CHAPTER I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter discusses the financial position of the State Government based on an analysis of the information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the State Government. In addition, the chapter also contains a section on the analysis of indicators of financial performance of the government, based on certain ratios and indices developed on the basis of the information contained in the Finance Accounts and other information furnished by the State Government. Some of the terms used in this chapter are described in the Appendix-I.

1.2 Financial position of the State

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings etc. 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 by the Government. Exhibit I is an abstract of such liabilities and the assets as on 31 March 2001 compared with the corresponding position on 31 March 2000. While the liabilities in this statement consist mainly of external and internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. It would be seen from Exhibit I that while the liabilities grew by 16.41 *per cent*, the assets grew by only 12.61 *per cent* during 2000-2001 mainly as a result of a high (21.68 *per cent*) increase in the deficit on the Government account. This shows an overall deterioration in the financial condition of the Government.

1.3 Sources and application of fund

1.3.1 Exhibit III gives the position of sources and application of funds during the current and the preceding year. The main sources of funds include the revenue receipts of the Government, recoveries of the loans and advances, public debt, and the receipts in the Public Account. These are applied mainly on revenue and capital expenditure and the lending for developmental purposes. It would be seen that the revenue receipts constituted the most significant source of funds for the State Government and their relative share in the total receipts increased from 58.51 *per cent* in 1999-2000 to 64.70 *per cent* during 2000-2001. The share of net receipts from the Public Account decreased from 16.23 *per cent* in 1999-2000 to 7.91 *per cent* in 2000-2001. This was mainly due to a steep decrease in Reserve Funds and GPF. The receipts from the public debt came down from 23.29 *per cent* in 1999-2000 to 18.86 *per cent* during 2000-2001 due to increase in repayment of Loans and Advances to Central Government.

EXHIBIT-I
SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF ORISSA AS ON 31 MARCH 2001

(Rupees in crore)

As on 31.03.2000	Liabilities		As on 31.03.2001
5257.88	Internal Debt -		**6994.65**
4246.84	Market Loans bearing interest	4936.55	
42.58	Market Loans not bearing interest	16.91	
45.07	Loans from LIC	41.50	
717.36	Loans from other Institutions	987.51	
206.03	Ways and Means Advances	179.25	
Nil	Overdrafts from Reserve Bank of India	832.93	
133.81	Shortfall in Deposits with Reserve Bank		**Nil**
8075.87	Loans and Advances from Central Government		**9184.19**
626.94	Pre 1984-85 Loans	575.56	
2330.78	Non-Plan Loans	2844.74	
4766.66	Loans for State Plan Schemes	5418.84	
51.85	Loans for Central Plan Schemes	49.91	
99.64	Loans for Centrally Sponsored Plan Schemes	95.14	
200.00	Ways and Means Advance	200.00	
121.70	Contingency Fund		**122.30**
4974.70	Small Savings, Provident Funds, etc.		**5836.21**
1595.42	Deposits		**1696.87**
386.58	Reserve Funds Advances		**200.34**
1.47	Suspense and Miscellaneous		**0.16**
698.12	Miscellaneous Capital Receipts		**698.12**
21245.55			**24732.84**

(Rupees in crore)

As on 31.03.2000	Assets		As on 31.03.2001
10579.21	Gross Capital Outlay on Fixed Assets		**11413.31**
1379.19	Investments in shares of Companies, Corporations etc.	1408.82	
9200.02	Other Capital Outlay	10004.49	
1559.70	Loans and Advances		**2118.90**
452.42	Loans for Power Projects	702.54	
518.99	Other Development Loans	520.63	
588.29	Loans to Government servants and Miscellaneous loans	895.73	
7.33	Advances		**7.25**
130.80	Suspense and Miscellaneous Balances		**64.76**
19.80	Remittance Balances		**17.82**
38.54	Cash		**268.66**
1.84	Cash in Treasuries and Local Remittances	4.14	
-	Deposits with Reserve Bank	229.75	
10.97	Departmental Cash Balance including Permanent Advances	10.96	
0.38	Security Deposits	0.38	
1.13	Investment of earmarked funds	1.13	
24.22	Cash Balance Investment	22.30	
8910.17	Deficit on Government Accounts		**10842.14**
90.00	Appropriation to Contingency Fund		--
2574.19	Revenue Deficit of the Current Year	1931.97	
6245.98	Accumulated deficit	8910.17	
21245.55			**24732.84**

EXHIBIT-II
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2000-2001

(Rupees in crore)

1999-2000	Receipts		2000-2001	1999-2000	Disbursements	Non-Plan	Plan		2000-2001
	Section-A: Revenue								
					1.Revenue Expenditure				
5884.64	I. Revenue Receipts		**6902.02**	**2888.11**	General Services	**3999.29**	**31.64**		**4030.93**
1704.08	-Tax Revenue	2184.03		**4002.11**	Social Services	**2061.61**	**1054.35**		**3115.96**
716.48	-Non-tax revenue	685.47		1930.37	-Education, Sports, Art and Culture	1228.63	512.95	1741.58	
1008.11	-State's share of Union Taxes & Duties	2209.45		425.67	-Health and Family Welfare	278.03	155.08	433,11	
740.34	-State's share of net proceeds of Taxes on income other than Corporate Tax	394.52		311.91	-Water Supply & Sanitation, Housing and Urban Development	125.54	116.13	241.67	
881.49	-Non-Plan grants	467.83		10.13	-Information and Broadcasting	8.04	2.06	10.10	
554.52	-Grants for State Plan Scheme	600.97		230.31	-Welfare of Scheduled Castes, Scheduled Tribes and other Backward Classes	90.12	126.61	216.73	
65.41	-Central Plan Schemes	36.16							
214.21	-Centrally Sponsored Plan Schemes	323.59		22.46	-Labour and Labour Welfare	19.42	3.00	22.42	
2574.19	II.Revenue deficit carried over to Section B		**1931.97**	1045.66	-Social Welfare and Nutrition	251.12	137.15	388.27	
				25.60	-Others	60.71	1.37	62.08	
				1548.02	Economic Services	**828.67**	**709.00**		**1537.67**
				539.85	-Agriculture and Allied Activities	344.38	163.28	507.66	
				511.17	-Rural Development	72.49	339.28	411.77	
					-Special Areas Programmes				
				171.83	-Irrigation and Flood Control	138.48	39.96	178.44	
				4.72	-Energy	3.05	3.77	6.82	
				75.26	-Industry and Minerals	81.47	19.93	101.40	
				143.63	-Transport and Communications	146.27	0.62	146.89	
				13.06	-Science, Technology and Environment	1.31	24.19	25.50	
				88.50	-General Economic Services	41.22	117.97	159.19	
				20.59	-Grants-in-aid and Contributions	**120.12**	**29.31**		**149.43**
	Section-B								
(-)185.12	III. Opening Cash balance including Permanent Advances and Cash Balance Investment		**(-)95.27**	**144.13**	III. Opening Overdraft from RBI				**Nil**
Nil	IV. Miscellaneous Capital Receipts		**Nil**	**799.00**	IV. Capital Outlay				**834.10**
				15.28	General Services	**17.63**	**13.52**	**31.15**	
				47.53	Social Services	**1.33**	**121.80**	**123.13**	
				8.70	-Education, Sports, Art and Culture	0.05	18.85	18.90	
				5.85	-Health and Family Welfare	Nil	25.83	25.83	
				30.27	-Water Supply, Sanitation, Housing and Urban Development	1.28	70.77	72.05	
				2.71	-Welfare of Scheduled Castes, Scheduled Tribes and other Backward Classes	Nil	6.27	6.27	
				Nil	-Social Welfare and Nutrition	Nil	0.08	0.08	

