Chapter 1

Finances of the State Government

This chapter provides a broad perspective of the finances of the State Government of Orissa during 2008-09 and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The structure of Government Account and the layout of Finance Accounts are shown in *Box 1.1* (page 2).

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2008-09) vis-à-vis the previous year while *Appendix-1.3* provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1 Summary of Current Year's Fiscal Operations

(Rupees in crore)

Receipt			Disbursement				
	2007-08	2008-09		2007-08	2008-09		
Section A	**Total**	**Total**	**Section A**	**Total**	**Non Plan**	**Plan**	**Total**
Revenue receipts*	21967.19	24610.01	Revenue expenditure	17723.27	15882.09	5308.03	21190.12
Tax revenue	6856.09	7995.20	General services	7227.21	6908.95	52.92	6961.87
Non-tax revenue	2653.58	3176.15	Social services	6416.51	5686.41	2598.00	8284.41
Share of Union Taxes/ Duties	7846.50	8279.96	Economic services	3728.65	2893.97	2657.11	5551.08
Grants from Government of India	4611.02	5158.70	Grants-in-aid and Contributions	350.90	392.76	--	392.76
Section B			**Section B**				
Misc. Capital Receipts	--	--	Capital Outlay	2843.41	208.54	3570.63	3779.17
Recoveries of Loans and Advances	355.30	236.21	Loans and Advances disbursed	432.68	155.47	55.50	210.97
Public Debt receipts**	506.90	1151.66	Repayment of Public Debt*	1844.97	--	--	1492.61
Contingency Fund	165.01	301.34	Contingency Fund	51.34	--	--	261.07
Public Account receipts	10297.41	11833.90	Public Account disbursements	8971.58	--	--	10895.52
Opening Cash Balance	7961.23	9385.79	Closing Cash Balance	9385.79	--	--	9689.45
Total	**41253.04**	**47518.91**		**41253.04**			**47518.91**

Source: Finance Accounts for the respective years.

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* Does not include Rs 4343.94 crore directly transferred to Non Government Organisations / Voluntary Organisations in Orissa by Government of India (GoI)

** Excluding net transactions under ways and means advances and overdraft.

Box 1.1

Structure and Form of Government Account

Part A: Structure and Form of Government Account

Structure of Government Account: The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account.

Part I: Consolidated Fund : All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'The Consolidated Fund of State' established under Article 266(1) of the Constitution of India.

Part II: Contingency Fund: Contingency Fund of the State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by the Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.

Part III: Public Account: Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances etc. which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State legislature.

PART B: Layout of Finance Accounts

Statement No.	About
1	Presents the summary of transactions of the State Government – receipts and expenditure, revenue and capital, public debt receipts and disbursements etc. in the Consolidated Fund, Contingency Fund and Public Account of the State.
2	Contains the summarized statement of capital outlay showing progressive expenditure to the end of 2008-09.
3	Gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.
4	Indicates the summary of debt position of the State which includes borrowing from internal debt, Government of India, other obligations and servicing of debt.
5	Gives the summary of loans and advances given by the State Government during the year repayments made, recoveries in arrears etc.
6	Gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporations, local bodies and other institutions.
7	Gives the summary of cash balances and investments made out of such balances.
8	Depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2009.
9	Shows the revenue and expenditure under different heads for the year 2008-09 as a percentage of total revenue/expenditure.
10	Indicates the distribution between the charged and voted expenditure incurred during the year.
11	Indicates the detailed account of revenue receipts by minor heads
12	Provides accounts of revenue expenditure by minor heads under non–plan and plan separately and capital expenditure by major head wise.
13	Depicts the detailed capital expenditure incurred during and to the end of 2008-09.
14	Shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, co-operative banks and societies etc up to the end of 2008-09.
15	Depicts the capital and other expenditure to the end of 2008-09 and the principal sources from which the funds were provided for that expenditure.
16	Gives the detailed account of receipts disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account
17	Presents detailed account of debt and other interest bearing obligations of the Government of Orissa.
18	Provides the detailed account of loans and advances given by the Government of Orissa, the amount of loan repaid during the year, the balance as on 31 March 2009.
19	Gives the details of earmarked balances of reserve funds.

Following are the significant changes in receipts and expenditure/ disbursements during 2008-09

- Revenue Receipts increased by 12 *per cent* (Rs 2643 crore) in 2008-09 over previous year. The increase was mainly contributed by own tax Revenue: 16.6 *per cent* (Rs 1139 crore), Non tax Revenue : 20 *per cent* (Rs 522 crore), State's share of Union Taxes and Duties : 5.5 *per cent* (Rs 433 crore) and Grants- in-aid from GoI : 11.9 *per cent* (Rs 547 crore).

- However, the Non-Tax revenue included non-cash receipt of Rs 381.90 crore towards interest relief and debt waiver by the GoI under Debt Consolidation and Relief Facility.

- Total expenditure increased by Rs 4181 crore (20 *per cent*) during 2008-09 over the previous year of which increase in Revenue expenditure was Rs 3467 crore (19.6 *per cent*) and the capital expenditure including loans and advances disbursed increased by Rs 714 crore (22 *per cent*).

- Public debt receipts increased by Rs 645 crore (127 *per cent*) while public debt disbursements come down by Rs 352 crore (19 *per cent*) resulting in a net increase of Rs 293 crore (58 *per cent*) in public debt receipts during 2008-09.

- Public account receipts increased by Rs 1537 crore (15 *per cent*) mainly due to increase in Remittances (Rs 1304 crore), Deposits and Advances (Rs 669 crore) and decrease in reserve fund (Rs 499 crore). Public account disbursements on the other hand increased by Rs 1925 crore (21.4 *per cent*) mainly due to increase under Remittances (Rs 1355 crore), Deposits and Advances (Rs 176 crore).

- The corpus of Contingency Fund has been increased by Rs 250 crore from Rs 150 crore in 2007-08 to Rs 400 crore during the current year.

- Cash balance of the State increased by Rs 304 crore from Rs 9385.79 crore in 2007-08 to Rs 9689.45 crore during the current year mainly because of increase in cash balance investment by Rs 469.27 crore, increase in Departmental cash balance by Rs 8.70 crore and decrease in deposit with Reserve Bank of India by Rs 174.31 crore.

- The actual realisation of tax revenue and Non-tax revenue during 2008-09 was higher than the normative assessment of Twelfth Finance Commission (TFC) as well as the projection made in Fiscal Correction Path (FCP) / Medium Term Fiscal Plan (MTFP). The fiscal targets of the FRBM Act, 2005 of the State are at *Box 1.2* (Page-4).

Box 1.2

Orissa Fiscal Responsibility and Budget Management (FRBM) Act, 2005

The State Government has enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 to ensure prudent and improved fiscal management and to maintain fiscal stability in the State. The Act envisages progressive elimination of revenue deficit, reduction in fiscal deficit and 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 and matters connected therewith or thereto. To give effect to the fiscal management principles as laid down in the Act, the rules framed there-under prescribed the following fiscal targets for the State Government:

a) Reduce Revenue deficit to 'NIL' within a period of five financial years ending on the 31 day of March 2009.

b) Reduce fiscal deficit by 1.5 *per cent* of GSDP in each of the financial years beginning on the 1 April 2004 so as to bring it down to not more than three *per cent* of the estimated gross State domestic product within a period of five financial years ending on the 31 day of March 2009 in the manner consistent with the goal.

c) Generate a primary surplus of over three per cent of GSDP by the year ending 31 March 2008.

d) Other important monitorable targets would be :

- the ratio of salary to State's own revenue is to be reduced to 80 *per cent* by the year ending 31 March 2008;
- the ratio of non-interest committed revenue expenditure to State's own and Mandated revenue was to be reduced to 55 *per cent* by the year ending 31 March 2008; and
- the ratio of revenue deficit to revenue receipt was to be reduced to zero *per cent* by the year ending 31 March 2009.

e) In order to bring the debt stock to a sustainable level, interest payment as a percentage of revenue receipt to be limited from 18 to 25 *per cent.*

f) Total Debt stock should be limited to 300 *per cent* of the total Revenue Receipt of the State by the year ending 2007-08.

g) The Act however provides that the revenue deficit and the fiscal deficit may exceed the specified limits on account of unforeseen circumstances or natural calamity to the extent of actual fiscal cost that can be attributed to the natural calamities.

The State Government had also developed its own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators for the period 2004-05 to 2009-10 (Appendix-1.1). The FCP envisaged inter alia to almost double the State's own revenue from Rs 4396.28 crore in the base year (2003-04) to Rs 8529.02 crore in 2009-10; reduce the share of committed expenditure in the form of salaries, pensions and interest payments from 84 *per cent* of total revenue receipts in base year to 60 *per cent* in 2009-10; consistently reduce the general subsidy from Rs 231 crore to Rs 60 crore and eliminate the power subsidy during the period.

As prescribed in the Act, the State Government has laid Fiscal Policy Strategy (FPS) statement relating to taxation, expenditure, borrowings, lendings, investments, strategic priorities and measures for restructuring the State finances for the ensuing year and Medium Term Fiscal Plan (MTFP) based on current fiscal trends and policy initiatives undertaken by the Government and assumptions for achieving them along with the budget before the legislature during 2008-09.

- In compliance with Section 8 (2) of Act, the Finance Minister convened review meetings (January 2009) wherein inter alia the trends in receipts and expenditure for 2008-09 vis-à-vis the targets laid down in the Budget and other Fiscal Statements placed in the legislature were reviewed and expressed concern regarding the slow growth rate in collection of tax revenue and advised Departments to accelerate the pace of Plan expenditure and full utilisation of their budgetary provisions. *However, the provisions were not utilised fully and savings of Rs 7952 crore and Rs 1360 crore under Revenue and Capital sections respectively were noticed (Para 2.2)*.

It may be because of unanticipated and unforeseen events or under or over estimation of expenditure or revenue at the budget stage etc. Actual realization of revenue and its disbursement however, depends on a variety of factors, some internal and others external. **Chart 1.1 and Table 1.2** presents the budget estimates and actuals for some important fiscal parameters

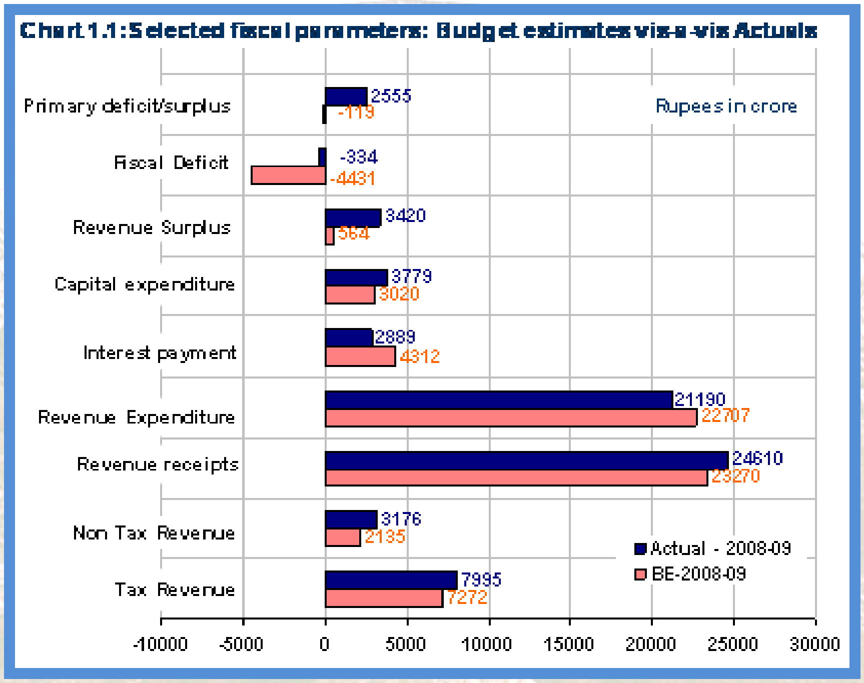


Table 1.2: Variation in Budget Estimates and Actuals

(Rupees in crore)

Variation	Budget Estimate	Actual	Increase (+) /Decrease (-)	Percentage increase (+) / decrease (-)
Tax Revenue	7272	7995	(+)723	(+)10
Non-Tax Revenue	2135	3176	(+)1041	(+)49
Revenue Receipts	23270	24610	(+)1340	(+)6
Revenue Expenditure	**22707**	**21190**	**(-)1517**	**(-)7**
Capital Expenditure	3020	3779	(+)759	(+)25
Revenue Surplus	564	3420	(+)2856	(+)506
Fiscal Deficit(-)/Surplus(+)	(-)4431	(-)334	(+)4097	(+)92
Primary Deficit(-) / Surplus (+)	(-)119	2555	(+)2674	(+)2247

Source: Orissa Budget at a Glance 2008-09 and Finance Accounts (2008-09)

While revenue expenditure registered a relatively small decrease of seven *per cent* against budget estimates, capital expenditure increased by 25 *per cent* over budget provision. However, Capital Expenditure planned at the beginning of the year is worrisome in a State like Orissa where the same is lower than the national average (as explained in detail in para 1.5.1). Variation in Revenue surplus by over 500 *per cent* and Fiscal Deficit by 92 *per cent* and a huge variation in primary surplus was observed.

