

EXECUTIVE SUMMARY

The Report

This Report provides an analytical review of the finances of the State Government based on the audited accounts of the Government of Nagaland for the year ending 31 March 2021. The Report is structured in five Chapters.

Chapter I- Overview of the State Finances

This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/surplus.

Chapter II- Finances of the State Government

This Chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the last five years, debt management of the State and key Public Account transactions, based on the Finance Accounts of the State.

Chapter III- Budgetary Management

This Chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.

Chapter IV- Quality of Accounts and Financial Reporting Practices

This Chapter provides an overview on the quality of accounts and compliance of the State Government in its financial reporting practices, with prescribed financial rules, procedures and directives with regard to completeness, transparency, measurement and disclosure.

Chapter V- Functioning of State Public Sector Enterprises

This Chapter provides a 'bird's-eye view' on the functioning of the State Public Sector Enterprises (SPSEs). The term State Public Sector Enterprises (SPSEs) encompasses the State Government owned/ controlled Government Companies set up under the Companies Act, 2013 and Statutory Corporations set up under the statutes enacted by the Parliament and State Legislature.

The Report has 11 appendices containing additional data collated from several sources in support of the audit observations.

Audit Findings:

Overview of the State Finances

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

The State's GSDP decreased by ₹223.10 crore (0.76 per cent) from ₹29,535.93 crore in 2019-20 to ₹29,312.83 crore in 2020-21. During the last five years, there was a

steady increase in GSDP from ₹21,722.45 crore in 2016-17 to ₹29,535.93 crore in 2019-20. The GSDP negative growth rate for Nagaland (-0.76 *per cent*) was higher than the all India GDP growth rate (-2.97 *per cent*) in 2020-21. Service Sector was the major contributor of GSDP during the year with 55.57 *per cent*. Agriculture Sector was the second largest contributor with 30.70 *per cent* while Industry Sector (10.97 *per cent*) and Taxes on products – Subsidies on products (three *per cent*) were third and fourth respectively.

During 2020-21, the State had a Revenue surplus of ₹375.37 crore which was 1.28 *per cent* of GSDP. Fiscal deficit was ₹1,300.94 crore during 2020-21 which was 4.44 *per cent* of GSDP and primary deficit was ₹444.17 crore, 1.52 *per cent* of GSDP.

The State's Revenue Receipts (₹11,427.43 crore) increased by 0.04 *per cent* (₹4.14 crore) over the previous year (₹11,423.29 crore), mainly due to increase in Own Tax Revenue (6.73 *per cent*) and State's share in Union Taxes and Duties (4.35 *per cent*).

The State's Own Tax Revenue (₹1,022.74 crore) increased by 6.73 *per cent* over the previous year (₹958.23 crore). State's share of Union Taxes and Duties (₹3,409.25 crore) in comparison to the previous year (₹3,267.08 crore) increased by ₹142.17 crore (4.35 *per cent*).

Revenue Expenditure was ₹11,052.06 crore and it decreased by 5.03 *per cent* (₹584.96 crore) over the previous year (₹11,637.02 crore).

The State's Revenue Deficit in previous year turned into Revenue Surplus, which was ₹375.37 crore for the year, mainly due to decrease in Revenue Expenditure (5.03 *per cent*) and marginal increase in Revenue Receipt (0.04 *per cent*).

Capital Expenditure which was ₹1,671.93 crore for the year, increased by 38.60 *per cent* (₹465.61 crore) over the previous year's expenditure of ₹1,206.32 crore. It was mainly due to increase in capital outlay under General Services (147.16 *per cent*) and Economic Services (29.22 *per cent*).

The State's Total Expenditure for the year, which was ₹12,729.60 crore, decreased by 0.96 *per cent* (₹123.00 crore) over the previous year (₹12,852.60 crore). It was mainly due to decrease in Revenue Expenditure (₹584.96 crore) offset by increase in Capital Expenditure (₹465.61 crore).

The State's Fiscal Deficit (₹1,300.94 crore) decreased by 8.91 *per cent* (₹127.28 crore) as compared to previous year (₹1,428.22 crore). The Government was successful in maintaining Revenue Surplus as projected in FRBM Act during the year but the Fiscal Deficit-GSDP ratio and Outstanding Debt-GSDP ratio were above the ceilings prescribed under the Act.

