



The Nagaland Fiscal Responsibility and Budget Management Act, 2005

Act 7 of 2005

Keyword(s):

Budget, Fiscal Deficit, Fiscal Indicators, Fiscal Targets, Revenue Deficit

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THE NAGALAND FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT ACT, 2005

(Act No. 7 of 2005)

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to provide for the responsibility of the State Government 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 transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and for matters connected therewith or incidental thereto.

Be it enacted by the Nagaland Legislative Assembly in the fifty-sixth year of the Republic of India as follows

1. SHORT TITLE & COMMENCEMENT

- 1) This Act may be called the Nagaland Fiscal Responsibility and Budget Management Act, 2005.
- 2) It shall come into force on such date as the State Government may, by notification in the Official Gazette, appoint

2. Definitions

In this Act, unless the context otherwise requires -

- a) "budget" means the annual financial statement laid before the House or Houses of the State Legislature under Articles 202 of the Constitution;
- b) "current year" means the financial year preceding the en-

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suing year;

- c) “ensuing year” means the financial year for which the budget is being presented;
- d) “Financial year” means the year beginning on the 1st April of a calendar year and ending on the 31st March of the next calendar year;
- e) GSDP means Gross State Domestic Product at current market prices;
- f) “fiscal deficit” is the excess of aggregate disbursements (net of debt repayments) over revenue receipts, recovery of loans and non-debt capital receipts;
- g) “fiscal indicators” are such indicators as may be prescribed for evaluation of the fiscal position of the State Government;
- h) “fiscal targets” are the numerical ceilings and proportions to total revenue receipts (TRR) or GSDP for the fiscal indicators;
- i) “prescribed” means prescribed by the rules made under this Act;
- j) “previous year” means the year preceding the current year;
- k) “revenue deficit” means the difference between revenue expenditure and total revenue receipts (TRR).

Explanation:

- (1) “Total revenue receipts” (TRR) includes State’s own rev-

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enue receipts (both tax and non-tax) and current transfers from the Centre (comprising grants and State's share of Central taxes).

- (2) "Total liabilities" means the liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the public sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and or interest are to be serviced out of the State budgets.

3. FISCAL MANAGEMENT OBJECTIVES:-

The State Government shall :

- a) take appropriate measures to remain revenue positive and build up adequate revenue surplus and contain the fiscal deficit at a sustainable level, and utilize such surplus for discharging the liabilities in excess of the assets or for funding capital expenditure;
- b) pursue policies to raise non-tax revenue with due regard to cost recovery and equity; and
- c) lay down norms for prioritization of capital expenditure, and pursue expenditure policies that would provide impetus for economic growth, poverty reduction and improvement in human welfare.

4. FISCAL MANAGEMENT PRINCIPLES.

The State Government shall be guided by the following fiscal management principles, namely :-

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- a) transparency in setting the fiscal policy objectives, the implementation of public policy and the publication of fiscal information so as to enable the public to scrutinize the conduct of fiscal policy and the state of public finances;
- b) stability and predictability in fiscal policy making process and in the way fiscal policy impacts the economy;
- c) responsibility in the management of public finances, including integrity in budget formulation;
- d) fairness to ensure that policy decisions of the State Government have due regard to their financial implications in future generations; and
- e) efficiency in the design and implementation of the fiscal policy and in managing the assets and liabilities of the public sector balance sheet.

5. FISCAL POLICY STATEMENTS TO BE LAID BEFORE THE LEGISLATURE

The State Government shall in each financial year lay before the Nagaland Legislative Assembly, the following statements of fiscal policy along with the budget, namely :

- a) the Macroeconomic Framework Statement;
- b) the Medium Term Fiscal Policy Statement; and
- c) the Fiscal Policy Strategy Statement.

6. MACROECONOMIC FRAMEWORK STATEMENT

The Macroeconomic Framework Statement, in such form as may be prescribed, shall contain an overview of the State

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economy, an analysis of growth and sectoral composition of GSDP, an assessment related to State Government finances and future prospects.

