The Review of Compliance to Odisha FRBM Act – 2012-13

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1. Introduction

The Government of Odisha amended the Fiscal Responsibility and Budget Management Act (FRBM), 2005 and provided for an independent review/monitoring of compliance of the implementation of the FRBM Act following the recommendations of the Thirteenth Finance Commission (TFC). The TFC held the view that the independent review/monitoring was a desirable feature of the FRBM Act to improve the credibility and transparency of the fiscal management of the Government. The amendment to the Act provides an institutional process to assess the fiscal management of the State Government keeping 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 for the year 2012-13 to the National Institute of Public Finance and Policy (NIPFP), New Delhi. This review report evaluates the fiscal trends achieved during the year 2012-13 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 considers the desired fiscal management principles contained in the FRBM Act to achieve the fiscal targets and transparency measures.

The Department of Finance provided data and information on State Finances for this study and gave an overall perspective on the State fiscal management including revenue receipts trends, debt management, resource allocations to different sectors, and achievement of FRBM fiscal targets. The study also benefited from the inputs provided by the spending departments. The issues related to sector priorities and expenditure pattern for the year 2012-13, including utilization of budgeted amount under revenue and capital heads, were discussed with them.

Although the growth of the State economy remained volatile and experienced a slowdown after 2007-08, the State continued to adhere to the fiscal targets of the FRBM Act. The growth rate of the GSDP 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. While the State registered a reasonably good performance during 2010-11 at 8.01 per cent, the growth rate declined to 3.78 per cent in 2011-12. The revised estimate for the year 2012-

13 shows that the growth of GSDP recovered again to 8.09 per cent. The nominal growth of the GSDP for the year 2012-13 was 19.05 per cent. The volatility in the growth of the State economy hampers the predictability of the flow of revenue. At the same time, slow growth of the national economy and efforts to reduce fiscal deficit at the central level by controlling the plan expenditure has adversely affected the flow of central resources to the State. The growth of GDP after improving in 2009-10 and 2010-11 from the setback suffered in 2008-09, slumped to 4.47 per cent in 2012-13. The achievement of fiscal targets and observance of the core fiscal management principles as required under the amended Odisha FRBM Act, 2011 get affected by the movement of the economy both at the central and State levels.

The remaining part of the report is organized as follows. Section 2 provides an overall assessment of State finances in recent years. Compliance of the State Government to the fiscal targets and fiscal management principles under the Odisha FRBM Act, 2011 has been examined in Section 3. Issues related to revenue mobilization and expenditure pattern for the year 2012-13 as compared to the budget provisions are analyzed in Section 4. Concluding observations are contained in Section 5.

2. Overview of State Finances

The fiscal situation in Odisha has considerably improved after the enactment of the FRBM Act as compared to the earlier period, particularly the end of the Nineties when the sharp deterioration in State finances and steady accumulation of debt invited urgency for reforms (White Paper, GoO, 2001). The fiscal overview given in Table 1 shows that the State Government was able to consistently generate revenue surplus since 2005-06 and contain the fiscal deficit relative to GSDP below 2 percent. The State managed to achieve fiscal surplus in 2006-07 and 2007-08 as also during the last two years 2011-12 and 2012-13 for which audited figures are available. These are the years when the capital outlays remained below the revenue surplus. The key requirements of the FRBM Act adopted by the State Government, reducing the deficit and stabilizing the debt burden, were archived unfailingly since 2005-06. The revenue performance of the State has improved and Central transfer has grown over the years. The continuing recession in recent years, however, dampened the aggregate revenue receipts.

