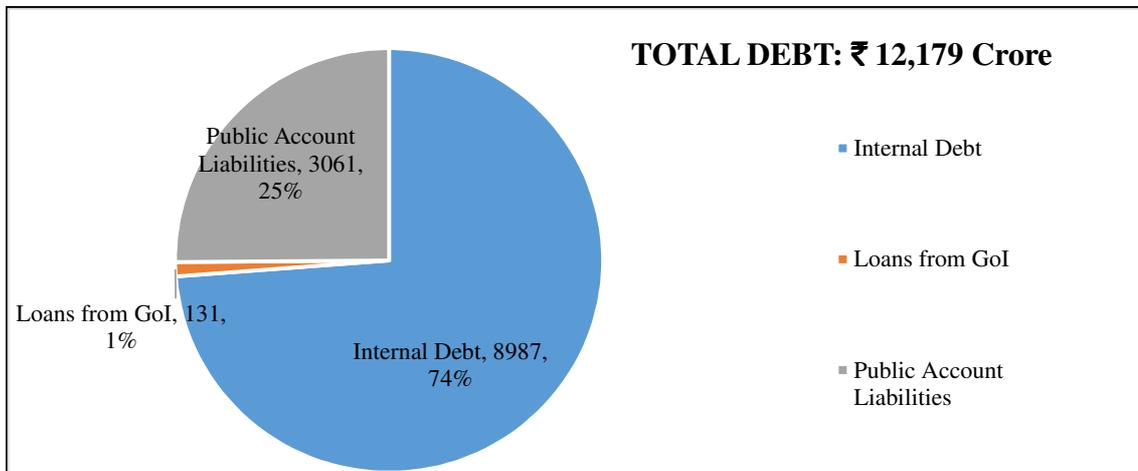
**Chart 2.17: Component-wise debt trends**



Source: Finance Accounts of respective years

The total outstanding debt of the State Government at the end of 2019-20 was ₹ 12,179.10 crore. Component-wise break-up of debt is shown below in **Chart 2.18**.

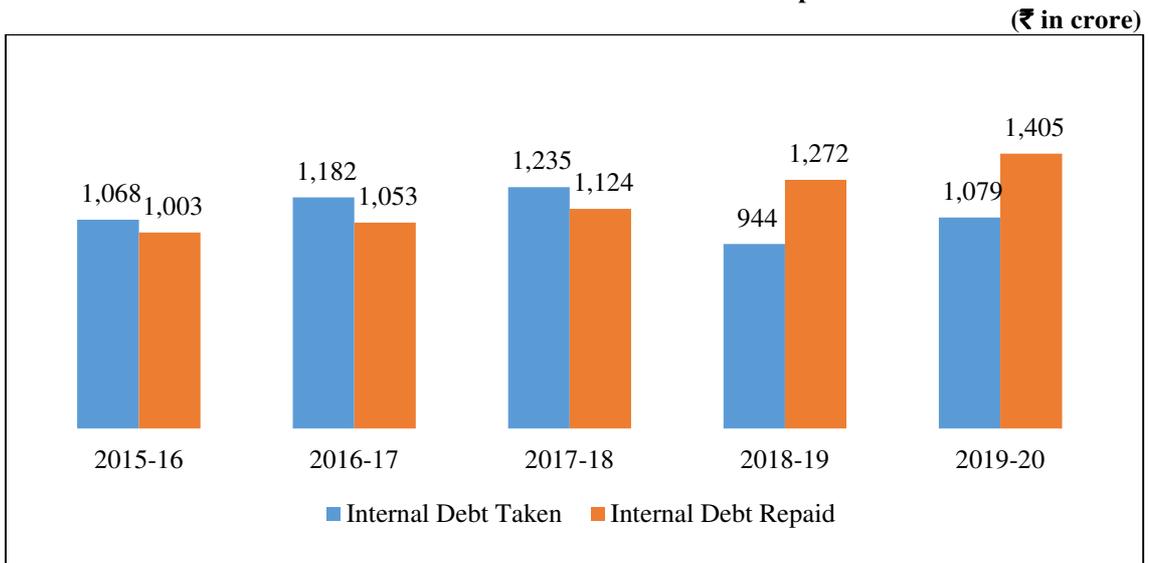
**Chart 2.18: Break up of Outstanding Debt at the end of 2019-20**



Source: Finance Accounts, 2019-20

The trend of internal debt taken *vis-à-vis* repaid during each year for the period of five-years from 2015-16 to 2019-20 is given in **Chart 2.19**.

