

# Executive Summary

## Finances of the State Government

### *Fiscal situation of the State*

Revenue Receipts (₹ 99,546 crore) of the Government constituting 20.51 per cent of the Gross State Domestic Product (GSDP) (₹ 4,85,376 crore), increased by 16.83 per cent over the previous year (₹ 85,204 crore). The corresponding increase in the Revenue Expenditure during the year 2018-19 (₹ 85,356 crore) was 18.82 per cent over 2017-18 (₹ 71,837 crore) and was 17.59 per cent of GSDP. Capital Expenditure (CE) (₹ 23,482 crore) during 2018-19, increased by ₹ 2,373 crore (11.24 per cent) over the previous year (₹ 21,109 crore). CE relative to GSDP was 4.84 per cent in 2018-19. Revenue Surplus as a percentage of Revenue Receipts decreased to 14.25 per cent in 2018-19 from 15.69 per cent in 2017-18.

*(Paragraph 1.4.2, 1.5.3 & 1.5.4)*

The State registered a Revenue Surplus of ₹14,190 crore. The Fiscal Deficit was ₹ 10,157 crore. The Revenue Surplus, however, was overstated by ₹1,494.89 crore and the Fiscal Deficit was understated by the same amount on account of (i) Excess contribution of the Government towards New Pension System, (ii) Non Credit of interest to Deposits, (iii) Non Credit of Interest to State Disaster Response Fund, (iv) Un-recouped balance of Odisha Contingency Fund, (v) Labour Welfare Cess not transferred to Welfare Board and (vi) Land Revenue Cess not transferred to Panchayati Raj Institutions (PRIs). Effectively, the Revenue Surplus and Fiscal Deficit of the State in 2018-19 was ₹12,695 crore and ₹11,652 crore respectively.

The effective Fiscal Deficit (₹11,652 crore) was 2.40 per cent<sup>1</sup> of GSDP (₹ 4,85,376 crore). It was meeting the fiscal target set out in its FRBM (Amendment) Act 2016, which was to maintain the fiscal deficit within 3.5 per cent of the GSDP and was in compliance of the ceiling of 3.5 per cent fixed by 14<sup>th</sup> Finance Commission.

As per the FRBM (Amendment) Act 2016, **Debt to GSDP** ratio (in per cent) was to be maintained less than or equal to 25 per cent for the years 2015-16 to 2019-20. Debt to GSDP ratio at 22.30 per cent in 2018-19 was meeting the fiscal target set out in the State's FRBM (Amendment) Act, 2016 and was in compliance of the ceiling of 25 per cent fixed by 14<sup>th</sup> Finance Commission.

*(Paragraph 1.3.1)*

<sup>1</sup> The Fiscal Deficit as reported by the State Government, ₹ 10,157 crore, was 2.09 per cent of GSDP

### ***Mobilization and application of Resources***

Revenue Receipts (₹ 99,546 crore) in 2018-19 grew by ₹14,342 crore (16.83 per cent) over 2017-18. These were, however, lower than the budget estimates (₹ 1,00,200 crore) by ₹ 654 crore.

*(Paragraph 1.4.2)*

Own Tax Revenue (₹30,318 crore) increased by 8.61 per cent over the previous year and was also higher than the budget estimates (₹28,550 crore) by ₹ 1,768 crore. Non Tax Revenue (₹14,276 crore) increased by 69.99 per cent over the previous year and was higher than the budget estimates (₹10,300 crore) by ₹ 3,976 crore.

*(Paragraph 1.4.2.1 and 1.4.2.4)*

Revenue Expenditure (₹ 85,356 crore) for the year 2018-19 increased by ₹13,519 crore (18.82 per cent) over 2017-18 (₹ 71,837 crore) and was within the budget provision (₹ 90,220 crore) made for the year 2018-19.

*(Paragraph 1.5.3)*

Capital Expenditure (₹ 23,482 crore) during 2018-19, constituted 21.35 per cent of total expenditure (₹ 1,10,008 crore) and increased by ₹ 2,373 crore (11.24 per cent) over the previous year (₹ 21,109 crore). It was, however, less than the budget estimates by ₹ 2,169 crore. CE relative to GSDP was 4.84 per cent in 2018-19 and during the past five years, it has remained around 5 per cent of GSDP.

*(Paragraph 1.5.4)*

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

### ***Efficiency in Tax Collection***

The cost of collection on Sales, Trade etc., State Excise and Taxes on Vehicle decreased during 2018-19 as compared to previous year, indicating greater efficiency.

