

## CHAPTER-I

### Finances of the State Government

#### 1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (*Appendix 1.1- Part A*). The Finance Accounts of the Government of Orissa are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts of the State of Orissa. The layout of the Finance Accounts is depicted in *Appendix 1.1-Part B*.

##### 1.1.1 Summary of Receipts and Disbursements

**Table-1.1** summarises the finances of the Government of Orissa for the year 2007-08 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

**Table-1.1: Summary of receipts and disbursements for the year 2007-08**

(Rupees in crore)

2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
Section-A: Revenue					Non Plan	Plan	Total
18032.62	Revenue receipts	21967.19	15772.02	Revenue expenditure	13634.19	4089.08	17723.27
6065.06	Tax revenue	6856.09	7502.77	General services	7196.41	30.80	7227.21
2588.12	Non-tax revenue	2653.58	5220.55	Social services	4098.69	2317.82	6416.51
6220.42	Share of Union Taxes/ Duties	7846.50	2776.44	Economic services	1988.19	1740.46	3728.65
3159.02	Grants from Government of India	4611.02	272.26	Grants-in-aid and Contributions	350.90		350.90
Section-B: Capital							
--	Misc Capital Receipts		1451.46	Capital Outlay	187.22	2656.19	2843.41
285.82	Recoveries of Loans and Advances	355.30	271.77	Loans and Advances disbursed	132.07	300.61	432.68
2045.89	Public debt receipts*	506.90	1850.74	Repayment of Public Debt*			1844.97
--	Contingency Fund	165.01	137.67	Contingency Fund			51.34
9991.62	Public Account receipts	10297.41	7958.06	Public Account disbursements			8971.58
5047.00	Opening Cash Balance	7961.23	7961.23	Closing Cash Balance			9385.79
<b>35402.95</b>	<b>Total</b>	<b>41253.04</b>	<b>35402.95</b>	<b>Total</b>			<b>41253.04</b>

\* Excluding Ways and Means Advances and Overdraft.

Following are the significant changes during 2007-08 over previous year.

- Revenue Receipt increased by Rs 3934 crore (22 *per cent*) over previous year. The increase was mainly due to increase in Tax Revenue (Rs 791 crore), Non-Tax Revenue (Rs 66 crore), State Share of Union Taxes / Duties (Rs.1626 crore), Grants from Government of India (Rs 1452 crore). The non-cash receipt of Rs 381.90 crore towards interest relief and debt waiver by the Government of India (GOI) under DCRF<sup>1</sup> was also included in total Non-Tax revenue.
- Total expenditure increased by Rs 3504 crore during 2007-08 over the previous year of which increase in revenue expenditure was Rs 1951 crore and the capital expenditure including disbursement of loans and advances increased by Rs 1553 crore.
- Public Debt receipts recorded an increase of Rs 1539 crore over previous year while Public Debt repayments decreased marginally by Rs six crore only resulting in a net impact of Rs 1533 crore over the previous year.
- The Public Account Receipts was Rs 10297.41 crore during 2007-08, while the disbursements amounted to Rs 8971.58 crore resulting in a net increase of receipts by Rs 1325.62 crore during the year.
- Recoupment to the contingency fund was of the order of Rs 165.01 crore against the withdrawals of Rs 51.34 crore during the current year.
- Cash balance of the State increased by Rs 1425 crore from Rs 7961.23 crore in 2006-07 to Rs 9385.79 crore during the current year of which increase in cash balance investment was Rs 2071.17 crore, increase in Departmental cash balance was Rs 26.76 crore and Deposit with RBI decreased by Rs 673.37 crore.

### **1.1.2 Trends in Fiscal Aggregates**

The fiscal position of the State Government during the current year as compared to the previous year is given in **Table-1.2**.

**Table 1.2** (Rupees in crore)

2006-07	Sl. No	Major Aggregates	2007-08
<b>18033</b>	<b>1.</b>	<b>Revenue Receipts (2+3+4)</b>	<b>21967</b>
6065	<b>2.</b>	Tax Revenue (Net)	6856
2588	<b>3.</b>	Non-Tax Revenue	2654
9380	<b>4.</b>	Other Receipts	12457
<b>286</b>	<b>5.</b>	Non-Debt Capital Receipts	<b>355</b>
286	<b>6.</b>	<i>Of which</i> Recovery of Loans	355
<b>18319</b>	<b>7.</b>	<b>Total Receipts (1+5)</b>	<b>22322</b>
<b>13290</b>	<b>8.</b>	Non-Plan Expenditure (9+11+12)	<b>13953</b>
13045	<b>9.</b>	On Revenue Account	13634
3188	<b>10.</b>	<i>Of which</i> Interest Payments	3169
111	<b>11.</b>	On Capital Account	187
134	<b>12.</b>	On Loans disbursed	132
<b>4205</b>	<b>13.</b>	Plan Expenditure (14+15+16)	<b>7046</b>
2727	<b>14.</b>	On Revenue Account	4089

<sup>1</sup> In pursuance of the recommendations of the Twelfth Finance Commission (TFC) for fiscal consolidation and elimination of revenue deficit of the States, Government of India formulated a scheme “**The States’ Debt Consolidation and Relief Facility (DCRF) (2005-06 to 2009-10)**” under which general debt relief is provided by consolidating and rescheduling at substantially reduced rates of interest, the Central loans granted to States on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficits of States.

2006-07	Sl. No	Major Aggregates	2007-08
1340	15.	On Capital Account	2656
138	16.	On Loans disbursed	301
<b>17495</b>	<b>17.</b>	<b>Total Expenditure (13+8)</b>	<b>20999</b>
(+) 2261	<b>18.</b>	<b>Revenue Deficit (9+14-1)/Surplus (+)</b>	(+)4244
(+) 824	<b>19.</b>	<b>Fiscal Deficit (17-1-5)/Surplus (+)</b>	(+)1323
(+) 4012	<b>20.</b>	<b>Primary Deficit (19-10)/Surplus (+)</b>	(+)4492

**Table-1.2** shows that revenue receipts increased by Rs 3934 crore (22 per cent) during 2007-08 while revenue expenditure increased by Rs 1951 crore (12 per cent) over the previous year resulting in an increase of Rs 1983 crore in revenue surplus over the previous year. Given the increment of Rs 1983 crore in revenue surplus in 2007-08 along with the moderate increase of Rs 69 crore in non-debt capital receipt; an increase of Rs 1392 crore in capital expenditure and Rs 161 crore in disbursement of loans and advances led to an increase of Rs 499 crore in fiscal surplus during 2007-08 from the level of Rs 824 crore in the previous year. Given the marginal decline of Rs 19 crore in interest payments, primary surplus increased by Rs 480 crore due to increase in fiscal surplus of Rs 499 crore in 2007-08 over the previous year.

## 1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerged from the Statements of Finance Accounts were analysed wherever necessary over the period of last five years and observations have been made on their behavior. In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact the Fiscal Responsibility Acts and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their Fiscal Responsibility Acts and in other Statements required to be laid in the legislature under the Act have been used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that GSDP is the good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. The New GSDP series with 1999-2000 as base (Table 1.3), as published by the Directorate of Economics and Statistics of the State Government have been used in estimating these percentages and buoyancy ratios.

**Table –1.3: Trends in Growth and Composition of GSDP (Rupees in crore)**

Estimates	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Gross State Domestic Product (GSDP)	50223	61422	71428	78536 (P)	91151 (Q)	103304 (A)
Rates of Growth of GSDP ( <i>per cent</i> )	6.98	22.30	16.29	9.95	16.06	13.33

Source: Directorate of Economics and Statistics of the State Government

The key fiscal aggregates for the purpose are grouped under four major heads: (i) Resources by Volume and Sources, (ii) Application of Resources, (iii) Assets and Liabilities and (iv) Management of Deficits (**Appendix 1.2-B to 1.5**). The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1 Part C**.

### **1.2.1 The Orissa Fiscal Responsibility and Budget Management Act 2005**

The State Government has enacted the Fiscal Responsibility and Budget Management (FRBM) Act 2005 to ensure prudent and improved fiscal management and to maintain fiscal stability in the State. The Act envisages progressive elimination of revenue deficit, reduction in fiscal deficit and debt management consistent with fiscal sustainability, greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and matters connected therewith or thereto. To give effect to the fiscal management principles as laid down in the Act, and/or the rules framed thereunder prescribed the following fiscal targets for the State Government:

- a) Reduce Revenue deficit to ‘NIL’ within a period of five financial years ending on the 31<sup>st</sup> day of March 2009.
- b) Reduce fiscal deficit by 1.5 *per cent* of GSDP in each of the financial years beginning on the 1<sup>st</sup> April 2004 so as to bring it down to not more than three *per cent* of the estimated gross State domestic product within a period of five financial years ending on the 31<sup>st</sup> day of March 2009 in the manner consistent with the goal.
- c) Generate a primary surplus of over three *per cent* of GSDP by the year ending 31 March 2008.
- d) Other important monitorable targets would be :
  - the ratio of salary to State’s own revenue is to be reduced to 80 *per cent* by the year ending 31 March 2008;
  - the ratio of non-interest committed revenue expenditure to State’s own and Mandated revenue was to be reduced to 55 *per cent* by the year ending 31 March 2008; and
  - the ratio of revenue deficit to revenue receipt was to be reduced to zero *per cent* by the year ending 31 March 2009.
- e) In order to bring the debt stock to a sustainable level, interest payment as a percentage of revenue receipt to be limited from 18 to 25 *per cent*.

- f) Total Debt stock should be limited to 300 *per cent* of the total Revenue Receipt of the State by the year ending 2007-08.

The Act, however, provides that the revenue deficit and the fiscal deficit may exceed the specified limits on account of unforeseen circumstances or natural calamity to the extent of actual fiscal cost that can be attributed to the natural calamities.

#### **1.2.2.1 Roadmap to Achieve the Fiscal Targets as laid down in FRBM Act/Rules**

The State Government had also developed its own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators for the period 2004-05 to 2009-10 (*Appendix-1.2(A)*), 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. In its FCP, State has envisaged *inter alia* to almost double the State's own revenue from Rs 4396.28 crore in the base year (2003-04) to Rs 8529.02 crore in 2009-10; reduce the share of committed expenditure in the form of salaries, pensions and interest payments from 84 *per cent* of total revenue receipts in base year to 60 *per cent* in 2009-10; consistently reduce the general subsidy from Rs 231 crore to Rs 60 crore and eliminate the power subsidy during the period; eliminate the revenue deficit and earn surplus and bring the fiscal deficit below three *per cent* by 2008-09.

