

# Chapter I

## Finances of the State Government

### Profile of Nagaland

The State, located in North-Eastern region of India, is a Special Category State<sup>1</sup>. It is the twenty-fifth largest State in terms of geographical area (16,579 sq. km) as well as by population (19,78,502). As indicated in **Appendix 1.1 Part D**, the State's population decreased from 19,90,036 in 2001 to 19,78,502 in 2011 recording a decadal decrease of 0.58 *per cent*. The state's literacy rate increased from 66.59 *per cent* (as per 2001 census) to 79.60 *per cent* (as per 2011 census) against the country's average of 73 *per cent*. The per capita GSDP of the State stood at ₹ 102810 against the country's average of ₹ 129800 in the year 2017-18. The general data relating to the State is given in **Appendix 1.1 Part D**.

### Gross State Domestic Product

Gross State Domestic Product (GSDP) is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of the State's economy as it indicates the standard of living of the people of the State. The Advance Estimates of GSDP for 2017-18 amounted to ₹ 23,623 crore. A trend analysis of growth of GSDP for a period of five years at current prices indicates the performance of the Government in fiscal management of the State. The growth rate of the State GDP for the period 2013-18 compared with India's GDP is presented in the **Table 1.1** below:

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

Year	2013-14	2014-15	2015-16	2016-17	2017-18
State's GDP ( <i>in crore</i> )	16,612	18,414	20,524	21,119*	23,623(A)**
Growth in <i>per cent</i>	21.98	10.85	11.46	2.90	11.86
India's GDP ( <i>in crore</i> )	112,33,522	124,45,128	136,82,035	151,83,709	167,73,145
Growth in <i>per cent</i>	12.97	10.76	9.94	10.98	10.46

Source: Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation as on July 2018.

\* Information furnished by Directorate of Economics and Statistics, Govt. of Nagaland.

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

### 1.1 Introduction

This report provides an analysis of the finances of the State Government, based on the audited accounts of the Government of Nagaland for the year ended March 2018.

The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The Finance Accounts have been divided into two Volumes: Volume I and II. Volume I represents the financial statements of the Government in a

<sup>1</sup> The Fifth Finance Commission accorded (1969) special status to three states on the basis of harsh terrain, backwardness and special problems prevailing in these states *viz*: Assam, Jammu & Kashmir and Nagaland. The number of such states increased over a period of time and now stands at 11.

summarised form while Volume II represents detailed financial statements, the structure and layout of which are depicted in **Appendix 1.1- Part B**.

This chapter provides a broad perspective of the finances of the Government of Nagaland during the period from 2013-14 to 2017-18. It analyses important changes in the major fiscal indicators compared to the previous year keeping in view the overall trends during the last five years. The analysis is based on the Finance Accounts and information obtained from the State Government. The structures of the Government Accounts and layout of the Finance Accounts have been explained in **Appendix 1.1 – Parts A and B**.

### 1.1.1 Summary of Fiscal Transactions in 2017-18

**Table 1.2** presents the summary of the State Government’s fiscal transactions during the current year (2017-18) *vis-à-vis* the previous year (2016-17) while **Appendix 1.3** provides details of receipts and disbursements as well as overall fiscal position during the same period.

**Table 1.2: Summary of Fiscal Transactions in 2017-18**

(Rupees in crore)

Receipts			Disbursements				
Description	2016-17	2017-18	Description	2016-17	2017-18		Total
					Non-Dev.	Dev.	
<b>Section-A: Revenue</b>							
<b>Revenue Receipts<sup>2</sup></b>	<b>9442.28</b>	<b>11019.21</b>	<b>Revenue Expenditure<sup>3</sup></b>	<b>8651.94</b>	<b>7602.23</b>	<b>2589.12</b>	<b>10191.35</b>
Tax revenue	510.75	638.28	General services	3896.45	4276.66	42.75	4319.41
Non-tax revenue	345.52	388.53	Social services	2295.21	1750.92	807.64	2558.56
Share of Union Taxes/ Duties	3032.63	3353.13	Economic services	2460.28	1574.65	1738.73	3313.38
Grants from Government of India	5553.38	6639.27	Grants-in-Aid and Contributions	0.00	0.00	0.00	0.00
<b>Section-B: Capital</b>							
Misc. Capital Receipts	0.00	0.00	Capital Outlay	1076.10	0.00	1274.85	1274.85
Recoveries of Loans and Advances	1.09	1.09	Loans and Advances disbursed	0.19	0.19	0.00	0.19
Public Debt receipts	5444.35	5141.02*	Repayment of Public Debt	5065.03	–	–	4452.01 <sup>#</sup>
Contingency Fund	0.00	0.00	Contingency Fund	0.00	–	–	0.00
Public Account receipts	2933.99	3319.54	Public Account disbursements	2661.41	–	–	3124.67
Opening Cash Balance	893.35	1260.39	Closing Cash Balance	1260.39	–	–	1698.18
<b>Total</b>	<b>18,715.06</b>	<b>20741.25</b>	<b>Total</b>	<b>18,715.06</b>	<b>–</b>	<b>–</b>	<b>20741.25</b>

\* Including Ways and Means Advance of ₹3906.00 crore # Including Ways and Means Advance of ₹ 3906.00 crore.

Source: Finance Accounts for the respective years.

The following were the significant changes during 2017-18 over the previous year:

The State’s Own Resources (Own Tax and Non-Tax Resources) were a meagre nine *per cent* of the total Receipts of the State. Government of Nagaland generated a revenue surplus of ₹ 827.86 crore during 2017-18. Its fiscal deficit (₹ 446.09 crore) stood at 1.89 *per cent* of GSDP during the current year. The Fiscal Deficit was well within the

<sup>2</sup> Revenue Receipts and Non-tax Revenue are inclusive of gross receipt (₹ 15.41 crore) from State Lotteries.

<sup>3</sup> Revenue expenditure and General Services (Non-Development) are inclusive of expenditure (₹ 2.76 crore) on State Lotteries.

ceiling of 3.25 *per cent* prescribed for 2017-18 by the XIV FC and target of three *per cent* under Fiscal Responsibility and Budget Management (FRBM) legislation.

Significant changes in fiscal position of the State during 2017-18 over the previous year are given below:

<b>Revenue Receipt</b>	<ul style="list-style-type: none"> <li>• Revenue Receipts increased by 16.70 <i>per cent</i></li> <li>• Own Tax Revenue increased by 24.97 <i>per cent</i></li> <li>• Share of union Taxes/Duties increased by 10.57 <i>per cent</i></li> <li>• Grants from GoI increased by 19.55 <i>per cent</i></li> </ul>
<b>Revenue Expenditure</b>	Increased by 17.79 <i>per cent</i>
<b>Capital Expenditure</b>	Increased by 18.47 <i>per cent</i>
<b>Loans and Advances</b>	Recoveries and Disbursements remained same as compared to the previous year (2016-17)
<b>Public Debt</b>	<ul style="list-style-type: none"> <li>• Receipts decreased by 5.57 <i>per cent</i></li> <li>• Repayment decreased by 12.10 <i>per cent</i></li> </ul>
<b>Cash Balance</b>	Increased by 34.73 <i>per cent</i>

The total inflow of receipts increased<sup>4</sup> by ₹ 1659.15 crore (9.31 *per cent*) from ₹ 17,821.71 crore in 2016-17 to ₹ 19480.86 crore in 2017-18. The total outflow also increased by ₹ 1588.40 crore (9.10 *per cent*) from ₹ 17,454.67 crore in 2016-17 to ₹ 19043.07 crore in 2017-18. The cash balance of the State at the end of 2017-18 increased by ₹ 437.79 crore (34.73 *per cent*) from ₹ 1260.39 crore in 2016-17 to ₹ 1698.18 crore in 2017-18.

### 1.1.1 (a) Ways and Means Advances

Under an agreement with the Reserve Bank of India (RBI), the State Government has to maintain a minimum cash balance of ₹ 0.25 crore with the Bank. If the balance falls below the agreed minimum amount on any day, the deficiency is made good by making ordinary and special ways and means advances/overdrafts from time to time. The ways and means advances are not sources of finance but are meant to provide support, for purely temporary difficulties that arise on account of mismatch/ shortfall in revenue or other receipts for meeting the Government liabilities.

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	<u>2016-17</u>	<u>2017-18</u>
Total Receipts	18715.06	20741.25
Less: OB	893.35	1260.39
Actual receipt	17821.71	19480.86

The limit for ordinary<sup>5</sup> ways and means advances to the State Government was ₹ 205.00 crore with effect from 1 April 2017. The extent to which the Government maintained the minimum cash balance with the RBI during 2017-18 is as given in **Table 1.3:**

**Table 1.3: Details of Cash Balance with RBI during 2017-18**

Sl. No.	Period	(Rupees in crore)	
		Days	Amount
1	Number of days on which the minimum balance was maintained without taking any advance	261	0.00
2	Number of days on which the minimum balance was maintained by taking ordinary ways and means advances	14	611.95
3	Number of days on which the minimum balance was maintained by taking special ways and means advances	81	3034.82
4	Number of days on which there was a shortfall in minimum balance even after taking the above advances, but no overdraft was taken	0	0.00
5	Number of days on which the overdrafts were taken	9	259.23
<b>Total</b>			<b>3906.00</b>

During the year, the State Government availed Ways and Means Advances (WMA) of ₹ 3906.00 crore and discharged all WMA of ₹ 3906.00 crore. From the above, it is clear that State resorted to heavy amounts of Special WMA (77.70 per cent) where the advances are provided against the pledge of Government of India (GOI), which attract higher interest rates. The State Government had to pay an interest of ₹ 6.17 crore on the WMA as well. The analysis of the WMA revealed that:

- The WMA constituted 34.07 per cent of the Total Revenue and Capital Expenditure;
- It constituted 35.45 per cent of the Total Revenue Receipts of the State;
- During the year, the WMA stood at 16.53 per cent of the GSDP; and
- The State had a closing cash balance of ₹ 1698.18 crore and had availed market loans of ₹ 1135.00 crore during the year. Against the budget estimates, the State had also surrendered ₹ 2571.60 crore at the end of the year

### **1.1.2 Budget estimates and actuals**

The budget of the State Government provides descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the Budget Estimates are indicative of non-attainment and non-optimisation of the desired fiscal objectives due to a variety of causes. Some of the causes are within the control of the Government and some beyond the control of the Government.

**Table 1.4 and Chart 1.1** represent the budget estimates and actuals for some important fiscal parameters during 2017-18:

<sup>5</sup> Normal WMAs are clean advances where as Special WMAs are secured advances provided against the pledge of Government of India which attract higher interest rates.

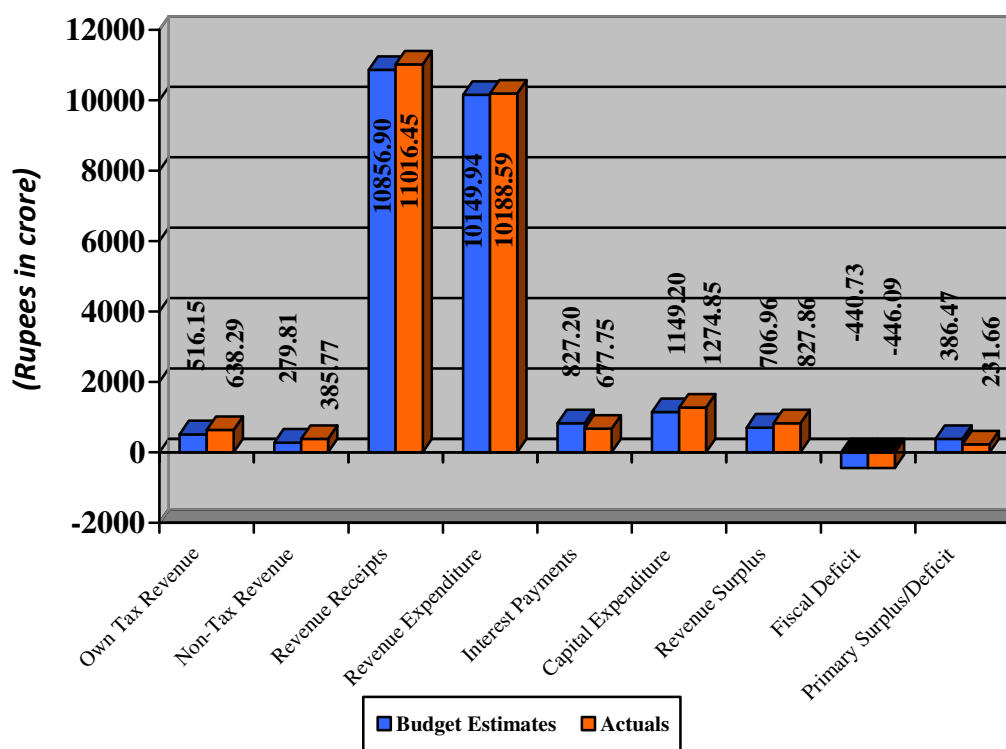
**Table 1.4: Variation in Actual Fiscal parameters over estimates**

(Rupees in crore)

Parameters	2016-17	2017-18		
	Actuals	Budget Estimates	Revised Estimates	Actuals
Own Tax Revenue	510.75	516.15	570.70	638.28
Non-tax Revenue	343.03	279.81	294.25	385.77
Revenue Receipts <sup>6</sup>	9439.79	10856.90	10592.54	11016.45
Non-debt Capital Receipts	1.09	1.91	1.94	1.09
Revenue Expenditure <sup>7</sup>	8649.45	10149.94	10562.35	10188.59
Interest Payments	635.50	827.20	723.50	677.75
Capital Expenditure	1076.10	1149.20	1637.21	1274.85
Disbursement of Loans & Advances	0.19	0.40	0.40	0.19
Revenue Deficit (-)/Surplus (+)	790.34	706.96	30.19	827.86
Fiscal Deficit (-)/Surplus (+)	(-) 284.86	(-) 440.73	(-) 1605.48	(-) 446.09
Primary Deficit(-)/Surplus (+)	350.64	386.47	(-) 881.98	231.66

Source: Finance Accounts of respective year.

**Chart 1.1: Selected fiscal Parameters: Estimates vis-à-vis Actuals in 2017-18**



- During 2017-18, the actual Revenue Receipts were more than the budget estimates by ₹ 159.55 crore (1.47 per cent) while the actual Revenue Expenditure was more by ₹ 38.65 crore (0.38 per cent). Actual Revenue Surplus was more by ₹ 120.90 crore as compared to the projections made in the budget estimates.

<sup>6</sup> Revenue Receipts includes State Lottery after netting off of receipts and expenditure from this point onwards in the Report.

<sup>7</sup> Revenue Expenditure is exclusive of expenditure (₹ 2.76 crore) on State Lotteries from this point onwards in the Report.

- The actual collection of Own Tax Revenue during the year exceeded by ₹ 122.13 crore (23.66 per cent) over the budget estimates for the year.
- The increase in Non-Tax Revenue was ₹ 105.96 crore (37.87 per cent) as compared to the budget estimates for 2017-18.
- During the year 2017-18, the actual Capital Expenditure was more than the budget provision by ₹ 125.65 crore (10.93 per cent).
- Actual Fiscal Deficit slightly increased over the assessment made in the budget estimates by ₹ 5.36 crore (1.22 per cent). The increase was due to net impact of increase in Revenue Receipts by ₹ 159.55 crore, increase in Revenue Expenditure by ₹38.65 crore, increase in Capital Expenditure by ₹ 125.65 crore and decrease in re-payment of Loans and Advances by ₹0.82 crore and disbursement of Loans and Advances by ₹ 0.21 crore as compared with the projected budget estimates for these items. Primary Surplus decreased over the assessment made in the budget estimates by ₹ 154.81 crore (40.06 per cent).

### 1.1.3 Review of the fiscal situation

Twelfth Finance Commission (XII FC) recommended that each State should enact a fiscal responsibility legislation prescribing specific annual targets with a view to eliminating the Revenue Deficit by 2008-09 and to reducing Fiscal Deficit based on a path for reduction of borrowings and guarantees. The State of Nagaland enacted Nagaland Fiscal Responsibility and Budget Management (NFRBM) Act in 2005. The position of targets prescribed in NFRBM Act and projections made by the State Government in its Medium Term Fiscal Policy Statement (MTFPS), XIV FC targets for the State *vis-à-vis* achievements during the year 2017-18 are depicted in **Table 1.5**:

**Table: 1.5: Major fiscal variables provided in XIV FC recommendations, targets in the NFRBM Act *vis-à-vis* actuals for the year 2017-18**

Fiscal variables	As per XIV FC	Prescribed in FRBM Act	Made in Five Year Fiscal Plan/MTFPS	Actuals
Revenue Deficit(-)/ Surplus(+) ( <i>Rupees in crore</i> )	Maintain revenue surplus			827.86
Fiscal deficit/GSDP ( <i>in per cent</i> )	3.25	3.00	1.85	1.89
Ratio of outstanding debt to GSDP ( <i>in per cent</i> )	40.18	Not specified	43.49	33.04

The State registered a revenue surplus of ₹ 827.86 crore during 2017-18. Fiscal deficit (₹ 446.09 crore) stood at 1.89 per cent of Gross State Domestic Product (GSDP). During 2017-18, the State Government projected zero Revenue Deficit in NFRBM and MTFPS. The State projected a Revenue Surplus of ₹ 706.96 crore in the BEs for 2017-18 and actually achieved a Revenue Surplus of ₹ 827.86 crore (3.50 per cent of GSDP).

For the year 2017-18, the ratio of Fiscal Deficit to GSDP was proposed at 3.25 per cent, 3.00 per cent and 1.85 per cent in XIV FC, NFRBM and MTFPS respectively. Actual ratio of fiscal deficit to GSDP was 1.89 per cent which was 1.36 per cent, 1.11 per cent less than XIV FC, NFRBM and 0.04 per cent more than MTFPS projections respectively.

During 2017-18, the ratio of outstanding debt to GSDP (33.04 *per cent*) was less than the projected figures as per XIV FC and MTFPS.

