Chapter 1

Finances of the State Government

Profile of Odisha

Odisha was formed on 1st April 1936 and became a constituent state of India in 1950. Covering an area of 1.56 lakh square kilometres, Odisha is situated on the east coast of the country with forest coverage of 58136 square kilometres (37 *per cent* of total area) and a population of 4.19 crore (as per census 2011). As per 2011 census (provisional), 83 *per cent* of the total population lived in rural areas while 17 *per cent* lived in urban areas as against *85 per cent* and 15 *per cent* respectively as per 2001 census indicating migration from rural to urban areas during the last decade. As indicated in ***Appendix 1.1,*** in the last ten years, the density of population in Odisha has increased from 236 persons per square kilometre to 269 persons. However Odisha still has lower density of population compared to the all India figure. Odisha has a lower literacy rate, lower life expectancy at birth and higher infant mortality rate when compared to the all India average. Population below the poverty line at 46.4 *per cent* was much higher than the national average of 27.5 *per cent*. Odisha has lower level of rural as well as urban inequality when compared to the all India average. Odisha's Gross State Domestic Product (GSDP) has grown at a higher rate (15.78 *per cent*) in the past decade compared to the average GSDP growth of the General Category states. During this period, its population has grown by 13.97 *per cent* against 17.56 *per cent* in other General Category states[1]. Hence, the per capita income growth in Odisha has been higher than that of the General Category states in the current decade.

1.1 Introduction

This chapter provides a broad perspective of the finances of the State Government of Odisha during 2010-11 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 given at the ***Appendix 1.2***. Besides, keeping in line with the recommendations of the Twelfth Finance Commission, the State Government had enacted (August, 2005) its own 'Fiscal Responsibility and Budget Management (FRBM) Act, 2005 and had developed its own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators for the period 2004-10 to ensure prudent and improved fiscal management and to maintain fiscal stability of the State. The State Government have not developed its own FCP for the period of 2010-11 as Thirteenth Finance Commission (13th FC) has recommended to develop FCP from 2011-15 leaving a gap period of one year. As required by the 13th FC the State Government laid its Medium Term Fiscal Plan (MTFP) for three year (2011-13).

The abbreviations used in this report have been expanded in the *Glossary of terms (and basis of calculation) and Acronyms used in the Report* at **Appendix – 4.1** at page **119**

1 Andhra Pradesh, Bihar, Chattisgarh, Gujrat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharastra, Odisha, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal

The 13th FC recommended (December 2009) amendment to the State FRBM Act incorporating there in the continuation of the already achieved zero revenue deficit, setting a target of three *per cent* of fiscal deficit by 2011-12, a feature of independent review / monitoring system, projection of Revenue Consequences of Capital Expenditure (RCCE) in the MTFP, public-private partnerships (PPPs) and related liabilities and bringing out statements on physical and financial assets and vacant public land and buildings. However, the FRBM Act was yet to be amended (October 2011). As a result, the required monitoring system of the fiscal reforms as envisaged in 13th FC could not been put in place. However, the Principal Secretary, Finance stated (October 2011) that a bill for amendment of FRBM Act would be presented in the next (winter) session of the State Legislature.

1.1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2010-11) vis-à-vis the previous year while ***Appendix 1.3*** provides overall fiscal position and ***Appendix-1.4*** *shows* details of receipts and disbursement during the current year.

Table 1.1 Summary of Current Year's Fiscal Operations

(₹ in crore)

Receipt			Disbursement				
	2009-10	2010-11		2009-10	2010-11		
Section A	**Total**	**Total**	**Section A**	**Total**	**Non Plan**	**Plan**	**Total**
Revenue Receipts*	26430.21	33276.16	Revenue expenditure	25291.59	21975.28	7392.67	29367.95
Tax revenue	8982.34	11192.67	General services	9285.15	9858.00	78.77	9936.77
Non-tax revenue	3212.20	4780.38	Social services	9838.21	7672.92	4249.09	11922.01
Share of Union Taxes/ Duties	8518.65	10496.86	Economic services	5762.40	4012.75	3064.81	7077.56
Grants from Government of India	5717.02	6806.25	Grants-in-aid and Contributions	405.82	431.61	---	431.61
Section B			**Section B**				
Misc. Capital Receipts	---	---	Capital Outlay	3647.88	128.59	4156.51	4285.10
Recoveries of Loans and Advances	356.36	33.81	Loans and Advances disbursed	112.48	109.02	205.67	314.69
Public Debt receipts**	1650.12	2267.60	Repayment of Public Debt*	1488.69	---	---	2083.58
Contingency Fund	11.07	198.97	Contingency Fund	198.97	---	---	375.00
Public Account receipts	11735.46	12778.87	Public Account disbursements	9849.43	---	---	11407.85
Opening Cash Balance	9689.45	9283.63	Closing Cash Balance	9283.63	---	---	10004.87
Total	**49872.67**	**57839.04**		**49872.67**	---	---	**57839.04**

Source: Finance Accounts of the respective years.

Analysis of the Table above disclosed the following:

* Does not include ₹ 6257.85 crore transferred directly to Non-Government Organisations (NGOs) / Voluntary Organisations in Odisha by Government of India (GoI).

** Excluding net transactions under Ways and Means advances and overdrafts.

The actual realisation of own tax revenue (₹ 11193 crore) and non-tax revenue (₹ 4780 crore) during 2010-11 was higher than the normative assessment of 13th FC (₹ 10709 and ₹ 2256 crore respectively) as well as the projection made in State MTFP (₹ 10360 and ₹ 3166 crore) mainly due to increase in gross receipts of motor vehicle tax, VAT, land revenue and collection of fees, rents and royalties.

Revenue receipts increased by ₹ 6846 crore (26 *per cent*) in 2010-11 over the previous year. The increase was mainly contributed by own tax revenue (₹ 2210 crore), State's share of Union Taxes and Duties (₹ 1978 crore) and grants-in-aid from Government of India (GoI) (₹ 1089 crore). The revenue receipts of ₹ 33276 crore were higher than the assessment made by State Government in its Medium Term Fiscal Plan (₹ 31445 crore) by about 6 per cent approximately.

Total expenditure increased by ₹ 4916 crore (17 *per cent*) during 2010-11 over the previous year of which increase in revenue expenditure was ₹ 4076 crore (16 *per cent*) and increase in capital expenditure including loans and advances disbursed was ₹ 840 crore (22 *per cent*).

Public Debt receipts increased by ₹ 618 crore (37 *per cent*) while public debt disbursements increased by ₹ 595 crore (40 *per cent*) resulting in a net increase of ₹ 23 crore in public debt during 2010-11.

Public Account receipts (₹ 12779 crore) increased by ₹ 1044 crore (nine *per cent*) over the previous year mainly due to increase in small savings and provident fund (₹ 233 crore), remittances (₹ 770 crore) and deposits and advances (₹ 211 crore) which was mainly set off by decrease in reserve fund (₹ 133 crore). Public Account disbursements (₹11408 crore) on the other hand increased by ₹ 1559 crore (16 *per cent*) during the same period mainly due to increase under remittances (₹ 815 crore), and small savings and provident fund (₹ 149 crore).

Cash Balance of the State increased by ₹ 721 crore mainly because of increase in Cash Balance Investment by ₹ 791 crore which was set off by decrease in Deposit with Reserve Bank of India (₹ 69 crore) and Departmental Cash Balance by one crore.

1.1.2 Budget Estimates and Actuals

Compared to the Budget Estimates for 2010-11, there was considerable variation between Budget Estimates and Actuals in the case of several key fiscal parameters. **Chart 1.1 and Table 1.2** presents the Budget Estimates and Actuals for some important parameters.

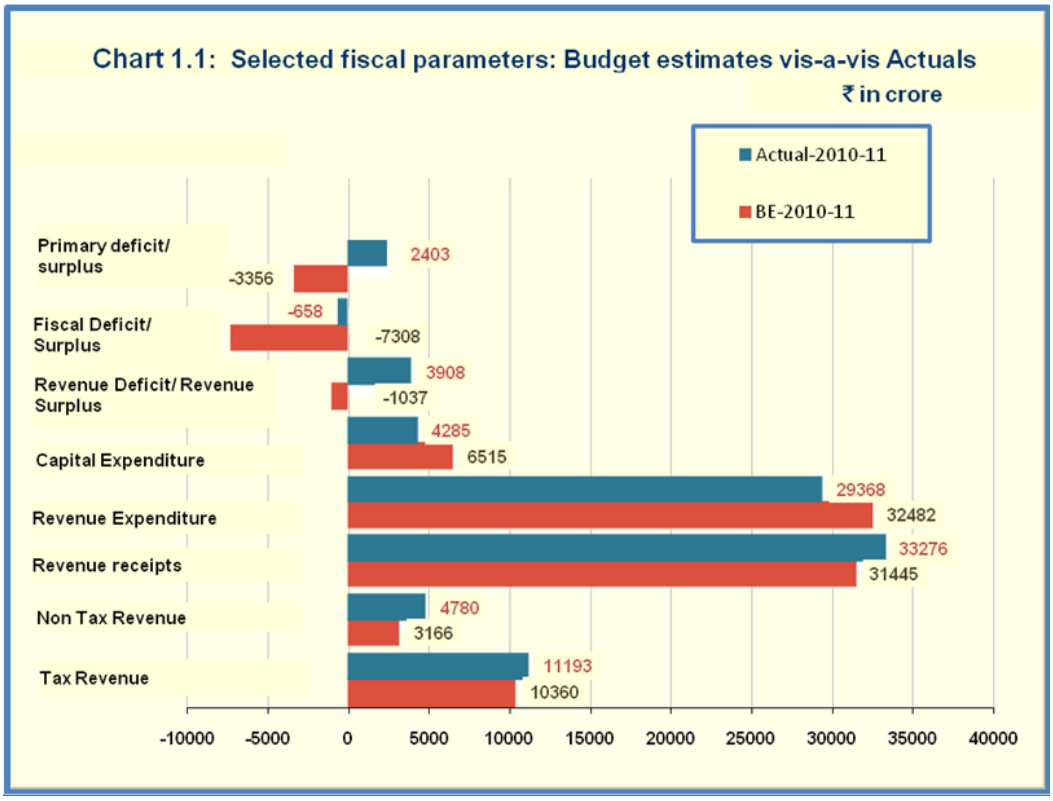


Table 1.2: Variation in Budget Estimates and Actuals

Variation	Budget Estimates	Actual	Increase (+) / Decrease (-)	Percentage increase (+) / decrease (-)
	(₹ in crore)			
Tax Revenue	10360	11193	(+)833	(+)8
Non-Tax Revenue	3166	4780	(+)1614	(+)51
Revenue Receipts	31445	33276	(+)1831	(+)6
Revenue Expenditure	**32482**	**29368**	**(-)3114**	**(-)10**
Capital Expenditure	6515	4285	(-)2230	(-)34
Revenue Deficit(-)/Surplus(+)	(-)1037	3908	(+)4945	(+)477
Fiscal Deficit(-)/Surplus(+)	(-)7308	(-)658	(+)6650	(-)91
Primary Deficit(-) /Surplus (+)	(-)3356	2403	(+)5759	(-)172

Source: Odisha Budget at a Glance 2011-12 and Finance Accounts 2010-11.