Table 1

Fiscal Profile of Orissa: An Overview

(Percentage of GSDP)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Revenues	**15.25**	**16.55**	**17.71**	**16.99**	**16.57**	**16.22**	**16.85**	**18.77**	**17.20**
Own Revenue	**7.10**	**7.68**	**8.50**	**7.36**	**7.52**	**7.48**	**8.09**	**9.27**	**9.05**
Own Tax Revenue	**5.37**	**5.88**	**5.96**	**5.30**	**5.38**	**5.51**	**5.67**	**6.26**	**5.89**
Sales Tax	3.18	3.54	3.70	3.19	3.23	3.32	3.45	3.82	3.79
State Excise Duties	0.39	0.46	0.42	0.41	0.44	0.52	0.55	0.64	0.59
Motor Vehicle Tax	0.43	0.48	0.42	0.36	0.35	0.38	0.37	0.37	0.29
Goods & Passenger Tax	0.50	0.54	0.56	0.48	0.43	0.50	0.56	0.61	0.53
Electricity Duties	0.34	0.41	0.28	0.25	0.25	0.28	0.23	0.26	0.23
Other Taxes	0.53	0.45	0.58	0.62	0.68	0.51	0.50	0.57	0.46
Own Non-Tax Rev.	**1.73**	**1.80**	**2.54**	**2.05**	**2.14**	**1.97**	**2.42**	**3.00**	**3.16**
Mining Royalties	0.86	0.95	0.92	0.87	0.93	1.24	1.69	2.13	2.23
Central Transfers	**8.14**	**8.87**	**9.21**	**9.64**	**9.05**	**8.74**	**8.76**	**9.50**	**8.15**
Tax Devolution	5.12	5.73	6.11	6.07	5.58	5.23	5.31	5.70	5.47
Grants	3.02	3.14	3.10	3.57	3.47	3.51	3.45	3.80	2.69
Revenue Exp.	**15.92**	**15.99**	**15.49**	**13.71**	**14.27**	**15.52**	**14.87**	**16.15**	**14.97**
General Services	**8.34**	**8.02**	**7.37**	**5.59**	**4.69**	**5.70**	**5.03**	**5.09**	**4.86**
Interest Payment	4.29	4.34	3.13	2.45	1.95	1.87	1.55	1.20	1.77
Pension	1.62	1.57	1.46	1.39	1.40	2.02	2.03	2.21	2.27
Others	2.43	2.10	2.78	1.75	1.34	1.82	1.45	1.68	2.16
Social Services	**5.12**	**5.50**	**5.13**	**4.96**	**5.58**	**6.04**	**6.04**	**6.68**	**5.86**
Education	2.51	2.66	2.36	2.45	2.95	3.32	3.18	3.10	2.76
Medical and Health	0.69	0.44	0.47	0.48	0.54	0.61	0.52	0.53	0.57
Welfare & Nutrition	0.95	1.21	1.23	0.86	1.10	0.94	1.18	1.93	1.38
Economic Services	**2.26**	**2.30**	**2.73**	**2.88**	**3.74**	**3.54**	**3.58**	**4.07**	**3.99**
Assignment to LBs	**0.20**	**0.17**	**0.27**	**0.27**	**0.26**	**0.25**	**0.22**	**0.31**	**0.25**
Capital Expenditure	1.09	0.89	1.41	2.26	2.53	2.09	2.31	2.32	2.23
Capital Outlay	1.36	1.22	1.43	2.20	2.55	2.24	2.17	2.10	2.20
Net Lending	-0.27	-0.33	-0.01	0.06	-0.02	-0.15	0.14	0.23	0.03
Revenue Deficit	**-0.67**	**0.57**	**2.22**	**3.28**	**2.30**	**0.70**	**1.98**	**2.61**	**2.23**
Fiscal Deficit	**-1.76**	**-0.32**	**0.81**	**1.02**	**-0.22**	**-1.39**	**-0.33**	**0.29**	**0.001**
Primary Deficit	**2.53**	**4.02**	**3.94**	**3.48**	**1.72**	**0.48**	**1.22**	**1.49**	**1.10**
Outstanding Debt	**43.81**	**42.84**	**36.58**	**28.09**	**24.53**	**23.15**	**19.81**	**17.98**	**14.87**

Source: Basic data – Finance Accounts of relevant years, GoO
GSDP data used are of 2004-05 series (latest available estimates)

The analysis of the fiscal trend from 2004-05 to 2012-13 shows that higher revenue receipts, with central transfers playing a key role in it, and expenditure control helped the State to achieve revenue surplus consistently. Total revenue receipt relative to GSDP increased from 15.25 per cent in 2004-05 to 18.77 per cent in 2011-12 before declining to 17.20 per cent in 2012-13. The central transfers increased from 8.14 per cent in 2004-05 to 9.50 per cent in 2011-12, which declined to 8.15 per cent in 2012-13. The decline in central transfers in 2012-13 as percentage to GSDP was more due to decline in grants. The own revenue receipts consisting of both the tax and non-tax increased from about 7.10 per cent in 2004-05 to 9.05 per cent relative to GSDP. While own tax revenue as percentage to GSDP remained flat during this period barring the year 2011-12, own non-tax revenues emerged as a significant own source of revenue for the State due to rise in income from mining royalties. The revision of mining royalties to an ad valorem system heavily contributed to rise in income from this source. However, the growth of the mining and quarrying sector has been declining in last two years, which will adversely affect the non-tax revenues.

While the aggregate revenue receipts show a rising trend between 2004-05 and 2012-13, the revenue performance in 2012-13 has declined as compared to the previous year. This is despite a higher growth of GSDP in 2012-13 as compared to the year 2011-12. Total revenue receipts as percentage of GSDP has dropped from 18.77 per cent in 2011-12 to 17.20 per cent in 2012-13. Decline in own tax revenue and the grant component of the central transfers contributed to this decline. The year-on-year growth of own tax revenue declined from 20.10 per cent to 11.84 per cent in these two years. All the states taxes show lower growth in 2012-13 as compared to the year 2011-12. Sales tax, which accounts for about 60 per cent of own tax revenue, declined from 3.84 per cent relative to GSDP in 2011-12 to 3.79 per cent in 2012-13. Taxes like motor vehicle tax and land revenue even show a negative growth. The decline in tax-GSDP ratio is attributed to continuing recession. The fact that the State GSDP grew at a higher rate in 2012-13, should have been reflected in the tax collection. The State Government needs to look deeper into the tax system, particularly the tax administration, to find out as to why the growth in GSDP failed to influence the tax receipts.

The State Government managed to compress the revenue expenditure from 15.92 per cent relative to GSDP in 2004-05 to 14.87 per cent in 2010-11. After a rise in 2011-12 to 16.15 per cent, it once again declined to 14.97 per cent in 2012-13. Reduction in interest payment caused by lower average cost of debt as well as shrinking debt stocks, and the decline in other non-development general service contributed to revenue expenditure compression. The priority sector spending in aggregate social services has increased slowly relative to GSDP during 2004-05 to 2012-13 and in fact, health sector spending from budgetary sources (not including NRHM, which is off budget) has declined during this period. The social sector spending in 2012-13 as percentage to

GSDP, however, has declined over the previous year. Given the scale of fiscal consolidation and availability of fiscal space to the Government, the capital outlay has increased rather sluggishly by 0.84 percentage points relative to GSDP during the period from 2004-05 to 2012-13. In fact, capital outlay has declined from a comparatively higher level of 2.55 per cent of GSDP in 2008-09 to 2.20 per cent in 2012-13. More than the fiscal restraint, the inability of spending departments to creatively plan and implement infrastructure programmes to increase public investment has contributed to slow growth of capital outlay.