***Recommendation (1): State Government may explore the possibility to mobilise additional resources both through tax and non-tax sources to bring down its fiscal deficit.***

### 1.1.4 Gender Budgeting

The Constitution of India has mandated equality for every citizen of the country as a fundamental right. The GoI has made international commitments in (i) The Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in 1980; (ii) World Conference on Human Rights in Vienna in 1993; (iii) International Conference on Population and Development (ICPD) in Cairo in 1994; (iv) Fourth World Conference of Women in Beijing in 1995; and (v) Commonwealth Plan of Action on Gender and Development in 1995 in respect of the action to be taken for improvement in the life of women.

One of the tools that can be used to promote women’s equality and empowerment is gender-responsive budgeting, or Gender Budgeting.

Among others, Gender Budgeting serves in (i) identifying the felt needs of women and re-prioritising and/ or increasing expenditure to meet these needs; (ii) Supporting gender mainstreaming in macro economics; (iii) Strengthening civil society participation in economy; (iv) Enhancing the linkages between economic and social policy outcomes; (v) Tracking public expenditure against gender and development policy commitments and (vi) Contributing to the attainment of the Sustainable Development Goals (SDGs).

Gender Budgeting was, however, not implemented in Nagaland State.

## 1.2 Resources of the State

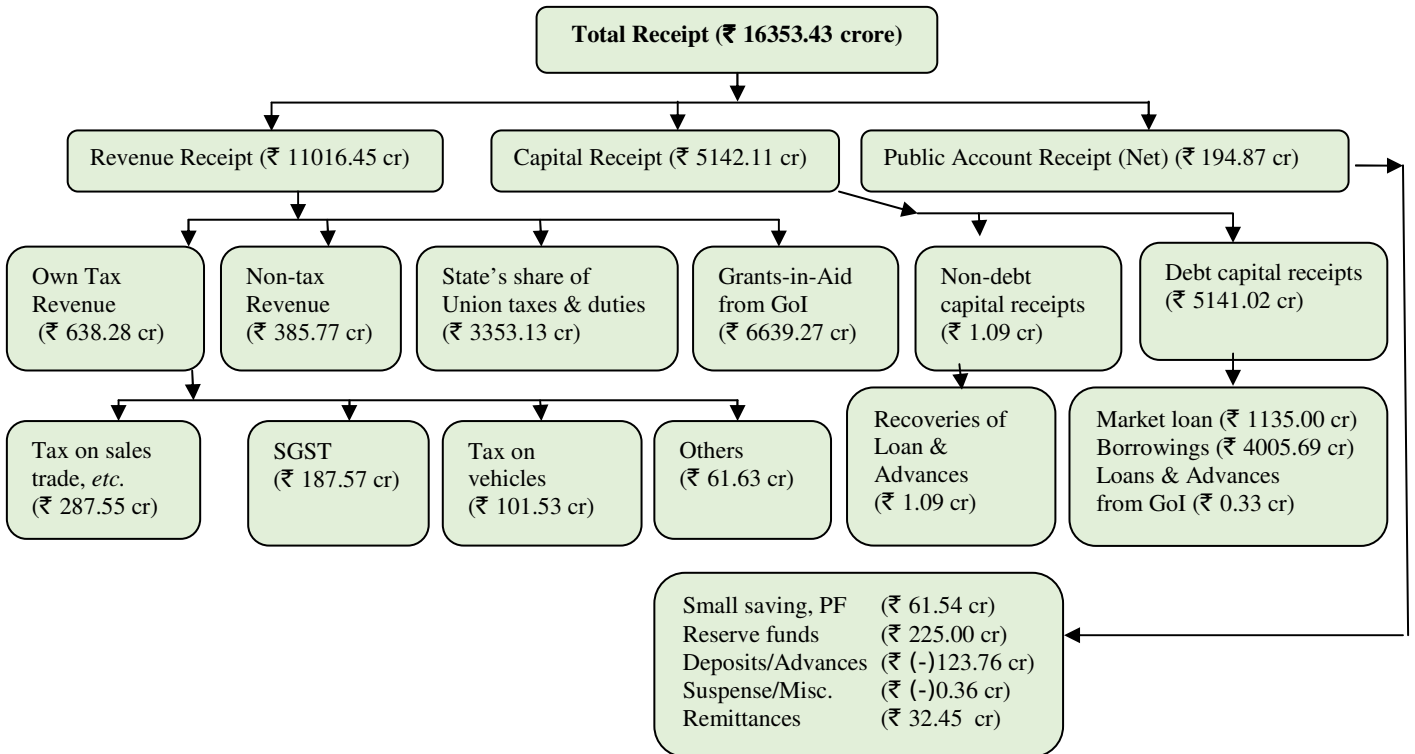
### 1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Revenue Receipts consist of Own Tax Revenue, Non-tax Revenue, State’s share of Union Taxes and Duties and Grants-in-Aid (GIA) from the GoI. Capital Receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/ commercial banks) and Loans and Advances from GoI. Besides, the funds available in the Public Accounts after disbursement is also utilised by the Government to finance its deficit.

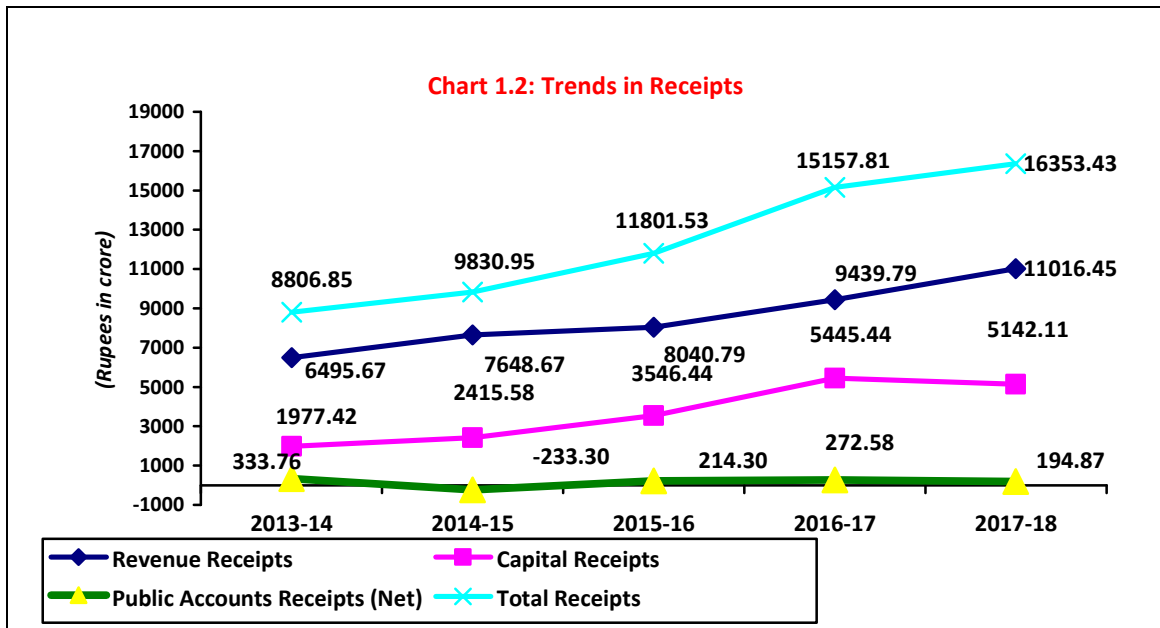
**Chart 1.2** below depicts the trends in various components of the receipts of the State during 2013-18. **Chart 1.3** depicts the composition of the receipts during 2017-18. **Table 1.6** presents the trends in growth during 2013-18 and composition of receipts for the current year 2017-18.

Following flowchart shows the components and sub-components of resources:

**Audit Report on State Finances for the year ended 31 March 2018**



Source: Finance Accounts of respective year.





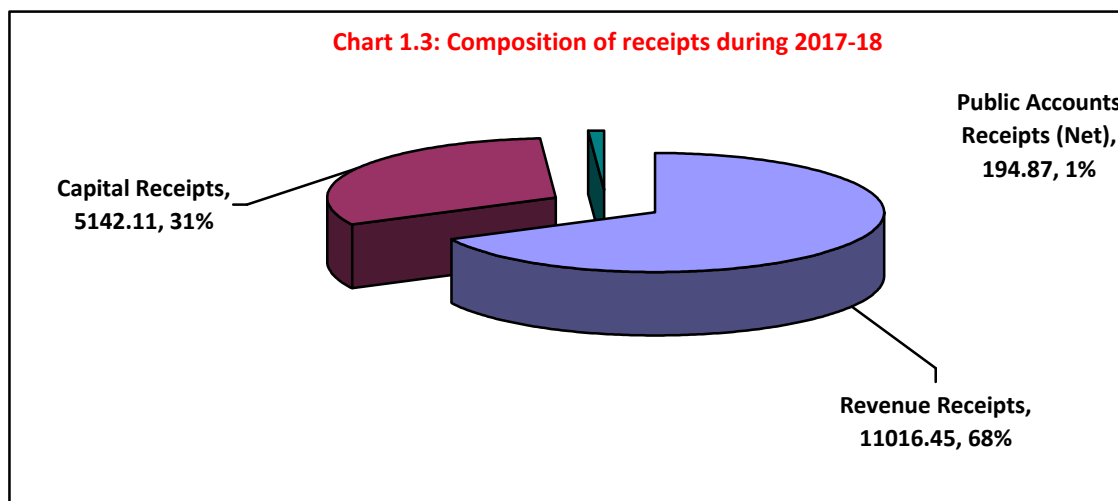


Table 1.6: Composition of receipts

*(Rupees in crore)*

	Sources of State receipts	2013-14	2014-15	2015-16	2016-17	2017-18
<b>I</b>	<b>Revenue Receipts</b>	6495.67	7648.67	8040.79	9439.79	11016.45
<b>II</b>	<b>Capital Receipts (CR)</b>	1977.42	2415.58	3546.44	5445.44	5142.11
	Recovery of Loans and Advances	1.01	0.71	0.50	1.09	1.09
	Public Debt Receipts	1976.41	2414.87	3545.94	5444.35	5141.02
<b>III</b>	<b>Public Account Receipts (Net)</b>	333.76	(-)233.30	214.30	272.58	194.87
	<b>Total Receipts</b>	8806.85	9830.95	11801.53	15157.81	16353.43

Source: Finance Accounts of respective years.

The total receipts of the State Government for the year 2017-18 were ₹ 16353.43 crore out of which, the Revenue Receipts constituting 67.36 per cent of the total receipts were ₹ 11016.45 crore.

The Revenue Receipts of the State increased from ₹ 9439.79 crore in 2016-17 to ₹ 11016.45 crore in 2017-18 at an annual growth rate of 16.70 per cent. The buoyancy of Revenue Receipts with reference to GSDP during the year was 1.41 per cent.

Public Account receipts (net) decreased by ₹ 77.71 crore (28.51 per cent) from ₹ 272.58 crore in 2016-17 to ₹ 194.87 crore in 2017-18.

## 1.2.2 Funds transferred to State Implementing Agencies

GoI decided that transfer of funds to the State Implementing Agencies for implementation of the Centrally Sponsored Schemes would be done through the State Consolidated Fund with effect from 2014-15 (BEs). Audit noticed that some funds were directly transferred to the State Implementing Agencies outside the State Budget/State Treasury System contrary to the decision taken by the GoI.

During the year 2017-18, central funds amounting to ₹ 363.79 crore were directly transferred to the State Implementing Agencies (**Appendix 1.5**). Details of major amount of funds transferred directly to Implementing Agencies are shown in **Table 1.7**:

**Table-1.7: Funds transferred directly to State Implementing Agencies**

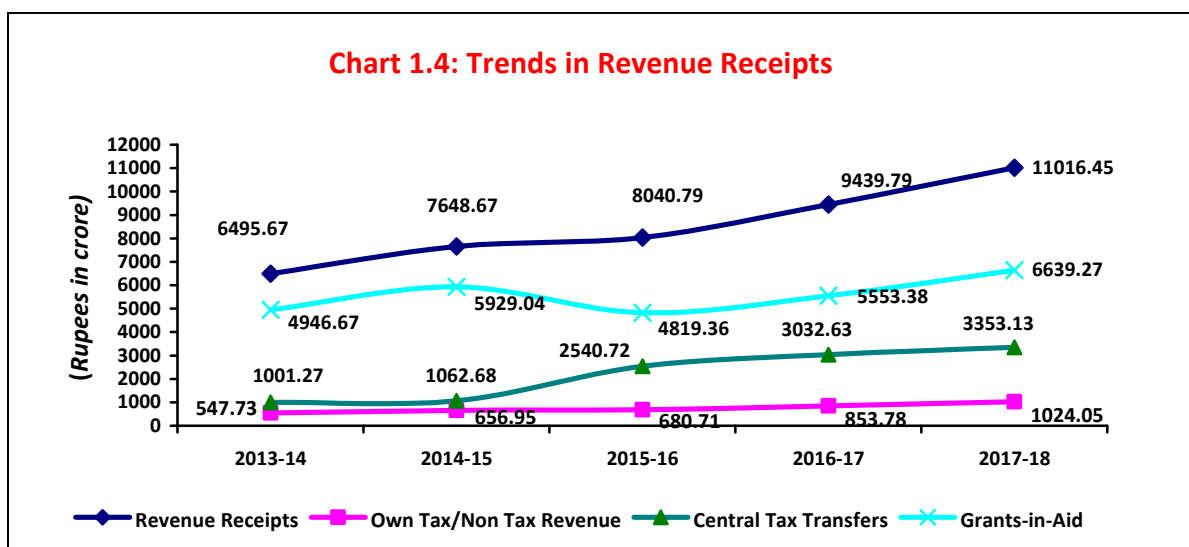
		(Rupees in crore)
Programme/Scheme	Implementing Agency in the State	Funds transferred directly by GoI during 2017-18
National Institute of Technology	National Institute of Technology	62.00
Swadesh Darshan-Integrated Development Theme	Nagaland Tourism Board	53.27
NER Textile Promotion Scheme	Directorate of Sericulture	21.30
National AIDS and STD Control	Nagaland State AIDS Control Society	19.79
National Mission on Food Processing	Doys Agri Resources Private. Limited	15.00
Support of Academies	North East Zonal Cultural Centre	6.12
OFF GRID/Distributed and Decentralised	New and Renewable Energy Development Agency (NREDA)	11.49
Pradhan Mantri Kausal Vikas Yojana CS	Department of Social Welfare, Nagaland	8.75
Organic Value Chain Development of NE Region	Nagaland Organic Mission	19.28
Electronic Governance	Nagaland State E-Governance Society	21.56
Others	Other 110 other implementing Agencies against 52 Schemes	125.23
<b>Total</b>		<b>363.79</b>

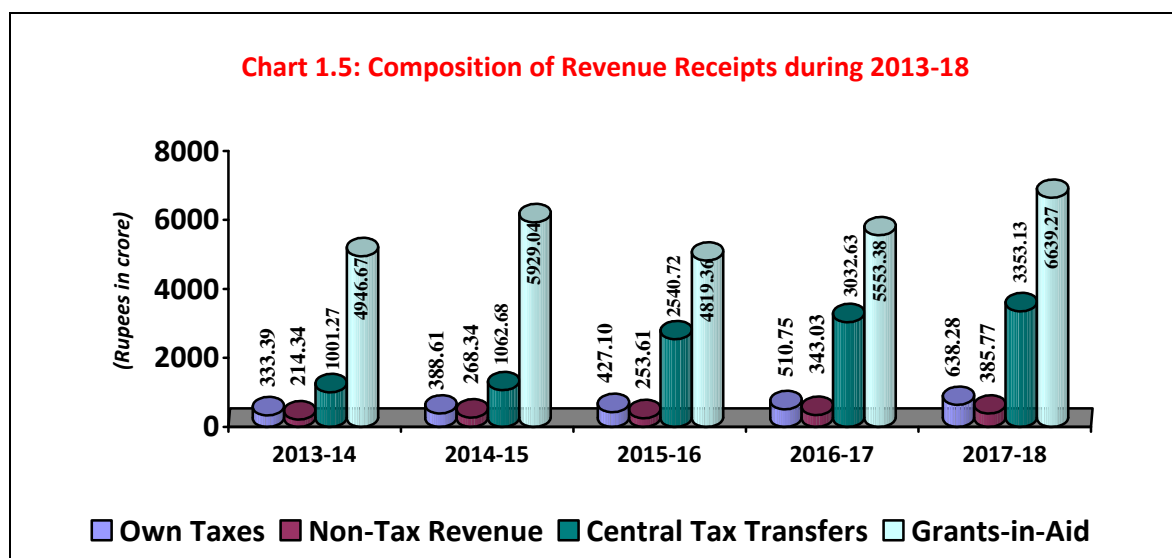
Source: 'Central Plan Scheme Monitoring System' portal in Controller General of Account's website.

Out of an amount of ₹ 363.79 crore directly transferred to Implementing Agencies during the year, major amount of ₹ 62.00 crore (17.04 per cent) was given to National Institute of Technology.

### 1.3 Revenue Receipts

**Statement-14** of the Finance Accounts details the Revenue Receipts of the State Government. The trends and composition of Revenue Receipts over the period 2013-18 are presented in **Appendix 1.2** and depicted in **Charts 1.4** and **1.5** respectively:





The Revenue Receipts have shown a progressive increase with inter-year variations and changes in its composition, *i.e.*, the share of Own Taxes, Non-Tax Revenue and Central transfers during the period 2013-18.

Own Tax and Non-tax Revenue receipts together (*i.e.*, States Own Resources) increased by ₹ 476.32 crore (86.96 *per cent*) from ₹ 547.73 crore in 2013-14 to ₹ 1024.05 crore in 2017-18 at a compound annual growth rate of 16.93 *per cent*.