1.2 Resources of the State

1.2.1 Resources of the State

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (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 1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2002-08. **Chart 1.3** depicts the composition of resources of the State during the current year.

Chart 1.2: Trends in Receipts

Rupees in crore

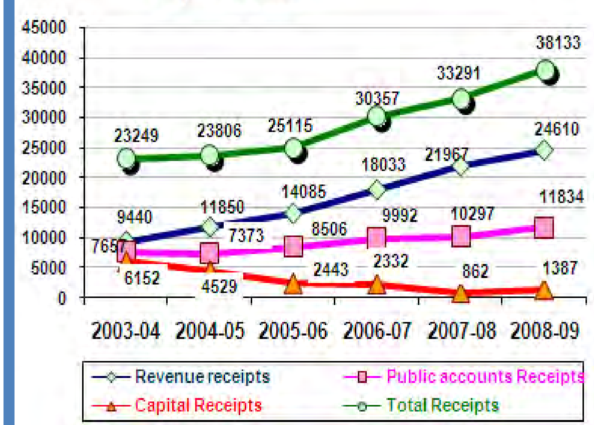


Chart 1.3: Composition of receipts during 2008-09

Total receipts increased by 60 *per cent* from Rs 23806 crore in 2004-05 to Rs 38133 crore in 2008-09, of which increase of Revenue Receipts was by 107 *per cent* from Rs 11850 crore to Rs 24610 crore during the period. The share of Revenue Receipts as percentage of total receipts increased steadily from 50 *per cent* in 2004-05 to 65 *per cent* in 2008-09. The share of capital receipts witnessed a steep fall from 19 *per cent* in 2004-05 to only four *per cent* in 2008-09 mainly due to consistent reduction in public debt receipts during the period. The percentage share of Public Account Receipts hovered around 31 *per cent* during the period. The rate of growth of Revenue Receipts varied from 26 *per cent* in 2004-05 to 12.03 *per cent* in 2008-09. Revenue Buoyancy Ratio also varied from 1.567 in 2004-05 to 0.816 in 2008-09.

1.2.2 Funds Transferred to State Implementing Agencies outside the State Budgets

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies[1] for the implementation of various Central schemes / programmes and externally aided projects in social and economic sectors recognized as critical. As these funds are not routed through the State Budget / State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables / parameters derived from them are underestimated. To present a holistic picture on availability of aggregate resources, funds directly transferred to State Implementing Agencies are shown below:

Table 1.3: Funds Transferred Directly to State Implementing Agencies

(Rupees in crore)

Implementing Agency / Department in the State	Programme / Scheme	2007-08	2008-09
		Central Share	Central Share
(A) Central Plan and Centrally sponsored plan schemes			
Fisheries and Animal Resources Department	Project for cattle & buffalo breeding	5.97	3.00
Agriculture	Drought Prone Area Programme	23.93	12.69
	Integrated Watershed Development Programme	17.94	12.27
	National horticulture mission and other programmes	38.12	0.00
	Others	13.42	8.88
Tourism and Culture Department	Development of Mahanadi river heritage as tourist circuit.	5.68	0.00
	Others	26.43	21.58
Textile and Handloom Department	Catalytic development programme	0.63	0.07
	Marketing promotion Programme	0.30	0.67
	Others	0.10	0.00
Panchayatiraj	Indira Awas Yojana	196.33	467.78
	SGRY	56.66	0.00
	NREGS	565.38	878.44
	SGSY	91.45	130.28
	DRDA Administration	15.54	20.80
School & Mass Education	National Programme for Girls in Elementary Education	22.41	9.84
	Sarva Sikhya Abhiyan	584.82	456.21
	Kasturba Gandhi Balika Vidyalaya and Others	21.81	24.77
Home	POLNET under the scheme Modernisation of State Police forces	33.10	32.38
Information Technology	Different programmes	3.87	2.30
Commerce and Transport	Model HVM Driver Training and Road Safety Research Institute	2.00	0.00
Health and Family Welfare	National Rural Health Mission	107.43	123.44
	Routine Immunization Programme	4.75	1.54
	MNGOs Scheme	2.90	0.00
	Reproductive & Child Health , Phase-II	108.85	111.24
	IPPI	5.74	11.91
Rural Development	Prime Ministers Grameena Sadak Yojna	546.83	731.63
	Total Sanitation Campaign	52.12	14.18
	Swajaldhara	0.60	0.71
	Others	3.00	0.00
Planning and Co ordination	MPLAD Scheme	57.00	30.00

[1] See Terms and Glossary at Appendix 4.1 (page 124-128).

Implementing Agency / Department in the State	Programme / Scheme	2007-08	2008-09
		Central Share	Central Share
Science and Technology	Remote Village Electrification	2.56	3.11
	Other programmes	3.09	3.04
Housing and Urban Development	SJSRY	10.99	0.00
	Sewerage collection and treatment system for Puri town	5.83	7.00
	Others	0.50	0.38
Forest and Environment	National afforastation programme	22.34	7.65
	Other programmes	3.72	5.71
Industries	ASIDE scheme	8.92	7.92
	Other programmes	0.78	0.45
Energy	RGGVY	176.80	836.74
Cooperation	Implementation of financial package for revival of short credit Cooperative society.	279.97	313.72
Sub Total (A)		3130.61	4292.33
(B) Externally aided projects through GoI			
Health and Family Welfare	Revised National Tuberculosis Control Programme (DANIDA)	8.00	6.82
	National Blindness Control Programme	2.23	10.67
	National AIDS Control Project - Phase - II (DFID)	3.45	5.00
	National AIDS Control Project - Phase - II (World Bank)	6.70	7.78
	National Leprosy Eradication Programme (World Bank)	0.50	1.82
	EMCP / IMCP / NVBDCP (WHO)	14.76	6.43
Agriculture	Western Orissa Rural Livelihood Project (DFID)	20.32	0
School and Mass Education	District Primary Education Programme - Phase II (DFID)	39.60	5.51
Science and Technology	Women Scientist Scheme (DST)	0.03	0.06
	Clean Development Management (UNDP)	0.04	0
	Rural Mathematics Talent Search Programme (NBHM)	0.10	0
	Guest Facility Scheme (GoI)	0	0.05
	Interactive Mathematics Training Camp (NBHM)	0.04	0
	Ph.D in Mathematics (CSIR)	0.01	0
	Purchase of library Books (NBHM, GoI)	0.05	0.03
Planning and Coordination	GoI - UNDP Strengthening State Plans for Human Development (UNDP)	0.67	0
	Support from UNDP for implementation of public private partnerships (UNDP)	0.06	0.08
Forest and environment	Crab fattening in Chilika Lagoon (UNDP)	0.08	0
	Bio diversity conservation through community participation in the State of Orissa (UNDP)	0.02	0.47
Information Technology	Orissa modernisation of Government Initiative (DFID)	1.20	1.79
General Administration	Orissa Moderninising Initiative (OMGI)	1.21	5.10
Sub Total (B)		99.07	51.61
Grand Total (A+B)		3229.68	4343.94

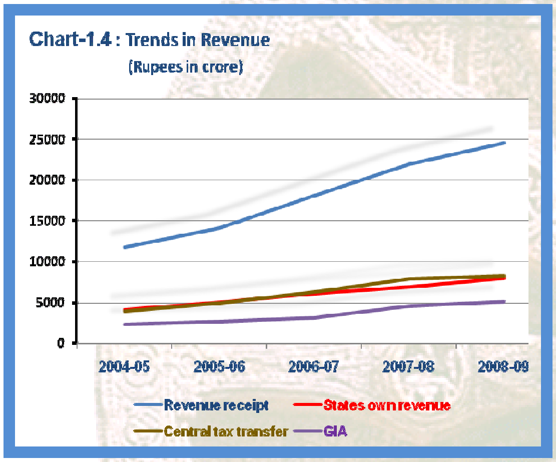
Source: Orissa Budget at a glance 2009-10

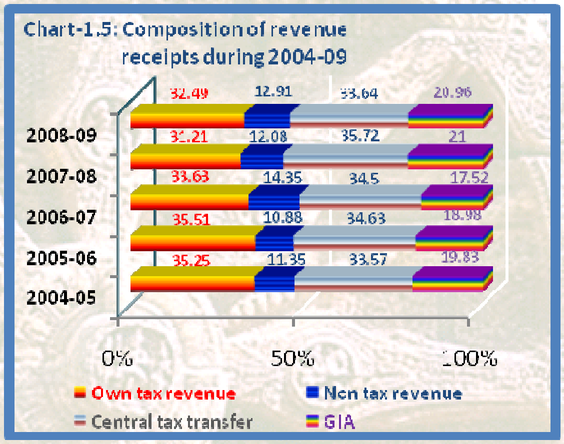
Government of India transferred Grants-in-aid of Rs 3229.68 crore during 2007-08 and Rs 4343.94 crore during 2008-09 directly to the implementing agencies for implementation of various Centrally Sponsored Plan schemes. This includes larger GoI transfers by Rs 271.45 crore under IAY scheme, Rs 313.06 crore (NREGS), Rs 184.80 crore (PMGSY) and Rs 659.94 crore (RGGY) during the year reflecting fiscal stimulus of the Union Government which aided the State Government to reduce the adverse impact of the slow down on the economy. The above receipts aided the State Government in augmenting the Revenue receipts to Rs 25197 crore in 2007-08

(*15 per cent*) and Rs 28954 crore in 2008-09 (*18 per cent*). Consolidated data on actual expenditure under these schemes / programmes was not readily available.

1.3 Revenue Receipts

Statement 11 of the Finance Accounts depicts the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2004-09 are shown in *Appendix 1.2* and also depicted in **Chart 1.4** and **1.5** respectively.





Revenue receipt showed progressive increase from Rs 11850 crore in 2004-05 to Rs 24610 crore in 2008-09. On an average 46 *per cent* of Revenue came from States own resources and the balance was from GoI in the form of States share of taxes and grants in aid. An increase of Rs 1139 crore (17 *per cent*) in own tax revenue, Rs 522 crore in non-tax revenue (20 *per cent*), Rs 433 core (six *per cent*) in State's share in Union taxes and Rs 547 crore (12 *per cent*) in GoI's grants-in-aid resulted in a steep increase of Rs 2643 crore in Revenue Receipts during 2008-09.