1999-2000	Receipts		2000-2001	1999-2000	Disbursements	Non-Plan	Plan		2000-2001
				736.19	Economic Services	**13.40**	**666.42**	**679.82**	
				57.26	-Agriculture and Allied Activities	16.46	50.21	66.67	
				-	-Rural Development	-	-	-	
				-	-Special Areas Programmes		-	-	
				533.79	-Irrigation and Flood Control	Nil	468.44	468.44	
				11.20	-Energy	Nil	0.25	0.25	
				(-) 0.78	-Industry and Minerals	(-)3.56	1.47	(-)2.09	
				131.78	-Transport and Communications	0.39	143.82	144.21	
				2.94	-General Economic Services	0.11	2.23	2.34	
102.81	V Recoveries of Loans and Advances		**76.58**	**476.04**	V. Loans and Advances disbursed				**635.79**
Nil	-From Power Projects	Nil		56.83	-For Power Projects			250.12	
74.85	-From Government Servants	43.08		296.54	-To Government Servants			340.89	
27.96	-From others	33.50		122.67	-To Others			44.78	
	VI Revenue surplus brought down			**2574.19**	VI. Revenue deficit brought down				**1931.97**
2728.58	VII Public debt receipts (other than Ways & Means)		**2782.44**	**386.11**	VII. Repayment of Public Debt				**770.28**
1129.67	-Internal debt other than Ways and Means Advances and Overdraft	1043.61		140.91	-Internal debt other than Ways and Means Advances and Overdraft			112.99	
45.83*	-Net transaction under Ways and Means Advances	-		--	-Net transaction under Ways and Means Advances			26.78*	
1553.08	-Loans and Advances from Central Government	1738.83		245.20	-Repayment of Loans and Advances to Central Government			630.51	
	VIII Appropriation to Contingency Fund		-	**90.00**	VIII. Appropriation to Contingency Fund				**Nil**
106.46	IX Amount transferred to Contingency Fund		**0.60**	**10.65**	IX. Expenditure from Contingency Fund				**Nil**
6557.05	X Public Account receipts		**6174.92**	**4924.93**	X. Public Account disbursements				**5331.40**
1682.12	-Small Savings and Provident Funds	1692.19		628.72	-Small Savings and Provident funds			830.68	
828.51	-Reserve Funds	138.73		504.69	-Reserve funds			324.97	
119.52	-Suspense and Miscellaneous	207.43		102.63	-Suspense and Miscellaneous			142.69	
1735.32	-Remittance	1842.20		1718.62	-Remittance			1840.21	
2191.58	-Deposits and Advances	2294.37		1970.27	-Deposits and Advances			2192.85	
Nil	XI Closing Overdraft from Reserve Bank of India		**832.93**	**(-)95.27**	XI Cash Balance at end				**268.66**
				1.84	-Cash in Treasuries and Local Remittances			4.14	
				(-) 133.81	-Deposits with Reserve Bank			229.75	
				10.97	-Departmental Cash Balance including permanent advances			10.96	
				25.73	-Cash Balance Investment			23.81	
9309.78			**9772.20**	**9309.78**					**9772.20**

* Represents Receipts : Rs.2137.60 crore and Disbursements : Rs.2164.38 crore.

EXHIBIT - III
SOURCES AND APPLICATION OF FUNDS

(Rupees in crore)

1999-2000		**Sources**		**2000-2001**
5884.64		1. a) Revenue receipts		6902.02
Nil		b) Miscellaneous Capital receipts(Non-debt)		Nil
102.81		2. Recoveries of Loans and Advances		76.58
2342.47		3. Increase in Public debt other than overdraft		2012.16
1632.12		4. Net receipts from Public Account		843.52
	1053.40	Increase in Small Savings	861.51	
	221.31	Increase in Deposits and Advances	101.52	
	323.82	Increase in Reserve funds	(-)186.24	
	16.89	Net effect of suspense and Miscellaneous transactions	64.74	
	16.70	Net effect of Remittance transactions	1.99	
		5. Increase in Overdraft		832.93
		6. Decrease in closing cash balance		-
95.81		7. Net effect of Contingency Fund transaction		0.60
10057.85		**Total**		**10667.81**
		Application		
1999-2000				**2000-2001**
8458.83		1. Revenue expenditure		8833.99
476.04		2. Lending for development and other purposes		635.79
799.00		3. Capital expenditure		834.10
--		4. Net effect of Contingency Fund transactions		-
144.13		5. Decrease in Overdraft		-
89.85		6. Increase in closing Cash Balance		363.93
90.00		7. Appropriation to Contingency Fund		Nil
10057.85		**Total**		**10667.81**

Explanatory Notes for Exhibit I, II and III:

1. The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts.
2. Government accounts being mainly on cash basis, the deficit on Government account as shown in Exhibit I indicates the position on cash basis as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures, etc. do not figure in the accounts.
3. Suspense and Miscellaneous balances include cheques issued but not paid, payments made on behalf of the State and other pending settlement, etc.
4. There was a difference of Rs.833.27 crore (net debit) between the figures reflected in the accounts (Rs.229.75 crore) and that intimated by the RBI (Rs.603.52 crore) under “Deposit with Reserve Bank”. After reconciliation and adjustment, the difference to the extent of Rs.12.23 lakh Debit (Net) remains to be reconciled (July 2001).