#### **1.2.2.2 Fiscal Policy Statement(s) 2007-08**

As prescribed in the Act, the State Government has laid Fiscal Policy Strategy (FPS) statement relating to taxation, expenditure, borrowings, strategic priorities and measures for restructuring the State finances as recommended by the Twelfth Finance Commission (TFC) for the ensuing year and Medium Term Fiscal Plan (MTFP) based on current fiscal trends and policy initiatives undertaken by the Government and assumptions for achieving them along with the budget before the legislature during 2007-08.

#### **1.2.2.3 Mid-Term Review of Fiscal Situation**

In compliance with Sec 8 (2) of Orissa Fiscal Responsibility and Budget Management Act 2005, the Finance Minister convened review meetings in January 2008 and March 2008 wherein *inter alia* the trends in receipts and expenditure vis-à-vis the targets laid down in the Budget and other Fiscal Statements placed in the legislature were reviewed. Directions were issued to all the concerned departments to achieve 20 *per cent* growth in own revenue receipt over the collection level of 2006-07 and all the departments should take all possible measures for full utilisation of their budgetary provisions. However, the provisions were not utilised fully and there were savings of Rs 3083.51 crore and Rs 1523.76 crore under Revenue and Capital sections respectively. The achievement of above target was however, confined to 10 *per cent* only during the current year.

The table below depicts comparative position of selected fiscal variables vis-à-vis the targets set for them in FRBM/FCP/MTFP for the year 2007-08.

**Table: Position of Key indicators**

Fiscal forecasts	Targets laid in FRBM Act/Rules	Projection as per MTFP	Projection as per FCP	Actuals by 2007-08
Ratio of Revenue deficit (-)/surplus (+) to Revenue receipt	0.0 (31.3.2009)	0.078	(-)0.010	0.204
Ratio of Fiscal Deficit (-)/surplus (+) to GSDP	Annual Reduction by 1.5 per cent so as to achieve target of 3 per cent by 2008-09	(-) 1.08	(-) 1.09	(+) 1.28
Primary surplus	Over 3 per cent of GSDP by 31 March 2008	2.84	2.84	4.35
Ratio of Salary to State's own Revenue	80 per cent (By 31.3. 2008)	63	70	48
Ratio of non-interest committed revenue exp to State's Own and Mandated Revenue	55 per cent (By 31.3. 2008)	88	101	67
Ratio of total Debt Stock to total Revenue Receipt	300 per cent by the year ending 2007-08	179.44	276.80	175.38

The comparative position presented in the Table above reveals that the State has achieved the targets for revenue and fiscal deficits as well as with regard to other variables as laid down in State FRBM Act / Rules, MTFP, FCP and TFC for the year 2007-08, much before the timeline with the current year ending in revenue surplus of Rs 4244 crore and fiscal surplus of Rs 1323 crore which was 1.28 per cent of GSDP. As a result of consistence performance the State Government received a debt waiver of Rs 381.90 crore during 2007-08 linked to its fiscal performance from Government of India under Debt Consolidation and Relief Facility.

### **1.3 Trends and Composition of Aggregate Receipts**

Resources of the State Government consist of revenue receipts and capital receipts. 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-1.4** shows that the total receipts of the State Government for the year 2007-08 were Rs 33291 crore. Of these, the revenue receipts were Rs 21967 crore, constituting 66 per cent of the total receipts. The balance came from borrowings, recovery of loans and advances and Public Account.

## 1.4: Trends in Growth and Compositions of Aggregate Receipts

(Rupees in crore)

Sources of Receipt	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>I Revenue Receipts</b>	<b>8439</b>	<b>9440</b>	<b>11850</b>	<b>14085</b>	<b>18033</b>	<b>21967</b>
<b>II Capital Receipts</b>	<b>4996</b>	<b>6152</b>	<b>4529</b>	<b>2443</b>	<b>2332</b>	<b>862</b>
Recovery of Loans and Advances	177	273	417	348	286	355
Public Debt Receipts	4819	5879	4112	2095	2046	507
Miscellaneous Capital Receipts	--	--	--	--	--	--
<b>III Contingency Fund</b>	<b>--</b>	<b>--</b>	<b>54</b>	<b>81</b>	<b>--</b>	<b>165</b>
<b>IV Public Account Receipts</b>	<b>7150</b>	<b>7657</b>	<b>7373</b>	<b>8506</b>	<b>9992</b>	<b>10297</b>
a. Small Savings, Provident Fund etc.	2020	1675	1938	2742	2077	2104
b. Reserve Fund	213	530	1123	1105	2004	1032
c. Deposits and Advances	3086	3733	2749	2397	2463	2567
d. Suspense and Miscellaneous	67	131	-428	-74	12	(-)19
e. Remittances	1764	1588	1991	2336	3436	4613
<b>Total Receipts</b>	<b>20585</b>	<b>23249</b>	<b>23806</b>	<b>25115</b>	<b>30357</b>	<b>33291</b>

## 1.3.1 Revenue Receipts

**Statement-11** of the Finance Accounts details the revenue receipts of the Government. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table-1.5**.

Table-1.5 : Revenue Receipts - Basic Parameters (Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Revenue Receipts (RR) (Rupees in crore)</b>	8439	9440	11850	14085	18033	21967
Own Taxes ( <i>per cent</i> )	2872 (34)	3302 (35)	4177 (35)	5002 (35)	6065 (34)	6856 (31)
Non-Tax Revenue ( <i>per cent</i> )	961 (12)	1094 (12)	1345 (11)	1532 (11)	2588 (14)	2654 (12)
Central Tax Transfer Rs in crore ( <i>per cent</i> )	2806 (33)	3328 (35)	3978 (34)	4877 (35)	6221 (34)	7846 (36)
Grants-in-aid ( <i>per cent</i> )	1800 (21)	1716 (18)	2350 (20)	2674 (19)	3159 (18)	4611 (21)
<b>Rate of growth of RR (<i>per cent</i>)</b>	19.73	11.86	25.53	18.86	28.02	21.82
<b>RR/GSDP (<i>per cent</i>)</b>	16.80	15.37	16.59	17.93	19.78	21.26
<b>Buoyancy Ratio<sup>2</sup></b>						
<b>Revenue Buoyancy Ratio</b>	2.83	0.532	1.567	1.895	1.745	1.636
<b>State's own taxes buoyancy Ratio</b>	2.35	0.67	1.63	1.98	1.32	0.98
<b>Revenue Buoyancy ratio with reference to State's own taxes</b>	1.20	0.79	0.96	0.95	1.32	1.67
<b>GSDP Growth (<i>per cent</i>)</b>	6.98	22.30	16.29	9.95	16.06	13.33

<sup>2</sup> Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 1.6 during 2007-08 implies that revenue receipts tend to increase by 1.6 percentage points if the GSDP increases by one *per cent*.

### **General Trends**

The revenue receipts have shown a progressive increase over the period 2002-08. Revenue receipts of the State consistently increased from Rs 8439 crore in 2002-03 to Rs 21967 crore in 2007-08. While on an average around 43 *per cent* of the revenue during 2007-08 came from State's own resources (tax and non-tax), central tax transfers and grants-in-aid together contributed nearly 57 *per cent* of total Revenue receipt. An increase of Rs 791 crore (13 *per cent*) in own tax revenue, Rs 66 crore (three *per cent*) in non-tax revenue, Rs 1625 crore (26 *per cent*) in central tax transfers and Rs 1452 crore (46 *per cent*) in grants-in-aid resulted in a steep increase of Rs 3934 crore in revenue receipts during 2007-08.

### **Tax Revenue**

The Tax Revenue has increased by 13 *per cent* from Rs 6065 crore in 2006-07 to Rs 6856 crore in 2007-08. The share of sales tax in total tax revenue which has been more than 55 *per cent* throughout the period 2002-08 was at 60 *per cent* in 2007-08 with marginal decline from 62 *per cent* in 2006-07. **Table-1.6** below presents the trends in growth and composition of tax revenue during 2002-08.

**Table - 1.6: Trends in Growth and Composition of Tax Revenue (Rupees in crore)**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Sales Tax	1605	1864	2471	3012	3765	4118
State Excise	246	256	307	389	430	525
Taxes on vehicles	258	280	338	406	427	459
Stamps and Registration fees	136	153	198	236	260	405
Land Revenue	82	103	132	70	226	276
Taxes and duties on electricity	172	200	262	353	283	327
Other taxes	373	446	469	536	674	746
<b>Total</b>	<b>2872</b>	<b>3302</b>	<b>4177</b>	<b>5002</b>	<b>6065</b>	<b>6856</b>

It was observed that about 75 *per cent* of the incremental tax revenue (Rs 791 crore) of the State was contributed by increase in revenue from the sales tax (Rs 353 crore), Stamps and Registration (Rs 145 crore) and State excise duties (Rs 95 crore). The increase in sales tax revenue was mainly due to expansion of tax base under VAT, while under State Excise it was due to increase in fee and duty structure in certain types of liquor and that under Stamps and Registration, it was due to collection of registration fees in respect of transfer of land to Indian Federation of Farmers' Corporation and allotment of land to new industries.

### **Non-Tax Revenue**

The major contributors towards the non-tax revenue of the State which constituted 12.08 *per cent* of total revenue receipts included interest receipts including dividends (Rs 711.32 crore); credit entry on account of debt relief given by GOI under DCRF (Rs 381.90 crore); receipts from forestry and wild life (Rs 82.66 crore); Non-ferrous Mining and Metallurgical Industries (Rs 1126.06 crore) and Irrigation Major and Medium (Rs 43.73 crore).

Despite the credit entry of Rs 381.90 crore as an incentive in the form of debt relief under DCRF, the Non-Tax revenue of the State has shown a marginal increase of Rs 66 crore (three *per cent*) in 2007-08 over the previous year



indicating the decline in receipts under other sources of non-tax revenue during the year. Major sectors under which decline in receipts were observed include forestry and wild life (Rs 48 crore) from Rs 130.62 crore in 2006-07 to Rs 82.66 crore and medium irrigation (Rupees seven crore) from Rs 48 .24 crore in 2006-07 to Rs 41.97 crore in 2007-08.

The actual tax and non-tax revenue receipts vis-à-vis the assessments made by TFC and in FCP and MTFP during 2007-08 were as below (**Table 1.7**):

**Table - 1.7** *(Rupees in crore)*

	Projection by TFC	Projection as per MTFP	Projection as per FCP	Actuals
Own Tax Revenue	5584.70	6792.87	5584.70	6856
Own Non-Tax Revenue	1541.20	1915.54	1245.04	2654

The Tax Revenue increased by 23 *per cent* and the Non-Tax Revenue by 72 *per cent* over the assessment made by the TFC. The actual realisation also exceeded the assessments made by the State Government in FCP and MTFP.

