Chapter 1 Finances of the State Government

Profile of Orissa

Covering an area of 1.56 lakh square kilometre Orissa is situated on the east coast of the country with a projected population of 4.02 crore during 2009-10 (3.68 crore as per 2001 census). However, Orissa has a lower population density compared to all India average. In terms of compound annual growth rate (CAGR) of Gross State Domestic Product (GSDP) for the period 2001-09 Orissa has shown a higher growth of nearly 15 *per cent* compared to around 13 *per cent* in the case of other general category of States[1]. ***Appendix 1.1*** captures a brief social and economic profile of the State which shows the State is less developed in terms of social indicators like prevalence of poverty, infant mortality, literacy, life expectancy (at birth) rates etc.

1.1 Introduction

This chapter provides a broad perspective of the finances of the State Government of Orissa during 2009-10 and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The structure of Government Account and the layout of Finance Accounts are given at the ***Appendix 1.2***. Besides, keeping in line with the recommendations of the Twelfth Finance Commission, the State Government had also enacted its own 'Fiscal Responsibility and Budget Management (FRBM) Act, 2005' ***(Appendix 1.3)*** and developed its own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators for the period 2004-10 ***(Appendix 1.4)*** to ensure prudent and improved fiscal management and to maintain fiscal stability of the State. FCP detailed the structural means required for mobilising additional resources and identified areas where expenditure could be compressed to achieve the targets set out in FRBM Act.

1.1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2009-10) vis-à-vis the previous year while

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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 **111**

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

Appendix 1.5 provides overall fiscal position and *Appendix-1.6 shows* details of receipts and disbursement during the current year.

Table 1.1 Summary of Current Year's Fiscal Operations

(Rupees in crore)

Receipt			Disbursement				
	2008-09	2009-10		2008-09	2009-10		
Section A	**Total**	**Total**	**Section A**	**Total**	**Non Plan**	**Plan**	**Total**
Revenue receipts*	24610.01	26430.21	Revenue expenditure	21190.12	19676.49	5615.10	25291.59
Tax revenue	7995.20	8982.34	General services	6961.87	9204.32	80.83	9285.15
Non-tax revenue	3176.15	3212.20	Social services	8284.41	6601.70	3236.51	9838.21
Share of Union Taxes/ Duties	8279.96	8518.65	Economic services	5551.08	3464.65	2297.75	5762.40
Grants from Government of India	5158.70	5717.02	Grants-in-aid and Contributions	392.76	405.82	----	405.82
Section B			**Section B**				
Misc. Capital Receipts	--	--	Capital Outlay	3779.17	391.12	3256.76	3647.88
Recoveries of Loans and Advances	236.21	356.36	Loans and Advances disbursed	210.97	82.79	29.69	112.48
Public Debt receipts**	1151.66	1650.12	Repayment of Public Debt*	1492.61			1488.69
Contingency Fund	301.34	11.07	Contingency Fund	261.07			198.97
Public Account receipts	11833.90	11735.46	Public Account disbursements	10895.52			9849.43
Opening Cash Balance	9385.79	9689.45	Closing Cash Balance	9689.45			9283.63
Total	**47518.91**	**49872.67**		**47518.91**			**49872.67**

Source: Finance Accounts for the respective years.

Analysis of the Table above disclosed the following:

Revenue Receipts increased by ₹ 1820 crore (7 *per cent*) in 2009-10 over the previous year. The increase was mainly contributed by own tax revenue (₹ 987 crore), State's share of Union Taxes and Duties (₹ 239 crore) and Grants-in-aid from GoI (₹ 558 crore). ***The revenue receipts of ₹ 26430 crore were (38 per cent) higher than the assessment made by State Government in its Fiscal Correction Path (₹ 19220 crore) but lower than Medium Term Fiscal Plan (₹ 27678 crore) - five per cent approximately.***

Total expenditure increased by ₹ 3872 crore (15 *per cent*) during 2009-10 over the previous year of which increase in Revenue expenditure was ₹ 4102 crore (19 *per cent*) ***set off by decrease in capital expenditure including loans and advances disbursed by ₹ 230 crore (6 per cent).***

Public debt receipts increased by ₹498 crore (43 per cent) while public debt disbursements came down only by ₹ 4 crore (0.2 *per cent*) resulting in a net increase of ₹ 502 crore (44 *per cent*) in public debt during 2009-10.

* does not include ₹ 3637.87 crore directly transferred to Non Government Organisations/ Voluntary Organisations in Orissa by Government of India (GoI)

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

Public Account receipts (₹ 11735 crore) decreased by ₹ 98 crore (0.8 *per cent*) mainly due to decrease in Remittances (₹ 660 crore), Deposits and Advances (₹ 102 crore) set off by increase in reserve fund (₹ 203 crore) and increase in Small Savings and Provident Fund (₹ 441 crore). Public Account disbursements (₹ 9849 crore) on the other hand decreased by ₹ 1047 crore (10 *per cent*) mainly due to decrease under Remittances (₹ 703 crore), and Small Savings and Provident Fund (₹ 238 crore). ***Thus, there was net increase in the Public Account receipts by ₹ 1886 crore during the year.***

Cash balance of the State decreased by ₹406 crore mainly because of decrease in cash balance investment by ₹ 1030 crore, decrease in Departmental cash balance by ₹ 5.60 crore set off by increase in deposit with Reserve Bank of India (₹ 629 crore).

The actual realisation of tax revenue (₹ 8982 crore) and Non-tax revenue (₹ 3212 crore) during 2009-10 was higher than the normative assessment of Twelfth Finance Commission (TFC) as well as the projection made in Fiscal Correction Path (FCP) / Medium Term Fiscal Plan (MTFP).

1.1.2 Budget estimates and actuals

Compared to the budget estimates for 2009-10, there was considerable variation between budget estimates and actuals in the case of several key parameters. **Chart 1.1 and Table 1.2** presents the budget estimates and actuals for some important parameters.

Chart-1.1 : Selected Fiscal Parameter: Budget Estimates vis-a-vis Actuals

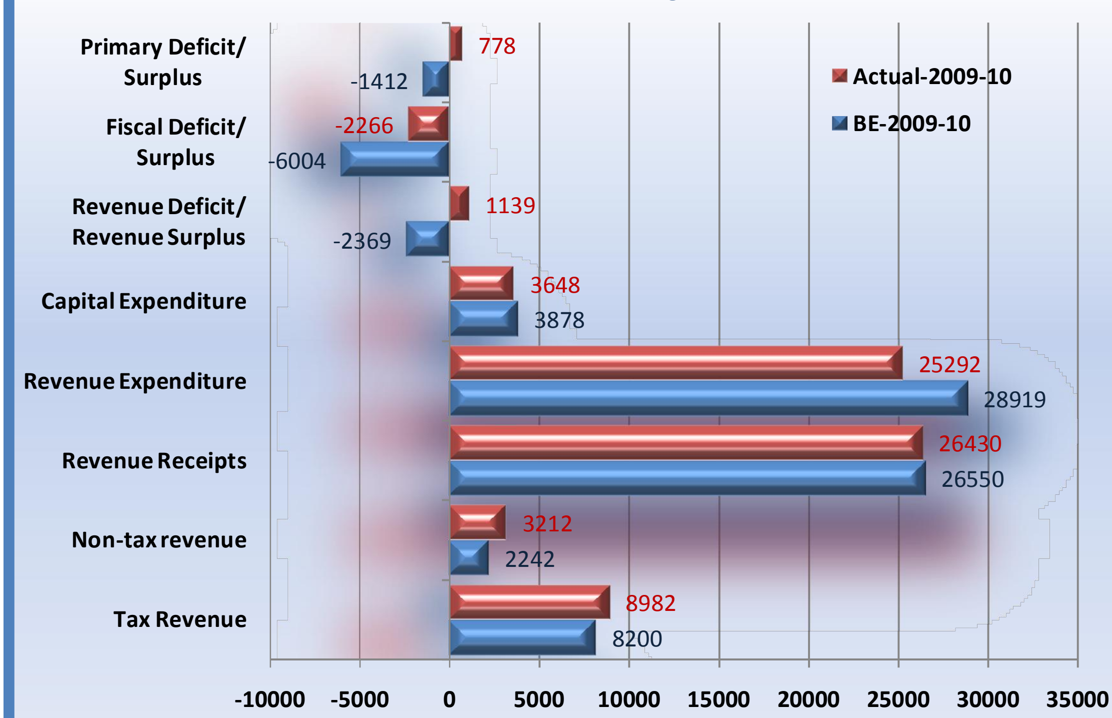


Table 1.2: Variation in Budget Estimates and Actuals

(Rupees in crore)

Variation	Budget Estimates	Actual	Increase (+) /Decrease (-)	Percentage increase (+) / decrease (-)
Tax Revenue	8200	8982	(+)782	(+)9.53
Non-Tax Revenue	2242	3212	(+)970	(+)43.26
Revenue Receipts	26550	26430	(-)120	(-)0.5
Revenue Expenditure	**28919**	**25292**	**(-)3627**	**(-)12.54**
Capital Expenditure	3878	3648	(-)230	(-)5.93
Revenue Deficit(-)/Surplus(+)	-2369	1138	(+)3508	(+)148.08
Fiscal Deficit(-)/Surplus(+)	-6004	-2266	(+)3738	(+)62
Primary Deficit(-) /Surplus (+)	-1412	778	(+)2190	(+)155

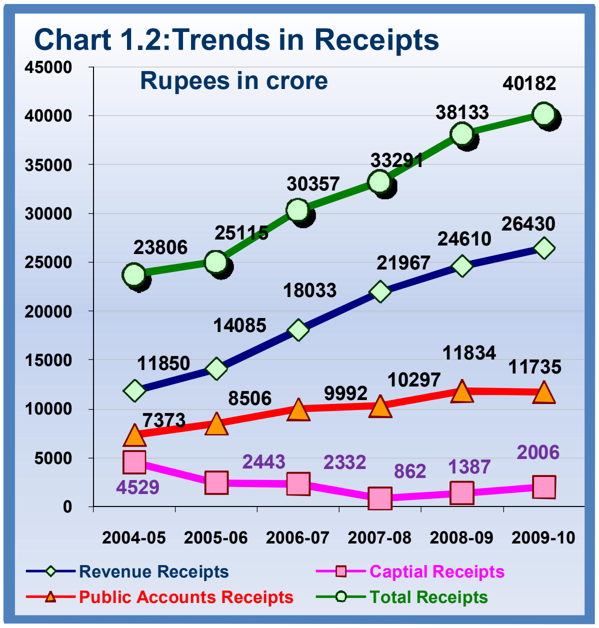
Source: Orissa Budget at a Glance 2009-10 and Finance Accounts (2009-10)

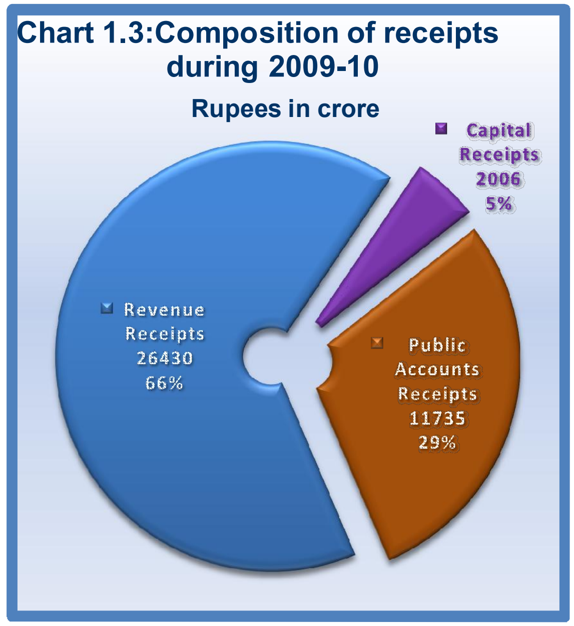
As may be observed from **Chart 1.1** and **Table 1.2** the actual revenue receipts has marginally decreased by 0.5 *per cent* while actual own tax revenue and non tax revenue increased by 10 and 43 *per cent*. Revenue expenditure registered a decrease of 13 *per cent* over the budgeted provision. Resultantly, the estimated revenue deficit turned into revenue surplus. However, decrease in actual capital expenditure by six *per cent* indicated that the planned asset formation fell short of the target. ***Variation in revenue surplus by more than 100 per cent and fiscal surplus by 62 per cent and a huge variation in primary surplus was also observed.***

1.2 Resources of the State

1.2.1 Resources of the State

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI as well as accruals from Public Account. **Table 1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2004-10. **Chart 1.3** depicts the composition of resources of the State during the current year.





