

# **Chapter-I**

## **Finances of the State Government**

*Profile of the State*

The State is located on the east coast of the country. It is the ninth largest State in terms of geographical area (155707sq.km) and the 11th largest by population. The State's population increased from 3.68 crore in 2001 to 4.19 crore in 2011 (provisional figures), recording a decadal growth of 14 *per cent* as indicated in **Appendix 1.1**. Population below the poverty line at 32.59 *per cent* was higher than the national average of 21.92 *per cent*. Odisha has a lower literacy rate, lower life expectancy at birth and higher infant mortality rate when compared to the all India average. The State has shown a higher economic growth in the past decade as the compound annual growth rate of its Gross State Domestic Product (GSDP) for the period 2004-05 to 2013-14 has been 15.68 *per cent* as compared to 15.49 *per cent* in General Category States. During the above mentioned period, its population grew by 12.56 *per cent* against 12.94 *per cent* in General Category States. General data relating to the State is given in **Appendix 1.1**.

**Gross State Domestic Product (GSDP)**

GSDP is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important economic indicator of the State Economy, as it depicts the increase in total value of production activities in the State. The trends in the annual growth of India's GSDP at current prices are indicated below:

**Annual growth rate of GDP and GSDP (at current price).**

Year	2009-10	2010-11 (3 <sup>rd</sup> R)	2011-12 (2 <sup>nd</sup> R)	2012-13 (1 <sup>st</sup> R)	2013-14 (AE)
India's Gross Domestic Product (GDP) (₹ in crore)	6108903	7248860	8391691	9388876	10472807
Growth rate of GDP (percentage)	15.18	18.66	15.77	11.88	11.54
State's GSDP (₹ in crore)	162946	197530	214583	255459	288414
Growth rate of GSDP (percentage)	9.74	21.22	8.63	19.05	12.90

R- Revised and AE-Advanced Estimate

The GSDP of the State increased from ₹ 255459 crore during 2012-13 to ₹ 288414 crore during 2013-14, thereby registering a growth of 12.90 *per cent* over the

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 **133**.

previous year, whereas National GDP registered a growth of 11.54 *per cent* over the previous year.

## 1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Odisha during 2013-14 and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during last five years. The structure of Government Accounts and the layout of Finance Accounts are given at the *Appendix 1.2*.

## 1.2 Summary of Current Year's Fiscal Transactions

**Table 1.1** presents the summary of the State Government's fiscal transactions during the current year (2013-14) vis-à-vis the previous year, *Appendix 1.3* shows the overall fiscal position of the State and *Appendix 1.4* shows details of receipts and disbursements during the current year.

**Table 1.1: Summary of Current Year's fiscal operations**

(₹ in crore)

Receipt			Disbursement				
	2012-13	2013-14		2012-13	2013-14		
Section A	Total	Total	Section A	Total	Non-Plan	Plan	Total
<b>Revenue Receipts*</b>	<b>43936.91</b>	<b>48946.85</b>	<b>Revenue Expenditure</b>	<b>38237.55</b>	<b>30610.06</b>	<b>15007.69</b>	<b>45617.75</b>
Tax Revenue	15034.13	16891.59	General Services	12423.26	13537.65	151.76	13689.41
Non-Tax Revenue	8078.03	8378.60	Social Services	14976.56	10079.08	8642.47	18721.55
Share of Union Taxes/ Duties	13965.01	15247.24	Economic Services	10196.24	6101.13	6213.46	12314.59
Grants from Government of India	6859.74	8429.42	Grants-in-aid and Contributions	641.49	892.20	---	892.20
<b>Section B</b>			<b>Section B</b>				
Miscellaneous Capital Receipts	---	0.03	Capital Outlay	5622.18	157.81	7598.59	7756.40
Recoveries of Loans and Advances	142.47	257.18	Loans and Advances Disbursed	216.02	---	---	463.55
Public Debt Receipts**	1879.55	2290.25	Repayment of Public Debt**	3179.86	---	---	2293.22
Contingency Fund	15.89	---	Contingency Fund	---	---	---	150.00
Public Account Receipts	27545.35	32677.32	Public Account Disbursement	24886.31	---	---	31256.60
Opening Cash Balance	11488.94	12867.19	Closing Cash Balance	12867.19	---	---	9501.30
<b>TOTAL</b>	<b>85009.11</b>	<b>97038.82</b>	<b>TOTAL</b>	<b>85009.11</b>			<b>97038.82</b>

**Source:** Finance Accounts for the respective years

The following are the significant changes during 2013-14, compared to the previous year:

- Revenue Receipts of the State increased by ₹ 5010 crore (11 *per cent*) over the previous year. This increase was mainly contributed by State's own Tax Revenue (₹ 1858 crore), Grants-in-aid (GIA) from Government of India (₹ 1569 crore), State's share of Union Taxes/Duties (₹ 1282 crore) and own Non-Tax Revenue (₹ 301 crore).

\* does not include ₹ 4699.58 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.

- Revenue Expenditure increased by ₹ 7380 crore (19 *per cent*) during 2013-14 over the previous year mainly due to increase in expenditure in Social Services Sector (₹ 3745 crore), Economic Services Sector (₹ 2118 crore), General Services Sector (₹ 1266 crore) and in disbursement of Grants-in-aid and contributions (₹ 251 crore).
- Capital outlay increased by ₹ 2134 crore (38 *per cent*) over the previous year, mainly on account of increase in expenditure on Transport (₹ 658 crore), Energy (₹ 487 crore), Water Supplies, Sanitation, Housing and Urban Development (₹389 crore) and Irrigation and Flood control (₹ 206 crore). Disbursement of Loans and advances increased substantially by ₹ 247 crore (115 *per cent*) from ₹ 216 crore in 2012-13 to ₹ 463 crore in 2013-14.
- Public Debt receipts increased by ₹ 411 crore (22 *per cent*) while repayment of public debt decreased by ₹ 887 crore (28 *per cent*).
- Public Account receipts (₹ 32677 crore) increased by ₹ 5132 crore (19 *per cent*) over the previous year mainly due to increase in Suspense and Miscellaneous (₹ 1697 crore), Reserve Fund (₹ 822 crore), Deposits and Advances (₹ 482 crore), Remittances (₹ 1800 crore) and Small Savings and Provident Fund (₹ 331 crore). Public Account disbursements (₹ 31257 crore) on the other hand increased by ₹ 6370 crore (26 *per cent*) during the same period mainly due to increase under Suspense and Miscellaneous (₹1653 crore), Remittances (₹ 1776 crore), Deposits and Advances (₹ 1263 crore), Reserve Fund (₹ 1345 crore) and Small Savings and Provident Fund (₹ 333 crore).
- Cash Balance of the State decreased by ₹ 3366 crore due to decrease in Cash Balance Investment by ₹ 3415 crore and Departmental Cash Balance by ₹ 2 crore, set off by increase in deposit with Reserve Bank of India by ₹ 51 crore.

### ***1.2.1 Review of the fiscal situation***

The Thirteenth Finance Commission (ThFC) recommended that every State needs to amend Fiscal Responsibility and Budget Management (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 amended (February, 2012) the State FRBM Act, 2005 which laid down the following fiscal targets:

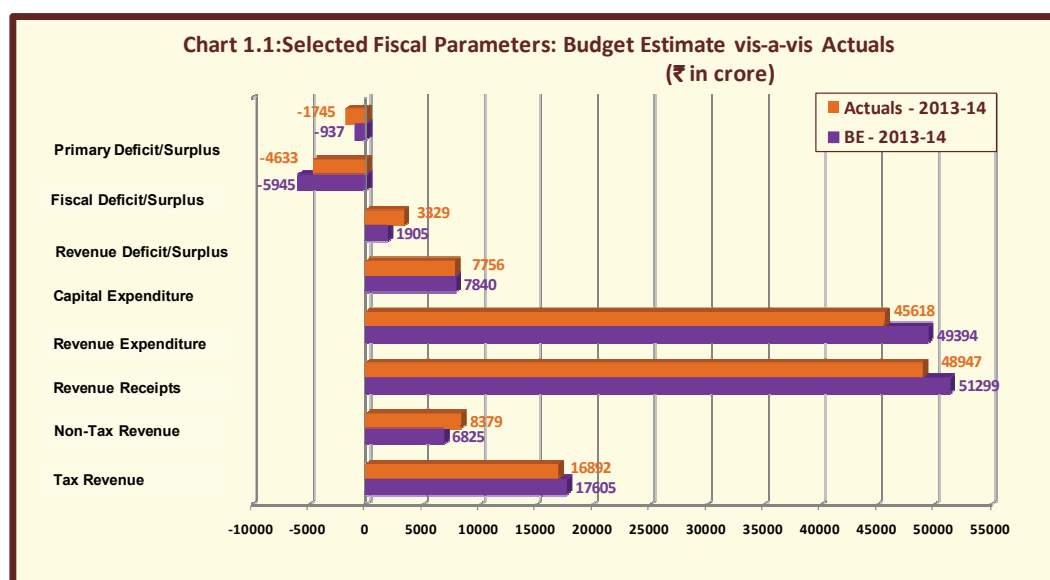
- Revenue deficit during 2011-12 and onwards to be maintained at Zero.
- Fiscal deficit to be contained within three *per cent* of the Gross State Domestic Product (GSDP) from 2011-12 and onwards.

- 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.
- 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 such as projection of Revenue Consequences of Capital Expenditure (RCCE), Public-Private Partnerships (PPPs) and related liabilities, statements on physical and financial assets and vacant public land and buildings were not included in the Mid Term Fiscal Plan (MTFP), even though recommended by ThFC. Further, the Government has not prepared the outcome indicators of Fiscal Correction Path(FCP) during the period covered by ThFC. The State has achieved the targets for Revenue, fiscal deficits, level of debt stock and interest payment, as laid down by ThFC/FRBM Act for the year 2013-14.

### 1.2.2 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 2013-14, there was considerable variation in actuals in the case of several key fiscal parameters. **Chart 1.1 and Table 1.2** present the Budget Estimates and actuals for some important parameters.



Source: Finance Accounts

Table 1.2: Variation in Budget Estimates and Actuals

Variation	Budget Estimates	Actual	Increase (+) / Decrease (-)
	(₹ in crore)		
Tax Revenue	17605	16892	(-)713
Non-Tax Revenue	6825	8379	(+)1554
Revenue Receipts	51299	48947	(-)2352
Revenue Expenditure	49394	45618	(-)3776
Capital Expenditure	7840	7756	(-)84
Revenue Deficit(-)/Surplus(+)	1905	3329	(+)1424
Fiscal Deficit(-)/Surplus(+)	(-)5945	(-)4633	(+)1312
Primary Deficit(-) /Surplus (+)	(-)937	(-)1745	(-)808

Source: Odisha Budget at a Glance 2014-15 and Finance Accounts 2013-14.

As may be observed from **Chart 1.1** and **Table 1.2**, the State's actual Revenue Receipts were less than the Budget Estimates by ₹ 2352 crore whereas, the State's own Tax Revenue was less than the Budget Estimates by ₹ 713 crore (four *per cent*) while Non-Tax Revenue was more than the Budget Estimates by ₹ 1554 crore (23 *per cent*). As a result, while the estimated Revenue surplus was only ₹ 1905 crore, the actual Revenue surplus was ₹ 3329 crore. Both Revenue Expenditure and Capital Expenditure were less than the Budget Estimate by ₹ 3776 crore and ₹ 84 crore respectively. The decrease in Capital Expenditure as compared to Budget Estimate underscores the need for greater attention thereto.

### 1.2.3 Major policy initiatives in the budget

During the year 2013-14, a separate agriculture budget was presented to the Legislature for the first time along with the General budget for the development of the Agriculture and Allied sectors. Allocation for this budget was ₹ 7161.84 crore. Major policy initiative of the budget 2013-14 along with status of implementation of some are brought out in **Table 1.3** below:

Table 1.3: Major policy announcement in the Budget and implementation thereof

SI No	Department	Policy announcement details	Status of Implementation
1	Agriculture	<b>Organic Farming:</b> To promote organic farming in the State, ₹ 5.50 crore was provided in the budget for the first time under State Plan for 2013-14. The Agriculture Department will promote vermin hatchery, vermin compost units, bio-gas slurry units, green manure, bio-pesticides & bio-fertilisers as well as set up gene-bank units for primitive local varieties.	The scheme is being implemented by the DA&FP & DHO. During 2013-14, ₹ 5.50 crore was provided in the budget estimate. Due to delay in approval of this scheme, ₹ four crore was surrendered. An amount of ₹ 1.50 crore was released for expenditure during 2013-14. (Status: Work in Progress)
2		<b>Jalanidhi and Sustainable harnessing of ground water in water deficit areas:</b> In the 12th Plan period, it was proposed to install 1 lakh tube-well with an investment	₹ 125 crore was released under Jalanidhi. 13297 nos. of PLIPs were established during 2013-14. ₹ 165 crore was released under sustainable harnessing of ground

