

BUDGET SPEECH FOR 2006-07

Hon'ble Speaker Sir,

At the outset, I express my sincere gratitude to you, Hon'ble Leader of this House, Hon'ble Leader of the Opposition and Deputy Leader of the Opposition and all Members of this August House for having been given me an opportunity to present the Budget for the Financial Year 2006-07 in this House. I do not know whether it is a privilege or mis-fortune on my part to present the Budget for the third consecutive year as Finance Minister. The future will answer. But whatsoever it may be, it is a great challenge on my part to restore the deteriorating financial condition of the State and to manage it in a disciplined and prudent manner. I have accepted this challenge with all humility. I have great confidence that I shall get your unhesitating help, co-operation, constructive criticism and advice to march forward on this long and arduous thorny path.

2. While presenting Budget for the year 2005-06 I had thoroughly elaborated in my last long Budget Speech indicating therein reasons for deterioration of financial condition of the State in past years, steps required to correct the situation, steps already taken and to be taken by Government in this respect.

3. The improvement which has taken place in fiscal management of the State in recent years, the steps taken by Government for implementation of anti-poverty programme and different developmental works and future plan of action in those directions have been elaborated in the Speech of Hon'ble Governor. In my Budget Speech I do not want to burden your mind by indicating here

the out lays of different Departments, their achievements in implementing the programmes and future course of action to be taken by Government. Concerned Ministers will place all those information during the discussion of their respective Department Budget.

4. I want to say briefly as to how fast improvement can be brought out in the fiscal condition of the State, how the fiscal condition would be stabilized gradually and what steps would be required for that purpose. You know that due to large revenue and fiscal deficit State Government was unable to arrange required resources for different developmental and poverty eradication programmes but there has been some improvement in the fiscal condition of the State. After analyzing the deteriorating fiscal condition of the States, the 12th Finance Commission have recommended that all States should enact “the Fiscal Responsibility and Budget Management Act (FRBM Act). 12th Finance Commission in their recommendations have pointed out that States should work out a Fiscal Correction Path indicating therein as to how States should reduce their Revenue Deficit to zero by 2008-09 and contain the Fiscal Deficit during this period. Besides, we should also be aware of the other main recommendation of 12th Finance Commission as to how to bring about improvement in Fiscal Management of the State. I would like to place some of these important recommendations in this House for the information of Hon’ble Members.

The important recommendations of the 12th Finance Commission having a direct bearing on restructuring the State Finances among others include the following:

- i) **The 12th Finance Commission in para-2.32 (page-20) of their report have observed that “the financing of the plan, apart from a small contribution of plan grants from the Centre, depends entirely on borrowing by the States. A large plan effectively also means larger borrowing. It becomes, therefore, necessary that plan size of every State is linked to the sustainable level of the debt.”**
- ii) **In para-2.42 (page-24) of the Report, the 12th Finance Commission have concluded that “to determine the right size of the fiscal deficit and the debt in relation of the GDP is important for prudent fiscal management.”**
- iii) **“Plan grants should be given as genuine grants and states may be encouraged to borrow from the market directly. Such a change would require de-linking of grants from loans in plan assistance. This would facilitate determination of grants according to needs and loans according to capacities. The plan size of each state needs to take into account the sustainable level of debt and the capacity to borrow from the market” (para 4.68 of the report, Page-82).**
- iv) **Debt GSDP ratio should be brought down to 28% of GSDP (Para 4.45, page-70-71 of the report). In case of Orissa it was 62.92% as on 31.03.2003 compared to all States’ average of 34.21% as indicated by 12th Finance**

Commission. As on 31.03.2005 this GSDP ratio for Orissa is 59.08%.

- v) **The ratio of interest payment to revenue receipt should be brought down to 15% (para 4.54, page-75). In case of Orissa this ratio in 2002-03 was 35.85% compared to all states' average of 24.57%) as reported by 12th Finance Commission. In 2004-05 this ratio for Orissa has been reduced to 28.1%.**
- vi) States should follow a Recruitment and Wage Policy, in a manner such that the total salary bill relative to revenue expenditure, net of interest and pension payment does not exceed 35% (Para 4.63, page-80-81). At present, this ratio for Orissa is as high as 54% for the year 2004-05. This has to be brought down to 35% by 2009-10 as per the recommendation of the 12th Finance Commission (in 2002-03 this ratio was 65.5% for Orissa compared to all states' average of 37.3% as indicated by 12th Finance Commission).
- vii) "Getting the right size and the right composition of Government expenditure with a view to facilitating achievement of highest attainable growth rates, and meeting governments' social obligations including poverty reduction and provision of health and education should be considered integral to any plan for restructuring public finances. This requires increasing public expenditure in social and economic infrastructure for accelerating growth while reducing the over-all fiscal imbalance." (para 4.6 of the report, Page-78-79).

