
EXECUTIVE SUMMARY

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About The Report

This Report of the CAG of India is on the State Finances for the year 2023-24. It provides an overview of the finances, budgetary management and quality of accounts, financial reporting practices and other matters relevant to the State Finances.

This executive summary highlights the contents of this report and through snapshots of the important figures and aspects, provides insight into fiscal sustainability, performance against the budget intent, revenue and expenditure projection, the reasons for variations and its impact.

Gross State Domestic Product (GSDP) (at current prices) grew at a Compound Annual Growth Rate (CAGR) of 8.96 *per cent* from ₹29,715.87 crore in 2019-20 to ₹41,886.96 crore in 2023-24. Budget Outlay of the State grew at a CAGR of 4.08 *per cent* from ₹22,496.42 crore in 2019-20 to ₹26,395.56 crore in 2023-24.

During 2023-24, GSDP increased by ₹4,736.87 crore (12.75 *per cent*) from ₹37,150.09 crore in 2022-23 to ₹41,886.96 crore in 2023-24. The State had a Revenue surplus of ₹1,335.43 crore which was 3.19 *per cent* of GSDP. Fiscal deficit was ₹1,784.45 crore during 2023-24 which was 4.26 *per cent* of GSDP and primary surplus was ₹716.02 crore, 1.71 *per cent* of GSDP.

Revenue Receipts (₹16,155.13 crore) increased by 14.58 *per cent* (₹2,055.87 crore) over the previous year (₹14,099.26 crore). The State's Own Tax Revenue increased by ₹136.21 crore (9.32 *per cent*), Non-Tax Revenue increased by ₹200.00 crore (41.84 *per cent*), Grants-in-Aid from GoI increased by ₹693.59 crore (10.26 *per cent*) and State's Share of Union taxes/ duties increased by ₹1,026.63 crore (19.01 *per cent*) respectively over the previous year.

Revenue Surplus increased from ₹688.90 crore in 2022-23 to ₹1,335.43 crore in 2023-24, mainly due to a significant increase in Revenue Receipts (14.58 *per cent*). Fiscal Deficit (₹1,784.45 crore) increased by ₹221.82 crore (14.20 *per cent*) as compared to previous year (₹1,562.63 crore). Based on the result of examination of misclassification during post audit, the Revenue Surplus will reduce from ₹1,335.43 crore to ₹1,279.80 crore and Fiscal Deficit will increase from ₹1,784.45 crore to ₹1,826.63 crore.

Receipt-Expenditure Mismatch

The continuous mismatch between receipts and expenditure indicates rising fiscal stress. The State has different sources of receipts such as State Own Tax Revenue, Non-tax Revenue, Devolution of State's share in taxes, Grants-in-aid and transfers from the Union Government and non-debt capital receipts. The State Government's expenditure includes expenditure on revenue account as well as Capital Expenditure (assets creation, loans and advances, investments *etc*).

Revenue Receipts increased by ₹4,731.84 crore from ₹11,423.29 crore in 2019-20 to ₹16,155.13 crore in 2023-24 at a CAGR of 9.05 *per cent*. However, the share of Grants-in-aid in Revenue Receipts decreased from 60.04 *per cent* in 2019-20 to 46.13 *per cent* in 2023-24.

Revenue Expenditure is incurred to maintain the current level of services and payment for the past obligation. As such, it does not result in any addition to the State's infrastructure and service network. Revenue Expenditure constituted on an average, 85.87 *per cent* and ranged between 82.60 (2023-24) and 90.54 *per cent* (2019-20) of the Total Expenditure during the period 2019-24. The percentage of Revenue Expenditure to Total Expenditure was 82.60 *per cent* and Revenue Expenditure to GSDP was 35.38 *per cent* during 2023-24.

Result of expenditure beyond means

The gap between the Revenue Receipts and Revenue Expenditure results in Revenue Deficit. However, during 2023-24, the State had a Revenue surplus of ₹1,335.43 crore which was 3.19 *per cent* of GSDP.