The trends in revenue receipts relative to GSDP are presented in **Table 1.4** below:

Table 1.4: Trends in Revenue Receipts relative to GSDP *

	2004-05	2005-06	2006-07	2007-08	2008-09
Gross State Domestic Product (GSDP) (Rupees in crore)	71428	78953(P)	93374(Q)	106466(A)	122165
Revenue Receipts (RR) (Rupees in crore) **	11850	14085	18033	21967	24610
Rate of growth of RR (*per cent*)	25.53	18.86	28.03	21.82	12.03

	2004-05	2005-06	2006-07	2007-08	2008-09
R R/GSDP (*per cent)*	16.59	17.84	19.31	20.63	20.14
Buoyancy Ratios[2]					
Revenue Buoyancy with respect to GSDP	1.567	1.790	1.535	1.556	0.816
State's Own Tax Buoyancy with respect to GSDP	1.627	1.875	1.163	0.930	1.127
Revenue Buoyancy with reference to State's own taxes	0.95	0.95	1.32	1.67	0.72

* GSDP source-: Directorate of Economics and Statistics , Government of Orissa
** Do not include Government of India funds transferred to NGOs/VOs in the State.
P : Provisional estimate , Q: Quick estimate, A: Advance estimate

Revenue Buoyancy fluctuated widely from 1.567 to 1.790 during the period 2004-05 to 2008-09. For every one *per cent* increase in GSDP, there was an increase in Revenue receipts by 0.8 *per cent in* 2008-09. In the previous two fiscal years viz., 2006-07 and 2007-08, the rate of growth of Revenue Receipts was higher than rate growth of GSDP. Central tax transfers increased by Rs 433 crore over previous years and constituted 34 *per cent* of revenue receipts during 2008-09. The increase was mainly under Corporate Tax (Rs 224.74 crore), Customs (Rs 99.67 crore) and Service Tax (Rs 111.03 crore) counter balanced by decrease in Union Excise duties (Rs 35.45 crore). The Grants-in-aid from GoI increased (Rs 547 crore) from Rs 4611 crore in 2007-08 to Rs 5158 crore in 2008-09. The increase was under Grants for State plan schemes (Rs 401 crore), Central Plan schemes (Rs 3.79 crore) and Centrally sponsored schemes (Rs 53.42 crore). The Grants for State plan schemes increased mainly due to more receipt of Block grants (Rs 389.21 crore). Besides, as per recommendation of Twelfth Finance Commission (TFC) the GoI released Rs 813.66 crore during 2008-09 under non-plan Grants (**Table 1.5**). The release of such grants vis-à-vis the recommendation of TFC for the following purposes during 2008-09 was as below:

Table 1.5 : Release of TFC grants by GoI

(Rupees in crore)

Purpose	Amount recommended by TFC	Amount released by GoI	Shortfall in release
Top up Grants for Education sector under major head 2202	70.22	35.11	35.11
Top up Grants under major head 2210 and 2211	43.28	21.64	21.64
Maintenance of Roads and Bridges	368.77	368.77	0.00
Maintenance of Public Buildings	97.29	48.64	48.65

2 Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

Maintenance of Forests	15.00	15.00	0.00
Calamity Relief Fund	246.73	324.50	(-) 77.77
Total	841.29	813.66	27.63

Source: Finance Accounts 2008-09
Note: This does not include amounts recommended for Local Bodies and amount received there against.

There was a shortfall in release of grants by GoI under (i) Education (Rs 35.11 crore), Health sector (Rs 21.64 crore) and Maintenance of Public Buildings (Rs 48.65 crore). Certain conditionalities are attached to release of amounts under these grants - if these conditions are not met the full amount is not released by GoI.

1.3.1 State's Own Resources

The gross collection in respect of major taxes and duties as well as the components of non-tax receipts vis-à-vis budget estimates, the expenditure incurred on their collection and the *percent*age of such expenditure to the gross collection during the years from 2006-07 to 2008-09 along with the respective all India average are presented in *Appendix-1.5*

The own Tax Revenue (Rs 7995 crore) during 2008-09 increased by 16.6 *per cent* over the previous year (Rs 6856 crore). Taxes on sales trade etc. was the main source of State's own tax revenue which contributed 60 *per cent* (Rs 4803 crore) followed by State Excise eight *per cent* (Rs 660 crore), Taxes on Goods and Passengers eight *per cent* (Rs 638 crore), Taxes on vehicles seven *per cent* (Rs 524 crore), Stamps and and Registration fee *six per cent* (Rs 496 crore) and taxes and duties on electricity five *per cent* (Rs 365 crore) and Land Revenue four *per cent* (Rs 348 crore).

The Non Tax Revenue which constituted 13 *per cent* of total Revenue Receipt increased by Rs 533 crore over previous year. The increase was mainly under Non-Ferrous Mining and Metallurgy Industries (Rs 254.54 crore), Forestry and Wild Life (Rs 56.63 crore), Interest Receipts (Rs 84.28 crore) and Dividends and Profit (Rs 111.92 crore). However, after adjusting credit entry on account of debt relief given by GoI under DCRF (Rs 381.90 crore), the net availability of funds on account of Non-tax Revenue was only Rs 2794 crore during 2008-09.

The mobilization of Own Tax Revenue (OTR) and Own Non Tax Revenue (ONTR) during 2008-09 (**Table1.6**) exceeded the normative assessment of TFC and State Government in its FCP and MTFP as below:

Table 1.6 Mobilisation of OTR and ONTR

(Rupees in crore)

	Assessment made by TFC	Assessment made by State Government in		Actuals
		FCP	MTFP	
State's own Tax Revenue	6332	6322	7672	7995
State's own Non-Tax Revenue	1747	1307	2613	3176

1.3.2 Loss of Revenue due to Evasion of Taxes, Write off/Waivers and Refunds

Cases of under assessment of taxes and short levy of tax/surcharge/interest/penalty, incorrect grant of exemption, incorrect computation of taxable turn over, application of incorrect rate of taxes etc, are depicted in **Table 1.7**

Table: 1.7. Cases of under assessment and short levy of revenue for the year 2008-09

Nature of receipts and Name of the Department	No of cases	Amount (Rupees in crore)
Sales tax/VAT/Entry Tax (Finance)	340	310.61
Tax on Motor Vehicles (Transport)	177339	75.24
(A) Land Revenue (Revenue and Disaster Management)	17994	122.51
(B)Stamp Duty and Registration Fees (Revenue and Disaster Management)	57147	311.96
Profession Tax(Finance)	16597	14.00
State Excise(Excise)	410	13.29
Forest Receipt (Forest and Environment)	3314	3.69
Mining receipts (Steel and Mines)	188	202.52
Other departmental receipts	5754	448.87
Total	279083	1502.69

Source: C& AG's Audit Report (Revenue Receipt) 2008-09.

Such cases have increased from 2.42 lakh involving Rs 1186.59 crore in 2006-07 to 2.79 lakh cases amounting to Rs 1502.69 crore during 2008-09. Timely and proper collection of these amounts would have resulted in increased revenue receipts of the State which could in turn have reduced the fiscal deficit partially.

1.3.3 Revenue Arrears

Arrears of revenue pending recovery as at the end of 31 March 2009 worked out to Rs 5460.92 crore, out of which Rs 971.95 crore relates to more than five year old. However year wise analysis of arrears was not available. Department-wise status of the significant cases of arrears of revenue during the year 2008-09 is given in **Table 1.8**. Lack of proper action by the Department resulted in accumulated arrears of revenue though the State experienced fiscal deficit during 2008-09.

Table:1.8: Cases of arrears of revenue during the year 2008-09

(Rupees in crore)

Sl No.	Name of the Department	Nature of Revenue	Amount of Arrears as on 31March 2009	Arrears more than five years old	Remarks
1.	Finance	(i) Sales Tax / VAT	3,588.57	928.27	The various stages of Arrear are Show cause & penalty and the recoveries stayed by Departmental authorities and Courts.

Sl No.	Name of the Department	Nature of Revenue	Amount of Arrears as on 31March 2009	Arrears more than five years old	Remarks
		(ii) Entertainment Tax	6.56	5.11	
		(iii) Entry Tax	110.57	17.44	
		(iv) Profession Tax	0.67	0.01	
		Guarantee fee	0.45	NA	Reason not available
		Audit fee	1.04	NA	Reason not available
2.	Revenue and Disaster Management	Land Revenue	30.45	NA	Arrears on account of Rent, Cess, Nistar cess, sairat etc
3.	General Administration	Rent	8.37	3.09	Arrears on account of Non residential buildings, residential Buildings, Boards, Corporations, Certificate cases and the recoveries stayed by Departmental authorities and courts
4.	Forest and Environment	Forest Receipts	81.24	NA	Arrears due from OFDC, TDCC, Forest contractors etc.
5.	Water Resources	Water rates	154.24	NA	Arrears due from Industrial and Irrigation water rate.
6.	Home	Police receipts	39.59	10.80	Reason not available
7.	Energy		1,025.51	NA	Due to certificate proceedings and litigation pending in various judicial authorities.
8.	Commerce and Transport	Taxes on vehicles	129.01	NA	Due to certificate proceedings and litigation pending in various judicial authorities etc..
		Stationery and printing	0.86	0.08	Reason not available
9.	Excise	State Excise	21.01	NA	Due to certificate proceedings, disputes and litigation pending with various judicial authorities etc.
10.	Mining	Mining receipt	113.31	7.15	Due to certificate proceedings and litigation pending in various judicial authorities etc.
11.		Interest	141.15	NA	Reason not available
12.	Industries	Dividend receipt	0.14	NA	Reason not available
		Miscellaneous General service receipts	7.90	NA	Reason not available
		Village and small industries	0.28	NA	Reason not available
		Total	5,460.92	971.95	

Source: C& AG's Audit Report (Revenue Receipt) 2008-09. **NA** : Not Available

For commercial viability of Irrigation projects, the TFC recommended (para 6.23) cost recovery of maintenance expenditure at the rates of 50 *per cent* in 2005-06, 60 *per cent* in 2006-07, 70 *per cent* in 2007-08 and 80 *per cent* in 2008-09 for the purpose of projection and revenues. The position of revenue receipts vis-à-vis the maintenance expenditure (**Table 1.9**) of irrigation projects during 2005-09 in the State was as below:

Table 1.9 : Cost recovery of Maintenance Expenditure

(Rupees in crore)

Year	Expenditure incurred under the Major Head of Account				Revenue receipt under the Major Head of Account				Shortfall in cost of recovery at prescribed rates
	2700 Major Irrigation	2701 Medium Irrigation	2702 Minor Irrigation	Total	0700 Major Irrigation	0701 Irrigation Medium	0702 Minor Irrigation	Total	
2005-06	94.67	11.95	81.62	188.24	-	39.02	4.81	43.83	50.29
2006-07	105.83	18.08	72.81	196.72	1.51	48.24	4.46	54.21	63.82
2007-08	128.36	43.12	256.50	427.98	1.75	41.97	4.96	48.68	250.91
2008-09	84.49	45.89	152.36	282.74	1.85	45.56	5.32	52.73	173.46
Total									538.48

Source: Finance Accounts of the respective years

There was shortfall in recovery of maintenance cost at prescribed rates in all the years during 2005-09 which aggregated to Rs 538.48 crore.

