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*CHAPTER II*

*FINANCES OF THE STATE*

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## Chapter II: Finances of the State

### 2.1 Major changes in Key fiscal aggregates during 2020-21 vis-à-vis 2019-20

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 2020-21, compared to the previous year. Each of these indicators are analysed in the succeeding paragraphs.

**Table 2.1: Changes in key fiscal aggregates in 2020-21 compared to 2019-20**

<b>Revenue Receipts</b>	<ul style="list-style-type: none"> <li>➤ Revenue receipts of the State increased by 0.04 per cent</li> <li>➤ Own Tax receipts of the State increased by 6.73 per cent</li> <li>➤ Own Non-tax receipts decreased by 28.50 per cent</li> <li>➤ State's Share of Union Taxes and Duties increased by 4.35 per cent</li> <li>➤ Grants-in-Aid from Government of India decreased by 1.54 per cent</li> </ul>
<b>Revenue Expenditure</b>	<ul style="list-style-type: none"> <li>➤ Revenue expenditure decreased by 5.03 per cent</li> <li>➤ Revenue expenditure on General Services decreased by 6.06 per cent</li> <li>➤ Revenue expenditure on Social Services increased by 3.58 per cent</li> <li>➤ Revenue expenditure on Economic Services decreased by 11.47 per cent</li> </ul>
<b>Capital Expenditure</b>	<ul style="list-style-type: none"> <li>➤ Capital expenditure increased by 38.60 per cent</li> <li>➤ Capital expenditure on General Services increased by 147.15 per cent</li> <li>➤ Capital expenditure on Social Services increased by 11.20 per cent</li> <li>➤ Capital expenditure on Economic Services increased by 29.22 per cent</li> </ul>
<b>Loans and Advances</b>	<ul style="list-style-type: none"> <li>➤ Disbursement of Loans and Advances decreased by 39.42 per cent</li> <li>➤ Recoveries of Loans and Advances increased by 12.84 per cent</li> </ul>
<b>Public Debt</b>	<ul style="list-style-type: none"> <li>➤ Public Debt Receipts increased by 45.30 per cent</li> <li>➤ Repayment of Public Debt increased by 44.22 per cent</li> </ul>
<b>Public Account</b>	<ul style="list-style-type: none"> <li>➤ Public Account Receipts decreased by 11.73 per cent</li> <li>➤ Disbursement of Public Account increased by 28.82 per cent</li> </ul>
<b>Cash Balance</b>	<ul style="list-style-type: none"> <li>➤ Cash balance increased by ₹117.50 crore (4.47 per cent) during 2020-21 compared to previous year</li> </ul>

### 2.2 Sources and Application of Funds

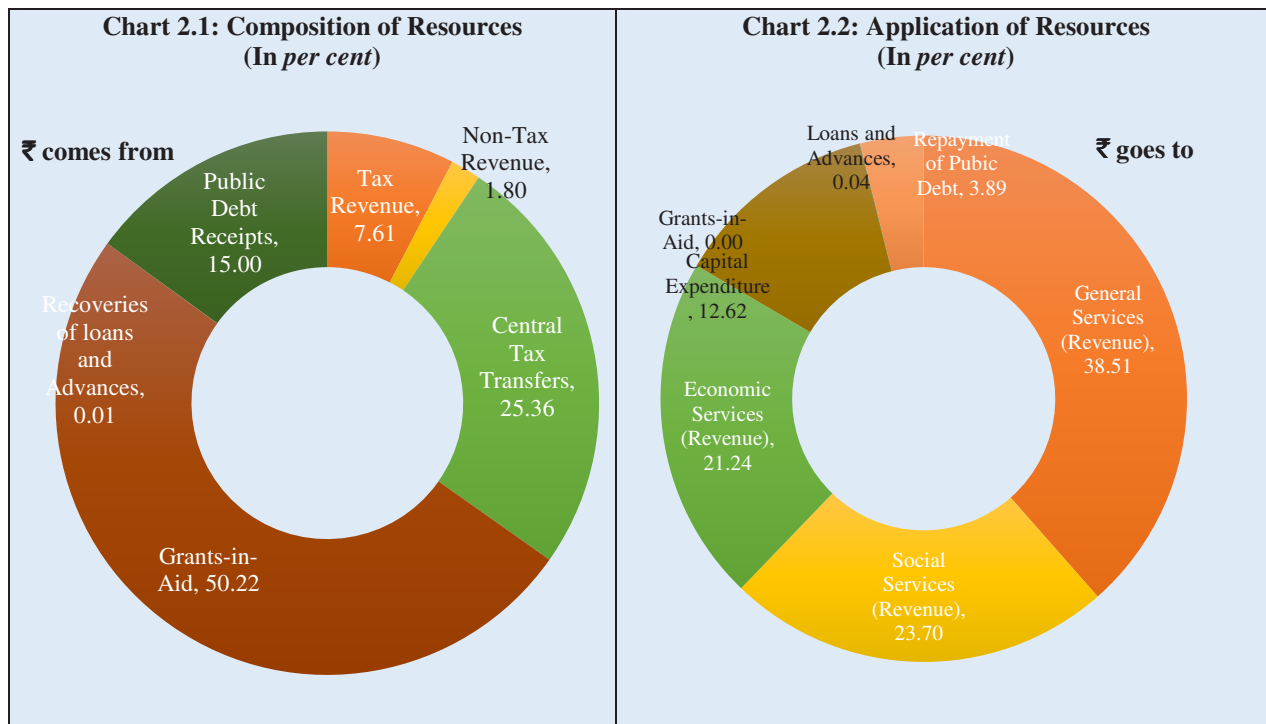
**Table 2.2** compares the sources and application of funds of the State during 2020-21 with 2019-20 in figures, while **Charts 2.1** and **2.2** give the details of receipts and expenditure from the Consolidated Fund during 2020-21 in terms of percentages.

**Table 2.2: Details of Sources and Application of funds during 2019-20 and 2020-21**

(₹ in crore)				
	Particulars	2019-20	2020-21	Increase (+)/ Decrease (-)
<b>Sources</b>	Opening Cash Balance with RBI	1,856.93	2,627.83	770.90
	Revenue Receipts	11,423.29	11,427.43	4.14
	Recoveries of Loans and Advances	1.09	1.23	0.14
	Public Debt Receipts (Net)	1,002.57	1,530.94	528.37
	Public Account Receipts (Net)	1,196.55	-112.50	-1,309.05
	<b>Total</b>		<b>15,480.43</b>	<b>15,474.93</b>

	Particulars	2019-20	2020-21	Increase (+)/ Decrease (-)
Application	~	11,637.02	11,052.06	-584.96
	Capital Expenditure	1,206.32	1,671.93	465.61
	Disbursement of Loans and Advances	9.26	5.61	-3.65
	Closing Cash Balance with RBI	2,627.83	2,745.33	117.50
	<b>Total</b>	<b>15,480.43</b>	<b>15,474.93</b>	<b>-5.50</b>

Source: Finance Accounts, 2020-21



### 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 dis-investments, 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.

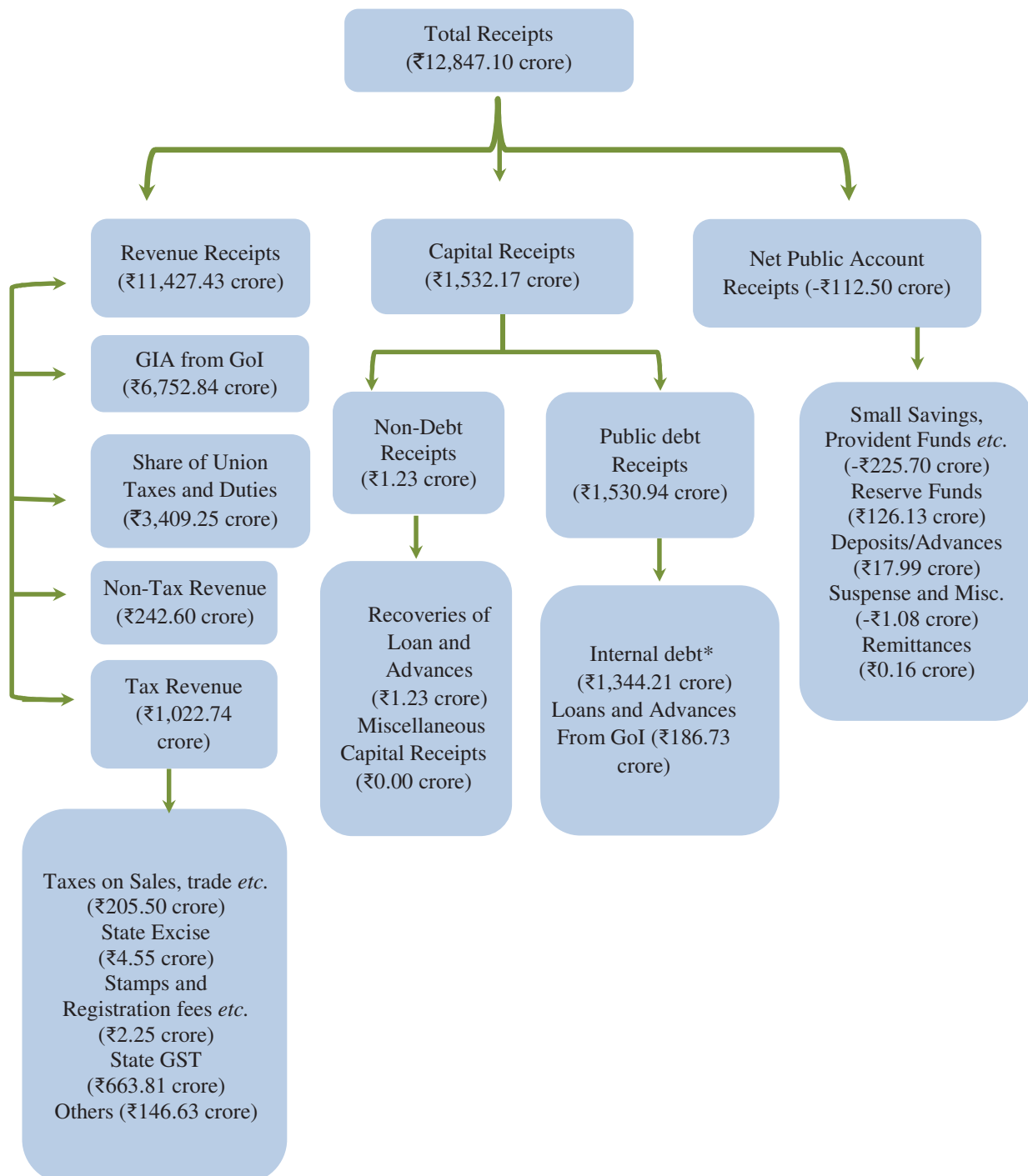
3. **Net Public Account receipts:** There are receipts and disbursements in respect of certain transactions such as small savings, provident fund, reserve funds, deposits, suspense, remittances, *etc.* which do not form part of the Consolidated Fund.

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 2020-21 is given in **Chart 2.3**.

**Chart 2.3: Composition of receipts of the State during 2020-21**



Source: Finance Accounts, 2020-21

\*: including net of Ways and Means Advances (WMA) amounting to ₹28.57 crore (WMA Receipt: ₹9,417.75 crore (-) WMA Repayment ₹9,389.18 crore)

### 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

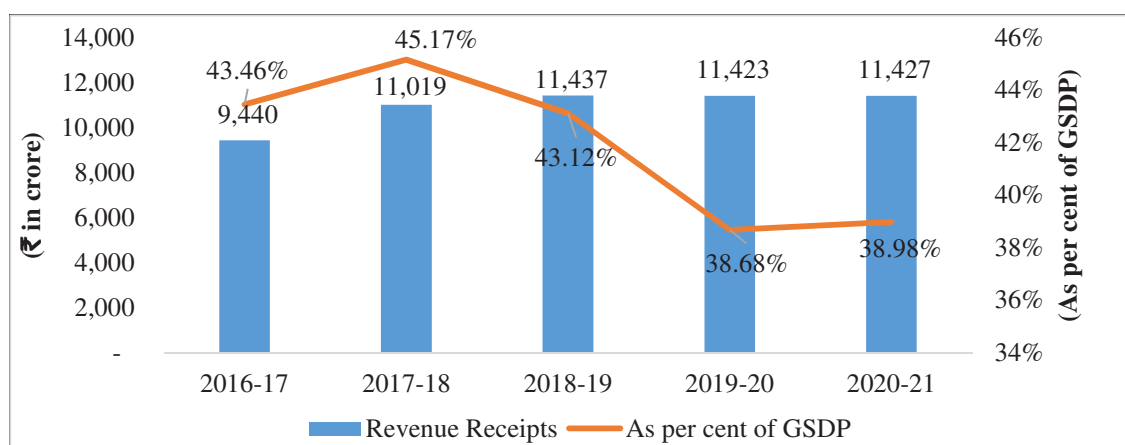
**Table 2.3** provides the trends and growth of Revenue Receipts as well as revenue buoyancy with respect to GSDP over the five-year period 2016-21. Further, trends in Revenue Receipts relative to GSDP and composition of Revenue Receipts are given in **Charts 2.4** and **2.5** respectively.