Sl No	Department	Policy announcement details	Status of Implementation
		of ₹ 3000 crore, out of which 25000 bore-wells would be taken up during 2013-14. The total outlay for these two schemes amounts to ₹ 290 crore.	water during 2013-14. (Status: Work in Progress)
3	Cooperation	The Government decided to create 544 storage godowns of 1,34,800 Metric Tonne capacity for better post-harvesting management ₹ 83 crore was envisaged in 2013-14 under State Plan.	The entire budget provision of ₹ 83 crore was released for construction of godowns under RIDF at 124 PACS level including Consultancy fee to be paid to NABCONS for preparation of the DPRs under the said Scheme. (Status: Work in Progress)
4	Fisheries and Animal Resources Development	In order to accelerate the growth of fish production in the State, it was decided to launch a new scheme to promote intensive aqua culture and fish seed hatchery in 2013-14. An outlay of ₹ 12.50 crore was provided for the Scheme.	₹ 12.50 crore was provided for promotion of Dairy Entrepreneur, out of which an amount of ₹ 11.59 crore was released to SLBC / OSCB for achieving the target of beneficiaries of 3892 nos. (Status: Work in Progress)
5	Health and Family Welfare	<b>Universal free distribution of medicine:</b> The State Government has decided to establish Odisha State Medical Services Corporation which will handle procurement of drugs in an efficient and cost effective manner. Provision of ₹ 202.56 crore was made in 2013-14 for purchase of drugs.	Odisha State Medical Corporation has been established as per the Health & Family Welfare Department resolution No. 18844/H, dated 26th of June 2013. Expenditure of ₹ 185.04 crore (91 %) made against the provision of ₹ 202.56 crore during the financial year 2013-14 under "Medicine". (Status: Work in Progress)
6		<b>Health Management Information System:</b> For development of Health Information System, Government have decided to introduce Health Management Information System from the year 2013-14 onwards. Funds to the tune of ₹ 10 crore was provided in the BE for 2013-14 for the purpose under State Plan.	The project was approved in 2013. Out of the budget provision of ₹ 10 crore for 2013-14, an amount of ₹ 41.57 lakh was released to NISG. An amount of ₹ 758.43 lakh was re-appropriated and rest ₹ two crore remained unutilised.
7	Panchayati Raj	<b>Cement Concrete Roads (CC Roads)</b> ₹ 499 crore provided under State plan for construction of Cement Concrete Roads in which Gram Panchayat is taken as the unit.	The entire budget provision under CC Road Scheme has been released in respect of 6232 Gram Panchayats of the State @ ₹ 10 lakh per GP during the year 2013-14. Under the Scheme CC Road, length of 1713.72 Km. have been constructed by generating 149.12 lakh man-days and 17817 number of villages of the State have been covered. (Status: Work in Progress)
8	ST & SC Development	₹ 230 crore provided under State Plan for completion of 1168 ST Girls and Boys Hostels and construction of 900 new Hostels.	During 2013-14, a sum of ₹ 230 crore was provided in the Budget for completion of 1168 ST Girls and Boys Hostels taken up earlier and construction of 900 new Hostels. Out of the total 2068 hostels, 422 hostels completed, 1123 are in progress and balance 523 are yet to be started. (Status: Work in Progress)
9	Works	A new scheme for "Improvement of PWD roads in Urban Areas" has been	Of the 149 works covering 213 Km taken up during the year 2013-14, 142 have been awarded and seven

Sl No	Department	Policy announcement details	Status of Implementation
		launched for which ₹ 75 crore has been provided	works tender is under process. Out of 142 works awarded, 85 works have been completed. (Status: Work in Progress)

Source: Budget at a glance 2014-15, Government of Odisha.

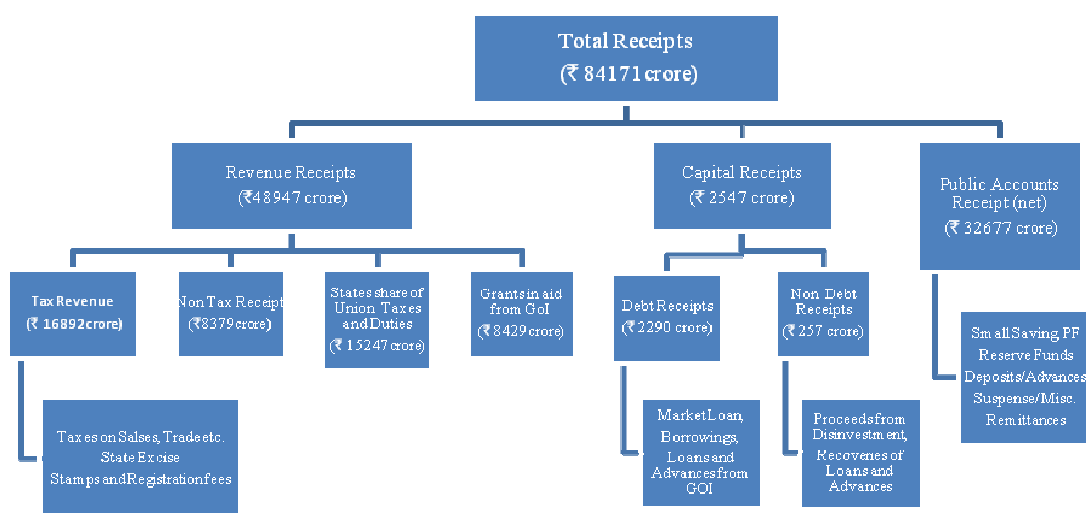
### 1.3 Resources of the State

#### 1.3.1 Resources of the State as per Finance Accounts

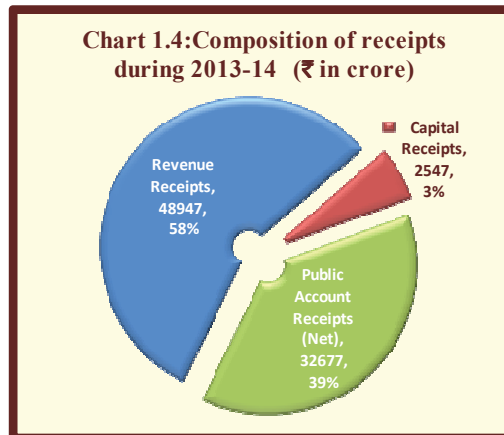
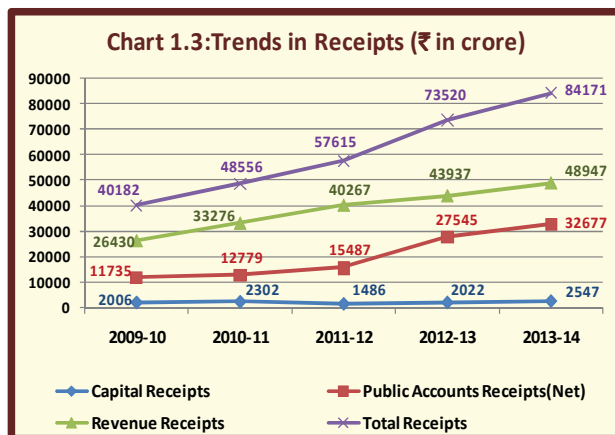
The progress of Government programmes depend on its resources and determines the expenditure threshold of the Government. Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Revenue Receipts consist of Tax Revenues, Non-Tax Revenues, State's share of Union Taxes and Duties and GIA from Government of India (GoI). Total Capital Receipts comprises, Capital Receipts such as miscellaneous Capital Receipts from disinvestments, and other receipts are 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 and Chart 1.2 presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while Chart 1.3 depicts the trends in various components of the receipts of the State during 2009-14. Chart 1.4 depicts the composition of receipts of the State during the current year.

Chart 1.2: Components and sub-components of Resources







Source: Finance Accounts of Government of Odisha for respective years

During 2009-2014, total receipts increased by 109 *per cent* from ₹ 40182 crore in 2009-10 to ₹ 84171 crore in 2013-14, of which increase of Revenue Receipts was by 85 *per cent* from ₹ 26430 crore to ₹ 48947 crore during the period due to higher collection of State's own taxes as well as increase in State's share of Central tax transfer and GIA from GoI. However, the share of Revenue Receipts as percentage of total receipts decreased from 66 to 58 from 2009-10 to 2013-14. The share of Capital Receipts also decreased from five *per cent* in 2009-10 to three *per cent* in 2013-14. The share of Public Account receipts to the total receipts increased from 29 to 39 from 2009-10 to 2013-14.

### 1.3.2 Funds transferred to State implementing agencies outside the State Budget

Government of India has been transferring a sizeable quantum of funds directly to State implementing agencies<sup>1</sup> for implementation of various schemes/ programmes in social and economic sectors, which are recognised as critical. As these funds were not routed through State budget/ State treasury system, Finance Accounts did not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/ parameters thereto could not be ensured. However, an appendix (*Appendix -1.5*) giving details of funds transferred directly to State implementing agencies outside State budget is included in Finance Accounts by capturing data from the website of the Controller General of Accounts.

During the year 2013-14, Central fund of ₹ 4699.58 crore were transferred directly to State implementing agencies. Details in respect of some of the major transfers are furnished in **Table 1.4**.

<sup>1</sup> State implementing agencies include any organization/institution including Non-Government Organisation which is authorised by the State Government to receive funds from the Government of India for implementing specific programmes in the State.

**Table 1.4: Funds transferred directly to the State implementing agencies for major plan schemes.**

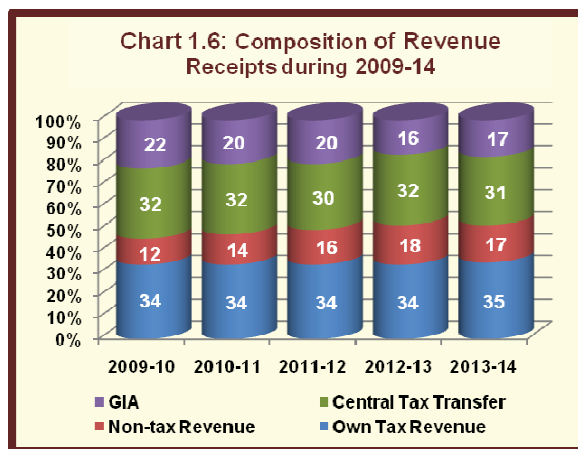
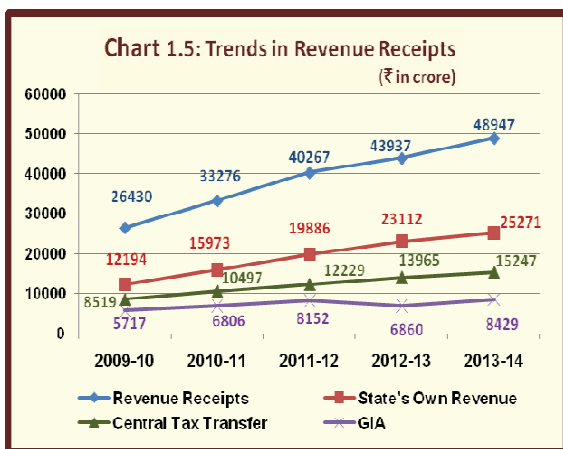
SI No	Name of the Scheme	Amount released (₹ in crore)		
		2011-12	2012-13	2013-14
1	Accelerated Rural Water Supply Programme	171.05	246.53	317.07
2	Integrated Watershed Management Programme	114.67	101.27	148.45
3	National Rural Employment Guarantee Scheme	978.22	847.98	757.53
4	Pradhan Mantri Gram Sadak Yojana	1969.95	87.25	758.91
5	Rural Housing (IAY)	629.99	458.65	444.63
6	Sarva Shiksha Abhiyan	927.20	1043.08	739.56
7	Swaranjayanti Gram Swarozgar Yojana	125.48	123.79	53.77
8	Rashtriya Madhyamik Shiksha Abhiyan	128.87	215.42	265.54

Considering that the quantum of direct transfers are significant (nine *per cent* of State's Revenue Receipts), it is imperative that the end use of this fund is monitored in a timely and effective manner by both the GoI and State Governments so that the intended outcomes are actually realised economically and efficiently. Further, 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 under these schemes. The State Government is yet to put in place an appropriate mechanism to ensure proper accounting of these funds inspite of this being pointed out by Audit in earlier Reports on State Finances.

The Government stated (October 2014) that financial transaction of six major schemes are tracked at all levels. Steps are being taken to improve monitoring and accountability. But Government is yet to develop a fully functional monitoring system.

## 1.4 Revenue Receipts

Revenue Receipts consist of State Government's own tax and Non-Tax Revenues, State's share of Central tax transfers and GIA from GoI. Statement-11 of the Finance Accounts depicts the Revenue Receipts of the Government. The State's share in Central taxes and GIA 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 trends and composition of Revenue Receipts over the period 2009-14 are shown in *Appendix 1.3* and also depicted in **Chart 1.5** and **1.6** respectively.



Source: Finance Accounts of Government of Odisha for respective years

On an average, 52 per cent of Revenue came from State's own resources and the balance was from GoI in the form of State's share of taxes and GIA. An increase of ₹ 1858 crore (12 per cent) in own Tax Revenue, ₹ 301 crore (four per cent) in Non-Tax Revenue, ₹ 1282 crore (nine per cent) in State's share in Union taxes and duties and ₹ 1569 crore (23 per cent) in GIA resulted in increase of ₹ 5010 crore (11 per cent) in Revenue Receipts during 2013-14 over the previous year.

Revenue Receipts showed progressive increase from ₹ 26430 crore in 2009-10 to ₹ 48947 crore in 2013-14 registering a growth of 85 per cent. The trends in Revenue Receipts relative to GSDP are presented in **Table 1.5** :

**Table 1.5: Trends in Revenue Receipts relative to GSDP**

	2009-10	2010-11 (3 <sup>rd</sup> R)	2011-12 (2 <sup>nd</sup> R)	2012-13 (1 <sup>st</sup> R)	2013-14 (AE)
<b>Gross State Domestic Product (GSDP) (₹ in crore)</b>	162946	197530	214583	255459	288414
<b>Rate of growth of GSDP</b>	9.74	21.22	8.63	19.05	12.90
<b>Revenue Receipts (RR) (₹ in crore) *</b>	26430	33276	40267	43937	48947
Rate of growth of RR (per cent)	7.40	25.90	21.01	9.11	11.40
RR/GSDP (per cent)	16.22	16.85	18.77	17.20	16.97
<b>Buoyancy Ratios<sup>2</sup></b>					
Revenue Buoyancy with respect to GSDP	0.76	1.22	2.43	0.48	0.88
Rate of growth of own tax	12.35	24.61	20.10	11.83	12.36
State's Own Tax Buoyancy with respect to GSDP	1.27	1.16	2.33	0.62	0.96

Source: GSDP - Directorate of Economics and Statistics, Government of Odisha and Revenue Receipts – Finance Accounts of the respective years, RE- Revised and AE-Advanced Estimates, \* Do not include GoI funds transferred to Non-Government organisations and others.