The Revenue Receipts of the State increased from ₹ 6495.67 crore in 2013-14 to ₹ 11016.45 crore in 2017-18 at a compound annual growth rate of 14.12 *per cent*. While 9.30 *per cent* of the Revenue Receipts during 2017-18 have come from the State's Own Resources comprising own taxes and non-taxes, Central Tax Transfers and GIA together contributed 90.70 *per cent*. The percentage share of State's Own Resources and the Central Transfers in Revenue receipts of the State exhibited relative stability during the last five years (2013-18).

Central tax transfers to the State increased by ₹ 320.50 crore (10.57 *per cent*) from ₹ 3032.63 crore in 2016-17 to ₹ 3353.13 crore in 2017-18. This was due to implementation of GST (CGST & IGST) (₹386.44 crore) and increase in Corporation Tax (₹ 53.92 crore), Tax on Income other than Corporation Tax (₹ 190.98 crore) offset by decrease in Customs (₹ 80.16 crore), Union Excise Duties (₹ 124.19 crore), Service Tax (₹ 104.23 crore), Tax on wealth (₹ 2.25 crore) and Other tax and duties (₹ 0.01 crore).

The trends in Revenue Receipts as well as buoyancy ratios<sup>8</sup> relative to GSDP are presented in **Table 1.8**:

<sup>8</sup> Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable as explained in Appendix 1.1 Part C.

**Table 1.8: Trends in Revenue Receipts and buoyancy ratios relative to GSDP**

*(Rupees in crore)*

	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Revenue Receipts (RR) (₹ in crore)</b>	<b>6495.67</b>	<b>7648.67</b>	<b>8040.79</b>	<b>9439.79</b>	<b>11016.45</b>
Rate of growth of RR ( <i>per cent</i> )	4.73	17.75	5.13	17.40	16.70
R R/GSDP ( <i>per cent</i> )	39.10	41.54	39.18	44.70	46.63
<b>Buoyancy Ratios</b>					
Revenue receipts Buoyancy <i>w.r.t</i> GSDP	0.22	1.64	0.45	6.00	1.41
State's Own Tax Buoyancy <i>w.r.t</i> GSDP	(-) 0.09	1.53	0.86	6.76	2.11

*Source: Finance Accounts of respective years.*

The Revenue Receipts buoyancy with respect to GSDP was 6.00 in 2016-17 which decreased to 1.41 in 2017-18 mainly due to increase in the growth of advance estimates of GSDP. The State's Own Tax buoyancy with respect to GSDP was 6.76 in 2016-17 which decreased to 2.11 in 2017-18, indicating that GSDP grew at a faster pace than Revenue Receipts as well as State's Own Tax.

### 1.3.1 State's Own Resources

As the State's share in Central taxes and Grants-in-Aid are determined on the basis of recommendations of the Finance Commission, the State's performance in mobilisation of resources was assessed in terms of its own resources comprising revenue from its own tax and Non-Tax sources.

The States actual Tax and Non-Tax Receipts for the year 2017-18 *vis-à-vis* assessment made by XIV FC and MTFPS are given in **Table 1.9**:

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

*(Rupees in crore)*

	XIV FC projections	Budget estimates	MTFPS projection	Actuals
Own Tax revenue	835.00	516.15	516.15	638.28
Non-tax revenue	275.00	279.81	NA	385.77

Actual realisation of Own Tax Revenue was lower than the projection made by XIV FC (23.56 *per cent*) but higher than the projections (Budget Estimates) made by the Government (23.66 *per cent*). Actual Non-Tax Revenue realised was higher than the estimates made by the Government (37.87 *per cent*) and by that of XIV FC (40.28 *per cent*). The revenue surplus registered by the State was due to receipt of huge Revenue Deficit Grant from the GoI (*para 1.3.3 refers*) and not owing to its Own Tax mobilisation efforts. The State Government should, therefore, consider improving its Tax mobilisation in view of XIV FC projections.

#### 1.3.1.1 Tax Revenue

The gross collection in respect of major taxes and duties are given in **Table 1.10**:

**Table 1.10: Collection of Tax Revenue 2013-18**

*(Rupees in crore)*

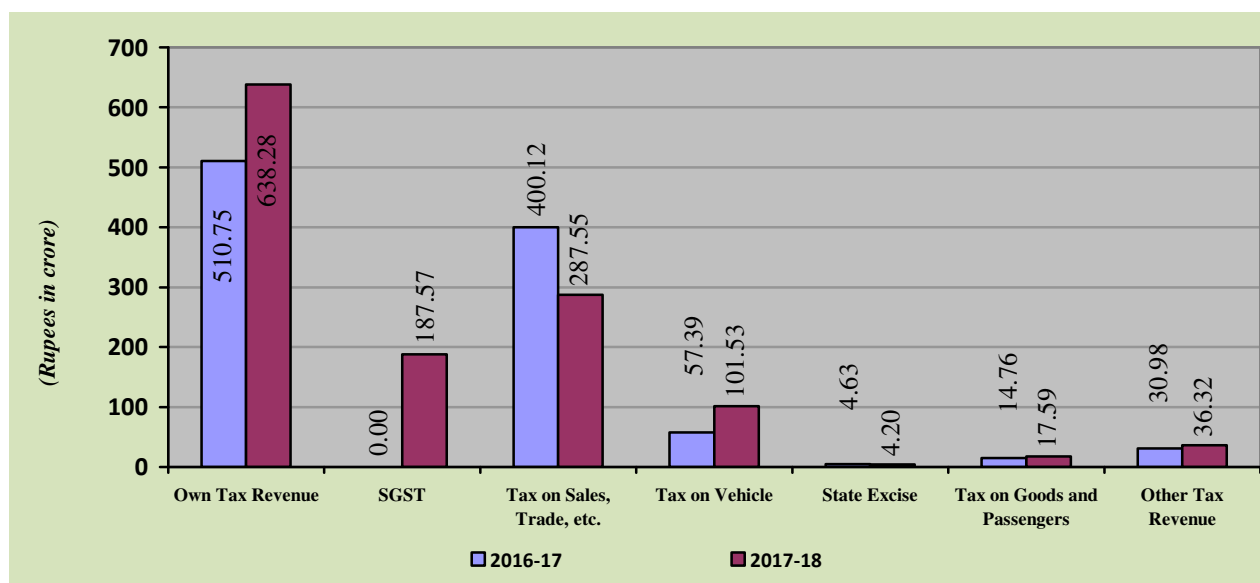
Heads	2013-14	2014-15	2015-16	2016-17	2017-18		Percentage of increase(+)/ decrease(-) over previous year
					Budget Estimates	Actual	
Goods and Services Tax	-	-	-	-	-	187.57	18.74
Taxes on Sales, Trade, etc.	250.20	294.29	328.58	400.12	410.00	287.55	
State Excise	4.86	4.70	5.12	4.63	5.60	4.20	(-) 9.29

Taxes on Vehicle	36.15	46.46	53.09	57.39	58.00	101.53	76.91
Stamps and Registration Fees	1.77	1.93	2.04	2.05	2.31	2.62	27.8
Land Revenue	0.70	0.74	0.75	0.82	1.08	0.90	9.76
Taxes on Goods and Passengers	10.79	9.73	5.88	14.76	7.00	17.59	19.17
Other taxes	28.92	30.76	31.64	30.98	32.16	36.32	17.24
<b>Total</b>	<b>333.39</b>	<b>388.61</b>	<b>427.10</b>	<b>510.75</b>	<b>516.15</b>	<b>638.28</b>	<b>24.97</b>

Source: Finance Accounts of respective years.

Tax Revenue and its components for the years 2016-17 and 2017-18 are shown in **Chart 1.6**.

**Chart 1.6: Tax Revenue component during 2016-17 and 2017-18**



The major contributions to the State’s Tax Revenue during the year were State Goods and Services Tax (SGST) (₹ 187.57 crore), Tax on Sales, Trade, etc (₹ 287.55 crore), Taxes on Vehicles (₹ 101.53 crore), Tax on Goods and Passengers (₹ 17.59 crore) and State Excise (₹ 4.20 crore), and Stamps and Registration Fees (₹ 2.62 crore).

Growth rate in respect of Tax Revenue (₹ 127.53 crore) of Nagaland for the period 2016-17 to 2017-18 was 24.97 per cent in 2017-18 as per details given in **Table 1.10**. It was 12.20 per cent for General Category States and 49.30 per cent for Special Category States. Therefore, the growth of Tax Revenue in Nagaland was greater than that of General Category States while it was lesser than that of the Special Category States. Moreover, Tax Revenue-GSDP ratio for the State was 2.70 per cent during 2017-18 as compared to 8.31 per cent for the Special Category States.

**Table 1.11 Major increase/ decrease in current year’s Own Resources**

Sl. No.	Major Heads of Account	Increase (+)/ Decrease(-) (Rupees in crore)	Main Reasons
1	0006 -State Goods and Services Tax	187.57	Due to implementation of GST
2	0029- Land Revenue	0.08	-
3	0030-Stamps and registration fee	0.57	-
4	0039-State Excise	(-) 0.42	-
5	0040- Taxes on Sales, Trades, etc.	(-) 112.57	Due to implementation of GST
6	0041-Tax on Vehicles	44.14	Due to increase in Motor registration cases
7	0042-Tax on Goods and Passengers	2.83	-

Source: Finance Accounts of respective year.

**1.3.1.2 Non-Tax Revenue**

Non-Tax revenue accounts for receipts from services rendered and supplies made by various departments of Government and interest receipts. Non-Tax Revenue constituted 3.50 per cent of the total Revenue Receipts during the year. The gross collection of Non-Tax Revenue is given in **Table 1.12** (the details are given in **Chart 1.7**):

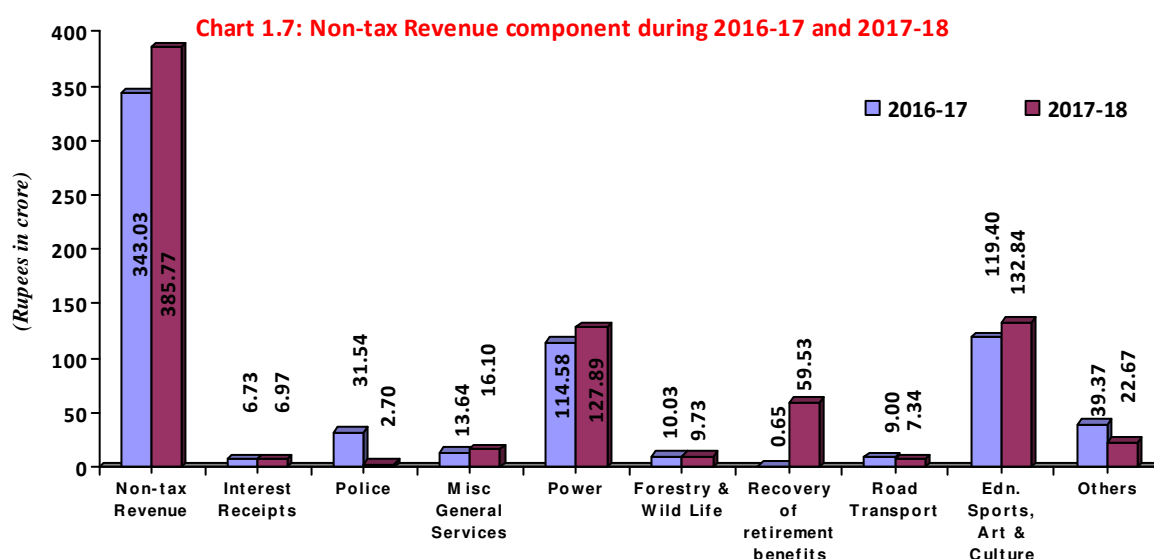
**Table 1.12: Collection of Non-tax Revenue 2013-18**

(Rupees in crore)

Revenue Head	2013-14	2014-15	2015-16	2016-17	2017-18	Percentage increase(+)/ decrease(-) over previous year
Interest receipts	7.62	7.23	5.19	6.73	6.97	3.57
Dividends and profits	0.00	0.00	4.94	0.00	0.00	0.00
Other non-tax receipts	206.72	261.11	243.48	336.30	378.80	12.64
<b>Total</b>	<b>214.34</b>	<b>268.34</b>	<b>253.61</b>	<b>343.03</b>	<b>385.77</b>	<b>12.46</b>

Source: Finance Accounts of respective years.

The Non-Tax Revenue and its components for the years 2016-17 and 2017-18 are shown in **Chart 1.7**.



The major contributors to Non-Tax Revenue during the year included Police (₹ 2.70 crore), Power (₹ 127.89 crore), Miscellaneous General Services (₹ 16.10 crore), Road Transport (₹ 7.34 crore), Education, Sports, Arts & Culture (₹ 132.84 crore), Interest Receipts (₹ 6.97 crore), Forestry and Wildlife (₹ 9.73 crore), and recovery towards Pension and other Retirement Benefits (₹ 59.53 crore).

There was an increase of 12.46 per cent over the previous year under Non-Tax Revenue which was also more than the targets projected in the Budget Estimates (₹ 279.81 crore).

**1.3.1.3 Position of protected revenue to actual collection after implementation of GST**

The Nagaland Goods and Services Tax (GST) Act, 2017 was passed by the State Legislature in May 2017 and made effective from 01 July 2017 in the State. The

Protected revenue<sup>9</sup> of the State for the year 2017-18 in accordance with Section 6 of GST (Compensation to States) Act, 2017, was fixed at ₹ 332.83 crore with a monthly average<sup>10</sup> protected revenue amounting to ₹ 27.74 crore per month for the period.

Accordingly, the protected revenue of the State during the period from July 2017 to March 2018 was worked out to ₹ 249.66 crore (₹ 27.74 crore x 9 months). The actual revenue received by the State under Goods and Services Tax (SGST) was ₹ 276.57 crore including an amount of ₹ 144.27 crore on account of apportionment of Integrated Goods and Services Tax (IGST) and pre- GST arrear of VAT collection of ₹ 89.00 crore. Details of different components of SGST including arrears of VAT received by the State during the corresponding period are shown in **Table 1.13**:

**Table 1.13: Details of SGST receipt of the Government of Nagaland including apportionment of IGST and pre GST arrears of VAT during July 2017 to March 2018**

*(Rupees in crore)*

Sl. No.	Components	Amount <sup>11</sup>
<b>1</b>	<b>State Goods and Services Tax (SGST)</b>	
	(a) Tax	43.30
	(b) Apportionment of Taxes from IGST	133.27
	(c) Advance apportionment of Taxes from IGST	11.00
<b>2</b>	<b>VAT collection (Arrear pre- GST)</b>	89.00
	<b>Total GST Collection</b>	<b>276.57</b>

Source: Finance Accounts & Min. of Finance, Department of Revenue (State Taxes Section) OM dated 7<sup>th</sup> November, 2017.

Thus, the revenue collection of the Government of Nagaland was more than the protected revenue of the State during the period (July 2017 to March 2018). As such, the State Government did not receive any compensation from the GoI during 2017-18 under Section 6 of GST (Compensation to States) Act, 2017.

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

The break-up of Grants-in-Aid (GIA) received from GoI during 2013-18 is given in the **Table 1.14**:

**Table 1.14: Grants-in-Aid from Government of India**

*(Rupees in crore)*

	2013-14	2014-15	2015-16	2016-17	2017-18
Grants for State Development Schemes	2283.84	2257.17	193.05	214.71	290.01
Non- Development Grants	2071.26	2068.04	3310.43	3545.73	3976.63
Grants for Central Development Schemes	26.66	80.93	18.41	26.84	25.92

<sup>9</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>10</sup> Ministry of Finance, GoI Office Memorandum No. S-31011/03/2014-SO (ST)-Pt-I dated 29 August 2017.

<sup>11</sup> Figures mentioned in the column are provisional.

Grants for Centrally Sponsored Development Schemes	445.30	1428.26	1203.85	1660.65	2224.45
Grants for Special Development Schemes	119.61	94.64	93.62	105.45	122.26
<b>Total</b>	<b>4946.67</b>	<b>5929.04</b>	<b>4819.36</b>	<b>5553.38</b>	<b>6639.27</b>
Percentage of increase (+) /decrease (-) over previous year	(+) 4.36	(+) 19.86	(-) 18.72	15.23	19.55

Source: Finance Accounts of respective years.

GIA from GoI has increased by ₹ 1085.89 crore (19.55 per cent) from ₹ 5553.38 crore in 2016-17 to ₹ 6639.27 crore in 2017-18 contributing 60.27 per cent of the total Revenue Receipts during 2017-18. This increase was mainly due to more grants under Centrally Sponsored Development Schemes (₹ 563.80 crore), grants for State Development Schemes (₹ 75.30 crore), and Non- Development grants (₹ 430.90 crore).

There was a substantial change in the pattern of devolution of funds under the recommendations of the XIV FC. Devolution to the State was enhanced to the tune of ₹ 1,406.39 crore during 2017-18 on the basis of XIV FC recommendations. Audit noted that additional devolution led to increase in revenue expenditure by ₹ 1,539.14 crore over the previous year 2016-17 (Para 1.6.2 refers).

The details of the devolution of taxes as well as grants for the last two years of XIII FC (2013-15) and first three years of XIV FC (2015-18) are given in **Table 1.15**:

**Table 1.15: Devolution of taxes as well as grants**

(Rupees in crore)

	2013-14	2014-15	2015-16	2016-17	2017-18
1. State share of Union taxes and duties	1001.27	1062.69	2540.72	3032.63	3353.13
2. Grants-in-Aid from GoI	4946.67	5929.04	4819.36	5553.38	6639.27
<b>TOTAL: (1+2)</b>	<b>5947.94</b>	<b>6991.73</b>	<b>7360.08</b>	<b>8586.01</b>	<b>9992.40</b>
Revenue Receipts	6495.67	7648.67	8040.79	9439.79	11016.45
Percentage of devolution to revenue receipts	91.57	91.41	91.53	90.96	90.70

Source: Finance Account of respective years.

### 1.3.3 Grant under XIV Finance Commission

The details of release of funds to the State on the basis of recommendations of the XIV FC during the first two years (2016-18) and expenditure thereagainst have been shown in **Table 1.16**.

