

This Chapter provides an audit perspective on finances of the State Government during 2018-19 and analyses changes in major fiscal aggregates relative to 2017-18, keeping in view overall trends during the last five years.

The analysis is based on the details contained in the Finance Accounts of the Government of Odisha (GoO). A profile of the State with demographic and other details is in *Appendix 1.1*. The structure of Government Accounts is explained in *Part A* and the layout of Finance Accounts is given in *Part B* of the *Appendix-1.2*.

1.1 Gross State Domestic Product (GSDP)

The Gross State Domestic Product (GSDP)² of Odisha in 2018-19 at current prices was ₹ 4,85,376 crore. The trends in annual growth of Gross Domestic Product (GDP) of India and GSDP of the State at current prices and constant prices (Base year: 2011-12) are in **Table 1.1**. Growth in Odisha was higher than the all-India average at both current and constant prices during 2018-19. However, it was lower than all-India average in 2017-18.

Table 1.1: GDP of India and GSDP of the State

| Year | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|--------------------------------------------|------------|------------|------------|------------|------------|
| Current Prices | | | | | |
| India's GDP (₹ in crore) | 124,67,959 | 137,71,874 | 153,62,386 | 170,95,005 | 190,10,164 |
| Growth rate (<i>per cent</i>) | 10.99 | 10.46 | 11.55 | 11.28 | 11.20 |
| State's GSDP (₹ in crore) | 3,14,250 | 3,28,550 | 3,93,808 | 4,36,374 | 4,85,376 |
| Growth rate (<i>per cent</i>) | 6.00 | 4.55 | 19.86 | 10.81 | 11.23 |
| Constant Prices (Base year 2011-12) | | | | | |
| India's GDP (₹ in crore) | 105,27,674 | 113,69,493 | 122,98,327 | 131,79,857 | 140,77,586 |
| Growth rate (<i>per cent</i>) | 7.41 | 8.00 | 8.17 | 7.17 | 6.81 |
| State's GSDP (₹ in crore) | 2,70,665 | 2,92,229 | 3,38,170 | 3,60,772 | 3,90,574 |
| Growth rate (<i>per cent</i>) | 1.80 | 7.97 | 15.72 | 6.68 | 8.26 |

Source: GDP- Central Statistical Office (2015-16: Third Revised, 2016-17: Second Revised, 2017-18: First Revised and 2018-19: Provisional)

GSDP- Directorate of Economic & Statistics, Odisha (2015-16: Third Revised, 2016-17: Third Revised, 2017-18: Second Revised and 2018-19: First Revised)

² Gross Domestic Product (GDP) and Gross State Domestic Product (GSDP) refer to the market value of all officially recognised final goods and services produced within the Country and the State respectively in a given period of time, accounted without duplication and are important indicators of the Country and State's economy.

1.2 Summary of Fiscal Transactions

Table 1.2 presents a summary of fiscal transactions of the State Government during 2018-19 vis-à-vis 2017-18 and 2016-17. Further details of receipts and disbursements as well as the overall fiscal position during 2018-19 are in *Appendix-1.3*. Time series data of Government Finances for the years 2014-19 is in *Appendix-1.4*.

Table 1.2: Summary of Fiscal Transactions

(₹ in crore)

| Receipts | | | | Disbursements | | | |
|------------------------------------------------------------|-----------------|-----------------|-----------------|----------------------------------|-----------------|-----------------|-----------------|
| | 2016-17 | 2017-18 | 2018-19 | | 2016-17 | 2017-18 | 2018-19 |
| Section A – Revenue Account³ | | | | | | | |
| Tax Revenue | 22,852 | 27,914 | 30,318 | General Services | 16,715 | 20,261 | 24,053 |
| Non-Tax Revenue | 8,043 | 8,398 | 14,276 | Social Services | 27,600 | 29,557 | 36,427 |
| Share of Union Taxes/ Duties | 28,322 | 31,272 | 35,354 | Economic Services | 19,714 | 20,757 | 23,513 |
| Grants from Government of India | 15,082 | 17,620 | 19,598 | Grants-in-Aid and Contributions | 1,012 | 1,262 | 1,363 |
| Total Revenue Receipts | 74,299 | 85,204 | 99,546 | Total Revenue Expenditure | 65,041 | 71,837 | 85,356 |
| Section B- Capital Account⁴ & Others | | | | | | | |
| Miscellaneous Capital Receipts | -- | -- | -- | Capital Outlay | 18,471 | 21,109 | 23,482 |
| Recoveries of Loans and Advances | 89 | 257 | 305 | Loans and Advances Disbursed | 254 | 1,875 | 1,170 |
| Public Debt ⁵ Receipts | 11,223 | 12,862 | 10,003 | Repayment of Public Debt | 2,962 | 2,690 | 3,940 |
| Contingency Fund | 123 | -- | -- | Contingency Fund | -- | -- | 1,440 |
| Public Account Receipts | 41,627 | 71,874 | 62,906 | Public Account Disbursement | 38,080 | 56,439 | 50,085 |
| Opening Cash Balance | 12,048 | 14,601 | 30,848 | Closing Cash Balance | 14,601 | 30,848 | 38,135 |
| Grand Total | 1,39,409 | 1,84,798 | 2,03,608 | TOTAL | 1,39,409 | 1,84,798 | 2,03,608 |

Source: Finance Accounts of respective years

Composition of resources and application of funds of the Consolidated Fund of the State in the year 2018-19 is in *Appendix 1.5*.

1.3 Review of Fiscal Situation

1.3.1 Fiscal parameters

Three key fiscal parameters viz., (i) Revenue Surplus⁶ / Deficit, (ii) Fiscal Deficit⁷ and

³ Revenue Account is the account of the current income and expenditure of the State. The income is derived mainly from taxes and duties, fees for services rendered, fines and penalties, revenue from Government estates such as forests and other miscellaneous items

⁴ Capital Account is the account of expenditure of a capital nature such as construction of buildings, laying of roads, irrigation and electricity projects. Such expenditure is met from sources other than current revenues, e.g. loans, surplus revenue of previous years, if any, and capital receipts

⁵ Comprises loans raised by Government such as market loans, loans from the Life Insurance Corporation of India, etc., and the borrowings from the Central Government

⁶ Revenue Surplus = Revenue Receipts – Revenue Expenditure

⁷ Fiscal Deficit = Revenue Expenditure + Capital Expenditure + Net Loans and Advances (-) Revenue Receipts (-) Miscellaneous Capital Receipts

(iii) Primary Deficit⁸ help in assessing the fiscal situation of the Government. The way these deficits are financed assist in assessing the fiscal health of the Government. Trends in fiscal parameters are shown in **Chart 1.1** and **Chart 1.2**. Trends in Debt Sustainability (i.e., Ratio between Debt and GSDP *per cent*) is shown in **Chart 1.3**.

Chart 1.1: Trends of Fiscal parameters

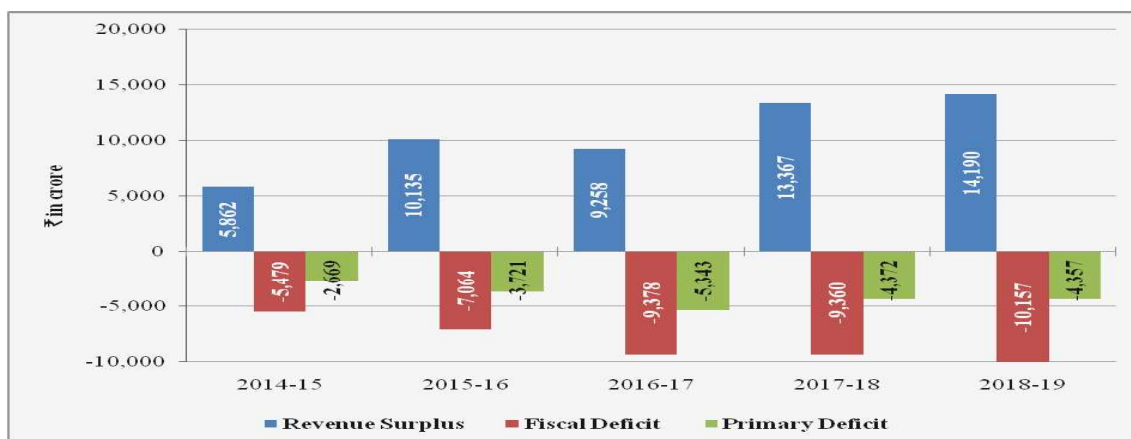


Chart 1.2: Fiscal Parameters vis-à-vis GSDP

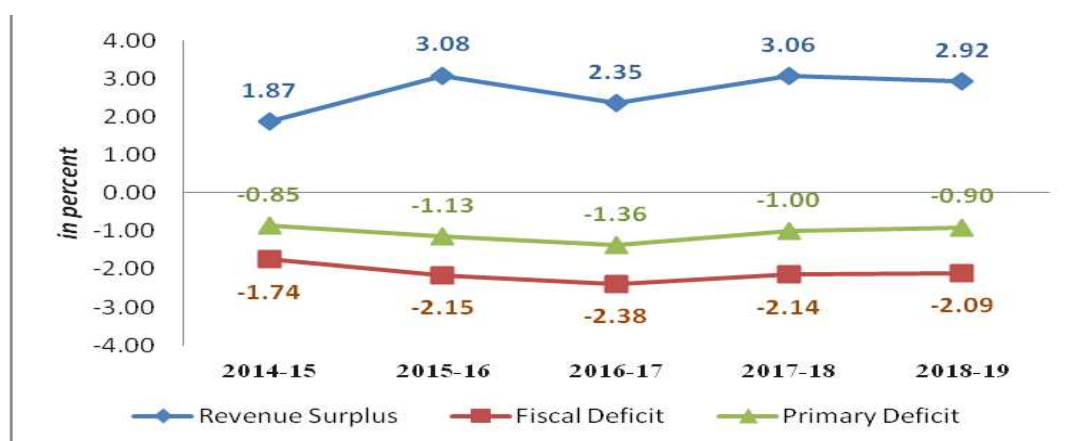
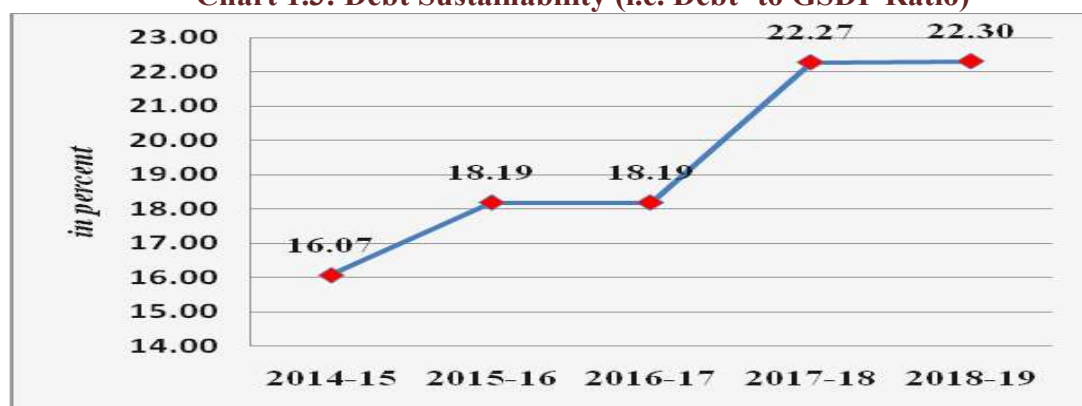


Chart 1.3: Debt Sustainability (i.e. Debt[#] to GSDP Ratio)



Source: Finance Accounts

[#] Debt includes Internal Debt, Loans and Advances from Government of India & Public Accounts Liabilities.

⁸ Primary Deficit = Fiscal Deficit – Interest Payments.

Some important trends are discussed below:

- **Revenue Surplus** (₹ 14,190 crore) of the State in 2018-19 increased over previous year (₹ 13,367 crore) by ₹823 crore as per Finance Accounts. The State has been a Revenue Surplus State since 2005-06 when after a gap of 22 years, the State was able to achieve Revenue Surplus of ₹ 481 crore. In 2018-19, in spite of the fact that the growth of Revenue Receipts (16.83 *per cent*) was lower than the growth of Revenue Expenditure (18.82 *per cent*) over the previous year, the Revenue Surplus had marginally increased over the last year. This achievement was in line with the State's FRBM (Amendment) Act 2016 which had prescribed reduction of Revenue Deficit to zero from 2011-12 onwards. Revenue Surplus as a percentage of Revenue Receipts decreased to 14.25 *per cent* in 2018-19 from 15.69 *per cent* in 2017-18.
- **Fiscal Deficit** (₹10,157 crore) in 2018-19, increased by ₹797 crore in comparison to preceding year (₹ 9,360 crore). Fiscal Deficit as a percentage of GSDP was 2.09 *per cent* and was meeting the fiscal target set out in its FRBM (Amendment) Act 2016 to maintain the Fiscal Deficit within 3.5 *per cent* of the GSDP. This was, however achieved by reduction in expenditures.
- **Primary Deficit** (₹ 4,357 crore) in 2018-19, decreased marginally by ₹ 15 crore in comparison to preceding year (₹ 4,372 crore). Though Primary Deficit decreased, it was evident that the non-debt receipts⁹ (₹ 99,851 crore) were insufficient to meet the Primary Expenditure (₹ 1,04,208 crore).
- As per the FRBM (Amendment) Act 2016, **Debt to GSDP** ratio (in *per cent*) was to be maintained less than or equal to 25 *per cent* for the years 2015-16 to 2019-20. It was 22.30 *per cent* for the year 2018-19. The Debt-GSDP ratio (22.30 *per cent*), increased slightly as compared to 2017-18 (22.27 *per cent*) and was meeting the fiscal target set out in the State's FRBM (Amendment) Act, 2016.
- It was observed that the Revenue Surplus was overstated by ₹1,494.89 crore and Fiscal Deficit was understated by the same amount on account of the following: (i) Excess contribution of the Government towards New Pension System, (ii) Non Credit of interest to Deposits, (iii) Non Credit of Interest to State Disaster Response Fund, (iv) Un-recouped balance of Odisha Contingency Fund, (v) Labour Welfare Cess not transferred to Welfare Board and (vi) Land Revenue Cess not transferred to Panchayati Raj Institutions (PRIs), as detailed in **Table 1.3**:

⁹ Non-debt receipts = Revenue receipts + Miscellaneous Capital receipts + Recoveries of Loans and Advances.

Table 1.3: Impact on Revenue Surplus and Fiscal Deficit

| Particulars | Impact on Revenue Surplus (₹ in crore) | | Impact on Fiscal Deficit (₹ in crore) | |
|-----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-----------------|---------------------------------------|-----------------|
| | Over Statement | Under Statement | Over Statement | Under Statement |
| Excess contribution of the Government towards Employer Contribution to Defined Contribution Pension Scheme (<i>Paragraph 1.5.3.3</i>) | -- | 6.33 | 6.33 | -- |
| Non Credit of interest to Deposits (interest bearing) (<i>Paragraph 1.6.2.2</i>) | 2.93 | -- | -- | 2.93 |
| Non Credit of Interest to State Disaster Response Fund (<i>Paragraph 1.6.2.2</i>) | 7.62 | -- | -- | 7.62 |
| Un-recouped balance of Odisha Contingency Fund (<i>Paragraph 2.3</i>) | 1,440.22 | -- | -- | 1,440.22 |
| Labour Welfare Cess not transferred to Welfare Board (<i>Paragraph 3.6.3</i>) | 2.38 | -- | -- | 2.38 |
| Land Revenue Cess not transferred to PRIs (<i>Paragraph 1.4.2.1</i>) | 48.07 | -- | -- | 48.07 |
| Total (Net Impact) | 1,494.89 (Overstatement) | | 1,494.89 (Understatement) | |

Source: Finance Accounts

Effectively, the Revenue Surplus and Fiscal Deficit of the State in 2018-19 was ₹ 12,695 crore and ₹ 11,652 crore respectively.