Based on the result of examination of misclassification during post audit, the Revenue Surplus would reduce from ₹375.37 crore to ₹186.19 crore and Fiscal Deficit would increase from ₹1,300.94 crore to ₹1,451.96 crore.

(Chapter I)

Recommendations

The State Government needs to keep up the trend of Own Tax Revenue collection achieved during 2020-21 by focusing on other potential areas, apart from State Goods and Services Tax to have a sustained increase in Own Tax Revenues.

The State Government needs to make efforts to achieve the projections on deficit and debt parameters, made in the Nagaland FRBM Act.

Finances of the State Government

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

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

Under National Pension System (NPS), the State Government short contributed ₹142.23 crore resulting in understatement of revenue and fiscal deficit to that extent. Further, as on 31 March 2021, ₹185.61 crore were outstanding under NPS, with the State Government and had not been transferred to NSDL, creating avoidable outstanding financial liabilities under the Scheme.

Capital Expenditure is the expenditure for creation of assets of permanent and material character. Capital Expenditure (₹1,671.93 crore) increased by ₹465.61 crore (38.60 *per cent*) during 2020-21 compared to the previous year (₹1,206.32 crore) and stood at 13.13 *per cent* of total expenditure during the year. There were 416 projects lying incomplete as on 31 March 2021 for which ₹1,380.04 crore had been expended. There was cost over-run of ₹183.36 crore on these incomplete projects as on 31 March 2021.

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

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

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

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

Maturity profile of outstanding stock of Public Debt as on 31 March 2021 indicates that out of Outstanding Public Debt of ₹10,649.03 crore, 54.31 *per cent* of public debt (₹5,783.49 crore) needs to be repaid within the next seven years while the remaining 45.69 *per cent* (₹4,865.54 crore) of Outstanding Public debt is in the maturity bracket of more than seven years.

(Chapter II)

Recommendations

The State Government needs to give greater focus on development expenditure by steadily increasing its Capital expenditure on identified infrastructure gaps in a planned manner with periodical review and monitoring mechanism at the highest level of administration.

The State Government would do well by increasing its expenditure on Health and Education to compare favourably with North Eastern and Himalayan States.

To avoid possible future liabilities under NPS, the State Government needs to fulfil their obligation by releasing arrears of its contributions and transferring the outstanding funds already accumulated, to NSDL for management of the NPS.

The State Government may seriously review the functioning of the Corporations, Companies and Societies to ensure returns on their investments and consider either revival or closure of non-functional units in a time bound manner.

The State Government may ensure that mobilised debt resources are used adequately for incurring capital expenditure for creation of assets. The increasing trends of Revenue Expenditure be corrected by identifying potential wasteful expenditure and adopting economy measures across departments. Own non tax revenues need to be augmented to meet the interest on debt liabilities.

Budgetary Management

During 2020-21, against the total budget approved by the State Legislature of ₹26,895.64 crore (Original: ₹21,068.85 crore *plus* Supplementary: ₹5,826.79 crore), Departments incurred an expenditure of ₹22,645.02 crore, leaving a savings of ₹4,250.02 crore (15.80 *per cent* of the total budget).

It is indicative that the Supplementary Grant of ₹5,826.79 crore was not required as the gross expenditure was ₹1,577.03 crore more than the Original Provisions. It is pertinent to mention that Supplementary Grant was taken on 19 January 2021 and total expenditure as on December 2020 was only ₹17,247.10 crore as per monthly civil accounts submitted by the Treasuries, leaving ₹3,821.75 crore with the State Government for the remaining 90 days. With the Supplementary Grant, total funds available with the State Government were ₹9,648.54 crore. This was indicative of over estimation and poor financial management.

Thus, the Supplementary Grants/ Appropriations were obtained without adequate justification, and funds were expended without budgetary provision. Despite flagging this issue every year over the last several years, the State Government had failed to take corrective measures in this regard.

