CHAPTER I

FINANCES OF THE UNION TERRITORY GOVERNMENT

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of the Union Territory (UT) of Puducherry during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure of Government Accounts and the layout of the Finance Accounts are shown in **Appendix 1.1.** The methodology adopted for the assessment of the fiscal position of the UT is given in **Appendix 1.2.** A time series data on UT Government finances is given in **Appendix 1.3.**

1.1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the UT Government's fiscal transactions during the current year (2008-09) *vis-à-vis* the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.1 Summary of Current Year's Fiscal Operations

(Rupees in crore)

2007-08	Receipts	2008-09	2007-08	Disbursements	2008-09		
Section-A: Revenue					**Non Plan**	**Plan**	**Total**
2,136	Revenue receipts	2,459	2,201	Revenue expenditure	1,747	823	2,570
653	Tax revenue	725	538	General Services	624	57	681
626	Non-tax revenue	629	851	Social Services	412	547	959
-	Share of Union Taxes/ Duties	-	808	Economic services	707	219	926
857	Grants from the Government of India	1,105	4	Grants-in-aid and Contributions	4	-	4
Section-B: Capital							
-	Miscellaneous Capital Receipts	-	275	Capital Outlay	7	254	261
12	Recoveries of Loans and Advances	5	3	Loans and Advances disbursed			3
425	Public Debt receipts	444	109	Repayment of Public Debt	*	*	123
-	Contingency Fund	-	-	Contingency Fund	*	*	-
898	Public Account receipts	610	214	Public Account disbursements	*	*	400
193	Opening Cash Balance	862	862	Closing Cash Balance			1,023
3,664	**Total**	**4,380**	**3,664**	**Total**			**4,380**

(Source: Finance Accounts of the Union Territory of Puducherry for the years 2007-08 and 2008-09)

* Bifurcation of Plan and Non-Plan not available

The significant changes during 2008-09 as compared to the previous year are given below:

- Revenue receipts of the UT grew by Rs 323 crore (15 *per cent)* over the previous year. The increase was mainly contributed by tax revenue (Rs 72 crore), non-tax revenue (Rupees three crore) and grants received from the Government of India (GOI) (Rs 248 crore).
- Revenue expenditure increased by Rs 369 crore (17 *per cent)* over the previous year, mainly due to increase in expenditure on General Services (Rs 143 crore), Social Services (Rs 108 crore) and Economic Services (Rs 118 crore).
- Revenue expenditure on Social Services and Economic Services increased by 13 *per cent* and 15 *per cent* respectively.
- Capital expenditure on asset creation decreased by Rs 14 crore (five *per cent)* during the year.
- In the Public Account, while receipts decreased by Rs 288 crore (32 *per cent)*, disbursements increased by Rs 186 crore (87 *per cent)*. Net receipts under the Public Account decreased by Rs 474 crore during the year.
- The net impact of these transactions led to a significant increase of Rs 161 crore in the cash balance at the end of the year over the previous year.

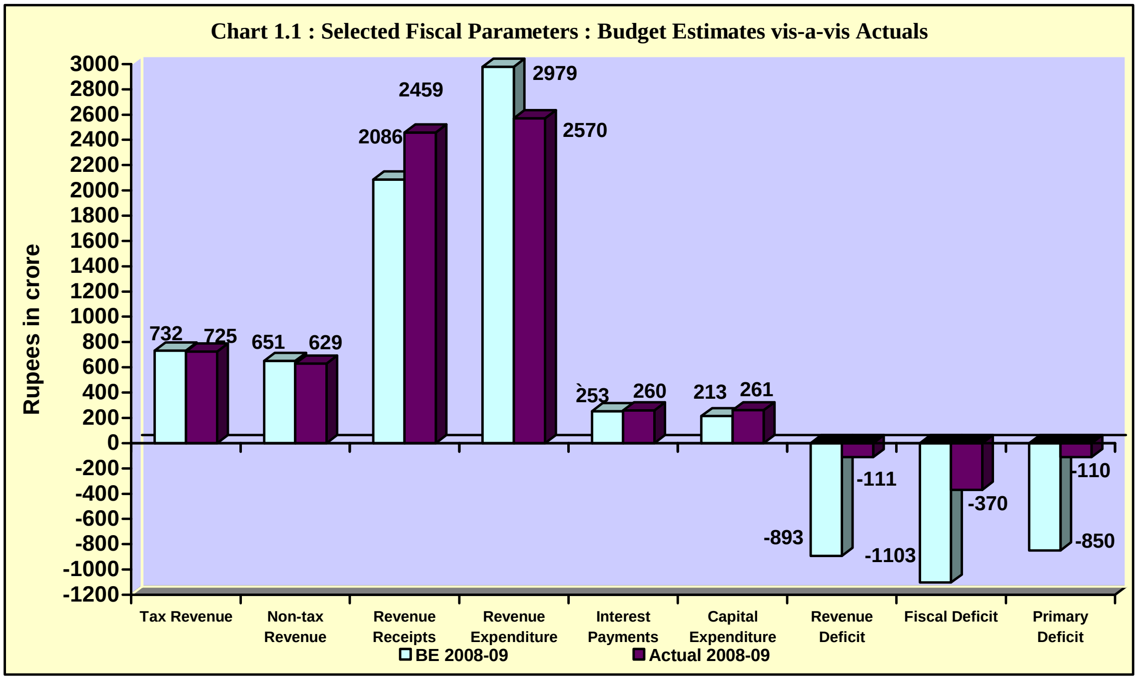
Review of the Fiscal Situation

The fiscal deficit of the Government during the year increased by Rs 39 crore (11.78 *per cent*) over the previous year and, as a percentage of the Gross State Domestic Product, it was 3.14. As the recommendations of the Twelfth Finance Commission were not applicable to Union Territories, no fiscal responsibility legislation was enacted by the UT Government. Consequently, no target was set by the Government for containing the fiscal deficit.