As may be observed from **Chart 1.1** and **Table 1.2,** the States actual Revenue Receipts were more than the Budget Estimates by ₹ 1831 crore (six *per cent*) mainly due to increase in Non-Tax Revenue Receipts. The State's own Tax Revenue was more than Budget Estimates by ₹ 833 crore (eight *per cent*) while Non-Tax Revenue was more than the Budget Estimates by ₹ 1614 crore (51 *per cent*). As a result, the estimated Revenue deficit of ₹ 1037 crore turned into Revenue surplus by ₹ 4945 crore. Revenue Expenditure and Capital Expenditure were less than the budget estimate by ₹ 3114 crore (10 *per cent*) and ₹ 2230 crore (34 *per cent*) respectively. The decrease in Capital Expenditure as compared to budget estimate is not a good sign in a developing State with poor infrastructural levels. Further, the fiscal deficit and primary deficit were less than the budget estimates by ₹ 6650 crore (91 *per cent*) and ₹ 5759 crore (172 *per cent*) respectively.

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 2005-11. **Chart 1.3** depicts the composition of resources of the State during the current year.

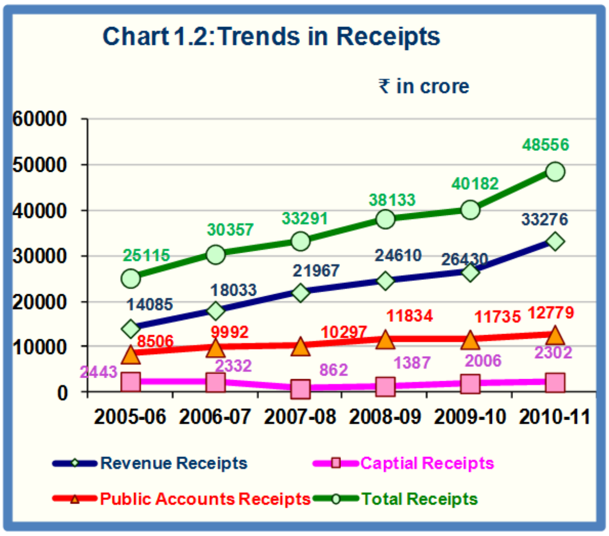


Chart 1.2: Trends in Receipts

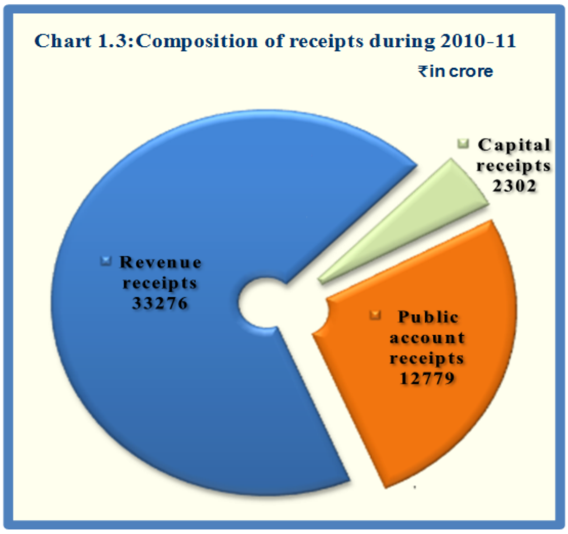


Chart 1.3: Composition of receipts during 2010-11

During 2006-2011, total receipts increased by 60 *per cent* from ₹ 30357 crore in 2006-07 to ₹ 48556 crore in 2010-11, of which increase of revenue receipts was by 85 *per cent* from ₹ 18033 crore to ₹ 33276 crore during the period due to higher collection of State's own taxes as well as increases in central tax transfers and grants-in-aid from GoI. The share of revenue receipts as percentage of total receipts increased steadily from 59 *per cent* in 2006-07 to 69 *per cent* in 2010-11. The share of Capital Receipts witnessed a fall from eight *per cent* in 2006-07 to five *per cent* in 2010-11. The percentage share of Public Account receipts to the total receipts declined from 33 *per cent* in 2006-07 to 25 *per cent* in 2010-11. The rate of growth of revenue receipts varied from 28 *per cent* in 2006-07 to 26 *per cent* in 2010-11. Revenue buoyancy ratio also varied from 1.53 in 2006-07 to 1.104 in 2010-11.

1.2.2 Funds transferred to State implementing agencies outside the State Budget

The 13th FC has recommended that the public expenditure through creation of fund outside the Consolidated Fund by diverting from the Budget and operated outside the authority of legislature need to be discouraged as these irregular arrangements bypass the oversight of the State Legislature.

The Central Government has been transferring a sizeable amount of funds directly to the State implementing agencies for the implementation of various central schemes/programmes and externally-aided projects in social and economic sectors recognised 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 vitiated.

To present a holistic picture on availability of aggregate resources, funds directly transferred by GoI to State implementing agencies during 2010-11 are calculated at ₹ 6257.85 crore as against ₹ 3637.86 crore in 2009-10 ***(Appendix-1.5)*** for implementation of various centrally sponsored plan schemes which, among others, included ₹ 731.78 crore (Sarva Shiksha Abhiyan), ₹ 450.08 crore (Rural Housing Scheme (IAY), ₹ 1561.86 crore (National Rural Employment Guarantee Scheme), ₹ 2046.10 crore (Pradhan Mantri Gram Sadak Yojana) etc. Considering that the direct transfers are so large (19 *per cent* of State's revenue receipts), it is imperative that the end use of this fund is monitored in a timely and efficacious manner by both the Union and State Governments so that the intended outcomes are actually realized economically and efficiently. However, direct transfers from the GoI to the State implementing agencies run the risk of poor oversight. Funds flowing directly to the implementing agencies through off-budget route inhibit FRBM Act requirements of transparency and escape accountability. There is no single agency monitoring the use of these funds and no data is readily available on the amounts spent in any particular year on major flagship and other important schemes. Unless uniform accounting practices are followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers. The State Government has to put in place an appropriate mechanism to ensure proper accounting of these funds.

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 2006-11 are shown in ***Appendix 1.4*** and also depicted in **Chart 1.4** and **1.5** respectively.

Chart 1.4: Trends in Revenue Receipts

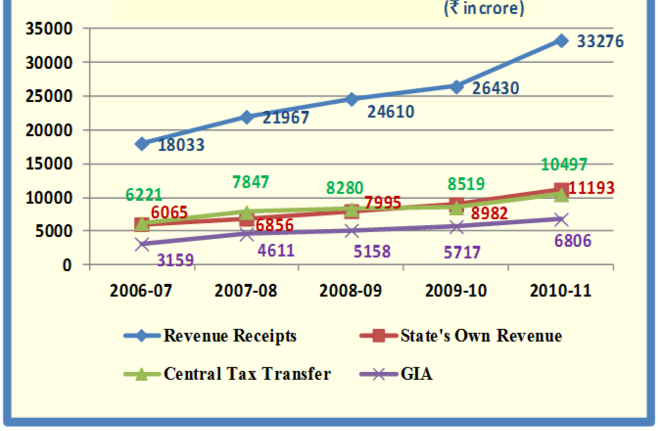
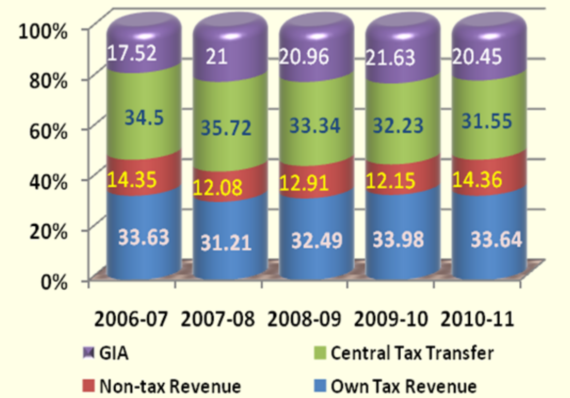


Chart 1.5 : Composition of Revenue Receipts during 2006-11



Revenue receipts showed progressive increase from ₹ 18033 crore in 2006-07 to ₹ 33276 crore in 2010-11 at an average growth rate of 85 *per cent*. On an average, 48 *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 ₹ 2211 crore (25 *per cent*) in own tax revenue, ₹ 1568 crore (49 *per cent*) in Non-Tax revenue, ₹ 1978 crore (23 *per cent*) in State's share in Union Taxes and Duties and ₹ 1089crore (19 *per cent*) in GoI's grants-in-aid resulted in increase of ₹ 6846 crore in revenue receipts during 2010-11 over the previous year.

Though there was increase in revenue receipts from 2006-07(₹ 18033 crore) to 2010-11 (₹ 33276 crore), yet the annual growth rate has come down from 28 *per cent* in 2006-07 to 26 *per cent* in 2010-11.

The trends in revenue receipts relative to GSDP are presented in **Table 1.3** below:

Table 1.3: Trends in revenue receipts relative to GSDP *

	2006-07	2007-08	2008-09	2009-10	2010-11
Gross State Domestic Product (GSDP) (₹ in crore)	**93374(Q)**	**106466(A)**	**122165**	**150946(A)**	**186356(A)**
Revenue Receipts (RR) (₹ in crore) **	**18033**	**21967**	**24610**	**26430**	**33276**
Rate of growth of RR (*per cent*)	28.03	21.82	12.03	7.40	25.90
R R/GSDP (*per cent*)	19.31	20.63	20.14	17.51	17.86
Buoyancy Ratios[2]					
Revenue Buoyancy with respect to GSDP	1.535	1.556	0.816	0.314	1.104
State's Own Tax Buoyancy with respect to GSDP	1.163	0.930	1.127	0.524	1.049

Source: * GSDP - Directorate of Economics and Statistics, Government of Odisha and Revenue receipts – Finance Accounts of the respective years.
Q: Quick Estimate, A: Advance Estimate.
**** Do not include GoI funds transferred to Non-Government organizations and others.**

Revenue Buoyancy widely fluctuated during the period due to fluctuations in the growth rate of revenue receipts. The growth rate of revenue receipts was highest in 2006-07. In the next three years, the lower growth rate of revenue receipts relative to GSDP pushed the revenue buoyancy ratio down. Revenue buoyancy ratio which was at its lowest at 0.314 in 2009-10 increased to 1.104 during 2010-11 due to increase in growth rate of revenue receipts.

During 2010-11, Central tax transfers increased by ₹ 1978 crore over previous year and constituted 32 *per cent* of revenue receipts during 2010-11. The increase was mainly under Corporate Tax (₹ 597 crore), Taxes on Income other than Corporation Tax (₹ 215 crore), Customs (₹ 643 crore) and Union Excise Duties (₹ 375 crore). The grants-in-aid from GoI increased by ₹ 1089 crore from ₹ 5717 crore in 2009-10 to ₹ 6806 crore in 2010-11. The increase was under grants for Non-Plan schemes (₹ 482 crore), State Plan schemes (₹ 502 crore), Central Plan schemes (₹ 105 crore).

[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*.

Besides, the GoI released ₹ 874.69 crore against ₹ 902.13 crore recommended by 13th FC under Non-Plan grant **(Table 1.4)**. The release of such grant vis-à-vis the recommendation of 13th FC during 2010-11 was for the following purposes.

