GOVERNMENT OF NAGALAND

AN INTRODUCTION TO BUDGET
2025-26

Finance Department
Government of Nagaland

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1. This Booklet seeks to explain, in a simple way, the structure, scope, procedures and techniques of budgeting and attempts to familiarize readers with some of the terms and expressions frequently used in Budget documents.

2. The term "Budget" is not used anywhere in the Constitution of India. The expression used in the Constitution is the "Annual Financial Statement". The Budget of the State Government is the "**Annual Financial Statement"**, which includes the estimates of Receipts and Expenditure of the State for the financial year which runs from April 1 to March 31. The effort while preparing the Budget is to arrive at an accurate estimate of the receipts and expenditure for the forthcoming year. The estimates are based upon the experience of the past and anticipated events of the future.

3. The **"Budget Speech**" is largely a policy document. While presenting a review of the salient features of financial administration of the year ending and the year commencing, the Finance Minister, in his speech, also highlights the policies and programmes of the Government.

4. The "**Annual Financial Statement**" is a summary of the transactions of the State Government and shows the receipts and payments of the Government under the three parts in which Government accounts are maintained namely:

(i) Consolidated Fund,
(ii) Contingency Fund and
(iii) Public Account.

5. All revenues received by Government, loans raised by it, and also its receipts from recoveries of loans granted by it, form the **Consolidated Fund.** All expenditure of the Government is incurred from the Consolidated Fund and no amount can be withdrawn from the Fund without authorization from the Legislature except for certain items classified as ‘charged’ expenditure.

6. Under Article 267 Clause (2) of the Constitution, the State Legislature may, by law establish a **Contingency Fund** in the nature of an imprest for meeting unforeseen expenditure of any urgent nature which cannot be postponed without detriment to public interest and to which may be paid from time to time, sums as are determined by such law. With the formation of Nagaland State, the Nagaland Contingency Fund Act, 1964 was passed and in pursuance thereof, the Nagaland Contingency Fund was formed with a corpus of Rs. 35 lakhs appropriated from the Consolidated Fund.

7. Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government accounts, in respect of which, Government acts more as a banker, for example, transactions relating to Provident Fund, small savings collections, other deposits, etc. The moneys thus received are kept in the **Public Account** and the connected disbursements are also made therefrom. Generally speaking, Public Account funds do not

belong to Government and have to be paid back some time or the other to the persons and authorities that deposited them. Legislative authorization for payments from the Public Account is, therefore, not required.

8. Under the Constitution, Budget has to distinguish expenditure on revenue account from other expenditure. Government Budget, therefore, comprises (i) Revenue Account and (ii) Capital Account.

9. **Revenue Account** consists of the **Revenue Receipts** of Government (tax revenues and non-tax revenues) and the revenue expenditure. Revenues comprise proceeds of taxes, duties, interest and dividend on investments made by Government, fees, and other receipts for services rendered by Government. It includes grants-in-aid and devolution of taxes from the Government of India. **Revenue Expenditure** is the estimated cost on salaries, allowances and other expenses required for the normal running of Government departments and various services, interest charges on debt incurred by Government, subsidies, etc. Broadly speaking, expenditure that does not result in creation of assets is treated as revenue expenditure.

10. **Capital Account** consists of capital receipts and payments. The main items of **Capital Receipts** are loans raised by Government from public which are called Open Market Loans, borrowings from Reserve Bank of India and other institutions, loans and advances from the Central Government and recoveries of loans and advances. Capital payments consist of expenditure that leads to direct capital formation such as acquisition of assets like land, buildings, machinery, equipment,

as also investments in shares, etc. The cost of constructing or acquiring an asset of a lasting nature, which yields revenue or which avoids a recurring commitment is generally classified as **capital expenditure**. Capital Expenditure may be met from the annual revenues of the Government as well as from money borrowed from the public or the Central Government or from any other available source.

11. The **Annual Financial Statement** is divided into three statements. **Statement-I** deals with the receipts and disbursements under the Consolidated Fund, **Statement-II** deals with the receipts and disbursements under the Contingency Fund and **Statement-III** deals with the receipts and disbursements under Public Account. A supplementary statement - **Statement I A** that deals with disbursements "Charged" on the Consolidated Fund of Nagaland, supports Statement-I.

