

Profile of the State

The State is located on the east coast of the country. It is the ninth largest State in terms of geographical area (155707sq.km) and the 11th largest by population. The State's population increased from 3.68 crore in 2001 to 4.19 crore in 2011 (provisional figures), recording a decadal growth of 14 *per cent* as indicated in **Appendix 1.1**. The percentage of population below the poverty line was more than the all-India average. The State's Gross State Domestic Product (GSDP) in 2012-13 at current prices was ₹ 258744 crore. The State's literacy rate increased from 63 *per cent* (as per 2001 census) to 73 *per cent* (as per 2011 census). Per capita income of the State stands at ₹ 49489 against the all India average of ₹ 68757. General data relating to the State is given *in Appendix 1.1*.

Gross State Domestic Product (GSDP)

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

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

year	2008-09(R)	2009-10(R)	2010-11(P)	2011-12(Q)	2012-13(A)
India's Gross Domestic Product (GDP) (₹ in crore)	5303567	6108903	7266967	8353495	9461013
Growth rate of GDP (percentage)	12.90	15.18	18.96	14.95	13.25
State's GSDP (₹ in crore)	148491	162946	194465	215899	258744
Growth rate of GSDP (percentage)	14.86	9.74	19.34	11.02	19.84

R- Revised, P-Provisional, Q-Quick and A-Advanced

The GSDP of the State increased from ₹ 215899 crore during 2011-12 to ₹ 258744 crore during 2012-13, thereby registered a growth of 19.84 *per cent* over the previous year, where as there is a decline in the growth rate of National GDP during the current year over the previous year.

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Odisha during 2012-13 and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during last five years.

The abbreviations used in this report have been expanded in the *Glossary of terms (and basis of calculation) and Acronyms used in the Report* at **Appendix – 4.1** at page **143**.

The structure of Government Accounts and the layout of Finance Accounts are given at the *Appendix 1.2*.

1.2 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2012-13) vis-à-vis the previous year, *Appendix 1.3* shows the overall fiscal position of the State and *Appendix 1.4* shows details of receipts and disbursements during the current year.

Table 1.1: Summary of Current Years fiscal operations

(₹ in crore)

Receipt			Disbursement				
	2011-12	2012-13		2011-12	2012-13		
Section A	Total	Total	Section A	Total	Non-Plan	Plan	Total
Revenue Receipts*	40267.02	43936.91	Revenue Expenditure	34660.23	26645.23	11592.32	38237.55
Tax Revenue	13442.74	15034.13	General Services	10928.58	12343.82	79.44	12423.26
Non-Tax Revenue	6442.96	8078.03	Social Services	14338.07	8347.09	6629.47	14976.56
Share of Union Taxes/ Duties	12229.13	13965.01	Economic Services	8732.47	5312.82	4883.42	10196.24
Grants from Government of India	8152.19	6859.74	Grants-in-aid and Contributions	661.11	641.49	---	641.49
Section B			Section B				
Miscellaneous Capital Receipts	---	---	Capital Outlay	4496.09	18.66	5603.52	5622.18
Recoveries of Loans and Advances	132.08	142.47	Loans and Advances Disbursed	621.01	75.04	140.98	216.02
Public Debt ** Receipts	1353.76	1879.55	Repayment of Public Debt**	2327.76	---	---	3179.86
Contingency Fund	375.00	15.89	Contingency Fund	2.81	---	---	----
Public Account Receipts	15486.73	27545.35	Public Account Disbursement	14022.62	---	---	24886.31
Opening Cash Balance	10004.87	11488.94	Closing Cash Balance	11488.94	---	---	12867.19
TOTAL	67619.46	85009.11	TOTAL	67619.46			85009.11

Source: Finance Accounts for the respective years

The following are the significant changes during 2012-13, compared to the previous year:

- Revenue Receipts of the State increased by ₹ 3670 crore (nine per cent) over the previous year. This increase was mainly contributed by State's own Tax Revenue (₹ 1591 crore), own Non-Tax Revenue (₹ 1635 crore) State's share of Union Taxes/Duties (₹ 1736 crore) and set-off by decrease in Grants-in-aid from Government of India (₹ 1292 crore).
- Revenue Expenditure increased by ₹ 3577 crore (10 per cent) during 2012-13 over the previous year mainly due to increase in expenditure in General Services Sector (₹ 1495 crore), Economic Service Sector (₹ 1464 crore), Social Service Sector (₹ 638 crore) and set off by decrease in disbursement of grant-in- aid and contributions (₹ 19 crore).
- Capital outlay increased by ₹ 1126 crore (25 per cent) over the previous year, mainly on account of increase in expenditure on Transport (₹ 295 crore), Irrigation and Flood control (₹ 256 crore), Welfare of Scheduled Castes,

* does not include ₹ 3892.33 crore transferred directly to Non-Government Organisations (NGOs) / Voluntary Organisations in Odisha by Government of India (GoI).

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

Scheduled Tribes and Other Backward Classes (₹ 180 crore), Water Supplies, Sanitation and Housing and Urban Development (₹ 173 crore) and Energy (₹ 106 crore). Disbursement of Loans and advances decreased substantially by ₹ 405 crore (65 per cent) from ₹ 621 crore in 2011-12 to ₹ 216 crore in 2012-13.

- Public Debt receipts increased by ₹ 526 crore (39 per cent) while repayment of public debt increased by ₹ 852 crore (37 per cent).
- Public Account receipts (₹ 27545 crore) increased by ₹ 12058 crore (78 per cent) over the previous year mainly due to increase in Suspense and Miscellaneous (₹ 8560 crore), Deposits and Advances (₹ 2411 crore), Remittances (₹ 1301 crore) and Small Savings and Provident Fund (₹ 509 crore) which was mainly set off by decrease in Reserve Fund (₹ 722 crore). Public Account disbursements (₹ 24886 crore) on the other hand increased by ₹ 10864 crore (77 per cent) during the same period mainly due to increase under Suspense and Miscellaneous (₹ 8579 crore), Remittances (₹ 1305 crore), and Small Savings and Provident Fund (₹ 244 crore).
- Cash Balance of the State increased by ₹ 1378 crore and reflected in increase in Cash Balance Investment by ₹ 959 crore and deposit with Reserve Bank of India by ₹ 441 crore, set off by decrease in Departmental Cash Balance by ₹ 22 crore.

1.2.1 Review of the fiscal situation

The Thirteenth Finance Commission (ThFC) recommended that every State needs to amend Fiscal Responsibility and Budget Management (FRBM) Act and work out a fiscal reform path to make credible progress towards fiscal consolidation. Keeping in line with the recommendations of the ThFC, the State Government obtained amendment (February, 2012) to the State FRBM Act, 2005 which laid down the following fiscal targets:

- Revenue deficit during 2011-12 and onwards to be maintained at Zero.
- Fiscal deficit to be contained within three per cent of the Gross State Domestic Product (GSDP) from 2011-12 and onwards.
- In order to bring the debt stock to a sustainable level, interest payment as a percentage to Revenue Receipt to be limited to 15 per cent.
- For the purpose of ensuring compliance to the provisions of the FRBM Act, the State Government shall entrust an agency independent of State Government who shall periodically make review of such compliance and submit reports thereof to the State Government for laying the same before the State Legislature

However, disclosures such as projection of Revenue consequences of Capital Expenditure (RCCE), Public-Private Partnerships (PPPs) and related liabilities, statements on physical and financial assets and vacant public land and buildings were not included in the Mid Term Fiscal Plan (MTFP), even though recommended by ThFC.

The State has achieved the targets for Revenue, fiscal deficits, level of debt stock and

interest payment, as laid down by ThFC/FRBM Act for the year 2012-13.

1.2.2 Budget Estimates and Actuals

Budget papers presented by the State Government provide estimation of Revenue and expenditure for a particular financial year. The importance of accuracy in estimation of Revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from Budget Estimates are indicative of non-attainment and non-optimisation of desired fiscal objectives. Compared to the Budget Estimates for 2012-13, there was considerable variation in actuals in the case of several key fiscal parameters. **Chart 1.1 and Table 1.2** present the Budget Estimates and actuals for some important parameters.

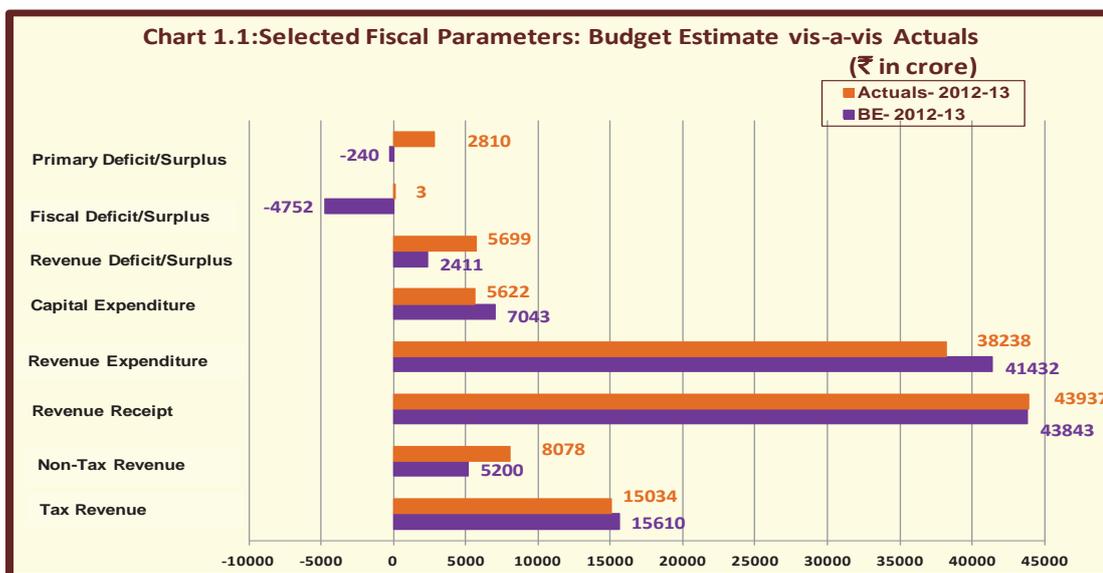


Table 1.2: Variation in Budget Estimates and Actuals

Variation	Budget Estimates	Actual	Increase (+) / Decrease (-)
	(₹ in crore)		
Tax Revenue	15610	15034	(-)576
Non-Tax Revenue	5200	8078	(+)2878
Revenue Receipts	43843	43937	(+)94
Revenue Expenditure	41432	38238	(-)3194
Capital Expenditure	7043	5622	(-)1421
Revenue Deficit(-)/Surplus(+)	2411	5699	(+)3288
Fiscal Deficit(-)/Surplus(+)	-4752	3	(+)4755
Primary Deficit(-) /Surplus (+)	-240	2810	(+)3050

Source: Odisha Budget at a Glance 2013-14 and Finance Accounts 2012-13.

As may be observed from **Chart 1.1**, the State's actual Revenue Receipts were marginally more than the Budget Estimates by ₹ 94 crore. The State's own Tax Revenue was less than the Budget Estimates by ₹ 576 crore (four per cent) while Non-Tax Revenue was more than the Budget Estimates by ₹ 2878 crore (55 per cent). As a result, while the estimated Revenue surplus was only ₹ 2411 crore, the actual Revenue surplus was ₹ 5699 crore. Revenue Expenditure and Capital Expenditure

were less than the Budget Estimate by ₹ 3194 crore (eight *per cent*) and ₹ 1421 crore (20 *per cent*) respectively. Asset creation was not given as much priority as intended in the Budget Estimates, as the actual Capital Expenditure was 20 *per cent* lesser than the Budget Estimate. This shortfall in Capital Expenditure as compared to Budget Estimate is not a good sign in a developing State with poor infrastructural levels. Due to the Revenue surplus being higher than budgeted and Revenue and Capital Expenditure being lower than budgeted, estimated/budgeted fiscal deficit of ₹ 4752 crore and primary deficit of ₹ 240 crore turned into fiscal surplus and primary surplus of ₹ three crore and ₹ 2810 crore respectively.

1.2.3 Major policy initiatives in the budget

Government announced some policy initiatives in its Budget 2012-13 like construction of police training institutes, hostels for SC/ST students, digitization of Ration Cards etc. Status of implementation of some of the major policy initiatives are given in **Table 1.3** below:

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

Sl No	Department	Policy announcement details	Status of Implementation
1	Home Department	A sum of ₹ 17.50 crore was allocated under the Finance Commission Grants towards construction of 3 police Training Institutes.	Out of total Budgeted provision, ₹ 4.31 crore was released by the end of February 2013 to executing agency, OPH & WC. Construction work at Bayree is continuing in full swing. Construction work at the other two places are yet to start.
2	General Administration Department	A sum of ₹ six crore out of the State Plan was earmarked for development of air-strips and construction of a new air-strip at Malkangiri during the year 2012-13.	Due to land acquisition problems, it was not possible to construct new air-strips during the financial year 2012-13. Hence the proposal is deferred.
3	ST&SC Development Department	A sum of ₹ 226.00 crore was provided for completion of 1464 hostels for SC/ST students.	₹ 222.75 crore was sanctioned and released in favour of Project Administrator, Integrated Tribal Development Agency and Project Director, District Rural Development Agency for completion of 1464 Hostels. As of December 2012, 122 hostels had been completed, works for 1302 hostels were in progress while works for 40 hostels was yet to be started.
4	Food Supplies & Consumer Welfare Department	A sum of ₹ nine crore was allocated for digitization of Ration Cards which will prevent use of fake Ration Cards and ensure benefits of PDS to reach genuine consumers.	Digitization process has been started in Bolangir Block on a pilot basis.
5	Higher Education Department	Government of Odisha provided ₹ 18.60 crore as a State share in the CSP scheme for opening of Govt. Colleges in districts with low Gross Enrolment Ratio.	The State share of ₹ 18.60 crore provided in the CSP scheme could not be utilized as Govt. of India declined to release the matching share since the scheme was not included for funding in the 12 th Plan (2012-17). The proposal is deferred.
6	Employment & Technical Education and Training Department	In order to provide placement linked skill training to one million youths during the Twelfth Five Year Plan, ₹ 50 crore has been provided to Employment Mission	By the end of February 2013, funds to the extent of ₹ 24.95 crore were released by the Planning & Co-ordination Department, out of which ₹ 15.09 crore was utilized.
7	Employment & Technical Education and Training Department	An amount of ₹ four crore was provided in the Budget under State Plan towards establishment of Xavier's Institution of management(XIMB) at Sambalpur and Bolangir	The proposal was deferred due to non-receipt of affiliation from AICTE.

Source: Budget at a glance 2013-14, Government of Odisha.

