GOVERNMENT OF ODISHA

REVIEW OF COMPLIANCE

TO

ODISHA FISCAL RESPONSIBILITY

&

BUDGET MANAGEMENT ACT, 2005

2014-15

By

National Institute of Public Finance and Policy,
New Delhi

September, 2016

FINANCE DEPARTMENT

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In terms of the provisions of Sub-section (2-a) of section 8 of Odisha Fiscal Responsibility and Budget Management Act, 2005 (Odisha FRBM Act, 2005), the State Government are required to entrust an agency, independent of the State Government interference, to make a review of compliance to the provisions of the Act and submit a report and cause it to be laid before the State Legislature.

In compliance with the said provisions of Odisha FRBM Act, 2005, the task of independent review of State's finances for the year 2014-15 was assigned to the National Institute of Public Finance and Policy (NIPFP), New Delhi, a national level institute engaged in the study and research in public finance and public policy. It is an independent non-Government Institution engaged in the pursuit of research in public economics and policies.

NIPFP assigned the task to Dr. Pratap Ranjan Jena, Associate Professor of the institute. In course of the review, Dr. Jena visited Bhubaneswar and had interaction with senior officials of the State Government Departments including Finance Department. The National Institute of Public Finance and Policy submitted the review report on 14th September, 2016.

I deem it to be a privilege to lay the report in the Legislative Assembly.

Bhubaneswar

September, 2016

(**Shri Pradip Kumar Amat**)
Minister, Finance

1. Introduction

The fiscal year 2014-15 was the last year under the fiscal restructuring path recommended by the 13th Finance Commission (TFC). The fiscal year was marked by the decision of the Central Government to transfer funds under all centrally sponsored schemes (CSS) through the State budget as against the earlier practice of direct transfer of funds to the implementing agencies. A perceptible change was witnessed in the fiscal management in 2014-15 since this independent review of the fiscal responsibility and budget management (FRBM) Act was institutionalized in 2011-12. Efforts have been made to create an enabling environment by emphasizing on improved spending practices as compared to the earlier practice of a guarded and conservative fiscal stance. While uncertainties and unpredictability regarding the flow of funds from CSS persisted, the State Government tried to prioritize the spending pattern to reduce the funding gaps.

The provision for an independent review of compliance to the FRBM Act was introduced through the amendment to the Act in 2012. The review since 2011-12 has shown that the fiscal outcomes for Odisha have remained within the limits of the FRBM Act. In addition to examining the compliance to the prescribed fiscal targets in the Act, the review report evaluates the fiscal trends achieved during the year as against the budget projections contained in the rolling fiscal targets worked out in the Medium Term Fiscal Policy (MTFP) presented along with the budget. The report also assesses the desired fiscal management principles contained in the FRBM Act of the State to achieve the fiscal targets and transparency measures. The report for the year 2014-15 has analyzed the macroeconomic outlook and recent trends of finances of the State Government. The report includes assessment regarding utilization of budgeted amount under revenue and capital heads.

The report is organized as follows. Section 2 provides an overall assessment of macroeconomic outlook and sectoral composition of GSDP. The section 3 contains analysis on state finances in recent years. Compliance of the State Government to the fiscal targets and fiscal management principles under the Odisha FRBM Act are covered in section 4. Issues related to revenue mobilization and expenditure pattern for the year 2014-15 as compared to the budget provisions are analyzed in Section 5. Concluding observations are contained in Section 6.

Box 1

Provision for an Independent Review in the FRBM Act of Odisha

The Odisha FRBM Act, 2005 provides for an independent review/monitoring of compliance of the implementation of the Act through an amendment in 2012. This feature was introduced in the Act after the recommendations of the 13th Finance Commission in this regard. The purpose of this independent review is to ensure compliance of the provisions of the Act. This is considered a desirable feature of the FRBM Act designed to improve the credibility and transparency of the fiscal management of the Government. An independent review has remained as an important element of public financial management requirements for effective fiscal responsibility legislation. The Act provides an institutional process to assess the fiscal management of the State Government keeping in view the statutory fiscal targets and fiscal management principles enshrined in the FRBM Act.

The State Government entrusted the responsibility of reviewing the compliance of the Act to the National Institute of Public Finance and Policy (NIPFP), New Delhi.

2. Macroeconomic Outlook

The growth of the economy is an important indicator in the fiscal management analysis, particularly for revenue generation effort of the State Government. Getting an unbiased picture of resource envelope is crucial to take resource allocation decisions in the budget. The large volatility seen in the growth profile of the State GSDP makes it difficult to link it with the tax effort (Table 1). The GSDP at constant prices suffered a slowdown after 2007-08. The growth rate declined from close to 11 per cent in 2007-08 to 7.75 per cent in 2008-09 and further plummeted to a low of 4.55 per cent in 2009-10. Although the State economy performed better in 2010-11, with a growth rate of 8.01 percent, it reverted to a slowdown after that. The growth rate has come down sharply to 1.82 percent in 2013-14. The growth rate for the year 2014-15 has recovered to 8.08 percent and the nominal growth has increased to 13.89 percent.

The sector contribution to the GSDP shows that, the relative share of service sector has steadily increased over the years. The share of service sector has gone up from 42.70 percent in 2007-08 to 51.16 percent in 2014-15. The share of manufacturing sectors seems to have been declined over the years and in 2014-15, it accounted for 12.57 percent. The continuing low growth in manufacturing sector in the country has been reflected in this trend. The share of agriculture sector also has declined during this period. While agriculture sector is usually out of the tax net, the decline in manufacturing sector has repercussions for improving the tax effort. The collection of service tax is in the hand of the Central government, out of which the State gets a share.

Table 1

Composition of GSDP (Constant Prices)

(Percent)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Primary Sector	**27.30**	**26.31**	**26.95**	**24.98**	**23.69**	**24.66**	**22.97**	**21.70**
Agriculture	19.57	18.50	19.07	17.99	17.20	18.39	16.30	15.39
Mining	7.72	7.81	7.88	6.99	6.49	6.26	6.67	6.31
Secondary Sector	**30.01**	**29.05**	**26.44**	**27.36**	**27.72**	**26.46**	**26.41**	**27.13**
Manufacturing	15.74	16.56	14.77	14.40	13.97	13.00	13.04	12.57
Construction	10.12	9.61	9.58	10.17	11.13	10.59	10.39	11.69
Electricity & Water supply	4.15	2.88	2.09	2.79	2.62	2.87	2.98	2.87
Tertiary Sector	**42.70**	**44.64**	**46.61**	**47.66**	**48.59**	**48.89**	**50.62**	**51.16**
Transport	8.13	8.60	8.89	9.40	9.68	9.96	10.59	10.99
Trade, Hotel and Restaurant	12.29	12.42	12.95	13.42	13.87	13.59	13.37	13.09
Banking & Insurance	3.97	4.31	4.76	5.55	6.01	6.55	7.21	7.41
Real Estate	5.91	5.84	5.78	5.65	5.78	5.95	6.22	6.23
Public Admn	3.65	4.22	4.08	3.78	3.66	3.66	3.52	3.37
Other Services	8.74	9.25	10.15	9.85	9.59	9.18	9.71	10.08
GSDP Growth	**10.94**	**7.75**	**4.55**	**8.01**	**3.98**	**3.76**	**1.82**	**8.08**