1.3.1.1 Composition and Financing pattern of Fiscal Deficit

Fiscal deficit represents the total financing the State requires (predominantly by drawing on its cash and investment balances with the RBI and by borrowing) to meet the excess of the revenue and capital expenditure (including loans and advances) over revenue and non-debt receipts. The composition and financing pattern of fiscal deficit are in **Table 1.4**.

Table 1.4: Components of Fiscal Deficit and their financing pattern

| Particulars | | (₹ in crore) | | | | | | |
|-------------|-----------------------------------------------------|------------------|-----------------|-----------------|-----------------|---------------|-----------------|------------------|
| | | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | | |
| | | Net | Net | Net | Net | Receipts | Disbursements | Net |
| A. | Decomposition of Fiscal Deficit (1 to 3) | (-) 5,479 | (-)7,064 | (-)9,378 | (-)9,360 | 99,851 | 1,10,008 | (-) 10157 |
| 1 | Revenue Surplus | 5,862 | 10,135 | 9,258 | 13,367 | 99,546 | 85,356 | 14,190 |
| 2 | Capital Expenditure | (-) 11,075 | (-) 17,090 | (-) 18,471 | (-) 21,109 | -- | 23,482 | (-) 23,482 |
| 3 | Net Loans and Advances | (-) 266 | (-) 109 | (-)165 | (-)1,618 | 305 | 1170 | (-) 865 |
| B | Financing Pattern of Fiscal Deficit*/Surplus | | | | | | | |
| 1 | Net Borrowings | 3,534 | 6,909 | 8,261 | 10,172 | 10,003 | 3,940 | 6,063 |
| a | Internal Borrowings [#] | 3,655 | 6,797 | 8,028 | 10,031 | 9,020 | 3,183 | 5837 |

Finances of the State Government

| Particulars | | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | | |
|-------------|----------------------------------------------------|----------------|------------------|------------------|-------------------|---------------|-----------------|------------------|
| | | Net | Net | Net | Net | Receipts | Disbursements | Net |
| b | Loans from GoI | (-)121 | 112 | 233 | 141 | 983 | 757 | 226 |
| 2 | Net Public Account | 2,054 | 2,331 | 3,546 | 15,435 | 62,906 | 50,085 | 12,821 |
| a | Small Savings, Provident Fund etc. | 1,073 | 1,835 | 1,857 | 1,558 | 5,126 | 3,378 | 1,748 |
| b | Reserve Funds | (-)35 | 285 | 1,145 | (-)86 | 10,673 | 3,761 | 6,912 |
| c | Deposits and Advances | 915 | 230 | 607 | 13,897 | 22,527 | 18,325 | 4,202 |
| d | Suspense and Miscellaneous | 99 | (-) 32 | (-)10 | 78 | 34 | 88 | (-) 54 |
| e | Remittances | 2 | (-) 51 | (-) 53 | (-) 12 | 24,546 | 24,533 | 13 |
| 3 | Contingency Fund | 150 | (-) 123 | 123 | -- | -- | (-)1,440 | (-) 1,440 |
| 4 | Total (1 to 3) | 5,738 | 9,117 | 11,930 | 25,607 | 72,909 | 54,025 | 17,444 |
| 5 | (-) Increase / (+) Decrease in Cash Balance | (-) 259 | (-) 2,053 | (-) 2,552 | (-) 16,247 | -- | -- | (-) 7287 |
| 6 | Overall Surplus/ Deficit (4+5) | 5,479 | 7,064 | 9,378 | 9,360 | -- | -- | 10,157 |

Source: Finance Accounts of respective years

Includes market borrowings & borrowings from other institutions also

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

1.3.1.2 Quality of Deficit / Surplus

In order to understand the quality of deficit/ surplus, it is important to ascertain the Primary Expenditure. The bifurcation of Primary Deficit, as detailed in Table 1.5 indicates the extent to which deficit has been on account of enhancement of Capital Expenditure, which may be desirable to improve productive capacity of the Government.

Table 1.5: Primary deficit/surplus – bifurcation of factors

(₹ in crore)

| Years | Non-debt receipts | Primary Revenue Expenditure ¹⁰ | Capital Expenditure | Loans and Advances | Primary Expenditure | Primary Revenue Surplus ¹¹ (+) | Primary deficit (-) / surplus (+) |
|---------|-------------------|-------------------------------------------|---------------------|--------------------|---------------------|-------------------------------------------|-----------------------------------|
| 1 | 2 | 3 | 4 | 5 | 6 (3+4+5) | 7 (2-3) | 8 (2-6) |
| 2014-15 | 57,090 | 48,326 | 11,075 | 358 | 59,759 | 8,765 | (-)2,669 |
| 2015-16 | 69,169 | 55,463 | 17,090 | 337 | 72,890 | 13,706 | (-)3,721 |
| 2016-17 | 74,388 | 61,006 | 18,471 | 254 | 79,731 | 13,382 | (-)5,343 |
| 2017-18 | 85,461 | 66,849 | 21,109 | 1,875 | 89,833 | 18,612 | (-)4,372 |
| 2018-19 | 99,851 | 79,556 | 23,482 | 1,170 | 1,04,208 | 20,295 | (-)4,357 |

Source: Finance Accounts of respective years

As can be seen from the above table, Non-debt receipts were insufficient to meet the Primary Expenditure. The trend of last five years shows that though the Non-debt receipts

¹⁰ Primary Revenue Expenditure = Revenue Expenditure – Interest payments

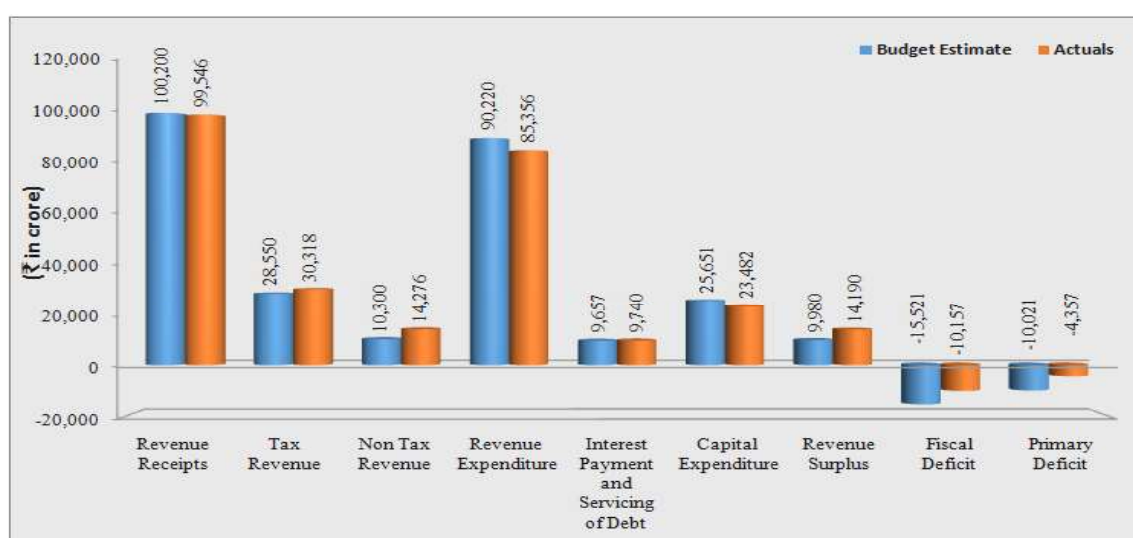
¹¹ Primary Revenue Surplus = Non-Debt Receipts (Revenue Receipts + Miscellaneous capital Receipts + Recovery of Loans and advances) - Primary Revenue Expenditure

were sufficient to meet Primary Revenue Expenditure, however, these fell short of meeting the Capital Expenditure.

1.3.2 Budget Estimates and Actuals

Shortfall of actual receipts and expenditure against budget estimates, either due to unanticipated and unforeseen events or under/over estimation of expenditure or revenue at the stage of budget preparation, adversely impacts the desired fiscal objectives. Actuals *vis-à-vis* Budget Estimates of selected fiscal parameters for 2018-19 are shown in **Chart 1.4**.

Chart 1.4: Budget Estimates and Actuals for the year 2018-19



Source: Finance Accounts and Budget at a Glance 2018-19.

From the above Chart, it can be seen that:

- Revenue Receipts fell short of Budget Estimates by ₹654 crore. The State collected Own Tax Revenue and Non Tax Revenue higher than the estimation by ₹ 1,768 crore and ₹ 3,976 respectively. However, the State received less than the estimation from Grant-in-aid from Centre and State Share of Union Taxes by ₹ 5,166 crore and ₹ 1,232 crore respectively.
- Revenue Expenditure was less than the BE by 5.39 *per cent* mainly due to less spending under General Sector by ₹ 2,669 crore and Social Sector by ₹ 1,992 crore.
- Fiscal Deficit was less than the BE by 34.56 *per cent* due to reduction in expenditure.

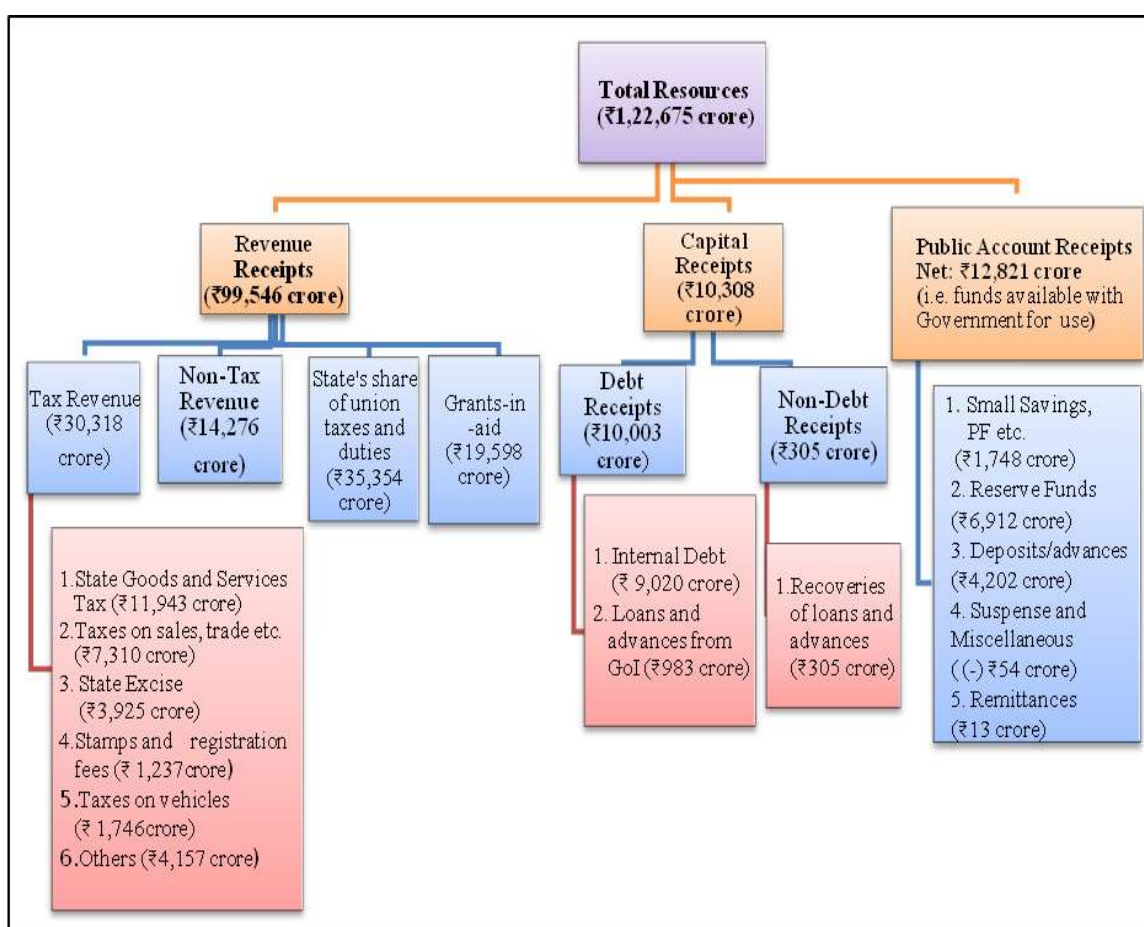
Recommendation 1: The Finance Department should rationalise the budget preparation exercise, so that the gap between the budget estimates and actual is abridged. For effective budgetary process, estimation may be undertaken with due diligence based on more realistic revenue and need projections.

1.4 Financial Resources of the State

1.4.1 Resources of the State as per Annual Finance Accounts

Revenue Receipts consist of Tax Revenues, Non-Tax Revenues, State's share of union taxes and duties and Grants-in-Aid from Government of India. Receipts under Capital comprise recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI. The net of Public Account Receipts comprises the balance after disbursements in small savings, provident funds, reserve funds, deposits, suspense and remittances, etc. The balance, after disbursements in the Public Account is the fund available with the Government for use. The overall composition of the State resources (₹ 1, 22,675 crore) in 2018-19 is shown in **Chart 1.5**:

Chart 1.5: Composition of Resources in 2018-19

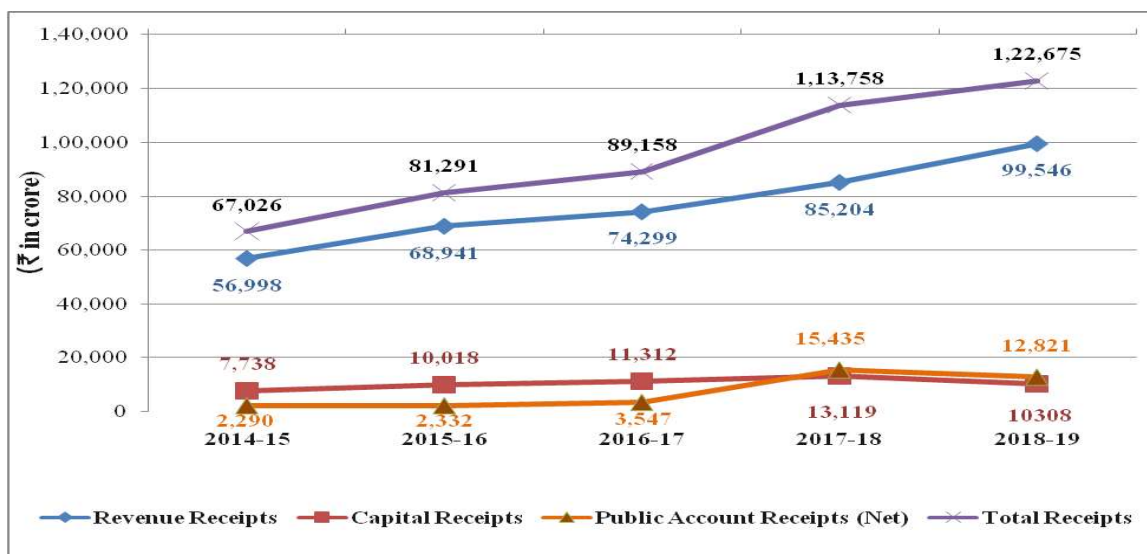


Source: Finance Accounts

The above Chart shows that out of the total resources of ₹ 1,22,675 crore of the State Government during the year 2018-19, Revenue Receipts (₹ 99,546 crore) constituted 81.15 per cent of total resources. Public Account Receipts net (₹ 12,821 crore) and Capital Receipts (₹ 10,308 crore) constituted 10.45 per cent and 8.40 per cent of the total resources, respectively.

