Chapter 1 Finances of the State Government

Profile of the State

Odisha was formed on 1 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 as 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 (16.36 *per cent*) in the past decade compared to the average GSDP growth of the General Category states (14.46 *per cent*). During this period, its population has grown by 10.39 *per cent* against 13.90 *per cent* in other General Category states[1].

1.1 Introduction

This chapter provides a broad perspective of the finances of the State Government of Odisha during 2011-12 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 Accounts and the layout of Finance Accounts are given at the ***Appendix 1.2***. The Thirteenth Finance Commission (ThFC) recommended every State needs to amend the FRBM Act and work out a fiscal reform path to make credible progress towards fiscal consolidation. Keeping in line with the recommendations of the ThFC, the State Government obtained amendment (February, 2012) to the States 'Fiscal Responsibility and Budget Management (FRBM) Act, 2005 which laid down the following fiscal targets:

- Revenue deficit during 2011-12 and onwards to be maintained at Zero.
- Fiscal deficit to be contained within three *per cent* of the Gross State Domestic Product (GSDP) from 2011-12 and onwards.
- In order to bring the debt stock to a sustainable level, interest payment as a percentage to revenue receipt to be limited to 15 *per cent*.

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 **-127**

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

- For the purpose of ensuring compliance to the provisions of the FRBM Act, the State Government shall entrust an agency independent of State Government who shall periodically make review of such compliance and submit reports thereof to the State Government for laying the same before the State Legislature

However disclosures like projection of Revenue Consequences of Capital Expenditure (RCCE) in the Mid Term Fiscal Plan (MTFP), Public-Private Partnerships (PPPs) and related liabilities and bringing out statements on physical and financial assets and vacant public land and building were not included as recommended by ThFC to be featured under MTFP. The required monitoring system of the fiscal reforms through an independent agency as envisaged in the amended FRBM Act and the ThFC requirement was yet to be put in place (September 2012).

The Principal Secretary, Finance Department stated (November 2012) that the evaluation by an independent agency can be undertaken only after the Finance Account 2011-12 are laid in the Legislative Assembly. However, the reply was silent about the agency to which the evaluation study was to be entrusted. Besides, such evaluation study has become overdue for the accounts of 2010-11 as required under the Finance Commission recommendation.

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 (2011-12) 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 Years fiscal operations

(₹ in crore)

Receipt			Disbursement				
	2010-11	2011-12		2010-11	2011-12		
Section A	**Total**	**Total**	**Section A**	**Total**	**Non-Plan**	**Plan**	**Total**
Revenue receipts*	33276.16	40267.02	Revenue Expenditure	29367.95	24940.47	9719.76	34660.23
Tax Revenue	11192.67	13442.74	General Services	9936.77	10848.20	80.38	10928.58
Non-Tax Revenue	4780.38	6442.96	Social Services	11922.01	8769.23	5568.84	14338.07
Share of Union Taxes/ Duties	10496.86	12229.13	Economic Services	7077.56	4661.93	4070.54	8732.47
Grants from Government of India	6806.25	8152.19	Grants-in-aid and Contributions	431.61	661.11	---	661.11
Section B			**Section B**				
Miscellaneous Capital Receipts	---	---	Capital Outlay	4285.10	60.66	4435.43	4496.09
Recoveries of Loans and Advances	33.81	132.08	Loans and Advances Disbursed	314.69	618.67	2.34	621.01
Public Debt Receipts**	2267.60	1353.76	Repayment of Public Debt**	2083.58	---	---	2327.76
Contingency Fund	198.97	375.00	Contingency Fund	375.00	---	---	2.81
Public Account Receipts	12778.87	15486.73	Public Account Disbursement	11407.85	---	---	14022.62
Opening Cash Balance	9283.63	10004.87	Closing Cash Balance	10004.87	---	---	11488.94
TOTAL	**57839.04**	**67619.46**	**TOTAL**	**57839.04**			**67619.46**

Source: Finance Accounts for the respective years

* does not include ₹ 6228.66 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.

Analysis of the Table above disclosed the following:

The actual realisation of own tax revenue (₹ 13443 crore) and non-tax revenue (₹ 6443 crore) during 2011-12 was higher than the normative assessment of ThFC (₹ 12084 crore and ₹ 2429 crore respectively) as well as the projection made in State MTFP (₹ 13399 crore and ₹ 5000 crore) mainly due to increase in gross receipts of motor vehicle tax, VAT, land revenue and collection of fees, rents and royalties.

Revenue receipts of the State increased by ₹ 6991 crore (21 *per cent*) over the previous year. This increase was mainly contributed by State's own tax revenue (₹ 2250 crore), own non-tax revenue (₹ 1663 crore) State's share of Union Taxes/Duties (₹ 1732 crore) and grants-in-aid from Government of India (₹ 1346 crore).The revenue receipts (₹ 40267 crore) during current year were higher than the assessment made by State Government in its Medium Term Fiscal Plan (₹ 40221crore) by about 0.11 *per cent* approximately.

Revenue expenditure increased by ₹ 5292 crore (18 *per cent*) during 2011-12 over the previous year. The increase was mainly in social service sector (₹ 2416 crore), economic service sector (₹ 1655 crore), general service sector (₹ 992 crore) and grant-in- aid (₹ 229 crore).

Capital outlay increased by ₹ 211 crore (five *per cent*) over the previous year mainly on account of increase in expenditure on Agriculture and Allied services (₹ 69 crore), Power Projects (₹ 98 crore) and Irrigation and Flood control (₹ 145 crore), set off by decrease in other expenditure heads. Loans and advances increased substantially by ₹ 306 crore (97 *per cent*) from ₹ 315 crore in 2010-11 to ₹ 621 crore in 2011-12.

Public Debt receipts decreased by ₹ 914 crore (40 *per cent*) while repayment of public debt increased by ₹ 244 crore (12 *per cent*) resulting in a net decrease of ₹ 670 crore in public debt during 2011-12.

Public Account receipts ₹ 15487 crore increased by ₹ 2708 crore (21 *per cent*) over the previous year mainly due to increase in deposits and advances (₹ 780 crore), remittances (₹ 1213crore) and reserve fund (₹ 1058 crore) which was mainly set off by decrease in small savings and provident fund (₹ 312 crore). Public Account disbursements (₹ 14023 crore) on the other hand increased by ₹ 2615 crore (23 *per cent*) during the same period mainly due to increase under remittances (₹ 1200 crore), reserve fund (₹ 596 crore) and small savings and provident fund (₹ 484 crore).

Cash Balance of the State increased by ₹ 1484 crore mainly because of increase in Cash Balance Investment by ₹ 1499 crore which was set off by decrease in Deposit with Reserve Bank of India (₹ 12 crore) and Departmental Cash Balance by three crore**.**

1.1.2 Budget Estimates and Actuals

Budget papers presented by the State Government provide estimation of revenue and expenditure for a particular financial year. The importance of accuracy in estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from budget estimates are indicative of non-attainment and non-optimisation of desired fiscal objectives.Compared to the budget estimates for 2011-12, there was considerable variation in 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**.**

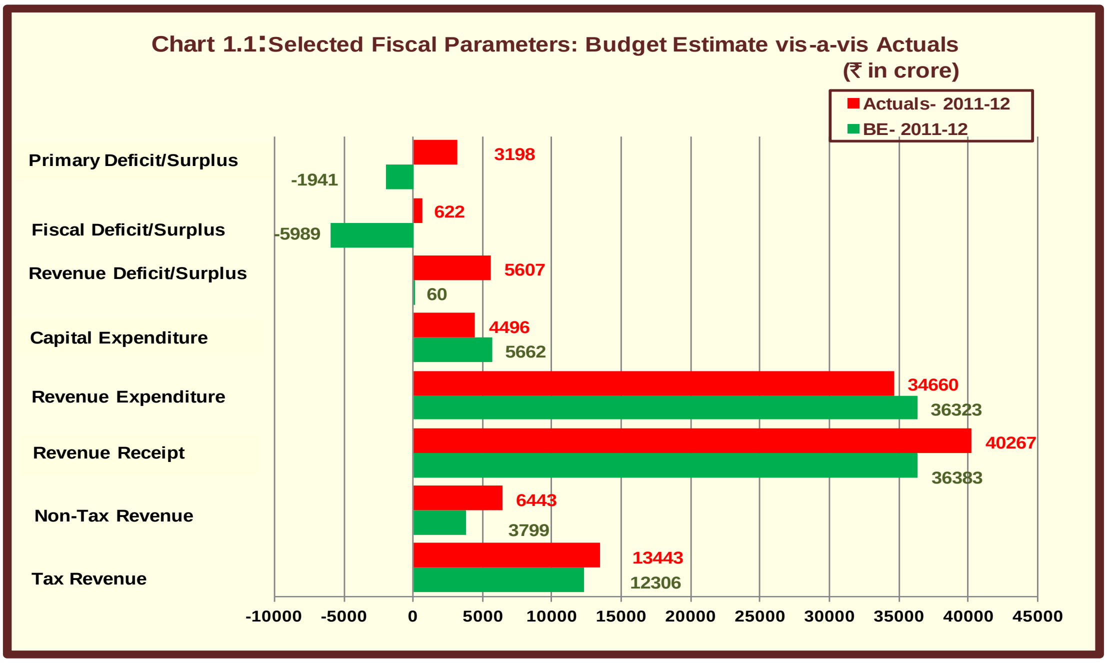


Table 1.2: Variation in Budget Estimates and Actual

Variation	Budget Estimates	Actual	Increase (+) / Decrease (-)	Percentage increase (+) / decrease (-)
	(₹ in crore)			
Tax Revenue	12306	13443	(+)1137	(+)9
Non-Tax Revenue	3799	6443	(+)2644	(+)70
Revenue Receipts	36383	40267	(+)3884	(+)11
Revenue Expenditure	36323	34660	(-)1663	(-)5
Capital Expenditure	5662	4496	(-)1166	(-)21
Revenue Deficit(-)/Surplus(+)	60	5607	(+)5547	(+)9245
Fiscal Deficit(-)/Surplus(+)	-5989	622	(+)6611	(-)110
Primary Deficit(-) /Surplus (+)	-1941	3198	(+)5139	(-)265

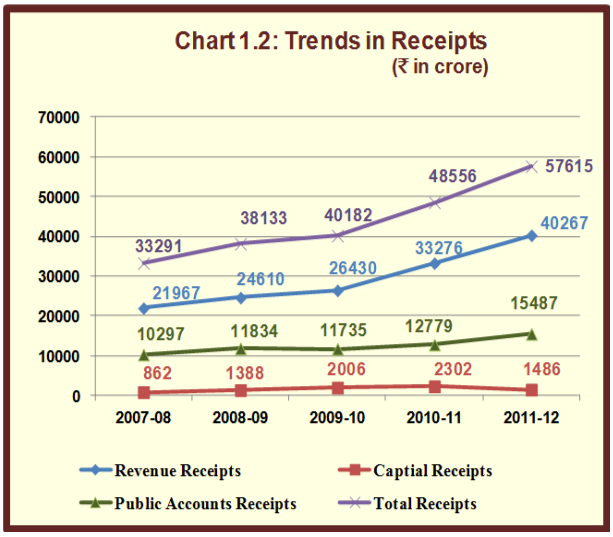
Source: Odisha Budget at a Glance 2012-13 and Finance Accounts 2011-12.