EXHIBIT - IV
TIME SERIES DATA ON STATE GOVERNMENT FINANCE

	1996-97	1997-98	1998-99	1999-2000	2000-2001
	(Rupees in crore)				
PART A. RECEIPTS					
1. Revenue Receipts	**4287**	**4632**	**4554**	**5885**	**6902**
(i) Tax Revenue	**1342(31)**	**1422(31)**	**1487(33)**	**1704(29)**	**2184(31)**
Taxes on Agricultural Income	Nil	Nil	Nil	Nil	Nil
Taxes on Sales, Trade, etc.	894(67)	925(65)	971(65)	1108(65)	1342(62)
State Excise	91(7)	106(8)	110(7)	115(7)	135(6)
Taxes on vehicles	128(9)	142(10)	143(10)	156(9)	178(8)
Stamps and Registration fees	69(5)	77(5)	88(6)	102(6)	109(5)
Land Revenue	35(3)	39(3)	58(4)	50(3)	53(2)
Taxes and Duties on Electricity	120(9)	128(9)	110(7)	127(7)	147(7)
Other Taxes	5	5	7(1)	46(3)	220(10)
State's share of net proceeds of Taxes and duties	**1566(37)**	**1564(34)**	**1695(37)**	**1748(30)**	**2604(38)**
(ii) Non-Tax Revenue	**482(11)**	**541(11)**	**557(12)**	**717(12)**	**685(10)**
(iii) Grants-in-aid from GOI	**897(21)**	**1105(24)**	**815(18)**	**1716(29)**	**1429(21)**
2. Miscellaneous Capital Receipts	**193**	**Nil**	**505**	**Nil**	**Nil**
3. Total Revenue and Non-debt Capital Receipts (1+2)	**4480**	**4632**	**5059**	**5885**	**6902**
4. Recoveries of Loans and Advances	**28**	**124**	**106**	**103**	**77**
5. Public Debt Receipts	**1428**	**1729**	**2383**	**2682**	**3589**
Internal Debt (excluding Ways and Means Advances and Overdrafts)	452	579	623	1129	1044
Net transaction under Ways and Means Advances and Overdrafts	275	Nil	289	Nil	806
Loans and advances from Government of India*	701	1150	1471	1553	1739
6. Total Receipts in the Consolidated Fund (3+4+5)	**5936**	**6485**	**7548**	**8670**	**10568**
7 Contingency Fund Receipts	**1**	**Nil**	**3**	**106**	**1**
8. Public Account Receipt	**3349**	**4178**	**4907**	**6557**	**6175**
9. Total Receipts of the State (6+7+8)	**9286**	**10663**	**12458**	**15333**	**16744**
PART B. EXPENDITURE/DISBURSEMENTS					
10. Revenue Expenditure	**5117(84)**	**5535(84)**	**6817(85)**	**8459(87)**	**8834(86)**
Plan	1351(26)	1355(24)	1646(24)	1828(22)	**1824(21)**
Non-Plan	3766(74)	4180(76)	5171(76)	6631(78)	7010(79
General Services including interest payment	1953(38)	2240(40)	2757(40)	2888(34)	4031(46)
Social Services	2015(40)	2212(40)	2720(40)	4002(48)	3116(35)
Economic Services	1133(22)	1056(19)	1316(19)	1548(18)	1538(17)
Grants-in-aid and contributions	16 (Nil)	28 (1)	24 (1)	21(Nil)	149(2)
11. Capital Expenditure	**879(14)**	**856(13)**	**914(11)**	**799(8)**	**834(8)**
Plan	865(98)	846(99)	903(99)	775(97)	802(96)
Non-Plan	14(2)	10(1)	11(1)	24(3)	32(4)
General Services	11(1)	10(1)	18(2)	15(2)	31(4)
Social Services	78(9)	71(8)	61(7)	48(6)	123(15)
Economic Services	790(90)	775(91)	835(91)	736(92)	680(81)
12. Disbursement of loans and advances	**114(2)**	**166(3)**	**348(4)**	**476(5)**	**636(6)**

* Includes Ways and Means Advances from GOI

	1996-97	1997-98	1998-99	1999-2000	2000-2001
	(Rupees in crore)				
13. Total Expenditure(10+11+12)	**6110**	**6557**	**8079**	**9734**	**10304**
14. Repayments of Public Debt	**201**	**721**	**561**	**484**	**744**
Internal Debt (excluding Ways and Means Advances and Overdrafts)	15	17	121	141	113
Net transactions under Ways and Means Advances and Overdraft	-	425	-	98	-
Loans and Advances from Government of India*	186	279	440	245	631
15. Appropriation to Contingency Fund	**--**	**--**	**--**	**90**	**Nil**
16. Total disbursement out of Consolidated Fund (13+14+15)	**6311**	**7278**	**8640**	**10308**	**11048**
17. Contingency Fund disbursements	**Nil**	**10**	**17**	**11**	**Nil**
18. Public Account disbursement	**2835**	**3519**	**4026**	**4925**	**5331**
19. Total disbursement by the State (16+17+18)	**9146**	**10807**	**12683**	**15244**	**16379**
PART C DEFICITS					
20. Revenue Deficit (-)/ Surplus (+)(1-10)	**(-) 830**	**(-) 903**	**(-) 2263**	**(-)2574**	**(-)1932**
21. Fiscal Deficit (3+4-13-15)	**1602**	**1801**	**2914**	**3746**	**3325**
22. Primary Deficit (21-23)	**523**	**509**	**1429**	**2508**	**1038**
Part D Other Data					
23. Interest Payments (Percentage of Revenue Expenditure)	1079(21)	1292(23)	1485(22)	1238(15)	2287(26)
24. Arrears of Revenue (% of Tax & Non-Tax Revenue Receipt) (Under principal heads of revenue as reported by the Department)	1035(43)	1237(49)	1152(42)	1074(34)	1064(19)
25. Financial Assistance to local bodies, etc	891	606	727	965	1230
26. Ways and Means Advances/ Overdrafts availed (days)	1463 (95 days) 821 (83 days)	1295 (220 days) 872 (104 days)	1613 (160 days) 1039 (90 days)	1867 (144 days) 868 (141 days)	2137 (142 days) 3828 (203 days)
27. Interest on WMA/Over-draft	6.33	6.02	4.22	6.54	11.71/4.13
28. Gross State Domestic Product (GSDP)	26001	31675	34579(P)	38014(Q)	42089*
29. Outstanding Public Debt(year end)	8306	9315	11135	13334	16178
30. Outstanding guarantees (year end) (Principal + Interest)	1904+15	1849+16	3484+23	3696+8	3448+**
31. Maximum amount guaranteed (year end)	3474	3577	5321	6465	6748
32. Number of incomplete projects	25	25	29	29	29
33. Capital blocked in incomplete projects	2090	2496	2974	3340	3673
34. Outstanding Debt (year end)	11966	13688	16485	20282	23904

Note: Figures in brackets represent percentages (rounded) to total of each sub heading
P – Provisional Estimates, Q – Quick Estimates,

* Worked out on the basis of National Growth rate of 10.72 *per cent* as GSDP figures were not furnished by the State Government.

** Figures not furnished by Government

1.3.2. The funds were mainly applied for revenue expenditure whose share declined marginally from 84.10 *per cent* to 82.81 *per cent* but remained significantly higher than the share of the revenue receipts (64.70 *per cent*) in the total receipts of the State Government. This led to a significantly increased Revenue Deficit. During the year, the percentage of capital expenditure came down marginally from 7.94 *per cent* to 7.82 *per cent* and lending for development purposes went up from 4.73 *per cent* to 5.96 *per cent*.

1.4 Financial operations of the State Government

1.4.1 Exhibit II gives the details of the receipts and disbursements made by the State Government. The revenue expenditure (Rs. 8834 crore) during the year exceeded the revenue receipts (Rs. 6902 crore) resulting in a revenue deficit of Rs.1932 crore. The revenue receipts comprised State tax revenue (Rs.2184 crore), non-tax revenue (Rs.685crore), State's share of Union taxes and duties (Rs.2209 crore), State's share of net proceeds of tax on income other than Corporation tax (Rs. 395 crore) and Grants-in-aid from the Central Government (Rs. 1429 crore). The main sources of tax revenue were sales tax (28 *per cent*), State excise (3 *per cent*), taxes on vehicles (4 *per cent*), taxes and duties on electricity (3 *per cent*) and stamps and registration fees (2 *per cent*). Non-tax revenue came mainly from non-ferrous Mining and Metallurgical Industries (Rs.360.33 crore- 52.57 *per cent*), Forests and Wild life (Rs.84.79 crore-12.37 *per cent*) and Dividends and Profits (Rs.37.90 crore - 5.53 *per cent*).

