

## CHAPTER-I

### FINANCES OF THE STATE GOVERNMENT

#### 1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (*Appendix-I Part A*). The Finance Accounts of the Government of Nagaland are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State of Nagaland. The lay out of the Finance Accounts is depicted in *Appendix-I Part B*.

##### 1.1.1 Summary of Receipts and Disbursements

**Table 1.1** summarises the finances of the Government of Nagaland for the year 2005-06 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from Statement-1 of the Finance Accounts and other detailed statements.

**Table 1.1 - SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2005-06**

(*Rupees in crore*)

2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
<b>Section-A : Revenue</b>							
					Non-Plan	Plan	Total
1839.52	Revenue receipts	2267.20	1684.63	Revenue expenditure	1637.68	422.85	2060.53
78.31	Tax revenue	105.53	857.95	General Services	931.74	8.16	939.90
77.90	Non-tax revenue	96.82	420.95	Social Services	391.91	160.32	552.23
160.15	Share of Union Taxes/Duties	248.50	405.73	Economic Services	314.03	254.37	568.40
1523.16	Grants from Government of India	1816.35	-	Grants-in-aid/Contribution	--	--	--
<b>Section-B: Capital</b>							
-	Misc. Capital Receipts	--	379.44	Capital Outlay	13.47	504.40	517.87
6.50	Recoveries of Loans and Advances	5.40	0.34	Loans and Advances disbursed	0.26	0.35	0.61
424.30	Public debt receipts	626.88 <sup>1</sup>	202.42	Repayment of Public Debt <sup>1</sup>	--	--	220.90
-	Contingency Fund	--	-	Contingency Fund	--	--	--
776.73	Public Account receipts	1025.68	795.29	Public Account disbursements	--	--	1040.94
(-)212.32	Opening Cash Balance	(-) 227.39	(-) 227.39	Closing Cash Balance			(-) 143.08
2834.73	<b>Total</b>	3697.77	2834.73	<b>Total</b>			3697.77

<sup>1</sup> Includes Net Ways and Means Advances and Overdrafts during the year.

Revenue of the State consists mainly of its own tax, non-tax revenue, Central tax transfers and grants-in-aid from Government of India (GOI). Overall revenue receipts increased from Rs.1839.52 crore in 2004-05 to Rs.2267.20 crore in 2005-06 mainly due to increase of Rs.293.19 crore in grants and Rs.88.35 crore in share of union taxes from the GOI. During the current year, the revenue receipts grew by 23.25 *per cent*. The closing balance of the current year was (-) Rs.143.08 crore against (-) Rs.227.39 crore during 2004-05. The revenue expenditure of the State grew by 22.31 *per cent* from Rs.1684.63 crore in 2004-05 to Rs.2060.53 crore in 2005-06.

### ***1.1.2 The Nagaland Fiscal Responsibility and Budget Management (FRBM) Act, 2005***

The State Government has enacted (August 2005) the Nagaland Fiscal Responsibility and Budget Management (FRBM) Act, 2005 to ensure prudence in fiscal management and fiscal stability by achieving revenue surplus, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework. The Act came into force from 19 August 2005. To give effect to the fiscal management principles, the Act prescribed the following fiscal targets for the State Government:

- strive to remain revenue surplus by building up further surplus;
- bring down fiscal deficit to 3 *per cent* of Gross State Domestic Product (GSDP) by the year ending 31 March 2009;
- ensure within a period of 5 years, beginning from initial financial year on 1 April 2005 and ending 31 March 2010, that the total debt stock do not exceed 40 *per cent* of the estimated GSDP for that year;
- limit the amount of annual incremental risk weighted guarantees to 1 *per cent* of the Total Revenue Receipts (TRR) or 1 *per cent* of the estimated GSDP in the year preceding the current year, whichever is lower;
- follow a recruitment and wage policy, in a manner such that the total salary bill relative to revenue expenditure, net of interest payments and pensions does not exceed 61 *per cent* in any financial year.

Though the FRBM Act was enacted in August 2005, the rules for carrying out the provisions of the Act were not framed by the Government (November 2006) and outcome indicators for the Fiscal Correction Path (FCP) were yet to be set.

### 1.1.3 Fiscal Policy Statement(s) 2005-06

As prescribed in the Act, the State Government was to lay in each financial year, the following statements of fiscal policy along with the budget before the Legislative Assembly:

- the Macroeconomic Framework Statement;
- the Medium Term Fiscal Policy Statement; and
- the Fiscal Policy Strategy Statement.

The State Government has not yet laid down these statements.

### 1.1.4 Roadmap to Achieve the Fiscal Targets as laid down in FRBM Act/Rules

The State Government had not yet developed its own FCP for the period from 2004-05 to 2009-10 to achieve the fiscal targets laid down in the FRBM Act. The State Government could not also avail of the benefit of interest rate relief on central loans during the year in pursuance of the recommendations of the Twelfth Finance Commission (TFC).

### 1.1.5 Mid-Term Review of Fiscal Situation

Measures to enforce compliance like presentation to the legislature, quarterly review of trends in receipts and expenditure, as laid down in the FRBM Act were yet to be put in place.

## 1.2 Overview of Fiscal Situation of the State

### 1.2.1 Trends in Fiscal Aggregates

The fiscal position of the State Government during the current year as compared to the previous year is given in **Table 1.2**.

**Table 1.2**

(Rupees in crore)

2004-05	Sl. No.	Major Aggregates	2005-06
<b>1839.52</b>	1	<b>Revenue Receipts (2+3+4)</b>	<b>2267.20</b>
78.31	2.	Tax Revenue (Net)	105.53
77.90	3.	Non-Tax Revenue	96.82
1683.31	4.	Other Receipts	2064.85
<b>6.50</b>	5.	<b>Non-Debt Capital Receipts</b>	<b>5.40</b>
6.50	6.	Of which Recovery of Loans and Advances	5.40
<b>1846.02</b>	7.	<b>Total Receipts (1+5)</b>	<b>2272.60</b>
<b>1392.55</b>	8.	<b>Non-Plan Expenditure (9+11+12)</b>	<b>1651.41</b>
1389.82	9.	On Revenue Account	1637.68
249.62	10.	Of which Interest Payments	253.89
2.58	11.	On Capital Account	13.47
0.15	12.	On Loans disbursed	0.26

<b>671.86</b>	13.	<b>Plan Expenditure (14+15+16)</b>	<b>927.60</b>
294.81	14.	On Revenue Account	422.85
376.86	15.	On Capital Account	504.40
0.19	16.	On Loans disbursed	0.35
<b>2064.41</b>	17.	<b>Total Expenditure (8+13)</b>	<b>2579.01</b>
(+) 154.89	18.	Revenue Surplus (1-9-14)	(+) 206.67
(-) 218.39	19.	Fiscal Deficit (17-1-5)	(-) 306.41
31.23	20.	Primary Deficit (19-10)	(-) 52.52

The total non debt receipts of the State increased by 23.11 *per cent* from Rs.1846.02 crore in 2004-05 to Rs.2272.60 crore in 2005-06 while the total expenditure increased by 24.93 *per cent* from Rs.2064.41 crore in 2004-05 to Rs.2579.01 crore in 2005-06 resulting in increase in deficit during the current year. Although the State had maintained revenue surplus of Rs.206.67 crore during 2005-06, which was higher by Rs.51.78 crore as compared to the revenue surplus of Rs.154.89 crore during 2004-05. An increase of 23.25 *per cent* (Rs.427.68 crore) in revenue receipts during 2005-06 in comparison with 22.31 *per cent* (Rs.375.90 crore) in revenue expenditure resulted in an increase in revenue surplus during 2005-06.

### **1.3 Audit Methodology**

Audit observations on the Statements of Finance Accounts for the year 2005-06 bring out the trends in the major fiscal aggregates of receipts and expenditure (**Appendix-II to V**); and periodic comparisons. Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The New GSDP series with 1993-94 as base as published by the Director of Economics and Statistics of the State Government have been used. For tax revenues, non-tax revenues, revenue expenditure etc., buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are (i) resources by volume and sources, (ii) application of resources, (iii) assets and liabilities and (iv) management of deficits. Audit observations also take into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. In addition, selected indicators of financial performance of the Government are also listed in this section; some of the terms used in this context are explained in **Appendix-I Part C**.

Final figures of GSDP of 2000-01 to 2002-03 and the provisional figures for 2003-04 to 2005-06 furnished by the Director of Economics and Statistics, Government of Nagaland, in July 2006, have been adopted in the concerned tables.

## 1.4 State Finances by key indicators

### 1.4.1 Resources by volumes and sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the GOI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table 1.3** shows that the total receipts of the State Government for the year 2005-06 were Rs.3925.16 crore. Of these, the revenue receipts were Rs.2267.20 crore only, constituting 57.76 per cent of the total receipts. The balance receipts came from borrowings (Rs.632.28 crore) and Public Account receipts (Rs.1025.68 crore), which were 16.11 per cent and 26.13 per cent respectively of the total receipts.