Conditional
Debt Relief

5. While as per the recommendation of 8th Finance Commission Orissa got debt relief of 195.62 crore, the debt relief availed by Orissa as per the recommendation of 9th & 10th Finance Commission was Rs.28.69 crore and 22.87 crore respectively. But no debt relief nor any concession has been availed by Orissa as per the recommendation of 11th Finance Commission. 12th Finance Commission have recommended conditional debt relief. As per this scheme, Orissa would be entitled to get debt and interest relief for about 3633.00 crore But Orissa will have to enforce the fiscal discipline as per the recommendations of 12th Finance Commission. Eliminating Revenue Deficit by 2008-09 and containing the fiscal deficit at 3% of GSDP etc. are included in these recommendations. One important condition is that fiscal deficit as ratio of GSDP during 2005-06 to 2009-10 should not exceed the fiscal deficit-GSDP ratio of 2004-05. As per the recommendations of 12th Finance Commission, if State Government reduces revenue deficit but the fiscal deficit in any year exceeds the fiscal deficit-GSDP ratio of 2004-05, the benefit of concession or write-off of debt would not be allowed to State Government. These important recommendations of 12th Finance Commission shall have to be kept in view while incurring loan from year to year.

State will
have to incur
loan for State
Plan-Centre
will not give.

6. I want to point out here that prior to the Financial Year 2005-06, the Central Government was giving Central Assistance for different Plans and Programmes and in most of these Central Assistance consisted of 70% as loan and 30% as grant. Central Government was giving this assistance including loan portion on monthly or quarterly basis. But as per the recommendations of 12th

Finance Commission Central Government will only provide the grant component of Central Assistance for State Plan and other programmes from 2005-06. Previously the loan component given by Central Government are not being given from 2005-06 or will not be given to the State Government in future. For example, out of State Plan assistance of Rs.1000 crore, the Central Government were giving Rs.700 crore as loan and Rs.300 crore as grant to State Government but from the financial year 2005-06, Central Government would give only the grant amount of Rs.300 crore and the balance Rs.700 crore loan will be arranged by State Government from open market or other financial institution as per its ability. While taking loan from open market or any other financial institution the lending institutions will assess the financial condition of the loanee and whether the loanee will be able to repay the principal and interest in time and how the loan is going to be utilized. Only after such assessment if the lending organization is satisfied then only it will release loan to State Government. So while fixing the outlay for State Plan we shall have to keep this important change in mind.

Fiscal
Target

7. Hon'ble Members are aware that after "The Orissa Fiscal Responsibility and Budget Management Bill, 2005" was approved in this August House, the provisions of the Act have come into force from 14.06.2005. In accordance with the provisions of this Act, the target of reduction of Revenue Deficit and Fiscal Deficit has to be achieved and Debt level and the guarantee liabilities are to be kept at prudent levels. Besides, the Act also envisages that, the loan incurred should be utilized for developmental work or productive purposes and Capital assets should be created by utilising these

loans. In the mean time, the Ministry of Finance, Department of Expenditure, Government of India have issued a guide line on implementation of Conditional Debt Relief Scheme as per the recommendation of the 12th Finance Commission. These guidelines mainly envisage working out a Fiscal Correction Path by the State Government. The State Government is required to indicate as to how to achieve the fiscal target as per the provisions of Fiscal Responsibility and Budget Management Act (FRBM Act) through this Fiscal Correction Path. As per these guidelines, State Government have submitted a Fiscal Correction Path to the Ministry of Finance (Department of Expenditure), Government of India on 19.12.2005.

Rate of
Growth
of GSDP

8. While Gross State Domestic Product (GSDP) at current prices was Rs.38629.00 Crore in 1999-2000, it has increased to Rs.44372.00 Crore in 2002-03. It has been estimated at Rs. 53830 Crore fro 2003-04 as per quick estimate and would be Rs.57638.00 Crore for 2004-05 as per advance estimate. The annual average growth rate of GSDP from the financial year 1999-2000 to 2004-05 is 8.57%. Twelfth Finance Commission have estimated that the growth of GSDP would be 11% for Orissa at current price, but since during 1999-2000 to 2004-05 the annual average growth rate is 8.57% and during the financial year 2004-05 the growth rate is 7.10%, it has been estimated that during 2005-06 and 2006-07, the growth rate would be 10%. It is worthwhile to mention that during the 10th Five Year Plan at 1993-94 prices, the target of Growth of the GSDP has been fixed at 6.2%. However, during 2002-03 to 2004-05, the annual average growth rate is 5.7%. In order to achieve

the target of 10th Five Year Plan, there is need for hard work at all levels and timely implementation of programmes.

Need for
enhance
ment of
Capital
Outlays

9. The loan which we incur for different developmental work is not being utilized for that purpose. A substantial portion of this loan is being used up to meet the Revenue Deficit. For example, 77% of the loan incurred in 1998-99 was utilized to meet the Revenue Deficit. However, after signing the MoU with Central Government on 15.04.1999 and subsequently on 11.10.2001, State Government have taken a number of measures to bring improvement in fiscal condition of the State, as a result of which, there has been reduction of diversion of loan to meet the Revenue Deficit and it has been reduced to about 15% in 2004-05. Generally, any loan incurred should be utilized for capital investment. But the GSDP-Capital Outlay ratio is limited to 2%. We shall have to see that the loan incurred from year to year is substantially utilized for creation of Capital Assets, otherwise we will not be able to come out from the debt trap. This is the most important aspect of the Fiscal Strategy for the State.