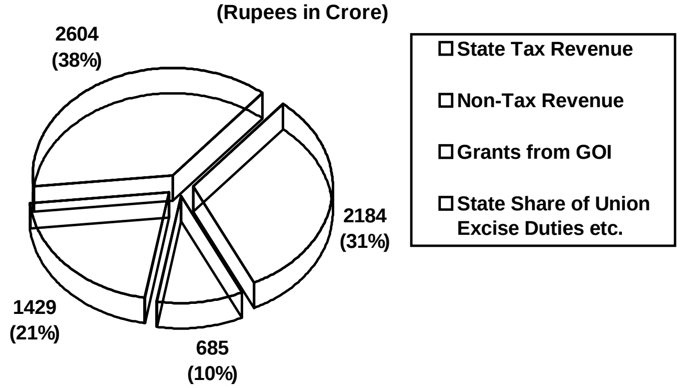
1.4.2 The capital receipts comprised Rs.76.58 crore from recoveries of loans and advances and Rs.4920.03 crore from public debt. Against this, the expenditure was Rs.834.10 crore on capital outlay, Rs.635.79 crore on disbursement of loans and advances and Rs.2907.88 crore on repayment of public debt. The receipts in the Public Account amounted to Rs.6174.92 crore against which the disbursement was Rs.5331.40 crore. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was an increase in the cash balance by Rs.363.93 crore at the end of the year.

1.4.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs with reference to the information contained in Exhibit II and the time series data for the five year's period from 1996-97 to 2000-2001 presented in Exhibit IV.

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenue and receipts from Government of India (GOI). Their relative shares are shown in Figure 1. The Revenue receipts grew by 61 *per cent* during the period 1997-98 to 2000-2001. During 1999-2000 revenue receipts increased steeply by 29.63 *per cent* over the previous year due to higher non-plan grants (Rs.828.15 crore) from GOI on account of National Calamity Relief-Adhoc Grants for super cyclone. During 2000-2001,the growth was 17.28 *per cent* mainly due to increase of 49 *per cent* in receipts from Government of India towards share of net proceeds of taxes and duties assigned to the State.

Figure-I
Revenue Receipts 2000-2001
(Rupees in Crore)



1.5.2 Tax revenue

Tax revenue constituted the major share of the revenue receipts. In absolute term, the State tax revenue increased from Rs.1704 crore in 1999-2000 to Rs.2184 crore in 2000-2001 (28 *per cent*) due to more receipts under Sales tax (Rs.234 crore),more receipts under Goods and Passengers (Rs.160 crore) more receipts under State Excise (Rs.20 crore) and more duties on electricity (Rs.20 crore). The State's share of net proceeds of tax revenue received from Government of India increased by 49 *per cent* from Rs.1748 crore in 1999-2000 to Rs.2604 crore in 2000-2001.

1.5.3 Non-tax revenue

The non-tax revenue constituted 10 *per cent* of the revenue receipts of the Government and their share in the revenue receipts declined from 12 *per cent* in 1999-2000. In absolute terms, the amount of non-tax revenue increased from Rs.482 crore to Rs.717 crore during 1996-2000 with marginal decline by 4 *per cent* during 2000-2001. During 2000-2001 the non-tax revenue decreased by Rs.32 crore mainly due to less receipts under Dividend and profits from PSUs (Rs.73 crore).

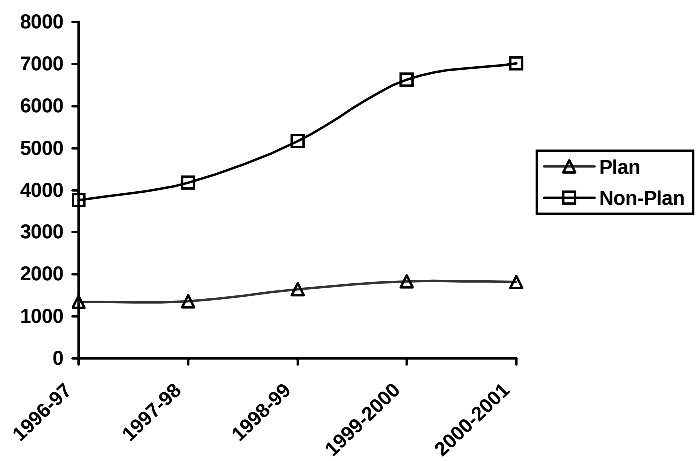
1.5.4 State's share of Union taxes and duties and grants-in-aid from the Central Government

The State's share of net proceeds of Taxes on Income other than Corporation Tax decreased by Rs.345 crore (47 *per cent)* during the year while State's share in Union Excise Duties increased by Rs.1201 crore (119 *per cent*). The grants-in-aid from Central Government decreased by Rs.287 crore(17 *per cent)*. As a percentage of revenue receipts, three of these taken together decreased from 59 *per cent* in 1999-2000 to 58 *per cent* during 2000-2001.

1.6 Revenue Expenditure

1.6.1 The revenue expenditure accounted for most (86 *per cent*) of the expenditure of the State Government and increased by Rs.375 crore (4 *per cent*) during 2000-2001. The increase of Rs.375 crore in Revenue Expenditure compared to previous year eventhough appears to be marginal should be viewed in the context of reduced relief expenditure under Super cyclone in the current year. Further, there were substantial savings of Rs.718 crore on relief expenditure under the head 2245-Relief on account of Natural Calamity. During the five year period (1996-97 to 2000-2001), while the Non-Plan expenditure increased by Rs.3244 crore, Plan expenditure increased only by Rs.473 crore. During the period from 1996-97 to 2000-01, while the average annual increase in Non-plan expenditure was 17.23 *per cent* it was only 7 *per cent* in the case of Plan expenditure.

Figure-2
Growth of Plan and Non-Plan revenue expenditure
(Rupees in crore)



1.6.2 Sector-wise analysis shows that the expenditure on social services increased by 99 *per cent* from Rs.2015 crore in 1996-97 to Rs.4002 crore in 1999-2000 and to Rs.3116 crore in 2000-2001. The decrease in expenditure in social service sector during 2000-2001 was mainly on account of decrease in expenditure on relief on account of Natural calamities. As a proportion of total revenue expenditure, the share of Social Services decreased from 48 *per cent* in 1999-2000 to 35 *per cent* in 2000-2001 and the share of Economic Services declined from 22 *per cent in 1996-97* to 17 *per cent* in 2000-2001. The share of General Services ranged between 34 *per cent* and 46 *per cent* during 1996-97 to 2000-2001. In absolute terms there was an increase of Rs.1143 crore (40 *per cent*) in General Services in 2000-2001, compared to 1999-2000 mainly due to huge increase in interest payment.

1.6.3 Interest payments

Interest payments increased by 85 *per cent* from Rs.1238 crore in 1999-2000 to Rs.2287 crore in 2000-2001. This increase is mainly attributable to (i) deferment of interest liability of the previous year (November 1999-March 2000) allowed by GOI owing to Super cyclone which was discharged during the current year and (ii) steep increase in Capital borrowings (market borrowings and loans from Government of India) from Rs.1153 crore in 1996-97 to Rs.2783 crore in 2000-2001. The share of interest payment in Revenue Expenditure works out to 26 *per cent* during 2000-01 against 15 *per cent* in the previous year. The interest burden would further go up when interest on borrowings of Super cyclone becomes due in coming years. This is further discussed in the section on financial indicators at paragraph 1.12.