Table 1.4: Release of 13th FC grants by GoI

(₹ in crore)

Purpose	Amount recommended by 13th FC	Amount released by GoI	Shortfall in release
Disaster relief	293.69	293.69	0
Capacity Building	5.00	5.00	0
Grants to local bodies {Panchayati Raj Institutions (PRIs), Urban Local Bodies (ULBs) and Special Area Grant}	309.15	305.56	3.59
Elementary Education	170.00	170.00	0
Grants for improving outcomes :			
(i) Judiciary delivery	38.72	38.72	0
(ii) Incentive for issuing UID	35.70	17.85	17.85
(iii) Improvement of Statistical System	6.00	0	6.00
(iv) Employees and Pension Data Base	2.50	2.50	0
Environment related grant (Forest)	41.37	41.37	0
Total	**902.13**	**874.69**	**27.44**

Source: Finance Account 2010-11

There was a shortfall in release of grants by GoI under (i) grants to local bodies (PRIs, ULBs and Special Area Grant - ₹ 3.59 crore), incentive for issuing UID (₹17.85 crore) and improvement of statistical system (₹ 6.00 crore).

Reasons for shortfall though called for (September 2011) from the Finance Department has not been made available to Audit (October 2011).

1.3.1 State's Own Resources

The States share in central taxes and grants-in-aid is determined on the basis of recommendation of the Finance Commission. Collection of Central Tax receipts and central assistance for plan schemes etc is also determined on the basis of recommendation of Finance Commission. The States own resources comprised revenue receipts from its own tax and non-tax source.

The gross collection in respect of State's 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 percentage of such expenditure to the gross collection during the years 2008-09 to 2010-11 along with the respective all India averages are presented in ***Appendix-1.6***

1.3.1.1 Tax Revenue

The compound annual growth rate (CAGR) of tax revenue for 2001-10 of the State was higher as compared to other general category States ***(Appendix 1.1)***. The tax revenue during the current year (₹ 11193 crore) increased by over 25 *per cent* over the previous year (₹ 8982 crore). The revenue through Taxes on Sales, Trade etc. (₹ 6807 crore) was the main source of State's own tax revenue and registered an increase of 26 *per cent* (over the previous year) followed by increase under State Excise (₹ 1094 crore) by 29 *per cent*, Taxes on Goods and Passengers (₹ 1111 crore) by 36 *per cent*, Taxes on Vehicles (₹ 728 crore) by 19 *per cent*, Stamps and Registration fees (₹ 416 crore) by 16 *per cent* and Land Revenue (₹ 391 crore) by 34 *per cent* over the previous year. The projection furnished by the State Government to

13th FC is ₹ 53409 crore for 2010-15. The trend of increase was impressive and if the same trend continued, the State could easily reach the projected figure.

The growth rate of Own Tax Revenue (OTR) with respect to GSDP was six *per cent* in 2010-11. To achieve the target of 7.5 *per cent* by 2014-15 as projected to 13th FC (Para 7.6 of the recommendations), the State Government will have to take appropriate steps to gear up their OTR.

1.3.1.2 Non-tax Revenue

The Compound Annual Growth Rate (CAGR) of non tax revenue for 2001-10 of the State was also higher as compared to General Category States (***Appendix1.1***). Own Non-Tax Revenue (ONTR) (₹ 4780 crore) which constituted 14 *per cent* of Revenue Receipts during 2010-11 increased by ₹ 1568 crore (*49 per cent*) over previous year. The increase was mainly under Miscellaneous General Services by ₹ 401 crore, Non-Ferrous Mining and Metallurgy Industries ₹ 1308 crore and Forestry and Wild Life by ₹ 49 crore set off by decrease in Interest Receipts by ₹ 118 crore, Dividends and Profits by ₹ 149 crore and Other Administrative Service by ₹ 45 crore and despite non-receipt of grant from GoI under the Debt Consolidation Relief Facility (DCRF) scheme as was received during the previous year under the recommendation of the Twelfth Finance Commission (₹ 381.80 crore). The growth was impressive.

The mobilization of OTR and ONTR during 2010-11 (**Table1.5**) exceeded the normative assessment of 13th FC and State Government in its MTFP as below

Table 1.5: Mobilisation of OTR and ONTR

(₹ in crore)

	Assessment made by 13th FC	Assessment made by State Government in MTFP	Actuals
State's own Tax Revenue	10709	10360	11193
State's own Non-Tax Revenue	2256	3166	4780

1.3.2 Under assessment/short levy and loss of revenue

Cases of under assessment/ short levy and loss of revenue aggregating ₹ 2200.85 crore (183395 cases) as revealed from the test check of records of 330 audited offices during 2010-11 are depicted in **Table 1.6.**

Table 1.6: Cases of under assessment and short levy of revenue for the year 2010-11.

Sl No	Nature of Receipts	Name of the Department	No. of units checked	No of cases	Amount (₹ in crore)
1	VAT/Entry Tax/ Central Sales Tax	Finance	60	274	91.51
2	Taxes on Motor Vehicles	Transport	27	171253	71.77
3	Land Revenue	Revenue and Disaster Management	129	7387	147.20
4	Stamp Duty and Registration Fees			818	3.31
5	Forest Receipt	Forest and Environment	59	2617	8.93
6	Mining Receipt	Steel and Mines	15	226	932.32
7	State Excise	Excise	15	440	22.90
8	Other Departmental Receipt	Finance, Energy, General Administration (Rent) and Steel and Mines	25	380	922.91
	TOTAL		**330**	**183395**	**2200.85**

Source: C&AGs Audit Report (Revenue Receipts) for the year ended 31 March 2011 on Government of Odisha

Major amounts of under assessment and short levy of revenue noticed were in Steel and Mines Department, Other Departmental receipts (Finance, Energy, and General Administration) and Revenue and Disaster Management Department.

The State Government should immediately initiate corrective action for recovery of these revenues along with interest.

1.3.3 Revenue Arrears

Arrears of revenue pending recovery as at the end of 31 March 2011 worked out to ₹ 1858.04 crore is given in **Table 1.7.**

Table:1.7: Cases of arrears of revenue during the year 2010-11

(₹ in crore)

Sl No.	Name of the Department	Nature of Revenue	Amount of Arrears as on 31 March 2011	Remarks
1.	Finance	(i) Sales Tax / VAT	1489.55	The arrears are due to recoveries stayed by Departmental authorities and Courts.
		(ii) Entertainment Tax	7.03	
		(iii) Luxury Tax	0.01	
		(iv) Professional Tax	1.77	
2.	Revenue and Disaster Management	(i) Land Revenue	24.23	Arrears on account of rent, cess, nistar cess, sairat etc.
		(ii) Stamps and Registration fees	74.25	
3.	Excise	State Excise	21.40	Not available.
4.	Energy	Taxes and Duties on Electricity	10.50	Due to certificate proceedings and litigation pending in various judicial authorities.
5.	Commerce and Transport	Taxes on Vehicles	229.30	Due to certificate proceedings and litigations pending in various judicial authorities etc.
		Total	**1858.04**	

Source: Finance Accounts 2010-11

For commercial viability of irrigation projects, the Twelfth Finance Commission (TFC) recommended cost recovery of maintenance expenditure at the rates of 60 *per cent* in 2006-07, 70 *per cent in* 2007-08, 80 *per cent* in 2008-09 and 90 *per cent* in 2009-10. The 13th FC similarly recommended 25 *per cent* in 2010-11 for the purpose of projection and revenues. The position of revenue receipts vis-à-vis the maintenance expenditure **(Table 1.8)** of irrigation projects during 2006-11 in the State was as below:

Table 1.8: Cost recovery of maintenance expenditure

(₹ in crore)

Year	Expenditure incurred under the Major Head of Account				Revenue receipt under the Major Head of Account				Shortfall (-) / excess (+) in cost of recovery at prescribed rates	Percentage of recovery
	2700 Major Irrigation	2701 Medium Irrigation	2702 Minor Irrigation	Total	0700 Major Irrigation	0701 Medium Irrigation	0702 Minor Irrigation	Total		
2006-07	105.83	18.08	72.81	196.72	1.51	48.24	4.46	54.21	(-) 63.82	60
2007-08	128.36	43.12	256.50	427.98	1.75	41.97	4.96	48.68	(-) 250.91	70
2008-09	84.49	45.89	152.36	282.74	1.85	45.56	5.32	52.73	(-) 173.46	80
2009-10	61.59	24.22	149.02	234.83	3.39	62.08	4.40	69.87	(-) 141.48	90
2010-11	285.87	49.65	104.90	440.42	95.89	37.80	9.11	142.80	(+) 32.69	25
TOTAL	**666.14**	**180.96**	**735.59**	**1582.69**	**104.39**	**235.65**	**28.25**	**368.29**	**596.98**	

Source: Finance Accounts for 2010-11.

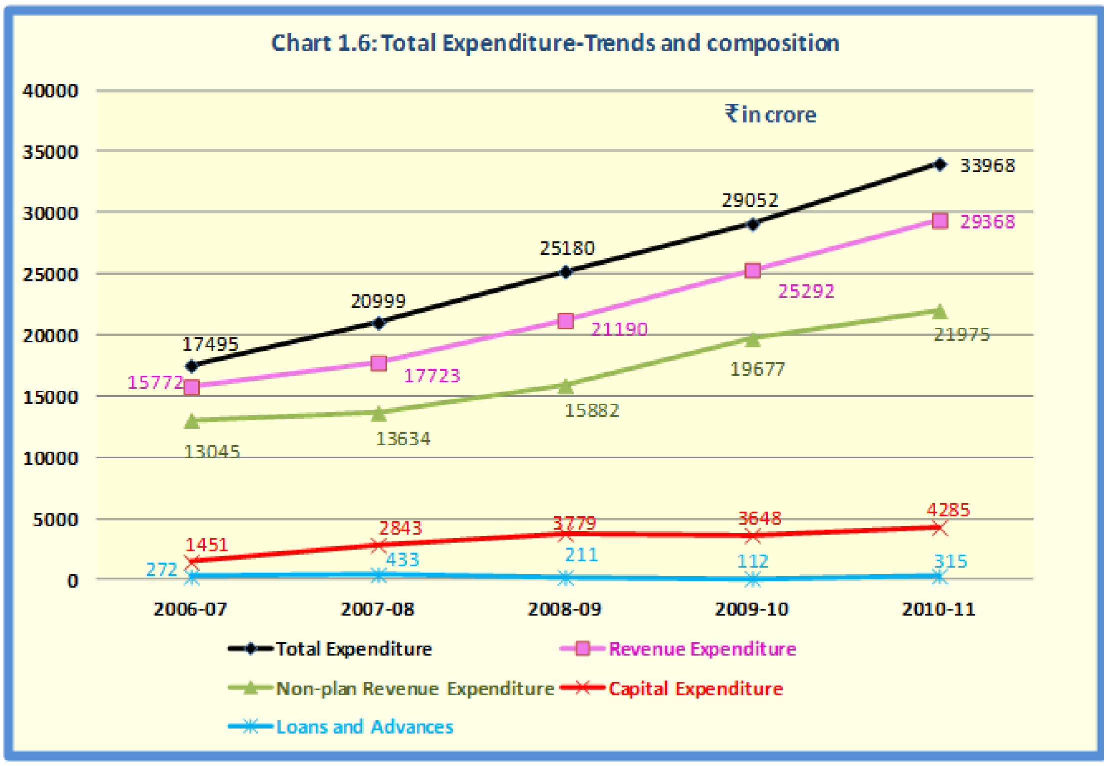
There was shortfall in recovery of maintenance cost at prescribed rates in all the years during 2006-10 which aggregated to ₹ 596.98 crore. However, the cost recovery during 2010-11 was 142.80 crore, which was higher by ₹ 32.69 crore than what was assessed by the 13th FC. This is a welcome effort, if persists.