<sup>2</sup> 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.

- Revenue buoyancy widely fluctuated during the period due to fluctuations in the growth rate of Revenue Receipts.
- Revenue buoyancy with reference to GSDP which was above one during 2010-12 came down to less than one during 2012-13 as well as in 2013-14 indicating that the growth rate of GSDP was better than the growth rate of Revenue Receipt in the State.
- The States own tax buoyancy with respect to GSDP was also less than one during 2012-13 and 2013-14 indicating GSDP growth better than own tax growth .

#### **1.4.1 State's Own Resources**

The State's own resources comprised Revenue Receipts from its own tax and non-tax source. 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 **Table 1.6** below:

**Table 1.6: Mobilisation of Own Tax Revenue and Own Non-Tax Revenue**

(₹ in crore)

	Assessment made by ThFC	Assessment made by State Government in MTFP	Actuals
State's Own Tax Revenue	15388	17605	16892
State's Own Non-Tax Revenue	2831	6825	8379

The receipts under State's tax and Non-Tax Revenue during 2013-14 exceeded the assessment of ThFC by 10 *per cent* and 196 *per cent* respectively. However, the State's own Tax Revenue was less than assessment made in MTFP by ₹ 713 crore (four *per cent*) while Non-Tax Revenue was more by ₹ 1554 crore (23 *per cent*).

##### **1.4.1.1 Tax Revenue**

The sector wise components of Tax Revenue during 2009-10 to 2013-14 are shown in **Table 1.7**.

**Table 1.7: Sector wise components of State's Tax Revenue**

(₹ in crore)

Revenue Head	2009-10	2010-11	2011-12	2012-13	2013-14	% increase in 2013-14 over previous year
Taxes on Sales, Trades etc.	5409	6807	8197	9685	10729	11
State Excise	849	1094	1379	1499	1780	19
Taxes on Vehicles	611	728	788	746	860	15
Stamp Duty and Registration Fees	360	416	498	545	606	11
Land Revenue	292	391	522	420	431	3
Taxes on Goods and Passengers	815	1111	1312	1342	1613	20
Other Taxes <sup>3</sup>	646	646	747	797	873	10
<b>Total</b>	<b>8982</b>	<b>11193</b>	<b>13443</b>	<b>15034</b>	<b>16892</b>	<b>12</b>

**Source:** Finance Accounts for the respective years

<sup>3</sup> Other taxes include taxes on immovable property other than agricultural land, taxes and duties on electricity and agricultural income.

The Compound Annual Growth Rate (CAGR) of Tax Revenue for 2004-13 of the State was higher as compared to the other General Category States (*Appendix 1.1*). The Tax Revenue during the current year (₹ 16892 crore) increased by 12 per cent over the previous year (₹15034 crore). The Revenue through Taxes on Sales, Trade etc. (₹ 10729 crore) was the main source of State's Own Tax Revenue and registered an increase of 11 per cent (over the previous year), Taxes on Goods and Passengers (₹ 1613 crore) increased by 20 per cent, State Excise (₹ 1780 crore) increased by 19 per cent, Taxes on Vehicles (₹ 860 crore) by 15 per cent, Stamp Duty and Registration fees (₹ 606 crore) by 11 per cent and Taxes on Land Revenue (₹ 431 crore) by three per cent over the previous year.

The growth rate of Own Tax Revenue (OTR) with respect to GSDP was less than six per cent in 2013-14. 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.

Major increase /decrease in current year's Own Revenue along with reasons are given in **Table 1.8**.

**Table 1.8: Major increase /decrease in current year's Own Revenue**

Sl No	Major Heads of Account	Increase (₹ in crore)	Main Reasons*
1	0040- Taxes on Sales, Trade etc	1043.87	Due to more receipts of Tax collection under Central Sales Tax
2	0039- State Excise	281.49	Due to more receipts in License Fees on Excise Duty on Foreign Liquor, spirit and other items
3	0042- Taxes on Goods and Passengers	270.92	Due to more receipts of Taxes on entry of Goods to Local areas
4	0049- Interest Receipts	652.93	Due to more receipts of interest from GRIDCO on Power Bonds.
Sl No	Major Heads of Account	Decrease (₹ in crore)	Main Reasons
5	0853- Non-Ferrous Mining and Metallurgical Industries	176.90	Due to decrease in receipts in collection of Fees, Rents and Royalties
6	0050- Dividends and Profits	112.13	Due to less receipts of Dividend from OMC and OPGC.

Source: \*Reasons as per Finance Accounts 2013-14, Government of Odisha.

#### **1.4.1.2 Non-Tax Revenue**

The components of Non-Tax Revenue during 2009-10 to 2013-14 are given in **Table 1.9**:

Table 1.9: Components of State's own resources

Revenue Head	₹ in crore)					
	2009-10	2010-11	2011-12	2012-13	2013-14	% increase over previous year
Interest Receipts	379	261	576	588	1241	111.05
Dividends & Profits	251	102	286	565	452	-20.00
Non-Ferrous Mining and Metallurgy receipts	2021	3329	4572	5697	5519	-3.12
Other Non-Tax Receipts	561	1088	1009	1228	1167	-4.92
<b>Total</b>	<b>3212</b>	<b>4780</b>	<b>6443</b>	<b>8078</b>	<b>8379</b>	<b>3.73</b>

Source: Finance Accounts of Government of Odisha for respective years

The Compound Annual Growth Rate (CAGR) of Non-Tax Revenue for 2004-13 of the State was also higher as compared to the other general category States (*Appendix 1.1*). The non-tax revenue collected during 2009-14 ranged between 12 to 18 percent of revenue receipts. The Own Non-Tax Revenue (ONTR) (₹ 8379 crore) which constituted 17 per cent of Revenue Receipts during 2013-14 increased by ₹ 301 crore (four per cent) over previous year. The increase was mainly under Interest Receipts (₹653 crore) set off by decrease under Non-Ferrous Mining and Metallurgy Industries (₹177 crore) which includes mainly mineral concession fee, rent and royalty and Dividends and Profits (₹113 crore).

#### 1.4.2 Grants-in-aid from Government of India

Grants-in-aid from GoI increased from ₹ 5717 crore in 2009-10 to ₹ 8429 crore during 2013-14 as shown in **Table 1.10**.

Table 1.10: Grants-in –aid from Government of India

Particulars	₹ in crore)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Non-Plan Grants	1629	2111	2561	1505	2729
Grants for State Plan Schemes	2777	3279	3853	3484	3429
Grants for Central Plan Schemes	167	192	109	183	122
Grants for Centrally Sponsored Schemes	1144	1224	1629	1688	2149
Grants for Special Plan Schemes	---	---	---	---	---
<b>Total</b>	<b>5717</b>	<b>6806</b>	<b>8152</b>	<b>6860</b>	<b>8429</b>
Percentage of increase over previous year	10.84	19.05	19.78	(-)15.85	22.87
Total grants as a percentage of Revenue Receipts	21.63	20.45	20.24	15.61	17.22

Source: Finance Accounts of Government of Odisha for respective years

Grants-in-aid from GoI increased by ₹ 1569 crore from ₹ 6860 crore in 2012-13 to ₹ 8429 crore in 2013-14. The increase was under grants for Non-Plan schemes (₹1224 crore), Centrally Sponsored Plan schemes (₹ 461 crore) set off by decrease in Central Plan schemes (₹ 61 crore) and State Plan schemes (₹ 55 crore). However, the percentage share of grants to Revenue Receipts decreased from 22 to 17 from 2009-10 to 2013-14.

### 1.4.3 Thirteenth Finance Commission Grant during 2013-14

As per recommendation of ThFC, GoI allocated ₹ 9658.76 crore under grants (both Non-Plan and Plan), to Government of Odisha for utilisation during 2010-15, of which allocation for 2013-14 was ₹ 2313.55 crore. Scrutiny of release of grant during 2013-14 revealed the following:

#### (i) Forfeiture of Thirteenth Finance Commission Grant

As per the recommendation of ThFC, if the State fails to meet the conditions attached to grants released during a fiscal year, it will lose the performance grant for the succeeding year. It was, however, observed that the conditions in respect of (i) formation of Independent Local Body Ombudsman, (ii) certification by C&AG regarding Technical Guidance and Supervision and (iii) empowering Local Bodies to levy Property Tax, have not been fulfilled by March 2013 due to which the State lost the performance grant amounting to ₹ 336.97 crore for the year 2013-14.

Further, the ThFC also recommended that grant of ₹ 46 crore for Water Sector for 2013-14 would be released only if the State set up a statutory and independent Water Regulatory Authority (WRA) by 31 March 2012. Non setting up of the WRA by 31 March 2012 led to loss of ₹ 46 crore for the year 2013-14.

#### (ii) Non-release /Short release of Thirteenth Finance Commission Grant

The ThFC recommended grant of ₹ 219.42 crore in respect of following components for 2013-14 (**Table 1.11 & 1.12**). However, the State Government failed to avail the grant as it failed to comply with the conditions as detailed below:

**Table 1.11: Non-release of Thirteenth Finance Commission Grant during 2013-14**

Sl No.	Purpose	Amount recommended by ThFC (₹ in crore)
1	Grant for UID	35.70
2	Construction of Anganwadi Center	100.00
3	Employee and Pension Database	7.50
4	Upgradation of Jails	25.00
5	Eco-restoration of Chilika Lake	12.50
6	Justice delivery	38.72
<b>Total</b>		<b>219.42</b>

Source: Thirteenth Finance Commission's Report and Finance Accounts 2013-14 of Government of Odisha

Similarly, there was short release of ₹ 66.23 crore as detailed below:

**Table 1.12: Short-release of Thirteenth Finance Commission Grant during 2013-14**

Purpose	Amount recommended by ThFC (₹ in crore)	Amount released by ThFC (₹ in crore)
Development and Upgradation of Distribution System	125.00	58.77
<b>Total</b>	<b>125.00</b>	<b>58.77</b>

The reasons for shortfall in release of grants were as under:

- The condition stipulated for release of grants under Employee and Pension Data Base was that the State would create a data base and ensure that the same would functionally integrate with the treasury on a transactional basis. As the State failed to create the database, GoI did not release grant of ₹ 7.50 crore for 2013-14.
- Grants for Construction of Anganwadi Center, justice delivery, incentive for issue of UID, Upgradation of Jails and Eco-restoration of Chilika Lake were not released due to non-submission/delayed submission of Utilisation Certificate in respect of grants released during previous years.

The Government (October 2014) agreed that it could not fulfill certain conditions imposed to become eligible for these grants.

#### 1.4.4 Central Tax transfers

During 2013-14, Central tax transfers increased by ₹ 1282 crore over previous year and constituted 31 *per cent* of Revenue Receipts. The increase was mainly under Service Tax (₹ 445 crore), Taxes on Income other than Corporation Tax (₹ 373 crore), Union Excise Duties (₹180 crore) and Customs (₹ 167 crore).

### 1.5 Capital Receipts, recoveries of Loans and Advances and Debt etc.

The capital receipts are either non-debt capital receipts such as proceeds from disinvestment of equity in Government companies/corporations and recoveries of loans and advances or debt capital receipts credited under public debt sections of the Consolidated Fund. The public debt receipts fall broadly under two categories (a) Loans and advances from the Union Government and (b) borrowings from banks, financial institutions through issue of State Development Loans. Capital Receipts increased by ₹ 541 crore from ₹ 2006 crore in 2009-10 to ₹ 2547 crore during 2013-14 as shown in **Table 1.13**.

**Table 1.13: Trends in growth and composition of Capital Receipts**

(₹ in crore)

Sources of State's Receipts	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Capital Receipts (CR)</b>	<b>2006</b>	<b>2302</b>	<b>1486</b>	<b>2022</b>	<b>2547</b>
Miscellaneous Capital Receipts	---	---	---	---	0.03
Recovery of Loans and Advances	356	34	132	142	257
Public Debt Receipts	1650	2268	1354	1880	2290
Rate of growth of debt Capital Receipts	43.23	37.45	(-)40.30	38.85	21.81
Rate of growth of non-debt Capital Receipts	50.85	(-)90.45	288.24	7.58	80.98
Rate of growth of GSDP	9.74	21.22	8.63	19.05	12.90
Rate of growth of CR ( <i>per cent</i> )	44.52	14.76	(-)35.45	36.06	25.96

Source: Finance Accounts of Government of Odisha for respective years



Public debt receipts, which create future repayment obligations, increased by 39 *per cent* from ₹ 1650 crore to ₹ 2290 crore which is a matter of concern. Public debt receipts during the year (₹ 2290 crore) comprised internal debt of ₹1740 crore (76 *per cent*) and loans and advances from GoI (24 *per cent*). Debt receipts had a predominant share in capital receipts and were between 82 to 99 *per cent* during 2009-14 whereas non-debt receipts had a smaller share in capital receipts and ranged between one to 18 *per cent* during 2009-14.

## 1.6 Public Accounts Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances etc. which do not form part of the Consolidated Fund of India, are kept in Public Account set up under Article 266(2) of the Constitution of India and are not subject to vote by the State legislature. Here the Government acts as a banker. The balance after disbursements is the amount of funds available with the Government for its use.