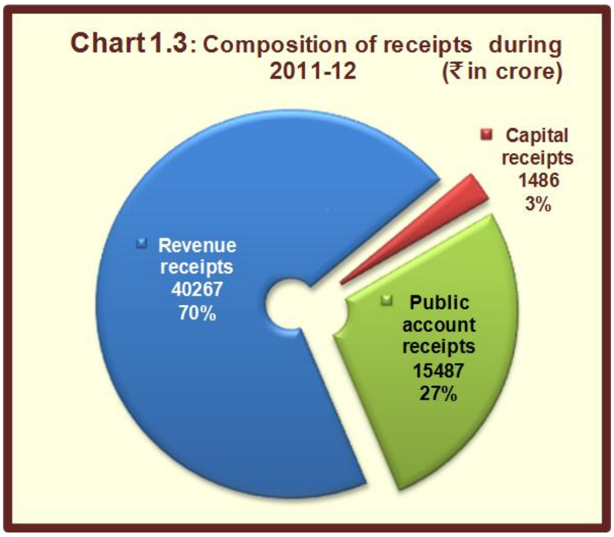
As may be observed from **Chart 1.1 and Table 1.2**, the States actual Revenue Receipts were more than the Budget Estimates by ₹ 3884 crore (11 *per cent*) mainly due to increase in Non-Tax Revenue Receipts. The State's own Tax Revenue was more than Budget Estimates by ₹ 1137 crore (nine *per cent*) while Non-Tax Revenue was more than the Budget Estimates by ₹ 2644 crore (70 *per cent*). As a result, the estimated Revenue surplus of only ₹ 60 crore turned into Revenue surplus of ₹ 5607 crore. Revenue Expenditure and Capital Expenditure were less than the budget estimate by ₹ 1663 crore (five *per cent*) and ₹ 1166 crore (21 *per cent*) respectively. Asset creation was not given as much priority as intended in the budget estimates as there was a shortfall of 21 *per cent* in Capital Expenditure over the budget estimate. This decrease in Capital Expenditure as compared to budget estimate is not a good sign in a developing State with poor infrastructural levels. However, the fiscal deficit of ₹ 5989 crore and primary deficit of ₹1941 crore estimated in budget turned into fiscal surplus and primary surplus of ₹ 622 crore and ₹ 3198 crore respectively, which is a healthy sign.

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 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 2007-12. **Chart 1.3** depicts the composition of resources of the State during the current year.





During 2007-2012, total receipts increased by 73 *per cent* from ₹ 33291 crore in 2007-08 to ₹ 57615 crore in 2011-12, of which increase of revenue receipts was by 83 *per cent* from ₹ 21967 crore to ₹ 40267 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 66 *per cent* in 2007-08 to 70 *per cent* in 2011-12. The share of Capital Receipts remained at three *per cent* in 2007-08 and 2011-12. The percentage share of Public Account receipts to the total receipts declined from 31 *per cent* in 2007-08 to 27 *per cent* in 2011-12. Revenue buoyancy ratio varied from 1.556 in 2007-08 to 0.981 in 2011-12 **(Table 1.3)**

1.2.2 Funds transferred to State implementing agencies outside the State Budget

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, 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 these are underestimated.

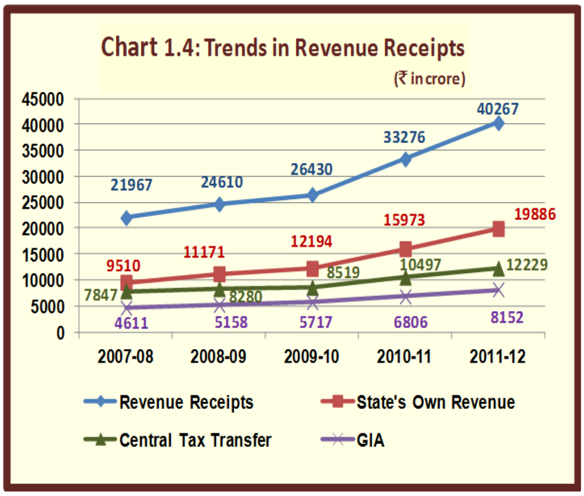
The ThFC has recommended that the public expenditure through creation of fund outside the Consolidated Fund by diverting from the Budget and operated outside the authority of legislature need to be discouraged as these irregular arrangements bypass the oversight of the State Legislature.

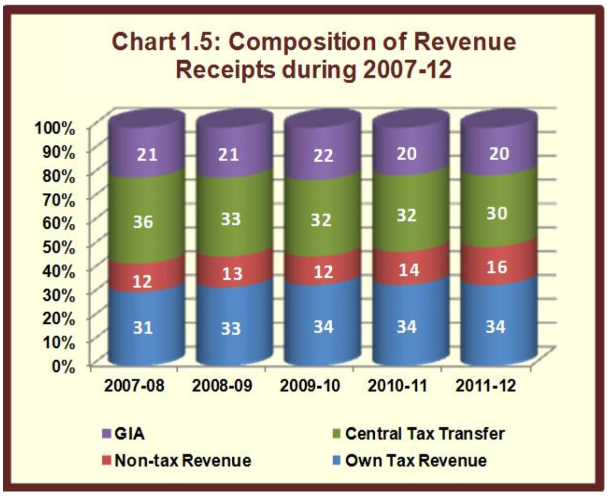
To present a holistic picture on availability of aggregate resources, funds directly transferred by GoI to State implementing agencies during 2011-12 are calculated at ₹ 6228.66 crore as against ₹ 6257.85 crore in 2010-11 ***(Appendix-1.5)*** for implementation of various centrally sponsored plan schemes which, among others, included ₹ 927.20 crore (*Sarva Shiksha Abhiyan*), ₹ 629.99 crore (Rural Housing Scheme (IAY), ₹ 978.22 crore (National Rural Employment Guarantee Scheme), ₹ 1969.95 crore (*Pradhan Mantri Gram Sadak Yojana*) etc. Considering that the direct transfers are so large (15 *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 realised economically and efficiently. However, direct transfers from the GoI to the State implementing agencies runs the risk of poor oversight of utilisation of funds by these agencies. 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.

The Principal Secretary, Finance Department stated (November 2012) that the State Government have taken steps to register the District and Sub-District level implementing agency of five major flagship schemes (MGNREGA, NRHM, PMGSY, SSA and NRDWP) under Central Plan Scheme Monitoring System (CPSMS) so as to monitor the use of funds for these schemes.

1.3 Revenue Receipts

Revenue Receipts consist of State Government's own tax and non-tax revenues, central tax transfers and grants-in-aid from GoI. Statement 11 of the Finance Accounts depicts the Revenue Receipts of the Government. The trends and composition of revenue receipts over the period 2007-12 are shown in ***Appendix 1.3*** and also depicted in **Chart 1.4** and **1.5** respectively.





On an average, 46 *per cent* of revenue came from State's own resources and the balance was from GoI in the form of States share of taxes and grants-in-aid. An increase of ₹ 2250 crore (20 *per cent*) in own tax revenue, ₹ 1663 crore (35 *per cent*) in non-tax revenue, ₹ 1732 crore (16 *per cent*) in State's share in Union Taxes and Duties and ₹ 1346crore (20 *per cent*) in GoI's grants-in-aid resulted in increase of ₹ 6991 crore in revenue receipts during 2011-12 over the previous year.

Though revenue receipts showed progressive increase from ₹ 21967 crore in 2007-08 to ₹ 40267 crore in 2011-12 registering a growth of 83 *per cent*, yet the annual growth rate has come down sharply to 7.40 *per cent* in 2009-10 from 21.82 *per cent* in 2007-08 to recover at 25.90 *per cent* in 2010-11 and remained 21.01 *per cent* in 2011-12.

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 *

	2007-08	2008-09	2009-10	2010-11	2011-12
Gross State Domestic Product (GSDP) (₹ in crore)	**106466(A)**	**122165**	**150946(A)**	**186356(A)**	**226236(A)**
Revenue Receipts (RR) (₹ in crore) **	**21967**	**24610**	**26430**	**33276**	**40267**
Rate of growth of RR (*per cent*)	21.82	12.03	7.40	25.90	21.01
R R/GSDP (*per cent)*	20.63	20.14	17.51	17.86	17.80
Buoyancy Ratios[2]					
Revenue Buoyancy with respect to GSDP	1.556	0.816	0.314	1.104	0.981
State's Own Tax Buoyancy with respect to GSDP	0.930	1.126	0.524	1.049	0.939

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 organisations and others.

Revenue buoyancy widely fluctuated during the period due to fluctuations in the growth rate of revenue receipts. The lower growth rate of revenue receipts during 2008-09 and 2009-10 pushed the revenue buoyancy ratio down. Revenue buoyancy

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*.

ratio which was lowest at 0.314 in 2009-10 though increased during 2010-11 to 1.104 again came down to 0.981 during 2011-12.

During 2011-12, Central tax transfers increased by ₹ 1732 crore over previous year and constituted 30 *per cent* of revenue receipts during 2011-12. The increase was mainly under Corporate Tax (₹ 710 crore), Taxes on Income other than Corporation Tax (₹ 277 crore), Customs (₹ 285 crore) and Union Excise Duties (₹ 36 crore). The grants-in-aid from GoI increased by ₹ 1346 crore from ₹ 6806 crore in 2010-11to ₹ 8152 crore in 2011-12. The increase was under grants for Non-Plan schemes (₹ 450 crore), State Plan schemes (₹ 574 crore), Central Plan schemes (₹ 322 crore).

As per recommendation of ThFC, under Non-Plan grants, GoI allocated ₹ 9658.76 crore as grants to Government of Odisha to be utilised during 2010-15. Out of the total allocation of ₹ 9658.76 crore allocation for 2011-12 was ₹ 1807.54 crore. However, GoI released ₹ 1625.06 crore during 2011-12 resulting in short release of ₹ 182.48 crore. The shortfall was in respect of the cases as detailed in **Table 1.4**.