During 2005-2010, total receipts increased by 60 *per cent* from ₹ 25115 crore in 2005-06 to ₹ 40182 crore in 2009-10, of which increase of Revenue Receipts was by 88 *per cent* from ₹ 14085 crore to ₹ 26430 crore during the period. The share of Revenue Receipts as percentage of total receipts increased steadily from 56 *per cent* in 2005-06 to 66 *per cent* in 2009-10. The share of capital receipts witnessed a fall from 10 *per cent* in 2005-06 to five *per cent* in 2009-10 mainly due to consistent reduction in public debt receipts during the period. The percentage share of Public Account Receipts declined from 34 *per cent* in 2005-06 to 29 *per cent* in 2009-2010. The rate of growth of Revenue Receipts varied from 19 *per cent* in 2005-06 to 7.40 *per cent* in 2009-10. Revenue Buoyancy Ratio also varied from 1.79 in 2005-06 to 0.314 in 2009-10.

1.2.2 Funds Transferred to State Implementing Agencies outside the State Budgets

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies for the implementation of various Central schemes/programmes and externally aided projects in social and economic sectors recognized as critical. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated.

To present a holistic picture on availability of aggregate resources, funds directly transferred by GoI to State Implementing Agencies during 2009-10 are ₹ 3637.86 crore (**Appendix-1.7**) for implementation of various Centrally Sponsored Plan schemes which among others included ₹ 630.60 crore (Sarva Shiksha Abhiyan), ₹ 460.26 crore(Rural Housing Scheme (IAY), ₹ 501.49 crore (National Rural Employment Guarantee Scheme), ₹ 791.35 crore (Pradhan Mantri Gram Sadak Yojana) etc. Considering that the direct transfers are so large (14 *per cent* of State's revenue receipts) it is imperative that the end use of this fund is monitored in a timely manner by both the Union and State Governments so that the intended outcomes are actually realized. However, ***direct transfers from the GoI to the State implementing agencies run the risk of poor oversight. Unless uniform accounting practices are followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers.***

1.2.3 Debt waiver under Debt Consolidation and Relief Facilities

The Twelfth Finance Commission has framed a scheme of debt relief of Central loans named Debt Consolidation and Relief Facilities (DCRF) based on fiscal performance of the State linked to the reduction of deficits of the States. Under the scheme, the repayments due on Central loans from 2005-06 to 2009-10, after consolidation and reschedulement will be eligible for write off. The amount sanctioned by GoI as debt relief each year was to be adjusted by showing repayment of Central loans and crediting the amount to the head of account '0075-Miscellaneous Receipts'. The State was eligible for the benefit subject to fulfillment of certain conditions, viz. legislating FRBM Act, gradual abolition of revenue deficit by 2008-09, bringing annual reduction targets for fiscal deficit, bringing out the Annual Fiscal Policy Strategy Statement etc. As assessed by the TFC in the case of Orissa, the amount of repayment due for the period 2005-10 after consolidation and reschedulement was ₹ 1751.29 crore. The ratio of total repayment to average revenue deficit (2001-04) is 0.71 by which repayments was to be written off for every rupee reduction in revenue deficit. Thus, the annual repayment due was ₹ 350.26 crore. During 2005-10, GoI sanctioned ₹ 1527.60 crore as debt relief for Government of Orissa as detailed in the ***Table 1.3*** below:

Table 1.3: Debt relief due and received (2005-10) by State Government

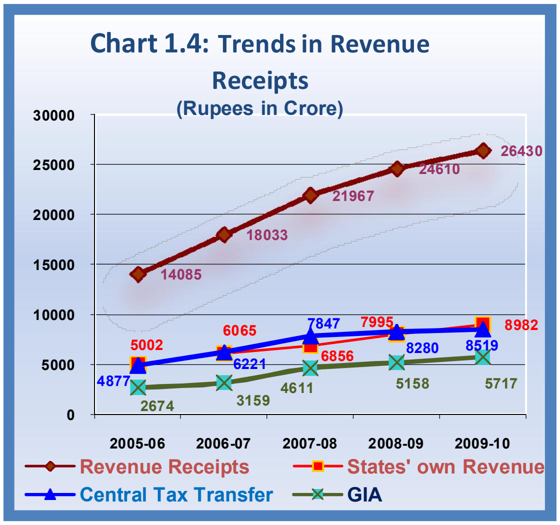
(Rupees in crore)

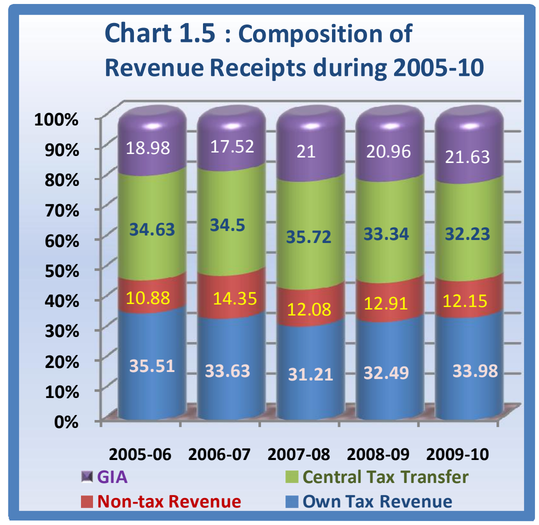
Year	Debt relief due as per TFC recommendation	Debt relief sanctioned by GoI
2005-2006	350.26	0
2006-2007	350.26	763.80
2007-2008	350.26	381.90
2008-2009	350.26	381.90
2009-2010	350.26	0
Total	**1751.30**	**1527.60**

Thus there was shortfall of ₹ 223.70 crore in receipt of the benefit of debt relief scheme, and the loss of non-tax revenue receipts to that extent, was due to non-fulfillment of the conditionalities for receiving the debt relief, by the State Government.

1.3 Revenue Receipts

Statement 11 of the Finance Accounts depicts the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2005-10 are shown in ***Appendix 1.5*** and also depicted in **Chart 1.4** and **1.5** respectively.





Revenue receipts showed progressive increase from ₹ 14085 crore in 2005-06 to ₹ 26430 crore in 2009-10. On an average 46 *per cent* of Revenue came from States own resources and the balance was from GoI in the form of States share of taxes and grants-in-aid. An increase of ₹ 987 crore (12 *per cent*) in own tax revenue, ₹ 36 crore (one *per cent*) in non-tax revenue, ₹ 239 crore (three *per cent*) in State's share in Union taxes and ₹ 559 crore (11 *per cent*) in GoI's grants-in-aid resulted in increase of ₹ 1820 crore in Revenue Receipts during 2009-10.

Though there was increase in Revenue Receipts from 2005-06 to 2009-10, yet the annual growth rate has come down from 28 per cent in 2006-07 to 7 per cent in 2009-10. The sluggish growth in Revenue Receipts was due to overall slowdown in the economy which impacted State's own taxes and also the State's share of Union Taxes.

The trends in Revenue Receipts relative to GSDP are presented in **Table 1.4** below:

Table 1.4: Trends in Revenue Receipts relative to GSDP *

	2005-06	2006-07	2007-08	2008-09	2009-10
Gross State Domestic Product (GSDP) (Rupees in crore)	**78953(P)**	**93374(Q)**	**106466(A)**	**122165**	**150946(A)**
Revenue Receipts (RR) (Rupees in crore) **	**14085**	**18033**	**21967**	**24610**	**26430**
Rate of growth of RR (*per cent)*	18.86	28.03	21.82	12.03	7.40

	2005-06	2006-07	2007-08	2008-09	2009-10
R R/GSDP (*per cent)*	17.84	19.31	20.63	20.14	17.51
Buoyancy Ratios[2]					
Revenue Buoyancy with respect to GSDP	1.790	1.535	1.556	0.816	0.314
State's Own Tax Buoyancy with respect to GSDP	1.875	1.163	0.930	1.127	0.524

P: Provisional Estimate, Q: Quick Estimate, A: Advance Estimate.
*** GSDP source: Directorate of Economics and Statistics, Government of Orissa.**
**** Do not include GoI funds transferred to Non-Government organizations and others.**

As GSDP grows, the potential to increase State's own taxes is also possible. ***For the period 2005-06 to 2008-09 the growth in State's own taxes was proportional to the growth of GSDP. In fact during 2005-06, state's own taxes were buoyant that for every one per cent growth of GSDP, there was nearly two per cent growth of State's own tax. However, in the current year the situation got altered drastically as the State's own taxes was only half of the growth of the GSDP. There is a potential for the State Government to increase its collection in keeping with the growth of GSDP.***

During 2009-10, ***Central tax transfers*** increased by ₹ 239 crore over previous year and constituted 32 *per cent* of revenue receipts during 2009-10. The increase was mainly under Corporate Tax (₹ 790.81 crore), Taxes on income other than Corporation Tax (₹ 247.89 crore) counter balanced by decrease in Union Excise Duties (₹ 420.03 crore) and Customs Duties (₹ 390.56 crore). The Grants-in-aid from GoI increased (₹ 559 crore) from ₹ 5158 crore in 2008-09 to ₹ 5717 crore in 2009-10. The increase was under Grants for Non-Plan Schemes (₹ 387.35 crore), State Plan Schemes (₹ 144.21 crore), Central Plan schemes (₹ 47.70 crore). Besides, as per recommendations of Twelfth Finance Commission, the GoI released ₹ 709.93 crore during 2009-10 under Non-Plan Grants (**Table 1.5**). The release of such grants vis-à-vis the recommendation of TFC for the following purposes during 2009-10 was as below:

Table 1.5: Release of TFC grants by GoI

(Rupees in crore)

Purpose	Amount recommended by TFC	Amount released by GoI	Shortfall in release
Top up Grants for Education sector under major head 2202	76.89	76.89	0.00
Top up Grants under major head 2210 and 2211	48.25	24.13	24.12
Maintenance of Roads and Bridges	368.77	368.77	0.00
Maintenance of Public Buildings	97.29	48.64	48.65
Maintenance of Forests	15.00	15.00	0.00
Calamity Relief Fund	254.27	176.50	77.77
Total	**860.47**	**709.93**	**150.54**

Source: Finance Accounts 2009-10
Note: This does not include amounts recommended for Local Bodies and amount received there against.