The improvement in revenue receipts and expenditure compression measures resulted in turning a revenue deficit of 0.67 per cent of GSDP in 2004-05 to a surplus in 2005-06 that remained in the black at a level of 2.61 per cent in 2011-12, which marginally declined to 2.23 per cent in 2012-13. With rising revenue surplus and a decline in capital expenditure relative to GSDP since 2008-09, the fiscal deficit has been eliminated altogether during the last two years – 2011-12 to 2012-13; a situation of fiscal surplus has arisen in the State. The fiscal deficit was reduced from 1.76 per cent of GSDP in 2004-05 to 0.34 per cent in 2010-11 and a fiscal surplus to the extent of 0.29 per cent and 0.001 per cent emerged in 2011-12 and 2012-13 respectively. The reduction of fiscal deficit seems to be rather large given the FRBM Act requirement of a maximum 3 per cent of GSDP. If this is deliberate, then it might be construed as overshooting the target, given the crying need for public investments in both social and physical infrastructure; perhaps a reconsideration of the policy is in order.

The outcome of this fiscal management where revenue surplus has surpassed the capital outlay has been sharp decline in debt overhang. The outstanding debt burden has declined from 43.81 per cent of GSDP in 2004-05 to 14.87 per cent in 2012-13. The debt-GSDP ratio remained much below the level determined as prudent by the 13th Finance Commission for the State, which is also the FRBM target. The debt sustainability assessment carried out by the Comptroller and Auditor General of India (2011-12) in terms of debt stabilization, sufficiency of non-debt receipts, net availability of borrowed funds, interest payment burden, and maturity profile of State government securities indicate that the State debt burden is becoming stable.

The fiscal consolidation process provided the Government with substantial fiscal space to prioritize expenditures and design a development oriented fiscal policy in the State. The fiscal discipline also paved the way for budgetary reforms and expenditure management to improve the quality of public spending by designing and implementing programmes successfully. The stagnant capital outlay and slow growth of expenditure in priority sectors, however, indicate to a very restrained strategy. To benefit from the favourable fiscal situation the resource allocation and utilization needs to be stepped up in key areas of infrastructure building and human development in the State to facilitate better socio-economic development.

3. Compliance to the Provisions made in the FRBM Act

3.1 Fiscal Achievements and Compliance to the FRBM Act Targets: 2012-13

The major task of this report is to assess the compliance of the State Government to the statutory fiscal targets and fiscal management principles stipulated in the FRBM Act. The key fiscal management principles enunciated in the FRBM Act call upon the State to respond appropriately to eliminate the revenue deficit, reduce the fiscal deficit to prescribed level, and contain the debt level at a sustainable level. The Odisha FRBM Act stipulates the State Government to (a) present a Medium Term Fiscal Plan (MTFP); (b) undertake appropriate fiscal management principles indicated in the Act to achieve the targets; (c) achieve fiscal targets relating to deficit, stock of debt, interest payment, and salary level; and (d) take suitable measures to ensure greater transparency in the fiscal operation. Laying the MTFP in the State legislature and achieving the fiscal targets stipulated in the FRBM Act are statutory requirements. Fiscal management principles enshrined in the FRBM Act are described as appropriate measures to be undertaken to achieve the required fiscal targets and are not statutory in nature. The fiscal transparency measures are disclosures on fiscal operations and data and information to be given along with the budget to ensure greater transparency.

The medium term fiscal plan statement as part of the Medium term Fiscal Policy (MTFP) for the year 2012-13 presented three-year rolling targets for revenue deficit, fiscal deficit, and the debt-GSDP ratio. In addition to the rolling targets for prescribed fiscal indicators, the MTFP also contains medium term fiscal objectives, strategic priorities of the Government, and fiscal policies of the Government for the current year.

The MTFP was presented in the assembly along with the budget documents. The first year of the MTFP projections is the budget estimates for the year 2012-13.

Fiscal targets prescribed to be achieved by the Government being mandatory form the core of the FRBM Act. Fiscal targets stipulated by the Act for Odisha are the following;

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.* 30.2 per cent for the year 2012-13;
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.

The improvement in fiscal situation in recent years has enabled the State Government to achieve the targets stipulated in the Act. The fiscal targets specified in the amended FRBM Act and the outcomes for the year 2012-13 are shown in Table 2. Against the statutory requirement of reducing the revenue deficit to nil and limiting the fiscal deficit to 3 per cent of the GSDP, the State Government achieved a revenue surplus of 2.23 and fiscal surplus of 0.001 per cent. Outstanding debt burden, an outcome of the fiscal management the State, at 14.87 per cent relative to GSDP remains much lower than the prescribed ceiling of 30.2 per cent. Another fiscal target to be monitored is the interest payment as percentage of revenue receipts, which is only 6.39 per cent as compared to the prescribed ceiling level of 15 per cent. Similarly, actual ratio of debt stock to total revenue receipts was only 86.44 per cent, well below the prescribed ceiling of 300 per cent. Ratio of salary payments to State's own revenue stipulated to be contained at 80 per cent stands at 41.1 per cent in 2012-13. Ratio of non-interest committed revenue expenditure to own and mandated revenue at 40.17 per cent in 2012-13 remains below the prescribed maximum of 55 per cent. Thus, the fiscal outcomes for the year 2012-13 clearly show that the State Government was able to achieve the fiscal targets stipulated in the FRBM Act.