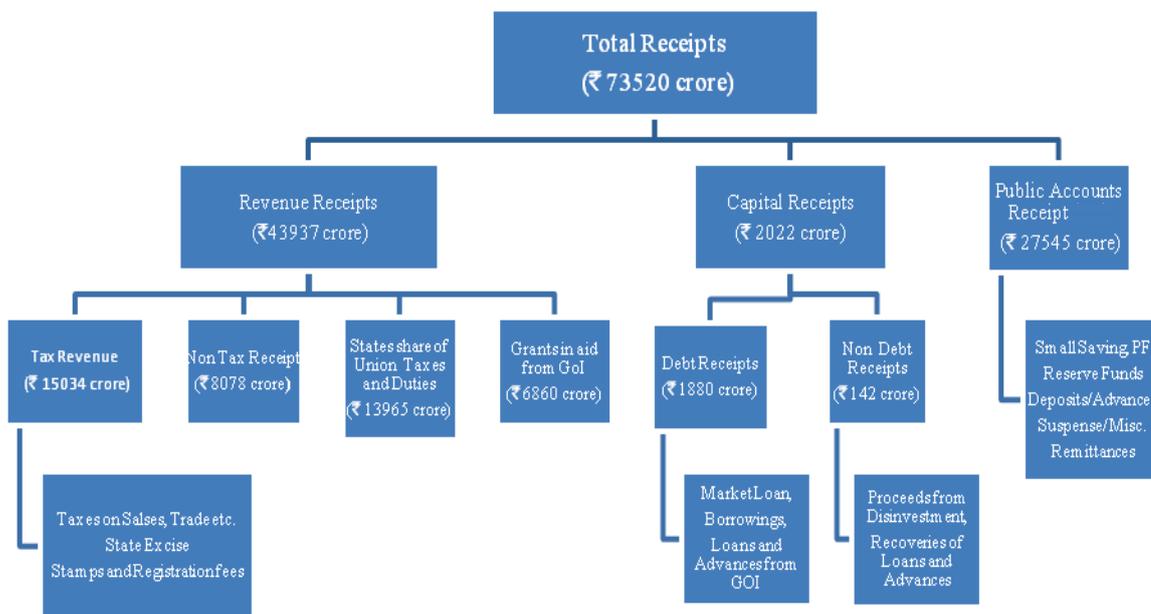
1.3 Resources of the State

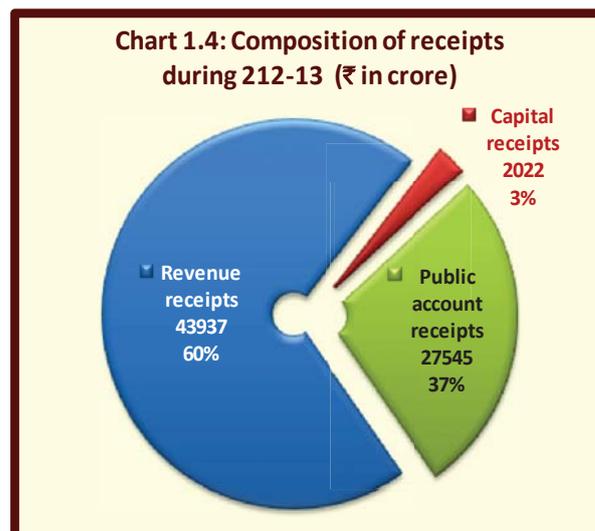
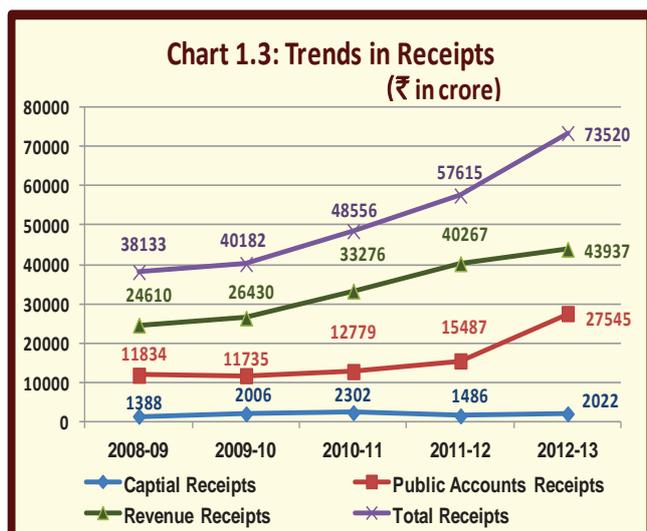
1.3.1 Resources of the State as per Finance Accounts

The progress of Government programmes depend on its resources and determines the expenditure threshold of the Government. Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Revenue Receipts consist of Tax Revenues, Non-Tax Revenues, State’s share of Union Taxes and Duties and Grants-in-aid from GoI. Total Capital Receipts comprises, Capital Receipts such as miscellaneous Capital Receipts from disinvestments, and other receipts are recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI as well as accruals from Public Account.

Table 1.1 and **Chart 1.2** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.3** depicts the trends in various components of the receipts of the State during 2008-13. **Chart 1.4** depicts the composition of receipts of the State during the current year.

Chart 1.2: Components and sub-components of Resources





During 2008-2013, total receipts increased by 93 per cent from ₹ 38133 crore in 2008-09 to ₹ 73520 crore in 2012-13, of which increase of Revenue Receipts was by 79 per cent from ₹ 24610 crore to ₹ 43937 crore during the period due to higher collection of State's own taxes as well as increases in central tax transfers and Grants-in-aid from GoI. The share of Revenue Receipts as percentage of total receipts decreased from 65 per cent in 2008-09 to 60 per cent in 2012-13. The share of Capital Receipts also decreased from four per cent in 2008-09 to three per cent in 2012-13. The percentage share of Public Account receipts to the total receipts increased from 31 per cent in 2008-09 to 37 per cent in 2012-13.

1.3.2 Funds transferred to State implementing agencies outside the State Budget

Government of India has been transferring a sizeable quantum of funds directly to State implementing agencies¹ for implementation of various schemes/ programmes in social and economic sectors, which are recognized as critical. As these funds were not routed through the State budget/ State treasury system, Finance Accounts did not capture the flow of these funds and to that extent State's receipts and expenditure as well as other fiscal variables/ parameters thereto could not be ensured. However, an appendix giving details of funds transferred directly to State implementing agencies outside State budget is included in Finance Accounts by capturing data from the website of the Controller General of Accounts.

During the year 2012-13 central fund of ₹ 3892.33 crore were transferred directly to the State implementing agencies. The programmes assisted by GoI whose funds were, thus, transferred are given in **Appendix-1.5**. Details in respect of some of the major transfer are furnished in **Table 1.4**.

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

Table 1.4: Funds transferred directly to the State implementing agencies for major plan Schemes

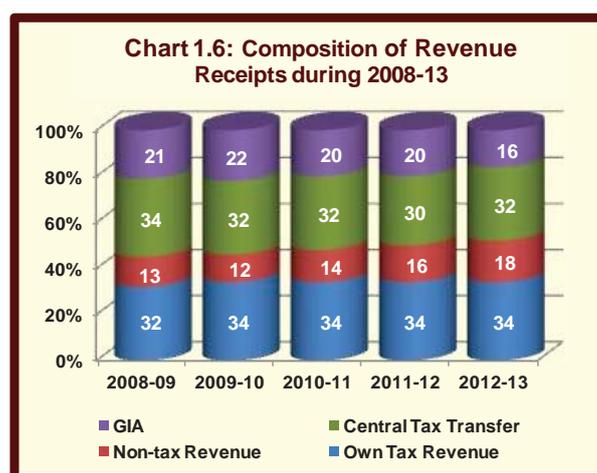
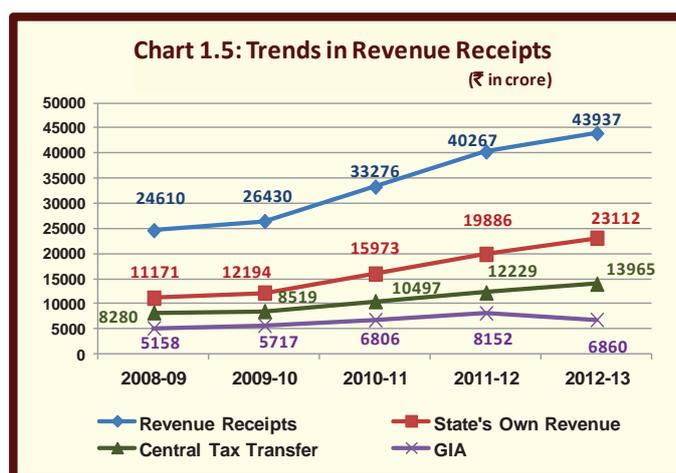
Sl. No	Government of India Scheme	Government of India release (₹ in crore)		
		2010-11	2011-12	2012-13
1	Accelerated Rural Water Supply Programme	294.76	171.05	246.53
2	Integrated Watershed Management Programme	123.59	114.67	101.27
3	National Rural Employment Guarantee Scheme	1561.86	978.22	847.98
4	Pradhan Mantri Gram Sadak Yojana Programme Component	2046.10	1969.95	87.25
5	Rural Housing (IAY)	450.08	629.99	458.65
6	Sarva Shiksha Abhiyan	731.78	927.20	1043.08
7	Swaranjayanti Gram Swarozgar Yojana	122.91	125.48	123.79

Considering that the quantum of direct transfers are significant (nine *per cent* of State's Revenue Receipts), it is imperative that the end use of this fund is monitored in a timely and efficacious manner by both the GoI and State Governments so that the intended outcomes are actually realised economically and efficiently. Further, funds flowing directly to the implementing agencies through off-budget route inhibit FRBM Act requirements of transparency and escape accountability. There is no single agency monitoring the use of these funds and no data is readily available on the amounts spent under these schemes. The State Government has to put in place an appropriate mechanism to ensure proper accounting of these funds.

The Government stated (November 2013) that the State Government is in the process of integration of Central Plan Schemes Monitoring System (CPSMS) with Integrated Odisha Treasury Management System (iOTMS) to capture the flow of State share and Central share to strengthen monitoring of end use of expenditure. The reply is not tenable as the status of capturing the funds flow to implementing agencies remained same to previous year despite the commitments made by the Government in November 2012 to register district and sub-district level implementing agencies of five major flagship schemes under CPSMS.

1.4 Revenue Receipts

Revenue Receipts consist of State Government's own tax and Non-Tax Revenues, central tax transfers and Grants-in-aid from GoI. Statement 11 of the Finance Accounts depicts the Revenue Receipts of the Government. The State's share in central taxes and Grants-in-aid is determined on the basis of recommendation of the Finance Commission. Collection of central tax receipts and central assistance for plan schemes etc is also determined on the basis of recommendation of Finance Commission. The trends and composition of Revenue Receipts over the period 2008-13 are shown in *Appendix 1.3* and also depicted in **Chart 1.5** and **1.6** respectively.



On an average, 48 per cent of Revenue came from State's own resources and the balance was from GoI in the form of State's share of taxes and Grants-in-aid. An increase of ₹ 1591 crore (12 per cent) in own Tax Revenue, ₹ 1635 crore (25 per cent) in Non-Tax Revenue and ₹ 1736 crore (14 per cent) in State's share in Union taxes and duties set off by decrease of ₹ 1292 crore (16 per cent) in Grants-in-aid resulted in increase of ₹ 3670 crore (nine per cent) in Revenue Receipts during 2012-13 over the previous year.

Although Revenue Receipts showed progressive increase from ₹ 24610 crore in 2008-09 to ₹ 43937 crore in 2012-13 registering a growth of 79 per cent, the annual growth rate has come down sharply to nine per cent during 2012-13 from 21 per cent in 2011-12. The trends in Revenue Receipts relative to GSDP are presented in Table 1.5 below:

Table 1.5: Trends in Revenue Receipts relative to GSDP

	2008-09	2009-10	2010-11	2011-12	2012-13
Gross State Domestic Product (GSDP) (₹ in crore)	148491	162946	194465(P)	215899(Q)	258744(A)
Rate of growth of GSDP	14.86	9.74	19.34	11.02	19.84
Revenue Receipts (RR) (₹ in crore) *	24610	26430	33276	40267	43937
Rate of growth of RR (per cent)	12.03	7.40	25.90	21.01	9.11
R R/GSDP (per cent)	16.57	16.22	17.11	18.65	16.98
Buoyancy Ratios²					
Revenue Buoyancy with respect to GSDP	0.81	0.76	1.34	1.91	0.46
Rate of growth of own tax	16.61	12.35	24.61	20.10	11.83
State's Own Tax Buoyancy with respect to GSDP	1.12	1.27	1.27	1.82	0.60

Source: GSDP - Directorate of Economics and Statistics, Government of Odisha and Revenue Receipts – Finance Accounts of the respective years. P: Provisional, Q: Quick Estimate, A: Advance Estimate.

* Do not include GoI funds transferred to Non-Government organisations and others.

Revenue buoyancy widely fluctuated during the period due to fluctuations in the growth rate of Revenue Receipts. The lower growth rate of Revenue Receipts during 2008-09 and 2009-10 pushed the Revenue buoyancy ratio down. Revenue buoyancy ratio, which was at 0.76 in 2009-10, increased during 2010-11 and 2011-12 to 1.34

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

and 1.91 but decreased to 0.46 during 2012-13, which was lowest during the last five years, due to decrease in growth rate of Revenue Receipts.

1.4.1 State’s Own Resources

The State’s own resources comprised Revenue Receipts from its own tax and non-tax source. The actual receipts under State’s tax and Non-Tax Revenue vis-à-vis assessment made by ThFC and the State Government in MTFP is indicated in **Table 1.6** below:

Table 1.6: Mobilisation of Own Tax Revenue and Own Non Tax Revenue
(₹ in crore)

	Assessment made by ThFC	Assessment made by State Government in MTFP	Actuals
State’s own Tax Revenue	13637	15610	15034
State’s own Non-Tax Revenue	2620	5200	8078

The receipts under State’s tax and Non-Tax Revenue during 2012-13 exceeded the assessment of ThFC by 10 per cent and 208 per cent respectively. However, the State’s own Tax Revenue was less than assessment made in MTFP by ₹ 576 crore (four per cent) while Non-Tax Revenue was more by ₹ 2878 crore (55 per cent).

1.4.1.1 Tax Revenue

The sector wise components of Tax Revenue during 2008-09 to 2012-13 is shown in **Table 1.7**.

Table 1.7: Sector wise components of State’s Tax Revenue

Revenue Head	2008-09	2009-10	2010-11	2011-12	2012-13	% increase in 2012-13 over previous year
Taxes on sales, trades etc.	4803	5409	6807	8197	9685	18
State excise	660	849	1094	1379	1499	9
Taxes on vehicles	524	611	728	788	746	-5
Stamp duty and Registration fees	496	360	416	498	545	9
Land Revenue	348	292	391	522	420	-19
Taxes on goods and passengers	638	815	1111	1312	1342	2
Other taxes ³	526	646	646	747	797	7
Total	7995	8982	11193	13443	15034	12

Source: Finance Accounts for the respective years

The Compound Annual Growth Rate (CAGR) of Tax Revenue for 2003-12 of the State was higher as compared to the other General Category States (*Appendix 1.1*). The Tax Revenue during the current year (₹ 15034 crore) increased by 12 per cent over the previous year (₹13443 crore). The Revenue through Taxes on Sales, Trade etc. (₹ 9685 crore) was the main source of State’s own Tax Revenue and registered an increase of 18 per cent (over the previous year), State Excise (₹ 1499 crore) increased by nine per cent, Stamps and Registration fees (₹ 545 crore) by nine per cent and Taxes on Goods and Passengers (₹ 1342 crore) by two per cent while Taxes on

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

Vehicles (₹ 746 crore) decreased by five *per cent* and Land Revenue (₹ 420 crore) by 19 *per cent* over the previous year.