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*.

There was a shortfall in release of grants by GoI under (i) Health Sector (₹ 24.12 crore), Maintenance of Public Buildings (₹ 48.65 crore) and Calamity Relief Fund (₹ 77.77 crore). The full amount was not released by GoI as the conditions for releasing the grants were not fulfilled.

1.3.1 State's Own Resources

The States share in Central Taxes and Grants-in-Aid is determined on the basis of recommendation of the Finance Commission, collection of Central Tax receipts, Central Assistance for plan schemes etc. The States own resources comprised revenue from its own tax and non-tax source.

The gross collection in respect of States major taxes and duties as well as the components of non-tax receipts vis-à-vis budget estimates, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2007-08 to 2009-10 along with the respective all India average are presented in ***Appendix-1.8.***

1.3.1.1 Tax Revenue

The compound annual growth rate (CAGR) of tax revenue for 2000-09 of the State was higher as compared to other General Category States (***Appendix 1.1***). The tax revenue increased by over 12 *per cent* during the current year (₹ 8992 crore) over the previous year (₹ 7995 crore). The revenue through Taxes on Sales, Trade etc. (₹ 5409 crore) was the main source of States own tax revenue and registered an increase of 13 *per cent* over the previous year followed by increase under State Excise (₹ 849 crore) nine *per cent*, Taxes on Goods and Passengers (₹ 815 crore) 28 *per cent*, Taxes on Vehicles (₹ 611 crore) set off by decrease in Stamps and Registration fee by ₹ 136 crore and Land Revenue ₹ 56 crore.

1.3.1.2 Non-tax Revenue

The compound annual growth rate of non-tax revenue (2000-09) of the State was also higher as compared to General Category States (***Appendix 1.1***). Non-tax Revenue (₹ 3212 crore) which constituted 12 *per cent* of total Revenue Receipts during 2009-10 increased only by ₹ 36 crore over previous year. The increase was mainly under Non-Ferrous Mining and Metallurgy Industries (₹ 640.16 crore), Other Administrative Service by ₹ 47.11 crore set off by decrease in Interest Receipts by ₹ 275.44 crore and Forestry and Wild Life by ₹ 30.25 crore and non receipt of of ₹ 381.90 crore from GoI under the debt consolidation relief facility (DCRF) scheme as was received during the previous year under the recommendation of Twelfth Finance Commission.

The mobilization of Own Tax Revenue (OTR) and Own Non Tax Revenue (ONTR) during 2009-10 (**Table1.6**) exceeded the normative assessment of TFC and State Government in its FCP and MTFP as below:

Table 1.6: Mobilisation of OTR and ONTR

(Rupees in crore)

	Assessment made by TFC	Assessment made by State Government in		Actuals
		FCP	MTFP	
State's own Tax Revenue	7156	7156	8920	8982
State's own Non-Tax Revenue	1979	1373	2912	3312

The receipts under tax revenue and non-tax revenue during 2009-10 exceeded the assessments made by the State Government in their FCP and MTFP and also the projections of the TFC.

1.3.2 Under assessment/short levy and loss of revenue.

Cases of under assessment/short levy and loss of revenue aggregating ₹ 1164.78 crore (2.48 lakh cases) as revealed from the test check of records of 321 units during 2009-10 are depicted in **Table 1.7.**

Table: 1.7: Cases of under assessment and short levy of revenue for the year 2009-10

Sl No	Nature of receipts	Name of the Department	No of units checked	No of cases	Amount (Rupees in crore)
1	Sales tax/VAT/Entry Tax/Profession Tax/Entertainment Tax and Luxury Tax	Finance	56	23365	118.83
2	Tax on Motor Vehicles	Transport	27	170691	74.92
3	Land Revenue	Revenue and Disaster Management	96	16893	167.63
4	Stamp Duty and Registration Fees			29108	232.88
5	State Excise	Excise	27	1936	46.29
6	Forest Receipt	Forest and Environment	51	4487	6.70
7	Mining receipts	Steel and Mines	20	356	269.95
8	Other departmental receipts	Cooperation	44	246	3.65
		Energy		514	230.62
		GA(Rent)		41	9.07
		Health and Family Welfare		1	0.14
		Steel and Mines		7	0.46
		Works		3	3.64
	Total		**321**	**247648**	**1164.78**

Source: C&AG's Audit Report(Revenue Receipts) for the year ended 31 March 2010 on Government of Orissa.

1.3.3 Revenue Arrears

Arrears of revenue pending recovery as at the end of 31 March 2010 worked out to ₹ 5186.75 crore, out of which ₹ 863.50 crore are more than five years old. However, year wise analysis of arrears was not available. Department-wise status of the significant cases of arrears of revenue during the year 2009-10 is given in **Table 1.8.** Lack of proper action by the Department resulted in accumulated arrears of revenue

Table:1.8: Cases of arrears of revenue during the year 2009-10

(Rupees in crore)

Sl No.	Name of the Department	Nature of Revenue	Amount of Arrears as on 31March 2010	Arrears more than five years old	Remarks
1.	Finance	(i) Sales Tax / VAT	3715.31	839.27	The arrears are due to recoveries stayed by Departmental authorities and Courts.
		(ii) Entertainment Tax	6.81	5.25	
		(iii) Entry Tax	116.76	18.98	
2.	Revenue and Disaster Management	Land Revenue	32.28	NA	Arrears on account of Rent, Cess, Nistar cess, Sairat etc.
3.	Water Resources	Water rates	139.33	NA	Arrears due from Industrial and Irrigation water rate.
4.	Energy		1060.88	NA	Due to certificate proceedings and litigation pending in various judicial authorities.
5.	Commerce and Transport	Taxes on vehicles	115.38	NA	Due to certificate proceedings and litigation pending in various judicial authorities etc.
		Total	**5186.75**	**863.50**	

Source: Office of the A G (CW&RA) 2009-10. **NA :** Not Available

For commercial viability of Irrigation projects, the TFC recommended (para 6.23) cost recovery of maintenance expenditure at the rates of 60 *per cent* in 2006-07, 70 *per cent* in 2007-08, 80 *per cent* in 2008-09 and 90 *per cent* in 2009-10 for the purpose of projection and revenues. The position of revenue receipts vis-à-vis the maintenance expenditure (**Table 1.9**) of irrigation projects during 2006-10 in the State was as below:

Table 1.9: Cost recovery of Maintenance Expenditure

(Rupees in crore)

Year	Expenditure incurred under the Major Head of Account				Revenue receipt under the Major Head of Account				Shortfall in cost of recovery at prescribed rates
	2700 Major Irrigation	2701 Medium Irrigation	2702 Minor Irrigation	Total	0700 Major Irrigation	0701 Medium Irrigation	0702 Minor Irrigation	Total	
2006-07	105.83	18.08	72.81	196.72	1.51	48.24	4.46	54.21	63.82
2007-08	128.36	43.12	256.50	427.98	1.75	41.97	4.96	48.68	250.91
2008-09	84.49	45.89	152.36	282.74	1.85	45.56	5.32	52.73	173.46
2009-10	61.59	24.22	149.02	234.83	3.39	62.08	4.40	69.87	141.48
Total	**380.27**	**131.31**	**630.69**	**1142.27**	**8.50**	**197.85**	**19.14**	**225.49**	**629.67**

Source: Finance Accounts of the respective years

There was shortfall in recovery of maintenance cost at prescribed rates in all the years during 2006-10 which aggregated to ₹ 629.67 crore.

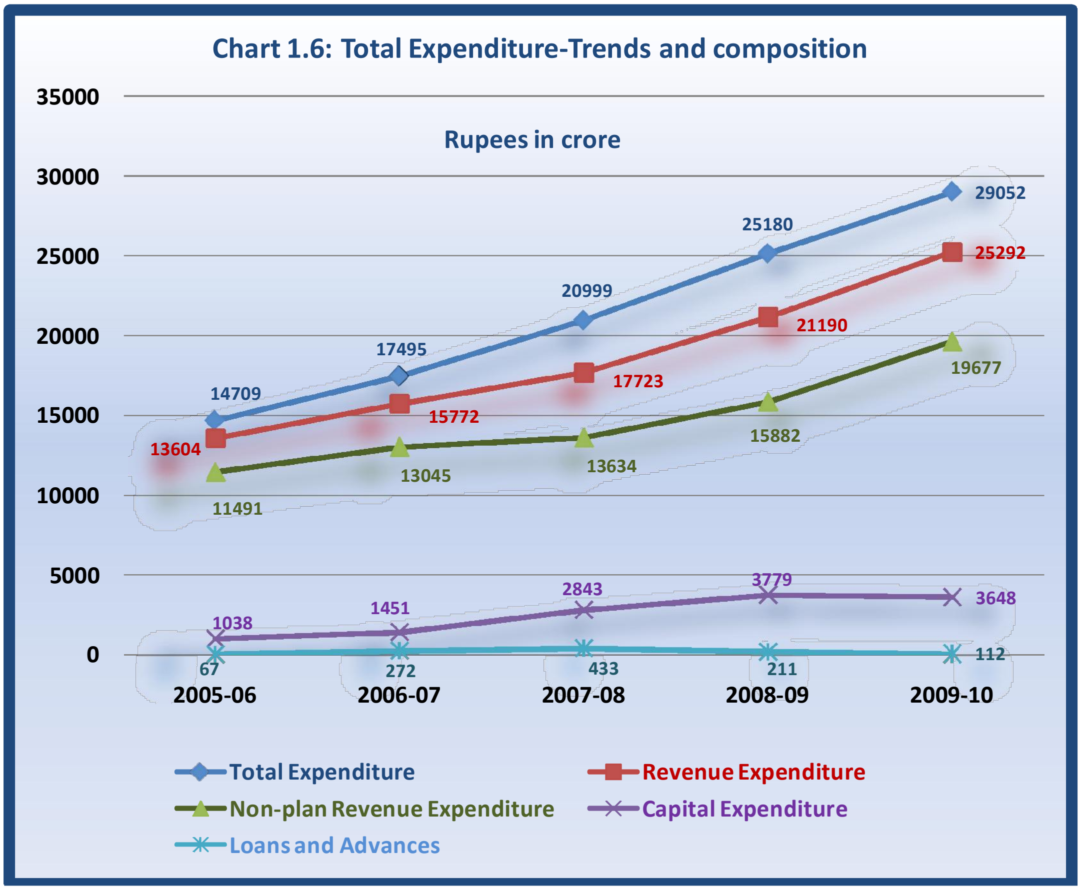
1.4 Application of Resources

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.