**Chart 2.19: Internal debt taken *vis-a-vis* repaid**



Source: Finance Accounts of respective years

The financing pattern of the Fiscal Deficit has undergone a compositional shift during 2015-20 as reflected in **Table 2.32** and the details of receipt and disbursement of the components used for financing the Fiscal Deficit for the year 2019-20 are given in **Table 2.33**.

**Table 2.32: Components of fiscal deficit and its financing pattern**

(₹ in crore)

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Composition of Fiscal Deficit (-)</b>	<b>(-)597.27</b>	<b>(-)284.86</b>	<b>(-)446.09</b>	<b>(-)1082.32</b>	<b>(-)1428.22</b>
1. Revenue Deficit (-)/ Surplus (+)	461.65	790.34	827.86	517.43	(-)213.73
2. Net Capital Expenditure	(-)1,059.23	(-)1,076.10	(-)1,274.85	(-)1,595.56	(-)1,206.32
3. Net Loans and Advances	0.31	0.90	0.90	(-)4.19	(-)8.17

Particulars		2015-16	2016-17	2017-18	2018-19	2019-20
<b>Financing Pattern of Fiscal Deficit:</b>						
1.	Market Borrowings	597.73	442.38	765.95	355.04	422.59
2.	Loans from GoI	-21.55	-21.28	-21.39	-17.74	-15.21
3.	Special Securities issued to NSSF	26.47	-12.28	-12.66	-12.82	-13.13
4.	Loans from Financial Institutions	237.92	-29.48	-42.90	-13.54	608.32
5.	Small Savings, PF, etc.	11.76	29.09	61.54	616.63	562.04
6.	Deposits	-75.08	-7.69	-123.76	88.19	68.81
7.	Suspense and Miscellaneous	152.76	-77.30	-101.05	-111.06	-145.19
8.	Remittances	73.96	32.00	32.45	2.10	0.47
9.	Reserve Fund	0.00	0.00	0.00	0.00	-0.07
<b>10.</b>	<b>Overall Deficit</b>	<b>1,003.97</b>	<b>355.44</b>	<b>558.18</b>	<b>906.8</b>	<b>1,488.63</b>
11.	Increase/Decrease in cash balance	-406.70	-70.58	-112.09	175.52	-60.41
<b>12.</b>	<b>Gross Fiscal Deficit</b>	<b>597.27</b>	<b>284.86</b>	<b>446.09</b>	<b>1,082.32</b>	<b>1,428.22</b>

Source: Finance Accounts of respective years

**Table 2.33: Receipts and Disbursements under components financing the fiscal deficit**

(₹ in crore)

Particulars		Receipt	Disbursement	Net
1.	Market Borrowings	1,000.00	577.41	422.59
2.	Loans from GOI	6.69	21.90	-15.21
3.	Special Securities issued to NSSF	0.00	13.13	-13.13
4.	Loans from Financial Institutions	6,863.13	6,254.81	608.32
5.	Small Savings, PF, etc.	907.26	345.22	562.04
6.	Deposits and Advances	538.50	469.69	68.81
7.	Suspense and Miscellaneous	3,609.56	3,754.75	-145.19
8.	Remittances	1,839.31	1,838.84	0.47
9.	Reserve Fund	743.43	743.50	-0.07
<b>10.</b>	<b>Overall Deficit</b>	<b>15,507.88</b>	<b>14,019.25</b>	<b>1,488.63</b>
11.	Increase/Decrease in cash balance	163.49	223.90	-60.41
<b>12.</b>	<b>Gross Fiscal Deficit</b>	<b>15,671.37</b>	<b>14,243.15</b>	<b>1,428.22</b>

Source: Finance Accounts of respective years

Fiscal deficits during the five-year period from 2015-16 to 2019-20, peaked at ₹ 1,428.22 crore during the current financial year.