*(Paragraph 1.4.2.2)*

### ***Adequacy of public expenditure***

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

*(Paragraph 1.5.5)*

**Committed Expenditure**

Committed Expenditure of Government consists of interest payments (₹5,800 crore), salaries and wages (₹19,567 crore), pensions (₹10,520 crore) and subsidies (₹3,168 crore). The committed expenditure in 2018-19 was ₹39,055 crore and constituted 45.75 per cent of Revenue Expenditure (₹85,356 crore) as compared to ₹34,208 crore (47.62 per cent of Revenue Expenditure) during 2017-18.

*(Paragraph 1.5.3.1)*

**Investment in Public Sector Undertakings**

As of 31 March 2019, the State Government's investment in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operative societies stood at ₹5,354 crore. The Return on Investment from Corporations/Companies was 10.16 per cent, which was more than the average rate of interest on Government borrowing (7.74 per cent).

*(Paragraph 1.6.1.1)*

**Loans and Advances given by the State Government**

As of 31 March 2019, Loans and Advances given by the Government to Public Sector Companies, Autonomous Bodies and Corporations were ₹7,191 crore.

Outstanding Loans and advances rose from ₹4,449 crore in 2014-15 to ₹7,191 crore in 2018-19. Major portion of loans advanced during 2018-19 was to Indian Oil Corporation Limited (₹700 crore).

*(Paragraph 1.6.1.2)*

**Cash Balance**

The cash balance at the end of March 2019 was ₹38,134.48 crore. The closing cash balances in the years 2016-17 and 2017-18 were ₹14,601.11 crore and ₹30,848.11 crore respectively. The State Government was maintaining large cash balance on a regular basis, while being a fiscal deficit State. As against the mandated minimum Cash Balance of ₹1.28 crore, the State Government's balance with Reserve Bank of India was ₹1,624.56 crore as on 31 March 2019.

The 13<sup>th</sup> Finance Commission had recommended that the States with large cash balances should make efforts to utilise their cash balances before resorting to fresh borrowings. Out of a General Cash Balance of ₹24,760.15 crore, there was an untied Cash Balance of ₹9,889.37 crore. Instead of utilising the Cash Balance, the State resorted to market borrowings of ₹9,019.54 crore at interest rates ranging from 7.55 to 8.79 per cent, contrary to the Finance Commission recommendation.

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

rates. Government should avoid large cash balances resulting in avoidable interest burden.

*(Paragraph 1.6.1.3)*

### ***Debt Management***

Total outstanding Debt (₹ 1,08,258 crore) increased from 22.27 *per cent* of Gross State Domestic Product in 2017-18 to 22.30 *per cent* of GSDP in 2018-19. Interest payment relative to revenue receipts at 5.83 *per cent* was, however, well below the target of 15 *per cent* fixed by Odisha FRBM (Amendment) Act, 2016 and in compliance of ceiling laid down by 14<sup>th</sup> Finance Commission. The ratio of Debt repayment to Tax Revenue decreased from 129.53 *per cent* in 2017-18 to 122.07 *per cent* in 2018-19.

*(Paragraph 1.7)*

## **Financial Management and Budgetary Control**

### ***Excess expenditure requiring regularisation***

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get excess expenditure over a grant/appropriation regularised by the State Legislature. State Government did not get excess expenditure of ₹ 79.60 crore, pertaining to the years 2013-14 to 2017-18 and ₹ 173.42 crore pertaining to 2018-19, regularised as of March 2019.

***Recommendation:*** All the existing cases of excess expenditure are required to be regularised at the earliest and, in future, such excess expenditure may be completely stopped.

*(Paragraph 2.2.2.1 & 2.2.2.2)*

### ***Savings***

In 2018-19, the total savings were ₹18,895.73 crore. Of this, ₹7037.92 crore (37.25 *per cent*) pertained to seven grants, in which savings were more than ₹100 crore and above 20 *per cent* of the total provision.

***Recommendation:*** All anticipated savings should be surrendered in time so that the funds can be utilised for other development purposes.

*(Paragraphs 2.2.2.3)*

### ***Re-appropriations***

Re-appropriations are meant for transfer of savings from one scheme / unit to another within the same grant and under same section (*i.e.*, Capital, Revenue or Loans). The Finance Department had informed (February 2019) that the deadline for the re-appropriations was 26-02-2019. Despite that, there were 21 cases of re-appropriation orders amounting to ₹ 3,404.79 crore (₹one crore and above in 12

cases) issued on 30 March 2019, for which there was no scope for expenditure during 2018-19.