**Table 2.3: Trend in Revenue Receipts**

Parameters	2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Receipts (RR) (₹ in crore)	9,439.79	11,019.21	11,437.41	11,423.29	11,427.43
Rate of growth of RR (per cent)	17.40	16.73	3.80	-0.12	0.04
Own Tax Revenue (₹ in crore)	510.75	638.28	846.43	958.23	1,022.74
Non-Tax Revenue (₹ in crore)	343.03	388.53	255.24	339.29	242.60
Rate of growth of Own Resources (Own Tax and Non-tax Revenue) (per cent)	25.42	20.27	7.29	17.78	-2.48
Gross State Domestic Product (₹ in crore)	21,722.45	24,392.96	26,527.42	29,535.93	29,312.83
Rate of growth of GSDP (per cent)	11.26	12.29	8.75	11.34	-0.76
RR/GSDP (per cent)	43.46	45.17	43.12	38.68	38.98
<b>Buoyancy Ratios<sup>2</sup></b>					
Revenue Buoyancy w.r.t. GSDP	1.55	1.36	0.43	-0.01	-0.05
State's Own Resources Buoyancy w.r.t. GSDP	2.26	1.65	0.83	1.57	3.26

Source of GSDP figures: Directorate of Economics and Statistics, GoN

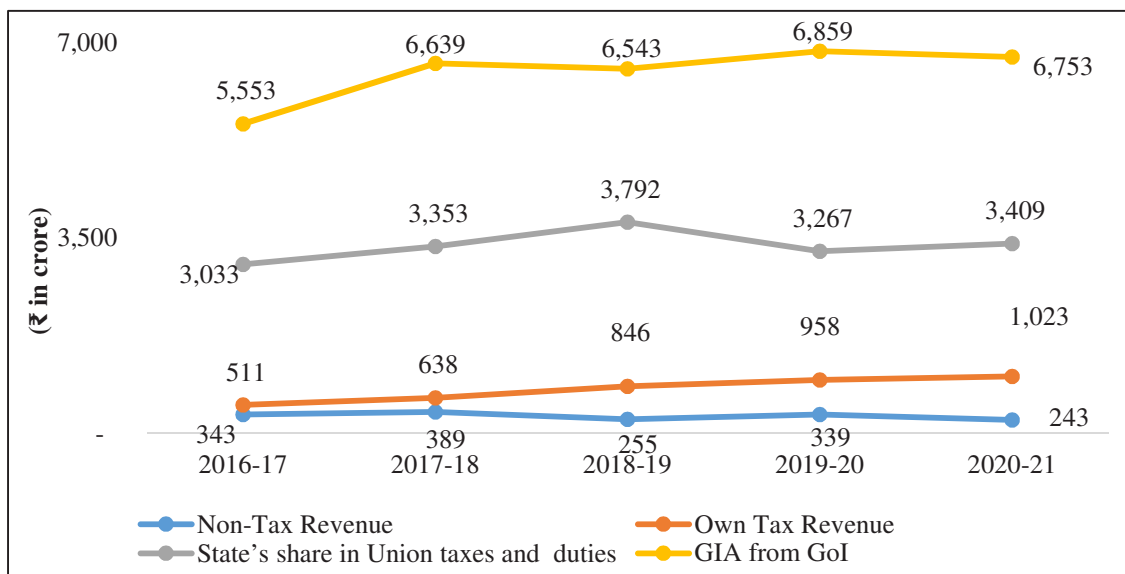
**Chart 2.4: Trend of Revenue Receipts**



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

- 2 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 -0.05 implies that Revenue Receipts tend to decrease by -0.05 percentage points, if the GSDP decreases by one per cent.

Chart 2.5: Trend of components of Revenue Receipts



Source: Finance Accounts of respective years

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

- Revenue Receipts increased by ₹1,987.64 crore (21.06 per cent) from ₹9,439.79 crore in 2016-17 to ₹11,427.43 crore in 2020-21 at a Compound Annual Growth Rate (CAGR) of 4.89 per cent. During 2020-21, Revenue Receipts increased by ₹4.14 crore (0.04 per cent) over the previous year.
- During 2020-21, State's own resources contributed 11.07 per cent of the Revenue Receipts, while Central Tax Transfers and GIA together contributed 88.93 per cent. This is indicative of the fact that Nagaland's fiscal position is largely dependent on the tax transfers and GIA from GoI.
- During the current year, there was increase of 0.04 per cent (₹4.14 crore) in Revenue Receipts and decrease of 5.03 per cent (₹584.96 crore) in Revenue Expenditure as compared to 2019-20, leading to a Revenue Surplus, as against a Revenue Deficit in the previous year.
- The Revenue Receipts buoyancy with respect to GSDP was (-) 0.01 in 2019-20 which decreased to (-) 0.05 in 2020-21. The State's Own Tax buoyancy with respect to GSDP was 1.57 in 2019-20 which increased to 3.26 in 2020-21, due to decrease in rate of growth of GSDP.

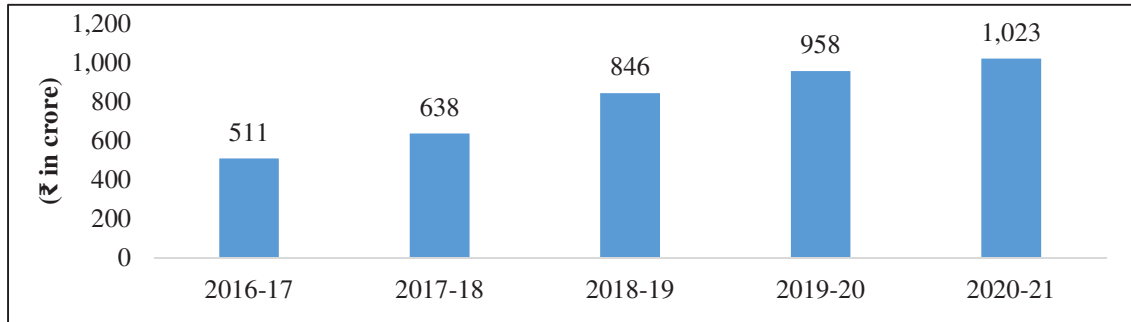
### 2.3.2.2 State's Own Resources

State's share in Central taxes is determined on the basis of recommendations of the Finance Commission. GIA 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 2016-21 is given below.

**Chart 2.6: Growth of Own Tax Revenue during 2016-21**



Source: Finance Accounts of respective years

The detail components of gross collections in respect of major Taxes and Duties collected during 2016-21 are given in **Table 2.4**.

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

Revenue Head	Revenue (₹ in crore)					Sparkline
	2016-17	2017-18	2018-19	2019-20	2020-21	
Taxes on Sales, Trades etc.	400	287	187	175	205	
State Goods and Services Tax	0	188	470	613	664	
State excise	5	4	5	3	5	
Taxes on vehicles	57	101	126	114	93	
Stamp duty and Registration fees	2	3	2	3	2	
Land revenue	1	1	1	1	1	
Taxes on goods and passengers	15	18	20	18	16	
Other taxes	31	36	35	31	37	
<b>Total</b>	<b>511</b>	<b>638</b>	<b>846</b>	<b>958</b>	<b>1,023</b>	

Source: Finance Accounts of respective years

State's Own Tax Revenue increased by ₹512 crore from ₹511 crore in 2016-17 to ₹1,023 crore in 2020-21 at Compound Annual Growth Rate (CAGR) of 18.95 per cent. During the current year, major contributors of Tax Revenue were Goods and Services Tax (64.91 per cent), Taxes on Sales, Trades *etc.*, (20.04 per cent) and Taxes on vehicles (9.09 per cent). There has been a decline in taxes on vehicles as compared to the previous year.

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



### State Goods and Services Tax (SGST)

As per the Goods and Services Tax (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 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>3</sup> of the State for the year 2020-21 in accordance with Section 6 of GST (Compensation to States) Act, 2017, was fixed at ₹432.54 crore<sup>4</sup>.

The actual revenue received by the State under Goods and Services Tax (SGST) was ₹663.81 crore<sup>5</sup>. This excludes the revenue receipt of ₹205.50 crore under pre-GST arrear of Value Added Tax (VAT) collection.

**Table 2.5: Details of SGST receipt of the State including apportionment of IGST and pre-GST arrears of VAT during 2020-21**

(₹ in crore)		
Sl. No.	Components	Amount
1.	Protected Revenue of State for the year 2020-21	493.10 <sup>6</sup>
2.	<b>State Goods and Services Tax (SGST)</b>	
	(a) Tax	187.83
	(b) Apportionment of Taxes from IGST	451.65
	(c) Advance apportionment of Taxes from IGST	24.33
3.	<b>VAT collection (Arrear pre-GST)</b>	205.50
<b>Total GST Collection</b>		<b>869.31</b>

Source: Finance Accounts, 2020-21 and GST (Compensation to States) Act, 2017

As can be seen from the above table, the revenue collection of the GoN was more than the protected revenue of the State during 2020-21. As such the State was not eligible for compensation. However, during 2020-21, the State had received ₹14.22 crore as GST compensation from the GoI for loss of revenue due to shortfall in collection during the month of April and May 2020 on account of implementation of Goods and Service Tax.

### 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.

<sup>3</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>4</sup> Ministry of Finance, Office Memorandum No. S-31011/03/2014-SO (ST)-Pt-I dated 29 August 2017.

<sup>5</sup> Apportionment of Integrated Goods and Services Tax (IGST): ₹451.65 crore plus Tax: ₹187.83 crore plus advance apportionment from IGST: ₹24.33 crore.

<sup>6</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 {₹256.10 crore x 1.14<sup>2</sup> = ₹256.10 crore x 1.9254145 = ₹493.10 crore (approx.)}.

The arrears of revenue as on 31 March 2021 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 2021	Amount outstanding for more than five years as on 31 March 2021
1.	Nagaland VAT	323.38	96.68
2.	Petroleum Tax	440.18	118.21
3.	Central Sales Tax	48.30	47.12
4.	Purchase Tax	0.45	0.00
5.	Professional Tax	5.96	1.17
6.	Nagaland Sales Tax	30.34	28.26
<b>Total</b>		<b>848.61</b>	<b>291.44</b>

Source: Departmental figures

It can be seen from the table above that revenue arrear of ₹8.49 crore was outstanding as on 31 March 2021, of which ₹2.91 crore was pending for recovery for more than five years. 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 2020-21, cases becoming due for assessment, cases disposed off during the year 2020-21 and number of cases pending for finalisation at the end of the year as furnished by the office of the Commissioner of State Taxes, Nagaland in respect of Sales Tax/ VAT on Sales, Trades *etc.*, are shown in **Table 2.7**.

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

Head of Revenue	Opening Balance of arrears in assessment as on 01 April 2020	New cases due for assessment during 2020-21	Total assessment due	Cases disposed-off during 2020-21	Balance at the end of the 31 March 2021	Percentage of cases disposed to the total assessment due
1	2	3	4	5	6	7 (5 to 4)
Nagaland VAT	418	47	465	186	279	40
Petroleum Tax	31	36	67	28	39	42
Central Sales Tax	402	30	432	132	300	31
Professional Tax	438	190	628	337	291	54
Amusement Tax	5	0	5	5	0	100
<b>Total</b>	<b>1,294</b>	<b>303</b>	<b>1,597</b>	<b>688</b>	<b>909</b>	<b>43</b>

Source: Departmental figures

The arrears in assessment decreased from 1,294 to 909 cases with the addition of 303 cases, which became due for assessment during 2020-21 and 688 cases were disposed off during the year. The cases disposed off during 2020-21 were only 43 per cent and the pace needs to be improved.

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

### Details of refund cases

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 claims of refund at the beginning of the year 2020-21, receipt during the year, refunds made/ rejected and outstanding claims at the end of the year are shown in **Table 2.8**.

**Table 2.8: Statement showing pendency of refund cases**

Particulars	(Amount in lakh)	
	GST	
	No. of cases	Amount
Claims outstanding at the beginning of the year	3	14.41
Claims received during the year	72	162.63
<b>Total claims during the year</b>	<b>75</b>	<b>177.04</b>
Refunds made during the year	55	153.87
Refunds rejected during the year	6	6.19
Balance outstanding at the end of the year	14	16.98

Source: Departmental figures

During 2020-21, out of 72 claims received, the Department settled 55 claims (76 per cent). The outstanding number of claims at the end of the year 2020-21 stood at 14. There was no cases of evasion of tax detected during the current 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 2016-21 are shown in **Table 2.9**.

**Table 2.9: Components of State's non-tax revenue**

Revenue Head	2016-17					2017-18					2018-19					2019-20					2020-21					Sparkline
Interest Receipts	7	7	12	5	5	7	7	12	5	5	7	7	12	5	5	7	7	12	5	5	7	7	12	5	5	
Dividends and Profits	0	0	1	3	2	0	0	1	3	2	0	0	1	3	2	0	0	1	3	2	0	0	1	3	2	
Other Non-Tax Receipts	336	382	242	331	236	336	382	242	331	236	336	382	242	331	236	336	382	242	331	236	336	382	242	331	236	
Misc. General Services	14	16	24	22	21	14	16	24	22	21	14	16	24	22	21	14	16	24	22	21	14	16	24	22	21	
Power	114	128	148	159	171	114	128	148	159	171	114	128	148	159	171	114	128	148	159	171	114	128	148	159	171	
Education, Sports, Arts and Culture	119	133	4	62	2	119	133	4	62	2	119	133	4	62	2	119	133	4	62	2	119	133	4	62	2	
Other Misc.	89	105	66	87	41	89	105	66	87	41	89	105	66	87	41	89	105	66	87	41	89	105	66	87	41	
<b>Total</b>	<b>343</b>	<b>389</b>	<b>255</b>	<b>339</b>	<b>243</b>	<b>343</b>	<b>389</b>	<b>255</b>	<b>339</b>	<b>243</b>	<b>343</b>	<b>389</b>	<b>255</b>	<b>339</b>	<b>243</b>	<b>343</b>	<b>389</b>	<b>255</b>	<b>339</b>	<b>243</b>	<b>343</b>	<b>389</b>	<b>255</b>	<b>339</b>	<b>243</b>	

Source: Finance Accounts of respective years

Non-Tax Revenue ranged between 2.12 and 3.63 per cent of Total Revenue Receipts of the State during the five-year period from 2016-17 to 2020-21. Non-Tax Revenue decreased by ₹100 crore from ₹343 crore in 2016-17 to ₹243 crore in 2020-21 at CAGR of (-)8.26 per cent. The significant decrease in Non-Tax Revenue as compared to the previous year were noticed in other Misc. (₹47 crore) and Education, Sports, Arts and Culture (₹60 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 2.10**.

**Table 2.10: State's Own Resources for 2016-21**

	2016-17	2017-18	2018-19	2019-20	2020-21
Tax Revenue	510.75	638.28	846.43	958.23	1,022.74
Non-Tax Revenue	343.03	388.53	255.24	339.29	242.60
<b>State's Own Resources</b>	<b>853.78</b>	<b>1,026.81</b>	<b>1,101.67</b>	<b>1,297.52</b>	<b>1,265.34</b>

Source: Finance Accounts of respective years

The State's actual Tax and Non-Tax Receipts for the year 2020-21 *vis-à-vis* assessment made in the Budget and projection made by the Fifteenth Finance Commission (XV FC) is given in **Table 2.11**.