Budget Analysis

The budget papers presented by a State/Union Territory Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the budget estimates are indicative of non-attainment and non-optimization of the desired fiscal objectives, due to a variety of causes, some within the control of the Government and some outside.

Chart 1.1 presents the budget estimates and actuals for some important fiscal parameters.



- While the actuals under tax and non-tax revenues were almost in line with the budget estimates, revenue receipts were more by Rs 373 crore (18 *per cent)* than the budget estimates due to more receipts of grants-in-aid from GOI.

- Revenue expenditure was less by Rs 409 crore (14 *per cent)* than the budget estimates due to less expenditure incurred under the grant 'Industry and Minerals' under Economic Services.

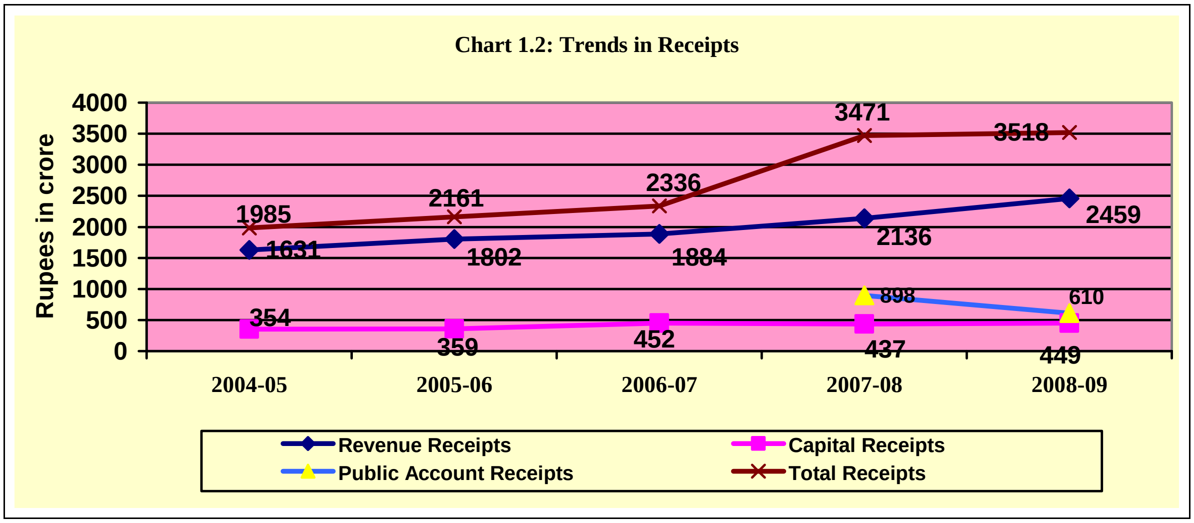
- Revenue deficit, fiscal deficit and primary deficit were less by Rs 782 crore, Rs 733 crore and Rs 740 crore respectively than the budget estimates due to more revenue receipts and less revenue expenditure than the budget estimates.

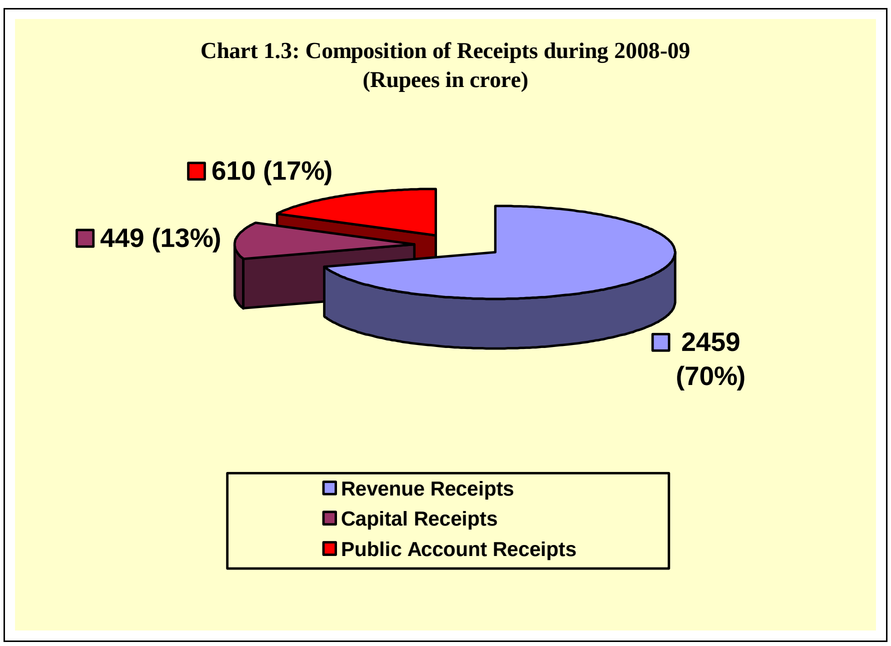
1.2 Resources of the Union Territory

1.2.1 Resources of the Union Territory as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the Government. Revenue receipts consist of tax revenue, non-tax revenue and grants-in-aid from GOI. Capital receipts comprise miscellaneous capital receipts such as recoveries of loans and advances, debt receipts from internal sources (market loans) and loans and advances from GOI as well as accruals from the Public Account. **Table-1.1** presents the receipts and disbursements of the UT during the current year as recorded in its

Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the UT during 2004-09. **Chart 1.3** depicts the composition of resources of the UT during the current year.





- Total receipts of the UT increased by Rs 47 crore (1.35 *per cent*) over the previous year, mainly due to increase of Rs 323 crore (15.12 *per cent)* in revenue receipts and Rs 12 crore (2.75 *per cent)* in capital receipts, which were offset by a decrease of Rs 288 crore (32.07 *per cent)* in the Public Account receipts.

- Public Debt receipts went up by Rs 19 crore (4.47 *per cent*), mainly due to increase in market borrowings from Rs 337 crore to Rs 350 crore (3.86 *per cent*).

