

Chapter I

Finances of the State Government

Profile of Nagaland

The State is located in North-Eastern region of India, is a Special Category State¹. 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(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 79.55 *per cent* (as per 2011 census). The per capita income of the State (source: Ministry of Home Affairs) stood at ₹ 83,621 against the country's average of ₹ 94,130 in the year 2015-16. The general data relating to the State is given in **Appendix 1.1(D)**.

Gross State Domestic Product (GSDP)

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 State's population. The Advance Estimates of GSDP for 2016-17 was ₹ 21,119 crore. A trend analysis of growth of GDP 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 2012-17 compared with India's GDP is presented in the table below:

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

Year	2012-13	2013-14	2014-15	2015-16	2016-17
State's GDP (₹ in crore)	13,619	16,612	18,414	20,524*	21,119 (A)**
Growth in <i>per cent</i>	15.03	21.98	10.85	11.46	2.90
India's GDP (₹ in crore)	99,44,013	112,33,522	124,45,128	136,82,035	151,83,709
Growth in <i>per cent</i>	13.82	12.97	10.76	9.94	10.98

(Source: Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation as on 1 August 2017)

* 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

The quantum of GDP (both State and India) is measured in terms of constant and current prices and as per their respective arithmetical calculations; these figures differ from each other every year. For comparison between State and National GDPs, the GDP figure calculated on the basis of current price at factor cost with base year 2011-12 has been taken.

The table shows that the growth in the GSDP was ranging between 10.85 *per cent* and 21.98 *per cent* during the period 2012-13 to 2015-16, however, the Advance Estimates for GSDP for 2016-17 was projecting a growth of only 2.90 *per cent*. This has a

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

significant favourable impact on all the ratios and buoyancy rates *vis-à-vis* GSDP. The growth rate of GSDP, at current price, showed a declining trend from 2013-14 to 2015-16, however, the growth rate of GSDP sharply decreased in 2016-17 to 2.90 *per cent* which was in contrast to the growth rate of GDP, at current price, which had fluctuated between 9.94 *per cent* in 2015-16 and 13.82 *per cent* in 2012-13 during 2012-17.

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 2017.

The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The Finance Accounts has been divided into two Volumes: Volume I and II. Volume I represents the financial statements of the Government in a 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 2012-13 to 2016-17. 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 2016-17

Table 1.2 presents the summary of the State Government's fiscal transactions during the current year (2016-17) *vis-à-vis* the previous year (2015-16) 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 Transaction in 2016-17

(₹ in crore)

Receipts			Disbursements				
Section-A: Revenue			Description	2015-16	2016-17		
Description	2015-16	2016-17			Non Plan	Plan	Total
Revenue Receipts²	8043.57	9442.28	Revenue Expenditure³	7581.92	6920.31	1731.63	8651.94
Tax revenue	427.10	510.75	General services	3623.25	3844.15	52.30	3896.45
Non-tax revenue	256.39	345.52	Social services	2093.61	1656.08	639.13	2295.21
Share of Union Taxes/ Duties	2540.72	3032.63	Economic services	1865.06	1420.08	1040.20	2460.28
Grants from Government of India	4819.36	5553.38	Grants-in-aid and Contributions	0.00	0.00	0.00	0.00
Section-B: Capital							
Misc. Capital Receipts	0.00	0.00	Capital Outlay	1059.23	0.00	1076.10	1076.10
Recoveries of Loans and Advances	0.50	1.09	Loans and Advances disbursed	0.19	0.19	0.00	0.19
Public Debt receipts	3545.94	5444.35*	Repayment of Public Debt	2705.35			5065.03#
Contingency Fund	0.00	0.00	Contingency Fund	0.00			0.00
Public Account receipts*	3226.12	2933.99	Public Account disbursements*	3011.82			2661.41

² Revenue Receipts and Non-tax Revenue are inclusive of gross receipt (₹ 13.64 crore) from State Lotteries.

³ Revenue expenditure and General Services (Non-Plan) are inclusive of expenditure (₹ 2.49 crore) on State Lotteries

Receipts			Disbursements				
Section-A: Revenue			Description	2015-16	2016-17		
Description	2015-16	2016-17			Non Plan	Plan	Total
Opening Cash Balance	435.73	893.35	Closing Cash Balance	893.35			1260.39
Total	15,251.86	18,715.06	Total	15,251.86			18,715.06

* Including Ways and Means Advance of ₹4,261.65 crore Gross figure #Including Ways and Means Advance of ₹4,551.68 crore

(Source: Finance Accounts for the respective years)

The following were the significant changes during 2016-17 over the previous year:

The State's Own Resources (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 ₹ 790.34 crore during 2016-17. Its fiscal deficit (₹ 284.86 crore) stood at 1.35 per cent of GSDP during the current year. The Fiscal Deficit was well within the ceiling of 3.25 per cent prescribed for 2016-17 by the XIV Finance Commission (FC) and target of three per cent under Fiscal Responsibility and Budget Management (FRBM) legislation.

Significant changes in fiscal position of the State during 2016-17 over the previous year are given below:

Revenue Receipts	<ul style="list-style-type: none"> Increased by 17.39 per cent Tax Revenue increased by 19.59 per cent Share of Union Taxes/ Dutes increased by 19.36 percent Grants from GoI increased by 15.23 percent
Revenue Expenditure	<ul style="list-style-type: none"> Increased by 14.11 per cent
Capital Expenditure	<ul style="list-style-type: none"> Increased by 1.59 per cent
Loans and Advances	<ul style="list-style-type: none"> Recoveries increased by 118 per cent Disbursements remained same
Public Debt	<ul style="list-style-type: none"> Receipts increased by 53.53 per cent Repayments increased by 87.22 per cent
Cash Balance	<ul style="list-style-type: none"> Increased by 41.08 per cent

The total inflow of receipts increased⁴ by ₹ 3,005.58 crore (20.29 per cent) from ₹ 14,816.13 crore in 2015-16 to ₹ 17,821.71 crore in 2016-17. The total outflow also increased by ₹ 3,096.16 crore (21.56 per cent) from ₹ 14,358.51 crore in 2015-16 to ₹ 17,454.67 crore in 2016-17. The cash balance of the State at the end of 2016-17 increased by ₹ 367.04 crore (41.09 per cent) from ₹ 893.35 crore in 2015-16 to ₹ 1,260.39 crore in 2016-17.

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 on any day, the deficiency is made good by making ordinary and special ways and means advance/ 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.

The limit for ordinary⁵ ways and means advances to the State Government was ₹ 80.00 crore with effect from 1 April 2016. The extent to which the Government maintained the minimum cash balance with the RBI during 2016-17 is as given below:

Table 1.2 (a)

(₹ in crore)

Sl. No.	Period	Days	Amount
1	No of days on which the minimum balance was maintained without taking any advance	220	Nil
2	No of days on which the minimum balance was maintained by taking ordinary means and advance	46	974.31
3	No of days on which the minimum balance was maintained by taking special ways and means advances	92	3129.54
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	Nil
5	Number of days on which the overdrafts were taken	7	157.80
Total			4261.65

During the year, the State Government availed Ways and Means Advances of ₹ 4,261.65 crore and discharged all Ways and Means Advances of ₹ 4,551.68 crore (including opening balance of ₹ 290.03 crore). From the above, it is clear that State resorted to heavy quantum of Special Ways and Means Advances (73.43 per cent) where the advances are provided against the pledge of Government of India which attracts higher interest rates. The State Government had to pay an interest of ₹ 6.87 crore on the Ways and Means Advances as well. The analysis of the Ways and Means revealed that:

- The Ways and Means Advances constituted 43.81 per cent of the Total Revenue and Capital Expenditure;

	2015-16	2016-17
Total Receipts	15251.86	18715.06
Less	35.73	893.35
Opening cash	14816.13	17821.71

⁵ Normal WMAs are clean advances where as Special WMA are secured advances provided against the pledge of Government of India which attracts higher interest rates.

- It constituted 45.13 *per cent* of the Total Receipts of the State;
- During the year, the Ways and Means Advances stood at 20.18 *per cent* of the GSDP; and
- The State had a closing cash balance of ₹ 1,260.39 crore and had availed market loans of ₹ 1,069.63 crore during the year. Against the budget estimates, the State had also surrendered ₹ 2,401.67 crore at the end of the year

1.1.2 Budget estimates and actuals

The budget of the State Government provide descriptions of projections or estimations of revenue and expenditure for 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 2016-17.

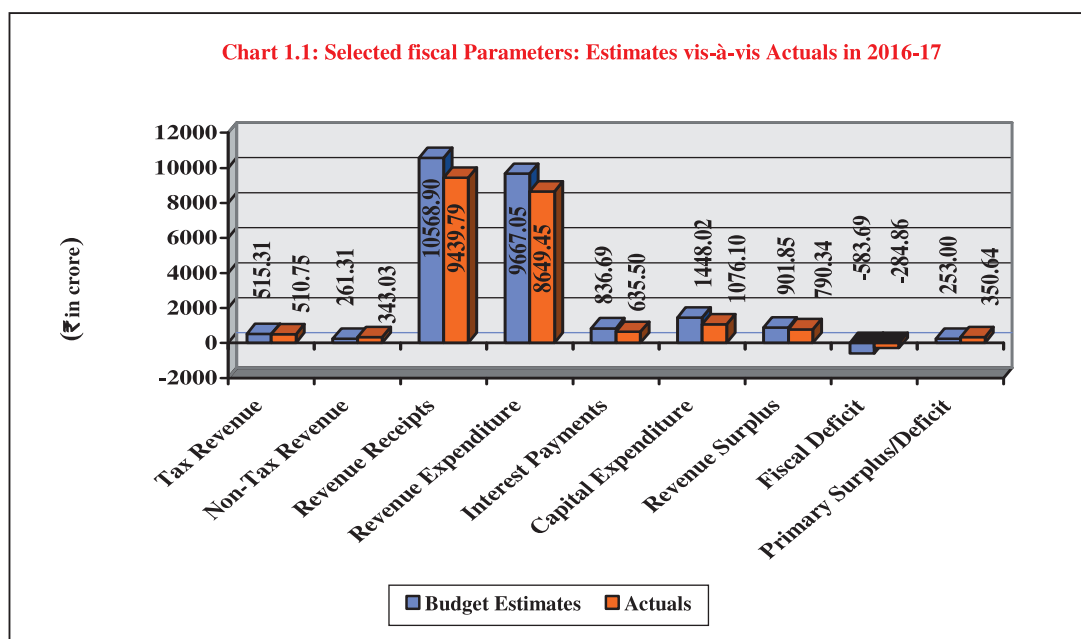
Table 1.4: Variation in Actual Fiscal parameters over estimates

(₹ in crore)

Parameters	2015-16	2016-17		
	Actuals	Budget Estimates	Revised Estimates	Actuals
Tax Revenue	427.10	515.31	479.70	510.75
Non-tax Revenue	253.61	261.59	235.77	343.03
Revenue Receipts ⁶	8040.79	10568.90	9355.59	9439.79
Non-debt Capital Receipts	0.50	2.88	1.94	1.09
Revenue Expenditure ⁷	7579.14	9667.05	9530.04	8649.45
Interest Payments	586.45	836.69	796.23	635.50
Capital Expenditure	1059.23	1448.02	1268.30	1076.10
Disbursement of Loans & Advances	0.19	0.40	0.40	0.19
Revenue Deficit (-)/Surplus (+)	461.65	901.85	(-)174.45	790.34
Fiscal Deficit (-)/Surplus (+)	(-)597.27	(-)583.69	(-)1441.21	(-)284.86
Primary Deficit(-)/Surplus (+)	(-)10.82	253.00	(-)644.98	350.64

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

⁷ Revenue Expenditure is exclusive of expenditure (₹ 2.49 crore) on State Lotteries from this point onwards in the Report.



- During 2016-17, the actual Revenue Receipts were less than the budget estimates by ₹ 1,129.11 crore (10.68 per cent) and actual Revenue Expenditure was also lesser by ₹ 1,017.60 crore (10.53 per cent). Revenue Surplus was lower by ₹ 111.51 crore as compared to the projections made in the budget estimates.
- The actual collection of Tax Revenue during the year decreased by ₹ 4.56 crore (0.88 per cent) over the budget estimates for the year.
- The increase in Non-tax Revenue was ₹ 81.44 crore (31.13 per cent) as compared to the budget estimates for 2016-17.
- **During the year 2016-17, the actual Capital Expenditure was less than the budget provision by ₹ 1,92.20 crore (15.15 per cent).**
- Actual Fiscal Deficit decreased over the assessment made in the budget estimates by ₹ 258.83 crore (47.61 per cent). The decrease was due to net impact of decrease in Revenue Receipts by ₹ 1,129.11 crore, decrease in Revenue Expenditure by ₹ 1,017.60 crore, decrease in capital expenditure by ₹ 371.92 crore and decrease in loans and advances by ₹ 0.21 crore as compared with the projected budget estimates for these items. Primary Surplus increased over the assessment made in the budget estimates by ₹ 97.64 crore (38.59 per cent).

1.1.3 Review of the fiscal situation

Twelfth Finance Commission (XII FC) recommended that each State enact a fiscal responsibility legislation prescribing specific annual targets with a view to eliminate the Revenue Deficit by 2008-09 and reduce 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 State Government in its Medium Term Fiscal Policy Statement (MTFPS), targets proposed in the Budget, Fourteenth Finance Commission (XIV FC) targets for the State vis-a-vis achievements during the year 2016-17 is depicted in **Table 1.3**:

Table: 1.3: Major fiscal variables provided in the budget, recommendations of the XIV FC, targets in the NFRBM Act vis-à-vis actuals for the year 2016-17

Fiscal variables	Targets/Projections				
	As per XIV FC	Prescribed in FRBM Act	Proposed in the Budget Estimates (BE)	Made in Five Year Fiscal Plan/MTFPS	Actuals
Revenue Deficit(-)/ Surplus(+) (₹ in crore)	NA	0.00	(+) 993.36	0.00	(+) 790.34
Fiscal deficit/GSDP (in per cent)	3.25	3.00	1.71	1.71	1.35
Ratio of total outstanding debt of the Government to GSDP (in per cent)	43.76	33.00	32.82	32.15	45.25

The State registered revenue surplus of ₹ 790.34 crore during 2016-17. Fiscal deficit (₹ 284.86 crore) stood at 1.35 per cent of Gross State Domestic Product (GSDP). During 2016-17, the State Government projected zero Revenue Deficit in NFRBM and MTFPS. The State projected a Revenue Surplus of ₹ 993.36 crore in the BE for 2016-17 and actually achieved a Revenue Surplus of ₹ 790.34 crore (3.74 per cent of GSDP).