**Table 1.14: Trends in growth and composition of Public Account Receipts**

(₹ in crore)

Resources under various heads	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Public Account Receipts</b>	<b>11735</b>	<b>12779</b>	<b>15487</b>	<b>27545</b>	<b>32677</b>
a. Small Savings, Provident Fund etc.	2571	2804	2492	3001	3332
b. Reserve Fund	736	603	1661	939	1760
c. Deposits and Advances	3134	3346	4126	6537	7019
d. Suspense and Miscellaneous	37	-2	-32	8527	10225
e. Remittances	5257	6028	7240	8541	10341

Source: Finance Accounts of Government of Odisha for respective years

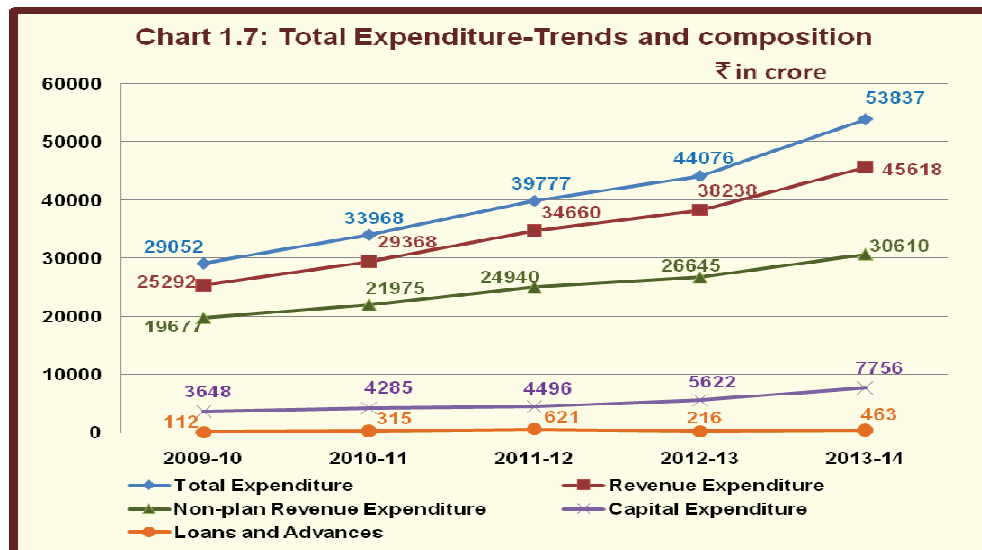
The share of Public Accounts receipts on total receipts increased from 29 *per cent* in 2009-10 to 39 *per cent* in 2013-14. As compared to 2012-13, the increase during 2013-14 was 19 *per cent* (₹ 5132 crore) which was mainly under Suspense and Miscellaneous, Remittances and Deposits and Advances, etc.

## 1.7 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards development of social sector.

1.7.1 Growth and Composition of Expenditure

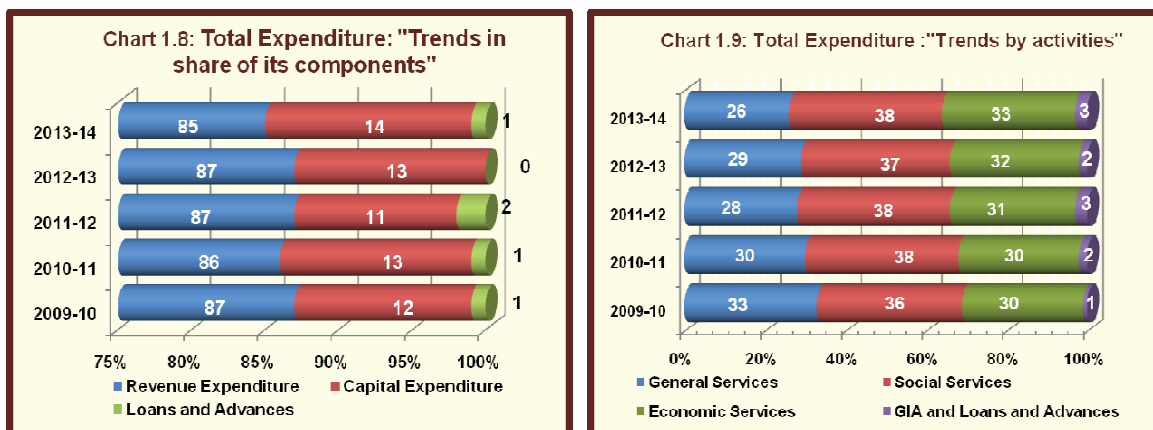
Chart 1.7 presents the trends in total expenditure over a period of five years (2009-14) and its composition both in terms of ‘economic classification’ and ‘expenditure by activities’ is depicted in Charts 1.8 and 1.9 respectively.



Source: Finance Accounts of Government of Odisha for respective years

Total expenditure of the State increased by 85 per cent from ₹ 29052 crore in 2009-10 to ₹ 53837 crore in 2013-14 due to increase in Revenue Expenditure (₹ 20326 crore), capital outlay (₹ 4108 crore) and disbursement of loans and advance (₹ 351 crore). While the share of Revenue Expenditure in the total expenditure decreased from 87 per cent during 2009-10 to 85 per cent in 2013-14, the share of Capital Expenditure increased from 12 per cent in 2009-10 to 14 per cent in 2013-14.

The increase of ₹ 9761 crore in total expenditure in 2013-14 over the previous year was on account of increase in Revenue Expenditure, Capital Expenditure and in disbursement of loans and advances by ₹ 7380 crore, ₹ 2134 crore and ₹ 247 crore respectively. The total expenditure was 18.67 per cent of GSDP during 2013-14 as compared to 17.25 per cent during the previous year.



Source: Finance Accounts of Government of Odisha for respective years

### 1.7.2 Total Expenditure

Total Expenditure (TE) consisted of expenditure on General Services including Interest Payments, Social and Economic Services and GIA and disbursement of Loans and Advances. The movement of relative shares of the component of expenditure is indicated in **Chart 1.9**

### 1.7.3 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 87 per cent of total expenditure in 2009-10 which decreased to 85 per cent in 2013-14. However, it increased by 19 per cent from ₹ 38238 crore in 2012-13 to ₹ 45618 crore in 2013-14 in absolute terms.

In the context of State finances, the quality of expenditure has always been an important issue. Currently, revenue expenditure accounts for around 85 per cent of the State's aggregate expenditure, which is in the nature of current consumption, leaving only 15 per cent for investment in infrastructure and asset creation.

### 1.7.4 Non-Plan Revenue Expenditure

Non-Plan Revenue Expenditure (NPRE) recorded an increase of ₹ 3965 crore (15 per cent) from ₹ 26645 crore in 2012-13 to ₹ 30610 crore during the current year. The increase in NPRE is a cause of concern as it erodes the resource base for sparing budgetary resources for developmental interventions. However, NPRE as a proportion of Revenue Expenditure, decreased from 78 per cent (₹ 19677 crore) in 2009-10 to 67 per cent (₹ 30610 crore) in 2013-14. Out of the total increase of ₹ 7380 crore in Revenue Expenditure during the current year over the previous year, increase in NPRE contributed 54 per cent (₹ 3965 crore) and the remaining 46 per cent (₹ 3415 crore) was Plan Revenue Expenditure (PRE). Increase in NPRE during the current year was mainly on Social Welfare and Nutrition (₹ 894 crore), Education, Sports, Art and Culture (₹ 428 crore), Agriculture & Allied

Services (₹ 240 crore), Transport (₹ 127 crore) and Welfare of SC, ST and OBC (₹ 84 crore). Although NPRE exceeded ThFC's assessment (₹ 24583 crore) by ₹ 6027 crore, it remained below the assessment made by the Government in MTFP (₹ 37959 crore) for 2013-14 by ₹ 7349 crore, as indicated in **Table 1.15**.

**Table 1.15: Comparative assessments of RE and NPRE and per cent of GSDP**

(₹ in crore)

	Assessment made by ThFC	Assessment made by Government in MTFP	Actual in 2013-14
Revenue Expenditure	Not available	49394	45618
NPRE	24583 (8.52)	37959 (13.16)	30610 (10.61)

**Note:** Figures in brackets are percentage to GSDP (₹ 288414 crore) for 2013-14.

**Source:** Thirteenth Finance Commission's Report and Finance Accounts 2013-14 and Budget at a Glance 2014-15 on Government of Odisha

NPRE constituted 57 per cent of the total expenditure of the State during 2013-14. Its ratio with Revenue Expenditure declined from 78 per cent in 2009-10 to 67 per cent in the current year, an improvement over the previous period.

### **1.7.5 Capital Expenditure**

Capital Expenditure (CE) of the State as proportion of total expenditure increased from 12 per cent (₹ 3648 crore) in 2009-10 to 14 per cent (₹ 7756 crore) in 2013-14. However, CE (₹ 7756 crore) increased significantly (38 per cent) during 2013-14 over the previous year (₹ 5622 crore) in absolute terms, mainly on account of increase in expenditure on Transport (₹ 658 crore), Irrigation and Flood control (₹ 206 crore), Water Supplies, Sanitation and Housing and Urban Development (₹ 389 crore) and Energy (₹ 487 crore). The CE during 2013-14, was 2.69 per cent of GSDP as against Government's projection of 2.72 per cent in Budget Estimate for 2013-14. The CE (₹ 7756 crore) was lesser by ₹ 84 crore against Budget Estimate (₹ 7840 crore) during the current year.

### **1.7.6 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 1.16** and **Chart 1.10** present the trends in the expenditure on these components during 2009-14.

**Table 1.16: Components of Committed Expenditure**

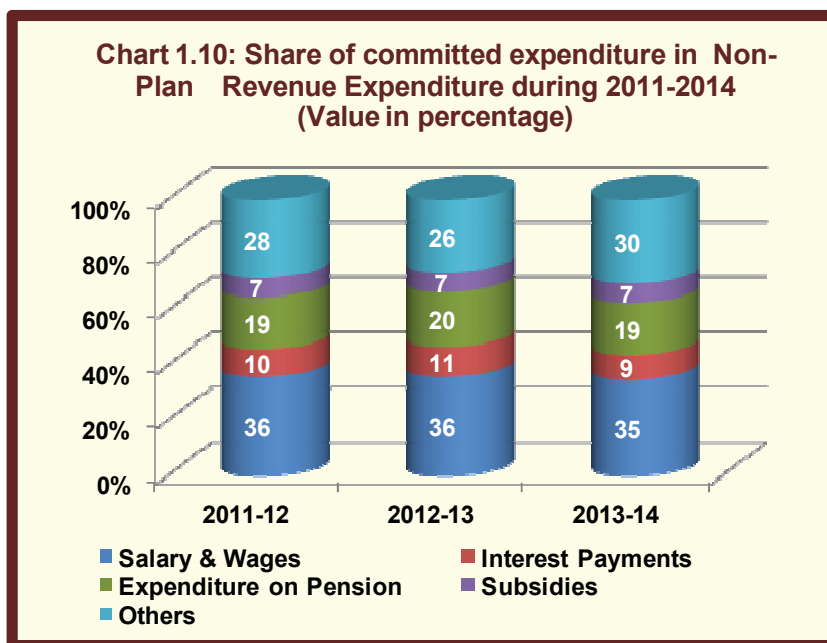
	(₹ in crore)					
	2009-10	2010-11	2011-12	2012-13	2013-14	
					BE	Actuals
<b>Salaries* &amp; Wages ,</b>	7945 (27)	8969 (26)	8868 (22)	9615 (22)	13684	10713 (22)
Non-Plan Head	7484	8448	8385	9118	12443	10210
Plan Head**	461	521	483	497	1241	503
Interest Payments	3044 (10)	3061 (9)	2576 (6)	2807 (6)	5008	2888 (6)
Expenditure on Pensions	3283 (11)	4011 (12)	4741 (12)	5379 (12)	6728	5935 (12)
Subsidies	1008 (4)	1310 (4)	1744 (4)	1951 (4)	1552	2031 (4)
<b>TOTAL</b>	<b>15280</b>	<b>17351</b>	<b>17929</b>	<b>19752</b>	<b>26972</b>	<b>21459</b>

Figures in the parentheses indicate percentage 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 2013-14, Government of Odisha and Odisha Budget at a Glance 2014-15.



**Source:** Finance Accounts of Government of Odisha for respective years

### 1.7.6.1 Salaries

Expenditure on salaries increased from ₹ 7945 crore in 2009-10 to ₹ 10713 crore in 2013-14 accounting for nearly 22 per cent of Revenue Receipts and 35 per cent of the NPRE of the State Government during the year. The salary expenditure (₹ 10713 crore) was ₹ 2964 crore more than the ThFC assessment of ₹ 7749 crore for 2013-14 in absolute terms. The expenditure on salary decreased to 23 per cent of Revenue Expenditure during 2013-14 as against 25 per cent in 2012-13.

### 1.7.6.2 Interest Payments

Interest payments during the current year (₹ 2888 crore) increased by ₹ 81 crore over the previous year's (₹ 2807 crore) and remained lower than the projections made in Mid Term Fiscal Plan (MTFP) (₹ 5008 crore), ThFC (₹ 5051 crore) and Budget Estimates (₹ 5008 crore) for the year 2013-14. During 2013-14, interest payment as percentage of total Revenue Receipts was six *per cent* which was lower than the projections of 9.76 *per cent* in MTFP.

### 1.7.6.3 Pensions

Expenditure on pension (₹ 5935) which was 12 *per cent* of total Revenue Receipts of the State during the year steeply increased by 81 *per cent* from ₹ 3283 crore in 2009-10 to ₹ 5935 crore in 2013-14. It also increased by ₹ 556 crore from ₹ 5379 crore in 2012-13 to ₹ 5935 crore in 2013-14. The increase in the current year over the previous year was mainly due to more expenditure under pensions on superannuation and other retirement allowances to Government servants. The State Government did not adequately estimate yearly pension liabilities for next ten years, as required under FRBM Act, 2005. The pension payment during the current year was higher than the projection made by ThFC (₹ 3506 crore) for 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 ₹ 29.62 crore, being the employees contribution as well as employer's contribution, was kept under Public Accounts (8342-Other Deposits) for transfer to National Pension Scheme (NPS) Trust. Thus, the State Government's liability on this account was ₹ 29.62 crore as on 31<sup>st</sup> March 2014. This amount, has not been transferred to NPS, thus defeating the main objective of introducing the Defined Contribution Pension Scheme in order to limit future pension liabilities.