- The UT's tax revenue increased from Rs 653 crore in 2007-08 to Rs 725 crore in 2008-09 (increase of 11.02 *per cent*) whereas the percentage of tax receipts to revenue receipts declined from 31 in 2007-08 to 29 in 2008-09.

1.2.2 Funds transferred to State Implementing Agencies outside the UT Budget

The Central Government has been transferring a sizeable quantum of funds directly to State implementing agencies[1] for the implementation of various schemes/programmes in Social and Economic Sectors recognised as critical. As these funds are not routed through the UT Budget/UT Treasury System, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the UT's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. The funds directly transferred to State implementing agencies under the control of three departments viz., Education, Health and Rural Development in respect of six major programmes assisted by GOI are presented in **Table 1.2.**

Table-1.2: Funds transferred directly to State Implementing Agencies *

(Rupees in crore)

Programme/ Scheme	Implementing Agency in the UT	Funds transferred directly by GOI during 2008-09
National Rural Employment Guarantee scheme	District Rural Development Agency (DRDA)	5.69
Sarva Shiksha Abhiyan (SSA)	Union Territory of Puducherry Mission Authority	6.39
Indira Awas Yojana	DRDA	2.40
Swarnajayanti Gram Swarozgar Yojana (SGSY)	DRDA	2.00
Member of Parliament -Local Area Development Scheme	DRDA	1.00
National Rural Health Mission (NRHM)	Puducherry State Health Mission	5.84
	Total	**23.32**

* Figures furnished by the three departments are given in the table and this may not reflect the entire fund transfers to State implementing agencies in the Union Territory.

- Out of Rs 23.32 crore transferred to State implementing agencies, a major amount of Rs 11.09 crore (48 *per cent*) was transferred to the District Rural Development Agency.

[1] State implementing agencies include any organisation/institution including non-Governmental organisation which is authorised by the UT Government to receive funds from the Government of India for implementing specific programmes in the Union Territory.

- Direct transfer of funds from the Union to State implementing agencies ran the risk of improper utilisation of funds by these agencies. Unless uniform accounting policies are followed by all these agencies with proper documentation and timely reporting of expenditure, it would be difficult to monitor the end use of these direct transfers.

1.3 Revenue Receipts

Statement-10 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the UT's own taxes and non-tax revenues and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2004-09 are presented in **Appendix 1.3** and depicted in **Charts 1.4** and **1.5** respectively.

Chart 1.4: Trends in Revenue Receipts

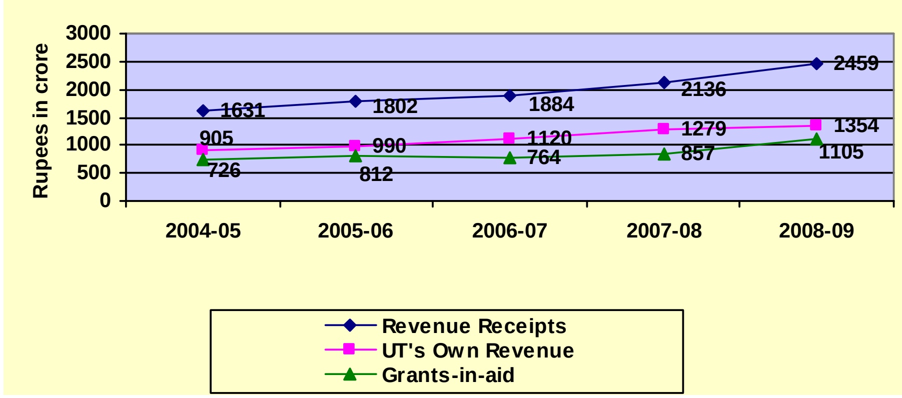
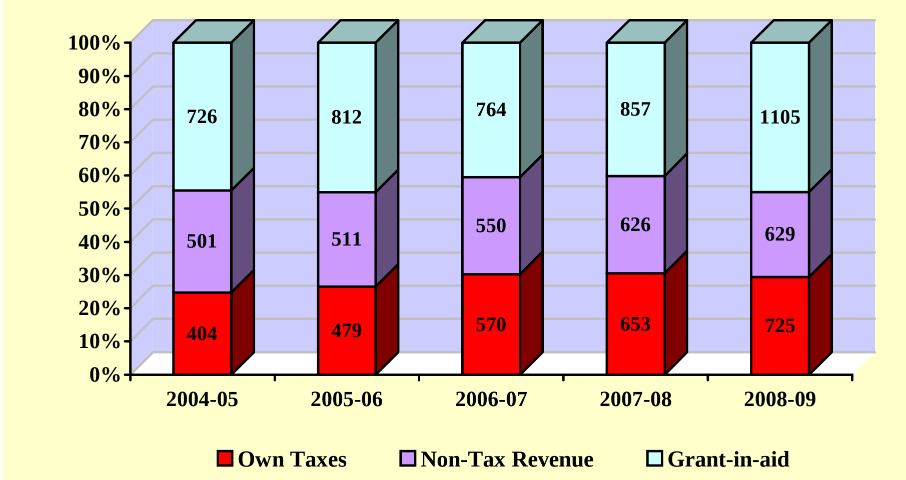


Chart 1.5: The Composition of Revenue Receipts during 2004-09



- Revenue receipts of the UT increased by Rs 323 crore over the previous year (15.12 *per cent).* The increase, however, could not keep pace with the increase of Rs 369 crore in revenue expenditure (16.77 *per cent)*.

- Non-tax revenue receipts increased marginally by Rupees three crore over the previous year.

- Grants-in-aid from GOI increased from Rs 857 crore in 2007-08 to Rs 1,105 crore in 2008-09 (increase of 28.94 *per cent*), mainly due to receipt of more Non-Plan revenue deficit grant.