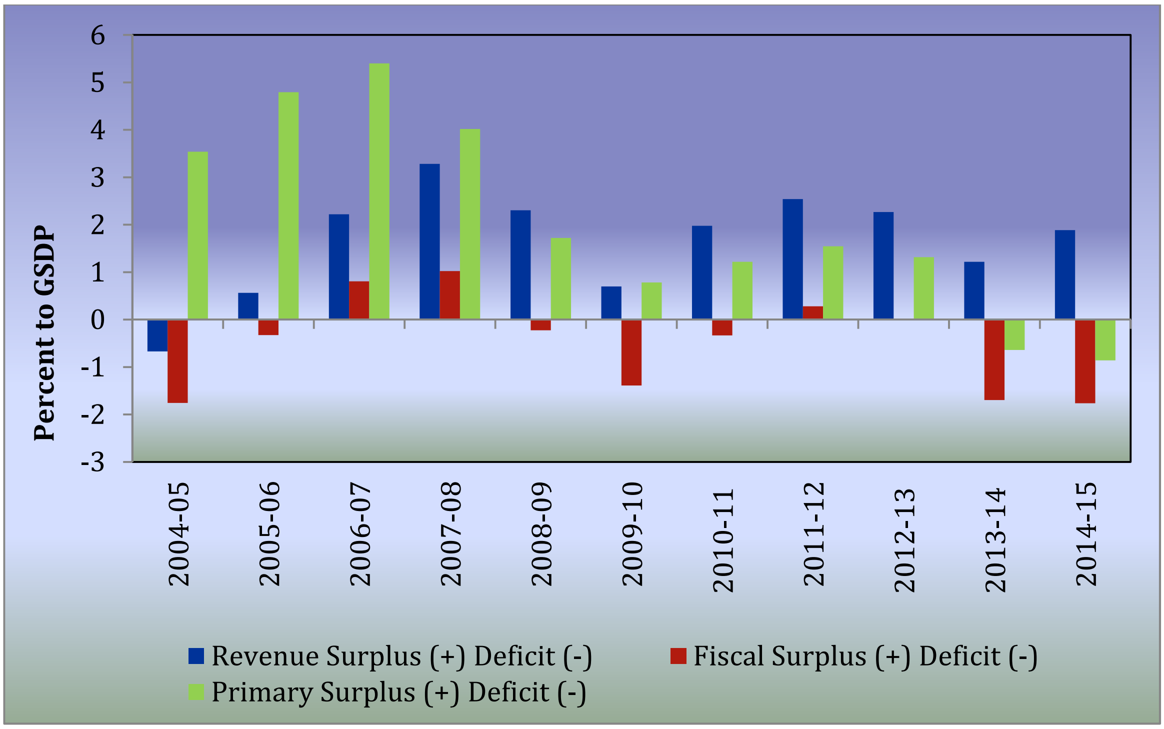
Source: Central Statistical Unit, GoI

3. Overview of State Finances

There has been a noticeable change in resource allocation decision in the fiscal year 2014-15. The focus on capital expenditure, which started being pursued in the previous year, got more emphasis in 2014-15. The practice of incurring negative net debt, starting from 2011-12, was abandoned in 2013-14, when the net debt turned positive by Rs.686.10 crores. This has been further strengthened in 2014-15, when the Government went for larger capital expenditure and expanded the borrowing program. Despite concerns raised by the CAG in their report on State finances for the year 2014-15 on high growth of borrowing over the year 2011-12, the overall debt burden remains lower than the stipulated target.

Post FRBM Act, the State finances of Odisha have evinced comfortable trend with revenue surplus, very little fiscal deficit and reducing debt burden relative to the GSDP. The fiscal deficit has remained less than one percent of the GSDP in most of the years since 2005-06 to 2010-11, after which it turned out to be surplus for next two years (Figure 1). The fiscal surplus, where the revenue surplus exceeds the capital outlay, leads to negative net borrowing in the year. It was only in 2013-14, the fiscal deficit increased to 1.7 percent of the GSDP as the capital outlay has increased. This trend was further strengthened in 2014-15, when the fiscal deficit increased to 1.76 percent of GSDP due to rise in capital outlay. The key feature of this fiscal trend has been the generation of revenue surplus, which safeguards the borrowed funds from being used in consumption expenditure

Figure 1
Key Fiscal Variables



Although, the State finances exhibited healthy bottom line in terms of low fiscal deficit and revenue surplus, the inadequacy in stepping up priority sector spending in a productive way was apparent. This was pointed out in the review reports of the earlier years. This is what sought to be changed in 2014-15. While looking at the surpluses/deficits, these can result in a variety of ways, with different combinations of underlying fiscal variables, not all of which may have the same implications for the prospects of the State and its citizens. To get a reasonable idea of the implications of the observed fiscal stance, it is usually necessary to look into the expenditure and revenue trends both in broad terms as also in some amount of detail.

The broad fiscal trends show that the State Government kept firm control over the revenue expenditure, which remained below 16 percent of GSDP until 2012-13. This has increased to 16.71 percent in 2013-14 before declining marginally to 16.45 percent in 2014-15. What is important to notice was the capital outlay, which remained unchanged at about 2 percent of GSDP until 2012-13. This trend seems to have been changing as the capital outlay has increased to 3.56 percent of GSDP in 2014-15. Own revenue receipts of the state comprising tax and non-tax revenue increased from 7.48 percent of GSDP in 2009-10 to 9.26 percent in 2013-14, before declining to 8.89 percent in 2014.15. The Central transfer, that includes tax devolution and grants, also has not seen a large increase. It has increased from 8.74 percent of GSDP in 2009-10 to 9.36 percent in 2014-15. The rise of aggregate revenue receipts in 2014-15 and corresponding decline in revenue expenditure resulted in a revenue surplus of 1.89, which helped increasing the capital expenditure. The rising capital expenditure may represent a legitimate strategy employed by the State Government of exploiting the fiscal space created by fiscal prudence of the previous years.

It is a little surprising that even during a period of fiscal consolidation own revenues of the state did not increase more than they actually did, failing to reach even 10 percent of GSDP. In fact, in 2014-15, the tax-GSDP ratio even fell below the 9 percent mark, that was reached in 2013-14. Since the effort would usually be directed towards tax revenues to achieve greater revenue mobilization, a disaggregation of tax revenue collections could be useful to identify successes and failures. Table 2 provides the necessary figures of tax revenue collections from individual taxes as a ratio of GSDP.