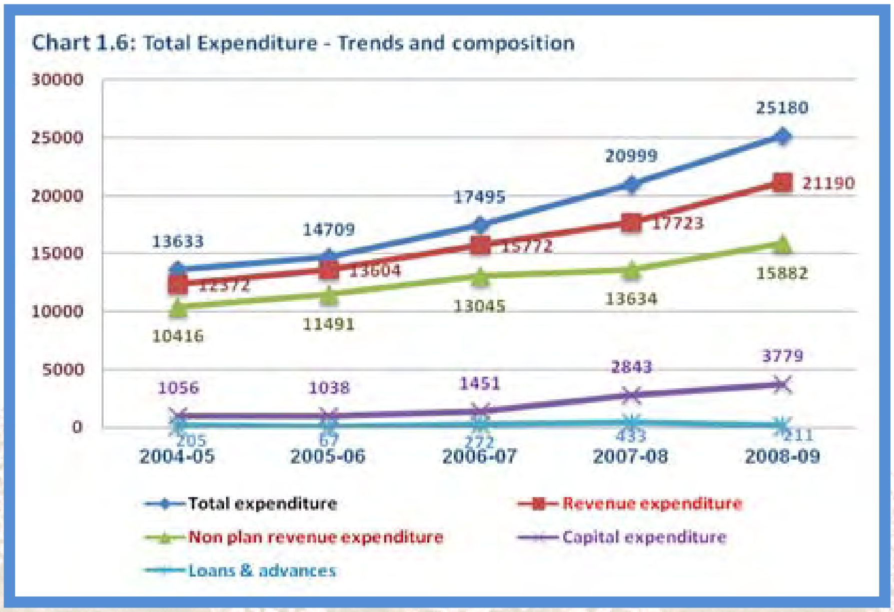
1.4 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings.

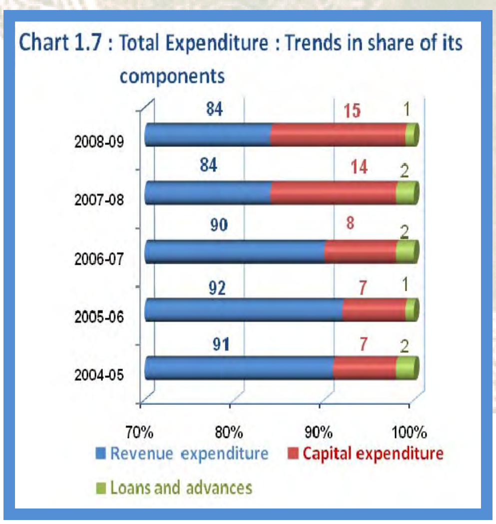
It is therefore important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure diverted towards development and social sectors.

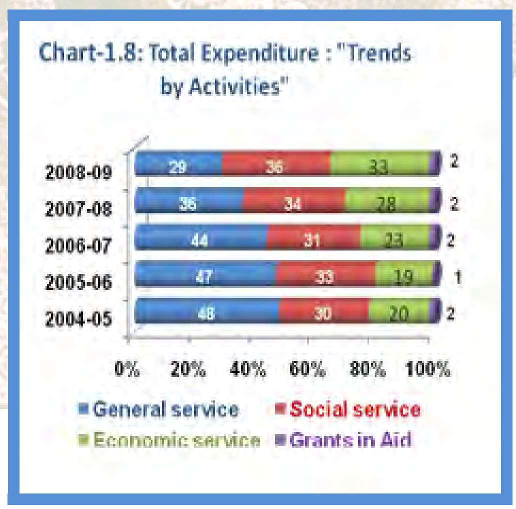
1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2004-09) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7 and 1.8.**



The total Expenditure of the State which includes, Revenue Expenditure, Capital Expenditure and Loans and Advances increased at an average growth rate of 55.43 *per cent* from Rs 13633 crore in 2004-05 to Rs 25180 crore in 2008-09. The increase of Rs 4181 crore in total expenditure in 2008-09 over the previous year was on account of an increase in revenue expenditure by Rs 3467 crore and Rs 936 crore in Capital Expenditure together with a decline of Rs 222 crore in disbursement of Loans and Advances. However, the total expenditure was 20.6 *per cent* of GSDP during 2008-09 which exceeded Twelfth Finance Commission's normative assessment of 16.3 *per cent* for the year.





Total Expenditure (TE) consisted of expenditure on General Services including Interest Payments, Social and Economic Services, Grants-in-Aid and Loans and Advances. The movement of relative shares of the component of expenditure indicated in **Chart 1.8** showed that while the combined shares of Social Services and Economic Services increased from 50 *per cent* in 2004-05 to 69 *per cent* in 2008-09 in total expenditure, the increase was set off by decrease in the respective share of General Service and of Loans and Advances.

Revenue Expenditure (RE) is incurred to maintain the current level of services and payment of the past obligation and as such does not result in any addition to the State's infrastructure and service network. Revenue expenditure had a predominant share of 91 *per cent* in 2004-05 to 84 *per cent* in 2007-09 of total expenditure. During 2008-09, it increased (19.5 *per cent*) from Rs 17723 crore in 2007-08 to Rs 21190 crore in 2008-09. As against TFC's normative assessment of 13.3 *per cent* of GSDP, it constituted 17.3 *per cent* during the current year. Besides, it also exceeded State Government's FCP norm (Rs 17385 crore) by 22 *per cent*. However, the Revenue Expenditure remained within the Budget Estimate of Rs 22707 crore during the year.

Non-Plan Revenue Expenditure (NPRE) as a proportion of Revenue expenditure, increased from Rs 10416 crore in 2004-05 to Rs 15882 crore (52 *per cent*) in 2008-09. Out of the total increase of Rs 3467 crore in Revenue Expenditure during the current year, increase in NPRE contributed 65 *per cent* (Rs 2248 crore) and remaining Rs 1219 crore (35 *per cent*) was the Plan Revenue Expenditure (PRE). The increase in NPRE during the current year was mainly on Education, Sports and Culture (Rs 953 crore) and Agriculture and Allied Activities (Rs 652 crore). However during the current year, NPRE has exceeded the assessment made by the State Government in FCP by six *per cent* as against the TFC's normative assessment of 11 *per cent* but it remained within the Budget Estimate (Rs 17339 crore) for 2008-09 (**Table 1.10**) below.

Table 1.10 : Comparative assessments of RE and NPRE

(Per cent of GSDP)

	Assessment made by TFC	Assessment made by Government in FCP	Budget Estimate for 2008-09	Actual in 2008-09
Revenue Expenditure	13.3	14.23	18.58	17.3
NPRE	11.67	12.25	14.19	13

Note: Absolute amounts converted into percentage of GSDP (Rs 122615) for 2008-09.

The ratio of NPRE to Total Expenditure contributed 63 *per cent* of total expenditure of the State during 2008-09 as a result of which its ratio with Revenue Expenditure consistently declined from 84 *per cent* in 2004-05 to 75 *per cent* in the current year indicating reduction in current years consumption.

Capital Expenditure (CE) as proportion of Total Expenditure ranged from seven *per cent* (Rs 1056 crore) in 2004-05 to Rs 3779 crore (15 *per cent*) in 2008-09. Capital Expenditure showed an increase of 33 *per cent* during 2008-09 over the previous year mainly on account of increase in expenditure on (i) Water Supply, Sanitation (Rs 272 crore), (ii) Transport and Communication (Rs 421 crore) on state high ways, district and other roads under State plan, (iii) Investment in General Financial and Trading Institution (Rs 56 crore) and (iv) Tourism (Rs 38 crore). The CE was in line with the TFC's norm of three *per cent* of GSDP during 2008-09.

1.4.2 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.11** and **Chart 1.9** present the trends in the expenditure on these components during 2004-09.

Table-1.11: Components of Committed Expenditure

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Salaries* & Wages , *Of which*	3778 (32)	4002 (28)	4028 (22)	4582 (21)	6267	6524 (27)
Non-Plan Head	3552	3774	3816	4333	5786	6220
Plan Head**	226	228	212	249	481	304
Interest Payments	3332 (28)	3697 (26)	3188 (18)	3169 (14)	4312	2889 (12)
Expenditure on Pensions	1260 (11)	1339 (10)	1485 (9)	1801 (8)	2796	2075 (8)
Subsidies	94 (0.8)	83 (0.6)	170 (0.9)	148 (0.7)	168	743 (3.02)
Other Components	Nil	Nil	Nil	Nil	Nil	Nil
Total	8464	9121	8871	9700	13543	12231

Figures in the parentheses indicate *percent*age to Revenue Receipts

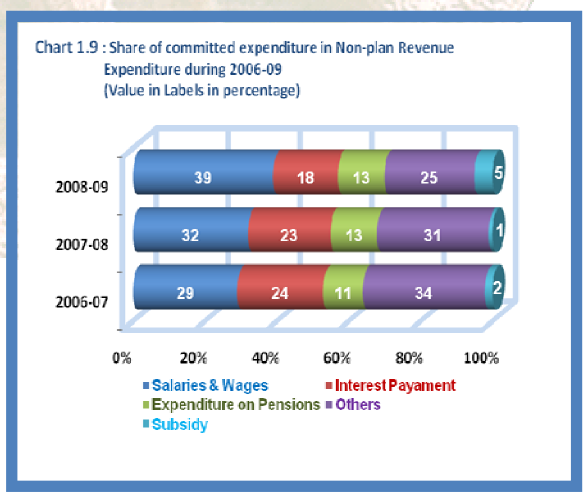
* *also includes the salaries paid out of grants-in-aid,*

** *also includes the salaries and wages paid under Centrally Sponsored Schemes.*

Source: Finance Accounts 2008-09 and Budget at a glance 2009-10

Salaries

The expenditure on salaries increased from Rs 4582 crore in 2007-08 to Rs 6524 crore in 2008-09 accounting for nearly 27 *per cent* of revenue receipt and 41 *per cent* of the NPRE of the State Government during the year. This was due to implementation of the recommendation of Sixth Pay Commission for State Government employees leading to substantial increase in expenditure on salary and pensions during the year.



Expenditure on salaries as a percentage of revenue expenditure net of interest payments and pension amounted to 40.21 *per cent* which exceeded the TFC's projection of 35 *per cent* during 2008-09 and was 31 *per cent* of State's FCP projection of Rs 4967.25 crore.

Interest Payments

The major source of borrowing was Market loans at the interest rate varying from *six per cent* to 13 *per cent*. The interest payment during the current year (Rs 2889 crore) decreased moderately by Rs 280 crore over the previous year (Rs 3169 crore) and remained lower than the projection made in FCP (Rs 3578 crore) and TFC and Budget Estimates (Rs 4312 crore) for the year 2008-09. A decline of Rs 280 crore in interest payment in 2008-09 was mainly on account of interest rate relief and consolidation and re-scheduling of GoI loans as well as due to debt waiver received by the state Government linked to its fiscal performance. During 2008-09 the ratio of interest payment to total Revenue receipt was 12 *per cent* which was much lower than the projection of 16 *per cent* in MTFP, 20 *per cent* in FCP and 15 *per cent* in TFC for 2008-09.

Pensions

The pension payment during the current year increased by Rs 274 crore over the previous year mainly on account of finalisation of pension revision cases and grant of dearness relief and due to implementation of Sixth Pay Commission for the State Government employees. The State Government did not estimate yearly pension *liabilities* on actuarial basis. The pension payment during the current year increased by Rs 274 crore over previous year[3] but it remained lower than the projection made by TFC (Rs 2340 crore) and MTFP (Rs 2796 crore) and was well within the 80 *per cent* of own revenue as prescribed in the State's FRBM Act, 2005.

The Government introduced a Contributory Pension Scheme for employees recruited on or after 1 January 2005. This will help in managing the future pension liability.