10. Revised Estimate for 2005-06 and the Budget Estimate for 2006-07 have been framed, keeping in view the recommendation of 12th Finance Commission for fiscal restructuring of the State Finances, conditional debt relief, guide lines given by Ministry of Finance (Department of Expenditure), Government of India and the provisions of The Orissa Fiscal Responsibility and Budget Management Act, 2005 and the Growth rate of GSDP etc.

Revised
Outlay for
State Plan
for 2005-06

11. I want to point out here that while the original Plan Outlay under State Plan for 2005-06 was Rs.3000.00 Crore, in the Revised Estimate for the current year, it has been kept at the same level of Rs.3000.00 Crore. Out of original Plan Outlay of Rs.3000.00 Crore while Rs.2264.51 Crore was kept in the State Budget, Rs.735.49 Crore was estimated for different developmental works in the Budget of Public Enterprises (GRIDCO, OHPC, OPGC, OSRTC) but in the Revised Estimate, out of Rs.3000.00 Crore for State Plan, Rs.2725.27 Crore has been provided in the State Budget and Rs.274.73 Crore is kept in the Budget of concerned PSUs. It otherwise means, while there has been increase in the provision in the State Budget by Rs.460.76 Crore for State Plan, it has been reduced by Rs.460.76 Crore in the Budget of Public Sector Undertakings.

Annual Plan
of 2006-07

12. While there was allocation of 3000 Crore under State Plan during 2005-06, it has been increased to Rs. 3500 Crore in 2006-07. This means, there has been increase of 16.66% in State Plan outlay in the Budget Estimate for 2006-07. Out of this 3500 Crore, provision of Rs. 3104.74 Crore has been made in the State Budget and Rs. 395.26 Crore has been estimated in the Budget of PSUs (GRIDCO, OHPC, OPGC, OSRTC). This means, there has been increase of Rs. 840.23 Crore and 379.47 Crore in comparison to the original outlay and revised outlay of 2005-06 respectively in the State Budget. For financing a State Plan Outlay of Rs. 3500 Crore nearly Rs. 4054 crore is required as loan as per the earlier pattern of Central Assistance and by taking into account the repayment of loan to the tune of Rs. 838.00 Crore we would have to incur net loan to the tune of Rs. 3216.00 Crore. But as the net loan incurred in a year

is to be limited to 3% of GSDP, for 2006-07 financial year, it has been estimated to limit the net loan to around Rs.2200.00 Crore. For this reason, net loan amounting to nearly Rs.1000 Crore. is to be reduced. This reduction in the net loan is estimated to be made up by way of debt relief of Rs.350.26 Crore for 2005-2006 as per the recommendation of the 12th Finance Commission and the balance amount through higher collection of State's Own Tax and Non Tax, recovery of loans and advances and expected higher level of share in Central Taxes. Most respectfully, I want to make it clear here that it would no longer be possible to finance higher plan outlay by incurring loan on increased scale from year to year. Because, if we incur more loan we will not be able to avail debt relief as per the recommendation of 12th Finance Commission and if we observe fiscal discipline, financial institution will provide loan to us at a lower rate of interest. It is pertinent to mention here that states having robust financial health are obtaining loan from open market through auction method at a lower rate of interest. The States whose financial condition is neither good nor they have taken concrete steps to ensure fiscal discipline find it difficult to get loan through open market or even if they get loan, they are getting it at a higher rate of interest. I want to point out here that if we increase our own Tax & Non-Tax revenue and reduce un-productive revenue expenditure and reduce the loan amount from year to year, we will be able to avail debt relief recommended by 12th Finance Commission and get loan from open market and other financial institutions at a lower rate of interest as per our requirement.

13. The main objective of fiscal re-structuring is to utilise the available limited resources more and more for different social security and infrastructure development of the State. This can be possible by reducing Non-Plan Revenue Expenditure, enhancing own revenue and getting more grants from Central Government. State Government are trying their best in this direction since last six years. We have been able to reap some good results in this respect but it has to be carried forward at a greater speed and it's scope should be expanded. It can be possible by Fiscal Consolidation and efficient Fiscal Management as per the recommendations of 12th Finance Commission. At the preliminary stage we have been able to advance a little, but there are many hurdles in future and unsustainable debt burden of the State is the biggest fiscal problem. It has reached a level of 59% of GSDP and as per recommendation of 12th Finance Commission it has to be reduced to 28%. Similarly after excluding expenditure on account of interest payment and pension payment, nearly 54% of the total revenue expenditure is being utilized for Pay and Allowance. As per the recommendation of 12th Finance Commission, it should be limited to 35%. While Interest Payment constitute 28.1% of State's total revenue in 2004-05, as per the recommendation 12th Finance Commission it should be limited to 15%. Hence only by reducing debt burden, interest payment and un-productive revenue expenditure and by enhancing State's tax and non-tax revenue, more resources can be released for implementation of different developmental works.