Figure 2
Broad Fiscal Trends

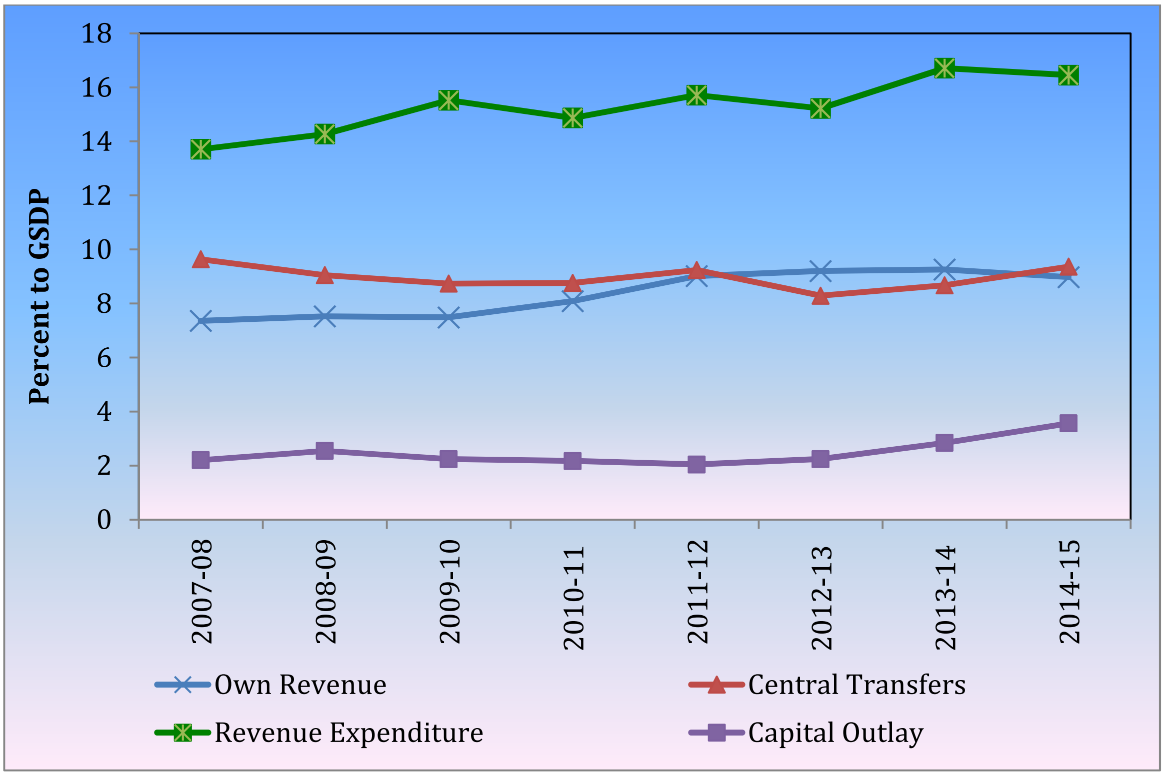


Table 2
Own Tax Revenues in Odisha

(% of GSDP)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Own Tax Receipts	**5.30**	**5.38**	**5.51**	**5.67**	**6.09**	**5.98**	**6.19**	**6.38**
Sales Tax	3.19	3.23	3.32	3.45	3.72	3.86	3.93	3.80
State Excise	0.41	0.44	0.52	0.55	0.63	0.60	0.65	0.65
Motor Vehicle Tax	0.36	0.35	0.38	0.37	0.36	0.30	0.31	0.29
Goods and Passengers	0.48	0.43	0.50	0.56	0.59	0.53	0.59	0.55
Tax on Duties on Electricity	0.25	0.25	0.28	0.23	0.25	0.24	0.25	0.55
Land revenue	0.21	0.23	0.18	0.20	0.24	0.17	0.16	0.21
Stamp Duty	0.31	0.33	0.22	0.21	0.23	0.22	0.22	0.26
Taxes on Profession	0.07	0.08	0.08	0.07	0.06	0.05	0.05	0.05
Other Taxes	0.02	0.03	0.03	0.03	0.03	0.03	0.02	0.01

Source: Finance Accounts of relevant years

It can be seen that the sales tax collections after a steady improvement as a percentage of GSDP until 2013-14, declined in 2014-15. The reduced mining activities after the restrictions and falling oil prices seem to have been started affecting the sales tax collection. The State excise has not improved much in last few years and in 2014-15, it remained at the same level of the previous year. The taxes like motor vehicles and goods and passenger have in fact declined in 2014-15 as percentage to the GSDP. The individual taxes with relatively low revenue significance – electricity duty, land revenue and profession tax – exhibit poor buoyancy. Taxes like land revenue, stamp duty and tax on electricity duties have shown a rise in 2014-15. These increases look one off measures relating to some past collections. The individual State taxes show low buoyancy over the year, which needs to examined to take remedial measures.

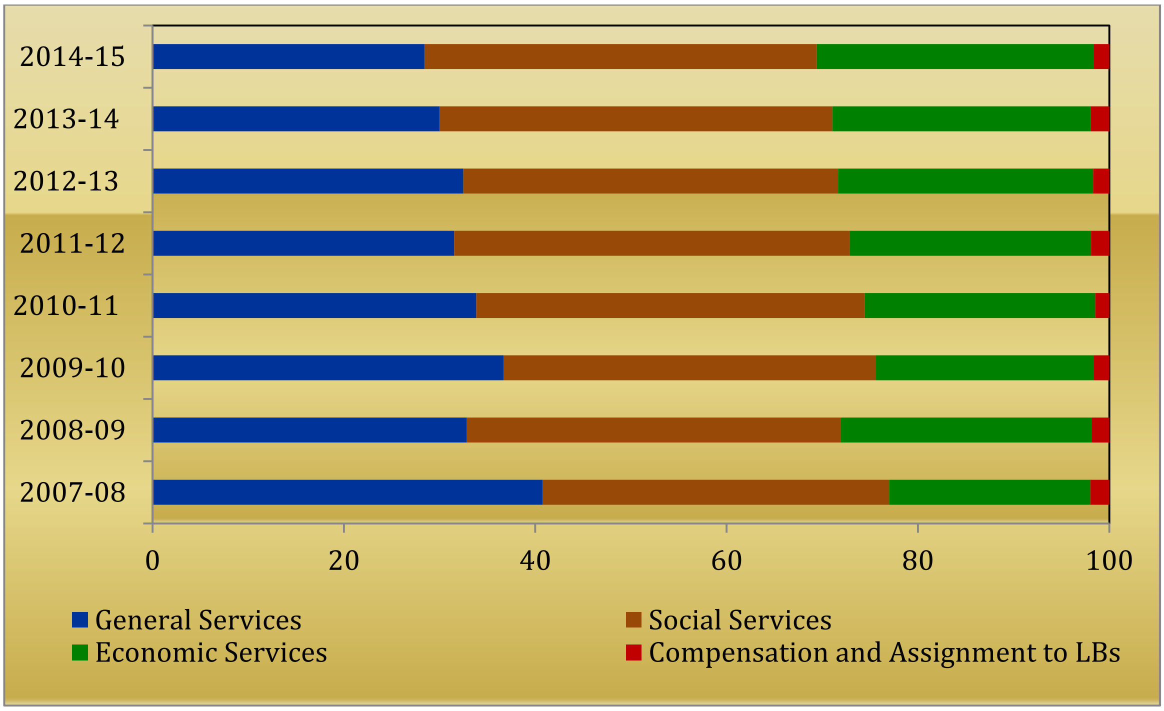
Central transfers have more than doubled between 2007-08 and 2014-15 in absolute terms. As percentage of GSDP, after falling in 2012-13 and 2013-14, it has shown a rise in 2014-15. Share in central taxes constitutes the larger part of central transfers. The share in Central taxes has remained subdued in 2014-15 as percentage to GSDP, though it has increased in absolute terms. However, grants from the Centre have shown higher growth. Within grants, plan grants have increased faster than non-plan grants. Overall, central transfers have not kept pace with the increase in own revenues of the state, reducing the transfer dependency of the state over the years.

Table 3

Central Transfers to Odisha

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Central Transfers	12458	13440	14236	17303	20381	20825	23677	29099
Share in Central taxes	7847	8280	8519	10497	12229	13965	15247	16181
Grants-in-Aid	4611	5160	5717	6806	8152	6860	8429	12917
Non-plan grants	1152	1242	1629	2111	2561	1505	2729	1929
State Plan schemes	2232	2633	2777	3279	3853	3484	3429	10886
Grants for CPS	116	119	167	192	109	183	122	102
Grants for CSS	1111	1165	1144	1224	1629	1688	2149	0.08

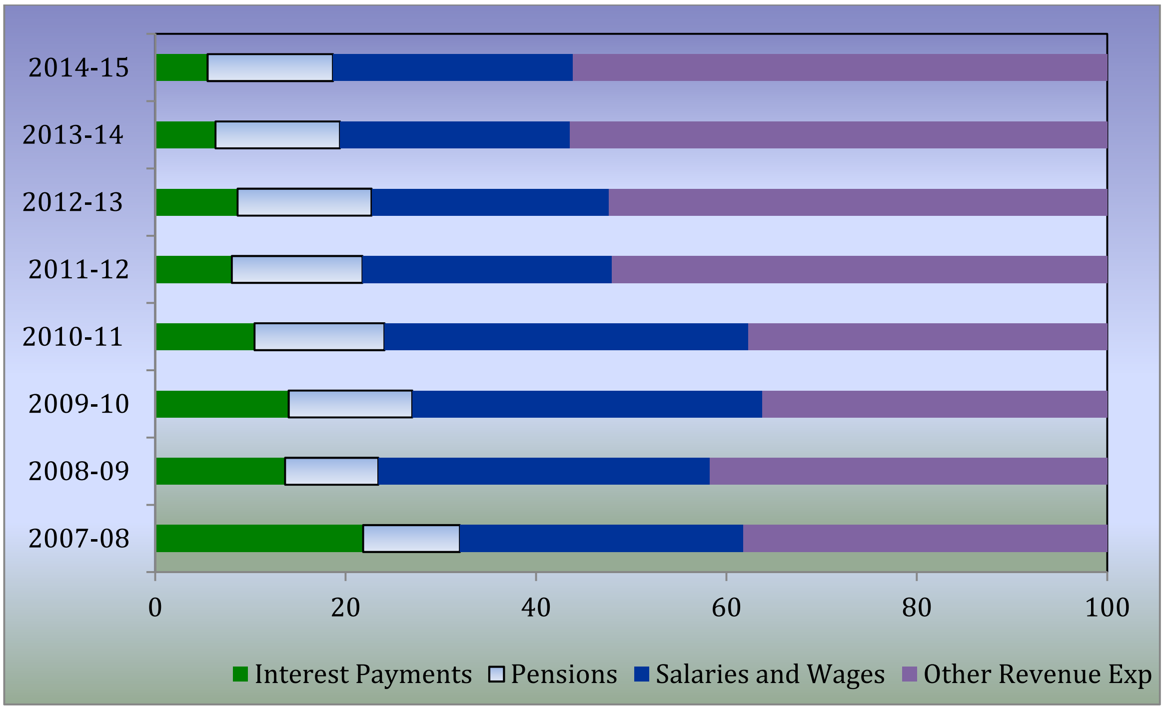
Figure 3
Composition of Revenue Expenditure