1.4 Application of Resources

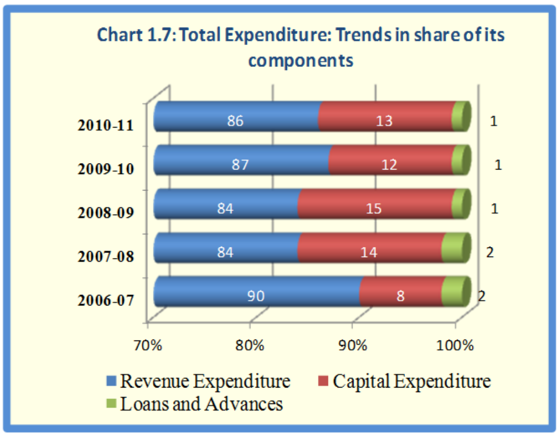
Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted to them. It is therefore important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure earmarked for development and social sectors.

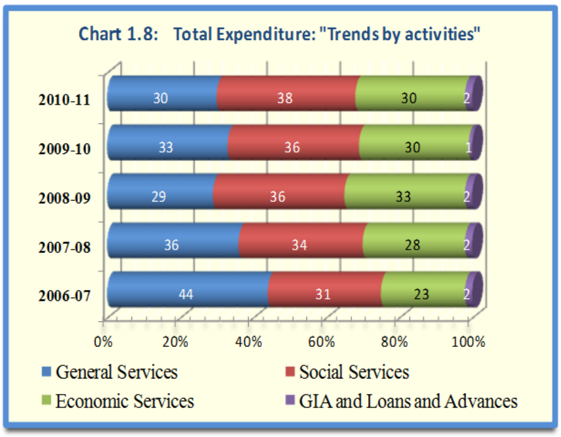
1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2006-11) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.7 and 1.8** respectively**.**



Total Expenditure of the State which includes Revenue Expenditure, Capital Expenditure and Loans and Advances increased from ₹ 17495 crore in 2006-07 to ₹ 33968 crore in 2010-11. The increase of ₹ 4916 crore in total expenditure in 2010-11 over the previous year was on account of an increase in Revenue Expenditure by ₹ 4076 crore together with increases by ₹ 637 crore in Capital Expenditure and ₹ 203 crore in disbursement of Loans and Advances. The total expenditure was 18.23 *per cent* of GSDP during 2010-11 as compared to 19.25 *per cent* during the previous year.





1.4.1.1 Total Expenditure

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 the combined shares of Social Services and Economic Services increased from 54 *per cent* in 2006-07 to 68 *per cent* in 2010-11 in total expenditure, which was set off by decreases in the respective share of General Services and of Loans and Advances.

1.4.1.2 Revenue Expenditure

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 90 *per cent* of total expenditure in 2006-07 which fell to 86 *per cent* in 2010-11. However, it increased by 16 *per cent* from ₹ 25292 crore in 2009-10 to ₹ 29368 crore in 2010-11 in absolute terms. *However, Revenue Expenditure was below the projection of MTFP (₹ 32482 crore).*

1.4.1.3 Non-Plan Revenue Expenditure

Non-Plan Revenue Expenditure (NPRE) as a proportion of Revenue Expenditure, increased from ₹ 13045 crore in 2006-07 to ₹ 21975 crore (68 *per cent*) in 2010-11. Out of the total increase of ₹ 4076 crore in Revenue Expenditure during the current year over the previous year, increase in NPRE contributed 56 *per cent* (₹ 2298 crore) and the remaining ₹ 1778 crore (44 *per cent*) was the Plan Revenue Expenditure (PRE). The increase in NPRE during the current year was mainly on Education, Sports and Culture (₹ 481 crore), Social Welfare and Nutrition (₹ 337 crore), Water Supply and Sanitation, Housing and Urban Development (₹ 154 crore) and Agriculture and Allied Activities (₹ 181 crore). The NPRE has exceeded 13th FC's normative assessment by ₹ 4292 crore though it remained within the Budget Estimate (₹ 24361 crore) for 2010-11 (**Table 1.9**) as indicated below.

Table 1.9: Comparative assessments of RE and NPRE and per cent of GSDP

	Assessment made by 13th FC	Assessment made by Government in MTFP	Budget Estimate for 2010-11	Actual in 2010-11
Revenue Expenditure	Not available	32482 (17.43)	32482 (17.43)	29368 (15.76)
NPRE	17683) (11.01)	24361 (13.07)	24361 (13.07)	21975 (11.79)

Note: Absolute amounts converted into percentage of GSDP (₹ 186356 crore) for 2010-11.

The NPRE constituted 65 *per cent* of the total expenditure of the State during 2010-11. Its ratio with Revenue Expenditure declined from 83 *per cent* in 2006-07 to 75 *per cent* in the current year which is a welcome development.

1.4.1.4 Capital Expenditure

Capital Expenditure (CE) of the State as proportion of Total Expenditure ranged from eight *per cent* (₹ 1451 crore) in 2006-07 to ₹ 4285 crore (13 *per cent*) in 2010-11, which was far below the level of Capital Expenditure incurred by other General Category States on an average (vide paragraph 1.5.1)**.** However, Capital Expenditure (CE) showed an increase of 17 *per cent* during 2010-11 over the previous year mainly on account of increase in expenditure on Education, Sports and Art and Culture (₹ 175 crore), Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Castes (₹ 261 crore), Special Area Programme (₹ 184 crore), Transport (₹ 367 crore) set off by decrease in expenditure on Water Supply and Sanitation, Housing and Urban Development (₹ 226 crore) and Industry and Minerals (₹ 320 crore). The CE during 2010-11, was 2.30 *per cent of GSDP* as against Government's projection of 2.68 *per cent* in the MTFP. The CE (₹ 4285 crore) was lesser by ₹ 171 crore against revised budget estimate (₹ 4456 crore) during the current year.

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 1.10** and **Chart 1.9** present the trends in the expenditure on these components during 2006-11.

Table-1.10: Components of Committed Expenditure

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Salaries* & Wages , *Of which*	4028 (22)	4582 (21)	6524 (27)	7945 (27)	11420 (30)	8969 (26)
Non-Plan Head	3816	4333	6220	7484	10394	8448
Plan Head**	212	249	304	461	1226	521
Interest Payments	3188 (18)	3169 (14)	2889 (12)	3044 (10)	3952 (11)	3061 (9)
Expenditure on Pensions	1485 (9)	1801 (8)	2075 (8)	3283 (11)	4403 (12)	4011 (12)
Subsidies	170 (0.9)	148 (0.7)	743 (3.02)	1008 (35)	1080 (3)	1310 (4)
TOTAL	**8871**	**9700**	**12231**	**15280**		**17351**

Figures in the parentheses indicate *percent*age to revenue receipts. BE : Budget Estimates

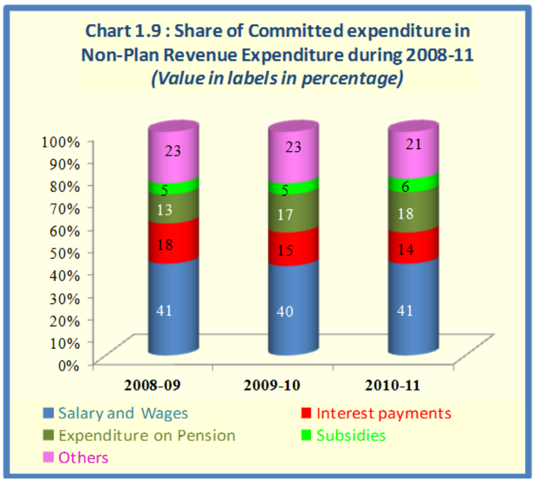
* *also includes the salaries paid out of Grants-in-aid*

** *also includes the salaries and wages paid under centrally sponsored schemes*

Source: Finance Accounts 2010-11 and Orissa Budget at a Glance 2011-12

1.4.2.1 Salaries

The expenditure on salaries increased from ₹ 4028 crore in 2006-07 to ₹ 8969 crore in 2010-11 accounting for nearly 27 *per cent* of revenue receipts and 41 *per cent* of the NPRE of the State Government during the year. The expenditure on salaries increased by ₹ 1024 crore (13 *per cent)* from ₹ 7945 crore in 2009-10 to ₹ 8969 crore in 2010-11. The increase of ₹ 1024 crore over the previous year was attributable mainly to payment of arrears on the basis of the recommendation of 6th Pay Commission and grant of annual increment at the rate of three *per cent* and dearness relief to the employees. However, the expenditure on salary as a percentage of Revenue Expenditure was 31 *per cent* during 2010-11 as against 42 *per cent* in 2009-10. However, the salary expenditure was ₹ 2455 crore more than the 13th FC assessment of ₹ 6514 crore for 2010-11 in absolute terms.



1.4.2.2 Interest Payments

The major source of borrowing was market loans at interest rates varying from six *per cent* to 12 *per cent*. The interest payments during the current year (₹ 3061 crore) increased marginally by ₹ 17 crore over the previous year's (₹ 3044 crore) and remained lower than the projections made in MTFP (₹ 3952 crore) and 13th FC (₹ 3674 crore) and Budget Estimates (₹ 3952 crore) for the year 2010-11. During 2010-11, the interest payments as percentage of total revenue receipts was nine per cent which was lower than the projections of 12.57 *per cent* in MTFP.

1.4.2.3 Pensions

The expenditure on pension steeply increased during 2006-07 to 2010-11 by 170 *per cent* from ₹ 1485 crore in 2006-07 to ₹ 4011 crore in 2010-11. It also increased by ₹ 728 crore from ₹ 3283 crore in 2009-10 to ₹ 4011 crore in 2010-11, being 22 *per cent* more than the previous year as against the 13th FC estimation of 10 *per cent*. The increase in the current year over the previous year was mainly on account of payment of pension and gratuity to Non-Government teachers of Secondary Schools and Colleges and leave salary encashment at enhanced rates on the basis of 6th Pay Commission recommendations. The State Government did not estimate yearly pension liabilities on actuarial basis. The pension payment during the current year was higher than the projection made by 13th FC (₹ 2634 crore) for the year[3] and MTFP (₹ 4403 crore) during the year.

The Government introduced a Defined Contributory Pension Scheme for all employees recruited on or after 1 January 2005 for managing the future pension liability. An amount of ₹ 40 crore, being the employees contribution, is kept under

[3] There are 2,64,861 different categories of state pensioners drawing pension.
Source: Finance Accounts – Statement No-12

Public Accounts (8432-Other Deposits). However, the State Government's contribution was yet to be credited to the account.

1.4.2.4 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. However, the expenditure on subsidies increased from ₹ 1008 crore in 2009-10 to ₹ 1310 crore (over 33 *per cent*) in 2010-11 which included food subsidy of ₹ 932 crore due to introduction of rupees two a kilogram of rice for the people living below poverty line and other subsidies under Agriculture (₹ 72 crore) and Textile and Handloom (₹ 31 crore).

The 13th FC has made a normative assessment of ₹ 20 *per capita* for each of the year for food subsidy. Accordingly food subsidy should have been ₹ 84 crore taking into account the population of the State (4.19 crore) as against the ₹ 932 crore spent in 2010-11.

The circumstances under which recommendations of 13th FC was not taken onto account for limiting the quantum of subsidy was called for (October 2011) from the Finance Department. The Principal Secretary, Finance Department stated (October 2011) that providing rice at rupees two per kilogram was a safety net designed to protect the poor and vulnerable in a high inflation regime, since GoI was not providing any such assistance.