For the year 2016-17, the ratio of Fiscal Deficit to GSDP was proposed at 3.25 per cent, 3.00 per cent and 1.71 per cent in XIV FC, NFRBM and MTFPS respectively. Actual ratio of fiscal deficit to GSDP was 1.35 per cent which was 1.90 per cent, 1.65 per cent and 0.36 per cent less than XIV FC, NFRBM and MTFPS projection.

During 2016-17, the ratio of outstanding debt to GSDP was more than the projected figures as per XIV FC, NFRBM Act, MTFPS and budget estimates.

1.1.4 Gender Budgeting

The Constitution of India has mandated equality for every citizen of the country as a fundamental right. The Government of India 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 about 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 economics; (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 Millennium Development Goals (MDGs).

Gender Budgeting was not implemented in Nagaland State.

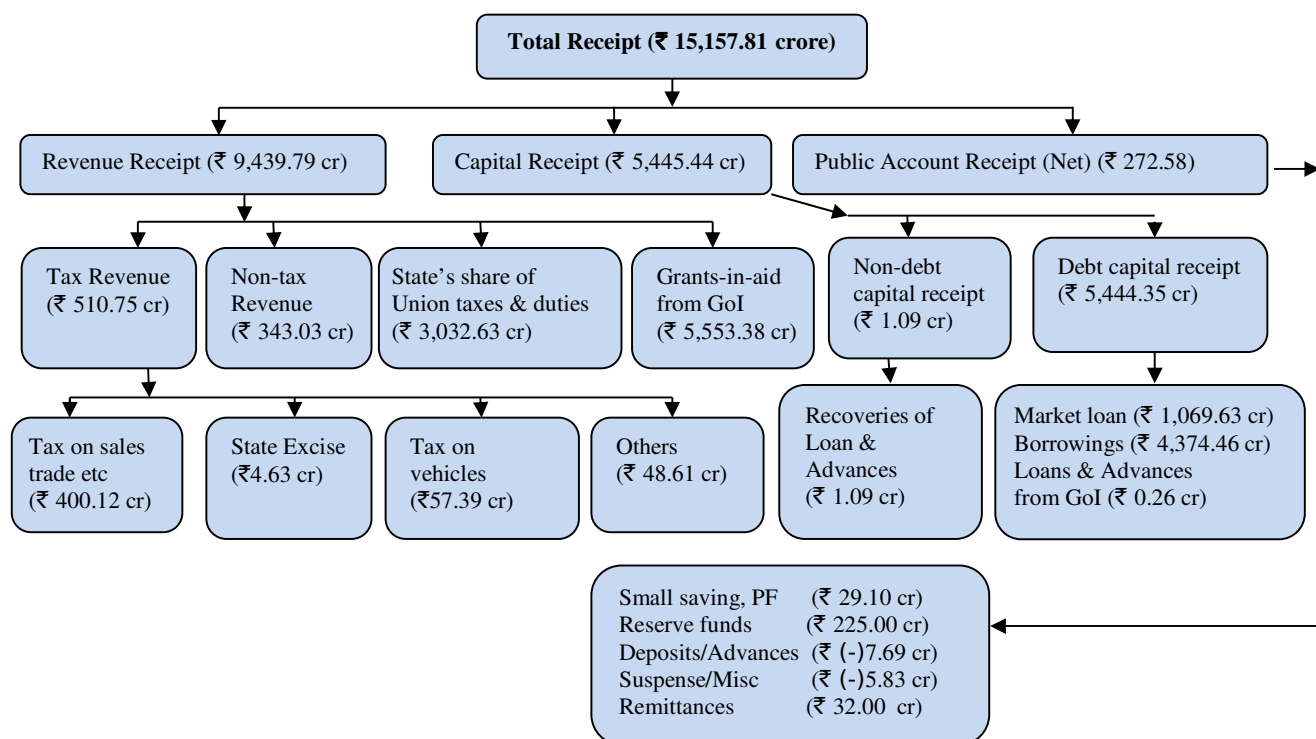
1.2 Resources of the State

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 Tax Revenue, Non-tax Revenue, State's share of Union Taxes and Duties and Grants-in-Aid (GIA) from the GoI. Capital Receipts comprise of 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 2012-17. **Chart 1.3** depicts the composition of the receipts during 2016-17. **Table 1.5** presents the trends in growth during 2012-17 and composition of receipts for the current year 2016-17.

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



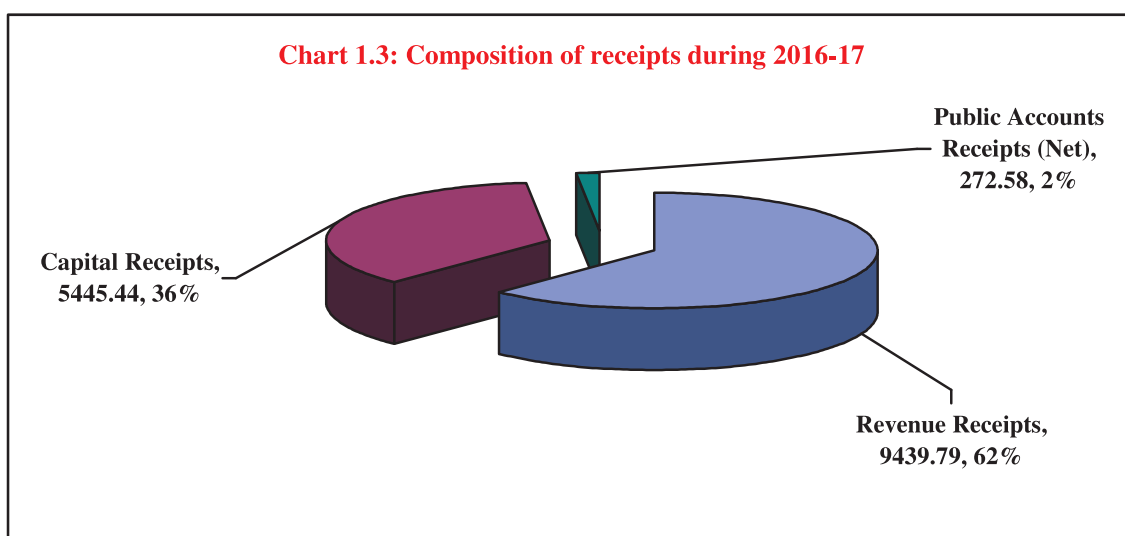
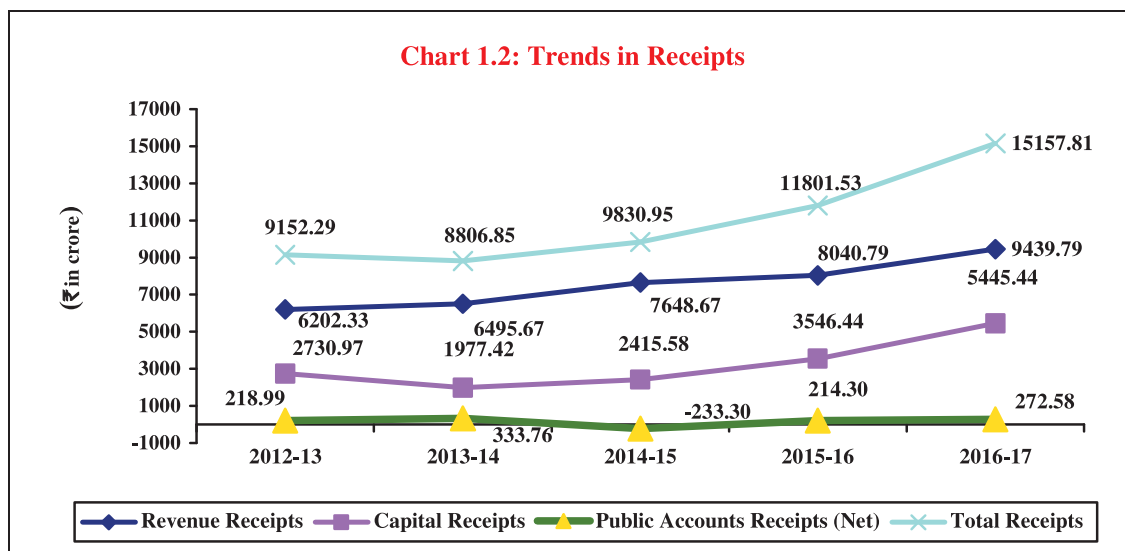


Table 1.5: Composition of receipts

(₹ in crore)

	Sources of State receipts	2012-13	2013-14	2014-15	2015-16	2016-17
I	Revenue Receipts	6202.33	6495.67	7648.67	8040.79	9439.79
II	Capital Receipts (CR)	2730.97	1977.42	2415.58	3546.44	5445.44
	Miscellaneous Capital Receipts	#	#	#	#	#
	Recovery of Loans and Advances	0.85	1.01	0.71	0.50	1.09
	Public Debt Receipts	2730.12	1976.41	2414.87	3545.94	5444.35
III	Contingency Fund	#	#	#	#	#
IV	Public Account Receipts (Net)	218.99	333.76	(-)233.30	214.30	272.58
	Total Receipts	9152.29	8806.85	9830.95	11,801.53	15,157.81

(Source: Finance Accounts of respective years) # Finance Accounts do not contain these figures

The total receipts of the State Government for the year 2016-17 were ₹ 15,157.81 crore out of which, the Revenue Receipts constituting 62.28 per cent of the total receipts were ₹ 9,439.79 crore.

The Revenue Receipts of the State increased from ₹ 8,040.79 crore in 2015-16 to ₹ 9,439.79 crore in 2016-17 at an annual growth rate of 17.40 *per cent*. The buoyancy of Revenue Receipts w.r.t. GSDP during the year was 6.00 *per cent*.

The Capital Receipts registered an increase of 99.40 *per cent* from ₹ 2,730.97 crore in 2012-13 to ₹ 5,445.44 crore in 2016-17.

Public Account receipts (net) increased by ₹ 58.28 crore (27.20 *per cent*) from ₹ 214.30 crore in 2015-16 to ₹ 272.58 crore in 2016-17.

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 (BE). 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 2016-17 central funds amounting to ₹ 366.77 crore were directly transferred to the State implementing agencies (**Appendix 1.5**).

Table-1.6: Funds Transferred Directly to State Implementing Agencies

(₹ in crore)

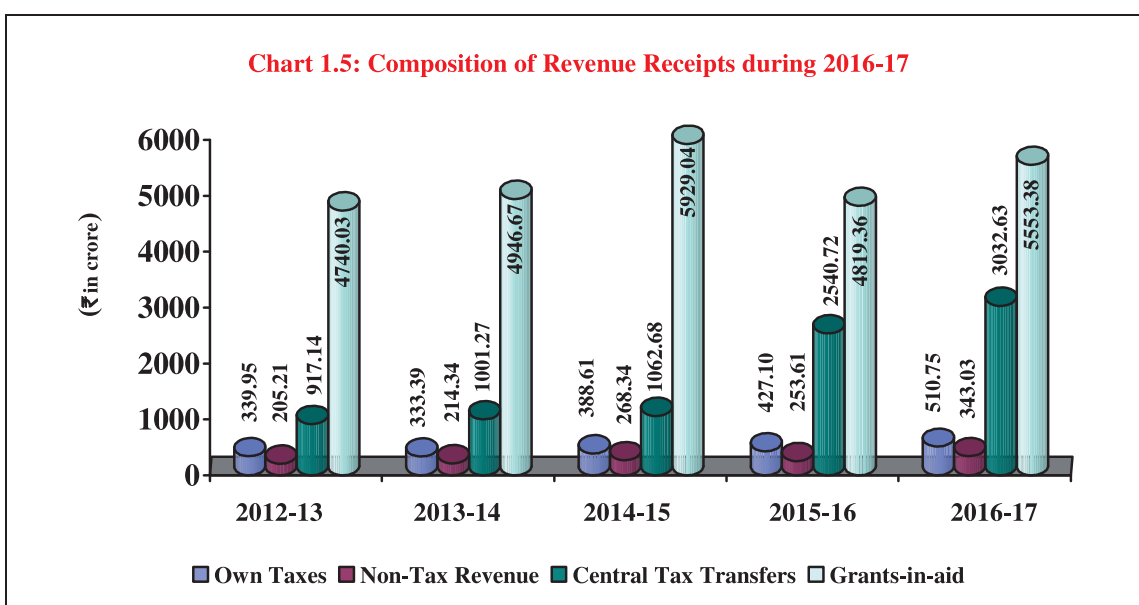
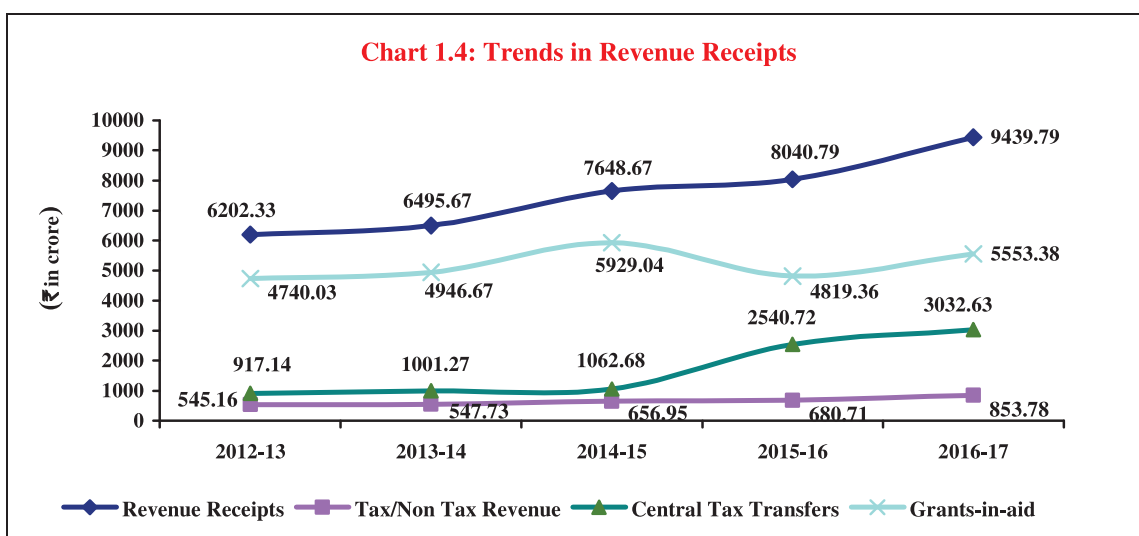
Programme/Scheme	Implementing Agency in the State	Funds transferred directly by GOI during 2016-17
National Institute of Technology	National Institute of Technology	86.81
Swadesh Darshan-Integrated Development Theme	Nagaland Tourism Board	49.14
NER Textile Promotion Scheme	Directorate of Sericulture	23.79
	Directorate of Industries & Commerce	2.06
National AIDS and STD Control	Nagaland State AIDS Control Society	21.71
National Mission on Food Processing	Kohima Municipal Council	4.50
	Mokokchung Municipal Council	17.65
Cultural Institutions	North East Cultural Centre	17.65
OFF GRID/Distributed and Decentralised	New and Renewable Energy Development Agency (NREDA)	15.01
Pradhan Mantri Kausal Vikas Yojana CS	Nagaland Skill Development Initiative Energy Development	14.56
Others	92 other schemes/programmes and 27 other implementing agencies	113.89
Total		366.77

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

Out of an amount of ₹ 366.77 crore directly transferred to implementing agencies during the year, an amount of ₹ 86.81 crore (23.67 *per cent*) was given for 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 2012-17 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 2012-17.