There was an overall savings of ₹4,252.10 crore offset by excess of ₹1.48 crore during the year 2020-21 resulting in net savings of ₹4,250.62 crore which was 16 *per cent* of total Grants/ Appropriations and 19 *per cent* of the expenditure. These savings may be seen in context of estimation of Receipts of ₹20,826.02 crore by the State Government and estimation on the expenditure side being ₹26,895.64 crore during the year 2020-21. This implied that the savings were notional, as the funds were not actually available for expenditure.

At the beginning of the year 2020-21, there was an outstanding excess expenditure of ₹7,17.01 crore under 34 Grants (pertaining to the year 2014-15 to 2019-20) which requires regularisation as per the Article 205 of the Constitution of India. Out of this, excess expenditure of ₹504.54 crore for the years 2014-15, 2015-16 and 2016-17 have been regularised in the State Assembly (November 2021) and excess expenditure amounting to ₹212.47 crore for 2017-18 to 2019-20 was yet to be regularised (February 2022). Further, there was an excess expenditure of ₹1.48 crore during 2020-21 which also requires regularisation. During the year, an expenditure of ₹9.22 crore was incurred without budget provision.

Review of Water Resources Department (Grant No. 59) revealed persistent savings, unexplained Re-appropriation and substantial surrenders.

(Chapter III)

Recommendations

Departments, which had incurred excess expenditure persistently should be identified to closely monitor their progressive expenditure and advised to seek supplementary grants/ re-appropriations in time.

The Finance Department may provide supplementary grants only after proper scrutiny and realistic assessment of requirements of the concerned Departments, to avoid under or over spending by them.

Excess expenditure pending regularisation, may be regularised by obtaining legislative approval.

Quality of Accounts and Financial Reporting Practices

During the year 2020-21, 78 grants involving ₹212.60 crore were provided to 21 Departments for which Utilisation Certificates (UCs) are due for submission during the year 2021-22. As on March 2021, there are 173 UCs worth ₹396.47 crore, which are due for submission for periods pertaining up to 2019-20. Pending UCs violate prescribed financial rules and directives, and reflects poor monitoring mechanism of the State Government. Moreover, high pendency of UCs is fraught with risk of misappropriation of funds. The State would also lose out on central funds for want of UCs not submitted.

There were 373 Abstract Contingent (AC) Bills involving ₹562.30 crore pending for adjustment by submission of Detailed Countersigned Contingent (DCC) Bills, as of March 2021. Out of these, 23 AC bills amounting to ₹43.48 crore pertained to the year 2020-21. The non-adjustment of AC Bills is fraught with the risk of misappropriation and therefore, requires close monitoring by the respective Drawing and Disbursing Officers for ensuring submission of DCC bills. Further, there is no assurance that the expenditure of the State Government reflected in the Finance Accounts is correct or final due to non-receipt of DCC bills to that extent.

During the year, expenditure of ₹1,230.64 crore under 73 Revenue and Capital Major Heads, constituting about 9.67 *per cent* of total expenditure of ₹12,724.85 crore was booked under Minor head 800-Other Expenditure. Similarly, receipts of ₹264.74 crore under 29 Revenue Major Heads, constituting about 2.32 *per cent* of the total Revenue receipts of ₹11,427.43 crore was booked under Minor Heads 800-Other Receipts under concerned Major Heads. During 2020-21, there were 45 Major Heads (MHs) under Receipts where Minor Head 800 was operated. Out of these 45 MHs, there were 24 MHs where other specific Minor Heads were already operated. The nature of receipt was found to be recurring in nature for the past three years in 38 MHs. Similarly, 49 MHs under Expenditure where Minor Head 800 was operated. Out of these 49 MHs, there were 37 MHs where other specific Minor Heads were already operated. The nature of receipt was found to be recurring in nature for the past three years in 47 MHs. Thus, MH 800 was still operated where there were specific Minor Heads already available. Indiscriminate operation of omnibus Minor Head 800 – Other Expenditure affected transparency in financial reporting and obscured proper analysis of allocative priorities and quality of expenditure.