Chart 1.6 depicts the details under various components of the total resources of the State during the years 2014-19.

Chart 1.6: Resources of the State during 2014-19

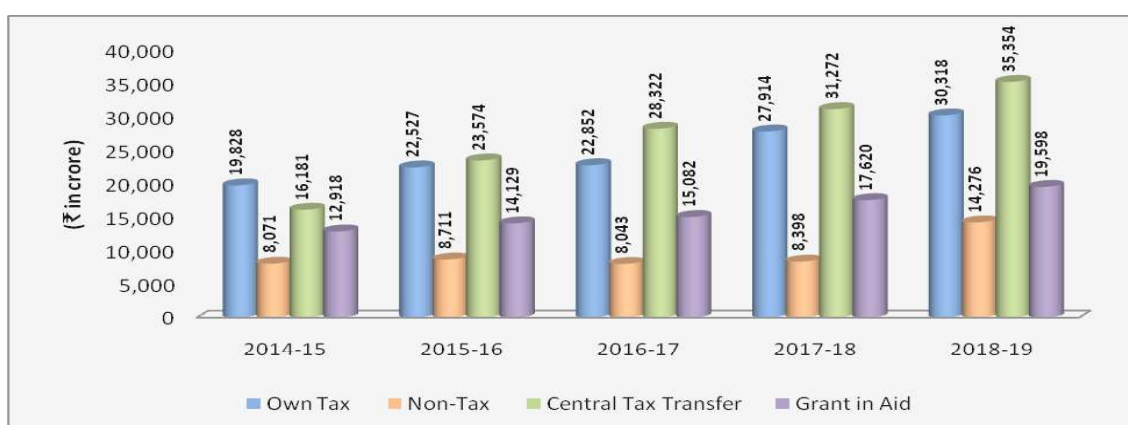


Source: Finance Accounts of respective years

1.4.2 Revenue Receipts

Statement 14 of the Finance Accounts gives details of the Revenue Receipts of the Government. Revenue Receipts (₹ 99,546 crore) of the Government constituting 20.51 per cent of the GSDP (₹ 4,85,376 crore), increased by 16.83 per cent over the previous year (₹ 85,204 crore). Revenue Receipts were, however, lower than the budget estimates by ₹ 654 crore. The trends and composition of the Revenue Receipts during the years 2014-15 to 2018-19 are shown in **Chart 1.7**.

Chart 1.7: Composition of Revenue Receipts during the years 2014-15 to 2018-19



Source: Finance Accounts of respective years

As can be seen from the above Chart, the own tax revenue, Central tax transfer and Grants-in-Aid have been increasing over the period of last five years, whereas non tax revenue has remained more or less constant during 2014-15 to 2017-18. However, it surged by ₹ 5,878 crore (69.99 per cent increase over previous year) during the year

2018-19. The surge was mainly due to increase in collection under Non-ferrous Mining and Metallurgical Industries (₹ 4,349 crore), apart from increase in Interest Receipts (₹ 861 crore) and Dividends and Profit (₹ 478 crore). The trends in Revenue Receipts relative to GSDP are presented in **Table 1.6**:

Table 1.6: Trends in Revenue Receipts relative to GSDP

| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Gross State Domestic Product (GSDP) (₹ in crore) | 3,14,250 | 3,28,550 | 3,93,808 | 4,36,374 | 4,85,376 |
| Rate of growth of GSDP | 6.00 | 4.55 | 19.86 | 10.81 | 11.23 |
| Revenue Receipts (RR) (₹ in crore) | 56,998 | 68,941 | 74,299 | 85,204 | 99,546 |
| Rate of growth of RR (<i>per cent</i>) | 16.45 | 20.95 | 7.77 | 14.68 | 16.83 |
| R R/GSDP (<i>per cent</i>) | 18.14 | 20.98 | 18.87 | 19.52 | 20.51 |
| Rate of growth of State's own tax | 17.38 | 13.61 | 1.44 | 22.15 | 8.61 |
| Buoyancy Ratios¹² | | | | | |
| Revenue Buoyancy with respect to GSDP | 2.74 | 4.60 | 0.39 | 1.36 | 1.50 |
| State's Own Tax Buoyancy with respect to GSDP | 2.90 | 2.99 | 0.07 | 2.04 | 0.77 |

*Source: GSDP- Directorate of Economic and Statistics, Government of Odisha
Revenue Receipts- Finance Accounts of the respective years.*

From the above table, it can be inferred that:

- Revenue buoyancy with reference to GSDP was above one during last five years except 2016-17. It indicates that the growth rate of Revenue Receipts was better than the growth rate of GSDP during those years.
- The State's own tax buoyancy with respect to GSDP was also more than one during 2014-15, 2015-16 and 2017-18, but during 2016-17 and 2018-19 it came down to below one, indicating less than optimum growth in Own Tax Revenue compared to the growth in GSDP.

1.4.2.1 State's Own Resources

The State's performance in mobilisation of resources is assessed in terms of Tax Revenue and Non-Tax Revenue, not including the State's share in Central Taxes and Grants-in-Aid which is based on the recommendations of the Finance Commission. State's Own Revenue grew by 22.81 *per cent* at a rate higher than the increase (11.23 *per cent*) in the economic base measured in terms of GSDP.

State's Own Tax Revenue

Components of State's Own Tax Revenue are shown in **Table 1.7**.

¹² 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 0.72 implies that Revenue Receipts tend to increase by 0.72 percentage points, if the GSDP increases by one *per cent*.

Table 1.7: Components of State's Own Tax Revenue

(₹ in crore)

| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | |
|----------------------------------|---------------|---------------|---------------|---------------|--------------------|---------------|
| | Actuals | Actuals | Actuals | Actuals | Budget Projections | Actuals |
| State Goods and Services Tax | -- | -- | -- | 6,609 | 12,000 | 11,943 |
| Taxes on Sales, Trades etc. | 11,817 | 13,097 | 13,402 | 11,522 | 6,880 | 7,310 |
| State Excise | 2,035 | 2,547 | 2,786 | 3,221 | 3,800 | 3,925 |
| Taxes on Vehicles | 910 | 1,044 | 1,216 | 1,535 | 1,700 | 1,746 |
| Stamp Duty and Registration Fees | 800 | 2,157 | 1,364 | 1,037 | 1,100 | 1,237 |
| Land Revenue | 646 | 589 | 460 | 542 | 539 | 511 |
| Taxes on Goods and Passengers | 1,711 | 1,663 | 1,760 | 1,260 | 0 | 182 |
| Other Taxes ¹³ | 1,909 | 1,430 | 1,864 | 2,188 | 2,531 | 3,464 |
| Total | 19,828 | 22,527 | 22,852 | 27,914 | 28,550 | 30,318 |

Source: Finance Accounts of respective years

From the above table, it can be inferred that:

- State's Own Tax Revenue in 2018-19 was ₹ 30,318 crore and constituted 30.46 per cent of total Revenue Receipts. Own Tax Revenue increased by 8.61 per cent over the previous year and was also higher than the budget estimates by ₹1,768 crore.
- As per the provision of Odisha Cess Act 1962, collections from Land Revenue Cess are to be distributed among Panchayati Raj Institutions (PRIs) i.e., Gram Panchayats (GPs), Panchayat Samiti (PSs) and Zilla Parishads (ZPs) in the ratio of 60:20:20. However, during 2018-19, an amount of ₹48.07 crore was collected towards Land Revenue Cess and not distributed to the PRIs. This had an impact of overstatement of Revenue Surplus and understatement of Fiscal Deficit by ₹48.07 crore.

1.4.2.2 Efficiency in Tax Collection

The cost of collection of major taxes of the State decreased during the last three years (Table 1.8) leading to greater efficiency (measured as cost of collection of tax as a percentage of the tax collection).

Table 1.8: Tax collected and Cost of collection in percentage

| | | 2016-17 | 2017-18 | 2018-19 |
|---------------------------------------|---------------------------------------|---------|---------|---------|
| Taxes on Sales, Trade, etc., and SGST | Gross Revenue Collection (₹ in crore) | 13,402 | 18,131 | 19,253 |
| | Cost of Collection (₹ in crore) | 100 | 118 | 108 |
| | Percentage to Gross Collection | 0.75 | 0.65 | 0.56 |
| State Excise | Gross Revenue Collection (₹ in crore) | 2,786 | 3,221 | 3,925 |
| | Cost of Collection (₹ in crore) | 56 | 64 | 75 |
| | Percentage to Gross Collection | 2.01 | 1.99 | 1.91 |

¹³ Other taxes include taxes on immovable property other than agricultural land, taxes and duties on electricity and agricultural income.

| | | 2016-17 | 2017-18 | 2018-19 |
|------------------------------|---------------------------------------|---------|---------|---------|
| Taxes on Vehicles | Gross Revenue Collection (₹ in crore) | 1,216 | 1,535 | 1,746 |
| | Cost of Collection (₹ in crore) | 87 | 113 | 102 |
| | Percentage to Gross Collection | 7.15 | 7.36 | 5.84 |
| Stamps and Registration fees | Gross Revenue Collection (₹ in crore) | 1,364 | 1,037 | 1,237 |
| | Cost of Collection (₹ in crore) | 50 | 43 | 58 |
| | Percentage to Gross Collection | 3.67 | 4.15 | 4.69 |

Source: Finance Accounts of respective years

In 2018-19, the cost of collection as a percentage to gross collection of all taxes decreased as compared to 2017-18 except Stamps and Registration fees. The cost of collection as a percentage of gross collection of Stamps and Registration fees (4.69 per cent) and Taxes on Vehicles (5.84 per cent) was much higher than the Taxes on Sales, Trade etc., and SGST (0.56 per cent) and State Excise (1.91 per cent).

1.4.2.3 Goods and Services Tax (GST) Compensation

The State Government implemented the Goods and Services Tax (GST) Act from 01 July 2017. According to GST (Compensation to States) Act 2017, Central Government will compensate the States for loss of revenue arising on account of implementation of GST for a period of five years starting from 2017-18. The compensation payable to the State shall be calculated for every financial year after the receipt of final revenue figures, as audited by the Comptroller and Auditor General of India. The protected revenue for any year of a State shall be calculated applying the projected growth rate (14 per cent per annum) over the base year revenue of that State. The base year for calculation of revenue figures of taxes subsumed under GST was fixed as 2015-16.

In case of Odisha, the revenue in the base year (2015-16) was ₹ 11,049.34 crore. The protected revenue for the year 2018-19 assessed with respect to base year was ₹ 16,370.08 crore. In 2018-19, the State's receipt of GST (SGST) was ₹11,942.59 crore.

Details of SGST, pre GST taxes and compensation received by the State during 2018-19 are given in the **Table 1.9** below:

Table 1.9: Details of SGST, pre GST taxes and compensation received by the State during April 2018 to March 2019

| Particulars | Amount (₹ in crore) |
|---------------------------------------------------------------------------------------|-----------------------|
| Revenue to be Protected (A) | 16,370.08 |
| State Goods & Service Tax (including IGST advance apportionment of ₹426.65 crore) (B) | 11,942.59 |
| Collection of pre-GST Taxes (April 2018 to March 2019) (C) | 186.40 |
| Total Collection (D) = (B+C) | 12,128.99 |
| Compensation received (E) | 3,390.00 [#] |

[#]Including ₹ 245.00 crore compensation for the month of March 2018 (pertaining to 2017-18) received in May 2018. Balance compensation for 2018-19 is yet to be received.

With automation of the collection of Goods and Services Tax (GST) having taken place, it is essential for Audit to transition from sample checks to a comprehensive check of all

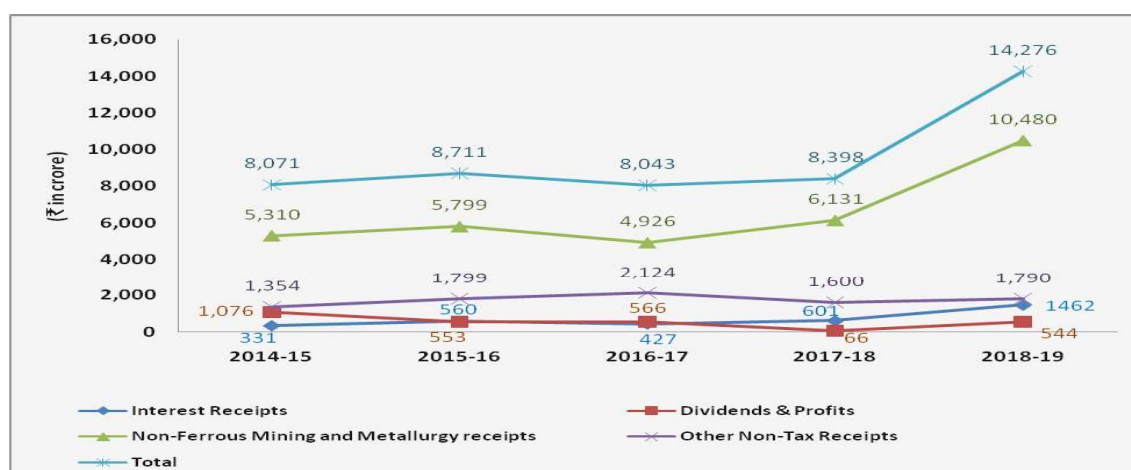
transactions, to fulfil the CAG's Constitutional mandate of certifying the Accounts. The required access to data is yet to be provided. Not having access to the data pertaining to all GST transactions has come in the way of comprehensively auditing the GST receipts. The accounts for the year 2018-19 are, therefore, certified on the basis of test audit, as was done when records were manually maintained, as a one-time exception.

The State Government stated (May 2020) that the matter of access to the data pertaining to all GST transactions for comprehensive audit of GST receipts would be taken up with the Goods and Services Tax Network (GSTN) and Government of India.

1.4.2.4 Non-Tax Revenue

Non-Tax Revenue (NTR) accounts for receipts from services rendered and supplies made by various Departments of Government and interest receipts. NTR received during the last five years are shown in **Chart 1.8**:

Chart 1.8: Non-Tax resources: 2014-15 to 2018-19



Source: Finance Accounts of respective years

The following was observed in Audit:

The NTR in 2018-19 was ₹ 14,276 crore, which constituted 14.34 per cent of Revenue Receipts and increased by ₹ 5,878 crore (69.99 per cent) over previous year (₹ 8,398 crore). It was higher than the budget estimates by ₹3,976 crore.