**Table 2.11: Tax and Non-Tax receipts *vis-à-vis* projections**

	XV FC projections	Budget Estimates	Actual	Percentage variation of actual over	
				Budget estimates	XV FC projections
				Own Tax Revenue	954.00
Non-Tax Revenue	336.00	272.24	242.60	-10.89	-27.80

Source: XV FC report, Budget documents and Finance Accounts, 2020-21

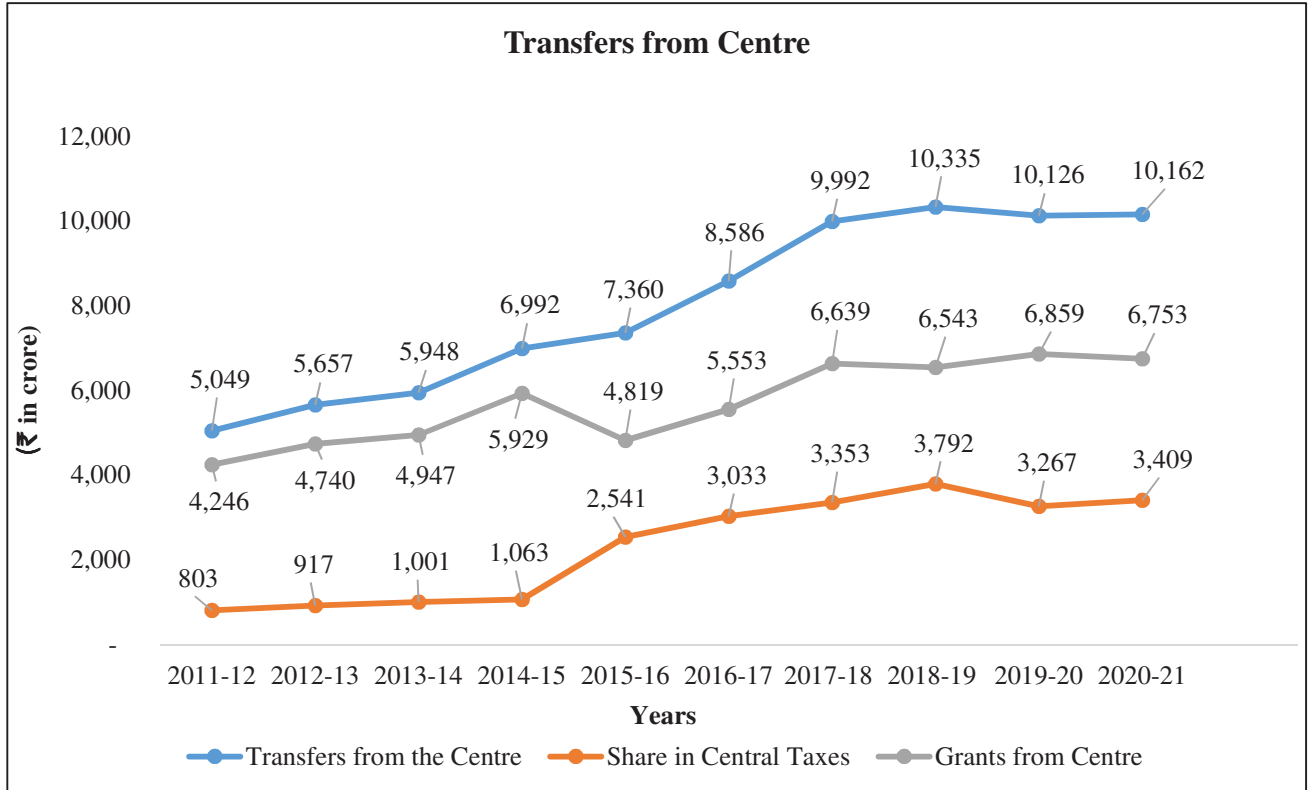
Actual own Tax realised was higher and actual Non-Tax Revenue was lower than the projections made by the XV FC/ BEs. The Revenue Surplus registered by the State was a result of receipt of Revenue Deficit Grant of ₹3,916.94 crore (from April 2020 to March 2021) from the GoI. The State Government should strive to improve its non tax mobilisation efforts.

#### 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. However, XV FC recommended an aggregate share of 41 *per cent* of the net proceeds of Union Taxes (Divisible pool) to be devolved to states in the year 2020-21. Out of the net proceeds of Union Taxes, the State's share was 0.573 *per cent*.

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 2.12**.

**Table 2.12: 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)
2011-12	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 (XIII FC)}	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 Fourteenth Finance Commission (XIV FC)}	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	0.573 per cent of net proceeds of the taxes (Divisible Pool). {As per recommendations of Fifteenth Finance Commission (XV FC)}	5,161.00	3,267.08	-1,893.92
2020-21		3,409.25	3,409.25	0.00

Source: Reports of the XIII FC, XIV FC and XV FC, Finance Accounts and Information furnished by the Finance Department, GoN

The break-up of State's share of Union Taxes and Duties received during 2016-21 is given in **Table 2.13**.

Table 2.13: Central Tax Transfers

(₹ in crore)					
Head	2016-17	2017-18	2018-19	2019-20	2020-21
Central Goods and Services Tax	0.00	47.80	936.07	927.14	1,019.70
Integrated Goods and Services Tax	0.00	338.64	74.70	0.00	0.00
Corporation Tax	973.28	1,027.20	1,318.92	1,113.93	1,023.92
Taxes on Income other than Corporation Tax	676.44	867.42	971.32	872.84	1,049.12
Customs	418.66	338.5	268.83	207.09	185.46
Union Excise Duties	478.09	353.90	178.66	143.96	115.23
Service Tax	483.93	379.70	34.60	0.00	13.61
Other Taxes <sup>7</sup>	2.23	-0.03	9.31	2.12	2.21
<b>Central Tax transfers</b>	<b>3,032.63</b>	<b>3,353.13</b>	<b>3,792.41</b>	<b>3,267.08</b>	<b>3,409.25</b>
Percentage of increase over previous year	19.36	10.57	13.10	-13.85	4.35
Percentage of Central tax transfers to Revenue Receipts	32.13	30.43	33.16	28.60	29.83

Source: Finance Accounts of respective years

Central Tax transfers during the year (₹3,409.25 crore) were less than the assessment made in Budget Estimates (₹4,493.38 crore) by ₹1,084.13 crore (24.13 per cent). State's share of Union Taxes and Duties increased by ₹142.17 crore (4.35 per cent) from ₹3,267.08 crore in 2019-20 to ₹3,409.25 crore in 2020-21 contributing 29.83 per cent of the total Revenue Receipts during 2020-21. The State's share of Union Taxes and Duties increased during the current year over the previous year mainly due to increase under Service Tax (100 per cent), Taxes on Income other than Corporation Tax (20.20 per cent) and Central Goods and Services Tax (9.98 per cent).

### Grants-in-Aid from GoI

The break-up of Grants-in-Aid (GIA) received from GoI during 2016-21 is given in Table 2.14.

Table 2.14: Grants-in-Aid from GoI

(₹ in crore)					
Head	2016-17	2017-18	2018-19	2019-20	2020-21
Non-Plan Grants/ Grants for State/ Union Territory Schemes	214.71	290.01	601.16	312.57	515.40
Non Development Grants*/ Grants for State Plan Schemes (excluding Finance Commission Grants – Post Devolution Revenue Deficit Grants)	94.73	276.63	341.98	401.81	178.01
Finance Commission Grants (Post Devolution Revenue Deficit Grants)	3,451.00	3,700.00	3,945.00	4,176.79	3,916.94
Grants for Central Plan Schemes	26.84	25.92	170.43	106.85	84.40
Grants for Centrally Sponsored Schemes	1,660.65	2,224.45	1,439.73	1,823.15	2,008.24
Grants for Special Plan Schemes	105.45	122.26	45.03	37.52	35.63
Other transfer/ Grants to States/ Union Territories with Legislature					14.22
<b>Total</b>	<b>5,553.38</b>	<b>6,639.27</b>	<b>6,543.33</b>	<b>6,858.69</b>	<b>6,752.84</b>
Percentage of increased over the previous year	15.23	19.55	-1.45	4.82	-1.54
Percentage of GIA to Revenue Receipts	58.83	60.25	57.21	60.04	59.09

Source: Finance Accounts of respective years \*It includes Finance Commission Grants/ Grants to Areas not covered by Part IX and IXA of Constitution – Local Urban Bodies and Local Rural Bodies

<sup>7</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 with inter-year variation during the five-year period from 2016-17 to 2020-21. During 2020-21, it decreased by ₹105.85 crore (1.54 per cent) as compared with the previous year mainly due to decrease in Post Devolution Revenue Deficit Grants (₹259.85 crore) and grants for Central Plan Schemes (₹22.45 crore). The decrease was inspite of receiving ₹14.22 crore as GST compensation during the year. The GIA from GoI constituted 59.09 per cent of the total Revenue Receipts of the State during 2020-21.

### Finance Commission Grants

As per recommendation of the XIV/ XV FCs, 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 and 2020-21 to 2025-26. The details of release of funds to the State on the basis of recommendations of the XIV/ XV FC during the Award period 2016-21 and transfer by the State Government have been shown in **Table 2.15**.

**Table 2.15: Recommended amount, actual release and transfers of Grants-in-aid**

(₹ in crore)

Transfers	Recommendation of the XIV/XV-FC 2016-21	Recommendation of the XIV/XV-FC			Actual release by GoI			Release by State Government		
		2016-20	2020-21	Total	2016-20	2020-21	Total	2016-20	2020-21	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/RLBs</b>	125.00	0.00	125.00	125.00	0.00	62.50	62.50	0.00	62.50	62.50 (100.00)
(a) General Basic Grant		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
<b>(ii) Grants to ULBs</b>	175.25	115.25	60.00	175.25	101.97	30.00	131.97	101.97	30.00	131.97 (100.00)
(a) General Basic Grant	-	89.75	-	-	101.97	30.00	131.97	101.97	30.00	131.97
(b) General Performance Grants	-	25.50	-	-	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total for Local Bodies</b>	300.25	115.25	185.00	300.25	101.97	92.50	194.47	101.97	92.50	194.47 (100.00)
<b>(B) State Disaster Response Fund*</b>	89.56	44.00	45.56	89.56	39.60	41.00	80.60	44.00	45.56	89.56
<b>Grand Total (A+B)</b>	390.25	159.25	231.00	389.81	141.57	133.50	275.07	145.97	138.06	284.03

\$ Including tied grant of ₹62.50 crore # Including tied grant of ₹30.00 crore \* Including State shares of 10 per cent of total grants (₹4 crore for 2016-20 and ₹5 crore for 2020-21)

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

As can be seen from the above table, out of the the total XIV/ XVFC recommendation of ₹300.25 crore for grants to Local bodies, the State received an amount of ₹194.47 crore (64.77 per cent) and the same amount was released by the State Government to the implementing Departments. The State Government also received ₹89.56 crore under State Disaster Response Fund/ State Disaster Risk and Management Fund and the entire amount was expended during the period.

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

**Table 2.16: Trends in growth and composition of capital receipts**

(₹ in crore)					
Sources of State's Receipts	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Capital Receipts*</b>	<b>380.41</b>	<b>690.10</b>	<b>312.03</b>	<b>1,003.66</b>	<b>1,532.17</b>
Miscellaneous Capital Receipts	0.00	0.00	0.00	0.00	0.00
Recovery of Loans and Advances	1.09	1.09	1.08	1.09	1.23
<b>Net Public Debt Receipts</b>	<b>379.33</b>	<b>689.01</b>	<b>310.95</b>	<b>1002.57</b>	<b>1530.94</b>
<i>Internal Debt**</i>	<i>400.60</i>	<i>710.40</i>	<i>328.69</i>	<i>1,017.78</i>	<i>1,344.21</i>
<i>Growth rate</i>	<i>-53.50</i>	<i>77.22</i>	<i>-53.73</i>	<i>209.65</i>	<i>32.07</i>
<i>Loans and advances from GoI</i>	<i>-21.54</i>	<i>-21.39</i>	<i>-17.74</i>	<i>-15.21</i>	<i>186.73</i>
<i>Growth rate</i>	<i>0.00</i>	<i>-0.70</i>	<i>-17.06</i>	<i>-14.26</i>	<i>1,327.68</i>
Rate of growth of debt Capital Receipts	-54.87	81.64	-54.87	222.42	52.70
Rate of growth of non-debt capital receipts	118.00	0.00	-0.92	0.93	12.84
Rate of growth of GSDP	11.26	12.29	8.75	11.34	-0.76
Rate of growth of Capital Receipts (per cent)	-54.77	81.41	-54.78	221.65	52.66

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

\* As per the Finance Accounts Miscellaneous Capital Receipts is '0', hence, the figures are rectified in the current year SFAR

\*\* Including unpaid balance under Ways and Means Advances of ₹691.90 crore for the current year 2020-21

Capital Receipts increased by 302.77 per cent from ₹380.41 crore in 2016-17 to ₹1,532.17 crore in 2020-21. Public debt receipts create future repayment obligation and these are taken from Market, Financial Institutions and Central Government. During 2020-21, the net Public Debt Receipts increased by ₹528.37 crore from ₹1,002.57 crore in 2019-20 to ₹1,530.94 crore (including an outstanding amount of ₹691.90 crore under Ways and Means Advances from the Reserve Bank of India) in 2020-21.

## 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 2016-17 to 2020-21 is presented in **Table 2.17**.

**Table 2.17: Total expenditure and its composition**

Parameters	(₹ in crore)				
	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Total Expenditure (TE)</b>	<b>9,725.74</b>	<b>11,466.39</b>	<b>12,520.81</b>	<b>12,852.60</b>	<b>12,729.60</b>
Revenue Expenditure (RE)	8,649.45	10,191.35	10,919.98	11,637.02	11,052.06
Capital Expenditure (CE)	1,076.10	1,274.85	1,595.56	1,206.32	1,671.93
Loans and Advances	0.19	0.19	5.27	9.26	5.61
<b>As a percentage of GSDP</b>					
TE/ GSDP	44.77	47.01	47.20	43.52	43.43
RE/ GSDP	39.82	41.78	41.16	39.40	37.70
CE/ GSDP	4.95	5.23	6.01	4.08	5.70
Loans and Advances/ GSDP	0.00	0.00	0.02	0.03	0.02

Source: Finance Accounts of respective years

The above table shows that Total Expenditure of the State increased by 30.89 per cent from ₹9,725.74 crore in 2016-17 to ₹12,729.60 crore in 2020-21. During the year, it decreased by 0.96 per cent over the previous year. As a percentage of GSDP, the Total Expenditure remained in the range between 43.43 and 47.20 per cent during 2016-21.

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 ₹12,729.60 crore during 2020-21 (**Appendix 1.1 Part C**) is given in **Table 2.18**.