1.6.4 Financial assistance to local bodies and other institutions

The quantum of assistance provided to different local bodies, etc. during the period of five years ending 2000-2001 was as follows:

Name of the body	1996-97	1997-98	1998-99	1999-00	2000-2001
	(Rupees in crore)				
1)Educational Institutions (Aided Schools, Private Colleges, Universities)	174.63	114.72	206.67	197.60	190.44
2) Municipal Corporations & Municipalities.	33.60	43.63	64.58	54.68	56.42
3) Panchayati Raj Institutions (Zilla Parishad, Panchayat Samiti and Gram Panchayat)	64.68	28.05	62.46	35.81	114.64
4.) District Rural Development Agency	205.73	160.15	173.24	393.87	194.64
5) Co-operative Societies & Institutions.	21.90	14.41	20.97	1.63	8.09
6) Other Institutions	390.65	245.52	199.10	281.28	665.70
Total	**891.19**	**606.48**	**727.02**	**964.87**	**1229.93**
Percentage of growth over previous year.	(-) 30	(-) 32	20	33	27
Assistance as a percentage of Revenue expenditure	17	11	11	11	14

The assistance to the local bodies increased significantly during 2000-2001 over 1999-2000 due to increase in the financial assistance to other institutions including GRIDCO (Rs.204.25 crore) and three other private Electricity Companies (Rs.45.87 crore) which were granted loan for the first time.

1.7 Capital expenditure

1.7.1 Capital expenditure leads to asset creation. In addition, financial assets arise from moneys invested in institutions or undertakings outside Government i.e. Public Sector Undertakings (PSUs), Corporations, etc. and loans and advances. During 1996-2001, the share of Capital expenditure to total expenditure declined from 14 *per cent* to 8 *per cent.*

1.7.2 Loans and advances disbursed by the State Government

Government gives loans and advances to Government companies, Corporations, local bodies, autonomous bodies, co-operatives, non-government institutions, etc. for developmental and non-developmental activities. During 2000-2001, there was substantial increase in disbursement of loans and advances (Rs.635.79 crore) over previous year (Rs.476.04 crore) as a result of which the closing balance increased by about 34 *per cent*. The position of loans and advances disbursed by the Government and amount recovered during 1996-97 to 2000-2001 was as under:

	1996-97	1997-98	1998-99	1999-2000	2000-2001
	(Rupees in crores)				
Opening balance	816.90	902.89	944.37	1186.47	1559.70
Amount advanced during the year	113.67	165.63	348.33	476.04	635.79
Amount repaid during the year	27.68	124.15	106.23	102.81	76.58
Closing balance	902.89	944.37	1186.47	1559.70	2118.91
Net addition	85.99	41.48	242.10	373.23	559.21
Interest received	13.44	18.69	19.62	19.46	13.09

The increase in payment of loans and advances was due to disbursement of Special House Building Advance of Rs.232.62 crore to Government servants affected by super cyclone (37 *per cent* of total disbursement) and payment of huge loan of Rs.204.25 crore to GRIDCO in the power sector.

Out of loans advanced to municipalities, local bodies, corporations and loans under State-aid to industries, the detailed accounts of which were kept by the Principal Accountant General (Accounts & Entitlements), Orissa, recovery of Rs.34.11 crore (Principal: Rs.28.37 crore and Interest: Rs.5.74 crore) was in arrears as on 31 March 2001. In respect of loans, the detailed accounts of which were maintained by the departmental officers, 5 of the 25 departments had furnished details of information about arrears in recoveries of loans and advances to the Principal Accountant General (Accounts & Entitlements), Orissa as of August 2001 which show Rs.81.24 crore (Principal:Rs.24.33 crore and Interest:Rs.56.91 crore) overdue for recovery as on 31 March 2001.

1.8 Quality of expenditure

1.8.1 Government spends money for different activities ranging from maintenance of law and order and regulatory functions to various developmental activities. Government expenditure is broadly classified into Plan and Non-plan under Revenue and Capital. While the Plan and Capital expenditure are usually associated with asset creation, the Non-Plan and Revenue expenditure are identified with expenditure on establishment, maintenance and services.

1.8.2 Wastage in public expenditure, diversions of funds and funds blocked on incomplete works would also impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account, after booking them as expenditure, can also be considered as a negative factor in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned year, it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General Services to the detriment of Economic Services.

1.8.3 The following table lists out the trend in these indicators

	1996-97		1997-98		1998-99		1999-2000		2000-2001	
	(Rupees in crore)									
1. Expenditure as a percentage of	Plan	Non plan	Plan	Non plan	Plan	Non Plan	Plan	Non Plan	Plan	Non plan
-Revenue expenditure	61	100	62	100	65	100	70	100	69	100
- Capital expenditure	39	Nil	38	Nil	35	Nil	30	Nil	31	Nil
2. Capital expenditure (*per cent*) of total expenditure	14		13		11		8		8	
3. Expenditure on General Services (*per cent*)										
-Revenue	38		40		40		34		46	
-Capital	1		1		2		2		4	
4. Amount of wastage and diversion of funds detected during test audit	304		512		319		552		1474	
5. Non-remunerative expenditure on incomplete projects (Rs. in crore)	2090		2496		2974		3340		3673	
6. Unspent balances at the end of the year under deposit heads, booked as expenditure at the time of their transfer to the deposit head	294		505		624		805		897	

It would be seen that the share of Plan expenditure on the revenue side has declined from 22 *per cent* in 1999-2000 to 21 *per cent* in 2000-2001. The share of capital expenditure has also gone down continuously from 14 *per cent* in 1996-97 to 8 *per cent* in 2000-2001. The expenditure on General Services during the five years ranged between 34 *per cent* and 46 *per cent* on the revenue side and 01 *per cent* and 04 *per cent* on the capital side.

1.9 Financial Management

The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this report deal extensively with these issues especially as they relate to the expenditure management in the Government based on the findings of test audit. Some other parameters which can be segregated from the accounts and other related financial information of the Government are discussed in this section.

1.9.1 Investments and returns

Investments are made out of the capital outlay by the Government to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as under:

Sector	Number of concerns	Amount invested	
		(Rupees in crore)	
		As on 31.3.2001	During 2000-2001
(1) Statutory Corporations	4	166.72	(-)0.10
(2) Government Companies	84	979.37	9.08
(3) Joint Stock Companies	23	1.25	Nil
(4) Co-operative institutions	32	261.48	20.65
Total	**143**	**1408.82**	**29.63**

The details of investments and the returns realised during the last five years by way of dividend and interest were as follows:

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowing (%)
	(Rupees in crore)			
1996-97	1213.54	0.36	0.03	13.85 and 13.75
1997-98	1268.41	3.20	0.25	13.05 and12.30
1998-99	1346.56	0.28	0.02	12.15 and 12.50
1999-2000	1379.19	111.15	8.06	11, 11.85 and 12.25
2000-2001	1408.82	37.91	2.69	10.5, 10.52, 10.82 & 12

Thus, while the Government was raising high cost borrowings from the market, its investments in Government companies fetched very low returns.

1.9.2 Financial results of irrigation works

The financial results of 49 irrigation projects with a capital outlay of Rs. 711.69 crore at the end of March 2001 showed that revenue realised from these during 2000-2001 (Rs. 1.94 crore) was only 0.27 *per cent* of the capital outlay and these were not sufficient to cover even the direct working expenses (Rs.38.24 crore). After reckoning the working and maintenance expenditure (Rs.38.43 crore) and interest charges (Rs.46.42 crore), the schemes suffered a net loss of Rs.82.91 crore.