- The increase was mainly under Non-ferrous Mining and Metallurgical Industries (₹ 4,349 crore), Interest Receipts (₹ 861 crore), Dividends and Profit (₹478 crore), Miscellaneous Receipt (₹179 crore) and Major Irrigation (₹255 crore). The increase was partly set off by decrease under Medium Irrigation (₹ 249 crore) and Forestry and Wildlife (₹ 31 crore).
- The NTR collected during 2014-15 to 2018-19 ranged between 9.86 per cent in 2017-18 to 14.34 per cent in 2018-19 of Revenue Receipts of corresponding periods.

1.4.2.5 State's Share of Union Taxes and Duties

The different components of State's share of Union Taxes during the years 2014-15 to 2018-19 are shown in **Table 1.10**.

Table 1.10: Different components of State's share of Union Taxes

(₹ in crore)

| Component of State's share of Union taxes | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---------------------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Corporation Tax | 5,650 | 7,409 | 9,072 | 9,575 | 12,294 |
| Customs | 2,617 | 3,771 | 3,903 | 3,156 | 2,506 |
| Income Tax | 4,035 | 5,141 | 6,305 | 8,085 | 9,054 |
| Other Taxes and Duties on commodities and services | -- | 18 | -- | -- | 18 |
| Service Tax | 2,386 | 4,086 | 4,564 | 3,561 | 326 |
| Wealth Tax | 15 | 2 | 21 | -- | 5 |
| Union Excise Duties | 1,478 | 3,147 | 4,457 | 3,298 | 1,665 |
| CGST | -- | -- | -- | 441 | 8,726 |
| IGST | -- | -- | -- | 3,156 | 696 |
| Other Taxes on Income and Expenditure | -- | -- | -- | -- | 64 |
| Grand total | 16,181 | 23,574 | 28,322 | 31,272 | 35,354 |
| Component of State's share as percentage of Revenue Receipts of the State | 28 | 34 | 38 | 37 | 36 |

Source: Finance Accounts of respective years.

As can be seen from the above, the State's share has been increasing over the last five years, however, State's share as a percentage of Revenue Receipts decreased by one *per cent* during 2017-18 and 2018-19 over the previous year.

1.4.2.6 Grants-in-Aid from Government of India

The details of Grants-in-Aid and its composition during the years 2014-15 to 2018-19 are in **Table 1.11**:

Table 1.11: Grants-in-Aid from Government of India

(₹ in crore)

| Particulars | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | |
|----------------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Actuals | Actuals | Actuals | Actuals | BE | Actuals |
| Non Plan Grants | 1,929 | 3,063 | 3,248 | -- | -- | -- |
| State Plan Grants | 10,886 | 10,773 | 11,769 | -- | -- | -- |
| Grants for Central Plan Schemes | 102 | 293 | 65 | -- | -- | -- |
| Grants for Centrally Sponsored Plan Schemes | 0.08 | 0.04 | 0.1 | -- | -- | -- |
| Grants for Centrally Sponsored Schemes | -- | -- | -- | 12,900 | 16,645 | 13,025 |
| Finance Commission Grants | -- | -- | -- | 2,406 | 3,045 | 2,840 |
| Other Transfers/Grants to States/Union Territories with Legislatures | -- | -- | -- | 2,314 | 5,074 | 3,733 |
| Total | 12,917 | 14,129 | 15,082 | 17,620 | 24,764 | 19,598 |
| Total grants as a percentage of Revenue Receipts | 22.66 | 20.49 | 20.30 | 20.68 | 24.71 | 19.69 |

Source: Finance Accounts of respective years

The Government of India decided to give effect to the merger of plan/non-plan provisions in the Estimates for Budget 2017-18, after conclusion of the 12th Plan period (2012-17). With the removal of the Plan and Non-Plan distinction, Grants-in-aid from Centre

comprises only (i) Finance Commission recommended grants for Local Bodies, (ii) grants for Disaster Response and (iii) grants for Central share of Central Sector and Centrally Sponsored Schemes. Percentage of Grants-in-Aid to Revenue Receipts decreased from 22.66 per cent in 2014-15 to 19.69 per cent in 2018-19.

1.4.2.7 Transfer of funds directly to implementing agencies without routing through Consolidated Fund of the State

With effect from 01 April 2014, it has been decided by GoI to release all assistance related to the Centrally Sponsored Schemes/Additional Central Assistance to the State Government and not directly to implementing agencies. During 2018-19, however, the GoI released ₹ 6,843.63 crore directly to the implementing agencies for (i) Food Subsidy (₹ 4,651.01 crore), (ii) Mahatma Gandhi National Rural Employment Guarantee Scheme (₹1,624.85 crore), (iii) Member of Parliament's Local Area Development Schemes (₹135.00 crore), (iv) Pradhan Mantri Kisan Samman Nidhi (₹170.33 crore), (v) Indian Institutes of Technology, Department of Higher Education (₹51.98 crore) etc. Similar direct releases to implementing agencies had happened in 2017-18 (₹4,669.14 crore), 2016-17 (₹1,110.26 crore) and 2015-16 (₹281.69 crore).

Direct transfer of funds to implementing agencies is fraught with the risk of non-monitoring and misutilisation of funds.

1.4.3 Receipts under Capital Section

The details of Capital Receipts and their composition for the years 2014-15 to 2018-19 are in **Table 1.12**:

Table 1.12: Composition of Capital Receipts

| Sources of State's Receipts | (₹ in crore) | | | | |
|--------------------------------|--------------|---------------|---------------|---------------|---------------|
| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
| Capital Receipts (CR) | 7,738 | 10,018 | 11,312 | 13,119 | 10,308 |
| Recovery of Loans and Advances | 92 | 228 | 89 | 257 | 305 |
| Public Debt Receipts | 7,646 | 9,790 | 11,223 | 12,862 | 10,003 |

Source: Finance Accounts of respective years

During 2018-19, Capital Receipts (₹ 10,308 crore) constituted 8.40 per cent of the total receipts (₹ 1,22,675 crore) of the State. The State Government borrowed ₹ 9,020 crore from open market and other financial institutions and took loans of ₹ 983 crore from GoI. As can be seen from the above **Table 1.12**, Public Debt receipts constituted major component of Capital Receipts (97.04 per cent).

1.4.3.1 Public Account Receipts

Receipts and disbursements in respect of transactions such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances etc., which do not form part of the Consolidated Fund, are kept in Public Account set up under Article 266(2) of the Constitution. These are not subject to vote by the State Legislature. Government acts as a banker or trustee. The balance after disbursements is the fund available with the

Government for its own use. Composition of Public Account receipts and disbursements is detailed in **Table 1.13**:

Table 1.13: Composition of Public Account Receipts

(₹ in crore)

| Resources under various heads | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | |
|-------------------------------------------|---------------|---------------|---------------|---------------|------------------|---------------|
| | Actuals | Actuals | Actuals | Actuals | BE | Actuals |
| A. Public Account Receipts | | | | | | |
| Small Savings, Provident Fund <i>etc.</i> | 3,471 | 4,088 | 4,424 | 4,792 | 3,913 | 5,126 |
| Reserve Funds | 658 | 1,933 | 4,141 | 3,825 | 3,366 | 10,673 |
| Deposits and Advances | 6,842 | 7,200 | 14,210 | 40,357 | 20,497 | 22,527 |
| Suspense and Miscellaneous | 210 | 174 | 23 | 99 | 160 | 34 |
| Remittances | 13,620 | 17,703 | 18,829 | 22,801 | 2,828 | 24,546 |
| Total (A) | 24,801 | 31,098 | 41,627 | 71,874 | 30,764 | 62,906 |
| B. Public Account Disbursements | | | | | | |
| Small Savings, Provident Fund <i>etc.</i> | 2,398 | 2,253 | 2,567 | 3,234 | 2,913 | 3,378 |
| Reserve Funds | 401 | 1,647 | 2,996 | 3,911 | 3,365 | 3,761 |
| Deposits and Advances | 5,927 | 6,969 | 13,603 | 26,460 | 20,516 | 18,325 |
| Suspense and Miscellaneous | 168 | 142 | 32 | 21 | 21 | 88 |
| Remittances | 13,617 | 17,755 | 18,882 | 22,813 | 19,745 | 24,533 |
| Total (B) | 22,511 | 28,766 | 38,080 | 56,439 | 46,560 | 50,085 |
| Public Account Net (A)-(B) | 2,290 | 2,332 | 3,547 | 15,435 | (-)15,796 | 12,821 |

Source: Finance Accounts of respective years

From the above table, it can be seen that during the year 2018-19, net Public Account receipts (₹ 12,821 crore) contributed 10.45 per cent of the total resources (₹ 1,22,675 crore) of the State. The net Public Account receipts decreased by ₹ 2,614 crore over the previous year, mainly due to decrease in Deposits and Advances (Net) by ₹ 9,695 crore over previous year, which was partly set off by increase in Reserve Fund (Net) by ₹6,998 crore. The increase in Reserve Fund from ₹3,825 crore in 2017-18 to ₹10,673 crore in 2018-19 was due to accounting of interest accrued on investment of Consolidated Sinking Fund (₹7,010 crore) and Guarantee Redemption Fund (₹ 821 crore), which was credited to the respective funds for the first time since the inception of the funds.

1.5 Application of Resources

1.5.1 Growth and Composition of expenditure

The total expenditure in 2018-19 was ₹ 1,10,008 crore. **Chart 1.9** presents the trends and composition of total expenditure during 2014-15 to 2018-19.

Chart 1.9: Growth and Composition of expenditure during last five years

Source: Finance Accounts of respective years

Around 78 per cent of the total expenditure in 2018-19 was Revenue Expenditure, as compared to 75 per cent during 2017-18. Social Services¹⁴ expenditure took precedence with 42.68 per cent over General Services (28.18 per cent) and Economic Services¹⁵ (27.55 per cent) in the total Revenue Expenditure. Capital Expenditure (₹23,482 crore), targeted towards creation of assets, constituted 21.35 per cent of the total expenditure with Transport, Irrigation & Flood Control, Water Supply & Sanitation, Housing and Urban Development under the Economic Services (73.66 per cent) receiving priority.

Component-wise major expenditure incurred under Revenue and Capital sections during 2017-18 and 2018-19 are shown in **Table 1.14**.

Table 1.14: Major expenditure components under Revenue and Capital

(₹ in crore)

| Revenue | | | | Capital | | | |
|------------------------------------|----------|---------|---------|------------------------------|----------|---------|---------|
| Component | Sector | 2017-18 | 2018-19 | Component | Sector | 2017-18 | 2018-19 |
| Education, Sports, Art and Culture | Social | 13,788 | 16,196 | Transport | Economic | 7,148 | 8,962 |
| Rural Development | Economic | 9,018 | 9,933 | Irrigation and Flood Control | Economic | 6,841 | 5,707 |

¹⁴ Refers to welfare activities of the Government and includes (i) Education, Sports, Art and Culture, (ii) Health and Family Welfare, (iii) Water Supply, Sanitation, Housing and Urban Development, (iv) Information and Broadcasting, (v) Welfare of Scheduled Castes, Scheduled Tribes and Backward Classes, (vi) Labour and Labour Welfare, (vii) Social Welfare and Nutrition and (viii) Others.

¹⁵ Refers to economic development activity sectors of the Government and includes (i) Agriculture and allied services, (ii) Irrigation and Flood Control, (iii) Energy, (iv) Industries and Minerals, (v) Transport, (vi) Science, Technology and Environment and (vii) General Economic Services.

| Revenue | | | | Capital | | | |
|---------------------------------------------------------|----------|---------|---------|---------------------------------------------------------|----------|---------|---------|
| Component | Sector | 2017-18 | 2018-19 | Component | Sector | 2017-18 | 2018-19 |
| Agriculture and Allied Activities | Economic | 5,801 | 7,843 | Water Supply, Sanitation, Housing and Urban Development | Social | 2,006 | 2,627 |
| Social Welfare and Nutrition | Social | 5,184 | 6,719 | Energy | Economic | 2,049 | 1,736 |
| Water Supply, Sanitation, Housing and Urban Development | Social | 3,854 | 5,109 | Rural Development | Economic | -- | 1,250 |
| Health and Family Welfare | Social | 4,153 | 5,084 | Health and Family Welfare | Social | 774 | 620 |
| Welfare of SCs, STs, Minorities and OBCs | Social | 2,218 | 2,747 | Welfare of SCs, STs, Minorities and OBCs | Social | 527 | 373 |
| Transport | Economic | 2,224 | 1,926 | | | | |
| Irrigation and Flood Control | Economic | 1,911 | 1,679 | | | | |

Source: Finance Accounts of respective years

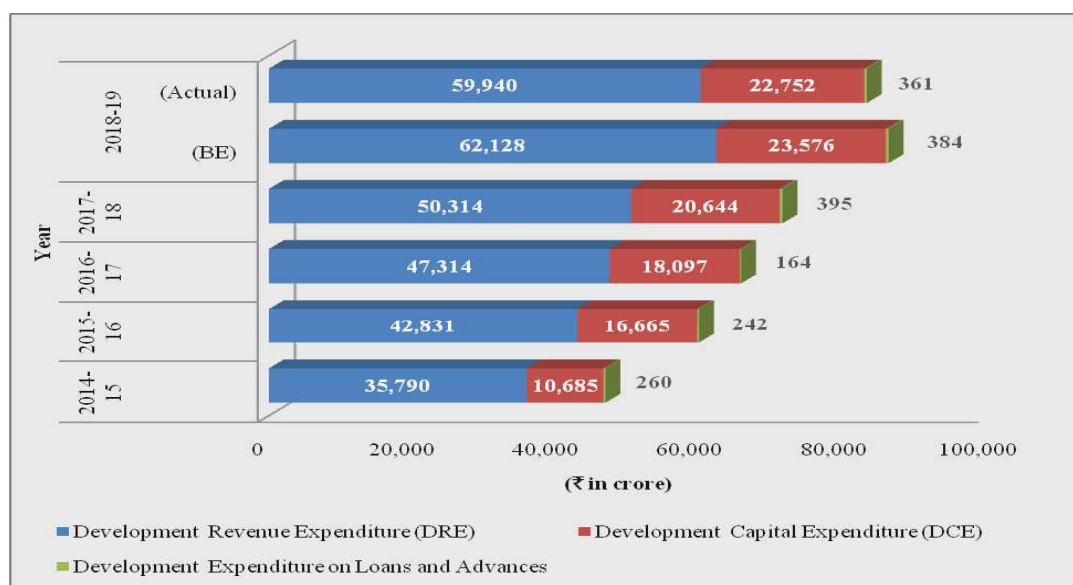
From the above table, it can be inferred that:

- Revenue Expenditure (₹ 85,356 crore) was higher than the previous year (₹ 71,837 crore) by 18.82 *per cent*. The increase over previous year was mainly due to higher outgo on Education, Sports, Art and Culture (₹ 2,408 crore), and Rural Development (₹ 915 crore), Agriculture and Allied activities (₹ 2,042 crore), Social Welfare and Nutrition (₹ 1,535 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 1,255 crore). Expenditure on Transport and Irrigation and Flood Control decreased as compared to previous year.
- Capital Expenditure during the current year (₹ 23,482 crore) was higher than the previous year (₹ 21,109 crore) by 11.24 *per cent*. This was mainly due to increase under Transport (₹ 1,814 crore), Rural Development (₹ 1,250 crore) and Water Supply, Sanitation, Housing and Urban Development (₹ 621 crore). Capital Expenditure on Irrigation and Flood Control and Energy decreased as compared to previous year.