Capital Expenditure (₹3,122.52 crore) increased by ₹418.30 crore (15.47 *per cent*) during 2023-24 compared to the previous year (₹2,704.22 crore) and stood at 17.41 *per cent* of total expenditure during the year. During the five-year period of 2019-24, the borrowings were utilised for repayment of earlier borrowings which ranged between 55.55 *per cent* (2023-24) and 91.29 *per cent* (2021-22).

The gap between the total expenditure and total non-debt receipt of the State results in Fiscal Deficit. Fiscal deficit was ₹1,784.45 crore during 2023-24 which was 4.26 *per cent* of GSDP.

Under Revenue Expenditure, the quantum of committed expenditure constitutes the largest share. Committed expenditure has the first charge on the resources and consists of interest payments, expenditure on salaries and wages and pensions. Committed expenditure steadily increased by ₹2,998.68 crore at a CAGR of 8.40 *per cent* from ₹7,874.46 crore in 2019-20 to ₹10,873.14 crore in 2023-24. The Committed Expenditure during the year 2023-24 was 67.30 *per cent* of the Revenue Receipts and 73.37 *per cent* of the Revenue Expenditure.

In addition to the committed expenditure, the inflexible expenditure as a percentage of Revenue Expenditure, showed fluctuating trend ranging from 8.00 to 10.45 *per cent*. Further, the inflexible expenditure (₹1,186.01 crore) decreased by 11.14 *per cent* during 2023-24 over the previous year (₹1,334.71 crore).

Taken together, committed and inflexible expenditure in 2023-24 was ₹12,059.15 crore; 81.37 *per cent* of the Revenue Expenditure. Upward trend on committed and inflexible expenditure leaves the Government with lesser flexibility for other priority sectors and capital creation.

Contingent Liabilities on account of Guarantees

At the end of 2023-24, the Government provided guarantees of ₹228.57 crore against loans of Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. During 2023-24, the Government did not pay any amount as no guarantee was invoked.

Fiscal sustainability

Fiscal sustainability is examined in terms of macro-fiscal parameters such as deficits, level of debt and liabilities, commitments on account of guarantees and subsidies. So far as revenue and expenditure mismatch is concerned, one of the most important constraints is committed and inflexible expenditure, which includes salaries and wages, pension payments and interests and also other inflexible expenditure such as those arising out of commitment for centrally sponsored schemes and transfer to reserve funds.

FRBM requirements and compliance with fiscal parameters

The FRBM Act/Rules prescribes certain limits within which revenue deficit, fiscal deficit and debt as a percentage of the Gross State Domestic Product (GSDP) should be. The State Government was successful in maintaining the Revenue Surplus in four out of five years during the period from 2019-20 to 2023-24. The State could also maintain the Fiscal Deficit as per the prescribed *per cent* of GSDP in three out of five years during the period from 2019-20 to 2023-24. The State also succeeded in maintaining the prescribed ratio of total outstanding debt to GSDP during 2020-21 and 2022-23.

Public Debt increased by ₹6,825.97 crore at a CAGR of 14.99 *per cent* from ₹9,118.09 crore in 2019-20 to ₹15,944.06 crore in 2023-24 whereas the Debt/ GSDP ratio increased from 40.99 to 43.42 *per cent* during the same period. As per the Debt stabilization analysis, the current debt level appears manageable in the short term. However, the upward trajectory and rising debt-to-GSDP ratio highlight the need for proactive fiscal management to prevent long-term sustainability risks.