### **Central Tax Transfers**

Central Tax transfers increased by Rs 1626 crore from Rs 6221 crore in 2006-07 to Rs 7847 crore in 2007-08 as below (**Table 1.8**):

**Table -1.8 : Contribution of components under central tax transfers (Rupees in crore)**

Taxes	2006-07	2007-08	Increase in transfers
Corporation Tax	1941	2490	549
Taxes on income other than corporation Tax	1179	1671	492
Union Excise duties	1288	1416	128
Customs	1213	1483	270
Others (Wealth, Commodities and Services)	600	787	187
<b>Total</b>	<b>6221</b>	<b>7847</b>	<b>1626</b>

### **Grants-in-aid**

The Grants-in aid from Government of India (GOI) increased from Rs 3159 crore in 2006-07 to Rs 4611 crore in the current year. The increase was mainly under State plan scheme (Rs 947 crore) mainly due to increase in assistance under AIBP (Rs 490 crore) and backward district initiative (Rs 291 crore) and Centrally Sponsored Plan Schemes (Rs 385 crore) mainly due to increased assistance under Urban Development schemes (Rs 56.44 crore), mid-day meal programme (Rs 118.19 crore), water supply programme (Rs 156.43 crore) and Non-plan scheme (Rs 66 crore). As per the recommendations of Twelfth Finance Commission (TFC), the GOI released during the current year Rs 791.27 crore under non-plan grants for specific purposes viz. maintenance of roads (Rs 368.77 crore), maintenance of buildings (Rs 145.92 crore), maintenance of forests (Rs 15 crore), Primary Health (Rs 19.41 crore), Primary Education (Rs 64.13 crore) and grants-in-aid to local bodies (Rs.126.04 crore), maintenance of Heritage Conservation (Rs 12.50 crore). Rs 39.50 crore of TFC grants were also provided under upgradation of standards of Administration-Special problem. Details of Grants-in-aid received from GOI are given in **Table-1.9**.

**Table - 1.9: Grants-in-aid from Government of India** (Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Grants for State Plan schemes	1021.39	1048.65	1391.99	1078.80	1284.32	2231.59
Non-plan Grants	395.11	265.61	398.75	1066.60	1086.34	1152.47
Grants for Central Plan Schemes	31.91	61.64	38.35	45.69	62.29	115.62
Grants for Centrally Sponsored Plan Schemes	351.77	340.38	521.32	482.69	726.07	1111.34
<b>Total</b>	<b>1800.17</b>	<b>1716.28</b>	<b>2350.41</b>	<b>2673.78</b>	<b>3159.02</b>	<b>4611.02</b>
Percentage of increase over previous year	45	(-) 5	37	14	18	46

## 1.4 Application of resources

### 1.4.1 Growth of Expenditure

**Statement-12** of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure, investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs 11432 crore in 2002-03 to Rs 20999 crore in 2007-08. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-1.10**.

**Table -1.10: Total Expenditure - Basic Parameters** (Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total expenditure (TE)* (Rupees in crore)	11432	13286	13633	14709	17495	20999
Rate of Growth ( <i>per cent</i> )	2.55	16.22	2.61	7.89	18.94	20.03
TE/GSDP Ratio ( <i>per cent</i> )	22.76	21.63	19.09	18.73	19.19	20.33
RR/TE Ratio ( <i>per cent</i> )	73.82	71.05	86.92	95.76	103.07	104.61
GSDP Growth ( <i>per cent</i> )	6.98	22.30	16.29	9.95	16.06	13.33
<b>Buoyancy Ratio of Total Expenditure with reference to:</b>						
GSDP	0.358	0.727	0.160	0.793	1.179	1.502
Revenue Receipts	0.182	1.367	0.102	0.418	0.676	0.918

\* Total expenditure includes revenue expenditure, capital expenditure and loans and advances.

Total expenditure during 2007-08 stood at Rs 20999 crore, an increase by Rs.3504 crore (20 *per cent*) over the previous year. The revenue expenditure constituted 84 *per cent* (Rs.17723 crore), capital expenditure component 14 *per cent* (Rs.2843 crore) while disbursement of loans and advances constituted only two *per cent* (Rs.433 crore) in total expenditure (Rs 20999 crore) during the year. In terms of its plan and non-plan components, the share of plan expenditure constituted 34 *per cent* (Rs.7046 crore), the remaining 66 *per cent* was non-plan expenditure (Rs.13953 crore). The increase in capital expenditure of Rs 1392 crore was mainly due to increased expenditure on Irrigation and Flood control (Rs 712.94 crore), Transport and Communication (Rs.168.43 crore), Water Supply and Sanitation (Rs 378.28 crore) and Welfare of SC, ST and OBC (Rs.56.06 crore). The increase in loans and advances disbursed from Rs.272 crore in 2006-07 to Rs.433 crore in 2007-08 (59 *per*

cent) was mainly due to disbursement of loans to PSUs (Rs 71.31 crore), loan to cooperation (Rs 12.51 crore), loans and advance to Government servants (Rs 3.78 crore) etc.

The buoyancy of total expenditure with reference to GSDP indicated an increasing trend from 0.727 to 1.502 *per cent* during 2003-04 to 2007-08 with an exception of 2004-05 when the ratio dipped steeply to 0.160 mainly on account of a marginal increase of 2.6 *per cent* in total expenditure during the year. The trend indicates increasing propensity of the State to spend as GSDP increases. The ratio of revenue receipt to total expenditure in 2007-08 was 105 *per cent* which indicated that the State can meet its total expenditure out of its revenue receipts only, resulting fiscal surplus during the year.

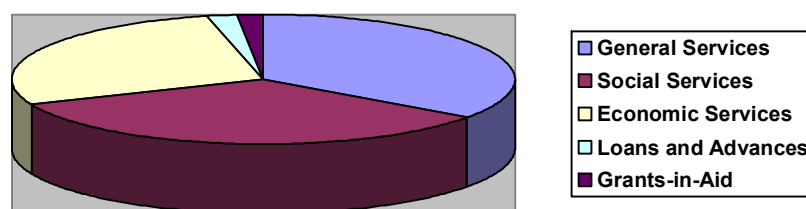
### ***Trends in Total Expenditure by Activities***

In terms of activities, total expenditure consisted of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table-1.11**.

**Table-1.11 : Components of Expenditure – Relative Share** (in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>General Services</b>	<b>42.21</b>	<b>39.12</b>	<b>47.75</b>	<b>46.77</b>	<b>43.25</b>	<b>35.04</b>
Of which Interest payments	25.24	21.53	24.44	25.13	18.22	15.09
Social Services	31.67	28.88	29.75	32.61	31.10	33.62
Economic Services	21.83	18.51	19.83	19.17	22.54	27.61
Grants-in-aid	1.29	1.66	1.16	1.00	1.55	1.67
Loans and Advances	3.00	11.83	1.50	0.46	1.55	2.06

### **Component of Expenditure**



The movement of relative shares of these components of expenditure indicated that the share of General Services (including interest payment), considered as non-developmental, decreased from 43 *per cent* in 2006-07 to 35 *per cent* in 2007-08. Interest payment which is a part of general services declined from 18 *per cent* in 2006-07 to 15 *per cent* in 2007-08 mainly because of relief in interest rate on account of consolidation and re-scheduling of GOI loans under DCRF. The relative share of social services increased from 31 *per cent* in 2006-07 to 34 *per cent* in 2007-08. The relative share of economic services which hovered around 19 *per cent* during 2003-04 to 2005-06 has shown an increasing trend and increased from 23 *per cent* in 2006-07 to 28 in 2007-08. Grants-in-Aid has increased from 1.29 *per cent* in 2002-03 to 1.67 *per cent* in

2007-08 with slight variations while loans and advances revealed fluctuations during the period 2002-08.

#### **1.4.2 Incidence of Revenue expenditure**

Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. Revenue expenditure had the predominant share varying between 82 to 92 *per cent* in the total expenditure during the period 2002-08. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-1.12**.

**Table -1.12: Revenue Expenditure - Basic Parameters** *(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Revenue Expenditure (RE),</b>	<b>10015</b>	<b>10861</b>	<b>12372</b>	<b>13604</b>	<b>15772</b>	<b>17723</b>
<b>Of which</b>						
Non-Plan Revenue Expenditure (NPRE)	8444	9218	10416	11491	13045	13634
Plan Revenue Expenditure (PRE)	1571	1643	1956	2113	2727	4089
<b>Rates of Growth/ Ratios (per cent)</b>						
Revenue Expenditure	1.35	8.45	13.91	9.96	15.94	12.37
NPRE	4.69	9.17	13.00	10.32	13.52	4.52
PRE	(-)13.50	4.58	19.05	8.02	29.06	49.94
RE/TE ( <i>per cent</i> )	87.60	81.75	90.75	92.49	90.15	84.40
NPRE/GSDP ( <i>per cent</i> )	16.81	15.00	14.58	14.63	14.31	13.20
NPRE as <i>per cent</i> of TE	73.86	69.38	76.40	78.12	74.56	64.93
NPRE as <i>per cent</i> of RR	100.06	97.65	87.90	81.58	72.34	62.07
<b>Buoyancy Ratio of Revenue Expenditure with</b>						
GSDP	0.193	0.379	0.854	1.001	0.992	0.928
Revenue Receipts	0.068	0.712	0.545	0.528	0.569	0.567

Revenue expenditure accounted for 84 *per cent* of total expenditure during 2007-08 of the State and has increased by 12 *per cent* from Rs 15772 crore in 2006-07 to Rs 17723 crore in the current year. The NPRE has shown a consistent increasing trend over the period 2002-08 and continued to share the dominant proportion varying in the range of 65-78 *per cent* of the total expenditure. Of the total increase of Rs 1951 crore in Revenue Expenditure during current year, increase in NPRE contributed 30 *per cent* (Rs 589 crore) and remaining Rs.1362 crore (70 *per cent*) was the plan revenue expenditure. The increase in NPRE during the current year was mainly on account of Education, Sports and Culture (Rs 423.49 crore), Transport (Rs 191.09 crore) and Irrigation and Flood control (Rs.99.48 crore) set off by decrease in Social Welfare and Nutrition (Rs 137.21 crore). Increase of Rs 1362 crore in Plan Revenue Expenditure from Rs 2727 crore in 2006-07 to Rs 4089 crore in 2007-08 was mainly due to increase in Agriculture and Allied Services (Rs.146.28 crore), Rural Development (Rs 237.56 crore), Water Supply and Sanitation (Rs 302.47 crore), Irrigation and Flood Control (Rs 73.87 crore) and Housing and Urban Development (Rs 284.50 crore) and Energy (Rs 156.29 crore).

The actual non-plan revenue expenditure vis-à-vis assessment made by TFC reveals that NPRE during the current year exceeded the normative assessment made by TFC (Rs 13244 crore) by Rs 390 crore during the year.