1.5.2. Development Expenditure of the State

Development expenditure of the State is the expenditure incurred on Social and Economic Services under Revenue, Capital and Loans and Advances sections. The details are shown in **Chart 1.10**.

Chart 1.10: Development Expenditure



Source: Finance Accounts of respective years

From the above Chart, it can be inferred that:

- During 2018-19, the Total Development Expenditure (₹ 83,053 crore) was 75.50 per cent of the Total Expenditure (₹ 1,10,008 crore) and 17.11 per cent of the GSDP as compared to 75.25 per cent of Total Expenditure and 17.15 per cent of GSDP during 2017-18.
- Development Revenue Expenditure (₹ 59,940 crore) and Development Capital Expenditure (₹ 22,752 crore) constituted 54.49 per cent and 20.68 per cent of Total Expenditure (₹ 1,10,008 crore) respectively, as compared to 53.06 per cent and 21.77 per cent of Total Expenditure during 2017-18.
- Development Loans and Advances (₹361 crore) constituted 0.33 per cent of Total Expenditure while the same constituted 0.42 per cent of the Total Expenditure during the previous year.
- The share of Economic Services (₹42,081 crore) and Social Services (₹ 40,972 crore) constituted 38.25 per cent and 37.24 per cent of the Total Expenditure respectively, as compared to 39.65 per cent and 35.60 per cent of Total Expenditure during 2017-18.

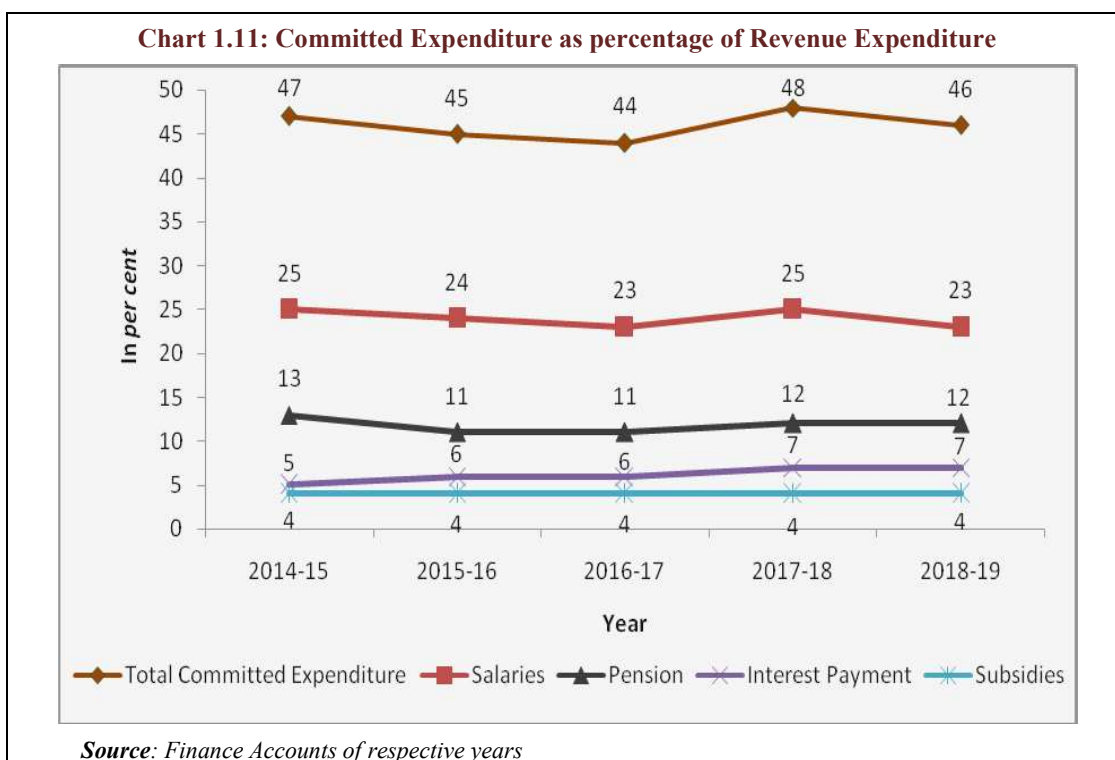
1.5.3 Revenue Expenditure

Revenue expenditure (₹ 85,356 crore) was 17.59 per cent to GSDP. The Revenue Expenditure during the year increased by 18.82 per cent from 2017-18 (₹71,837 crore). It was, however lower than the budget estimates (₹ 90,220 crore) by ₹ 4,864 crore.

1.5.3.1 Committed Expenditure

Committed Expenditure of Government consists of interest payments (₹ 5,800 crore), salaries and wages (₹ 19,567 crore), pensions (₹ 10,520 crore) and subsidies (₹3,168 crore). The committed expenditure in 2018-19 was ₹ 39,055 crore and constituted 45.75

per cent of Revenue Expenditure (₹ 85,356 crore), as compared to ₹ 34,208 crore (47.62 *per cent* of Revenue Expenditure) during 2017-18. The details are shown in **Chart 1.11**.



From the above chart, it can be inferred that:

- Committed expenditure measured as a percentage of Revenue Expenditure of the State, was steadily decreasing during the years 2014-17. In 2017-18, it, however, increased by four *per cent* over the previous year. Further, in 2018-19 it decreased by two *per cent*. The decrease was mainly due to decrease in percentage of salaries to revenue expenditure by two *per cent*. During 2017-18, Seventh Pay Commission was implemented by the State and 40 *per cent* of salary arrears from January 2016 were paid to the employees, which resulted in increase in salary and pension payouts. However, during 2018-19, no salary arrears were paid. As a result, salaries as a percentage of Revenue Expenditure decreased.
- Interest payment (₹ 5,800 crore) as a percentage of Revenue Expenditure constituted seven *per cent* in 2018-19, which was same as previous year. In absolute terms, interest payment increased by ₹ 2,990 crore from ₹ 2,810 crore in 2014-15 to ₹ 5,800 crore in 2018-19. Interest payment relative to Revenue Receipts (₹ 99,546 crore) was however, 5.83 *per cent*, which was well below the fiscal target of 15 *per cent* set out in the Odisha FRBM (Amendment) Act, 2016.
- The State Government in its Medium Term Fiscal Plan (MTFP) for 2007-08, had aimed at rationalization of general subsidies and reduction at a rate of 10 *per cent* per annum beginning 2005-06. On the contrary, subsidies have increased and during the years 2014-19, general subsidy increased from ₹ 2,076 crore to ₹ 3,168 crore. The growth of subsidies from 2005-06 to 2018-19 is shown in **Chart 1.12**

and details of Department-wise subsidies for 2017-18 and 2018-19 are shown in Table 1.15:

Chart 1.12: Growth of Subsidies from 2005-06 to 2018-19



Source: Finance Accounts of respective years

Table 1.15: Department-wise Subsidies during 2017-18 and 2018-19

(₹ in crore)

| Sl. No. | Departments | 2017-18 | 2018-19 |
|---------------------------------------|------------------------------------------|---------------|---------------|
| 1 | Food Supplies & Consumer Welfare | 886 | 981 |
| 2 | Revenue & Disaster Management | 754 | 468 |
| 3 | Co-operation | 697 | 1,185 |
| 4 | Agriculture & Farmers' Empowerment | 203 | 207 |
| 5 | Industries | 170 | 200 |
| 6 | Fisheries & Animal Resources Development | 56 | 50 |
| 7 | Handlooms, Textiles & Handicrafts | 50 | 50 |
| 8 | Others | 14 | 27 |
| Total Subsidy | | 2,830 | 3,168 |
| Total Revenue Expenditure (RE) | | 71,837 | 85,356 |
| Subsidy as a percentage of RE | | 3.94 | 3.71 |

Source: Finance Accounts of respective years

From the above table, it can be seen that during 2018-19, Subsidies for Department of Co-operation (₹ 1,185 crore) which accounted for 37.41 per cent of the total subsidies, increased by ₹ 488 crore as compared to previous year due to increase in subsidy under Pradhan Mantri Fasal Bima Yojana and Interest subsidy / subvention to the Co-operative Banks for providing crop loan. Subsidies for Department of Food Supplies & Consumer Welfare increased by ₹ 95 crore due to increase in Public Distribution System.

1.5.3.2 Financial Assistance to Local Bodies and other institutions

Financial assistance to the tune of ₹ 25,957 crore was provided by the State Government to local bodies and other institutions by way of grants and loans in 2018-19, as shown in Table 1.16.

Table 1.16 Financial Assistance to Local Bodies and other institutions

| | (₹ in crore) | |
|------------------------------------------------------------------------------|---------------|---------------|
| | 2017-18 | 2018-19 |
| Educational institutions (Aided Schools, Aided Colleges, Universities, etc.) | 5,046 | 6,112 |
| Municipal Corporations and Municipalities | 1,792 | 1,432 |
| Zilla Parishads and other Panchayati Raj Institutions | 2,980 | 3,223 |
| Development Agencies | 2,979 | 3,626 |
| Other institutions | 8,983 | 11,564 |
| TOTAL | 21,780 | 25,957 |
| Assistance as a percentage of Revenue Expenditure | 30 | 30 |

Source: Finance Accounts of respective years

From the above Table, it can be seen that the grants extended to local bodies and other institutions had increased by ₹ 4,177 crore (19.18 per cent) from ₹ 21,780 crore in 2017-18 to ₹ 25,957 crore in 2018-19. This increase was mainly due to increase in assistance to Educational Institutions (₹ 1,066 crore), Development Agencies (₹ 647 crore), Other Institutions (₹ 2,581 crore) and Zilla Parishads and other Panchayati Raj Institutions (₹ 243 crore), which was partly set off by decrease in assistance to Municipal Corporations and Municipalities (₹ 360 crore).

1.5.3.3 National Pension System

State Government employees recruited on or after 1 January 2005 are covered under National Pension System (NPS), which is a defined contributory pension scheme. It is mandatory for employees to contribute 10 per cent of basic pay and dearness allowance every month. The State Government has to make equal contribution. The Government has to transfer these contribution amounts along with details to the National Securities Depository Limited (NSDL) and to the fund managers appointed by the NPS Trust, respectively. Though the State Government started collecting pension contribution from the employees from 2006-07, it transferred to the NSDL only in 2010-11 an amount of ₹ 0.01 crore leaving a balance of ₹ 39.62 crore to be transferred to NSDL as on 31 March 2011. Similarly, every year thereafter, there was a short transfer to NSDL, last being ₹ 20.72 crore in 2017-18. As of 31 March 2019, there was a total short transfer of ₹ 17.44 crore to the NSDL and the current liability thus stands deferred to future year(s). Further, the State Government has created interest liability on the amount not transferred to NSDL, incorrectly used the funds that belongs to its employees and created uncertainty in the respect of benefits due to the employees affected/avoidable financial liability to Government in future, and, thus leading to possible failure of the Scheme itself.

It was observed that during 2018-19, under the NPS, State Government collected from the State Government employees an amount of ₹501.03 crore. The State Government

contributed ₹507.36 crore and transferred ₹1,011.68 crore to NSDL. Therefore, the State Government made an excess contribution of ₹6.33 crore during the current financial year, thus impacting the Revenue Surplus and Fiscal Deficit to that extent.

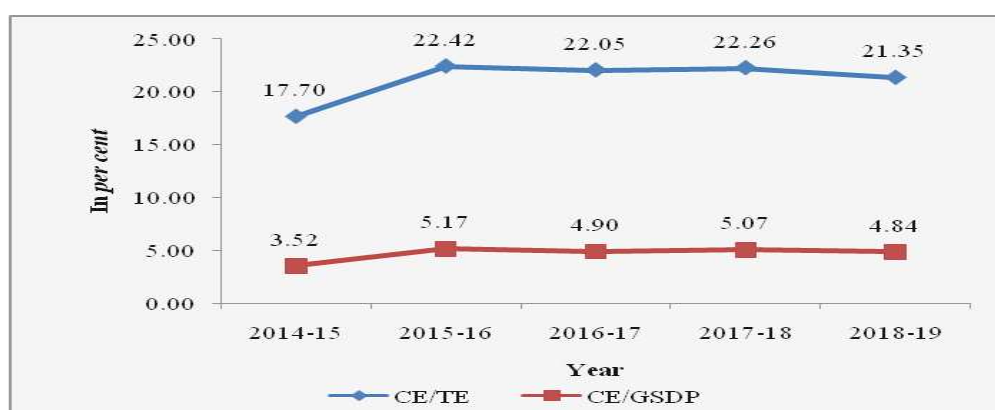
The State Government (May 2020) accepted the fact of overall shortfall in transfer of amount to NSDL and stated that the due amount would be transferred and efforts would be made to bring the short transfer to a minimum in future.

Recommendation 2: *The State Government should ensure that employees' contribution is properly collected and transferred to NSDL along with a matching contribution in a timely manner. Steps should be taken to transfer the balance amount of ₹17.44 crore immediately to NSDL.*

1.5.4 Capital Expenditure (CE)

Capital Expenditure, a reflection of Asset creation was ₹23,482 crore during 2018-19 constituted 21.35 per cent of total expenditure (₹ 1,10,008 crore). It increased by ₹ 2,373 crore (11.24 per cent) over the previous year, however, it was less than the budget estimate by ₹ 2,169 crore. Capital Expenditure relative to GSDP was, however, 4.84 per cent in 2018-19 and though being a revenue surplus State, during the past five years, it has not exceeded 5.17 per cent relative to GSDP, which was achieved during 2015-16. The ratio of Capital Expenditure to Total Expenditure also remained more or less constant at 22 per cent during 2015-18; however, it was down to 21.35 per cent during 2018-19 as shown in **Chart 1.13**.

Chart 1.13: Capital Expenditure as a percentage of GSDP and Total Expenditure



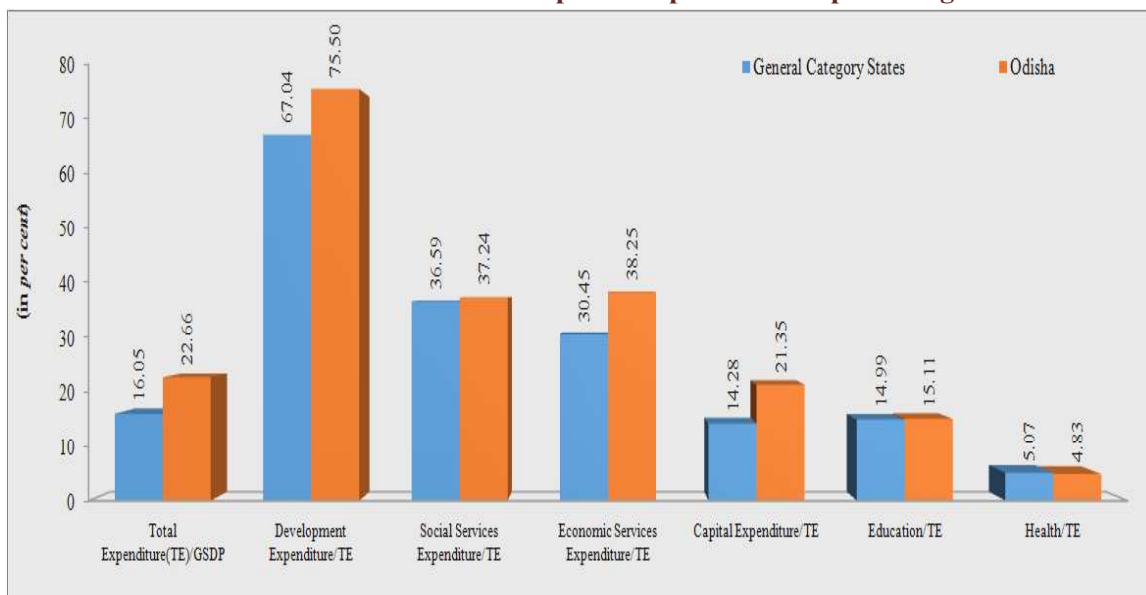
Source: Finance Accounts of respective years.