**Table 1.3 – Resources of Nagaland**

			<i>(Rupees in crore)</i>
<b>I.</b>	<b>Revenue Receipts</b>		<b>2267.20</b>
<b>II.</b>	<b>Capital Receipts</b>		<b>632.28</b>
	Recovery of Loans and Advances	5.40	
	Public Debt Receipts	626.88	
	Miscellaneous Capital Receipts	--	
<b>III.</b>	<b>Contingency Fund</b>		<b>--</b>
<b>IV.</b>	<b>Public Account Receipts</b>		<b>1025.68</b>
	(a) Small Savings, Provident Fund, etc.	156.55	
	(b) Reserve Fund	4.62	
	(c) Deposits and Advances	68.77	
	(d) Suspense and Miscellaneous	39.89	
	(e) Remittances	755.85	
	<b>Total Receipts</b>		<b>3925.16</b>

Remittances constitute the major portion of Public Account receipts during 2005-06. These pertain mainly to Public Works remittances (Rs.617.40 crore), Forest remittances (Rs.75.29 crore), Miscellaneous remittances (Rs.63.04 crore) and Inter-Government Adjustment Account (Rs.0.12 crore). Public Works remittances comprise security deposit, earnest money deposit etc. from contractors.

### 1.4.2 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table 1.4**.

**Table 1.4 - Revenue Receipts-Basic Parameters**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Revenue Receipts (RR) (Rupees in crore)</b>	1254.10	1324.53	1346.90	2359.79	1839.52	2267.20
<b>Composition of Revenue Receipts (%):</b>						
<b>Own Taxes (per cent)</b>	46.25 (3.69)	54.90 (4.14)	62.00 (4.60)	68.55 (2.91)	78.31 (4.26)	105.53 (4.65)
<b>Non-Tax Revenue (per cent)</b>	39.23 (3.13)	43.41 (3.28)	43.94 (3.26)	60.91 (2.58)	77.90 (4.23)	96.82 (4.27)
<b>Central Tax Transfers (per cent)</b>	96.48 (7.69)	30.71 (2.32)	46.01 (3.42)	256.97 (10.89)	160.15 (8.71)	248.50 (10.96)
<b>Grants-in-aid (per cent)</b>	1072.14 (85.49)	1195.51 (90.26)	1194.94 (88.72)	1973.36 (83.62)	1523.16 (82.80)	1816.35 (80.12)
<b>Rate of Growth of RR (per cent)</b>	10.84	5.62	1.69	75.20	(-) 22.05	23.25
<b>RR/GSDP (per cent)</b>	34.08	32.02	28.36	45.05	31.83	35.57
<b>Revenue Buoyancy (ratio)</b>	0.244	0.452	0.114	7.287	(-) 2.138	2.255
<b>State's own taxes Buoyancy (ratio)</b>						
<b>Revenue Buoyancy with reference to State's own taxes (ratio)</b>	0.440	0.938	0.855	(-) 2.826	3.569	0.813
<b>GSDP Growth (per cent)</b>	44.45	12.43	14.79	10.32	10.31	10.31

### General Trends

The revenue receipts of the State increased at an annual average rate of 13.46 *per cent* from Rs.1254.10 crore in 2000-01 to Rs.2267.20 crore in 2005-06 with significant inter-year variations. The revenue receipts increased by 23.25 *per cent* during 2005-06 mainly on account of central transfers comprising of States' share in union pool of taxes, and grants-in-aid from GOI. While 8.92 *per cent* of revenue receipts during 2005-06 have come from the State own resources comprising tax and non-tax revenue, central tax transfers and grants-in-aid together contributed 91.08 *per cent* of the total revenue.

### Grants-in-aid

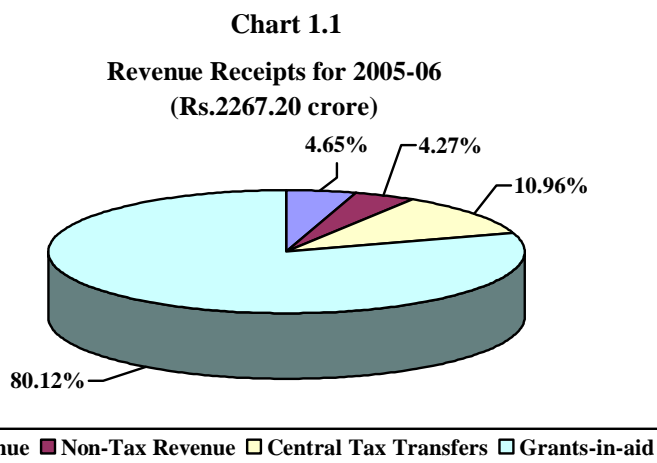
Although the State Government received lesser grants for implementation of State Plan schemes during 2005-06, there was a sharp increase in the non-plan grants from Rs.687.14 crore in 2004-05 to Rs.1128.82 crore during 2005-06 which included Rs.993.60 crore for meeting the non-plan revenue deficit as recommended by the TFC.

### Tax Revenue

The percentage of tax revenue moved in a narrow range of 2.91 to 4.60 during the last five years and went up slightly from 4.26 *per cent* in 2004-05 to 4.65 *per cent* in 2005-06. This was mainly due to increase in the revenue from Sales Tax (45.37 *per cent*), Taxes on Vehicles (19.32 *per cent*), and other taxes (9.66 *per cent*). Sales tax was the major contributor (73 *per cent*) of States own tax revenue followed by other taxes (14 *per cent*) and taxes on vehicles (8 *per cent*).

## Non-Tax Revenue

Non-tax revenue had contributed 2.58 *per cent* to 4.27 *per cent* of the revenue receipts during the six years from 2000-01 to 2005-06. The total non-tax revenue of Rs.96.82 crore in 2005-06 came mainly from Power and Miscellaneous General Services. Of non-tax revenue sources, Power (44 *per cent*) and Miscellaneous General Services (16 *per cent*) were principal contributors.



## Revenue Arrears

As per information furnished by four Departments of the State Government, the arrears of revenue at the end of 2005-06 were Rs.52.36 crore. Of these, Rs.8.75 crore (16.71 *per cent*) were more than five years old. The Department-wise status of the arrears of revenue during 2004-05 and 2005-06 is given in *Appendix-VIII*.

### 1.4.3 Sources of Receipts

The source of receipts under different heads as well as GSDP during 2000-06 is indicated in **Table-1.5**.

**Table 1.5 – Sources of Receipts: Trends**

*(Rupees in crore)*

Year	Revenue Receipts	Capital Receipts				Total Receipts	*Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Contingency Fund Receipts	Accruals in Public Account		
2000-01	1254.10	6.45	335.97	-	601.87	2198.39	3679.36
2001-02	1324.53	7.78	335.28	-	646.31	2313.90	4136.88
2002-03	1346.90	7.42	473.85	-	990.10	2818.27	4748.60

\* Final figure of GSDP for 2000-01 to 2002-03 and provisional figure for 2003-04 to 2005-06 furnished by the State Government have been adopted.

2003-04	2359.79	6.81	(-)3.22	-	658.48	3021.86	5238.66
2004-05	1839.52	6.50	424.30	-	776.73	3047.05	5778.77
2005-06	2267.20	5.40	626.88	--	1025.68	3925.16	6374.56

Revenue receipts have increased from Rs.1254.10 crore in 2000-01 to Rs.2267.20 crore in 2005-06. The non-debt receipts over a six year period 2000-06 ranged between Rs.6.45 crore and Rs.7.78 crore, though in monetary terms, total non-debt receipts in 2005-06 have decreased by Rs.1.10 crore and total debt receipts have increased by Rs.202.58 crore over previous year (47.75 per cent).

## **1.5 Application of resources**

### **1.5.1 Growth of expenditure**

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The States raise resources to perform their sovereign functions, to maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs.1531.98 crore in 2000-01 to Rs.2579.01 crore in 2005-06. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-1.6**

**Table 1.6 Total Expenditure-Basic Parameters**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Total Expenditure (TE)* (Rupees in crore)	1531.98	1669.27	1849.29	2209.20	2064.41	2579.01
Rate of Growth ( <i>per cent</i> )	15.16	8.96	10.78	19.46	(-) 6.55	24.93
TE/GSDP Ratio ( <i>per cent</i> )	41.64	40.35	38.94	42.17	35.72	40.46
RR/TE Ratio ( <i>per cent</i> )	81.86	79.35	72.83	106.82	89.11	87.91
<b>Buoyancy of total expenditure with reference to:</b>						
GSDP (ratio)	0.341	0.721	0.729	1.886	(-) 0.636	2.418
RR (ratio)	1.40	1.60	6.39	0.26	0.30	1.072

\*Total Expenditure includes revenue expenditure, capital expenditure and loans and advances.