### 1.4.3 Committed Expenditure

#### Expenditure on Salaries and Wages

Table-1.13 : Expenditure on Salaries (Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Salaries and Wages	3929.39	3725.75	3777.80	4002.44	4028.27	4582.41
Of which						
Non-Plan Head	3564.92	3512.24	3551.70	3774.01	3816.11	4333.01
Plan Head	364.47	213.51	226.10	228.43	212.16	249.39
As per cent of GSDP	7.82	6.07	5.29	5.10	4.42	4.44
As per cent of RR	46.56	39.47	31.88	28.42	22.34	20.86

The expenditure on salaries increased from Rs 4028.27 crore in 2006-07 to Rs 4582.41 crore in 2007-08 which was 21 per cent of revenue receipts of the State during the year. Expenditure on Salaries and Wages under non-plan head during 2007-08 increased by Rs 516.90 crore from Rs.3816.11 crore in 2006-07 to Rs 4333.01 crore in 2007-08 whereas expenditure on plan head has also increased by Rs 37.23 crore from Rs 212.16 crore in 2006-07 to Rs 249.40 crore in 2007-08 mainly due to payment of dearness allowance at increased rates during the year, payment of salary to contractual employees etc. Expenditure on Salaries and Wages as a percentage of revenue expenditure net of interest payment and pensions amounts to 35.93 per cent which was almost at par with the norm of 35 per cent as recommended by the TFC and lower than the projection of 41 per cent made in MTFP. Moreover, ratio of salary expenditure to State's own revenue at 48 per cent is significantly less than the projection of 63.17 per cent in MTFP and is very much within the target of 80 per cent to be achieved in the financial year 2007-08 as laid down in State's FRBM Act, 2005.

#### Pension Payments

The expenditure on pension showed an increasing trend during the five year period 2003-08 (Table 1.14).

Table - 1.14 Expenditure on Pensions (Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Pensions	1030	1158	1260	1339	1485	1801
Rate of Growth	2.70	12.43	8.81	6.27	10.90	21.28
As per cent of GSDP	2.05	1.89	1.76	1.70	1.63	1.74
As per cent of RR	12.21	11.21	10.63	9.51	8.23	8.20
As per cent of RE	10.28	10.66	10.18	9.84	9.42	10.16

The increase in pension payment during the year was mainly due to increase in number of retired employees and grant of dearness relief during the year. A comparative analysis of actual pension payments vis-à-vis the assessment/projection reveals actual pension payment of Rs.1801 crore during 2007-08 remained significantly lower than the projection of Rs 2127 crore made by TFC which was also adopted by the State in its FCP/MTFP for the year. The Government did not work out the pension liabilities on realistic basis as prescribed in FRBM Act 2005 to mitigate the impact of rising pension

liabilities in future, the Government however introduced a Contributory Pension Scheme for employees recruited on or after 1 January 2005.

**Interest payments**

Trends in Interest payment reveal decreasing trend from Rs 3697 crore in 2005-06 to Rs 3169 crore in 2007-08 (**Table-1.15**). The swapping of debt amounting to Rs 2543.62 crore during the three year period 2002-05 resulted into interest relief of Rs 144.47 crore to the Government and helped in reducing heavy burden of interest payments especially for the year earlier to 2005-06.

**Table-1.15 : Interest payments**

Year	Total Revenue Receipts	Interest Payments	Percentage of Interest payments with reference to	
			Total Revenue Receipts	Revenue Expenditure
	<i>(Rupees in crore)</i>			
2002-03	8439	2886	34	29
2003-04	9440	2860	30	26
2004-05	11850	3332	28	27
2005-06	14085	3697	26	27
2006-07	18033	3188	18	20
2007-08	21967	3169	14	18

A decline of Rs.19 crore in interest payments in 2007-08 was mainly on account of interest rate relief and consolidation and reschedulement of GOI loans under DCRF. Besides, the State Government also prepaid the high cost NSSF loan amounting to Rs 199.72 crore towards the close of the financial year 2007-08. The ratio of interest payment to total revenue receipt was 14 *per cent* which was well within the projection of 19 *per cent* made in MTFP, FCP and 15 *per cent* norm recommended by TFC.

**Subsidies**

The State Government has been giving subsidies to various Corporations/companies as well as to individuals in the form food subsidy etc. The trends in the subsidies given by the State Government are given in **Table 1.16**.

**Table-1.16 : Subsidies**

Year	Amount <i>(Rupees in crore)</i>	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2003-04	230.89	--	1.73
2004-05	93.95	(-)59.30	0.69
2005-06	82.70	(-) 11.97	0.56
2006-07	170.20	(+) 105.80	0.97
2007-08	148.39	(-) 12.81	0.71

Note: Figures for 2003-04 and 2004-05 are taken from the Budget Document 2006-07 while for the remaining three years the sources are the Appendix –VI of the Finance Accounts of the respective years.

The State Government in its Fiscal Policy Strategy Statement stated to rationalise subsidy and reduce their overall volume. Both MTFP and FCP of the State have projected the reduction of subsidy gradually to a level of Rs 59.96 crore by the year 2009-10. The expenditure on subsidies although decreased from Rs 230.89 crore in 2003-04 to Rs 148.39 crore in 2007-08 with wide fluctuations but it seems unlikely to meet the projections of MTFP/FCP by 2009-10. In case of food subsidy, TFC recommended for an

amount of Rs 36.71 crore per annum which was also provided for during the current year.

## 1.5 Expenditure by Allocative Priorities

### 1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP, better is the quality of expenditure. **Table-1.17** gives these ratios during 2003-08.

**Table - 1.17: Indicators of Quality of Expenditure (Rupees in crore)**

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Capital Expenditure</b>	853	1056	1038	1451	2843
<b>Revenue Expenditure</b>	10861	12372	13604	15772	17723
<b>Total (A)</b>	<b>11714</b>	<b>13428</b>	<b>14642</b>	<b>17223</b>	<b>20566</b>
<b>Of which</b>					
Social and Economic Services with					
(i) Salary & Wage component	2936.29	2973.93	3161.35	3123.66	3508.01
(ii) Non-Salary & Wage component	3360.15	3786.06	4455.04	6260.74	9348.21
<b>Total (B)</b>	<b>6296.44</b>	<b>6759.99</b>	<b>7616.39</b>	<b>9384.40</b>	<b>12856.22</b>
<b>As per cent of A</b>					
Capital Expenditure	7.28	7.86	7.09	8.42	13.82
Revenue Expenditure	92.72	92.14	92.91	91.58	86.18
<b>As per cent of GSDP</b>					
Capital Expenditure	1.39	1.48	1.32	1.59	2.75
Revenue Expenditure	17.68	17.32	17.32	17.30	17.16

The trends reveal the increasing trends in capital expenditure with the relatively higher growth rates during 2006-07 and 2007-08. It is reflected both in terms of its increasing share in total expenditure as well as per centage of GSDP during the period 2003-08. The State Irrigation and Flood control (Rs 712.94 crore), Transport and Communication (Rs 168.43 crore), Water Supply and Sanitation (Rs 487.28 crore) were the major beneficiary sectors where capital expenditure were absorbed during the current year over the previous year. Revenue Expenditure however continued to contribute 86 per cent to 93 per cent of total expenditure (Revenue + Capital) during 2003-04 to 2007-08. However, its non-salary component on Social and Economic Services increased from Rs 3360 crore in 2003-04 to Rs 9348 crore in 2007-08 (178 per cent) whereas salary component increased by 19 per cent during that period. These trends in expenditure indicate towards an improvement in quality of expenditure over the period 2003-08.

### 1.5.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have

a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table-1.18** summarises the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2002-08.

**Table- 1.18 : Expenditure on Social Services** (Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Education</b>						
Revenue Expenditure, <i>Of which</i>	1871.96	1856.65	1976.70	2288.28	2431.40	3215.65
(a) Salary & Wage component		1669.59	1683.87	1829.41	1783.25	1977.18
(b) Non-Salary & Wage component		187.06	292.83	458.87	648.15	1238.47
Capital Expenditure	19.65	17.69	2.01	2.28	4.25	5.79
<b>Health and Family Welfare</b>						
Revenue Expenditure, <i>Of which</i>	459.58	458.82	627.45	450.64	575.47	726.21
(a) Salary & Wage component		376.06	394.46	408.36	443.59	504.97
(b) Non-Salary & Wage component		82.76	232.99	42.28	131.88	221.24
Capital Expenditure	37.83	41.14	3.45	16.38	32.71	20.38
<b>Water Supply, Sanitation, Housing and Urban Development</b>						
Revenue Expenditure, <i>Of which</i>	289.51	300.02	321.84	450.07	416.22	718.69
(a) Salary & Wage component		46.73	64.85	65.05	34.04	38.51
(b) Non-Salary & Wage component		253.29	256.99	385.02	382.18	680.18
Capital Expenditure	94.55	64.63	69.13	89.07	150.19	528.47
<b>Other Social Services</b>						
Revenue Expenditure, <i>Of which</i>	838.50	1094.12	1054.41	1488.73	1797.45	1755.96
(a) Salary & Wage component		182.72	176.58	184.24	189.48	221.90
(b) Non-Salary & Wage component		911.40	877.83	1304.49	1607.97	1534.06
Capital Expenditure	8.86	3.14	1.48	11.37	33.00	88.64
<b>Total (Social Services)</b>	<b>3620.44</b>	<b>3836.21</b>	<b>4056.47</b>	<b>4796.82</b>	<b>5440.69</b>	<b>7059.79</b>
Revenue Expenditure, <i>Of which</i>	3459.55	3709.61	3980.40	4677.72	5220.54	6416.51
(a) Salary & Wage component	NA	2275.10	2319.76	2487.06	2450.36	2742.56
(b) Non-Salary & Wage component	NA	1434.51	1660.64	2190.66	2770.18	3673.95
Capital Expenditure	160.89	126.60	76.07	119.10	220.15	643.28

*N.B: Figures of salary and non-salary for the year 2002-03 are not available.*

Expenditure on social services during the current year (Rs 7060 crore) accounted for 34 per cent of total expenditure (Rs 20999 crore) and 55 per cent of developmental expenditure<sup>3</sup> (Rs 12856 crore). During the year 2007-08, three major social services, i.e. general education (Rs 3215.65 crore), health and family welfare (Rs 726.21 crore) and water supply and sanitation

<sup>3</sup> Development expenditure is defined as the total expenditure incurred on social and economic services.



(Rs 718.69 crore) accounted for 73 *per cent* of the total expenditure on Social Services.