Table 2

FRBM Act Targets and Fiscal Achievements during 2012-13

Percent

	Targets	Achievements
Revenue deficit % of GSDP	0	2.23
Fiscal deficit % of GSDP	-3	0.001
Total debt stock % of GSDP	30.2	14.87
Interest payments % of revenue receipts	15	6.39
Ratio of debt stock to total revenue receipts	300	86.44
Ratio of salary to State's own revenue	80	41.1
Ratio of non-interest committed revenue expenditure to State's own and mandated revenue	55	40.17

3.2 Fiscal Management Principles

Fiscal management principles prescribed in the FRBM Act are a set of guidelines indicated as appropriate fiscal measures to achieve the statutory targets. The fiscal management principles involve set of measures in debt management and borrowing principles, tax policy, expenditure policy, and budget management processes. Effect of some of these principles could be long-term and can be properly assessed only over a reasonably long period with continuous monitoring of relevant fiscal data. For instance, expenditure policies of the Government that would provide impetus for economic growth and poverty reduction cannot be assessed for one year.

The debt management principles 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 State managed to bring down the high debt-GSDP ratio of 43.81 per cent in 2004-05 to 14.87 per cent in 2012-13 by reducing the net addition to the debt stock over the years. Net reduction in debt stock in 2011-12 and 2012-13 was Rs.547.53 crore and Rs.609.23 crore respectively. The State Government has a deliberate policy of reducing the interest burden through prepayment of high cost loans and through debt swap. During 2012-13, the Government prepaid high cost loans of Rs.575.28 crore (HUDCO loan of Rs.251.04 crore and REC loan of Rs.324.24 crore). Further, not resorting to active open market borrowing since 2006-07 helped to contain the net addition to the debt stock. Generating revenue surplus consistently over the years helped to limit the borrowing for capital outlay only, satisfying the statutory requirement of using borrowed fund exclusively for creating capital assets.

Restricting the guarantee and other contingent liabilities to a specified level is not a statutory requirement under the FRBM Act. The fiscal management principles indicated in the Act calls upon the Government to manage it prudently. The State Government has been successful in reducing the guaranteed liabilities. Although guarantees conventionally are not included in debt burden, any default by borrowing organizations becomes the liability of the State Government. The State Government has been following the recommendations of the Technical Committee of Finance Secretaries (supported by the Reserve Bank of India), 2002-03, to fix a ceiling on guarantees. According to this, the total outstanding government guarantees in a year should not exceed 100 per cent of the State revenue receipts of the second preceding year. The Technical Committee also recommended bringing this gradually down to the level of 80 percent over next five years. The outstanding guarantee as percentage of revenue receipt net of grant-in-aid has been reduced to 8.50 per cent by 2012-13 (Table 3). The State also constituted a guarantee redemption fund during the year 2002-03 with the objective of meeting the payment obligations arising out of possible default in discharging the debt servicing obligations relating to the loans guaranteed by Government.

Table 3
Outstanding Guarantee

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	1.06
2011-12	2510.43	12.12	1.16
2012-13	2251.23	8.50	0.87

Source: Finance Account, GoO, Relevant Years

The next set of fiscal management principles pertain to tax policy and administration. These include 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. Many of these issues are systemic in nature and need to be assessed in the long run. Reference to a particular year, 2012-13 in the present context, will not suffice. The own tax trend (percentage of GSDP) of the State since 2004-05 shows a smooth rising curve with a very low standard deviation (0.33). While it could be argued that the tax-GSDP ratio needs to rise over time given its relatively low level compared to many other States of India including a few low income States, the current trend certainly does not show volatility relative to GSDP. The VAT regime, introduced in 2005, has stabilized in terms of rate and base structure in the State. The introduction of GST, which has remained uncertain, will bring in changes in the tax system as some of the State taxes like entertainment tax, luxury tax, and entry tax will be subsumed in it along with the VAT.

Another important fiscal management principle prescribed by the FRBM Act is to pursue tax policies with due regard to economic efficiency and compliance cost. Economic efficiency in tax system implies that sufficient revenue is being collected to provide for government polices without distorting the basic economic decisions of people. The Governments at any level tend to keep these general considerations while pursuing their tax policy. While separate study is required to examine these basic features of the tax system in the State, this report takes note of some of the initiatives taken by the State Government. These includes simplifying and rationalizing the rate structure and the tax base, modernization of tax administration, strengthening audit and enforcement mechanism, as also arrear collection. The Government has largely refrained from offering concessions and exemptions that distort the tax system.

The FRBM Act also calls upon the Government to raise non-tax revenue with due regard to cost recovery and equity. The non-tax revenue of the State has emerged as a major source of State revenue over the years. Its share in own revenue has steadily increased from about 24 per cent in 2004-05 to 35 per cent in 2012-13. However, a large portion of total non-tax revenue, about 70 per cent in last three years, came from royalties fixed on mining and quarrying activities. This source of income may come down in future years due to decline in growth of mining and quarrying sector. The power sector has been privatized in the State and the Government is not a big player in the provision of public transport facility. Thus, subsidy in these two important sectors has been low. Reducing subsidy and improving cost recovery from other services provided by the Government in the social and economic sectors needs to be assessed on a case-by-case basis on the strength of detailed examination of each sector, which is beyond the scope of the present report. However, in general, the emphasis on human development would limit the possibilities of any substantial increase in cost recovery in the social services; better opportunities may exist in economic services like irrigation, if there is a simultaneous improvement in the quality of the service provided. A similar situation is prevalent in other States and this is not unique to Odisha, although the relatively high level of poverty in Odisha makes it that much more difficult to raise cost recovery in the State. As far as the year 2012-13 is concerned, there has been no major change in the policy of the Government to increase cost recovery from services under social and economic sectors.