The growth rate of Own Tax Revenue (OTR) with respect to GSDP was six *per cent* in 2012-13. To achieve the target of 7.5 *per cent* by 2014-15 as projected to ThFC (Para 7.6 of the recommendations), the State Government will have to take appropriate steps to gear up their OTR.

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

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

Sl No	Major Heads of Account	Increase (₹ in crore)	Main Reasons*
1	0030 – Stamps and Registration Fees	46.74	Due to increase in receipts in sale proceeds of judicial impress Stamps and fees for registration of documents.
2	0039 – State Excise	119.64	Due to more receipts in excise duty on country spirit, excise on foreign liquor, License fee.
3	0040 – Taxes on Sales, Trades etc.	1487.83	Due to more receipts under Odisha Value Added Tax Act, 2004 and Tax collection under Central Sale Tax.
4	0050 – Dividends and Profits	278.30	Due to more receipt of dividends from Odisha Mining Corporations.
5	0853 – Non-ferrous Mining and Metallurgical Industries	1124.13	Due to increase in collection of fees and rents and royalties.
Sl No	Major Heads of Account	Decrease (₹ in crore)	Main Reasons
6	0029 - Land Revenue	101.26	Due to less receipt in Land Revenue and Taxes.
7	0041 - Taxes on Vehicles	41.80	Due to less receipt on motor vehicle tax & National Permit Scheme and Gross receipt on motor vehicle taxes.

Source: *Reasons as per Finance Accounts 2012-13, Government of Odisha.

1.4.1.2 Cost of collection

The gross collection of taxes on vehicles, taxes on sales, trade etc., stamp duty and registration fees and State excise, expenditure incurred on their collection and its percentage to gross collection during the years 2010-13 along with their all- India average cost of collection for the respective previous years are indicated in **Table 1.9**.

Table 1.9: Details of cost of collection

(₹ in crore)					
Receipt	Year	Gross collection	Expenditure on collection (₹ in crore)	Percentage of expenditure to gross collection	All India average percentage for the preceding year
Taxes on sales, Trades etc	2010-11	6806.79	73.09	1.07	0.96
	2011-12	8196.85	65.39	0.79	0.75
	2012-13	9684.68	74.35	0.77	0.83
Taxes on vehicles	2010-11	727.58	30.73	4.22	3.07
	2011-12	787.99	25.96	3.29	3.71
	2012-13	746.19	23.08	3.09	2.96
State Excise	2010-11	1094.26	36.25	3.31	3.64
	2011-12	1379.00	38.36	2.78	3.05
	2012-13	1498.64	41.76	2.78	2.98
Stamp Duty and registration fees.	2010-11	415.82	17.09	4.11	2.47
	2011-12	498.15	23.87	4.79	1.60
	2012-13	544.88	23.72	4.35	1.89

During 2012-13, while the percentage of cost of collection to the gross collection with respect to Taxes on Sales, Trades etc., Stamps and Registration fees and Taxes on

Vehicles was less than the previous year, it was same as in the previous year with respect to State excise.

It would be seen that the percentage of cost of collection of Revenue in the State during 2012-13 is less than the all-India average in two heads of Revenue i.e. tax on sales, trades etc. and State Excise , whereas, it was higher in case of taxes on Vehicles and Stamp Duty and Registration fees.

1.4.1.3 Non-Tax Revenue

The components of Non-Tax Revenue during 2008-13 are given in **Table 1.10** below:

Table 1.10: Components of State's own resources

Revenue Head	₹ in crore)					% increase over previous year
	2008-09	2009-10	2010-11	2011-12	2012-13	
Interest receipts	655	379	261	576	588	2.08
Dividends & Profits	253	251	102	286	565	97.55
Non-Ferrous Mining and Metallurgy receipts	1381	2021	3329	4572	5697	24.61
Other non-tax receipts	887	561	1088	1009	1228	21.70
Total	3176	3212	4780	6443	8078	25.38

The Compound Annual Growth Rate (CAGR) of Non-Tax Revenue for 2003-12 of the State was also higher as compared to the other general category States (*Appendix I.1*). The Own Non-Tax Revenue (ONTR) (₹ 8078 crore) which constituted 18 per cent of Revenue Receipts during 2012-13 increased by ₹ 1635 crore (25 per cent) over previous year. The increase was mainly under Non-Ferrous Mining and Metallurgy Industries (₹ 1124 crore) which includes mainly mineral concession fee, rent and royalty; Miscellaneous General Services (₹ 139 crore) and Dividends and Profits (₹ 279 crore).

1.4.2 Grants in aid from Government of India

Grants-in-aid from Government of India (GoI) increased from ₹ 5158 crore in 2008-09 to ₹ 6860 crore during 2012-13 as shown in **Table 1.11**.

Table 1.11: Grants-in –aid from Government of India

Particulars	₹ in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Non-Plan Grants	1242	1629	2111	2561	1505
Grants for State Plan Schemes	2632	2777	3279	3853	3484
Grants for Central Plan Schemes	119	167	192	109	183
Grants for Centrally Sponsored Schemes	1165	1144	1224	1629	1688
Grants for Special Plan Schemes	---	---	---	---	---
Total	5158	5717	6806	8152	6860
Percentage of increase over previous year	11.86	10.84	19.05	19.78	(-)15.85
Total grants as a percentage of Revenue Receipts	20.96	21.63	20.45	20.24	15.61

However, the Grants-in-aid from GoI decreased by ₹ 1292 crore from ₹ 8152 crore in 2011-12 to ₹ 6860 crore in 2012-13. The decrease was under grants for Non-Plan

schemes (₹1056 crore), State Plan schemes (₹ 369 crore) set off by increase in Central Plan schemes (₹ 133 crore). Similarly, the percentage share of grants to Revenue Receipts also decreased from 20 percent in 2011-12 to 16 per cent during 2012-13.

1.4.3 Thirteenth Finance Commission Grant during 2012-13

As per recommendation of ThFC, GoI allocated ₹ 9658.76 crore under grants (both Non-Plan and Plan), to Government of Odisha for utilisation during 2010-15, of which allocation for 2012-13 was ₹ 2127.86 crore. Scrutiny of release of grant during 2012-13 revealed the following:

(i) Failure to avail Thirteenth Finance Commission Grant

As per the recommendation of ThFC, if the State fails to meet the conditions attached to grants released during a fiscal year, it will lose the performance grant for the succeeding year. It was, however, observed that the conditions in respect of (i) formation of Independent Local Body Ombudsman, (ii) certification by C&AG regarding Technical Guidance and Supervision and (iii) empowering Local Bodies to levy Property Tax, have not been fulfilled by 31 March 2012 due to which the State lost the performance grant amounting to ₹ 288.97 crore for the year 2012-13.

Further, the ThFC also recommended that grant of ₹ 46 crore for Water Sector for 2012-13 would be released only if the State set up a statutory and independent Water Regulatory Authority (WRA) by 31 March 2012. Non setting up of the WRA by 31 March 2012 led to loss of ₹ 46 crore for the year 2012-13.

(ii) Non-release of Thirteenth Finance Commission Grant of ₹ 399.42 crore

Further, though the ThFC recommended grant worth ₹ 399.42 crore in respect of following components for 2012-13 (**Table 1.12**), the State Government failed to avail the grant as it failed to comply with the conditions as detailed below:

1.12: Non-release of Thirteenth Finance Commission Grant during 2012-13

Purpose	Amount recommended by ThFC (₹ in crore)
Elementary Education	204.00
Grant for UID	35.70
Health Infrastructure	87.50
Establishment of Market yards at Block level	15.00
Employee and Pension Database	7.50
Improvement of Statistical System	6.00
Justice delivery	38.72
Capacity Building	5.00
Total	399.42

Source: Thirteenth Finance Commission's Report and Finance Accounts 2012-13 of Government of Odisha

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

- The conditions stipulated for release of grants under Employee and Pension Data Base was that the State would create a data base and ensure that the same

would functionally integrate with the treasury on a transactional basis. As the State failed in this regard, GoI did not release grant of ₹ 7.50 crore for 2012-13.

- Grants for capacity building, justice delivery, incentive for issue of UID, Establishment of Market yards at Block level and Health Infrastructure were not released due to non-submission of Utilisation Certificate in respect of grants released during previous years.

The Government stated (November 2013) that due to non-fulfillment of conditions prescribed by ThFC, the State lost the performance grant for local bodies and water sector grant recommended for 2012-13. The State Government should take steps to fulfil required conditions prescribed by ThFC, in order to receive performance grant for the remaining ThFC Period and avail the non released grant.

Thus, in most cases, Government of Odisha lost access to the grants due to its own fault i.e. non-fulfillment of prescribed conditions for release of grants. The State Government should take expeditious steps to comply with the required conditions prescribed by the ThFC to be eligible to draw the grant. It should also monitor and pursue the release of grant as recommended by ThFC more closely so as to ensure that the grants are utilised in effective and timely manner.

1.4.4 Central Tax transfers

During 2012-13, Central tax transfers increased by ₹ 1736 crore over previous year and constituted 32 percent of Revenue Receipts. The increase was mainly under Corporation Tax (₹ 203 crore), Taxes on Income other than Corporation Tax (₹ 558 crore), Customs (₹ 200 crore) and Union Excise Duties (₹ 205 crore).

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

Capital Receipts comprises miscellaneous Capital Receipts, proceeds from disinvestment, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions) and loans and advances from GoI. Capital Receipts increased by ₹ 634 crore from ₹ 1388 crore in 2008-09 to ₹ 2022 crore during 2012-13 as shown in **Table 1.13**.

Table 1.13: Trends in growth and composition of Capital Receipts

(₹ in crore)

Sources of State's Receipts	2008-09	2009-10	2010-11	2011-12	2012-13
Capital Receipts (CR)	1388	2006	2302	1486	2022
Miscellaneous Capital Receipts	---	---	---	---	---
Recovery of Loans and Advances	236	356	34	132	142
Public Debt Receipts	1152	1650	2268	1354	1880
Rate of growth of debt Capital Receipts	127.22	43.23	37.45	(-)40.30	38.85
Rate of growth of non-debt Capital Receipts	(-)33.52	50.85	(-)90.45	288.24	7.58
Rate of growth of GSDP	14.86	9.74	19.34	11.02	19.84
Rate of growth of CR (per cent)	33.64	44.52	14.76	(-)35.45	36.07

Source: Finance Accounts 2012-13 of Government of Odisha

Public debt receipts, which create future repayment obligations, increased from ₹ 1152 crore to ₹ 1880 crore which is a matter of concern. However, there was a decline in the non-debt receipt from ₹ 236 crore in 2008-09 to ₹ 142 crore in 2012-13.

1.6 Public Accounts Receipts

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

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

(₹ in crore)

Resources under various heads	2008-09	2009-10	2010-11	2011-12	2012-13
Public Account Receipts	11834	11735	12779	15487	27545
a. Small Savings, Provident Fund etc.	2130	2571	2804	2492	3001
b. Reserve Fund	533	736	603	1661	939
c. Deposits and Advances	3236	3134	3346	4126	6537
d. Suspense and Miscellaneous	18	37	-2	-32	8527
e. Remittances	5917	5257	6028	7240	8541

Source: Finance Accounts 2012-13 of Government of Odisha

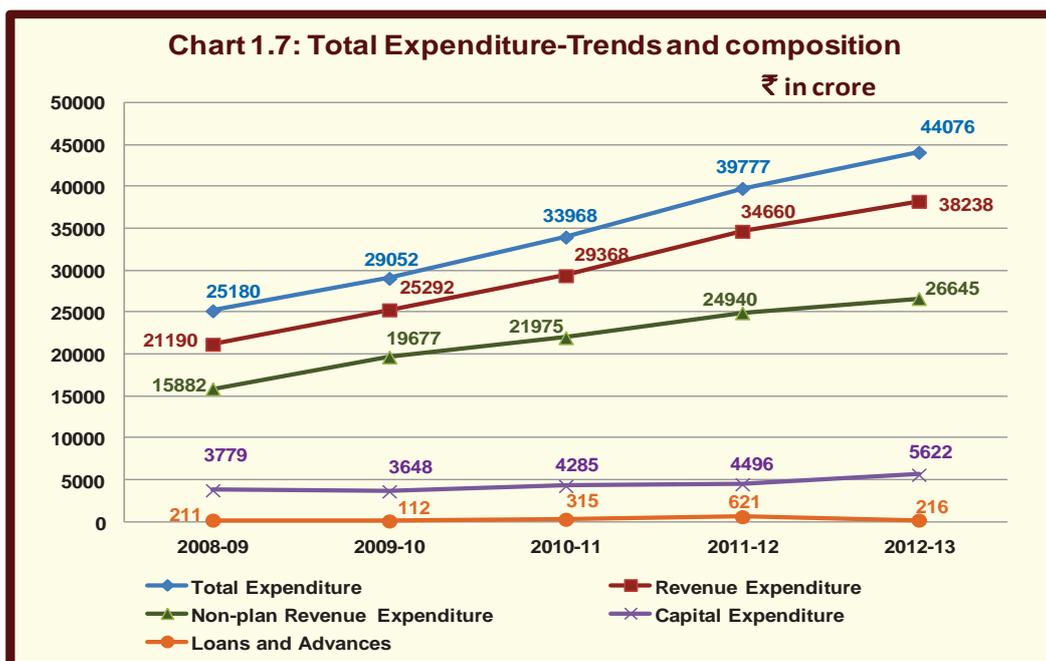
The share of Public Accounts receipts on total receipts increased from 31 percent in 2008-09 to 37 per cent in 2012-13. As compared to 2011-12, the increase during 2012-13 was 78 per cent (₹12058 crore) which was mainly under Suspense and Miscellaneous, Remittances and Deposits and Advances, etc.