The trends of revenue receipts relative to GSDP are presented in **Table 1.3** below:

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts (RR) (Rupees in crore)	**1,631**	**1,802**	**1,884**	**2,136**	**2,459**
Rate of growth of RR (*per cent)*	25.2	10.5	4.6	13.4	15.1
RR/GSDP[2] (*per cent)*	31	29	22	21	21
Buoyancy Ratios[3]					
Revenue buoyancy with reference to GSDP (ratio)	(-) 5.4	0.5	0.1	0.6	1.1
UT's own tax buoyancy with reference to GSDP (ratio)	3.0	0.9	0.5	0.7	0.8
Revenue buoyancy with reference to UT's own taxes (ratio)	1.8	0.6	0.2	0.9	1.4

(Source: Finance Accounts of the Union Territory of Puducherry)

- The GSDP, at the current rate, was estimated to increase from Rs 10,312 crore in 2007-08 to Rs 11,774 crore in 2008-09, representing an increase of 14.18 *per cent.*

- Revenue buoyancy, which was below one during 2004-08, exceeded one during 2008-09, indicating that revenue receipts grew faster than the GSDP.

- The UT's own tax buoyancy stood at 0.8, indicating that the rate of growth of GSDP was faster than the growth rate of own taxes.

- Revenue receipts, as percentage of GSDP, showed a declining trend from 2004-05 to 2007-08 and remained constant in 2008-09.

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[2] Provisional and Quick estimates of GSDP of Rs 10,312 crore and Rs 11,774 crore have been adopted for 2007-08 and 2008-09.

[3] Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

1.3.1 Union Territory's Own Resources

The UT's performance in the mobilisation of resources was assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The gross collection in respect of major taxes and duties as well as the components of non-tax receipts are given in **Table 1.4**.

Table 1.4 : Components of UT's Own Resources

(Rupees in crore)

Revenue Head	2004-05	2005-06	2006-07	2007-08	2008-09
Tax Revenue					
Taxes on sales, trades etc.	246	304	365	355	382
State excise	110	125	144	224	280
Taxes on vehicles	24	26	29	32	32
Stamp duty and Registration fees	24	24	31	41	31
Land revenue	--	--	1	1	--
Total	**404**	**479**	**570**	**653**	**725**
Non-Tax Revenue					
Interest receipts	2	2	6	18	44
Dividends & Profits	3	2	1	4	4
Other non-tax receipts	496	507	543	604	581
Total	**501**	**511**	**550**	**626**	**629**

(Source: Finance Accounts of the Union Territory of Puducherry)

- The Union Territory's tax revenue increased by Rs 72 crore (11 *per cent*) over the previous year from State excise (Rs 56 crore) due to higher production of Indian made foreign liquor (IMFL) and beer and sales tax (Rs 27 crore) due to increase in value added tax (VAT) and non-VAT collections. This was counter-balanced by decreases of Rs 10 crore from stamps and registration fees due to less sale of non-judicial stamps and Rs one crore from land revenue.

- Non-tax revenue receipts of Rs 629 crore, which constituted 26 *per cent* of revenue receipts, were realised from sale of power (Rs 546 crore), interest receipts (Rs 44 crore) and other receipts under various administrative services/departments (Rs 39 crore) during 2008-09. Non-tax revenue increased marginally by Rupees three crore during the year over the previous year.

1.3.2 Loss of Revenue due to Evasion of Taxes

Tax evasion leads to non-realisaiton of legally available revenue to the Government. Test check of the records of sales tax, State excise, stamp duty and registration fees and taxes on vehicles conducted during the year 2008-09 by the Accountant General (Commercial and Receipts Audit) revealed under assessment/ short levy/ loss of revenue amounting to Rs 117.43 crore through 75 audit observations.

1.3.3 Revenue Arrears

Arrears of revenue pending collection increased to Rs 261.50 crore in 2008-09 (31 *per cent)*. These arrears were due for collection mainly by Electricity (Rs 135.24 crore), Commercial Taxes (Rs 111.85 crore) and Public Works (Rs 11.16 crore) departments. Of the arrears pending collection by the Electricity Department, Rs 26.33 crore was due from the Government institutions and local bodies and Rs 12.80 crore and Rs 3.78 crore were under litigation and recoverable through the Revenue Recovery Act respectively. Of the arrears pending collection by the Commercial Taxes Department, Rs 72.37 crore and Rs 30.67 crore were covered by court stay orders and the Revenue Recovery Act respectively.

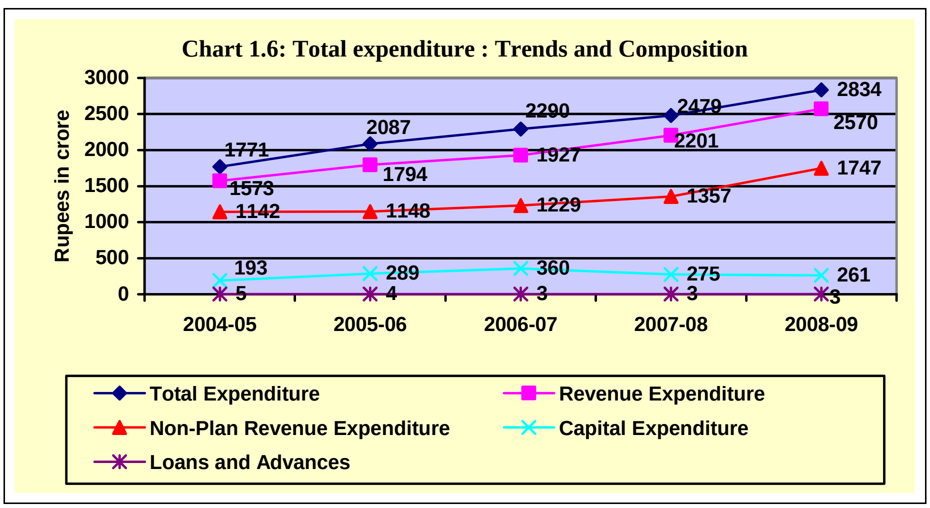
Considering the huge sums involved, the Government needs to take note of these mounting arrears.