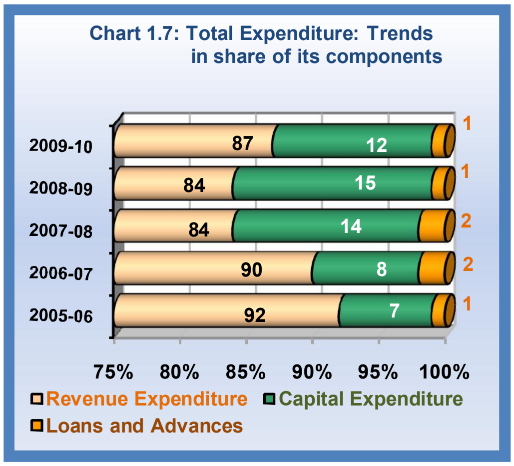
It is therefore important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure diverted towards development and social sectors.

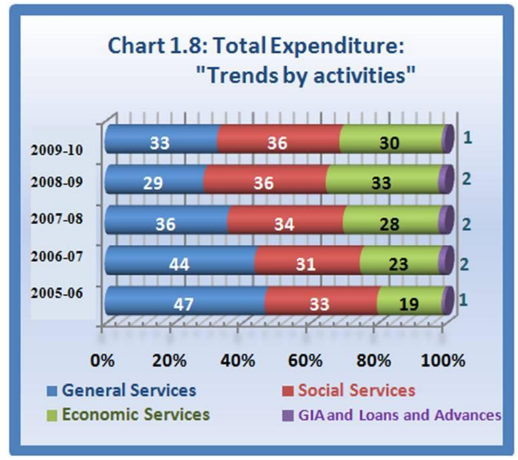
1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2005-10) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7 and 1.8.**



Total Expenditure of the State which includes, Revenue Expenditure, Capital Expenditure and Loans and Advances increased from ₹ 14709 crore in 2005-06 to ₹ 29052 crore in 2009-10. The increase of ₹ 3872 crore in total expenditure in 2009-10 over the previous year was on account of an increase in revenue expenditure by ₹ 4102 crore together with a decline of ₹ 131 crore in Capital Expenditure and ₹ 99 crore in disbursement of Loans and Advances. ***However, the total expenditure was 19.25 per cent of GSDP during 2009-10 which exceeded Twelfth Finance Commission's normative assessment of 16.30 per cent.***





1.4.1.1 Total Expenditure

Total Expenditure (TE) consisted of expenditure on General Services including Interest Payments, Social and Economic Services, Grants-in-Aid and Loans and Advances. The movement of relative shares of the component of expenditure indicated in **Chart 1.8** showed that while the combined shares of Social Services and Economic Services increased from 52 *per cent* in 2005-06 to 66 *per cent* in 2009-10 in total expenditure, the increase was set off by decrease in the respective share of General Services and of Loans and Advances.

1.4.1.2 Revenue Expenditure

Revenue Expenditure (RE) is incurred to maintain the current level of services and payment of the past obligation and as such does not result in any addition to the State's infrastructure and service network. Revenue Expenditure had a predominant share of 92 *per cent* in 2005-06 to 87 *per cent* in 2009-10 of total expenditure. During 2009-10, it increased (19 *per cent*) from ₹ 21190 crore in 2008-09 to ₹ 25292 crore in 2009-10*. **As against TFCs normative assessment of 13.20 per cent of GSDP, it constituted 16.76 per cent during the current year. Besides, it also exceeded State Government's FCP norm (₹ 19061 crore) by 33 per cent.***

1.4.1.3 Non-Plan Revenue Expenditure

Non-Plan Revenue Expenditure (NPRE) as a proportion of Revenue expenditure, increased from ₹ 11491 crore in 2005-06 to ₹ 19677 crore (71 *per cent*) in 2009-10. Out of the total increase of ₹ 4102 crore in Revenue Expenditure during the current year over the previous year, increase in NPRE contributed 93 *per cent* (₹ 3795 crore) and remaining ₹ 307 crore (7 *per cent*) was the Plan Revenue Expenditure (PRE). The increase in NPRE during the current year was mainly on Education, Sports and Culture (₹ 887 crore) and Agriculture and Allied Activities (₹ 395 crore). However during the current year, NPRE has exceeded the assessment made by the State Government in FCP by 20 *per cent* and TFC's normative assessment by 27 *per cent* but it remained within the Budget Estimate (₹ 22595 crore) for 2009-10 (**Table 1.10**) below.

Table 1.10: Comparative assessments of RE and NPRE

(Per cent of GSDP)

	Assessment made by TFC	Assessment made by Government in FCP	Budget Estimate for 2009-10	Actual in 2009-10
Revenue Expenditure	13.20	12.63	19.16	16.76
NPRE	10.23	10.88	14.97	13.04

Note: Absolute amounts converted into percentage of GSDP (₹ 150946 crore) for 2009-10.

The ratio of NPRE to Total Expenditure contributed 68 *per cent* of total expenditure of the State during 2009-10 as a result of which its ratio with Revenue Expenditure declined from 92 *per cent* in 2005-06 to 87 *per cent* in the current year indicating reduction in current year's consumption.

1.4.1.4 Capital Expenditure

Capital Expenditure (CE) of the State as proportion of Aggregate Expenditure ranged from seven *per cent* (₹ 1038 crore) in 2005-06 to ₹ 3648[3] crore (13 *per cent*) in 2009-10 ***was far below the level of capital expenditure incurred by other general category states on an average (****vide paragraph 1.5.1****). Capital Expenditure showed a decrease of 3.5 per cent during 2009-10 over the previous year*** mainly on account of decrease in expenditure on Water Supply, Sanitation (₹ 423 crore) and Transport and Communication (₹ 47 crore), Energy (₹ 15.2 crore) and General Economic Services (₹ 64.33 crore) set off by increase in Industry and Minerals (₹ 325 crore) and Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Castes (₹ 41 crore). ***The CE was 2.42 per cent of GSDP as against TFC's Projection of 3.1 per cent and 2.65 per cent under MTFP for 2009-10. The decrease in capital expenditure during 2009-10 over the previous year was contrary to the Fiscal Policy Strategy Statement of the State Government for 2009-10 which made a strategy in general to enhance the capital expenditure in all sectors.***

1.4.2 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.11** and **Chart 1.9** present the trends in the expenditure on these components during 2005-10.

[3] This includes ₹ 294.19 lakh conversion of loan paid to OSFC (Major Head – 6885) earlier into Share Capital by debit to Capital Account (Major Head-4885).

Table-1.11: Components of Committed Expenditure

(Rupees in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Salaries* & Wages , *Of which*	4002 (28)	4028 (22)	4582 (21)	6524 (27)	10866	7945
Non-Plan Head	3774	3816	4333	6220	9771	7484
Plan Head**	228	212	249	304	1095	461
Interest Payments	3697 (26)	3188 (18)	3169 (14)	2889 (12)	4593	3044
Expenditure on Pensions	1339 (10)	1485 (9)	1801 (8)	2075 (8)	3991	3283
Subsidies	83 (0.6)	170 (0.9)	148 (0.7)	743 (3.02)	955	1008
Other Components	Nil	Nil	Nil	Nil	Nil	Nil
Total	**9121**	**8871**	**9700**	**12231**		**15280**

Figures in the parentheses indicate *percent*age to Revenue Receipts

** also includes the salaries paid out of grants-in-aid,*

*** also includes the salaries and wages paid under Centrally Sponsored Schemes.*

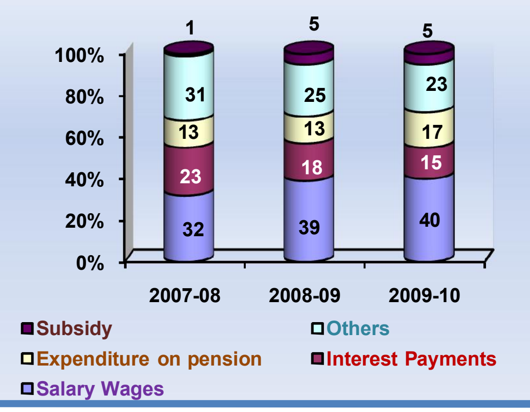
Source: Finance Accounts 2009-10 and Budget at a glance 2010-11.

1.4.2.1 Salaries

The expenditure on salaries increased from ₹ 4002 crore in 2005-06 to ₹ 7945 crore in 2009-10 accounting for nearly 30 per cent of revenue receipts and 40 per cent of the NPRE of the State Government during the year. The steep increase of ₹ 1421 crore over the previous year was attributable mainly to implementation of the recommendations of Sixth Pay Commission for State Government employees leading to substantial increase in expenditure on salary and pensions during the year. ***Expenditure on salaries as a percentage of revenue expenditure net of interest payments and pension amounted to 42 per cent during 2009-10 which was seven per cent more than the TFC's projection of 35 per cent and was 27 per cent of State's FCP projection of ₹ 5133.79 crore.***

Chart 1.9: Share of committed expenditure in Non-Plan Revenue Expenditure during 2007-10

(Value in labels in percentage)



1.4.2.2 Interest Payments

The major source of borrowing was Market loans at interest rates varying from six *per cent* to 13 *per cent*. The interest payments during the current year (₹ 3044 crore) increased moderately by ₹ 155 crore over the previous year (₹ 2889 crore) and remained lower than the projections made in FCP (₹ 3773 crore) and TFC and Budget Estimates (₹ 4593 crore) for the year 2009-10.

During 2009-10 the ratio of interest payments to total Revenue receipt was 12 per cent which was much lower than the projections of 16 per cent in MTFP, 20 per cent in FCP and 15 per cent in TFC for 2009-10.

1.4.2.3 Pensions

The expenditure on pension steeply increased during 2005-06 to 2009-10 by 145 *per cent* from ₹ 1339 crore in 2005-06 to ₹ 3283 crore in 2009-10. Pension payments during the current year increased by ₹ 1208 crore over the previous year mainly on account of finalization of pension revision cases and grant of dearness relief and due to implementation of recommendations of Sixth Pay Commission for the State Government pensioners. The State Government did not estimate yearly pension liabilities on actuarial basis. ***The pension payment during the current year was higher than the projection made by TFC and FCP (₹ 2574 crore) for the year[4] and MTFP (₹ 2796 crore).***

The Government introduced a Defined Contributory Pension Scheme for all employees recruited on or after 1 January 2005 for managing the future pension liability. An amount of ₹ 11.79 crore being the employees contribution is kept under Public Accounts (8432-Other Deposits). ***However, the State Government's contribution was yet to be credited to the account.***

1.4.2.4 Subsidies

The State Government has been giving subsidies to various corporations/ companies as well as to individuals in the form of food subsidy etc. The State Government in its MTFP for 2007-08, aimed to rationalize general subsidy and reduce their overall volume gradually at a rate of 10 *per cent* per annum beginning from 2005-06. The TFC (Para 6.29) recommended a provision of ₹ 36.71 crore for food subsidy for the State during 2009-10. ***However, the expenditure on subsidies increased from ₹ 743 crore in 2008-09 to ₹ 1008 crore (over 36 per cent) in 2009-10*** which included food subsidy of ₹ 853 crore due to introduction of rupees two a kilo of rice for the people living below poverty line and other subsidies under Agriculture (₹ 40 crore), Textile and Handloom (₹ 22.5 crore). ***Thus, the State Government far exceeded the projections made by TFC.***

The ratio of non-interest committed expenditure was within the 55 per cent of State's own and Mandated Revenue (State's share in central taxes) as prescribed in the State's FRBM Act, 2005.