Table 1.4: Release of ThFC grants by GoI

(₹ in crore)

Purpose		Amount recommended by ThFC	Amount released by GoI	Shortfall in release
Capacity Building		5.00	0	5.00
Grants to local bodies {Panchayati Raj Institutions (PRIs Special Area Grant}	Performance	95.66	15.02	80.64
Grants to Urban Local Bodies (ULBs) and General Basic Grant}	Performance	18.30	3.57	14.73
Special Areas Grant Panchayati Raj Institutions Urban Local Bodies	Performance	10.80	0	10.80
Justice delivery		38.72	19.36	19.36
Incentive for issuing UID		35.70	0	35.70
Preservation of Monuments and Buddhist Heritage		16.25	0	16.25
TOTAL		**220.43**	**37.95**	**182.48**

Source: Finance Account 2011-12

There was a shortfall in release of grants by GoI under (i) grants to local bodies (General Performance Grant and Special Area Grant ₹ 106.17 crore),(ii) incentive for issuing UID (₹ 35.70 crore), (iii)Justice Delivery (₹ 19.36 crore), (iv) Capacity Building (₹ 5 crore) and (v) Preservation of Monuments and Buddhist Heritage (₹ 16.25 crore).

The Principal Secretary, Finance Department stated (November 2012) that the performance grant component of grants to local bodies is dependent on compliance to conditionalities prescribed by ThFC. The grants for capacity building, justice delivery and incentive for issue of UID had not been released for want of Utilisation Certificate in respect of grants released during 2010-11. Release of grants in respect of preservation of monuments and Buddhist Heritage was delayed due to delay in submission of action plan by the State Government. Finance Department was closely monitoring the utilisation of the grants and the concerned Implementing Departments were being continuously reminded to expedite submission of Utilisation Certificate to facilitate further release of funds.

The State Government should take expeditious steps to comply with the required nine conditionalities prescribed by the ThFC to be eligible to draw the performance grant. It should also monitor and pursue the release of grant as recommended by ThFC more closely so as to ensure that the grants are utilised in effective and timely manner.

1.3.1 State's Own Resources

The State's 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 State's 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 2007-08 to 2011-12 along with the respective all India averages are presented in ***(Appendix-1.6)***. During 2011-12, the percentage of expenditure on collection decreased on Taxes on Sales, Trades etc., State Excise and Taxes on Vehicles over the previous year while it increased for Stamps and Registration fees.

1.3.1.1 Tax Revenue

The Compound Annual Growth Rate (CAGR) of tax revenue for 2002-11 of the State was higher as compared to the other General Category States ***(Appendix 1.1)***. The tax revenue during the current year (₹ 13443 crore) increased by 20 *per cent* over the previous year (₹ 11193 crore). The revenue through Taxes on Sales, Trade etc. (₹ 8197 crore) was the main source of State's own tax revenue and registered an increase of 20 *per cent* (over the previous year) followed by increase under State Excise (₹ 1379 crore) by 26 *per cent*, Taxes on Goods and Passengers (₹ 1312 crore) by 18 *per cent*, Taxes on Vehicles (₹ 788 crore) by 8 *per cent*, Stamps and Registration fees (₹ 498 crore) by 20 *per cent* and Land Revenue (₹ 522 crore) by 33 *per cent* over the previous year. The projection furnished by the State Government to ThFC is ₹ 69182 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 2011-12. To achieve the target of 7.5 *per cent* by 2014-15 as projected to ThFC (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 2002-11 of the State was also higher as compared to the other general category States ***(Appendix 1.1)***. The Own non-tax revenue (ONTR) (₹ 6443 crore) which constituted 16 *per cent* of revenue receipts during 2011-12 increased by ₹ 1663 crore (*35 per cent*) over previous year. The increase was mainly under Non-Ferrous Mining and Metallurgy Industries ₹ 1242 crore, Interest Receipts by ₹ 316 crore and Dividends and Profits by ₹ 185 crore set off by decrease in Miscellaneous General Services by ₹ 325 crore. The growth was impressive**.**

The actual receipts under State's tax and non-tax revenue vis-à-vis assessment made by ThFC and the State Government in MTFP is indicated in **Table1.5** below:

Table 1.5: Mobilisation of OTR and ONTR

(₹ in crore)

	Assessment made by ThFC	Assessment made by State Government in MTFP	Actuals
State's own Tax Revenue	12084.30	13399.39	13442.78
State's own Non-Tax Revenue	2429.46	5000.00	6442.96

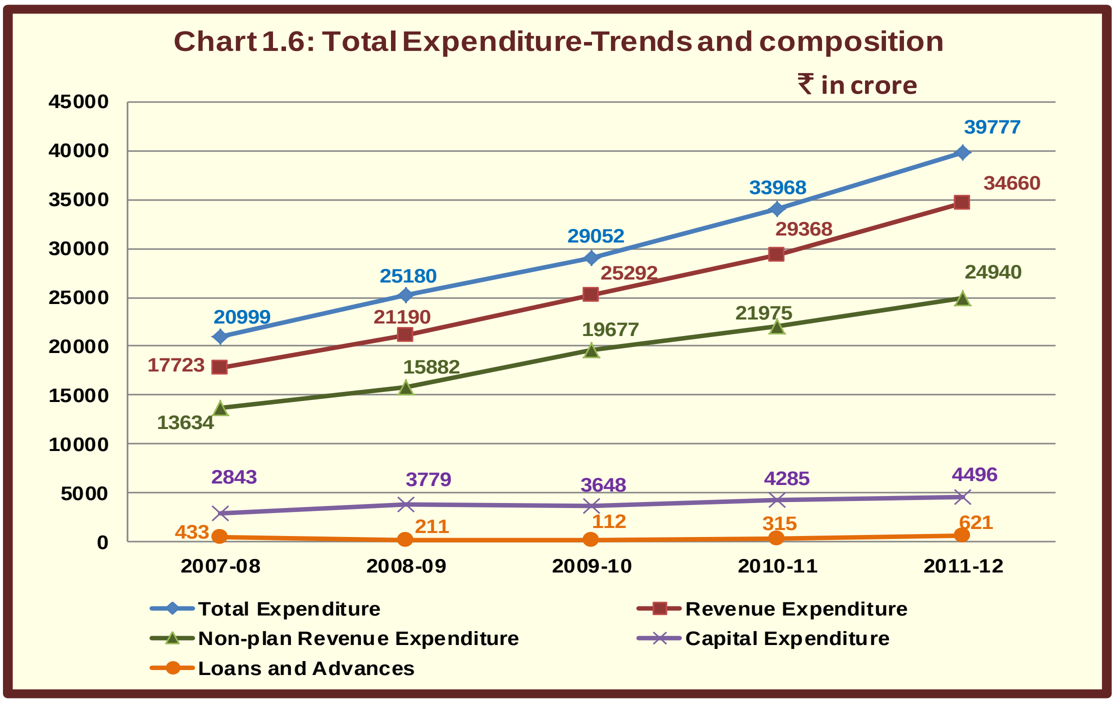
The receipts under State's tax and non-tax revenue during 2011-12 exceeded the normative assessment of ThFC by 11.24 *per cent* and 165.20 *per cent* respectively and the targets fixed by the State Government in the MTFP by 0.32 *per cent* and 28.86 *per cent* respectively.

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 (2007-12) 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 by 89 *per cent* from ₹ 20999 crore in 2007-08 to ₹ 39777 crore in 2011-12 due to increase in revenue expenditure (₹ 16937 crore), capital outlay (₹ 1653 crore) and disbursement of loans and advance (₹ 188 crore). While the share of revenue expenditure in the total expenditure increased from 84 *per cent* during 2007-08 and 2008-09 to 87 *per cent* in 2011-12**,** the share of capital expenditure decreased from 14 *per cent* in 2007-08 to 11 *per cent* in 2011-12.

The increase of ₹ 5809 crore in total expenditure in 2011-12 over the previous year was on account of an increase in revenue expenditure by ₹ 5292 crore together with increases by ₹ 211crore in capital expenditure and ₹ 306 crore in disbursement of loans and advances. The total expenditure was 17.58 *per cent* of GSDP during 2011-12 as compared to 18.23 *per cent* during the previous year.

Chart 1.7: Total Expenditure: "Trends in share of its components"

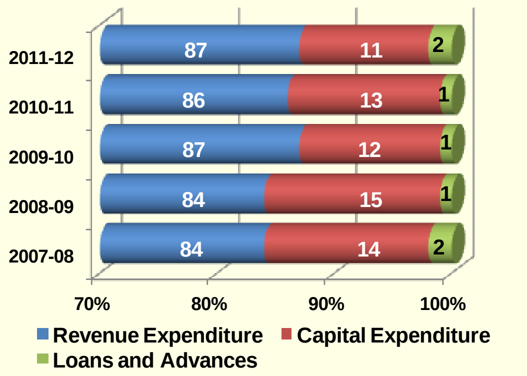
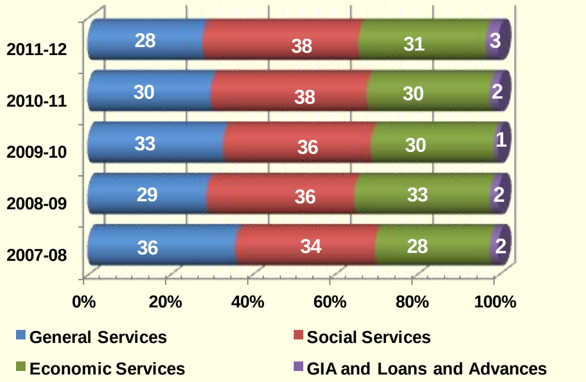


Chart 1.8: Total Expenditure :"Trends by activities"



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 62 *per cent* in 2007-08 to 69 *per cent* in 2011-12 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 84 *per cent* of total expenditure in 2007-08 which increased to 87 *per cent* in 2011-12. However, it increased by 18 *per cent* from ₹ 29368 crore in 2010-11 to ₹ 34660 crore in 2011-12 in absolute terms. *However, Revenue Expenditure was below the projection of ₹ 37072 crore of MTFP.*

1.4.1.3 Non-Plan Revenue Expenditure

Non-Plan Revenue Expenditure (NPRE) as a proportion of Revenue Expenditure, increased from ₹ 13634 crore in 2007-08 to ₹ 24940 crore (83 *per cent*) in 2011-12. Out of the total increase of ₹ 5292 crore in Revenue Expenditure during the current year over the previous year, increase in NPRE contributed 56 *per cent* (₹ 2965 crore) and the remaining 44 *per cent* (₹ 2327 crore) was the Plan Revenue Expenditure

(PRE). The increase in NPRE during the current year was mainly on Irrigation and Flood control (₹ 150 crore), Social Welfare and Nutrition (₹ 1114 crore), Transport (₹ 132 crore) and Rural Development (₹ 282 crore). The NPRE has exceeded ThFC's normative assessment (₹ 19131 crore) by ₹ 5809 crore though it remained below by ₹ 7826 crore from the Budget Estimate (₹ 26957 crore) for 2011-12 as indicated in **Table 1.6** below.