It is observed that following a sharp deterioration in debt sustainability indicators when it hit a 5-year low in 2020-21, the debt-GSDP ratio rose to a five-year high of 45.2 *per cent*. Decomposition of debt accumulation relative to GSDP shows that GID (Growth Interest Differential) was not enough to absorb entire impact of primary deficit during 2019-2024. Despite a significant improvement in GID growth from 1.50 *per cent* in 2018-19 to 4.6 *per cent* in 2019-20, the debt-GSDP ratio witnessed an increase in 2019-20 due to the worsening of primary deficit and increase in debt, which exceeded the nominal growth. This trend continued in 2020-21 as well, when the debt-GSDP ratio reached a 5-year high of 45.2 *per cent*. The sharp deterioration observed in the debt-GSDP ratio can be attributed to the sharp contraction seen in the GID given the steep deceleration witnessed in nominal growth, increase in debt more than nominal growth and primary balance, which continued to remain in the negative territory. However, debt-GSDP ratio observed declining trend in 2021-22 and 2022-23. The State succeeded in steadily improving the debt-GSDP ratio during

2021-2023 years by generating a primary surplus in 2021-22 supported by improvements in the GID and allowing the debt to grow less than nominal growth. With the worsening of the primary deficit and higher growth in debt compared with the nominal growth reversed the trend in 2023-24, debt-GSDP increased by more than one percentage point over the previous year. This shows that debt-GSDP ratio of the State witnessed a fluctuating trend during 2019-2024. Debt-GSDP ratio of the State except 2022-23 remained above the indicative debt path given by FC.

The Domar criterion also shows that nominal growth was not driven by inflation except in 2020-21 and 2021-22. On average, the contribution of real growth to nominal growth remained higher than inflation. In contrast, inflation measured by the CPI (combined) helped the State to keep the real cost of borrowing on a downward trajectory until 2022-23. However, due to a sharp decline in inflation from 6.05 *per cent* in 2022-23 to 3.36 *per cent* in 2023-24, real interest rates witnessed an increase in 2023-24. During 2019-2024, on an average, inflation remained within the band-width of 2-6 *per cent* for the medium term target of CPI inflation determined by RBI, keeping real interest rates below economic growth, thereby maintaining a favourable GID. This concludes that except for the pandemic-hit year 2020-21, the growth rate has been large enough to cover the increase in interest rates.

Going by the analysis and results discussed above, the finances of the State of Nagaland is marked by increasing trend of liabilities, which pose risk to the target of debt stabilisation and debt sustainability.

Budget performance

Aggregate expenditure outturn

Budget performance in terms of budgetary intent and budget implementation was examined to assess the extent to which the aggregate expenditure outturn reflects the amount originally approved both in terms of excess and saving. In Revenue section, deviation in outturn compared with BE was (-)14.49 *per cent*. This was due to deviation between 0 and ± 25 *per cent* in 61 grants, between ± 25 *per cent* to ± 50 *per cent* in 10 grants and between ± 50 *per cent* to ± 100 *per cent* in nine grants and more than ± 100 *per cent* in one grant. No provision was, however, made in respect of one grant of the Revenue section. In Capital Section, deviation in outturn compared with BE was 73.12 *per cent*. This was due to deviation between 0 and ± 25 *per cent* in four grants, between ± 25 *per cent* to ± 50 *per cent* in eight grants, between ± 50 *per cent* to ± 100 *per cent* in eight grants and more than 100 *per cent* in 18 grants. No provision was, however, made in respect of 44 grants of the Capital section.

Expenditure composition outturn

Budget performance also looks at the extent to which the re-allocation between the main budget categories during the execution have contributed to variance in expenditure composition. This measure indicates the extent of variation between the final budget and the actual expenditure. In Revenue section, deviation in outturn compared with RE was (-)20.14 *per cent*. This was due to deviation between 0 and

± 25 per cent in 69 grants, between ± 25 per cent to ± 50 per cent in nine grants and between ± 50 per cent to ± 100 per cent in three grants. No provision was, however, made in respect of one grant under Revenue section. In Capital section, deviation in outturn compared with RE was (-)13.42 per cent. This was due to deviation between 0 and ± 25 per cent in 44 grants, between ± 25 per cent to ± 50 per cent in 13 grants and between ± 50 per cent to ± 100 per cent in five grants and more than ± 100 per cent in three grants. No provision was, however, made in respect of 17 grants under Capital section.