Tax and Non-tax Revenue receipts together (i.e States Own Resources) increased by ₹ 308.62 crore (56.61 per cent) from ₹ 545.16 crore in 2012-13 to ₹ 853.78 crore in 2016-17 at a compound annual growth rate of 11.87 per cent.

The Revenue Receipts of the State increased from ₹ 6,202.33 crore in 2012-13 to ₹ 9,439.79 crore in 2016-17 at a compound annual growth rate of 11.07 per cent. While 9.04 per cent of the Revenue Receipts during 2016-17 have come from the State's Own Resources comprising taxes and non-taxes, Central Tax Transfers and GIA together contributed 90.96 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 (2012-17).

Central tax transfers to the State increased by ₹ 491.91 crore (19.36 per cent) from ₹ 2,540.72 crore in 2015-16 to ₹ 3,032.63 crore in 2016-17. This was due to increase in Corporation Tax (₹ 168.72 crore), Tax on Income other than Corporation Tax (₹ 112.44 crore), Customs (₹ 13.56 crore), Union Excise Duties (₹ 145.59 crore), Service Tax (₹ 50.66 crore) and Tax on Wealth (₹ 2.09 crore) offset by decrease in Other Taxes and Duties on Commodities and Services (₹ 1.15 crore).

The trends in Revenue Receipts as well as buoyancy ratios⁸ relative to GSDP are presented in **Table 1.7**:

Table 1.7: Trends in Revenue Receipts and buoyancy ratios relative to GSDP

	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue Receipts (RR) (₹ in crore)	6202.33	6495.67	7648.67	8040.79	9439.79
Rate of growth of RR (<i>per cent</i>)	11.06	4.73	17.75	5.13	17.40
R R/GSDP (<i>per cent</i>)	45.54	39.10	41.54	39.18	44.70
Buoyancy Ratios					
Revenue receipts Buoyancy w.r.t GSDP	0.74	0.22	1.64	0.45	6.00
State's Own Tax Buoyancy w.r.t GSDP	0.79	(-0.09)	1.53	0.86	6.76

(Source: Finance Accounts of respective years)

The Revenue Receipts buoyancy with respect to GSDP was 0.45 in 2015-16 which increased to 6.00 in 2016-17 mainly due to sharp decline in the growth of advance estimates of GSDP. The State's Own Tax buoyancy with respect to GSDP was 0.86 in 2015-16 which increased to 6.76 in 2016-17, indicating that Revenue Receipts as well as State's Own Tax grew at a faster pace than GSDP.

1.3.1 State's Own Resources

As the State's share in Central taxes and GIA 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 2016-17 vis-à-vis assessment made by XIV FC and MTFPS are given in the **Table 1.8**:

Table 1.8: Tax & Non-tax Receipts vis-à-vis assessment made by XIV FC and MTFPS

(₹ in crore)

	XIV FC projections	Budget estimates	MTFPS projection	Actuals
Tax revenue	697.00	515.31	515.31	510.75
Non-tax revenue	223.00	261.59	NA	343.03

Actual realization of Tax Revenue was lower than the projection made by Government (0.88 per cent) and by XIV FC (26.72 per cent). Actual Non-Tax Revenue realized was higher than the estimates made by the Government (31.13 per cent) and by that of XIV FC (53.83 per cent).

The tax and Non-tax Revenue for the years 2015-16 and 2016-17 are detailed in **Charts 1.6** and **1.7**.

⁸ As explained in Appendix 1.1

1.3.1.1 Tax Revenue

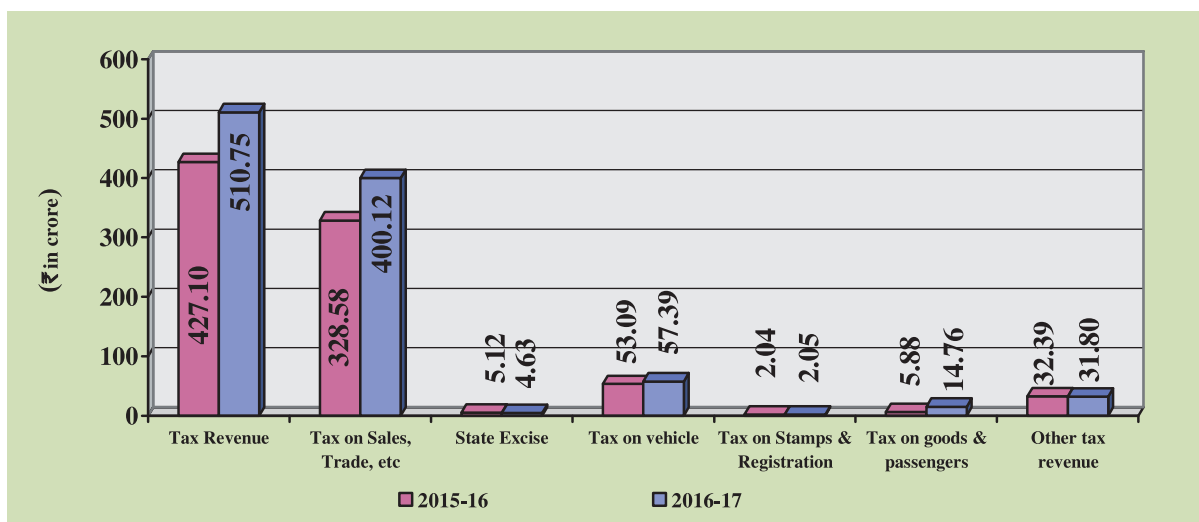
The gross collection in respect of major taxes and duties are given in **Table 1.8**.

Table 1.9: Collection of Tax Revenue 2012-17

Heads	2012-13	2013-14	2014-15	2015-16	2016-17		Percentage of increase(+)/ decrease(-) in 2016-17 over 2015-16
					Budget Estimates	Actual	
Taxes on Sales, Trade, etc	257.21	250.20	294.29	328.58	400.00	400.12	21.77
State Excise	3.73	4.86	4.70	5.12	5.40	4.63	(-)9.57
Taxes on Vehicle	41.59	36.15	46.46	53.09	57.63	57.39	8.10
Stamps and Registration Fees	1.58	1.77	1.93	2.04	2.14	2.05	0.49
Land Revenue	0.72	0.70	0.74	0.75	0.98	0.82	9.33
Taxes on goods & passengers	6.71	10.79	9.73	5.88	13.31	14.76	151.02
Other taxes	28.41	28.92	30.76	31.64	35.85	30.98	(-)2.09
Total	339.95	333.39	388.61	427.10	515.31	510.75	19.59

(Source: Finance Accounts of respective years)

Chart 1.6 : Tax Revenue component during 2015-16 and 2016-17 (₹ in crore)



The major contributions to the State's Tax Revenue during the year were Tax on Sales, Trade, etc (₹ 400.12 crore), Taxes on vehicles (₹ 57.39 crore) and Tax on goods and passengers (₹ 14.76 crore) and State Excise (₹ 4.63 crore).

The State's Own Tax Revenue increased by ₹ 83.65 crore (19.59 per cent) from ₹ 427.10 crore in 2015-16 to ₹ 510.75 crore in 2016-17 as per details given in **Table 1.10** below:

Table 1.10 Major increase/ decrease in current year's Own Resource

Sl. No.	Major Heads of Account	Increase (+)/ Decrease(-) (₹ in crore)	Main Reasons
1	0040- Taxes on Sales, Trades, etc.	(+) 71.54	Due to increase in volume of sales
2	0042-Tax on goods and passengers	(+) 8.88	
3	0041-Tax on vehicles	(+) 4.30	Due to increase in Motor Registration cases
4	0020-Land revenue	(+) 0.07	Due to increased collections over previous
5	0030-Stamps and registration fee	(+) 0.01	year

6	0028- Other taxes on income and expenditure	(+) 0.64	
7	0045- Other Taxes and Duties on Commodities and Services	(-)1.29	Due to less collection under Other Receipts
8	0039-State Excise	(-) 0.50	

(Source: Finance Accounts 2016-17)

1.3.1.2 Non-tax Revenue

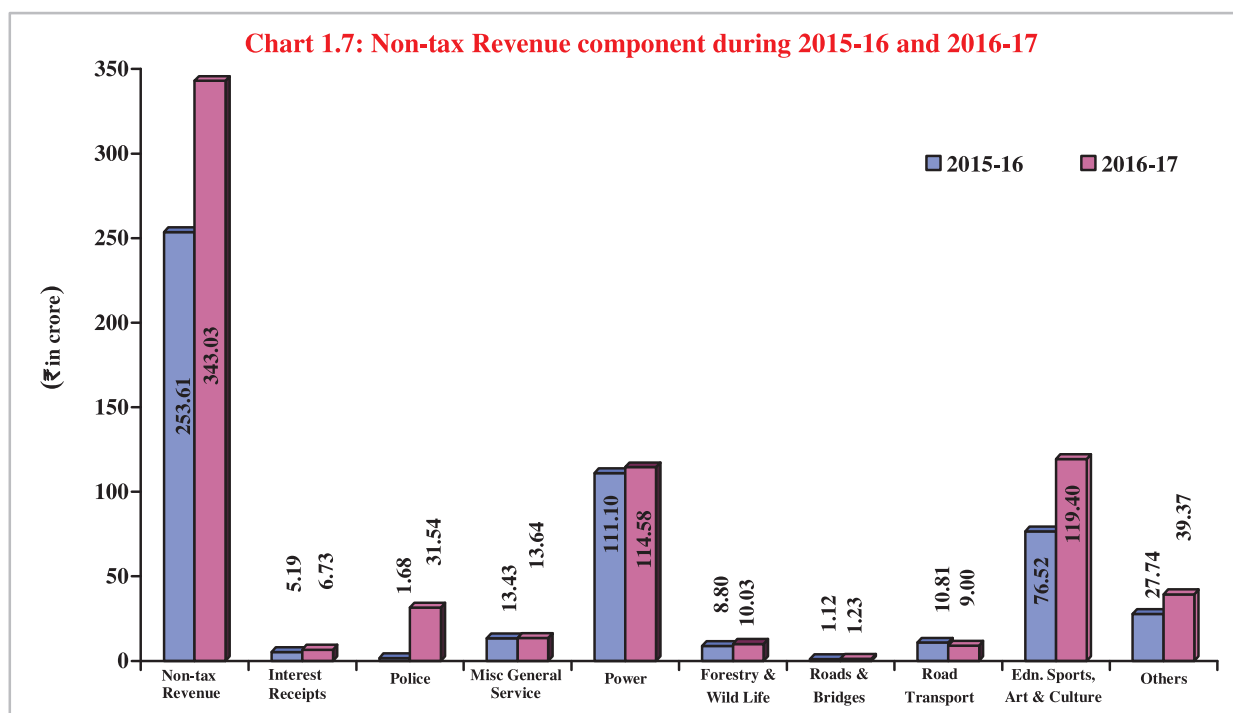
Non-tax revenue accounts for receipts from services rendered and supplies made by various departments of Government and interest receipts. Non-Tax Revenue constituted 3.63 per cent of the total Revenue Receipts during the year. The gross collection of Non-tax Revenue is given in **Table 1.11** and the details of Non-tax Revenue are given in **Chart 1.7**:

Table 1.11: Collection of Non-tax Revenue 2012-17

(₹ in crore)

Revenue Head	2012-13	2013-14	2014-15	2015-16	2016-17	Percentage increase(+)/decrease(-) 2016-17 over 2015-16
Interest receipts	5.90	7.62	7.23	5.19	6.73	29.67
Dividends and profits	0.00	0.00	0.00	4.94	0.00	#
Other non-tax receipts	199.31	206.72	261.11	243.48	336.30	38.12
Total	205.21	214.34	268.34	253.61	343.03	35.26

(Source: Finance Accounts of respective years) # Finance Accounts do not contains this figure



The major contributors to Non-tax Revenue during the year included Police (₹ 31.54 crore), Power (₹ 115.58 crore), Miscellaneous General Services (₹ 11.15 crore), Road Transport (₹ 9.00 crore), Education, Sports, Arts & Culture (₹ 119.40 crore), Interest Receipts (₹ 6.73 crore), Forestry and Wildlife (₹ 10.03 crore), Civil Aviation (₹ 20.76 crore), Housing (₹ 5.20 crore) and Roads & Bridges (₹ 1.23 crore).

Although, there was an increase of 35.26 per cent over previous year and it has been more than the targets projected in the Budget Estimates; yet, this increase has not been structured as major contributor to the Non-Tax Receipts comprised of other receipts.