The ThFC (September 2010) recommended release of grant of ₹ 10 crore to assist the States to build the database of their employees and pensioners which should be integrated with an electronic payroll and pension payment system to facilitate error free and real time updates. Out of this, the Government of Odisha drew ₹ 2.50 crore during 2010-11. The balance amount of ₹ 7.50 crore was to be released by the Government as per recommendation of ThFC after the creation of database. The ThFC recommended completing this database in three years i.e by 2012-13. But the Government is yet to create the database.

The Government stated (October 2014) that transfer of employee's as well as employers contribution to the identified fund manager is being made on monthly

basis with minimum possible time lag. The modalities are being worked out by Director of Treasuries and Inspection, Odisha in consultation with Accountant General (A&E).

Regarding setting up of pensioner database Government stated that the State had already built the database of the pensioners in iOTMS. A Human Resources Management System (HRMS) has been put in place to capture the database of all the employees. However, the system is yet to capture the database of all the employees resulting in State not availing ₹ 7.50 crore grant.

#### **1.7.6.4 Subsidies**

States, for welfare of public at large 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 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 ₹ 1008 crore in 2009-10 to ₹ 2061 crore (over 104 *per cent*) in 2013-14 which included food subsidy of ₹ 1283 crore due to disbursement of rice at one rupees per kilogram to people living below poverty line, ₹ 341 crore under Relief on account of Natural Calamities which consisted mainly of assistance to farmers affected by floods/cyclone for purchase of agricultural inputs etc, ₹ 157 crore under subsidy to Odisha Lift Irrigation Corporation Limited and ₹ 136 crore interest subsidy/subvention to the co-operative banks for providing crop loan at five *per cent* interest per annum to the farmers.

#### **1.7.6.5 Future committed liabilities**

Appendix XIV of Finance Accounts, 2013-14 depicts the information on committed liabilities of the State in the future as detailed in **Table 1.17**

**Table 1.17: Committed Liabilities of the State for future**

(₹ in crore)					
SI No	Nature of the Liability	Plan	Non-Plan	Likely year of the discharge	Balance Remaining
1.	Pensions	0	66667.02	2014-20	66667.02
2.	Interest payments	0	36488.51	2014-20	36488.51
3.	Repayment of Loan	0	12211.44	2014-20	12211.44
	<b>TOTAL</b>	<b>0</b>	<b>115366.97</b>		<b>115366.97</b>

Source: Finance Accounts 2013-14, Government of Odisha.

The total committed liabilities of the State stood at ₹ 115367 crore as at the end of the year. Out of total liabilities, pension payment obligations were 58 *per cent*, interest payment 32 *per cent* and loan repayment 10 *per cent*.

### 1.7.7 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 1.18**.

**Table 1.18: Financial Assistance to Local Bodies etc.**

	(₹ in crore)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Educational institutions (aided schools, aided colleges, universities, etc.)	697	1722	1859	668	1090
Municipal Corporations and Municipalities	645	1168	591	804	1359
Zilla Parishads and Other Panchayati Raj Institutions	3062	3556	1149	1227	1246
Development agencies	88	582	908	692	510
Other Institutions	2230	2058	4558	3632	5290
<b>TOTAL</b>	<b>6722</b>	<b>9086</b>	<b>9065</b>	<b>7023</b>	<b>9495</b>
Assistance as per percentage of RE	28	31	26	18	21

Source: Finance Accounts of Government of Odisha

Grants extended to local bodies and other institutions has significantly increased by ₹ 2472 crore (35 *per cent*) from ₹ 7023 crore in 2012-13 to ₹ 9495 crore in 2013-14. The increase over previous year was mainly due to increase in assistance to Municipal Corporations and Municipalities (₹ 555 crore), Educational Institutions (₹ 422 crore), Other Institutions (₹ 1658 crore) and Zilla Parishads and Other Panchayati Institutions (₹ 19 crore) which was partly set off by decrease in assistance to Development agencies (₹ 182 crore) resulting in increase in the share of grants and loans to the Revenue Expenditure from 18 *per cent* in 2012-13 to 21 *per cent* in the current year.

## 1.8 Quality of Expenditure

Availability of better infrastructure in the social, educational and health sector in the State generally reflects the quality of expenditure. 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).

### 1.8.1 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 1.19** analyses the fiscal priority of the State Government with regard to Development Expenditure, Social Expenditure and Capital Expenditure during 2013-14.

**Table 1.19: Fiscal Priority and Fiscal capacity of the State in 2010-11 and 2013-14.**  
(In per cent)

Fiscal Priority by the State	AE/GSDP	DE#/AE	SSE/AE	CE/AE	Education/AE	Health/AE
General Category States* average (Ratio) 2010-11	15.78	65.09	36.88	13.49	17.48	4.37
Odisha State's average (Ratio) 2010-11	17.47	68.62	37.41	12.61	19.47	3.75
General Category States* average (Ratio) 2013-14	15.92	66.45	37.56	13.62	17.20	4.51
Odisha State's average (Ratio) 2013-14	18.67	71.86	37.98	14.41	15.67	3.63

As per cent to GSDP

\* General Category States excluding Delhi, Goa and Puducherry

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

**From the above Table, it may be seen that**

- The ratio of the AE to GSDP in 2010-11 and 2013-14 (17.47 per cent and 18.67 per cent) was higher in Odisha as compared to other General Category States (15.78 per cent and 15.92 per cent).
- Development expenditure as a proportion of Aggregate expenditure in Odisha was also higher compared to the average of General Category States during 2010-11 as well as in 2013-14. Development expenditure consists of both economic service expenditure and social sector expenditure.
- Capital Expenditure as a proportion of Aggregate expenditure in Odisha was lower compared to the average of General Category States during 2010-11. However, in 2013-14, Odisha spent a higher proportion on this account as compared to General Category states. Increased priority to physical capital formation will further increase the growth prospects of the state by creating durable assets.
- Fiscal priority given to education in Odisha was higher than other General Category States in 2010-11, but in 2013-14, lower fiscal priority was given to this sector by the State as compared to other General Category States.
- Fiscal priority given to health sector in Odisha during 2010-11 as well as in current year based on the proportion of aggregate expenditure was lower than other General Category States. Greater fiscal priority needs to be accorded to the health sector.

### 1.8.2 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<sup>4</sup>. Apart from improving the allocation towards Development Expenditure<sup>5</sup>, 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 1.20** 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 1.21** provides the details of Capital Expenditure and the components of Revenue Expenditure incurred on the maintenance of the selected social and economic services.

**Table 1.20: Development Expenditure**

Components of Development Expenditure <sup>s</sup>	2009-10	2010-11	2011-12	2012-13	2013-14	
					(BE)	(Actual)
<b>Development Expenditure (a to c)</b>						
a. Development Revenue Expenditure (DRE)	15600 (54)	18999 (56)	23070 (58)	25173 (57)	30395	31036 (58)
b. Development Capital Expenditure (DCE)	3470 (12)	4051 (12)	4238 (11)	5271 (12)	7508	7286 (14)
c. Development Loans and Advances	89 (0.3)	258 (0.8)	401 (1)	142 (0.3)	112	364 (0.7)
<b>TOTAL</b>	<b>19159 (66)</b>	<b>23308 (69)</b>	<b>27709 (70)</b>	<b>30586 (69)</b>	<b>38015</b>	<b>38687 (72)</b>

Figures in parentheses indicate *percentage* to aggregate expenditure,

\*Source: Odisha Budget at a Glance 2014-15 and Finance Accounts 2013-14. Details in **Appendix 1.3**

<sup>s</sup> The expenditure on social and economic services constitutes Development Expenditure.

Development expenditure comprising Revenue, Capital and expenditure on loans and advances on socio-economic services increased from ₹ 19159 crore in 2009-10 to ₹ 38687 crore in 2013-14. As a percentage of total expenditure, it increased from 66 in 2009-10 to 72 in 2013-14.

<sup>4</sup> **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.

<sup>5</sup> 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.

It would be seen from the above that Development Revenue Expenditure which was ₹ 15600 crore during 2009-10 rose to ₹ 31036 crore during 2013-14, registering a growth of nearly 99 per cent.

During 2013-14, Development Revenue Expenditure increased by ₹ 5863 crore (23 per cent) in absolute terms and Development Capital Expenditure increased by ₹ 2015 crore (38 per cent) over the previous year.

The increase in Development Revenue Expenditure during 2013-14 over the previous year was mainly due to increase under Education (₹ 1019 crore), Rural Development (₹ 805 crore), Agriculture & allied activities (₹ 597 crore), Water Supplies, Sanitation and Housing & Urban Development (₹ 477 crore), Irrigation and Flood Control (₹ 354 crore) and Health & Family Welfare (₹ 131 crore). The increase in Capital Expenditure during 2013-14 over the previous year was mainly due to increase in expenditure on Transport (₹ 658 crore), Energy (₹ 487 crore), Water Supplies, Sanitation and Housing and Urban Development (₹ 389 crore) and Irrigation & Flood control (₹ 206 crore).

**Table 1.21: Efficiency of expenditure in selected Social and Economic services**

(In per cent)

Sectors	2012-13			2013-14		
	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
<b>Social Services (SS)</b>						
General Education	0.54	53.80	NA	1.85	53.19	NA
Health and Family Welfare	4.75	61.81	NA	7.38	61.44	NA
Water Supplies, Sanitation & Housing & Urban Development	25.84	6.73	29.40	32.83	5.11	24.26
<b>TOTAL (SS)</b>	<b>7.45</b>	<b>36.32</b>	<b>2.18</b>	<b>8.44</b>	<b>32.36</b>	<b>2.05</b>
<b>Economic Services (ES)</b>						
Agriculture & Allied Activities	1.16	19.67	NA	3.32	18.41	NA
Irrigation and Flood Control	65.80	16.01	40.90	61.30	13.45	28.34
Power & Energy	65.54	23.64	43.95	67.02	17.45	14.32
Transport	49.73	0.38	30.37	56.38	0.37	41.98
<b>Total (ES)</b>	<b>28.23</b>	<b>13.87</b>	<b>10.96</b>	<b>30.49</b>	<b>12.40</b>	<b>9.05</b>
<b>TOTAL (SS+ES)</b>	<b>17.23</b>	<b>27.23</b>	<b>5.74</b>	<b>18.83</b>	<b>24.44</b>	<b>4.83</b>

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, 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 1.21** 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 2012-13 and 2013-14.

The share of Capital Expenditure to total expenditure has increased in respect of Water Supplies, Sanitation, Housing & Urban Development, Health & Family Welfare (in Social Services) and Power and Energy and Agriculture and Allied services (in Economic Services) during 2013-14 as compared to the previous year whereas the share of the Operation & Maintenance expenditure has substantially increased in Transport set off by substantial decrease of the same in Power & Energy.

As seen from *Appendix 1.3*, expenditure on Social Services during 2013-14 (₹ 20447 crore) constituting 38 *per cent* of total expenditure (₹ 53837 crore) increased by 26 *per cent* over the previous year's expenditure (₹ 16182 crore) while in Development Expenditure (₹ 38687 crore), which was 72 *per cent* of total expenditure, there was an increase of 26 *per cent* over the previous year (₹ 30586 crore). Operation and Maintenance expenditure decreased by 0.91 *per cent* indicating that Revenue Expenditure on salaries continued to share a dominant proportion of Revenue Expenditure on Social Services (32 *per cent*). Capital Expenditure on Social Services relative to the total expenditure showed a increase (0.99 *per cent*) over the previous year.

It was observed that the salary component decreased in Social Services (3.96 *per cent*) as well as in Economic Services (1.47 *per cent*) during current year as compared to previous year.

Expenditure on economic services includes all such expenditure that promotes directly or indirectly, productive capacity within the State's economy. During 2013-14, total expenditure under economic services (₹ 18239 crore) increased by 27 *per cent* over previous year. The expenditure on total economic services (₹ 18239 crore) accounted for 34 *per cent* of total expenditure and 47 *per cent* of Development Expenditure.

### ***1.8.3 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 measurement 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'.

Outlay-outcome budget of three departments viz. Panchayati Raj, ST & SC Development and Fisheries & Animal Resources Development were reviewed for

the year 2013-14 and it was seen that the financial and physical targets were not fully achieved (*Appendix 1.6*).

In the Panchayati Raj Department, financial achievement in the major schemes i.e. Gopabandhu Grameen Yojana (GGY) for employment generation, Backward Region Grant Fund (BRGF), Indira Awas Yojana (IAY) and Mo Kudia for construction of houses etc. for rural people was poor as detailed below:

- In the GGY scheme for employment generation, although full funds for the year were utilised (₹ 225 crore) only 92 *per cent* (12278 projects) of the targeted number (13313 projects) of employment could be provided.
- In the BRGF scheme, 66 *per cent* (₹ 300 crore) of the funds allotted (₹ 453 crore) were utilised against which 67 *per cent* (8193) of the targeted number (12247) of projects could be completed.
- In the Indira Awas Yojana scheme, 55 *per cent* (₹ 224 crore) of the funds allotted (₹ 406 crore) were utilised against which only 41 *per cent* (158657) of the targeted number (387404) of houses could be completed.
- In the Mo Kudia scheme, although all funds for the year were utilised (₹ 218 crore) only 48 *per cent* (18668) of the targeted number (38998) of houses could be completed.
- In the Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA) Scheme, although the funds for the year were utilised fully (₹ 38 crore), not a single building was completed against a target of 235 buildings.