Table 1.6: Comparative assessments of RE and NPRE and *per cent* of GSDP

	Assessment made by ThFC	Assessment made by Government in MTFP	Budget Estimate for 2011-12	Actual in 2011-12
Revenue Expenditure	Not available	37072 (16.39)	36323 (16.06)	34660 (15.32)
NPRE	19131 (8.46)	29962 (13.24)	26957 (11.92)	24940 (11.02)

Note: Absolute amounts converted into percentage of GSDP (₹ 226236 crore) for 2011-12.

NPRE constituted 63 *per cent* of the total expenditure of the State during 2011-12. Its ratio with Revenue Expenditure declined from 77 *per cent* in 2007-08 to 72 *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 decreased from 14 *per cent* (₹ 2843 crore) in 2007-08 to 11 *per cent* (₹ 4496 crore) in 2011-12, which was below the level of Capital Expenditure incurred by other General Category States of 13 *per cent* in 2011-12 on an average (vide paragraph 1.5.1). However, CE showed an increase of only five *per cent* during 2011-12 over the previous year (₹ 4285 crore) mainly on account of ***misclassification of grants-in-aid of ₹763 crore under capital section instead of revenue*** as well as increase in expenditure on Agriculture and Allied services (₹ 69 crore), Power Projects (₹ 98 crore) and Irrigation and Flood control (₹ 145 crore), set off by decrease in expenditure mainly on Education, Sports and Art and Culture (₹ 88 crore), Home (₹ 62 crore) and Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (₹ 105 crore). The CE during 2011-12, was 1.99 *per cent* of GSDP as against Government's projection of 2.50 *per cent* in budget estimate for 2011-12**.** The CE (₹ 4496 crore) was lesser by ₹ 1166 crore (21 *per cent*) against budget estimate (₹ 5662 crore) during the current year.

1.4.2 Committed Expenditure

Committed Expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.7** and **Chart 1.9** present the trends in the expenditure on these components during 2007-12.

Table-1.7: Components of Committed Expenditure

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actuals
Salaries* & Wages , *Of which*	4582 (21)	6524 (27)	7945 (27)	8969 (26)	11161	8868 (22)
Non-Plan Head	4333	6220	7484	8448	10215	8385
Plan Head**	249	304	461	521	946	483
Interest Payments	3169 (14)	2889 (12)	3044 (10)	3061 (9)	4047	2576 (6)

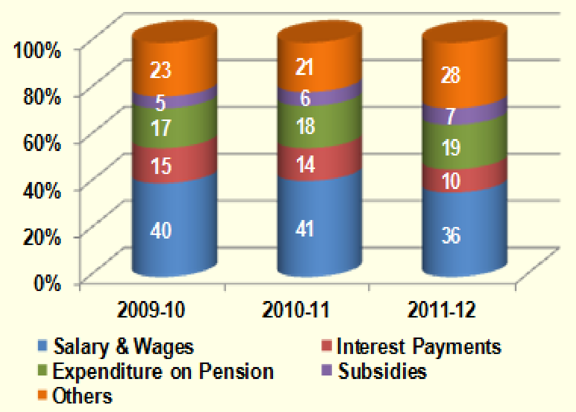
	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actuals
Expenditure on Pensions	1801 (8)	2075 (8)	3283 (11)	4011 (12)	4550	4741 (12)
Subsidies	148 (0.7)	743 (3.02)	1008 (35)	1310 (4)	1387	1744 (4)
TOTAL	9700	12231	15280	17351	21145	17929

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 2011-12 and Orissa Budget at a Glance 2012-13.

1.4.2.1 Salaries

Expenditure on salaries increased from ₹ 4582crore in 2007-08 to ₹ 8868 crore in 2011-12 accounting for nearly 22 *per cent* of revenue receipts and 36 *per cent* of the NPRE of the State Government during the year**.** However the expenditure on salaries decreased by ₹ 101 crore (one *per cent)* from ₹ 8969 crore in 2010-11to ₹ 8868 crore in 2011-12. As a result the expenditure on salary was 26 *per cent* of revenue expenditure during 2011-12 as against 31 *per cent* in 2010-11 which is a good sign. However, the salary expenditure was ₹ 1966 crore more than the ThFC assessment of ₹ 6902 crore for 2011-12 in absolute terms.

Chart 1.9: Share in committed expenditure in Non-Plan Revenue Expenditure during 2009-12 (Value in lebels in percentage)



1.4.2.2 Interest Payments

The major source of borrowing was market loans at interest rates varying from 5.60 *per cent* to 7.80 *per cent*. The interest payments during the current year (₹ 2576 crore) decreased by ₹ 485 crore over the previous year's (₹ 3061 crore) and remained lower than the projections made in MTFP (₹ 4047crore) and ThFC (₹ 4080 crore) and Budget Estimates (₹ 4047 crore) for the year 2011-12. During 2011-12, the interest payments as percentage of total revenue receipts was six *per cent* which was lower than the projections of 10.06 *per cent* in MTFP.

1.4.2.3 Pensions

Expenditure on pension (₹ 4741) which was 12 *per cent* of total revenue receipts of the State during the year steeply increased by 163 *per cent* from ₹ 1801 crore in 2007-08 to ₹ 4741 crore in 2011-12. It also increased by ₹ 730 crore from ₹ 4011 crore in 2010-11 to ₹ 4741 crore in 2011-12, being 18 *per cent* more than the previous year and also exceeded the ThFC estimation of increase of 10 *per cent* per annum. The increase in the current year over the previous year was mainly due to more expenditure under pensions and other retirement benefits to Government servants and leave salary encashment on retirement. The State Government did not estimate yearly pension liabilities for next ten years on realistic basis as required under FRBM Act,

2005. The pension payment during the current year was higher than the projection made by ThFC (₹ 2897 crore) for the year[3] and MTFP (₹ 4550 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. The State Government has executed agreement with National Securities Depository Limited (NSDL), Mumbai, the Central Record Keeping Agency appointed by the Pension Fund Regulatory and Development Authority (PFRDA) as well as with New Pension Scheme (NPS) Trust, New Delhi for smooth management of NPS. An amount of ₹ 60 crore, being the employees contribution as well as employer's contribution, was kept under Public Accounts (8432-Other Deposits) for transfer to NPS Trust.

The Principal Secretary, Finance Department stated (November 2012) that the current employers' contribution was being uploaded through NSDL Portal and remitted to the Trustee Bank of the concerned Fund Manager along with the employees' share. The modus of transferring employers' contribution parked in the Public Account and deficit, if any, on this score was being worked out in consultation with NSDL and the Principal Accountant General (A&E), Odisha. State Government should take expeditious steps to transfer the balance lying in Pubic Account.

1.4.2.4 Subsidies

In any welfare State, it is not uncommon to provide subsidies/subventions to disadvantaged sections of the society. Subsidies are dispensed not only explicitly but also implicitly by providing subsidised public service to the people. Budgetary support to financial institutions, inadequate returns on investments and poor recovery of user charges from social and economic services provided by the Government fall in the category of implicit subsidies.

The State Government in its MTFP for 2007-08, aimed to rationalise 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 ₹ 1310 crore in 2010-11 to ₹ 1744 crore (over 33 *per cent*) in 2011-12 which included food subsidy of ₹ 979 crore due to continuation of rupees two a kilogram of rice for the people living below poverty line, ₹ 456 crore under Relief on account of Natural Calamities mainly assistance to farmers affected by floods/cyclone for purchase of agricultural inputs etc (₹ 300 crore), ₹ 30 crore under subsidy to Orissa Lift Irrigation Corporation and ₹ 54 crore interest subsidy/subvention to the co-operative banks for providing crop loan at five *per cent* interest per annum to the farmers.

The ThFC has made a normative assessment of ₹ 20 *per capita* for each of the year for food subsidy. Accordingly, food subsidy should have been ₹ 83.80 crore taking into account the population of the State (4.19 crore) as against the ₹ 979 crore spent in 2011-12.

The Principal Secretary, Finance Department stated (November 2012) that it is a safety net designed to protect the poor and vulnerable in a high inflation regime.

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[3] There are 2, 68,577 different categories of state pensioners drawing pension.
Source: Finance Accounts – Statement No-12

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 1.8** below:

Table 1.8: Financial Assistance to Local Bodies etc.

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Educational institutions (aided schools, aided colleges, universities, etc.)	467	355	697	1722	1859
Municipal Corporations and Municipalities	483	487	645	1168	591
Zilla Parishads and Other Panchayati Raj Institutions	1535	2388	3062	3556	1149
Development agencies	256	278	88	582	908
Other Institutions (Autonomous bodies)	1117	1914	2230	2058	4558
TOTAL	**3858**	**5422**	**6722**	**9086**	**9065**
Assistance as per percentage of RE	22	26	28	31	26

Source: worked out from Group Heads compiled by the office of the Pr AG (A&E)

The grants extended to local bodies and other institutions has marginally decreased by 0.23 *per cent* from ₹ 9086 crore in 2010-11 to ₹ 9065 crore in 2011-12. The share of grants and loans to the revenue expenditure increased from 22 *per cent* in 2007-08 to 26 *per cent* in the current year. Another important trend was that the share of financial assistance increased by ₹ 137 crore to educational institutions, by ₹ 2500 crore to other institutions (Autonomous bodies) and by ₹ 326 crore to Development agencies as compared to the previous year. However assistance to Municipal Corporations and Municipalities and Zilla Parishad and other Panchayatiraj institutions decreased by ₹ 577 crore and ₹ 2407 crore respectively. 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 declined during the current year which is a cause for concern.

Decentralised Governance of Local Bodies

Under 73rd and 74th Constitutional Amendments, decentralisation of governance and devolution of powers in terms of transfer of fund, function and functionaries should be made to the local bodies to ensure direct participation of people at the grass root level in preparation of plan as well as implementation of the people friendly developmental works. Accordingly, 29 subjects were required to be transferred to the PRIs and 18 subjects to Urban local bodies (ULBs) respectively. However, the State Government transferred (July 2003) 21 out of 29 functions relating to 11 Departments to PRIs and 17 out of 18 functions to ULBs.

Despite devolution of 21 functions to PRIs, the functionaries of 11 departments continued to be under the administrative control of their respective line departments. As usual, the State Government was providing grants to the Local bodies, however, no specific separate budget provision has been made to take care of the functions devolved to the local bodies.

The Principal Secretary, Finance Department admitted (November 2012) the observation of audit.

1.5 Quality of Expenditure

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 1.9** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2011-12.

Table 1.9: Fiscal Priority and Fiscal capacity of the State in 2008-09 and 2011-12.