1.7 Application of Resources

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

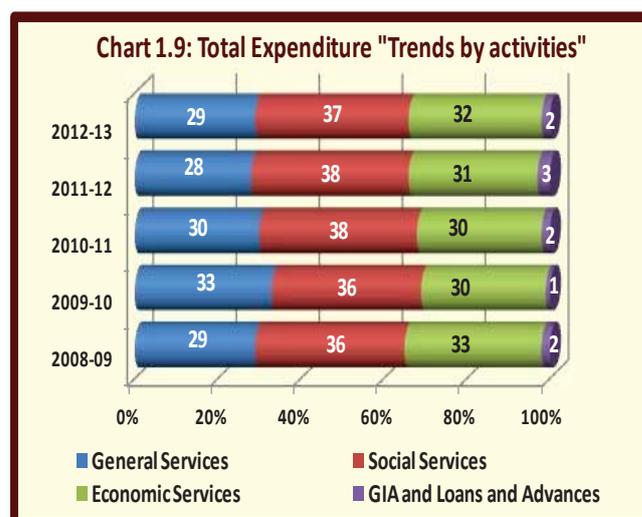
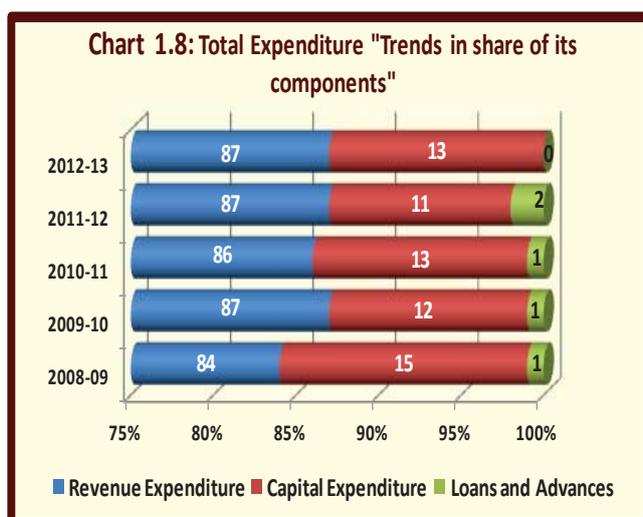
1.7.1 Growth and Composition of Expenditure

Chart 1.7 presents the trends in total expenditure over a period of five years (2008-13) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.8 and 1.9** respectively.



Total expenditure of the State increased by 75 per cent from ₹ 25180 crore in 2008-09 to ₹ 44076 crore in 2012-13 due to increase in Revenue Expenditure (₹ 17048 crore), capital outlay (₹ 1843 crore) and disbursement of loans and advance (₹ Five crore). While the share of Revenue Expenditure in the total expenditure increased from 84 per cent during 2008-09 to 87 per cent in 2012-13, the share of Capital Expenditure decreased from 15 per cent in 2008-09 to 13 per cent in 2012-13.

The increase of ₹ 4299 crore in total expenditure in 2012-13 over the previous year was on account of increase in Revenue Expenditure and Capital Expenditure by ₹ 3578 crore and ₹ 1126 crore respectively set off by decrease in disbursement of loans and advances by ₹ 405 crore. The total expenditure was 17.03 per cent of GDP during 2012-13 as compared to 18.42 per cent during the previous year.



1.7.2 Total Expenditure

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

1.7.3 Revenue Expenditure

Revenue Expenditure (RE) is incurred to maintain the current level of services and payment of the past obligation and as such does not result in any addition to the State's infrastructure and service network. Revenue Expenditure had a predominant share of 84 *per cent* of total expenditure in 2008-09 which increased to 87 *per cent* in 2012-13. However, it increased by 10 *per cent* from ₹ 34660 crore in 2011-12 to ₹ 38238 crore in 2012-13 in absolute terms.

1.7.4 Non-Plan Revenue Expenditure

Non-Plan Revenue Expenditure (NPRE) as a proportion of Revenue Expenditure, increased from ₹ 15882 crore (75 *per cent*) in 2008-09 to ₹ 26645 crore (70 *per cent*) in 2012-13. Out of the total increase of ₹ 3578 crore in Revenue Expenditure during the current year over the previous year, increase in NPRE contributed 48 *per cent* (₹ 1705 crore) and the remaining 52 *per cent* (₹ 1873 crore) was the Plan Revenue Expenditure (PRE). The increase in NPRE during the current year was mainly on Education, Sports, Art and Culture (₹ 313 crore), Agriculture & Allied Services (₹ 298 crore), Transport (₹ 256 crore) and Welfare of SC, ST and OBC (₹ 167 crore). Although the NPRE exceeded ThFC's assessment (₹ 22752 crore) by ₹ 3893 crore, it remained below the assessment made by the Government in MTFP (₹ 29594 crore) for 2012-13 by ₹ 2949 crore, as indicated in **Table 1.15**.

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

	Assessment made by ThFC	Assessment made by Government in MTFP	Actual in 2012-13
Revenue Expenditure	Not available	41432 (16.01)	38238 (14.78)
NPRE	22752 (8.79)	29594 (11.44)	26645 (10.30)

Note: Figures in bracket is percentage to GSDP (₹ 258744 crore) for 2012-13.

Source: Thirteenth Finance Commission's Report and Finance Accounts 2012-13 and Budget at a glance 2013-14 on Government of Odisha

NPRE constituted 60 *per cent* of the total expenditure of the State during 2012-13. Its ratio with Revenue Expenditure declined from 75 *per cent* in 2009-08 to 70 *per cent* in the current year, an improvement over the previous period.

1.7.5 Capital Expenditure

Capital Expenditure (CE) of the State as proportion of total expenditure decreased from 15 *per cent* (₹ 3779 crore) in 2008-09 to 13 *per cent* (₹ 5622 crore) in 2012-13. However, CE (₹ 5622 crore) showed an increase of 25 *per cent* during 2012-13 over the previous year (₹ 4496 crore) in absolute terms, mainly on account of increase in

expenditure on Transport (₹ 295 crore), Irrigation and Flood control (₹ 256 crore), Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (₹ 180 crore), Water Supplies, Sanitation and Housing and Urban Development (₹ 173 crore) and Energy (₹ 106 crore). The CE during 2012-13, was 2.17 per cent of GSDP as against Government’s projection of 2.72 per cent in Budget Estimate for 2012-13. The CE (₹ 5622 crore) was lesser by ₹ 1421 crore (20 per cent) against Budget Estimate (₹ 7043 crore) during the current year which is not a good sign and defeated the intended asset creation objective of the Budget.

1.7.6 Committed Expenditure

Committed Expenditure of the State Government on Revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.16** and **Chart 1.10** present the trends in the expenditure on these components during 2008-13.

Table 1.16: Components of Committed Expenditure

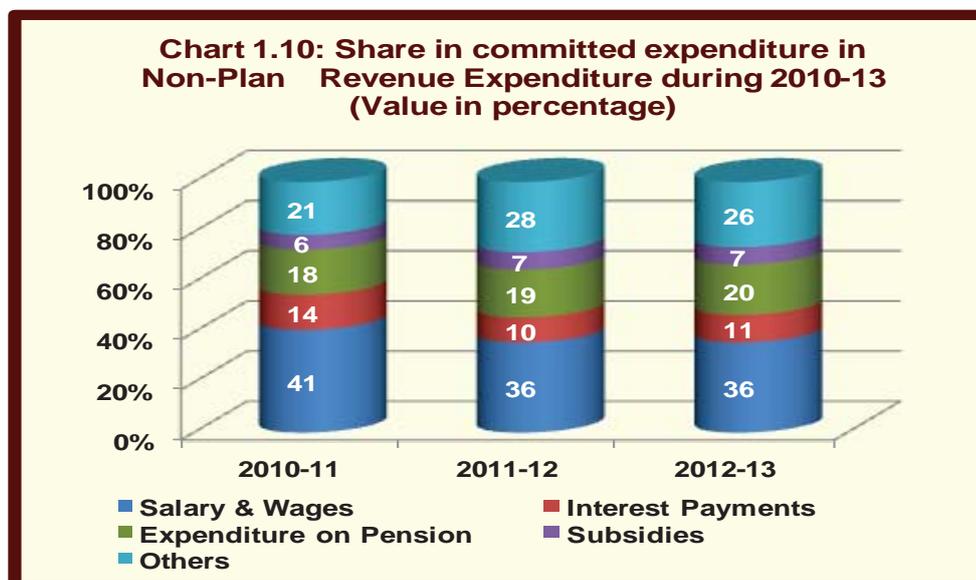
	2008-09	2009-10	2010-11	2011-12	2012-13	
					BE	Actuals
Salaries* & Wages ,	6524 (27)	7945 (27)	8969 (26)	8868 (22)	12599	9615 (22)
Non-Plan Head	6220	7484	8448	8385	11602	9118
Plan Head**	304	461	521	483	997	497
Interest Payments	2889 (12)	3044 (10)	3061 (9)	2576 (6)	4512	2807 (6)
Expenditure on Pensions	2075 (8)	3283 (11)	4011 (12)	4741 (12)	5800	5379 (12)
Subsidies	743 (3)	1008 (4)	1310 (4)	1744 (4)	1396	1951 (4)
TOTAL	12231	15280	17351	17929		19752

Figures in the parentheses indicate *percentage* to Revenue Receipts. **BE:** Budget Estimates

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

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

Source: Finance Accounts 2012-13, Government of Odisha and Odisha Budget at a Glance 2013-14.



1.7.6.1 Salaries

Expenditure on salaries increased from ₹ 6524 crore in 2008-09 to ₹ 9615 crore in 2012-13 accounting for nearly 22 per cent of Revenue Receipts and 36 per cent of the NPRES of the State Government during the year. The salary expenditure (₹ 9615 crore) was ₹ 2302 crore more than the ThFC assessment of ₹ 7313 crore for 2012-13 in absolute terms. The expenditure on salary was 25 per cent of Revenue Expenditure during 2012-13 as against 26 per cent in 2011-12.

1.7.6.2 Interest Payments

Interest payments during the current year (₹ 2807 crore) increased by ₹ 231 crore over the previous year's (₹ 2576 crore) and remained lower than the projections made in MTFP (₹ 4512 crore), ThFC (₹ 4537 crore) and Budget Estimates (₹ 4512 crore) for the year 2012-13. During 2012-13, interest payment as percentage of total Revenue Receipts was six per cent which was lower than the projections of 10.29 per cent in MTFP.

1.7.6.3 Pensions

Expenditure on pension (₹ 5379) which was 12 per cent of total Revenue Receipts of the State during the year steeply increased by 159 per cent from ₹ 2075 crore in 2008-09 to ₹ 5379 crore in 2012-13. It also increased by ₹ 638 crore from ₹ 4741 crore in 2011-12 to ₹ 5379 crore in 2012-13, being 13 per cent more than the previous year and also exceeded the ThFC estimation of increase of 10 per cent per annum. The increase in the current year over the previous year was mainly due to more expenditure under pensions and other retirement benefits to Government servants and Non-Government Teachers of Secondary Schools and Colleges. The State Government did not adequately estimate yearly pension liabilities for next ten years, as required under FRBM Act, 2005. The pension payment during the current year was higher than the projection made by ThFC (₹ 3187 crore) for the year.

The Government introduced a 'Defined Contributory Pension Scheme' for all employees recruited on or after 1 January 2005 for managing the future pension liability. The State Government has executed agreement with National Securities Depository Limited (NSDL), Mumbai, the Central Record Keeping Agency appointed by the Pension Fund Regulatory and Development Authority (PFRDA) as well as with New Pension Scheme (NPS) Trust, New Delhi for smooth management of NPS. An amount of ₹ 61.57 crore, being the employees contribution as well as employer's contribution, was kept under Public Accounts (8432-Other Deposits) for transfer to National Pension Scheme (NPS) Trust. Thus, the State Government's liability on this account was ₹ 61.57 crore as on 31st March 2013. This amount, has not been transferred to NPS, thus defeated the main objective of introducing the Defined Contribution Pension Scheme in order to limit future pension liabilities.

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

The Government stated (November 2013) that steps are being taken to invest / transfer employer's as well as employee's contribution to the identified fund manager with minimum possible time lag. The modalities are being worked out by the Director of Treasuries and Inspection, Odisha (DT& I (O)) in consultation with the Pr. Accountant General (A&E), Odisha. The reply indicated that Government has not yet transferred ₹ 61.57 crore from Public Account to NSDL and NPS trust despite the commitment made by the Government (November 2012) for transfer of such funds.

The State has been able to build the database of the pensioners in I OTMS. However, a Human Resources Management System (HRMS) has been put in place which is yet to capture the database of all the employees and demonstrate its efficacy in projection of salary expenditure.

The Government should take steps to complete the database and get the residual 13th FC Fund of ₹ 7.50 crore.

The fact however, remained that the database is yet to be completed. Further, efforts should be made by the Government to complete the data base as early as possible to get the residual fund for ₹ 7.50 crore from ThFC.

1.7.6.4 Subsidies

States, for welfare of public at large provide subsidies/subventions to disadvantaged sections of the society. Subsidies are dispensed not only explicitly but also implicitly by providing subsidised public service to the people. Budgetary support to financial institutions and poor recovery of user charges from social and economic services provided by the Government fall in the category of implicit subsidies.

The State Government in its MTFP for 2007-08, aimed to rationalise general subsidy and reduce their overall volume gradually at a rate of 10 *per cent* per annum beginning from 2005-06. However, the expenditure on subsidies increased from ₹ 743 crore in 2008-09 to ₹ 1951 crore (over 163 *per cent*) in 2012-13 which included food subsidy of ₹ 1190 crore due to continuation of scheme for disbursement of rice at two rupees per kilogram to people living below poverty line, ₹ 341 crore under Relief on account of Natural Calamities which consisted mainly of assistance to farmers affected by floods/cyclone for purchase of agricultural inputs etc, ₹ 30 crore under subsidy to Orissa Lift Irrigation Corporation Limited and ₹ 117 crore interest subsidy/subvention to the co-operative banks for providing crop loan at five *per cent* interest per annum to the farmers.

1.7.6.5 Future committed liabilities

Appendix XIV of Finance Accounts, 2012-13 depicts the information on committed liabilities of the State in the future as detailed in **Table 1.17**

Table 1.17: Committed Liabilities of the State in future (at the end of 31.03.2013)

(₹ in crore)					
Sl No	Nature of the Liability	Plan	Non-Plan	Likely year of the discharge	Balance Remaining
1.	Pensions	0	57426.97	2013-19	57426.97
2.	Interest payments	0	38638.70	2013-19	38638.70
3.	Repayment of Loan	0	13017.56	2013-19	13017.56
	TOTAL	0	109083.23		109083.23

Source: Finance Accounts 2012-13, Government of Odisha.

The total committed liabilities of the State stood at ₹ 109083 crore as at the end of the year. Out of total liabilities, pension payment obligations were 53 percent, interest payment 35 percent and loan repayment 12 percent.

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

The quantum of assistance provided by way of grants to local bodies and others during the current year relative to the previous years is presented in the **Table 1.18**.

Table 1.18: Financial Assistance to Local Bodies etc.

	(₹ in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Educational institutions (aided schools, aided colleges, universities, etc.)	355	697	1722	1859	668
Municipal Corporations and Municipalities	487	645	1168	591	804
Zilla Parishads and Other Panchayati Raj Institutions	2388	3062	3556	1149	1227
Development agencies	278	88	582	908	692
Other Institutions	1914	2230	2058	4558	3632
TOTAL	5422	6722	9086	9065	7023
Assistance as per percentage of RE	26	28	31	26	18

Source: Finance Accounts of Government of Odisha

Grants extended to local bodies and other institutions has significantly decreased by ₹ 2042 crore (23 per cent) from ₹ 9065 crore in 2011-12 to ₹ 7023 crore in 2012-13. The decrease over previous year was mainly due to decrease in assistance to Educational Institutions (₹ 1191 crore), Development agencies (₹ 216 crore) and Other Institutions (₹ 926 crore) which was partly set off by increase in assistance to Municipal Corporations and Municipalities (₹ 213 crore), Zilla Parishads and Other Panchayati Raj Institutions (₹ 78 crore) resulting in decrease in the share of grants and loans to the Revenue Expenditure from 26 per cent in 2011-12 to 18 per cent in the current year.