The last set of fiscal management principles relate to processes and institutional aspects to improve quality of public expenditure. These include getting value for money from use of public resources, maintaining physical assets, access of information on fiscal operation to the public, 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. An effective public expenditure management system facilitates spending Government money responsibly, efficiently and effectively. The Government has taken some initiatives in this regard. These are ongoing reforms and cannot be linked only to the year 2012-13. The Government has introduced outcome budget in number of departments to link outlays to outcomes. Producing desired results from the utilization of public money is the key to the idea of getting best value for money. The outcome budget in Odisha is designed based on the outcome budget existing at the Central Government level. However, the experience from the operation of outcome budgeting system at the central level is that it has been much less effective than desired. It is advisable for the State government to assess independently whether the performance information contained in the individual outcome budgets is relevant and adequate, and whether a better integration of the performance indicators with the decisions relating to programme formulation and resource allocation is called for.

The State Government introduced cash management system in 2010-11 to remove year-end rushes of expenditure and maintain an even pace throughout the year. The system initially was introduced for 10 departments, which were extended to 18 departments by 2012-13. According to this system, expenditure during the month of March should not exceed 15 per cent of the budget, and expenditure during the last quarter of the financial year should be within 40 per cent of the budget. Although the introduction of cash management system has improved utilisation of the budgetary allocation, still there are concerns as many of the departments exceeded the limit stipulated for the month of March. The limit set for the last quarter of the financial years seems to have been adhered to by most of the departments, however. Table 4 gives the details.

Table 4
Percentage of Expenditure during March and the Last Quarter

		Percentage of Expenditure during March	Percentage of Expenditure during the Last Quarter
1	Works	19.16	36.49
2	School and Mass Education	12.35	26.61
3	S.C, S.T, O.B.C & Minorities	24.53	39.91
4	Health and Family Welfare	16.3	36.34
5	Housing & Urban Development	17.68	41.08
6	Panchayatiraj	19.86	28.57
7	Industries	-2.73	5.4
8	Water Resources	25.85	38.53
9	Forest & Environment	11.76	28.93
10	Agriculture	21.06	30.1
11	Rural Development	27.68	42.02
12	Energy	43.68	53.85
13	Handloom, Textiles & Handicraft	21.48	32.96
14	Fisheries & Animal Resource Development	10.78	21.57
15	Women & Child Development	19.34	35.23
16	Higher Education	17.9	31.12
17	Employment & Technical Education	18.52	25.07
18	Micro, Small & Medium Enterprises	22.3	32.64

Source: Accounts at a Glance, GoA, 2012-13

Fiscal 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.

Odisha FRBM Act limits the number of supplementary demands to be presented in a financial year to one. The Act also stipulates presenting accompanying statement indicating availability of resources for this supplementary demand through curtailment of expenditure to offset any fiscal impact on fiscal targets to be achieved as envisaged in the Act. This is aimed at preserving the sanctity of the budget voted in the State Legislature and removing any adverse impact on achievement of the fiscal targets. The State Government has complied with this requirement by presenting a single supplementary budget during the year and managed to meet the fiscal targets as specified in the Act. Absence of frequent budget amendments though supplementary grants during the year, however, has not reduced the deviations from the budget estimates. In Section 4, the budget deviations both in the case of tax receipts and in the case of expenditure have been elaborated.

The FRBM Act also specifies recouping the expenditure incurred from the Odisha Contingency Fund, established under Orissa Contingency Fund Act, 1967, by obtaining supplementary grants for expenditure during the year. Advances from the Fund are to be made only for meeting expenditure of an unforeseen and emergent character. The corpus of the Fund is Rs.400 crore. The un-recouped balance of Rs.15.89 crore at the close of the year 2011-12 has been recouped to the fund during the year.

4. Budget Projections and Outturns

Achieving FRBM Act targets relating to major fiscal variables was not an issue for the State Government as the budget projections for the year 2012-13 were much below the targets. This review report evaluates the fiscal outturns for the year 2012-13 as compared to the budget estimates to assess the budget credibility. One of the important fiscal management principles enunciated in the FRBM Act was to formulate the budget in a realistic manner giving due regard to the general economic outlook and realistic revenue projections to minimize deviations during the course of the year. The medium term fiscal plan statement as part of the Medium term Fiscal Policy (MTFP) for the year 2012-13 presented three-year rolling targets for revenue deficit, fiscal deficit, primary deficit and the debt-GSDP ratio. The MTFP was presented in the Assembly along with the budget documents. The first year of the MTFP projections is the budget estimates for the year 2012-13. Table 5 shows the fiscal variables as projected in the budget for the year 2012-13 and the achievements for the year. The fiscal indicators for both the budget estimates and budget outturns are shown as percentages of the GSDP at current prices.