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

The quantum of assistance provided by way of grants to local bodies and others during the current year relative to the previous years is presented in the **Table 1.12** below:

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[4] There are 278361 different categories of State Pensioners drawing pensions.
Source: Finance Accounts – Statement-12

Table 1.12: Financial Assistance to Local Bodies etc.

(Rupees in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	538	489	467	355	697
Municipal Corporations and Municipalities	95	48	483	487	645
Zilla Parishads and Other Panchayati Raj Institutions	231	1510	1535	2388	3062
Development Agencies	409	400	256	278	88
Other Institutions (Autonomous bodies)	510	972	1117	1914	2230
Total	**1783**	**3419**	**3858**	**5422**	**6722**
Assistance as per percentage of RE	13	22	22	26	28

Source: for H&UD, P.R Department and worked out from Group Heads compiled by the O/o the Pr. AG (A&E), Orissa

The grants extended to local bodies and other institutions with inter year variations increased by 24 *per cent* from ₹ 5422 crore in 2008-09 to ₹ 6722 crore in 2009-10. The share of grants and loans to the revenue expenditure increased from 13 p*er cent* in 2005-06 to 28 *per cent* in the current year. Another important trend was that the share of financial assistance to Zilla Parishads and other Panchayati Raj institutions increased by ₹ 674 crore over previous year. The share of other institutions also increased to ₹ 2230 crore during the current year against ₹ 1914 crore in 2008-09. The share of assistance to educational institutions also increased by ₹ 342 crore as compared to the previous year.

1.5 Quality of Expenditure

The availability of better infrastructure in the social, educational and health sector in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services), efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for selected services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.13** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2009-10.

Table 1.13: Fiscal Priority and Fiscal capacity of the State in 2005-06 and 2009-10.

Fiscal Priority by the State	AE/GSDP	DE#/AE	SSE/AE	CE/AE	Education/AE	Health/AE
General Category States Average (Ratio) 2005-06	17.75	61.76	30.76	13.97	14.95	4.05
Orissa State's Average (Ratio) 2005-06	18.75	51.90	32.65	7.06	15.73	3.18
General Category States Average (Ratio) 2009-10	18.24	66.05	35.76	14.85	16.21	4.28
Orissa State's Average (Ratio) 2009-10	19.25	65.95	35.97	12.56	29.12	4.93

AE: Aggregate Expenditure, **DE**: Development Expenditure, **SSE**: Social Sector Expenditure, **CE:** Capital Expenditure
\# Development expenditure includes Development Revenue expenditure, Development Capital Expenditure and Loans & Advance disbursed.
Source: For GSDP, the information was collected from the State's Director of Economics and Statistics.

As shown in **Table 1.13**, the comparison of fiscal priority given to different categories of expenditure of the State in 2005-06 (the first year of award period of TFC) and current year 2009-10 (terminal year of the TFC award period) is given below:

- The ratios of AE to GSDP in 2005-06 and 2009-10 (18.75 *per cent* and 19.25 *per cent*) were higher in the State as compared to general category States (17.75 *per cent* and 18.24 *per cent)* indicating that Government of Orissa has relatively higher public expenditure as a proportion of GSDP than other general category states.

- As far as development expenditure is concerned, the State Government has given lower priority in both the years under consideration compared to other general category states. However, higher priority has been given to social services expenditure as compared to expenditure on economic services[5].

- The ratios of expenditure on Education to AE (15.73 *per cent* and 29.12 *per cent*) in 2005-06 and 2009-10 were higher than the ratio (14.95 *per cent* and 16.21 *per cent*) of general category States. But expenditure on Health during 2005-06 (3.18 *per cent*) was lower than the general category States (4.05 *per cent*). However, there was higher achievement during 2009-10 (4.93 *per cent*) than the general category States (4.28 *per cent*).
- The ratio of CE to AE (7.06 *per cent and 12.56 per cent*) in 2005-06 and 2009-10 was much lower than the ratio of general category States (13.97 *per cent and* 14.85 *per cent*). Unless there is a greater focus on CE, productive assets with a revenue generating ability may not be created and the State would remain less developed than other states.

However, since the State has lower literacy level and higher infant mortality rate and prevalence of higher poverty levels compared to all India figures (Appendix 1.1), care should be taken to ensure better utilisation of the funds so that the outcomes are actually achieved.

[5] Since Development Expenditure = Social Services expenditure + Economic Services expenditure.

1.5.2 Efficiency of Expenditure use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[6]. Apart from improving the allocation towards development expenditure[7], particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, 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 1.14** 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 1.15** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.14: Development Expenditure

(Rupees in crore)

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					(BE)	(Actuals)
Development Expenditure (a to c)						
a. Development Revenue Expenditure (DRE)	6631 (45)	7997 (46)	10145 (48)	13835 (55)	17188 (52)	15600 (54)
b. Development Capital Expenditure (DCE)	985 (7)	1328 (8)	2711 (13)	3595 (14)	3423 (10)	3470 (12)
c. Development Loans and Advances	17.18 (0.12)	138 (0.79)	301 (1.43)	122 (0.5)	NA	89 (0.3)
TOTAL	**7634**	**9463**	**13157**	**17552**		**19159**

Figures in parentheses indicate *percent*age to aggregate expenditure; NA:- Not available
***Source:-** Orissa Budget at a Glance 2010-11 and Finance Accounts 2009-10.

Development Expenditure comprising revenue, capital and expenditure on loans and advances on socio-economic services increased from ₹ 7634 crore in 2005-06 to ₹ 19159 crore in 2009-10. As a percentage of total expenditure, it increased from 52 *per cent* in 2005-06 to 66 *per cent* in 2009-10. The Development Expenditure increased by nine *per cent* over the previous year.

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

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

Expenditure on Social sector increased by 19 *per cent* from ₹ 8284 crore in 2008-09 to ₹ 9838 crore in 2009-10, while the Economic sector increased by four *per cent* from ₹ 5551 crore in 2008-09 to ₹ 5762 crore in 2009-10.

Development Revenue and Capital Expenditure shows increasing trend since 2005-06 except in case of Development Capital Expenditure during the current year. ***During 2009-10 in absolute terms, while development revenue expenditure increased by ₹ 1766 crore (13 per cent), development capital expenditure decreased by ₹ 125 crore (three per cent) over the previous year.***

However, expenditure on Development loans and advances showed decreasing trend since 2008-09. The increase in development revenue expenditure during 2009-10 over the previous year was mainly due to increase under Education (₹ 1027 crore), Health and Family Welfare (₹ 224 crore), Agriculture and allied activities (₹ 350 crore) and Transport (₹ 52crore). As far as Development Capital Expenditure is concerned there was an increase in 2008-09 when DE/AE was 14 *per* cent. However a marginal decrease to 12 *per cent* was observed in 2009-10. The decrease in capital expenditure during 2009-10 over the last year was mainly due to decrease under Water Supply and Sanitation (₹ 423 crore) and Transport (₹ 47 crore) etc.

Table 1.15: Efficiency of Expenditure Use in Selected Social and Economic Services

(In per cent)

Social / Economic Infrastructure	2008-09			2009-10		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S &W	O&M		S&W	O &M
Social Services (SS)						
General Education	0.08	64.74	NA	0.15	61.76	NA
Health and Family Welfare	1.59	72.74	NA	2.10	74.90	NA
Water Supplies, Sanitation & Housing & Urban Development	57.45	9.27	98.93	32.03	8.45	34.41
Total (SS)	**9.97**	**47.10**	**1.76**	**5.38**	**47.77**	**2.70**
Economic Services (ES)						
Agriculture & Allied Activities	3.12	30.84	NA	4.03	31.22	NA
Irrigation and Flood Control	73.18	21.09	18.79	71.31	23.10	8.68
Power & Energy	7.57	0.90	NA	8.55	3.24	NA
Transport	52.09	0.35	NA	49.45	0.42	NA
Total (ES)	**32.22**	**19.42**	**1.88**	**33.38**	**20.76**	**0.92**
Total (SS+ES)	**20.48**	**35.99**	**1.81**	**18.11**	**37.80**	**2.04**

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, Water Supplies & Sanitation, Agriculture & Allied Activities, Power & Energy and Transport Departments.
Source: Finance Accounts of Government of Orissa

Access to basic education, health services and drinking water and sanitation facilities are strong indicators of socio economic progress. Further, expenditure on Economic services includes all such services that promote directly and indirectly productive capacity within the State by improving the quality of human resources. Therefore, it is pertinent to make an assessment with regard to expansion and efficient provision of these services in the State. **Table 1.15** summarizes percentage of expenditure under different components of economic and social services sector incurred by the State Government in expanding and maintaining social and economic services in the State during 2008-09 and 2009-10.

The expenditure on Social Services during 2009-10 (₹ 10401 crore) constituting 36 *per cent* of total expenditure (₹ 29052 crore) has increased by 13 *per cent* from ₹ 9208 crore in 2008-09 and was 54 *per cent* of Development Expenditure (₹ 19159 crore). Operation and maintenance expenditure increased only by 0.94 *per cent* indicating that Revenue Expenditure on salaries continued to share a dominant proportion of Revenue Expenditure on Social Services. The Capital Expenditure on Social Services relative to the total expenditure showed a significant decrease (4.59 *per cent*) over the previous year. The revenue expenditure on Social Services of ₹ 9838 crore during the current year registered a significant increase of ₹ 1554 crore (19 *per cent*) over the previous year's ₹ 8284 crore.

Recognizing the need to improve the quality of education and health services, TFC recommended that the salary expenditure under Education and Health & Family Welfare should increase by six and five *per cent* respectively while non salary expenditure should increase by 30 *per cent* per annum during the award period**. *It was observed that the salary component in Education decreased by 2.98 per cent whereas Health & Family Welfare registered moderate growth rate of 2.16 per cent over the previous year.***

The expenditure on Economic Services includes all such expenditure that promotes directly or indirectly, productive capacity within the State's economy. During 2009-10, total expenditure under Economic Services (₹ 8709 crore) increased only by five *per cent* over previous year of ₹ 8288 crore. The expenditure on total economic services (₹ 8709 crore) accounted for 30 *per cent* of total expenditure and 45 *per cent* of development expenditure. ***However, the ratio of CE/TE on Irrigation sector decreased over that of previous year.***

1.5.3 Effectiveness of the Expenditure, i.e. Outlay-Outcome Relationship

Besides, stepping up the expenditure on key social and economic services, enhancing human development requires the State to improve the delivery mechanism to obtain the desired outcomes. The State Government is expected to relate expenditure to outcomes in terms of quality, reach and the impact of government expenditure. Details of outcome of the Central as well as State Government flagship programmes under implementation in the State is given at ***Appendix 1.9.***

1.6 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.6.1 Financial Results of Irrigation Works

The financial results of 57 Irrigation projects (12-Major and 45-Medium projects) with a capital expenditure of ₹ 3362.20 crore at the end of March 2010 showed that an amount of only ₹ 4.15 crore was realized from these projects during 2009-10 against the direct working expenses of ₹ 145.49 crore. ***After meeting the working and maintenance expenditure (₹ 146.15 crore) and interest charges (₹ 227.05 crore), the schemes suffered a net loss of ₹ 369.05 crore.***

1.6.2 Incomplete projects

The department-wise information pertaining to incomplete time overrun projects as on 31 March 2010 is given in **Table 1.16** as per the information furnished to audit by the concerned Departments.