1.8 Quality of Expenditure

Availability of better infrastructure in the social, educational and health sector in the State generally reflects the quality of expenditure. Improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services), efficiency of expenditure use (assessment of input –output relationship in terms of time etc.) and the effectiveness (assessment of outlay-outcome relationships for selected services).

1.8.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.19** analyses the fiscal priority of the

State Government with regard to Development Expenditure, Social Expenditure and Capital Expenditure during 2012-13.

Table 1.19: Fiscal Priority and Fiscal capacity of the State in 2009-10 and 2012-13.

(In percent)

Fiscal Priority by the State	AE/GSDP	DE#/AE	SSE/AE	CE/AE	Education/AE	Health/AE
General Category States* average (Ratio) 2009-10	17.06	66.05	35.73	14.96	16.19	4.24
Odisha State's average (Ratio) 2009-10	17.83	65.95	35.97	12.56	19.12	4.03
General Category States* average (Ratio) 2012-13	15.93	65.79	32.77	13.23	17.23	4.47
Odisha State's average (Ratio) 2012-13	17.03	69.39	36.72	12.76	16.57	4.00

As per cent to GSDP

* General Category States excluding Delhi and Goa

AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure, CE: Capital Expenditure

#G Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans & Advance disbursed

From the above table, it may be seen that

- The ratio of the AE to GSDP in 2009-10 and 2012-13 (17.83 per cent and 17.03 per cent) was higher in Odisha as compared to other General Category States (17.06 per cent and 15.93 per cent).
- Development expenditure as a proportion of Aggregate expenditure in Odisha was lower compared to the average of General Category States during 2009-10. However, in 2012-13, Odisha spent a higher proportion on this account as compared to General Category states. Development expenditure consists of both economic service expenditure and social sector expenditure.
- Capital Expenditure however, has been given less fiscal priority in the current year as well as in 2009-10. Increased priority to physical capital formation will further increase the growth prospects of the state by creating durable assets.
- Fiscal priority given to education in Odisha was higher than other General Category States in 2009-10, but in 2012-13, lower fiscal priority was given to this sector by the State as compared to other General Category States.
- Fiscal priority given to health sector in Odisha during 2009-10 as well as in current year based on the proportion of aggregate expenditure was lower than other General Category States. Greater fiscal priority needs to be accorded to the health sector.

1.8.2 Efficiency of Expenditure use

In view of the importance of public expenditure for attaining higher levels of social and economic development, it is important for the Government to take appropriate expenditure rationalisation measures so as to lay emphasis on provision of core public and merit goods⁴. Apart from improving the allocation towards Development

⁴ **Core public goods** are which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. **Merit goods** are commodities that the public sector provides free or at subsidised rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidised food for the poor to support nutrition,

Expenditure⁵, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years and which is further enlarged due to generation of a surplus on Revenue account since 2005-06, the efficiency of expenditure use is also reflected by the ratio of Capital Expenditure to total expenditure (and/or GSDP) and proportion of Revenue Expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.20** presents the trends in Development Expenditure relative to the Aggregate Expenditure of the State during the current year vis-à-vis budgeted and the previous years, **Table 1.21** provides the details of Capital Expenditure and the components of Revenue Expenditure incurred on the maintenance of the selected social and economic services.

Table 1.20: Development Expenditure

(₹ in crore)

Components of Development Expenditure [§]	2008-09	2009-10	2010-11	2011-12	2012-13	
					(BE)	(Actual)
Development Expenditure (a to c)						
a. Development Revenue Expenditure (DRE)	13835 (55)	15600 (54)	18999 (56)	23070 (58)	25046	25173 (57)
b. Development Capital Expenditure (DCE)	3595 (14)	3470 (12)	4051 (12)	4238 (11)	6279	5271 (12)
c. Development Loans and Advances	122 (0.5)	89 (0.3)	258 (0.8)	401 (1)	NA	142 (0.3)
TOTAL	17552 (70)	19159 (66)	23308 (69)	27709 (70)		30586 (69)

Figures in parentheses indicate *percentage* to aggregate expenditure; NA: Not available

***Source:** Odisha Budget at a Glance 2013-14 and Finance Accounts 2012-13. Details in **Appendix 1.3**

[§] The expenditure on social and economic services constitutes Development Expenditure.

Development expenditure comprising Revenue, Capital and expenditure on loans and advances on socio-economic services increased from ₹ 17552 crore in 2008-09 to ₹ 30586 crore in 2012-13. As a percentage of total expenditure, it decreased marginally from 70 *per cent* in 2008-09 to 69 *per cent* in 2012-13.

It would be seen from the above that Development Revenue Expenditure which was ₹ 13835 crore during 2008-09 rose to ₹ 25173 crore during 2012-13, registering a growth of nearly 82 *per cent*.

During 2012-13 Development Revenue Expenditure increased by ₹ 2103 crore (nine *per cent*) in absolute terms and Development Capital Expenditure increased by ₹ 1033 crore (24 *per cent*) over the previous year.

The increase in Development Revenue Expenditure during 2012-13 over the previous year was mainly due to increase under Education (₹ 202 crore), Health & Family Welfare (₹ 356 crore), Water Supplies, Sanitation and Housing & Urban Development (₹ 216 crore) Agriculture & allied activities (₹ 388 crore), Transport (₹ 133 crore) and Irrigation and Flood Control (₹ 183 crore). The increase in Capital Expenditure during 2012-13 over the previous year was mainly due to increase in expenditure on

delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

⁵ Analysis of expenditure data is disaggregated into development and non development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorised into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

Transport (₹ 295 crore), Irrigation & Flood control (₹ 256 crore), Welfare of Scheduled Castes, Scheduled Tribes & Other Backward Classes (₹ 180 crore), Water Supplies, Sanitation and Housing and Urban Development (₹ 173 crore) and Energy (₹ 106 crore).

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

(In per cent)

Sectors	2011-12			2012-13		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S &W	O&M		S&W	O &M
Social Services (SS)						
General Education	1.42	53.21	NA	0.54	53.80	NA
Health and Family Welfare	2.71	72.82	NA	4.75	61.81	NA
Water Supplies, Sanitation & Housing & Urban Development	16.74	7.79	31.75	25.84	6.73	29.40
TOTAL (SS)	4.33	35.33	1.98	7.45	36.32	2.18
Economic Services (ES)						
Agriculture & Allied Activities	4.41	23.01	NA	1.16	19.67	NA
Irrigation and Flood Control	67.06	18.31	25.58	65.80	16.01	40.90
Power & Energy	43.05	16.16	11.14	65.54	23.64	43.95
Transport	51.34	0.33	61.41	49.73	0.38	30.37
Total (ES)	28.43	14.85	18.88	28.23	13.87	10.96
TOTAL (SS+ES)	15.27	27.58	5.35	17.23	27.23	5.74

TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance.

O&M figures are not available in General Education, Health and Family Welfare, Agriculture & Allied Activities and Transport Departments.

Source: Finance Accounts of Government of Odisha

Access to basic education, health services, drinking water and sanitation facilities are strong indicators of socio economic progress. Further, expenditure on economic services includes all such services that promote directly and indirectly productive capacity within the State by improving the quality of human resources. Therefore, it is pertinent to make an assessment with regard to expansion and efficient provision of these services in the State. **Table 1.22** summarises percentage of expenditure under different components of economic and social services sectors incurred by the State Government in expanding and maintaining social and economic services in the State during 2011-12 and 2012-13.

The share of Capital Expenditure to total expenditure has increased in respect of Water Supplies, Sanitation, Housing & Urban Development, Health & Family Welfare (in Social Services) and Power and Energy (in Economic Services) during 2012-13 as compared to the previous year whereas the share of the Operation & Maintenance expenditure has substantially increased in Power & Energy and Irrigation & Flood Control set off by substantial decrease of the same in Transport.

As seen from **Appendix 1.3**, expenditure on Social Services during 2012-13 (₹ 16182 crore) constituting 37 per cent of total expenditure (₹ 44076 crore) increased by eight per cent over the previous year's expenditure (₹ 14995 crore) while in Development Expenditure (₹ 30586 crore), which was 69 per cent of total expenditure, there was an increase of 10 per cent over the previous year (₹ 27709 crore). Operation and maintenance expenditure increased only by 0.39 per cent indicating that Revenue Expenditure on salaries continued to share a dominant proportion of Revenue

Expenditure on Social Services (36 *per cent*). Capital Expenditure on Social Services relative to the total expenditure showed a marginal increase (3.12 *per cent*) over the previous year.

It was observed that the salary component in Health & Family Welfare and Water Supplies, Sanitation, Housing & Urban Development decreased by 11.01 *per cent* and 1.06 *per cent* respectively.

Expenditure on economic services includes all such expenditure that promotes directly or indirectly, productive capacity within the State's economy. During 2012-13, total expenditure under economic services (₹ 14262 crore) increased by 16 *per cent* over previous year. The expenditure on total economic services (₹ 14202 crore) accounted for 32 *per cent* of total expenditure and 46 *per cent* of Development Expenditure.

1.8.3 Outcome Budget (Effectiveness of the Expenditure)

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

Outlay-outcome budget of three departments viz. ST & SC Development Department, Panchayati Raj Department and Fisheries & Animal Resources Development Department were reviewed for the year 2012-13 and it was seen that the financial and physical targets were not fully achieved (*Appendix 1.6*).

In ST & SC Development Department the following deficiencies were noticed in the financial & physical achievement up to December 2012:

- In the scheme for implementation of Computer Education in High School and Girls High School, only 14 *per cent* (₹ 10 crore) of the total funds allotted (₹ 75 crore) were utilized and physical achievement was also 15 *per cent* (11 schools out of 75 targeted).
- In the scheme for construction of hostels for ST Girls, 82 *per cent* (₹ 171 crore) of funds allotted (₹ 210 crore) were utilized, but only 32 *per cent* (316) of the targeted number (1000) of hostels could be completed. Thus, although funds to provide residential accommodation to the beneficiaries were available, the targeted physical outcomes were not achieved.
- In four schemes, i.e. creation of infrastructure, supply of cooking gas, establishment of micro projects for primitive tribes and grant in aid to State Tribal Development Cooperative Corporations for Minor Forest Produce (STDCC for MFP), the financial achievement was below 50 *per cent*, resulting in corresponding low achievement of physical targets.
- In the scheme to provide solar lamps to hostels having no electricity, 59 *per cent* (₹ 53 lakh) of funds allotted (₹ 91 lakh) were utilized, but only 51 *per cent*

cent (77) of the targeted number (150) hostels could be supplied with solar lamps.

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

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

- In the GGY scheme for employment generation, 52 per cent (₹ 81 crore) of the funds allotted (₹ 155 crore) were utilized against which only 54 per cent (4221 projects) of the targeted number (7848 projects) of employment could be provided.
- In the BRGF scheme, 43 per cent (₹ 180 crore) of the funds allotted (₹ 414 crore) were utilized against which 58 per cent (5922) of the targeted number (10264) of projects could be completed.
- In the Indira Awas Yojana scheme, 42 per cent (₹ 429 crore) of the funds allotted (₹ 1019 crore) were utilized against which only 15 per cent (59877) of the targeted number (395148) of houses could be completed.
- In the Mo Kudia scheme, 46 per cent (₹ 46 crore) of the fund allotted (₹ 100 crore) was utilized against which only 28 per cent (7940) of the targeted number (28168) of houses could be completed.
- In the C.C Road Scheme, although the full extent of funds for the year as well as funds carried over were utilized (₹ 197.85 crore against financial outlay of ₹ 150 crore for the year), only 8 per cent (232 km) against a target of 2907 kms of road work could be completed.

In Fisheries & Animal Resource Development Department, the encouragement of commercial poultry entrepreneur and promotion of backyard poultry production scheme, percentage of utilization was 29 per cent (₹ 29 lakh) of the allotted fund (₹ one crore) towards recurring expenses for breeding of poultry farms.

It was further seen from the Outcome Budget that either due to funds not being sanctioned or Central Assistance not being received, 22 schemes were not implemented.

Not only was the achievement in terms of physical outcomes below the targets set, even the management of funds available to executing agencies were not managed adequately. In 11 schemes under the above three departments, the percentage of utilisation was below 60 per cent by the third quarter of 2012-13. Thus, even the objectives of Cash Management System to reduce rush of expenditure during the last quarters of the financial year were not fulfilled, as detailed in Chapter-II of this Report.

1.9 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit not only low but also meet its Capital Expenditure/Investment (including Loans and Advances) requirement out of its own source of Revenue. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate Return on its Investments (RoI) and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other Capital Expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.9.1 Financial Results of Irrigation Works

The financial results of 62 irrigation projects (13-major and 49-medium projects) with a Capital Expenditure of ₹ 3967.38 crore at the end of March 2013 showed that an amount of ₹ 235.72 crore was realised from these projects during 2012-13 by way of sale of water to industries. After meeting the working and maintenance expenditure of ₹ 208.07 crore and interest charges of ₹ 267.61 crore, the schemes suffered a net loss of ₹ 239.96 crore.

1.9.2 Incomplete Projects

Blocking of funds on incomplete works affects negatively on the quality of expenditure. The department-wise information pertaining to incomplete time overrun projects as on 31 March 2013 is given in **Table 1.22** as per the Budget at Glance 2013-14 and information furnished to Audit by the concerned Departments.

Table 1.22: Department-wise profile of incomplete projects

(₹ in crore)				
Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects	Cumulative Actual Expenditure as on 31 March 2013
Water Resources	58	170.67	183.21	53.45
Works	15	190.72	190.72	82.17
E and T E & T	2	3.32	3.35	2.36
Housing & Urban Development	7	18.61	29.02	22.24
Rural Development	68	193.70	202.45	150.36
Industries	1	39.89	39.89	36.79
TOTAL	151	616.91	648.64	347.37

Source: Budget at Glance 2013-14 and details supplied by Finance Department.

Out of these, delay in completion of 45 projects has resulted in cost overrun of ₹ 34.49 crore as of 31 March 2013, details given in **Table 1.23** below.

Table 1.23: Projects depicting cost overrun

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Cost Projects	Total of	Cost overrun
Water Resources	14	37.08		52.34	15.26
Housing & Urban Development	3	10.33		20.10	9.77
Rural Development	27	75.85		85.30	9.45
E and TE & T	1	1.77		1.78	0.01
TOTAL	45	125.03		159.52	34.49

Source: Budget at Glance 2013-14 and details supplied by Finance Department.