Table 5

Budget Estimates and Outturns for the year 2012-13

(Percentage of GSDP)

	2012-13 (BE)	2012-13 Actual	Difference	Diff. % BE
Revenues	17.16	17.20	0.04	0.21
Own Tax Revenues	6.11	5.89	-0.23	-3.69
Own Non-Tax Revenues	2.04	3.16	1.13	55.35
Central Transfers	9.02	8.15	-0.86	-9.59
Tax Devolution	5.28	5.47	0.19	3.59
Grants	3.74	2.69	-1.05	-28.18
Revenue Expenditure	16.22	14.97	-1.25	-7.71
General Services	6.20	4.86	-1.34	-21.57
Social Services	6.05	5.86	-0.19	-3.08
Economic Services	3.72	3.99	0.28	7.40
Assignment to Local Bodies	0.25	0.25	0.00	-0.71
Capital Expenditure	2.80	2.23	-0.57	-20.48
Capital Outlay	2.76	2.20	-0.56	-20.17
Net Lending	0.05	0.03	-0.02	-38.58
Revenue Deficit	0.94	2.23	1.29	136.41
Fiscal Deficit	-1.86	0.001	1.86	100.08
Primary Deficit	-0.09	1.10	1.19	1269.52
Outstanding Debt	16.85	14.87	-1.99	-11.78

Source: Basic data – Finance Accounts and Budget Document for the year 2012-13, GoO
GSDP data used are of 2004-05 series

The fiscal achievements with regard to revenue deficit, fiscal deficit, and debt-GSDP ratio for the year 2012-13 shows that the State Government managed to improve considerably over the budget projections. While a revenue surplus of 2.23 was achieved over a projected level of 0.94 per cent relative to the GSDP, a fiscal surplus of 0.001 was achieved over a projected deficit of 1.86 per cent. Better than budgeted fiscal balance outturns was mainly achieved through reduction in revenue and capital expenditure by 7.71 and 20.48 per cent respectively over the budget projections. The reduction of 1.25

percentage points in revenue expenditure from a budgeted level of 16.22 per cent of GSDP to 14.97 per cent was mostly under general and social services. The actual revenue receipt exceeded the budget estimates marginally by 0.04 percentage points relative to the GSDP, an increase of 0.21 per cent. While own tax revenue fell by 3.69 per cent and central transfers by 9.59 per cent over the budget estimates, the rise in contribution from non-tax revenue was 55.35 per cent. The rise in income from non-tax sources contributed significantly to the own revenue efforts of the State Government. Higher revenue surplus helped the State government to reach a fiscal surplus situation.

The actual debt-GSDP ratio of 14.68 per cent in 2012-13 was lower than the budgeted figure of 16.64 per cent. The two-pronged approach of raising less borrowing from both the market and the central Government as compared to the budget estimates and discharging more than the budget estimates, especially central loans, helped reduce the debt burden relative to GSDP. Table 6 shows the debt receipts and repayments from various sources during 2011-12.

Table 6

Borrowings and Repayments: 2012-13

(Rs. Lakh)

	Budget Estimates	Actual	Difference
Public Debt Receipts			
Internal Debt	473842.01	143576.11	-330265.90
Loans Advances from Central Government	61785.79	44379.07	-17406.72
Public Debt	535627.80	187955.18	-347672.62
Small Savings and Provident Fund	295085.45	300099.88	5014.43
Total	830713.25	488055.06	-342658.19
Debt Repayments			
Internal Debt	265874.00	266571.98	697.98
Loans Advances from Central Government	53700.00	51413.71	-2286.29
Public Debt	319574.00	317985.69	-1588.31
Small Savings and Provident Fund	185085.45	230991.69	45906.24
Total	504659.45	548977.38	44317.93

Source: Finance Accounts and Budget Document for the year 2012-13, GoO

4.1 **Disaggregated Analysis of Revenue Receipts**

Data on detailed sources of revenue shown in Table 7 reveal that the actual own tax revenue fell short of the budget estimate in 2012-13. Barring electricity duty and some minor taxes, actual collection from most of the State taxes deteriorated as compared to the budget estimates. Lower realization of tax revenue as compared to the budget estimates raises questions on efficiency of projection methodology and assumptions taken on macroeconomic conditions. In fact, the GSDP in the State in 2012-13 grew at a higher rate as compared to the previous year. The budget projections should be unbiased and consider the prevailing macroeconomic situation.

Table 7
Revenue Realization: 2012-13

(Percentage of GSDP)

	2012-13 (BE)	2012-13 Actual	Changes
Revenues	**17.16**	**17.20**	**0.04**
Own Tax Revenues	6.11	5.89	-0.23
Sales Tax	3.84	3.79	-0.05
State Excise Duties	0.587	0.587	-0.001
Motor Vehicle Tax	0.38	0.29	-0.09
Taxes on Goods and Passengers	0.55	0.53	-0.03
Taxes and Duties on Electricity	0.23	0.23	0.01
Land revenue	0.21	0.16	-0.04
Stamp Duty and Registration Fees	0.23	0.21	-0.02
Taxes on Profession, Trades, Callings and Employment	0.07	0.05	-0.01
Other Taxes	0.02	0.03	0.00
Own Non-Tax Revenues	**2.04**	**3.16**	**1.13**
Interest Receipts	0.06	0.23	0.17
Dividends and Profits	0.04	0.22	0.18
General Services	**0.05**	**0.14**	**0.09**
Social Services	**0.05**	**0.07**	**0.02**
Economic Services	**1.84**	**2.49**	**0.65**
Forestry and Wildlife	0.05	0.07	0.03
Major Irrigation	0.03	0.11	0.08
Medium Irrigation	0.08	0.04	-0.04
Non-ferrous Mining and Metallurgical Industries	1.64	2.23	0.59
Roads and Bridges	0.03	0.02	0.00
Central Transfers	**9.02**	**8.15**	**-0.86**
Tax Devolution	5.28	5.47	0.19
Grants	3.74	2.69	-1.05

Actual receipts from own non-tax revenue increased by 1.13 percentage points relative to GSDP as compared to the budget estimates. Given that both own tax revenue and central transfers declined over their budget projections, it was because of the performance of the non-tax revenues that the State managed to hold on to the aggregate revenue receipt targets set out in the budget. Out of the 55.35 per cent increase in actual non-tax revenue, mining royalties alone account for 35.61 per cent. Higher growth of mining royalties in last few years and the revision of royalty rate to an ad-valorem system helped to increase income from this source. These factors are well acknowledged.