The increase in Capital Expenditure (₹2,373 crore) over previous year was mainly on account of increase in expenditure on Transport (₹ 1,813.76 crore), Rural Development (₹ 1,250 crore), Water Supply and Sanitation (₹ 620.84 crore) and General Services (₹ 265.02 crore) which was partly set off by decrease in spending on Irrigation and Flood Control (₹ 1,134.25 crore), Energy (₹ 313.50 crore), Health and Family Welfare (₹ 154.49 crore) and Welfare of SC, ST & OBC (₹ 153.89 crore) compared to expenditure on these heads in the previous year.

1.5.5 Adequacy of Public Expenditure

Enhancing human development levels require 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) for a particular sector can be inferred if the ratios fall way below the respective National averages. **Chart 1.14** analyses the fiscal priority of the State Government with regard to Development Expenditure*, social services expenditure, economic services expenditure and capital expenditure during 2018-19, vis-à-vis the average of the General Category States¹⁶.

Chart 1.14: Prioritisation in public expenditure in percentage



Source: Finance Accounts

*Development Expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans & Advance disbursed

From the above **Chart**, it can be inferred that the Total Expenditure relative to GSDP in Odisha was better than the General Category States. Odisha fared favourably in its focus on Development Expenditure, Social Services Expenditure, Economic Services Expenditure, Capital Expenditure and Education vis-à-vis General Category States. The State, however, lagged behind General Category States in the area of Healthcare Expenditure.

1.5.5.1 Per capita expenditure in some major socio economic sectors

The per capita expenditure for 2018-19 of Odisha in some major socio economic sectors and its comparison with the previous year 2017-18 is given in **Table 1.17**.

¹⁶ Andhra Pradesh, Telangana, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal.

Table 1.17: Per capita expenditure in some major socio economic sectors

| | Expenditure (₹ in crore) | Population of the state (in crore) | Per capita expenditure (in ₹) | Expenditure (₹ in crore) | Population of the state (in crore) | Per capita expenditure (in ₹) | Percentage increase /decrease |
|----------------------------------------|-----------------------------|------------------------------------------|-------------------------------------|-----------------------------|------------------------------------------|-------------------------------------|-------------------------------------|
| | 2017-18 | | | 2018-19 | | | |
| Health and Family Welfare | 4,927 | 4.35 | 1,133 | 5,703 | 4.37 | 1,305 | 15.18 |
| Education, Sports, Art & Culture | 14,534 | 4.35 | 3,341 | 17,020 | 4.37 | 3,895 | 16.58 |
| Agriculture | 6,096 | 4.35 | 1,401 | 8,288 | 4.37 | 1,897 | 35.40 |
| Rural Development | 9,166 | 4.35 | 2,107 | 11,380 | 4.37 | 2,604 | 23.59 |
| Transport | 9,372 | 4.35 | 2,154 | 10,888 | 4.37 | 2,490 | 15.60 |

Source: Expenditure figures from Finance Accounts for the years 2017-18 and 2018-19 and population figures from National Commission on Population 2019.

From the above table, it can be seen that there was an improvement in the per capita expenditure in all the major socio economic sectors during 2018-19 as compared to the previous year. While the Agriculture sector got the top priority with 35.40 per cent increase in per capita expenditure over the previous year, Health and Family Welfare had an increase of 15.18 per cent in per capita expenditure over the previous year.

1.6 Composition of Assets and Liabilities

While the Government accounting system does not provide for comprehensive accounting of fixed assets like land and buildings owned by the Government, these can be derived from the accounting of financial liabilities and assets created out of expenditure incurred. *Appendix 1.6* gives an abstract of liabilities and assets, as on 31 March 2019, compared with the corresponding position as on 31 March 2018.

1.6.1 Government Assets

Government assets mainly comprise Capital Outlay, Investments, Loans and Advances given by the State Government and Cash Balances.

1.6.1.1 Investment in Public Sector Undertakings

As of 31 March 2019, the State Government's investment stood at ₹ 5,353.76 crore in Public Sector Undertakings (PSU) comprising Government Companies (₹ 4,079.06 crore), Co-operative Societies (₹ 721.57 crore), Statutory Corporations (₹ 550.99 crore) and others¹⁷ (₹ 2.15 crore). Of this investment, ₹ 4,442.25 crore or 83 per cent of the total

¹⁷ Joint Stock Companies & Partnerships and Rural Banks

investment fetched no return by way of dividend. Details of investment for years 2014-19 are given in **Table 1.18**:

Table 1.18: Return on Investment

| Sl. No | Year | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|--------|----------------------------------------------------------------------|----------|----------|----------|----------|----------|
| 1 | Investment at the end of the year (₹ in crore) | 3,504.87 | 3,881.32 | 4,423.02 | 4,974.21 | 5,353.76 |
| 2 | Return in the form of Dividend (₹ in crore) | 1,076.44 | 553.36 | 566.04 | 66.22 | 543.94 |
| 3 | Rate of Return (RoR) (<i>per cent</i>) | 30.71 | 14.26 | 12.80 | 1.33 | 10.16 |
| 4 | Average rate of interest on Government borrowing (<i>per cent</i>) | 5.90 | 6.06 | 7.62 | 7.58 | 7.74 |
| 5 | Difference between RoR (<i>per cent</i>) and interest rate (3-4) | 24.81 | 8.20 | 5.18 | (-)6.25 | 2.42 |

Source: Finance Accounts of respective years

The above table shows that only ₹ 543.94 crore was received as dividend against total investment of ₹5,353.76 crore during 2018-19.

- It was observed that out of 147 entities, only 13 entities had paid dividend. These included one Co-operative Society¹⁸, 11 Government Companies¹⁹ (which included one Power Sector Company) and one Statutory Corporation²⁰.
- Out of the total investment of ₹ 5,353.76 crore, ₹ 2,956.77 crore (55 *per cent*) was invested in four²¹ Power Sector Companies. Out of these, only one²² company paid dividend of ₹ 18.65 crore (3.43 *per cent*).
- The percentage of return increased from 1.33 *per cent* in 2017-18 to 10.16 *per cent* in 2018-19. This was mainly due to receipt of ₹ 500 crore of dividend from Odisha Mining Corporation (OMC) against investment of ₹ 31.45 crore. OMC was the highest contributor of dividend in 2014-15: ₹ 1,001 crore, 2015-16: ₹ 500 crore and 2016-17: ₹ 500 crore.
- Out of 147 entities (72 inactive), 62 had not paid dividend in 2018-19.

1.6.1.2 Loans and Advances given by the State Government

Government provides Loans and Advances to Public Sector Undertakings and autonomous bodies such as Universities, Local Bodies and Urban Development Authorities and Corporations *etc.* **Table 1.19** shows the details of outstanding Loans and Advances for the years 2014-19:

¹⁸ Co-operative Society: Credit Co-operatives ₹0.61 crore

¹⁹ Government Companies: Agricultural Promotion and Investment Corporation Limited (APICOL): ₹ 0.03 crore, Odisha State Cashew Development Corporation Limited (OSDCD): ₹ 0.47 crore, Odisha Forest Development Corporation Limited: ₹ 6.21 crore, Odisha Small Industries Corporation Limited (OSIC): ₹2.95 crore, Odisha Construction Corporation Limited(OCC) ₹ 4.63 crore, Odisha Bridge and Construction Corporation Limited (OBCC) ₹1.00 crore, Odisha State Police Housing and Welfare Corporation: ₹ 4.24 crore, Odisha Mining Corporation Limited(OMC) ₹500.00 crore, Odisha Hydro Power Corporation (OHPC): ₹ 18.65 crore, Odisha Tourism Development Corporation Limited (OTDC) ₹2.00 crore and Odisha Knowledge Corporation Limited: ₹ 0.06 crore.

²⁰ Statutory Corporation: Odisha State Warehousing Corporation, Bhubaneswar: ₹ 3.11 crore

²¹ OPGC: ₹ 1,130.46 crore, OPTCL: ₹ 790.07 crore, GRIDCO: ₹573.44 crore and OHPC: ₹ 462.80 crore.

²² OHPC: ₹ 18.65 crore

Table 1.19: Details of Loans and Advances by the State Government

| Quantum of Loans/Interest Receipts/ Cost of Borrowings | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|-----------------------------------------------------------------------------------------------------------------|--------------|--------------|---------------|--------------|--------------|
| Opening Balance (₹ in crore) | 4,183 | 4,449 | 4,557 | 4,708 | 6,326 |
| Amount advanced during the year (₹ in crore) | 358 | 337 | 254 | 1,875 | 1,170 |
| Amount recovered during the year (₹ in crore) | 92 | 228 | 89 | 257 | 305 |
| Closing Balance (₹ in crore) | 4,449 | 4,558 | 4,708* | 6,326 | 7,191 |
| Net addition (₹ in crore) | (+)266 | (+)109 | (+)151 | (+)1,618 | (+)865 |
| Interest Receipts (₹ in crore) | 14 | 181 | 36 | 41 | 35 |
| Interest Receipts as a percentage of outstanding loans and advances (in <i>per cent</i>) | 0.31 | 3.97 | 0.76 | 0.65 | 0.49 |
| Interest Payments (₹ in crore) | 2,810 | 3,343 | 4,035 | 4,988 | 5,800 |
| Outstanding Liabilities/ Debt (₹ in crore) | 50,493 | 59,753 | 71,623 | 97,164 | 1,08,258 |
| Interest Payments as percentage to total outstanding Liabilities of the State Government. (in <i>per cent</i>) | 5.57 | 5.59 | 5.63 | 5.13 | 5.36 |
| Difference between Interest Receipts and Interest Payments (in <i>per cent</i>) | (-)5.26 | (-)1.62 | (-)4.87 | (-)4.48 | (-)4.87 |

*4722-4708 Difference of ₹ 14 crore was due to conversion of loan to Share Capital Investment

Source: Finance Accounts of respective years

From the above table, it can be inferred that:

- Loans and advances extended by the State Government increased more than three times from ₹ 358 crore in 2014-15 to ₹ 1,170 crore in 2018-19. Outstanding Loans and Advances rose from ₹4,449 crore in 2014-15 to ₹ 7,191 crore in 2018-19. Major portion of loans advanced during 2018-19 was to Indian Oil Corporation Limited (₹ 700 crore), Odisha State Co-operative Marketing Federation (₹ 150 crore), Odisha Power Transmission Corporation Limited (₹150 crore) and Odisha State Seeds Corporation (₹ 60 crore). Government of Odisha had entered into an agreement with Indian Oil Corporation Limited for providing fiscal incentive of ₹ 10,500 crore interest free loan over a period of 15 years for Paradeep Refinery Project, as Viability Gap Funding (VGF²³). As a part of it, State Government disbursed ₹1,400 crore in 2017-18 and ₹ 700 crore 2018-19.
- The current recovery of loan (₹ 305 crore) was 26.07 *per cent* of the advances (₹ 1,170 crore) made during the year and was an improvement over the previous year (₹ 257 crore). The actual recovery (₹ 305 crore) was, however, more than what was estimated in the Budget for recovery (₹ 150 crore) by 103.33 *per cent*.
- Interest receipts increased from ₹14 crore in 2014-15 to ₹35 crore in 2018-19, with percentage of interest received to total outstanding loans and advances increasing from 0.31 *per cent* in 2014-15 to 0.49 *per cent* in 2018-19. Interest payment on the other hand (₹5,800 crore) during 2018-19 was 5.36 *per cent* of its total outstanding liabilities (₹1,08,258 crore). As a result, interest spread of Government borrowings was negative (-4.87 *per cent*) during the year which meant that the State's borrowings are more expensive than the loans advanced by it.

²³ Viability Gap Funding means a grant to support projects that are economically justified but not financially viable.

1.6.1.3 Cash Balance

The cash balance at the end of March 2019 was ₹ 38,134.48 crore. Cash balances and investments thereof made by the State Government during 2018-19 are given in **Table 1.20**.

Table 1.20: Cash Balance and Investment of Cash Balance

| | (₹ in crore) | |
|-------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------|
| | Closing balance on 31/3/2018 | Closing balance on 31/3/2019 |
| (a) General Cash Balance - | | |
| Cash in Treasuries | -- | -- |
| Deposits with Reserve Bank | 557.03 | 1,624.56 |
| Deposits with other Banks | -- | -- |
| Remittances in transit - Local | -- | -- |
| Investments held in Cash Balance investment account | 24,747.97 | 23,135.59 |
| Total (a) | 25,305.00 | 24,760.15 |
| (b) Other Cash Balances and Investments | | |
| Cash with departmental officers viz. Public Works Department Officers, Forest Department Officers, District Collectors | 19.78 | 19.75 |
| Permanent advances for contingent expenditure with departmental officers | 0.33 | 0.33 |
| Investment in earmarked funds (Consolidated Sinking Fund- ₹12,052.84 crore and Guarantee Redemption Fund- ₹ 1,301.41 crore as on 31 March 2019) | 5,523.00 | 13,354.25 |
| Total (b) | 5,543.11 | 13,374.33 |
| Grand total (a)+ (b) | 30,848.11 | 38,134.48 |

Source: Finance Accounts 2018-19.

The closing cash balances in the years 2015-16, 2016-17, 2017-18 and 2018-19 were ₹12,047.68 crore, ₹14,601.11 crore, ₹ 30,848.11 crore and ₹ 38,134.48 crore respectively. This indicates that the State Government maintained large cash balance on a regular basis, while being a fiscal deficit State at the same time.

- As per the Finance Accounts, the cash balance included an amount of ₹14,127.59 crore relating to Odisha Mineral Bearing Areas Development Corporation (OMBADC) account. Scrutiny of records revealed that Hon'ble Supreme Court of India had directed (02 August 2017) the State Government to keep the compensation recoverable in respect of the illegally mined ore under Section 21(5) of the Mines and Minerals (Development & Regulation) (MMDR) Act with OMBADC, a SPV (Special Purpose Vehicle) for undertaking tribal welfare and area development work.
- During the year 2018-19, an amount of ₹7,009.84 crore interest accrued (2006-07 to 2017-18) towards investment of Consolidated Sinking Fund and ₹821.41 crore interest accrued (2002-03 to 2017-18) towards investment of Guarantee Redemption Fund were credited in the respective funds, which resulted in increase of earmarked funds from ₹5,523.00 crore during 2017-18 to ₹13,354.25 crore in 2018-19.
- As against the mandated minimum Cash Balance of ₹ 1.28 crore, the State Government maintained ₹ 1,624.56 crore with Reserve Bank of India as on 31 March 2019 (191.65 per cent increase over last year).