12. **Statement-I Revenue Account Receipts** takes into account all the revenue receipts. The revenue receipts include the tax and non-tax revenues and grants and devolution of taxes from the Government of India. Statements A, B and C furnish the estimated yields from the various measures of taxation, profits of the commercial undertakings of the Government, interest accruing from investments of the Government and grants obtained from the Central Government, all of which together constitute the annual revenue of the Government.

13. **Statement-I Revenue Account Disbursements** provides particulars of the estimated cost of running the different Departments of the Government by way of salaries and allowances, contingencies, grant-in-aid, maintenance

expenditure, pension, interest payments, interest charges, etc. In other words it is primarily restricted to expenditure that does not lead to capital formation.

14. **Statements-I Capital Account Receipts and Statements-I Capital Account Disbursements** deal with the transactions of the Government outside the Revenue Account, i.e., transactions other than those dealt with in the Revenue Account. Capital Account relates to the expenditure on items that lead to direct capital formation like buildings, roads, irrigation projects, machinery and equipment, share capital investments, etc. Capital Account also includes loans and advances given or obtained by the State Government. This would, therefore, include the loans and advances received from the Centre and repayment thereof and the loans and advances made by the State Government to Boards, Corporations and other institutions and the repayment of such advances. The interest on these loans forms part of the revenue account.

15. When the expenditure as summarized in Statement I - Revenue Account Disbursements is deducted from the Revenue Account - Receipts, we get the **"Revenue Surplus"** which is available for financing capital expenditure of the year.

16. **Statement-II** deals with the receipts and disbursements under the Contingency Fund. The Contingency Fund is an imprest placed at the disposal of the Governor to incur such urgent expenditure pending authorization from the Legislature. Legislative approval for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained and the amount spent from Contingency Fund is recouped to the Fund.

17. **Statement-III shows the anticipated receipts and the corresponding disbursements under Public Account.** The total net accumulations of the Government servants in GPF, GIS etc. remain with the Government till maturity as debts incurred by the State. The surplus funds of local bodies, if any, are deposited in Government treasuries, for which the Government acts as their banker. All such miscellaneous transactions are entered in the "Public Account" as distinct from the Consolidated Fund. When the annual withdrawals by parties of these miscellaneous deposits do not keep pace with the annual receipts under this head, it results in an accumulation of funds with the Government.

18. If the Legislature approves the budget, the Government then accords sanction to incur expenditure as detailed therein. This is called the **Appropriation**. Usually, the Budget is presented to the Legislature sometime in March. The Appropriation Bill is usually passed before the beginning of the new financial year, i.e., before 1st April. Whenever it is not possible to pass the Appropriation Bill for the new year before 1st April the requirements of administration for the first few months of the next year are met by obtaining an advance grant from the Legislature known as "**Vote on Account**". The amounts provided in the Vote on Account are subsequently merged with the amounts provided in the Appropriation Bill for the whole year.

19. Government Accounts are maintained in the form of a simple Cash Book. Whatever money is received during the year is entered under the appropriate Head in the Accounts of that year,

irrespective of the fact whether that money became due to the Government in that year or as an arrear of the previous year or as an advance collection for the next year. Similarly, on the Revenue expenditure side, the Government accounts show the amount actually paid by the Government under each Head of account during the year, irrespective of whether these amounts were due for payment in that year or in any of the previous years or were advance payments for services yet to be rendered.

20. In order to have uniformity in the accounts all over the country, the heads of account have been laid down by the Controller General of Accounts, Ministry of Finance, Government of India. Accounts all over India follow the same major and functional minor heads. All the major heads in the Consolidated Fund, Contingency Fund and the Public Account have code numbers. These codes are a four digit Arabic number code arranged in blocks as detailed below:

	Major Head	Block
1.	Revenue Receipts	0020 to 1999
2.	Revenue Expenditure	2011 to 3999
3.	Capital Receipts	4000
4.	Capital Expenditure	4011 to 5999
5.	Public Debt	6001 to 6010
6.	Loans and Advances, Inter-State Settlement & Transfer to Contingency Fund.	6011 to 7999
7.	Contingency Fund	8000
8.	Public Account	8001 to 8999