However, the discrepancy in the budget projection and actual realization in 2012-13 has been surprising. The projection of revenue sources need to be more robust, as alluded above. The actual interest receipts also increased as interest on large cash balances contributed to this source. Other sources of non-tax revenue such as dividends and profits from State enterprises, and forestry and wildlife also contributed higher revenues as compared to the budget estimates.

In the case of central transfers, the actual realization was lower than the budget projection by 0.86 percentage points relative to GSDP. While share in central taxes increased during the year, the actual receipt of central grants was less than the budget estimates by 1.05 percentage points. The Finance Department, in their submission indicated that central grants under many heads included in the budget estimates were not received or a smaller amount was received during 2012-13. The central grants as percentage of GSDP declined from 3.80 per cent in 2011-12 to 2.69 per cent in 2012-13.

4.2 Disaggregated Analysis of Expenditure Pattern

The decomposed expenditure pattern for the year 2012-13 given in Table 8 indicates that the expenditure compression in revenue account as compared to the budget estimates was driven by decline in expenditure on general services and social services. In the general services, the decline was largely attributable to lower interest payment as compared to the budget estimates. Although the difference between budget estimates and actual interest payments should not be large, excess provision under this head during budgeting stage could be the probable reason for savings to the extent of 0.67 percentage points relative to the GSDP. This works out to be 37.78 per cent lower than the budget estimates.

Despite a comfortable surplus in revenue account, actual expenditure in social sector was less than that of the budget estimates. In social services, the budgeted amount for priority sectors like education and water supply and sanitation was not fully utilized. Deviation in utilization of revenue expenditure points to weak programme management in these sectors. For instance in primary education, non-payments of salaries because of litigations, over budgeting for the programmes, and inadequate capacity for financial management were found to be the reasons for expenditure deviations. The State Government also could not provide the matching grant for SSA owing to non-receipt of central grants. Thus, the budgeted amount to that extent was not utilized in 2012-13. The budgeted spending target for medical and public health seems to have been met during the year. Although expenditure in economic services surpassed the budget to the extent of 0.28 percentage points relative to the GSDP, the issue of not being able to spend the budgeted amount was also present in some of the departments.

Table 8
Expenditure Profile

(Percentage of GSDP)

	2012-13 (BE)	2012-13 Actual	Difference	Diff. % of BE
Revenue Expenditure	**16.22**	**14.97**	**-1.25**	**-7.71**
General Services	**6.20**	**4.86**	**-1.34**	**-21.57**
Interest Payment	1.77	1.10	-0.67	-37.78
Pension	2.27	2.11	-0.16	-7.25
Other General Services	2.16	1.66	-0.51	-23.37
Social Services	**6.05**	**5.86**	**-0.19**	**-3.08**
Education	3.01	2.76	-0.25	-8.25
Medical and Public Health	0.56	0.57	0.01	2.49
Water Supply, Sanitation, Housing & Urban	0.50	0.43	-0.06	-12.93
Welfare of SC, ST, & BC	0.44	0.47	0.03	5.91
Social Welfare & Nutrition	1.27	1.38	0.11	8.79
Other Social Services	0.27	0.25	-0.03	-9.30
Economic Services	**3.72**	**3.99**	**0.28**	**7.40**
Agriculture & Allied Services	1.45	1.61	0.16	11.17
Rural Development	0.87	0.85	-0.02	-2.36
Irrigation & Flood Control	0.45	0.41	-0.04	-9.66
Energy	0.01	0.01	0.00	-26.04
Industry and Minerals	0.13	0.10	-0.03	-23.95
Transport	0.57	0.61	0.04	7.04
General Economic Services	0.18	0.38	0.20	108.95
Other Economic Services	0.05	0.02	-0.03	-56.74
Assignment to Local Bodies	**0.253**	**0.251**	**-0.002**	**-0.71**
Capital Expenditure	**2.80**	**2.23**	**-0.57**	**-20.48**
Capital Outlay	2.76	2.20	-0.56	-20.17
Net Lending	0.05	0.03	-0.02	-38.58

A significant development seen in the spending pattern in 2012-13 was the fall in utilization of budget provision for capital outlay by 0.57 percentage points relative to the GSDP. Compared to the budget provisions, this deviation works out to be 20.48 per cent. Given the need for expanding infrastructural facilities in the State, proper utilization of budgeted provisions for capital expenditure should have been given emphasis. The capital expenditure in the State has been suffering from basic problems like lack of capacity in the area of project appraisal, inadequate capacity for project execution, lack of a medium term sector vision and lack of prioritization. Often, considerable time is lost in identifying suitable infrastructure projects, though funding may not be a problem.