During 2019-20, fiscal deficit was primarily financed by small savings, provident funds, etc. (₹ 562.04 crore), market borrowings (net) (₹ 422.59 crore), deposits (₹ 68.81 crore) and Loans from Financial Institutions including WMA (₹ 608.32 crore).

The decrease in net capital outlay during the year indicated that borrowed funds were being less utilised for productive uses than in previous year. The Government should try to improve 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.

## 2.6.2 Debt profile: Maturity and Repayment

Debt maturity and repayment profile indicates commitment on the part of the Government for debt repayment or debt servicing.

As per Annexure to Statement 17 of the Finance Accounts for the year 2019-20, the outstanding debt of the State was ₹ 9,118.09 crore as on 31 March 2020. The maturity profile of the State debt is as indicated in **Table 2.34** and **Chart 2.20**.

**Table 2.34: Debt Maturity profile of repayment of State debt**

Period of repayment (Years)	Amount (₹ in crore)	Percentage (w.r.t. Public debt)
0 – 1	377.82	4.14
1 – 3	1,352.14	14.83
3 – 5	1,140.32	12.51
5 – 7	1,437.83	15.77
7 and above	3,450.41	37.84
Others <sup>7</sup>	1,359.57	14.91
<b>Total</b>	<b>9,118.09</b>	<b>100.00</b>

Source: Finance Accounts, 2019-20

**Chart 2.20: Debt Maturity Profile**

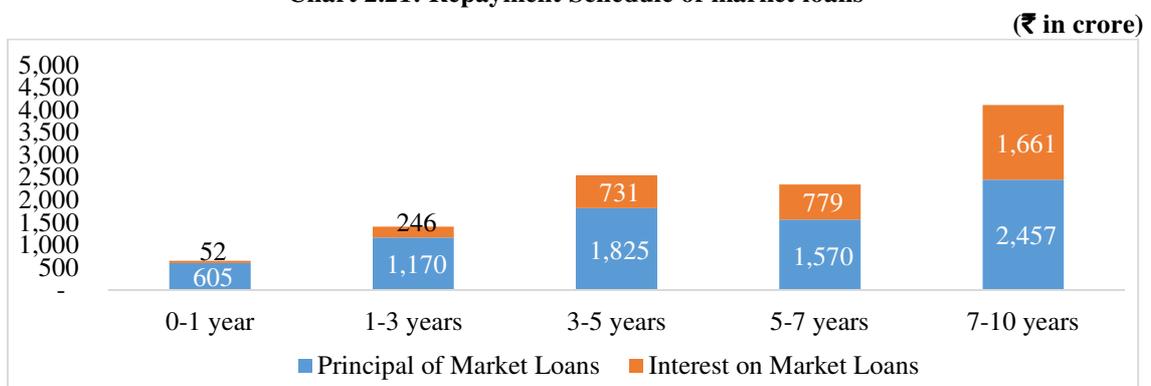


Source: Finance Accounts, 2019-20

From the above, it could be seen that Maturity profile of outstanding stock of Public Debt as on 31 March 2020 indicates that out of Outstanding Public Debt of ₹ 9,118.09 crore, 47.25 per cent of debt needs to be repaid within seven years. Of the total outstanding public debt, internal debt consisting of market borrowings, loans from LIC, GIC, NABARD, etc. constituted 98.56 per cent (₹ 8,986.93 crore).

Out of ₹ 9,118 crore, ₹ 7,627 crore was the principal amount of market loan taken by the State. The State is liable to pay an interest of ₹ 3,468 crore at the end of repayment of these loans, if the loans are repaid as per the maturity profile. **Chart 2.21** represents the repayment schedule of both the principal of market loan and interest thereof.