1.9.3 Incomplete projects

As on 31 March 2001, there were 29 (Major:12 and Medium:17) incomplete projects in which Rs.3673 crore were blocked. The position had deteriorated due to additional expenditure of Rs.333 crore in incomplete projects as compared to the position on 31 March 2000. This showed that the Government was spreading its resources thinly which failed to yield any return.

1.9.4 Arrears of revenue

The arrears of revenue pending collection marginally increased from Rs.1035 crore in 1996-97 to Rs.1064 crore in 2000-2001. The arrears of revenue upto 31 March 2001 (Rs.1064 crore) was 15 *per cent* of the revenue receipts during 2000-2001. Of the arrears, Rs.299 crore (28 *per cent*) were pending for more than five years and pertained to Sales Tax (Rs.294 crore), Mines and Minerals (Rs.1.78 crore) and Police (Rs.2.98 crore).

1.9.5 Ways and Means advances and overdraft

Under an agreement with the Reserve Bank of India (RBI), the State Government had to maintain with the Bank a minimum daily cash balance of Rs.1.28 crore. If the balance fell below the agreed minimum on any day, the deficiency had to be made good by taking Ways and Means Advances (WMA) (maximum limit of Rs.159 crore) and Overdraft (OD) from the RBI. In addition, special WMA (maximum limit Rs.20.25 crore) is also made by the RBI whenever necessary. Recourse to WMA/OD means a mismatch between the receipts and expenditure of the Government and hence reflects poorly on the financial management in Government. During the year 2000-2001, the Government resorted to WMA of Rs.2137.60 crore for which Rs.11.71crore had been paid towards interest. Further, the Government availed OD of Rs.3828.32 crore and paid Rs.4.13 crore as interest. At the end of the year, outstanding WMA and overdraft amounted to Rs.179.25 crore and Rs.832.93 crore respectively.

1.9.6 Deficit

1.9.6.1 Deficit in Government account represents gaps between receipts and expenditure. The nature of deficit is an important indicator of prudence of financial management in the Government. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers of the fiscal prudence of the Government. The discussion in this section relates to three concepts of deficit viz., Revenue Deficit, Fiscal Deficit and Primary Deficit.

1.9.6.2 Revenue Deficit is the excess of revenue expenditure over revenue receipts. The Fiscal Deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received and miscellaneous capital receipts). Primary Deficit is fiscal deficit less interest payments. The following exhibit gives a break-up of the deficit in Government account.

(Rupees in crore)

CONSOLIDATED FUND (CF)				
Receipt	**Amount**		**Disbursement**	**Amount**
Revenue	6902	**Revenue deficit:1932**	Revenue	8834
Miscellaneous capital receipts	Nil		Capital	834
Recovery of loans & advances	77		Loans & advances disbursement	636
Sub-Total	6979	**Gross fiscal deficit:3325**	Sub-Total	10304
Public debt receipts	3589		Public debt repayment	744
			Appropriation to Contingency Fund	Nil
Total	**10568**	**A: Deficit in CF:480**		**11048**
CONTINGENCY FUND				
Amount transferred to Contingency Fund	1	**B.: Surplus in Contingency Fund: 1**	Expenditure from Contingency Fund	Nil
PUBLIC ACCOUNT				
Small savings, PF etc.	1692		Small savings, PF, etc	831
Deposits & advances	2294		Deposits & advances	2193
Reserve Funds	139		Reserve Funds	325
Suspense & Miscellaneous	208		Suspense & Miscellaneous	143
Remittances	1842		Remittances	1840
Total Public Account	**6175**	**C: Deficit in CF financed by Public Account:843**	**Total Public Account**	**5332**
Increase in cash balance (C)-(A-B)= 364 Exhibit III				

The table shows that the revenue deficit of Rs.1932 crore was met by borrowings. The fiscal deficit of Rs.3325 crore was mainly financed by net proceeds of the public debt (Rs.2845 crore) and partly by the surplus from Public Account. Exhibit IV shows that the revenue deficit during 1996-2001 increased by 133 *per cent* and fiscal deficit also increased sharply (108 *per cent*) during same five years period.

1.9.6.3 Application of the borrowed funds (Fiscal Deficit)

The Fiscal deficit represents total net borrowings of the Government. These borrowings are applied for meeting the revenue deficit, for incurring capital expenditure and for giving loans to various bodies for developmental and other purposes. The relative proportions of these applications would indicate the financial prudence of the State government and also the sustainability of its operations because continued borrowing for revenue expenditure would not be sustainable in the long run. The following table shows the position in respect of the Government of Orissa for the last five years:

Ratio	1996-97	1997-98	1998-99	1999-2000	2000-2001
Revenue Deficit/Fiscal Deficit	0.52	0.50	0.78	0.69	0.58
Capital Expenditure/ Fiscal Deficit	0.43	0.48	0.14	0.21	0.25
Net loans/Fiscal Deficit	0.05	0.02	0.08	0.10	0.17
Total	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**

It would be seen that more and more borrowed funds were applied for revenue expenditure in the last five years and during 2000-2001 the ratio of Revenue Deficit/Fiscal Deficit stood at 0.58 indicating that 58 *per cent* of borrowing was utilised to meet the revenue deficit leaving little for capital investment. The increase in revenue expenditure occurred at the cost of capital expenditure for asset formation. The share of capital expenditure to total expenditure declined from 14 *per cent* to 9 *per cent* during 1997-2001. Therefore, if the revenue expenditure is not controlled, capital formation is bound to suffer.

1.9.7 Guarantees given by the State Government

Guarantees are given by the State Government for due discharge of certain liabilities like repayment of loans, share capital, etc. raised by the statutory corporations, Government companies and co-operative institutions etc. and payment of interest and dividend by them. They constitute contingent liability of the State. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limits within which Government may give guarantees on the security of the Consolidated Fund of the State. Exhibit-IV lists the amounts of guarantees given by the Government and the amounts outstanding at the end of each year during 1996-2001. Outstanding guarantees have shown an increasing trend during 1997-98 to 1998-2000 with marginal decline during 2000-2001 (6.71 *per cent*) Scrutiny revealed that the main beneficiaries of guarantees during 2000-2001 were Orissa State Financial Corporation, Cuttack (Rs.89.29 crore) and Orissa State Co-operative Bank (Rs.50.62 crore).

Government has given guarantee to Orissa Textile Mills (a loss making concern) for obtaining loans of Rs.19.28 crore from IDBI (Rs.9.92 crore), IFCI (Rs.1.88 crore), ICICI (Rs.0.77 crore), Allahabad Bank (Rs.4.56 crore) and IRBI (Rs.2.15 crore). More details on guarantee given by State Government are analysed in Chapter-III of this Report.

1.10 Public debt

1.10.1 The Constitution of India provides that a State may borrow within the territory of India upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the Legislature laying down any such limit. The details of the total liabilities of the State Government as at the end of the last five years are given in the following table. During the five-year period, the total liabilities of the State Government had grown by 100 *per cent*. This was on account of 103 *per cent* growth in internal debt, 89 *per cent* growth in loans and advances from Government of India and 111 *per cent* growth in other liabilities. During 2000-2001, State Government borrowed Rs.1043.61 crore in the open market. This includes loan of Rs.689.71 crore of Orissa Government to finance capital expenditure during 2000-2001 and special loan of Rs.251.25 crore from HUDCO for giving special house building advance to government servants.