Capital Expenditure on Social Services with wide fluctuations has increased from Rs 161 crore in 2002-03 to Rs.643 crore in 2007-08 (299 *per cent*). The major area of improvement was in Water supply, Sanitation etc (from Rs 94.55 crore in 2002-03 to Rs 528.47 crore in 2007-08). Out of revenue expenditure on Social Services, share of salary component increased from Rs 2275 crore in 2003-04 to Rs 2743 crore in 2007-08 (21 *per cent*) whereas non-salary component increased by 156 *per cent* from Rs.1435 crore to Rs 3674 crore during the period. Assuming that non-salary component of revenue expenditure is a proxy for the maintenance and efficient running of these services, the quality of these services seem to have improved over the period 2003-08.

Recognising the need to improve the quality of education and health services in the States, the TFC recommended that the non-plan salary expenditure under education, health and family welfare should increase only by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. The trends in expenditure (taking expenditure under both plan and non-plan heads) revealed that the salary and wage component of revenue expenditure under general education increased by 11 *per cent* in 2007-08 over previous year while non-salary and wage component increased by 91 *per cent* during that period. Under Health and Family Welfare, the salary and wage component increased by 14 *per cent* during 2007-08 while non-salary and wage component increased by 68 *per cent* during that period.

### ***1.5.3 Expenditure on Economic Services***

The expenditure on economic services includes all such expenditures as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on economic services (Rs 5796 crore) accounted for 28 *per cent* of the total expenditure and 45 *per cent* of developmental expenditure (**Table-1.19**).

**Table-1.19 : Expenditure on Economic Sector (Rupees in crore)**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Agriculture, Allied Activities</b>						
Revenue Expenditure of which	499.51	638.37	533.99	560.58	652.33	890.33
(a) Salary & Wage component		326.72	315.90	328.87	349.42	400.46
(b) Non-Salary & Wage component		311.65	218.09	231.71	302.91	489.87
Capital Expenditure	59.19	60.96	56.04	54.90	60.78	49.31
<b>Rural Development</b>						
Revenue Expenditure of which	469.03	458.66	467.71	513.94	610.12	861.13
(a) Salary & Wage component		84.57	84.82	87.19	94.23	106.40
(b) Non-Salary & Wage component		374.09	382.89	426.75	515.89	754.73
Capital Expenditure	--	--	--	--	--	--
<b>Irrigation and Flood Control</b>						
Revenue Expenditure of which	184.55	178.08	207.71	235.34	280.66	454.01
(a) Salary & Wage component		85.46	91.02	96.78	76.01	83.08
(b) Non-Salary & Wage component		92.62	116.69	138.56	204.65	370.93
Capital Expenditure	513.57	401.28	486.43	484.02	699.69	1412.63
<b>Energy</b>						
Revenue Expenditure of which	47.80	27.42	43.91	40.86	32.77	189.98
(a) Salary & Wage component		2.18	3.58	3.47	1.62	1.84
(b) Non-Salary & Wage component		25.24	40.33	37.39	31.15	188.14
Capital Expenditure	--	20.64	36.44	--	--	--
<b>Industry and Minerals</b>						
Revenue Expenditure of which	46.86	53.11	49.91	80.91	113.15	131.87
(a) Salary & Wage component		37.45	37.08	38.39	41.28	47.74
(b) Non-Salary & Wage component		15.66	12.83	42.52	71.87	84.13
Capital Expenditure	0.49	(-2.84)	(-3.47)	(-3.54)	0.28	30.44
<b>Transport</b>						
Revenue Expenditure of which	145.28	131.30	143.51	204.93	563.24	754.33
(a) Salary & Wage component		10.78	11.26	11.67	2.27	2.22
(b) Non-Salary & Wage component		120.52	132.25	193.26	560.97	752.11
Capital Expenditure	308.84	201.00	360.92	318.90	395.20	563.63
<b>Science, Technology and Environment</b>						
Revenue Expenditure of which	20.74	11.49	8.08	12.78	17.18	18.44
(a) Salary & Wage component		0.33	0.37	0.35	0.35	0.24
(b) Non-Salary & Wage component		11.16	7.71	12.43	16.83	18.20
Capital Expenditure	--	--	--	--	--	--
<b>General Economic Services</b>						
Revenue Expenditure of which	189.01	272.92	298.30	303.94	506.99	428.56
(a) Salary & Wage component		41.64	41.78	48.37	45.74	53.37
(b) Non-Salary & Wage component		231.28	256.52	255.57	461.25	375.19
Capital Expenditure	11.30	6.84	14.15	11.93	11.72	11.76
<b>Total Economic Services</b>	<b>2496.17</b>	<b>2459.23</b>	<b>2703.63</b>	<b>2819.49</b>	<b>3944.11</b>	<b>5796.42</b>
Revenue Expenditure of which	1602.78	1771.35	1753.12	1953.28	2776.44	3728.65
(a) Salary & Wage component		589.13	585.81	615.09	610.92	695.35
(b) Non-Salary & Wage component		1182.22	1167.31	1338.19	2165.52	3033.30
Capital Expenditure	893.39	687.88	950.51	866.21	1167.67	2067.77

**N.B:** The Salary and Non-salary figures for the year 2002-03 are not available.

The trends presented in the table reveal that revenue expenditure shared about 64 per cent and the Capital expenditure remaining 36 per cent of the total expenditure incurred on economic services. With in the Revenue component, Agriculture and Allied activities (Rs 890.33 crore), Irrigation and Flood Control (Rs 454.01 crore), Transport and Communication (Rs 754.73 crore), Energy (Rs 189.98 crore) and Rural Development (Rs 861.13 crore) consumed Rs 3150.18 crore (84 per cent) while Irrigation and flood control and transport absorbed about 96 per cent of total capital expenditure during 2007-08.

### 1.5.4 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the six year period 2002-08 is presented in **Table-1.20**.

**Table-1.20 : Financial Assistance** (Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	300.59	278.41	384.26	537.98	489.46	467.34
Municipal Corporations and Municipalities	46.44	65.72	44.47	94.61	47.82	483.15
Zilla Parishads and other Panchayati Raj Institutions	130.11	142.95	134.21	230.79	1509.92	1535.48
Development Agencies	396.80	219.32	302.63	409.31	400.39	255.66
Other Institutions <sup>4</sup>	148.19	258.42	197.97	510.29	971.91	1117.21
<b>Total</b>	<b>1022.13</b>	<b>964.82</b>	<b>1063.54</b>	<b>1782.98</b>	<b>3419.50</b>	<b>3858.84</b>
Assistance as percentage of Revenue Expenditure	10	9	9	13	22	22

The financial assistance extended to local bodies and other institutions increased by 13 *per cent* from Rs 3419.50 crore in 2006-07 to Rs 3858.84 crore in 2007-08 with inter year variations over the previous year mainly due to increase of grants etc Municipal Corporations and Municipalities (Rs 435 crore) and other institutions (Rs 145 crore). Increase of grants under Municipal Corporation and Municipalities over the previous year was mainly due to (i) grant for National Urban Renewal Mission (Rs 117.11 crore); (ii) grant and assistance for Water Supply and Sanitation (Rs 121.39 crore); (iii) one time Additional Central Assistance for Satellite City (Rs 10 crore) and compensation and assignment under second State Finance Commission (Rs 25.67 crore).

### 1.5.5 Delay in furnishing utilisation certificates

Utilisation Certificates (UCs) became due in respect of grants and loans aggregating to Rs 1168.36 crore paid up to 2007-08 in respect of 27 bodies under ten Departments audited during the year. Of the above amount, UCs for an aggregate amount of Rs.317.19 crore was in arrears. During the year 2007-08, Financial Assistance to Local Bodies was Rs 2018.63 crore out of which utilisation certificate for Rs 1102.24 crore was pending as of 31 March 2008. Details of Department-wise break up of outstanding UCs are given in **Appendix-1.6**.

### 1.5.6 Non-submission of accounts

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971, the Government/Heads of the Departments are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. As of March 2008, no department of the Government has furnished such details for the year 2007-08.

<sup>4</sup> Other institutions include those institutions which received the *ad hoc* financial assistance from the Government during a year.

### 1.5.7 Misappropriations, losses, defalcations etc

State Government reported 1820 cases of misappropriation, defalcation etc involving Government money amounting to Rs 1722.36 lakh up to the period 31 March 2008 on which final action was pending. The department-wise break up of pending cases is given in *Appendix 1.7*.

(Rupees in lakh)

		Number of cases	Amount
i)	Cases reported up to the end of March 2008 but outstanding at the end of June 2008	1815	1708.01*
ii)	Cases reported during April 2007 to March 2008	8	16.42
iii)	Cases disposed of till June 2008	3	2.07
iv)	Cases reported up to March 2008 but outstanding as of June 2008	1820	1722.36

- The outstanding balance at the end of June 2007 was Rs 1705.16 lakh. However, this was enhanced to Rs 1708.01 lakh after revaluation of some cases of six Departments.

The period for which the cases were pending are given below:

(Rupees in lakh)

		Number of Cases	Amount
i)	Over five years (1948-49 to 2002-2003)	1752	1450.11
ii)	Exceeding three years but within five years (2003-2004 to 2004-2005)	28	132.72
iii)	Upto three years (2005-06 to 2007-08)	40	139.53
<b>Total</b>		<b>1820</b>	<b>1722.36</b>

The reasons for which the cases were outstanding are as follows:

(Rupees in lakh)

		Number of Cases	Amount
i)	Awaiting departmental and criminal investigation	482	432.98
ii)	Departmental action initiated but not finalised	659	728.46
iii)	Criminal proceedings finalised but execution of certificate cases for the recovery of the amount pending	32	20.33
iv)	Awaiting orders for recovery or write off	494	198.17
v)	Pending in the courts of law	153	342.42
<b>Total</b>		<b>1820</b>	<b>1722.36</b>

### 1.5.8 Write off of losses etc.

As reported to Audit, losses due to theft, fire and irrecoverable revenue etc. amounting to Rs 3.03 lakh in 22 cases were written-off during 2007-08 by competent authorities. The relevant details are given in *Appendix-1.8*.

## 1.6 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Table-1.34** gives an abstract of such liabilities and the assets as on 31 March 2008, compared with the corresponding financial year. While the liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds; the assets comprised mainly the capital outlay and loans and advances given by the State Government and cash balances (*Appendix-1.2-B*).

The ratio of Assets and Liabilities of the State remained consistent at 0.52 *per cent* during 2002-04 and thereafter gradually reached the level of 0.77 *per cent* in 2007-08 as shown in **Table-1.34**. The low ratio of Assets to Liabilities during the period 2002-06 was mainly on account of increasing internal borrowing which constituted Market loan, Loans from GOI, Receipt from Public Account and Reserve Fund and deposits. During 2006-07 and thereafter Government has developed huge cash balances, liquidated the past liabilities especially GOI loans and also experienced 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.