The total expenditure of the State has increased at an annual average rate of 11.39 per cent per annum during 2000-06 with oscillations ranging from 9 per cent to 25 per cent. In relative terms, the capital and revenue expenditure components have increased by 130.78 per cent and 59.70 per cent respectively during the period 2000-06. However, in absolute terms increases were of the order of Rs.293.47 crore in capital expenditure and Rs.770.30 crore on revenue account during the period under report. These trends indicate that increase in capital and revenue expenditure was in the ratio of 1:2.62 during the last six year period. An increase of Rs.514.60 crore in total expenditure (24.93 per cent) during 2005-06 over the previous year has been reported to be mainly due to an increase in both revenue (Rs.375.90 crore) and capital



(Rs.138.43 crore) heads of expenditure under general, social and economic services accompanied by a marginal increase of Rs.0.27 crore in loans and advances. A step up in total expenditure during 2005-06 is also reflected in terms of the buoyancies of total expenditure with respect to GSDP and total revenue receipts of the State.

### Trends in total expenditure by activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table 1.7**.

Chart 1.2

Components of Expenditure – Relative Share in 2005-06

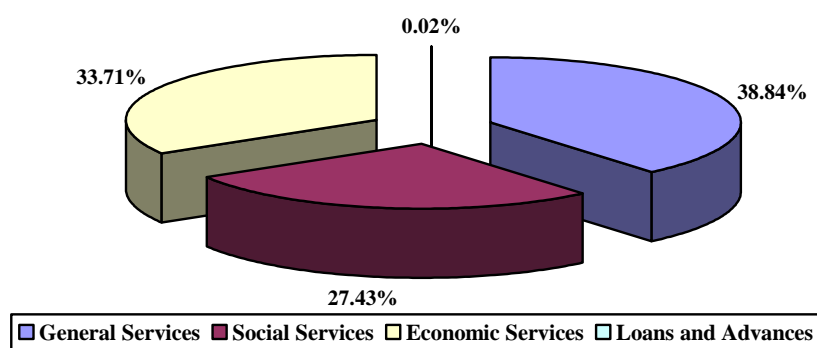


Table 1.7 - Components of Expenditure – Relative Share

	<i>(In per cent)</i>					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>General Services</b>	30.99	32.21	32.92	31.24	31.54	29.00
Of which Interest payments	11.56	12.01	11.60	10.63	12.09	9.84
<b>Social Services</b>	28.21	28.52	28.90	25.37	27.61	27.43
<b>Economic Services</b>	28.11	27.06	26.44	32.53	28.74	33.71
<b>Grants-in-aid</b>						
<b>Loans and Advances</b>	1.13	0.21	0.13	0.23	0.02	0.02

The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. But expenditure on general services including interest payments together accounted for 38.84 *per cent* during 2005-06. On the other hand, expenditure on social and economic services together accounted for 61.13 *per cent* during 2005-06. The total expenditure of Rs.1576.66 crore incurred on social and economic services during 2005-06 comprised Rs.456.03 crore of capital expenditure (28.92 *per cent*) and Rs.1120.63 crore of revenue expenditure at

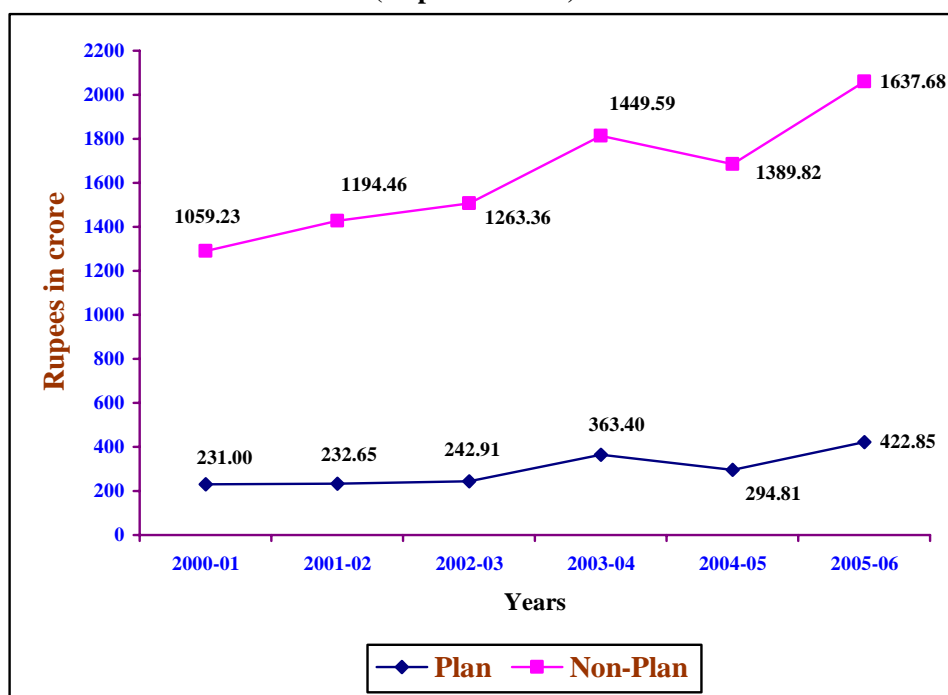
(71.08 per cent) indicating that investment in creating productive assets and infrastructure development is picking up momentum in the State.

### 1.5.2 Incidence of revenue expenditure

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for past obligations and as such does not result in an addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in **Table 1.8**

**Chart 1.3**

**Trend of Non-Plan and Plan Revenue Expenditure  
(Rupees in crore)**



(Source: Time Series Data)

**Table 1.8 - Revenue Expenditure – Basic Parameters**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Revenue Expenditure (RE)</b>	1290.23	1427.11	1506.27	1812.99	1684.63	2060.53
<i>Of which</i>						
Non-Plan Revenue Expenditure (NPRE)	1059.23	1194.46	1263.36	1449.59	1389.82	1637.68
Plan Revenue Expenditure (PRE) (Rupees in crore)	231.00	232.65	242.91	363.40	294.81	422.85
<b>Rate of Growth (per cent)</b>						
NPRE	16.21	12.77	5.77	14.74	(-) 4.30	17.83
PRE	0.71	0.71	4.41	49.60	(-) 23.94	43.43

NPRE/GSDP ( <i>per cent</i> )	28.79	28.87	26.60	27.67	24.05	25.69
NPRE as <i>per cent</i> of TE	69.14	71.56	68.32	65.62	67.32	63.50
NPRE as <i>per cent</i> of RR	84.46	90.18	93.80	61.43	75.55	72.23
<b>Buoyancy of Revenue Expenditure with</b>						
GSDP (ratio)	0.295	0.853	0.375	1.973	(-) 0.687	2.164
Revenue Receipts (ratio)	1.21	1.89	3.28	0.27	*	0.96

\*Revenue Receipts had a negative growth.

Overall revenue expenditure of the State increased from Rs.1290.23 crore in 2000-01 to Rs.2060.53 crore in 2005-06, showing an increase of 59.70 *per cent* over the period. However, the non-plan revenue expenditure during the same period increased from Rs.1059.23 crore to Rs.1637.68 crore, showing an increase of 54.61 *per cent* indicating that the share of Non-Plan Revenue Expenditure (NPRE) in total revenue expenditure declined only marginally from 82.10 *per cent* in 2000-01 to 79.48 *per cent* in 2005-06. As a result, plan revenue expenditure which normally covers the maintenance expenditure incurred on services has only increased by Rs.191.85 crore during 2000-06 keeping its share in total revenue expenditure between 16 to 21 *per cent* during the period. The rate of growth of non-plan revenue expenditure during 2005-06 was as high as 17.83 *per cent* largely on account of increase in the expenditure by Rs.85.15 crore (27.75 *per cent*) in social services, Rs.83.52 crore (36.23 *per cent*) in economic services and Rs.79.19 crore (9.29 *per cent*) in general services over their levels of 2004-05. The NPRE at Rs.1637.68 crore during 2005-06 was significantly higher than the normatively assessed level of Rs.1427.96 crore by the TFC for the State for the year (**Table 1.9**).

**Table 1.9 –Non-Plan Revenue Expenditure:- Actual *vis-à-vis* Normative Assessment by TFC.**

<i>(Rupees in crore)</i>				
Sl No.	Particulars	Assessed by the TFC	Actual	Difference Excess (+) Less (-)
1	Interest payments	279.11	253.89	(-) 25.22
2	Pension	194.10	179.42	(-) 14.68
3	Other General Services	403.38	498.43	(+) 95.05
4	Social Services	418.38	391.91	(-) 26.47
5	Economic Services	132.99	314.03	(+) 181.04
	<b>Total NPRE</b>	<b>1427.96</b>	<b>1637.68</b>	<b>(+) 209.72</b>

Except for the interest payments, pension payments and expenditure on social services, the actual expenditure incurred on other two components of NPRE was more than the assessment made by the TFC.