Table 1.16: Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects	Cost Over Runs	Cumulative Actual Expenditure as on 31.3.2010
Sports and Youth Affairs	4	9.86	9.86	---	8.46
Water Resources	8	54.27	69.96	15.69	65.02
Works	1	3.83	3.83	---	2.04
Tourism	6	40.95	40.95	---	29.42
Housing & Urban Development	13	36.47	46.05	9.58	33.99
Total	**32**	**145.38**	**170.65**	**25.27**	**138.93**

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

The delay in completion in respect of 21 projects has resulted in a cost overrun of ₹ 25.27 crore at the close of the current year. All the above 32 projects were lying incomplete due to non-availability of adequate funds and required lands. ***The amount blocked in these projects was 53 per cent of the cumulative outlay of those departments due to their non-completion within stipulated time frame not only the benefits to be accrued to the society are delayed but the cost to the exchequer also increased due to time overruns involved in their completion.***

1.6.3 Investment and returns

As of 31 March 2010, Government had invested ₹ 2106.95 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.17**). ***The average return on this investment was 7.73 per cent in the last three years while the Government paid an average interest rate of 8.18 per cent to 7.44 per cent on its borrowings during 2006-2009.***

Table 1.17: Return on Investment

(Rupees in crore)

Year	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year	1637.09	1652.14	1681.95	1771.20	2106.95
Return	120.59	49.39	140.93	252.85	250.78
*Percent*age of return	7.39	2.99	8.38	14.27	11.90
Average rate of interest on Government borrowing	9.92	8.18	8.13	7.44	7.63
Difference between interest rate and return	2.53	5.19	(-)0.25	(-)6.83	(-)4.27

The investment of State Government at the end of 2009-10 included ₹ 1748.18 crore in 83 Public Sector Undertakings comprising of 80 Government Companies (₹ 1255.72 crore) and three Statutory Corporations (₹ 492.46 crore). However, dividend of ₹ 250.78 crore was received from two Statutory Corporations (Orissa State Financial Corporation, Cuttack : ₹ 250 crore) (Orissa State Warehousing Corporation, Bhubaneswar : ₹ 11 lakh), two Government Companies (Orissa Mining Corporation Limited : ₹ 0.26 lakh and Orissa State Cashew Development Corporation Limited : ₹ 12 lakh) and Co-operative Societies (₹ 55 lakh) during 2009-10. ***The Grid Corporation with accumulated loss of ₹ 1028.14 crore as of 2004-05, Orissa State Road Transport Corporation (₹ 233.92 crore) as of 2003-04, Orissa State Financial Corporation (₹ 383.80 crore) as of 2004-05 were among the major loss making PSUs in the State.***

As per information furnished in the Orissa Budget at a Glance 2010-11, there are 32 working public sector undertakings in the State. ***However, the Thirteenth Finance Commission recommended the State Government to draw up a road map for closure of non working PSUs by March 2011.***

1.6.4 Departmentally run commercial undertaking

Activities of quasi-commercial nature are also performed by certain Government departments. The department-wise position of the investment made by the Government up to the year for which pro-forma accounts are finalized, net profits/loss as well as return on capital invested in this undertaking is given in **Table 1.18.**

Table 1.18: Summarized Financial Statement of Departmentally Managed Commercial/Quasi-commercial Undertakings

(Rupees in Lakhs)

Sl. No	Name of the Undertaking	Period of accounts	Mean Government capital	Block assets at depreciated cost	Depreciation provided during the Year	Turnover	Net profit/ Loss	Interest on Capital	Total return (9+10)	Percentage return on capital
1	2	4	5	6	7	8	9	10	11	12
1	Nationalization of Kendu Leaf trade operated by CCF (KL)Orissa	2001-02*	70.09	53.48	N.A	156.85	(-)102.53	4.91	(-)97.62	(-)139.281

***Proforma accounts not received after 2001-02.**

It is observed that:

- An amount of ₹ 70.09 lakh had been invested by the State Government in Nationalisation of Kendu Leaf trade operated by Chief Conservator (KL), Orissa at the end of financial year up to which their accounts were finalized.
- The accumulated loss of the departmentally run activity is ₹ 1.03 crore as against the total investment of ₹ 70.09 lakh.
- Comments on other departmentally managed undertakings are at para 3.4 of this report.

1.6.5 Loans and advances by State Government

In addition to investments in Co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions / organizations. The Loans and Advances by the State Government decreased from ₹ 3377 crore in 2008-09 to ₹ 3133 crore in 2009-10. Major portion of loans advanced during 2009-10 was to Public Sector and Other Undertaking (₹ 47.22 crore), Animal Husbandry Co-operatives (₹ 10 crore), Village and Small Industries (₹ 28 crore) and to Government servants (₹ 23.98 crore). **Table 1.19** presents the outstanding loans and advances as on 31 March 2010 and interest receipts vis-à-vis interest payments during the last three years.

Table 1.19: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2007-08	2008-09	2009-10
Opening Balance	**3325**	**3403**	**3377**
Amount advanced during the year	433	211	112
Amount repaid during the year	355	236	356
Closing Balance	**3403**	**3377**	**3133**
Of which outstanding balance for which terms and conditions have been settled			
Net addition	+78	(-)25	(-)244
Interest Receipts	114	80	0.21
Interest receipts as *per cent* to outstanding Loans and advances	3.35	2.37	0.01

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2007-08	2008-09	2009-10
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	8.23	7.38	7.50
Difference between interest payments and interest receipts (*per cent*)	(-)4.88	(-)5.01	(-)7.49

Source : Finance Accounts of Government of Orissa for respective years

No interest was received from the Public Sector Undertakings during 2009-10 on the loans paid to them and as a result of which interest receipts to outstanding loans stood at 0.01 per cent during 2009-10 which was lower than the TFC's recommendation of gradual increase to seven per cent by the end of award period (2005-10). As per information furnished by 11 out of 25 departments of the State Government recovery of ₹ 851.52 crore (Principal ₹ 455.55 crore and interest ₹ 395.97 crore) was overdue as at the end of 2009-10. Details are available at Statement-7 of Finance Accounts 2009-10.

1.6.6 Cash balances and investment of cash balances

Table 1.20 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table-1.20: Cash Balances and Investment of Cash balances

(Rupees in crore)

Particulars Cash Balances	As on 1 April 2009	As on 31 March 2010	Increase(+)/ Decrease(-)
Investments from Cash Balances (a to d)	6333.15	4803.59	(-)1529.56
a. GoI Treasury Bills	6299.47	4766.75	(-)1532.72
b. GoI Securities	33.68	36.84	(+)3.16
c. Other Securities, if any	--	---	---
d. Other Investments	--	---	---
Funds-wise Break-up of Investment from Earmarked balances (a to c)	4313.00	4813.00	(+)500.00
a. Sinking Fund Investment	3833.00	4333.00	(+)500.00
b. Guarantee Redemption Fund Investment	480.00	480.00	---
c. Calamity Relief Fund Investment	--		
Interest Realized	516.57	335.49	-181.08

Source : Finance Accounts 2009-10

In line with the recommendation of the TFC, the State Government set up a sinking fund with effect from January 2003 for amortisation of market borrowing as well as other loans and debt obligations. The MTFP has made a projection for a provision of investment in the sinking fund at the rate of two *per cent* of the total outstanding debt at the end of each year. As on 31 March 2010, the investment in the sinking fund was ₹ 4333 crore.

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. 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 low rate (5 *per cent*) of interest. ***The State Government's closing debt Stock (2009-10) included ₹ 7433 crore on issue of special securities to NSS Fund of GoI. The Securities in turn included ₹ 771 crore attracting interest at an average rate of 13 per cent per annum. Continued holding of such high cost securities had led to loss of ₹ 61.5 crore[8] during the year.***

1.7 Assets and Liabilities

1.7.1 Growth and composition of Assets and Liabilities

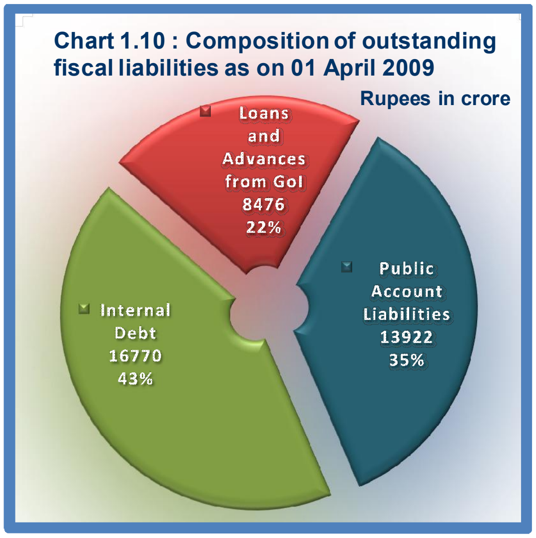
Under the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government Accounts does capture the financial liabilities of the Government and the assets created out of the expenditure incurred. ***Appendix 1.10*** gives an abstract of such liabilities and the assets as on 31 March 2010, compared with the corresponding position on 31 March 2009. The liabilities consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and Reserve Funds and the assets comprise mainly the capital outlay and loans and advances given by the State Government and instruments in which surplus cash is invested.

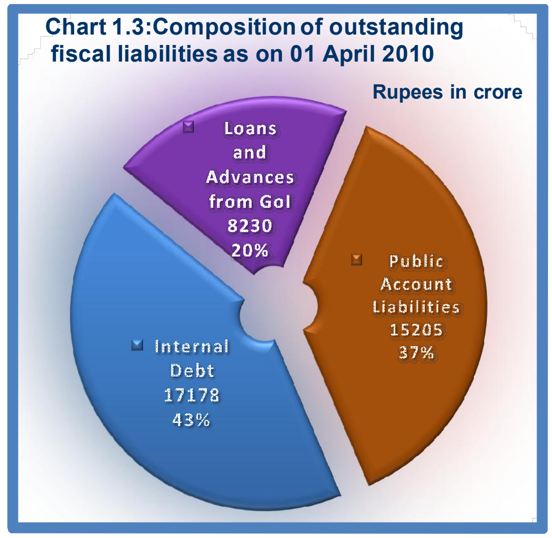
After 2006-07, Government has accumulated huge cash balances and liquidated the past liabilities especially GoI loans and also made significant improvement in their fiscal balances owing to increase in its own receipts and the central transfers which helped the State Government in improving the asset-liability ratio during these years. During the recent years assets have increased substantially. ***However, the ratio of assets to liabilities remained at 87 per cent indicating that 13 per cent of liabilities still did not have an asset back-up in 2009-10 despite the Revenue surplus which the State has been experiencing since 2005-06 was not enough to wipe out the gap.***

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in ***Appendix 1.5.*** However the compositions of fiscal liabilities during the current year vis-à-vis the previous year are presented in **Chart 1.10** and **1.11.**

8 Difference between interest payment at 13 *per cent* per annum and accrual of interest at 5 *per cent* on investment of surplus cash balance in 14 days GoI treasury bills.