14. The available limited resources have to be utilized efficiently and in a well planned manner. So while allocating outlay we shall have to fix the priority. Keeping this objective in view allocation in

different sectors has been made fixing the priority in the Budget for the year 2006-07 as indicated below :

- ❖ There would be large release of Central Grant if we provide more funds towards State Share for different Centrally Sponsored Schemes. So while there was provision of Rs.284.65 crore in the original budget of 2005-06 towards State Share for Centrally Sponsored Schemes it has been increased to 501.83 crore in 2006-07. State Share of Rs.167.42 Cr. for Sarva Sikshya Abhiyan (SSA) has not been included in it and it has been included in Non-Plan.
- ❖ To complete the incomplete project on priority basis.
- ❖ Extension of irrigation facilities for development of Agriculture and diversification of cropping pattern.
- ❖ To provide more funds in the Social Sectors like education, health and also to provide facilities to the students of SC and ST communities.
- ❖ To utilise and submit Utilization Certificate in respect of Central Assistance in time.
- ❖ To preserve ancient heritage and infrastructure development in tourism sector.
- ❖ Higher provision in the budget by giving priority for maintenance of capital assets like Government buildings, roads etc.

15. I now like to present some highlights of the provisions made in the State Plan and Non-Plan.

- There has been no repair in respect of University Buildings and Hostels for years together, there is no ladies hostel in many Universities and there is no laboratory facility despite opening of Bio-technology, Computer Science and other new

courses. Keeping these necessities in view there has been provision of Rs.35.00 crore in Non-Plan Revenue Sector of Higher Education Department for Infrastructure Development in different Universities. Those include –

		<u>Rs. In Crores</u>
North Orissa University	-	8.00
Fakir Mohan University	-	8.00
Shri Jagannath Sanskrit University	-	2.50
Orissa University of Agriculture & Technology	-	3.00
Utkal University	-	4.50
Sambalpur University	-	4.50
Berhampur University	-	4.50

Besides, there is a separate provision of Rs.1.50 crore in the Budget of Agriculture Department for Infrastructure Development of Agriculture University and Rs.5.72 crore for Development of Veterinary College. It includes Rs.1.50 crore towards State Plan.

- While there was provision of Rs.170.59 crore under Non-Plan in 2005-06 towards repair and maintenance of roads, it has been increased to 547.89 crore in 2006-07. It includes Rs.368.77 crore under the recommendations of 12th Finance Commission. Out of the provision of Rs.547.89 crore towards maintenance and repair of roads, Rs.221.38 crore and Rs.240.26 crore are earmarked for Rural Development Department and Works Department respectively.
- While there was provision of 162.86 crore for repair and maintenance Government Buildings and Quarters in 2005-06, it has been increased to 268.28 crore in 2006-07. It

includes 98.27 crore as per the recommendations of 12th Finance Commission. Out of the total provision of Rs.268.28 crore, Rs.144.71 crore and Rs.80.05 crore are earmarked for Works Department and Rural Development Department respectively.

Water
Resources
Deptt.

- While there was provision of Rs. 98.82 crores in 2005-06 for maintenance of large and medium irrigation projects, it has been increased to Rs. 114.05 crore in 2006-07.

Housing &
Urban
Dev.

- While there was provision of Rs. 92.07 crore towards maintenance and repair of Urban Water Supply, it has been increased to Rs. 120.17 crore in 2006-07.

Health &
Family
Welfare

- While there was provision of Rs. 464.71 crore in Non-Plan Sector of Health and Family Welfare Programme in the Health & Family Welfare Department budget during 2005-06, it has been increased to Rs. 507.25 crore in 2006-07. Priority has been given mainly on procurement of equipments, medicine and BCL etc. for 3 Medical Colleges & Hospitals and other Hospitals. Out of this, there is provision of Rs. 34.29 crore for equipment, Rs. 14.58 crore for medicine and Rs. 1.50 crore for BCL. Besides Rs. 4.00 crore has been provided in the budget exclusively for Infrastructure Development of Cancer Institute and Rs. 2.00 crore for enhancement of seats from 107 to 150 in MBBS course in S.C.B. Medical College.
- There is provision of Rs. 41.25 crore in the State Plan for Health and Family Welfare Programme, out of which Rs. 14.13 crore is meant for Infrastructure Development of three Medical Colleges & Hospitals and Rs. 0.45 crore is

meant for a new programme “Navajyoti” to be implemented through Child Death Reduction Mission.

- There is special provision of Rs.5.00 crore in the Non-Plan through Rural Development Department for maintenance and renovation of Quarters of Doctors and Para Medical Workers staying in rural areas.