**Recommendation:** *Leveraging advancements in Information Technology, State Government may issue re-appropriations on the basis of real-time data on committed expenses and actual receipts.*

(Paragraph 2.2.4)

### **Substantial surrenders**

Surrenders of 100 *per cent* of total provision of ₹1,304.17 crore were made under 27 sub heads (₹10 crore or more in each case) under 13 grants. These represented different schemes / programmes / projects and activities. Similarly, surrenders of ₹ 1,788.12 crore (15 grants) and ₹ 2,686.12 crore (17 grants) were made during the years 2016-17 and 2017-18 respectively.

(Paragraph 2.2.5)

### **Surrender in excess of savings**

In three cases (three grants), there were savings of ₹ 590.48 crore. The amount surrendered was ₹ 624.21 crore, resulting in excess surrender (₹ one crore or more in each case), amounting to ₹ 33.73 crore.

(Paragraph 2.2.6)

### **Cash Management System and Rush of Expenditure**

Pursuant to the provisions of the Odisha Fiscal Responsibility and Budget Management Act, 2016, Government of Odisha laid down guidelines for timely spending of Budgetary grants through Cash Management System in 20 departments during 2018-19. As per this, the level of expenditure at the end of the third quarter should not be less than 60 *per cent* and during the month of March, the same should not be more than 15 *per cent* of the gross budget provision. Out of 20 departments, only 10 departments had followed the guidelines for timely spending of budgetary grants as per the Cash Management System.

**Recommendation:** *The State Government should enforce rules to ensure that budget provisions are fully utilised and prevent rush of expenditure during fag end of the financial year.*

(Paragraph 2.4)

## **Financial Reporting**

### **Personal Deposit (PD) Accounts**

There were 831 PD Account holders with a closing unspent balance of ₹17,503.50 crore as of 31 March 2019. Of this, an amount of ₹14,328.50 crore (81.86 *per cent*) related to one PD account of Odisha Mineral Bearing Areas Development Corporation (OMBADC), which was opened on the directions of the Hon'ble Supreme Court. The amount related to the compensation recovered in respect of

illegally mined ores and was meant to be utilised for the benefit of the tribal people in the affected districts and for area development work.

Further, contrary to Odisha Treasury Code, Government of Odisha failed to close 15 PD accounts with a closing balance of ₹ 5.86 crore where there had been no transactions for over three financial years.

***Recommendation:*** *The Finance Department is required to review all PD Accounts and ensure that all amounts unnecessarily lying in these accounts are immediately remitted to the Consolidated Fund and all inoperative PD Accounts are closed.*

***(Paragraph 3.1.1 and 3.1.3)***

***Delay in submission of Utilisation Certificates (UCs)***

During the year 2018-19, Government released ₹ 25,957.25 crore as Grants-in-Aid, for which UCs have not been received in respect of ₹ 19,371.21 crore (75 per cent). There was therefore, no assurance that the expenditure of ₹ 19,371.21 crore had actually been incurred for the purposes for which it was authorised. UCs for an amount aggregating ₹ 45,340.89 crore remained outstanding against 37 departments of the State as of March 2019 in the books of the Principal Accountant General (A&E), Odisha.

***Recommendation:*** *The Finance Department should develop a mechanism to ensure submission of UCs which have become due without delay and review all UCs pending for submission before release of fresh grants.*

***(Paragraph 3.4)***

***Outstanding Detailed Contingent bills***

During the year 2018-19, 15 Departments had drawn 939 Abstract Contingent bills for an amount of ₹210.19 crore from Government accounts and submitted only 214 Detailed Contingent (DC) Bills for an amount of ₹11.46 crore. Thus, 725 DC bills amounting to ₹198.73 crore were not submitted by 12 departments before the close of the financial year. There is, therefore, no assurance that the amount of ₹198.73 crore had actually been incurred during the year for the purpose for which it was sanctioned/ authorised by the Legislature. This is a possible overstatement of expenditure in the year 2018-19.

Non-submission of DC bills within the prescribed time is a breach of financial discipline and enhances risk of misappropriation of public money.

***Recommendation:*** *Finance Department may ensure that all Controlling Officers submit the required DC bills to adjust all pending AC bills in a time-bound manner.*

***(Paragraph 3.5)***