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

The quantum of assistance provided by way of grants to local bodies and others during the current year relative to the previous years is presented in the **Table 1.11** below:

Table 1.11: Financial Assistance to Local Bodies etc.

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Educational institutions (aided schools, aided colleges, universities, etc.)	489	467	355	697	1722
Municipal Corporations and Municipalities	48	483	487	645	1168
Zilla Parishads and Other Panchayati Raj Institutions	1510	1535	2388	3062	3556
Development agencies	400	256	278	88	582
Other Institutions (Autonomous bodies)	972	1117	1914	2230	2058
Total	**3419**	**3858**	**5422**	**6722**	**9086**
Assistance as per percentage of RE	22	22	26	28	31

Source : H&UD, P.R Department and worked out from Group Heads compiled by the office of the Principal Accountant General (A&E)

The grants extended to local bodies and other institutions with inter year variations increased by 35 *per cent* from ₹6722 crore in 2009-10 to ₹9086 crore in 2010-11. The share of grants and loans to the revenue expenditure increased from 22 p*er cent* in 2006-07 to 31 *per cent* in the current year. Another important trend was that the share of financial assistance increased by ₹ 1025 crores to educational institutions, by ₹ 523 crores to Municipal Corporations and Municipalities, by ₹494 crores to Zilla Parishad and other Panchayatiraj institutions and by ₹494 crore to Development agencies as compared to the previous year. However assistance to other institutions (Autonomous bodies) decreased by ₹172 crore. Hence, transfer of funds to local bodies in terms of the 73rd and 74th amendment of the Constitution and subsequent prescriptions from Government of India is on the rise which is a welcome development. This needs to be further augmented and expedited.

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 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 (assessment of input –output relationship in terms of time etc.) and the effectiveness (assessment of outlay-outcome relationships for selected services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.12** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2010-11.

Table 1.12: Fiscal Priority and Fiscal capacity of the State in 2007-08 and 2010-11.

Fiscal Priority by the State*	AE/GSDP	DE#/AE	SSE/AE	CE/AE	Education/AE	Health/AE
General Category States average (Ratio) 2007-08	17.09	64.28	32.54	16.14	14.64	3.98
Odisha State's average (Ratio) 2007-08	16.50	48.31	34.54	13.54	15.55	3.56
General Category States average (Ratio) 2010-11	16.68	64.29	36.68	13.25	17.39	4.34
Odisha State's average (Ratio) 2010-11	18.23	68.62	37.56	12.61	19.47	3.74

* As per cent to GSDP
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

Table 1.12 indicates the following:

1. Odisha spent a smaller proportion of its GSDP on Aggregate Expenditure in 2007-08 as compared to general category states but during 2010-11 Odisha has spent higher proportion of its GSDP as Aggregate expenditure compared to general category States.

2. Development expenditure as a proportion of Aggregate Expenditure in Odisha was very low compared to the general category state's average during 2007-08, but there is a significant improvement in priority to development in 2010-11 as Odisha has spent more proportion on this account as compared to General Category states. Development expenditure consists of both economic service expenditure and social sector expenditure.

3. Capital expenditure however, seems to have been given less priority in the current year as well as in 2007-08. Increased priority to physical capital formation will further increase the growth prospects of the state by creating durable assets.

4. Odisha has given adequate priority to education sector and less priority to health sector as compared to general category states during 2007-08 as well as in current year based on the proportion of Aggregate Expenditure the state spends on these critical sectors.

1.5.2 Efficiency of Expenditure use

In view of the importance of public expenditure for attaining higher levels of social and economic development, it is important for the Government to take appropriate expenditure rationalisation measures so as to lay emphasis on provision of core public and merit goods[4]. Apart from improving the allocation towards development expenditure[5], particularly in view of the fiscal space being created on account of decline in debt servicing in recent years and which is further enlarged due to generation of a surplus on revenue account since 2005-06, 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 1.13** 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 1.14** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.13: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					(BE)	(Actuals)
Development Expenditure (a to c)						
a. Development Revenue Expenditure (DRE)	7997 (46)	10145 (48)	13835 (55)	15600 (54)	24052 (62)	18999 (56)
b. Development Capital Expenditure (DCE)	1328 (8)	2711 (13)	3595 (14)	3470 (12)	4449 (11)	4051 (12)
c. Development Loans and Advances	138 (0.79)	301 (1.43)	122 (0.5)	89 (0.3)	NA	258 (0.8)
TOTAL	**9463**	**13157**	**17552**	**19159**	**28501**	**23308**

Figures in parentheses indicate *percent*age to aggregate expenditure; NA:- Not available
*__Source:-__ Odisha Budget at a Glance 2010-11 and Finance Accounts 2010-11.

[4] 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 subsidised 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.

[5] 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 categorised 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.

Development Expenditure comprising revenue, capital and expenditure on loans and advances on socio-economic services increased from ₹ 9463 crore in 2006-07 to ₹ 23308 crore in 2010-11. As a percentage of total expenditure, it increased from 54 *per cent* in 2006-07 to 69 *per cent* in 2010-11.

It would be seen from the above that Development Revenue Expenditure which was ₹ 7997 crore during 2006-07 rose to ₹ 18999 crore during 2010-11, a growth of nearly 138 *per cent*.

During 2010-11 while Development Revenue Expenditure increased by ₹ 3399 crore (22 *per cent*) in absolute terms, Development Capital Expenditure increased by ₹ 581 crore (17 *per cent*) over the previous year.

The increase in Development Revenue Expenditure during 2010-11 over the previous year was mainly due to increase under Education (₹ 883 crore), Health and Family Welfare (₹ 98 crore), Agriculture and allied activities (₹ 587 crore), Transport (₹ 103 crore), Irrigation and Flood Control (₹ 151 crore) and Energy (₹ 110 core). The increase in Capital Expenditure during 2010-11 over the previous year was mainly due to increase under Education (₹ 174 crore) and Welfare of SC/ST (₹ 261 crore), Irrigation and Flood control (₹ 84 crore) and Transport (₹ 367 crore) etc.

Table 1.14: Efficiency of Expenditure Use in Selected Social and Economic Services

(In *per cent*)

Social / Economic Infrastructure	2009-10			2010-11		
	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	0.15	61.76	NA	2.81	58.39	NA
Health and Family Welfare	2.10	74.90	NA	2.25	80.68	NA
Water Supplies, Sanitation & Housing & Urban Development	32.03	8.45	34.41	13.84	7.61	77.05
Total (SS)	**5.38**	**47.77**	**2.70**	**6.15**	**44.00**	**6.15**
Economic Services (ES)						
Agriculture & Allied Activities	4.03	31.22	NA	2.75	26.31	NA
Irrigation and Flood Control	71.31	23.10	8.68	67.73	20.79	35.34
Power & Energy	8.55	3.24	NA	16.86	1.63	0.91
Transport	49.45	0.42	NA	55.18	0.39	NA
Total (ES)	**33.38**	**20.76**	**0.92**	**30.96**	**18.39**	**3.85**
Total (SS+ES)	**18.11**	**37.80**	**2.04**	**17.38**	**34.46**	**5.29**

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, Agriculture & Allied Activities and Transport Departments.

Source: Finance Accounts of Government of Odisha

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 1.14** summarizes percentage of expenditure under different components of economic and social services sectors incurred by the

State Government in expanding and maintaining social and economic services in the State during 2009-10 and 2010-11.

Even though the share of CE to TE has declined in respect of Water Supplies, Sanitation and Housing and Urban Development (in Social Services), and Agriculture and Allied Activities and Irrigation and Flood Control (in Economic Services) during 2010-11 as compared to the previous year, the Operation and Maintenance expenditure has substantially increased in Water Supplies and Sanitation and Irrigation and Flood Control by reduction in salary and wages share to TE.

As seen from Appendix 1.3, the expenditure on Social Services during 2010-11 (₹ 12706 crore) constituting 37 *per cent* of total expenditure (₹ 33968 crore) increased by 22 *per cent* over the previous year's expenditure (₹ 10401 crore) while development expenditure (₹ 23308 crore), which was 55 *per cent* of total expenditure, had also increased by 22 *per cent* over the previous year (₹ 19159). Operation and maintenance expenditure increased only by 3.45 *per cent* indicating that Revenue Expenditure on salaries continued to share a dominant proportion of Revenue Expenditure on Social Services (44 *per cent*). The Capital Expenditure on Social Services relative to the total expenditure showed a marginal increase (0.77 *per cent*) over the previous year. The revenue expenditure on Social Services of ₹ 11922 crore during the current year registered a significant increase of ₹ 2084 crore (21 *per cent*) over the previous year's ₹ 9838 crore.

It was observed that the salary component in Education decreased by 3.37 *per cent* whereas Health & Family Welfare registered growth rate of 5.78 *per cent* over the previous year.

The expenditure on Economic Services includes all such expenditure that promotes directly or indirectly, productive capacity within the State's economy. During 2010-11, total expenditure under economic services (₹ 10459 crore) increased by 21 *per cent* over previous year of ₹ 8709 crore. The expenditure on total economic services (₹ 10459 crore) accounted for 31 *per cent* of total expenditure and 45 *per cent* of development expenditure. However, the ratio of CE/TE decreased by 2.42 *per cent* over that of previous year indicating that capital expenditure seems to have been given less priority in the developmental plan of the State, which has the potential of adversely affecting the growth prospects of the State in the long run**.**

1.5.3 Effectiveness of the Expenditure

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 1.7.***

1.6 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit not only at low levels but also meet its Capital Expenditure/Investment (including Loans and Advances) requirement from out of its own source of revenue. 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 ₹ 3517.58 crore at the end of March 2011 showed that an amount of ₹ 102.11 crore was realized from these projects during 2010-11 by way of sale of water to industries against the direct working expenses of ₹ 169.47 crore. After meeting the working and maintenance expenditure (₹ 170.22 crore) and interest charges (₹ 242.55 crore), the schemes suffered a net loss of ₹ 312.03 crore.

Government will have to take appropriate steps for levy of user charges. One option is to increase the water rate meant for sale to industries. Principal Secretary, Finance Department stated (October 2011) that the industrial water rate had been increased with effect from 1st October 2011 and the revenue stream/ collection had increased substantially as a result of the same.

1.6.2 Incomplete Projects

The department-wise information pertaining to incomplete time overrun projects as on 31 March 2011 is given in **Table 1.15** as per the information furnished to Audit by the concerned Departments.

Table 1.15: Department-wise profile of incomplete projects

(₹ in crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects	Cost over-runs	Cumulative Actual Expenditure as on 31 March 2011
Sports and Youth Affairs	3	7.66	11.40	3.74	6.93
Water Resources	4	31.29	32.49	1.20	29.53
Works	9	79.50	90.84	11.34	42.91
Tourism	7	44.49	44.49	0	32.74
Housing & Urban Development	18	60.69	71.42	10.73	48.14
Rural Development	64	162.01	162.01	0	129.21
Industries	7	9.72	12.83	3.11	5.92
Total	**112**	**395.36**	**425.48**	**30.12**	**295.38**

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

Out of these, the delay in completion of 41 projects has resulted in cost overrun of ₹ 30.12 crore as at the close of the current year (2010-11). All the above 112 projects were lying incomplete due to non-availability of adequate funds and required land sites. The amount blocked in these projects was 13 *per cent* of the cumulative outlay of those departments. Due to non completion of projects the benefits to be accrued to the society delayed.