Total revenue expenditures have generally remained within a band of 14-16 percent of GSDP, in 2013-14, the upper limit was breached and revenue expenditures stood at 16.71 percent of GSDP. This has marginally declined to 16.45 percent in 2014-15. The composition of revenue expenditures have improved in recent years in the sense that the share of less directly productive general services has shrunk and those of social and economic services have increased, as can be seen from Figure 3. While the relative share of general services came down from 40.78 percent in 2007-08 to 28.41 percent in 2014-15, the share of social services has increased from 36.20 percent to 41 percent. This should translate into greater value of public expenditure for the citizens of the state.

Revenue expenditure becomes sticky due to committed expenditures. These are contractual, committed, and pre-determined in nature. The expenditure on wages and salary, pension payments and interest payment is considered as committed expenditure. The rising share of committed expenditure reduces the flexibility available to the Government in taking resource allocation decisions in a prioritized manner. The share of committed expenditure in revenue expenditure of Odisha has been shrinking. From a relative share of 62 percent in 2007-08, the committed expenditure has come down to about 44 percent in 2014-15 (Figure 4). This shows improvement in composition of revenue expenditure in the State.

Figure 4
Committed Revenue Expenditure



Capital outlay on various services (general, social and economic), have remained low in the state at below 3 percent of GSDP. Public capital expenditures of the right kind have a major role to play in stimulating the rate of growth of the state economy in order to narrow the gap between Odisha and the more developed States, but that role cannot be successfully discharged at such low levels. Capital outlay contributes to growth more directly and it is a somewhat positive development that the share of capital outlay has registered an increase in recent years. While the capital outlay increased to 2.84 percent in 2013-14, it made a sharp increase in 2014-15 to 3.65 percent of GSDP (Figure 5). The increase in 2014-15 is particularly noticeable. However, the level has to be pushed up further for a significant growth dividend to be reaped. For this purpose, it would be legitimate to exploit the slack available in fiscal deficit (the gap between the maximum permissible and the actual) to the hilt, and finance identified public investments with high social returns with higher debt, provided the investment projects also meet financial feasibility constraints with adequate rates of return to service the additional debt.

Figure 5
Capital Outlay

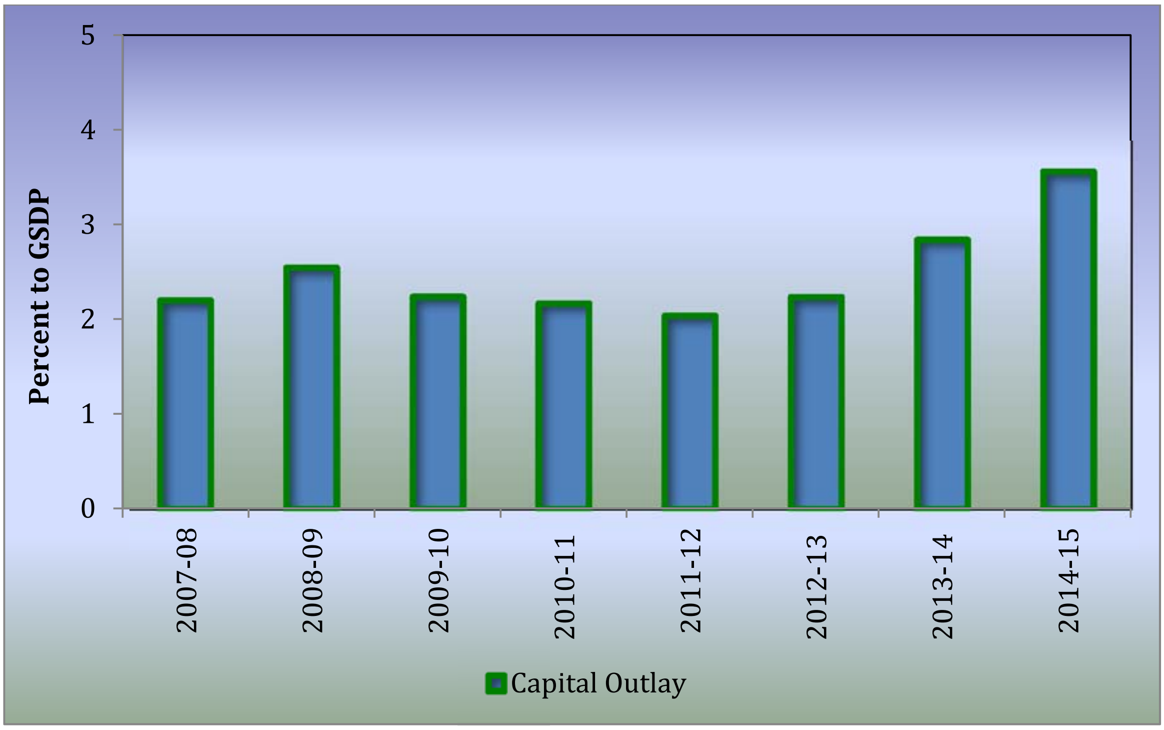


Table 4
Outstanding Liabilities

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Public Debt	**15.59**	**12.96**	**11.16**	**9.28**	**8.54**	**8.64**
Internal Debt	10.54	9.11	7.86	6.41	5.89	6.35
Market Loans	4.16	3.12	2.32	1.52	1.07	1.47
Special Securities issued to NSSF	4.56	4.28	3.85	3.42	3.29	3.24
Loans from Financial Institutions	1.01	1.10	1.25	1.34	1.44	1.60
Others	0.81	0.10	0.45	0.13	0.08	0.04
Loans and Advances from the Central Government	5.05	3.84	3.30	2.87	2.65	2.29
Loans for Plan Schemes	4.95	3.77	3.26	2.84	2.63	2.28
Other Liabilities	**9.33**	**8.40**	**8.09**	**7.97**	**7.84**	**7.61**
Small Savings, Provident Funds etc.	7.56	6.86	6.33	5.84	5.62	5.28
Reserve Funds	0.01	0.02	0.14	0.08	0.03	0.11
Deposits	1.75	1.53	1.62	2.05	2.19	2.22
Total Public Debt and Other Liabilities	**24.92**	**21.36**	**19.25**	**17.25**	**16.38**	**16.25**

Outstanding public debt that includes internal debt and loans from the Central Government has come down sharply for Odisha and stands at 8.64 percent of GSDP. Lack of growth in capital expenditure and repayment of some of the costly loans has steadily reduced the debt stock. Taking all types of liabilities, the total stock decreased from 24.92 percent of GSDP in 2009-10 to 16.25 percent in 2014-15, with indebtedness falling consistently every year throughout the period (Table 4). Among the various components of total liabilities, the slowest reduction is seen for NSSF loans, although each of the components has registered substantial reduction. The closing level of aggregate indebtedness is well below the level prescribed as prudent by the 13th Finance Commission.