- The Government invested cash balances amounting to ₹ 23,135.59 crore in GoI Treasury Bills (TB) and GoI Stocks. On these investments, the Government earned interest of ₹ 1,427.13 crore during the year.
- The 13th Finance Commission had recommended that the States with large cash balances should make efforts to utilise their cash balances before resorting to fresh borrowings. Out of a General Cash Balance of ₹24,760.15 crore, there was an untied Cash Balance of ₹ 9,889.37 crore. The State, however, resorted to market borrowings of ₹ 9,019.54 crore at interest rates ranging from 7.55 to 8.79 *per cent*, contrary to the Finance Commission recommendation.

The State Government stated (May 2020) that as a prudential measure, it was necessary to maintain cash balance required for payment of two months' salaries and pensions. However, steps would be taken to further reduce the cash balance from the present level.

Recommendation 3: *The State Government, before resorting to fresh borrowings should examine whether it is necessary to borrow funds at higher rates of interest when there are large cash balances available with them earning lower interest rates. GoO should avoid large cash balances resulting in avoidable interest burden.*

1.6.2 Government Liabilities

Total Liabilities /Debt of the Government consist mainly of internal borrowings, loans and advances from GoI and balances in the Public Account.

1.6.2.1 Components of Outstanding Liabilities/Debt

The components of Outstanding Liabilities are given in **Chart 1.15**.

Chart 1.15: Components of outstanding liabilities of the State Government

| Outstanding Liabilities (₹ 1,08,258 crore) | | |
|--------------------------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| Internal Debt from Market, financial institutions, etc (₹ 50,421 crore) | Loans and Advances from Government of India (₹ 7,832 crore) | Public Account Liabilities where Government acts as a banker (₹ 50,005 crore) |
| Market Loans (₹ 28,031 crore) | Loans for Plan Schemes (₹7,817 crore) | Small Savings, Provident Fund, etc. (₹ 23,423 crore) |
| Loans from Financial Institutions (₹ 13,106 crore) | Non Plan Loans (₹ 15 crore) | Reserve Funds bearing Interest (₹448 crore) |
| Special Securities issued to NSSF (₹ 9,173 crore) | | Reserve Funds not bearing interest (₹ 307 crore) |
| Other Loans (₹ 111 crore) | | Deposits bearing interest (₹ 36 crore) |
| | | Deposits not bearing interest (₹25,791 crore) |

Source: Finance Accounts.

- During the year, Market Loans increased by ₹ 4,500 crore from ₹ 23,531 crore in 2017-18 to ₹ 28,031 crore in 2018-19. Similarly, Loans from Financial Institutions

increased by ₹ 2,172 crore from ₹10,934 crore in 2017-18 to ₹ 13,106 crore in 2018-19.

- Fourteenth Finance Commission recommended that the involvement of the States in the National Small Savings fund (NSSF) scheme should be excluded with effect from 1 April 2015. However, role of States may be limited solely to discharging the debt obligation already incurred by them till date. This resulted in decrease of liabilities from Special Securities issued to NSSF gradually.

The trends of Outstanding Liabilities during the last five years are presented in **Chart 1.16**.

Chart 1.16: Trends of Outstanding Liabilities



Source: Finance Accounts of respective years.

As can be seen from the above Chart, the Outstanding Liabilities of the State as of 31 March 2019 were ₹ 1,08,258 crore. These are on an ascending trend over the last five years. In 2018-19, the outstanding liabilities of the Government stood at 1.09 times its Revenue Receipts. Outstanding Liabilities increased from 22.27 *per cent* of GSDP in 2017-18 to 22.30 *per cent* of GSDP in 2018-19. The outstanding liabilities grew by 11.42 *per cent* over the previous year and 114.40 *per cent* over 2014-15.

1.6.2.2 Reserve Funds

Reserve Funds are created for specific and defined purposes under the Public Accounts of the State Government. These funds are met from contribution or grants from Consolidated Fund of India or State. Out of the gross accumulated balances of ₹ 14,109 crore lying in these Funds as on 31 March 2019, ₹ 13,354 crore was invested in Government Stock by Reserve Bank of India, leaving the total net accumulated balance of ₹ 755 crore as on 31 March 2019.

The transactions during the year 2018-19 under major reserve funds are detailed below:

i) Consolidated Sinking Fund (CSF): As per 12th Finance Commission recommendation, GoO set up Consolidated Sinking Funds for amortization of outstanding liabilities. The guidelines of the Reserve Bank of India, which is responsible for administering the fund, stipulate a minimum annual contribution of at least 0.5 *per cent* of the outstanding liabilities at the end of the previous financial year to the CSF during the year. In consultation with RBI, the State Government vide notification dated November 2018 revised the scheme for Constitution and Administration of the Consolidated Sinking Fund of Government of Odisha and inserted that the State Government is at liberty of not contributing to the fund, if the balance is maintained at a level higher than 5 *per cent* of the total liability of the State Government at the end of the previous year.

As on 31 March 2019, the balance in the Consolidated Sinking Fund was ₹ 12,052.84 crore, which was 12.40 *per cent* (more than the mandated level of 5 *per cent*) of the total liability of the State Government at the end of the previous year (₹ 97,164 crore). Accordingly, the State Government had not made any contribution to the Consolidated Sinking Fund in 2018-19. However, interest accrued (2006-07 to 2017-18) from investment amounting to ₹7,009.84 crore was accounted for in the fund. The entire amount had been invested in Government of India securities by the Reserve Bank of India.

ii) Guarantee Redemption Fund (GRF): GRF was constituted in the year 2002-03, with the objective of meeting the payment obligations arising out of default in debt servicing of loans guaranteed by the Government. The State Government was required to contribute an amount equivalent at least to 1/5th of the outstanding invoked guarantees plus amount likely to be invoked as a result of the incremental guarantees issued during the year. No guarantees were invoked during the year 2018-19 and therefore, the Government of Odisha had not made any contributions to the Fund during 2018-19. Interest accrued (2002-03 to 2017-18) from investment amounting to ₹ 821.41 crore was accounted for in the fund. The balance at the credit of the fund as on 31 March 2019 was ₹ 1,301.41 crore, which had been invested in Government of India securities by the Reserve Bank of India.

iii) State Disaster Response Fund (SDRF): During the year 2018-19, Central Government contributed ₹ 778.50 crore and the State Government contributed ₹ 86.50 crore to SDRF. Grants from National Disaster Response Fund (NDRF) amounted to ₹ 341.72 crore. Total funds in SDRF amounted to ₹ 4,202.98 crore (including interest of ₹44.17 crore received from Investment of ₹ 1,588.33 crore in 91 days Treasury Bill). Out of this Fund, State Government incurred expenditure of ₹ 3,755.44 crore during the year, leaving a balance of ₹ 447 crore as on 31 March 2019 as against ₹ 1,363.74 crore as on March 2018.

During the year 2018-19, Government invested an amount of ₹ 459.88 crore from the State Disaster Response Fund. However, interest earned on the investment (₹ 7.62 crore)

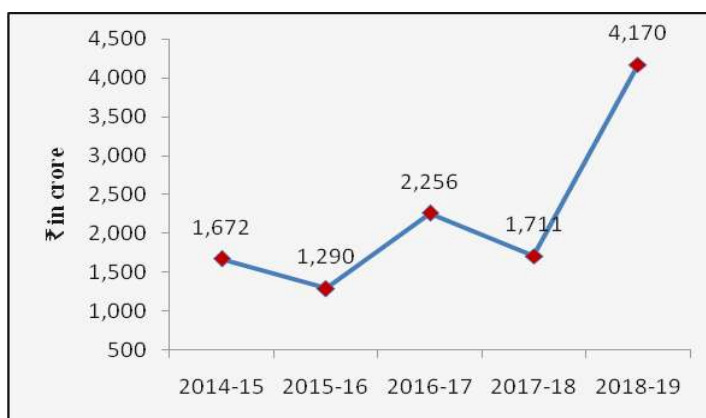
was not transferred to the Fund. This had an impact of overstatement of Revenue Surplus and understatement of Fiscal Deficit by ₹ 7.62 crore during the year 2018-19.

iv) Non Credit of Interest to Interest Bearing Deposits: Government is liable to pay/adjust interest in respect of interest bearing Deposits. During the year 2018-19, interest amounting to ₹2.93 crore (calculated at the rate of 8.1 *per cent* on outstanding balance under Deposits for Defined Contributory Pension Scheme and 7.5 *per cent* for other interest bearing deposits) on Deposits was not credited to the respective Deposit Accounts. This had an impact on overstatement of Revenue Surplus and understatement of Fiscal Deficit by ₹2.93 crore.

1.6.2.3 Guarantees

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. The trends of Outstanding Guarantees for the years 2014-15 to 2018-19 are shown in **Chart 1.17**. Finance Department instructed (12

Chart 1.17: Status of Outstanding Guarantees



November 2002) that the total outstanding guarantee as on 1st April every year should not exceed hundred *per cent* of the State’s Revenue Receipts (excluding grants-in-aid) of the 2nd preceding year. The outstanding guarantees (₹ 4,170 crore) at the end of 2018-19 stood at 7.04 *per cent* of total Revenue Receipts less grants in aid of the second preceding year (₹ 59,217crore) and was within the ceiling (100 *per cent*) laid down in the said resolution.

Government categorised the guarantees as 100 *per cent* risk weighted i.e., the risk of default was borne by the State Government. During the year 2018-19 Government extended guarantees to the tune of ₹ 2,458.61 crore to Grid Corporation of Odisha Limited (GRIDCO). Out of the total loans guaranteed by the Government, 98 *per cent* (₹4,068.87 crore) was pertaining to Grid Corporation of Odisha Limited (GRIDCO) as shown in **Chart 1.18**.

Chart 1.18: Bodies in receipt of guarantees at the end of 31 March 2019



Source: Finance Accounts

In consideration of the guarantees 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*. The State had received Guarantee Commission to the tune of ₹ 45.32 crore, which was 1.09 *per cent* of the outstanding guarantees at the beginning of the year. As per Finance Accounts, the State received ₹ 292.85 crore as Guarantee Commission or fee against the receivable amount of ₹ 356.05 crore as on 31 March 2019. The balance guarantee commission of ₹ 63.20 crore is yet to be received. Details are shown in **Table 1.21**.

Table 1.21: Guarantee Commission received/receivable by the Government
(₹ in crore)

| Name of the Sector | No. of entities | Commission receivable | Commission received | Commission yet to be received |
|-------------------------------|-----------------|-----------------------|---------------------|-------------------------------|
| Power | 4 | 285.53 | 254.73 | 30.80 |
| Co-operatives | 42 | 4.34 | 2.12 | 2.22 |
| State Financial Corporation | 7 | 8.54 | 2.89 | 5.65 |
| Housing and Urban Development | 86 | 40.97 | 26.82 | 14.15 |
| Roads and Transport | 2 | 1.84 | 1.84 | 0 |
| Other Infrastructure | 16 | 13.57 | 4.45 | 9.12 |
| Others | 4 | 1.26 | | 1.26 |
| TOTAL | 161 | 356.05 | 292.85 | 63.20 |

Source: Finance Accounts 2018-19.

1.7 Debt Management

Outstanding Debt of the State Government (Internal Debt, Loans & Advances from GoI and Public Account Liabilities) as of 31 March 2019 stood at ₹1,08,258 crore. The Outstanding debt increased by 11.42 *per cent* over the preceding year, at a rate slightly higher than the growth of GSDP (11.23 *per cent*). However, the increase during 2018-19 (11.42 *per cent*) was much lower than the corresponding increase during 2017-18 (35.66 *per cent*). This was on account of receipt of OMBADC funds in the Public Account during 2017-18. Out of ₹1,08,258 crore of Outstanding debt, ₹26,098 crore carried no interest obligations (Deposits not bearing interest ₹25,791 crore and Reserve Fund not bearing interest ₹307 crore), of which ₹24,760 crore of Cash Balance was available with GoO.

1.7.1 Net availability of borrowed funds

The Net availability (₹ 5,294 crore) of borrowed funds (₹48,103 crore) after providing for interest payments (₹ 5,800 crore) and repayment of borrowings (₹ 37,009 crore), was positive (11.01 *per cent*). However, net availability of borrowed funds was insufficient to fund developmental purposes. Due to consistent increase in outstanding debt over the years, the interest payment on debt was increasing consistently. It is evident from **Table 1.22** below that the net availability of debt during 2017-18 had increased significantly (₹20,553 crore), which was mainly due to receipt of ₹11,568 crore from OMBADC funds under Public Account Liabilities.

1.7.2 Debt Sustainability

The Debt Sustainability is defined as the ability of the State to service its debt in future. **Table 1.22 and Charts 1.19, 1.20 & 1.21** analyses the debt sustainability of the State during the five-year period 2014-19.