1.6.3 Investment and Returns

As of 31 March 2011, Government had invested ₹ 2190.37 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives **(Table 1.16)**. The returns from these investments were negligible in absolute terms. The average return on this investment was 8.44 *per cent* in the last five years (4.64 *per cent* during 2010-11) while the Government paid an average interest rate of 7.39 *per cent* to 8.18 *per cent* on its borrowings during 2006-07 to 2010-2011.

Table 1.16: Return on Investment

(₹ in crore)

Year	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year	1652.14	1681.95	1771.20	2106.95	2190.37
Return	49.39	140.93	252.85	250.78	101.58
*Percent*age of return	2.99	8.38	14.27	11.90	4.64
Average rate of interest on Government borrowing	8.18	8.13	7.44	7.63	7.39
Difference between interest rate and return	5.19	(-)0.25	(-)6.83	(-)4.27	(+)2.75

The investment of State Government at the end of 2010-11 included ₹ 1826.17 crore in 83 Public Sector Undertakings (PSU) comprising 80 Government Companies (₹ 1333.71 crore) and three Statutory Corporations (₹ 492.46 crore). However, dividend of ₹ 101.58 crore was received from one Statutory Corporations (Odisha State Warehousing Corporation, Bhubaneswar: ₹ 13 lakh), three Government Companies (Odisha Mining Corporation Limited: ₹ 100 crore and Odisha State Cashew Development Corporation Limited: ₹ 46 lakh and Industrial Development Corporation ₹ 31 lakh) and Co-operative Banks (Orissa State Co-operative Bank ₹ 39 lakh, Orissa State Co-operative Land Development Bank ₹ 29 lakh) during 2010-11. Thus, the contribution of Odihsa Mining Corporation constituted 98.44 *per cent* of the total return received. Therefore, in essence, two Statutory Corporations, 77 Government Companies and 29 Co-operative Societies where 490.70 crore, 1242.54 crore and 320.98 crore had already been invested and which comprised 94 *per cent* of the total Government investments did not return any dividend to the Government for its equity holdings. The Grid Corporation with accumulated loss of ₹ 101.25 crore as of 2008-09, the Odisha State Road Transport Corporation with ₹ 228.02 crore as of 2007-08, the Odisha State Financial Corporation with ₹ 375.75 crore of loss as of 2009-10 and the Odisha Forest Development Corporation with ₹ 159.20 crore loss as of 2008-09 were among the major loss making PSUs in the State.

As per information furnished in the Odisha Budget at a Glance 2011-12, there are 32 working public sector undertakings in the State. The other 51 PSUs are, therefore, non-working. The Thirteenth Finance Commission recommended the State

Government to draw up a road map for closure of non-working PSUs by March 2011 which the State Government had not done as of March 2011.

1.6.4 Loans and Advances by State Government

In addition to investments in Co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions / organizations. The Loans and Advances by the State Government increased by ₹ 281 crore from ₹ 3133 crore in 2009-10 to ₹ 3414 crore in 2010-11. Major portion of loans advanced during 2010-11 was to Orissa Grid Corporation (₹ 205 crore), Government servants (₹ 53.13 crore) and to Public Sector and other Undertakings (₹ 44.30 crore). **Table 1.17** presents the outstanding loans and advances as on 31 March 2011 and interest receipts vis-à-vis interest payments during the last three years.

Table 1.17: Average Interest Received on Loans Advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2008-09	2009-10	2010-11
Opening Balance	**3403**	**3377**	**3133**
Amount advanced during the year	211	112	315
Amount repaid during the year	236	356	34
Closing Balance	**3377**	**3133**	**3414**
Of which outstanding balance for which terms and conditions have been settled			
Net addition	(-)25	(-)244	(+)281
Interest Receipts	80	41	29
Interest receipts as *per cent* to outstanding Loans and advances	2.37	1.31	0.85
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	7.38	7.50	7.26
Difference between interest payments and interest receipts (*per cent*)	(-)5.01	(-)6.19	(-)6.41

Source : Finance Accounts of Government of Odisha for respective years

Loans outstanding as of 31 March 2011 aggregated ₹ 3414 crore. Interest spread of government borrowings was negative during 2009-11 which meant that the state borrowings were more expensive than the loans advanced by it As per information furnished by 11 out of 25 departments of the State Government as on 31 March 2011, recovery of ₹ 441.44 crore (principal ₹ 177.84 crore and interest ₹ 263.60 crore) was overdue as at the end of 2010-11.

1.6.5 Cash Balances and Investment of Cash Balances

Table 1.18 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.18: Cash Balances and Investment of Cash balances

(₹ in crore)

Particulars Cash Balances	As on 1 April 2010	As on 31 March 2011	Increase(+)/ Decrease(-)
Investments from Cash Balances (a to d)	4803.59	5594.57	790.98
a. GoI Treasury Bills	4766.75	5554.07	787.32
b. GoI Securities	36.84	40.50	3.66
c. Other Securities, if any	---	----	---
d. Other Investments	---	-----	---
Funds-wise Break-up of Investment from Earmarked balances (a to c)	4813.00	4813.00	-----
a. Sinking Fund Investment	4333.00	4333.00	-----
b. Guarantee Redemption Fund Investment	480.00	480.00	---
c. Calamity Relief Fund Investment	---	---	---
Interest Realized	335.49	226.72	(-)108.77

Source : Finance Accounts 2010-11

In line with the recommendation of the Eleventh Finance Commission, the State Government set up a Sinking Fund with effect from January 2003 for amortisation of market borrowings as well as other loans and debt obligations. The MTFP 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 31 March 2011, the investment in the Sinking Fund remained constant at ₹ 4333 crore and no further addition was made during 2010-11 although there was outstanding fiscal liability of ₹ 42191 crore as of 31 March 2011.

The State Government maintained more than the mandated minimum cash balance (₹ 1.28 crore) including the cash balance investment in GoI treasury bills with the Reserve Bank of India as on 31 March 2011. 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 GoI Treasury bills with Reserve Bank of India at a relatively lower rate (five *per cent*) of interest. The State Governments closing debt stocks of 2010-11 included 12 *per cent* Odisha Government Loan (OGL) 2011 (₹ 144 crore), 11.5 *per cent* OGL 2011 (₹ 79 crore), 10.35 *per cent* OGL 2011 (₹ 154 crore), 9.45 *per cent* OGL 2011 (₹ 300 crore) and 8.5 *per cent* special security to NSSF of Government of India (₹ 8456 crore). Had the Government utilised the opening cash balances of ₹ 4804 crore for repayment of debt, Government would have been saved ₹ 181 crore during the year. The 13th FC recommended (paragraph 7.127) that States with large cash balances to make efforts towards utilizing their cash balances to make efforts towards utilizing their cash balances before resorting to fresh borrowings.

The Principal Secretary, Finance Department stated (October 2011) that request for pre- payment of NSSF loan availed during 2007-11 carrying rate of interest of 9.5 *per cent* in 2010-11 and 2011-12 had not been acceded to by the GoI. However, the State Government should continue to pursue with GoI for improving investment profile of its surplus cash balances.

1.7 Assets and Liabilities

1.7.1 Growth and composition of Assets and Liabilities

Under the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government Accounts does capture the financial liabilities of the Government and the assets created out of the expenditure incurred. ***Appendix 1.8*** gives an abstract of such liabilities and the assets as on 31 March 2011, compared with the corresponding position as on 31 March 2010. The liabilities consist mainly of internal borrowings, loans and advances from the GoI and receipts from the Public Account and Reserve Funds; 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 assets have increased substantially. However, the ratio of assets to liabilities remained at 95 *per cent* (87 *per cent* in 2009-10) indicating that 5 *per cent* of liabilities still did not have an asset back-up in 2010-11 despite the revenue surplus which the State has recorded since 2005-06. However, the gap reduced by eight per cent over the previous year.

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in ***Appendix 1.3.*** 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 liabilities as on 01 April 2010 (₹ in crore)

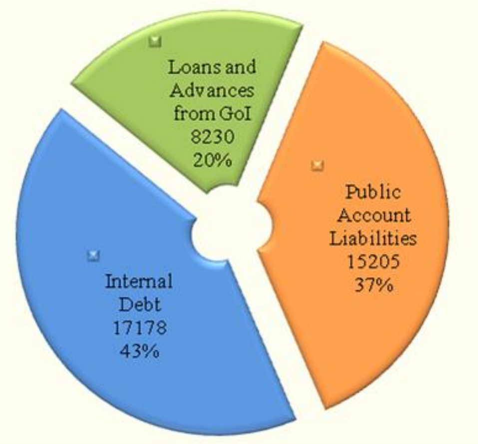
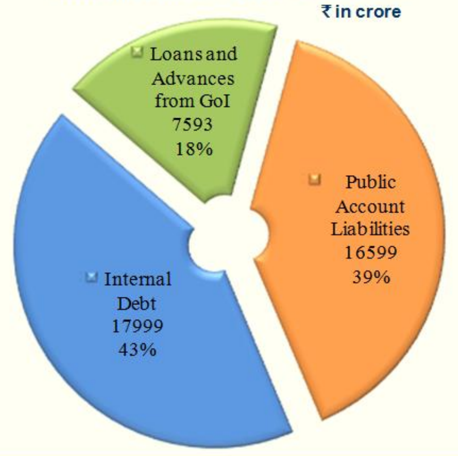


Chart 1.11:Composition of outstanding fiscal liabilities as on 31 March 2011
₹ in crore



Fiscal liabilities as it stood on 1 April 2010 was ₹ 40613 crore comprising internal debt of ₹ 17178 crore (43 *per cent*), public accounts liability of ₹ 15205 crore (37 *per cent*) and loans and advance of ₹ 8230 crore (20 *per cent*) from GoI. However, it increased by ₹ 1478 crore to ₹ 42191 crore as of 31 March 2011. The fiscal liabilities comprised internal debt of ₹ 17999 crore (43 *per cent*), public account of ₹ 16599 crore (39 *per cent*) and loans and advances of ₹ 7593 crore (18 *per cent*) as at the end of 2010-11. The internal debt of ₹ 17999 crore comprised mainly of market loans bearing interest (₹ 6160 crore), loans from National Bank of Agriculture and Rural Development (₹ 2126 crore) and special securities issued to National Small Savings Fund (₹ 8456 crore). The Thirteenth Finance Commission has recommended that by the year 2014-15, fiscal liability should be brought down to 25 *per cent* of GSDP. The Government has already been able to achieve this target during this year. The fiscal liabilities at the end of 2010-11 constituted 23 *per cent* of GSDP. This is a very good sign for the State's finances.

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 by the State Government.

As per Statement 9 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 1.19.**

Table 1.19: Guarantees given by the Government of Odisha

(₹ in crore)

Guarantees	2008-09	2009-10	2010-11
Maximum amount guaranteed.	8380.25	8388.64	9788.62
Outstanding amount of guarantees.	1386.40	1026.93	2066.24
Percentage of maximum amount guaranteed to total revenue receipt of current year.	34.05	31.74	29.41
Percentage of outstanding guarantee to total revenue receipt of 2nd preceding year less grants-in-aid as provided in the MTFP	9.32	5.91	10.62
Criteria: Shall not be more than 100 *per cent* of State's revenue receipt less grants-in-aid of the 2nd preceding year as provided in Finance Department Resolution No 52214/F, dated 12 November 2002.	14874	17356	19452

Source : Finance Accounts of Government of Odisha for respective years

Though no law has been enacted under Article 293 of the Constitution laying down maximum limits for such guarantees, the State Government imposed (November 2002) an administrative limit in Finance Department Resolution No.52214/F, dated 12 November 2002 prescribing that the total outstanding guarantee as on 1 day of April every year was not to exceed hundred *per cent* of the State's revenue receipts of the 2nd preceding year (as per the books of account maintained by Principal Accountant General (A & E) Odisha). As per the above, the guarantee position was well within the norms laid down in the said resolution by ₹ 14874 crore, ₹ 17356 crore and ₹ 19452 crore during 2008-09, 2009-10 and 2010-11 respectively.