**Table 2.18: Relative share of various sectors of expenditure**

Parameters	(In per cent)				
	2016-17	2017-18	2018-19	2019-20	2020-21
General Services	41.40	40.00	43.43	43.53	43.28
Social Services	28.04	26.55	27.86	27.13	28.65
Economic Services	30.56	33.45	28.67	29.27	28.03
Others (Grants to Local Bodies and Loans and Advances)	0.00	0.00	0.04	0.07	0.04

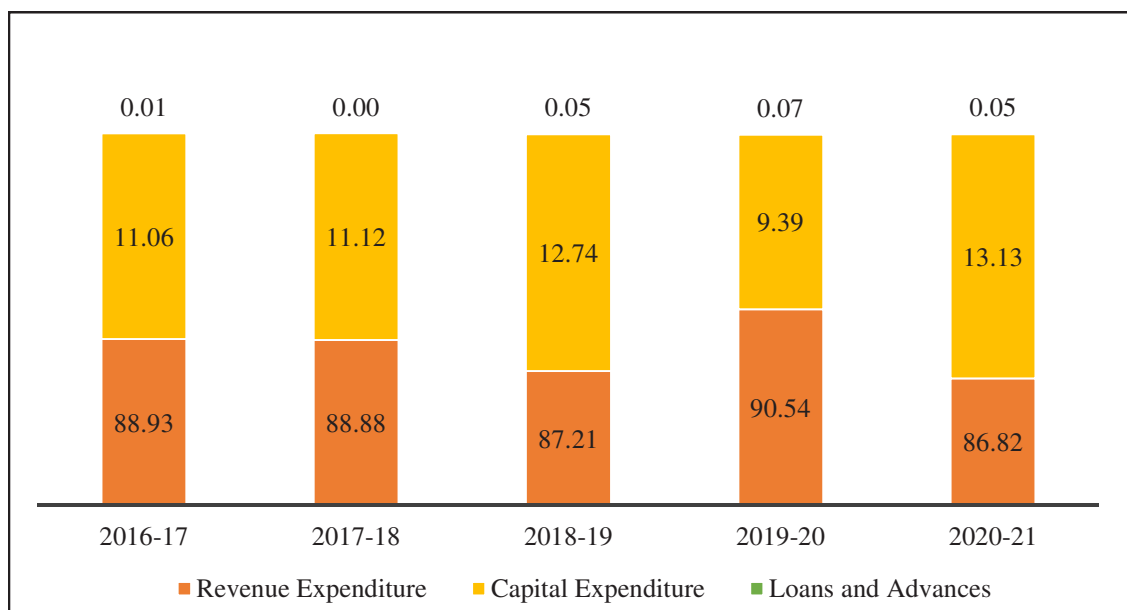
Source: Finance Accounts of respective years

- The percentage to the total expenditure in General Services decreased from 43.53 to 43.28 per cent during 2020-21 as compared to 2019-20 mainly due to decrease in expenditure on Interest payment & servicing of Debt by 11.10 per cent and 6.18 per cent in Administrative Services under Revenue account during the year.
- The percentage to total expenditure in Social Services increased to 28.65 per cent in 2020-21 from 27.13 per cent in 2019-20 mainly due to increase in expenditure in respect of Welfare of SC, ST and OBC by 136.13 per cent and Water Supply, Sanitation, Housing and Urban Development by 78.31 per cent under Revenue account during the year.

- There was marginal decrease in Expenditure in Economic services (28.03 per cent) and Loans and Advances (0.04 per cent) during 2020-21, as compared to 29.27 and 0.07 per cent respectively in the previous year.

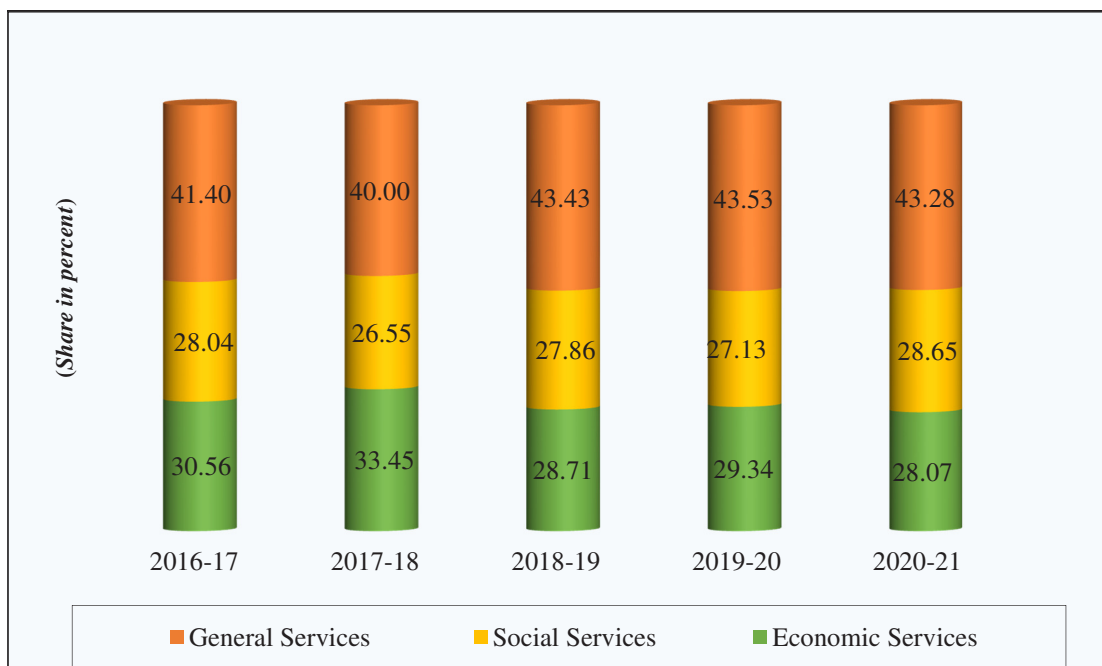
**Charts 2.8** and **2.9** present the trends in share of its components and expenditure by activities of Total Expenditure over a period of five years (2016-21) whereas **Chart 2.10** depicts the composition of Total Expenditure out of the Consolidated Fund of the State during the year.

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

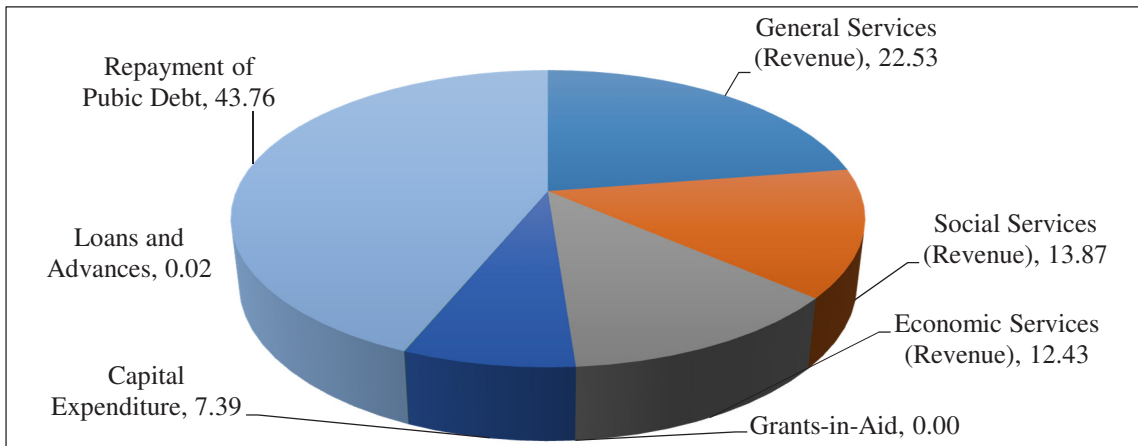


Source: Finance Accounts of respective years

**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 2020-21 (in per cent)**

Source: Finance Accounts, 2020-21

It could be seen that Capital Expenditure has shown a fluctuating trend in the last five years from 2016-17 to 2020-21. However, it increased during 2020-21 as compared to the previous year. The share of Capital Expenditure as a percentage of GSDP increased from 4.95 per cent in 2016-17 to 5.70 per cent in 2020-21.

The shares (in percentage of total expenditure) in General, Social and Economic services remained stable during the five-year period 2016-21. Repayment of Public Debt constituted around 44 per cent of the total expenditure during the year, up from 35 per cent during the previous 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 88.48 per cent (ranged between 86.82 (2020-21) and 90.54 per cent (2019-20)) of the total expenditure during the period 2016-21. The percentage of Revenue Expenditure to Total Expenditure and RE to GSDP during 2020-21 was the lowest during the last five years. Rate of growth of Revenue Expenditure has displayed wide fluctuation during the five-year period 2016-21. 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 2.19** and the sectoral distribution of Revenue Expenditure pertaining to 2020-21 is given in **Chart 2.11**.

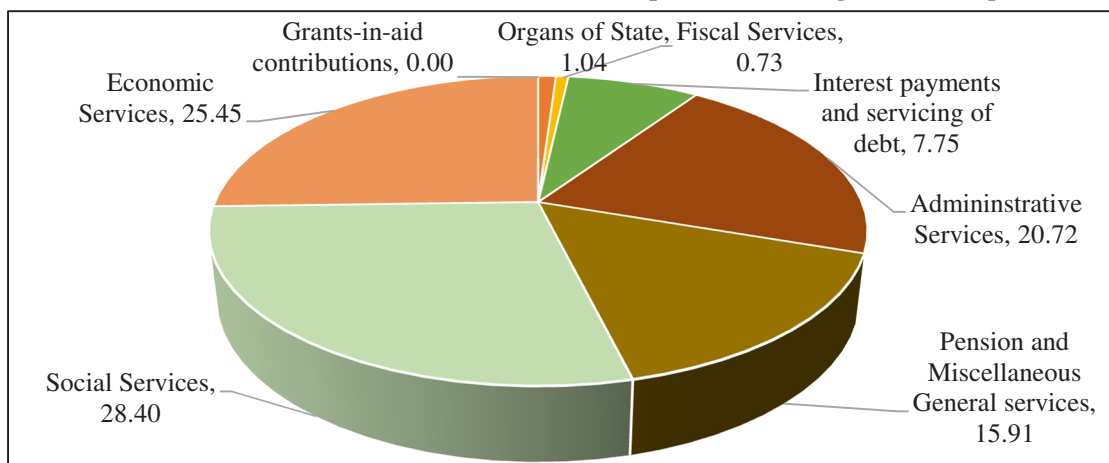
**Table 2.19: Revenue Expenditure – Basic Parameters**

Parameters	(₹ in crore)				
	2016-17	2017-18	2018-19	2019-20	2020-21
Total Expenditure (TE)	9,725.74	11,466.39	12,520.81	12,852.60	12,729.60
Revenue Expenditure (RE)	8,649.45	10,191.35	10,919.98	11,637.02	11,052.06
Rate of Growth of RE (per cent)	14.12	17.83	7.15	6.57	-5.03
Revenue Expenditure as percentage of TE	88.93	88.88	87.21	90.54	86.82
RE/ GSDP (per cent)	39.82	41.78	41.16	39.40	37.70
RE as percentage of RR	91.63	92.49	95.48	101.87	96.72

Parameters	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Buoyancy of Revenue Expenditure with:</b>					
GSDP (ratio)	1.25	1.45	0.82	0.58	6.62
Revenue Receipts (ratio)	0.81	1.07	1.88	-54.75	-125.75

Source: Finance Accounts of respective years

**Chart 2.11: Sector-wise distribution of Revenue Expenditure during 2020-21 (in per cent)**



Source: Finance Accounts, 2020-21

During the five-year period of 2016-21, both Revenue Expenditure as a percentage of GSDP and growth rate of RE showed a decreasing trend.

#### 2.4.2.1 Major changes in Revenue Expenditure

**Table 2.20** 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 2.20: Variation in Revenue Expenditure during 2020-21 compared to 2019-20**

(₹ in crore)

Major Heads of Account	2019-20	2020-21	Increase (+)/ Decrease (-)
2048 - Appropriation for reduction or avoidance of debt	150.00	0.00	(-) 150.00
2049 - Interest Payment	813.74	856.77	(+) 43.03
2052 - Secretariat General Services	150.97	193.79	(+) 42.82
2055 - Police	1,696.82	1,532.34	(-) 164.48
2059 - Public Works	191.52	178.54	(-) 12.98
2071 - Pension and other retirement benefits	1,810.91	1,752.47	(-) 58.44
2202 - General Education	1,512.32	1,641.93	(+) 129.61
2210 - Medical and Public Health	624.31	644.18	(+) 19.87
2216 - Housing	11.16	28.36	(+) 17.20
2217 - Urban Development	34.26	135.02	(+) 100.76
2225 - Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities	23.58	55.68	(+) 32.10
2235 - Social Security and Welfare	193.97	173.80	(-) 20.17
2245 - Relief on account of Natural calamity	206.23	48.22	(-) 158.01
2401 - Crop Husbandry	314.76	267.81	(-) 46.95
2406 - Forestry and Wildlife	143.09	96.48	(-) 46.61
2501 - Special Programmes for Rural Development	274.86	115.06	(-) 159.80
2505 - Rural Employment	370.34	484.73	(+) 114.39
2801 - Power	580.17	614.13	(+) 33.96
3054 - Roads and Bridges	367.56	334.06	(-) 33.50
3451 - Secretariat Economic Services	242.81	89.22	(-) 153.59

Source: Finance Accounts, 2020-21

**Table 2.20** indicates that Revenue Expenditure decreased during 2020-21 over the previous year which was mainly due to decrease under Appropriation for reduction or avoidance of debt, Police, Special Programmes for Rural Development, Relief on account of Natural calamity and Secretariat Economic Services, which was offset mainly by increase under General Education, Urban Development and Rural Employment.

During 2020-21, the Revenue Expenditure on General Services and Economic Services decreased by ₹328.76 crore (6.06 per cent) and ₹364.66 crore (11.47 per cent) respectively as compared to the previous year. However, the Revenue Expenditure on Social Services during the year increased by ₹108.46 crore (3.58 per cent) over the previous year.

#### 2.4.2.2 Committed expenditure

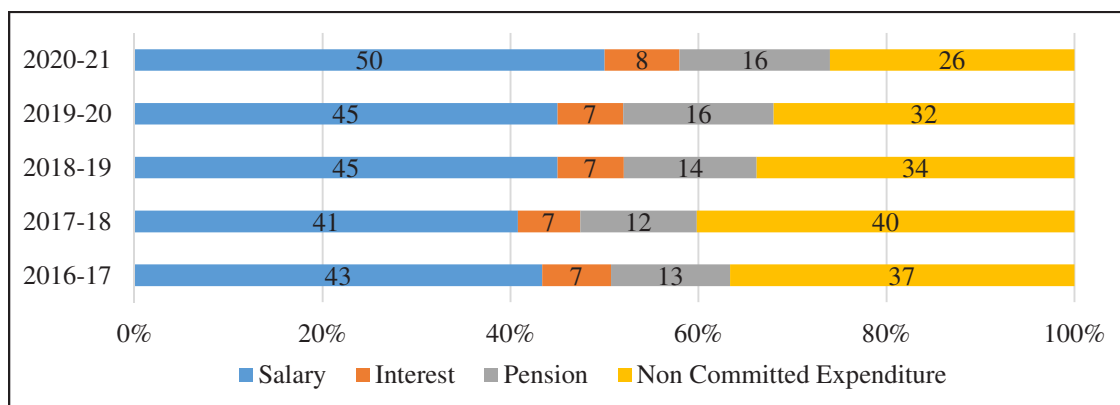
The committed expenditure of the State Government on revenue account consists of interest payments; expenditure on salaries and wages; and pensions. It has first charge on Government resources. Upward trend on committed expenditure leaves the Government with lesser flexibility for development sector.

**Table 2.21** presents the trends in the components of committed expenditure during 2016-21. Percentage of committed expenditure to Revenue Receipts and Revenue Expenditure during 2016-21 is given in **Chart 2.12**.