Fiscal Priority by the State*	AE/GSDP	DE#/AE	SSE/AE	CE/AE	Education/AE	Health/AE
General Category States average (Ratio) 2008-09	**17.00**	**67.09**	**34.28**	**16.47**	**15.41**	**3.97**
Odisha State's average (Ratio) 2008-09	**16.96**	**69.71**	**36.79**	**15.01**	**17.88**	**3.72**
General Category States average (Ratio) 2011-12	**16.09**	**66.44**	**36.57**	**13.25**	**17.18**	**4.30**
Odisha State's average (Ratio) 2011-12	**17.58**	**69.66**	**38.12**	**11.30**	**17.37**	**3.52**

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 1.9 indicates the following:

1. Odisha spent a smaller proportion of its GSDP on aggregate expenditure in 2008-09 as compared to General Category States but during 2011-12 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 higher compared to the general category state's average during 2008-09 and 2011-12 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, has been given less priority in the current year as well as in 2008-09. 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 2008-09 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 1.10** 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 1.11** provides the details of Capital Expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.10: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					(BE)	(Actual)
Development Expenditure (a to c)						
a. Development Revenue Expenditure (DRE)	10145 (48)	13835 (55)	15600 (54)	18999 (56)	27582	23070 (58)
b. Development Capital Expenditure (DCE)	2711 (13)	3595 (14)	3470 (12)	4051 (12)	5421	4238 (11)
c. Development Loans and Advances	301 (1.43)	122 (0.5)	89 (0.3)	258 (0.8)	NA	401 (1)
TOTAL	**13157**	**17552**	**19159**	**23308**		**27709**

Figures in parentheses indicate *percent*age to aggregate expenditure; NA: Not available
***Source:** Odisha Budget at a Glance 2012-13 and Finance Accounts 2011-12.

Development Expenditure comprising revenue, capital and expenditure on loans and advances on socio-economic services increased from ₹ 13157 crore in 2007-08 to ₹ 27709 crore in 2011-12. As a percentage of total expenditure, it increased from 63 *per cent* in 2007-08 to 70 *per cent* in 2011-12.

It would be seen from the above that Development Revenue Expenditure which was ₹ 10145 crore during 2007-08 rose to ₹ 23070 crore during 2011-12, a growth of nearly 127 *per cent*.

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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 subsidised 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 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.

During 2011-12 while Development Revenue Expenditure increased by ₹ 4071 crore (21 *per cent*) in absolute terms, development capital expenditure increased by only ₹ 187 crore (five *per cent*) over the previous year.

The increase in Development Revenue Expenditure during 2011-12 over the previous year was mainly due to increase under Education (₹ 368 crore), Health and Family Welfare (₹ 81 crore), Agriculture and allied activities (₹ 388 crore), Transport (₹ 133 crore) and Irrigation and Flood Control (₹ 95 crore). The increase in Capital Expenditure during 2011-12 over the previous year was mainly due to increase under Agriculture & Allied Activities (₹ 69 crore), Power Projects (₹ 98 crore) and Irrigation and Flood control (₹ 145 crore), set off by decrease in other expenditure heads.

Table 1.11: Efficiency of expenditure use in selected Social and Economic services

(In *per cent*)

Social / Economic Infrastructure	2010-11			2011-12		
	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	2.81	58.39	NA	1.42	53.21	NA
Health and Family Welfare	2.25	80.68	NA	2.71	72.82	NA
Water Supplies, Sanitation & Housing & Urban Development	13.84	7.61	77.05	16.74	7.79	31.75
TOTAL (SS)	**6.15**	**44.00**	**6.15**	**4.33**	**35.33**	**1.98**
Economic Services (ES)						
Agriculture & Allied Activities	2.75	26.31	NA	4.41	23.01	NA
Irrigation and Flood Control	67.73	20.79	35.34	67.06	18.31	25.58
Power & Energy	16.86	1.63	0.91	43.05	16.16	11.14
Transport	55.18	0.39	NA	51.34	0.33	61.41
Total (ES)	**30.96**	**18.39**	**3.85**	**28.43**	**14.85**	**18.88**
TOTAL (SS+ES)	**17.38**	**34.46**	**5.29**	**15.27**	**27.58**	**5.35**

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 1.11** summarises 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 2010-11and 2011-12.

The share of CE to TE has increased in respect of Water Supplies, Sanitation, Housing and Urban Development, Health and Family Welfare (in Social Services), and Agriculture and Allied Activities and Power and Energy (in Economic Services) during 2011-12 as compared to the previous year whereas the share of the Operation and Maintenance expenditure has substantially increased in Power and Energy set off by substantial decrease in Water Supplies, Sanitation and Housing and Urban Development.

As seen from ***Appendix 1.3***, the expenditure on Social Services during 2011-12 (₹ 14995 crore) constituting 38 *per cent* of total expenditure (₹ 39777 crore) increased by 18 *per cent* over the previous year's expenditure (₹ 12706 crore) while in development expenditure (₹ 27709 crore), which was 70 *per cent* of total expenditure, there was an increase of 19 *per cent* over the previous year (₹ 23308 crore). Operation and maintenance expenditure increased only by 0.06 *per cent* indicating that Revenue Expenditure on salaries continued to share a dominant proportion of Revenue Expenditure on Social Services (35 *per cent*). The Capital Expenditure on Social Services relative to the total expenditure showed a marginal decrease (1.82 *per cent*) over the previous year.

It was observed that the salary component in Education and Health and Family Welfare decreased by 5.18 *per cent* and 7.86 *per cent* respectively.

Expenditure on Economic Services includes all such expenditure that promotes directly or indirectly, productive capacity within the State's economy. During 2011-12, total expenditure under economic services (₹ 12313 crore) increased by 19 *per cent* over previous year. The expenditure on total economic services (₹ 12313 crore) accounted for 31 *per cent* of total expenditure and 44 *per cent* of development expenditure. However, the ratio of CE/TE decreased by 2.11 *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 Outcome Budget (Effectiveness of the Expenditure)

The concept of outcome budget is an important tool for effective government management and accountability. It is a performance measuring tool that helps in better service delivery; decision-making; evaluating programme performance and results; communicating programme goals; and improving programme effectiveness. The exercise is primarily meant at converting financial outlays into measurable and monitorable outcome. The idea is to make the programme implementing agencies more result oriented by shifting the focus from 'Outlay' to 'Outcome'.

From the outlay-outcome budget for the year 2011-12 in respect of three Departments (ST & SC Development, Panchayati Raj and Housing and Urban Development) it was seen (***Appendix 1.7)*** that the financial and physical outcome was very low. In ST & SC department against the financial achievement ranging from 0 to 70 *per cent*, the physical achievement was only 0 to 54 *per cent* as of December 2011. In respect of four test checked schemes of Panchayati Raj Department, against the financial achievements which ranged from 52 to 89 *per cent*, the physical achievement ranged only from 15 to 70 *per cent* at the end of December 2011. Similarly, out of 11 test checked schemes of Housing and Urban Development Department, in seven cases the percentage of financial achievement was below 60 *per cent* i.e. ranged from 0 to 42 *per cent* at the end of March 2012.

As stipulated in the guideline for Cash Management System issued (October 2010) by Finance Department, the expenditure under State Plan, Central Plan schemes at the end of the third quarter of a financial year should reach minimum 60 *per cent*. However, in 11 schemes under the above Departments, the percentage of utilisation was below 60 *per cent* by the third quarter of 2011-12 Thus, the objectives of Cash Management System to reduce rush of expenditure during the last quarters of the financial year got defeated and effective monitoring of expenditure pattern and improving the quality of expenditure etc. could not be ensured though promised. A detailed comment on this issue is given in Chapter-2 of this Report.

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 low but also meet its Capital Expenditure/Investment (including Loans and Advances) requirement 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 (RoI) 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 ₹ 3677.95 crore at the end of March 2012 showed that an amount of ₹ 109.98 crore was realised from these projects during 2011-12 by way of sale of water to industries against the direct working expenses of ₹ 188.08 crore. After meeting the working and maintenance expenditure (₹ 189.12 crore) and interest charges (₹ 248.11 crore), the schemes suffered a net loss of ₹ 327.25 crore.

The Principal Secretary, Finance Department stated (November 2012) that the Odisha Irrigation Rules, 1961 had been amended to provide for enhancement of Industrial water rate since October 2010. However, such increase in rate has not been sufficient to meet even the working and maintenance expenditure.

1.6.2 Incomplete Projects

Blocking of funds on incomplete works impinge negatively on the quality of expenditure. The department-wise information pertaining to incomplete time overrun projects as on 31 March 2012 is given in **Table 1.12** as per the information furnished to Audit by the concerned Departments.

Table 1.12: Department-wise profile of incomplete projects

(₹ in crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects	Cumulative Actual Expenditure as on 31 January 2012
Water Resources	45	136.33	131.80	11.15
Works	14	161.99	161.99	117.69
Tourism	4	25.46	25.46	16.28
Housing & Urban Development	13	37.33	47.45	5.90
Rural Development	72	203.45	219.01	163.56
Industries	3	43.21	43.24	37.62
TOTAL	**151**	**607.77**	**628.95**	**352.20**

Source: Budget at Glance 2012-13 and details supplied by Finance Department.

Out of these, the delay in completion of 57 projects has resulted in cost overrun of ₹ 39.09 crore as of 31 January 2012, details given in **Table 1.13** below.

Table 1.13: Projects depicting cost overrun

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects	Cost overrun
Water Resources	4	19.94	32.22	12.28
Housing & Urban Development	6	21.53	31.65	10.12
Rural Development	46	137.84	154.50	16.66
Industries	1	1.75	1.78	0.03
TOTAL	**57**	**181.06**	**220.15**	**39.09**

Source: Budget at Glance 2012-13 and details supplied by Finance Department.

All the above 151 projects were lying incomplete due to the prolonged processes involved in land acquisition, finalising and revising the designs and drawings, slow progress of work, sub-judice, mutation for non-forest land pending with Tahsildar and local agitation.

Due to non-completion of projects, not only were the benefits to be accrued to the intended beneficiaries got delayed but the cost to the exchequer also increased due to time overrun involved in their completion.

1.6.3 Investment and Returns

As of 31 March 2012, Government had invested ₹ 2908.07 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives **(Table 1.14)**. The average return on this investment was 9.80 *per cent* in the last five years (9.84 *per cent* during 2011-12) while the Government paid an average interest rate of 6.58 *per cent* to 8.13 *per cent* on its borrowings during 2007-08 to 2011-2012.