Fiscal liabilities as it stood on 1 April 2009 was ₹ 39168 crore comprising internal debt of ₹ 16770 crore (43 *per cent*), public accounts liability of ₹ 13922 crore (35 *per cent*) and loans and advance of ₹ 8476 crore (22 *per cent*) from GoI. However, it increased by ₹ 1445 crore to ₹ 40613 crore as of 31 March 2010. The fiscal liabilities comprised internal debt of ₹ 17178 (43 *per cent*), public account of ₹ 15205 crore (37 *per cent*) and loans and advances of ₹ 8230 crore (20 *per cent*) as at the end of 2009-10. The internal debt of ₹ 17178 crore comprised mainly of market loans bearing interest ₹ 6783 crore, loans from NABARD ₹ 1583 crore and special securities issued to NSSF ₹ 7433 crore. ***The Fiscal liabilities at the end of 2009-10 constituted 27 per cent of GSDP as against the TFC's recommendation of 28 per cent. However, the same was only 154 per cent of the revenue receipts of the State for 2009-10 as against the norm of 300 per cent prescribed in the State's FRBM Act, 2005. The Thirteenth Finance Commission has recommended (Chapter I, page 24) that by the year 2014-15 fiscal liability should be brought down to 25 per cent of GSDP. The Government may therefore, prepare a strategy for achieving this target.***

1.7.3 Status of Guarantees – Contingent liabilities

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

As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table 1.21.**

Table 1.21: Guarantees given by the Government of Orissa

(Rupees in crore)

Guarantees	2007-08	2008-09	2009-10
Maximum amount guaranteed.	8586.90	8380.25	8388.64
Outstanding amount of guarantees.	2168.43	1386.40	1026.93
Percentage of maximum amount guaranteed to total revenue receipt of current year.	39.10	34.05	31.74
Percentage of outstanding guarantee to total revenue receipt of 2nd preceding year less grants-in-aid as provided in the MTFP	19.00	9.32	5.91
Criteria: Shall not be more than 100 per cent of State's revenue receipt of the 2nd preceding year as provided in Finance Department Resolution, dated 12 November 2002 and MTFP 2009-10	11411	14874	17356

Source : Finance Accounts of Government of Orissa for respective years

Though no law has been enacted under Article 293 of the Constitution laying down the limit of such guarantee, an administrative limit has been imposed (November 2002) so that the total outstanding guarantee as on 1 day of April every year shall not exceed hundred *per cent* of the State's revenue receipts of the 2nd preceding year (as per the books of account maintained by Accountant General (A & E), Orissa).

The Government has set up a "Guarantee Redemption Fund" during 2002-03 to meet the contingent liabilities arising out of the total outstanding liabilities. As on 31 March 2010, ₹ 480 crore has been invested in the Fund which comprised guarantee fee, special contribution and return earned on the funds invested.

Guarantees were given in respect of four Statutory Corporations, 27 Government Companies, 46 Co-operative Banks and Societies and 86 Notified Area Councils, Municipalities and Improvement Trusts. Maximum amount guaranteed and the amount outstanding against these bodies showed a reducing trend since 2006-07 to 2008-09 but increased marginally by rupees nine crore during 2009-10 as can be seen from the **Table 1.21** above. Government in their resolution dated 19 March 2004 have issued instruction to the Public Sector Undertakings/Urban Local Bodies/Co-operative Societies etc., who have borrowed or intended to borrow against Government guarantees to open an Escrow Account in a Nationalised Bank for timely repayment of guaranteed loans. ***So far, Escrow Accounts have been opened by 12 out of 88 institutions (31 March 2010).***

Further, in consideration of the guarantee given by the Government, the institutions in some cases are required to pay guarantee commission at rates varying from 0.01 *per cent* to *one per cent*. However, out of 27 departments only 14 departments of the State Government have furnished the information till July 2010. ***The guarantee commission or fee of ₹ 97.31 crore was in arrear from various sectors as shown in*** **Table 1.22.**

Table 1.22: Guarantee commission received by the Government.

(Rupees in crore)

Name of the Sector	Commission Received	Commission to be Received
Statutory Corporations and Boards	-	24.14
Government Companies	-	64.73
Co-op Banks and Societies	0.03	2.20
NACs, Municipalities and Improvement Trusts	-	6.24
Total	**0.03**	**97.31**

The State Government has also taken a number of steps to enhance the credibility of the State finances in the financial market. One such measure is discharging the State Government guarantees through one time settlement (OTS). So far, the State Government and various public sector undertakings, Co-operatives have paid ₹ 741.19 crore under OTS schemes to discharge guarantee liabilities arising out of the default of loanee organizations. ***This includes OTS of ₹ 203.15 crore [9] outstanding guaranteed loan dues of Orissa Rural Housing Development Corporation (ORHDC) through advancing loans to ORHDC by the Housing and Urban Development department during 2006-09. This indicated that the Corporation failed to repay the guaranteed loan from funds generated by it.***

1.8 Debt Sustainability

The State Government does not have any separate debt management office. Debt management is dealt in Finance Department of the Government by a specific branch which deals with management of the State Government Debt. The State Government has not adopted any policy/strategy on debt management. However, Guidelines of Government of India, Reserve Bank of India and recommendation of Finance Commissions helped the State Government in formulating a prudent policy.

Apart from the magnitude of the debt of the State Government, it is important to analyze various indicators that determine the debt sustainability[10] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization[11]; sufficiency of non-debt receipts[12]; net

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9 Page- 249-Orissa Budget at a Glance 2009-10.

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

availability of borrowed funds[13]; interest burden payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.23** analyses the debt sustainability of the State according to these indicators for the period of three years beginning from 2007-08.

Table 1.23: Debt Sustainability: Indicators and Trends

(Rupees in crore)

Indicators of Debt Sustainability	2007-08	2008-09	2009-10
Debt Stabilization (Quantum Spread + Primary Deficit)	6816	5121	7017
Sufficiency of Non-debt Receipts (Resource Gap)	+499	-1657	-1932[14]
Net Availability of Borrowed Funds	(-)4109	(-)2772	(-)1745
Burden of Interest Payments (IP/RR Ratio)	0.14	0.12	0.12
Maturity Profile of State Debt (In Years)			
0 – 1	1438	1487	1701
1 – 3	3184	3961	4950
3 – 5	4660	4686	4938
5 – 7	4484	4587	3936
7 and above	11823	10526	9883

Source: Finance Accounts 2009-10.

During the last three year period 2007-10, quantum spread together with primary deficit consistently remained positive resulting in a continuous decline in debt/GSDP ratio from 36.19 *per cent* in 2007-08 to 26.91 *per cent* in 2009-10 (as against 30.8 *per cent* of TFC's projections in 2009-10). 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. The trends in **Table 1.23** reveal that the incremental non-debt receipts of the State had been able to meet the incremental interest liabilities and incremental primary expenditure during the period 2008-10. ***The positive resource gap during 2007-08 turned negative in the last two years (2008-10) mainly due to steep increase in non plan revenue expenditure by ₹ 2248 crore (2008-09) and ₹ 3795 crore (2009-10). The negative resource gap weakens the capacity of the State to sustain the debt.***

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal plus Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to

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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.

14 Differential total non debt revenue receipt of 2008-09 and 2009-10 minus differential total expenditure of 2008-09 and 2009-10.

the Government's debt problem lies in application of borrowed funds, i.e. they are (a) not being used for financing revenue expenditure and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

During the current year, the Government repaid principal plus interest on account of internal debt of ₹ 2485 crore; Government of India loans of ₹ 1041 crore and also discharged other obligation of ₹ 2440 crore, as a result of which payments exceeded the receipts during the year. Throughout the period 2007-10 the debt repayment was higher than fresh borrowings. As far as the burden of interest payment is concerned, the state is in a comfortable position because the ratio of interest payment to revenue receipts is only 0.12 compared to the recommended ratio of 0.15 by Twelfth Finance Commission.

During the current year, the State Government raised internal debt amount to ₹ 1460 crore (NABARD and other institutions ₹ 704 crore and NSSF Securities: ₹ 756 crore). Against these receipts, Government discharged past debt obligation (Principal plus interest) amounting to ₹ 2485 crore resulting in negative net fund available under the debt account. During the current year, the Government repaid GoI loan including interest amounting to ₹ 1041 crore and also discharged other obligation of ₹ 2440 crore along with interest obligation, which were more than the total receipt resulting in negative net availability of funds during the year. The decreasing trend in the ratio of total debt receipts and debt redemption over the period indicate the State is moving towards debt stabilisation.

1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government Account represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2009-10.

1.9.1 Trends in Deficits

Table 1.24, **Chart 1.12** and **1.13** presents the trends in deficit indicators over the period 2005-10.

Table 1.24: Deficits

(Rupees in Crore)

Parameters	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue deficit (-)/surplus(+) (Rupees in crore)	(-) 522	(+) 481	(+) 2261	(+) 4244	(+) 3420	(+)1138
Fiscal deficit (-)/surplus(+) (Rupees in crore)	(-) 1366	(-) 276	(+) 824	(+) 1323	(-) 334	(-)2266
Primary deficit (-)/surplus(+) (Rupees in crore)	(+) 1966	(+) 3421	(+) 4012	(+) 4492	(+) 2555	(+)778
RD/GSDP (*per cent*)	(-) 0.73	(+) 0.61	(+) 2.48	(+) 4.11	(+) 2.79	(+)0.75
FD/GSDP (*per cent*)	(-) 1.91	(-) 0.35	(+) 0.90	(+) 1.28	(-) 0.27	(-)1.50
PD/GSDP (*per cent*)	(+) 2.75	(+) 4.35	(+) 4.40	(+) 4.35	(+) 2.09	(+)0.51
RD/FD (*per cent*)	(+)38.21	(-)174.28	(+)274.39	(+)320.78	(-)1023.95	(-)50.22

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

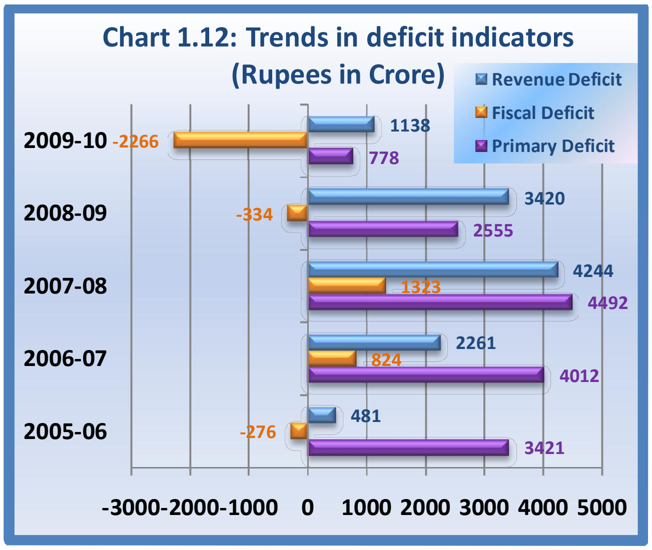

Chart 1.12: Trends in deficit indicators (Rupees in Crore)