1.4 Application of Resources

Analysis of the allocation of expenditure at the UT Government level assumes significance since major expenditure responsibilities are entrusted with them. In view of budgetary constraints in raising public expenditure financed by deficit or borrowings, it is important to ensure that the allocation of expenditure was towards the development and social sectors.

1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends of total expenditure over a period of five years (2004-09). Its composition in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.7 and 1.8 r**espectively**.**



- The revenue expenditure was 90.69 *per cent* of the total expenditure, of which 67.98 *per cent* was the Non-Plan component.

- The total expenditure[4] during 2008-09 increased by Rs 355 crore (14.32 *per cent*) over the previous year. The revenue expenditure increased by Rs 369 crore (16.77 *per cent*) and the capital expenditure decreased by Rs 14 crore (5.09 *per cent*).

- Revenue receipts of the UT met 87 *per cent* of the total expenditure during 2008-09 as against 86 *per cent* during 2007-08.

Chart 1.7: Total Expenditure : Trends in Share of its Components

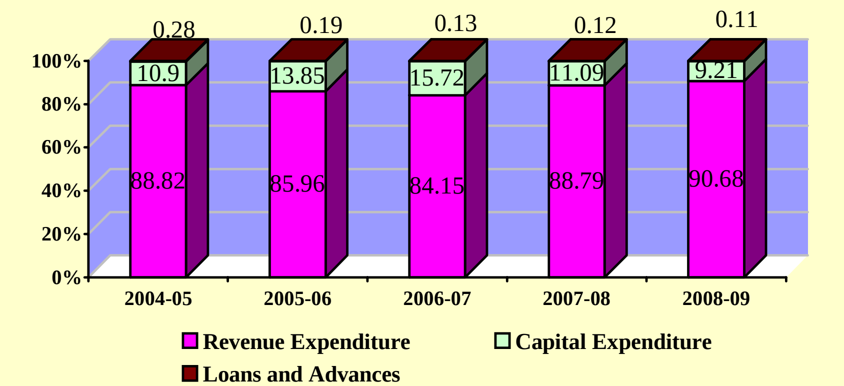
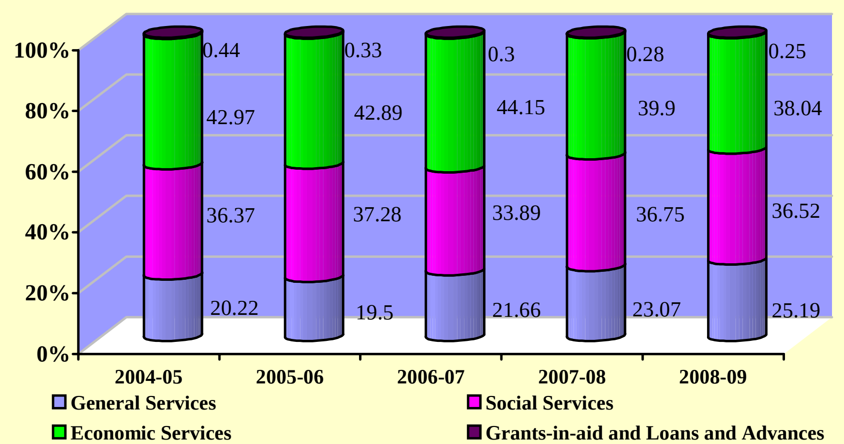


Chart 1.8: Total Expenditure: Trends by 'Activities'



[4] Total expenditure includes revenue expenditure, capital expenditure and disbursement of loans and advances

- The expenditure on General Services, Social Services and Economic Services during 2008-09 grew by 24.83 *per cent*, 13.61 *per cent* and nine *per cent* respectively.

- The increase in the expenditure on Social Services (Rs 124 crore) was mainly on account of increased spending on Education , Sports, Art and Culture (Rs 103.47 crore) under revenue account and on Water Supply and Sanitation, Housing and Urban Development (Rs 7.40 crore), Health and Family Welfare (Rs 3.42 crore) and Education, Sports, Art and Culture (Rs 3.28 crore) under capital account.

1.4.2 Committed Expenditure

The committed expenditure of the UT Government on revenue account mainly consists of interest payments, expenditure on salaries and pensions and subsidies. **Table 1.5** presents the trends of expenditure on these components during 2004-09 and **Chart 1.9** presents the share of committed expenditure in Non-plan revenue expenditure on salaries, interest payments and pension during 2006-09.

Table-1.5: Components of Committed Expenditure

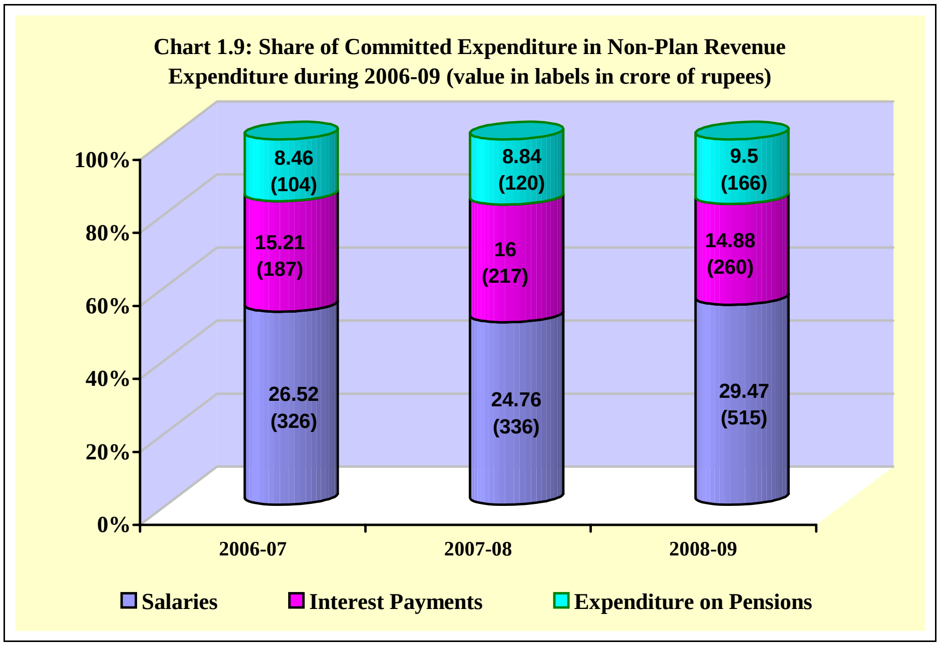
(Rupees in crore)