**Chart 2.21: Repayment Schedule of market loans**



Source: Finance Accounts, 2019-20

<sup>7</sup> Payment schedule of this amount is not being maintained by the Accountant General (A&E).

## 2.7 Debt Sustainability Analysis (DSA)

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 2.35** shows the debt sustainability of the State according to these indicators for the five-year period beginning from 2015-16 and **Chart 2.22** predicts the trends of debt sustainability indicators for the five years.

**Table 2.35: Trends in debt Sustainability indicators**

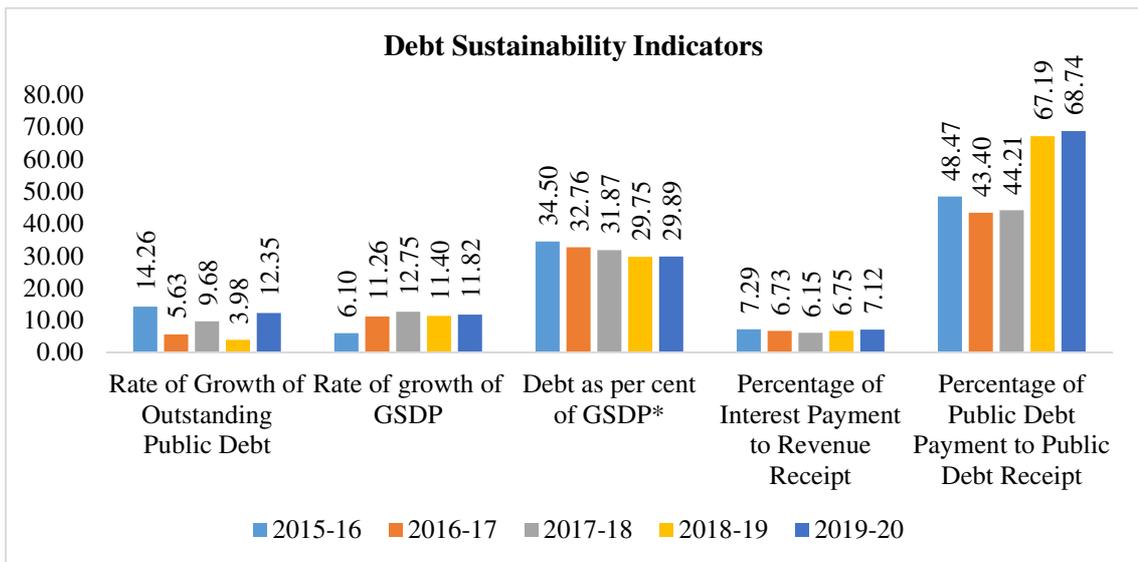
Debt Sustainability Indicators	2015-16	2016-17	2017-18	2018-19	2019-20
Outstanding Public Debt* (₹ in crore)	6,736.24	7,115.56	7,804.57	8,115.52	9,118.09
Rate of Growth of Outstanding Public Debt	14.26	5.63	9.68	3.98	12.35
GSDP (₹ in crore)	19,523.95	21,722.45	24,491.70	27,283.04	30,507.83
Rate of Growth of GSDP	6.10	11.26	12.75	11.40	11.82
Debt/GSDP	34.50	32.76	31.87	29.75	29.89
Debt Maturity profile of repayment of State debt – including default history, if any (₹ in crore)	517.84	513.35	546.01	636.89	746.08
Average interest Rate of Outstanding Public Debt ( <i>per cent</i> )	8.29	8.33	8.23	8.40	8.02
Percentage of Interest payment to Revenue Receipt	7.29	6.73	6.15	6.75	7.12
Percentage of Debt Repayment to Debt Receipt	48.47	43.4	44.21	67.19	68.74
Net Debt available to the State# (₹ in crore)	550.56	669.35	689.01	310.95	339.24
Net Debt available as <i>per cent</i> to Debt Receipts	4.54	3.67	3.58	7.09	6.33
Debt Stabilisation (Quantum spread + Primary Deficit)	-86.74	770.21	852.05	114.41	-44.51

Source Finance Accounts of respective years

\*Outstanding Public Debt is the sum of outstanding balances under the heads 6003-Internal Debt and 6004- Loans and Advances from the Central Government.