7. MEDIUM TERM FISCAL POLICY STATEMENT

- (1) The Medium Term Fiscal Policy Statement shall set forth in such form as may be prescribed the fiscal management objectives of the State Government and three-year rolling targets for the prescribed fiscal indicators with clear enunciation of the underlying assumptions.
- (2) In particular and without prejudice to the provisions contained in sub section (1), the medium Term Fiscal Policy Statement shall include the various assumptions behind the fiscal indicators and an assessment of sustainability relating to :
 - i) the balance between revenue receipts and revenue expenditure;
 - ii) the use of capital receipts including borrowings for generating productive assets;
 - iii) the estimated yearly pension liabilities worked out on actuarial basis for the next ten years.

Provided that in case it is not possible to calculate the pension liabilities on actuarial basis during the period of first three years after the coming into force of this Act, the State Government may, during that period, estimate the pension liabilities by making forecasts on the basis of trend growth rates.

8. FISCAL POLICY STRATEGY STATEMENT

The Fiscal Policy Strategy Statement shall be in such form as may be prescribed and shall contain, inter-alia,

- i) the fiscal policies of the State Government for the ensuing year relating to taxation, expenditure, borrowings and other liabilities (including borrowings by Public Sector Undertakings and Special Purpose Vehicle and other equivalent instruments where liability for repayment is on the State Government), lending, investments, other contingent liabilities, user charges on public goods/utilities;
- ii) description of other activities, such as guarantees and activities of Public Sector Undertakings which have potential budgetary implications;
- iii) the strategic priorities of the State Government in the fiscal area for the ensuing year;
- iv) the key fiscal measures and the rationale for any major deviation in fiscal measures pertaining to taxation, subsidy, expenditure, borrowings and user charges on public goods/utilities; and
- v) an evaluation of the current policies of the State Government vis-a-vis the fiscal management principles set out in Section 4 and the fiscal objectives set out in the Medium-Term Fiscal Policy Statement in sub-section 1 of section 7 and fiscal targets set out in section 9.

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9. FISCAL TARGETS.

- (1) The State Government may prescribe such targets as may be deemed necessary for giving effect to the fiscal management objectives.
- (2) In particular, and without prejudice to the generality of the foregoing provisions, the State Government shall-
 - i) strive to remain revenue surplus by making a balance in revenue receipts and expenditure and build up further surplus;
 - ii) strive to bring down fiscal deficit to 3% of projected Gross State Domestic Product (GSDP) by the year ending 31st March 2009;
 - iii) ensure within a period of 5 years, beginning from the initial financial year on the 1st day of April 2005, and ending on the 31st day of March 2010, that the total debt stock do not exceed 40 per cent of the estimated GSDP for that year;
 - iv) limit the amount of annual incremental risk weighted guarantees to 1 % of the Total Revenue Receipt (TRR) or 1 % of the estimated GSDP in the year preceding the current year, whichever is lower;
 - v) 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 % in any financial year.

Provided that revenue surplus may deteriorate and

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fiscal deficit may exceed the limits specified under this section owing to unforeseen demands on the finances of the State Government arising out of internal disturbance or natural calamity or such other exceptional grounds as the State Government may specify.

Provided however that a statement in respect of the unforeseen demands specified in the first proviso shall be placed before the House or Houses of the Legislature, as soon as may be after any such deterioration takes place.

10. MEASURES FOR FISCAL TRANSPARENCY

- (1) The State Government shall take suitable measures to ensure greater transparency in its fiscal operations in the public interest and minimize, as far as practicable, secrecy in the preparation of the budget.
- (2) In particular, and without prejudice to the generality of the foregoing provisions, the State Government shall, at the time of presentation of the budget, make disclosures on the following along with detailed information in such forms as may be prescribed:
 - i) the significant changes in the accounting standards policies and practices affecting or likely to affect the computation of fiscal indicators;
 - ii) details of borrowings by way of Ways and Means Advances/Overdraft availed of from the Reserve Bank of India.
- (3) Whenever the State Government undertakes to unconditionally and substantially repay the principal amount and/or

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pay the interest of any separate legal entity, it has to reflect such liability as the borrowings of the State.