All the above 151 projects were lying incomplete due to the prolonged processes involved in land acquisition, matters lying sub-judice in Courts, finalising and revising the designs, shortage of funds and slow progress of work. Due to non-completion of projects, not only were the benefits that were to accrue to the intended beneficiaries delayed, but also the cost to the exchequer increased due to time overrun involved in their completion.

Efforts should be made by the concerned Departments to complete the incomplete projects as early as possible, as ₹ 347.37 crore had already been spent on these incomplete projects and full benefits are yet to be realized.

1.9.3 Investment and Returns

Government had invested ₹ 2964.28 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives at the end of March 2013. Average return on this investment was 11.94 per cent in the last five years (19.04 per cent during 2012-13) while Government paid an average interest rate of 6.54 per cent to 7.63 per cent on its borrowings during 2008-09 to 2012-2013 (Table 1.24).

Table 1.24: Return on Investment

(₹ in crore)

Year	2008-09	2009-10	2010-11	2011-12	2012-13
Investment at the end of the year	1771.20	2106.95	2190.37	2908.07	2964.28
Return	252.85	250.78	101.58	286.23	564.53
Percentage of return	14.27	11.90	4.64	9.84	19.04
Average rate of interest on Government borrowing	7.44	7.63	7.39	6.09	6.54
Difference between interest rate and return	(-)6.83	(-)4.27	(+)2.75	(-)3.75	(-)12.50

The investment of State Government at the end of 2012-13 included ₹ 2602.88 crore in 83 Public Sector Undertakings (PSU) comprising 80 Government Companies (₹ 2102.42 crore) and three Statutory Corporations (₹ 500.46 crore). Dividend of ₹ 564.53 crore was received from one Statutory Corporation⁶, six jointly held Companies⁷ and one Co-operative Society⁸ during 2012-13.

⁶ Odisha State Warehousing Corporation, Bhubaneswar: ₹ 0.72 crore.

⁷ Odisha Mining Corporation Limited: ₹ 500 crore, Odisha Small Industries Corporation Limited: ₹ 0.19 crore, Odisha Hydro Power Corporation: ₹ 19.42 crore, Odisha Power Generation Corporation Limited: ₹ 42.50 crore, Odisha State Cashew Development Corporation Limited: ₹ 1.17 crore and Odisha Ceramic Industries Limited: ₹ 0.01 crore..

⁸ Other cooperatives ₹ 0.52 crore.

As per information furnished in the Odisha Budget at a Glance 2013-14, Grid Corporation of Odisha Limited (GRIDCO) with accumulated loss of ₹1772.45 crore, Odisha State Road Transport Corporation with ₹198.72 crore, Odisha State Financial Corporation with ₹ 400.39 crore, Odisha Forest Development Corporation with ₹149.56 crore and Odisha Power Transmission Corporation with ₹ 157.05 crore were among the major loss incurring PSUs in the State as of 2011-12. During 2012-13, the Government invested ₹ 58 crore in two loss incurring PSUs i.e. Odisha Power Transmission Corporation Limited (OPTCL) (₹50 crore) & Odisha State Road Transport Corporation (₹ eight crore).

Out of 83 PSUs in the State, 30 were working and the rest 53⁹ PSUs were non-working. The ThFC recommended the State Government to draw up a road map for closure of non-working PSUs by March 2011 but the State Government had not done so, as of March 2013.

1.9.4 Loans and Advances by State Government

In addition to investments in Co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. Loans and advances by the State Government increased by ₹ 74 crore from ₹ 3903 crore in 2011-12 to ₹ 3977 crore in 2012-13. During the year Government advanced loan amounting to ₹ 216 crore and ₹ 142 crore was repaid by the loanee entities. Major portion of loans advanced during 2012-13 was to Energy sector (₹ 135 crore), Government servants (₹ 74 crore). **Table 1.25** presents outstanding loans and advances as on 31 March 2013 and interest receipts vis-à-vis interest payments during the last three years.

Table 1.25: Average Interest Received on Loans Advanced by the State Government

	(₹ in crore)		
Quantum of Loans/Interest Receipts/ Cost of Borrowings	2010-11	2011-12	2012-13
Opening Balance	3133	3414	3903
Amount advanced during the year	315	621	216
Amount repaid during the year	34	132	142
Closing Balance	3414	3903	3977
<i>Of which</i> outstanding balance for which terms and conditions have been settled			
Net addition	(+281)	(+489)	(+74)
Interest Receipts	29	16	16
Interest receipts as <i>per cent</i> to outstanding Loans and advances	0.85	0.41	0.40
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	7.26	6.07	6.48
Difference between interest payments and interest receipts (<i>per cent</i>)	(-)6.41	(-)5.66	(-)6.08

Source: Finance Accounts of Government of Odisha for respective years

Loans outstanding as of 31 March 2013 aggregated ₹ 3977 crore. Of the total outstanding loans of ₹ 3977 crore, terms and conditions for loan amount of ₹ 1405.10 crore are yet to be settled. The same are pending for settlement since 1994-95. (Statement 16 of Finance Accounts 2012-13)

⁹ Out of 53 Non working PSUs, 14 were defunct Government Companies, 18 companies were under liquidation, 2 companies were liquidated, 9 were closed Government companies and no information available on present status of 10 companies. (Source: Finance Accounts 2012-13).

Scrutiny of the total outstanding loans revealed that loans amount ranging from ₹ 2742 crore to ₹ 3328 crore during 2008-09 to 2012-13 relating to 12 departments remained unaltered/marginally repaid for more than five years. The **Table 1.26** shows the dismal trend of repayment as in many of these cases, the closing balances remained undisturbed.

Table 1.26: Loans & advances rolling for a long time

(₹ in crore)

Sl.No	Name of Deptt.	2008-09	2009-10	2010-11	2011-12	2012-13
1	Excise	1	1	1	1	1
2	Education	6.29	6.29	6.43	6.05	6.11
3	Housing & Urban Development	376.57	424.44	475.44	639.68	637.25
4	Information & Public Relation (I & PR)	0.54	0.54	0.54	0.54	0.54
5	Welfare of SC, ST & OBC	13.56	13.56	13.56	13.56	13.56
6	Agriculture	49.61	49.61	49.56	49.54	49.46
7	Fisheries & Animal Resources Development	9.21	19.21	19.21	19.21	19.21
8	Co-operation	67.51	68.04	67.90	83.67	81.22
9	Water Resources	5.97	5.92	6.17	6.09	6.01
10	Energy	1943.09	1943.09	2148.09	2218.86	2296.20
11	Micro Small and Medium Entreprises (Industries)	435.23	203.32	203.54	206.04	209.25
12	Finance	7.34	7.34	7.34	7.34	7.34
	Total	2915.92	2742.36	2998.78	3251.58	3327.15

Source: Finance Accounts 2008-09 to 2012-13, Government of Odisha.

As seen above, in four cases (Excise, I & PR, Welfare of SC, ST & OBC and Finance Department), the loans and advances remained constant over five years. In two cases (Education and Agriculture department) the loans and advances reduced marginally, whereas in MSME (Industries) department the repayment was made only on 2009-10 and thereafter increased marginally. In rest seven cases loans and advances increased over the period of five year ending 2012-13.

In 2012-13, loans amounting to ₹ 210.05 crore were advanced to various loanee entities from whom repayment of earlier loans to the extent of ₹ 322.03 crore was in arrears. The earliest period to which arrears relate to was 1998-99 (i.e GRIDCO). Reasons for disbursement during the current year was not explained. Few cases of such loans are as follows:

Table 1.27: Arrear loans from loanee entity

(₹ in crore)

Name of the Loanee entity	Loans disbursed during the current year 2012-13	Amount of arrears as on March 2013
Scholarship and Advances to Stipendiary's from L.S,F	1.09	2.27
GRIDCO Ltd	135.00	133.35
Loans to Government Servants	73.96	186.41
Total	210.05	322.03

Source: Finance Account 2012-13

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

Interest receipts decreased by 400 *per cent* from ₹ 80 crore in 2008-09 to ₹ 16 crore during the current year. Similarly, interest received against the total outstanding loans and advances decreased from 2.37 *per cent* in 2008-09 to 0.40 *per cent* in 2012-13. While interest payment during 2012-13 was 6.48 *per cent* of its outstanding fiscal liabilities, the interest received was only 0.40 *per cent* of the outstanding loans and advances. As a result, interest spread of Government borrowings was negative during 2010-13 which meant that the state borrowings were more expensive than the loans advanced by it.

The Government stated (November 2013) that the main reason for decrease in interest receipt from ₹ 80 crore in 2008-09 to ₹ 16 crore in 2012-13 is non-receipt of interest from GRIDCO. The reply however, does not address the issue of non receipt of loan interest from other loanee entities as well as loans outstanding for more than five years.

1.9.5 Cash Balances and Investment of Cash Balances

Table 1.28 depicts the cash balances and investments made by the State Government out of cash balances during 2012-13. Total investment out of cash balances during 2012-13 were ₹ 7341.81 crore, major portion of which was in Government of India Treasury Bills (₹ 7239.95 crore). On these investments, the Government earned interest of ₹ 563.95 crore during the current year. Cash balance at the close of the current year increased from 11486.88 crore of the previous year to ₹ 12864.68 crore during the current year and reflected in cash balance investment accounts as follows.

Table 1.28: Cash balance and investment of cash balance

	Opening balance on 1/4/2012	Closing balance on 31/3/2013
(a) General Cash Balance -		
Cash in Treasuries	---	---
Deposits with Reserve Bank	(-)465.38	(-)23.92
Deposits with other Banks	---	---
Remittances in transit - Local	---	---
Investments held in Cash Balance investment account	6883.74	7341.81
Total (a)	6418.36	7317.89
(b) Other Cash Balances and Investments		
Cash with departmental officers viz. Public Works Department Officers, Forest Department Officers, District Collectors	45.20	23.47
Permanent advances for contingent expenditure with departmental officers	0.32	0.32
Investment of earmarked funds	5023.00	5523.00
Total (b)	5068.52	5546.79
Grand total (a)+ (b)	11486.88	12864.68

Source: Finance Accounts 2012-13, Government of Odisha.

The State Government maintained more than the mandated minimum cash balance (₹ 1.28 crore) including the cash balance investment in GoI treasury bills with the Reserve Bank of India as on 31 March 2013. One option for prudent financial management would be to maintain optimum cash balances and use the surpluses to settle some of the high cost bonds instead of investing the same in GoI Treasury bills with Reserve Bank of India at a relatively lower rate (five *per cent*) of interest. The State Governments closing debt stocks of 2012-13 included a few high interest bearing loans like 7.77 *per cent* Odisha Government Loan (OGL) 2015 (₹ 506 crore), 7.17 *per cent* OGL 2017 (₹ 191 crore), 7.36 *per cent* OGL 2014 (₹ 169 crore), 7.32 *per cent* OGL 2014 (₹ 218 crore) and nine *per cent* special security to National Small Savings Scheme (NSSF) of Government of India (₹ 8597 crore). The ThFC recommended (paragraph 7.127) that States with large cash balances should make efforts towards utilising their cash balances before resorting to fresh borrowings.

Analysis of Cash Balance

The ThFC had suggested that there should be directed effort by the States with large balances towards utilising their existing cash balances before resorting to fresh borrowings. The Reserve Bank of India has also reiterated the fact and advised the States to manage their cash balance more efficiently. It is commendable to note that the State adhering to ThFC recommendation not only avoided any open market borrowings during 2012-13 but also discharged high cost Odisha State Development Loans (OSDL) amounting to ₹ 1308 crore. Cash balance as a proportion of Total Expenditure was 17 *per cent* for 2012-13.

However, it was seen that Revenue Expenditure and Capital Expenditure were less than the Budget Estimate by ₹ 3194 crore (eight *per cent*) and ₹ 1421 crore (20 *per cent*) respectively. The decrease in Capital Expenditure as compared to Budget Estimate is not a good sign in a developing State with poor infrastructural levels. In view of the comfortable position of cash balances, with a Revenue surplus of ₹ 5699 crore and a fiscal surplus of three crore, the surplus cash balance could have been utilised in providing more funds under capital sector and in creating assets. Since maintaining huge idle cash balance is against the principles of prudent cash management, appropriate steps may be taken for spending on capital projects for creation of assets.

1.10 Assets and Liabilities

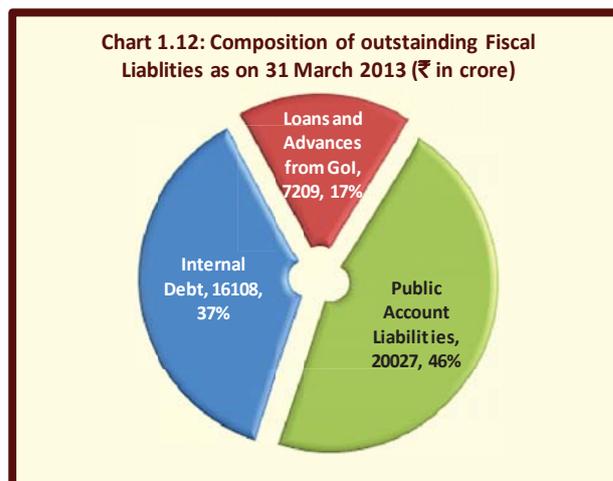
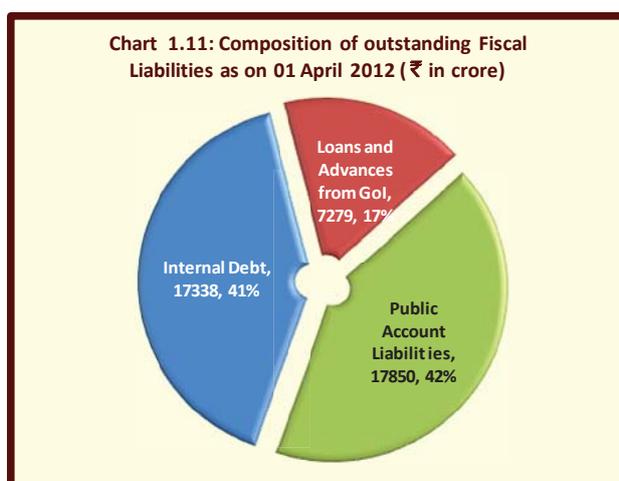
1.10.1 Growth and composition of Assets and Liabilities

Under the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government Accounts does capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.7** gives an abstract of such liabilities and the assets as on 31 March 2013, compared with the corresponding position as on 31 March 2012. The liabilities consist mainly of internal borrowings, loans and advances from the GoI and receipts from the Public Account and Reserve Funds; the assets comprise mainly the capital outlay and loans and advances given by the State Government and instruments in which surplus cash is invested.

After 2006-07, Government has accumulated huge cash balances and liquidated the past liabilities especially GoI loans and also made significant improvement in their fiscal balances owing to increase in its own receipts and the central transfers which helped the State Government in improving the asset-liability ratio during these years. During last five years assets have increased substantially.

1.10.2 Fiscal Liabilities

Trends in outstanding fiscal liabilities of the State are presented in *Appendix 1.3*. However, the composition of fiscal liabilities during the current year vis-à-vis the previous year are presented in **Chart 1.11** and **1.12**.