Components of Committed Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09
Salaries **,** *Of which*	327 (20)	364 (20)	429 (23)	445 (21)	688 (28)
Non-Plan Head	268	287	326	336	515
Plan Head**	59	77	103	109	173
Interest Payments	153 (9)	171 (9)	187 (10)	217 (10)	260 (11)
Expenditure on Pension	77 (5)	86 (5)	104 (6)	120 (6)	166 (7)
Subsidies	11 (1)	18 (1)	17 (1)	31 (1)	31 (1)
Total	**568 (35)**	**639 (35)**	**737 (39)**	**813 (38)**	**1145 (47)**

(Source: Finance Accounts of the Union Territory of Puducherry)

Figures in parentheses indicate percentage of revenue receipts

** *Plan head also includes the salaries paid under Centrally Sponsored Schemes.*



- Committed expenditure stood at 47 *per cent* of revenue receipts of the UT during 2008-09 as against 38 *per cent* during 2007-08.

- The expenditure on salaries increased by 55 *per cent* over the previous year, mainly due to payment of 40 *per cent* arrears consequent on the implementation of the Sixth Central Pay Commission's recommendations. The share of salaries relative to revenue receipts increased from 21 *per cent* in 2007-08 to 28 *per cent* during 2008-09.

- The expenditure on pension increased by 38 *per cent* from Rs 120 crore in 2007-08 to Rs 166 crore in 2008-09, mainly due to payment of arrears of revised pension/family pension consequent on implementation of the Sixth Central Pay Commission's recommendations. The share of pension payments to revenue receipts increased from six *per cent* in 2007-08 to seven *per cent* in 2008-09.

- Interest payments increased by Rs 43 crore (20 *per cent)* over the previous year, mainly due to payment of interest for loans received under Non-Plan schemes, National Small Savings Fund, market loans and payment of interest towards subscription of General Provident Fund and Union Territory Government Employees' Group Insurance Scheme.

- The subsidies mentioned in the table (one *per cent* of committed expenditure in all the years) represent the expenditure booked under the object head 'Subsidies' under rural housing, welfare of schedule castes, animal husbandry, fisheries, food subsidy, rural development, village and small industries and civil supplies. Major subsidies on free supply of electricity to small farmers and poor people and cash incentives and subsidies paid to agriculturists were, however, classified in the budget as well as in the accounts under

'Other Charges' or 'Grants-in-aid' to agencies implementing the schemes. Since the UT budget has a distinct head only for explicit subsidies, the implicit subsidies given on account of these facilities listed above are not accounted for, and to that extent, the subsidy given by the UT Government was understated.

1.4.3 Financial Assistance by UT Government to Local Bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.6.**

Table 1.6: Financial Assistance to Local Bodies etc

(Rupees in crore)

Financial Assistance to Institutions	2004-05	2005-06	2006-07	2007-08	2008-09
(1)	(2)	(3)	(4)	(5)	(6)
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	10.90	11.54	10.93	12.09	13.16
Municipalities	19.24	43.26	40.67	19.20	18.86
Panchayati Raj Institutions	8.27	31.11	19.78	10.15	28.97
Development Agencies	152.43	218.44	151.50	213.93	232.75
Co-operatives	31.71	25.47	27.78	22.26	27.59
Other Institutions*	5.59	2.28	9.57	3.80	5.42
Total	**228.14**	**332.10**	**260.23**	**281.43**	**326.75**
Assistance as percentage of Revenue Expenditure	14	19	14	13	13

(Source: Figures provided by the Director of Accounts and Treasuries, Puducherry)
* Welfare societies and Hindu religious institutions

- Financial assistance extended to local bodies and other institutions increased from Rs 281.43 crore in 2007-08 to Rs 326.75 crore in 2008-09. The increase was mainly due to increased financial assistance to panchayati raj institutions and various development agencies. The financial assistance as a percentage of revenue expenditure was 13 in 2008-09.

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the UT generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure are largely assigned to State/UT Governments. Enhancing human development levels requires the States/UTs to step up their expenditure on key Social Services like education, health etc. Low levels of spending on any sector by a particular State/UT may be either due to low fiscal priority attached by the Governments or on account of the low fiscal capacity of the Governments or due to both working together. Low fiscal priority (ratio of expenditure category to aggregate expenditure) would be attached to a particular sector if it was below the respective national average while low fiscal capacity would be reflected if the State/UT's per capita expenditure was below the national average even after having a fiscal priority that was more than or equal to the national average. **Table 1.7** analyses the fiscal priority and fiscal capacity of the UT Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table-1.7: Fiscal Priority and Fiscal Capacity of the UT in 2005-06 and 2008-09

Fiscal Priority of the UT	**AE/GSDP**	**DE/AE**	**SSE/AE**	**CE/AE**
All States/National Average* (Ratio) 2005-06	19.50	61.44	30.41	14.13
UT's Average (Ratio) 2005-06	29.00	80.35	37.28	13.85
All States/National Average* (Ratio) 2008-09	19.16	67.68	33.90	16.87
UT's Average (Ratio) 2008-09	24.07	74.58	36.53	9.20

Fiscal Capacity of the UT	**DE#**	**SSE**	**CE**
All States Average per capita expenditure (Amount in Rupees) in 2005-06	3,010	1,490	692
UT's per capita expenditure (Amount in Rupees) in 2005-06	15,245	7,073	2,627
All States Average per capita expenditure (Amount in Rupees) in 2008-09	5,030	2,520	1,254
UT's per capita expenditure (Amount in Rupees) in 2008-09	17,614	8,627	2,174

* As per cent of GSDP
AE: Aggregate Expenditure; DE: Development Expenditure; SSE: Social Sector Expenditure; CE: Capital Expenditure.
Population of UT: 0.11 crore in 2005-06 and 0.12 crore in 2008-09.
Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.
Source: (1) Directorate of Economics and Statistics, Puducherry and (2) Finance Accounts for expenditure figures

Table 1.7 compares the fiscal priority given to different categories of expenditure and the fiscal capacity of the Union Territory of Puducherry in 2005-06 and 2008-09.