### **1.5.3 Committed Expenditure**

#### **Expenditure on Salaries and Wages**

The expenditure on salaries and wages increased from Rs.678.46 crore in 2000-01 to Rs.953.71 core in 2005-06 as indicated in **Table 1.10**. Out of salary and wage expenditure of Rs.953.71 crore during 2005-06, major part Rs.386.35 crore (40.51 *per cent*) was incurred on social services. However, Rs.347.15 crore (36.40 *per cent*) was incurred on general services and Rs.220.21 crore (23.09 *per cent*) on economic services.

**Table 1.10: Expenditure on Salaries**

*(Rupees in crore)*

<b>Heads</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
<b>Expenditure on Salaries &amp; Wages</b>	678.46	712.09	695.52	768.19	824.78	953.71*
Of which						
Non-Plan Heads	NA <sup>2</sup>	NA	NA	756.76	774.04	898.32
Plan Heads <sup>3</sup>	NA	NA	NA	11.43	50.74	55.39
As <i>per cent</i> of GSDP	18.44	17.21	14.65	14.66	14.27	14.96
As <i>per cent</i> of RR	54.10	53.76	51.64	32.55	44.84	42.07
As <i>per cent</i> of RE	52.58	49.90	46.17	42.37	48.96	46.28

\*Note: Expenditure on salaries & wages for the years 2000-01 to 2004-05 were furnished by the Finance Department of the State Government and the figures for 2005-06 has been taken from Finance Accounts for the year 2005-06.

Salaries and wages accounted for 14.96 *per cent* of States' GDP and 42.07 *per cent* of the revenue receipts during 2005-06. Compared to the TFC norms that total salary bill relative to revenue expenditure net of interest payments and pensions should not exceed 35 *per cent*, the share of salaries in the State was estimated to be 67.31 *per cent*.

#### **Pension Payments**

**Table 1.11-Expenditure on pensions**

*(Rupees in crore)*

<b>Heads</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
Expenditure on Pensions	87.56	112.26	133.38	140.81	133.83	179.42
As <i>per cent</i> of GSDP	2.38	2.71	2.81	2.69	2.32	2.81
As <i>per cent</i> of RR	6.98	8.48	9.90	5.97	7.28	7.91
As <i>per cent</i> of RE	6.79	7.87	8.85	7.77	7.94	8.71

Pension payments have increased by 104.91 *per cent* from Rs.87.56 crore in 2000-01 to Rs.179.42 crore in 2005-06 at an average rate of 17.49 *per cent*. Expenditure on pension was 7.91 *per cent* of revenue receipts and

<sup>2</sup> NA— Break-up for non-plan and plan expenditure on Salaries for the years 2000-01 to 2002-03 was not available.

<sup>3</sup> Plan Heads also include the Salaries and Wages paid under Centrally Sponsored Schemes.

8.71 per cent of revenue expenditure in 2005-06. The increase on pension payments during 2005-06 was mainly due to payment of 768 cases of arrears on account of merger of 50 per cent of Dearness Allowance with Dearness Pay, to all pensioners who retired on or after 1 June 1998 and settlement of 1587 new pension cases. With increase in number of retirees, the pension liabilities are likely to increase further in future. However, it was Rs.14.68 crore less than the normative projection (Rs.194.10 crore) made by TFC for Nagaland for the year 2005-06.

### Interest payments

**Table 1.12-Interest payments**

Year	Total Revenue Receipts	Interest Payments (Rate of growth)	Percentage of interest payment with reference to	
			Total Revenue Receipts	Revenue Expenditure
(Rupees in crore)				
2000-2001	1254.10	177.09	14.12	13.73
2001-2002	1324.53	200.47 (13.20)	15.14	14.05
2002-2003	1346.90	214.58 (7.04)	15.93	14.25
2003-2004	2359.79	234.74 (9.40)	9.95	12.95
2004-2005	1839.52	249.62 (6.34)	13.57	14.82
2005-2006	2267.20	253.89 (1.71)	11.20	12.32

(Source: Finance Accounts)

Interest payments increased by 43.37 per cent from Rs.177.09 crore in 2000-01 to Rs.253.89 crore in 2005-06. The rate of growth in interest payments, however, showed a declining trend, from 9.40 per cent in 2003-04 to

1.71 per cent in 2005-06. The components of interest payment were Internal Debt (Rs.178.02 crore), Interest on Loans and Advances from Central Government (Rs.43.05 crore) and Small Savings, Provident Fund etc. (Rs.32.82 crore).

### Subsidies

Though the finances of the State are under strain, the State Government has been paying subsidies to Nagaland Industrial Development Corporation Limited (Rs.3.44 crore), Nagaland Industrial Raw Materials and Supply Corporation Limited (Rs.0.60 crore) and Nagaland Handloom and Handicrafts Development Corporation Limited (Rs.1.30 crore). The trend in the subsidies given by the State Government is given in **Table-1.13**.

**Table 1.13-Subsidies**

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy to total expenditure
2000-01	5.21	(-) 1.51	0.34
2001-02	6.46	23.99	0.39
2002-03	7.32	13.31	0.40
2003-04	5.76	(-) 21.31	0.26
2004-05	6.22	7.99	0.30
2005-06	5.34	(-) 14.15	0.21

During the current year, subsidies constituted 0.21 *per cent* of the total expenditure.

## **1.6 Expenditure by Allocative Priorities**

### **1.6.1 Quality of Expenditure**

The quality of expenditure is reflected in the availability of better social and physical infrastructure. Therefore, the ratio of capital expenditure to total expenditure as well as to GSDP, and the portion of revenue expenditure spent on running the existing social and economic services, efficiently and effectively would determine the quality of expenditure. The higher the ratio of these components to total expenditure and GSDP, the better is the quality of expenditure. **Table 1.14** gives these ratios during 2000-06.

**Table 1.14 – Indicators of Quality of Expenditure**

*(Rupees in crore)*

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Capital Expenditure</b>	224.40	238.73	340.69	391.13	379.44	517.87
<b>Revenue Expenditure</b>	1290.23	1427.11	1506.27	1812.99	1684.63	2060.53
Of which						
Social and Economic Services ( <i>per cent of RE</i> in brackets) with	<b>666.90</b> (51.69)	<b>703.23</b> (49.28)	<b>707.61</b> (46.98)	<b>938.07</b> (51.74)	<b>826.68</b> (49.07)	<b>1120.63</b> (54.38)
(i) Salary & Wage Component	NA <sup>4</sup>	NA	NA	501.64 (53.48)	485.90 (58.78)	606.56 (54.13)
(ii) Non-Salary & Wage Component	NA	NA	NA	436.43 (46.52)	340.78 (41.22)	514.07 (45.87)
<b>As per cent of Total Expenditure*</b>						
Capital Expenditure	14.65	14.30	18.42	17.70	18.38	20.08
Revenue Expenditure	84.22	85.49	81.45	82.07	81.60	79.90
<b>As per cent of GSDP</b>						
Capital Expenditure	6.10	5.77	7.17	7.47	6.57	8.12
Revenue Expenditure	35.07	34.50	31.72	34.61	29.15	32.32

Although the ratio of capital expenditure to total expenditure showed increasing trend during 2000-06, the revenue expenditure continues to have a dominant share in total expenditure, constituting 80 *per cent* in 2005-06. The increasing share of capital expenditure in total expenditure during 2000-06 indicates the allocative priorities of the Government towards creating productive assets and developing social and economic infrastructure in the State.

The increase of Rs.375.90 crore (22.31 *per cent*) in revenue expenditure during 2005-06 was due to increase of Rs.81.95 crore (9.55 *per cent*), in general services, Rs.131.28 crore (31.19 *per cent*) in social services and Rs.162.67 crore (40.09 *per cent*) in economic services. Within social services, a significant increase of Rs.23.06 crore was observed during 2005-06 over the

<sup>4</sup> NA— The expenditure on Salaries and Wages and Non-Salary and Wages in Social and Economic Services were not available for the years 2000-01 to 2002-03.

previous year on account of growth in NPRES in secondary education. Amongst the economic services, major increase was under Roads and bridges on account of transfer of Rs.4.65 crore to Rs.57.69 crore. Out of the total revenue expenditure of Rs.2060.53 crore during 2005-06 the expenditure on social and economic services (Rs.1120.63 crore) comprised above 54.38 per cent.