1.3.2 Grants-in-aid from Government of India

The break-up of Grants-in-aid (GIA) received from GoI during 2012-17 is given in the Table 1.12:

Table 1.12: Grants-in-aid from Government of India

	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Grants for State Plan Schemes	2174.93	2283.84	2257.17	193.05	214.71
Non-Plan Grants	2039.07	2071.26	2068.04	3310.43	3545.73
Grants for Central Plan Schemes	7.78	26.66	80.93	18.41	26.84
Grants for Centrally Sponsored Plan Schemes	393.49	445.30	1428.26	1203.85	1660.65
Grants for Special Plan Schemes	124.76	119.61	94.64	93.62	105.45
Total	4740.03	4946.67	5929.04	4819.36	5553.38
Percentage of increase (+) /decrease (-) over previous year	(+)11.63	(+)4.36	(+)19.86	(-)18.72	15.23

(Source: Finance Accounts of respective years)

GIA from Government of India have increased by ₹ 734.02 crore (15.23 per cent) from ₹ 4,819.36 crore in 2015-16 to ₹ 5,553.38 crore in 2016-17 contributing 58.83 per cent of the total Revenue Receipts during 2016-17. This increase was due to increase in grants for Centrally Sponsored Plan Schemes (₹ 456.80 crore), grants for State Plan Schemes (₹ 21.66 crore), grants for Special Plan Schemes (₹ 11.83 crore), grants for Central Plan Schemes (₹ 8.43 crore) and Non-Plan grants (₹ 235.30 crore).

There was a substantial change in the pattern of devolution of funds under the recommendations of the Fourteenth Finance Commission (XIV FC). **Devolution to the State was enhanced to the tune of ₹ 1,225.93 crore during 2016-17 on the basis of XIV Finance Commission recommendations. Audit noted that additional devolution led to increase in revenue expenditure by ₹ 1,070.31 crore over previous year. (Also refer Para 1.6.2).**

The details of the devolution of taxes as well as grants for the last three years of XIII FC (2012-15) and first two years of XIV FC (2015-17) are given in Table 1.13:

Table 1.13: Devolution of taxes as well as grants

	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
1. State share of Union taxes and duties	917.14	1001.27	1062.69	2540.72	3032.63
2. Grants-in-aid from GoI	4740.03	4946.67	5929.04	4819.36	5553.38
TOTAL: (1+2)	5657.17	5947.94	6991.73	7360.08	8586.01
Revenue Receipts			7648.67	8040.79	9439.79
Per cent of devolution to revenue receipts			91.41	91.53	90.96

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 (2015-17) and expenditure are as follows:

Table 1.14: XIV Finance Commission Grants

(₹ in crore)

Year	2015-16		2016-17	
	Received	Expenditure	Received	Expenditure
Disaster Management	9.00	10.00*	9.00	10.00*
Revenue Deficit Grant	3203.00	3203.00	3451.00	3451.00
Total	3212.00	3213.00	3460.00	3461.00

* Including State matching share

(Source: Finance Department)

From the table above, it could be seen that during 2016-17, the State received ₹ 3,460.00 crore which was ₹ 248 crore more than the previous year's grant of ₹ 3,212 crore. The Revenue Deficit grants received by the State during the first two years of XIV FC were as per the recommendations made in XIV FC. However, the Revenue Deficit Grants, being grants to cover deficit on Non-Plan Revenue account, the details of the 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 1.15**:

Table 1.15: Revenue Receipts (its components), net public debt and fiscal parameters (2014-17)

(₹ in crore)

Year	2014-15	2015-16	2016-17
Revenue Receipt	7648.67	8040.79	9439.79
Tax Revenue	388.61	427.10	510.75
Non-tax Revenue	268.34	253.61	343.03
Central transfers	1062.68	2540.72	3032.63
Grants-in-aid from GoI	5929.04	4819.36	5553.38
FC Grant out of GIA	2023.00	3203.00	3451.00
Net Public Debt	108.79	840.59	379.31
Tax and Non-tax Revenue as percentage of Revenue Receipt	8.59	8.47	9.04
Revenue deficit (-)/Surplus (+)	888.53	461.65	790.34
Fiscal Deficit (-)/Surplus (+)	-134.12	-597.27	-284.86

It can be seen from the table that Tax and Non-tax Revenue ranged between 8.47 per cent (2015-16) and 9.04 per cent (2016-17) of the Revenue Receipt during the pre and post XIV FC period (2014-17). This implied that the State hugely depended on Central transfers and GIA. It could also be seen that though FC grant had increased by 58.33 per cent from ₹ 2,023.00 crore (2014-15) to ₹ 3,203.00 crore (2015-16), the GIA was reduced by 18.72 per cent in 2015-16 as compared to the previous year.

During 2015-16, the actual Revenue Surplus (₹ 461.65 crore) was more than the budget estimates (₹ 230.32 crore) and during 2016-17 the actual Revenue Surplus (₹ 790.34 crore) was less than the budget estimates (₹ 901.85 crore). The net public debt increased in 2015-16 as compared with 2014-15 which however decreased in 2016-17 as compared with the previous year. The Fiscal Deficit increased during 2015-16 as compared with 2014-15 and it decreased during 2016-17 as compared with the previous year.

1.3.4 Central Tax Transfers

The 14th FC had recommended that the State's share of central taxes 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*, respectively. The break-up of State's share of Union Taxes and Duties received during 2012-17 is given in the **Table 1.16**:

Table 1.16: Central Tax Transfers

(₹ in crore)

Head	2012-13	2013-14	2014-15	2015-16	2016-17
Corporation Taxes	329.59	336.90	371.26	804.56	973.28
Taxes on income other than corporation tax	197.31	221.84	265.11	564.00	676.44
Tax on wealth	0.55	0.92	1.00	0.13	2.22
Customs	152.48	163.45	171.94	405.10	418.66
Union Excise Duties	103.63	115.44	97.09	332.50	478.09
Service Tax	133.58	162.72	156.28	433.27	483.93
Other Taxes and Duties on Commodities and Services	0.00	0.00	0.00	1.16	0.01
Total	917.14	1001.27	1062.68	2540.72	3032.63

(Source: Finance Accounts of respective years)

Central tax transfers during the year (₹ 3,032.63 crore) was more than the assessment made in budget estimate (₹ 3,016.31 crore) by ₹ 16.32 crore. State's share of Union Taxes and Duties increased by ₹ 491.91 crore (19.36 *per cent*) from ₹ 2,540.72 crore in 2015-16 to ₹ 3,032.63 crore in 2016-17 contributing 32.13 *per cent* of the total Revenue Receipts during 2016-17. This increase was due to increase in Corporation tax (₹ 168.72 crore), Taxes on income other than corporation tax (₹ 112.44 crore), Customs (₹ 13.56 crore), Union Excise Duties (₹ 145.59 crore), Tax on Wealth (₹ 2.09 crore) and Service tax (₹ 50.66 crore) offset by decrease in Other Taxes and Duties on commodities and services (₹ 1.15 crore).

1.4 Capital Receipts

The details of capital receipts for the period from 2012-13 to 2016-17 is given below:

Table No. 1.17: Capital Receipts

Source of State's Receipt	2012-13	2013-14	2014-15	2015-16	2016-17
Capital Receipts (CR)	2730.97	1977.42	2415.58	3546.44	5445.44
Recovery of Loans and Advances (₹ in crore)	0.85	1.01	0.71	0.50	1.09

Public Debt Receipt (₹ in crore)	2730.12	1976.41	2414.87	3545.94	5444.35
Rate of growth of Debt Capital Receipts (<i>per cent</i>)	107.01	(-)27.61	22.18	46.84	53.54
Rate of growth of non-Debt Capital Receipts (<i>per cent</i>)	(-)65.16	18.82	(-)29.70	(-)29.58	118.00
Rate of growth of CR (<i>per cent</i>)	106.69	(-)27.59	22.16	46.82	53.55
Debt Capital buoyancy w.r.t GSDP	7.09	(-)1.26	2.04	4.09	18.46
Non Debt Capital Buoyancy w.r.t GSDP	(-)4.33	0.86	(-)2.74	(-)2.58	40.69

(Source: Finance Accounts of respective years)

During 2016-17, the Capital Receipts had increased by ₹ 1,899.00 crore. The increase was mainly due to increase in Public Debt Receipt by ₹ 1,898.41 crore from ₹ 3,545.94 crore in 2015-16 to ₹ 5,444.35 crore in 2016-17 which constituted 99.98 *per cent* of the Capital Receipts.

1.4.1 Proceeds from disinvestment

During the financial year 2016-17, the Government of Nagaland did not resort to any disinvestment.

1.4.2 Recoveries of loans and advances

The State Government in its MTFPS for the year 2016-17 targeted recovery of Loans and Advances of ₹ 2.88 crore. During the year, the actual recovery was only ₹ 1.09 crore (37.85 *per cent*). However, recovery of loans and advances had increased by ₹ 0.59 crore over 2015-16.

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

Debt Receipts from internal sources increased by ₹ 1,898.41 crore (53.54 *per cent*) from ₹ 3,545.94 crore in 2015-16 to ₹ 5,444.35 crore in 2016-17. Debt Receipts from internal sources of ₹ 5,444.35 crore comprised of Market loans (₹ 1,069.63 crore), loans from NABARD (₹ 18.72 crore), loans from GoI (₹ 0.26 crore), loans from other Institutions (₹ 94.09 crore) and Ways and Means Advances from RBI (₹ 4,261.65 crore).

1.5 Public Accounts 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 is the fund available with the Government for use.

Table 1.18: Net transactions under Public Account*(₹ in crore)*

Resources under various heads	2012-13	2013-14	2014-15	2015-16	2016-17
Small Savings, Provident Fund etc	72.49	112.07	55.35	11.76	29.10
Reserve Fund	24.13	12.15	41.01	200.67	225.00
Deposits and Advances	(-)80.22	240.68	(-)607.76	(-)75.07	(-)7.69
Suspense and Miscellaneous	209.22	(-)0.76	0.56	2.98	(-)5.83
Remittances	(-)6.63	(-)30.38	277.54	73.96	32.00
Total	218.99	333.76	(-)233.30	214.30	272.58

(Source: Finance Accounts of respective years)

The net receipts from Public Account increased by ₹ 58.28 crore (27.20 per cent) from ₹ 214.30 crore in 2015-16 to ₹ 272.58 crore in 2016-17. The increase was due to increase in Small Savings, Provident Funds (₹ 17.34 crore), Reserve Fund (₹ 24.33 crore), Deposit and Advances (₹ 67.38 crore) offset by decrease in Suspense and Miscellaneous (₹ 8.81 crore) and Remittances (₹ 41.96 crore).

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

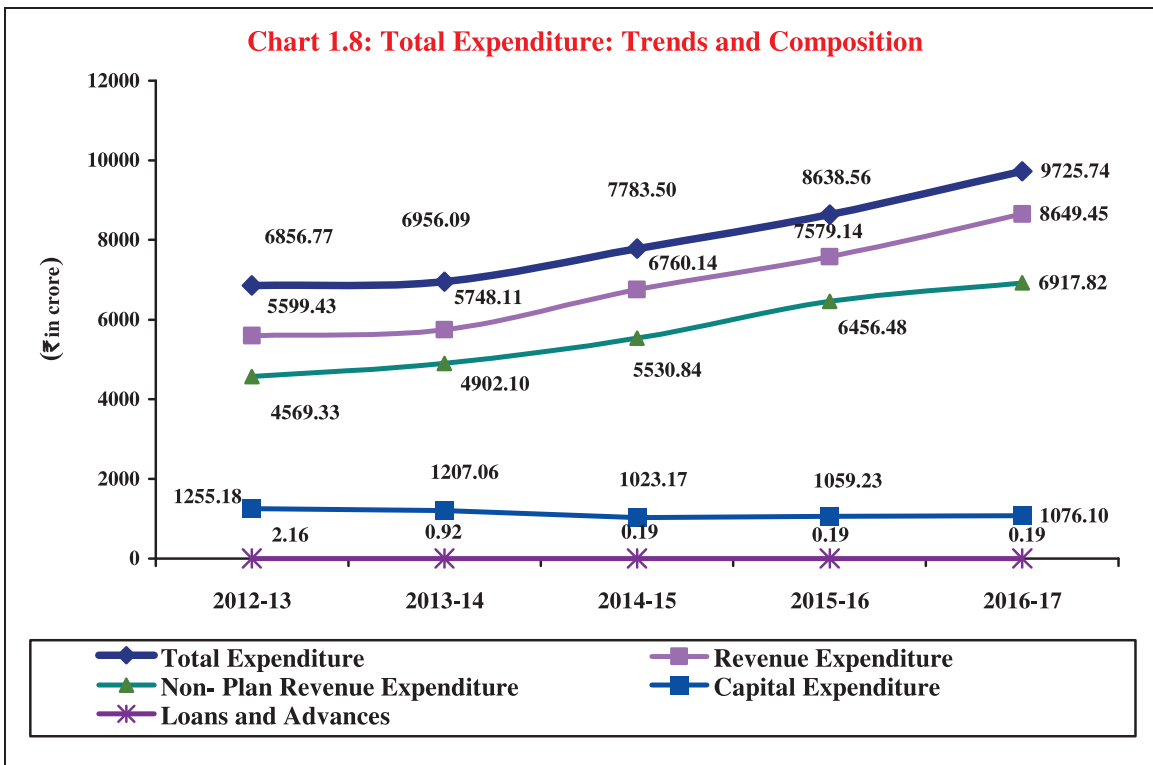
1.6 Application of resources

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.