Fiscal priority

Though the Aggregate Expenditure/GSDP ratio of the UT was higher than the all States' average in both the years under consideration (2005-06 and 2008-09), it declined from 29 *per cent* in 2005-06 to 24.07 *per cent* in 2008-09.

Although the Development Expenditure/Aggregate Expenditure and Social Sector Expenditure/Aggregate Expenditure ratios were higher than the all States' averages in both the years, they decreased marginally in 2008-09.

In comparison with the all States' averages, the Capital Expenditure/Aggregate Expenditure ratios were lower in both the years. The Capital Expenditure/Aggregate Expenditure ratio of 9.20 in 2008-09 was far below the all States' average of 16.87.

Fiscal capacity

In 2005-06, the UT's per capita Development Expenditure of Rs 15,245, Social Sector Expenditure of Rs 7,073 and Capital Expenditure of Rs 2,627 were higher than the all State's average of Rs 3,010, Rs 1,490 and Rs 692 respectively. In 2008-09 also, the UT's per capita Development Expenditure of Rs 17,614, Social Sector Expenditure of Rs 8,627 and the Capital Expenditure of Rs 2,174 were higher than the all States' average Rs 5,030, Rs 2,520 and Rs 1,254.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State/UT Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[5]. Apart from improving the allocation towards development expenditure[6], particularly in view of the fiscal space being created on account of decline in

5 Core public goods are goods which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of rights; pollution free air and other environmental goods and road infrastructure etc. Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than the ability and willingness to pay the Government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidised food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

6 The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into Social Services, Economic Services and General Services. Broadly, the Social and Economic Services constitute development expenditure, while expenditure on General Services is treated as non-development expenditure.

debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure on operation and maintenance of the existing Social and Economic Services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.8** depicts the trends in development expenditure relative to the aggregate expenditure of the UT during 2004-09, **Table 1.9** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected Social and Economic Services during 2007-08 and 2008-09.

Table-1.8: Development Expenditure

(Rupees in crore)

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09
Development Expenditure (a to c)	1,405.34 (79)	1673.78 (80)	1788.07 (78)	1910.12 (77)	2113.43 (75)
a. Development Revenue Expenditure	1227 (69)	1410 (68)	1460 (64)	1659 (67)	1885 (66)
b. Development Capital Expenditure	178 (10)	263 (13)	327 (14)	251 (10)	228 (8)
c. Development Loans and Advances	0.34 (0.02)	0.78 (0.04)	1.07 (0.05)	0.12 (0.01)	0.43 (0.02)
(Source: Finance Accounts of the Union Territory of Puducherry) Figures in parentheses indicate percentage of aggregate expenditure					

Table 1.9 –Efficiency of Expenditure Use in Selected Social and Economic Services

(Percentage)

Social/Economic Infrastructure	2007-08		2008-09	
	Share of CE to TE	In RE, the share of S&W	Share of CE to TE	In RE, the share of S&W
Social Services (SS)				
General Education	7.15	65.60	5.97	70.11
Health and Family Welfare	6.88	41.37	9.74	73.38
Water Supply, Sanitation and Housing and Urban Development	12.38	3.81	22.49	9.08
Total (SS)	**6.63**	**30.88**	**7.33**	**41.65**
Economic Services (ES)				
Agriculture and Allied Activities	15.16	28.02	6.13	32.62
Irrigation and Flood Control	63.37	31.67	53.86	49.94
Power and Energy	7.51	4.35	6.61	5.78
Transport	59.46	16.60	37.34	19.85
Total (ES)	**18.31**	**8.08**	**14.07**	**11.69**
Total (SS+ES)	**12.71**	**20.13**	**10.77**	**26.93**
(Source: Finance Accounts of the Union Territory of Puducherry and figures furnished by the Director of Accounts and Treasuries for wages) TE: Total Expenditure on the sector/services concerned; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages.				

Development expenditure, in real terms, was increasing continuously during 2004-09. As a percentage of the aggregate expenditure, it was 75 in 2008-09. However, the development capital expenditure, as a percentage of aggregate expenditure, declined from 10 in 2007-08 to eight in 2008-09. As a percentage of development expenditure, it came down from 13.14 in 2007-08 to 10.79 in 2008-09.

Expenditure on Social Services

- The share of capital expenditure to total expenditure on Social and Economic Services declined from 12.71 *per cent* in 2007-08 to 10.77 *per cent* in 2008-09.
- The capital expenditure on Social Services as a percentage of total expenditure on Social Services increased marginally from 6.63 in 2007-08 to 7.33 in 2008-09.
- The share of capital expenditure in the total expenditure under Health and Family Welfare and Water Supply and Sanitation, Housing and Urban Development increased substantially in 2008-09 over the previous year. However, the share of capital expenditure to total expenditure under General Education declined from 7.15 *per cent* in 2007-08 to 5.97 *per cent* in 2008-09, indicating that the Government's spending on infrastructural requirement of General Education was not keeping pace with the overall development expenditure.
- The share of salaries and wages in the revenue expenditure on Social Services increased from 30.88 *per cent* in 2007-08 to 41.65 *per cent* in 2008-09, mainly due to implementation of the Sixth Central Pay Commission's recommendations.