### 1.6.1 Financial Results of Irrigation Works

The Financial results of 56 Irrigation projects (11 major and 45 medium projects) with a capital expenditure of Rs 3129.66 crore at the end of March 2008 showed that no revenue was realised from these projects during 2007-08 against the direct working expenses of Rs 81.96 crore. After meeting the working and maintenance expenditure (Rs 82.31 crore) and interest charges (Rs 178.96 crore), the schemes suffered a net loss of Rs 261.27 crore.

### 1.6.2 Incomplete projects

As per information made available by the Government, the department-wise incomplete projects as on 31 March 2008 is given in **Table 1.21**.

**Table - 1.21: Department-wise Profile of incomplete projects (Rupees in crore)**

Department	Number of incomplete projects	Initial Budgeted cost	Revised total cost of projects	Cumulative actual expenditure as on 31 March 2008
Water Resources (Minor Irrigation)	2	3.60	7.28	3.65
Housing and Urban Development	5	55.49	89.66	44.87
Rural Development	11	18.43	23.18	17.35
Industries	2	8.55	8.55	4.33
Tourism	10	64.27	64.27	26.40
Sports and Youth Services	4	10.86	10.86	5.58
<b>Total</b>	<b>34</b>	<b>161.20</b>	<b>203.80</b>	<b>102.18</b>

The 34 projects estimated to cost Rs 161.20 crore under six departments remained incomplete after incurring expenditure of Rs 102.18 crore as of 31 March 2008 due to which the project costs increased to Rs 203.80 crore (26 *per cent*). The reasons for non completion were attributed to non acquisition of land, slow progress in work.

### 1.6.3 Departmental Commercial Undertakings

Activities of *quasi-commercial* nature are performed by departmental undertakings of certain Government departments. These undertakings are required to prepare annually proforma accounts in prescribed format showing the results of financial operations so that Government can assess the results of their working. The department-wise position of arrears in preparation of proforma accounts and the investment made by the Government are given in **Appendix-1.9**. As of March 2008, four schemes/undertakings out of fifteen remained inoperative/closed. The assets and liabilities were not fully disposed

off or liquidated by Government. The details about non-operation or closure were not available. In respect of two schemes viz. (i) purchase and distribution of quality seeds to cultivators, (ii) Poultry Development, Government had not prescribed the preparation of proforma accounts; only Personal Ledger Accounts were opened during 1977-78 and 1979-80 respectively. The closing balances of these Accounts were stated in **Table-1.22**.

**Table: 1.22**

*(Rupees in lakh)*

Name of the Undertaking/ Unit/ Scheme	Year in which the Personal Ledger accounts were opened	Accounts for 2007-08			
		Opening Balance	Credit	Debit	Closing Balance
Purchase and distribution of quality seeds to cultivators	1977-78 (Revenue Accounts)	3249.85	--	1110.94	2138.91
Poultry Development	1979-80 (Revenue Accounts)	3.02	--	--	3.02

The Comptroller and Auditor General of India had commented in his Audit Reports (Civil) 2005-06 (Para-1.10.5) about the failure of the State machineries in preparing the Proforma Accounts. Also, the PAC in their 14<sup>th</sup> report (10<sup>th</sup> Assembly) had expressed (November 1992) concern at the state of affairs in preparation of Proforma Accounts. Despite all that, no Proforma Accounts in respect of above schemes could be prepared as of 31<sup>st</sup> March 2008.

#### **1.6.4 Investments and returns**

As of 31 March 2008, Government had invested Rs 1681.95 crore in Government Companies, Statutory Corporations, Joint Stock Companies and Co-operatives (**Table-1.23**). The average rate of return on this investment was 6.99 *per cent* for the last six years while the Government paid interest at the average rate of 8.13 to 9.92 *per cent* on its borrowings during the corresponding period of 2002-08. The actual return earned on the Government investments reflects wide fluctuations during 2002-03 to 2007-08. This indicated injudicious investment of borrowed funds in unviable institutions / organisations.

**Table-1.23: Return on investment**

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowing	Difference between interest rate and return
	<i>(Rupees in crore)</i>		<i>(In percentage)</i>		
2002-03	1519.39	152.22	10.02	9.85	(-) 0.17
2003-04	1556.63	138.06	8.87	8.83	(-) 0.04
2004-05	1610.41	69.15	4.29	9.51	5.22
2005-06	1637.09	120.59	7.39	9.92	2.53
2006-07	1652.14	49.39	2.99	8.18	5.19
2007-08	1681.95	140.93	8.38	8.13	(-)0.25

The investment of State Government as at the end of 2007-08, included Rs 1332.96 crore in 82 public sector undertakings comprising Government Companies (79 : Rs 1134.69 crore) and statutory corporations (three : Rs 198.27 crore). However, dividend of Rs 140.42 crore was declared by one company (Orissa Mining Corporation: Rs 140 crore) and two statutory corporations (Orissa State Ware Housing Corporation : Rs 10.80 lakh and Orissa State Cashew Development Corporation Ltd : Rs 31.01 lakh) during

2007-08. Major investments during 2007-08 were made in Orissa State Road Transport Corporation (Rs 9.95 crore), cooperative institutions (Rs 7.33 crore) and Integrated Child Development Project (Rs 1.28 crore). The Grid Corporation with accumulated loss of Rs 1028.14 crore as of 2004-05, Orissa State Financial Corporation (Rs 383.80 crore as of 2004-05), Orissa State Road Transport Corporation (Rs 233.92 crore as of 2003-04) were among the major loss making PSUs in the State which constituted about 81 *per cent* of the total accumulated commercial losses (Rs 2034.80 crore) by the Government Companies and Corporations.

### 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 / organisations. The Loans and Advances by the State Government increased from Rs 2532 crore in 2002-03 to Rs 3403 crore in 2007-08. Major portion of the loans advanced during 2007-08 was to Orissa Rural Housing Development (Rs 179 crore), Orissa State Financial Corporation (Rs 94 crore) and cooperative institutions (Rs 12 crore). Interest on loans and advances received during 2002-08 showed wide fluctuation as the same increased from Rs 68 crore in 2002-03 to Rs 191 crore in 2004-05 and then decreased to Rs 114 crore in 2007-08. The interest received as *per cent* to outstanding Loans and Advances decreased from 5.28 in 2004-05 to 3.35 in 2007-08 though Government borrowed funds in current year at an average rate of 8.13 *per cent*.

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

	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance	2366	2532	3831	3619	3339	3325
Amount advanced during the year	343	1572	205	67	272	433
Amount repaid during the year	177	273	417	347	286	355
Closing Balance	2532	3831	3619	3339	3325	3403
Net addition	166	1299	(-212)	(-280)	(-) 14	+ 77
Interest Received	68	161	191	167	103	114
Interest received as <i>per cent</i> to outstanding Loans and advances	2.69	4.20	5.28	5.00	3.10	3.35
Average interest rate <sup>5</sup> (in <i>per cent</i> ) paid on borrowings by State Government	9.85	8.83	9.51	9.92	8.18	8.13
Difference between average interest paid and received ( <i>per cent</i> )	(-) 7.08	(-) 3.77	(-) 4.38	(-) 5.12	(-) 5.09	(-) 4.78

The major part of the interest received on loans and advances related to receipts from the Public Sector Undertakings (Rs 102.64 crore) during the year. The TFC has recommended that interest receipts on Loans and Advances of the Government should gradually increase to seven *per cent* by the end of award period (2005-10) but interest receipts stand at only 3.35 *per cent* needing appropriate corrective measures.

### 1.6.6 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways

<sup>5</sup> Average interest rate is defined as the ratio of interest payments to average outstanding fiscal liabilities of the State during the year.

and Means Advances (WMA) – ordinary and special – from Reserve Bank of India has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities.

Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State is detailed in **Table-1.25**. The Government have not availed any Wage and Means Advances and Overdraft facility during 2007-08.

**Table-1.25: Ways and Means and Overdrafts of the State** *(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Ways and Means Advances</b>						
Availed in the Year	2000	3204	1450.46	NIL	NIL	NIL
Number of Occasions	--	--	--	NIL	NIL	NIL
Outstanding WMAs, if any	239	NIL	--	NIL	NIL	NIL
Interest Paid	10.88	12.19	1.85	NIL	NIL	NIL
Number of Days	--	--	99	NIL	NIL	NIL
<b>Overdraft</b>						
Availed in the year	4723	3809	--	NIL	NIL	NIL
Number of Occasions	--	--	--	NIL	NIL	NIL
Number of Days	188	171	--	NIL	NIL	NIL
Interest Paid	8.75	8.42	--	NIL	NIL	NIL

The State Government's cash balances at the end of 2007-08 amounted to Rs 9385.79 crore. Major portion of which (Rs 5824.62 crore) invested in GOI stock and in GOI Treasury Bills of 14 and 91 days and earned an interest of Rs 110.57 crore on 14 days treasury bill during the year. Further, an amount of Rs 4352.29 crore is invested in earmarked funds i.e. Guarantee Redemption fund (Rs 480 crore) and Consolidated Sinking Fund (Rs 3833 crore) and other funds.

## **1.7 Undischarged Liabilities**

### **1.7.1. Fiscal Liabilities – Public Debt and Guarantees**

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund. Capital Account includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits. The total liabilities as defined under the FRBM Act include the liabilities under the Consolidated Fund and the Public Account of the State of Orissa.

**Table-1.26** gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.



Table-1.26 : Fiscal Liabilities – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities <sup>6</sup> (Rupees in crore)	30735	34014	36093	38468	39466	38525
Rate of Growth ( <i>per cent</i> )	10.35	10.67	6.11	6.58	2.59	(-)2.38
<b>Ratio of Fiscal Liabilities to</b>						
GSDP ( <i>per cent</i> )	61.20	55.38	50.53	48.98	43.30	37.29
Revenue Receipts ( <i>per cent</i> )	364.20	360.32	304.58	273.11	218.85	175.38
Own Resources ( <i>per cent</i> )	801.85	773.75	653.62	588.74	456.10	405.10
<b>Buoyancy of Fiscal Liabilities to</b>						
GSDP (ratio)	1.480	0.478	0.375	0.661	0.162	(-)0.179
Revenue Receipts (ratio)	0.524	0.899	0.239	0.349	0.093	(-) 0.109
Own Resources (ratio)	0.485	0.726	0.239	0.359	0.080	(-) 0.241

Overall fiscal liabilities of the State increased from Rs.30735 crore in 2002-03 to Rs 38525 crore in 2007-08 at an average growth rate of 5.65 *per cent*. The fiscal liabilities marginally declined by (-) 2.38 *per cent* during 2007-08 over previous year. The fiscal liabilities at the end of the year 2007-08 was Rs 38525 crore comprising of internal debt (Rs.17185 crore), loans and advances from Government of India (Rs.8402 crore), Small Saving Provident Fund etc. (Rs.10726 crore) and other obligation (Rs.2212 crore). The internal debt (Rs.17185 crore) constituted market loan of Rs.8024 crore, Special Securities issued to NSS Fund of Central Government (Rs.6756 crore), Compensation and other Bonds (Rs.883 crore) and loans from other institutions (Rs.1522 crore). The ratio of fiscal liabilities to GSDP decreased from 61.20 *per cent* in 2002-03 to 37.29 *per cent* in 2007-08. These liabilities stood at 1.75 times of the revenue receipts (as against the projection of three times in FRBM Act by the year ending 2007-08) and 4.05 times of the State's own resources at the end of 2007-08.