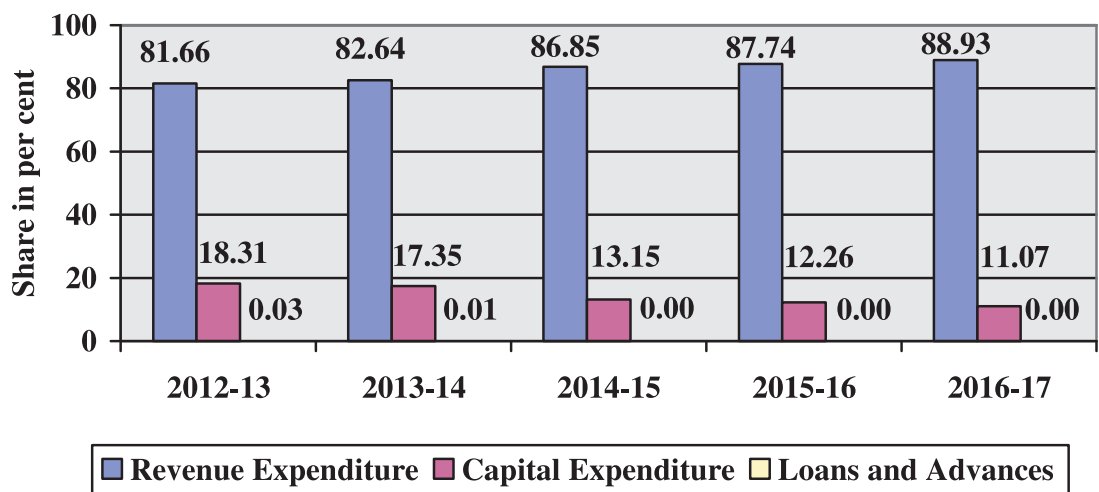
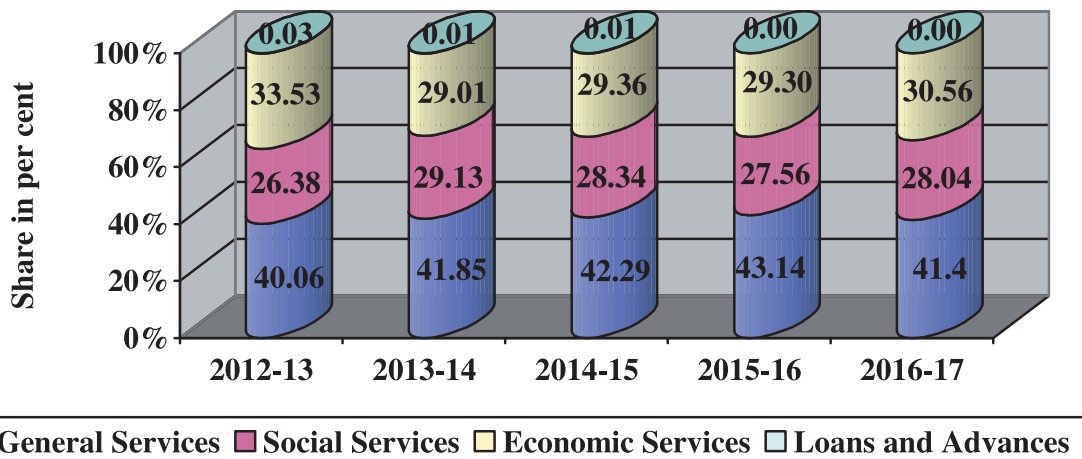
1.6.1 Growth and Composition of Expenditure

Chart 1.8 presents the trends in Total Expenditure over a period of five years (2012-17) 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 2016-17 was ₹ 9,725.74 crore as compared to an expenditure of ₹ 8,638.56 crore during 2015-16. Thus, the expenditure increased by ₹ 1,087.18 crore (12.59 per cent) over the previous year. The Total Expenditure in 2016-17 comprised of Revenue Expenditure ₹ 8,649.45 crore (88.93 per cent), Capital Expenditure ₹ 1,076.10 crore (11.07 per cent) and Loans and Advances ₹ 0.19 crore. The increase in Total Expenditure during 2016-17 over the previous year was due to increase of Revenue Expenditure by ₹ 1,070.31 crore and Capital Expenditure by ₹ 16.87 crore.

Chart 1.9: Total Expenditure: Trends in share of its Components**Chart 1.10: Total Expenditure: Trends by 'Activities'**

The Total Expenditure, its annual growth rate, the ratio of expenditure to the GSDP and to Revenue Receipts and its buoyancy with respect to GSDP and Revenue Receipts are indicated in **Table 1.19**.

Table 1.19: Total expenditure-basic parameters

	2012-13	2013-14	2014-15	2015-16	2016-17
Total Expenditure (TE) (₹ in crore)	6856.77	6956.09	7783.50	8638.56	9725.74
Growth rate of TE (<i>per cent</i>)	11.93	1.45	11.89	10.99	12.59
TE/GSDP ratio (<i>per cent</i>)	50.35	41.87	42.27	42.09	46.05
RR/TE (<i>per cent</i>)	90.46	93.38	98.27	93.08	97.06
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	0.79	0.07	1.10	0.96	4.34
Revenue Receipt (ratio)	1.08	0.31	0.67	2.14	0.72

(Source: Finance Accounts of respective years)

During the current year, 97.06 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 ₹ 300.26 crore (8.06 per cent) from ₹ 3,726.25 crore in 2015-16 to ₹ 4,026.51 crore in 2016-17, Social Services expenditure increased by ₹ 345.84 crore (14.52 per cent) and Economic Services expenditure increased by ₹ 441.08 crore (17.43 per cent).

1.6.2 Revenue Expenditure

Revenue Expenditure is 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 81.66 per cent to 88.93 per cent of the Total Expenditure of the State during 2012-17. The Revenue Expenditure, its rate of growth, the ratio of Revenue Expenditure to GSDP and to Revenue Receipts and its buoyancy is indicated in **Table 1.20**.

Table 1.20: Revenue Expenditure-basic parameters

	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue Expenditure (RE), of which (₹ in crore)	5599.43	5748.11	6760.14	7579.14	8649.45
Non-plan Revenue Expenditure (NPRE) (₹ in crore)	4569.33 (81.60%)	4902.10 (85.28%)	5530.84 (81.82%)	6456.48 (85.19%)	6917.82 (79.98%)
Plan Revenue Expenditure (PRE) (₹ in crore)	1030.10	846.01	1229.30	1122.66	1731.63
Rate of growth of RE (per cent)	14.89	2.66	17.61	12.12	14.12
RE as percentage to TE	81.66	82.63	86.85	87.74	88.93
Buoyancy of RE with GSDP (ratio)	0.99	0.12	1.62	1.06	4.87
Buoyancy of RE with RR (ratio)	1.35	0.56	0.99	2.36	0.81

(Source: Finance Accounts of respective years)

The Non-Plan Revenue Expenditure has come down to 80 per cent during the current year. It had ranged between 80 to 85 per cent during the last five years which indicates that the expenditure of the State is not managed efficiently.

Revenue Expenditure of the State had increased by ₹ 3,050.02 crore (54.47 per cent) from ₹ 5,599.43 crore in 2012-13 to ₹ 8,649.45 crore in 2016-17 at a compound annual growth rate of 11.48 per cent.

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

Table 1.21: Revenue Expenditure assessment made by XIV FC and actual

(₹ in crore)

	Assessment made by FC-XIV for 2016-17	Actual
Revenue Expenditure (RE)	7705.00	8649.45

The actual Revenue Expenditure exceeded the normative assessment made by XIV FC by ₹ 944.45 crore (12.26 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 1.19** and **Chart 1.11** present the trends in the expenditure on these components during 2012-17.

The Committed Expenditure (i.e., interest payment, pension, salaries and subsidies) of the State Government increased by ₹ 175.27 crore (3.30 per cent) from ₹ 5,303.75 crore in 2015-16 to ₹ 5,479.02 crore in 2016-17. The overall percentage of Committed Expenditure to Revenue Receipts was 58.04 per cent respectively in 2016-17.

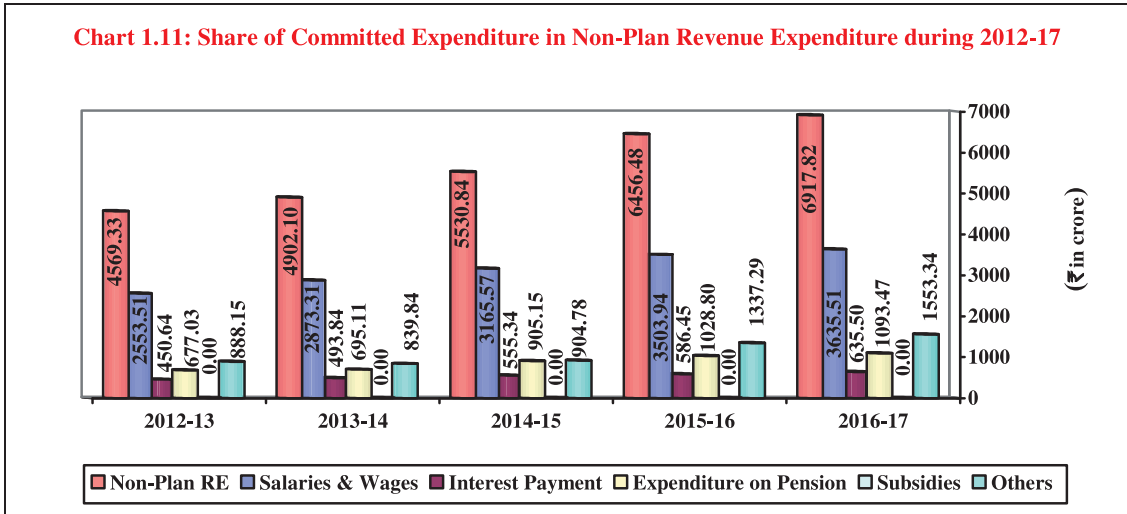
Table 1.22: Components of Committed Expenditure

(₹ in crore)

	2012-13	2013-14	2014-15	2015-16	2016-17
Salaries & Wages, of which	2603.87	2940.80	3274.16	3688.50	3750.05
<i>Non-plan</i>	2553.51	2873.31	3165.57	3503.94	3635.51
<i>Plan</i>	50.36	67.49	108.59	184.56	115.54
Interest Payment	450.64	493.84	555.34	586.45	635.50
Expenditure on Pension	677.03	695.11	905.15	1028.80	1093.47
Total	3731.54	4129.75	4734.65	5303.75	5479.02
<i>As per cent of Revenue Receipts</i>					
Salaries & Wages	41.98	45.27	42.81	45.87	39.73
Interest Payment	7.27	7.60	7.26	7.29	6.73
Expenditure on pension	10.92	10.70	11.83	12.79	11.58

(Source: Finance Accounts of respective years)

Chart 1.11: Share of Committed Expenditure in Non-Plan Revenue Expenditure during 2012-17



Salaries & Wages:

Expenditure on salaries increased by ₹ 1,146.18 crore (44.02 per cent) from ₹ 2,603.87 crore in 2012-13 to ₹ 3,750.05 crore in 2016-17 at a compound annual growth rate of 9.55 per cent. Expenditure on salaries and wages increased by ₹ 61.55 crore (1.67 per cent) over the previous year mainly due to release of dearness allowance installments and incremental benefits. Salary and wages accounted for 39.73 per cent of the Revenue Receipts during 2016-17.

Pension Payment:

The expenditure on pension had increased by ₹ 64.67 crore (6.29 per cent) from ₹ 1,028.80 crore in 2015-16 to ₹ 1,093.47 crore in 2016-17. The pension payment was ₹ 107.47 crore more than the assessment made by XIV FC (₹ 986.00 crore). However, it was ₹ 308.82 crore less than the assessment made by the State Government in its MTFPS (₹ 1,402.29 crore) for the year 2016-17.

Interest Payments:

Chart 1.12: Components of Interest Payment during 2015-16

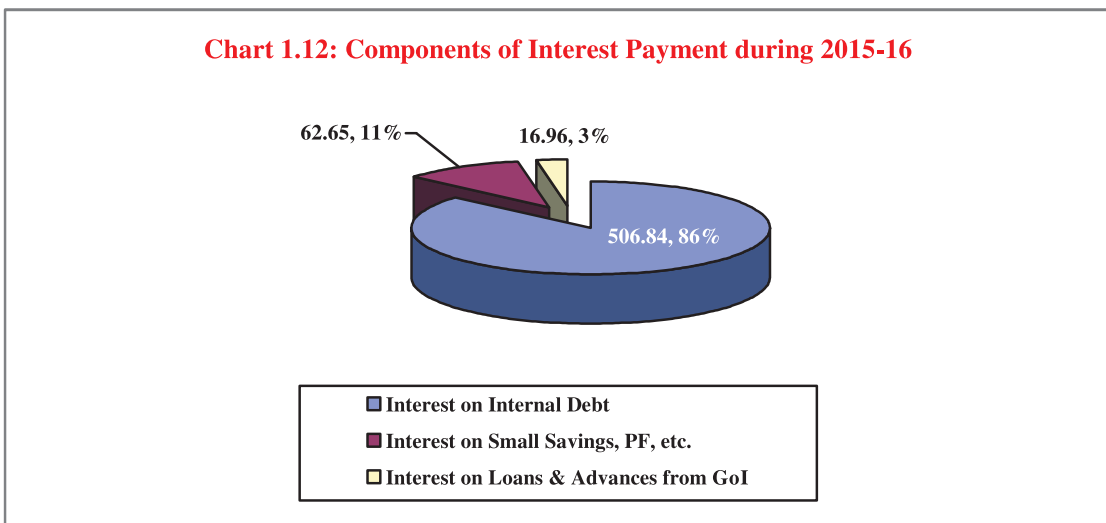
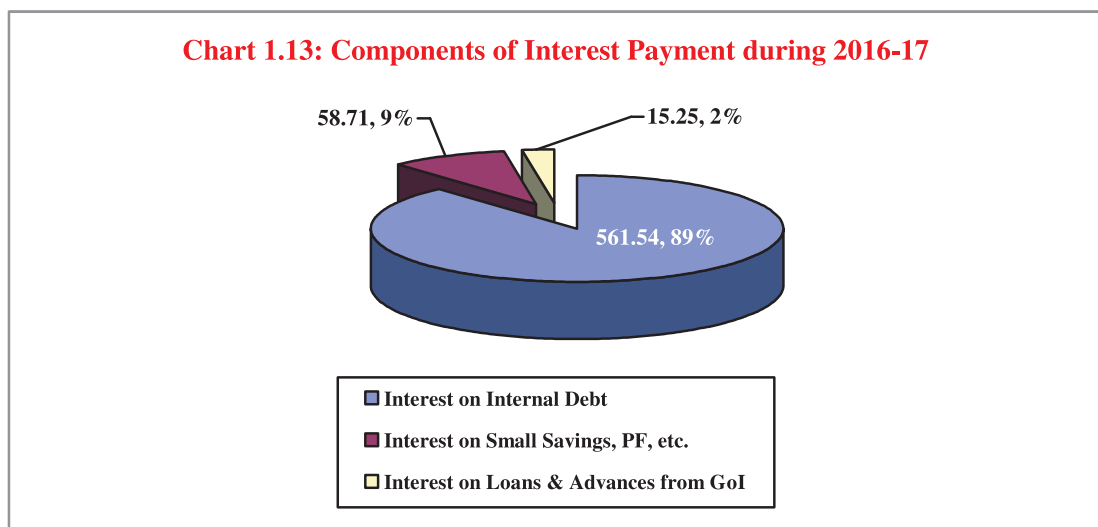


Chart 1.13: Components of Interest Payment during 2016-17



Interest payment increased by ₹ 184.86 crore (41.02 per cent) from ₹ 450.64 crore in 2012-13 to ₹ 635.50 crore in 2016-17 at a compound annual growth rate of 8.97 per cent. The interest payment increased by ₹ 49.05 crore (8.36 per cent) during 2015-16 over the previous year due to increase in interest payment on Internal Debt (₹ 54.70 crore) offset by decrease in interest payment on Small Savings, Provident Fund etc. (₹ 3.94 crore) and Loan and Advances from Central Government (₹ 1.71 crore).