21. The codification pattern has been evolved in such a manner that the first digit indicates whether the major head falls in the

receipt section or expenditure on revenue account or expenditure on capital account or loans and advances and public debt or public account sections. The last two digits will be the same for the corresponding major heads in the revenue receipt section, revenue expenditure section, capital expenditure section and loans and advances section are illustrated below: -

RECEIPT (Major Head)	**EXPENDITURE** (Major Head)	**CAPITAL** (Major Head)	**LOAN** (Major Head)
0210 Medical & Public Health	2210 Medical & Public Health	4210 Capital outlay on Medical & Public Health	6210 Loans for Medical & Public Health

22. There is a five-tier classification of expenditure as indicated below:

- Sectors to indicate the grouping of the various functions of Government, corresponding to the sectors of Development (State) Classification
- Major heads to indicate the function of the Government such as agriculture, education, health etc, and to correspond to heads of development in the Development (State) Classification
- Minor Heads to denote various Development (State) and Non-Development programmes under each function
- Sub-Heads to denote the schemes for organization under each programme or minor head and

- Detailed head of account to indicate the nature or form of expenditure such as salaries, travel expenses, investments, loans, etc. otherwise known as object of expenditure.

23. Ordinarily a demand is proposed for each function. Each Demand normally includes the total provisions required for a service, that is, provisions on account of revenue expenditure, capital expenditure, grants and also loans and advances in relation to the service. Thus, under Demand No. 45-Co-operation, the revenue expenditure is shown under ‘2425 Co-operation’, the Capital expenditure under ‘4425-Capital Outlay on Co-operation’ and the loan expenditure under ‘6425-Loan for Co-operation’ are brought together. This will enable one to know the cost of each function under all accounts within each Demand. So long as the total demand is not exceeded the Government can meet excess under capital head from savings in loan head and vice versa. But re-appropriation between revenue account and capital account is not possible. Similarly, the excess under the ‘Charged’ expenditure cannot be met by saving under 'Voted' section and vice versa.

24. The **Explanatory Memorandum** of the Budget is another important publication, which gives us an insight to the financial position of State Government. This publication is intended as a guide for the study of the Budget. It provides a schedule of the number of State Government employees, the expenditure on salary under each Demand and the detailed provisions as also sector wise break-up of Development (State) outlay under State Development (State), CSS, NEC etc.

25. The excess of Government's revenue expenditure over revenue receipts constitutes **revenue deficit** of government. The difference between the total expenditure of Government by way of revenue, capital and loans net of repayments on the one hand and revenue receipts of Government and Capital receipts which are not in the nature of borrowing but which finally accrue to Government on the other, constitutes **gross fiscal deficit**. **Gross Primary deficit** is measured by gross fiscal deficit reduced by gross interest payments. In the Budget documents, 'gross fiscal deficit' and 'gross primary deficit' are referred to in abbreviated form **'fiscal deficit' and 'primary deficit'**, respectively.

26. Under the Constitution, certain items of expenditure are charged on the Consolidated Fund and are not required to be voted by the Legislature. The Annual Financial Statement shows the expenditure charged on the Consolidated Fund separately. The items of expenditure charged on the Consolidated Fund of the State are:

- The allowances of the Governor and other expenditure relating to his office as determined by the President.
- The salaries and allowances of the Speaker and the Deputy Speaker of the Legislative Assembly.
- Debt charges for which the State is liable including interest, sinking fund charges and redemption of debt.
- The expenditure in respect of the salaries and allowances of the Judges of the High Court and the administrative expenses of the High Court, including all salaries and allowances payable in respect of the officers and servants of the Court.

- The expenses of the State Public Service Commission including the salaries and allowances payable to or in respect of the members or staff of the commission.
- Any sums required to satisfy any judgment, decree or award or any court or arbitral tribunals, and
- Any other expenditure declared by the Constitution, or by Legislature of the State by Law to be charged.