Fiscal liabilities as it stood on 1 April 2012 was ₹ 42467 crore comprising internal debt of ₹ 17338 crore (41 per cent), Public Accounts liability of ₹ 17850 crore (42 per cent) and loans and advance of ₹ 7279 crore (17 per cent) from GoI. However, it increased by ₹ 877 crore to ₹ 43344 crore as of 31 March 2013. The fiscal liabilities comprised internal debt of ₹ 16108 crore (37 per cent), public account of ₹ 20027 crore (46 per cent) and loans and advances of ₹ 7209 crore (17 per cent) as at the end of 2012-13. The internal debt of ₹ 16108 crore comprised mainly of market loans bearing interest (₹ 3806 crore), loans from National Bank of Agriculture and Rural Development (₹ 3330 crore) and special securities issued to National Small Savings Fund (₹ 8597 crore). The ThFC has recommended that by the year 2014-15, fiscal liability should be brought down to 25 per cent of GSDP. The Government has already been able to achieve this target during this year. The fiscal liabilities at the end of 2012-13 constituted 17 per cent of GSDP which is two per cent less than previous year. This is a positive sign for the State finances.

1.10.3 Status of Guarantees – Contingent Liabilities

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

As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table 1.29**.

Table 1.29: Guarantees given by the Government of Odisha

(₹ in crore)

Guarantees	2010-11	2011-12	2012-13
Maximum amount guaranteed (₹ in crore)	9788.62	10578.61	10578.61
Outstanding amount of guarantees (₹ in crore)	2066.24	2510.43	2251.23
Percentage of maximum amount guaranteed to total Revenue Receipt of current year (percentage)	29.41	26.27	24.08
Percentage of outstanding guarantee to total Revenue Receipt of 2 nd preceding year less Grants-in-aid as provided in the MTFP (percentage)	10.62	12.12	8.50
Maximum amount of guarantee as per criteria: (not be more than 100 <i>per cent</i> of State's Revenue Receipt less Grants-in-aid of the 2 nd preceding year as provided in Finance Department Resolution No 52214/F, dated 12 November 2002)	19452	20713	26470

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

The outstanding guarantees decreased by 10 *per cent* from ₹ 2510 crore in 2011-12 to ₹ 2251 crore in 2012-13. Guarantees were given in respect of Power sector (4), Co-operatives sector (41), Housing & Urban Development (86), Irrigation sector (2), Roads and Transport sector (2), State Financial Corporation sector (8) and other infrastructure (18). Government in their resolution (19 March 2004) issued instruction to the Public Sector Undertakings/Urban Local Bodies/Co-operative Societies etc, who had borrowed or intended to borrow against Government guarantees to open an Escrow Account in a Nationalised Bank for timely repayment of guaranteed loans. As on 31 March 2013, Escrow Accounts have been opened by only 12 out of 161 such institutions.

Though no law has been enacted under Article 293 of the Constitution laying down maximum limits for such guarantees, the State Government imposed (November 2002) an administrative limit in Finance Department Resolution No.52214/F, dated 12 November 2002 prescribing that the total outstanding guarantee as on 1 day of April every year was not to exceed hundred *per cent* of the State's Revenue Receipts of the 2nd preceding year (as per the books of account maintained by Principal Accountant General (A & E) Odisha). As per the above, the guarantee position was well within the norms laid down in the said resolution by ₹ 19452 crore, ₹ 20713 crore and ₹ 26470 crore 2010-11, 2011-12 and 2012-13 respectively.

To provide for sudden discharge of State's obligation on guarantee, Twelfth Finance Commission (TwFC) recommended that States should set up Guarantee Redemption Fund through earmarked guarantee fees. The Government has set up a "Guarantee Redemption Fund" during 2002-03 to meet the contingent liabilities arising out of the total outstanding liabilities. However, there was no transaction since 2008-09 though there were guarantee commission receipts and expenditure on account of discharge of guarantee obligation. As on 31 March 2013, ₹ 480 crore remained invested in the fund.

Further, in consideration of the guarantee given by the Government, the institutions in some cases are required to pay guarantee commission at rates varying from 0.01 per cent to one per cent. As per information supplied to Audit, Guarantee Commission or fee of ₹ 271.32 crore was in arrear from various sectors as shown in **Table 1.30**.

Table 1.30: Guarantee Commission received/to be received by the Government.

(₹ in crore)		
Name of the Sector	Commission Received	Commission to be Received
Power	77.45	201.51
Co-operatives	1.52	3.77
Irrigation	0.16	0.16
State Financial Corporation	2.86	8.48
Housing and Urban Development	26.68	40.93
Roads and Transport	1.84	1.84
Other Infrastructure	4.10	13.38
Any Other	0	1.25
TOTAL	114.61	271.32

Source: Finance Accounts 2012-13, Government of Odisha.

The State Government has also taken a number of steps to enhance the credibility of the State finances in the financial market. One such measure was discharging the State Government guarantees through one time settlement (OTS). So far, the State Government have paid ₹744.99 crore under OTS schemes to discharge guarantee liabilities arising out of the default loanee organisations. *During the year 2012-13, the Government have not invoked any guarantee and also not issued any letter of comfort.* Government stated (November 2013) that opening of Escrow Account is made mandatory before issuing any fresh Government Guarantee to an organization.

Government's reply is not tenable as only 12 out of 161 Institutions have opened Escrow Account as of March 2013.

1.10.4 Transactions under Reserve fund

Twelfth Finance Commission has recommended that State should set up Sinking Funds for amortization of all loans including loans from banks, liabilities on account of National Small Savings Fund etc. and should not be used for any other purpose, except for redemption of Loans. Guarantee Redemption Fund is meant for discharge of the states' obligations on Guarantee.

- i) **Sinking Fund for amortization of Market Loan:** The fund has been constituted for amortization of loans received from Life Insurance Corporation (LIC) of India. Every year an amount of ₹ 0.07 crore is transferred to the Reserve fund under the Major Head 8222-Sinking fund-01-Appropriation for Reduction or Avoidance of Debt by debiting 2048-Appropriation for Reduction or Avoidance of Debt. This year no amount has been transferred to the fund as the available balance at the credit of the fund exceeded the outstanding loan availed from LIC of India.
- ii) **Consolidated Sinking Fund:** The fund has been constituted with effect from 2002-03 for discharging liabilities arising out of huge open Market Borrowings in shape of Principal and Interest to avoid default. This is in addition to the existing sinking fund as at (i) above.

During the year an amount of ₹ 500 crore has been transferred to the fund by debiting 2048- Appropriation for Reduction or Avoidance of Debt. The balance at credit of the fund as on 31 March 2013 is ₹ 5043 crore.

iii) Guarantee Redemption Fund: Guarantee Redemption Fund was constituted in the year 2002-03 as per recommendation of the Finance Commission with a corpus of ₹ 200 crore. The balance at the credit of the fund as on 31 March 2013 is ₹ 479.99 crore. The Government of Odisha has discharged guarantee liabilities for ₹ 744.99 crore by charging to different functional loan major heads at the end of 2012-13 without reimbursing any amount from the redemption fund. This amount will be charged to guarantee redemption fund only when the loan against the entity becomes irrecoverable.

iv) State Disaster Response Fund: As per recommendation of the Thirteen Finance Commission the State Disaster Response Fund was constituted w.e.f. 2010-11. The balance at the credit of the fund as on 31 March 2013 is ₹184.32 crore.

1.10.5 Inoperative Reserve Funds

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

Twenty seven reserve funds have been created and maintained in the accounts of the State Government. Out of the said 27 funds, 21 funds are inoperative or dormant for significant periods. The details of 21 major inoperative funds are given in **Table 1.31**.

Table 1.31: Inoperative reserve fund

(₹ in lakh)

Sl. No	Major and Minor heads with nomenclature	Balance as on 31.03.2013		Year of last transaction
1.	8011-Insurance and Pension Funds 105-State Government Insurance Fund	Cr.	0.07	2003-04
2.	8012-Special Deposit and Accounts 123-Special Deposit for employees Provident Fund Scheme (Administration Fund)	Cr.	1.63	2002-03
3.	8013-Other Deposits and Accounts 01-Deposit Schemes for Retiring employees 101-Deposit Scheme for Retiring Govt. Employees, 1989	Cr.	38.81	1997-98
4.	8115-Depreciation/Renewal Reserve Fund 103-Depreciation Reserve Funds-Govt. Commercial Departments and Undertakings			
	Hirakud Dam Project Stage-I &II	Cr.	3,20.08	1987-88
	Duduma Transmission Scheme	Cr.	20.93	1987-88
	Hirakud Power Utilisation Scheme	Cr.	16.04	1987-88
	Cuttack Thermal Scheme	Cr.	19.41	1987-88
	Baripada Electricity Supply Scheme	Cr.	4.00	1987-88
	Town Electrification Scheme Group-I	Cr.	1.70	1987-88
	Town Electrification Scheme Group-II	Cr.	3.34	1987-88

Sl. No	Major and Minor heads with nomenclature	Balance as on 31.03.2013		Year of last transaction
	Electrification of Small Towns and Rural Areas, Group-III	Cr.	6.47	1987-88
	Expansion of Power facilities	Cr.	5.59	1987-88
	Talcher Thermal Scheme	Cr.	84.52	1987-88
5.	8121-General and Other Reserve Fund 101-General and Other Reserve Funds-Govt. Commercial Departments and Undertakings.	Cr.	1.88	1996-97
6.	8229-Development and Welfare Funds 103-Development Funds for Agricultural purposes 109-Co-operative Development Funds, State Co-operative Development Fund 123-Consumer Welfare Fund	Cr.	11.24	1967-68
		Cr.	2.00	1959-60
		Cr.	25.24	2004-05
7.	8235-General and Other Reserve Funds 102-Zamindari Abolition Fund 103-Religious and Charitable Endowment Funds 200-Other Funds: - Guarantee Reserve Fund, Passengers Amenities Reserve Fund	Cr.	59.19	1994-95
		Cr.	1.51	1983-84
		Cr.	2,50.28	1997-98
		Cr.	6.00	1982-83
TOTAL			8,79.93	

Source: Finance Accounts of Government of Odisha 2012-13 (Volume-1)

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

Government stated (November 2013) that all the concerned departments have been requested to review the continuance of the inoperative Reserve Funds and recommend for their closure

1.11 Debt Sustainability

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

Apart from the magnitude of the debt of the State Government, it is important to analyze various indicators that determine the debt sustainability¹⁰ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation¹¹; sufficiency of non-debt receipts¹²; net availability of borrowed funds¹³;

¹⁰ Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt

¹¹ A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilise eventually. On the other

interest burden payments (measured by interest payments to Revenue Receipts ratio) and maturity profile of State Government securities. **Table 1.32** analyses the debt sustainability of the State Government according to these indicators for the period of three years beginning from 2010-13.

Table 1.32: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2010-11	2011-12	2012-13
Debt Stabilisation (Quantum Spread + Primary Deficit)	8929	9657	8458
Sufficiency of Non-debt Receipts (Resource Gap)	1608	1280	(-)619
Net Availability of Borrowed Funds	(-)1654	(-)3124	(-)3417
Burden of Interest Payments (IP/RR Ratio)	0.09	0.06	0.06
Maturity Profile of State Debt (In Years)			
0 – 1	2265	2678	2299
1 – 3	5079	5375	5552
3 – 5	5174	4622	3822
5 – 7	3143	2585	2670
7 and above	9928	9353	8970

Source: Finance Accounts of Government of Odisha for respective years

During 2010-13, quantum spread together with primary deficit consistently remained positive resulting in a continuous decline in debt/GSDP ratio from 19 per cent in 2011-12 to 17 per cent in 2012-13. This is a positive sign that debt is tending to be stable.

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. Negative resource gap indicates non-sustainability of debt while positive resource gap indicates sustainability of debt. Trends in **Table 1.32** reveal that the Government was experiencing positive resource gap during 2010-12. However it again turned into negative of ₹ 619 crore during 2012-13 indicating non-sustainability of debt which needs to be addressed.

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

hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

¹² Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

¹³ Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

provides returns directly or results in increased productivity of the economy in general.

During the current year, the Government repaid principal plus interest on account of internal debt of ₹ 4042 crore, Government of India loans of ₹ 965 crore and also discharged other obligation of ₹ 3291 crore, as a result of which payments exceeded the receipts during the year. Throughout the period 2010-13, the debt repayment was higher than fresh borrowings resulting in negative net availability of borrowed funds. As far as the burden of interest payment is concerned, the state is in a comfortable position because the ratio of interest payment to Revenue Receipts is only 0.06.

Debt Profile

A time series analysis of per capita debt for five years from 2008-09 to 2012-13 is given in **Table 1.33**.

Table 1.33 : Per capita debt profile of the State

Year	Outstanding Fiscal liabilities (₹ in crore)	Population (in crore)	Per Capita Debt (in Rupees)
2008-09	39168	4.06	9647
2009-10	40613	4.11	9882
2010-11	42191	4.17	10118
2011-12	42467	4.22	10063
2012-13	43344	4.28	10127

Source: Economic Survey 2012-13 of Government of Odisha.

1.12 Fiscal Imbalances

Three key fiscal parameters - Revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government Account represents the gap between its expenditure and receipts. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of Revenue and fiscal deficits for the financial year 2012-13.

1.12.1 Trends in Deficits/Surpluses

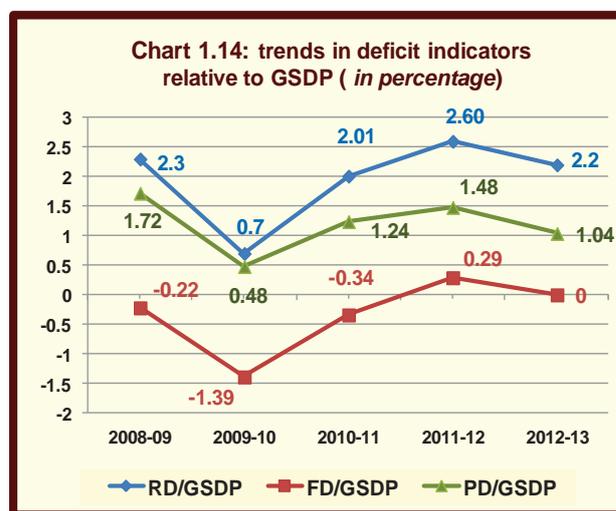
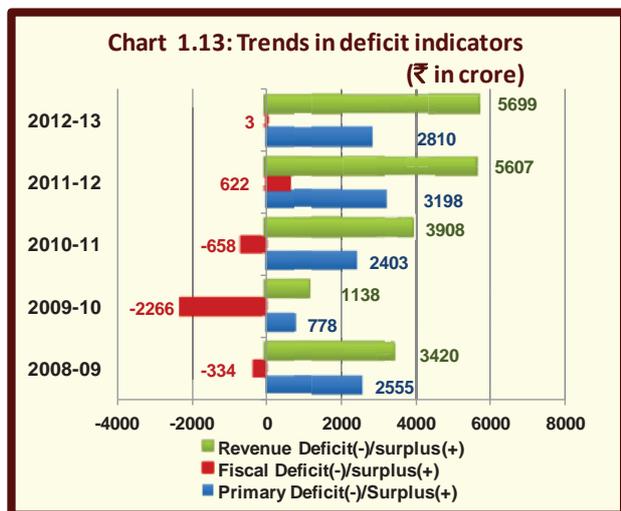
Table 1.34, **Chart 1.13** and **1.14** present the trends in deficits/surpluses indicators over the period 2008-13.