The State Government notified (August 2011) the enforcement of Levy and Collection of Cess for the purpose of the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996. At the end of 2020-21, a total of 30,725 workers were registered with the Nagaland Building and Other Construction Workers' Welfare Board (NBOCWBB). Out of the total available fund of ₹78.47 crore during the year, the NBOCWBB expended ₹18.24 crore. Out of total expenditure of ₹18.24 crore, administrative expenses were ₹0.58 crore, which was 3.18 per cent of the total expenditure and remains within the prescribed limit under the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996. Remaining expenditure of ₹17.61 crore was incurred mainly on Educational Scholarship (₹14.58 crore) to 24,298 children of the beneficiaries *i.e.* building and other construction workers, Covid-19 Aid (₹2.03 crore) to 10,162 beneficiaries, and Tool Grant (₹0.42 crore) to 4,182 beneficiaries.

During the year 2020-21, Public Works and Forests Divisions were the major units that delayed the rendition of monthly accounts. Delayed rendering of accounts by the account rendering units/ authorities distorted the accurate depiction of monthly transactions of the State and impacted effective budgetary management.

(Chapter IV)

Recommendations

State Government may ensure timely submission of utilisation certificates by the recipients of grants and of DCC Bills within the prescribed timeline as required under the Rules.

The Finance Department should, in consultation with the Principal Accountant General (A&E), conduct a comprehensive review of all items presently appearing under minor head 800 and ensure that all such receipts and expenditure are in future booked under the appropriate detailed /object heads of account.

Finance Department should consider evolving a system to expedite the process of compilation and submission of annual accounts by autonomous bodies and departmentally run undertakings in order to assess their financial position. Persistently defaulting bodies may be given further financial assistance by the State Government only on submission of final accounts.

The State Government should ensure that the Controlling Officers render the monthly accounts in time to the Principal Accountant General (A&E) in the interest of financial discipline and better budget management.

Functioning of State Public Sector Enterprises

As on 31 March 2021, the State of Nagaland had six State Public Sector Enterprises (SPSEs - all Government companies), which included two non-working SPSEs. As on 31 March 2021, there were differences in the figures of State's investment in Equity (₹76.71 crore) and Loan (₹0.33 crore) of SPSEs as per State Finance Accounts *vis-à-vis* records of SPSEs.

During 2020-21, the recipients of budgetary support were Nagaland Handloom and Handicrafts Development Corporation Limited (Grant: ₹10.32 crore, 38.56 per cent), Nagaland State Mineral Development Corporation Limited (Grant: ₹9.71 crore, 36.29 per cent), Nagaland Hotels Limited (Grant: ₹3.68 crore, 13.75 per cent), Nagaland Industrial Raw Materials and Supply Corporation Limited (Grant: ₹2.25 crore, 8.41 per cent) and Nagaland Industrial Development Corporation Limited (Grant: ₹0.80 crore, 2.99 per cent and Loans: ₹0.62 crore, 100 per cent).

The net worth of both these SPSEs was negative due to complete erosion of their Capital by the accumulated losses. During 2020-21, however, the State Government provided budgetary support (Grant) of ₹26.76 crore to five SPSEs (Four Working and one non-working SPSEs) to meet its establishment expenditure which is unproductive and a drain on the State exchequer. Accumulation of huge losses by all the four working SPSEs had eroded public wealth, which is a cause of concern and the State Government needs to either improve their working or fully review the working of these SPSEs for continuing their operations.

During 2020-21, the three working SPSEs incurred losses aggregating ₹8.80 crore. Further, the accumulated losses of two working SPSEs (₹71.79 crore) had completely eroded their paid-up capital (₹25.55 crore).

As on 30 September 2021, the four working SPSEs had an arrear of total nine Accounts ranging from one to three years.

(Chapter V)

Recommendations

The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in the investment figures (Equity and Long term Loans) of the State Government as appearing in the State Finance Accounts *vis-à-vis* SPSE records in a time-bound manner.

Accumulation of huge losses by two out of four working SPSEs had eroded public wealth, which is a cause of concern and the State Government may review the working of these SPSEs to either improve their profitability or close their operations.

The Administrative Departments, which have the responsibility to oversee the activities of the SPSEs, have to ensure that the SPSEs finalise and adopt their accounts within the stipulated period. In view of the position of arrears of accounts indicated above, the actual contribution of SPSEs to the GSDP for the year 2020-21 could not be ascertained and their contribution to State exchequer could not be reported to the State Legislature.