The interest payment for the year 2016-17 was lower than the projection made by the State Government in MTFPS (₹ 836.69 crore) but higher than the projections made in XIV FC (₹ 542.00 crore).

Subsidies:

No subsidies were given by the State Government during the years 2012-17.

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 1.23**.

Table 1.23: Financial Assistance to Local Bodies etc.

Financial Assistance to Institutions	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	51.17	30.47	10.51	9.47	8.91
Co-Operation	8.40	19.18	1.00	1.50	2.00
Municipal councils	0.00	5.98	6.34	1.62	0.00
Development Agencies	29.04	29.18	103.44	0.00	10.00
Hospitals and Other Charitable Institutions	15.50	14.46	16.42	17.31	17.76
Panchayati Raj	16.62	0.09	6.19	0.00	0.00
Special Area Programme	0.00	0.00	60.87	0.00	0.00
Other Institutions	111.77	193.75	45.83	90.73	132.20
Total	232.50	293.11	250.60	120.63	170.87
Assistance as percentage of RE	4.15	5.10	3.71	1.59	1.98

(Source: Finance Accounts of respective years)

The total assistance to local bodies etc. increased by ₹ 50.24 crore (41.65 per cent) from ₹ 120.63 crore in 2015-16 to ₹ 170.87 crore in 2016-17. **Table 1.20** shows that the assistance decreased by ₹ 0.56 crore (5.91 per cent) from ₹ 9.47 crore in 2015-16 to ₹ 8.91 crore in 2016-17 in respect of educational institutions. In respect of Hospitals and other charitable institutions, the assistance increased by ₹ 0.45 crore (2.60 per cent) from ₹ 17.31 crore in 2015-16 to ₹ 17.76 crore in 2016-17. During 2016-17, no financial assistance was extended in respect of Special Area Programme and Municipal Councils and Panchayati Raj.

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 1.24** analyses the fiscal priority given by the Nagaland Government to various expenditure heads in 2012-13 and the current year viz., 2016-17 with regard to Developmental Expenditure, Social Sector expenditure and Capital Expenditure.

Table-1.24: Fiscal priority of the State in 2012-13 & 2016-17

<i>(in per cent)</i>						
Fiscal priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE	Education/AE	Health/AE
*Special Category States Average (Ratio) 2012-13	24.80	61.10	34.30	15.10	18.10	5.30
Nagaland's (Ratio) 2012-13	50.36	59.92	26.37	18.30	13.87	4.26
Special Category States Average (Ratio) 2016-17	27.40	61.50	34.20	13.60	16.60	5.40
Nagaland's (Ratio) 2016-17	46.05	58.60	28.04	11.06	13.56	5.10
AE: Aggregate Expenditure DE: Developmental Expenditure SSE: Social Sector Expenditure CE: Capital Expenditure # Developmental expenditure includes Developmental Revenue Expenditure, Developmental Capital Expenditure and Loans and Advances disbursed. (Source: For GSDP, Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation website as on 1 August 2017)						

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 has been lower in the State compared to the SCS average both during 2012-13 and 2016-17.
- Expenditure on Social Sector as a proportion of aggregate expenditure was lower than the SCS average during 2012-13 and 2016-17. The share of expenditure on education and health as a proportion of aggregate expenditure was also lower than the SCS averages in 2012-13 and 2016-17.

- It was observed that the share of capital expenditure of the State was higher than the SCS average in 2012-13 but lower during the year 2016-17.
- **Ratio of Capital Expenditure to Aggregate Expenditure stood at 11.06 per cent which was less than the combined average of the Special Category States.**

1.7.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on developmental, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods⁹. Apart from improving the allocation towards developmental expenditure¹⁰, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, 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. While **Table 1.25** presents the trends in Developmental Expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years, **Table 1.26** provides the details of Capital Expenditure and the components of Revenue Expenditure incurred on the maintenance of the selected Social and Economic Services.

Table-1.25: Developmental Expenditure

Components of Developmental Expenditure	2012-13	2013-14	2014-15	2015-16	2016-17	
					BE	Actual
Developmental Expenditure (a to c)	4109.92 (59.94)	4044.65 (58.15)	4491.58 (57.71)	4912.31 (56.86)	6414.74	5699.23 (58.60)
a. Developmental Revenue Expenditure	3063.59 (44.68)	3017.86 (43.38)	3629.17 (46.63)	3958.67 (45.83)	5425.37	4755.49 (48.90)
b. Developmental Capital Expenditure	1044.17 (15.23)	1025.87 (14.75)	862.22 (11.08)	953.45 (11.04)	988.97	943.55 (9.70)
c. Developmental Loans and Advances	2.16 (0.03)	0.92 (0.01)	0.19 (0.00)	0.19 (0.00)	0.40	0.19 (0.00)

Figures in parentheses indicate percentage to Total Expenditure

The Developmental Expenditure (₹ 5,699.23 crore) was lesser than the assessment made by the State Government in the budget by ₹ 715.51 crore. The Developmental Revenue Expenditure increased by ₹ 796.82 crore (20.13 per cent), however, Developmental Capital Expenditure decreased by ₹ 9.90 crore (1.04 per cent) respectively over the previous year. **Overall, the development Expenditure of the State did not change much in terms of the percentages, even as the total receipt of the State has seen a substantial increase with enhanced devolutions as per recommendations of the XIV Finance Commission.**

⁹ As detailed in Appendix 1.1 Part-C

¹⁰ 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 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 take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and Capital Expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.8.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2017 is given in **Table 1.27**.

Table 1.27: Department-wise Profile of Incomplete Projects

(₹ in crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Cost	Cumulative expenditure as on 31-03-2017
Department of Under Developed Area	75	83.69	83.69	23.82
Police Engineering Project	54	701.71	701.71	181.35
Veterinary and Animal Husbandry	42	45.38	45.52	18.5
Public Works Department (Road & Bridges)	34	642.85	675.43	502.77
Deputy Commissioner (HQ)	26	9.00	9.00	0.00
Public Works Department (Housing)	15	222.38	222.38	147.28
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	3.30	37.95
Youth Resource and Sports	4	174.59	176.09	79.78
Geology and Mining	3	52.08	79.48	48.73
24 other Departments	59	477.95	478.99	832.07
Total	340	2815.60	2878.56	2030.18

(Source: Finance Accounts and Departmental records)

(Note: Information on cumulative expenditure in respect of two projects in Employment and Craftsmen Training and on estimated cost in respect of one project in Technical Education Department awaited from State Government (August 2017))

340 projects involving an expenditure of ₹ 2,030.18 crore were incomplete as of 31 March 2017. Two projects involving an expenditure of ₹ 10.47 crore which were taken up under PWD (Road & Bridges) had been suspended. The cumulative expenditure as of March 2017 had exceeded the budget cost/revised cost in respect the projects undertaken by PWD (National Highways).

Information in respect of 303 projects out of 340 was furnished by the Department. These 303 projects, involving an expenditure of ₹ 1,818.77 crore, were stipulated to be completed by March 2017 but had remained incomplete as of October 2017. Project cost

in respect of eight incomplete projects was revised from ₹ 74.72 crore to ₹ 137.68 crore (83.85 per cent). These projects pertained to PWD (Road & B ridges) - (₹ 38.56 crore), Geology and Mining (₹ 26.54 crore), State Council of Educational Research and Training (₹ 4.28 crore), Transport (₹ 1.39 crore), Veterinary and Animal Husbandry (₹ 0.30 crore), Youth Resources and Sports (₹ 3.50 crore) and Agriculture (₹ 0.16 crore).

The date of completion in respect of 37 projects was not furnished by the departments. Hence, it could not be ascertained in audit as to whether the 37 projects were incomplete or were in progress.

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.

1.8.2 Investment and returns

As on 31 March 2017, Government had invested ₹ 291.75 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (Table 1.28). 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 6.87 per cent on its borrowings during 2016-17.

Table 1.28: Return on Investment

(₹ in crore)

Investment/Return/Cost of Borrowings	2012-13	2013-14	2014-15	2015-16	2016-17
Investment at the end of the year (a-e) (₹ in crore)	242.65	270.01	278.44	290.60	291.75
(a) Joint Stock Companies	32.10	32.10	32.10	43.10	43.10
(b) Government Companies	168.69	182.05	190.48	191.60	192.75
(c) Statutory Corporations	0.04	0.04	0.04	0.04	0.04
(d) Rural Banks	0.00	0.00	0.00	0.00	0.00
(e) Co-operatives	41.82	55.82	55.82	55.86	55.86
Return (₹ in crore)	0.00	0.00	0.00	4.94	0.00
Return (per cent)	0.00	0.00	0.00	1.70	0.00
Average rate of interest on Govt borrowing (per cent)	6.34	6.25	6.81	6.95	6.87
Difference between interest rate and return (per cent)	6.34	6.25	6.81	5.25	6.87

(Source: Finance Accounts of respective years)

Out of the total Government investment of ₹ 291.75 crore at the close of the current year, ₹ 192.75 crore was invested in five Government companies (₹ 106.34 crore), Distillery Project (₹ 0.30 crore) and Public Sector & other Undertakings (₹ 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 ₹ 1.15 crore in State Mineral Development Corporations.

Out of six Government companies in the State, one company viz., Nagaland Sugar Mills Ltd. (₹ 7.29 crore-investment upto 2000-01) was non-working whose accounts were in

arrears for 16 years. The five working companies - Nagaland Industrial Development Corporation Ltd. (₹ 8.39 crore), Nagaland Industrial Raw Materials & Supply Corporation Ltd., (₹ 4.05 crore), State Mineral Development Corporations (₹ 83.79 crore) and Nagaland Handloom & Handicrafts Development Corporation Ltd., (₹ 2.82 crore) and Nagaland Hotels Ltd were incurring losses. The accounts of the five working Government Companies were in arrears for periods ranging between one and seven years. Hence, the actual financial status of the companies as of March 2017 could not be assessed.

The capital investment and accumulated losses of the working State PSUs as per their latest finalised accounts were ₹ 33.57 crore and ₹ 58.70 crore respectively. **Out of the five working Government Companies, accumulated losses in three Government Companies had exceeded their paid-up capital and in the remaining two Government Companies the accumulated losses were more than 50 per cent of their paid-up capital.**

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 1.29** presents the outstanding Loans and Advances as on 31 March 2017 and interest receipts vis-à-vis interest payments during the last three years.

Table-1.29: Average Interest Received on Loans Advanced by the State Government

Quantum of loans/interest receipts/ cost of borrowings	2012-13	2013-14	2014-15	2015-16	2016-17	
					BE	Actual
Opening Balance	26.11	27.42	27.33	26.81	26.24	26.50
Amount advanced during the year	2.16	0.92	0.19	0.19	0.40	0.19
Amount repaid during the year	0.85	1.01	0.71	0.50	2.88	1.09
Closing Balance	27.42	27.33	26.81	26.50	23.76	25.60
Net addition	1.31	(-)0.09	(-)0.52	(-)0.31	#	(-)0.90
Interest Receipts	0.00	3.49	3.29	1.81	#	3.11
Interest receipts as <i>per cent</i> to outstanding loans and advances	0.00	12.75	12.15	6.79	#	11.94
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	6.34	6.25	6.81	6.95	#	6.87
Difference between interest payments and interest receipts (<i>per cent</i>)	6.34	(-)6.50	(-)5.34	0.16	#	(-)5.07

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

At the end of March 2017, the Government had outstanding Loans and Advances of ₹ 25.60 crore. The amount of loans disbursed during the year remained the same as compared with the previous year. Out of the total amount of ₹ 25.60 crore as on 31 March 2017, the main shares of Loans and Advances were ₹ 22.57 crore (88.16 *per cent*) for Agriculture and Allied Activities, ₹ 0.85 crore (3.32 *per cent*) to Government Servants and ₹ 2.18 crore (8.52 *per cent*) for Industry & Minerals.

The recovery of Loans and Advances increased by ₹ 0.59 crore (118.00 per cent) from ₹ 0.50 crore in 2015-16 to ₹ 1.09 crore in 2015-16. During 2016-17, 42.20 per cent (₹ 0.46 crore) loans were repaid by government servants and 57.80 per cent (₹ 0.63 crore) by Co-operatives. The interest receipts as a percentage of outstanding loans increased from 6.79 per cent in 2015-16 to 11.94 per cent in 2016-17.

1.8.4 Cash Balances and Investment of Cash balances

A summary of the contents of Appendix A of Finance Account are given in **Table 1.30**:

Table 1.30: Summary of contents of Appendix I of Finance Accounts

(₹ in crore)

	Opening balance on 01.04.2016	Closing balance on 31.03.2017
(a) General Cash Balance		
Cash in treasuries	0.00	0.00
Deposits with Reserve Bank	156.34	226.92
Deposits with other Banks	0.00	0.00
Remittances in transit- Local	0.00	0.00
Total	156.34	226.92
Investments held in Cash Balance investment account	0.00	35.41
Total (a)	156.34	262.33
(b) Other Cash Balances and Investments		
Cash with departmental officers viz. Public Works Dept/ Officers, Forest department Officers, District Collectors	307.81	343.86
Permanent advances for contingent expenditure with departmental officers	0.00	0.00
Investment of earmarked funds	429.20	654.20
Total (b)	737.01	998.06
Total (a) + (b)	893.35	1260.39

(Source: Finance Accounts)

The table above indicates that the cash with the departmental officers viz., public works departmental officers, forest department officers and district collectors had increased by ₹ 36.05 crore (11.71 per cent) from ₹ 307.81 crore in 2015-16 to ₹ 343.86 crore in 2016-17.

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, show an outstanding debit balance of ₹ two lakh as on 31 March 2017, which needs to be reconciled by the State Government.