Subsidies

The State Government has been giving subsidies to various corporations/ companies as well as to individuals in the form of food subsidy etc. The State Government in its MTFP for 2007-08, aimed to rationalize general subsidy and reduce their overall volume gradually at a rate of 10 *per cent* per annum beginning from 2005-06. The MTFP for 2008-09 indicated that a provision food subsidy of Rs 36.71 crore has been made for the year as per the recommendation of TFC. However, the expenditure on subsidies increased from Rs 148 crore in 2007-08 to Rs 743 crore (over 400 *per cent*) in 2008-09 which included food subsidy of Rs 569 crore and other subsidies under Social Welfare

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[3] There are 259734 numbers of different categories of State Pensioners drawing pensions

(Rs 62.15 crore), Agriculture and Allied Activities (Rs 50.27 crore) Cooperation (Rs 46.52 crore), Irrigation and Flood Control (Rs 28 crore), Industry and Minerals (Rs 32 crore). Thus, it seems that the Government is unlikely to meet the projections of MTFP by 2009-10.
The ratio of non-interest committed revenue expenditure to State's own and Mandated Revenue (State's share in central taxes) was 48 *per cent* which was within 55 *per cent* prescribed in the State's FRBM Act, 2005.

1.4.3 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in the **Table 1.12** below:

Table 1.12: Financial Assistance to Local Bodies etc.

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	384	538	489	467	355
Municipal Corporations and Municipalities	44	95	48	483	487
Zilla Parishads and Other Panchayati Raj Institutions	134	231	1510	1535	2388
Development Agencies	303	409	400	256	278
Other Institutions (Autonomous bodies)	198	510	972	1117	1914
Total	1063	1783	3419	3858	5422
Assistance as per percentage of RE	9	13	22	22	26

Source: Finance Accounts for respective years

The grants and loans extended to local bodies and other Institutions with inter year variations increased by 41 *per cent* from Rs 3858.84 crore in 2007-08 to Rs 5422.05 crore in 2008-09. The share of grants and loans to the revenue expenditure increased from 22 p*er cent* in 2007-08 to 26 *per cent* in the current year. Another important trend was that the share of financial assistance to Zilla Parishads and other Panchayati Raj institutions increased by Rs 853 crore over previous year. This also included an enhanced receipt of Rs 213 crore (on the recommendation of TFC) against the receipt of Rs 126 crore in 2007-08. The share of other institutions also increased to Rs 1914 crore during the current year against Rs 1117 crore in 2007-08. However, the share of assistance to Educational Institutions decreased by Rs 112 crore as compared to the previous year.

1.5 Quality of Expenditure

The availability of better infrastructure in the social, educational and health sector in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for selected services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like, education and health etc. The low level of spending on any sector by a particular State may be either due to low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or both. A State has low fiscal priority (ratio of expenditure category to aggregate expenditure) in a particular sector if the expenditure in that sector as a proportion of Aggregate Expenditure is below the national average. A State has low fiscal capacity if the State's per capita expenditure for a particular category is below the national average even after having a fiscal priority that is more than or equal to the national average. Table 1.13 analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table 1.13: Fiscal Priority and Fiscal capacity of the State in 2005-06 and 2008-09

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States/National Average* (2005-06)	**19.50**	**61.44**	**30.41**	**14.1**
Orissa's Average (Ratio) (2005-06)	23.21	52.23	32.61	7.06
All States/ National Average *(Ratio)2008-09	19.16	67.86	33.90	16.87
Orissa's Average (Ratio) * (2008-09)	20.61	69.71	36.57	15.01
Fiscal Capacity of the State	**DE#**	**SSE**		**CE**
All States Average per capita expenditure (2005-06)	3010	1490		692
Orissa's per capita expenditure (Amount in Rupees) (2005-06)	1990	1243		269
Adjusted Per Capita** Expenditure (Amount in Rs) (2005-06)	2341	NR		539
All States' Average per capita expenditure in (2008-09)	5030	2520		1254
Orissa's per capita expenditure (Amount in Rupees) in 2008-09	4410	2314		950
Adjusted per capita ** expenditure (Amount in Rupees) in 2008-09	NR	NR		1068

* As *percentage* to GSDP
** Calculated as per the methodology explained in the *Box 1.3*
AE: Aggregate Expenditure **DE**: Development Expenditure **SSE**: Social Sector Expenditure
CE: Capital Expenditure
\# Development expenditure includes Development Revenue expenditure, Development capital expenditure and Loans & Advance disbursed.
NR: No adjustment required due to adequacy of fiscal priority.
Source (1) GSDP- Bureau of Statistics of Government of Orissa
(2) Population figures were taken from projection 2001, 2026 of Registrar General & Census Commissioner, India.
(3) Population of Orissa 3.86 crore in 2005-06 and 3.98 crore in 2008-09

In Table 1.13 on comparison of Fiscal priority given to different categories of expenditure and fiscal capacity of Orissa in 2005-06 (the first year of award period of the Twelfth Finance Commission) and the current year 2008-09, it shows that Orissa Government gave adequate fiscal priority to Aggregate Expenditure (AE) and Social Sector Expenditure (SSE) in 2005-06 while in case of Development

Expenditure (DE) and Capital Expenditure (CE) Orissa has a lower expenditure than the national average. In 2008-09, however there was adequate priority for all categories of expenditure compared to national average except in case of capital expenditure where CE/AE ratio was less than the national average.

2005-06

It was observed that per capita expenditure of DE, SSE and CE in 2005-06 for Orissa, was lower than the national average. Since the DE/CE and CE/AE ratio in 2005-06 was much lower for Orissa compared to the national average, following the methodology (**Box 1.3** at page 22) per capita expenditure for DE & SSE was adjusted. In spite of the adjustment, the per capita expenditure on DE & SSE remained lower than the national averages. This indicates that even if the State gives adequate fiscal priority, it does not have the required capacity to achieve per capita expenditure at par with the national average for all categories of expenditure.

2008-09

Table 1.13 also shows that the ratio of aggregate expenditure to GSDP for Orissa (20.61 *per cent*) is higher than the all the States/ National Average (19.16 *per cent*). This means that on an average for 2008-09 also other states are spending a lower proportion of their GSDP annually. Similarly, for the current year the ratio of development expenditure and social sector expenditure as a proportion of aggregate expenditure for Orissa is also higher than the respective national averages. This indicates that the State is giving adequate fiscal priority to these categories of expenditure compared to other States. In the case of Capital expenditure however, in 2008-09 Orissa has a lower expenditure than the national average and there is a need to give greater fiscal priority to capital expenditure.

Despite the State giving adequate fiscal priority to DE and SSE in 2008-09, it is observed that the per capita expenditure in Orissa in these two categories is lower than the national average (Rs 4410 as against Rs 5030 and Rs 2314 as against Rs 2520 respectively). This means that the absorptive capacity[4] of the State to utilize funds is low and systems have to be improved so that the per capita expenditure improves. In the case of capital expenditure, since the State is spending lower than the national average, an effort was made to adjust the CE in order to make an effective comparison with other states. Using the same methodology as above for calculating adjusted expenditure, the adjusted per capita expenditure on CE (Rs 1068) would be lower than the national average (Rs 1254). This indicates that even if the quantum of Capital Expenditure is raised, the absorptive

4 Absorptive capacity refers to the State's ability to implement a developmental scheme in such a way that with given resources, there is maximum benefit to the people. This is usually achieved when the design of schemes are well planned with a careful risk mitigation strategy in place, low administrative costs, operation, maintenance, monitoring and control mechanisms are in place etc., so that it is possible to effectively achieve targeted outcomes.

capacity in the State is low in Capital expenditure as well as all other categories of expenditure discussed in this para.

Box 1.3

Methodology Adopted for the Assessment of Fiscal Position

For working out the fiscal capacity of the State Governments, the following methodology given in Twelfth Finance Commission report has been adopted.

Step 1: Calculate the national average of AE-GSDP and CE/DE/SSE-AE.

Step 2: Based on the national average of AE-GSDP ratio, derive the aggregate expenditure so that no State is having a ratio AE-GSDP less than the national average, i.e., if

AE/GSDP = x

AE = x * GSDP ………(1)

where x is the national average of AE-GSDP ratio.

Wherever the States are having AE-GSDP ratio higher than national average, no adjustments were made. Wherever this ratio was less than average, it was made equal to the national average.

Step 3: Based on the national average of DE-AE, SSE-AE and CE-AE, derive the respective DE, SSE and CE, so that no State is having these ratios less than national average, i.e., if

DE/AE = y

DE = y * AE ………………(2)

where y is the national average of DE-AE ratio

Substituting (1) in (2), we get

DE = y * x * GSDP …………(3)

Wherever the States are having DE-AE, SSE-AE and CE-AE ratio higher than national average, no adjustments have been made. Wherever these ratios were less than average, it was made equal to the national average.

Step 4: Based on the derived DE, SSE and CE as per equation (3), respective per capita expenditure was calculated, i.e.,

PCDE = DE/P ………………(4)

where PCDE is the per capita development expenditure and P is the population.

Substituting (3) in (4), we get

PDE = (y * x * GSDP)/P …………………..(5)

Equation (5) provides the adjusted per capita expenditure. If the adjusted per capita expenditure is less than the national average of per capita expenditure, then the States' low level of spending is due to the low fiscal capacity. This gives a picture of actual level of expenditure when all the State Governments are attaching fiscal priority to these sectors equivalent to the national average.

1.5.2 Efficiency of Expenditure use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods[5]. Apart from improving the allocation towards development expenditure[6], particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While Table 1.14 presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years, Table 1.15 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table-1.14: Development Expenditure

(Rupees in crore)

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					(BE)	(Actuals)
Development Expenditure (a to c)						
a. Development Revenue Expenditure	5734 (42)	6631 (45)	7997 (46)	10145 (48)	15116* (54)	13835 (55)
b. Development Capital Expenditure	1027 (7.5)	985 (7)	1328 (8)	2711 (13)	2886* (10)	3595 (14)
c. Development Loans and Advances	86 (0.6)	17.81 (0.12)	138 (0.79)	301 (1.43)	NA	122 (0.5)

Figures in parentheses indicate *percentage* to aggregate expenditure; NA:- Not available
*Source:- Orissa Budget at a Glance 2009-10

Development Revenue and Capital expenditure shows increasing trend since 2006-07. During 2008-09, Development Revenue expenditure increased in absolute terms by Rs 3690 crore and as a percentage of Aggregate Expenditure by 36 *per cent* and development capital expenditure increased in absolute terms by Rs 884 crore and as a percentage of Aggregate Expenditure by 33 *per cent* over the previous year.

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5 Core public goods are which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

6 The analysis of expenditure data is disaggregated into development and non development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

However, expenditure on Development loans and advances showed decreasing trend since 2006-07. The increase in development revenue expenditure during 2008-09 over the previous year was mainly due to increase under Education (Rs 1214 crore), Health and Family Welfare (Rs 796 crore), Agriculture (Rs 950 crore) and Transport (Rs 141 crore). As far as Development Capital Expenditure is concerned there was a sharp increase in 2007-08 when DE/AE was 13 *per cent.* However, only a marginal increase to 14 *per cent* was observed in 2008-09. The increase in capital expenditure during 2008-09 over the last year was mainly due to increase under Water Supply and Sanitation (Rs 282 crore), Energy (Rs 23.05 crore) and Transport (Rs 410 crore).