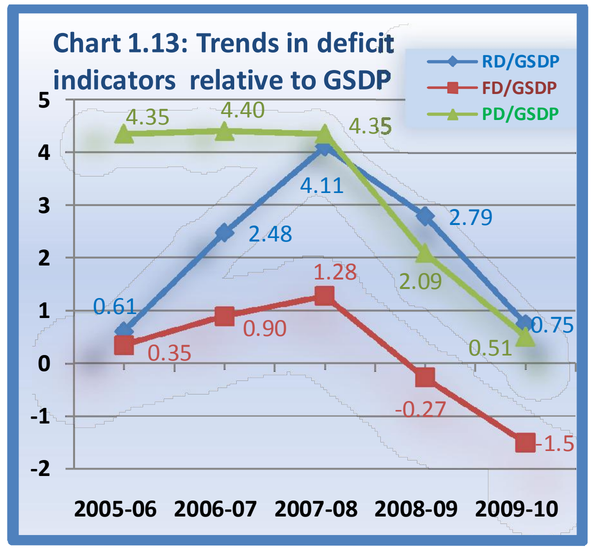

Chart 1.13: Trends in deficit indicators relative to GSDP

Revenue surplus

In the year 2005-06, after a gap of 22 years, the State has been able to achieve Revenue Surplus of ₹ 481 crore. This surplus has steeply increased to ₹ 4244 crore during 2007-08 and declined to ₹ 3420 crore during 2008-09 and further declined to ₹ 1138 crore during the current year. ***Thus, the achievement was in line with the State's FRBM Act, 2005 which prescribed reduction of revenue deficit to zero by 2008-09. However, the decline in revenue surplus in the current year was due to increase in the revenue expenditure of ₹ 4102 crore (19 per cent) and against an increase of revenue receipts of ₹ 1820 crore (7 per cent) over the previous year.*** The increase in revenue expenditure was attributable mainly to rise in salary and pension costs of the Government on account of implementation of Sixth Pay Commission and due to more expenditure under pension to Government servants, Non-Government teachers of secondary schools and colleges and more expenditure under General Education.

Fiscal deficit

The fiscal deficit, which comprises the total borrowing of the Government and its total resources gap consistently decreased from ₹ 1366 crore in 2004-05 to ₹ 276 crore in 2005-06 and formed into fiscal surplus in 2006-07 and 2007-08 ***and slipped back to fiscal deficit during 2008-09 and the same stood at ₹ 2266 crore (1.5 per cent of GSDP) in 2009-10 which was within the State's FRBM target of not more than three per cent of GSDP.***

Primary surplus

The primary surplus in the State of ₹ 3421 crore in 2005-06 has increased to ₹ 4492 crore in 2007-08 and decreased to ₹ 2555 crore in 2008-09 and further declined to ₹ 778 crore in ***2009-10 was however, lower by ₹ 3750 crore of three per cent of GSDP as prescribed in the State's FRBM Act, 2005.***

1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1. 25.**

Table 1.25: Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit		**(-)276**	**824**	**1323**	**(-)334**	**(-)2266**
1	Revenue surplus	481	2261	4244	3420	1138
2	Capital Expenditure	(-)1038	(-)1451	(-)2843	(-)3779	(-)3648
3	Net Loans and Advances	281	14	(-)78	25	244
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	105	(-)788	(-) 874	(-)670	(-)571
2	Loans from GoI	(-)543	(-)39	(-) 343	74	(-)247
3	Special Securities Issued to NSSF	1396	1036	(-)106	67	610
4	Loans from Financial Institutions	99	(-)14	(-)15	189	369
5	Small Savings, PF etc	1348	598	399	459	1138
6	Reserve fund	(-)180	271	(-) 85	(-)52	1
7	Deposits and Advances	149	(-)66	83	576	145
8	Suspense and Misc	(-)1918	(-)1828	(-)1219	(-)522	1595
9	Remittances	4	(-)74	50	(-)1.00	41
10	Others					
11	Increase / decrease in cash Balance	(-) 265	218	673	174	(-)629
12	Net of OCF	81	(-)138	114	40	(-)188

*All these figures are net of disbursements/outflows during the year
Source : Finance Accounts of Government of Orissa for respective years

Decomposition of fiscal deficit/surplus shows ***fiscal surplus in 2006-07 turned into fiscal deficit in 2009-10 due to wide change in net capital***

expenditure (₹ 2197 crore). Fiscal deficit was primarily financed through loans from financial institutions, small savings and provident funds etc., deposits and advances and by reducing cash balances.

1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' 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) were not having any asset backup. In the case of Orissa, there has been a revenue surplus since 2005-06. The bifurcation of the primary deficit **(Table 1.26)** 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 1.26: Primary deficit/Surplus – Bifurcation of factors

(Rupees 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 (3-6)**	**8 (2-6)**
2005-06	14433	9907	1038	67	11012	(-)1105	3421
2006-07	18319	12584	1451	272	14307	(-)1723	4012
2007-08	22322	14554	2843	433	17830	(-)3276	4492
2008-09	24846	18301	3779	211	22291	(-)3990	2555
2009-10	26786	22248	3648	112	26008	(-)3760	778

Source : Finance Accounts of Government of Orissa for respective years

During 2005-06 to 2009-10 non-debt receipts increased from ₹ 14433 crore to ₹ 26786 crore (86 *per cent*) against an increase of 125 *per cent* in Primary Revenue Expenditure. ***Capital expenditure, however during 2009-10 registered a decrease over the previous year.***

The bifurcation of the factors resulting into primary deficit or surplus of the State during 2005-10 reveals that the State is experiencing primary surplus during these years. In other words, non-debt receipts of the State were enough to meet the primary expenditure[15] requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account.

[15] 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.

1.10 Conclusion and Recommendations

Though there was increase in Revenue Receipts from 2005-06 to 2009-10, yet the annual growth rate has been decreased from 28 per cent in 2006-07 to 12 per cent in 2008-09 and further dipped to 7 per cent in 2009-10 ***(paragraph 1.3).*** This was due to lower growth rates in States own tax revenue (12.3 *per cent*), own non-tax revenue (1.1 *per cent*) and Central tax transfers (2.9 *per cent*) in 2009-10 from 16.6, 19.6 and 5.5 *per cent* respectively in 2008-09. The growth rate of the State's own revenue relative to GSDP was sluggish (0.524 *per cent*) during the current year due to overall slowdown in the economy which impacted State's own taxes and also the State's share of union taxes leading to decline in the fiscal position of the State.

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

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

A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Principal Accountant General (A&E).

The growth rate of the total expenditure of the State increased from ₹ 14709 crore (7.9 *per cent*) in 2005-06 to ₹ 29052 crore (15.3 *per cent*) in 2009-10. However, the total expenditure was 19.25 *per cent* of GSDP during 2009-10 which exceeded Twelfth Finance Commission's normative assessment of 16.30 *per cent* ***(Paragraph 1.4.1.1).***

Government may keep the total expenditure within the limits prescribed by the TFC by making fiscal correction.

Revenue Expenditure (RE) has increased by 19 *per cent* over the previous year and constituted 87 *per cent* of the total expenditure during 2009-10 and Non-Plan Revenue Expenditure (NPRE) constituted 78 *per cent* of RE. While the non plan revenue expenditure contributed 93 *per cent*, plan expenditure had the share of only 7 *per cent* in increase of the Revenue expenditure during 2009-10 over the previous year. The NPRE increased by 24 *per cent* over the previous year and exceeded the State Government's FCP assessment by 20 *per cent* and TFC's normative assessment of 27 *per cent* but it remained within the Budget Estimate (2009-10). Expenditure on salaries at 42 *per cent* of RE net of interest payments and pension exceeded the TFC's projection of 35 *per cent* and there was rise in subsidy costs by 36 *per cent* during the year ***(Paragraph 1.4.1 and 1.4.2).***

Government may phase out implicit subsidies and resort to need-based borrowings to reduce interest payments and contain the growth of unproductive non-plan revenue expenditure. Government may also consider

reduction in subsidy payments to PSUs etc. for boosting their operational efficiency.

Capital Expenditure of the State ranged from seven to 13 *per cent of* Aggregate Expenditure during 2005-10. It was far below the level of capital expenditure incurred by other general category states on an average**.** Capital Expenditure showed a decrease of 3.5 *per cent* during 2009-10 over the previous year ***(Paragraph 1.4.1.4).*** The Capital Expenditure was 2.42 *per cent* of GSDP as against TFC's Projection of 3.1 *per cent* for 2009-10 and 2.65 *per cent* under MTFP**.**

Government may strengthen the State infrastructure for intake of higher capital expenditure for asset formation and sustainable development of the State as per their Fiscal Policy Strategy Statement for 2009-10.

Financial results of Major and Medium Irrigation projects with a capital expenditure of ₹ 3362.20 crore at the end of March 2010 yielded return of only ₹ 4.15 crore during 2009-10 against the direct working expenses of ₹ 145.49 crore. After meeting the working and maintenance expenditure (₹ 146.15 crore) and interest charges (₹ 227.05 crore), the schemes suffered a net loss of ₹ 369.05 crore ***(Paragraph 1.6.1***).

The State Government may take effective steps to realize cost recovery of maintenance expenses as recommended by the TFC

The average return on investment was 11.5 *per cent* in the last three years while the Government paid an average interest rate of 8.18 *per cent* to 7.44 *per cent* on its borrowings during 2006-2009. However, during 2009-10 only five out of 83 concerns declared dividends and most of the concerns were either defunct or loss making units ***(Paragraph 1.6.3)***.

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

Although a substantial amount (₹ 3133 crore) of loans were paid to various public sector undertakings etc., but no interest was received from them during 2009-10 as a result of which interest receipts to outstanding loans stood at 0.01 *per cent* during 2009-10 which was lower than the TFC's recommendation of gradual increase to seven *per cent* by the end of award period 2005-10 ***(Paragraph 1.6.5***).

Government may therefore, take effective action to realize the interest dues from the undertakings as per the terms and conditions of the payment of loans.

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

While maintaining an optimum cash balance (minimum: ₹ 1.28 crore) with the Reserve Bank of India, the State may with advance planning use the surpluses to settle some of the high cost loans instead of investing the same in GoI Treasury Bills in the Reserve Bank of India at low rates of interest.

Currently the State Government is not facing any debt crisis because the fiscal deficit is in a manageable position of 1.5 *per cent* of GSDP and most of the indicators of debt sustainability (***paragraph 1.8***) are positive. However, the resource gap (adequacy of incremental non debt receipts of the state to cover the incremental interest liabilities and incremental primary expenditure) is negative showing that there is mismatch between incremental non-debt receipts and incremental expenditure. If this resource gap widens in the coming years, then there may be a cause for concern for corrective action. Another concern is that fresh borrowing seems to be used towards debt repayment and not for capital asset formation. Hence repayment of these borrowings in future years would not be met out of funds generated from assets. No debt management office was available with the State Government for policy formulation and debt management of the State**.**

Government may consider for operationalising a separate debt management office to regulate the debt of the State.