4. Assessment of Compliance to the Provisions made in the State FRBM Act

4.1 Fiscal Achievements and Compliance to the FRBM Act Targets: 2014-15

The major objectives of the FRBM Act have been to counter the expansionary tendency by operating the fiscal policy within fixed constraints in order to eliminate the revenue deficit, reduce the fiscal deficit to prescribed level, and contain the debt level at a sustainable level. The FRBM Act is expected to provide stability to economic policies, long run fiscal sustainability and improves credibility of the Government's policies over time. The major provisions of the Odisha FRBM Act are as follows;

I. Present a Medium Term Fiscal Plan (MTFP)

II. Undertake appropriate fiscal management principles indicated in the Act to achieve the targets

III. Achieve fiscal targets relating to deficit, stock of debt, interest payment, and salary level

IV. Take suitable measures to ensure greater transparency in the fiscal operation.

I. Medium Term Fiscal Plan: The Government of Odisha presents a medium term fiscal plan (MTFP) every year along with the budget in the State legislature. This is mandatory provision stipulated in the FRBM Act. The framework of the MTFP has been prescribed in the rules to the Act. Following the rules, the MTFP contains fiscal policy strategy statement that presents the macroeconomic outlook, fiscal policy for the ensuing year, debt management strategy, and any institutional changes. The second part of the MTFP contains a fiscal plan of the State Government for the ensuing budget year and two outward years.

The medium term fiscal plan statement as part of the Medium term Fiscal Policy (MTFP) provides the fiscal stance of the State Government with respect to fiscal targets for the ensuing year, revenue generation efforts, expenditure plan and consequent borrowing requirements. This statement contains three-year rolling targets for revenue deficit, fiscal deficit, and the debt-GSDP ratio – for the ensuing year, and for two subsequent years. Thus, the first year of the MTFP projections is the budget estimates for the year 2013-14.

II. Fiscal Targets Under the FRBM Act and the Compliance: The Government of Odisha, as per the FRBM Act, is required to achieve the following mandatory fiscal targets;

1. Attaining zero revenue deficit;
2. Containing the fiscal deficit to 3 per cent of GSDP;
3. Limiting the debt-GSDP ratio to the level fixed by the Central Finance Commission, viz. 29.5 percent for the year 2014-15;
4. Keeping the interest payment as percentage of revenue receipts to 15 per cent to maintain sustainable level of debt stock;
5. Limiting the debt stock to three hundred percent of the total revenue receipt of the State;
6. Limiting the ratio of salary to State’s own revenue to 80 per cent; and
7. Limiting the ratio of non-interest committed revenue expenditure to State’s own plus mandated revenues to 55 per cent.

Post FRBM Act, the State Government managed to generate surplus in the revenue account and reduce the fiscal deficit below 2 percent. The debt burden also declined below the TFC stipulated level. Achieving the prescribed fiscal targets was never a problem for Government of Odisha. The fiscal targets specified in the FRBM Act and the outcomes for the year 2014-15 are given in Table 5. The State managed to generate revenue surplus of 1.89 percent and limited the fiscal deficit to 1.76 percent relative to GSDP as against FRBM Act requirements of reducing the revenue deficit to nil and limiting the fiscal deficit to 3 percent. Outstanding debt burden of the State declined substantially to 13.92 per cent relative to GSDP as compared to the prescribed ceiling of 29.5 percent as determined by the TFC. The fiscal outcomes for the year 2014-15 reveal that the State Government has achieved the numerical fiscal targets stipulated in the FRBM Act.

Table 5

FRBM Act Targets and Fiscal Achievements during 2014-15

Percent

	Targets	Achievements
Revenue deficit(-)/surplus(+) % of GSDP	0	1.22
Fiscal deficit % of GSDP	-3	-1.70
Total debt stock % of GSDP	29.5	13.92
Interest payments % of revenue receipts	15	4.93
Ratio of debt stock to total revenue receipts	300	76.0
Ratio of salary to State's own revenue	80	46.14
Ratio of non-interest committed revenue expenditure to State's own and mandated revenue	55	43.76

The Government of Odisha has remained within the contours of fiscal prudence as detailed by the provisions of the FRBM Act, but this has overwhelming effect on developmental initiatives that the government owes its citizens. This issue has been raised in the earlier review reports. The fiscal correction in previous years even made the State fiscally surplus; this means a situation where the revenue surplus was more than the capital expenditure. The reduction in fiscal deficit and debt burden, significant as they are, raises the question regarding the necessity of the adjustment to such a magnitude and the utilization of fiscal space available to the Government to forward the development agenda. However, starting from 2013-14, the fiscal deficit has been increasing and in 2014-15, the fiscal deficit reached at 1.76 percent of GSDP. Indeed, it provides indication to the change in policy agenda. The Government can still expand its spending, particularly in productive sectors to create an enabling environment for higher economic development.

4.2. Fiscal Management Principles

Fiscal management principles enshrined in the FRBM Act are guiding principles to conduct the fiscal policy in the State to facilitate achievement of the required fiscal targets. These include debt management and borrowing, tax policy, expenditure policy, and budgetary and other institutional measures. The FRBM Act calls upon the State Government to improve efficiency in tax system pursue expenditure policies to provide economic growth and poverty reduction, and stabilize debt burden to achieve fiscal consolidation. However, these fiscal management principles are overarching usually the economic objectives of any Government. Some of these issues indicated in the Act are analyzed here, not so much as an annual budgetary development or pertaining to the fiscal year 2014-15, but as they have been evolved during the fiscal rule regime.

Debt Management: The debt management principles of the FRBM Act require the State Government to maintain debt at a prudent level, manage guarantees and other contingent liabilities prudently, and use borrowed funds for productive purposes and create capital assets. The debt stock of the State has declined substantially over the years and remains below the TFC stipulated limit. The debt-GSDP ratio of the State has declined sharply from 43.81 percent in 2004-05 to 13.92 percent in 2014-15. As the capital outlay was not growing and there has been revenue surplus, the State Government, over the years, reduced dependence on borrowing to finance State Plan. They also, swapped high cost loans in the past and prepaid and followed a buy back policy for high cost loans. During 2011-12 to 2012-13, the net addition to borrowing was negative. Following the spirit of the Act, the State Government fixed ceiling on guarantees, 100 per cent of the State revenue receipts of the second preceding year. The outstanding guarantee as percentage of revenue receipt net of grant-in-aid has been reduced to 4.51 per cent by 2014-15 (Table 6).

Table 6
Outstanding Guarantees

Year	Guarantee Outstanding at the end of the year (Rs. Lakh)	Guarantee Outstanding % of Revenue Receipts less Grants for the 2nd Preceding year	Guarantee as % of GSDP
2004-05	3823.25	57.59	4.92
2005-06	3496.19	45.26	4.11
2006-07	2647.55	27.87	2.60
2007-08	2168.43	19.00	1.68
2008-09	1386.4	9.32	0.93
2009-10	1026.94	5.92	0.63
2010-11	2066.25	10.62	1.05
2011-12	2510.43	12.12	1.14
2012-13	2251.23	8.50	0.90
2013-14	1705.27	5.31	0.62
2014-15	1671.77	4.51	0.54

Source: Finance Account, GoO, Relevant Years

There has been a change in policy regarding continuing with the low-borrowing regime with the rise in capital expenditure and net borrowing rising substantially by Rs.4667.14 crore in 2014-15. The rise in borrowing still satisfies the statutory requirement of using borrowed funds exclusively for creating capital assets due to consistency in generating revenue surplus. Thus, it has been acknowledged that not resorting to borrowing for markets and reducing net addition to borrowing should not be the benchmark for a development oriented fiscal policy in the face of availability of large fiscal space.