**Table 1.16: XIV Finance Commission Grants**

(Rupees in crore)

Year	2016-17		2017-18	
	Received	Expenditure	Received	Expenditure
Disaster Management	9.00	10.00*	9.90	11.00*
Revenue Deficit Grant	3451.00	3451.00	3700.00	3700.00
<b>Total</b>	<b>3460.00</b>	<b>3461.00</b>	<b>3709.90</b>	<b>3711.00</b>

Source: Finance Accounts of respective years.

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

From the table above, it could be seen that during 2017-18, the State received ₹ 3709.90 crore which was ₹ 249.90 crore more than the previous year's grant of



₹ 3460.00 crore. The Revenue Deficit grants received by the State during the first two years of XIV FC were as per the recommendations made by the FC. However, the Revenue Deficit Grants, being grants to cover deficit on Non- Development Revenue account, the details of the Non- Development Revenue expenditure made were not available grant-wise/ department-wise.

The details of the Revenue Receipts and its components (pre and post XIV FC), net public debt and fiscal parameters are given in **Table 1.17**:

**Table 1.17: Revenue Receipts (its components), net public debt and fiscal parameters (2014-18)**

Year	2014-15	2015-16	2016-17	2017-18
<b>Revenue Receipt</b>	<b>7648.67</b>	<b>8040.79</b>	<b>9439.79</b>	<b>11016.45</b>
Own Tax Revenue	388.61	427.10	510.75	638.28
Non-Tax Revenue	268.34	253.61	343.03	385.77
Central transfers	1062.68	2540.72	3032.63	3353.13
Grants-in-Aid from GoI	5929.04	4819.36	5553.38	6639.27
FC Grant out of GIA (Revenue Deficit Grant)	2023.00	3203.00	3451.00	3700.00
Net Public Debt	108.79	840.59	379.31	689.01
Own Tax and Non-Tax Revenue as <i>percentage</i> of Revenue Receipt	8.59	8.47	9.04	9.30
Revenue deficit (-)/Surplus (+)	888.53	461.65	790.34	827.86
Fiscal Deficit (-)/Surplus (+)	(-) 134.12	(-) 597.27	(-) 284.86	(-) 446.09

*Source: Finance Accounts of respective years.*

It can be seen from the table that Own Tax and Non-Tax Revenue ranged between 9.04 *per cent* (2016-17) and 9.30 *per cent* (2017-18) of the Revenue Receipt during the post XIV FC period (2015-18). This implied that the State was hugely dependent on Central transfers and GIA. It could also be seen that though FC grant (Revenue Deficit Grant) had increased by 7.22 *per cent* over the previous year, the GIA had increased by 19.55 *per cent* in 2017-18 as compared to the previous year.

During 2016-17, the actual Revenue Surplus (₹ 790.34 crore) was less than its budget estimates (₹ 901.85 crore) and during 2017-18, the actual Revenue Surplus (₹ 827.86 crore) was more than the corresponding budget estimates (₹ 706.96 crore). The net public debt decreased in 2016-17 (₹ 379.31 crore) as compared with 2015-16 (₹ 840.59 crore) which, however, increased in 2017-18 (₹ 689.01 crore) as compared to the previous year. The Fiscal Deficit decreased during 2016-17 as compared to the year 2015-16, but it increased during 2017-18.

### 1.3.4 Central Tax Transfers

The XIV FC had recommended that the States' share of central taxes may be increased to 42 *per cent* from 2015-16 onwards. Consequently, the State's share in the net proceeds of Central Taxes (excluding Service Tax) and net proceeds of Service Tax has been fixed at 0.498 *per cent* and 0.503 *per cent* of the net proceeds of Central Taxes and Service Tax respectively. The break-up of State's share of Union Taxes and Duties received during 2013-18 is given in **Table 1.18**:

**Table 1.18: Central Tax Transfers**

(Rupees in crore)

Head	2013-14	2014-15	2015-16	2016-17	2017-18
CGST/IGST	0.00	0.00	0.00	0.00	386.44
Corporation Taxes	336.90	371.26	804.56	973.28	1027.20
Taxes on income other than Corporation Tax	221.84	265.11	564.00	676.44	867.42
Tax on Wealth	0.92	1.00	0.13	2.22	(-) 0.03
Customs	163.45	171.94	405.10	418.66	338.50
Union Excise Duties	115.44	97.09	332.50	478.09	353.90
Service Tax	162.72	156.28	433.27	483.93	379.70
Other Taxes and Duties on Commodities and Services	0.00	0.00	1.16	0.01	0.00
<b>Total</b>	<b>1001.27</b>	<b>1062.68</b>	<b>2540.72</b>	<b>3032.63</b>	<b>3353.13</b>
Central Tax Transfer to <i>per cent</i> of RR	15.41	13.89	31.60	32.13	30.44

Source: Finance Accounts of respective years.

Central Tax transfers during the year (₹ 3353.13 crore) were more than the assessment made in budget estimate (₹ 3200.00 crore) by ₹ 153.13 crore (4.79 *per cent*). State's share of Union Taxes and Duties increased by ₹ 320.50 crore (10.57 *per cent*) from ₹ 3032.63 crore in 2016-17 to ₹ 3353.13 crore in 2017-18 contributing 30.44 *per cent* of the total Revenue Receipts during 2017-18. This increase was mainly due to implementation of GST and collection of revenue from CGST/IGST.

The Government accepted (December 2018) the facts pointed out by Audit.

#### 1.4 Capital Receipts

The details of capital receipts for the period from 2013-14 to 2017-18 are given in **Table 1.19**:

**Table 1.19: Capital Receipts**

Source of State's Receipt	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Capital Receipts (CR)</b>	<b>1977.42</b>	<b>2415.58</b>	<b>3546.44</b>	<b>5445.44</b>	<b>5142.11</b>
Recovery of Loans and Advances (Rupees in crore)	1.01	0.71	0.50	1.09	1.09
Public Debt Receipt (Rupees in crore)	1976.41	2414.87	3545.94	5444.35	5141.02
Rate of growth of Debt Capital Receipts ( <i>per cent</i> )	(-)27.61	22.18	46.84	53.54	(-) 5.57
Rate of growth of non-Debt Capital Receipts ( <i>per cent</i> )	18.82	(-)29.70	(-)29.58	118.00	0.00
Rate of growth of CR ( <i>per cent</i> )	(-)27.59	22.16	46.82	53.55	(-) 5.57
Debt Capital buoyancy w.r.t GSDP	(-)1.26	2.04	4.09	18.46	(-) 0.47
Non Debt Capital Buoyancy w.r.t GSDP	0.86	(-)2.74	(-)2.58	40.69	0.00

Source: Finance Accounts of respective years.

Public Debt Receipts constituted 99.98 *per cent* of the Capital Receipts in 2017-18. The Capital Receipts had decreased by ₹ 303.33 crore, which was the result of less drawal of Ways and Means Advances (₹ 355.65 crore), Loans from other Institutions (₹ 14.54 crore) offset by increase in Market Loans (₹ 65.37 crore), Loans from National Bank for Agriculture and Rural Development (₹ 1.42 crore) and Loans and Advances from Central Government (₹ 0.07 crore). This indicates that the State was able to optimally utilise the available resources during 2017-18.

**1.4.1 Proceeds from disinvestment**

During the financial year 2017-18, the Government of Nagaland did not resort to any disinvestment.

**1.4.2 Recoveries of loans and advances**

The State Government in its Medium Term Fiscal Policy Statement (MTFPS) for the year 2017-18 targeted recovery of Loans and Advances of ₹ 2.91 crore. During the year, the actual recovery was only ₹ 1.09 crore (37.46 per cent). Recovery of loans and advances had not shown any increase over the previous year.

**1.4.3 Debt receipts from internal sources (market loans, borrowings from financial institutions, banks)**

Debt Receipts from internal sources decreased by ₹ 303.33 crore (5.57 per cent) from ₹ 5444.35 crore in 2016-17 to ₹ 5141.02 crore in 2017-18. Debt Receipts from internal sources of ₹ 5141.02 crore comprised of Market loans (₹ 1135.00 crore), loans from NABARD (₹ 19.54 crore), loans from GoI (₹ 0.33 crore), loans from other Institutions (₹ 80.15 crore) and WMA from RBI (₹ 3906.00 crore).

The Government accepted (December 2018) the facts pointed out by Audit

**1.5 Public Account Receipts**

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

**Table 1.20: Net transactions under Public Account***(Rupees in crore)*

Resources under various heads	2013-14	2014-15	2015-16	2016-17	2017-18
Small Savings, Provident Fund, etc.	112.07	55.35	11.76	29.10	61.54
Reserve Fund	12.15	41.01	200.67	225.00	225.00
Deposits and Advances	240.68	(-)607.76	(-)75.07	(-)7.69	(-)123.76
Suspense and Miscellaneous	(-)0.76	0.56	2.98	(-)5.83	(-)0.36
Remittances	(-)30.38	277.54	73.96	32.00	32.45
<b>Total</b>	<b>333.76</b>	<b>(-)233.30</b>	<b>214.30</b>	<b>272.58</b>	<b>194.87</b>

Source: Finance Accounts of respective years.

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

The net receipts from Public Account decreased by ₹ 77.71 crore (28.51 per cent) from ₹ 272.58 crore in 2016-17 to ₹ 194.87 crore in 2017-18. The decrease was due to decrease in Deposit and Advances (₹ 116.07 crore) offset by increase in Small Savings, Provident Funds (₹ 32.44 crore), Suspense and Miscellaneous (₹ 5.47 crore) and Remittances (₹ 0.45 crore).

The Government accepted (December 2018) the facts pointed out by Audit.

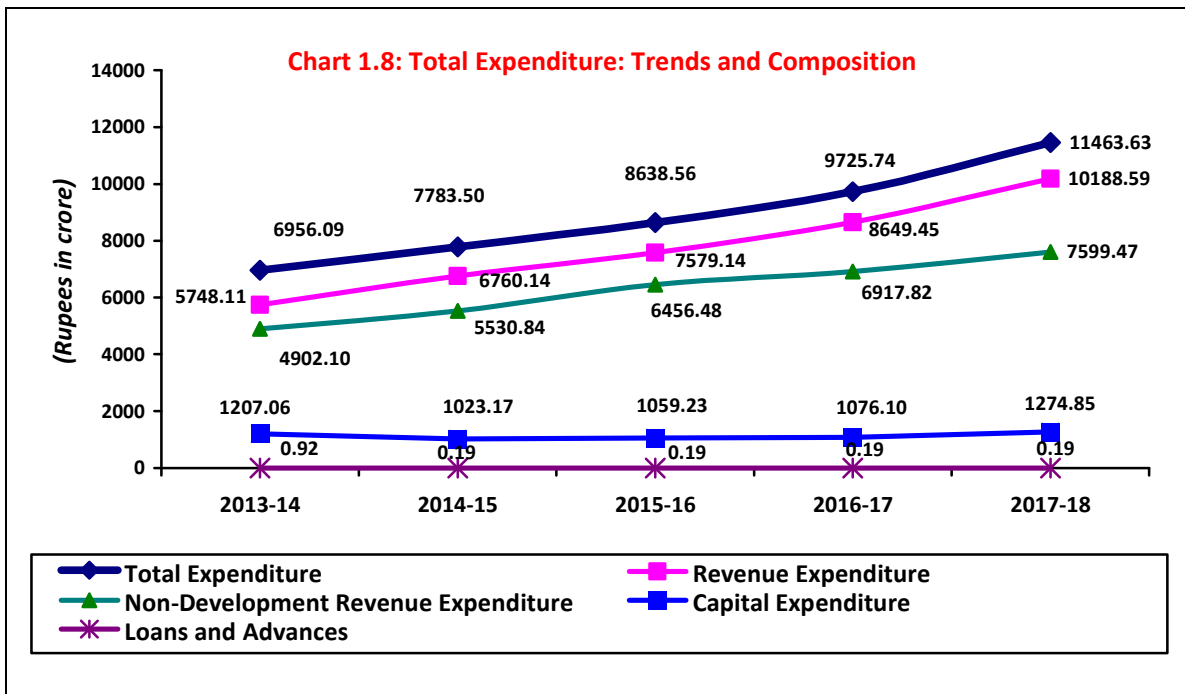
**1.6 Application of resources**

Analysis of the allocation of expenditure at the State Government level assumes significance since the Government is entrusted with major expenditure responsibilities.

Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

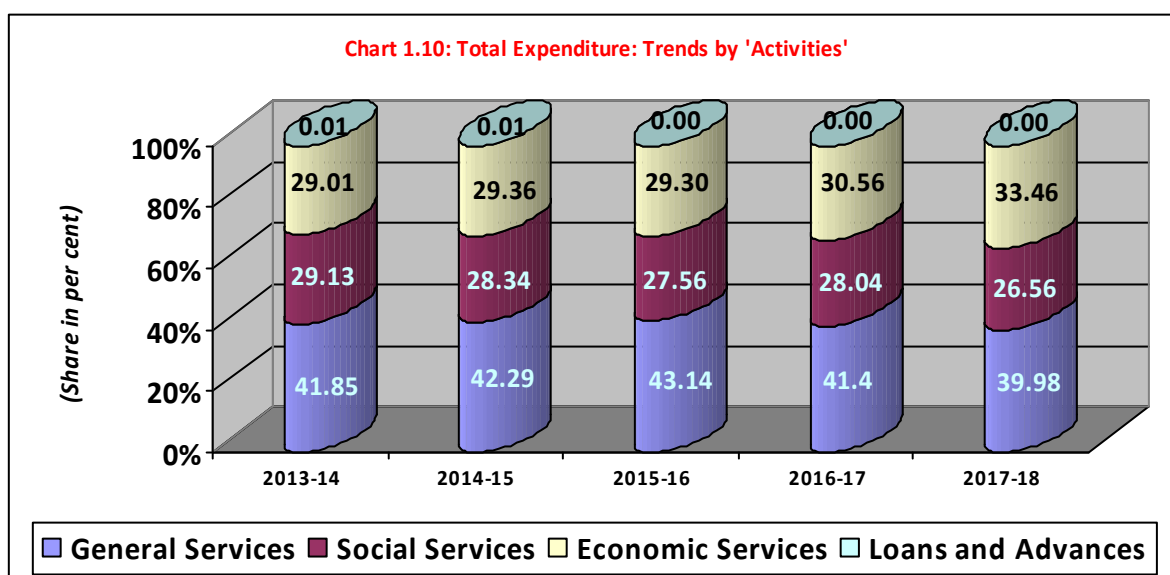
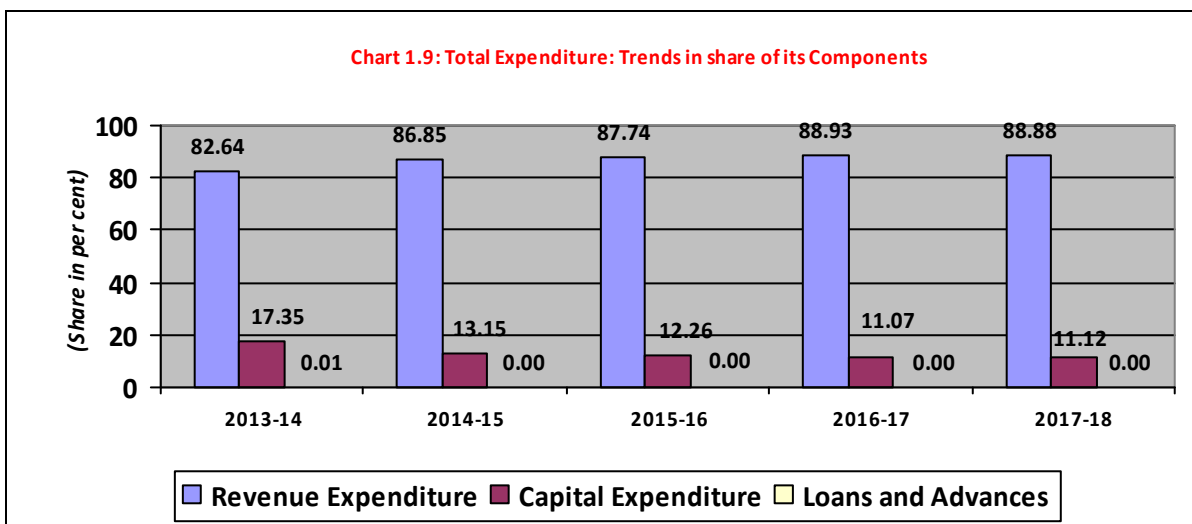
**1.6.1 Growth and Composition of Expenditure**

**Chart 1.8** presents the trends in Total Expenditure over a period of five years (2013-18) and its composition both in terms of ‘classification of expenditure’ and ‘expenditure by activities’ is depicted respectively in **Charts 1.9 and 1.10**.



Statements 15 & 16 of the Finance Accounts depict the detailed Revenue Expenditure by minor heads and Capital Expenditure respectively. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services and extend the network of these services through capital expenditure and investments to discharge their debt service obligations.

Total expenditure during 2017-18 was ₹ 11463.63 crore as compared to an expenditure of ₹ 9725.74 crore during 2016-17. Thus, the expenditure had increased by ₹ 1737.89 crore (17.87 per cent) over the previous year. The Total Expenditure in 2017-18 comprised of Revenue Expenditure of ₹ 10188.59 crore (88.88 per cent), Capital Expenditure ₹ 1274.85 crore (11.12 per cent) and Loans and Advances ₹ 0.19 crore. The increase in Total Expenditure during 2017-18 over the previous year was due to increase in Revenue Expenditure by ₹ 1539.14 crore and Capital Expenditure by ₹ 198.75 crore.