In ST & SC Development Department the following deficiencies were noticed in the financial and physical achievement up to March 2014:

- In the scheme for construction of hostels for ST Girls, 98 *per cent* (₹ 224 crore) funds allotted (₹ 230 crore) were utilised, but only one *per cent* (11) of the targeted number (1000) of hostels could be completed.
- In two schemes, i.e. establishment of micro projects for primitive tribes and Grant-in-aid to State Tribal Development Cooperative Corporations for Minor Forest Produce (STDCC for MFP), the financial achievement was below 65 *per cent*, resulting in corresponding low achievement of physical targets.

The above facts are indicative of unrealistic budgeting or estimation of projects.

In Fisheries & Animal Resource Development Department,

- it was observed that in nine schemes (*Appendix 1.6*) though funds for the year were utilised fully in almost all schemes, the targeted physical outcomes were not achieved.
- It was further seen from the Outcome Budget that targets of five State Plan Schemes and five Centrally Sponsored Schemes could not be achieved due to receipt of fund at the fag end of the financial year. Besides, either due to funds not being sanctioned or Central Assistance not being received, 11 schemes were not implemented.

Not only was the achievement in terms of physical outcomes below the targets set, management of funds available also needed improvement.

## **1.9 Financial Analysis of Government Expenditure and Investment**

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.

### **1.9.1 Financial Results of Irrigation Works**

The financial results of 62 irrigation projects (13-major and 49-medium projects) with a Capital Expenditure of ₹ 4139.25 crore at the end of March 2014 showed that an amount of ₹ 237.75 crore was realised from these projects during 2013-14 by way of sale of water to industries. After meeting the working and maintenance expenditure of ₹ 238.10 crore and interest charges of ₹ 279.71 crore, the schemes suffered a net loss of ₹ 280.06 crore.

### **1.9.2 Incomplete Projects**

Blocking of funds on incomplete works affects quality of expenditure negatively. The department-wise information pertaining to incomplete projects as on 31 March 2014 is given in **Table 1.22** as per the Budget at Glance 2014-15 and information furnished to Audit by the concerned Departments.

**Table 1.22: 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 March 2014
Water Resources	56	152.09	189.84	119.45
Works	16	535.78	614.44	495.27
Employment and Technical Education & Training	1	1.75	1.78	1.29
Housing & Urban Development	3	8.66	11.46	2.12
Rural Development	114	355.16	364.51	256.33
<b>TOTAL</b>	<b>190</b>	<b>1053.44</b>	<b>1182.03</b>	<b>874.46</b>

Source: Details supplied by Department.

All the above 190 projects were lying incomplete due to the prolonged processes involved in land acquisition, matters lying sub-judice in Courts, finalising and revising the designs, shortage of funds and slow progress of work. Due to non-completion of projects, not only the benefits that were to accrue to the intended beneficiaries delayed, but also the cost to the exchequer increased due to time overrun involved in their completion.

Adequate efforts were not taken by the concerned Departments to complete the incomplete projects as early as possible, as ₹ 874.46 crore had already been spent on these incomplete projects and full benefits are yet to be realised.

### 1.9.3 Investment and Returns

As of March 2014, Government had invested ₹ 3308.79 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives. Average return on this investment was 11.82 per cent in the last five years (13.67 per cent during 2013-14) while Government paid an average interest rate of 6.09 per cent to 7.63 per cent on its borrowings during 2009-10 to 2013-2014 (Table 1.23).

**Table 1.23: Return on Investment**

(₹ in crore)					
Year	2009-10	2010-11	2011-12	2012-13	2013-14
Investment at the end of the year	2106.95	2190.37	2908.07	2964.28	3308.79
Return	250.78	101.58	286.23	564.53	452.40
Percentage of return	11.90	4.64	9.84	19.04	13.67
Average rate of interest on Government borrowing	7.63	7.39	6.09	6.54	6.56
Difference between interest rate and return	(-4.27)	(+2.75)	(-3.75)	(-12.50)	(-7.11)

Source: Finance Accounts of Government of Odisha for respective years

The investment of State Government at the end of 2013-14 included ₹ 2880.97 crore in 86 Public Sector Undertakings (PSU) comprising 83 Government Companies (₹ 2389.98 crore) and three Statutory Corporations (₹ 490.99 crore). Dividend of ₹ 452.40 crore was received from one Co-operative Society<sup>6</sup>, six

<sup>6</sup> Credit Co-operatives: ₹ 0.64 crore.

Government Companies<sup>7</sup> and one Rural Bank<sup>8</sup> during 2013-14 of which Odisha Mining Corporation is the main contributor (₹ 400 crore).

As per information furnished in the Odisha Budget at a Glance 2014-15, Grid Corporation of Odisha Limited (GRIDCO) with accumulated loss of ₹ 1704.06 crore, Odisha State Road Transport Corporation (OSRTC) with ₹192.98 crore, Odisha State Financial Corporation (OSFC) with ₹ 399.91 crore and Odisha Forest Development Corporation (OFDC) with ₹ 145.05 crore were among the major loss incurring PSUs in the State as of 2012-13. During 2013-14, the Government invested ₹ 201.73 crore in three loss incurring PSUs i.e. Grid Corporation of Odisha Ltd (GRIDCO) (₹ 143.73 crore), Odisha Power Transmission Corporation Limited (OPTCL) (₹ 50 crore) and Odisha State Road Transport Corporation (₹ eight crore).

#### **1.9.4 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. Loans and advances by the State Government increased by ₹ 206 crore from ₹ 3977 crore in 2012-13 to ₹ 4183 crore in 2013-14. During the year, Government advanced loan amounting to ₹ 463 crore and ₹ 257 crore was repaid by the loanee entities. Major portion of loans advanced during 2013-14 was to Energy sector (₹ 359 crore) and Government servants (₹ 99 crore). **Table 1.24** presents outstanding loans and advances as on 31 March 2014 and interest receipts vis-à-vis interest payments during the last three years.

**Table 1.24: Average Interest Received on Loans Advanced by the State Government**

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2011-12	2012-13	2013-14
	(₹ in crore)		
<b>Opening Balance</b>	<b>3414</b>	<b>3903</b>	<b>3977</b>
Amount advanced during the year	621	216	463
Amount repaid during the year	132	142	257
<b>Closing Balance</b>	<b>3903</b>	<b>3977</b>	<b>4183</b>
<i>Of which</i> outstanding balance for which terms and conditions have been settled			
Net addition	(+489)	(+74)	(+206)
Interest Receipts	16	16	610
Interest receipts as <i>per cent</i> to outstanding Loans and advances	0.41	0.40	14.58
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	6.07	6.48	6.46
Difference between interest payments and interest receipts ( <i>per cent</i> )	(-)5.66	(-)6.08	(+8.12)

**Source:** Finance Accounts of Government of Odisha for respective years

<sup>7</sup> Odisha Mining Corporation Limited: ₹ 400 crore, Odisha Forest Development Corporation Limited: ₹ 1.35 crore, Odisha Hydro Power Corporation: ₹ 14.14 crore, Odisha Power Generation Corporation Limited: ₹ 21.25 crore, Odisha State Cashew Development Corporation Limited: ₹ 0.34 crore and Agricultural Promotion and Investment Corporation Limited: ₹ 14.65 crore..

<sup>8</sup> Odisha State Co-operative Land Development Bank ₹ 0.03 crore.



Loans outstanding as of 31 March 2014 aggregated ₹ 4183 crore. Of the total outstanding loans of ₹ 4183 crore, terms and conditions for loan amount of ₹ 1279.82 crore are yet to be settled. During the year, ₹ 1.46 crore was sanctioned without settling the terms and conditions. Terms & conditions for loan amount of ₹ 1278.36 crore advanced to Odisha Hydro Power Corporation (OHPC) Limited was not settled during last 18 years (Statement 16 of Finance Accounts 2013-14).

Scrutiny of the total outstanding loans revealed that loans amount ranging from ₹ 2741 crore to ₹ 3823 crore during 2009-10 to 2013-14 relating to 11 departments remained unaltered/marginally repaid for more than five years. **Table 1.25** shows closing balances remained at static levels indicating no repayment.

**Table 1.25: Loans & advances rolling for a long time**

(₹ in crore)

Sl.No	Name of Department	2009-10	2010-11	2011-12	2012-13	2013-14
1	Education	6.29	6.43	6.05	6.11	6.34
2	Housing & Urban Development	424.44	475.44	639.68	637.25	625.25
3	Information & Public Relation (I & PR)	0.54	0.54	0.54	0.54	0.54
4	Welfare of SC, ST & OBC	13.56	13.56	13.56	13.56	13.56
5	Agriculture	49.61	49.56	49.54	49.46	49.46
6	Fisheries & Animal Resources Development	19.21	19.21	19.21	19.21	19.21
7	Co-operation	68.04	67.90	83.67	81.22	78.45
8	Water Resources	5.92	6.17	6.09	6.01	5.93
9	Energy	1943.09	2148.09	2218.86	2296.20	2849.13
10	Micro Small and Medium Entreprises (Industries)	203.32	203.54	206.04	209.25	168.12
11	Finance	7.34	7.34	7.34	7.34	7.34
	<b>Total</b>	<b>2741.36</b>	<b>2997.78</b>	<b>3250.58</b>	<b>3326.15</b>	<b>3823.33</b>

Source: Finance Accounts of Government of Odisha for respective years

As seen above, in four cases (I & PR, Fisheries and Animal Resources Development, Finance and Welfare of SC, ST & OBC Development), the loans and advances remained constant over five years. In two cases (Water Resources department and Agriculture department) the loans and advances reduced marginally. Further, in two other cases (Education and Energy) loans and advances increased over the period of five year ending 2013-14 and in remaining three departments (H & UD, Co-operation and MSME) the repayment of loan was negligible.

Further scrutiny revealed that loans amounting to ₹ 2191.95 crore relating to 19 loanee entities remained in arrear for long periods as detailed in **Table 1.26:**

Table 1.26: Arrear loans from loanee entity

(₹ in crore)

Sl.No	Name of the Loanee entity	Loans disbursed during the current year 2013-14	Amount of arrears as on March 2014	Earliest period to which arrears relate
1	GRIDCO Ltd	358.56	1988.95	1998-1999
2	Tribal Development Co-operative Corporation of Odisha Ltd.	...	48.63	1982-2000
3	Odisha State Housing Board	...	37.02	1968-1998
4	Odisha State Textile Corporation	...	36.86	Not Available
5	Gangpur Weavers Co-operative Spinning Mill, Sundargarh	...	20.08	Not Available
6	Primary Weavers Co-operative Societies	...	11.58	Not Available
7	M/s Konark Television Ltd.	...	6.90	2003-2009
8	Utkal Spinning Mill, Khurda	...	6.74	Not Available
9	Konark Spinning Mill, Kesinga	...	6.06	Not Available
10	SPINFED	...	5.14	Not Available
11	Kalinga Weavers Co-operative Spinning Mill, Dhenkanal	...	4.47	Not Available
12	Gopinath Spinning Mill, Baliapal	...	4.40	Not Available
13	National Institute of Social Work and Social Science (NISWASS)	...	3.12	1997-98
14	Sri Jagannath Weavers Co-operative Spinning Mill, Nuapatan	...	3.04	Not Available
15	Sarala Spinning Mill, Tirtol	...	2.73	Not Available
16	Odisha State Co-operative Handicraft Corporation Ltd	...	2.25	2004-05
17	OCTP, Jagatpur	...	1.74	Not Available
18	Powerloom Weavers Co-operative Societies	...	1.19	Not Available
19	Odisha Spinning Mill, Tora, Baragarh	...	1.05	Not Available
		<b>358.56</b>	<b>2191.95</b>	

**Source:** Finance Account 2013-14

It is further revealed that loans amounting to ₹ 358.56 crore was advanced during 2013-14 to Grid Corporation of Odisha (GRIDCO) Limited from whom repayment of earlier loan to the extent of ₹ 1988.95 crore was in arrear. Reasons for disbursement during the current year were not explained. Besides this, ₹ 203 crore remained as arrear on 18 other loanee entities at the end of March, 2014, out of which ₹ 6.90 crore was in arrear from M/s Konark Television Ltd, which is a defunct company.

Thus, sanction of loan without assessing the loan repayment capacity of the loanee entity coupled with poor monitoring resulted in accumulation of unpaid loans for years together.

Interest receipts increased steeply from ₹ 16 crore in 2011-12 to ₹ 610 crore during the current year. Similarly, interest received against the total outstanding loans and advances increased from 0.41 *per cent* in 2011-12 to 14.58 *per cent* in

2013-14. While interest payment during 2013-14 was 6.46 per cent of its outstanding fiscal liabilities, the interest received was 14.58 per cent of the outstanding loans and advances. As a result, interest spread of Government borrowings which was negative during 2010-13 turned positive during current year which meant that the state borrowings were less expensive than the loans advanced by it.

The Government stated (October 2014) that ₹ 1278.36 crore outstanding against OHPC are not being serviced as the effect of up-valuation as well as debt servicing had been kept in abeyance till 2012-13 and may continue till 2014-15. The Finance Department has been pursuing the matter with GRIDCO for servicing of the loan. However, Government did not reply about non-repayment of loan by other entities.

### 1.9.5 Cash Balances and Investment of Cash Balances

**Table 1.27** depicts the cash balances and investments made by the State Government out of cash balances during 2013-14. Total investment out of cash balances during 2013-14 were ₹ 3927.02 crore, major portion of which was in 14 days Government of India Treasury Bills (₹ 3874.94 crore). On these investments, the Government earned interest of ₹ 624.49 crore during the current year. Cash balance at the close of the current year decreased from ₹ 12864.68 crore of the previous year to ₹ 9498.77 crore during the current year and was reflected in cash balance investment accounts as follows.