Year	Internal debt	Loans and advances from Central Government	Total public debt	Other liabilities*	Total liabilities	Ratio of debt to GSDP
	(Rupees in crore)					
1996-97	3439	4866	8305	3661	11966	0.46
1997-98	3577	5737	9314	4374	13688	0.43
1998-99	4367	6768	11135	5350	16485	0.48
1999-2000	5258	8076	13334	6948	20282	0.53
2000-2001	6995	9184	16179	7725	23904	0.57

1.10.2 Of the amount of funds raised through public debt, the amount of repayment and net funds available are given in the following table:

	1996-97	1997-98	1998-99	1999-2000	2000-2001
	(Rupees in crore)				
Internal Debt including ways and means advances					
-Receipt	2735	2746	3274	4865	7010
-Repayment (principal + interest)	2368	3023	2937	4508	6026
-Net funds available (*per cent*)	367(13)	(-)277	337(10)	357(7)	984(14)
Loans & Advances from GOI					
-Receipt during the year	701	1150	1471	1553	1739
-Repayment (Principal + Interest)	667	835	1137	653	1655
-Net funds available (*per cent*)	34(5)	315(27)	334(23)	900(58)	84(5)
Other liabilities					
-Receipt during the year	2108	2647	3302	4702	4125
-Repayment including interest	1946	2255	2661	3400	3857
-Net funds available (*per cent*)	162(8)	392(15)	641(19)	1302(28)	268(6)

It would be seen that as against total receipt of Rs.12874 crore (Rs.7010 crore + Rs.1739 crore + Rs.4125 crore) only an amount of Rs.1336 (10 *per cent*)

* Other liabilities include small savings, provident funds, reserve funds and deposits etc.

crore was available for investment and other expenditure after meeting the debt obligations. Considering that the outstanding debt has been increasing year after year, the net availability of funds through public borrowings is going to reduce further.

In regard to loans and advances from GOI, State Government was allowed deferment of outstanding liabilities on account of debt service for the months of November 1999 to March 2000 and phasing of recovery in the next two years with a moratorium of six months. This is the reason for the relatively high repayment (Rs.1655 crore) compared to that of previous year (Rs.653 crore).

1.11 Huge cash balances with the Drawing and Disbursing Officers (DDOs)

Scrutiny of cash books of 324 DDOs in 23 Departments disclosed that they held cash balances aggregating to Rs.82.81 crore at the end of March 2001. Holding of large cash was fraught with risk of misappropriation and misuse of Government cash. Had the unspent balances been refunded to Government accounts, Government could have reduced its borrowing to the extent of idle holding of cash.

1.12 Indicators of the Financial Performance

1.12.1 A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity, it would be necessary to know how far the means of financing are sustainable. Similarly, if Government wishes to increase its level of activity it would be pertinent to examine the flexibility of the means of financing and finally Government's increased vulnerability in this process. All the State Governments continue to increase the level of their activity principally through Five Year Plans which translate into annual Development Plans and are provided for in the State Budget. Broadly, it can be stated that non-plan expenditure represents Government maintaining the existing level of activity while plan expenditure entails expansion of activity. Both these activities require resource mobilisation increasing Government's vulnerability. In short, financial health of a Government can be described in terms of sustainability, flexibility and vulnerability.

These terms are defined as follows:

(i) Sustainability

Sustainability is the degree to which a Government can maintain existing programme and meet existing creditor requirements without increasing the debt burden of Government.

(ii) Flexibility

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

(iii) Vulnerability

Vulnerability is the degree to which a Government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

(iv) Transparency

There is also the issue of financial information provided by the Government. This consists of the Annual Financial Statement (Budget) and the Accounts. As regards the budget, the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As regards accounts, timeliness in submission for which milestones exist and completeness of accounts would be the principal criteria.

1.12.2 Information available in Finance Accounts can be used to flesh out sustainability, flexibility and vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in the Appendix-I (Part-B). Exhibit-V indicates the behaviour of these indices/ratios over the period from 1996-97 to 2000-2001. The implications of these indices/ratios for the state of the financial health of the State Government are discussed in the following paragraphs.

1.12.3 The behaviour of the indices/ratios is discussed below.

EXHIBIT - V

FINANCIAL INDICATORS FOR GOVERNMENT OF ORISSA

	1996-97	1997-98	1998-99	1999-2000	2000-2001
1	2	3	4	5	6
Sustainability					
BCR (Rs. in crore)	(-)132	(-)229	(-)1364	(-)1581	(-)1069
Primary Deficit (PD) (Rs. in crore)	523	509	1429	2508	1038
Interest Ratio	0.25	0.28	0.32	0.21	0.33
Capital outlay/Capital receipts	0.56	0.41	0.30	0.26	0.23
Total tax receipts/GSDP	0.11	0.09	0.09	0.09	0.11
State Tax Receipts/GSDP	0.05	0.04	0.04	0.04	0.05
Return on investment ratio	0.0003	0.0025	0.0002	0.08	0.027

	1996-97	1997-98	1998-99	1999-2000	2000-2001
1	2	3	4	5	6
Flexibility					
BCR (Rs.in crore)	(-)132	(-)229	(-)1364	(-)1581	(-)1069
Capital repayments/ Capital borrowings	0.17	0.17	0.27	0.12	0.19
State Tax Receipts/ GSDP	0.05	0.04	0.04	0.04	0.05
Debt/GSDP	0.46	0.43	0.48	0.53	0.57
Vulnerability					
Revenue Deficit (RD) (Rs. in crore)	830	903	2263	2574	1932
Fiscal Deficit (FD) (Rs. in crore)	1602	1801	2914	3746	3325
Primary Deficit (PD) (Rs. in crore)	523	509	1429	2508	1038
PD/FD	0.33	0.28	0.49	0.67	0.31
RD/FD	0.52	0.50	0.78	0.69	0.58
Outstanding Guarantees/ Revenue Receipts	0.45	0.40	0.77	0.63	0.50
Assets(Rs. in crore)	9156	9946	11200	12335	13891
Liabilities (Rs. in crore)	12236	13930	17446	21246	24733
Assets/Liabilities	0.75	0.71	0.64	0.58	0.56

Note 1. Fiscal deficit has been calculated as Revenue expenditure + Capital expenditure + Net loans and by 52 *per cent* during the last five years from 1996-97 to 2000-2001 , the liabilities had grown by 102 *per cent*.

(i) Balance from Current Revenues (BCR)

BCR is defined as revenue receipts minus plan assistance grants minus non-plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenues for meeting plan expenditure. The table shows that the State Government has had negative BCR in all the five years 1996-2001 and the negative BCR increased from Rs.132 crore in 1996-97 to Rs.1069 crore in 2000-2001 mainly due to the huge increase in Non-plan revenue expenditure and stagnant tax GSDP ratio. Thus, the Government was not able to contribute to Plan expenditure from its own resources and even the non-Plan expenditure (which was 79 *per cent* of total revenue expenditure) was financed significantly from borrowings.