**Table 2.21: Components of Committed Expenditure**

(₹ in crore)					
Components of Committed Expenditure	2016-17	2017-18	2018-19	2019-20	2020-21
Salaries and Wages	3,750.05	4,155.72	4,944.95	5,249.81	5,495.56
Expenditure on Pensions	1,093.47	1,264.10	1,552.79	1,810.91	1,752.48
Interest Payments	635.50	677.75	771.74	813.74	856.77
<b>Total</b>	<b>5,479.02</b>	<b>6,097.57</b>	<b>7,269.48</b>	<b>7,874.46</b>	<b>8,104.81</b>
As a percentage of Revenue Receipts (RR)					
Salaries and Wages	39.73	37.71	43.23	45.96	48.09
Expenditure on Pensions	11.58	11.47	13.58	15.85	15.34
Interest Payments	6.73	6.15	6.75	7.12	7.50
<b>Total</b>	<b>58.04</b>	<b>55.33</b>	<b>63.56</b>	<b>68.93</b>	<b>70.92</b>
As a percentage of Revenue Expenditure (RE)					
Salaries and Wages	43.36	40.78	45.28	45.11	49.72
Expenditure on Pensions	12.64	12.40	14.22	15.56	15.86
Interest Payments	7.35	6.65	7.07	6.99	7.75
<b>Total</b>	<b>63.35</b>	<b>59.83</b>	<b>66.57</b>	<b>67.66</b>	<b>73.33</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 2016-17 to 2020-21. It accounted for over 60 *per cent* of the Revenue Receipts of the State during 2018-19, 2019-20 and 2020-21 as the committed liabilities fell below 60 *per cent* of Revenue Receipts during 2016-17 and 2017-18. The percentage of salaries and pensions within Revenue Expenditure was highest in 2020-21 during the last five years while the percentage of non committed expenditure to RE was the lowest in 2020-21 during the period. It signifies limited flexibility of the State to allocate and spend on areas of non committed expenditure.

#### 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 15.96 *per cent* of total revenue expenditure ₹11,052.06 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 with 14 *per cent* of the basic pay plus dearness allowances (with effect from 1 April 2019). 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.

Total number of employees under NPS as of 31 March 2020 was 26,395 which increased to 27,432 as of 31 March 2021. Out of these 27,432 employees under NPS, 1,540 employees have been allotted Permanent Retirement Account Number (PRAN) as of 31 March 2021.



During the year 2020-21, total subscription received from NPS Employees was ₹157.41 crore. Against this, the State Government contributed ₹82.44 crore and credited ₹239.85 crore (Employees' contribution ₹157.41 crore and Government contribution ₹78.14 crore and interest of ₹4.30 crore) to MH-8342-117 DCPS. Thus, short-contribution by the State Government of ₹142.23 crore towards DCPS has understated fiscal deficit and overstated revenue surplus to that extent.

State Government transferred only ₹224.59 crore to NSDL/ Trustee Bank resulting in shortfall of ₹157.49 crore (short Government contribution of ₹142.23 crore and less transfer of ₹15.26 crore of deposit already collected). As on 31 March 2021, ₹185.61 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.

#### 2.4.2.4 Subsidies

During 2020-21, an amount of ₹25.12 crore was booked as subsidy under levy sugar under Target Public Distribution System (subsidies).

#### 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 2016-21 is presented in **Table 2.22**.

**Table 2.22: Financial Assistance to Local Bodies etc.**

(₹ in crore)					
Financial Assistance to Institutions	2016-17	2017-18	2018-19	2019-20	2020-21
<b>(A) Local Bodies</b>					
Municipal Corporations and Municipalities	1.82	1.62	1.62	1.62	1.62
Rural Local Bodies	0.00	0.00	0.00	0.00	62.50
<b>Total (A)</b>	<b>1.82</b>	<b>1.62</b>	<b>1.62</b>	<b>1.62</b>	<b>64.12</b>
<b>(B) Others</b>					
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	4.16	5.85	3.00	2.65	3.00
Development Authorities	32.22	51.55	53.92	56.72	60.02
Hospitals and Other Charitable Institutions	17.68	19.37	21.77	25.84	26.94
Other Institutions	114.99	250.00	86.75	73.87	40.77
<b>Total (B)</b>	<b>169.05</b>	<b>326.77</b>	<b>165.44</b>	<b>159.08</b>	<b>130.73</b>
<b>Total (A + B)</b>	<b>170.87</b>	<b>328.39</b>	<b>167.06</b>	<b>160.70</b>	<b>194.85</b>
Revenue Expenditure	8,649.45	10,191.35	10,919.98	11,637.02	11,052.06
Assistance as percentage of Revenue Expenditure	1.98	3.22	1.53	1.38	1.76

Source: Finance Accounts of respective years

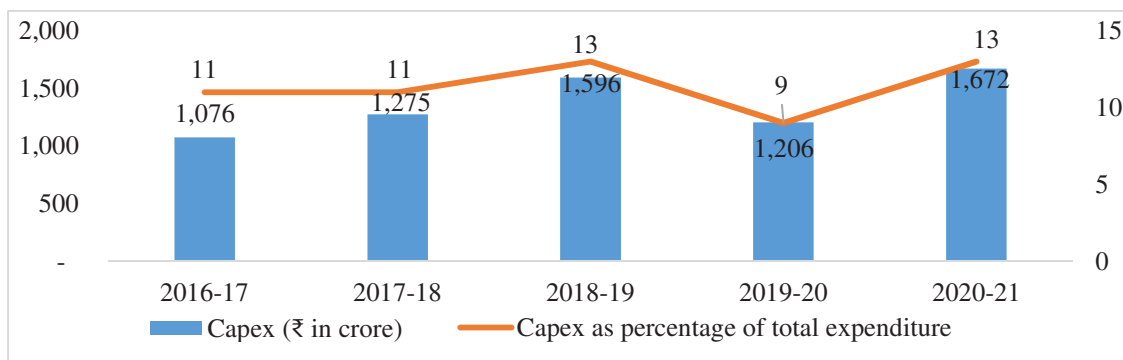
The total financial assistance to Local Bodies and Other Institutes, showed a fluctuating trend during 2016-17 to 2020-21. The increase in financial assistance was ₹34.15 crore (21.25 per cent) from ₹160.70 crore in 2019-20 to ₹194.85 crore in 2020-21. During

2020-21, financial assistance was 1.76 per cent of Revenue Expenditure, an increase of 27.54 per cent from the previous year.

### 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 2016-17 to 2020-21 are given in Chart 2.13.

Chart 2.13: Capital expenditure in the State



Source: Finance Accounts of respective years

Capital Expenditure (₹1,671.93 crore) during the current year (2020-21) increased by ₹465.61 crore (38.60 per cent) over the previous year (₹1,206.32 crore) and was ₹613.21 crore (26.83 per cent) less than the Budget Estimates (₹2,285.14 crore). As compared to the total expenditure, the capital outlay showed a fluctuating trend (between nine and thirteen per cent) over the period 2016-17 to 2020-21. Percentage of capex to total expenditure during the period was the highest in 2020-21.

During 2020-21, Capital expenditure of the State increased mainly due to receipt of ₹200.00 crore from the GoI for 'Scheme for Special Assistance as loan to States for Capital Expenditure'. The State Government released the entire fund to five departments viz. Urban Development (₹50.00 crore), Social Security and Welfare (₹18.60 crore), Power (₹13.87 crore), Road Transport (₹6.30 crore) and Public Works (Roads and Bridges) (₹111.23 crore) Departments for execution of various works under Capital Outlay-Major Works.

#### 2.4.3.1 Major changes in Capital Expenditure

Table 2.23 highlights the cases of significant increase or decrease in various Heads of Account in Capital Expenditure during 2020-21 vis-à-vis the previous year.

Table 2.23: Capital expenditure during 2020-21 compared to 2019-20

Major Heads of Accounts	(₹ in crore)		
	2019-20	2020-21	Increase (+)/ Decrease (-)
4055-Capital Outlay on Police	60.64	218.89	(+) 158.25
4059-Capital Outlay on Public Works	104.21	183.91	(+) 79.70
4210- Capital Outlay on Medical and Public Health	7.62	27.25	(+) 19.63
4215-Capital Outlay on Water Supply and Sanitation	76.69	149.71	(+) 73.02
4217- Capital Outlay on Urban Development	193.85	140.59	(-) 53.26



Major Heads of Accounts	2019-20	2020-21	Increase (+)/ Decrease (-)
4225-Capital Outlay on Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes and Minorities	41.87	38.72	(-) 3.15
4235-Capital Outlay on Social Security and Welfare	24.47	19.73	(-) 4.74
4575-Capital Outlay on Other Special Area Programme	136.00	103.69	(-) 32.31
4801-Capital Outlay on Power Projects	49.96	87.56	(+) 37.60
5054-Capital Outlay on Roads and Bridges	264.62	402.87	(+) 138.25

Source: Finance Accounts of respective years

The above table reveals that the increase in Capital expenditure during 2020-21 over the previous year was mainly due to increase under Police, Roads and Bridges and Public Works, which was offset mainly by decrease under Urban Development and Other Special Area Programme.

During 2020-21, the Capital Expenditure on General Services, Social Services and Economic Services increased by ₹243.88 crore (147.15 per cent), ₹51.19 crore (11.20 per cent) and ₹170.53 crore (29.22 per cent) as compared to the previous year.

#### 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 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 ₹296.17 crore in Government Companies, Statutory Corporations, Joint Stock Companies and Co-operatives (Table 2.24), as on 31 March 2021. During the current year, an amount of ₹ one crore was invested in Nagaland State Mineral Development Corporation Limited during the current year.

Table 2.24: Return on Investment

Investment/return/ cost of borrowings	2016-17	2017-18	2018-19	2019-20	2020-21
Investment at the end of the year# (₹ in crore)	291.75	293.20	294.17	295.17	296.17
Return (₹ in crore)	0.00	0.00	0.66	2.80	2.47
Return (per cent)	0.00	0.00	0.22	0.95	0.83
Average rate of interest on Government Borrowings (per cent)	6.87	6.79	7.37	7.14	6.68

Investment/return/ cost of borrowings	2016-17	2017-18	2018-19	2019-20	2020-21
Difference between interest rate and return* (per cent)	6.87	6.79	7.15	6.19	5.85
Difference between interest on Government borrowings and return on investment (₹ in crore)#	576.78	613.63	667.92	688.20	729.40

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 2016-21, the State Government's investments had increased by ₹4.42 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 2018-21 ranged between ₹0.66 crore and ₹2.80 crore. The Government paid an average interest rate ranging between 6.68 and 7.37 per cent on its borrowings during the same period.

In addition to investments in Co-operative Societies, Corporations and Companies, Government has also been providing Loans and Advances to many Institutions/Organisations. **Table 2.25** presents the outstanding Loans and Advances as on 31 March 2021 and interest receipts vis-à-vis interest payments during the last five years.

**Table 2.25: Quantum of loans disbursed and recovered during five years**

Quantum of loans disbursed and recovered	(₹ in crore)				
	2016-17	2017-18	2018-19	2019-20	2020-21
Opening Balance of loans outstanding	26.50	25.60	24.70	28.89	37.06
Amount advanced during the year	0.19	0.19	5.27	9.26	5.61
Amount recovered during the year	1.09	1.09	1.08	1.09	1.23
Closing Balance of the loans outstanding	25.60	24.70	28.89	37.06	41.44
Net addition	-0.90	-0.90	4.19	8.17	4.38
Interest received	3.11	2.18	2.23	3.59	3.16
Interest rate on Loans and Advances given by the Government.	11.94	8.67	8.32	10.89	8.05
Rate of Interest paid on the outstanding borrowings of the Government	6.87	6.79	7.37	7.14	6.68
Difference between the rate of interest paid and interest received (per cent)	5.07	1.88	0.95	3.75	1.37

Source: Finance Accounts of respective years

At the end of March 2021, the Government had outstanding Loans and Advances of ₹41.44 crore. The amount of loans outstanding during the year decreased to ₹4.38 crore from ₹8.17 crore in 2019-20. Out of the total outstanding of ₹41.44 crore, ₹38.88 crore (93.82 per cent) pertains to Agriculture and Allied Activities, ₹2.16 crore (5.21 per cent) for Industry and Minerals and ₹0.40 crore (0.97 per cent) for Government Servants.

### **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 2020-21, there were 416 incomplete/ ongoing projects in the State as on 31 March 2021. 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 2021 is given in **Tables 2.26** and **2.27**.

**Table 2.26: Age profile of incomplete projects as on 31 March 2021**

(₹ in crore)

Year	No of incomplete projects	Estimated cost	Cost over-run	Expenditure (as on 31 March 2021)
2003-11	63	1,479.80	156.61	722.61
2011-12	19	126.13	0.01	67.96
2012-13	39	222.17	25.84	132.86
2013-14	134	147.10	0.90	53.55
2014-15	59	71.76	0.00	23.98
2015-16	21	170.27	0.00	96.18
2016-17	10	31.74	0.00	11.98
2017-18	34	135.60	0.00	67.48
2018-19	09	66.65	0.00	42.78
2019-20	04	13.30	0.00	5.28
2020-21	00	0.00	0.00	0.00
Others*	24	215.02	0.00	155.38
<b>Total</b>	<b>416</b>	<b>2,679.54</b>	<b>183.36</b>	<b>1,380.04</b>

Source: Appendix-IX, Finance Accounts, 2020-21

\* Those projects without information on year of commencement

**Table 2.27: Department-wise profile of incomplete projects as on 31 March 2021**

(₹ in crore)

Department	No. of incomplete projects	Estimated cost	Cost over-run	Expenditure (as on 31 March 2021)
Veterinary and Animal Husbandry	62	49.78	0.14	19.30
Police Engineering Project	48	697.04	0.00	177.75
Civil Administration Works	47	56.91	0.00	15.33
PWD (Housing)	35	350.91	5.78	235.56
PWD (Roads and Bridges)	15	334.25	61.40	258.85
Urban Development	26	217.70	0.00	96.77
Geology and Mining	4	53.08	27.41	48.95
Other 29 Departments	179	919.87	88.63	527.53
<b>Total</b>	<b>416</b>	<b>2,679.54</b>	<b>183.36</b>	<b>1,380.04</b>

Source: Appendix-IX, Finance Accounts, 2020-21

Analysis of the above 416 incomplete projects revealed the following:

- In 63 out of 416 projects, target year of completion was not furnished by the Departments (March 2021);
- Out of these 416 projects, 356 incomplete projects are aged five years and more;
- Works in respect of two projects (estimated cost ₹10.93 crore) had been suspended (during 2014-15) after incurring an expenditure of ₹10.46 crore (95.70 per cent of estimated cost);
- In 358 projects, there was no financial progress during 2020-21;
- There was 100 per cent financial achievement in six 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;

- There was no physical progress, despite expenditure of ₹30.37 crore (16.04 per cent of the estimated/ revised cost of ₹189.39 crore) incurred on 19 projects up to March 2021; and
- Project cost in respect of 18 incomplete projects was revised from ₹271.46 crore to ₹454.82 crore. Increase of ₹183.36 crore in cost was related to projects under PWD (Roads and Bridges) - (₹61.40 crore), PWD (Housing) - (₹5.78 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 (₹3.81 crore), Youth Resources and Sports (₹12.02 crore), Agriculture (₹0.01 crore), Social Welfare (₹9.25 crore) Forest (₹24.72 crore), Police Engineering Project (₹0.14 crore) and School education (₹37.64 crore).