Table 1.14: Return on Investment

(₹ in crore)

Year	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year	1681.95	1771.20	2106.95	2190.37	2908.07
Return	140.93	252.85	250.78	101.58	286.23
*Percent*age of return	8.38	14.27	11.90	4.64	9.84
Average rate of interest on Government borrowing	8.13	7.44	7.63	7.39	6.09
Difference between interest rate and return	(-)0.25	(-)6.83	(-)4.27	(+)2.75	(-)3.75

The investment of State Government at the end of 2011-12 included ₹ 2556.62 crore in 83 Public Sector Undertakings (PSU) comprising 80 Government Companies (₹ 2064.16 crore) and three Statutory Corporations (₹ 492.46 crore). However, dividend of ₹ 286.23 crore was received from two Statutory Corporations (Odisha State Warehousing Corporation, Bhubaneswar: ₹ 14.40 lakh and Odisha State Financial Corporation ₹ 0.02 lakh), three Government Companies (Odisha Mining Corporation Limited ₹ 28500.16 lakh, Odisha Small Industries Corporation Limited ₹ 48.50 lakh and Odisha State Cashew Development Corporation Limited: ₹ 47.63 lakh) , one Co-operative Societies (other cooperatives ₹ 0.03lakh) and one Rural Bank (Odisha State Co-operative Bank ₹ 11.86 lakh) during 2011-12. Therefore, in essence, one Statutory Corporations, 77 Government Companies and 30 Co-operative Societies where ₹ 130.51 crore, ₹ 1990.60 crore and ₹ 308.22 crore had already been invested and which comprised 84 *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 2008-09, the Odisha State Financial Corporation with ₹ 375.76 crore of loss as of 2009-10 and the Odisha Forest Development Corporation with ₹ 159.20 crore 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 2012-13, there were 32 working public sector undertakings in the State. The other 51 PSUs were, therefore, non-working. The ThFC 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 2012.

The Principal Secretary, Finance Department stated (November 2012) that (i) the State Government had formulated a dividend policy in terms of which the profit making PSUs were required to pay dividend @ 30 *per cent* of net profit and (ii) liquidation process for closure of eight non-working PSUs had been initiated.

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 / organisations. The Loans and Advances by the State Government increased by ₹ 489 crore from ₹ 3414 crore in 2010-11to ₹ 3903 crore in 2011-12. Major portion of loans advanced during 2011-12 was to Energy sector (₹ 216 crore), Government servants

(₹ 220 crore) and to Odisha Rural Housing Development Corporation (₹ 166 crore). **Table 1.15** presents the outstanding loans and advances as on 31 March 2012 and interest receipts vis-à-vis interest payments during the last three years.

Table 1.15: Average Interest Received on Loans Advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2009-10	2010-11	2011-12
Opening Balance	**3377**	**3133**	**3414**
Amount advanced during the year	112	315	621
Amount repaid during the year	356	34	132
Closing Balance	**3133**	**3414**	**3903**
Of which outstanding balance for which terms and conditions have been settled			
Net addition	(-)244	(+)281	(+)489
Interest Receipts	41	29	16
Interest receipts as *per cent* to outstanding Loans and advances	1.31	0.85	0.41
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	7.50	7.26	6.07
Difference between interest payments and interest receipts (*per cent*)	(-)6.19	(-)6.41	(-)5.66

Source: Finance Accounts of Government of Odisha for respective years

Loans outstanding as of 31 March 2012 aggregated ₹ 3903 crore. Interest spread of government borrowings was negative during 2009-12 which meant that the state borrowings were more expensive than the loans advanced by it. As per information furnished by six out of 27 departments of the State Government as on 31 March 2012, recovery of ₹ 60.09 crore (principal ₹ 32.86 crore and interest ₹ 27.23 crore) was overdue as at the end of 2011-12.

1.6.5 Cash Balances and Investment of Cash Balances

Table 1.16 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.16: Cash Balances and Investment of Cash balances

(₹ in crore)

Particulars Cash Balances	As on 31 March 2011	As on 31 March 2012	Increase(+)/ Decrease(-)
Investments from Cash Balances (a to d)	5594.57	6883.74	1289.17
a. GoI Treasury Bills	5554.07	6839.37	1285.30
b. GoI Securities	40.50	44.37	3.87
c. Other Securities, if any	---	---	---
d. Other Investments	---	---	---
Funds-wise Break-up of Investment from Earmarked balances (a to c)	4813.00	5023.00	210.00
a. Sinking Fund Investment	4333.00	4543.00	210.00
b. Guarantee Redemption Fund Investment	480.00	480.00	---
c. Calamity Relief Fund Investment	---	---	---
Interest Realised	226.72	548.66	321.94

Source: Finance Accounts 2011-12.

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 2012, the investment in the Sinking Fund stood at ₹ 4543 crore including an addition of ₹ 210 crore made during 2011-12 against outstanding fiscal liability of ₹ 42467 crore as of 31 March 2012.

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 2012. 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 2011-12 included a few high interest bearing loans like 7.80 *per cent* Odisha Government Loan (OGL) 2012 (₹ 434 crore), 6.95 *per cent* OGL 2013 (₹ 353 crore), 6.80 *per cent* OGL 2012 (₹ 187crore) and 8.5 *per cent* special security to NSSF of Government of India (₹ 8482 crore). The ThFC recommended (paragraph 7.127) that States with large cash balances should make efforts towards utilising their cash balances before resorting to fresh borrowings**.**

The Principal Secretary, Finance Department stated (November 2012) that the surplus balance was maintained to meet the day to day expenditure requirement which is invested in 14 day intermediate Treasury Bill. The remaining part of the surplus was held in Auction Treasury Bills which earned a higher interest. An amount of high cost loan of ₹ 575 crore availed from HUDCO and REC was prepaid during the first half of 2012-13. However, as discussed below the surplus balance could have been utilised in providing more funds under capital sector/ creating assets.

Analysis of Cash Balance

Surplus cash balance was mainly due to market borrowing raised during last few years. The entire loan amount was invested in 14 days and 91 days intermediate treasury bills of RBI with an interest rate of five *per cent* per annum against an average rate of six *per cent* per annum at which the borrowings were made.

The ThFC has also suggested that there should be directed effort by the States with large balances towards utilising their existing cash balances before resorting to fresh borrowings. The Reserve Bank of India has also reiterated the fact and advised the States to manage their cash balance more efficiently. It is commendable to note that the State adhering to ThFC recommendation not only avoided any open market borrowings during 2011-12 but also discharged high cost OSDL loan amounting to ₹ 1046 crore.

However, it was seen that Revenue Expenditure and Capital Expenditure were less than the budget estimate by ₹ 1663 crore (five *per cent*) and ₹ 1166 crore (21 *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. In view of the comfortable position of cash balances and with a revenue surplus of ₹ 5607 crore and a fiscal surplus of ₹ 622 crore, the surplus cash balance could have been utilised in providing more funds under capital sector/ creating assets. Since maintaining huge idle cash balance is against the prudent cash management, appropriate steps may be taken for spending on capital projects for creation of assets.

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 2012, compared with the corresponding position as on 31 March 2011. 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.

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in ***Appendix 1.3.*** However, the composition 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 2011 (₹ in crore)

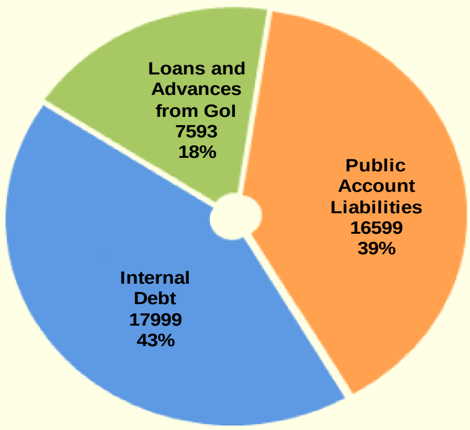
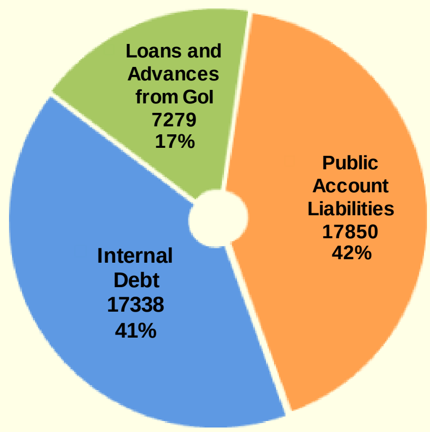


Chart 1.11: Composition of outstanding fiscal liabilities as on 31 March 2012 (₹ in crore)



Fiscal liabilities as it stood on 1 April 2011 was ₹ 42191 crore comprising internal debt of ₹ 17999 crore (43 *per cent*), Public Accounts liability of ₹ 16599 crore (39 *per cent*) and loans and advance of ₹ 7593 crore (18 *per cent*) from GoI. However, it increased by ₹ 276 crore to ₹ 42467 crore as of 31 March 2012. The fiscal liabilities comprised internal debt of ₹ 17338 crore (41 *per cent*), public account of ₹ 17850 crore (42 *per cent*) and loans and advances of ₹ 7279 crore (17 *per cent*) as at the end of 2011-12. The internal debt of ₹ 17338 crore comprised mainly of market loans bearing interest (₹ 5114 crore), loans from National Bank of Agriculture and Rural Development (₹ 2707 crore) and special securities issued to National Small Savings Fund (₹ 8482 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 2011-12 constituted 19 *per cent* of GSDP which is four *per cent* less than previous year. This is a very positive sign for the State finances.

1.7.3 Status of Guarantees – Contingent Liabilities

Guarantees are contingent liabilities 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 1.17.**

Table 1.17: Guarantees given by the Government of Odisha

(₹ in crore)

Guarantees	2009-10	2010-11	2011-2012
Maximum amount guaranteed.	8388.64	9788.62	10578.61
Outstanding amount of guarantees.	1026.93	2066.24	2510.43
Percentage of maximum amount guaranteed to total revenue receipt of current year.	31.74	29.41	26.27
Percentage of outstanding guarantee to total revenue receipt of 2nd preceding year less grants-in-aid as provided in the MTFP	5.91	10.62	12.12
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.	17356	19452	20713

Source: Finance Accounts of Government of Odisha for respective years

The outstanding guarantees increased by 21 *per cent* from ₹ 2066 crore in 2010-11 to ₹ 2510 crore in 2011-12. Guarantees were given in respect of Power sector (4), Co-operatives sector (41), Housing and Urban Development (86), Irrigation sector (2), Roads and Transport sector (2), State Financial Corporation sector (8) and other infrastructure (18). Maximum amount guaranteed increased substantially by ₹ 790 crore over previous year during 2011-12 as can be seen from the **Table 1.17** above due to increase in guarantees of ₹ 741 crore to Grid Corporation of Odisha (GRIDCO) for purchase of power to meet the surge in demand coupled by inadequate hydro-power generation within the State. Government in their resolution (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 Nationalised Bank for timely repayment of guaranteed loans. As on 31 March 2012, Escrow Accounts have been opened by only 12 out of 88 such institutions.

The Principal Secretary, Finance Department stated (November 2012) that opening of Escrow Account was being insisted upon by the State Government while extending guarantee cover. The reply amply indicated that the Government did not take action for opening of such Escrow Accounts in respect of institutions for which guarantees had been given earlier though committed last year.

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 ₹ 17356 crore, ₹ 19452 crore and ₹ 20713 crore during 2009-10, 2010-11 and 2011-12 respectively.