Some big spending departments identified for not being able to meet the budget estimates during the year 2012-13 were education, health, irrigation, and roads and Works Department (roads and bridges). The departments like education and health expressed their inability to build required infrastructure on their own owing to unavailability of in-house engineering section. The infrastructure building in these sectors has been the responsibility of the works department and rural development department. Lack of coordination among these departments, inadequate ability to implement the projects, and weak monitoring of the progress seems to be obstructing timely completion of the work and utilization of budgeted provisions. The works department, which has the primary responsibility with regard to roads and bridges indicated that problems of land acquisition and tree cutting have been posing the biggest challenges in undertaking construction works. In the irrigation sector, factors like difficulties in land acquisition to complete the projects, inability to settle rehabilitation issues for displaced population in large projects, inadequate co-ordination among departments at policy and implementation level, inability to manage seasonal constraints, issues related to environment clearance from central agencies, and law and order problems have been affecting utilization of the approved budget.

An excess cash balance position of the State Government, shown in Table 9, makes it appropriate to restructure the expenditure pattern by focusing on expansion of capital assets. The surplus cash balance invested in 14 days and 91 days intermediate treasury bills of Reserve Bank of India (RBI) poses a carrying cost due to interest rate differential between raising this fund and the interest receipts. However, large cash balances helped the State Government in reducing its dependence on open market borrowing and discharging some high-cost loans. There were earlier suggestions by the 12th Finance Commission and RBI also to this effect (to utilize the existing cash balances efficiently).

Table 9

Cash Balance Position and Investments

(Rs. Lakh)

	As on 1st April 2012	As on 31st March 2013
General Cash Balance		
Deposits with the Reserve Bank	-46537.81	-2392.38
Investments held in the Cash Balance - Investment account	688374.35	734180.79
Total	641836.54	731788.41
Other Cash Balances and Investments		
Cash with Departmental Officers	4519.57	2346.57
Permanent Advances for Contingent Expenditure with Departmental Officers	31.52	31.69
Investments of Earmarked Funds	502300	552300
Total	506851.09	554678.26
Grand Total	1148687.63	1286466.67

Source: Finance Accounts – 2012-13

5. Concluding Remarks

The Government of Odisha consistently maintained strong fiscal position during the post FRBM period. In 2012- 13 the State was able to achieve revenue surplus and fiscal surplus, and reduced the debt burden substantially. While the budget projections for the year with regard to major fiscal outcomes were within the FRBM Act stipulation, the Government managed to achieve improved outturns. In 2012-13, the revenue surplus was substantial at 2.23 per cent relative to GSDP and the State enjoyed a fiscal surplus situation. The outstanding debt burden was only 14.87 per cent of the GSDP, well below the 30.2 per cent level recommended as prudent by the 13th Finance Commission. Compared to the fiscal targets specified for the year in the amended FRBM Act, 2011, a zero revenue deficit, fiscal deficit limit of 3 per cent of GSDP, and debt burden of 30.2 per cent to the GSDP, these achievements were commendable. As against a target of interest payment as percentage of revenue receipts at 15 per cent, the achievement has been only 6.39 per cent.

The compression of both revenue and capital expenditure as compared to the budget estimates was the major instrument to achieve large revenue surplus and elimination of fiscal deficit in the fiscal year 2012-13. The actual revenue realization exceeded the target marginally. It was the higher realization of non-tax revenue that helped in meeting the revenue target as own tax receipts and central grants fell below the budget projections. With rising revenue surplus and slow growing capital expenditure, the Government reduced its dependence on market borrowing and even discharged some high cost loans to bring down overall debt stock. The State Government accumulated a large cash balance in the year 2012-13, which was invested in the Government of India Treasury bills with Reserve bank of India.

While the State Government has remained on the fiscal consolidation path and achieved stipulated FRBM Act targets, the compliance to the fiscal management principles enunciated in the Act should not be neglected. One of the important principles has been to formulate a realistic budget by giving due regard to the general economic outlook to minimize the deviation from the budget projections during the year. The decline in own tax revenue as compared to the budget estimates in 2012-13 despite a higher GSDP growth over the last year does not satisfy the observance of this principle. The examination of the budget estimates and actual expenditure during 2012-13 shows that under many heads the budgetary provisions were not fully utilized. Actual expenditure for some of the important sectors like education, water supply and sanitation, and irrigation and flood control were less than that of the budget estimates.

One of the guiding fiscal management principles prescribed in the FRBM Act was to build up a revenue surplus for use in capital formation and productive expenditure. Although the State Government managed to generate a large revenue surplus, substantially more than that of the budget estimates, the capital expenditure fell short of the budgeted provision by a large amount. While capital expenditure as percentage of GSDP has remained subdued in recent years, under-spending under this head in 2012-13 seems unwarranted. The comfortable cash balance position and emergence of substantial surplus in revenue account should enable the Government to restructure the expenditure pattern focusing on priority sectors and infrastructure building.

The basic problems like inadequate capacity in the area of project appraisal, project execution, lack of a medium term sector vision, and lack of prioritization suffered by the spending departments have been acknowledged at the policy-making level of the State Government. The assessment of the spending pattern reveals that under-spending in several high-priority sectors was more due to capacity problems rather than the objective of compressing the overall expenditure. The improvement in fiscal position of the State

Government and emergence of comfortable resource position should lead to effective policy actions for removing the impediments to better utilization of budgeted provisions and larger allocations to priority sectors. Strengthening capacity to improve project conceptualization and implementation in infrastructure sector should be key objective of the Government policies. The Government also should pay attention to facilitate land acquisition, improve co-ordination among departments at policy and implementation level, and speed up the environment clearances from central agencies for better implementation of projects and utilization of the approved budget.