**Table 1.27: Cash balance and investment of cash balance**

	Opening balance on 1/4/2013	Closing balance on 31/3/2014
<b>(a) General Cash Balance -</b>		
Cash in Treasuries	---	---
Deposits with Reserve Bank	(-)23.92	26.87
Deposits with other Banks	---	---
Remittances in transit - Local	---	---
Investments held in Cash Balance investment account	7341.81	3927.02
<b>Total (a)</b>	<b>7317.89</b>	<b>3953.89</b>
<b>(b) Other Cash Balances and Investments</b>		
Cash with departmental officers viz. Public Works Department Officers, Forest Department Officers, District Collectors	23.47	21.55
Permanent advances for contingent expenditure with departmental officers	0.32	0.33
Investment of earmarked funds	5523.00	5523.00
<b>Total (b)</b>	<b>5546.79</b>	<b>5544.88</b>
<b>Grand total (a)+ (b)</b>	<b>12864.68</b>	<b>9498.77</b>

Source: Finance Accounts 2013-14, Government of Odisha.

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 2014. 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 Government's closing debt stocks of 2013-14 included a few high interest bearing loans like 7.77 *per cent* Odisha Government Loan (OGL) 2015 (₹ 506 crore), 7.17 *per cent* OGL 2017 (₹ 191 crore), 7.36 *per cent* OGL 2014 (₹ 169 crore), 7.32 *per cent* OGL 2014 (₹ 218 crore) and nine *per cent* special security to National Small Savings Scheme (NSSF) of Government of India (₹ 8985 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.

### **Analysis of Cash Balance**

The primary reason for accumulation of cash balances is borrowing more than the fiscal deficit. The excess borrowings can be partially attributed to high inflow from NSSF. Other factors also contribute to cash balance of the State. One of them is the mechanism of release of central assistance wherein, grants are released to the State leading to a temporary build-up of cash balances that get used in due course of time. Transfer of unspent fund to deposit accounts maintained in the public account at the end of financial year leads to build-up of cash balance. In addition, flows from the centre not budgeted by State (direct transfer) and end of the year releases in Central Sponsored Schemes also leads to increase in cash balance.

Efficient debt management is an essential part of the cash management. With reduced fiscal deficit, it is essential that State follow the practice of borrowing on requirement rather than on availability. Further, ThFC also had 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 2013-14 but also discharged Odisha State Development Loans (OSDL) amounting to ₹885 crore.

## **1.10 Assets and Liabilities**

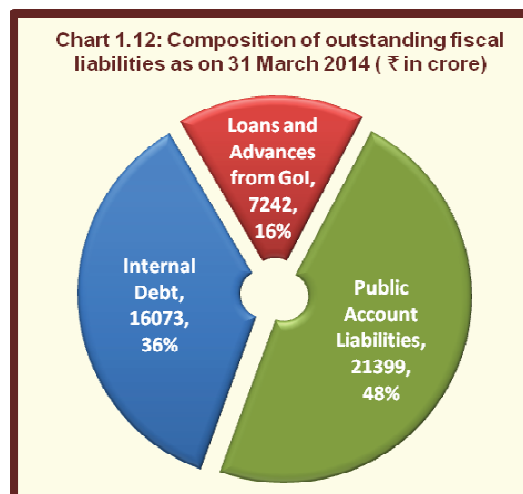
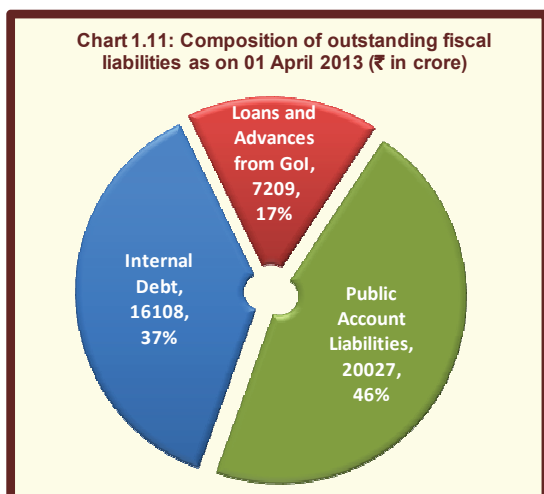
### ***1.10.1 Growth and composition of Assets and Liabilities***

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 do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.7** gives an abstract of such liabilities and the assets as on 31 March 2014, compared

with the corresponding position as on 31 March 2013. 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 last five years, assets have increased substantially.

### 1.10.2 Fiscal Liabilities

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 1.11** and **1.12**



Source: Finance Accounts

Fiscal liabilities as it stood on 1 April 2013 was ₹ 43344 crore comprising internal debt of ₹ 16108 crore (37 per cent), Public Accounts liability of ₹ 20027 crore (46 per cent) and loans and advance of ₹ 7209 crore (17 per cent) from GoI. However, it increased by ₹ 1370 crore to ₹ 44714 crore as of 31 March 2014. The fiscal liabilities comprised internal debt of ₹ 16073 crore (36 per cent), public account of ₹ 21399 crore (48 per cent) and loans and advances of ₹ 7242 crore (16 per cent) as at the end of 2013-14. The internal debt of ₹ 16073 crore comprised mainly of market loans bearing interest (₹ 2921 crore), loans from National Bank for Agriculture and Rural Development (₹ 3904 crore) and special securities issued to National Small Savings Fund (₹ 8985 crore). The ThFC 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 2013-14 constituted 15 *per cent* of GSDP which is two *per cent* less than previous year. This is a positive sign for the State finances.

### 1.10.3 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 1.28**.

**Table 1.28: Guarantees given by the Government of Odisha**

(₹ in crore)

Guarantees	2011-12	2012-13	2013-14
Maximum amount guaranteed (₹ in crore)	10578.61	10578.61	10624.61
Outstanding amount of guarantees (₹ in crore)	2510.43	2251.23	1705.26
Percentage of maximum amount guaranteed to total Revenue Receipt of current year (percentage)	26.27	24.08	21.71
Percentage of outstanding guarantee to total Revenue Receipt of 2 <sup>nd</sup> preceding year less Grants-in-aid as provided in the MTFP (percentage)	12.12	8.50	5.31
Maximum amount of guarantee as per criteria: (not be more than 100 <i>per cent</i> of State's Revenue Receipt less Grants-in-aid of the 2 <sup>nd</sup> preceding year as provided in Finance Department Resolution No 52214/F, dated 12 November 2002)	20713	26470	32115

Source: Finance Accounts of Government of Odisha for respective years.

The outstanding guarantees decreased by 24 *per cent* from ₹ 2251 crore in 2012-13 to ₹ 1705 crore in 2013-14. Guarantees were given in respect of Power sector (4), Co-operatives sector (42), Housing & Urban Development (86), Irrigation sector (1), Roads and Transport sector (2), State Financial Corporation sector (7) and other infrastructure (19). 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 2014, Escrow Accounts have been opened by only 14 out of 161 such institutions.

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 2<sup>nd</sup> preceding year (as per the books of account

maintained by Principal Accountant General (A & E) Odisha. As per the above, the guarantee position was within the norms laid down in the said resolution as indicated in **Table 1.28**.

To provide for sudden discharge of State's obligation on guarantee, Twelfth Finance Commission (TFC) 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. As on 31 March 2014, ₹ 480 crore remained 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 Audit, Guarantee Commission or fee of ₹ 287.65 crore was in arrear from various sectors as shown in **Table 1.29**.

**Table 1.29: Guarantee Commission received/to be received by the Government.**  
(₹ in crore)

Name of the Sector	Commission Received	Commission to be Received
Power	124.73	217.68
Co-operatives	1.60	3.91
Irrigation	0.00	0.00
State Financial Corporation	2.85	8.48
Housing and Urban Development	26.81	40.94
Roads and Transport	1.84	1.84
Other Infrastructure	4.41	13.54
Any Other	0	1.26
<b>TOTAL</b>	<b>162.24</b>	<b>287.65</b>

**Source:** Finance Accounts 2013-14, Government of Odisha.

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 have paid ₹744.99 crore under OTS schemes to discharge guarantee liabilities arising out of the default loanee organisations. During the year 2013-14, the Government have not invoked any guarantee and also not issued any letter of comfort.

#### 1.10.4 Transactions under Reserve fund

**i) Consolidated Sinking Fund (CSF):** Twelfth Finance Commission has recommended that State should set up Sinking Funds for amortization of all loans including loans from banks, liabilities on account of National Small Savings Fund etc. and should not be used for any other purpose, except for redemption of Loans. Guarantee Redemption Fund is meant for discharge of the states' obligations on Guarantee. The State Government is required to contribute a minimum of 0.5 *per cent* of the total liabilities outstanding at the

beginning of the year to the Fund. The State Government, however, notified a Revised Scheme for constitution and administration of Consolidated Sinking Fund (CSF). According to the Scheme, the Government set up a CSF during the year 2003-04 for redemption of open market loans. In terms of the guidelines of the revised Scheme, the State Government is required to contribute a minimum of one *per cent* of the outstanding market loans at the end of previous year. The State Government has raised debt amounting to ₹ 43344.47 crore, out of which, ₹ 3806.06 crore constituted market loans. Accordingly, the amounts due to be contributed to the Fund was ₹ 216.72 crore (@ 0.5 *per cent* of total liabilities at the beginning of the year) in terms of the recommendations of the Twelfth Finance commission and ₹ 3.81 crore in terms of the Revised Scheme of the State Government. However, the State Government did not contribute any amount to the Fund during the year. Consequently, the Revenue Surplus during the year was overstated between ₹ 3.81 crore and ₹ 216.72 crore.

**ii) Guarantee Redemption Fund:** Guarantee Redemption Fund was constituted in the year 2002-03 as per recommendation of the Twelfth Finance Commission with a corpus of ₹ 20 crore. The balance at the credit of the fund as on 31 March 2014 is ₹ 480 crore. The Government of Odisha has discharged guarantee liabilities for ₹ 744.99 crore by charging different functional loan major heads at the end of 2013-14 without reimbursing any amount from the redemption fund. This amount will be charged to guarantee redemption fund only when the loan against the entity becomes irrecoverable. No guarantees were invoked during the year and the Government has also not made any contribution to the Fund during 2013-14. Non investment of the amount in the Fund has assisted the State Government in meeting its Fiscal Deficit.

**iii) State Disaster Response Fund:** As per recommendation of the ThFC the State Disaster Response Fund was constituted w.e.f. 2010-11. In terms of the guidelines, the Centre and State Government are required to contribute to the fund in proportion of 75:25. Accordingly, the Centre contributed ₹ 419.99 crore and the State Government has contributed ₹ 139.98 crore to the Fund during 2013-14. The balance in the Fund as on 31 March 2014 is ₹ 54.59 crore after incurring expenditure of ₹ 1449.47 crore during the year.

#### ***1.10.5 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 is 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. 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 these 21 funds are inoperative or dormant for significant periods. The details of 21 major inoperative funds are given in **Table 1.30**.

**Table 1.30: Inoperative reserve fund**

(₹ in lakh)				
Sl. No	Major and Minor heads with nomenclature	Balance as on 31.03.2014		Year of last transaction
1.	8011-Insurance and Pension Funds 105-State Government Insurance Fund	Cr.	0.07	2003-04
2.	8012-Special Deposit and Accounts 123-Special Deposit for employees Provident Fund Scheme (Administration Fund)	Cr.	1.63	2002-03
3.	8013-Other Deposits and Accounts 01-Deposit Schemes for Retiring employees 101-Deposit Scheme for Retiring Govt. Employees, 1989	Cr.	38.81	1997-98
4.	8115-Depreciation/Renewal Reserve Fund 103-Depreciation Reserve Funds-Govt. Commercial Departments and Undertakings			
	Hirakud Dam Project Stage-I &II	Cr.	3,20.08	1987-88
	Duduma Transmission Scheme	Cr.	20.93	1987-88
	Hirakud Power Utilisation Scheme	Cr.	16.04	1987-88
	Cuttack Thermal Scheme	Cr.	19.41	1987-88
	Baripada Electricity Supply Scheme	Cr.	4.00	1987-88
	Town Electrification Scheme Group-I	Cr.	1.70	1987-88
	Town Electrification Scheme Group-II	Cr.	3.34	1987-88
	Electrification of Small Towns and Rural Areas, Group-III	Cr.	6.47	1987-88
	Expansion of Power facilities	Cr.	5.59	1987-88
	Talcher Thermal Scheme	Cr.	84.52	1987-88
5.	8121-General and Other Reserve Fund 101-General and Other Reserve Funds-Govt. Commercial Departments and Undertakings.	Cr.	1.88	1996-97
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.	11.24 2.00 26.42	1967-68 1959-60 2004-05
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. Cr.	59.19 1.51 2,50.28 6.00	1994-95 1983-84 1997-98 1982-83
<b>TOTAL</b>			<b>8,81.11</b>	

Source: Finance Accounts of Government of Odisha 2013-14 (Volume-1)

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 nine to 54 years.

The Government stated (October 2014) that 12 inoperative Reserve Funds had been identified and recommended for closure

### 1.11 Debt Sustainability

Debt management of the State Government 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 analyse various indicators that determine the debt sustainability<sup>9</sup> of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation<sup>10</sup>; sufficiency of non-debt receipts<sup>11</sup>; net availability of borrowed funds<sup>12</sup>; interest burden payments (measured by interest payments to Revenue Receipts ratio) and maturity profile of State Government securities. **Table 1.31** analyses the debt sustainability of the State Government according to these indicators for the period of three years beginning from 2011-14.

**Table 1.31: Debt Sustainability: Indicators and Trends**

(₹ in crore)			
Indicators of Debt Sustainability	2011-12	2012-13	2013-14
Debt Stabilisation (Quantum Spread +/- Primary Deficit/Surplus)	9657	8458	1003
Sufficiency of Non-debt Receipts (Resource Gap)	1280	(-)619	(-)4636
Net Availability of Borrowed Funds	(-)3124	(-)3417	(-)2351
Burden of Interest Payments (IP/RR Ratio)	0.06	0.06	0.05
<b>Maturity Profile of State Debt (In Years)</b>			
0 – 1	2678	2299	2434
1 – 3	5375	5552	5071
3 – 5	4622	3822	3383
5 – 7	2585	2670	2848
7 and above	9353	8970	9008

**Source:** Finance Accounts of Government of Odisha for respective years

<sup>9</sup> 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

<sup>10</sup> 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.

