

## EXECUTIVE SUMMARY

### ***About The Report***

*This Report of the CAG of India is on the State Finances for the year 2022-23. It provides an overview of the finances, budgetary management and quality of accounts, financial reporting practices and other matters relevant to the State Finances.*

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

Gross State Domestic Product (GSDP) (at current prices) grew at a Compounded Annual Growth Rate (CAGR) of 7.88 *per cent* from ₹26,527.42 crore in 2018-19 to ₹35,933.96 crore in 2022-23. Budget Outlay of the State grew at a CAGR of 6.26 *per cent* from ₹20,469.97 crore in 2018-19 to ₹26,092.48 crore in 2022-23.

During 2022-23, GSDP increased by ₹4,021.42 crore (12.60 *per cent*) from ₹31,912.54 crore in 2021-22 to ₹35,933.96 crore in 2022-23. The State had a Revenue surplus of ₹688.90 crore which was 1.92 *per cent* of GSDP. Fiscal deficit was ₹1,562.63 crore during 2022-23 which was 4.35 *per cent* of GSDP and primary surplus was ₹569.40 crore, 1.58 *per cent* of GSDP.

Revenue Receipts (₹14,099.26 crore) increased by 4.82 *per cent* (₹648.12 crore) over the previous year (₹13,451.14 crore). The State's Own Tax Revenue increased by ₹160.80 crore (12.36 *per cent*), Non-Tax Revenue increased by ₹174.82 crore (57.59 *per cent*), Grants-in-Aid from GoI decreased by ₹212.43 crore (3.05 *per cent*) and State's Share of Union Taxes and Duties increased by ₹524.92 crore (10.77 *per cent*) respectively over the previous year.

Revenue Surplus decreased from ₹1,634.06 crore in 2021-22 to ₹688.90 crore in 2022-23, mainly due to a significant increase in Revenue Expenditure (13.48 *per cent*). Fiscal Deficit (₹1,562.63 crore) increased by ₹1,302.11 crore (499.81 *per cent*) as compared to previous year (₹260.52 crore). Based on the result of examination of misclassification during post audit, the Revenue Surplus will reduce from ₹688.90 crore to ₹593.04 crore and Fiscal Deficit will increase from ₹1,562.63 crore to ₹1,637.82 crore.

### ***Revenue Receipts and Expenditure***

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

Revenue Receipts increased by ₹2,661.85 crore (23.27 per cent) from ₹11,437.41 crore in 2018-19 to ₹14,099.26 crore in 2022-23 at a Compound Annual Growth Rate (CAGR) of 5.37 per cent. However, the share of Grants-in-Aid in Revenue Receipts decreased from 57.21 per cent in 2018-19 to 47.94 per cent in 2022-23.

Revenue Expenditure is incurred to maintain the current level of services and payment for the past obligation. As such, it does not result in any addition to the State's infrastructure and service network. Revenue Expenditure constituted on an average, 86.79 per cent and ranged between 86.17 (2021-22) and 90.54 per cent (2019-20) of the Total Expenditure during the period 2018-23. The percentage of Revenue Expenditure to Total Expenditure was 83.22 per cent and Revenue Expenditure to GSDP was 37.32 per cent during 2022-23.

### **Result of expenditure**

The gap between the Revenue Receipts and Revenue Expenditure results in Revenue Surplus. During 2022-23, the State had a Revenue surplus of ₹688.90 crore which was 1.92 per cent of GSDP.

Capital Expenditure (₹2,704.22 crore) increased by ₹810.37 crore (42.79 per cent) during 2022-23 compared to the previous year (₹1,893.85 crore) and stood at 16.78 per cent of total expenditure during the year. During the five-year period of 2018-23, the borrowings were utilised for repayment of earlier borrowings which ranged between 74.38 per cent (2022-23) and 89.30 per cent (2018-19).

The gap between the total expenditure and total non-debt receipt of the State results in Fiscal Deficit. During 2022-23, Fiscal Deficit (₹1,562.63 crore) increased by ₹1,302.11 crore (499.81 per cent) as compared to previous year (₹260.52 crore).

Under the Revenue Expenditure, the quantum of committed expenditure constitutes the largest share. Committed expenditure has the first charge on the resources and consists of interest payments, expenditure on salaries and wages and pensions. Committed expenditure (₹9,921.54 crore) like salary and wages, pension, interest payments steadily increased by ₹2,652.06 crore at a CAGR of 8.09 per cent from ₹7,269.48 crore in 2018-19 to ₹9,921.54 crore in 2022-23. The Committed Expenditure during the year 2022-23 was 70.37 per cent of the Revenue Receipts and 73.99 per cent of the Revenue Expenditure.

In addition to the committed expenditure, the inflexible expenditure as a percentage of Revenue Expenditure, showed fluctuating trend ranging from 8.46 to 13.49 per cent. Further, the inflexible expenditure (₹1,316.36 crore) increased by 11.54 per cent during 2022-23 over the previous year (₹1,238.08 crore).

Taken together, the committed and inflexible expenditure in 2022-23 was ₹11,256.25 crore; 83.94 per cent of the Revenue Expenditure. Upward trend on committed and inflexible expenditure leaves the Government with lesser flexibility for other priority sectors and capital creation.

***Contingent Liabilities on account of Guarantees***

At the end of 2022-23, the Government provided guarantees of ₹189.96 crore against loans various Corporations and Others. During 2022-23, the Government did not pay any amount as no guarantee was invoked.