Increase in capital expenditure from Rs.379.44 crore during 2004-05 to Rs.517.87 crore during 2005-06 was mainly due to an increase of Rs.113.27 crore in expenditure on economic sector. Under economic sector, major increase was noticed in capital expenditure on Co-operation (Rs.17.49 crore), North East Areas (Rs.5.91 crore), and Other Special Areas Programme (Rs.9.31 crore).

### 1.6.2 Expenditure on Social Services

Given the fact that human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc., have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 1.15** summarises the expenditure incurred by the State Government in expanding and strengthening social services in the State during 2000-06.

**Table 1.15 – Expenditure on Social Services**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<i>(Rupees in crore)</i>						
<b>Education, Sports, Art and Culture</b>						
<b>Revenue Expenditure</b>	<b>181.84</b>	<b>209.66</b>	<b>200.30</b>	<b>246.15</b>	<b>239.67</b>	<b>305.84</b>
<i>Of which</i>						
<i>(a) Salary and Wage Component</i>	NA	NA	NA	207.93	204.75	249.34
<i>(b) Non-Salary and Wage Component</i>	NA	NA	NA	38.22	34.92	56.50
<b>Capital Expenditure</b>	<b>10.06</b>	<b>11.23</b>	<b>9.72</b>	<b>10.26</b>	<b>11.78</b>	<b>18.97</b>
<b>Sub total</b>	<b>191.90</b>	<b>220.89</b>	<b>210.02</b>	<b>256.41</b>	<b>251.45</b>	<b>324.81</b>
<b>Health and Family Welfare</b>						
<b>Revenue Expenditure</b>	<b>76.44</b>	<b>78.47</b>	<b>80.89</b>	<b>82.80</b>	<b>88.17</b>	<b>109.65</b>
<i>Of which</i>						
<i>(a) Salary and Wage Component</i>	NA	NA	NA	68.86	74.92	83.71
<i>(b) Non-Salary and Wage Component</i>	NA	NA	NA	13.94	13.25	25.94
<b>Capital Expenditure</b>	<b>12.94</b>	<b>2.25</b>	<b>8.29</b>	<b>11.88</b>	<b>41.94</b>	<b>11.63</b>
<b>Sub total</b>	<b>89.38</b>	<b>80.72</b>	<b>89.18</b>	<b>94.68</b>	<b>130.11</b>	<b>121.28</b>
<b>Water Supply, Sanitation, Housing and Urban Development</b>						
<b>Revenue Expenditure</b>	<b>40.03</b>	<b>28.66</b>	<b>32.33</b>	<b>18.07</b>	<b>31.64</b>	<b>43.04</b>
<i>Of which</i>						
<i>(a) Salary and Wage Component</i>	NA	NA	NA	15.90	18.21	22.59
<i>(b) Non-Salary and Wage Component</i>	NA	NA	NA	2.17	13.43	20.45
<b>Capital Expenditure</b>	<b>55.84</b>	<b>85.11</b>	<b>122.89</b>	<b>107.23</b>	<b>86.36</b>	<b>112.80</b>
<b>Sub total</b>	<b>95.87</b>	<b>113.77</b>	<b>155.22</b>	<b>125.30</b>	<b>118.00</b>	<b>155.84</b>
<b>Other Social Services</b>						
<b>Revenue Expenditure</b>	<b>52.84</b>	<b>60.39</b>	<b>72.05</b>	<b>75.29</b>	<b>61.47</b>	<b>93.70</b>
<i>Of which</i>						

**Audit Report (Civil) for the year ended 31 March 2006**

(a) Salary and Wage Component	NA	NA	NA	63.32	27.94	30.71
(b) Non-Salary and Wage Component	NA	NA	NA	11.97	33.53	62.99
<b>Capital Expenditure</b>	<b>2.18</b>	<b>0.28</b>	<b>8.00</b>	<b>8.78</b>	<b>8.89</b>	<b>11.69</b>
<b>Sub total</b>	<b>55.02</b>	<b>60.67</b>	<b>80.05</b>	<b>84.07</b>	<b>70.36</b>	<b>105.39</b>
<b>Total (Social Services)</b>						
<b>Revenue Expenditure</b>	<b>351.15</b>	<b>377.18</b>	<b>385.57</b>	<b>422.31</b>	<b>420.95</b>	<b>552.23</b>
<i>Of which</i>						
(a) Salary and Wage Component	NA	NA	NA	356.01 (84.30)	325.82 (77.40)	386.35 (69.96)
(b) Non-Salary and Wage Component	NA	NA	NA	66.30 (15.70)	95.13 (22.60)	165.88 (30.04)
<b>Capital Expenditure</b>	<b>81.02</b>	<b>98.87</b>	<b>148.90</b>	<b>138.15</b>	<b>148.97</b>	<b>155.09</b>
<b>Total</b>	<b>432.17</b>	<b>476.05</b>	<b>534.47</b>	<b>560.46</b>	<b>569.92</b>	<b>707.32</b>

The expenditure on Social Services increased from Rs.432.17 crore in 2000-01 to Rs.707.32 crore in 2005-06 and it constituted 27.43 *per cent* of the total revenue and capital expenditure (Rs.2578.40 crore) during 2005-06. Expenditure on Education, Health services, drinking water and sanitation facilities etc., consumed 85.10 *per cent* of the total social sector expenditure during 2005-06.

The trend in revenue and capital expenditure on social services during the last three years 2003-06 reveal that the share of capital expenditure remained within the range of 22-26 *per cent* which indicated that the revenue expenditure was dominant. Of the revenue expenditure on social services, the share of salary and wage component has declined from 84.30 *per cent* in 2003-04 to 69.96 *per cent* in 2005-06 implying more expenditure on non-salary components including on their maintenance indicating a move towards providing better quality of services. The non-salary and wage expenditure on social services has increased by 150 *per cent* during 2003-06 from Rs.66.30 crore in 2003-04 to Rs.165.88 crore in 2005-06. Even within the priority sectors of education and health and family welfare, despite the fact that salary and wage component continues to share dominantly in their respective revenue expenditure ranging from 76 *per cent* in health and family welfare to 82 *per cent* in education (including sports, art and culture).

### **1.6.3 Expenditure on Economic Services**

The expenditure on economic services includes all such expenditure as to promote directly or indirectly, productive capacity within the States' economy. The revenue expenditure on economic services increased from Rs.315.75 in 2000-01 to Rs.568.40 crore in 2005-06, while the capital expenditure on economic services increased from Rs.114.87 crore to Rs.300.94 crore (**Table 1.16**).



Table 1.16- Expenditure on Economic Sector

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Agriculture, Allied Activities</b>						
<b>Revenue Expenditure</b>	<b>105.02</b>	<b>120.25</b>	<b>102.25</b>	<b>110.27</b>	<b>117.24</b>	<b>163.06</b>
<i>Of which</i>						
(a) Salary and Wage Component	NA	NA	NA	66.87	71.23	84.55
(b) Non-Salary and Wage Component	NA	NA	NA	43.40	46.01	78.51
<b>Capital Expenditure</b>	<b>20.28</b>	<b>13.57</b>	<b>12.88</b>	<b>20.63</b>	<b>9.38</b>	<b>41.46</b>
<b>Sub total</b>	<b>125.30</b>	<b>133.82</b>	<b>115.13</b>	<b>130.90</b>	<b>126.62</b>	<b>204.52</b>
<b>Irrigation and Flood Control</b>						
<b>Revenue Expenditure</b>	<b>12.83</b>	<b>13.47</b>	<b>13.46</b>	<b>21.33</b>	<b>22.21</b>	<b>25.07</b>
<i>Of which</i>						
(a) Salary and Wage Component	NA	NA	NA	6.20	6.09	6.93
(b) Non-Salary and Wage Component	NA	NA	NA	15.13	16.12	18.14
<b>Capital Expenditure</b>	<b>---</b>	<b>--</b>	<b>5.20</b>	<b>0.01</b>	<b>1.08</b>	<b>0.82</b>
<b>Sub total</b>	<b>12.83</b>	<b>13.47</b>	<b>18.66</b>	<b>21.34</b>	<b>23.29</b>	<b>25.89</b>
<b>Power &amp; Energy</b>						
<b>Revenue Expenditure</b>	<b>58.33</b>	<b>59.07</b>	<b>58.11</b>	<b>158.90</b>	<b>94.28</b>	<b>97.22</b>
<i>Of which</i>						
(a) Salary and Wage Component	NA	NA	NA	20.10	20.89	23.89
(b) Non-Salary and Wage Component	NA	NA	NA	138.80	73.39	73.33
<b>Capital Expenditure</b>	<b>52.80</b>	<b>54.34</b>	<b>74.26</b>	<b>60.74</b>	<b>44.42</b>	<b>76.20</b>
<b>Sub total</b>	<b>111.13</b>	<b>113.41</b>	<b>132.37</b>	<b>219.64</b>	<b>138.70</b>	<b>173.42</b>
<b>Transport</b>						
<b>Revenue Expenditure</b>	<b>14.77</b>	<b>14.81</b>	<b>15.76</b>	<b>18.78</b>	<b>15.06</b>	<b>18.42</b>
<i>Of which</i>						
(a) Salary and Wage Component	NA	NA	NA	9.69	9.52	10.98
(b) Non-Salary and Wage Component	NA	NA	NA	9.09	5.54	7.44
<b>Capital Expenditure</b>	<b>1.96</b>	<b>1.80</b>	<b>6.85</b>	<b>6.55</b>	<b>6.55</b>	<b>5.72</b>
<b>Sub total</b>	<b>16.73</b>	<b>16.61</b>	<b>22.61</b>	<b>25.33</b>	<b>21.61</b>	<b>24.14</b>
<b>Other Economic Services</b>						
<b>Revenue Expenditure</b>	<b>124.80</b>	<b>118.45</b>	<b>132.46</b>	<b>206.48</b>	<b>156.94</b>	<b>264.63</b>
<i>Of which</i>						
(a) Salary and Wage Component	NA	NA	NA	42.77	52.35	93.86
(b) Non-Salary and Wage Component	NA	NA	NA	163.71	104.59	170.77
<b>Capital Expenditure</b>	<b>39.83</b>	<b>55.89</b>	<b>67.81</b>	<b>115.00</b>	<b>126.24</b>	<b>176.74</b>
<b>Sub total</b>	<b>164.63</b>	<b>174.34</b>	<b>200.27</b>	<b>321.48</b>	<b>283.18</b>	<b>441.37</b>
<b>Total (Economic Services)</b>						
<b>Revenue Expenditure</b>	<b>315.75</b>	<b>326.05</b>	<b>322.04</b>	<b>515.76</b>	<b>405.73</b>	<b>568.40</b>
<i>Of which</i>						
(a) Salary and Wage Component	NA	NA	NA	145.63 (28.24)	160.08 (39.45)	220.21 (38.74)
(b) Non-Salary and Wage Component	NA	NA	NA	370.13 (71.76)	245.65 (60.55)	348.19 (61.26)
<b>Capital Expenditure</b>	<b>114.87</b>	<b>125.60</b>	<b>167.00</b>	<b>202.93</b>	<b>187.67</b>	<b>300.94</b>
<b>Total</b>	<b>430.62</b>	<b>451.65</b>	<b>489.04</b>	<b>718.69</b>	<b>593.40</b>	<b>869.34</b>