In line with the recommendation of the TFC, the State Government set up the Sinking Fund with effect from January 2003 for amortisation of market borrowings 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<sup>st</sup> March 2008, the outstanding balance in Sinking Fund was Rs 3833 crore. During 2007-08, Rs.700 crore has been invested in the Sinking Fund which is marginally less than the projection made in MTFP (Rs 770.50 crore, i.e. two *per cent* of outstanding debt liabilities).

### 1.7.2 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.

As per the **Statement-6** of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2002-03 is given in **Table-1.27**.

<sup>6</sup> Includes internal debt (market borrowings, loans from financial institutions and NSSF loans) , loans and advances from GOI and other obligations ( liabilities arising from the Public Account of the State) at the end of the year.

**Table-1.27: Guarantees given by the Government of Orissa** (Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees	Revenue receipt net of Grant-in-Aid for the second preceding year	Guarantee outstanding as percentage of Revenue Receipt net of grant in aid of second preceding year.
2002-03	8487.42	5230.92	5473.47	95.57
2003-04	9342.67	5094.09	5807.35	87.71
2004-05	9296.86	3823.26	6638.60	57.59
2005-06	9251.76	3496.19	7723.95	45.26
2006-07	8588.90	2647.55	9499.78	27.87
2007-08	8586.90	2168.43	11411	19.00

Though, no law has been enacted under Article 293 of the constitution laying down the limit of such guarantee but an administrative limit has been imposed in 2002 so that the total outstanding guarantee as on 1<sup>st</sup> day of April every year shall not exceed hundred *per cent* of the state revenue receipt of the 2<sup>nd</sup> preceding year (as per the books of account maintained by Accountant General (A & E), Orissa). The State Government in its MTFP placed along with the budget 2007-08 has slightly revised the limit by defining the State's revenue receipts net of grants-in-aids for the second preceding year. The position of the guarantees with regard to the revised limit is presented in **Table-1.27** which reveals that level of guarantees are well within the prescribed limits during 2007-08.

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 2008, Rs.480 crore is invested in the Fund which comprises guarantee fee, special contribution and return earned on the funds invested.

Guarantees were given in respect of four statutory corporations, twenty-six Government companies, forty-six cooperative Banks and societies and eighty-six Notified Area Councils, Municipality and Improvement Trusts. Maximum amount guaranteed and the amount outstanding against these bodies shows a reducing trend since 2003-04 as can be seen from the **Table-1.27** 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. So far five numbers of Escrow Accounts have been opened by 31 March 2008 out of 163 institutions.

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 1 *per cent*. Out of 25 department only 12 departments have furnished the information till July 2008.

The guarantee commission was in arrear as on 31<sup>st</sup> March 2008 as given below:

Category of companies / corporations	Number	Amount (Rupees in lakh)
Statutory companies	6	122.57
Statutory corporation	1	334.31
<b>Total</b>	<b>7</b>	<b>456.88</b>
Guarantee commission realised during 2007-08 (statutory corporation)	1	20.28

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, cooperatives have paid Rs 517.64 crore under OTS schemes to discharge guarantee liabilities arising out of the default of loanee organisations.

### 1.7.3 Off-Budget Borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the liabilities shown in **Table-1.26**, the State guaranteed loans availed of by Government companies/corporations. These companies/ corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the estimates of the plan programmes of the State Government project that funds for these programmes would be met out of the resources of the companies/corporations outside the State budget, in reality however borrowings turned out to be the liabilities of the State Government termed as 'off-budget borrowings'. Though off-budget borrowings are not permissible under Article 293 (3), the State continued to undertake such off-budget borrowings as per the data furnished by the Finance Department. **Table 1.28** captures the trends in the off-budget borrowings by the State during 2003-08.

**Table-1.28: Off-Budget Borrowings** (Rupees in crore)

Year	2003-04	2004-05	2005-06	2006-07	2007-08 (as on 1.01.08)
Outstanding	66.15	64.52	64.43	64.43	61.93
Borrowing Added	--	-	--	-	-
Repayment made (Principal)	1.63	0.09	--	2.50	34.31
Balance Principal	64.52	64.43	64.43	61.93	27.62

\* Information collected from Orissa Budget at a glance (2007-08)

Off-Budget borrowings were resorted by the State Government through Special Purpose Vehicles (SPV). Since 1991-92, an amount of Rs 250.41 crore had been raised through off-budget borrowings out of which an amount of Rs.27.62 crore (as on 01.01.08) was outstanding for payment through budget provisions of the State Government. The Table reveals that Government has not resorted to off budget borrowings through SPVs since 2003-04.

### 1.8 Debt Sustainability

The debt sustainability is defined as the ability to maintain a constant debt-GDP ratio over a period of time. In simple terms, Public debt is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. Given the rate spread (GSDP growth rate–interest rate) and quantum spread (Debt\*rate spread), debt sustainability condition states that if quantum spread (QS) together with primary deficit (PD) is zero, debt-GDP ratio would be constant or sustainable. On the other hand, if PD>QS, debt-GDP ratio would be rising and if PD<QS, it would be falling.

### 1.8.1 Debt Stabilisation

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt\*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilisation are indicated in **Table-1.29**.

**Table-1.29: Debt Sustainability–Interest Rate and GSDP Growth (in per cent)**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Average Interest Rate	9.85	8.83	9.51	9.92	8.18	8.13
GSDP Growth	6.98	22.30	16.29	9.95	16.06	13.33
Interest spread	(-)2.87	13.46	6.79	0.03	7.88	5.21
Total Debt (Rs in crore)	30735	34014	36093	38468	39466	38525
Debt/GSDP (per cent)	61.20	55.38	50.53	48.98	43.30	37.29
Quantum Spread <sup>7</sup> (Rs in crore)	(-)799	4136	2309	1082	3031	2056
Primary Deficit (Rs in crore)	(+)70	(-)713	(+)1966	(+)3421	(+)4012	(+)4492

Table reveals during the last five year period 2003-08, quantum spread together with primary deficit consistently remained positive resulting in a continuous decline in debt/GSDP ratio from 55.38 in 2003-04 to 37.29 per cent in 2007-08. These trends indicate that the State is moving towards the debt stabilisation which would eventually enhance the debt sustainability of the State in medium to long term.

### 1.8.2 Sufficiency of Non-debt Receipts

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 debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table-1.30** indicates the resource gap as defined for the period 2002-08.

**Table-1.30: Incremental Revenue Receipts and Revenue Expenditure (Rupees in crore)**

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2002-03	1436	233	51	284	+1152
2003-04	1097	1880	-26	1854	-757
2004-05	2554	-125	472	347	+2207
2005-06	2166	711	365	1076	+1090
2006-07	3886	3296	-509	2787	+1099
2007-08	4003	3523	(-)19	3504	+499

<sup>7</sup> Quantum spread= Interest spread x opening fiscal liabilities/100.

The trends in **Table 1.30** 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 2002-08 with an exception of the year 2003-04. Moreover, the persistent positive resource gap during the last four years (2004-08) is a pointer towards the fiscal and debt sustainability of the State.

### 1.8.3 Net Availability of Borrowed Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + 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 the Government 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.

**Table-1.31** gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last six years.

**Table-1.31: Net Availability of Borrowed Funds** (Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Internal Debt</b>						
Receipt	2296	4338	2689	2105	1305	417
Repayment (Principal + Interest)	1298	1834	2344	2043	2768	3067
Net Fund Available	998	2504	345	62	(-) 1463	(-)2650
Net Fund Available ( <i>per cent</i> )	43.47	57.72	12.83	2.95	(-) 112.11	(-)635.49
<b>Loans and Advances from GOI</b>						
Receipt (A)	1769	1141	1423	(-) 10	741	90
Repayment (Principal + Interest) (B)	2062	2509	2426	1280	1480	1089
Net Fund Available (A-B)	(-) 293	(-) 1368	(-) 1003	(-) 1290	(-) 739	(-)999
Net Fund Available ( <i>per cent</i> )	(-) 16.56	(-) 119.89	(-) 70.48	(-) 12900	(-) 99.73	(-)1110
<b>Other obligations</b>						
Receipt	2020	1675	1938	2742	2077	2104
Repayment (Principal + Interest)	1843	1793	2092	2753	2270	2564
Net Fund Available	177	(-) 188	(-) 154	(-) 11	(-) 193	(-)460
Net Fund Available ( <i>per cent</i> )	8.76	(-) 7.04	(-) 7.95	(-) 0.40	(-) 9.29	(-)21.86
<b>Total liabilities</b>						
Receipt	6085	7154	6050	4837	4123	2611
Repayment (Principal + Interest)	5203	6136	6862	6076	6518	6720
Net Fund Available	882	1018	(-)812	(-) 1239	(-) 2395	(-)4109
Net Fund Available ( <i>per cent</i> )	14.49	14.22	(-)13.42	(-)25.61	(-)58.08	(-)157.57

Debt redemption ratio being greater than one during the period 2004-08 indicates that the repayment of past debt liabilities were far in excess of fresh debt receipts during these years. During the current year, the Government repaid principal plus interest on account of internal debt of Rs 3067 crore; Government of India loans of Rs.1089 crore and also discharged other obligation of Rs 2564 crore as a result of which payments exceeded the

receipts during the year. During the recent years, in view of the huge cash balances, the focus of the Government seems to be on discharging the past debt obligations both on account of principal and interest payments on loans raised from the market as well as from the Government of India.