1.8.4.1 Inadequate cash management

The position of availability of the cash balances and Capital Expenditure are given in the table given below:

(₹ in crore)

Opening Cash Balance	893.35		
Net of Public Accounts Receipts	272.58	Capital Expenditure	1076.10
Public Debt Receipts	1182.70	Repayment of Public Debt	513.35
Revenue Surplus	790.34	Closing Cash Balance	1260.39

The obligation of Capital Expenditure (₹ 1,076.10 crore) and repayment of Public Debt (₹513.35 crore) could have been managed without raising additional debt at higher interest rates (Avg. 6.87 per cent).

Analysis of the Cash Balances showed that the State had adequate funds opening cash balance of ₹ 893.35 crore. The State budget had a revenue surplus of ₹ 790.34 crore against an estimate of ₹ 901.85 crore and net Public Account Receipt of ₹ 272.58 crore (Total ₹ 1,956.27 crore). The closing Cash Balance of the State stood at ₹ 1,260.39 crore. The State could have financed their Capital needs from internal sources without resorting to raising of Public Debt.

The cash management, therefore, needed to be improved to ensure optimum cost effective utilisation of available funds.

1.9 Assets and Liabilities

1.9.1 Growth and composition of Assets and Liabilities

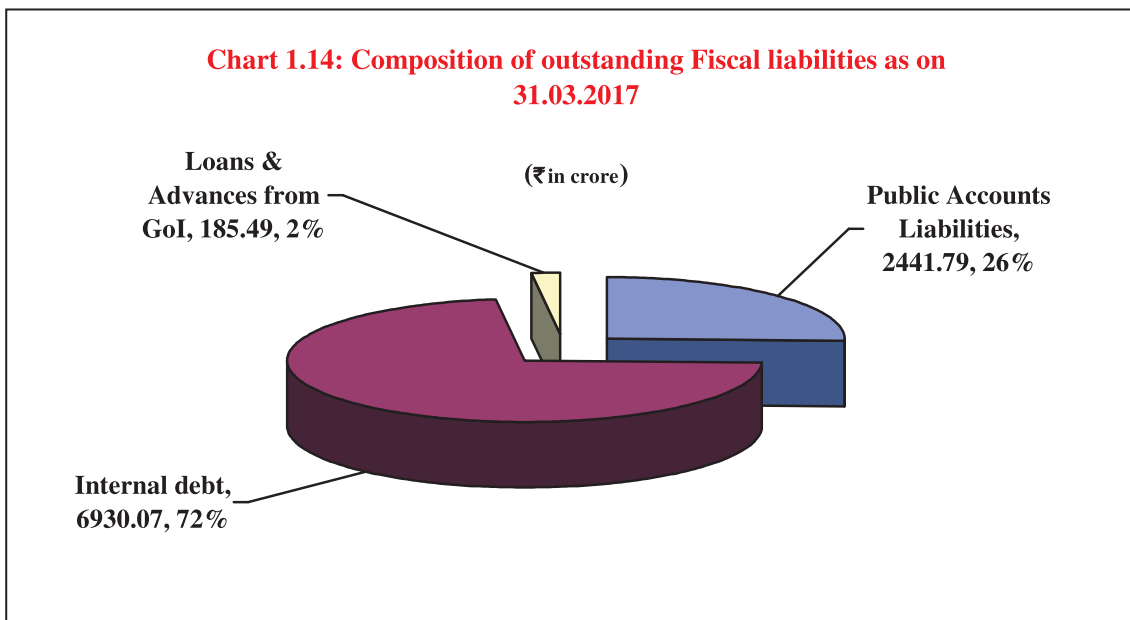
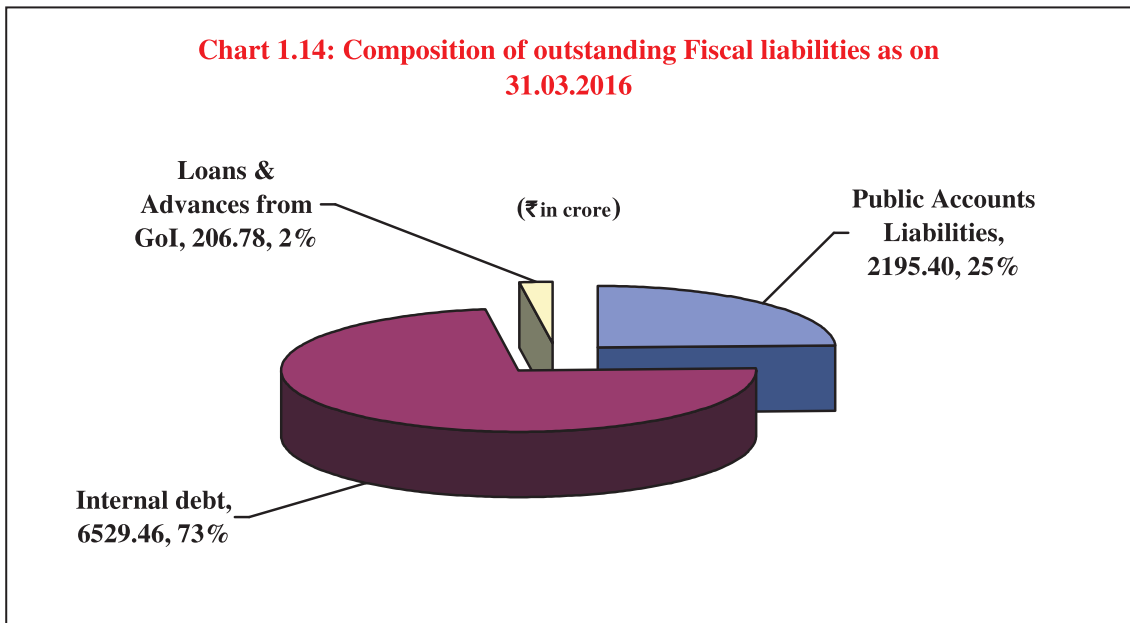
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2017, compared with the corresponding position on 31 March 2016. 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 1.14** and **1.15**. **Chart 1.16** gives the position of outstanding Fiscal liabilities during the last five years. Moreover, **Table 1.31** represents the trend of Fiscal liabilities during 2012-13 to 2016-17 (**Appendix 1.2**).



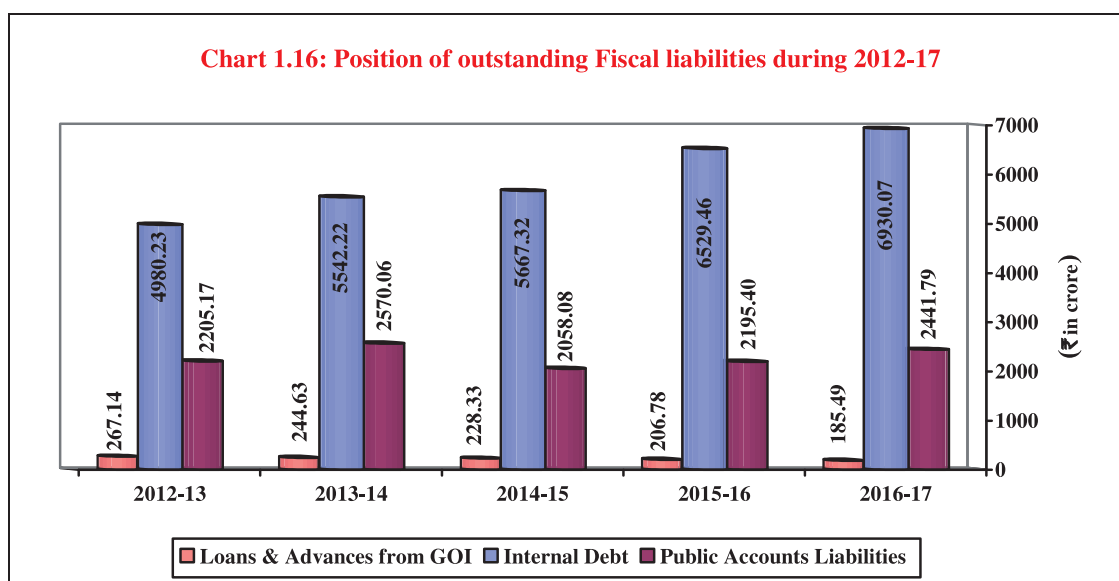


Table 1.31 Trend of Fiscal liabilities during 2012-13 to 2016-17

	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Fiscal liabilities	7452.54	8356.91	7953.73	8931.64	9557.35
Revenue Receipts	6202.33	6495.67	7648.67	8040.79	9439.79
Rate of growth of Fiscal liabilities (<i>per cent</i>)	10.25	12.14	(-) 4.82	12.29	7.01
Rate of growth of Revenue Receipts (<i>per cent</i>)	11.06	4.73	17.75	5.13	17.40
Fiscal liabilities/ Revenue Receipts (<i>per cent</i>)	120.16	128.65	103.99	111.08	101.25
Buoyancy of Fiscal liabilities with Revenue Receipt (ratio)	0.93	2.57	(-) 0.27	2.40	0.40
Own Tax Revenue /Fiscal liabilities (<i>per cent</i>)	4.56	3.99	4.89	4.78	5.34

(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 7.01 *per cent* during 2016-17 over the previous year. The buoyancy of Fiscal liabilities with reference to Revenue Receipt during the year was 0.40. The Consolidated Fund liability (₹ 7,115.56 crore) comprised market loan (₹ 6,094.81 crore), loans from GoI (₹ 185.49 crore) and other loans (₹ 835.26 crore). The Public Account Liabilities (₹ 2441.79 crore) comprise Small Savings, Provident Funds (₹ 891.18 crore), interest bearing obligations (₹ 95.37 crore) and non-interest bearing obligations like deposits and other earmarked funds (₹ 1,455.24 crore).

The ratio of Fiscal liabilities to GSDP had increased from 43.52 *per cent* in 2015-16 to 45.25 *per cent* in 2016-17. These Fiscal liabilities stood at nearly 1.01 times the Revenue

Receipts and 18.71 times of the State's Own Tax Revenue at the end of 2016-17. The Fiscal liabilities to GSDP (45.25 *per cent*) were 13.10 *per cent* more than the assessment of 32.15 *per cent* made by the State Government in its Medium Term Fiscal Policy Statement (MTFPS).

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 four 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 2017 in those funds was ₹ 1,277.72 crore, of which ₹ 654.20 crore (51.20 *per cent*) had been invested. The remaining amount lying in the Fund has, however, not been invested as required under the guidelines of the Fund. Loss of interest due to such non-investment has not been estimated. 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 Reserve Bank of India 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 4.18 *per cent* of total outstanding (Open Market Loans) of ₹ 5,362.39 crore as on 31 March 2016 and to 2.51 *per cent* of total outstanding liability of ₹ 8,931.65 crore (Internal Debt + Public Account) as on 31 March 2016. The balance in the Consolidated Sinking Fund as on 31 March 2017 was ₹ 16.17 crore.

(b) Guarantee Redemption Fund (GRF)

The State Government constituted a Guarantee Redemption Fund in 2006-07 with an initial corpus of ₹ four crore determined on the basis of guarantees invoked during the preceding five years. In terms of the Guarantee Redemption Fund Scheme of the Government of Nagaland, contributions shall be made to the Fund annually or at lesser intervals so as to reach the levels deemed sufficient to meet the amount of anticipated guarantees devolving on the Government as a result of 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 2016-17, ₹ one crore was transferred by the State Government and the entire corpus of ₹ 9.34 crore as on 31 March 2017 was invested by the Reserve Bank of India in Government of India Securities.

(c) State Disaster Response Fund (SDRF)

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

Following Government of India's release of ₹ nine crore in 2016-17, the State Government transferred ₹ 10.00 crore to SDRF increasing the SDRF to ₹ 10.86 crore (including State's share of ₹ one crore and Central's Share of ₹ nine crore of 2016-17). During the year, the State Government incurred an expenditure of ₹ 10.00 crore on natural calamities leaving a balance of ₹ 0.86 crore in the Fund as on 31 March 2017.

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 2016-17, the State had not extended any guarantee.

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 1.32**.

Table-1.32: Guarantees given by the Government of Nagaland

	(₹ in crore)				
Guarantees	2012-13	2013-14	2014-15	2015-16	2016-17
Total amount of guarantees given upto end of the year	70.22	70.22	70.22	70.22	81.19
Outstanding amount of guarantees at the end of the year	70.22	70.22	70.22	70.22	81.19
Percentage of maximum amount guaranteed to total Revenue Receipts	1.13	1.08	0.92	0.87	0.86
Outstanding amount of guarantee as percentage of GSDP	0.52	0.42	0.38	0.34	0.38

(Source: Finance Accounts of respective years)

The outstanding guarantees increased by ₹ 10.97 crore (15.62 *per cent*) during 2016-17 over the previous year. The outstanding guarantees of ₹ 81.19 crore mainly pertained to Nagaland Industrial Development Corporation 41.77 *per cent* (₹ 33.91 crore) for repayment of principal and payment of interest on loan obtained. The outstanding guarantees were 0.86 *per cent* of the Revenue Receipts of the Government.

1.10 Debt Management

1.10.1 Debt Management

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 2012-13 to 2016-17 whereas average interest rate of outstanding debt ranged between 0.09 per cent and 0.10 per cent during 2012-13 to 2016-17. GSDP growth rate was much more than the average interest paid by the State Government on Public Debt. **Table 1.33** 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 2012-13.