School and
Mass
Education

- While there was provision of Rs.1715.84 Crore in the non-plan during the financial year 2005-06 for School & Mass Education, it has been increased to Rs.1851.21 Crore in 2006-07. This includes a special provision of Rs.1.40 Crore for supply of Oriya Books to Libraries of all Government High Schools. While there was provision of Rs. 106.54 Crore in State Plan Sector, of School & Mass Education Department during 2005-06, even after taking a provision of Rs. 59.31 crore in 2006-07 in the non-plan for some of the plan schemes funded in the state plan in 2005-06, it has been kept at Rs. 101.56 Crore in 2006-07.

Higher
Education

- While there was provision of 224.63 Crore in 2005-06 in Non Plan Sector of Higher Education Sector, it has been increased to Rs. 273.61 Crore in 2006-07. Rupees One Crore has been provided separately for supply of Oriya Books and books on Science & Technology to Government College Libraries.

While there was provision of Rs. 73.10 Crore in State Plan in the original budget of 2005-06, it has been increased Rs. 89.36 Crore in 2006-07.

Tribal
and
Harijan
Welfare

- Against Rs. 190.08 crore provided in the State Plan for 2005-06 in the original budget, Rs. 233.71 Crore has been provided in State Plan for welfare Tribal and Harijan people

in 2006-07. While there was provision of Rs. 64.79 Crore in the original budget of 2005-06 of ST & SC Development Department towards scholarship of ST & SC students, it has been increased to Rs. 78.87 Crore in the budget of the coming year. So, there will be no difficulty in giving scholarship to the students during the entire year. Remuneration to cook-cum-attendant engaged in Tribal Hostels has been increased from Rs. 1020 to Rs. 1500 per month and for this there has been total provision of Rs. 4.96 Crore in 2006-07.

Agriculture

- While Rs. 48.08 Crore is kept in State Plan for various Agriculture Programme, a sum of Rs. 553.50 Crore has been provided in State Plan for various Irrigation Programmes. There is special provision of Rs. 1.40 Crore for the Non Horticulture Mission District under Agriculture Department. Rs. 363.00 Crore is earmarked for Accelerated Irrigation Benefit Programme out of which Rs. 253.00 crore has been earmarked for KBK Districts.

Fisheries and
Animal
Resources
Develop

- There is provision of Rs. 16.70 Crore under State Plan for Fisheries and Animal Resources Department out of which a sum of Rs. 3 Crore is earmarked for Marine and Inland Fishing Development.

Women &
Child
Development

- Rs. 190.07 Crore has been provided for Women & Child Development Department out of which 67.19 Crore, Rs. 32.81 Crore and Rs. 1.00 Crore have been earmarked towards State share under Mid-day Meal Programme, Special Nutrition Programme and for Mission Shakti respectively.

Rural
Drinking
Water
Supply

- While there was provision of Rs.54.40 Cr. towards State Share for Accelerated Rural Drinking Water Supply &

Sanitation during 2005-06, it has been increased to Rs.88.00 Cr. in 2006-07.

Sports &
Youth
Services

- There has been special provision of Rs. 2.00 Crore for maintenance and repair of different stadia and sports hostels through Works Department.
- Monthly stipend of students of sports hostels has been increased from Rs. 1200 to Rs. 2250. For this, there has been provision of Rs. 112.43 Lakh in Non Plan and Rs. 61.62 Lakh in State Plan.

There has been total provision of Rs. 4.50 Crore in State Plan of Sports & Youth Services Department.

Tourism
and
Culture

- There has been provision of Rs. 5 Crore in Non Plan sector for maintenance and repair of Rabindra Mandap, Bhanjakala Mandap, Sanskruti Bhawan, Auditorium of Utkal Sangit Mahavidyalaya etc. through Works Department.
- The stipend for the students of Utkal Sangeet Mahavidyalaya has been increased from Rs. 70 to Rs. 200 per month.
- There has been total provision of Rs. 29.36 Crore in State Plan of Tourism & Culture Department. It includes provision of Rs. 12.50 Crore for up keep of ancient heritage and monuments.

Home

- Rs. 21.52 Crore has been provided in Non Plan Sector for modernization of jails. Besides, Rs. 2 Crore has been provided in Non Plan Sector for improvement of sanitation and water supply in jails. Further, Rs. 2.00 Crore has been provided for fortification and strengthening of Jail Buildings in Naxalites affected districts under State Plan and Rs. 3.30 Crore for fortification of Police Station in those areas.

- Provision of Rs. 1.80 Crore has been made in Non Plan sector for completion of incomplete fire station buildings and Rs.2.25 Crore for construction of 10 fire station buildings in State Plan Sector.
- A sum of Rs. 3 Crore has been provided under State Plan for extension of High Court Building and Rs. 2 Crore for other Judicial Court Buildings.
- Rs. 3.05 Crore has been provided for completion of Orissa Complex at New Mumbai, Rs. 2 Crore has been provided for construction of non-residential building for first IR battalion, Koraput and Rs. 5.10 Crore has been provided for construction of Reserve Police Office and District Police Office Building. Besides, Rs. 2.10 Crore has been provided for construction of 3 numbers of 100 men Barrack for Police.
- In order to give more and more responsibilities to Local Bodies State Government have increased the allocation in Non Plan Sector from the existing level of Rs.120 to 130 Crore given annually to Panchayati Raj Institutions out of its own resources to Rs.176.22 Crore in 2006-07. As a result, the Panchayati Raj Institutions will be able to take up various developmental works.
- Besides this, Rs. 160.60 crore has been provided for Panchayati Raj Institutions under the award of 12th Finance Commission.
- Similarly, while previously there was annual provision of Rs. 20 to 25 Crore in Non Plan Sector for different Urban Local Bodies, it has been increased to Rs. 44.05 Crore in 2006-07. While Rs. 15 Crore was provided previously for maintenance and repair of roads it has been increased to