11. MEASURES TO ENFORCE COMPLIANCE

- (1) The Minister-in-charge of the Department of Finance (hereinafter referred to as Minister of Finance) shall review, every quarter, the trends in receipts and expenditure in relation to the budget estimates and place before the Nagaland Legislative Assembly, the outcome of such reviews in the next session. The review shall also contain statement on deviation in targets, if any.
- (2) Whenever there is either shortfall in revenue or excess of expenditure over the intra-year targets mentioned in the Fiscal Policy Strategy Statement or the rules made under this Act, the State Government shall take appropriate measures for increasing revenue and/or for reducing the expenditure, including curtailment of the sums authorized to be paid and applied from out of the Consolidated Fund of the State.

Provided that nothing in this sub-section shall apply to the expenditure charged on the Consolidated Fund of the State under clause (3) of Article 202 of the constitution or any other expenditure, which is required to be incurred under any agreement or contract, which cannot be postponed or curtailed.
- (3) Any measure proposed in the course of the financial year, which may lead to a decrease in revenue surplus, either through increased expenditure or loss of revenue, shall be

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accompanied by a statement of remedial measures, proposed to neutralize such decrease or loss and such statement shall be placed before the Nagaland Legislative Assembly while seeking approval for Revised Estimate.

- (4) The State Government may, if desires so, set up an agency independent of the State Government to review the compliance of the provisions of this Act and table such reviews in the Nagaland Legislative Assembly.

12. PENALTIES

Whosoever willfully or with malafide intention violates any provision under this Act or Rules made thereunder or is found to be contributing, directly or indirectly, to non-compliance of any such provisions, by way of malafide action, inaction or negligence, shall be punishable in the manner as may be specified in the Rules made under this Act.

13. POWER TO MAKE RULES

- (1) The State Government may, by notification in the Official Gazette, make rules for carrying out the purposes of this Act.
- (2) In particular, and without prejudice to the generality of the foregoing provisions, such rules may provide for all or any of the following matters, namely:
 - a) the form of the Macroeconomic Framework Statement under section 6;

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- b) the form of Medium-Term Fiscal Policy Statement, including the targets for the fiscal indicators, under section 7;
- c) the form of Fiscal Policy Strategy Statement under section 8;
- d) the forms for disclosure under sub-section (2) of section 10;
- e) measures to enforce compliance;
- f) the manner of review of compliance of the provisions of this Act by the independent agency under section 11; and
- g) any other matter which is required to be, or may be, prescribed.

14. RULES TO BE LAID BEFORE LEGISLATURE

Every rule made under this Act shall be laid, as soon as may be after it is made, before the Nagaland Legislative Assembly, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, the Nagaland Legislative Assembly agree in making any modification in the rule or the Nagaland Legislative Assembly agree that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

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15. PROTECTION OF ACTION TAKEN IN GOOD FAITH

No suit, prosecution or other legal proceedings shall lie against the State Government or any officer of the State Government for anything which is in good faith done or intended to be done under this Act or the rules made thereunder.

16. APPLICATION OF OTHER LAWS NOT BARRED

The provisions of this Act shall be in addition to, and not in derogation of, the provisions of any other law for the time being in force.

17. POWER TO REMOVE DIFFICULTIES

- (1) If any difficulty arises in giving effect to the provisions of this Act, the State Government may, by order published in the Official Gazette, make such provisions not inconsistent with the provisions of this Act as may appear to be necessary for removing the difficulty.

Provided that no order shall be made under this section after the expiry of two years from the commencement of this Act.

- (2) Every order made under this section shall be laid, as soon as may be after it is made, before the Nagaland Legislative Assembly.