27. Under Article 203 (2) of the Constitution, the estimates of **votable** (as distinguished from “**Charged**”) expenditure shall be submitted to the Legislature in the form of “**Demand for Grants**” and the Legislature shall have power to assent or to refuse to assent to any demand, or to assent to any demand subject to a reduction of the amount specified therein. The estimates of expenditure from the Consolidated Fund included in the Annual Financial Statement and required to be voted by the Legislature are submitted in the form of Demands for Grants. The Demands for Grants are presented to the Legislature along with the Annual Financial Statement. Each Demand first gives the totals of ‘voted’ and ‘charged’ expenditure as also the ‘revenue’ and ‘capital’ expenditure included in the Demand separately and also the grand total of the amount of expenditure for which Demand is presented. This is followed by the estimates of expenditure under different major heads of account. The break up of the expenditure under each major head between ‘Development (State)’ and ‘Non-Development’ is also given.

28. Where the provision for a service is entirely for expenditure charged on the Consolidated Fund, for example, servicing of debt, a separate **Appropriation,** as distinct from a Demand, is

presented for that expenditure and it is not required to be voted by the Legislature. Where, however, expenditure on a service includes both ‘voted’ and ‘charged’ items of expenditure, the latter are also included in the Demand presented for that service but the ‘voted’ and ‘charged’ provisions are shown separately in that Demand.

29. The total provision for a major head included under demand and the charged expenditure provided under that head may not agree with the total shown in the Annual Financial Statement. This is because certain recoveries are taken into account as reduction of expenditure and the net only is shown in the Annual Financial Statement, while in the Demand, which provide the authority for incurring the particular items of expenditure, these recoveries are not taken into account.

30. The Executive cannot exceed a Demand voted by the Legislature. The amount covered by the Demand is intended to meet several items of expenditure grouped under various detailed heads as mentioned in the earlier paragraph. It is within the competence of the Executive to vary the appropriations under the different detailed heads according to the requirements of the year, without exceeding the total of the Demand. This redistribution within the Demand is known as “**Re-appropriation**”. Such re-appropriation is, however, not permitted between a “Voted” item and a “Charged” item and between Revenue and Capital expenditure and vice-versa, even though these may appear under the same Demand.

31. One of the cardinal principles of the parliamentary form of Government is that all expenditure incurred by the State should

be specifically authorized by the Legislature. The Minister may see issuing of direction and the Secretary may sign the order sanctioning the expenditure; but neither of them has any inherent authority over the public funds. They are merely giving effect to the decisions already recorded by the Legislature, or as on some occasions, anticipating such decisions. In short, they are only agents executing the wishes of the Legislature on all money matters. It is not, however, possible for the Legislature to be in session all the time. Nor is it practicable for every member of the legislature to scrutinize day-to-day transactions of the Government, under the various departments. The system has, therefore, been evolved under which the Executive prepares a Financial Statement or Budget for the ensuing year, showing all the anticipated items of revenue and expenditure, classified under a few broad heads and presents this Statement to the Legislature for approval, well in advance of the financial year. The general debate, the voting on demand and the passing of the Appropriation Bill are all legal requirements by which the Legislature scrutinizes, alters, amends and finally sets its seal of approval on this document. When these formalities are gone through and the Governor has accorded his assent, the Executive is empowered to carry on the administration, within the financial limits laid down in this Statement.

32. The control intended to be exercised by the Legislature over the Executive in spending public funds can be effective only if there is somebody to watch on behalf of the Legislature, the actual progress of expenditure. The function is exercised by the **Comptroller and Auditor-General (CAG)**, who is an authority under the Constitution independent of the Executive

and answerable only to the President. His agent, the **Accountant General**, watches all the payments ordered by or on the authority of the Government and reports any savings/excess expenditure under each Demand as against the amounts voted by the Legislature.

33. As soon as possible, after the close of the financial year, the Accountant General sends a report analyzing the financial transactions for the year. In this report, he draws attention to any serious financial irregularities committed by the Executive as for example, spending in excess of the sanctioned grants, allowing grants to lapse, failure to collect taxes in time, wasteful expenditure, etc. This report is examined by a Committee of the Legislature, called the **Public Account Committee (PAC)**. The Committee is assisted in its deliberations by the Accountant General. It considers the explanations offered by the Executive for the objections pointed out in the report. The recommendations of this Committee are placed before the Legislature. It will thus be seen that the Legislature does exercise a reasonable measure of control over the financial transactions carried out by the Executive.

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