Table 1.15 -Efficiency of Expenditure Use in Selected Social and Economic Services

(In per cent)

Social / Economic Infrastructure	2007-08			2008-09		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S &W	O&M		S&W	O &M
Social Services (SS)						
General Education	0.18	61.49	NA.	0.02	64.74	NA
Health and Family Welfare	2.73	69.53	NA.	0.16	72.74	NA
Water Supplies, Sanitation & Housing & Urban Development	36.68	5.36	98.89	8.80	9.27	98.93
Total (SS)	8.87	42.74	2.00	10.03	47.10	1.76
Economic Services (ES)						
Agriculture & Allied Activities	5.18	47.18	NA.	0.72	30.84	NA
Irrigation and Flood Control	75.68	29.11	16.44	18.47	21.09	18.79
Power & Energy	0.00	0.97	NA.	0.28	0.90	NA
Transport	42.76	0.45	NA.	11.85	0.35	NA
Total (ES)	35.03	20.53	2.00	32.48	17.67	1.88
Total (SS+ES)	20.61	34.58	2.00	20.62	35.28	1.81

TE: Total Expenditure; **CE**: Capital Expenditure; **RE**: Revenue Expenditure; **S&W**: Salaries and Wages; **O&M**: Operations & Maintenance. O&M figures are not available in General Education, Health and Family Welfare, Water Supplies & Sanitation, Agriculture & Allied Activities, Power & Energy and Transport Departments.
Source: Finance Accounts of Government of Orissa

Access to basic education, health services and drinking water and sanitation facilities are strong indicators of socio economic progress. Further, expenditure on Economic services includes all such services that promote directly and indirectly productive capacity within the State by improving the quality of human resources. Therefore, it is pertinent to make an assessment with regard to expansion and efficient provision of these services in the State. **Table 1.15** summarizes percentage of expenditure under different components of economic and social services sector incurred by the State Government in expanding and maintaining social and economic services in the State during 2007-08 and 2008-09.

The expenditure on Social Services during 2008-09 (Rs 9208 crore) constituted 37 *per cent* of total expenditure (Rs 25180 crore) has increased by 30 *per cent* from Rs 7059 crore in 2007-08 and was 52 *per cent* of development expenditure (Rs 17552 crore). Operation and maintenance expenditure decreased by 3.52 *per cent* indicating that revenue expenditure on salaries continued to share a dominant proportion of revenue expenditure on Social Services. The Capital Expenditure on Social Services relative to the total expenditure showed a marginal increase (0.92 *per cent*) over the previous year. The revenue expenditure on Social service of Rs 8284 crore during the current year registered a significant increase of Rs 1868 crore (29 *per cent*) over the previous year's Rs 6416 crore.

Recognizing the need to improve the quality of education and health services, TFC recommended that the salary expenditure under Education and Health & Family Welfare should increase only by six and five *per cent* respectively while non salary expenditure should increase by 30 *per cent* per annum during the award period. It was observed that salary component of Education and Health & Family Welfare registered moderate growth rate of 3.25 *per cent* and 3.21 *per cent* respectively.

The expenditure on Economic Services includes all such expenditure that promotes directly or indirectly, productive capacity within the State's economy. During 2008-09, total expenditure under Economic services (Rs 8222 crore) increased by 41 *per cent* over previous year of Rs 5796 crore. This is because of increase in Capital expenditure by 29 *per cent* and Revenue expenditure by 48 *per cent*. The expenditure on total economic services (Rs 8222 crore) accounted for 33 *per cent* of total expenditure and 47 *per cent* of development expenditure. The ratio of capital expenditure to total expenditure under Power and Transport sector increased with respect to previous year indicating Government's commitment to improve the infrastructure of power supply and transportation. However, the fact that ratio of CE/TE on Irrigation and Agriculture sector decreased over that of previous year needs attention. Agriculture and Allied Activities, Irrigation and Flood Control, Energy and Transport consumed 74 *per cent* of total economic services.

1.5.3 Effectiveness of the Expenditure, i.e., Outlay-Outcome Relationship

Besides, stepping up the expenditure on key social and economic services, enhancing human development requires the State to improve the delivery mechanism to obtain the desired outcomes. The State Government is expected to relate expenditure to outcomes in terms of quality, reach and the impact of government expenditure. Details of outcome of the Central as well as State Government flagship programmes under implementation in the State is given at *Appendix 1.6*. Audit findings on review of the implementation of two key programmes are discussed in brief below:

Implementation of NREGS and NHM

Performance audit on Implementation of NREGS aimed at providing 100 days of guaranteed wage employment in a year to every rural household revealed that employment generation was not commensurate with the funds utilized. Cases of mismanagement of scheme funds, execution of road works unfit to provide all weather access and serious irregularities in execution of works and payment of wages. delayed/underpayment of wages were noticed. Adoption of faulty procedures such as original muster roll not forming expenditure document, utilization of machines displacing labour, execution of works through contractors/middleman in the guise of village labour leader/ Junior Engineers / Panchayat Executive Officers etc. led to many instances of corruption in payment of wages by showing engagement of bogus persons, Government employees, and members of well to do families who did not work, fictitious engagement of same person in same / different works two to five times on the same day, payment of wages at the higher rates without reflecting the same in job cards of beneficiaries etc. were noticed. Joint physical inspection of assets created revealed works of poor quality in many cases. Beneficiary interview disclosed that the labourer were not aware of their rights and privileges under the scheme. The required inspection, monitoring, social audit and grievance redressal activities were almost absent. The scheme also failed to arrest migration of rural workforce and create productive durable assets.

National Horticulture Mission (NHM) aimed at providing holistic growth of Horticulture sector through enhanced horticulture production, establishment of new nurseries, rejuvenation of old orchards, integrated pest management, post harvest management and establishing market network etc. Review of implementation of National Horticulture Mission in the State during the period 2005-09 revealed low spending efficiency at implementing agencies level, diversion of funds, non-collection of token money from beneficiaries, misutilisation of scheme funds and unfruitful expenditure due to poor maintenance of plantations, instances of misappropriation of funds, absence of appropriate internal controls at various stages coupled with poor monitoring and supervision affected the implementation of the scheme .

These are discussed in detail in Chapter 2 of Audit Report (Civil) for the year ended 31 March 2009 presented separately.

1.6 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep it’s fiscal deficit not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.6.1 Financial Results of Irrigation Works

The financial results of 57 Irrigation projects (12-Major and 45-Medium projects) with a capital expenditure of Rs 3226.27 crore at the end of March 2009 showed that no revenue was realized from these projects during 2008-09 against the direct working expenses of Rs 117.90 crore. After meeting the working and maintenance expenditure (Rs 118.39 crore) and interest charges (Rs 218.82 crore), the scheme suffered a net loss of Rs 337.21 crore.

1.6.2 Incomplete projects

The department-wise information pertaining to incomplete time overrun projects as on 31 March 2009 is given in **Table 1.16** as per the information furnished to audit by the concerned Departments.

Table 1.16: Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects	Cost Over Runs	Cumulative Actual Expenditure as on 31.3.2009
Industries	2	42.29	42.29	--	36.61
Sports and Youth Affairs	4	9.86	9.86	--	6.41
Water Resources	18	94.54	121.10	26.56	50.75
Works	3	14.05	14.05	--	10.73
Rural development	8	18.89	20.34	1.45	2.99
Tourism	6	45.02	45.02	--	29.28
Total	41	224.65	252.66	28.01	136.77

Source : Details supplied by the respective Departments of Government of Orissa.

The delay in completion in respect of 26 projects has resulted in a cost overrun of Rs 28.01 crore at the close of the current year. These projects were lying incomplete due to non-availability of adequate funds and required lands. The amount blocked in these projects was 54 *per cent* of the cumulative outlay of the State and due to their non-completion within stipulated time frame not only the benefits to be accrued to the society are delayed but the cost to the exchequer also increased due to time overruns involved in their completion.

1.6.3 Investment and returns

As of 31 March 2009, Government had invested Rs 1771.20 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and

Co-operatives **(Table 1.17)**. The average return on this investment was 8.54 *per cent* in the last three years while the Government paid an average interest rate of 8.18 *per cent* to 7.44 *per cent* on its borrowings during 2006-2009. The actual return earned on the Government investments reflects wide fluctuations during 2006-07 to 2008-09. This indicated injudicious investment of borrowed funds in unviable institutions/organizations.

Table-1.17: Return on Investment

(Rupees in crore)

Year	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year	1610.41	1637.09	1652.14	1681.95	1771.20
Return	69.15	120.59	49.39	140.93	252.85
*Percent*age of return	4.29	7.39	2.99	8.38	14.27
Average rate of interest on Government borrowing	9.51	9.92	8.18	8.13	7.44
Difference between interest rate and return	5.22	2.53	5.19	(-)0.25	(-)6.83

Source : Finance Accounts of Government of Orissa for respective years

The investment of State Government at the end of 2008-09 included Rs 1415.69 crore in 83 Public Sector Undertakings comprising 80 Government Companies (Rs 1217.42 crore) and three Statutory Corporations (Rs 198.27 crore). However, dividend of Rs 252.82 crore was declared by two Companies (Orissa Mining Corporation Limited: Rs 252.51 crore and Orissa State Cashew Development Corporation Limited : Rs 31 lakh) and Co-operative Societies (Orissa State Co-operative Development Bank : Rs 2.06 lakh and other co-operatives : Rs 0.44 lakh) during 2008-09. The Grid Corporation with accumulated loss of Rs 1028.14 crore as of 2004-05, Orissa State Road Transport Corporation (Rs 233.92 crore) as of 2003-04, Orissa State Financial Corporation (Rs 383.80 crore) as of 2004-05 were among the major loss making PSUs in the State which constituted about 81 *per cent* of the total accumulated commercial losses (Rs 2034.80 crore) by the Government Companies and Corporations.

1.6.4 Departmentally run commercial activities

Activities of quasi-commercial nature are also performed by certain Government departments. The department-wise position of the investment made by the Government up to the year for which pro-forma accounts are finalized, net profits/loss as well as return on capital invested in these undertakings are given in *Appendix 1.7*. It is observed that:

- An amount of Rs 70.09 lakh had been invested by the State Government in Nationalisation of Kendu Leaf trade operated by Chief Conservator (KL), Orissa at the end of financial year up to which their accounts were finalized.

- The accumulated losses of the departmentally run activities is Rs 1.03 crore as against the total investment of Rs 70.09 lakh.

1.6.5 Loans and advances by State Government

In addition to investments in Co-operative societies, Corporation and Companies, Government has also been providing loans and advances to many of these institutions/ organizations. The Loans and Advances by the State Government increased from Rs 3325 crore in 2006-07 to Rs 3403 crore in 2007-08 and decreased to Rs 3378 crore in 2008-09. Major portion of loans advanced during 2008-09 was to General Education (Rs 1.10 crore), Urban Housing (Rs 2.00 crore), Rural Housing (Rs 52.52 crore), Textile (Rs 18.82 crore), Sugar (Cooperative Sugar Mills Rs 3.37 crore) and Orissa State Financial Corporation (Rs 41.90 crore). **Table 1.18** presents the outstanding loans and advances as on 31 March 2009, interest receipts vis-à-vis interest payments during the last three years.

Table 1.18: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2006-07	2007-08	2008-09
Opening Balance	3339	3325	3403
Amount advanced during the year	272	433	211
Amount repaid during the year	286	355	236
Closing Balance	3325	3403	3378
Of which outstanding balance for which terms and conditions have been settled			
Net addition	(-)14	+78	(-)25
Interest Receipts	103	114	80
Interest receipts as *per cent* to outstanding Loans and advances	3.10	3.35	2.37
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	8.08	8.23	7.38
Difference between interest payments and interest receipts (*per cent*)	(-)4.98	(-)4.88	(-)5.01

Source : Finance Accounts of Government of Orissa for respective years

The recovery of loans of Rs 236 crore during 2008-09 fell short by Rs 10.80 crore as projected in the MTFP 2008-09. Interest receipts to outstanding loans was 2.37 *per cent* during 2008-09 which was lower than the TFC's recommendation of gradual increase to seven *per cent* by the end of award period (2005-10).