Thus, the Capital Expenditure of ₹1,380.04 crore incurred on these 416 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 63 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 2.28** analyses the fiscal priority of the State Government in 2016-17 and 2020-21 with regard to Social Sector Expenditure (Health and Education) and Capital Expenditure.

**Table 2.28: Priority of the State with regards to Health, Education and Capital expenditure**  
(In per cent)

Fiscal priority of the State	TE/ GSDP	CE/TE	Education/ TE	Health/ TE
<b>NE&amp;H States Average (2016-17)</b>	<b>26.50</b>	<b>15.97</b>	<b>16.67</b>	<b>5.67</b>
State	44.77	11.07	13.03	5.10
<b>NE&amp;H States Average (2020-21)</b>	<b>26.92</b>	<b>15.83</b>	<b>16.95</b>	<b>7.04</b>
State	43.43	13.18	13.44	5.59

Source: Fiscal Priority of State (circulated by the Economic Advisor) and Finance Accounts of respective years

TE: Total Expenditure; CE: Capital Expenditure (including loans and advances)

A comparison of the data related to Nagaland with that of NE&H States revealed the following:

- Total Expenditure (TE) as a proportion of GSDP was almost twice the NE&H States average in 2016-17 and 2020-21. However, the ratio of TE as a proportion of GSDP decreased from 44.77 per cent in 2015-16 to 43.43 per cent in 2020-21.

- The share of Capital Expenditure (CE) as a proportion of TE of the State was less than the NE&H average in 2016-17 and 2020-21. The proportion of CE to TE increased during 2020-21 in comparison to 2016-17. It indicates that the State Government accorded appropriate fiscal priorities to enhance the productive capacity of the State.
- The share of expenditure on Education as a proportion of TE was lower than the NE&H average in 2016-17 and 2020-21. The ratio increased in 2020-21 as compared to 2016-17.
- The share of expenditure on Health Sector as a proportion of TE was lower than the NE&H average in 2016-17 and 2020-21. The ratio increased during 2020-21 as compared to 2016-17.

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

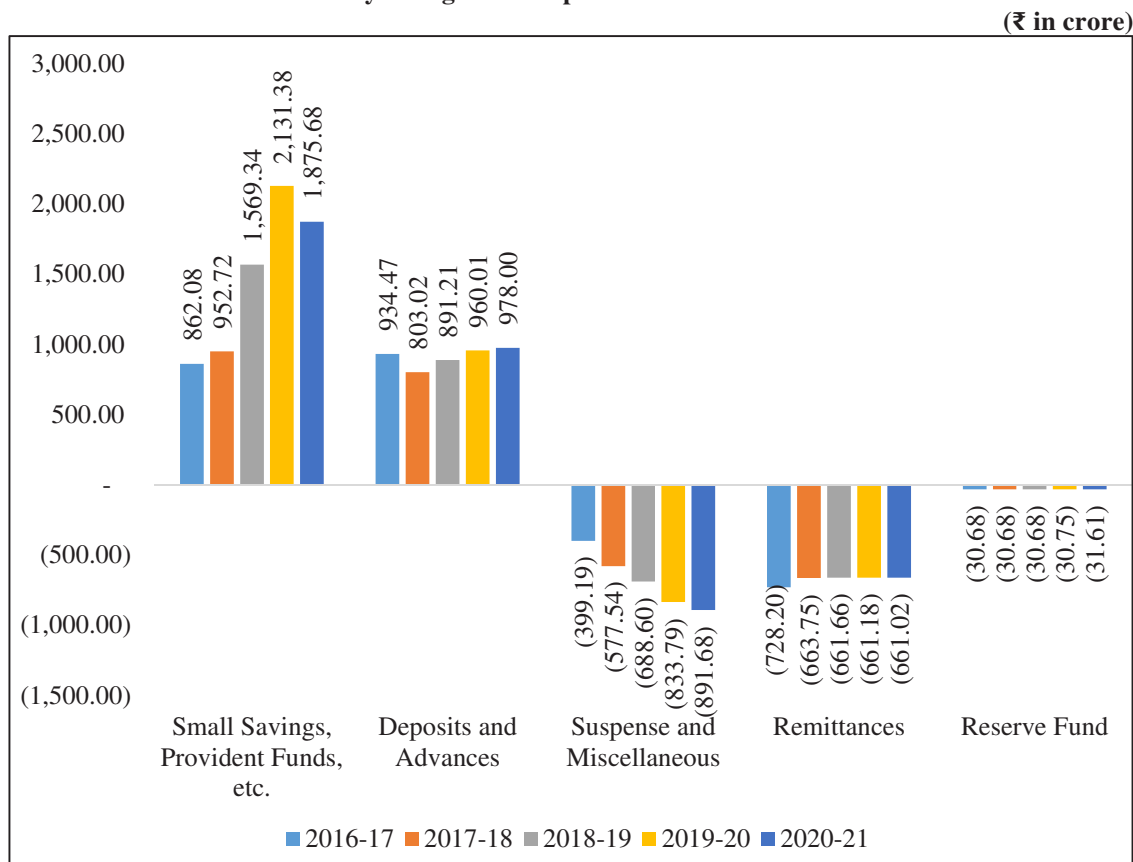
		(₹ in crore)				
Sector	Sub Sector	2016-17	2017-18	2018-19	2019-20	2020-21
I. Small Savings, Provident Funds, <i>etc.</i>	Small Savings, Provident Funds, <i>etc.</i>	862.08	952.72	1,569.34	2,131.38	1,875.68
J. Reserve Funds	(a) Reserve Funds bearing Interest	-14.58	-14.58	-14.58	-14.58	-15.43
	(b) Reserve Funds not bearing Interest	-16.10	-16.10	-16.10	-16.17	-16.17
K. Deposits and Advances	(a) Deposits bearing Interest	79.66	103.68	137.13	170.35	185.61
	(b) Deposits not bearing Interest	855.14	699.66	754.45	790.03	792.96
	(c) Advances	-0.33	-0.32	-0.37	-0.37	-0.57
L. Suspense and Miscellaneous	(b) Suspense	-91.36	-97.55	-99.34	-89.02	-90.10
	(c) Other Accounts	-307.83	-479.99	-589.26	-744.77	-801.58
M. Remittances	(a) Money Orders, and other Remittances	-727.31	-663.10	-661.23	-660.82	-660.74
	(b) Inter-Governmental Adjustment Account	-0.89	-0.65	-0.43	-0.36	-0.28
<b>Total</b>		<b>638.48</b>	<b>483.77</b>	<b>1,079.61</b>	<b>1,565.67</b>	<b>1,269.37</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 2016-21 are given in **Chart 2.14**.

**Chart 2.14: 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 and one Reserve fund was yet to be operated by the State Government. The total accumulated balance at the end of 31 March 2021 in the Reserve Funds was (Dr) ₹31.61 crore, of which ₹15.44 crore (48.85 per cent) was under interest bearing Reserve funds and ₹16.17 crore (51.15 per cent) was under non-interest bearing Reserve funds.

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. According to guidelines of the Fund, 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 ₹124.51 crore to the Fund from Revenue Account which works out to 1.02 *per cent* of total outstanding liability of ₹12,179.10 crore (Internal debt + Public Account liabilities) as on 31 March 2020. The balance in the Consolidated Sinking Fund as on 31 March 2021 was ₹1,719.88 crore and the same was invested by RBI.

Due to Corona Virus outbreak, the RBI granted ₹13,300 crore or 45 *per cent* to repay the old debt of the States from the sinking fund and this facility was extended only up to 31 March 2021. However, the State Government did not avail the facility granted by the RBI.

### **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 2020-21, the State Government received ₹41.00 crore from the Central Government as its share towards SDRF. The State Government transferred ₹45.56 crore to the SDRF (Central share: ₹41.00 crore and State share: ₹4.56 crore). The entire fund of ₹45.56 crore was spent by the State Government on natural calamities.

It was observed that the closing balance of ₹0.86 crore in the Fund as on 31 March 2020 has become ‘Nil’ as on 31 March 2021 by way of adjustment as Deduct Recoveries of Overpayments as per State Government approval. However, the justification of accounting treatment for Recoveries of Overpayments was not received from the State Government. Moreover, the write off was not made as per the applicable procedure and existing rules and regulations.

During the Exit conference, it was stated by the Finance Department that the opening balance of ₹0.86 crore has been adjusted during 2020-21. The reply of the Finance Department could not be accepted as the details of adjustment along with the existing procedure for write-off of closing balance lying in the account was not followed.

#### **2.5.2.3 Guarantee Redemption Fund**

The State Government constituted (August 2006)<sup>8</sup>, a Guarantee Redemption Fund in 2006-07, that is administered by Reserve Bank of India (RBI). The State Government shall initially contribute a minimum of 1.00 *per cent* and thereafter at a rate of 0.50 *per cent* of outstanding guarantees at the end of the previous year to achieve a minimum level in next five years.

During 2020-21, ₹2.48 crore was transferred by the State Government and the entire corpus of ₹34.68 crore as on 31 March 2021 was invested by the RBI. However, the State Government did not transfer any fund against the required contribution of ₹0.87 crore (0.50 *per cent* of ₹174.96 crore, outstanding guarantees at the end of 2019-20) to the Guarantee Redemption Fund resulting in overstatement of Revenue Surplus and understatement of Fiscal Deficit.

#### **2.5.2.4 State Compensatory Afforestation Fund**

In compliance with the instructions issued (April 2009)<sup>9</sup> by the Ministry of Environment and Forests, GoI and Guidelines of 2 July 2009, the State Governments are required to establish the State Compensatory Afforestation Fund for amounts received from user agencies and utilisation of monies collected for undertaking Compensatory Afforestation, assisted natural regeneration, conservation and protection of forests, infrastructure development, wildlife conservation and protection and other related activities and for matters connected therewith or incidental thereto.

The monies received by the State Governments from the user agencies need to be credited in 'State Compensatory Afforestation Deposits' under interest bearing section in Public Account of the State at Minor head level below the Major Head 8336-Civil Deposits. As per Section 3 (4) of the Compensatory Afforestation Fund Act, 2016, 90 *per cent* of the fund needs to be transferred to the Major Head 8121-General and Other Reserve Funds in Public Account of the State and balance 10 *per cent* to be credited into the National Fund on yearly basis provided that, the credit of 10 *per cent* Central share of funds should be ensured on monthly basis so that the same is transferred to the National Fund.

The applicable rate of interest on balances available under 'State Compensatory Afforestation Deposits' under '8336-Civil Deposits' and 'State Compensatory Afforestation Fund' under '8121-General and Other Reserve Funds' will be as per the rate declared by the Central Government on year to year basis.

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<sup>8</sup> Vide notification No. BUD/1-14/2005-06 dated 29 August 2006

<sup>9</sup> Vide letter No. 5-1/2009-FC dated 28 April 2009



The State Government is yet to open the State Compensatory Afforestation Fund. During 2020-21, the State Government received ₹5.15 crore from the Ministry of Environment, Forest and Climate Change, GoI under National Afforestation Programme and incurred expenditure of ₹5.01 crore under 2406-04-101 National Afforestation Programme. Non expenditure/ transfer of remaining amount of ₹0.14 crore to Public Account resulted in overstatement of Revenue Surplus and understatement of Fiscal Deficit. Further, the State Government did not operate MH 8336-Civil Deposits-103 State Compensatory Afforestation Fund during 2020-21.

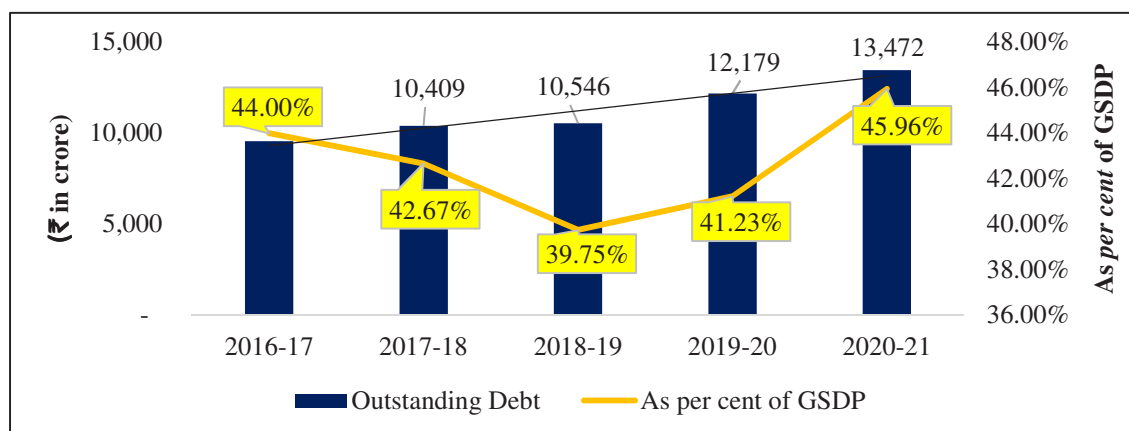
During the Exit conference, the Finance Department while accepting the non-operation of MH 8336 stated that efforts would be taken up to comply with the rules.

## 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 2016-21 are given in **Chart 2.15**.

**Chart 2.15: 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 comprise 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.