### Buoyancy of expenditure

The Total Expenditure (TE), its annual growth rate, the ratio of expenditure to the GSDP and to Revenue Receipts (RR) and its buoyancy with respect to GSDP and Revenue Receipts are indicated in **Table 1.21**:

**Table 1.21: Total expenditure-basic parameters**

	2013-14	2014-15	2015-16	2016-17	2017-18
Total Expenditure (TE) (Rupees in crore)	6956.09	7783.50	8638.56	9725.74	11463.63
Growth rate of TE (per cent)	1.45	11.89	10.99	12.59	17.87
TE/GSDP ratio (per cent)	41.87	42.27	42.09	46.05	48.53
RR/TE (per cent)	93.38	98.27	93.08	97.06	96.10
<b>Buoyancy of Total Expenditure with reference to:</b>					
GSDP (ratio)	0.07	1.10	0.96	4.34	1.51
Revenue Receipt (ratio)	0.31	0.67	2.14	0.72	1.07

Source: Finance Accounts of respective years.

During the current year, 96.10 per cent of the Total Expenditure was met from Revenue Receipts and the remaining was met from Capital Receipts and borrowed funds.

In the context of State finances, the quality of expenditure has always been an important issue. During the current year, revenue expenditure, which is in the nature of current consumption, accounted for around 89 *per cent* of the State's aggregate expenditure, leaving only 11 *per cent* for investment in infrastructure and asset creation.

The General Services expenditure increased by ₹ 557.24 crore (13.84 *per cent*) from ₹ 4026.51 crore in 2016-17 to ₹ 4583.75 crore in 2017-18, Social Services expenditure increased by ₹ 317.30 crore (11.64 *per cent*) and Economic Services expenditure increased by ₹ 863.35 crore (29.05 *per cent*).

### 1.6.2 Revenue Expenditure

Revenue Expenditure was incurred to maintain the current level of services and payments for the past obligations and as such does not result in any addition to the State's infrastructure and service network. Revenue Expenditure had predominant share varying from 82.63 *per cent* to 88.93 *per cent* of the total expenditure of the State during 2013-18. The Revenue Expenditure, its rate of growth, the ratio of Revenue Expenditure to GSDP and to Revenue Receipts and its buoyancy are indicated in **Table 1.22:**

**Table 1.22: Revenue Expenditure-basic parameters**

	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue Expenditure (RE), of which ( <i>Rupees in crore</i> )	5748.11	6760.14	7579.14	8649.45	10188.59
Non-Development Revenue Expenditure ( <i>Rupees in crore</i> )	4902.10 (85.28%)	5530.84 (81.82%)	6456.48 (85.19%)	6917.82 (79.98%)	7599.47 (74.59%)
Development Revenue Expenditure ( <i>Rupees in crore</i> )	846.01 (14.72%)	1229.30 (18.18%)	1122.66 (14.81%)	1731.63 (20.02%)	2589.12 (25.41%)
Rate of growth of RE ( <i>per cent</i> )	2.66	17.61	12.12	14.12	17.79
RE as percentage to TE	82.63	86.85	87.74	88.93	88.88
Buoyancy of RE with GSDP (ratio)	0.12	1.62	1.06	4.87	1.50
Buoyancy of RE with RR (ratio)	0.56	0.99	2.36	0.81	1.07

*Source: Finance Accounts of respective years.*

The Non-Development Revenue Expenditure decreased by five *per cent* from 80 *per cent* in 2016-17 to 75 *per cent* during the current year. It had ranged between 75 to 85 *per cent* during the last five years which indicates that the expenditure of the State was not managed efficiently.

Revenue Expenditure of the State had increased by ₹ 4440.48 crore (77.25 *per cent*) from ₹ 5748.11 crore in 2013-14 to ₹ 10188.59 crore in 2017-18 at a compound annual growth rate of 15.38 *per cent*.

The actual Revenue Expenditure *vis-à-vis* assessment made by XIV FC is given in **Table 1.23:**

**Table 1.23: Revenue Expenditure assessment made by XIV FC and actual**

(*Rupees in crore*)

	Assessment made by XIV FC for 2017-18	Actuals
Revenue Expenditure (RE)	8662.00	10188.59

The actual Revenue Expenditure exceeded the normative assessment made by XIV FC by ₹ 1526.59 crore (17.62 *per cent*).

### 1.6.3 Committed Expenditure

The Committed Expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pension and subsidies. **Table 1.24** and **Chart 1.11** present the trends in the expenditure on these components during 2013-18.

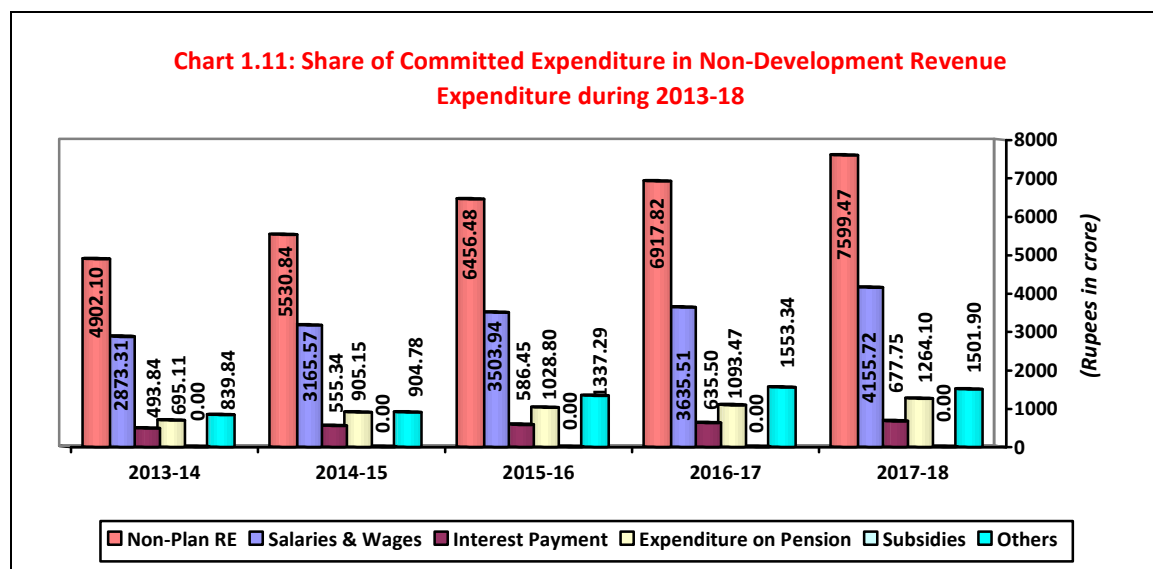
The Committed Expenditure (*i.e.*, interest payment, pension, salaries and subsidies) of the State Government increased by ₹ 618.55 crore (11.29 *per cent*) from ₹ 5479.02 crore in 2016-17 to ₹ 6097.57 crore in 2017-18. The overall percentage of Committed Expenditure to Revenue Receipts was 55.35 *per cent* in 2017-18.

**Table 1.24: Components of Committed Expenditure**

(Rupees in crore)

	2013-14	2014-15	2015-16	2016-17	2017-18
Salaries & Wages, of which	2940.80	3274.16	3688.50	3750.05	4155.72
<i>Non- Development</i>	2873.31	3165.57	3503.94	3635.51	3968.07
<i>Development</i>	67.49	108.59	184.56	115.54	187.65
Interest Payment	493.84	555.34	586.45	635.50	677.75
Expenditure on Pension	695.11	905.15	1028.80	1093.47	1264.10
<b>Total</b>	<b>4129.75</b>	<b>4734.65</b>	<b>5303.75</b>	<b>5479.02</b>	<b>6097.57</b>
<b>As per cent of Revenue Receipts</b>					
Salaries & Wages	45.27	42.81	45.87	39.73	37.72
Interest Payment	7.60	7.26	7.29	6.73	6.15
Expenditure on pension	10.70	11.83	12.79	11.58	11.47

Source: Finance Accounts of respective years.



#### 1.6.3.1 Salaries & Wages

Expenditure on salaries and wages increased by ₹ 1214.92 crore (41.31 *per cent*) from ₹ 2940.80 crore in 2013-14 to ₹ 4155.72 crore in 2017-18 at a compound annual growth rate of 9.03 *per cent*. Expenditure on salaries and wages increased by ₹ 405.67 crore (10.82 *per cent*) over the previous year mainly due to release of dearness allowance

installments and incremental benefits. It may be seen that 37.72 per cent of the Revenue Receipts went towards disbursement of Salary and Wages during the year 2017-18.

### **1.6.3.2 Pension Payment**

The expenditure on pension had increased by ₹ 170.63 crore (15.60 per cent) from ₹ 1093.47 crore in 2016-17 to ₹ 1264.10 crore (including ₹ 62.44 crore on New Pension Scheme) in 2017-18. The pension payment was ₹ 179.10 crore more than the assessment made by XIV FC (₹ 1085.00 crore). However, it was ₹ 158.35 crore less than the assessment made by the State Government in its MTFPS (₹ 1422.45 crore) for the year 2017-18.

### **Migration to New Pension Scheme**

State Government employees appointed on or after 01 January 2010 are covered under the New Pension Scheme *i.e.*, National Pension Scheme (NPS), which is a defined contributory pension scheme. In terms of the scheme, employee contributes 10 per cent of their basic pay plus dearness allowances and the State Government is required to make matching contribution.

The details of employee's share, Government contribution, interest accrued thereon and transfer to the trustee Bank/NSDL is given in **Table 1.25**:

**Table 1.25: Details of contribution and transfers to NSDL under NPS**

(Rupees in crore)

Year	Opening Balance	Details of contribution by			Transfer to NSDL	Less Transfer	Rate of interest applicable	Interest due on Opening Balance
		Employees	Government	Total				
2013-14	30.00	21.76	21.76	43.52	1.28	72.24	8.80	2.64
2014-15	72.24	34.83	34.83	69.66	21.55	120.35	8.80	6.36
2015-16	120.35	38.92	38.92	77.84	40.01	158.18	8.80	10.59
2016-17	158.18	47.28	47.28	94.56	52.21*	200.53	8.00	12.65
2017-18	200.53	65.00	65.00	130.00	119.13	211.40	7.60	15.24
<b>Total</b>		<b>207.79</b>	<b>207.79</b>	<b>415.58</b>	<b>234.18</b>			<b>47.48</b>

\* Apart from ₹ 52.21 crore, the Government transferred ₹ 13.91 crore towards interest and ₹ 1.33 crore towards service charges.

During the year 2017-18, there was an opening balance of ₹ 200.53 crore and ₹ 130.00 crore (Employees' + Employer's share) was contributed to the fund. Out of this, an amount of ₹ 119.13 crore (Employee's contribution- ₹ 56.69 crore; and Employer's contribution- ₹ 62.44 crore) was transferred to the NSDL/Trustee Bank leaving a balance of ₹ 211.40 crore (Employees' contribution ₹ 103.68 crore and Employers' contribution ₹ 107.72 crore) un-transferred as on 31 March 2018. The accumulated balance was due to persistent short transfer of funds to NSDL/Trustee Bank over the years. Over the last five years, the State Government has acquired the interest liability of amounting to ₹ 47.48 crore on the amount not transferred to NSDL.

While accepting (December 2018) the fact, the Government stated that the Employees' and Employers' contribution by the Government to NSDL/Trustee Bank could not be remitted due to non-generation of Permanent Retirement Account Number (PRAN) in

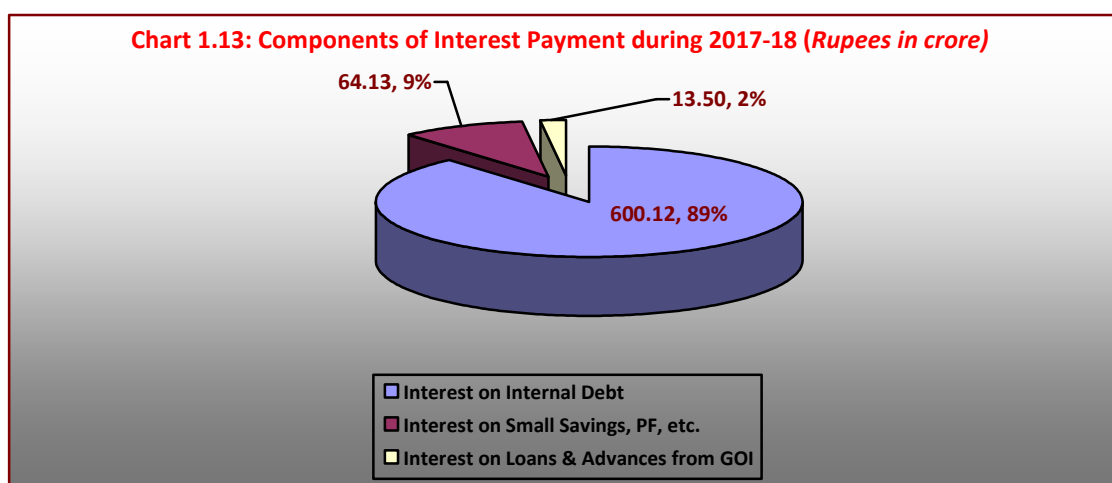
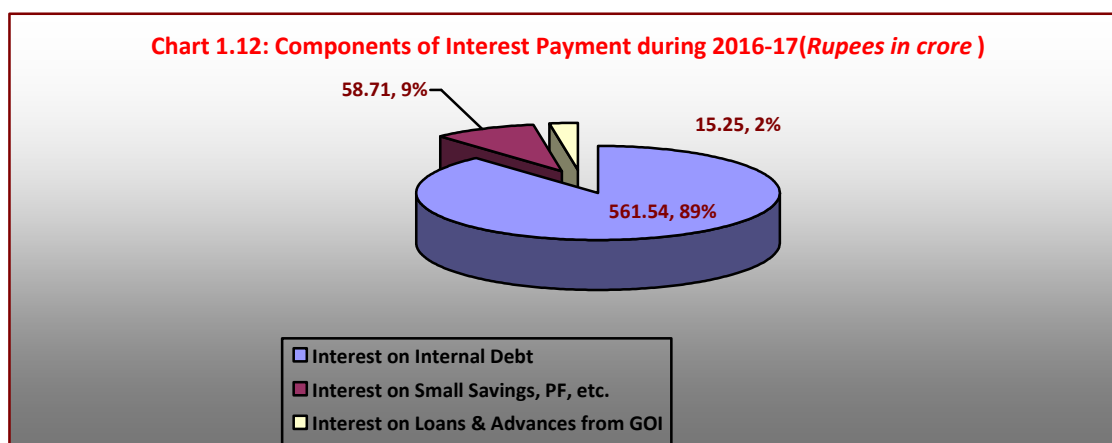


respect of employees who had either submitted the Registration forms with delay or not submitted the same due to not having Permanent Account Number (PAN), Aadhar and Bank Account, etc. However, online e-NPS has been introduced and the process to regularize the outstanding amounts had been started.

Failure of the State Government to transfer the entire amount of pension contribution to NSDL/Trustee Bank would not only eventually deplete the NPS Corpus but also increase the liability of the Government and the risk of failure of the scheme.

**Recommendation (2):** *The State Government should ensure that employees recruited on or after 01 January 2010 are fully covered under the New Pension Scheme from the date of their recruitment by ensuring that employees' contributions are fully deducted, fully matched by Government contributions, and fully transferred to NSDL/Trustee Bank in a timely manner to avoid interest liability.*

### 1.6.3.3 Interest Payments



Interest payment increased by ₹ 183.91 crore (37.24 per cent) from ₹ 493.84 crore in 2013-14 to ₹ 677.75 crore in 2017-18 at a compound annual growth rate of 8.24 per cent. The interest payment increased by ₹ 42.25 crore (6.65 per cent) during 2017-18 over the previous year due to increase in interest payment on Internal Debt (₹ 38.58 crore) and Small Savings, Provident Fund, etc. (₹ 5.42 crore) offset by decrease in interest payment on Loans and Advances from Central Government (₹ 1.75 crore).

The interest payment for the year 2017-18 was lower than the projection made by the State Government in MTFPS (₹ 827.20 crore) but higher than the projections made in XIV FC (₹ 595.00 crore).

#### **1.6.3.4 Subsidies**

No subsidies were given by the State Government during the years 2013-18.

### **1.6.4 Financial Assistance by State Government to Local bodies and other Institutions**

The quantum of assistance provided by way of grants and loans to Local bodies and others during the current year relative to the previous years is presented in **Table 1.26**:

**Table 1.26: Financial Assistance to Local bodies, etc.**

*(Rupees in crore)*

<b>Financial Assistance to Institutions</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	30.47	10.51	9.47	8.91	10.60
Co-operation	19.18	1.00	1.50	2.00	0.00
Municipal councils	5.98	6.34	1.62	0.00	1.62
Development Agencies	29.18	103.44	0.00	10.00	11.51
Hospitals and Other Charitable Institutions	14.46	16.42	17.31	17.76	19.49
Panchayati Raj	0.09	6.19	0.00	0.00	0.00
Special Area Programme	0.00	60.87	0.00	0.00	0.00
Other Institutions	193.75	45.83	90.73	132.20	285.18
<b>Total</b>	<b>293.11</b>	<b>250.60</b>	<b>120.63</b>	<b>170.87</b>	<b>328.40</b>
Assistance as percentage of RE	5.10	3.71	1.59	1.98	3.22

*Source: Finance Accounts of respective years.*

The total assistance to local bodies, etc., increased by ₹ 157.53 crore (92.19 per cent) from ₹ 170.87 crore in 2016-17 to ₹ 328.40 crore in 2017-18. **Table 1.26** shows that the assistance increased by ₹ 1.69 crore (18.96 per cent) from ₹ 8.91 crore in 2016-17 to ₹ 10.60 crore in 2017-18 in respect of educational institutions. In respect of Hospitals and Other Charitable Institutions, the assistance increased by ₹ 1.73 crore (9.74 per cent) from ₹ 17.76 crore in 2016-17 to ₹ 19.49 crore in 2017-18. During 2017-18, no financial assistance was extended in respect of Special Area Programme and Co-operation and Panchayati Raj.

While accepting the facts (December 2018), Government stated that being a deficit state, priority was given to meet the minimum needs of current expenditure. Hence, the Government could not provide more funds for capital investment.