Panchayati
Raj

Urban Local
Bodies

Rs. 25 Crore. Urban Local Bodies will now incur expenditure to the tune of Rs. 10 Crore for different developmental works. While there was 10% hike in entry tax compensation on account of loss in octroi taxes, it has now been increased to 20% in 2006-07. This 10% hike would be utilized mainly for different developmental works of Urban Local Bodies and it will be given to different ULBs as Performance Linked Incentive for different development works.

- Besides this, Rs. 20.80 crore has been provided for the Urban Local Bodies under the award of 12th Finance Commission.
- The proposal for enhancement of monthly pension for the Non-Jailed Freedom Fighters from the existing level of Rs. 700 per month to Rs. 900 per month is under active consideration of State Government and accordingly Budget Provision has been made.

Enhancement
of Pension for
Non-Jailed
Freedom
Fighters

The other high lights of State Plan outlay is indicated below :

Rs.in Crore

NABARD assisted different RIDF projects	290.00 (Works-Rs.115.00 Cr. R.D. Rs. 60.00 Cr. W.R.- Rs. 105.00 Cr. Agriculture- Rs. 10.00)
Jawaharlal Nehru National Urban Renewal Mission	56.25 (including State Share Rs. 6.25 Cr.)
Development of Roads out of Central Road Fund.	55.00
Grant for Development of Western Orissa Development Council	30.00
Constituency wise allocation for Rural Roads.	14.50
Backward Districts Initiative under RSVY & KBK.	350.00
M.L.A.-LAD	73.50

Development of Shri Jaganath Temple and its surroundings	5.00
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Out come
Budget

16. State Government is spending money for different developmental works, social security, education and health through non plan, central plan and centrally sponsored plan schemes through State Budget. Out side State Budget, the concerned implementing agencies are also directly getting assistance from Central Government for Central Plan Schemes, Centrally Sponsored Plan Schemes and Externally Aided Projects. While this was Rs. 1336.36 Crore in 2004-05, it is expected to be Rs. 1500 Crore in 2005-06 and 2006-07. As per the recommendations of 12th Finance Commission, there is provision of Rs. 1051.07 Crore in Non Plan Sector during 2006-07. This is as under :

(Rs. in Crore)		
Education	-	58.57
Health	-	34.81
Maintenance of Roads & Bridges	-	368.77
Maintenance of Govt. Buildings	-	97.28
For different programmes through Panchayats and ULBs	-	181.40
Relief	-	310.24

17. I want to point out here that it is not proper to think that only by providing money in State Budget and by giving that money to the implementing agency, our job is over. It is essential to see as to how this money is being properly utilized and whether we are getting real value or benefit. In this connection I would like to quote the relevant extract from the budget speech for 2005-06 of Hon'ble Union Finance Minister, Shri P. Chidambaram for kind information of Hon'ble Members. It is like this –

“At the same time, I must caution that outlays do not necessarily mean outcomes. The people of the country are concerned with outcomes. The Prime Minister has repeatedly emphasized the

need to improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism. During the course of the year, together with the Planning Commission, we shall put in place a mechanism to measure the development outcomes of all major programmes. We shall also ensure that programmes and schemes are not allowed to continue indefinitely from one Plan period to the next without an independent and in-depth evaluation. Civil society should also engage Government in a healthy debate on the efficiency of the delivery mechanism,”

12th Finance Commission’s recommendations on **Outcome Budget** should also be an important guidelines for us. 12th Finance Commission have recommended in this respect in the following manner.

“ The conventional budget exercise have focused on allocation of resources to different heads, without taking into account how these government expenditure get translated into outputs and outcomes. Outputs are the direct result of government expenditure and outcomes are the final result./ Thus, in the context of education, opening a new school or appointing a new teacher is an output and reduction in the rate of illiteracy is an outcome. Issues of efficiency require consideration whether the same outcome can be achieved at lower costs and whether the same costs can produce better outcomes. A critical part of budgetary reforms must include information on the relationship between expenditures and the corresponding performance in producing real results as in determining the size of the budget and its allocation among different heads. Although in the past there have been attempts at introducing performance budgeting, such endeavors have receded in importance. There is need to bring back performance budgeting as an integral part of the preparation and evaluation of budgets, both for the center and the states. Thus, the management of public expenditures should be guided by economy, efficiency, and effectiveness. (para.4.61 page.79).