Table 1.34: Deficits/Surpluses

	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue deficit (-)/ surplus(+) (₹ in crore)	(+) 3420	(+)1138	(+)3908	(+)5607	(+)5699
Fiscal deficit (-)/ surplus(+) (₹ in crore)	(-) 334	(-)2266	(-)658	(+)622	(+)3
Primary deficit (-)/ surplus(+) (₹ in crore)	(+) 2555	(+)778	(+)2403	(+)3198	(+)2810

	2008-09	2009-10	2010-11	2011-12	2012-13
RD/GSDP (per cent)	(+) 2.30	(+)0.70	(+)2.01	(+)2.60	(+)2.20
FD/GSDP (per cent)	(-) 0.22	(-)1.39	(-)0.34	(+)0.29	(+)0.00
PD/GSDP (per cent)	(+) 1.72	(+)0.48	(+)1.24	(+)1.48	(+)1.09

Source: Finance Accounts of Government of Odisha for respective years



Revenue surplus

Revenue surplus represents the difference between Revenue Receipts and Revenue Expenditure. Revenue surplus helps to reduce the borrowings. In 2005-06, after a gap of 22 years, the State was able to attain a Revenue surplus of ₹ 481 crore and continued to be a Revenue surplus State. In 2012-13, Revenue surplus increased by ₹92 crore (two per cent) over the previous year. Thus, the achievement was in line with the State’s FRBM (Amendment) Act, 2011 which prescribed reduction of Revenue deficit to zero for the financial year 2011-12 onwards.

Over Statement of Revenue Surplus

As in the previous years, during the current year also an amount of ₹ 18 crore was received as Grants-in-Aid from Central Road Fund which has been credited to the Major Head 1601-Grants-in-Aid from Central Government-02-105-Grants from CRF. In the absence of any Budget Provision under Demand No. 7-3054-Roads and Bridges this amount could not be transferred to the Public Account (8449-Other Deposits-103-Subvention from Central Road Fund) in terms of instructions contained in the note (1) (B) under the Major head 8224-Central Road Funds in the “List of Major and Minor Heads of Account of Union and States”. This resulted in the overstatement of Revenue surplus of the State to that extent.

Government stated (November 2013) that in terms of the instructions contained in the list of Major & Minor Heads, receipts from Central Road Fund is to be credited to the Major Head “1601- grant-in-aid from Central Government”. This receipt will be transferred to the Major Head ‘3054- roads & Bridges’. The expenditure made against the subvention received from Central Road Fund will be accounted for under the

appropriate Revenue/ Capital Major Head and set off by transfer of equivalent sum from the deposit head ('8449- Other Deposits-Subventions from Central Road Fund'). This Procedure will be made operational in the Supplementary Statement of Expenditure 2013-14.

The reply is not tenable as despite the commitment made by Government (November 2012) that the above misclassification would be rectified in the supplementary Budget, no rectification was done.

Fiscal surplus/deficit

Fiscal deficit comprises the total borrowings of the Government. Fiscal deficit during 2008-09 to 2010-11 turned into fiscal surplus of ₹ 622 crore during 2011-12. Fiscal surplus decreased to ₹ three crore during 2012-13. The State was able to maintain fiscal surplus during the current years mainly due to huge surplus available in Revenue account. This was well within the State's FRBM (Amendment) Act, 2012 target of fiscal deficit not more than three *per cent* of GSDP.

Primary surplus

The primary surplus of the State increased from ₹ 2555 crore in 2008-09 to ₹ 2810 crore in 2012-13. However, the primary surplus decreased by ₹ 388 crore during 2012-13 over the previous year.

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

The financing / investing pattern of fiscal deficit/ surplus underwent a compositional shift as reflected in the **Table 1.35**.

Table 1.35: Components of Fiscal Deficit/Surplus and its Financing/Investing Pattern

(₹ in crore)

Particulars		2008-09	2009-10	2009-10	2010-11	2012-13
Decomposition of Fiscal Deficit		(-)334	(-)2266	(-)658	622	3
1	Revenue surplus	3420	1138	3908	5607	5699
2	Capital Expenditure	(-)3779	(-)3648	(-)4285	(-)4496	(-)5622
3	Net Loans and Advances	25	244	(-)281	(-)489	(-)74
Financing Pattern of Fiscal Deficit*/Surplus						
1	Market Borrowings	(-)670	(-)571	(-)623	(-)1046	(-)1308
2	Loans from GoI	74	(-)247	(-)636	(-)314	(-)70
3	Special Securities Issued to National Small Savings Fund (NSSF)	67	610	1023	26	115
4	Loans from Financial Institutions	189	369	420	360	(-)37
5	Small Savings, PF etc	459	1138	1223	426	691
6	Reserve fund	(-)52	1	17	269	-107
7	Deposits and Advances	576	145	154	554	1594
8	Suspense and Misc	(-)522	1595	(-)809	(-)1290	(-)460
9	Remittances	(-)1.00	41	(-)4	9	4
10	Others					
11	Increase / decrease in cash Balance	174	(-)629	69	12	(-)441
12	Net of Odisha Contingency Fund	40	(-)188	(-)176	372	16

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

Source : Finance Accounts of Government of Odisha for respective years

There was fiscal surplus during 2008-13 since a limit of three *per cent* fiscal deficit has been granted in FRBM Act and by the ThFC.

1.12.3 Quality of Deficit/Surplus

The ratio of Revenue deficit to fiscal deficit and the decomposition of primary deficit into primary Revenue deficit and Capital Expenditure (including loans and advances) would indicate the quality of deficit in the State’s finances. The ratio of Revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of Revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) was not having any asset backup. In the case of Odisha, there has been a Revenue surplus since 2005-06. Bifurcation of the primary surplus (**Table 1.36**) would indicate the extent to which the deficit has been on account of enhancement in Capital Expenditure which may be desirable to improve the productive capacity of the State’s economy.

Table 1.36: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary Revenue deficit (-) /surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2008-09	24846	18301	3779	211	22291	6545	2555
2009-10	26786	22248	3648	112	26008	4538	778
2010-11	33310	26307	4285	315	30907	7003	2403
2011-12	40399	32084	4496	621	37201	8315	3198
2012-13	44079	35431	5622	216	41269	8648	2810

Source: Finance Accounts of Government of Odisha for respective years

During 2008-09 to 2012-13, non-debt receipts increased from ₹ 24846 crore to ₹ 44079 crore (77 *per cent*) against an increase of 94 *per cent* in Primary Revenue Expenditure.

Analysis of the factors resulting into primary surplus of the State during 2008-13 revealed that the State was experiencing primary surplus during these years. In other words, non-debt receipts of the State were enough to meet the primary expenditure¹⁴ requirements in the Revenue account; rather some receipts were still left to meet the expenditure under the capital account. This was a very healthy trend in the State’s finances. However, as mentioned above, the actual Capital Expenditure incurred does not reflect that this surplus was adequately utilized.

1.13 Public Private Partnerships (PPP)

Recourse to the PPP mode for project financing is generally encouraged because it frees valuable fiscal space for the provision of public goods in areas where such financing may not be forthcoming. PPP projects in sectors that come under the purview of the Government of Odisha covers 19 infrastructure sectors such as Roads, Ports, Airports, Industrial parks, Inland Container Depot and Logistic hubs, water Supply, Power Generation, Solid Waste Management, Railway related projects and agriculture production and marketing etc. The Government has not entered five of the

¹⁴ Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

sectors envisaged in the policy so far. The Government framed their PPP Policy in August 2007 to support private investment, particularly in the poor infrastructure sector, to utilise the efficiency and innovativeness of the private investors, besides tapping their capital. In terms of the main types of PPP contracts, almost all contracts have been of the build, operate and transfer (BOT) type or build, own, operate and transfer (BOOT) type (either toll or annuity payment models) or close variants.

The State Government has targeted to attract investment of at least ₹ 5000 crore in Public Infrastructure through PPP during 12th Plan Period (2012-17). For this purpose, a Project Development and Facility Centre in Planning & Coordination Department is set up with allocation of ₹10 crore and a Viability Gap Fund of ₹ 40 crore is proposed in the budget for 2012-13.

The status of the PPP in Odisha as on 31 March 2013 is given in **Table 1.37** below:

Table 1.37: Status of PPP projects in Odisha as of 31 March 2013

Sector	Operational		Under Implementation		Under Pipeline		Total	
	Number	Cost	Number	Cost	Number	Cost	Number	Cost
Urban Development	3	150	4	420	10	1204	17	1774
Health	11	54	Nil	Nil	1	330	12	384
Finance & Revenue	1	72	Nil	Nil	1	128	2	200
Transport	3	4861	5	10379	1	500	9	15740
Industrial Infrastructure	2	165	3	720	Nil	Nil	5	885
Roads	1	48	Nil	Nil	11	3428	12	3476
Tourism	5	52	8	20	4	167	17	239
Education	14	35	Nil	Nil	3	47	17	82
Power Transmission	Nil	Nil	1	108	4	947	5	1055
Total	40	5437	21	11647	35	6751	96	23835

A total 96 number of PPP projects in Odisha in different sector are given in **Appendix-I.8**. Forty projects have been completed, 21 are in implementation/construction stage and the rest 35 projects are still in the pipeline.

With a view to incentivising PPP, the Government of India has formulated the draft Public Private Partnership (Preparation, Procurement and Management) Rules, including rules for regulating expenditure, appropriation of Revenues and contingent liabilities in PPP projects and proposed delegation of powers in this regard. The draft rules have been placed on the website for wider consultation with the stakeholders.

As noted by the ThFC, PPPs create explicit and implicit obligations of the public entity that is involved in them. While explicit contingent liabilities in the form of stipulated annuity payments over a multi-year horizon may be spelt out, implicit contingent liabilities are obligations to compensate the private sector partners for contingencies such as changes in specifications, breach of obligations and/or early termination of contracts which may be difficult to quantify. As recommended by the ThFC for the Central Government, there is also a need for the States to quantify expenditure obligations relating to PPP projects in their medium-term fiscal policy statements with an increasing number of them adopting the PPP mode of project implementation.

There is a need of proper planning to gear up the PPP activities from the experience gained from eleventh plan period. Also there is a need to appropriately disclose the quantum of resources planned to be generated through PPP route in the budget and the Finance Accounts.

1.14 Follow up of observations/recommendations by Public Accounts Committee

Stand alone Report on State Finances was first laid before the Odisha Legislative Assembly during July 2010. The Report containing the audit observations on State Finance are presented separately. The Public Accounts Committee in their report discussed on the excess expenditure over voted grants and charged appropriation as revealed in the Report of the C&AG of India for the year from 1996-97 to 2009-10. Excess expenditure over voted Grants and charged Appropriations incurred during the year 1996-97 to 2009-10 for an amount of ₹ 9716.74 crore by the State Government, were presented and passed by the State Legislature (December 2012).

Table 1.38: Action Taken Note on C & AG's Report

Particular		2008-09	2009-10	2010-11	2011-12
No. of Paras		24	24	27	29
No. of Departments		38	38	38	38
ATN submitted by the Government	No. of Para	1	1	--	--
	No. of Department**	3	4	--	--
Discussion made by PAC	Year of the Report	1996-2010	1996-2010	--	--
	No. of Para	1	1	--	--
Recommendations made by PAC		3	4	--	--

* Stand Alone Report on State Finance Report laid before the Odisha Legislative Assembly with effect from 22.07.2010

** 2008-09-Odisha Legislative Assembly, Co-operation Dept, Rural Development Dept
2009-10-Finance Dept, Rural Dev. Dept, Public Enterprise Dept., Panchayati Raj Dept.

Table 1.38 exhibits the number of recommendations made by the committee on C&AG Report. No PAC discussion was made of the State Finance Report for the year 2010-11 and 2011-12.

1.15 Conclusion and Recommendations

- GoI directly transferred substantial amount of Grants-in-aid to the State implementing agencies for implementation of different schemes in the State. This is fraught with the risk of poor oversight. There is no single agency monitoring the use of these funds and no data is readily available on the amount spent in major flagship and other important schemes (**Paragraph 1.3.2**).

Funds flowing directly to the implementing agencies through off-budget route inhibit FRBM Act requirements of transparency and escape accountability. The State Government has to put in place an appropriate mechanism to ensure proper accounting of these funds.

- During 2012-13, the annual growth rate of Revenue Receipts has come down to nine per cent against 21 per cent during 2011-12 (**Paragraph 1.4**).

Government should mobilise additional resources through Tax and Non-Tax Revenue by expanding the tax base.

- Non-Plan Revenue Expenditure (NPRE) as a proportion of Revenue Expenditure, increased from ₹ 15882 crore (75 per cent) in 2008-09 to ₹ 26645 crore (83 per cent) in 2012-13. Out of the total increase of ₹ 3578 crore in Revenue Expenditure during the current year over the previous year, increase in NPRE contributed 48 per cent (₹1705 crore) and remaining 52 per cent (₹1873 crore) was the Plan Revenue Expenditure (PRE) (**Paragraph 1.7.4**).

Government may initiate suitable measures to reduce the non-plan Revenue Expenditure so that more funds are available for assets creation by way of increased Capital Expenditure.

- Capital Expenditure of the State as a percentage to total expenditure decreased from 15 per cent in 2008-09 to 13 per cent in 2012-13. The Capital Expenditure was 2.17 per cent of GSDP during 2012-13 as against the projection of 2.72 per cent in the Budget Estimates (**Paragraph 1.7.5**).

Government may strengthen the State's infrastructure for absorbing higher levels of Capital Expenditure for asset formation and sustainable development of the State.

- Financial results of Major and Medium Irrigation projects with a Capital Expenditure of ₹ 3967.68 crore at the end of March 2013 showed that the schemes suffered a net loss of ₹ 239.96 crore (**Paragraph 1.9.1**).

Government may take steps to levy user charges so as to recover interest charges also.

- A number of PSUs and Corporations with investment (equities) are not giving return to the Government in form of dividends. These include 53 non-working PSUs (**Paragraph 1.9.3**).

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

- Although a substantial amount (₹ 3977 crore) of loans was paid to various PSUs etc., interest of ₹ 16 crore only was received from them during 2012-13 as a result of which interest receipts to outstanding loans stood at 0.40 per cent during 2012-13 (**Paragraph 1.9.4**).

Government may, therefore, take effective action to realise the interest dues from the undertakings as per the terms and conditions of the payment of loans by way of restructuring the loans so as to make the operation of these PSUs profitable.