Tax and Non-Tax Revenue: Maintaining stability and predictability in the level of tax burden, avoiding incentives, concessions and exemptions, and pursuing the tax policy with due regard to economic efficiency and compliance cost are the core features any tax policy. FRBM Act, however, reiterates these principles. Neither the own tax nor the non-tax revenue has shown a sharp rise; as percentage to GSDP both show slow improvement in recent years. There have not been many changes in tax rate of individual State taxes. The VAT regime, introduced in 2005, has stabilized in terms of rate and base structure in the State. There has been an increase in share of non-tax revenue from 26 to 29 percent in own revenue between 2009-10 and 2014-15. Large portion of it comes from royalties on mining and quarrying activities, the rate of which is decided by the Central Government. Both in tax and non-tax revenue the State Government has not taken discretionary measures that could otherwise distort the market behavior and economic decisions of the people.

Institutional Measures to Improve Quality of Expenditure: Institutional aspect and processes to improve quality of public expenditure, as per the State FRBM Act include getting value for money from use of public resources, maintaining physical assets, increasing transparency, minimizing fiscal risks associated with public sector undertakings (PSUs), realistic budget formulation to minimize the deviations during the course of the year, and an appropriate cash management practice. The deviations from budget projections are discussed in the next section. The Government has taken several initiatives including introducing outcome budget, introducing cash management system, formulating annual maintenance plan, and computerization of treasury activities and integrated financial management system (IFMS) to strengthen institutional aspects of public expenditure management.

The outcome budget has not however, proved to be a useful instrument to take budget decision. Like the outcome budget at the Central Government level, the State outcome budget is still beset with issues like developing a set of realistic performance information for the programmes, costing the activities, and utilizing the performance information in the programme formation and resource allocation decisions. Outcome budget provides an opportunity to go beyond the traditional line item budgeting to focus on results and resource allocation decisions in an informed manner. The introduction of cash management system has improved utilization of the budgetary allocation and reduced the tendency of 'March Rush' considerably. While the uncertainties in the timing of flow of Central funds persists, the State Government should monitor the limit set for the last quarter of the financial years is adhered to by the departments.

The treasury computerization and IFMS system being worked out by the Government is expected to provide a comprehensive electronic system to facilitate capture of the financial activities of the State Government. It will help the Finance Department in managing the resources for the state. This system has been designed to provide services to various users such as the finance department, spending departments, field offices, AG (O) and treasuries. A fully operational IFMS will have several other features to integrate the financial transactions relating employees through HRMS, plan finance monitoring system for monitoring of Central schemes, the VLC system for receipt of online accounts, and the RBI for advising electronic payments and receiving scrolls for electronic payments and receipts.

Fiscal transparency: Transparency measures enunciated in the FRBM Act requires the State Government to minimize the secrecy and disclose data and information relating to the fiscal operations. The Act specifies that the Government should provide information with regard to changes in accounting standards, budgetary documents, and new policies, detailed accounts of fiscal variables, details of employees and salary payments, and revenue, and expenditure details. While the State governments has made most of the information accessible to the general public, some of the information like estimated yearly pension liability and statement showing tax concession and exemptions have not been provided yet. The State Government should furnish this information along with the budget documents in the interest of greater transparency espoused by the FRBM Act.

5. Budget Credibility: Projections and Outturns

Formulating the budget in a realistic manner and making a realistic revenue projections by giving due regard to the general economic outlook to minimize deviations during the course of the year has remained one of the important fiscal management principles of the FRBM Act. Achieving the projected revenue and implementing the budgeted expenditure are indicators that show the ability of the Government to deliver the public services as enunciated in the Government policies. However, budget credibility does not entirely depend upon the efforts of the State Governments. The pattern and timing of fund flow from Central Government also influences the spending. Timeliness of reliable information on the allocation from Central Government for the coming year helps the sub-national Government to take resource allocation decision and the actual flow determines the spending pattern. These issues are relevant in the present context.

It is appropriate here first to examine the fiscal trend of the State to assess the performance of the State in the year 2014-15. The aggregate revenue has shown an improvement relative to the GSDP in 2014-15 as compared to the previous year due to higher receipt of Central transfers and an increase in own tax revenue (Table 7). The increase in Central transfers in 2014-15 was basically due to the direct transfer of all CSS through the State budget. It does not actually mean a higher transfer of resources. In fact, the change in transfer system created uncertainties in budget preparation and as we will discuss the actual transfers fell below the budget projection. The decline in own non-tax revenue, however, reduced the total own revenue as compared to the previous year. The decline in mining royalty due to reduced mining activity and some slippage in interest receipt have affected the non-tax revenue relative to the GSDP.

On the expenditure front the rise in revenue expenditure in 2013-14 was reversed in 2014-15 as percentage to GSDP as it declined from 16.71 to 16.45 percent. Although there was marginal rise in social sector spending, the general services and economic services witnessed decline in 2014-15. What is important to point out in the spending pattern of the State Government is the increase in capital expenditure as percentage to GSDP in 2013-14 was further augmented in 2014-15, as it increased from 2.84 to 3.56 percent. This is a positive development in the public financial management in the State as the capital expenditure crossed 3 percent of GSDP for the first time after 2004-05. Although the fiscal deficit has increased marginally from 1.70 percent of GSDP in 2013-14 to 1.76 percent in 2014-15, it remains much below the stipulated 3 percent of GSDP. Control over revenue expenditure has resulted in higher surplus in revenue in account in 2014-15. Although the fiscal space continues to be large, the fiscal year 2014-15 shows an indication of rethinking in fiscal management.

Table 7
Fiscal Trends in Recent Years

Percentage to GSDP

	2011-12	2012-13	2013-14	2014-15
Revenues	18.25	17.49	17.93	18.34
Own Tax Revenues	6.09	5.98	6.19	6.38
Own Non-Tax Revenues	2.92	3.22	3.07	2.60
Central Transfers	9.24	8.29	8.67	9.36
Tax Devolution	5.54	5.56	5.59	5.21
Grants	3.70	2.73	3.09	4.16
Revenue Expenditure	**15.71**	**15.22**	**16.71**	**16.45**
General Services	4.95	4.95	5.01	4.67
Social Services	6.50	5.96	6.86	6.74
Economic Services	3.96	4.06	4.51	4.77
Assignment to Local Bodies	0.30	0.26	0.33	0.26
Capital Expenditure	**2.26**	**2.27**	**2.92**	**3.65**
Capital Outlay	2.04	2.24	2.84	3.56
Net Lending	0.22	0.03	0.08	0.09
Revenue Deficit	**-2.54**	**-2.27**	**-1.22**	**-1.89**
Fiscal Deficit	**-0.28**	**0.00**	**1.70**	**1.76**
Primary Deficit	**-1.55**	**-1.32**	**0.64**	**0.86**
Outstanding Debt	**17.49**	**15.12**	**14.16**	**13.92**

Source: Basic data – Finance Accounts and Budget Document for the year 2014-15, GoO

Table 8
Borrowings and Repayments

(Rs. Lakh)

	2013-14	2014-15l
Public Debt Receipts		
Internal Debt	173965.52	711653.00
Loans Advances from Central Government	55059.96	52910.00
Small Savings and Provident Fund	333233.00	347060.00
Debt Repayments		
Internal Debt	177531.61	346149.00
Loans Advances from Central Government	51790.20	64998.00
Small Savings and Provident Fund	264327.00	239781.00
Net Public Debt	68609.67	460695.00

Source: Finance Accounts for the year 2014-15, GoO

The net borrowing turned positive to the extent of Rs.686 crores in 2013-14 after showing negative net borrowing in the two previous years. This has increased to Rs.4609 crores in 2014-15 (Table 8). The rise in capital expenditure necessitated higher level of borrowing. However, the debt stock as percentage of GSDP has declined from 14.16 percent in 2013-14 to 13.92 percent in 2014-15. The debt-GSDP ratio remains below the permissible level as prescribed in the FRBM Act. Thus debt burden is not a concern for the State Government. Given the low fiscal deficit and existing revenue surplus, the fiscal space to be exploited by the State Government remains large. Thus, rise in net borrowing should not be considered as an undesirable practice in the overall fiscal management.