To provide for sudden discharge of State's obligation on guarantee, Twelfth Finance Commission (TwFC) recommended that States should set up Guarantee Redemption Fund through earmarked guarantee fees. The Government has set up a "Guarantee Redemption Fund" during 2002-03 to meet the contingent liabilities arising out of the total outstanding liabilities. However, there was no transaction since 2008-09 though there were guarantee commission receipts and expenditure on account of discharge of guarantee obligation. In the current year though commission fee of ₹ 1.25 crore was received yet only ₹ 12.84 lakh was credited under Major Head 0075-108- Guarantee fees and the balance amount of ₹ 1.12 crore has been booked under Major Head 0075-800- Other Receipts**.** As on 31 March 2012, ₹ 480 crore lay invested in the fund.

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*. As per information supplied to us, Guarantee Commission or fee of ₹ 139.25 crore was in arrear from various sectors as shown in **Table 1.18**.

Table 1.18: Guarantee Commission received/to be received by the Government.

(₹ in crore)

Name of the Sector	Commission Received	Commission to be Received
Power	76.91	106.55
Co-operatives	1.50	2.22
Irrigation	0.15	0
State Financial Corporation	2.85	5.63
Housing and Urban Development	26.61	14.34
Roads and Transport	1.85	0
Other Infrastructure	4.10	9.26
Any Other	0	1.25
TOTAL	**113.97**	**139.25**

Source: Finance Accounts 2011-12

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 was discharging the State Government guarantees through one time settlement (OTS). So far, the State Government and various PSUs and Co-operatives have paid ₹1202.88 crore under OTS schemes to discharge guarantee liabilities arising out of the default of loanee organisations. *During the year 2011-12, the Government have not invoked any guarantee and also not issued any letter of comfort.*

1.7.4 Off Budget Borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the contingent 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. Although the State Government projects that funds for these programmes would be met out of the resources mobilised by these companies/corporations outside the State budget, in reality the borrowings of many of these concerns ultimately turn out to be the liabilities of the state Government termed as off-budget borrowing. The repayment of principal and interest of these borrowings is the primary responsibility of the State Government because of the guarantee. Off budget borrowings are not permissible under Article 293(3) of the Constitution. 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 31 March 2008. No off budget borrowing was made since 2008-09.

1.7.5 Inoperative Reserve Funds

Reserve Fund is created for specific and defined purposes under the Sector 'J' in the accounts of the State Government. These sources of the fund are the contributions or grants from the Consolidated Fund of India or State. After obtaining the vote of the Legislature, the expenditure incurred from the fund initially accounted for under the Consolidated Fund. On the closure of the account, at the end of the year, the expenditure so incurred is transferred to the fund (Public Account) through an operation of deduct entry in accounts. The funds may be further classified as 'funds bearing interest' and 'funds not bearing interest'. All these funds (whether interest bearing or not) are intended to be used for the purposes for which they are created.

Twenty seven reserve funds have been created and maintained in the accounts of the State Government. Out of the said 27 funds, 23 are inoperative or dormant since long. The details of 13 major inoperative funds out of 23 funds are given in **Table 1.19** below:

Table 1.19: Inoperative reserve fund

(₹ in thousand)

Sl. No	Major and Minor heads with nomenclature	Balance as on 31.03.2012		Year of last transaction
1	8011-Insurance and Pension Funds 105-State Government Insurance Fund	Cr.	7	2003-04
2	8012-Special Deposit and Accounts 123-Special Deposit for Employees Provident Fund Scheme (Administration Fund)	Cr.	163	2002-03
3	8013-Other Deposits and Accounts 01-Deposit Schemes for Retiring employees 101-Deposit Scheme for Retiring Government Employees, 1989	Cr.	3881	1997-1998
4	8115-Depreciation/Renewal Reserve Fund 103-Depreciation Reserve Funds- Government Commercial Departments and Undertakings	Cr.	48208	1987-1988
5	8121-General and Other Reserve Fund	Cr.	188	1996-1997

Sl. No	Major and Minor heads with nomenclature	Balance as on 31.03.2012		Year of last transaction
	101-General and Other Reserve Funds- Government Commercial Departments and Undertakings.			
6	8229-Development and Welfare Funds 103-Development Funds for Agricultural purposes 109-Co-operative Development Funds, State Co-operative Development Fund 123-Consumer Welfare Fund	 Cr. Cr. Cr.	 1124 200 2524	 1967-1968 1959-1960 2004-2005
7	8235-General and Other Reserve Funds 102-Zamindary Abolition Fund 103-Religious and Charitable Endowment Funds 200-Other Funds: - Guarantee Reserve Fund, Passengers Amenities Reserve Fund	 Cr. Cr. Cr. Cr.	 5919 151 25028 600	 1994-1995 1983-1984 1997-1998 1982-1983
8	8449-Other Deposits 103-Subvention from Central Road Fund	 Cr.	 3020	 1984-85

Source: Finance Accounts of Government of Odisha 2011-12 (Volume-1)

All these funds (whether interest bearing or not) intended to be used for the purposes for which they are created, were not utilised for the purpose intended. The credit balances are debt liability of the Government on which interest is paid by the Government to the fund if the fund is interest bearing. The funds at sl. no 4 and 5 were interest bearing fund. The above reserve funds remained inoperative for periods ranging from seven to 53 years. Since the funds were inoperative and rolling for years together, the State Government should take appropriate steps to review all such funds and if the purpose for which it was created ceased to exist, transfer the balances to the Consolidated Fund.

The Principal Secretary, Finance Department stated (November 2012) that the matter would be examined in consultation with the Departments which used to operate the fund and then steps would be taken for closure of the inoperative reserve fund.

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 stabilisation[7]; sufficiency of non-debt receipts[8]; net availability of borrowed funds[9];

[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 stabilise 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.

interest burden payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.20** analyses the debt sustainability of the State according to these indicators for the period of three years beginning from 2009-10.

Table 1.20: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2009-10	2010-11	2011-12
Debt Stabilisation (Quantum Spread + Primary Deficit)	7017	8929	9657
Sufficiency of Non-debt Receipts (Resource Gap)	-1932[10]	1608	1280
Net Availability of Borrowed Funds	(-)1745	(-)1654	(-)3124
Burden of Interest Payments (IP/RR Ratio)	0.12	0.09	0.06
Maturity Profile of State Debt (In Years)			
0 – 1	1701	2265	2678
1 – 3	4950	5079	5375
3 – 5	4938	5174	4622
5 – 7	3936	3143	2585
7 and above	9883	9928	9353

Source: Finance Accounts of Government of Odisha for respective years

During the last three year period 2009-12, quantum spread together with primary deficit consistently remained positive resulting in a continuous decline in debt/GSDP ratio from 27 *per cent* in 2009-10 to 19 *per cent* in 2011-12. 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 1.20** 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 2009-12. The negative resource gap during 2009-10 turned positive during the previous year as well as 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

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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.

10 Differential total non debt revenue receipt of 2010-11 and 2011-12 minus differential total expenditure of 2010-11 and 2011-12.

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 ₹ 3295 crore, Government of India loans of ₹ 1035 crore and also discharged other obligation of ₹ 2640 crore, as a result of which payments exceeded the receipts during the year. Throughout the period 2009-12, the debt repayment was higher than fresh borrowings. As far as the burden of interest payment is concerned, the state is in a comfortable position because the ratio of interest payment to revenue receipts is only 0.06. During the current year, the State Government raised internal debt amounting to ₹ 1121 crore (NABARD and other institutions ₹ 812 crore and NSSF Securities: ₹ 309 crore). Against these receipts, Government discharged past debt obligation (Principal plus interest) amounting to ₹ 3295 crore resulting in negative net fund available under the debt account. During the current year, the Government repaid GoI loan including interest amounting to ₹ 1035 crore and also discharged other obligation of ₹ 2640 crore along with interest obligation, which were more than the total receipt resulting in negative net availability of funds during the year 2011-12.

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 2011-12.

1.9.1 Trends in Deficits/Surpluses

Table 1.21, **Chart 1.12** and **1.13** present the trends in deficit/surpluses indicators over the period 2007-12.

Table 1.21: Deficits/Surpluses

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue deficit (-)/ surplus(+) (₹ in crore)	(+) 4244	(+) 3420	(+)1138	(+)3908	**(+)5607**
Fiscal deficit (-)/ surplus(+) (₹ in crore)	(+) 1323	(-) 334	(-)2266	(-)658	**(+)622**
Primary deficit (-)/ surplus(+) (₹ in crore)	(+) 4492	(+) 2555	(+)778	(+)2403	**(+)3198**
RD/GSDP (*per cent*)	(+) 4.11	(+) 2.79	(+)0.75	(+)2.10	**(+)2.48**
FD/GSDP (*per cent*)	(+) 1.28	(-) 0.27	(-)1.50	(-)0.35	**(+)0.27**
PD/GSDP (*per cent*)	(+) 4.35	(+) 2.09	(+)0.51	(+)1.29	**(+)1.41**
RD/FD (*per cent*)	(+)320.78	(-)1023.95	(-)50.22	(-)593.92	**(+)901.45**

Source: Finance Accounts of Government of Odisha for respective years

Chart 1.12: Trends in deficit indicators (₹ in crore)

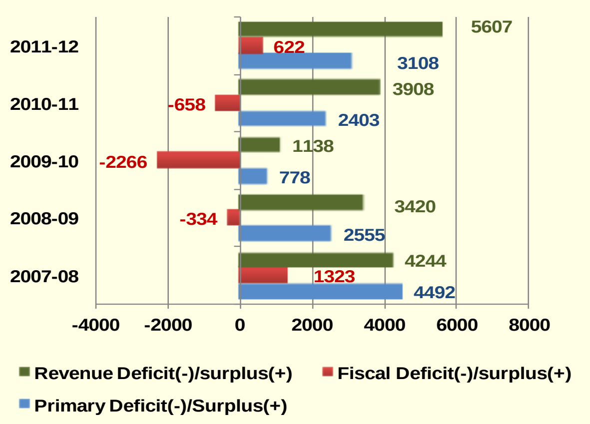
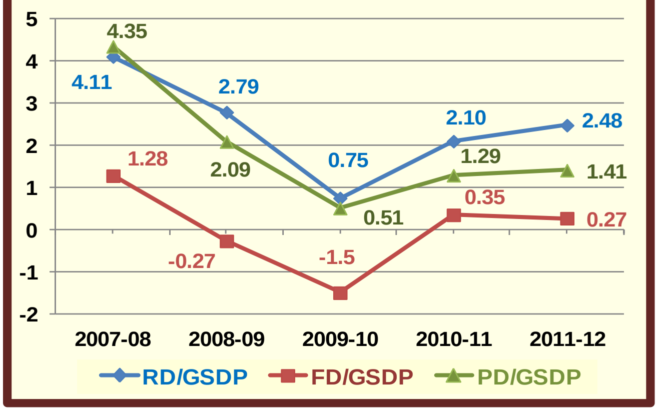


Chart 1.13: trends in deficit indicators relative to GSDP (*in percentage*)



Revenue surplus

Revenue surplus represents the difference between revenue receipts and revenue expenditure. Revenue surplus helps to reduce the borrowings**.** In the year 2005-06, after a gap of 22 years, the State was able to attain a revenue surplus of ₹ 481 crore and continued to be a revenue surplus State. In 2011-12, revenue surplus increased by ₹1699 crore (43 *per cent*) over the previous year. Thus, the achievement was in line with the State's FRBM (Amendment) Act, 2011 which prescribed reduction of revenue deficit to zero for the financial year 2011-12.