18. Hence, it is not at all important if provision has been made and some how expenditure has been incurred. What is important and essential is to see as to how the money is being spent or what value we are getting. I believe that Standing Committees while reviewing the budgets and the works of different

departments will take into account the budget speech of Hon'ble Union Finance Minister and the suggestions of 12th Finance Commission. Action taken by various departments in these directions will perhaps come under scrutiny of the Departmental Standing Committee

Utilisation
of Central
Assistance

19. One of the significant issues is that the Central Assistance should be utilized properly and in time. State Government is aware of it and there has been significant improvement in submission of utilization certificate in respect of Central Assistance through regular monitoring. While submission of utilization Certificate on Central Assistance was of the order of 534.00 Cr. in 2000-01, it increased to Rs. 2807.08 crore during 2004-05 and during 2005-06 upto December, 2005. Utilisation Certificate for Rs. 1808.64 crore have been submitted but there is no room for complacency. We have to keep our constant endeavor. Department of Expenditure, Government of India have issued instruction in this respect in their circular dated 30.11.2005 in the following manner :

“No amount will be released to any entity (including State Governments), which has defaulted in furnishing Utilisation Certificates for grants-in-aid released by Central Government in the past without clearance from the Ministry of Finance. In respect of all grants released prior to April 1, 2004, two months' notice may be given to the concerned entities to furnish the required Utilisation Certificates, failing which the amount will be deducted from future releases and credited to Government revenue as refund of unused grants”.

20. I take this opportunity to point out for the information of Hon'ble Members that Hon'ble Union Minister of State for Planning, Mr. M.V. Rajsekharan has expressed his satisfaction after reviewing the steps taken by State Government in submission of Utilisation Certificate. He has written to State Government on 09.06.2005 expressing his opinion in this respect in the following manner :

“Thank you very much for your kind letter No.2749B/MF Plan (FHP)-12/2005 dt.7 June 2005. I am indeed very happy to know that there has been substantial improvement in utilization in respect of central assistance received by your State. I am also

happy to note that you are gearing up the administrative machinery to ensure timely utilization of central assistance.

It shall be my pleasure to extend my co-operation in accelerating the pace of progress and development in your State.”

21. The Central Government will release more and more grants for different central schemes to those States who can utilise it properly and timely. We should not miss this opportunity. All Departments have been instructed to be careful in this respect and I have also personally reviewed the position on 16.01.2006.

Resource
Mobilisation

22. In accordance with the stipulations contained in the MoU signed with the Ministry of Finance, Government of India on 15.4.1999 and then followed by on 11.10.2001 as well as in pursuance to the recommendations of the 11th Finance Commission, State Government have taken number of steps to restore the deteriorating fiscal situation of the State. As a result, there has been perceptible improvement in fiscal condition and revenue deficit and fiscal deficit have been reduced substantially.

- (i) While the revenue deficit in 1999-2000 was Rs.2574.19 crore it has been reduced to Rs.522.30 crore in 2004-05. As per the Revised Estimate for 2005-06 this is likely to be reduced to Rs.516.11 crore and as per the Budget Estimate for 2006-07 it may further reduce to Rs.474.80 crore.
- (ii) While the fiscal deficit in 1999-2000 was Rs.3836.43 crore this has been reduced to Rs.1365.99 crore in 2004-05. As percentage of GSDP this represents reduction from 9.93% in 1999-2000 to 2.37% in 2004-05. As per the Revised Estimate of 2005-06 the fiscal deficit is likely to be pegged at Rs.1413.63 crore and the fiscal deficit for 2006-07 has been estimated at Rs.1675.88 crore. As percentage of GSDP, the fiscal deficit was 2.37% in 2004-05 and as per the Revised Estimate of 2005-06 it would reduce to 2.23% and as per the Budget Estimate for 2006-07 it has been estimated at 2.40%. As per the Medium Term Fiscal Plan, the fiscal deficit as a percentage of GSDP has to be kept within 3%.

- (iii) I want to point out here that while the 11th Finance Commission had estimated the State's own tax and non-tax revenue at Rs.17951.93 crore for the period 2000-01 to 2004-05, State Government have been able to collect Rs.19779.83 crore during these periods. In other words, State Government have been able to collect Rs.1827.90 crore more compared to the estimate of the 11th Finance Commission. But on the other hand, while the 11th Finance Commission had estimated the share in Central Taxes for Orissa for the period 2000-01 to 2004-05 at Rs.19026.64 crore, Orissa have actually got Rs.15363.61 crore during these periods. In other words, Orissa got less by Rs.3663.03 crore compared to the estimate of the 11th Finance Commission. If Orissa would have got the share in Central Taxes as per the estimate of the 11th Finance Commission, our loan burden would have been reduced by nearly Rs.3663.00 crore during these periods. But we have to stand on our own leg for developing our State. For this, we have to act accordingly. We have taken some steps in these directions.
- (iv) The 11th Finance Commission had recommended that if a State reduces ratio of revenue deficit to revenue receipt by 5% on the average per annum, the State will get Fiscal Incentive Grant from the Central Government. Since Orissa has been able to reduce the ratio of revenue deficit to revenue receipt by 7.86% per annum on the average during 2000-01 to 2004-05, we have got Fiscal Incentive Grant of Rs.315.15 crore from Government of India. Hon'ble Chief Minister has requested the Hon'ble Union Finance Minister to give additional Incentive Grant as due to Orissa out of the amount lying in the fund on account of ineligibility of non-performing States in accordance with the stipulations of the 11th Finance Commission.
- (v) During the current financial year there has been perceptible improvement in collection of State's own tax revenue. Sales Tax is a major source of State's own tax revenue. Collection of VAT / Sales Tax upto 31.12.2005 is Rs.1918.69 crore compared to Rs.1559.74 crore collected during the last year upto December, 2004. The growth rate registered is 23.01% compared to the collection made during the corresponding period.