### **1.7 Quality of Expenditure**

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e., adequate provision for providing public services), efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

### 1.7.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, *etc.* **Table 1.27** analyses the fiscal priority given by the Nagaland Government to various expenditure heads in 2013-14 and 2017-18 with regard to Developmental Expenditure, Social Sector Expenditure, Economic Sector Expenditure and Capital Expenditure.

**Table 1.27: Fiscal priority of the State in 2013-14 & 2017-18**

(In per cent)

Fiscal priority by the State	AE/GSDP	*DE/AE	SSE/AE	ESE/AE	CE/AE	Education/AE	Health/AE
Special Category States Average (Ratio) 2013-14	23.50	64.00	37.60	29.30	13.80	18.30	5.40
Nagaland's (Ratio) 2013-14	39.19	58.20	29.10	29.00	17.40	15.90	4.30
Special Category States Average (Ratio) 2017-18	25.80	58.90	34.90	28.90	15.50	18.20	6.20
Nagaland's (Ratio) 2017-18	48.53	60.01	26.56	33.46	11.12	13.20	5.31

AE: Aggregate Expenditure DE: Developmental Expenditure SSE: Social Sector Expenditure

CE: Capital Expenditure ESE: Economic Sector Expenditure.

\*Developmental expenditure includes Developmental Revenue Expenditure, Developmental Capital Expenditure and Loans & Advances disbursed. (Source: For GSDP, Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation website as on July 2018).

A comparison of the data related to Nagaland with that of the Special Category States (SCS) revealed the following:

- Development expenditure as a proportion of aggregate expenditure was lower in the State compared to the SCS average during 2013-14 but higher during 2017-18.
- Expenditure on Social Sector as a proportion of aggregate expenditure was lower than the SCS average both during 2013-14 and 2017-18. The share of expenditure on education and health as a proportion of aggregate expenditure was also lower than the SCS averages, both in 2013-14 and 2017-18.
- Expenditure on Economic Sector as a proportion of aggregate expenditure was slightly lower than the SCS average during 2013-14 but it was higher during 2017-18.
- Ratio of Capital Expenditure to Aggregate Expenditure stood at 11.12 *per cent* which was less than the combined average (15.50 *per cent*) of the SCS in 2017-18. It indicates that the State Government did not accord prudent fiscal priorities to enhance the productive capacity of the State.

**Recommendation (3): Efforts should be made to increase the capital expenditure in order to improve the productive capacity of the State's economy.**

### 1.7.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods<sup>12</sup>. Apart from improving the

<sup>12</sup> As detailed in Appendix 1.1 Part-C

allocation towards developmental expenditure<sup>13</sup>, particularly in view of the fiscal space being created on account of decline in debt servicing in the current year, the efficiency of expenditure use is also reflected by the ratio of Capital Expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. **Table 1.28** presents the trends in Developmental Expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted and the previous years:

**Table-1.28: Developmental Expenditure**

(Rupees in crore)

Components of Developmental Expenditure	2013-14	2014-15	2015-16	2016-17	2017-18	
					BEs	Actuals
<b>Developmental Expenditure (a to c)</b>	4044.65 (58.15)	4491.58 (57.71)	4912.31 (56.86)	5699.23 (58.60)	7403.17	6879.88 (60.01)
a. Developmental Revenue Expenditure	3017.86 (43.38)	3629.17 (46.63)	3958.67 (45.83)	4755.49 (48.90)	5788.16	5871.94 (51.22)
b. Developmental Capital Expenditure	1025.87 (14.75)	862.22 (11.08)	953.45 (11.04)	943.55 (9.70)	1614.61	1007.75 (8.79)
c. Developmental Loans and Advances	0.92 (0.01)	0.19 (0.00)	0.19 (0.00)	0.19 (0.00)	0.40	0.19 (0.00)

Figures in parentheses indicate percentage to Total Expenditure.

Source: Finance Accounts of respective years.

The Developmental Expenditure (₹ 6879.88 crore) was lesser than the assessment made by the State Government in the budget (₹ 7403.17 crore) by ₹ 523.29 crore during 2017-18. The Developmental Revenue Expenditure increased by ₹ 1116.45 crore (23.48 per cent) and Developmental Capital Expenditure by ₹ 64.20 crore (6.80 per cent) over the previous year. Overall, the Development Expenditure of the State did not change much in terms of the percentages, even as the total receipts of the State have seen a substantial increase with enhanced devolutions as per recommendations of the XIV FC.

While accepting the facts (December 2018), Government stated that one of the reasons for incurring more expenditure in Economic Sector was that the State Power and State Transport departments were not corporatized.

## 1.8 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its Fiscal Deficit (and borrowing) not only at low levels but also meet its Capital Expenditure/ investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and to take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and Capital Expenditure incurred by the Government during the current year *vis-à-vis* previous years.

<sup>13</sup> The analysis of expenditure data is disaggregated into developmental and non-developmental expenditure. All expenditure relating to Revenue Account, Capital Account and Loans and Advances are categorised into social services, economic services and general services. Broadly, the social and economic services constitute developmental expenditure, while expenditure on general services is treated as non-developmental expenditure.

### 1.8.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2018 is given in **Table 1.29**:

**Table 1.29: Department-wise Profile of Incomplete Projects**

(Rupees in crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Cost	Cumulative expenditure as on 31-03-2018
Department of Under Developed Area	75	83.69	83.69	23.82
Police Engineering Projects	54	701.71	701.71	181.35
Veterinary and Animal Husbandry	37	44.86	45.00	18.17
Public Works Department (Road & Bridges)	13	309.03	369.52	278.71
Civil Administrative Works Department (CAWD)	26	9.00	9.00	0.00
Public Works Department (Housing)	15	222.38	222.38	150.13
Urban Development	14	378.75	378.75	149.08
Department of Higher Education	10	24.22	24.22	8.85
Technical Education	4	3.00	3.00	37.95
Youth Resource and Sports	4	174.59	190.11	79.78
Geology and Mining	3	52.08	79.49	48.73
Transport Commissioner	7	46.28	46.62	32.93
23 Other Departments	49	336.11	344.95	728.18
<b>Total</b>	<b>311</b>	<b>2385.70</b>	<b>2498.44</b>	<b>1737.68</b>

Source: Finance Accounts and Departmental records.

As on 31 March 2018, 311 projects involving an expenditure of ₹ 1737.68 crore were incomplete. Out of those, two projects involving an expenditure of ₹ 10.47 crore, which were taken up under PWD (Roads & Bridges), had been suspended.

Age-wise analysis of delay in completion of projects from the stipulated date of their completion showing status as on 31 March 2018 is given in **Table 1.30**:

**Table 1.30: Age profile of incomplete projects**

(In number)

Sl. No.	Delay of projects in number of years from stipulated date of completion	Number of incomplete projects
1	0 to 3 years	149
2	3 to 5 years	80
3	5 to 7 years	37
4	Above 7 years	04
	<b>Total</b>	<b>270</b>

Source: Finance Accounts and Departmental records.

Information regarding target year of completion in respect of 41 out of 311 projects was not furnished by the Department, though called for. The remaining 270 projects were stipulated to be completed on or before 31 March 2018, had remained incomplete as of December 2018.

Project cost in respect of 11 incomplete projects was revised from ₹ 151.46 crore to ₹ 264.20 crore. Increase in cost was related to projects under PWD (Road & Bridges- ₹ 60.49 crore), Geology and Mining (₹ 27.41 crore), State Council of Educational Research and Training (₹ 0.69 crore), Transport (₹ 0.34 crore), Veterinary and Animal

Husbandry (₹ 0.14 crore), Youth Resources and Sports (₹ 15.52 crore), Agriculture (₹ 0.17 crore) and Social Welfare (₹ 7.98 crore).

Delay in completion of works invites the risk of escalation in the cost of the works. The actual cost overrun would be available on closure of the claims of the construction agencies after completion. Besides, due to delay in completion of the projects, the intended benefits from those projects did not reach the beneficiaries in the State.

While accepting the facts (December 2018), the Government stated that due to discontinuation of Special Plan Assistance, some of the projects could not be completed. However, the Government assured that it would carry out a comprehensive review to complete the project in a time bound manner.

**Recommendation (4): State Government should conduct a serious review of the incomplete projects and provide required funds to complete the projects in a time bound manner so that the funds spent already, do not get wasted.**

### 1.8.2 Investment and returns

As on 31 March 2018, Government had invested ₹ 293.19 crore in Government Companies, Statutory Corporations, Joint Stock Companies and Co-operatives (**Table 1.31**). The average return on this investment was 'Nil' during the four years while there was a return of ₹ 4.94 crore during the year 2015-16 which indicated non-performing investments. The Government paid an average interest rate of 6.79 per cent on its borrowings during 2017-18.

**Table 1.31: Return on Investment**

(Rupees in crore)

Investment/Return/Cost of Borrowings	2013-14	2014-15	2015-16	2016-17	2017-18
Investment at the end of the year (a-e)	270.01	278.44	290.60	291.75	293.19
(a) Joint Stock Companies	32.10	32.10	43.10	43.10	43.10
(b) Government Companies	182.05	190.48	191.60	192.75	194.19
(c) Statutory Corporations	0.04	0.04	0.04	0.04	0.04
(d) Co-operatives	55.82	55.82	55.86	55.86	55.86
Return	0.00	0.00	4.94	0.00	0.00
Return ( per cent)	0.00	0.00	1.70	0.00	0.00
Average rate of interest on Government borrowing (per cent)	6.25	6.81	6.95	6.87	6.79
Difference between interest rate and return (per cent)	6.25	6.81	5.25	6.87	6.79

Source: Finance Accounts of respective years.

Out of the total Government investment of ₹ 293.19 crore at the close of the current year, ₹194.19 crore was invested in five Government companies (₹ 107.78 crore), Distillery Project (part of Nagaland Sugar Mills Ltd.) (₹ 0.30 crore) and other Undertakings (Nagaland Hotels Ltd.) (₹ 86.11 crore). The remaining amount of ₹ 99.00 crore was invested in two Joint Stock Companies (₹ 43.10 crore) and Statutory Corporations, Co-operative Bank and Co-operative Societies, etc., (₹ 55.90 crore). During the current year, the Government made additional investment of ₹ 1.44 crore in State Mineral Development Corporation Ltd.

Out of six Government companies in the State, one company viz., Nagaland Sugar Mills Ltd. along with Distillery Project (₹ 7.59 crore-investment up to 2001-02) was non-

working whose accounts were in arrears for 16 years. The five working companies include Nagaland Industrial Development Corporation Ltd. (₹ 8.39 crore), Nagaland Industrial Raw Materials and Supply Corporation Ltd., (₹ 4.05 crore), State Mineral Development Corporations (₹ 85.23 crore), Nagaland Handloom and Handicrafts Development Corporation Ltd. (₹ 2.82 crore) and Nagaland Hotels Ltd. (₹ 86.11 crore). The accounts of the five working Government Companies were in arrears for periods ranging between one and eight years. Hence, the actual financial status of the companies as of March 2018 could not be assessed by Audit.

The capital investment and accumulated losses of the working State PSUs as per their latest finalised accounts were ₹ 27.70 crore and ₹ 63.40 crore respectively. Out of the five working Government Companies, accumulated losses (₹ 63.40 crore) in all the five working Government Companies had exceeded their paid-up capital (₹ 27.70 crore).

The Government accepted (December 2018) the facts pointed out by Audit.

### 1.8.3 Loans and Advances by State Government

In addition to investments in Co-operative Societies, Corporations and Companies, Government has also been providing Loans and Advances to many institutions/organisations. **Table 1.32** presents the outstanding Loans and Advances as on 31 March 2018 and interest receipts *vis-à-vis* interest payments during the last three years:

**Table-1.32: Average Interest received on Loans advanced by the State Government**

*(Rupees in crore)*

Quantum of loans/interest receipts/ cost of borrowings	2013-14	2014-15	2015-16	2016-17	2017-18	
					BES	Actuals
<b>Opening Balance</b>	<b>27.42</b>	<b>27.33</b>	<b>26.81</b>	<b>26.50</b>	<b>23.76</b>	<b>25.60</b>
Amount advanced during the year	0.92	0.19	0.19	0.19	0.40	0.19
Amount repaid during the year	1.01	0.71	0.50	1.09	1.91	1.09
<b>Closing Balance</b>	<b>27.33</b>	<b>26.81</b>	<b>26.50</b>	<b>25.60</b>	<b>22.25</b>	<b>24.70</b>
Net addition	(-)0.09	(-)0.52	(-)0.31	(-)0.90	#	(-)0.90
Interest Receipts	3.49	3.29	1.81	3.11	#	2.18
Interest receipts as <i>per cent</i> to outstanding loans and advances	12.75	12.15	6.79	11.94	#	8.67
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government	6.25	6.81	6.95	6.87	#	6.79
Difference between interest receipts and interest payments ( <i>per cent</i> )	6.50	5.34	(-)0.16	5.07	#	1.88

*Source: Finance Accounts of respective years. # Budget documents do not contains these figures.*

At the end of March 2018, the Government had outstanding Loans and Advances of ₹ 24.70 crore. The amount of loans disbursed during the year remained the same as compared with the previous year. Out of the total amount of ₹ 24.70 crore as on 31 March 2018, the main shares of Loans and Advances were ₹ 21.90 crore (88.66 *per cent*) for Agriculture and Allied Activities, ₹ 0.63 crore (2.55 *per cent*) to Government Servants and ₹ 2.17 crore (8.79 *per cent*) for Industry and Minerals.

The recovery of Loans and Advances during the year remained the same as compared to the previous year. During 2017-18, 37.61 *per cent* (₹ 0.41 crore) of loans were repaid by

the government servants and 62.39 per cent (₹ 0.68 crore) by the Co-operatives. The interest receipts as a percentage of outstanding loans decreased from 11.94 per cent in 2016-17 to 8.67 per cent in 2017-18.

#### **1.8.4 Cash Balances and Investment of Cash balances**

As per Rule 100 (2) of Receipts & Payment Rules, 1983, no money shall be drawn from Government Account unless it is required for immediate disbursement. It is not permissible to draw money from Government Account in anticipation of demands or to prevent the lapse of budget grants. A summary of the contents of Annexure 'A' of Finance Accounts are given in **Table 1.33**:

**Table 1.33: Summary of contents of Annexure 'A' of Finance Accounts**

(Rupees in crore)

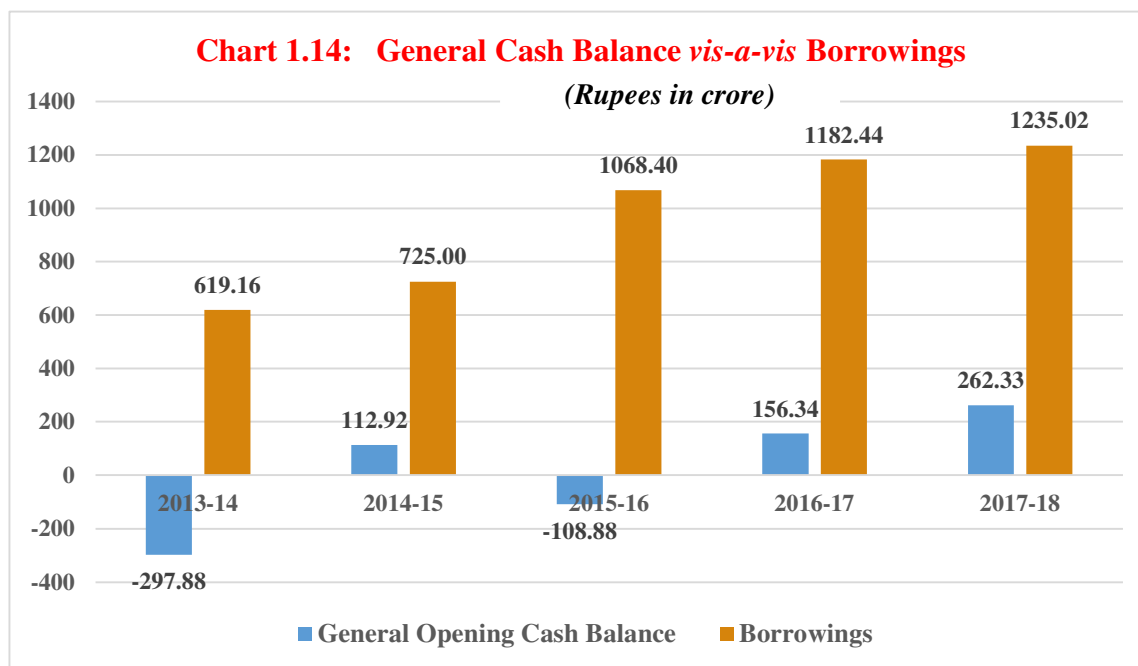
	Opening balance on 01.04.2017	Closing balance on 31.03.2018
<b>(a) General Cash Balance</b>		
Cash in treasuries	0.00	0.00
Deposits with Reserve Bank	226.92	339.01
Deposits with other Banks	0.00	0.00
Remittances in transit- Local	0.00	0.00
<b>Total</b>	<b>226.92</b>	<b>339.01</b>
Investments held in Cash Balance investment account	35.41	63.16
<b>Total (a)</b>	<b>262.33</b>	<b>402.17</b>
<b>(b) Other Cash Balances and Investments</b>		
Cash with departmental officers viz., Public Works Department/ Officers, Forest department Officers, District Collectors	343.86	416.81
Permanent advances for contingent expenditure with departmental officers	0.00	0.00
Investment of earmarked funds	654.20	879.20
<b>Total (b)</b>	<b>998.06</b>	<b>1296.01</b>
<b>Total (a) + (b)</b>	<b>1260.39</b>	<b>1698.18</b>

Source: Finance Accounts of respective years.