The Government has also 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 2011, ₹ 480 crore lay invested in the fund which comprised guarantee fee, special contribution and returns earned on the funds invested.

Guarantees were given in respect of four statutory corporations, 27 Government companies, 46 co-operative banks and societies and 86 Notified Area Councils, Municipalities and Improvement Trusts. Maximum amount guaranteed and the amount outstanding against these bodies showed a reducing trend till 2008-09 and increased marginally by rupees nine crore during 2009-10 but increased substantially by ₹ 1400 crore during 2010-11 as can be seen from the **Table 1.19** above due to guarantees given for short-term borrowings by the State PSU, Grid Corporation of Orissa (GRIDCO) for purchase of power to meet domestic demands against unanticipated drop in hydro-power generation within the State during that year due to less rainfall. Government in their resolution dated 19 March 2004 issued instruction to the Public Sector Undertakings/Urban Local Bodies/Co-operative Societies etc., who had borrowed or intended to borrow against Government guarantees to open an Escrow Account in a Nationalized Bank for timely repayment of guaranteed loans. As on 31 March 2011, Escrow Accounts have been opened by only 12 out of 88 such institutions.

The Principal Secretary, Finance Department, stated (October 2011) that the State Government has ensured opening of Escrow Account in respect of the institutions to which fresh guarantee was sanctioned. However, the reply did not indicate the action to be taken for opening of such Escrow Accounts in respect of institutions for which guarantees had been given earlier.

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 27 departments only 14 departments of the State Government have furnished the information till July 2011. As peer information supplied to us, Guarantee Commission or fee of ₹ 116.49 crore was in arrear from various sectors as shown in **Table 1.20**.

Table 1.20: Guarantee Commission received/to be received by the Government.

(₹ in crore)

Name of the Sector	Commission Received	Commission to be Received
Statutory Corporations and Boards	14.58	33.91
Government Companies	87.57	74.45
Co-op Banks and Societies	1.83	2.22
NACs, Municipalities and Improvement Trusts	8.74	5.91
Total	**112.72**	**116.49**

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 PSUs and Co-operatives have paid ₹ 741.19 crore under OTS schemes to discharge guarantee liabilities arising out of the default of loanee organisations.

1.7.4 Off Budget Borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to liabilities arising out of such direct borrowings the State guaranteed loans availed by the Government Companies/Corporations. These Companies/Corporations borrowed funds from the market/financial institutions for implementation of various State-run programmes projected outside the State budget. The repayment of principal and interest of these borrowings is the primary responsibility of the State Government because of the guarantee. This is called off-budget borrowing. Off budget borrowings are not permissible under Article 293(3) of the constitution but the State continued to undertake such off-budget borrowings up to 2006-07. An amount of ₹ 250.42 crore had been raised through off budget borrowings as of March 2007. However, the entire borrowings were found liquidated by 31st March 2008. No off budget borrowing was made during the year 2010-2011.

1.8 Debt Sustainability

The State Government does not have any separate debt management office. Debt management is dealt in Finance Department of the Government by a specific branch. Specific policy/strategy for debt management, if any adopted by the State Government, was not found to be on record.

Apart from the magnitude of the debt of the State Government, it is important to analyze various indicators that determine the debt sustainability[6]of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization[7]; sufficiency of non-debt receipts[8]; net availability of borrowed funds[9]; interest burden payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.21** analyses the debt sustainability of the State according to these indicators for the period of three years beginning from 2008-09.

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

7 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.

8 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.

9 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.

Table 1.21: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2008-09	2009-10	2010-11
Debt Stabilization (Quantum Spread + Primary Deficit)	5121	7017	8929
Sufficiency of Non-debt Receipts (Resource Gap)	-1657	-1932[10]	1608
Net Availability of Borrowed Funds	(-)2772	(-)1745	(-)1654
Burden of Interest Payments (IP/RR Ratio)	0.12	0.12	0.09
Maturity Profile of State Debt (In Years)			
0 – 1	1487	1701	2265
1 – 3	3961	4950	5079
3 – 5	4686	4938	5174
5 – 7	4587	3936	3143
7 and above	10526	9883	9928

Source: Finance Accounts 2010-11.

During the last three year period 2008-11, quantum spread together with primary deficit consistently remained positive resulting in a continuous decline in debt/GSDP ratio from 32 *per cent* in 2008-09 to 23 *per cent* in 2010-11. This is a positive sign that debt is tending to be stable.

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. Debt sustainability could be facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. Negative resource gap indicates non-sustainability of debt while positive resource gap indicates sustainability of debt. The trends in **Table 1.21** reveal that the incremental non-debt receipts of the State had been able to meet the incremental interest liabilities and incremental primary expenditure during the period 2008-11. The negative resource gap during 2008-09 and 2009-10 turned positive during the current year. This meant that the State did not depend on borrowed funds for meeting current revenue and capital expenditure due to increase in Tax and Non-Tax receipts.

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 a situation of debt trap lies in proper application of borrowed funds, i.e. (a) not using 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.

During the current year, the Government repaid principal plus interest on account of internal debt of ₹ 2680 crore, Government of India loans of ₹ 1413 crore and also discharged other obligation of ₹ 2633 crore, as a result of which payments exceeded the receipts during the year. Throughout the period 2008-11, the debt repayment was higher than fresh borrowings. As far as the burden of interest payment is concerned,

[10] Differential total non debt revenue receipt of 2009-10 and 2010-11 minus differential total expenditure of 2009-10 and 2010-11.

the state is in a comfortable position because the ratio of interest payment to revenue receipts is only 0.09. During the current year, the State Government raised internal debt amounting to ₹ 2042 crore (NABARD and other institutions ₹ 806 crore and NSSF Securities: ₹ 1236 crore). Against these receipts, Government discharged past debt obligation (Principal plus interest) amounting to ₹ 2680 crore resulting in negative net fund available under the debt account. During the current year, the Government repaid GoI loan including interest amounting to ₹ 1413 crore and also discharged other obligation of ₹ 2633 crore along with interest obligation, which were more than the total receipt resulting in negative net availability of funds during the year 2010-11.

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 for the financial year 2010-11.

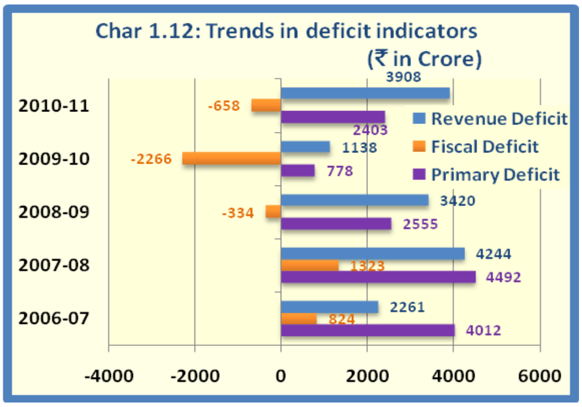
1.9.1 Trends in Deficits/Surpluses

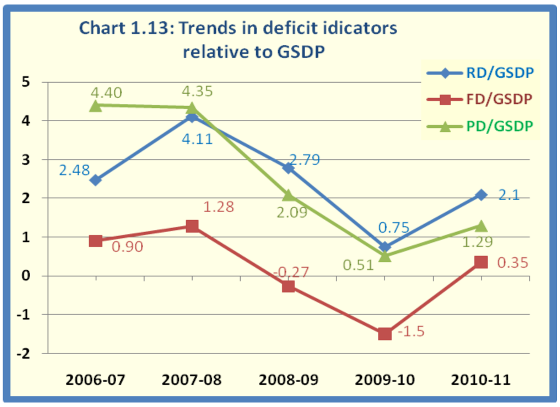
Table 1.22, **Chart 1.12** and **1.13** present the trends in deficit/surpluses indicators over the period 2006-11.

Table 1.22: Deficits/Surpluses

Parameters	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue deficit (-)/ surplus(+) (₹ in crore)	**(+) 481**	**(+) 2261**	**(+) 4244**	**(+) 3420**	**(+)1138**	**(+)3908**
Fiscal deficit (-)/ surplus(+) (₹ in crore)	(-) 276	(+) 824	(+) 1323	(-) 334	(-)2266	(-)658
Primary deficit (-)/ surplus(+) (₹ in crore)	(+) 3421	(+) 4012	(+) 4492	(+) 2555	(+)778	(+)2403
RD/GSDP (*per cent*)	(+) 0.61	(+) 2.48	(+) 4.11	(+) 2.79	(+)0.75	(+)2.10
FD/GSDP (*per cent*)	(-) 0.35	(+) 0.90	(+) 1.28	(-) 0.27	(-)1.50	(-)0.35
PD/GSDP (*per cent*)	(+) 4.35	(+) 4.40	(+) 4.35	(+) 2.09	(+)0.51	(+)1.29
RD/FD (*per cent*)	(-)174.28	(+)274.39	(+)320.78	(-)1023.95	(-)50.22	(-)593.92

Source: Finance Accounts of Government of Odisha for respective years





Revenue surplus

In the year 2005-06, after a gap of 22 years, the State was able to achieve a revenue surplus of ₹ 481 crore. This surplus steeply increased to ₹ 4244 crore during 2007-08 and declined to Rs. 1138 crore during 2009-10 and once again increased to ₹ 3908 crore during the current year. Thus, the achievement was in line with the State's FRBM Act, 2005 which prescribed reduction of revenue deficit to zero by 2008-09.

Fiscal surplus/deficit

The fiscal deficit comprises the total borrowings of the Government. Fiscal deficit consistently decreased from ₹ 1366 crore in 2004-05 to ₹ 276 crore in 2005-06 and in fact formed into fiscal surplus in 2006-07 and 2007-08. But it again slipped back to deficit during 2008-09 and the same stood at ₹ 658 crore (0.35 *per cent* of GSDP) in 2010-11 which was well within the State's FRBM target of not more than three per cent of GSDP.

Primary surplus

The primary surplus in the State of ₹ 3421 crore in 2005-06 decreased to ₹ 2403 crore in 2010-11 and was lower than the three *per cent* of GSDP norm prescribed in the State's FRBM Act, 2005.