It was noticed that the supplementary provision of ₹153.11 crore during the year 2023- 24 in nine departments proved unnecessary as the expenditure did not come up even to the level of the original provision.

Overall Budget reliability assessment indicates that though the deviations between the actual expenditure and original budget as well as between the actual expenditure and the final budget were less than 15 per cent, there were deviations up to 50 per cent and even above in different grants. Moreover, it was also noticed that in several cases, there were supplementary grants where expenditure was not even up to the original grant. A reliable budget practice is required to deal with such deviations.

Quality of Accounts and Financial Reporting

Quality of accounts and financial reporting covers items, transactions and events which relate to gaps in compliance, regularity weaknesses and issues relating to delay in receipt of those accounting records or adjustment records which evidence the actual expenditure. It also highlights issues pertaining to the accounts and financial reporting such as non- or short – discharging of liabilities and misclassification of transactions and data gaps.

Regularization of Excess over Grants/ Appropriations

In terms of Article 205 of the Constitution of India, the State Government has to get the excesses over grants/appropriations regularised by the State Legislature. There was an outstanding excess expenditure of ₹708.62 crore under 33 Grants (pertaining to the year 2017-18 to 2023-24) yet to be regularised.

Reconciliation

All Departments are required to reconcile their expenditure and receipts with the expenditure booked in the accounts in the office of the Principal Accountant General (A&E). The State Government reconciled 93 per cent of the total expenditure and 95 per cent of the receipts during the year.

Compliance with IGAS

As against the requirements of the Indian Government Accounting Standards (IGAS), the State Government made partial compliance with IGAS-1: Guarantees given by the Government – Disclosure requirements, IGAS-2: Accounting and Classification of Grants-in-Aid and IGAS-3: Loans and Advances made by the Government.

Funds to Single Nodal Agency

The Government of India and the State Government have introduced the system of Single Nodal Agency (SNA) for implementation and fund flow for each Centrally Sponsored Scheme (CSS). The State Government transferred ₹2,812.60 crore in 2023-24 to SNAs. The whole amount was transferred through fully vouched bills. However, detailed vouchers and supporting documents of actual expenditure were not received by the office of the Principal Accountant General (A&E) from the SNAs. As on 31 March 2024, an amount of ₹1,096.65 crore, including both Central and State shares, were parked in SNA bank Account of 117 schemes.

Utilisation Certificates against conditional grants

As on March 2024, there are 250 UCs worth ₹356.23 crore, which are due for submission for periods pertaining up to 2023-24. Pending UCs violate prescribed financial rules and directives, and reflects poor monitoring mechanism of the State Government. Moreover, high pendency of UCs is fraught with the risk of misappropriation of funds. The State would also lose out on central funds for non-submission of UCs in due time and/or there would be delay in release of next instalment by GoI.

DCC bills against AC bills

A total of 405 AC Bills amounting to ₹699.87 crore drawn up to 29 February 2024 (including 323 AC bills worth ₹554.76 crore outstanding as on 31 March 2023). Of which, DCC Bills for 72 AC Bills worth ₹86.58 crore were received. DCC Bills in respect of a total of 333 AC Bills worth ₹613.29 crore due for adjustment as on 31 March 2024 were not received. The non-adjustment of AC Bills is fraught with the risk of misappropriation and therefore, requires close monitoring by the respective DDOs for ensuring submission of Detailed Countersigned Contingent (DCC) bills. Further, there is no assurance that the expenditure of the State Government reflected in the Finance Accounts is correct or final due to non-receipt of DCC bills to that extent.

Compliance with prevailing rules and codal provisions are meant to ensure control and accountability in accounting and financial reporting. Non-compliance and deviations impact the quality of accounting and financial reporting adversely. Non-timely submission of UCs against conditional grants; non-submission of DC bills against AC bills; non-compliance with IGAS-1, IGAS-2 and IGAS-3 and non-supply of details of expenditure from SNAs have adversely impacted the quality of accounts.