Over Statement of Revenue Surplus

Grants-in-Aid to any institution/body constitute the revenue expenditure of the Government. But during the year 2011-12 a sum of ₹ 763.22 crore has been disbursed as Grants-in-Aid and booked under Capital Major Heads of expenditure which should have been booked under Revenue Major Heads. This departure was also against the guidelines of the Indian Government Accounting Standards (IGAS-2). In another case Government have not taken any initiative for transfer of an amount of ₹ 143.49 crore received as Grants-in-Aid from Central Road Fund to the Public Account (8449-Other Deposits-103-Subvention from Central Road Fund) by debiting to the revenue expenditure head (3054-Roads and Bridges). Thereby, the Revenue Expenditure during 2011-12 was understated to the extent of ₹ 906.71 crore and consequently Revenue Surplus was overstated by the same amount.

Fiscal surplus/deficit

The fiscal deficit comprises the total borrowings of the Government. Fiscal surplus in 2007-08 slipped back to fiscal deficit during 2008-09 to 2010-11, but after three years there was again fiscal surplus of ₹ 622 crore during the current year mainly due to huge surplus available in revenue account. This was well within the State's FRBM (Amendment Act, 2012) target of fiscal deficit not more than three *per cent* of GSDP.

Primary surplus

The primary surplus in the State of ₹ 4492 crore in 2007-08 decreased to ₹ 3198 crore in 2011-12.

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. 22.**

Table 1.22: Components of Fiscal Deficit/Surplus and its Financing/Investing Pattern

(₹ in crore)

	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
	Decomposition of Fiscal Deficit	**1323**	**(-)334**	**(-)2266**	**(-)658**	**622**
1	Revenue surplus	4244	3420	1138	3908	5607
2	Capital Expenditure	(-)2843	(-)3779	(-)3648	(-)4285	(-)4496
3	Net Loans and Advances	(-)78	25	244	(-)281	(-)489
	Financing Pattern of Fiscal Deficit*/Surplus					
1	Market Borrowings	(-)874	(-)670	(-)571	(-)623	(-)1046
2	Loans from GoI	(-)343	74	(-)247	(-)636	(-)314
3	Special Securities Issued to National Small Savings Fund (NSSF)	(-)106	67	610	1023	26
4	Loans from Financial Institutions	(-)15	189	369	420	360
5	Small Savings, PF etc	399	459	1138	1223	426
6	Reserve fund	(-)85	(-)52	1	17	269
7	Deposits and Advances	83	576	145	154	554
8	Suspense and Misc	(-)1219	(-)522	1595	(-)809	(-)1290
9	Remittances	50	(-)1.00	41	(-)4	9
10	Others					
11	Increase / decrease in cash Balance	673	174	(-)629	69	12
12	Net of Odisha Contingency Fund	114	40	(-)188	(-)176	372

*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 2007-08 which turned into fiscal deficit during 2008-11 due to wide change in net capital expenditure (₹1442 crore). Fiscal deficit which represents the total borrowing of the State turned into fiscal surplus during 2011-12 mainly due to the huge surplus available in revenue account.

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 1.23)** 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 1.23: 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)**
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
2011-12	40399	32084	4496	621	37201	8315	3198

Source: Finance Accounts of Government of Odisha for respective years

During 2007-08 to 2011-12, non-debt receipts increased from ₹ 22322 crore to ₹ 40399 crore (81 *per cent*) against an increase of 120 *per cent* in Primary Revenue Expenditure.

The analysis of the factors resulting into primary surplus of the State during 2007-12 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 Eleventh Five Year Plan (2007-12). 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. 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 70 projects (***Appendix -1.9***) for implementation under PPP model during Eleventh Plan period .Of these only eight projects had been completed, five of which were generating revenue. One project out of the remaining three[12] projects was closed due to poor response and non-revenue generating. The details of period of delay (sector-wise) of the 62 projects either at implementation stage, bidding stage or in the pipeline are indicated in the **Table 1.24** below:

[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.

[12] Hop on and Hop up Bus Service, Tourism Portal, Management of Health Institution

Table 1.24: Projects under implementation/ pipeline / bidding stage

	Sector					
Period of delay	Port	Road	Tourism	Urban Infrastructure	Other Sector	Total
1-2 years	2	8	6	14	11	41
2-3 years	-	-	4	1	3	8
3 years and above	2	1	2	-	8	13
TOTAL	**4**	**9**	**12**	**15**	**22**	**62**

It would be evident from the above table that there was delay in completion of work in all the sectors, justifying the need for proper planning and adequate due diligence before making PPP projects and selecting the private partners.

The user charges collected in the five projects are as detailed in **Table 1.25** below.

Table1.25: List of Public Private Partnership (PPP) projects generating revenue.

(₹ in crore)

Sl. No	Project	Dept	Estimated cost	Estimated cost revised from time-to-time	Actual Expenditure	Cost Overrun (6-4)	User Charges collected	Share of Govt
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**
1	Dhamra Port	Commerce & Transport	2464.00	3639.00	3585.69	1121.69	197.80	9.75
2	Gopalpur Port*	Commerce & Transport	720.00	1212.55	255.77	Nil	40.52	0.65
3	Mahodadhi Niwas	Tourism	48.70	48.70	7.14	Nil	5.25	5.25
4	Eco tourist	Tourism	3.00	3.00	2.33	Nil	0.65	0.65
5	E-Registration	Revenue& Disaster management	63.00	63.00	36.57	Nil	20.12	2.01
TOTAL			**3298.7**	**4966.25**	**3887.50**	**1121.69**	**264.54**	**18.31**

* Operation at Gopalpur port has been suspended from October 2010 for construction of phase II envisaged in above cited estimated cost.

Source: Information furnished by respective Departments

Memorandum of Understanding (MoU) was signed with the International Sea Port (ISP) Private Limited on 31 March 1997 for development of Dhamra Port. MoU route was followed and the concession Agreement (CA) was signed between the Government and ISP on 2 April 1998 to complete the work within four years with an estimated cost of ₹ 2464 crore. The Port operation started on 6 May 2011 with a delay of nine years excluding four years for construction. The total expenditure incurred at the end of March 2012 was ₹ 3585.69 crore resulting in a cost overrun of ₹ 1121.69 crore over initial estimated cost. However, user charges for ₹ 264.54 crore were collected from above five projects out of which State Government received ₹ 18.31 crore.

Thus, the objective of PPP policy 2007 as envisaged to give a boost to the PPP Projects remained largely under achieved. There was a need to gear up to PPP activities from the experience gained from Eleventh Plan period. Appropriate mechanism should be developed to disclose the quantum of resources planned to be generated through PPP route in the budget and the Finance Accounts every year and its proposed application.

The Principal Secretary, Finance Department stated (November 2012) that while the provision for viability gap funding was reflected in the Budget documents other liabilities like annuities to be provided for execution for PPP Projects through BOT mode is required to be furnished separately when such projects was taken up for consideration.

1.11 Conclusion and Recommendations

- As envisaged in the amended FRBM Act and the ThFC, the required monitoring system of the fiscal reforms through an independent agency was yet to be put in place ***(Paragraph 1.1)***.

  The Government should develop an effective monitoring system for the fiscal reforms through an independent agency as envisaged in the amended FRBM Act and the ThFC requirement

- 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.

- During 2011-12, the annual growth rate of revenue receipts has come down to 21 *per cent* against 25.90 *per cent* during 2010-11. ***(Paragraph 1.3)***.

  Government should mobilise additional resources through tax and non-tax revenue by expanding the tax base and rationalising user charges.

- The growth rate of the total expenditure of the State over the previous year decreased from 20 *per cent* (₹ 20999 crore) in 2007-08 to 17 *per cent* (₹ 39777 crore) in 2011-12.Revenue Expenditure had a predominant share of 84 *per cent* in 2007-08 to 87 *per cent* in 2011-12 of total expenditure. However, Revenue Expenditure during 2011-12 was below the projection (₹ 37072 crore) as per MTFP which was a good sign for the State's finances ***(Paragraphs 1.4.1 and 1.4.1.2)***.

  Non-Plan Revenue Expenditure (NPRE) as a proportion of Revenue Expenditure, increased from ₹ 13634 crore in 2007-08 to ₹ 24940 crore (83 *per cent*) in 2011-12. Out of the total increase of ₹ 5292 crore in Revenue Expenditure during the current year over the previous year, increase in NPRE contributed ₹ 2965 crore (56 *per cent)* and remaining ₹ 2327 crore (44 *per cent*) was the Plan Revenue Expenditure (PRE) ***(Paragraph 1.4.1.3)***.

Government may 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.

- Capital Expenditure of the State ranged from 14 *per cent* to 11 *per cent of* Aggregate Expenditure during 2007-12. The Capital Expenditure was 1.99 *per cent* of GSDP during 2011-12 as against the projection of 2.50 *per cent* in the MTFP ***(Paragraph 1.4.1.4).***

  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 ₹ 3677.95 crore at the end of March 2012 yielded return of ₹ 109.98 crore during 2011-12 against the direct working expenses of ₹ 188.08 crore. After meeting the working and maintenance expenditure (₹ 189.12 crore) and interest charges (₹ 248.11 crore), the schemes suffered a net loss of ₹ 327.25 crore ***(Paragraph 1.6.1)***.

  Government may take steps to levy user charges commensurate with operational and maintenance expenses of Irrigation projects.

- A number of PSUs and Corporations with investment (equities) are not giving return to the Government in form of dividends. These include 51 non-working PSUs ***(Paragraph 1.6.3)***.

  The State Government may draw up a road map for closure of non-working PSUs as recommended by Thirteenth Finance Commission.

- Although a substantial amount (₹ 3903 crore) of loans was paid to various PSUs etc., interest of ₹ 16crore only was received from them during 2011-12 as a result of which interest receipts to outstanding loans stood at 0.41 *per cent* during 2011-12 ***(Paragraph 1.6.4)***.

  Government may, therefore, take effective action to realise 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 1.6.5)***.

  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.

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

  Effective action has to be taken to gear up PPP activities from the experience gained in the Eleventh Plan period. Also, there is a need to appropriately disclose the quantum of resources planned to be generated through PPP route in the budget and the Finance Accounts every year and its proposed application.