#Net debt available to the State Government is calculated as excess of Public debt receipts over Public debt repayment and interest payment on Public Debt.

Chart 2.22: Trends of Debt Sustainability indicators



Source Finance Accounts of respective years

\*excluding Public Account Liabilities

### 2.7.1 Utilisation of borrowed funds

Borrowed funds should ideally be used to fund capital creation and developmental activities. Using borrowed funds for meeting current consumption and repayment of interest on outstanding loans is not sustainable.

The trends of the total borrowing, repayment of earlier borrowings and utilisation during the five years from 2015-16 to 2019-20 are given in **Table 2.36**.

Table 2.36: Utilisation of borrowed funds

	(₹ in crore)				
1. Year	2015-16	2016-17	2017-18	2018-19	2019-20
2. Total Borrowings	3,545.94	5,444.35	5,141.02	2,907.22	7,869.82
3. Repayment of earlier borrowings (Principal) (In per cent)	2,705.35 (76.29)	5,056.03 (92.87)	4,452.01 (86.60)	2,596.27 (89.30)	6,867.25 (87.26)
4. Net capital expenditure (Percent)	1,059.23 (29.87)	1,076.10 (19.77)	1,274.85 (24.80)	1,595.56 (54.88)	1,206.32 (15.33)
5. Net loans and advances	-0.31	-0.90	-0.90	4.19	8.18
6. Portion of Revenue expenditure met out of net available borrowings (2 – 3 – 4 - 5)	-218.33	-686.88	-584.94	-1,288.8	-211.93

Source: Finance Accounts of respective years

As can be seen from the above table, the borrowings were utilised for repayment of earlier borrowings which ranged between 76.29 (2015-16) and 89.30 per cent (2018-19), during the five-year period of 2015-20.

### 2.7.2 Status of Guarantees – Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. The State Governments have come out with legislations or instructions with regard to cap on the guarantees. 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.

The details of outstanding guarantees given by the State Government including interest liability during the five-year period from 2015-16 to 2019-20 are shown in **Table 2.37**:

**Table 2.37: Guarantees given by the State Government**

(₹ in crore)					
Guarantees	2015-16	2016-17	2017-18	2018-19	2019-20
Ceiling applicable to the outstanding amount of guarantees including interest	<b>No law has been passed by the State Legislature under Article 293 of the Constitution laying down the limit within which the Government may give guarantee on the security of the Consolidated Fund of the State.</b>				
Outstanding amount of guarantees including interest	70.22	81.19	110.46	120.96	174.96

Source: Finance Accounts of respective years

Government had guaranteed loans raised by various Corporations and Others which at the end of 2019-20 stood at ₹ 174.96 crore. The Outstanding Guarantees was obtained for repayment of principal and payment of interest on loan pertained to Nagaland Industrial Development Corporation (₹ 44.24 crore). It was 1.06 per cent of the Revenue Receipts of the State as on 31 March 2020.

### 2.7.3 Management of Cash Balances

As per an agreement with the Reserve Bank of India, State Governments have to maintain a minimum daily cash balance with the Bank. The State Government was required to maintain a daily minimum cash balance of ₹ 0.25 crore with the RBI. If the balance falls below the agreed minimum on any day, the deficiency is made good by taking ordinary Ways and Means Advances (WMAs)/Special Ways and Means Advances (SWMAs)/Overdrafts (ODs) from time to time. The limit for ordinary WMA to the State Government is revised by the RBI from time to time.