1.6.6 Cash Balances and Investment of Cash balances

Table 1.19 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table-1.19: Cash Balances and Investment of Cash balances

(Rupees in crore)

Particulars	As on 1 April 2008	As on 31 March 2009	Increase(+)/ Decrease(-)
Cash Balances			
Investments from Cash Balances (a to d)	5824.62	6333.14	+508.52
a. GoI Treasury Bills	5794.42	6299.47	+505.05
b. GoI Securities	30.20	33.67	+3.47
c. Other Securities, if any	--	--	--
d. Other Investments	--	--	--
Funds-wise Break-up of Investment from Earmarked balances (a to c)	4352.39	4313.00	(-)39.39
a. Sinking Fund Investment	3833.00	3833.00	--
b. Guarantee Redemption Fund Investment	480.00	480.00	--
c. Calamity Relief Fund Investment	39.39	--	(-)39.39
Interest Realized	--	516.57	--

Source : Finance Accounts 2008-09

In line with the recommendation of the TFC, the State Government set up a sinking fund with effect from January 2003 for amortisation of market borrowing as well as other loans and debt obligations. The MTFP has made a projection for a provision of investment in the sinking fund at the rate of two *per cent* of the total outstanding debt at the end of each year. As on 31st March 2008, the investment in the sinking fund was Rs 3833 crore. No investment was made during 2008-09.

The efficiency of handling the cash balances by the State can also be assessed by monitoring the trends in monthly daily average of cash balances held by the State to meet its normal banking transactions. **Table 1.20** presents the trends in monthly average daily cash balances and the investments in Auction Treasury Bills for the last three years (2006-09).

Table 1.20: Trends in Monthly Average Daily Cash Balances and the Investments in Auction Treasury Bills**

(Rupees in crore)

	Monthly Average Daily Cash Balances*			Investment in 14 days Treasury Bills**			Investment in Auction Treasury Bills**		
Month	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
April	2157.25	2573.33	3320.71	4904.10	4817.41	7669.72	--	972.70	2929.20
May	2045.83	2002.68	2439.56	4285.63	4308.00	5176.30	485.55	490.70	1473.10
June	2078.83	1931.85	2173.14	4779.39	4024.05	4591.83	483.70	1964.60	490.65
July	2208.98	2088.00	2434.28	5267.95	5137.48	5780.24	--	--	2433.90
August	2444.38	2323.74	2182.03	5470.41	5419.16	4469.86	483.85	1446.75	1933.70
September	1783.65	1943.52	1640.43	4153.77	3509.95	3438.05	2098.04	1965.30	978.80
October	703.07	1488.25	2364.34	1707.84	3548.95	6230.06	--	982.90	2944.50
November	1040.36	1181.72	2163.08	2591.83	3357.22	4835.82	491.85	491.05	994.09
December	1086.44	1642.42	1901.87	2241.51	4354.35	4530.31	2265.56	981.80	1103.95
January	1128.06	2903.91	2890.31	3016.05	6577.64	7984.00	--	491.40	--
February	1190.14	2815.04	5859.10	2613.07	6387.02	12105.88	490.45	491.20	--
March	2244.24	4268.79	6951.09	7085.71	10324.03	14918.50	981.00	--	--
Average	1675.93	2263.60	3026.66	4009.77	5147.10	6810.88	648.33	856.53	1273.49

* **Source:** Finance Department, Government of Orissa.
** **Source:** Office of the AG(A&E),Orissa.

The State Government maintained more than the minimum cash balance (Rs 1.28 crore) including the cash balance investment with the Reserve Bank of India. One option for prudent financial management would be to maintain optimum cash balances and use the surpluses to settle some of the high cost bonds instead of investing the same in Reserve Bank of India Treasury Bills at low rates of interest.

1.7 Assets and Liabilities

1.7.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government Account do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.4* gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. The liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and Reserve Funds and the assets comprise mainly the capital outlay and loans and advances given by the State Government and instruments in which surplus cash is invested.

After 2006-07, Government has accumulated huge cash balances and liquidated the past liabilities especially GoI loans and also made significant improvement in their fiscal balances owing to increase in its own receipts and the central transfers which helped the State Government in improving the asset-liability ratio during these years. During the recent years asset have increased substantially. However, the ratio of assets to liabilities remained at 84 *per cent* indicating that 16 *per cent* of liabilities still did not have an asset back-up in 2008-09 despite the Revenue surplus which the State has been experiencing since 2005-06 was not enough to wipe out the gap.

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in *Appendix 1.4*. However, the compositions of fiscal liabilities during the current year vis-à-vis the previous year are presented in **Chart 1.10** and **1.11**.

Chart 1.10 : Composition of outstanding fiscal liabilities as on 01-04-2008 (Rupees in crore)

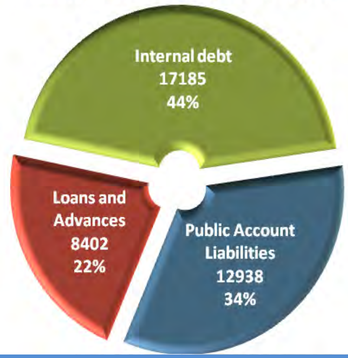
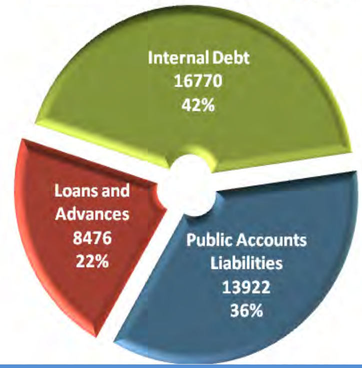


Chart 1.11 : Composition of outstanding fiscal liabilities as on 31-03-2009 (Rupees in crore)



Fiscal liability as it stood on 1 April 2008 was Rs 38525 crore comprising internal debt of Rs 17185 crore (44 *per cent*), public accounts liability of Rs 12938 crore and loans and advance of Rs 8402 crore (22 *per cent*). However, it increased by Rs 643 crore to Rs 39168 crore as of 31 March 2009 comprising internal debt of Rs 16770 (42 *per cent*), public account of Rs 13922 crore (36 *per cent*) and Loans and Advances of Rs 8476 crore (22 *per cent*). The internal debt of Rs16770 crore comprising of mainly market loan bearing interest Rs 7353.87 crore, loans from NABARD Rs 1109.64 crore and special securities issued to NSSF Rs 6822.27 crore. The Fiscal liabilities at the end of 2008-09 constituted 32 *per cent* of GSDP as against the TFC's recommendation of 28 *per cent*. However, the same was only 159 *per cent* of the revenue receipts of the State for 2008-09 as against the norm of 300 *per cent* prescribed in the State's FRBM Act, 2005.

1.7.3 Status of Guarantees - Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended.

As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table-1.21**.

Table 1.21: Guarantees given by the Government of Orissa

(Rupees in crore)

Guarantees	2006-07	2007-08	2008-09
Maximum amount guaranteed	8588.90	8586.90	8380.25
Outstanding amount of guarantees	2647.55	2168.43	1386.40
Percentage of maximum amount guaranteed to total revenue receipt	47.63	39.10	34.05
Criteria: Finance Department Resolution, dated 12 November 2002	11850.00	14085.00	18033.00

Source : Finance Accounts of Government of Orissa for respective years

Though no law has been enacted under Article 293 of the Constitution laying down the limit of such guarantee, an administrative limit has been imposed (November 2002) so that the total outstanding guarantee as on 1 day of April every year shall not exceed hundred *per cent* of the State's revenue receipts of the 2nd preceding year (as per the books of account maintained by Accountant General (A & E), Orissa).

The Government has set up a "Guarantee Redemption Fund" during 2002-03 to meet the contingent liabilities arising out of the total outstanding liabilities. As on 31 March 2009, Rs 480 crore has been invested in the Fund which comprised guarantee fee, special contribution and return earned on the funds invested.

Guarantees were given in respect of four statutory corporations, 26 Government companies, 46 Co-operative Banks and Societies and 86 Notified Area Councils, Municipality and Improvement Trusts. Maximum amount guaranteed and the amount outstanding against these bodies showed a reducing trend since 2006-07 as can be seen from the **Table 1.21** above. Government in their resolution dated 19 March 2004 have issued instruction to the Public Sector Undertakings/Urban Local Bodies/Co-operative Societies etc., who have borrowed or intended to borrow against Government guarantees to open an Escrow Account in a Nationalised Bank. So far, 10 Escrow Accounts have been opened by 31 March 2009 out of 88 institutions.

Further, in consideration of the guarantee given by the Government, the institutions in some cases are required to pay guarantee commission at rates varying from 0.01 *per cent* to *one per cent*. However, out of 25 departments only six departments of the State Government have furnished the information till June 2009. The guarantee commission of Rs 3.34 crore was in arrear from Orissa Power Transmission Corporation Limited a Government company.

The State Government has also taken a number of steps to enhance the credibility of the State finances in the financial market. One such measure is discharging the State Government guarantees through one time settlement (OTS). So far, the State Government and various public sector undertakings, Co-operatives have paid Rs 666.87 crore under OTS schemes to discharge guarantee liabilities arising out of the default of loanee organizations

1.8 Debt Sustainability

Apart from the State Government debt magnitude, it is important to analyze various indicators that determine the debt sustainability[7] of the

[7] The Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings

State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization[8]; sufficiency of non-debt receipts[9]; net availability of borrowed funds[10]; interest burden payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.22** analyzes the debt sustainability of the State according to these indicators for the period of three years beginning from 2006-07.

Table 1.22: Debt Sustainability: Indicators and Trends

(Rupees in crore)

Indicators of Debt Sustainability	2006-07	2007-08	2008-09
Debt Stabilization (Quantum Spread + Primary Deficit)	4889	6816	5121
Sufficiency of Non-debt Receipts (Resource Gap)	+1089	+499	-1657
Net Availability of Borrowed Funds	(-)2395	(-)4109	(-)2772
Burden of Interest Payments (IP/RR Ratio)	0.18	0.14	0.12
Maturity Profile of State Debt (In Years)			
0 - 1	Not available	1438	1487
1 - 3		3184	3961
3 - 5		4660	4686
5 - 7		4484	4587
7 and above		11823	10526

Source: Maturity profile of the State debt obtained from AG (A&E)

Trends in fiscal variables indicating the progress towards the debt stabilisation reveals that during the last three year period 2006-09, quantum spread together with primary deficit consistently remained positive resulting in a continuous decline in debt/GSDP ratio from 42.27 in 2006-07 to 32.06 *per cent (*as against 30.74 *per cent* of TFC's projections in 2008-09. These trends indicate tendency towards the debt stabilization which would eventually improve the debt sustainability position of the State.

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The trends in **Table 1.22** reveal that the incremental non-debt receipts of the State had been able to meet the incremental interest liabilities and

with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt

8 A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. 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 debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

9 Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

10 Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

incremental primary expenditure during the period 2006-08. The positive resource gap during 2006-07 and 2007-08 turned negative in the current year due to steep increase in non plan revenue expenditure by Rs 2248 crore and capital expenditure by Rs 936 crore when compared to the previous year. The negative resource gap weakens the capacity of the State to sustain the debt.

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal plus Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e. they are (a) not being used for financing revenue expenditure and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

During the current year, the Government repaid principal plus interest on account of internal debt of Rs 2566 crore; Government of India loans of Rs 1062 crore and also discharged other obligation of Rs 2426 crore, as a result of which payments exceeded the receipts during the year. During the recent years, the focus of the Government seems to be on discharging the past debt obligations both on account of principal and interest payments on loans raised from the market as well as from the Government of India.

The net fund available on account of internal debt and loans and advances from Government of India and other obligation providing interest and repayment varied from (-) 58.08 *per cent* in 2006-07 to (-) 84.51 *per cent* in 2008-09 . The State Government raised internal debt amounts of Rs 643 crore through NABARD and other Institutions (Rs 482 crore), Special securities issued NSSF (Rs 161 crore). Against these receipts, Government discharged past debt obligation (Principal plus interest) amounting to Rs 2566 crore resulting in negative net fund available under the debt account. During the current year, the Government repaid GoI loan including interest amounting to Rs 1062 crore and also discharged other obligation of Rs 2426 crore along with interest obligation, which were more than the total receipt resulting in negative net availability of funds during the year. The decreasing trend in the ratio of total debt receipts and debt redemption over the period indicate the State is progressing towards debt stabilization.