The expenditure on Economic Services (Rs.869.34 crore) during 2005-06 accounted for 33.72 per cent of the total capital and revenue expenditure (Rs.2578.40). Expenditure on agriculture and allied activities, irrigation and flood control, energy and transport consumed nearly 49.23 per cent of the total economic sector expenditure during 2005-06.

The trends in revenue and capital expenditure on economic services during the period 2000-06 reveal that the capital expenditure has consistently increased from Rs.114.87 crore (26.68 per cent) in 2000-01 to Rs.300.94

(34.62 per cent) in 2005-06 while revenue expenditure with inter-year fluctuations increased from Rs.315.75 (73.32 per cent) to Rs.568.40 (65.38 per cent) in 2005-06. An increase of Rs.113.27 crore in capital expenditure during

2005-06 over the previous year was mainly on account of increase under the other economic services (Rs.50.50 crore), power (Rs.31.78 crore) and agriculture (Rs.32.08 crore). Of the revenue expenditure, the expenditure on salary and wages had moderately increased from Rs.145.63 crore (28.24 per cent) in 2003-04 to Rs.220.21 crore (38.74 per cent) in 2005-06 while its non-salary component has decreased from Rs.370.13 crore (71.76 per cent) to Rs.348.19 crore (61.26 per cent) indicating that increase in salary and wages to some extent has compensated by corresponding decline in non salary component in economic services.

#### **1.6.4 Financial Assistance to Local Bodies and other institutions**

The quantum of assistance provided by way of grants and loans to local bodies and others during the six years period 2000-06 is presented in **Table 1.17**.

**Table-1.17: Financial Assistance**

	<i>(Rupees in crore)</i>					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	0.94	0.65	1.45	2.10	3.05	6.24
Municipal Corporations and Municipalities	--	--	--	--	--	--
Zilla Parishads and Other Panchayati Raj Institutions	--	--	--	--	--	--
Development Agencies	13.01	2.67	0.43	--	24.67	0.28
Hospitals and other Charitable Institutions	--	--	--	0.10	5.59	5.74
Other Institutions	5.17	12.44	10.03	28.46	1.02	21.17
<b>Total</b>	<b>19.12</b>	<b>15.76</b>	<b>11.91</b>	<b>30.66</b>	<b>34.33</b>	<b>33.43</b>
Assistance as percentage of RE	1.48	1.10	0.79	1.69	2.04	1.62

The total assistance to local bodies and other institutions during 2005-06 was Rs.33.43 crore and registered a decline of 2.69 per cent over the previous year. Financial assistance was given to various institutions in the form of grants-in-aid viz., to Village Development Boards, Town Committees, Voluntary Organisations, Naga Hospital, Kohima and assistance to Co-operative Societies, Non-Government Primary Schools, Colleges and Institutions etc.

#### **1.6.5 Delay in furnishing utilisation certificates**

Of the 3390 utilization certificates (UC) due in respect of grants and loans aggregating Rs.72.27 crore paid upto 2005-06, 3291 UCs for an aggregate amount of Rs.72.01 crore were in arrears. Details of Department wise break-up of outstanding UCs are given in **Appendix-VI**.

### **1.6.6 Non-submission of accounts**

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. On the basis of information available with Audit, annual accounts of bodies and authorities for 2005-06 and earlier years had not been received by the Accountant General as of November 2006. The names of bodies and authorities, the accounts of which were in arrears and the grants/loans received from the Government of India and State Government during 2004-05 and 2005-06 are detailed in **Appendix-VII**.

### **1.6.7 Abstract of performance of the autonomous bodies**

The audit of accounts of three Autonomous Bodies in the State has been entrusted to the Comptroller and Auditor General of India under Section 19 (3) and 20 (1) of the Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in Parliament/Legislature is indicated in **Appendix IX**.

## **1.7 Assets and liabilities**

In Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by Government is not done. However, Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix-II** gives an abstract of such liabilities and the assets as on 31 March 2006, compared with the corresponding position on 31 March 2005. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly capital outlay and loans and advances given by the State Government and cash balances. **Appendix-V** depicts the time series data on State Government finances for the period 2000-06.

On the assets side, there was an increase of 15.50 *per cent* in capital outlay on fixed assets. Government needs to examine whether its market borrowings (at the cost of about 7.5 *per cent*) was justified in the light of the cash balances in its account with the RBI. The liabilities grew mainly due to increase in borrowings and small savings, provident fund etc., aggregating 16.89 *per cent*. The liabilities of the Government of Nagaland depicted in the Finance Accounts, however, do not include pension, other retirement benefits payable to serving/retired State employees and Guarantees/Letters of Comfort issued by the State Government.

### **1.7.1 Departmental Commercial Undertakings**

Activities of quasi-commercial nature are performed by departmental undertakings of certain Government Departments. These undertakings are required to prepare annually *proforma* accounts in prescribed format showing the results of financial operations so that Government can assess the results of their working. The Department-wise position of arrears in preparation of *proforma* accounts and the investment made by the Government are given in Chapter-VII (paragraphs 7.1.4, 7.1.6 and 7.1.9).

### **1.7.2 Investments and returns**

As on 31 March 2006, the State Government had invested Rs.103.11 crore in one Statutory Corporation, six Government Companies, two Joint Stock Companies and 360 Co-operative Societies (**Table 1.18**).

**Table 1.18- Return on Investment**

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on government borrowing	Difference between interest rate and return
	<i>(Rupees in crore)</i>		<i>(per cent)</i>		
2000-01	51.04	0.00	0.00	13.75	13.75
2001-02	53.87	0.00	0.00	12.83	12.83
2002-03	58.47	0.00	0.00	11.30	11.30
2003-04	69.36	0.00	0.00	11.66	11.66
2004-05	73.41	0.00	0.00	12.26	12.26
2005-06	*103.11	0.00	0.00	10.50	10.50

*(Source: Finance Accounts)*

The return on investment in the above Companies was nil. Of the six Government companies, 4 had accumulated losses of Rs.26.96 crore, which had exceeded the paid-up capital of Rs.17.77 crore as detailed in Chapter VII (**Appendix-XLI**).

### **1.7.3 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 of these institutions/organisation. Total outstanding loans and advances as on 31 March 2006 was Rs.30.27 crore. **Table 1.19** shows that interest received as a percentage of loans advanced by the State Government was much less than the weighted interest rate paid by the State Government on its borrowings except during 2005-06. This shows that the Government's borrowings were much higher than the returns on its own lending prior to 2005-06.