State Government invests its surplus cash balance in short and long-term GoI Securities and Treasury Bills. The profits derived from such investments are credited as receipts under the head '0049-Interest Receipts'. The cash balances are invested in the Consolidated Sinking Fund and Guarantee Redemption Fund as well.

It is not desirable that State Government take recourse to market loans despite having large cash balances leading to further accretion to cash balances without putting it to productive use.

The Finance Department, in its reply stated (March 2021) that market loans are availed as per consent of the Ministry of Finance, GoI for financing the State activities.

**Table 2.38** depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 2.38: Cash Balances and their investment

(₹ in crore)		
	Opening balance on 1 April 2019	Closing balance on 31 March 2020
<b>A. General Cash Balance</b>		
Cash in treasuries	0.00	0.00
Deposits with Reserve Bank of India	163.49	223.90
<b>Total</b>	<b>163.49</b>	<b>223.90</b>
Investments held in Cash Balance investment account	134.96	0.00
<b>Total (A)</b>	<b>298.45</b>	<b>223.90</b>
<b>B. Other Cash Balances and Investments</b>		
Cash with departmental officers viz., Public Works, Forest Officers	454.28	744.75
Permanent advances for contingent expenditure with department officers	0.00	0.00
Investment in earmarked funds	1,104.20	1,659.18
<b>Total (B)</b>	<b>1,558.48</b>	<b>2,403.93</b>
<b>Total (A + B)</b>	<b>1,856.93</b>	<b>2,627.83</b>
<b>Interest realised</b>	<b>9.57</b>	<b>1.78</b>

Source: Finance Accounts, 2019-20

It was noticed that State Government's opening general Cash Balance as on 01 April 2019 was ₹ 298.45 crore. The closing general Cash Balance (31 March 2020) showed a decrease of 24.98 per cent (₹ 74.55 crore) and stood at ₹ 223.90 crore. The State Government had earned ₹ 1.78 crore from the Cash Balance Investments during 2019-20.

However, the State Government could maintain the minimum daily cash balance with the RBI for 226 days during 2019-20 and as such WMAs/ SWMAs/ ODs was availed for 139 days during the year, for which an interest of ₹ 5.16 crore (*Appendix 1.1 Part C*) was paid.

The Cash Balance Investments of the State of Nagaland for last five years (2015-16 to 2019-20) are given in **Table 2.39**:

Table 2.39: Cash Balance Investment Account (Major Head-8673)

(₹ in crore)				
Year	Opening Balance	Closing Balance	Increase (+)/decrease (-)	Interest earned
2015-16	141.48	0.00	(-)141.48	3.19
2016-17	0.00	35.41	35.41	3.01
2017-18	35.41	63.16	27.75	3.67
2018-19	63.16	134.96	71.80	9.57
2019-20	134.96	0.00	(-)134.96	1.78

Source: Finance Accounts of respective years

The trend analysis of the cash balance investment of the State Government revealed that during the five year-period of 2015-20, there has been large fluctuation in cash balance at the end of each year of the State.

## 2.8 Conclusion

The fiscal position of the State is viewed in terms of three key fiscal parameters – Revenue Deficit/ Surplus, Fiscal Deficit/ Surplus and primary deficit/surplus.

During 2019-20, the State had a Revenue deficit of ₹ 213.73 crore which was 0.70 per cent of GSDP. Fiscal deficit was ₹ 1,428.22 crore during 2019-20 which was 4.68 per cent of GSDP and primary deficit was ₹ 614.48 crore, 2.01 per cent of GSDP.

Revenue Receipts were ₹ 11,423.29 crore during 2019-20, which decreased by ₹ 14.12 crore (0.12 per cent) compared to the previous year. During the current year, State's Own Tax and Non-Tax Revenue increased by ₹ 112 crore (13.24 per cent) and ₹ 84 crore (32.94 per cent) respectively over the previous year. Grants-in-Aid from GoI increased by ₹ 315.36 crore (4.82 per cent) while State's Share of Union Taxes and Duties decreased by ₹ 525.33 crore (13.85 per cent) as compared to the previous year.