<sup>11</sup> 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.

<sup>12</sup> 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.

During 2011-14, quantum spread together with primary deficit consistently remained positive resulting in continuous decline in debt/GSDP ratio from 17 *per cent* in 2012-13 to 15 *per cent* in 2013-14. 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. Trends in **Table 1.31** reveal that the Government was experiencing positive resource gap during 2011-12. However it again turned into negative of ₹ 619 crore and ₹ 4636 crore during 2012-13 and 2013-14 respectively indicating non-sustainability of debt which needs to be addressed.

Debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal plus Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to a situation of debt trap lies in proper application of borrowed funds, i.e. (a) not using for financing Revenue Expenditure and (b) being used efficiently and productively for Capital Expenditure which either provides returns directly or results in increased productivity of the economy in general.

During the current year, the Government repaid principal plus interest on account of internal debt of ₹ 3052 crore, Government of India loans of ₹ 1629 crore and also discharged other obligation of ₹ 3842 crore, as a result of which payments exceeded the receipts during the year. Throughout the period 2011-14, the debt repayment was higher than fresh borrowings resulting in negative net availability of borrowed funds.

## **1.12 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 expenditure and receipts. 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 2013-14.

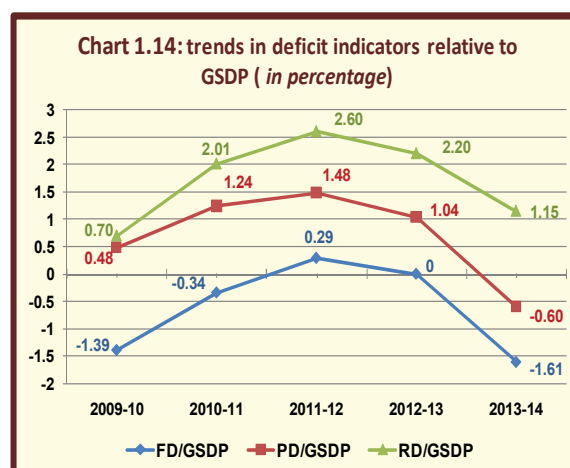
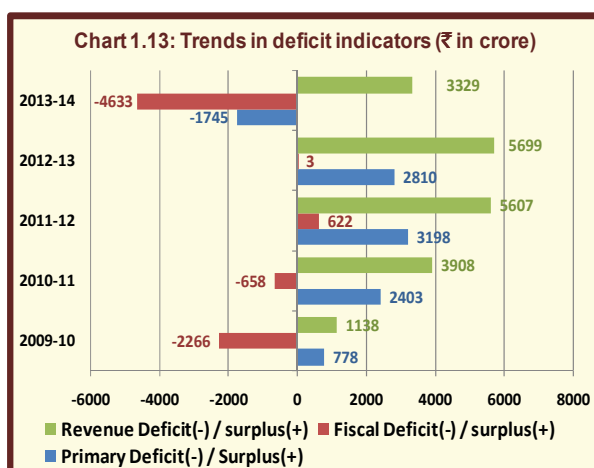
1.12.1 Trends in Deficits/Surpluses

Table 1.32, Chart 1.13 and 1.14 present the trends in deficits/surpluses indicators over the period 2009-14.

Table 1.32: Deficits/Surpluses

	2009-10	2010-11	2011-12	2012-13	2013-14
Revenue deficit (-)/ surplus(+) (₹ in crore)	(+)1138	(+)3908	(+)5607	(+)5699	(+)3329
Fiscal deficit (-)/ surplus(+) (₹ in crore)	(-)2266	(-)658	(+)622	(+)3	(-)4633
Primary deficit (-)/ surplus(+) (₹ in crore)	(+)778	(+)2403	(+)3198	(+)2810	(-)1745
RD/GSDP (per cent)	(+)0.70	(+)1.98	(+)2.61	(+)2.23	1.15
FD/GSDP (per cent)	(-)1.39	(-)0.33	(+)0.29	(+)0.00	(-)1.61
PD/GSDP (per cent)	(+)0.48	(+)1.22	(+)1.49	(+)1.10	(-)0.60

Source: Finance Accounts of Government of Odisha for respective years



Source: Finance Accounts of Government of Odisha for respective years

Revenue surplus/deficit

Revenue surplus represents the difference between Revenue Receipts and Revenue Expenditure. Revenue surplus helps to reduce the borrowings. In 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. During 2013-14, revenue receipts grew 11 per cent as against a growth rate of 19 per cent by revenue expenditure resulting in revenue surplus being brought down by ₹ 2370 crore as compared to previous year. However, 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 onwards.

### Fiscal surplus/deficit

Fiscal surplus of three crore in 2012-13 turned into Fiscal deficit of ₹ 4633 crore during 2013-14 mainly on account of steep increase in the capital expenditure and in disbursement of loans and advances by the State. However, fiscal deficit was within the State's FRBM (Amendment) Act, 2011 target of not more than three per cent of GSDP.

### Primary Surplus/deficit

The primary surplus of ₹ 2810 crore in 2012-13 turned into primary deficit of ₹ 1745 crore during the current year. While Fiscal Deficit represents the need for additional resources in general, a part of such resources may be needed to finance interest payment. Interest payment represents the expenditure of past obligation and is independent of current allocative priorities. During 2013-14, the Fiscal deficit was almost twice the interest payment. This meant that around 50 per cent of the fiscal deficit was due to revenue expenditure other than interest payment. Hence prudent reduction of revenue expenditure could enable the State government to attain primary surplus.

#### 1.12.2 Components of Fiscal Deficit/Surplus and its Financing / Investing Pattern

The financing / investing pattern of fiscal deficit/ surplus underwent a compositional shift as reflected in the **Table 1.33**.

**Table 1.33: Components of Fiscal Deficit/Surplus and its Financing/Investing Pattern**  
(₹ in crore)

Particulars	2009-10	2009-10	2010-11	2012-13	2013-14
<b>Decomposition of Fiscal Deficit</b>	<b>(-)2266</b>	<b>(-)658</b>	<b>622</b>	<b>3</b>	<b>-4633</b>
1 Revenue surplus	1138	3908	5607	5699	3329
2 Capital Expenditure	(-)3648	(-)4285	(-)4496	(-)5622	(-)7756
3 Net Loans and Advances	244	(-)281	(-)489	(-)74	(-)206
<b>Financing Pattern of Fiscal Deficit*/Surplus</b>					
1 Market Borrowings	(-)571	(-)623	(-)1046	(-)1308	(-)885
2 Loans from Gol	(-)247	(-)636	(-)314	(-)70	33
3 Special Securities Issued to National Small Savings Fund (NSSF)	610	1023	26	115	388
4 Loans from Financial Institutions	369	420	360	(-)37	461
5 Small Savings, PF etc.	1138	1223	426	691	689
6 Reserve fund	1	17	269	-107	(-)130
7 Deposits and Advances	145	154	554	1594	813
8 Suspense and Misc	1595	(-)809	(-)1290	(-)460	3437
9 Remittances	41	(-)4	9	4	28
10 Others	--	--	--	--	--
11 Increase / decrease in cash Balance	(-)629	69	12	(-)441	(-)51
12 Net of Odisha Contingency Fund	(-)188	(-)176	372	16	(-)150

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

Source : Finance Accounts of Government of Odisha for respective years

The Fiscal surplus of 2012-13 turned into a fiscal deficit and stood at ₹ 4633 crore in the current year. The factor contributing to the transformation of fiscal surplus to fiscal deficit was the increase in capital expenditure from ₹ 5622 crore in 2012-13 to ₹ 7756 crore during 2013-14 and in disbursement of loans and advances from ₹ 216 crore in 2012-13 to ₹ 463 crore during 2013-14 supported by decrease in revenue surplus from ₹ 5699 crore to ₹ 3329 crore during the same period. The fiscal deficit was largely managed by small savings, provident funds etc, Deposits and Advances, Special Securities issued to NSSF and Loans from financial institutions.

### 1.12.3 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) did not have any asset backup. In the case of Odisha, there has been a Revenue surplus since 2005-06. Bifurcation of the primary surplus (**Table 1.34**) 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 1.34: 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)
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
2012-13	44079	35431	5622	216	41269	8648	2810
2013-14	49204	42730	7756	463	50949	6474	(-)1745

Source: Finance Accounts of Government of Odisha for respective years

During 2013-14, non-debt receipts increased from ₹ 44079 crore to ₹ 49204 crore (12 per cent) against an increase of 21 per cent in Primary Revenue Expenditure.

Analysis of the factors resulting into primary revenue surplus of the State during 2008-13 revealed that the State was experiencing primary surplus during these years. However, during 2013-14, the State has had a primary deficit of ₹ 1745 crore. In other words, non-debt receipts of the State were not enough to meet the primary expenditure<sup>13</sup> requirements in the Revenue account. Ideally incremental

<sup>13</sup> 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.

non-debt receipts every year should cover not only the primary expenditure but also incremental interest burden.

### 1.13 Public Private Partnerships (PPP)

Recourse to the PPP mode for project financing is generally encouraged because it frees valuable fiscal space for the provision of public goods in areas where such financing may not be forthcoming, as envisaged in ThFC. The Government of Odisha framed their PPP Policy in August 2007 to support private investment, particularly in the infrastructure sector, to utilise the efficiency and innovativeness of the private investors, besides tapping their capital. PPP projects in sectors that come under the purview of the Government of Odisha covers 19 infrastructure sectors such as Roads, Ports, Airports, Industrial Parks, Inland Container Depot and Logistic Hubs, Water Supply, Power Generation, Solid Waste Management, Railway related projects and agriculture production and marketing etc. Out of the 19 sectors, the Government has not entered into the PPP contracts in five of the sectors viz. Airports, Airstrips and Heliports, Inland Container Depots and Logistic Hubs, Sewerage and Drainage, Inland Water Transport and Agriculture Production and Marketing. In terms of the main types of PPP contracts, almost all contracts have been of the build, operate and transfer (BOT) type or build, own, operate and transfer (BOOT) type (either toll or annuity payment models) or close variants.

The status of the PPP in Odisha as on 31 March 2014 is given in **Table 1.35:**

**Table 1.35: Status of projects as of 31 March 2014**

Sector	(₹ in crore)							
	Operational		Under Implementation		Under Pipeline		Total	
	Number	Cost	Number	Cost	Number	Cost	Number	Cost
Urban Development	4	156	6	500	13	1359	23	2015
Health	11	200	0	0	2	848	13	1048
Finance & Revenue	1	72	0	0	1	128	2	200
Transport	3	4861	6	12550	1	500	10	17911
Industrial Infrastructure	2	165	3	720	0	0	5	885
Roads	1	48	1	1293	10	2135	12	3476
Tourism	5	52	10	25	2	162	17	239
Education	14	35	0	0	3	47	17	82
Power Transmission	0	0	1	108	2	1526	3	1634
<b>Total</b>	<b>41</b>	<b>5589</b>	<b>27</b>	<b>15196</b>	<b>34</b>	<b>6705</b>	<b>102</b>	<b>27490</b>

A total number of 102 PPP projects in Odisha in different sectors are given in **Appendix-1.8**, out of which 41 projects have been completed, 27 are in implementation/construction stage and the rest 34 projects are still in the pipeline out of which nine projects relate to the year 2010-11. During the year 2013-14 only one project i.e. City Bus Services became operational which indicates that the progress was tardy.

## 1.14 Conclusions

- GoI directly transferred substantial amount of Grants-in-aid to the State implementing agencies for implementation of different schemes in the State. This is fraught with the risk of poor oversight. There is no single agency monitoring the use of these funds and no data is readily available on the amount spent in major flagship and other important schemes (**Paragraph 1.3.2**).
- During 2013-14, Revenue Receipts increased to around 11 *per cent* from around nine *per cent* during 2012-13 (**Paragraph 1.4**).
- Non-Plan Revenue Expenditure (NPRE) as a proportion of Revenue Expenditure, decreased from ₹ 19677 crore (78 *per cent*) in 2009-10 to ₹ 30610 crore (67 *per cent*) in 2013-14. Out of the total increase of ₹ 7380 crore in Revenue Expenditure during the current year over the previous year, increase in NPRE contributed 54 *per cent* (₹ 3965 crore) and remaining 46 *per cent* (₹ 3415 crore) was the Plan Revenue Expenditure (PRE) (**Paragraph 1.7.4**).
- Capital Expenditure of the State as a percentage to total expenditure increased from 12 *per cent* in 2009-10 to 14 *per cent* in 2013-14. The Capital Expenditure was 2.69 *per cent* of GSDP during 2013-14 as against the projection of 2.72 *per cent* in the Budget Estimates (**Paragraph 1.7.5**).
- 190 projects incurring expenditure of ₹ 874.46 crore were lying incomplete due to the prolonged processes involved in land acquisition, matters lying sub-judice in Courts, finalising and revising the designs, shortage of funds and slow progress of work. (**Paragraph 1.9.2**).
- Twenty one Reserve Funds out of 27 remained inoperative or dormant for significant period. (**Paragraph 1.10.5**)
- Out of 102 PPP projects, 41 projects are completed, 27 are in implementation/construction stage and the rest 34 projects are still in the pipeline (**Paragraph 1.13**).

## Recommendations

- The State Government may consider putting in place an appropriate mechanism to ensure proper accounting of the funds transferred directly to the implementing agencies for implementation of different schemes, alongwith a monitoring mechanism.
- Government may consider taking steps to complete the incomplete projects as early as possible in a time bound fashion so that the intended benefits can be realised.