***Fiscal sustainability***

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

***FRBM requirements and compliance with fiscal parameters***

The FRBM Act/ Rules prescribes certain limits within which, revenue deficit, fiscal deficit, debt as a percentage of the Gross State Domestic Product (GSDP) should be. The State Government was successful in maintaining the Revenue Surplus in four out of five years during the period from 2018-19 to 2022-23. The State could achieve maintaining the Fiscal Deficit as per the prescribed *per cent* of GSDP in three out of five years during the period from 2018-19 to 2022-23. The State also succeeded in maintaining the ratio of total outstanding debt to GSDP during the years 2018-19 and 2020-21.

As per the debt stabilisation analysis, the outstanding Public Debt liability rapidly increased by ₹5,126.29 crore at a CAGR of 13.02 *per cent* from ₹8,115.52 crore in 2018-19 to ₹13,241.81 crore in 2022-23 whereas the Debt/ GSDP ratio increased from 39.75 to 43.38 *per cent*, which indicates that debt stabilisation may not be possible in near future.

During the years 2021-22 and 2022-23, though the Domar gap (expressed as  $g-r$ ) was positive and its value also increased from the preceding years, the primary surplus in 2021-22 turned into primary deficit in 2022-23. Therefore, the trends of strong economic growth (expressed as  $g-r > 0$ ) by only observing the Domar gap in 2021-22 and 2022-23 cannot be conclusively generalized. Further, substantial proportion of public debt receipts was being used for repayment of borrowings, which ranged between 86.30 and 104.80 *per cent* during the period 2018-23. Thus, it becomes evident that depending solely on economic growth (expressed as  $g-r > 0$  from 2021-23) would not suffice to cover the debt obligations of the State.

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

## ***Budget performance***

### ***Aggregate expenditure outturn***

Budget performance in terms of budgetary intent and budget implementation is examined to assess extent to which the aggregate expenditure outturn reflects the amount originally approved both in terms of excess and saving. In Revenue section, deviation in outturn compared with BE was (-) 11.21 *per cent*. This was due to deviation between 0 and  $\pm 25$  *per cent* in 68 grants, between  $\pm 25$  *per cent* to  $\pm 50$  *per cent* in nine grants and between  $\pm 50$  *per cent* to  $\pm 100$  *per cent* in five grants. In Capital Section, deviation in outturn compared with BE was (-) 10.85 *per cent*. This was due to deviation between 0 and  $\pm 25$  *per cent* in 41 grants, between  $\pm 25$  *per cent* to  $\pm 50$  *per cent* in six grants, between  $\pm 50$  *per cent* to  $\pm 100$  *per cent* in 10 grants and equal to or more than 10 *per cent* in six grants. No provision was, however, made in respect of 19 grants of the Capital section.

### ***Expenditure composition outturn***

Budget performance also looks at the extent to which the re-allocation between the main budget categories during the execution have contributed to variance in expenditure composition. This measure indicates the extent of variation between the final budget and the actual expenditure. In Revenue section, deviation in outturn compared with RE was (-) 14.10 *per cent*. This was due to deviation between 0 and  $\pm 25$  *per cent* in 68 grants, between  $\pm 25$  *per cent* to  $\pm 50$  *per cent* in nine grants and between  $\pm 50$  *per cent* to  $\pm 100$  *per cent* in five grants. In Capital section, deviation in outturn compared with RE was (-) 35.22 *per cent*. This was due to deviation between 0 and  $\pm 25$  *per cent* in 45 grants, between  $\pm 25$  *per cent* to  $\pm 50$  *per cent* in 11 grants and between  $\pm 50$  *per cent* to  $\pm 100$  *per cent* in nine grants. No provision was, however, made in respect of 17 grants of the Capital section.

It was noticed that the supplementary provision of ₹202.80 crore during the year 2022-23 in 13 departments proved unnecessary, as the expenditure did not come up even to the level of original provision.

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

### ***Quality of Accounts and Financial Reporting***

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

***Regularisation of Excess over Grants/ Appropriations***

The State Government has to get excesses over grants/appropriations regularised by the State Legislature as per Article 204 and 205 of the Constitution. There was an outstanding excess expenditure of ₹455.78 crore under 27 Grants (pertaining to the year 2017-18 to 2022-23) yet to be regularised.

***Reconciliation***

All Departments are required to reconcile their expenditure and receipts with the expenditure booked in the accounts in the Accountant General Office. The State Government reconciled 95 *per cent* of the total expenditure and 95.50 *per cent* of the receipts during the year.

***Compliance with IGAS***

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

***Funds to Single Nodal Agency***

The Government of India and the State Government have introduced system of Single Nodal Agency (SNA) for implementation and fund flow for each Centrally Sponsored Scheme (CSS). State Government transferred ₹2,358.92 crore in 2022-23. The whole amount was transferred through fully vouched bills. However, detailed vouchers and supporting documents of actual expenditure were not received by AG (A&E) office from the SNAs. As on 31 March 2023, an amount of ₹990.75 crore, including both Central and State shares, were parked in SNA bank Account of 74 schemes.

***Utilisation Certificates against conditional grants***

During the year 2022-23, 105 grants involving ₹86.65 crore were provided to 19 Departments for which Utilisation Certificates (UCs) are due for submission during the year 2023-24. As on March 2023, there are 145 UCs worth ₹252.11 crore, which are due for submission for periods pertaining up to 2022-23. 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 non-submission of UCs.

***DCC bills against AC bills***

There were 323 Abstract Contingent (AC) Bills involving ₹554.76 crore pending for adjustment by submission of Detailed Countersigned Contingent (DCC) Bills, as of March 2023. Out of these, 89 AC bills amounting to ₹159.70 crore pertained to the year 2022-23. Non-adjustment of AC Bills may lead to fraught with the risk of misappropriation and therefore, requires close monitoring by the respective DDOs for ensuring submission of Detailed Countersigned Contingent (DCC) bills. Further, there