1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government Account represents the gap between its receipts and expenditure. The nature of 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 raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2008-09.

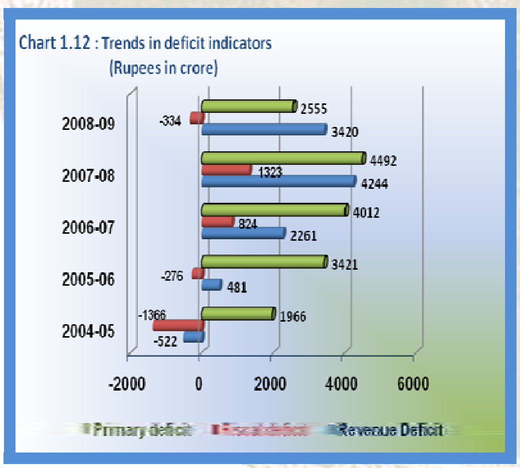
1.9.1 Trends in Deficits

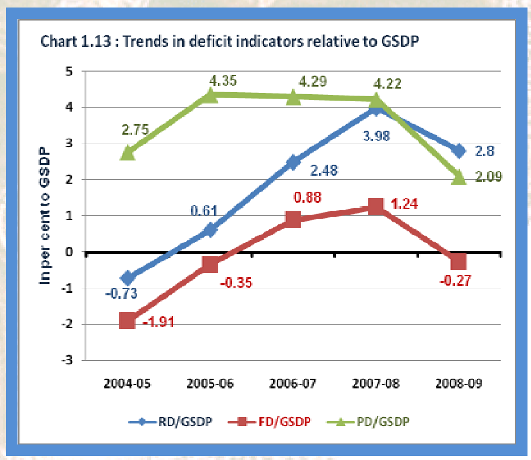
Table 1.23, **Chart 1.12** and **1.13** presents the trends in deficit indicators over the period 2003-09.

Table 1.23: Deficits

Parameters	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue deficit (Rupees in crore)	(-) 1421	(-) 522	(+) 481	(+) 2261	(+) 4244	(+) 3420
Fiscal deficit (Rupees in crore)	(-) 3573	(-) 1366	(-) 276	(+) 824	(+) 1323	(-) 334
Primary deficit (Rupees in crore)	(-) 713	(+) 1966	(+) 3421	(+) 4012	(+) 4492	(+) 2555
RD/GSDP (*per cent*)	(-) 2.31	(-) 0.73	(+) 0.61	(+) 2.48	(+) 4.11	(+) 2.79
FD/GSDP (*per cent*)	(-) 5.82	(-) 1.91	(-) 0.35	(+) 0.90	(+) 1.28	(-) 0.27
PD/GSDP (*per cent*)	(-) 1.16	(+) 2.75	(+) 4.35	(+) 4.40	(+) 4.35	(+) 2.09
RD/FD (*per cent*)	(+) 39.77	(+) 38.21	NA	(+) 274.39	(+)320.78	NA

NA : Not applicable as there was a Revenue surplus
Source : Finance Accounts of Government of Orissa for respective years





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

Revenue surplus

Revenue account showed a deficit of Rs 522 crore in 2004-05 but turned into a surplus of Rs 481 crore in 2005-06. This surplus has steeply increased to Rs 4244 crore during 2007-08 and declined to

Rs 3420 crore during 2008-09. The decline in revenue surplus in the current year was due to increase in the revenue expenditure of Rs 3467 crore (20 *per cent*) and against an increase of revenue receipts of Rs 2643 crore (12 *per cent*). The increase in revenue expenditure was mainly due to rise in salary and pension costs of the Government on account of implementation of Sixth Pay Commission and increase in mandatory transfer to Local Bodies (Rs 857 crore) and assistance to other bodies (Rs 797 crore).

Fiscal deficit

The fiscal deficit, which comprises the total borrowing of the Government and its total resources gap consistently decreased from Rs 1366 crore in 2004-05 to Rs 276 crore in 2005-06 and formed into fiscal surplus in 2006-07 and 2007-08 and slipped back to fiscal deficit of Rs 334 crore during 2008-09.

Primary surplus

The primary surplus in the State of Rs 1966 crore in 2004-05 has increased to Rs 4492 crore in 2007-08 and decreased to Rs 2555 crore in 2008-09 was however, lower by Rs 1110 crore of 3 *per cent* of GSDP as prescribed in the State's FRBM Act, 2005.

1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1. 24.**

Table 1.24: Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit		(-)1366	(-) 276	824	1323	(-)334
1	Revenue surplus	(-)522	481	2261	4244	3420
2	Capital Expenditure	(-)1056	(-)1038	(-) 1451	(-) 2843	(-) 3779
3	Net Loans and Advances	212	281	14	(-)78	25
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	900	105	(-)788	(-) 874	(-)670
2	Loans from GoI	(-) 22	(-)543	(-)39	(-) 343	74
3	Special Securities Issued to NSSF	1318	1396	1036	(-)106	67
4	Loans from Financial Institutions	(-) 337	99	(-)14	(-)15	189
5	Small Savings, PF etc	559	1348	598	399	459
6	Reserve fund	(-)105	(-)180	271	(-) 85	(-)52
7	Deposits and Advances	(-) 234	149	(-)66	83	576
8	Suspense and Misc	(-)570	(-)1918	(-)1828	(-)1219	(-)522

	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
9	Remittances	0.00	4	(-)74	50	(-)1.00
10	Others	--				
11	Increase / decrease in cash Balance	(-)123	(-) 265	218	673	174
12	Net of OCF	(-)20	81	(-)138	114	40

*All these figures are net of disbursements/outflows during the year
Source : Finance Accounts of Government of Orissa for respective years

Decomposition of fiscal deficit/surplus shows fiscal surplus in 2006-07 turned into fiscal deficit in 2008-09 due to wide change in net capital expenditure (Rs 2328 crore). Fiscal deficit was primarily financed through loans from financial institutions, small savings and provident funds etc., deposits and advances and by reducing cash balances.

1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. In the case of Orissa, there has been a revenue surplus since 2005-06. The bifurcation of the primary deficit (**Table 1.25**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.25: Primary deficit/Surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary revenue deficit (-) /surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (3-6)	8 (2-6)
2004-05	12267	9040	1056	205	10301	(-)1261	1966
2005-06	14433	9907	1038	67	11012	(-)1105	3421
2006-07	18319	12584	1451	272	14307	(-)1723	4012
2007-08	22322	14554	2843	433	17830	(-)3276	4492
2008-09	24846	18301	3779	211	22291	(-)3990	2555

Source : Finance Accounts of Government of Orissa for respective years

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2004-09 reveals that the State is experiencing primary surplus during these years. In other words, non-debt receipts of the State were enough to meet the primary expenditure[11] requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account.

1.9.4 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of the correction in deficit indicators. **Table 1.26** presents the change in revenue receipts of the State and the correction of the deficit during the last three years.

Table-1.26: Change in revenue Receipts and Correction of Deficit

(Per cent of GSDP)

Parameters	2006-07	2007-08	2008-09 BE	2008-09 Actual
Revenue Receipts (a to d)				
a. State's Own Tax Revenue	6.50	6.44	5.95	6.54
b. State's Own Non- tax Revenue	2.77	2.49	6.35	2.60
c. State's Share in Central Taxes and Duties	6.66	7.37	6.75	6.78
d. Grants-in-Aid transferred by GoI	3.38	4.33	4.60	4.22
Revenue Expenditure	16.89	16.65	18.59	17.35
Revenue Deficit(-)/Surplus(+)	2.42	3.99	0.46	2.80
Fiscal Deficit(-)/Surplus(+)	0.88	1.24	3.63	(-)0.27

Source : Finance Accounts of Government of Orissa for respective years

State's own revenue (as percentage of GSDP) not only showed an increase over the previous year but also over the budget estimates. Revised estimate as a percentage of GSDP was contained below the level estimated in the budget. As a result, there was considerable positive variation in the revenue surplus as compared to budget estimate. In the case of fiscal deficit, however State had estimated a surplus of 3.63 *per cent* of GSDP but actually there was a deficit of 0.27 *per cent*.

1.10 Conclusion

The fiscal position of the State declined in current year with respect to previous year on account of decrease in rate of growth of revenue receipt at 12 *per cent* in 2008-09 in comparison to 22 *per cent* in 2007-08 and increase in rate of growth of revenue expenditure at 20 *per cent* in current year compared to 12 *per cent* in 2007-08. The actual realization of tax-revenue and non-tax revenue during 2008-09 was higher than the normative assessment of Twelfth Finance Commission (TFC) as well as the projection made in Fiscal Correction Path (FCP) / Medium Term Fiscal Plan (MTFP). Within the revenue

11 Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

receipts, the share of own revenue was only 45 *per cent* and the remaining constituted central transfers during the year. Besides, grants of Rs 4344 crore transferred by the GoI directly to the implementing agencies augmented the revenue receipts of the State Government by 17 *per cent* during the current year. As a percentage of total expenditure, revenue expenditure was 84 *per cent* and capital expenditure was only 15 *per cent* during the year. Capital expenditure as a percentage of aggregate expenditure was lower in Orissa when compared to All States average. Non-plan revenue expenditure had the predominant share of 75 *per cent* of the revenue expenditure. Salary expenditure, pension payments, interest payment and subsidies increased by 26 *per cent* during the year and constituted 58 *per cent* of total revenue expenditure during 2008-09. Expenditure on salaries as a percentage of revenue expenditure net of interest payments and pension exceeded the TFC's projection of 35 *per cent* due to implementation of Sixth Pay Commission. Subsidy costs showed a rise of over 400 *per cent during* 2008-09 over the previous year was far from the State's MTFP projection for the year. Interest receipts to outstanding loans were 2.37 *per cent* during 2008-09 as against the TFC's recommendation of gradual increase to seven *per cent* by the end of award period (2005-10).

Although the State continued to achieve revenue surplus like it did in the previous three years; the overall fiscal position slipped to deficit in departure from the fiscal surplus achieved in the previous two years. The Fiscal liabilities at the end of 2008-09 constituted 32 *per cent* of GSDP as against the TFC's recommendation of 28 *per cent*. However, the State's continuous decline in debt/GSDP ratio from 43.30 in 2006-07 to 32.06 *per cent* in 2008-09 indicated tendency towards the debt stabilization of the State.

1.11 Recommendations

For achieving the fiscal reforms as recommended by the Twelfth Finance Commission, the State Government may take steps to bring about improvement in the following areas:

- State infrastructure may be strengthened for intake of higher Capital Expenditure for asset formation and sustained income generation.
- Contain the total expenditure to 16.3 *per cent* of the GSDP level.
- The revenue expenditure (17.3 *per cent* of GSDP) and non-plan revenue expenditure (13.6 *per cent* of GSDP) may be brought down to the level of 13.3 *per cent* and 11.67 *per cent* respectively and may be kept within the State's FCP norms.

- Expenditure on salaries as a percentage of revenue expenditure net of interest payments and pension require remedial measure to be within TFC's projection of 35 *per cent*.

- While maintaining an optimum cash balance with the Reserve Bank, the State may use the surpluses to settle some of the high cost bonds instead of investing the same in Reserve Bank of India Treasury Bills at low rates of interest.

- Cost recovery of maintenance expenditure on irrigation projects may be introduced.

- Reduction in subsidy payments to PSUs etc. may be considered for boosting their operational efficiency.