## 1.9 Management of deficits

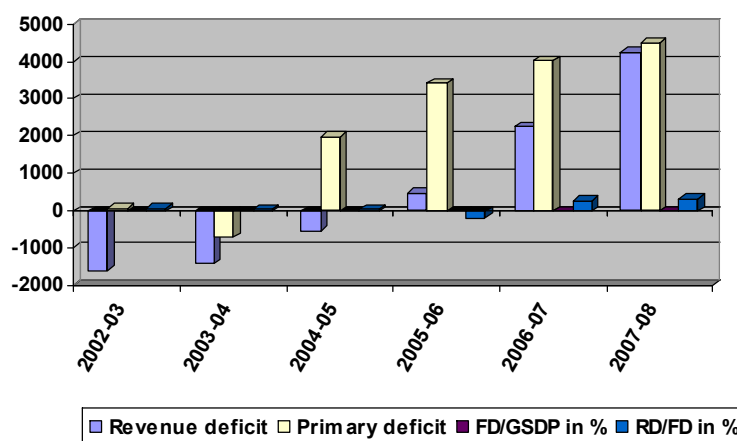
### 1.9.1 Trends in Deficits

The deficit in the Government accounts 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. The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table-1.32**.

**Table-1.32: Fiscal Imbalances - Basic Parameters**

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue deficit (Rupees in crore)	(-)1576	(-)1421	(-)522	(+)481	(+) 2261	(+) 4244
Fiscal deficit (Rupees in crore)	(-)2816	(-)3573	(-)1366	(-)276	(+) 824	(+) 1323
Primary deficit (Rupees in crore)	(+)70	(-)713	(+) 1966	(+) 3421	(+) 4012	(+) 4492
RD/GSDP (per cent)	(-) 3.14	(-) 2.31	(-) 0.73	(+) 0.61	(+) 2.48	(+) 4.11
FD/GSDP (per cent)	(-) 5.61	(-) 5.82	(-) 1.91	(-)0.35	(+) 0.90	(+) 1.28
PD/GSDP (per cent)	(+) 0.14	(-) 1.16	(+) 2.75	(+) 4.35	(+) 4.40	(+) 4.35
RD/FD (per cent)	55.97	39.77	38.21	(-) 174.28	274.39	320.78

### Fiscal Imbalances



**Table-1.32** reveals that the revenue account experienced a situation of huge deficit of Rs.1576 crore during 2002-03 which consistently declined to Rs 522 crore in 2004-05 and turned into surplus amounting to Rs.481 crore in 2005-06 which has steeply increased to Rs 4244 crore during the current year. The significant improvement in revenue account during the current year was mainly on account of increase in revenue receipts by Rs 3934 crore (22 per cent) during 2007-08 against an increase of Rs 1951 crore (12 per cent) in

revenue expenditure over the previous year. The sharp increase in revenue receipts was however mainly on account of increase in mandatory transfer comprising State share in Central taxes and grant in aid from GOI. Of the incremental revenue receipts of Rs 3935 crore during 2007-08, these two sources contributed 78 *per cent* indicating central transfers being the key in improving the revenue surplus during the year.

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, consistently decreased from Rs 2816 crore in 2002-03 to Rs 276 crore in 2005-06 and turned into a situation of fiscal surplus in 2006-07 and 2007-08 mainly due to the support of huge surplus available in revenue account during these years.

The primary deficit<sup>8</sup> which persisted in the State budget till 2003-04 also took a turnaround and resulted into a primary surplus during the last four years 2004-08. The emergence of fiscal surplus together with a moderate increase in interest payments led to a situation of huge primary surplus during 2006-07 and 2007-08. As against the target of generating a primary surplus of over three *per cent* of GSDP by the year ending March 2008 as laid down in Orissa FRBM Act, the State has achieved the target in 2004-05, much before the date line fixed in the Act.

#### ***Quality of Deficit / Surplus***

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit<sup>9</sup> 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. The ratio of RD to FD consistently declined during 2002-05 and thereafter revenue account has shown surplus during the succeeding two years. This trajectory shows a consistent improvement in the quality of the deficit and during the current year, the State has experienced a fiscal surplus indicating non-debt receipts even exceeded the total expenditure leaving cash balances to meet the past debt obligations.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2002-08 reveals (**Table-1.33**) that primary deficit was experienced only in 2003-04 mainly on account of steep increase in loans and advances disbursed by the State. In other words, non-debt receipts of the State for the remaining years were enough to meet the primary expenditure<sup>10</sup> requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account. During 2006-07 and 2007-08 non debt receipt were not only sufficient to meet the total expenditure of the State but left with surplus reflected in terms of fiscal surplus during these years.

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<sup>8</sup> Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year.

<sup>9</sup> Primary revenue deficit defined as gap between non interest revenue expenditure of the State and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

<sup>10</sup> Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

Table 1.33

(Rupees in crore)

Year	Non-debt receipt	Primary Revenue Expenditure	Capital Expenditure	Loans and Advance	Primary Expenditure	Primary Deficit/Surplus with reference to Revenue Expenditure	Primary Deficit/Surplus with reference to Capital Expenditure
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2002-03	8616	7129	1074	343	8546	+1487	+70
2003-04	9713	8001	853	1572	10426	+1712	-713
2004-05	12267	9040	1056	205	10301	+3227	+1966
2005-06	14433	9907	1038	67	11012	+4526	+3421
2006-07	18319	12584	1451	272	14307	+5735	+4012
2007-08	22322	14554	2843	433	17830	+7768	+4492

## 1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.34** below presents a summarised position of Government finances over 2002-08, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table-1.34: Indicators of Fiscal Health (Rupees in crore and per cent)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	2	3	4	5	6	7
<b>I. Resource Mobilisation</b>						
Revenue Receipt/GSDP	16.80	15.37	16.59	17.93	19.78	21.26
Revenue Buoyancy	0	0.532	1.567	1.895	1.745	1.636
Own Tax/GSDP	5.718	5.376	5.848	6.369	6.654	6.637
<b>II. Expenditure Management</b>						
Total Expenditure/GSDP	22.76	21.63	19.09	18.73	19.19	20.33
Total Expenditure/Revenue Receipts	135.47	140.74	115.04	104.43	97.01	95.59
Revenue Expenditure/Total Expenditure	87.60	81.75	90.75	92.49	90.15	84.40
Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	NA	26.37	23.49	0.63	192.41	19.40
Non-Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	NA	24.10	21.15	28.12	31.30	37.84
Capital Expenditure/Total Expenditure	9.69	7.28	7.86	7.09	8.42	13.82
Capital Expenditure on Social and Economic Services/Total Expenditure	55.16	53.75	50.34	52.01	54.49	62.51
Buoyancy of TE with RR	0.13	1.37	0.10	0.42	0.68	0.918
Buoyancy of RE with RR	0.068	0.712	0.545	0.528	0.569	0.567
<b>III. Management of Fiscal Imbalances</b>						
Revenue deficit (Rs.in crore)	(-)1576	(-)1421	(-)522	481	2261	4244
Fiscal deficit (Rs.in crore)	(-)2816	(-)3573	(-)1366	(-)276	824	1323
Primary Deficit (Rs.in crore)	(+)70	(-)713	1966	3421	4012	4492
Revenue Deficit/Fiscal Deficit	55.97	39.77	38.21	(-) 174.28	274.39	320.79
<b>IV. Management of Fiscal Liabilities</b>						
Fiscal Liabilities/GSDP	61.20	55.38	50.53	48.98	43.30	37.29
Fiscal Liabilities/RR	364.20	360.37	304.58	273.11	218.85	175.38
Buoyancy of FL with RR	0.524	0.899	0.239	0.349	0.093	(-)0.109
Buoyancy of FL with Own Receipt	0.485	0.726	0.239	0.359	0.080	(-)0.241
Sum of Primary deficit and quantum spread (Rupees in crore)	(-)681	3423	4275	4503	7043	6548
Net Funds Available	1.54	17.34	20.73	(-) 16	(-) 58.62	-107.62
<b>V. Other Fiscal Health Indicators</b>						
Return on Investment	152.22	138.06	69	121	49	141
Balance from Current Revenue (Rs.in crore)	(-) 1410	(-) 1228	(-) 1517	(-) 5342	4403	5574
Financial Assets/Liabilities	0.52	0.52	0.55	0.59	0.67	0.77



The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources as well as the accessibility of the State to these resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfer of tax from Union Government. The ratio of revenue receipts to GSDP during the current year is 21 *per cent*, an increase of one percentage point over previous year. During 2003-07, the ratio of own taxes to GSDP showed continued improvement and increased from 5.4 *per cent* in 2003-04 to 6.7 *per cent* in 2006-07 which marginally decreased to 6.6 *per cent* in 2007-08. These ratios show a continuous improvement in mobilisation of resources and State's accessibility to them.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilisation efforts. The revenue expenditure as a percentage to total expenditure remained little over 90 *per cent* during the period 2004-07 and thereafter decreased to 84 *per cent* in 2007-08 indicating the improvement in the share of expenditure under capital account during the year. The ratio of revenue receipt to total expenditure in 2007-08 was 104.61 *per cent* which indicated that the State could meet its total expenditure out of its revenue receipts only resulting fiscal surplus during the year which is also reflected in terms of declining ratio of fiscal liabilities to revenue receipts.

The emergence of revenue surplus and fiscal surplus during 2006-07 and 2007-08 along with positive BCR indicates towards significant improvement in the fiscal position of the State which was also reflected in the sharp increase assets to liabilities ratio during the last two years.

### **1.11 Conclusion**

The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit – indicated significant improvement in 2007-08 relative to the previous year. The State has achieved the targets for revenue and fiscal deficits as well as with regard to other variables as laid down in State FRBM Act/Rules, TFC as well as in MTFP and FCP for the year 2007-08. Moreover, the State has achieved these fiscal targets much before the timeline indicated in them with the current year ending in revenue surplus of Rs 4244 crore and fiscal surplus of Rs 1323 crore. The improvement in fiscal position of the State was observed to be mainly on account of increase in revenue receipts by Rs 3934 crore (22 *per cent*) during 2007-08 against an increase of Rs 1951 crore (12 *per cent*) in revenue expenditure over the previous year. The sharp increase in revenue receipts was however mainly on account of increase in mandatory transfers comprising State share in Central taxes and grant in aid from GOI. Of the incremental revenue receipts of Rs 3935 crore during 2007-08, these two sources contributed 78 *per cent* indicating central transfers being the key in improving the revenue surplus during the year. The expenditure pattern of the State reveals that the Revenue expenditure as a percentage to total expenditure although indicated declining trends but it still constitutes 84 *per cent* of the total expenditure during 2007-08. The Non plan Revenue expenditure component at Rs 13634 crore during 2007-08 exceeded marginally the

normative projection of TFC by Rs 390 crore for the year. Moreover, within the Non-Plan Revenue expenditure four components-Salary expenditure, Pension payments, Interest payment and Subsidies constituted 71 *per cent* during 2007-08. These trends in expenditure indicate the need for changing allocative priorities. The Government investments including disbursement of loans and advances accompanied with negligible rate of return on government investments and inadequate interest cost recovery on loans and advances continues to be a cause of concern and suitable measures need to be initiated to arrest these trends.