5.1 Disaggregated Analysis of Revenue Receipts

Data on detailed sources of revenue shown in Table 9 reveal that the revenue receipts of the State including tax revenue and Central transfers has posted a healthy growth in 2014-15 over the previous year. While the revenue receipt has shown a growth rate over 16 percent, the tax revenue grew by 17.39 percent. Own tax revenue collection was almost equal with the budget projection with a marginal deviation of 0.17 percentage points. It was the sales tax which showed a deviation of 9.86 percent with the budget projections. Slowdown of mining activities and decline in oil prices during the year affected the sales tax collection. Although non-tax revenue posted a negative growth of 3.67 percent in 2014-15, it was marginally higher than the budget projections.

Table 9
Revenue Realization

	2013-14	2014-15	2014-15 (BE)	Diff.	% Change over Budget	% Change Over 2013-14
Revenues	4894685	5699788	6714696	-1014908	-15.11	16.45
Own Tax Revenues	1689158	1982830	1986265	-3435	-0.17	17.39
Sales Tax	1072855	1181673	1311000	-129327	-9.86	10.14
State Excise Duties	178013	203524	198375	5149	2.60	14.33
Motor Vehicle Tax	85967	91031	97200	-6169	-6.35	5.89
Goods and Passengers tax	161345	171087	172340	-1253	-0.73	6.04
Electricity Duty	67011	172260	70400	101860	144.69	157.06
Land revenue	43126	64564	44000	20564	46.74	49.71
Stamp Duty and Regi. Fees	60548	80023	68200	11823	17.34	32.17

	2013-14	2014-15	2014-15 (BE)	Diff.	% Change over Budget	% Change Over 2013-14
Profession tax	14970	16897	17600	-703	-3.99	12.87
Other Taxes	5322	1770	7150	-5380	-75.24	-66.73
Own Non-Tax Revenues	837860	807087	802400	4687	0.58	-3.67
Interest Receipts	124118	33067	40898	-7831	-19.15	-73.36
Dividends and Profits	45240	107644	38817	68827	177.31	137.94
Mining Royalties	551880	531009	634698	-103689	-16.34	-3.78
Central Transfers	2367666	2909872	3926031	-1016159	-25.88	22.90
Tax Devolution	1524725	1618122	1828946	-210824	-11.53	6.13
Grants	842942	1291750	2097085	-805335	-38.40	53.24

Despite a very high growth of Central transfers over the previous year, the deviation from budget estimates was large at 25.88 percentage points during 2014-15. The growth in Central transfers over the previous year was mostly driven by growth in grants. The decision of the Central Government to transfer the entire CSS fund through State budget instead of directly transferring to implementing agencies increased the grants part of the transfers. However, there were huge uncertainties associated with these transfers. There was no clear indication regarding the quantum of transfers under various CSS to be routed through the State budget. The lack of clarity affected the budget projections at the State level and actual flow fell short of the estimates. The decline in actual tax devolution as compared to the budget projection was due to the shortfall in collection of Central taxes.

5.2 Disaggregated Analysis of Expenditure Pattern

Table 10 shows the decomposed expenditure pattern for the year 2014-15. Both the revenue and capital expenditure show higher growth as compared to the previous year. While revenue expenditure grew by 12.10 percent, the capital expenditure increased hugely by 42.78 percent. Government spending in 2014-15 on education, health, water supply, agriculture, and rural development has shown higher growth as compared to the previous year. Irrigation and social welfare show a decline in revenue expenditure. The large year-on-year growth of capital expenditure in 2014-15 includes 33 percent growth on social sector and 50 percent growth on economic services.

The comparison of budget estimates and actual expenditure for the year 2014-15, however, indicates that the Government had planned a higher level of expenditure. Both the revenue and capital expenditure fell short of the budget estimates by about 18 to 19 percent percentage points. The sector wise deviation of actual expenditure from the budget estimates has been remained in this range. The interest payment, spending on social welfare and rural development, however, show a higher deviation from the budget estimates. The difference between budget estimates and actual interest payments should not be large as the debt stock of the previous year was already known by the time budget was prepared. From the data, it is clear that excess provision under this head during budgeting stage was the main reason for savings to the extent of 40.58 percent.

Table 10
Expenditure Profile

	2013-14	2014-15	2014-15 (BE)	Diff.	% Change over Budget	% Change Over 2013-14
Revenue Expenditure	4561775	5113574	6288142	-1174568	-18.68	12.10
General Services	1368941	1452886	1853240	-400355	-21.60	6.13
Interest Payment	288822	281027	472918	-191891	-40.58	-2.70
Pension	596224	673727	783108	-109381	-13.97	13.00
Other General Services	483895	498132	597214	-99083	-16.59	2.94
Social Services	1872155	2096414	2573799	-477385	-18.55	11.98
Education	828237	982205	1153598	-171393	-14.86	18.59
Medical and Public Health	163098	251266	310744	-59478	-19.14	54.06
Water Supply	158514	189252	232839	-43587	-18.72	19.39
Welfare of SC, ST, & BC	133015	142934	177232	-34297	-19.35	7.46
Social Welfare & Nutrition	541656	461090	631412	-170322	-26.97	-14.87
Other Social Services	47636	69667	67975	1692	2.49	46.25
Economic Services	1231459	1482538	1778909	-296371	-16.66	20.39
Agriculture & Allied	470112	561346	587875	-26528	-4.51	19.41
Rural Development	298363	444625	645804	-201179	-31.15	49.02
Irrigation & Flood Control	139705	137640	162841	-25201	-15.48	-1.46
Energy	2235	4496	5220	-723	-13.86	101.19
Industry and Minerals	30570	37473	43308	-5835	-13.47	22.58
Transport	170477	189554	194835	-5281	-2.71	11.19
General Economic Services	113411	101994	130360	-28366	-21.76	-10.07
Others	6586	5409	8667	-3257	-37.58	-17.87
Local Bodies	89219.64	81737.21	82193.66	-456.45	-0.56	-8.39
Capital Expenditure	775640	1107463	1365772	-258309	-18.91	42.78

Table 11
Receipts of Grants from Central Government

Rs. Lakh

	2014-15 Actual	2014-15 BE	GAP	GAP/BE (%)
Accelerated Irrigation Benefit & Flood Management Programme (ACA)	13875	150000	136125	90.75
Integrated Child Development Scheme (ICDS)	87512	157407	69895	44.40
National Rural Employment Guarantee Act (MGNREGA)	103530	169037	65507	38.75
Pradhan Mantri Gram Sadak Yojana (PMGSY)	105150	170000	64850	38.15
Jawaharlal Nehru National Urban Renewal Mission (JNNURM) (ACA)	13	52500	52487	99.98
Sarva Sikshya Abhiyan (SSA)	66695	105000	38305	36.48
Grants and Assistance from Central Government	152586	190054	37468	19.71
National Social Assistance programme (NSAP)	53471	85024	31553	37.11
Rashtriya Ucchtar Shiksha Abhiyan (RUSA)	5682	34894	29212	83.72
Backward Regions Grant Fund (BRGF)	17946	39683	21737	54.78
Indira Awas Yojana (IAY)	68404	87693	19289	22.00
National Health Mission including NRHM	65743	84000	18257	21.73
Rashtriya Madhyamik Shiksha Abhiyan (RMSA)	20100	36475	16375	44.89
National Cyclone Risk Mitigation Programme (NCRMP)	15497	30850	15353	49.77
National Programme to Nutritional Support to Primary Education (MDM)	49304	62219	12915	20.76
National Rural Livelihood Mission (NRLM)	9749	21000	11251	53.57
Umbrella Scheme for Education of ST Students	9023	19878	10855	54.61
Others	244338	256347	12009	4.68
Total	**1088618**	**1752061**	**663443**	**37.87**

One major reason for deviation from the budget estimates was the non-receipt of Central grants under various programs as shown in the Table 11. The schemes given in the table are large ones and influence the actual spending of the departments to a great extent. The schemes like ACA for irrigation, ICDS, PMGSY, JNNURM, SSA, and other schemes given in the table are key players in the expenditure plan of the State Government. The less realization of central funds under various schemes could be due to inappropriate budget projection by the State Government for that year. As alluded in a previous section, there were uncertainties regarding the quantum of funds to be given to the State Governments under the Central schemes, which might have affected the budget projection.