1.9.2 Components of Fiscal Deficit/Surplus and its Financing / Investing Pattern

The financing / investing pattern of the fiscal deficit/surplus underwent a compositional shift as reflected in the **Table 1. 23.**

Table 1.23: Components of Fiscal Deficit/Surplus and its Financing/Investing Pattern

(₹ in crore)

	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
	Decomposition of Fiscal Deficit	**824**	**1323**	**(-)334**	**(-)2266**	**(-)658**
1	Revenue surplus	2261	4244	3420	1138	3908
2	Capital Expenditure	(-)1451	(-)2843	(-)3779	(-)3648	(-)4285
3	Net Loans and Advances	14	(-)78	25	244	(-)281
	Financing Pattern of Fiscal Deficit*					
1	Market Borrowings	(-)788	(-) 874	(-)670	(-)571	(-)623
2	Loans from GoI	(-)39	(-) 343	74	(-)247	(-)636

Particulars		2006-07	2007-08	2008-09	2009-10	2010-11
3	Special Securities Issued to National Small Savings Fund (NSSF)	1036	(-)106	67	610	1023
4	Loans from Financial Institutions	(-)14	(-)15	189	369	420
5	Small Savings, PF etc	598	399	459	1138	1223
6	Reserve fund	271	(-) 85	(-)52	1	17
7	Deposits and Advances	(-)66	83	576	145	154
8	Suspense and Misc	(-)1828	(-)1219	(-)522	1595	(-)809
9	Remittances	(-)74	50	(-)1.00	41	(-)4
10	Others					
11	Increase / decrease in cash Balance	218	673	174	(-)629	69
12	Net of OCF	(-)138	114	40	(-)188	(-)176

*All these figures are net of disbursements/outflows during the year

Source : Finance Accounts of Government of Odisha for respective years

Decomposition of fiscal deficit/surplus shows fiscal surplus in 2006-07 and 2007-08 which turned into fiscal deficit during 2008-11 due to wide change in net capital expenditure (₹ 2834 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 State's 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) was not having any asset backup. In the case of Odisha, there has been a revenue surplus since 2005-06. The bifurcation of the primary surplus **(Table 1.24)** 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 1.24: Primary deficit/Surplus – Bifurcation of factors

(₹ 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 (2-3)**	**8 (2-6)**
2006-07	18319	12584	1451	272	14307	5735	4012
2007-08	22322	14554	2843	433	17830	7768	4492
2008-09	24846	18301	3779	211	22291	6545	2555
2009-10	26786	22248	3648	112	26008	4538	778
2010-11	33310	26307	4285	315	30907	7003	2403

Source : Finance Accounts of Government of Odisha for respective years

During 2006-07 to 2010-11, non-debt receipts increased from ₹ 18319 crore to ₹ 33310 crore (82 *per cent*) against an increase of 109 *per cent* in Primary Revenue Expenditure.

The bifurcation of the factors resulting into primary surplus of the State during 2006-11 revealed that the State was 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 some receipts were still left to meet the expenditure under the capital account. This was a very healthy trend in the State's finances.

1.10 Public Private Partnerships

To sustain the growth, Government of India proposed to generate resources for infrastructure through public-private-partnerships (PPPs) in 11th five year plan (2007-12) as the resources of the Government was very limited. In response to GoI Policy, Government of Odisha framed their PPP Policy in August 2007 to support private investment, particularly in the naggingly poor infrastructure sector, to utilise the efficiency and innovativeness of the private investors, besides tapping their capital. The Odisha PPP Policy 2007 covers 19 infrastructure sectors such as roads, bridges and bypass, ports and harbour, airports, airstrips and heliports, industrial parks, power generation, tourism, healthcare facilities, urban infrastructure, agricultural production and marketing. Out of the earmarked 19 sectors to be covered, the State Government had so far entered into PPP arrangements of some kind in 11 sectors only.

Government of Odisha earmarked 64 projects (***Appendix -1.9***) for implementation under PPP model during 11th Plan period for an estimated cost /expenditure of ₹ 21235 crore. Of these only six projects have been completed out of which only three projects are generating revenue; 11 projects are under various stages of implementation (but work started) and remaining 47 projects are pending at various stages of approvals from Government (even work has not yet started). The six projects under three Departments of the Government which have been completed in the 11th Plan Period are detailed in **Table 1.25** below:

Table 1.25: List of public private partnership (PPP) projects completed/under progress

Sl No	Name of the project	Department	Estimated cost (₹ in crore)	Type of structure	Actual Expenditure (₹ in crore)	Present Status
1	Mahodadhi Niwas	Tourism	48.70	DRAFOMT	7.40	Completed
2	OTDC Eco Resort Project	Tourism	3.00	UOMMST	2.33	Completed
3	E -Registration	Revenue and Disaster Management	63.00	BOOT	27.26	Completed
4	Operation of Hop on Hop off Tourist Bus	Tourism	--	O&M	--	Completed
5	Orissa Tourism Portal	Tourism	--	OMM	--	Completed
6	Management of Health Institution	Health and Family Welfare	--	O&M	--	Completed
Total			**114.70**		**36.99**	

BOOT: Built, Own, Operate and Transfer, **DRAFOMT:** Design, Renovate, Augment, Finance, Operate, Maintain and Transfer, **UOMMST:** Upgrade, Operate, Maintain, Manage, Share and Transfer, **O&M:** Operation and Maintenance, **OMM:** Operation, Maintenance and Marketing.

Source: Information furnished by the respective Departments of Government

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.

A heritage hotel named Mohodadhi Niwas at Puri which originally belonged to the Government of Odisha was given to M/s. Kamath Hotels on a long term lease (50 years) by M/s. Orissa Tourism Development Corporation Ltd (OTDC) though there is a stipulation that the maximum period of lease of property under PPP model should not exceed 30 years.

Effective action has to be taken to gear up the activities of PPP in seven non-starter sectors besides giving a push to the 11 projects under implementation and a big push to the 46 projects which are in the initial stages of take-off in order to fully capture the benefits of this new arrangement. Also, there is a need to appropriately disclose the quantum of resources planned to be generated through the PPP route in the Budget and the Finance Accounts, which has not been done so far.

1.11 Conclusion and Recommendations

- The Fiscal Responsibility and Budget Management Act is not yet amended though stipulated under the Thirteenth Finance Commission (***Paragraph 1.1)***.

  The Government may amend the FRBM Act incorporating the recommendations of 13th FC and develop its own new Fiscal Correction Path (FCP) indicating milestones for various outcomes indicator for the period from 2011-15.

- GoI directly transferred substantial amount of grant-in-aid to the State implementing agencies for implementation of different schemes in the State. This is fraught with the risk of poor oversight ***(Paragraph 1.2.2)***.

  Funds flowing directly to the implementing agencies through off-budget route inhibit FRBM Act requirements of transparency and escape accountability. There is no single agency monitoring the use of these funds and no data is readily available on the amount spent in any particular year on major flagship and other important schemes. The State Government has to put in place an appropriate mechanism to ensure proper accounting of these funds.

- Though there was increase in Revenue Receipts from 2006-07 to 2010-11, yet the annual growth rate of Revenue Receipts has come down from 28 *per cent* in 2006-07 to 26 *per cent* in 2010-11 ***(Paragraph 1.3)***.

  Government should mobilize additional resources through tax and non-tax revenue by expanding the tax base, rationalising user charges, collection of arrears of revenue and cost recovery of maintenance expenditure of the irrigation projects as recommended by the 13th FC

- The growth rate of the total expenditure of the State decreased from 19 *per cent* (₹ 17495 crore) in 2006-07 to 17 *per cent* (₹ 33968 crore) in 2010-11. However, the total expenditure was 18.23 *per cent* of GSDP during 2010-11 which exceeded the Twelfth Finance Commission's normative assessment of 16.30 *per cent*. Revenue Expenditure had a predominant share of 90 *per cent* in 2006-07 to 86 *per cent* in 2010-11 of total expenditure. However, Revenue Expenditure during 2010-11 was below the projection (₹ 32482 crore) as per MTFP which was a good sign for the State's finances.

Non-Plan Revenue Expenditure (NPRE) as a proportion of Revenue Expenditure, increased from ₹ 13045 crore in 2006-07 to ₹ 21975 crore (68 *per cent*) in 2010-11. Out of the total increase of ₹ 4076 crore in Revenue Expenditure during the current year over the previous year, increase in NPRE contributed ₹ 2298 crore (56 *per cent)* and remaining ₹ 1778 crore (44 *per cent*) was the Plan Revenue Expenditure (PRE). ***(Paragraph 1.4.1 and 1.4.2).***

Government should initiate suitable measures to reduce the non-plan revenue expenditure so that even more funds are available for durable assets creation by way of increased Capital Expenditure.

Government may phase out implicit subsidies and resort to need-based borrowings to reduce interest payments and contain the growth of unproductive non-plan revenue expenditure. Government may also consider reduction in subsidy payments to PSUs etc. for boosting their operational efficiency.

- Capital Expenditure of the State ranged from eight *per cent* to 13 *per cent of* Aggregate Expenditure during 2006-11. The Capital Expenditure was 2.30 *per cent* of GSDP during 2010-11 as against the projection of 2.68 *per cent* in the MTFP ***(Paragraph 1.4.1.***

  Government may strengthen the State's infrastructure for absorbing higher levels of Capital Expenditure for durable asset formation and sustainable development of the State, as per its commitment in MTFP.

- Financial results of Major and Medium Irrigation projects with a capital expenditure of ₹ 3517.58 crore at the end of March 2011 yielded return of ₹ 102.11 crore during 2010-11 against the direct working expenses of ₹ 169.47 crore. After meeting the working and maintenance expenditure (₹ 170.22 crore) and interest charges (₹ 242.55 crore), the schemes suffered a net loss of ₹ 312.03 crore ***(Paragraph 1.6.1***).

  Government may prepare an action plan to complete all irrigation projects within in a time frame so that people derive envisaged benefits in time. Government should also recover water tax commensurate with operational and maintenance expenses.

- The average return on investment was 8.44 *per cent* in the last five years while the Government paid an average interest rate of 7.39 *per cent* to 8.18 *per cent* on its borrowings during 2006-2011 ***(Paragraph 1.6.3)***.

  The State Government was yet to draw up a road map for closure of non working PSUs by March 2011 as recommended by Thirteenth Finance Commission.

- Although a substantial amount (₹ 3414 crore) of loans was paid to various public sector undertakings etc., interest of ₹ 29 crore only was received from them during 2010-11 as a result of which interest receipts to outstanding loans stood at 0.85 *per cent* during 2010-11 ***(Paragraph 1.6.5***).

  Government may, therefore, take effective action to realize the interest dues from the undertakings as per the terms and conditions of the payment of loans *either by way of restructuring the loans so as to make the operation of these PSUs profitable or consider putting them on the block.*

- The State Government had been investing its huge surplus cash balances in the Treasury Bills of GoI with Reserve bank of India at low interest rates ***(Paragraph 1.6.6)***.

  While maintaining an optimum cash balance (minimum: ₹ 1.28 crore) with the Reserve Bank of India, the State may, with advance planning, use the surpluses to retire or pre-pay some of the high cost loans instead of investing the same in GoI Treasury Bills in the Reserve Bank of India at low rates of interest by obtaining GoI's specific permission for such pre-payment.

- The State Government was not facing any debt crisis because the fiscal deficit is in a manageable position of 0.35 *per cent* of GSDP and most of the indicators of debt sustainability **(*paragraph 1.8*)** are positive. If the resource gap widens in the coming years, then there may be a cause for concern. No debt management office was available with the State Government for policy formulation and debt management of the State in an organized manner**.**

  Government may consider operationalising a separate debt management office to regulate the debt of the State in a focused manner.

- Though Government framed public private partnership (PPP) policy to generate maximum resources for infrastructure build up during 2007-12, the resources generated during 2007-11 were negligible ***(Paragraph 1.10).***

  Effective actions have to be taken to gear up PPP activities in the State for generation of additional resources for public infrastructure. Current projects not progressing well may be fast-tracked.