While the collection of State's own tax as a whole upto December, 2004 was Rs.2652.64 crore, the collection upto December, 2005 is Rs.3257.11 crore. The overall growth of State's own tax revenue upto December, 2005 is nearly 23%.

- (vi) While the collection of State's own non-tax revenue upto December, 2004 was Rs.830.93 crore, this has increased to Rs.1025.52 crore during the current year upto December, 2005. During these periods the growth rate of State's own non-tax revenue is 23.42%.
- (vii) While the collection of State's own tax and non-tax revenue was Rs.3833.01 crore in 2002-03, this has increased to Rs.4396.28 crore in 2003-04 and Rs.5522.12 crore in 2004-05. While the growth rate on this account was 21.33% in 2002-03, it was 14.70% in 2003-04 but increased to 25.61% in 2004-05.

While the target of collection of State's own tax and non-tax revenue as per the Revised Estimate of 2005-06 has been estimated at Rs.5910.75 crore, this has been estimated at nearly Rs.6453.00 crore for the financial year 2006-07.

All Departments are required to take expeditious steps to enhance collection of State's own tax and non-tax revenue. Unless there is substantial increase in collection of State's own tax and non-tax revenue, it would not be possible to provide fund on the required scale for different developmental work and Social Security Programmes by incurring loan.

Compliance with
the provisions of
FRBM Act,
2005

23. Hon'ble Members are aware that "Orissa Fiscal Responsibility and Budget Management Act (FRBM Act., 2005)" has come into force from 14.06.2005. The principal objective of the Act is to utilise the limited resources in different developmental works by bringing improvement in fiscal management of the State. We should carefully monitor as to how to keep the debt burden at sustainable level and the institutions for whom guarantees have been given should repay the guaranteed loan and interest in time, so that there will be no guaranteed liability on State Government. Another important aspect of this Act is that no new liability should be created without locating corresponding resources. As per the provisions of "Orissa Fiscal Responsibility & Budget Management Act

(FRBM Act, 2005)”, Government have laid a report alongwith Budget. I want to point out with all humility that in comparison to previous year while debt burden has risen to 22.7% in 1999-2000, 14.4% in 2001-02, 15.7% in 2002-03, 13.8% in 2003-04, it has increased only by 7.6% in 2004-05. I hope that the rate of growth of debt will further be reduced in 2005-06 & 2006-07. We shall have to reduce the debt burden which is as high as 59.08% of GSDP in 2004-05 to 28% in 2008-09 as per the recommendation of 12th Finance Commission. Similarly, the interest payment which is 28.1% of State’s total revenue in 2004-05 should be reduced to 15% as per the recommendation of 12th Finance Commission. The expenditure on salary and allowances is around 54% of the revenue expenditure net of pension and interest payment in 2004-05. As per the estimation of 12th Finance Commission, while this ratio during 2002-03 for all States’ average was 37.3%, it was 65.5% in case of Orissa and as per the recommendation of 12th Finance Commission it should be limited to 35%.

Thrust of the
Budget

24. Restructuring of State Finance is required in accordance with the recommendation of 12th Finance Commission. This will release resources for productive expenditure through reduction of un-productive expenditure. So not only the plan expenditure is to be reviewed but also it is required to see as to how the non plan provision provided in different Departments is being utilised efficiently

The thrust should be on outcome rather the outlays, whether it is plan or non-plan. We should aim at a system which is responsive and responsible for improving the efficiency and effectiveness of spending measured in terms of improvement in delivery of services ensuring intended benefit to the targeted groups, completion of on going projects as per the time schedule and plugging the leakages in the spending processes.

- Thrust of our budget for 2006-07 is on growth, development, efficiency, social equity.
- Finance Department or State Government alone cannot bring improvement in the systems. For this, the representatives of people, leaders of all political parties, Government Servants and intellectuals should debate and

consult and all should work together. We all belong to this State and all round development of this State should be our goal. Let us come together with one mind and one heart to make Orissa a prosperous and vibrant State. Lord Jagannath is watching all our actions and activities and I hope that He will definitely help and bless us to march forward in the right direction.

!! JAI HIND !!

!! BANDE UTKALA JANANI !!

**SHRI PRAFULLA CHANDRA GHADAI,
MINISTER, FINANCE**