Although, the State Government did not receive about 38 percent of the funds under Central schemes, the deviation of actual spending was rather less. This points out to the fact that some prioritization had been done in the expenditure pattern to make funds available to priority sectors. Some departments in their interaction claimed to have made improvements in prioritization, asset management, better utilization of available resources to expand the services, development of sector plans, improvement in executing the projects and monitoring the progress of work. The need for modernization of procurement system and online payment system was also stressed upon for better utilization resources. The efforts of two departments, PWD (Roads), and irrigation department to improve the resource utilization has been given in Boxes 2 and 3.

Higher growth of capital expenditure should motivate the State Government to utilize the available fiscal space in a productive way. However, given the need for expanding infrastructural facilities in the State, proper utilization of budgeted provisions for capital expenditure should be emphasized. The issues like capacity development in project appraisal and project execution, lack of a medium term sector plan for infrastructure development, and inadequate performance information on programs should be addressed for an effective public spending. As outcome of fund utilization in programs by a sector depends on the outcome of programs of other departments, coordination at the policy making level is required to get value for money from the use of public resources.

The excess cash balance position of the State Government, shown in Table 12, reveals that the cash balance has increased during the year 2014-15 as compared to the previous year. The increase in the cash balance position it provides a useful cushion to the State Government. There were earlier suggestions by the 12th Finance Commission and RBI also to this effect (to utilize the existing cash balances efficiently).

Table 12

Cash Balance Position and Investments

(Rs. crore)

	As on 31 March 2015	As on 1 April 2014
General Cash Balance		
Deposits with the Reserve Bank	578.65	26.87
Investments held in the Cash Balance - Investment account	3870.55	3953.89
Total	4449.20	3953.89
Other Cash Balances and Investments		
Cash with Departmental Officers	21.04	21.55
Permanent Advances for Contingent Expenditure with Departmental Officers	0.33	0.33
Investments of Earmarked Funds	5523.00	5523.00
Total	5544.37	5544.88
Grand Total	9993.57	9498.77

6. Concluding Remarks

The conservative management of State finances in Odisha, with a consistent revenue surplus, low fiscal deficit, and consequent low borrowing, seems to have been showing the indication of change. The fiscal trend in 2014-15 shows modification to the cautious approach to borrowing and expanding the capital outlay due to the experience of unsustainable fiscal stance of earlier years. The State has been able to meet the specific FRBM Act targets with ease, though some of the transparency requirements are yet to be met. What has changed in the 2014-15 fiscal year was the rise in capital outlay, which witnessed a growth of 42.78 percent over the previous year, and consequently the fiscal deficit. The revenue account continues to produce surplus due to tight control over revenue expenditure. The higher fiscal deficit caused the net borrowing to rise to finance the deficit. The important aspect of this change in fiscal management is that the fiscal deficit and debt burden continue to remain below the FRBM Act limits. Thus rising deficit and net borrowing do not pose a threat to the fiscal discipline adhered through the FRBM Act.

While the fiscal trend in 2014-15 shows encouraging outcomes, the process needs be strengthened in productive manner in the future years. The relatively less developed status of the State requires widening the concept of good governance and improvement in the delivery of public services. The socio-economic development of the State would depend upon the efficient utilization of fiscal instruments available to the Government. The statutory checks and balances provided by the FRBM Act shows the limit of deficit and borrowing. It is important for the State Government to take initiatives in several areas that would expand the fiscal stance. However, given the fiscal situation in the State, this is not going to breach the limits put by the Act. In our specific context, this would relate to remaining within the contours of fiscal prudence as detailed by the provisions of the FRBM Act, but not allowing that to overwhelm developmental initiatives that the government owes its citizens. Coordination with the Central Government to fine-tune the Central fund flow, which in 2014-15 shows a large deviation from the budget estimates, will improve the resource position of the State.

Box 2

Works Department

Road communication is the key economic development of any region. In this regard, Works Department is responsible to develop and maintain the important roads classified as State Highways, Major District roads, Other District roads and important urban roads. The Department's mandate also covers new constructions and maintenance of all Government buildings in urban areas.

The data on budgetary allocations and expenditure since 2009-10 reveals that there has been considerable increase in the utilization of budgetary funds.

YEAR	BUDGET (Rs. in Crore)	EXPENDITURE (Rs. in Crore)	% Expenditure
2009-10	800.6	733.38	91.60
2010-11	1156.33	981.12	84.85
2011-12	1120.00	908.59	81.12
2012-13	1084.26	981.38	90.51
2013-14	1481.06	1426.57	96.32
2014-15	2364.7	2333.49	98.68
2015-16	3807.48	3757.21	98.68

Following measures were taken to streamline the expenditure to improve the credibility of the Government's policy in this sector.

i. A road master plan was prepared taking into account that actual requirements and the different developments were linked to different schemes of the Government.
ii. A systematic master plan provided the vision plan for timely preparation of DPRs and detailed estimates flowed by tenders and early starts of the projects.
iii. The next key aspect was monitoring of the projects for timely completion, which was taken care of on an e-platform, specially devised by the Department, which filters down the responsibilities to the lowest key players in the field, and monitoring is done at every level. This not only helped identify the shortfalls on monthly basis, but it also brought an alert system in every level for corrective actions.
iv. An effective leadership played key role in the execution of the plans and monitoring process.

Box 3

Water Resources Department

The economic growth process increases demand for water for various purposes like agricultural, industrial, domestic, recreational, etc. Among various water uses, irrigation plays a vital role as more than 60% population of the State depend on agriculture.

The State Government have fixed a target to create additional irrigation potential of 10 lakh ha within a period of 5 years i.e. from 2014 to 2019 which include irrigation potential of 2.41 lakh ha through Megalift projects, 2.00 lakh ha through Major & Medium Irrigation, 0.76 lakh ha through Minor (flow) Irrigation, 0.83 lakh ha through Community Lift points and 4.00 lakh ha through Borewells and others. Out of the above during last two years (2014-15 & 2015-16) irrigation facilities of 2.95 lakhs has been created through different sources.

The Water Resources Department have drawn up a strategy to achieve the above target within the timeline. All the pre-project activities like acquisition of land, obtaining statutory clearances and completion of procurement process are completed well in advance, so that the entire working season is effectively utilized for execution of work in optimal manner.

Besides the Water Resources Department lays considerable emphasis on continuous monitoring of irrigation projects executed under different schemes. Quarterly & Monthly targets both financial and physical communicated to Chief Engineers of all field formations, Whatsapp groups of Executive Engineers are created to ensure physical monitoring of works taken up under different schemes at frequent intervals. Expenditure is monitored through the State Treasury Portals by the Budget Controlling and Supervising Officers at various levels. Further, Field Officials have been instructed to draw plan & programme for next financial year including preparation of Estimate, finalisation of tender etc. by end of December for full utilization of budgeted outlay from the beginning of the ensuing year.

These initiatives of the Water Resources Department have resulted in improvement in level of utilization of budgetary works through front loading of expenditure in the 1st three quarters and increasing the pace of execution of irrigation projects. The quarterly expenditure trend of 2013-14, 2014-15 & 2015-16 is indicative of the funds improvement in level of utilisation of budgeted funds.

Progressive Quarterly Expenditure (% of BE)

	1st Qr	2nd Qr	3rd Qr	4th Qr
2013-14	14.81%	33.11%	45.71%	83.66%
2014-15	17.10%	28.67%	49.88%	82.35%
2015-16	25.61%	38.19%	65.45%	98.54%