Revenue Expenditure accounted for 90.54 per cent of total expenditure during the current year. Committed expenditure like salary and wages, pension, interest payments steadily increased during the last five-year period 2015-20. The Committed Expenditure during the year 2019-20 was 68.93 per cent of the Revenue Receipts and 67.66 per cent of the Revenue Expenditure.

Under National Pension System (NPS), the State Government short contributed ₹ 30.51 crore resulting in understatement of revenue and fiscal deficit to that extent. Further, as on 31 March 2020, ₹ 170.35 crore were outstanding under NPS, with the State Government and had not been transferred to NSDL, creating avoidable outstanding financial liabilities under the Scheme.

Capital Expenditure is the expenditure for creation of assets of permanent and material character. Capital Expenditure (₹ 1,206.32 crore) decreased by 24.39 per cent during 2019-20 compared to the previous year and stood at nine per cent of total expenditure during the year. There were 399 projects lying incomplete as on 31 March 2020 for which ₹ 1,309.30 crore had been expended. There was cost over-run of ₹ 153.68 crore on these incomplete projects as on 31 March 2020.

The State's share of expenditure on Health (5.38 and 5.20 per cent during 2015-16 and 2019-20 respectively) was lower than the averages of North Eastern & Himalayan States (5.95 and 6.19 per cent during 2015-16 and 2019-20 respectively). Similarly, the State's share of expenditure on Education (14.79 and 12.92 per cent during 2015-16 and 2019-20 respectively) as proportion of Aggregate Expenditure was less than that of the averages of North Eastern & Himalayan States (18.32 and 17.42 per cent during 2015-16 and 2019-20 respectively).

As per Finance Accounts 2019-20, the State Government invested ₹ One crore in Government Company (Nagaland State Mineral Development Corporation, limited). As on 31 March 2020, whereas the State Government made investment of ₹ 295.17 crore in Government Companies, Statutory Corporation, Co-operative Societies and Joint Stock Companies, the return on investments was a meagre ₹ 2.80 crore by way of dividends during the year.

The State had outstanding guarantees of ₹ 174.96 crore as on 31 March 2020.

The outstanding Public Debt rapidly increased from ₹ 6,736.24 crore (14.26 per cent) from 2015-16 to ₹ 9,118.09 crore (35.36 per cent) in 2019-20 whereas the Debt/GSDP ratio decreased from 34.50 per cent to 29.89 per cent during the same

period. The outstanding Public Debt was ₹ 8,115.52 crore during 2018-19, which increased by ₹ 1,002.57 crore (12.35 *per cent*) compared to the previous year. About nine to ten *per cent* of the revenue receipts were used by the State for payment of interest on the outstanding Public Debt and the average rate of interest ranged between 6.15 *per cent* to 7.29 *per cent* during last five-years period from 2015-16 to 2019-20.

Maturity profile of outstanding stock of Public Debt as on 31 March 2020 indicates that out of Outstanding Public Debt of ₹ 9,118.09 crore, 47.25 *per cent* of debt needs to be repaid within seven years.

## 2.9 Recommendations

- The State Government needs to give greater focus on development expenditure by steadily increasing its Capital expenditure on identified infrastructure gaps in a planned manner with periodical review and monitoring mechanism at the highest level of administration.
- The State Government would do well by increasing its expenditure on Health and Education to compare favourably with NE Region States.
- To avoid possible future liabilities under NPS, the State Government needs to fulfil their obligation by releasing arrears of its contributions and transferring the outstanding funds already accumulated, to NSDL for management of the NPS.
- The State Government may seriously review the functioning of the Corporations, Companies and Societies to ensure returns on their investments and consider either revival or closure of non-functional units in a time bound manner.
- The State Government may ensure that mobilised debt resources are used adequately for incurring capital expenditure for creation of assets. The increasing trends of Revenue Expenditure be corrected by identifying potential wasteful expenditure and adopting economy measures across departments. Own revenues need to be augmented to meet the interest on debt liabilities.