(ii) Interest ratio

Interest ratio is defined as $\dfrac{\text{Interest Payment - Interest Received}}{\text{Total Revenue Receipts - Interest Receipts}}$

The higher the ratio the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In case of Orissa, the ratio has moved up rapidly from 0.25 to 0.32 during the period 1996-97 to 1998-99. However, this declined to 0.21 during 1999-2000 due to less interest payment in 1999-2000 by Rs.247 crore over previous year because of deferment of debt servicing by GOI as given in paragraph 1.6.3. This ratio again shot up to the highest level of 0.33 during 2000-2001 indicating greater vulnerability in State's finances.

(iii) Capital outlay/Capital receipts

This ratio would indicate to what extent the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long term inasmuch as it indicates that a part of the capital receipt is being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal performance of the State Government. A rising trend would mean an improvement in the performance. In the case of Orissa, the ratio has all along been less than one and mostly well below 0.6 indicating that a substantial part of the capital receipts are not available for investment. The ratio steeply declined from 0.56 in 1996-97 to 0.23 in 2000-2001 indicating a rapidly worsening situation and application of most of the capital receipts for purposes other than asset formation. Considering that the revenue deficit increased more than 2.32 times since 1996-97, there was little scope for capital receipts being applied for capital outlay in coming years unless the revenue deficit is controlled.

(iv) Tax receipts vs. Gross State Domestic Product (GSDP)

Tax receipts consist of State taxes and State's share of Central taxes. The latter can also be viewed as Central taxes paid by people living in the State. Tax receipts suggest sustainability. But the ratio of tax receipts to GSDP would have implications for the flexibility as well. While a low ratio would imply that the Government can tax more and hence its flexibility, a high ratio may not only point to the limits of this source of finance but also its inflexibility. Time series analysis shows that in case of Orissa, the ratio of State tax to GSDP was stagnant at 0.04 (except for 1996-97 and 2000-01 when it was 0.05). The ratio suggests that despite steep increase in revenue and fiscal deficits Government did not attempt to improve its own tax base and preferred to depend on external borrowings to finance its revenue expenditure. The high level of arrears in tax collection (vide discussion in para 1.9.4) indicated poor tax compliance. Government has to improve tax compliance and expand its tax base to improve its financial condition.

(v) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. The table at para 1.9.1 *ibid* presents the return on Government's investments in statutory corporations, Government companies, joint stock companies and co-operative institutions. It shows that the ROI in case of Government of Orissa was negligible during 1996-99. In 2000-2001, the percentage of return declined by 66 *per cent* over previous year.

(vi) Capital repayments vs. Capital borrowings

This ratio would indicate the extent to which the capital borrowings are available for investment after repayment of capital. The lower the ratio, the higher would be the availability of capital for investment. In case of Orissa, this ratio steadily increased from 0.17 in 1996-97 to 0.27 in 1998-99 due to increased borrowings in the recent years. However, the ratio declined to 0.12 during 1999-2000 due to deferment in repayment of GOI loans. This, however again went up to 0.19 during 2000-2001. Due to the liability of repayments falling due in near future, the ratio is bound to go up and pressure on the State revenue to meet high level of repayments will increase. As the borrowings were applied mostly to meet revenue expenditure and for investment in loss making public sector undertakings (vide discussion in para 1.9.1) and projects which continued for long period and generated no revenue, (vide discussion in para 1.9.3.), the State's capacity to repay will be under strain.

(vii) Debt vs. Gross State Domestic Product (GSDP)

The GSDP is the total internal resource base of the State Government which can be used to service debt. An increasing ratio of Debt/GSDP would signify a reduction in the Government's ability to meet its debt obligations and therefore increasing risk for the lender. In the case of Orissa, this ratio has increased significantly from 0.46 in 1996-97 to 0.57 in 2000-2001. During the year debt grew at the rate of 21 *per cent* whereas GSDP grew by *10.7 per cent* [@]. There is thus an urgent necessity to control borrowings.

(viii) Revenue deficit/Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings etc. Evidently, the higher the revenue deficit, the more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings, the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus, the higher the ratio, the worse off the State because that would indicate that the debt burden is increasing without adding to the repayment capacity of the State. During 2000-2001, 58 *per cent* of the borrowings were applied to revenue expenditure as compared to 69 *per cent* in 1999-2000. The decline in Revenue Deficit was mainly due to increase of

[@] National growth rate adopted as State's GSDP figures were not ready

Rs.856 crore in State's share of central taxes and duties. Further, the State was unable to fully spend the funds available for relief expenditure.

(ix) Primary deficit vs. Fiscal deficit

Primary deficit is the fiscal deficit minus interest payments. This means that the less the value of ratio, the less the availability of funds for capital investment. In case of Government of Orissa, this ratio has been rather small and below 0.7. This suggests that interest payment accounted for more than 30 *per cent* of the net borrowings, which are therefore not available for capital investment to large extent. The ratio had steadily increased from 0.33 in 1996-1997 to 0.67 in 1999-2000 with steep decline to 0.31 in 2000-2001. This indicated a steep increase in interest payments and 69 *per cent* of net borrowings was utilised for interest payments during 2000-2001. Further, the heightened borrowings in recent years would increase the liability of interest payments substantially in future years. Consequently, less and less funds would be available for spending on programmes in years ahead.

(x) Guarantees vs. Revenue receipts

Outstanding guarantees including the letters of comfort issued by the government indicate the risk exposure of a State Government and should therefore be compared with the ability of the Government to pay viz. its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the government would indicate the degree of vulnerability of the State government. In case of Orissa, this ratio went up from 0.45 in 1996-97 to 0.50 in 2000-2001 indicating a significant increase in the risk exposure of the revenues of the State government.

(xi) Assets vs. Liabilities

This ratio indicates the solvency of the government. A ratio of more than 1 would indicate that the State Government is solvent (assets are more than the liabilities) while a ratio of less than 1 would be a contra indicator. This ratio was all along less than 1 and steadily declined from 0.75 in 1996-97 to 0.56 in 2000-2001 which was indicative of the worsening financial position of the government.

(xii) Budget

There was no delay in submission of the budget and their approval. The details are given in the following table

Preparation	**Month of submission**	**Month of approval**
Vote on account	March 2000	March 2000
Budget	June 2000	June 2000
Supplementary I	November 2000	November 2000

Chapter II of this Report includes a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedure and control over expenditure. The State Government made huge supplementary provision which was 16 *per cent* of the original budget. There was persistent resumptions (i.e. surrenders of amounts every year *vis-a-vis* the final modified grant). Further, Rs.2474.48 crore spent in excess of budgeted funds during the year indicated defective budgeting and inadequate control over expenditure.

1.12.4 Conclusion

The Revenue deficit declined by Rs.642 crore during 2000-2001 mainly due to higher transfers of Central taxes and duties from GOI of Rs.856 crore and also due to substantial savings on relief expenditure on account of Super cyclone. This apparent improvement hides the fact that interest payments increased by 85 *per cent* over the previous year and that the proportion of Debt in GSDP is over 55 *per cent.* Thus the State's finances were heavily dependent on and vulnerable to sources of funding outside its control. Further, a static tax to GSDP ratio shows that the State government preferred to rely on borrowings instead of expanding their tax base for financing its rapidly rising revenue expenditure. Only 10 *per cent* of the Capital receipts (including Public Account receipts) were available for capital investments during 2000-2001 after meeting debt obligations as compared to 23 *per cent* in 1999-2000 indicating failure to create productive assets. Poor quality of expenditure further worsened the financial position of the Government.