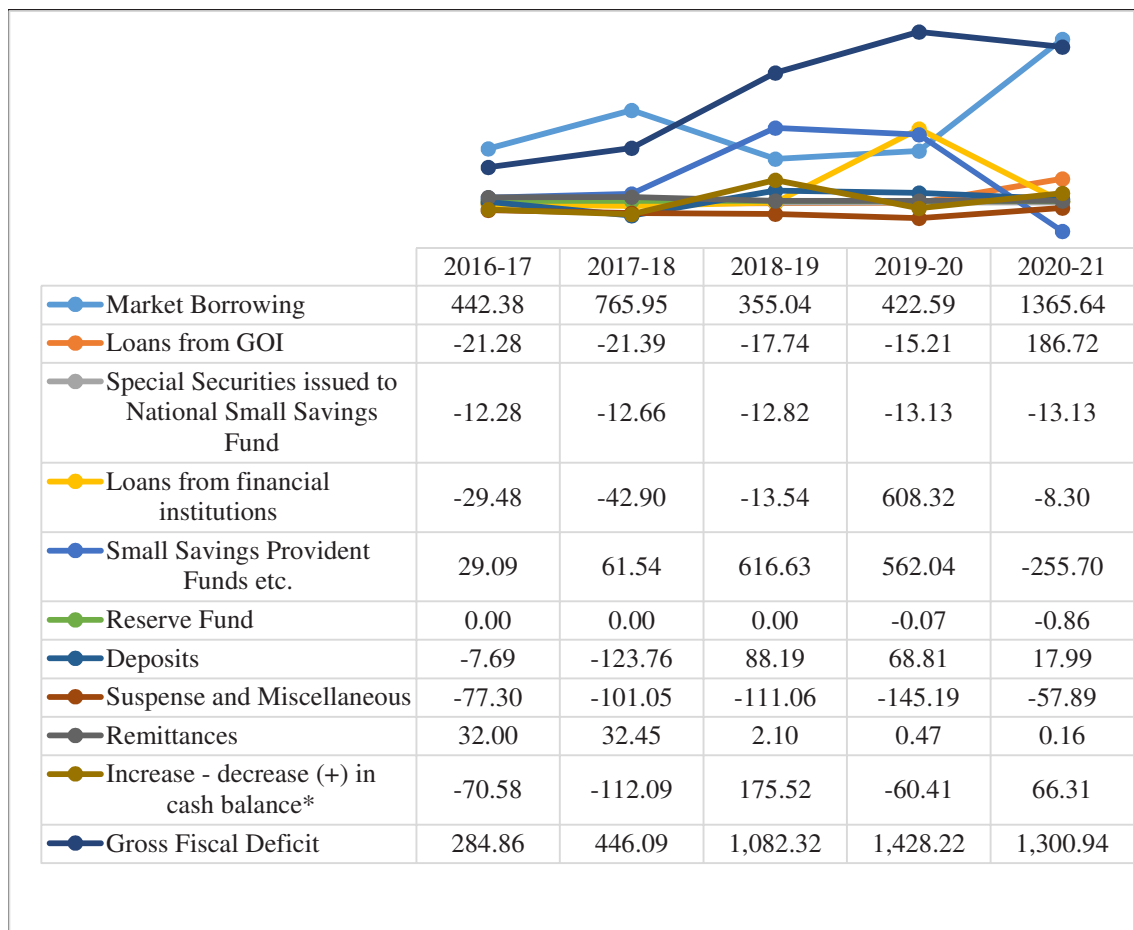
The details relating to total debt received, repayment of debt, ratio of debt to GSDP and the actual quantum of debt available to the State during the five-year period 2016-21 are given in **Table 2.30**, as is **Chart 2.16**.

Table 2.30: Component-wise debt trends

		(₹ in crore)				
		2016-17	2017-18	2018-19	2019-20	2020-21
<b>Outstanding Debt</b>		<b>9,557.35</b>	<b>10,409.15</b>	<b>10,545.76</b>	<b>12,179.10</b>	<b>13,471.67</b>
Public Debt	Internal Debt	6,930.06	7,640.46	7,969.15	8,986.93	10,331.14
	Loans from GoI	185.50	164.11	146.37	131.16	317.89
Public Account Liabilities		2,441.79	2,604.58	2,430.24	3,061.01	2,822.64
Rate of growth of outstanding debt (per cent)		7.01	8.91	1.31	15.49	10.61
Gross State Domestic Product (GSDP)		21,722.45	24,392.96	26,527.42	29,535.93	29,312.83
Debt/ GSDP (per cent)		44.00	42.67	39.75	41.23	45.96
Total Debt Receipts		6,514.27	6,217.03	4,758.32	10,059.01	9,370.26
Total Debt Repayments		6,524.07	6,042.98	4,289.24	8,681.42	9,462.83
Total Debt Available		-9.80	174.05	469.08	1,377.59	-92.57
Debt Repayments/ Debt Receipts (In per cent)		100.15	97.20	90.14	86.30	100.99

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

Chart 2.16: Component-wise debt trends



Source: Finance Accounts of respective years

During 2020-21, under the Atma Nirbhar Bharat Package, States were allowed to increase their borrowing limits from three to five *per cent*. The increase was regulated by a specific scheme notified by Department of Expenditure, Ministry of Finance, GoI under the following pattern:

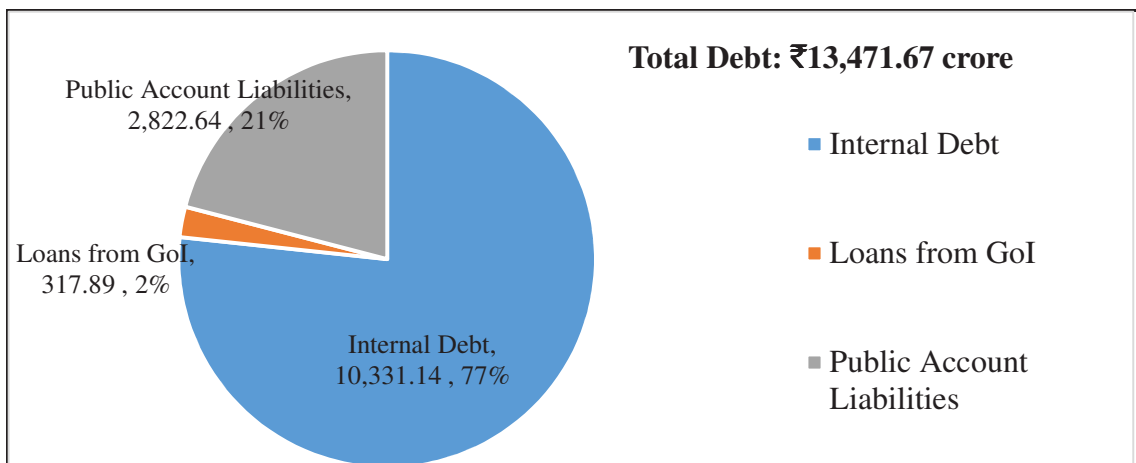
- Unconditional increase of 0.50 *per cent*.

- One per cent in four tranches of 0.25 per cent, with each tranche linked to clearly specified, measurable and feasible reform actions in the above four areas viz., (i) universalisation of ‘One Nation One Ration card’, (ii) Ease of Doing Business, (iii) Power distribution and (iv) Urban Local Body revenues.
- Further 0.50 per cent if milestones are achieved in at least three out of four reform areas.

As per the reply (September 2021) of the Finance Department, the State availed only ₹314 crore being one per cent under unconditional pattern, as GoI. However, the State did not avail the conditional one per cent linked to clearly specified, measurable and feasible reform actions. This has been one of the reasons for huge increase of 69.06 per cent (₹943.05 crore) from ₹422.59 crore in 2019-20 to ₹1,365.64 crore in 2020-21 under market borrowing.

The total outstanding debt of the State Government at the end of 2020-21 was ₹13,471.67 crore. Component-wise break-up of debt is shown below in **Chart 2.17**.

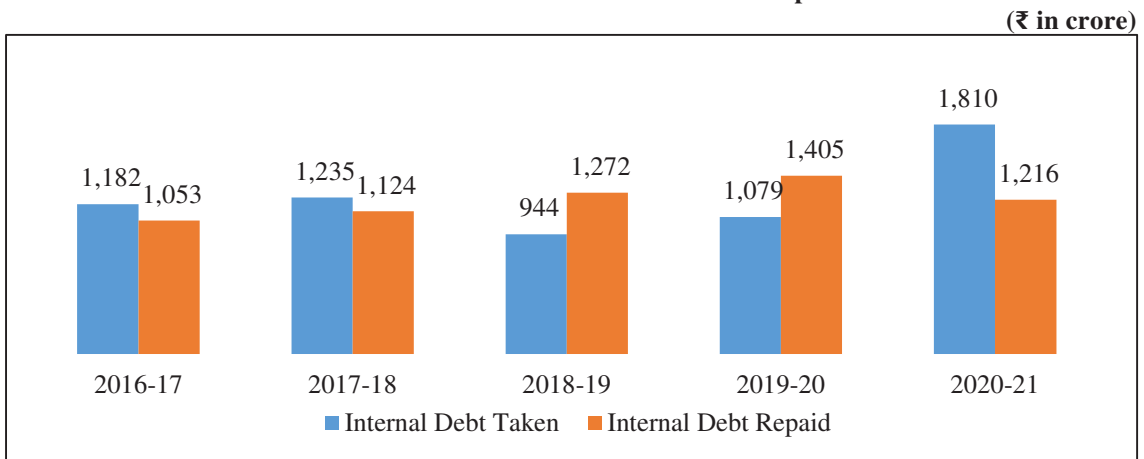
**Chart 2.17: Break up of Outstanding Debt at the end of 2020-21**



Source: Finance Accounts, 2020-21

The trend of internal debt taken vis-à-vis repaid during each year for the period of five-years from 2016-17 to 2020-21 is given in **Chart 2.18**.

**Chart 2.18: 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 2016-21 as reflected in **Table 2.31** and the details of receipt and disbursement of the components used for financing the Fiscal Deficit for the year 2020-21 are given in **Table 2.32**.

**Table 2.31: Components of fiscal deficit and its financing pattern**

Particulars		2016-17	2017-18	2018-19	2019-20	2020-21
<b>Composition of Fiscal Deficit (-)</b>		<b>(-)284.86</b>	<b>(-)446.09</b>	<b>(-)1,082.32</b>	<b>(-)1,428.22</b>	<b>(-)1,300.94</b>
1.	Revenue Deficit (-)/ Surplus (+)	790.34	827.86	517.43	(-)213.73	375.37
2.	Net Capital Expenditure	(-)1,076.10	(-)1,274.85	(-)1,595.56	(-)1,206.32	(-)1,671.93
3.	Net Loans and Advances	0.90	0.90	(-)4.19	(-)8.17	(-)4.38
<b>Financing Pattern of Fiscal Deficit:</b>						
1.	Market Borrowings	442.38	765.95	355.04	422.59	1,365.64
2.	Loans from GoI	-21.28	-21.39	-17.74	-15.21	186.72
3.	Special Securities issued to NSSF	-12.28	-12.66	-12.82	-13.13	-13.13
4.	Loans from Financial Institutions	-29.48	-42.90	-13.54	608.32	-8.30
5.	Small Savings, PF, etc.	29.09	61.54	616.63	562.04	-255.70
6.	Deposits	-7.69	-123.76	88.19	68.81	17.99
7.	Suspense and Miscellaneous	-77.30	-101.05	-111.06	-145.19	-57.89
8.	Remittances	32.00	32.45	2.10	0.47	0.16
9.	Reserve Fund	0.00	0.00	0.00	-0.07	-0.86
<b>10.</b>	<b>Overall Deficit</b>	<b>355.44</b>	<b>558.18</b>	<b>906.8</b>	<b>1,488.63</b>	<b>1,234.63</b>
11.	Increase/ Decrease in cash balance	-70.58	-112.09	175.52	-60.41	66.31
<b>12.</b>	<b>Gross Fiscal Deficit</b>	<b>284.86</b>	<b>446.09</b>	<b>1,082.32</b>	<b>1,428.22</b>	<b>1,300.94</b>

Source: Finance Accounts of respective years

**Table 2.32: Receipts and Disbursements under components financing the fiscal deficit**

Particulars		Receipt	Disbursement	Net
1.	Market Borrowings	1,721.00	355.36	1,365.64
2.	Loans from GOI	207.61	20.89	186.72
3.	Special Securities issued to NSSF	0.00	13.13	-13.13
4.	Loans from Financial Institutions	9,506.24	9,514.54	-8.30
5.	Small Savings, PF, etc.	410.86	666.56	-255.70
6.	Deposits and Advances	935.36	917.37	17.99
7.	Suspense and Miscellaneous	1,201.11	1,259.00	-57.89
8.	Remittances	2,059.25	2,059.09	0.16
9.	Reserve Fund	171.69	172.55	-0.86
<b>10.</b>	<b>Overall Deficit</b>	<b>16,213.12</b>	<b>14,978.49</b>	<b>1,234.63</b>
11.	Increase/Decrease in cash balance	223.90	156.73	66.31
<b>12.</b>	<b>Gross Fiscal Deficit</b>	<b>15,671.37</b>	<b>15,135.22</b>	<b>1,300.94</b>

Source: Finance Accounts of respective years

Fiscal deficits during the five-year period from 2016-17 to 2020-21, peaked at ₹1,428.22 crore during 2019-20. During the current financial year, it was at ₹1,300.94 crore.

During 2020-21, fiscal deficit was primarily financed by Loan from GoI (₹186.72 crore), market borrowings (net) (₹1,365.64 crore) and deposits (₹17.99 crore).

The increase in net capital outlay during the year indicated that borrowed funds were being more utilised for productive uses than in previous year. The Government should continue 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.

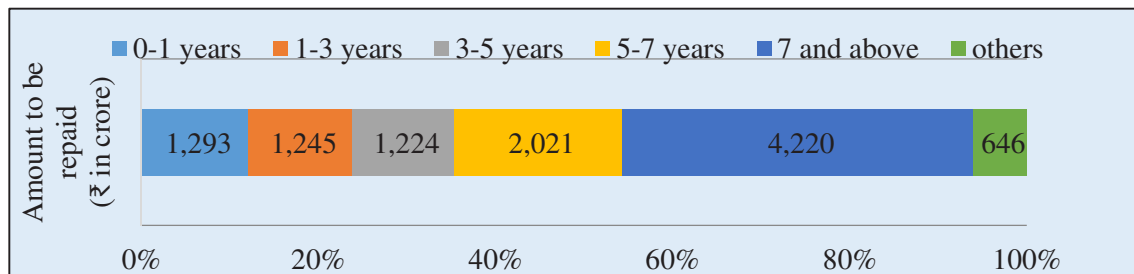
As per Annexure to Statement 17 of the Finance Accounts for the year 2020-21, the outstanding debt of the State was ₹10,649.03 crore as on 31 March 2021. The maturity profile of the State debt is as indicated in **Table 2.33** and **Chart 2.19**.