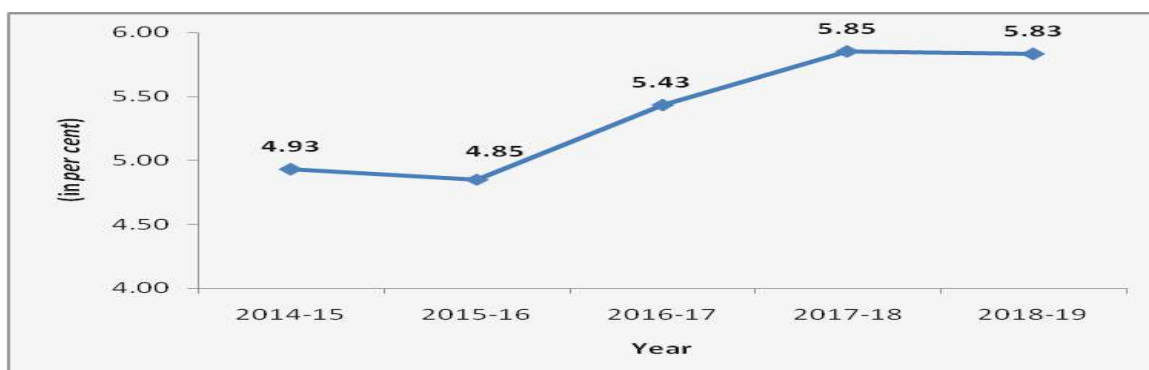
Table 1.22: Debt sustainability: Indicators during 2014-19

| Indicators of Debt* Sustainability | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|-----------------------------------------------------------------------------------------|----------|----------|----------|----------|----------|
| Outstanding Debt (₹ in crore) | 50,493 | 59,753 | 71,623 | 97,164 | 1,08,258 |
| Rate of growth of Outstanding Debt (in per cent) | 12.92 | 18.34 | 19.87 | 35.66 | 11.42 |
| GSDP (at current prices) (₹ in crore) | 3,14,250 | 3,28,549 | 3,93,808 | 4,36,374 | 4,85,376 |
| Rate of growth of GSDP | 6.00 | 4.55 | 19.86 | 10.81 | 11.23 |
| Debt/GSDP ratio (in per cent) | 16.07 | 18.19 | 18.19 | 22.27 | 22.30 |
| Receipts under public debt and other liabilities (₹ in crore) | 18,365 | 22,787 | 33,782 | 61,698 | 48,103 |
| Repayment (principal and interest) under public debt and other liabilities (₹ in crore) | 12,585 | 13,527 | 21,912 | 36,157 | 37,009 |
| Interest payment | 2,810 | 3,343 | 4,035 | 4,988 | 5,800 |
| Net availability of Debt | 2,970 | 5,917 | 7,835 | 20,553 | 5,294 |
| Tax Revenue (₹ in crore) | 19,828 | 22,527 | 22,852 | 27,914 | 30,318 |

Source: Finance Accounts of respective years

*Internal Debt, Loans from GoI and Public Account Liabilities

Chart 1.19: Interest payments as a per cent of Revenue Receipts



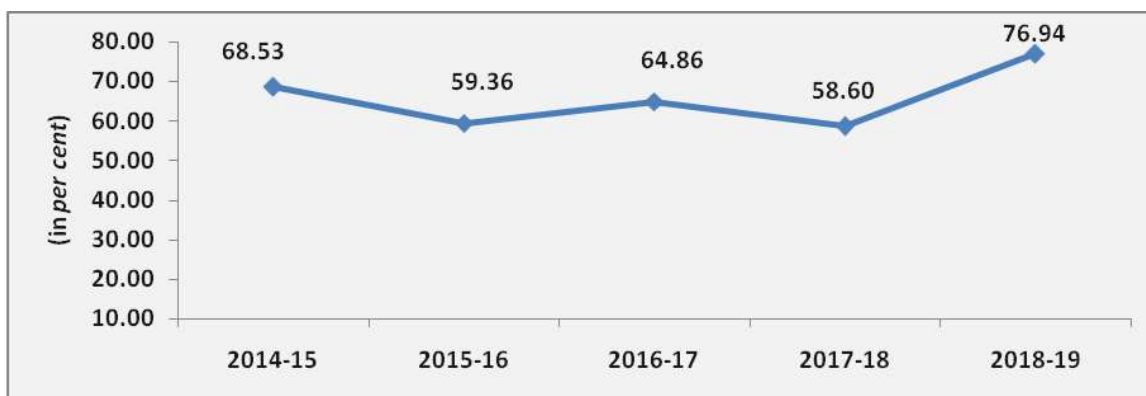
Source: Finance Accounts of respective years

Chart 1.20: Trend of Debt Repayment as a per cent of Tax Revenue



Source: Finance Accounts of respective years

Chart 1.21: Trend of Debt Repayment as a per cent of Debt Receipts



Source: Finance Accounts of respective years

Interest payments relative to Revenue Receipts was at 5.83 per cent, which is well below the fiscal target of 15 per cent set out in the Odisha FRBM (Amendment) Act, 2016. The Debt Repayment as a percentage of Tax revenue has decreased from 129.53 per cent in 2017-18 to 122.07 per cent in 2018-19. Debt repayment as a percentage of Debt Receipts also increased from 58.60 per cent in 2017-18 to 76.94 per cent in 2018-19. It is to be noted that Debt Receipts decreased on account of OMBADC funds in the year 2018-19 compared to the same in 2017-18, which increased the debt repayment to debt receipts ratio from 58.6 to 76.9 per cent.

The outstanding market borrowings as of 31 March 2019 were ₹ 28,031 crore. Market borrowings (₹ 28,031 crore) form a major portion (55.59 per cent) of the internal debt (₹ 50,421 crore) of the State Government, with interest rates ranging from 4 to 13.99 per cent. In 2018-19, the State Government borrowed fresh market loans of ₹ 5,500 crore and ₹1,000 were repaid. The net increase of market borrowings during the year was 19.12 per cent (₹ 4,500 crore) over previous year (₹23,531 crore).

Chart 1.22: Internal Debt Taken

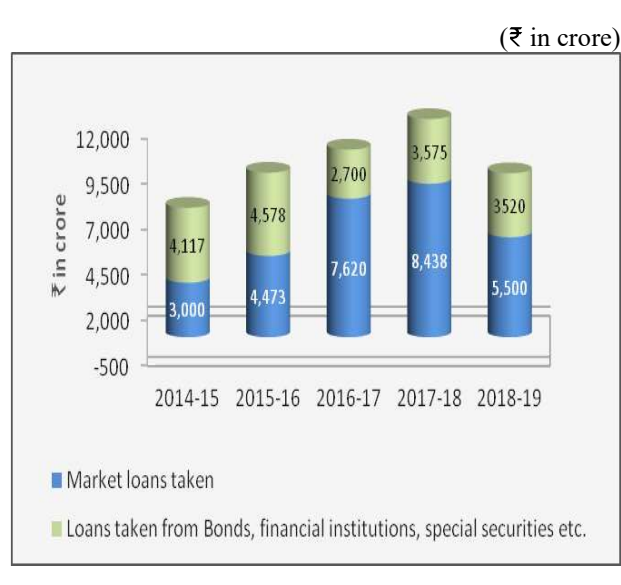
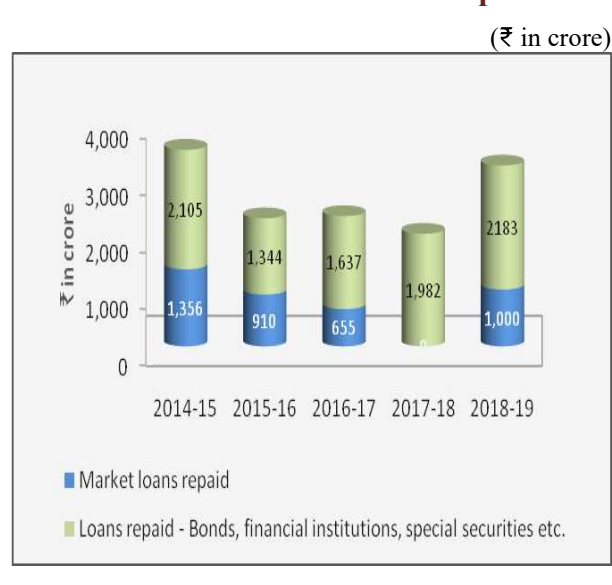


Chart 1.23: Internal Debt Repaid



Source: Finance Accounts of respective years

1.7.2.1 Domar Model -Debt Sustainability

Fiscal Deficit of the State as a proportion of GSDP has fluctuated during the last five years between 1.74 *per cent* in 2014-15 to 2.09 *per cent* in 2018-19. The State registered Revenue Surplus and Primary Deficit during 2014-15 to 2018-19.

There are various approaches at assessing the debt sustainability, one such approach is Domar model²⁴.

An analysis on debt sustainability was carried out using this approach. The details are as follows:

| g-r (g: real economic growth rate; r: real interest rate called Domar gap) | s <0 (Primary Deficit) | s >0 (Primary Surplus) |
|----------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| g-r>0 (strong economic growth) | Public Debt as percentage of GSDP should converge to a stable level greater than zero | Public Debt as percentage of GSDP should converge to a stable level less than zero leading to public savings |
| g-r<0 (slow economic growth) | Public Debt as percentage of GSDP should increase indefinitely, without converging to a stable level | undefined situation |

The results of applying the analysis to Odisha are shown in the table below:

Table 1.23: Domar Model- Debt Sustainability

(₹ in crore)

| Year | Real Growth (g)* | Real Interest# (r) | g-r (Domar gap) | Primary Deficit (s) (₹ in crore) | Remarks |
|---------|------------------|--------------------|-----------------|----------------------------------|----------------------------------------------------------------------------------------|
| 2014-15 | 1.80 | -0.89 | 2.69 | (-) 2,669 | g-r>0 and s>0 : Public Debt as percentage of GSDP should converge to a stable level |
| 2015-16 | 7.97 | -1.01 | 8.98 | (-) 3,721 | |
| 2016-17 | 15.72 | 5.74 | 9.98 | (-) 5,343 | |
| 2017-18 | 6.68 | 3.10 | 3.58 | (-) 4,372 | |
| 2018-19 | 8.26 | 6.14 | 2.12 | (-) 4,357 | |

* Real Growth Rate calculated for Real GSDP (GSDP at Constant Prices).

Real Interest rate calculated as interest rate minus inflation

Further, Debt to GSDP ratio stood at 22.30 *per cent* and the Fiscal Deficit to GSDP ratio at 2.09 *per cent* in 2018-19. The corresponding FRBM (Amendment Act) 2016, Fiscal target of Debt limit was 25 *per cent*, and Fiscal Deficit ceiling was 3.5 *per cent* of GSDP. The Capital Expenditure of the State has hovered between 17.70 and 21.35 *per cent* during 2014-2019.

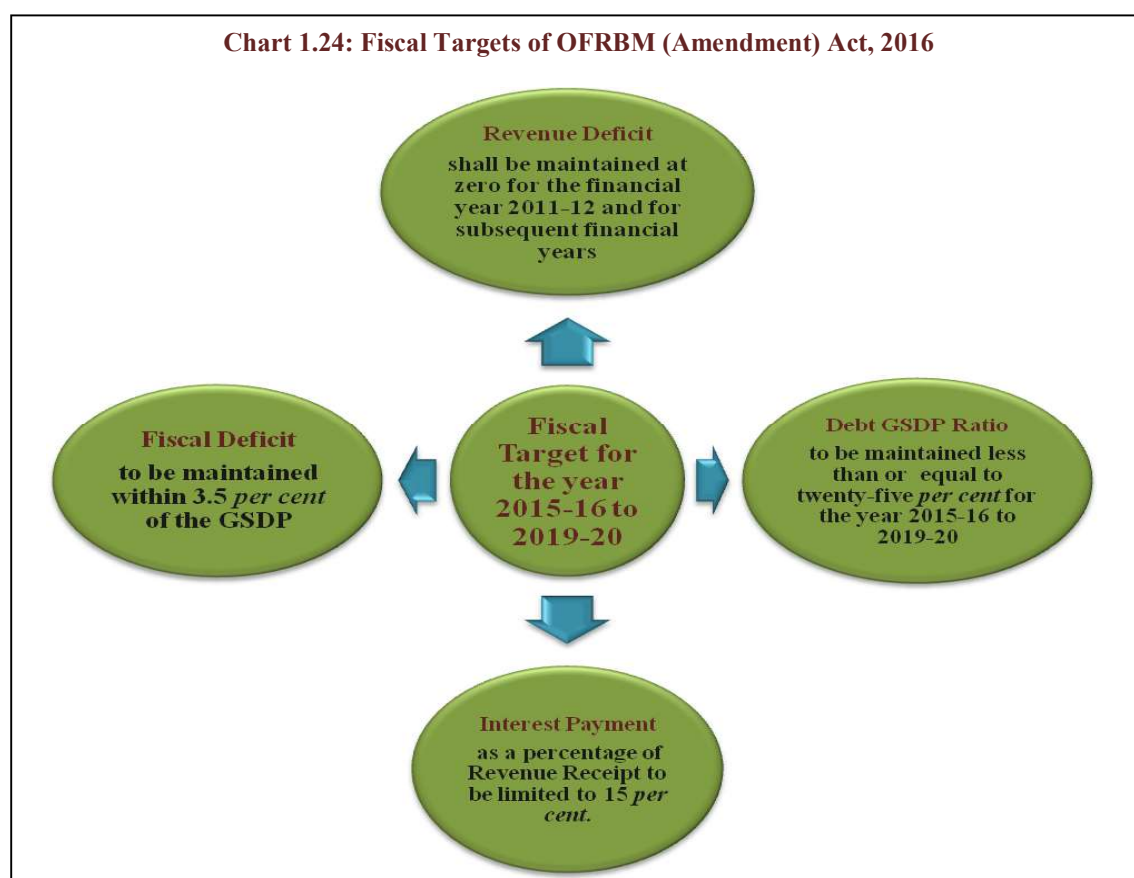
²⁴ E.D. Domar, 1914-1997

During 2014-15 to 2018-19, the State has registered primary deficit. However, it is seen that the g-r (Domar gap) is positive during the entire period from 2014-15 to 2018-19. Therefore, as per the Domar model, the public debt is stated to be stable. It is, however, noteworthy that the g-r (Domar gap) has not been registering a stable or steadily rising trend. Moreover, other factors such as public account liabilities and force majeure events²⁵ and/or any other un-inventoried losses of revenue also have to be reckoned in assessing the debt sustainability/stability of the State²⁶.

1.8 Fiscal Reform Path

The State Government, in compliance with the recommendations of the 14th Finance Commission, amended Odisha Fiscal Responsibility and Budget Management Act (FRBM), 2005 and enacted the Odisha FRBM (Amendment) Act, 2016 with effect from 5 November 2016.

The following are the fiscal targets for the years 2015-16 to 2019-20:



Source: Odisha FRBM (Amendment) Act, 2016

Details of fiscal achievement with reference to the target set by the 14th Finance Commission and Odisha FRBM (Amendment) Act, 2016 Odisha are tabulated in **Table 1.24**.

²⁵ Like current Coronavirus crisis & its effect on GSDP.

²⁶ As these cannot be anticipated or determined statistically, these have not been factored in the analysis.

Table 1.24: Fiscal targets and achievement during 2018-19

| Key Fiscal Indicators | Target set by the 14 th FC | Targets in B.E. | Targets as per FRBM Act | Achievement |
|-----------------------------------------------------------------------------------------|---------------------------------------|-------------------------------------------------|-------------------------|------------------------------------------------|
| Revenue deficit (-) | Zero | ₹ 9,980 crore revenue surplus | Zero | ₹ 14,190 crore revenue surplus |
| Fiscal deficit (-) as percentage of GSDP | (-)3.5 per cent | ₹ 15,521 crore fiscal deficit (-) 3.20 per cent | (-)3.5 per cent | ₹ 10,157 crore fiscal deficit (-)2.09 per cent |
| Debt as percentage of GSDP | 25 per cent | 20.7 per cent | 25 per cent | 22.30 per cent |
| Interest payment as percentage of Revenue Receipt | 15 per cent | 5.49 per cent | 15 per cent | 5.83 per cent |
| Ratio of Salary to State's Own Revenue | -- | 69.36 per cent | 80 per cent | 43.50 per cent |
| Ratio of non-interest committed revenue expenditure to State's own and Mandated Revenue | -- | 51.51 per cent | 55 per cent | 41.38 per cent |

Source: FC-XIV Report, Budget at a Glance 2018-19 of GoO, FRBM Act and Finance Accounts 2018-19

As can be seen from the **Table 1.24**, the State has met all targets during 2018-19 set by the 14th Finance Commission and FRBM Act.

As per the provisions of Odisha Fiscal Responsibility and Budget Management Act, 2005 (Odisha FRBM Act, 2005), the State Government is required to entrust an agency, independent of the State Government interference, to make a review of compliance to the provisions of the Act and submit a report and cause it to be laid before the State Legislature.

In compliance with the said provisions of Odisha FRBM Act, 2005, the task of independent review of State's finances for the year 2015-16 was assigned to the National Institute of Public Finance and Policy (NIPFP), New Delhi. The NIPFP submitted the review report on 1st December, 2017, which was laid before the Legislative Assembly in March, 2018.