It was noticed that State Government's opening general cash balance as on 01 April 2017 was ₹ 262.33 crore (Deposits with Reserve Bank - ₹226.92 crore and Investments held in Cash Balance investment account - ₹ 35.41 crore). The closing general cash balance (31 March 2018) showed an increase of 53 per cent (₹139.84 crore) and stood at ₹ 402.17 crore (Deposits with Reserve Bank - ₹339.01 crore and Investments held in Cash Balance investment account - ₹ 63.16 crore). The State Government had earned ₹ 3.67 crore from the cash balance investments during 2017-18.

The average cash balance vis-à-vis borrowings during the last five years is depicted in the **Chart 1.14**:





The above chart shows that during 2017-18, there was an opening general cash balance of ₹ 262.33 crore (Opening Cash balance 2017-18), the Government resorted to market borrowings to the tune of ₹ 1235.02 crore (excluding WMA and Over draft). Audit analysis showed that interest realised on cash balance investment account was 1.10 per cent (₹ 3.67 crore) while Government paid an average interest of 9.08 per cent on its market borrowings during the year. Maturity profile of outstanding public debt (borrowings) as on 31 March 2018 (*Para 1.10.3 refers*) indicates that the State had to repay 49.78 per cent of its outstanding debt within seven years, which could cause stress on the State in the repayment of debt. Hence, it would have been prudent for the State Government to have utilised the available cash balance to minimise the borrowings.

**Recommendation (5):** *The State Government should consider restricting to need-based borrowings by utilizing the existing cash balances before resorting to market borrowings at higher rates of interest.*

#### **Outstanding balances under the head ‘Cheques and Bills’**

Major Head 8670 Cheques and Bills is an intermediary accounting head for initial record of transactions which are eventually to be cleared. There would normally be a credit balance outstanding under this head, representing cheques not encashed. The accounts of the State Government, however, showed an outstanding debit balance of ₹ two lakh as on 31 March 2018, which needs to be reconciled by the State Government.

## **1.9 Assets and Liabilities**

### **1.9.1 Growth and composition of Assets and Liabilities**

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2018, compared with the corresponding position on 31 March

2017. While the liabilities in the Appendix consist mainly of internal borrowings, Loans and Advances from the GoI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the Capital Expenditure, Loans and Advances given by the State Government and Cash Balances.

‘Total liabilities’ as defined in NFRBM Act, 2005 means the liabilities under the Consolidated Fund of the State and the Public Accounts of the State. Other liabilities, which are a part of the Public Accounts, include deposits under Small Savings scheme, Provident Fund and Other deposits.

### 1.9.2 Fiscal Liabilities

The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Charts 1.15** and **1.16**. The **Chart 1.17** gives the position of outstanding Fiscal liabilities during the last five years. Moreover, **Table 1.34** represents the trend of Fiscal liabilities during 2013-14 to 2017-18 (**Appendix 1.2**).

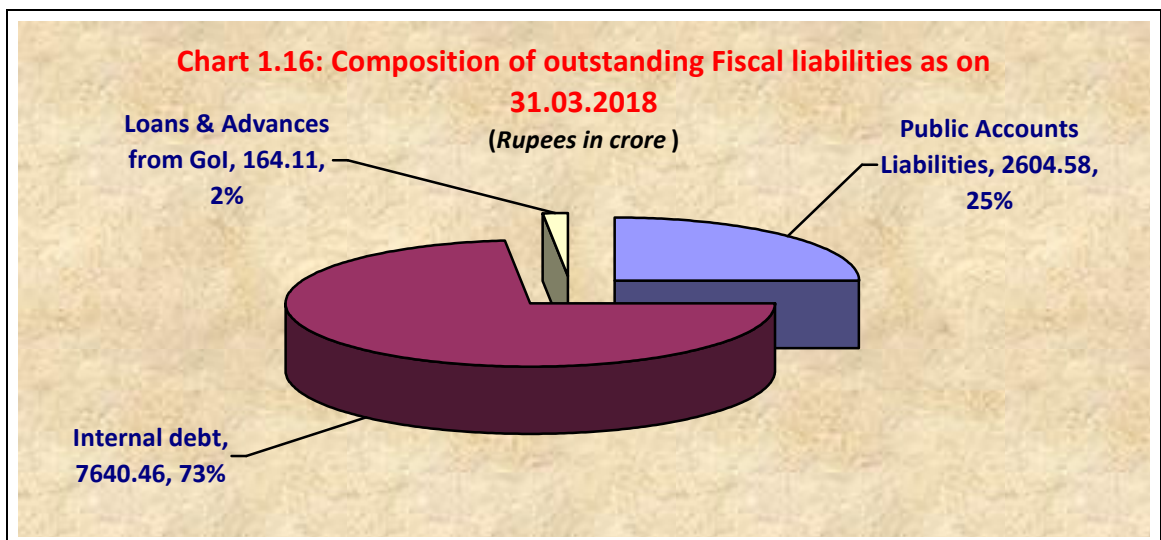
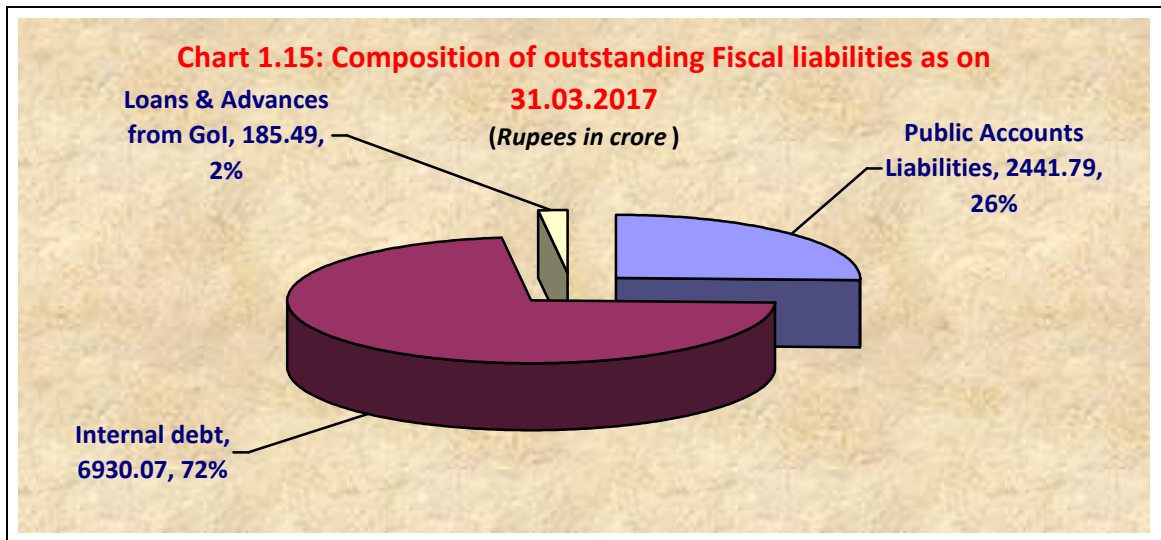


Chart 1.17: Position of outstanding Fiscal liabilities during 2013-18

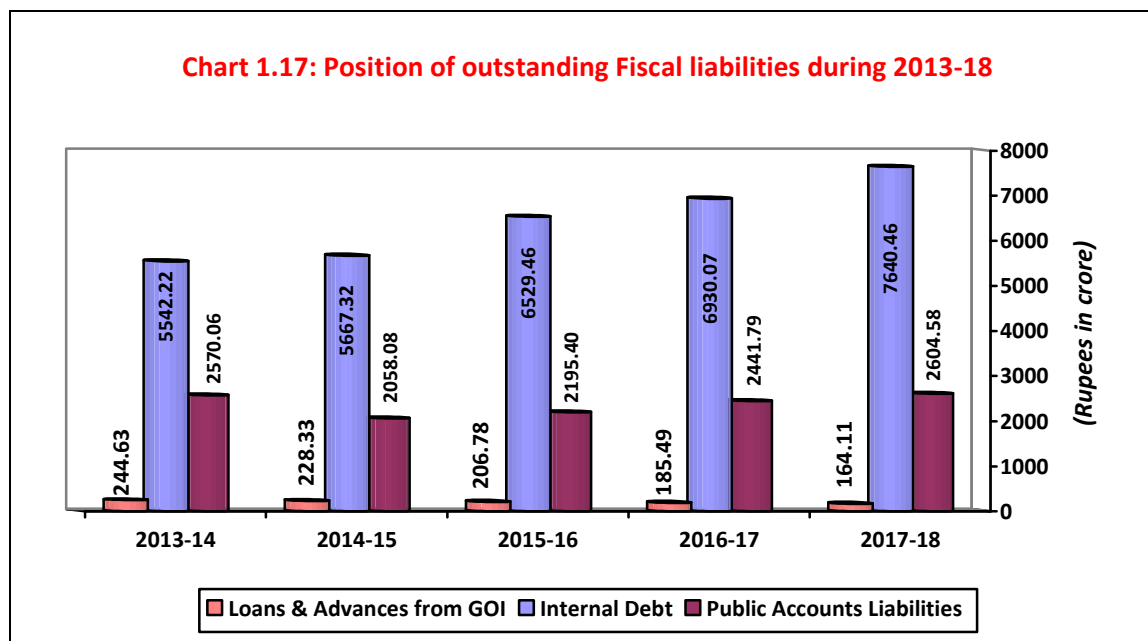


Table 1.34 Trend of Fiscal liabilities during 2013-14 to 2017-18

(Rupees in crore)

	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Fiscal liabilities</b>	<b>8356.91</b>	<b>7953.73</b>	<b>8931.64</b>	<b>9557.35</b>	<b>10409.15</b>
Revenue Receipts	6495.67	7648.67	8040.79	9439.79	11016.45
Rate of growth of Fiscal liabilities ( <i>per cent</i> )	12.14	(-4.82)	12.29	7.01	8.91
Rate of growth of Revenue Receipts ( <i>per cent</i> )	4.73	17.75	5.13	17.40	16.70
<b>Fiscal liabilities/ Revenue Receipts (<i>per cent</i>)</b>	<b>128.65</b>	<b>103.99</b>	<b>111.08</b>	<b>101.25</b>	<b>94.49</b>
Buoyancy of <b>Fiscal liabilities</b> with Revenue Receipt (ratio)	2.57	(-0.27)	2.40	0.40	0.53
Own Tax Revenue /Fiscal liabilities ( <i>per cent</i> )	3.99	4.89	4.78	5.34	6.13

Source: Finance Accounts of respective years.

**Fiscal Liability**

Fiscal liabilities of the State comprise Consolidated Fund liabilities and Public Account liabilities. The growth rate of Fiscal liability was 8.91 *per cent* during 2017-18 over the previous year. The buoyancy of Fiscal liabilities with reference to Revenue Receipt during the year was 0.53. The Consolidated Fund liability (₹ 7804.58 crore) comprised market loan (₹ 6849.76 crore), loans from GoI (₹ 164.11 crore) and other loans (₹ 790.71 crore). The Public Account Liabilities (₹ 2604.58 crore) comprised of Small Savings/Provident Funds (₹ 952.72 crore), interest bearing obligations (₹ 103.68 crore) and non-interest bearing obligations like deposits and other earmarked funds (₹ 1548.18 crore).

The ratio of Fiscal liabilities to GSDP had decreased from 45.25 *per cent* in 2016-17 to 44.06 *per cent* in 2017-18. These Fiscal liabilities stood at nearly 0.94 times the Revenue Receipts and 16.31 times of the State's Own Tax Revenue at the end of 2017-18. The Fiscal liabilities to GSDP (44.06 *per cent*) were more than the assessment (43.49 *per cent*) made by the State Government in its Medium Term Fiscal Policy Statement (MTFPS).

On this being pointed out, the Government stated (December 2018) that other obligations like Civil Deposits (CD) needed proper reconciliation with Pr. Accountant General

(A&E), which was under process as there was some mismatch due to wrong accounting or misclassification showing more credits in 8443-CD than the actual.

### **1.9.3 Transactions under Reserve fund**

The Thirteenth Finance Commission (XIII FC) had recommended that States should set up (i) Sinking Funds for amortisation of all loans including loans from banks, liabilities on account of National Small Savings Funds, *etc.*, which should not be used for any other purpose, except for redemption of loans; and (ii) Guarantee Redemption Funds for discharge of the States' obligations on guarantees.

Out of the Reserve funds operated by the State Government, Depreciation/ Renewal Reserve Fund (₹ 0.07 crore) was dormant. The total accumulated balance at the end of 31 March 2018 in the Reserve funds was ₹ 1727.72 crore, of which ₹ 879.20 crore (50.89 *per cent*) had been invested.

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

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

The State Government created a consolidated Sinking Fund in 2006-07, for amortisation of liabilities, with an initial corpus of ₹ 12.17 crore. As per the constitution of CSF of Nagaland, the State Government was to contribute 1 to 3 *per cent* of the outstanding open market loans at the end of the previous years to the Fund. In terms of the revised guidelines of the RBI for fund management, the State Government was required to contribute a minimum of 0.5 *per cent* of its outstanding liabilities (Internal Debt + Public Account) as at the end of the previous year. During the year, the State Government transferred ₹ 224.00 crore to the Fund from Revenue Account which works out to 3.68 *per cent* of total outstanding (Open Market Loans) of ₹ 6,083.81 crore as on 31 March 2017 and to 2.34 *per cent* of total outstanding liability of ₹ 9557.35 crore (Internal Debt + Public Account) as on 31 March 2017. The balance in the Consolidated Sinking Fund as on 31 March 2018 was ₹ 16.17 crore. However, the balance amount lying in the CSF was not being invested by the Government and as a result, no interest was credited to the Fund. Thus, the balances in the Fund were only book entries without being invested.

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

The State Government constituted a Guarantee Redemption Fund in 2006-07 with an initial corpus of ₹ 4.00 crore determined on the basis of guarantees invoked during the preceding five years. In terms of the Guarantee Redemption Fund Scheme of the Government of Nagaland, contributions shall be made to the Fund annually or at lesser intervals so as to reach the levels deemed sufficient to meet the amount of anticipated guarantees devolving on the Government as a result of the likely invocation of outstanding guarantees in the succeeding five years. No guarantees of the State Government were invoked since inception of the Scheme. During 2017-18, ₹ one crore was transferred by the State Government and the entire corpus of ₹ 10.34 crore as on 31 March 2018 was invested by the RBI in GoI Securities.

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

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

The status of funds under SDRF during the period 2013-14 to 2017-18 is given in **Table 1.35**:

**Table 1.35: Position of funds under SDRF during 2013-14 to 2017-18**

*(Rupees in crore)*

Year	Opening Balance	Central share	State share	Total funds available	Expenditure	Closing Balance
2013-14	0.71	5.05	0.57	6.33	5.47	0.86
2014-15	0.86	5.44	3.48	9.78	8.92	0.86
2015-16	0.86	9.00	1.00	10.86	10.00	0.86
2016-17	0.86	9.00	1.00	10.86	10.00	0.86
2017-18	0.86	9.90	1.10	11.86	11.00	0.86

*Source: Finance Accounts of respective years.*

Following GoI's release of ₹ 9.90 crore in 2017-18, the State Government transferred ₹ 11.00 crore (including State's share of ₹ 1.10 crore) to SDRF. During the year, the State Government incurred an expenditure of ₹ 11.00 crore on natural calamities leaving a balance of ₹ 0.86 crore in the Fund as on 31 March 2018. However, interest amounting to ₹ 0.07 crore (calculated at the average interest rate applicable for Ways and Means Advances) was not credited to SDRF by the Government.

#### **1.9.4 Contingent liabilities**

##### ***Status of Guarantees***

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantees had been extended. As per NFRBM Act 2005, the State Government set up a guarantee redemption fund in 2006-07 and decided to charge guarantee fee at the rate of one *per cent* to cover the risk in the guarantees. During the year 2017-18, there was an increase in the amount of guarantees by ₹ 29.27 crore by the State Government.

As per Statement 20 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last five years is given in **Table 1.36**:

**Table-1.36: Guarantees given by the Government of Nagaland**

(Rupees in crore)

Guarantees	2013-14	2014-15	2015-16	2016-17	2017-18
Total amount of guarantees given up to end of the year	70.22	70.22	70.22	81.19	110.46
Outstanding amount of guarantees at the end of the year	70.22	70.22	70.22	81.19	110.46
Percentage of maximum amount guaranteed to total Revenue Receipts	1.08	0.92	0.87	0.86	1.00
Outstanding amount of guarantee as percentage of GSDP	0.42	0.38	0.34	0.38	0.47

Source: Finance Accounts of respective years

The outstanding guarantees increased by ₹ 29.27 crore (36.05 per cent) during 2017-18 over the previous year. The outstanding guarantees of ₹ 110.46 crore mainly pertained to Nagaland Industrial Development Corporation (₹ 33.74 crore) for repayment of principal and payment of interest on loan obtained. The outstanding guarantees were one per cent of the Revenue Receipts of the Government as on 31 March 2018.

## 1.10 Debt Management

### 1.10.1 Net availability of borrowed funds

Debt sustainability depends on the ratio of debt redemption (principal plus interest payments) to total debt receipts and application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. Details of net availability of borrowed funds during 2013-18 are given in Table 1.37:

**Table 1.37: Net availability of Borrowed Funds**

(Rupees in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Receipts under public debt and other liabilities	3233.96	2940.32	4705.37	6514.27	6217.03
Repayments (Principal and interest) under public debt and other liabilities	2823.42	3898.85	4313.90	6524.07	6042.98
Net funds available	410.54	(-) 958.53	391.47	(-) 9.80	174.05
Percentage of net funds available to receipts under public debt	12.69	(-) 32.60	8.32	(-) 0.15	2.80

Source: Finance Accounts of the respective years.

The net availability of borrowed funds during 2017-18 was ₹ 174.05 crore (2.8 per cent of public debt) which was available for meeting productive expenditure.

### 1.10.2 Debt Sustainability and Debt-GSDP ratio

The debt sustainability is defined as the ability of the State to service its debt in future. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet the current or committed obligations and the capacity to keep balance between costs of

additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt.