---

\* 1 Statutory Corporation- Rs.0.04 crore, 6 Government Companies and 1 PSU- Rs.58.53 crore, 2 Joint Stock Companies-Rs.18.66 crore, 1 Co-op Bank and 359 Co-op Societies-Rs.25.88 crore = Rs.103.11 crore.

**Table 1.19 - Average Interest Received on Loans Advanced by the State Government**

*(Rupees in crore)*

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Opening Balance	41.49	52.39	48.04	42.96	41.23	35.07
Amount advanced during the year	17.35	3.43	2.33	5.08	0.34	0.61
Amount repaid during the year	6.45	7.78	7.42	6.81	6.50	5.40
Closing Balance	52.39	48.04	42.96	41.23	35.06	30.27
Net addition	10.90	(-) 4.35	(-) 5.09	(-) 1.73	(-) 6.16	(-) 4.79
Interest received	0.73	0.93	0.75	0.89	3.27	5.60
Interest received as <i>percentage</i> to outstanding Loans and advances	1.56	1.85	1.65	2.11	8.57	17.14
Weighted interest rate * (in <i>per cent</i> ) paid on borrowings by State Government	13.75	12.83	11.30	11.66	12.26	10.50
Difference between weighted interest paid and received ( <i>per cent</i> )	12.19	10.97	9.65	9.55	3.69	(-) 6.64
Implicit subsidy	5.06	5.75	4.64	4.10	1.52	(-) 2.33

#### 1.7.4 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) - ordinary and special - from Reserve Bank of India has been put in place. The operative limit for Normal Ways and Means Advances is reckoned as the three years average of revenue receipts and the operative limit for special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities. The amount and number of days on which WMA were taken by the State Government has declined since 2004-05. Interest paid on WMA also gradually declined since 2002-03. Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State is detailed in **Table 1.20**.

**Table 1.20 - Ways and Means Advances and Overdrafts of the State**

*(Rupees in crore)*

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Ways and Means Advance</b>						
Availed in the year	245.47	304.61	656.80	44.55	297.35	195.08
Number of Occasions	7	9	9	1	9	5
Outstanding WMAs, if any	69.29	4.000	--	--	7.07	53.01
Interest paid	0.54	0.93	1.77	0.63	0.48	0.27
Number of Days	136	188	311	6	53	14
<b>Overdraft</b>						
Availed in the year	208.57	363.82	349.55	--	57.02	79.84
Number of Occasions	6	6	11	--	2	1
Number of Days	56	73	158	365	3	2
Interest Paid	20.60	0.52	0.71	0.13	0.33	0.37

## **1.8 Undischarged liabilities**

### **1.8.1 Fiscal liabilities–Public Debt and Guarantees**

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund - Capital Account. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of Public Account, include deposits under small savings schemes, provident funds and other deposits.

**Table-1.21** gives the fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also buoyancy of fiscal liabilities with respect to these parameters.

**Table 1.21 - Fiscal Liabilities-Basic Parameters**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities (Rupees in crore) *	1429.93	1695.93	2102.22	1924.41	2146.29	2552.27
Rate of Growth ( <i>per cent</i> )	24.78	18.60	23.96	(-) 8.46	11.53	18.92
<b>Ratio of Fiscal Liabilities to</b>						
GSDP ( <i>per cent</i> )	38.90	41.00	44.30	36.70	37.10	40.04
Revenue Receipts ( <i>per cent</i> )	114.00	128.00	156.10	81.60	116.70	112.57
Own Resources ( <i>per cent</i> )	1672.80	1603.00	1984.30	1486.50	1374.00	1261.30
<b>Buoyancy of Fiscal Liabilities to</b>						
GSDP (ratio)	0.557	1.496	1.620	(-) 0.820	1.118	1.835
Revenue Receipts (ratio)	2.286	3.312	14.185	(-) 0.112	(-) 0.523	0.814
Own Resources (ratio)	2.727	0.783	181.045	(-) 0.381	0.558	0.640

\* Includes internal debt, loans and advances from GOI and other obligations.

Overall fiscal liabilities of the State increased from Rs.1429.93 crore in 2000-01 to Rs.2552.27 crore in 2005-06. The rate of growth in 2005-06 was 18.92 *per cent* over the previous year. The ratio of fiscal liabilities to GSDP increased only marginally from 38.90 *per cent* in 2000-01 to 40.04 *per cent* in 2005-06 with inter-year variations. Fiscal liabilities had grown faster than the State's GSDP. The buoyancy of these liabilities with respect to GSDP during the year was 1.835 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.835 *per cent*. These liabilities stood at 1.13 times of the States' revenue receipts and 12.61 times of its own resources.

### **1.8.2 Debt Sustainability**

Debt sustainability is defined as the ability to maintain a constant debt-GDP ratio over a period of time. In simple terms, public debt is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. Given the rate spread (GSDP growth rate-interest rate)

and quantum spread (Debt\*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or sustainable. On the other hand, if  $PD > QS$ , debt-GSDP ratio would be rising and if  $PD < QS$ , it would be falling.

**Table-1.22 - Debt Sustainability-Interest Rate and GSDP Growth (in per cent)**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Weighted Interest Rate	13.75	12.83	11.30	11.66	12.26	10.50
GSDP Growth	44.45	12.43	14.79	10.32	10.31	10.31
Interest spread	30.70	(-) 0.39	3.49	(-) 1.34	(-) 1.95	(-) 0.19
Outstanding debt	1429.93	169.93	210.22	1924.41	2146.29	2552.27
Quantum spread (Rs. in crore)	439.00	7.00	73.00	(-)26.00	(-) 42.00	(-) 5.00
Primary Deficit (Rs. in crore)	(-) 94.34	(-) 136.49	(-) 280.39	392.14	31.29	(-) 52.52

The trends in **Table 1.22** reveal that in four out of six years period during 2000-06, the interest spread was negative, i.e., weighted interest rate was more than the rate of growth in GSDP during these years. The State has experienced primary deficit in 4 out of 6 years. An analysis of primary deficit vis-à-vis quantum spread reveals that their sum turns out to be negative in four out of six year period 2000-06. As the years of primary deficit and positive quantum spread do not coincide, debt-GSDP ratio reveals oscillating trend during the period.

### 1.8.3 Net Availability of Funds

Another important indicator of debt sustainability is the net availability of funds after the payment of the principal on account of earlier contracted liabilities and interest.

**Table-1.23** below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last six years.

**Table 1.23 Net Availability of Borrowed Funds**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>Internal debt</b>						
Receipt	163.05	224.23	238.58	393.93	256.22	413.50
Repayment(Principal + Interest)	127.34	267.79	180.55	211.80	247.15	280.37
Net Fund Available	35.71	(-) 43.56	58.03	182.13	9.07	133.13
Net Fund Available ( <i>per cent</i> )	21.90	(-) 19.43	24.32	46.23	3.54	32.20
<b>Loans and Advances from Government of India</b>						
Receipt	49.58	62.01	447.67	(-) 397.15	163.92	104.77
Repayment (Principal + Interest)	63.66	86.73	76.61	164.81	171.21	161.59
Net Fund Available	(-) 14.08	(-) 24.72	371.06	(-) 561.96	(-) 7.29	(-) 56.82
Net Fund Available ( <i>per cent</i> )	(-) 28.40	(-) 39.86	82.89	141.50	(-) 4.45	(-) 54.23
<b>Other obligations</b>						
Receipt	192.03	143.31	242.88	186.99	111.21	161.78
Repayment (Principal + Interest)	189.47	159.77	168.68	210.70	204.24	279.39
Net Fund Available	2.56	(-) 16.46	74.20	(-) 23.71	(-) 93.03	(-) 117.61
Net Fund Available ( <i>per cent</i> )	1.33	(-) 11.49	30.55	(-) 12.68	(-) 83.65	(-) 72.70

<b>Total liabilities</b>						
Receipt	404.66	429.55	929.13	183.77	531.35	680.05
Repayment (Principal + Interest)	380.47	514.29	425.84	587.31	622.60	721.35
Net Fund Available	24.19	(-) 84.74	503.29	(-) 403.54	(-) 91.25	(-) 41.30
Net Fund Available ( <i>per cent</i> )	5.98	(-) 19.73	54.17	(-) 219.59	(-) 17.17	(-) 6.07

Receipts from internal debt increased from Rs.256.22 crore in 2004-05 to Rs.413.50 crore in 2005-06. After accounting for the repayment of Rs.280.37 crore (including interest) in 2005-06, the net availability of funds from internal debt stood at Rs.133.13 crore.

The loan receipts from GOI decreased from Rs.163.92 crore in 2004-05 to Rs.104.77 crore in 2005-06 due to increase in grants-in-aid by the GOI. Interest on previous loans (Rs.43.05 crore) formed major part of the repayment of Rs.161.59 crore, which resulted in negative net availability of funds from loans from GOI in 2005-06.