**Table 2.33: Debt Maturity profile of repayment of State debt**

Period of repayment (Years)	Amount (₹ in crore)	Percentage (w.r.t. Public debt)
0 – 1	1,293.32	12.14
1 – 3	1,245.05	11.69
3 – 5	1,223.94	11.49
5 – 7	2,020.79	18.98
7 and above	4,219.69	39.63
Others <sup>10</sup>	646.24	6.07
<b>Total</b>	<b>10,649.03</b>	<b>100.00</b>

Source: Finance Accounts, 2020-21

**Chart 2.19: Debt Maturity Profile**



Source: Finance Accounts, 2020-21

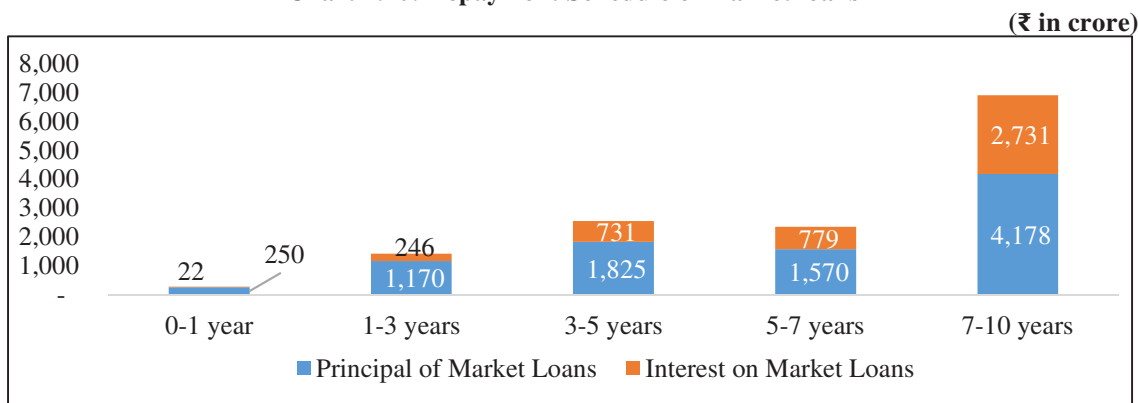
From the above, it could be seen that maturity profile of outstanding stock of public debt as on 31 March 2021 indicates that out of outstanding public debt of ₹10,649.03 crore, 54.31 per cent of outstanding public debt (₹5,783.49 crore) needs to be repaid within the next seven years while the remaining 45.69 per cent (₹4,865.54 crore) of outstanding public debt is in the maturity bracket of more than seven years. Of the total outstanding public debt, internal debt consisting of market borrowings, loans from LIC, GIC, NABARD, etc. constituted 97.01 per cent (₹10,331.14 crore).

Out of ₹10,649.03 crore, ₹8,993.03 crore was the principal amount of market loan taken by the State. The State is liable to pay an interest of ₹4,508.80 crore at the end

<sup>10</sup> Payment schedule of this amount is not being maintained by the Accountant General (A&E).

of repayment of these loans, if the loans are repaid as per the maturity profile. **Chart 2.20** represents the repayment schedule of both the principal of market loan and interest thereof.

**Chart 2.20: Repayment Schedule of market loans**



Source: Finance Accounts, 2020-21

## 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 2.34** shows the debt sustainability of the State according to these indicators for the five-year period beginning from 2016-17 and **Chart 2.21** predicts the trends of debt sustainability indicators for the five years.

**Table 2.34: Trends in debt Sustainability indicators**

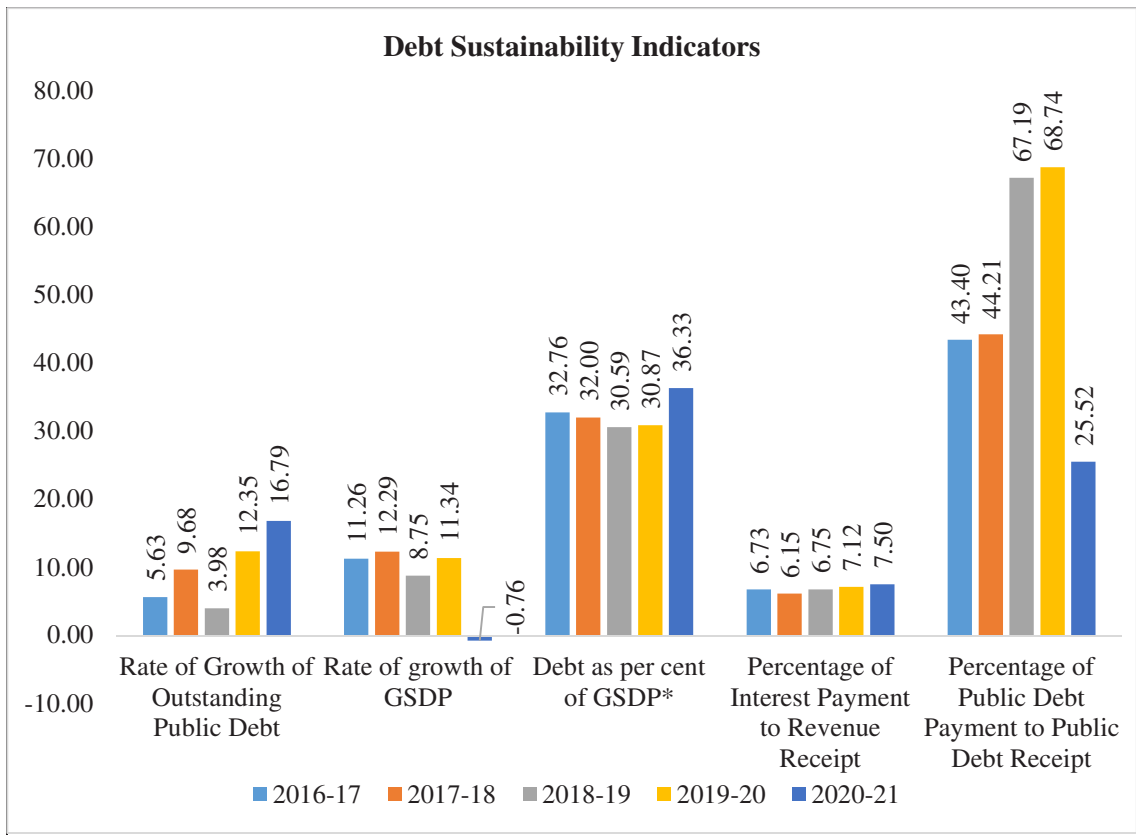
Debt Sustainability Indicators	2016-17	2017-18	2018-19	2019-20	2020-21
Outstanding Public Debt* (₹ in crore)	7,115.56	7,804.57	8,115.52	9,118.09	10,649.03
Rate of Growth of Outstanding Public Debt	5.63	9.68	3.98	12.35	16.79
GSDP (₹ in crore)	21,722.45	24,392.96	26,527.42	29,535.93	29,312.83
Rate of Growth of GSDP	11.26	12.29	8.75	11.34	-0.76
Debt/ GSDP	32.76	32.00	30.59	30.87	36.33
Debt Maturity profile of repayment of State debt (₹ in crore)	513.35	546.01	636.89	746.08	514.74
Average interest Rate of Outstanding Public Debt (per cent)	8.33	8.23	8.40	8.02	7.40
Percentage of Interest payment to Revenue Receipt	6.73	6.15	6.75	7.12	7.50
Percentage of Debt Repayment to Debt Receipt	43.4	44.21	67.19	68.74	25.52
Net Debt available to the State# (₹ in crore)	669.35	689.01	310.95	339.24	1,502.37
Net Debt available as per cent to Debt Receipts	3.67	3.58	7.09	6.33	1.27
Debt Stabilisation (Quantum spread + Primary Deficit)	770.21	804.16	-165.05	-105.40	-1,446.46

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 2.21: Trends of Debt Sustainability indicators



Source: Finance Accounts of respective years

\*excluding Public Account Liabilities

The outstanding Public Debt rapidly increased by ₹3,533.47 crore from ₹7,115.56 crore in 2016-17 to ₹10,649.03 crore in 2020-21 and the Debt/ GSDP ratio increased from 32.76 per cent to 36.33 per cent during the same period.

### 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 2016-17 to 2020-21 are given in **Table 2.35**.

Table 2.35: Utilisation of borrowed funds

	(₹ in crore)				
1. Year	2016-17	2017-18	2018-19	2019-20	2020-21
2. Total Borrowings	5,444.35	5,141.02	2,907.22	7,869.82	11,434.86
3. Repayment of earlier borrowings (Principal) (In per cent)	5,056.03 (92.87)	4,452.01 (86.60)	2,596.27 (89.30)	6,867.25 (87.26)	9,903.92 (86.61)
4. Net capital expenditure (Percent)	1,076.10 (19.77)	1,274.85 (24.80)	1,595.56 (54.88)	1,206.32 (15.33)	1,671.93 (14.62)
5. Net loans and advances	-0.90	-0.90	4.19	8.18	4.38
6. Portion of Revenue expenditure met out of net available borrowings (2 – 3 – 4 - 5)	-686.88	-584.94	-1,288.8	-211.93	-145.37

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 86.60 *per cent* in 2017-18 and 92.87 *per cent* in 2016-17, during the five-year period of 2016-21.

### 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 2016-17 to 2020-21 are shown in **Table 2.36**.

**Table 2.36: Guarantees given by the State Government**

(₹ in crore)					
Guarantees	2016-17	2017-18	2018-19	2019-20	2020-21
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	81.19	110.46	120.96	174.96	174.96

Source: Finance Accounts of respective years

Government had guaranteed loans raised by various Corporations and Others which at the end of 2020-21 stood at ₹174.96 crore. During the year, the State Government did not give guarantees against Distribution Companies (DISCOM) under Atma Nirbhar Bharat Package as the State did not have any DISCOM.

The Outstanding Guarantees was obtained mainly for repayment of principal and payment of interest on loan pertaining to Nagaland Industrial Development Corporation (₹44.24 crore). The Outstanding Guarantees of ₹174.96 crore as on 31 March 2021 was 1.53 *per cent* of the Revenue Receipts of the State during the year.

### 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.



**Table 2.37** depicts the cash balances and investments made by the State Government out of cash balances during the year.

**Table 2.37: Cash Balances and their investment**

	(₹ in crore)	
	Opening balance on 1 April 2020	Closing balance on 31 March 2021
<b>A. General Cash Balance</b>		
Cash in treasuries	0.00	0.00
Deposits with Reserve Bank of India	223.90	157.59
<b>Total</b>	<b>223.90</b>	<b>157.59</b>
Investments held in Cash Balance investment account	0.00	0.00
<b>Total (A)</b>	<b>223.90</b>	<b>157.59</b>
<b>B. Other Cash Balances and Investments</b>		
Cash with departmental officers viz., Public Works, Forest Officers	744.75	801.56
Permanent advances for contingent expenditure with department officers	0.00	0.00
Investment in earmarked funds	1,659.18	1,786.18
<b>Total (B)</b>	<b>2,403.93</b>	<b>2,587.74</b>
<b>Total (A + B)</b>	<b>2,627.83</b>	<b>2,745.33</b>
<b>Interest realised</b>	<b>1.78</b>	<b>0.07</b>

Source: Finance Accounts, 2020-21

It was noticed that State Government's opening general Cash Balance as on 01 April 2020 was ₹223.90 crore. The closing general Cash Balance (31 March 2021) showed a decrease of 29.62 per cent (₹66.31 crore) and stood at ₹157.59 crore. The State Government had earned ₹0.07 crore from the Cash Balance Investments during 2020-21.

However, the State Government could maintain the minimum daily cash balance with the RBI for 154 days during 2020-21 and as such WMAs/ SWMAs/ ODs was availed for 211 days during the year, for which an interest of ₹10.35 crore (*Appendix 1.1 Part C*) was paid.

The Cash Balance Investments of the State of Nagaland for last five years (2016-17 to 2020-21) are given in **Table 2.38**.

**Table 2.38: Cash Balance Investment Account (Major Head-8673)**

(₹ in crore)				
Year	Opening Balance	Closing Balance	Increase (+)/decrease (-)	Interest earned
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
2020-21	0.00	0.00	0.00	0.07

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 2016-21, there has been large fluctuation in cash balance at the end of each year of the State.

## 2.8 Conclusion

Revenue Receipts were ₹11,427.43 crore during 2020-21, which increased by ₹4.14 crore (0.04 *per cent*) compared to the previous year. During the current year, State's Own Tax Revenue increased by ₹64.51 crore (6.73 *per cent*) and Non-Tax Revenue decreased ₹96.69 crore (28.50 *per cent*) respectively over the previous year. Grants-in-Aid from GoI decreased by ₹105.85 crore (1.54 *per cent*) while State's Share of Union Taxes and Duties increased by ₹142.17 crore (4.35 *per cent*) as compared to the previous year.

Revenue Expenditure (₹11,052.06 crore) accounted for 86.82 *per cent* of total expenditure (₹12,729.60 crore) during the current year. Committed expenditure (₹8,104.81 crore) like salary and wages, pension, interest payments steadily increased ₹2,625 crore (47.92 *per cent*) during the last five-year period from ₹5,479.02 crore in 2016-17 to ₹8,104.81 crore in 2020-21. The Committed Expenditure during the year 2020-21 was 70.92 *per cent* of the Revenue Receipts and 73.33 *per cent* of the Revenue Expenditure.

Under National Pension System (NPS), the State Government short contributed ₹142.23 crore resulting in understatement of revenue and fiscal deficit to that extent. Further, as on 31 March 2021, ₹185.61 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 (₹1,671.93 crore) increased by ₹465.61 crore (38.60 *per cent*) during 2020-21 compared to the previous year (₹1,206.32 crore) and stood at 13.13 *per cent* of total expenditure during the year. There were 416 projects lying incomplete as on 31 March 2021 for which ₹1,380.04 crore had been expended. There was cost over-run of ₹183.36 crore on these incomplete projects as on 31 March 2021.

The State's share of expenditure on Health (5.10 and 5.59 *per cent* during 2016-17 and 2020-21 respectively) was lower than the averages of North Eastern & Himalayan States (5.67 and 7.04 *per cent* during 2016-17 and 2020-21 respectively). Similarly, the State's share of expenditure on Education (13.03 and 13.44 *per cent* during 2016-17 and 2020-21 respectively) as proportion of Aggregate Expenditure was less than that of the averages of North Eastern and Himalayan States (16.67 and 16.95 *per cent* during 2016-17 and 2020-21 respectively).

As per Finance Accounts 2020-21, the State Government invested ₹One crore in Government Company (Nagaland State Mineral Development Corporation Ltd.). As on 31 March 2021, whereas the State Government made investment of ₹296.17 crore in Government Companies, Statutory Corporation, Co-operative Societies and Joint Stock Companies, the return on investments was a meagre ₹2.47 crore by way of dividends during the year.

The State had outstanding guarantees of ₹174.96 crore which was 1.53 *per cent* of the Revenue Receipts of the State (for the year) as on 31 March 2021.

The outstanding Public Debt rapidly increased by ₹3,533.47 crore from ₹7,115.56 crore in 2016-17 to ₹10,649.03 crore in 2020-21 whereas the Debt/ GSDP ratio increased from 32.76 to 36.33 *per cent* during the same period. During 2020-21, the outstanding Public Debt (₹10,649.03 crore), increased by ₹1,530.94 crore (16.79 *per cent*) compared to the previous year (₹9,118.09 crore). Between 6.15 and 7.50 *per cent* of the Revenue Receipts were used by the State for payment of interest on the outstanding Public Debt while the average rate of interest ranged between 7.40 and 8.40 *per cent* during last five-years period from 2016-17 to 2020-21.

Maturity profile of outstanding stock of public debt as on 31 March 2021 indicates that out of outstanding public debt of ₹10,649.03 crore, 54.31 *per cent* of outstanding public debt (₹5,783.49 crore) needs to be repaid within the next seven years while the remaining 45.69 *per cent* (₹4,865.54 crore) of outstanding public debt is in the maturity bracket of more than 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 North Eastern & Himalayan 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 non tax revenues need to be augmented to meet the interest on debt liabilities.