Apart from magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability of the State. This section assesses the sustainability of debt of the State Government in terms of debt/GSDP ratio, burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. The rate of growth of GSDP ranged between 2.90 per cent and 21.98 per cent during 2013-14 to 2017-18 whereas average interest rate of outstanding debt ranged between 8.52 per cent and 9.51 per cent during 2013-14 to 2017-18. GSDP growth rate was much more than the average interest paid by the State Government on Public Debt. **Table 1.38** analyses the debt sustainability of the State according to the indicators like rate of growth of GSDP, rate of interest paid on public debt, ratio of interest and Revenue Receipts, ratio of debt repayment and debt receipts and net debt available to the State and maturity profile of the State for a period of five years beginning from 2013-14:

**Table 1.38: Debt Sustainability: Indicators and Trends**

(Rupees in crore)

Indicators of Debt Sustainability	2013-14	2014-15	2015-16	2016-17	2017-18
Outstanding Public Debt	5786.85	5895.65	6736.24	7115.56	7804.57
Internal Debt	5542.21	5667.32	6529.46	6930.07	7640.46
Loans and Advances from GoI	244.64	228.33	206.78	185.49	164.11
Rate of growth of outstanding Debt	10.28	1.88	14.26	5.63	9.68
Outstanding Debt/GSDP (per cent)	34.84	32.02	32.82	33.69	33.04
Interest payment	493.84	555.34	586.45	635.50	677.75
Average interest rate of outstanding Debt	8.95	9.51	9.29	8.52	9.08
Interest paid/ Revenue Receipt (per cent)	7.60	7.26	7.29	6.73	6.15
Outstanding Debt/Revenue Receipt (per cent)	89.08	77.08	83.77	75.37	70.84
Rate of growth of GSDP	21.98	10.85	11.46	2.90	11.86
Debt Repayment/Debt Receipt	0.43	0.95	0.76	0.93	0.87
Net Debt available in the State	350.33	108.80	840.60	379.32	689.01
<b>Maturity Profile of State Debt (In Years)</b>					
0 – 1	269.59(5)	326.67(5)	293.38(4)	400.49(6)	488.84(6)
1 – 3	618.61(11)	739.12(11)	656.82(10)	1010.38(14)	1073.99(14)
3 – 5	702.51(12)	1010.39(12)	1101.55(16)	773.56(11)	1220.42(16)
5 – 7	1123.63(19)	773.56(19)	1150.16(13)	1439.68(20)	1136.13(14)
7 and above	3072.51(53)	3045.92(53)	3534.33(53)	3491.45(49)	3885.19(50)
<b>Total</b>	<b>5786.85</b>	<b>5895.66</b>	<b>6736.24</b>	<b>7115.56</b>	<b>7804.57</b>

Source: Finance Account of respective years. (Figures in the parenthesis indicate percentage to total debt).

During the year, the State Government raised internal debt of ₹ 5140.69 crore and Loans and Advances from Central Government amounting to ₹ 0.33 crore and discharged internal debt of ₹ 4430.29 crore and GoI loans of ₹ 21.72 crore. The internal debt raised during the year included WMA amounting to ₹ 3906.00 crore and whole amount of WMA was discharged during the year. An amount of ₹ 677.75 crore was also paid as interest during the year. The Debt-GSDP ratio ranged between 32.02 per cent and 34.84 per cent during 2013-14 to 2017-18. During the year 2017-18, the ratio of interest

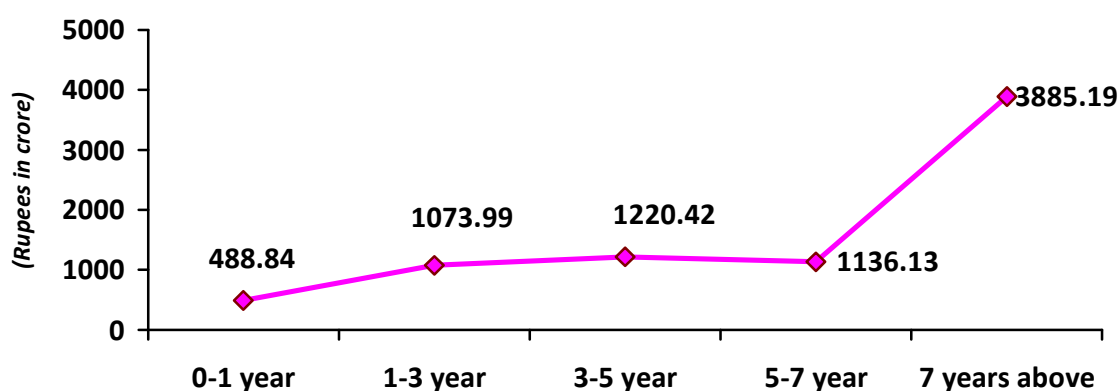
payment and Revenue Receipts was only 6.15 per cent which was higher by 0.46 per cent as compared to the projection of 5.69 per cent as per XIV FC recommendations.

The debt redemption ratio during 2013-18 showed fluctuating trend and increased to 93.90 per cent during 2017-18 against 92.17 per cent during the previous year (Appendix 1.2).

### 1.10.3 Maturity profile

Maturity profile of outstanding stock of public debt as on 31 March 2018 indicates that out of outstanding Public Debt of ₹ 7804.57 crore, 49.78 per cent of debt needs to be repaid within seven years (Chart 1.18).

**Chart 1.18: Maturity profile of State Debt**



State may face stress in the repayment of debt. Therefore, debt repayment and further borrowings in future should be planned in such a way that there is no bunching of repayments in any particular year as that may cause undue stress on the budget.

While accepting (December 2018) the facts, the Government stated that it would carry out analysis of committed liability for their discharge timely as per maturity profile.

**Recommendation (6):** The State Government, for sustainability of debt, may consider to (i) increase efficiency of Tax collection and make thrust on computerisation of such system, (ii) explore more avenues of Tax collection, (iii) ensure that Grants-in-Aid from Central Government does not decline as in 2015-16; and (iv) maintain a proper calendar of borrowings, so that future borrowings and re-payment could be planned properly.

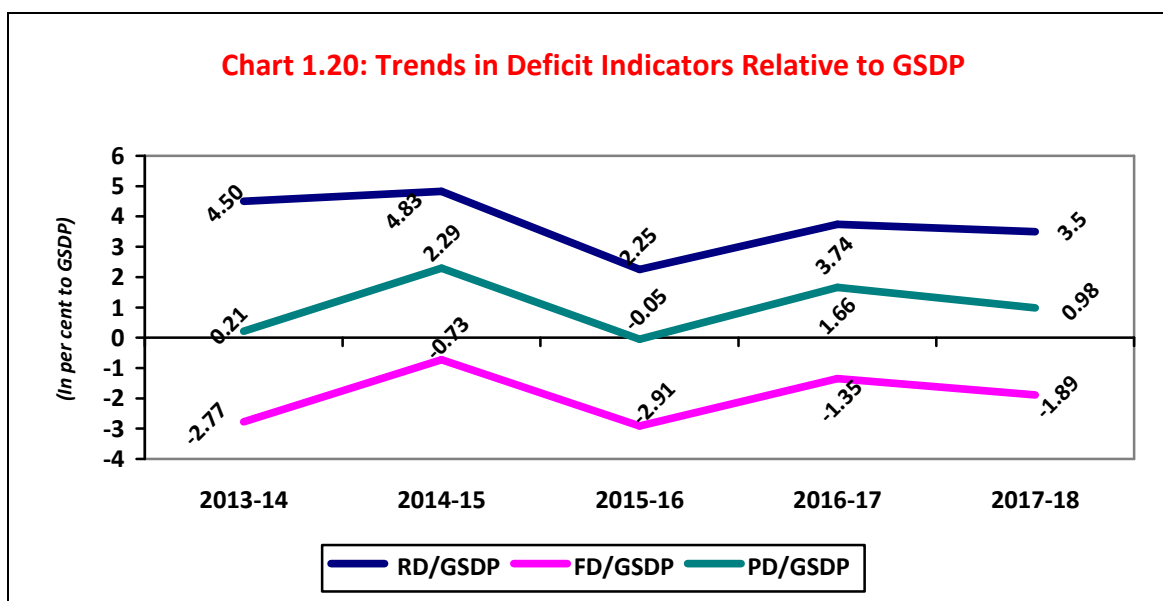
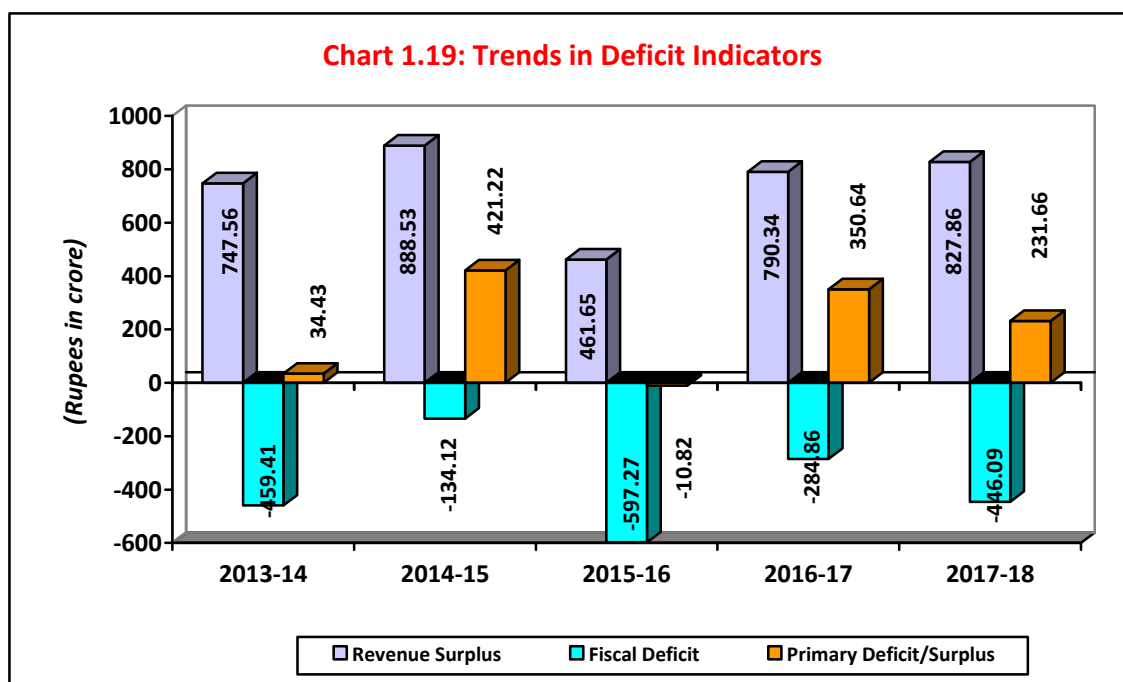
### 1.11 Fiscal Imbalances

Three key fiscal parameters - Revenue, Fiscal and Primary Deficits/Surplus - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit/surplus in the Government accounts represents the gap between its receipts and expenditure. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of Revenue and Fiscal Deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2017-18.



### 1.11.1 Trends in Deficits

Charts 1.19 and 1.20 present the trends in deficit indicators over the period 2013-14 to 2017-18:



#### Revenue surplus

The State continued to attain revenue surplus during all the years, *ie*; from 2013-14 to 2017-18. The revenue surplus during 2017-18 was ₹ 827.86 crore. Revenue Surplus increased during the current year by ₹ 37.52 crore as compared to the previous year mainly on account of increase in Revenue Receipts by ₹ 1576.66 crore (16.70 per cent) over the previous year partially off-set by increase in Revenue Expenditure by ₹ 1539.14 crore (17.79 per cent).

### Fiscal deficit

Fiscal Deficit increased to ₹ 446.09 crore in 2017-18 from the level of ₹ 284.86 crore in 2016-17. This was due to combination of following factors *viz.*, (i) increase in Revenue Surplus (₹ 37.52 crore); and (ii) increase of ₹ 198.75 crore in Capital Expenditure during 2017-18 over the previous year.

### Primary surplus

The Primary Surplus decreased ₹ 118.98 (33.93 *per cent*) in 2017-18. The decrease of Primary Surplus during the year was the result of increase in Fiscal Deficit (₹ 161.23 crore) and interest payment (₹ 42.25 crore) during the current year.

### 1.11.2 Composition of Fiscal deficit and its financing Patterns

The financing pattern of the Fiscal Deficit has undergone a compositional shift as reflected in **Table 1.39**:

**Table 1.39: Components of Fiscal Deficit and its Financing Pattern**

		<i>(Rupees in crore)</i>				
	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Components of Fiscal Deficit</b>		<b>459</b>	<b>134</b>	<b>597</b>	<b>285</b>	<b>446</b>
		<b>(2.59)</b>	<b>(0.67)</b>	<b>(2.56)</b>	<b>(1.35)</b>	<b>(1.89)</b>
1	Revenue deficit(+)/Surplus(-)	(-748)	(-889)	(-462)	(-791)	(-828)
2	Net Capital Expenditure	1207	1023	1059	1076	1274
3	Net Loans and Advances	0	0	0	0	0
<b>Financing Pattern of Fiscal Deficit*</b>						
1	Market Borrowings	411	452	598	733	766
2	Loans from GOI	(-23)	(-16)	(-22)	(-22)	(-22)
3	Special Securities Issued to National Small Savings Fund	(-3)	11	26	(-12)	(-12)
4	Loans from Financial Institutions	153	(-338)	238	(-320)	(-43)
5	Small Savings, PF, etc.	112	55	12	29	62
6	Deposits and Advances	241	(-608)	(-75)	(-8)	(-124)
7	Suspense and Miscellaneous	12	41	204	220	225
8	Remittances	(-30)	278	74	32	32
9	Increase (-) Decrease (+) in Cash Balances	(-414)	259	(-458)	(-367)	(-438)

*Figures in brackets indicate the per cent to GSDP. \* Figures are net of disbursements/outflows during the year.*

*Source: Finance Accounts of respective years*

Fiscal deficit is the total borrowing of the State and is the excess of Revenue Expenditure and Capital Expenditure including Loans and Advances over revenue and non-Debt Receipts. Decomposition of Fiscal Deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above revenue and non-Debt Receipts.

It can be seen from **Table 1.39** that the Revenue Surplus increased by ₹ 37 crore from ₹ 791 crore in 2016-17 to ₹ 828 crore in 2017-18. The increase in Fiscal Deficit was the combined effect of increase in Revenue Surplus and the Capital Expenditure.

### 1.11.3 Quality of Deficit/Surplus

The ratio of Revenue Deficit to Fiscal Deficit and the decomposition of Primary Deficit into Primary Revenue Deficit and Capital Expenditure (including Loans and Advances) would indicate the quality of deficit in the State's finances. The ratio of Revenue Deficit

to Fiscal Deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of Revenue Deficit to Fiscal Deficit also indicates that the asset base of the State was continuously shrinking and borrowings (Fiscal liabilities) were not supported by any asset backup. The bifurcation of the Primary Deficit (**Table 1.40**) would indicate the extent to which the Deficit/Surplus had been on account of enhancement in Capital Expenditure which may be desirable to improve the productive capacity of the State's economy:

**Table 1.40: Primary deficit/surplus – Bifurcation of factors**

*(Rupees in crore)*

Year	Non-debt receipts	Primary revenue <sup>14</sup>	Capital expenditure	Loans and Advances	Primary expenditure <sup>15</sup>	Primary revenue surplus	Primary deficit (-) surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2013-14	6496.68	5254.27	1207.06	0.92	6462.25	1242.41	34.43
2014-15	7649.38	6204.80	1023.17	0.19	7228.16	1444.58	421.22
2015-16	8041.29	6992.69	1059.23	0.19	8052.11	1048.60	(-)10.82
2016-17	9440.88	8013.95	1076.10	0.19	9090.24	1426.93	350.64
2017-18	11017.54	9510.84	1274.85	0.19	10785.88	1506.70	231.66

*Source: Finance Accounts of respective years.*

The Non-Debt Receipts of the State during 2013-18 were sufficient to meet the Primary Revenue Expenditure. The Non-Debt Receipts increased by 69.59 per cent (₹ 4520.86 crore) from ₹ 6496.68 crore in 2013-14 to ₹ 11017.54 crore in 2017-18 while the Primary Revenue Expenditure increased by 81.01 per cent (₹ 4256.57 crore) from ₹ 5254.27 crore in 2013-14 to ₹ 9510.84 crore in 2017-18. During this period (2013-18) Capital Expenditure increased by ₹ 67.79 crore, i.e., 5.62 per cent. The State had a Primary Deficit during 2015-16 but maintained a Primary Surplus during 2013-14, 2014-15, 2016-17 and 2017-18.

## 1.12 Conclusion

The fiscal position of the State viewed in terms of the key fiscal parameters during 2017-18 revealed that the State's Revenue Surplus had increased by ₹ 37.52 crore and the Fiscal Deficit increased by ₹ 161.23 crore compared to the previous year. The Primary Surplus decreased by ₹ 118.98 crore in 2017-18 over the previous year.

During 2017-18, 91 per cent of the total revenue came from the GoI as Central transfers (30 per cent) and GIA from GoI (61 per cent). The State did not achieve the total revenue collection targets fixed by the XIV FC during 2017-18.

During 2017-18, Revenue Expenditure was ₹ 1526.59 crore (17.62 per cent) more than the XIV FC normative assessment (₹ 8662.00 crore).

The Fiscal liabilities of the State increased by ₹ 851.80 crore (8.91 per cent) from ₹ 9557.35 crore in 2016-17 to ₹ 10409.15 crore in 2017-18.

<sup>14</sup> Primary revenue expenditure is revenue expenditure net of the interest payments.

<sup>15</sup> Primary expenditure of the State, defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

The Government had invested ₹ 293.19 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives up to March 2018.

Three hundred and eleven projects involving an expenditure of ₹ 1737.68 crore were incomplete as on 31 March 2018. Delay in completion of works not only invites the risk of escalation in the cost of the works, but also prevents the intended benefits from those projects from reaching beneficiaries in the State. Thus, the State needs to ensure timely and effective implementation of incomplete projects.