**Table 1.23** shows that the net availability of funds from the total liabilities was negative in all the years from 2003-04 to 2005-06, indicating that borrowed were used for debt redemption and therefore not available for use in developmental activities. Specifically, the net availability of funds from internal debt and the loans and advances from GOI was negative in 2005-06. This indicates that fresh borrowings have been resorted to repay the earlier liabilities. This trend needs to be checked to correct fiscal imbalance. The repayment should be made by reducing revenue expenditure and more generation of funds through fiscal measures and making the investments more productive. The fiscal indicators discussed above would have presented a different picture, but for the substantial and increased grants-in-aid from GOI. The Government was yet to finalise its Action Plan regarding Debt Consolidation and Relief facility of the GOI.

### 1.9 Management of deficits

Deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised are applied are important pointers to its fiscal health.

**Table-1.24: Fiscal Imbalances-Basic Parameters**

Parameters	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue deficit(-)/surplus (+) (Rupees in crore)	(-) 36.13	(-) 102.58	(-) 159.37	546.80	154.89	206.67
Fiscal deficit (-)/surplus (+) (Rupees in crore)	(-) 271.43	(-) 336.96	(-) 494.97	157.40	(-) 218.39	(-) 306.41
Primary deficit(-)/surplus(+) (Rupees in crore)	(-) 94.34	(-) 136.49	(-) 280.39	392.14	31.23	(-) 52.52
RD/GSDP ( <i>per cent</i> )	(-) 0.98	(-) 2.48	(-) 3.36	*	*	3.24
FD/GSDP ( <i>per cent</i> )	(-) 7.38	(-) 8.15	(-) 10.42	*	(-) 3.78	(-) 4.81
PD/GSDP ( <i>per cent</i> )	(-) 2.56	(-) 3.30	(-) 5.90	*	*	(-) 0.82
RD/FD ( <i>per cent</i> )	13.31	30.44	32.20	*	*	(-) 67.45

(Negative figures indicate deficit)

\*There was Fiscal and Revenue surplus in 2003-04 and Revenue surplus in 2004-05.



The trends in revenue deficit during the period 2000-06 revealed that financial year 2003-04 was the year of turnaround as revenue account registered surplus thereafter in subsequent years. During 2003-04 huge revenue surplus was observed largely on account of the GOI loans to the State amounting to Rs.365 crore were converted into grants-in-aid. Due to the large surplus in revenue account, the State had also enjoyed fiscal and primary surplus during the year 2003-04. The revenue surplus declined in 2004-05 but increased by around Rs.52 crore in the current year mainly on account of increased central transfers by Rs.381.54 crore comprising the State's share in union pool of taxes and duties (Rs.88.35 crore) and grants-in-aid (Rs.293.19 crore). These enhancements in revenue receipts outstripped the revenue expenditure resulting in an increased revenue surplus in current year.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap, increased from Rs.218.39 crore in 2004-05 to Rs.306.41 crore in 2005-06. Despite the increment in revenue surplus by Rs.52 crore during the current year, the increase in fiscal deficit was largely on account of increase in capital expenditure by Rs 138.43 crore over the previous year. Due to both revenue and fiscal surplus in 2003-04, the State also had large primary surplus of Rs 392 crore during 2003-04 which declined substantially to Rs 31.23 crore during 2004-05 before turning again into deficit during the current year.

#### 1.10 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table 1.25** below presents a summarized position of the Government finances over 2000-2006, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and captures its important facets.

While the indicators of resource mobilisation showed an increasing trend over the last five years, the expenditure showed a secular decline, as a percentage of the GSDP and the revenue receipts. Significantly, however, a qualitative shift in the pattern of expenditure was discernable with revenue expenditure increasing at the expense of capital expenditure. Many of the fiscal indicators summarized in **Table 1.25** have been discussed individually in different paragraphs of this Chapter.

The seemingly encouraging trend in the management of fiscal imbalances as evidenced by revenue surpluses has to be viewed in the context of substantial and increasing grants-in-aid from GOI and less than expected levels of State's own tax and non-tax revenue including the 'nil' returns on investment in the Public Sector.

**Table 1.25 - Indicators of Fiscal Health (in per cent)**

Fiscal Indicators	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
<b>I. Resource Mobilisation</b>						
Revenue Receipts/GSDP	34.08	32.02	28.36	45.05	31.83	35.57
Revenue Buoyancy	0.244	0.452	0.114	7.287	(-) 2.138	2.255
Own tax/GSDP	1.26	1.51	1.31	1.31	1.36	1.66
<b>II. Expenditure Management</b>						
Total Expenditure/GSDP	41.64	40.35	38.94	42.17	35.72	40.46
Total Expenditure/Revenue Receipts	122.16	126.03	137.03	93.62	112.23	113.75
Revenue Expenditure/Total Expenditure	84.22	85.49	81.45	82.07	81.60	79.90
Salary & Wage expenditure on social and Economic Service/Revenue Expenditure	NA	NA	NA	27.67	28.84	29.44
Non-Salary & Wage expenditure on Social and Economic Services/Revenue Expenditure	NA	NA	NA	24.07	20.23	24.95
Capital Expenditure/Total Expenditure	14.65	14.30	18.40	17.70	18.38	20.08
Capital Expenditure on Social and Economic Services/Total Expenditure	12.79	13.45	17.08	15.44	16.31	17.68
Buoyancy of TE with RR	1.40	1.60	6.39	0.26	0.30	1.07
Buoyancy of RE with RR	1.21	1.89	3.28	0.27	0.32	0.96
<b>III. Management of Fiscal Imbalances</b>						
Revenue surplus(+)/deficit(-) (Rs. in crore)	(-) 36.13	(-) 102.58	(-) 159.37	546.80	154.89	206.67
Fiscal deficit(-)/surplus(+) (Rs. in crore)	(-) 271.43	(-) 336.96	(-) 494.97	157.40	(-) 218.39	(-) 306.41
Primary deficit(-)/surplus(+) (Rs. in crore)	(-) 94.34	(-) 136.49	(-) 280.39	392.14	31.23	(-) 52.52
Revenue deficit/Fiscal deficit	13.31	30.44	32.20	*	*	(-) 67.45
<b>IV. Management of Fiscal Liabilities</b>						
Fiscal Liabilities/GSDP	38.86	41.00	44.27	36.73	37.14	40.04
Fiscal Liabilities/RR	114.02	128.04	156.08	81.55	116.68	112.57
Primary deficit vis-à-vis quantum spread	344.66	(-) 129.49	(-) 207.39	366.14	(-) 10.71	(-) 57.52
Net Fund Available	5.98	(-) 19.73	54.17	(-) 219.59	(-) 17.17	(-) 6.07
<b>V. Other Fiscal Health Indicators</b>						
Return on Investment	0.00	0.00	0.00	0.00	0.00	0.00
Balance from Current Revenue (Rs. in crore)	(-) 296.20	(-) 974.63	(-) 555.96	247.88	(-) 386.32	(-) 58.01
Financial Assets/Liabilities	1.05	0.97	0.95	1.17	1.21	1.26

### 1.11 Impact of Government Policies

*Appendix-X* depicts the progress achieved during the year 2005-06 in various sectors. In Irrigation sector, there was increase in total irrigated area and creation of irrigation potential. In Agriculture sector, agricultural products were also increased. In Horticulture sector, the total cropped area and the total production were increased substantially.

### 1.12 Conclusion

The trends in key fiscal parameters- RD, FD & PD indicate mixed trends about the fiscal health of the State's economy during the year. A substantial increase of Rs.381.54 crore in central transfers to State comprising of central tax transfers and grants-in-aid has enhanced the revenue surplus by Rs.52 crore during 2005-06. Although the State had maintained revenue surplus of Rs.206.67 crore during 2005-06, but the increase in fiscal deficit, continued negative balance from current revenues and emergence of primary deficit during the current year after experiencing the surplus consecutively for past two years indicate deteriorating fiscal situation and increasing dependence of the State on borrowed funds. Given the fact that non plan revenue expenditure is significantly higher than the level normatively assessed by the TFC and also that 91 *per cent* of the State's revenue receipts are contributed in the form of central transfers, greater efforts are required by the State to mobilize the resources through domestic sources. The spiraling debt liabilities accompanied by secular trends in fiscal deficit might result in a vicious cycle of deficit; debt and debt service payments, unless suitable measures are taken to arrest the persistent increase in fiscal liabilities. Besides, zero rate of return on government investments and inadequate recovery of cost on loans and advances also aggravated the fiscal position of the State. The State Government needs to initiate appropriate measures to raise its own resources and to compress the non plan revenue expenditure during the medium to long run to improve the fiscal health of the State.