Table 1.33: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2012-13	2013-14	2014-15	2015-16	2016-17
Outstanding Public Debt	5247.37	5786.85	5895.65	6736.24	7115.56
Internal Debt	4980.23	5542.21	5667.32	6529.46	6930.07
Loans & Advances from GoI	267.14	244.64	228.33	206.78	185.49
Rate of growth of outstanding Debt	7.96	10.28	1.88	14.26	5.63
Outstanding Debt/GSDP (per cent)	38.53	34.84	32.02	32.82	33.69
Interest payment	450.64	493.84	555.34	586.45	635.50
Average interest rate of outstanding Debt	0.09	0.09	0.10	0.09	0.09
Interest paid/Revenue Receipt (per cent)	7.27	7.60	7.26	7.29	6.73
Rate of growth of GSDP	15.03	21.98	10.85	11.46	2.90
Debt Repayment/Debt Receipt	0.44	0.43	0.95	0.76	0.93
Net Debt available in the State	429.30	350.33	108.80	840.60	379.32
Maturity Profile of State Debt (In Years)					
0 – 1	144.56(3)	269.59(5)	326.67(5)	293.38(4)	400.49(6)
1 – 3	471.06(9)	618.61(11)	739.12(11)	656.82(10)	1010.38(14)
3 – 5	738.14(14)	702.51(12)	1010.39(12)	1101.55(16)	773.56(11)
5 – 7	1032.56(20)	1123.63(19)	773.56(19)	1150.16(13)	1439.68(20)
7 and above	2861.05(54)	3072.51(53)	3045.92(53)	3534.33(53)	3491.45(49)
Total	5247.37	5789.85	5895.66	6736.24	7115.56

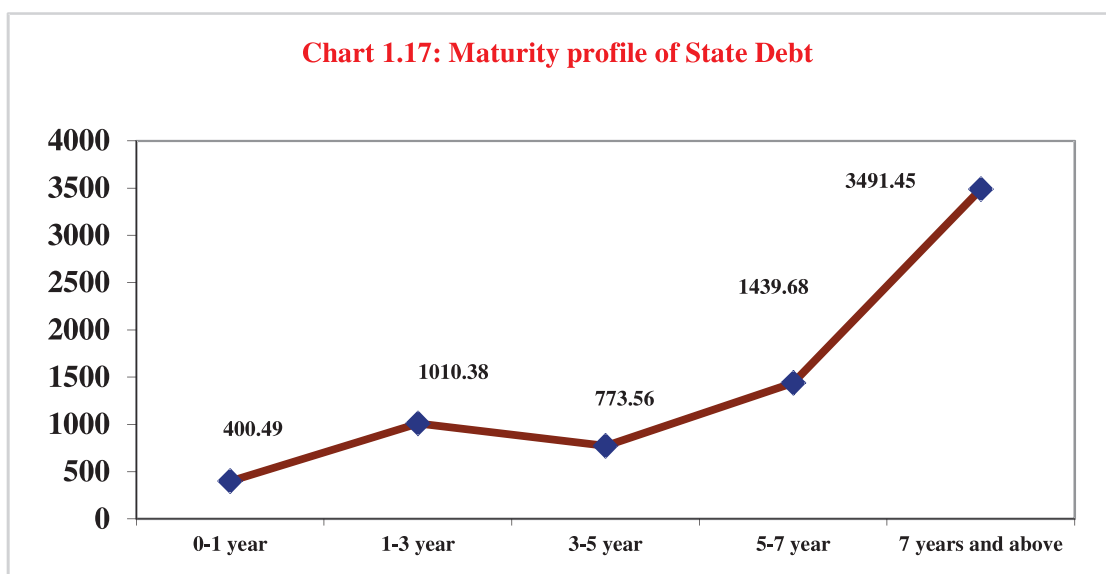
Figures in the parenthesis indicate percentage to total debt.

During the year, the State Government raised internal debt of ₹ 5,444.09 crore and Loans and Advances from Central Government amounting to ₹ 0.26 crore and discharged internal debt of ₹ 5,043.49 crore and GoI loans of ₹ 21.54 crore. The internal debt raised during the year included Ways and Means Advances amounting to ₹ 4,261.65 crore and corresponding discharges of Ways and Means Advances amounting to ₹ 4,551.68 crore. **An amount of ₹ 635.50 crore was also paid as interest during the year.** The Debt-GSDP ratio ranged between 32.02 per cent and 38.53 per cent during 2012-13 to 2016-17. During the year 2016-17, the ratio of interest payment and Revenue Receipts was only 6.73 per cent which was lower by 0.63 per cent as compared to the projection of 6.10 in XIV FC recommendations.

The debt redemption ratio during 2012-17 showed fluctuating trend and decreased to 92.17 per cent during 2016-17 against 97.50 per cent during the previous year (Appendix 1.2).

1.10.2 Debt profile

Maturity profile of outstanding stock of public debt as on 31 March 2017 indicates that out of outstanding Public Debt of ₹ 7115.56 crore, 49.06 per cent of debt needs to be repaid within seven years (Chart 1.17).



State may face stress in the repayment of debt which is termed as debt trap. 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 will cause undue stress on the budget.

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 2016-17.

1.11.1 Trends in Deficits

Charts 1.18 and 1.19 present the trends in deficit indicators over the period 2012-17.

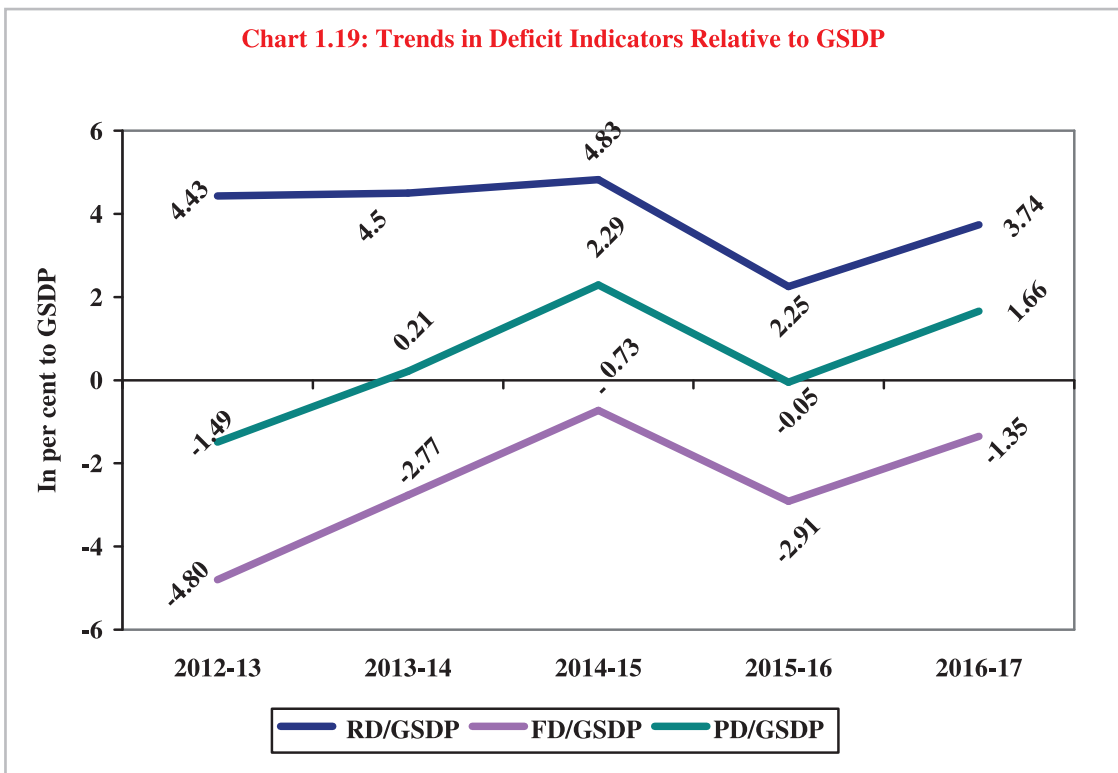
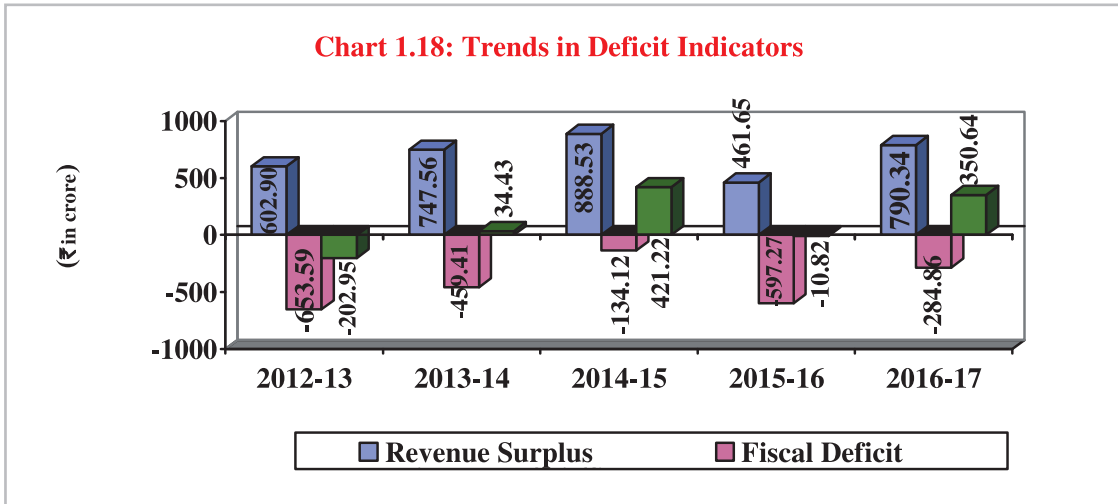


Chart 1.18 reveals that the revenue account experienced a surplus of ₹ 790.34 crore during 2016-17. Revenue Surplus increased during the current year by ₹ 328.69 crore as compared to the previous year mainly on account of increase in Revenue Receipts by ₹ 1,339.00 crore (17.40 per cent) over the previous year partially off-set by increase in Revenue Expenditure by ₹ 1,070.31 crore (14.12 per cent).

Fiscal Deficit decreased to ₹ 284.86 crore in 2016-17 from the level of ₹ 597.27 crore in 2015-16. This was due to combination of following factors (i) increase in Revenue Surplus (₹ 328.69 crore) (ii) marginal increase in non-debt Capital Receipts (₹ 0.59 crore) and (iii) increase of ₹ 16.87 crore in Capital Expenditure during 2016-17 over the previous year.

The Primary Deficit of ₹ 10.82 crore in 2015-16 changed to Primary Surplus of ₹ 350.64 crore in 2016-17. The change of Primary Deficit to Primary Surplus during the year was due to decrease of Fiscal Deficit (₹ 312.41 crore) with increase in interest payment (₹ 49.05 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 1.34**.

Table 1.34: Components of Fiscal Deficit and its Financing Pattern

		(₹ in crore)				
	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Components of Fiscal Deficit		654	459	134	597	285
		(4.91)	(2.59)	(0.67)	(2.56)	(1.35)
1	Revenue deficit(+)/Surplus(-)	(-) 603	(-)748	(-)889	(-)462	(-)791
2	Net Capital Expenditure	1255	1207	1023	1059	1076
3	Net Loans and Advances	2	0	0	0	0
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	469	411	452	598	733
2	Loans from GOI	(-)22	(-)23	(-)16	(-)22	(-)22
3	Special Securities Issued to National Small Savings Fund	(-)2	(-)3	11	26	(-)12
4	Loans from Financial Institutions	(-)58	153	(-)338	238	(-)320
5	Small Savings, PF etc	72	112	55	12	29
6	Deposits and Advances	209	241	(-)608	(-)75	(-)8
7	Suspense and Miscellaneous	18	12	41	204	220
8	Remittances	(-)80	(-)30	278	74	32
9	Increase (-) Decrease (+) in Cash Balances	48	(-)414	259	(-)458	(-)367
<i>Figures in brackets indicate the per cent to GSDP.</i>						
<i>*All these figures are net of disbursements/outflows during the year.</i>						

(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 1.31** that the Revenue Surplus increased by ₹ 329 crore from ₹ 462 crore in 2015-16 to ₹ 791 crore in 2016-17. The increase in Fiscal Deficit was the combined effect of increase in Capital Expenditure along with marginal increase of net 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 1.35**) 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 1.35: Primary deficit/surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary revenue ¹¹ expenditure	Capital expenditure	Loans and Advances	Primary expenditure ¹²	Primary revenue surplus	Primary deficit (-) /surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2012-13	6203.18	5148.79	1255.18	2.16	6406.13	1054.39	(-)202.95
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

(Source: Finance Accounts of respective years)

The Non-Debt Receipts of the State during 2012-17 were sufficient to meet the Primary Revenue Expenditure. The Non-Debt Receipts increased by 52.19 per cent from ₹ 6,203.18 crore in 2012-13 to ₹ 9,440.88 crore in 2016-17 while the Primary Revenue Expenditure increased by 55.65 per cent from ₹ 5,148.79 crore in 2012-13 to ₹ 8,013.95 crore in 2016-17. **During this period (2012-17) Capital Expenditure decreased by ₹ 179.08 crore i.e., 14.27 per cent.** The State had a Primary Deficit during 2012-13 and 2015-16 but maintained a Primary Surplus during 2013-14, 2014-15 and 2016-17.

1.12 Conclusion

The fiscal position of the State viewed in terms of the key fiscal parameters during 2016-17 revealed that the State's Revenue Surplus had increased by ₹ 328.69 crore while the Fiscal Deficit had decreased by ₹ 312.41 crore in 2016-17 relative to the previous year. The Primary Deficit of ₹ 10.82 crore in 2015-16 changed to Primary Surplus of ₹ 350.64 crore in 2016-17.

¹¹ Primary revenue expenditure is revenue expenditure net of the interest payments.

¹² 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.

During 2016-17, 91 *per cent* of the total revenue came from the GoI as Central transfers (32 *per cent*) and GIA from GoI (59 *per cent*). The State did not achieve the total revenue collection targets fixed by the XIV FC during 2016-17.

During 2016-17, Revenue Expenditure was ₹ 944.45 crore (12.26 *per cent*) more than the XIV FC normative assessment (₹ 7,705.00 crore).

The overall Fiscal liabilities of the State increased at a compound annual growth rate of 6.41 *per cent* during 2012-17. The Fiscal liabilities increased by ₹ 625 crore (7.00 *per cent*) from ₹ 8,932 crore in 2015-16 to ₹ 9,557 crore in 2016-17.

The Government had invested ₹ 291.75 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives at the end of March 2017.

As on 31 March 2017, there were 340 incomplete projects, out of which 303 projects (estimated cost ₹ 2,447.47 crore and actual expenditure ₹ 1,818.77 crore) were due to be completed by March 2017 but remained incomplete as of October 2017 and 2 projects (estimated cost ₹ 10.93 crore and actual expenditure ₹ 10.47 crore) taken up under PWD (Road & Bridges) had been suspended/abandoned. Delay in completion of works invites the risk of escalation in the cost of the works. Besides, due to delay in completion of the projects, the intended benefits from those projects did not reach the beneficiaries in the State. The State needs to ensure timely and effective implementation of incomplete projects.