Expenditure on Economic Services

- The capital expenditure on Economic Services, as a percentage of total expenditure on Economic Services, declined from 18.31 *per cent* in 2007-08 to 14.07 *per cent* in 2008-09.
- Under Agriculture and Allied Activities, Irrigation and Flood Control, Power and Energy and Transport, the share of capital expenditure to total expenditure declined during 2008-09. The decrease was steep under Agriculture and Allied Activities and Transport Sectors.
- The share of salaries and wages in the revenue expenditure on Economic Services increased from 8.08 *per cent* in 2007-08 to 11.69 *per cent* in 2008-09, mainly due to implementation of the Sixth Central Pay Commission's recommendations.

1.6 Financial Analysis of Government Expenditure and Investments

The UT is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the UT Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents a broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* the previous years.

1.6.1 Incomplete projects

The information pertaining to incomplete projects in the Public Works Department as on 31 March 2009 is given in **Table 1.10.**

Table 1.10: Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	No. of Incomplete Projects*	Initial Cost	Revised Total Cost of Projects	Cost Over-runs	Cumulative expenditure as on 31.3.2009
Public Works Department	13	62.74	90.74	28.00	60.33

(Source: Finance Accounts of the Union Territory of Puducherry)

* Only those projects which were scheduled to be completed before 31 March 2009 are included

- Failure to complete projects on time leads to escalation of project costs and delays the accrual of the projects' benefits to the society at large. Further, delays also result in postponement of revenue realization from projects.
- The projects/works were delayed mainly due to paucity of funds on account of cancellation of a sanctioned market loan of Rs 553.88 crore by HUDCO during 2008-09 in view of the Government's failure to avail of the first instalment of the loan within the prescribed period and also due to delays in getting revised technical sanctions from the Government for the projects/works.

1.6.2 Investment and returns

As of 31 March 2009, the Government had invested Rs 817.03 crore, mainly in Government companies and Co-operatives **(Table 1.11)**. The average return on these investments was 0.36 *per cent* in the last three years while the Government paid interest at an average rate of 8.9 *per cent* on its borrowings during 2008-2009.

Table-1.11: Return on Investment

Investment/Return/Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year (Rs in crore)	554.12	606.98	712.36	760.91	817.03
Return (Rs in crore)	2.79	1.74	1.03	3.68	4.15
Return *(per cent)*	0.5	0.3	0.1	0.5	0.5
Average rate of interest on Government borrowing *(per cent)*	10.7	10.2	9.4	8.5	8.9
Difference between interest rate and return *(per cent)*	10.2	9.9	9.3	8.0	8.4

(Source: Finance Accounts of the Union Territory of Puducherry)

- As of March 2009, the Government had invested Rs 640.11 crore in 15 Government companies and Rs 176.92 crore in 366 co-operative institutions. Though heavy losses were incurred by the Pondicherry Textiles Corporation Limited (Rs 44.09 crore) and the Bharathi Swadeshi Textiles Mills Limited (Rs 8.91 crore), the Government invested Rs 25 crore and Rupees seven crore respectively in them. Other major investments included Rs 3.48 crore in the Pondicherry Industrial Promotion Development and Investment Corporation Limited and Rs 3.92 crore in the Pondicherry Adi-dravidar Development Corporation Limited.

1.6.3 Loans and advances by UT Government

In addition to investments in co-operative societies and companies, the Government has also been providing loans and advances to many of these institutions/organisations. **Table 1.12** presents the outstanding loans and advances as on 31 March 2009 and interest receipts *vis-à-vis* interest payments during the last three years**.**

Table-1.12: Average Interest Received on Loans Advanced by the UT Government

(Rupees in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2006-07	2007-08	2008-09
Opening Balance	**41.76**	**36.74**	**27.82**
Amount advanced during the year	3.08	2.68	2.87
Amount repaid during the year	8.11	11.60	5.00
Closing Balance	**36.74**	**27.82**	**25.69**
Net addition	(-) 5.02	(-) 8.92	(-) 2.13
Interest Receipts	5.53	7.94	1.98
Interest receipts as percentage of outstanding Loans and advances	14.1	24.6	7.4
Interest payments as percentage of outstanding fiscal liabilities of the UT Government.	8.6	7.4	7.8
Difference between interest payments and interest receipts (*per cent*)	5.5	17.2	(-) 0.4

(Source: Finance Accounts of the UT of Puducherry)

- While the quantum of loan advanced increased marginally from Rs 2.68 crore in 2007-08 to Rs 2.87 crore in 2008-09, repayments by the companies and co-operative societies decreased from Rs 11.60 crore in 2007-08 to Rupees five crore in 2008-09. The difference between interest payments as a percentage of outstanding fiscal liabilities was more than the interest received as a percentage of outstanding loans and advances by 0.4 in 2008-09. Rupees 2.44 crore out of the loans were advanced to Government servants.

1.6.4 Cash Balances and Investment of Cash balances

Table 1.13 depicts the cash balances and investments made by the UT Government out of the cash balances during the year.

Table-1.13: Cash Balances and Investment of Cash Balances

(Rupees in crore)

Particulars	As on 1 April 2008	As on 31 March 2009	Increase (+)/ Decrease (-)
Cash Balances	862	1023	(+) 161
Investments from Cash Balances (a to d)			
a)GOI Treasury Bills	652	1020	(+) 368
b)GOI Securities	--	--	--
c)Other Securities, if any specify	--	--	--
d) Others - (Treasury/departmental cash balance, remittance etc.)	210	3	(-)207
Funds-wise break-up of Investment from Earmarked balances (a to c)			
(a) Sinking Fund	--	--	--
(b) Famine Relief Fund	--	--	--
(c) Infrastructure Development Fund	--	--	--
Interest realised	6.76	37.45	(+) 30.69

(Source: Finance Accounts of UT of Puducherry)

- The cash balance as on 31 March 2009 increased by Rs 161 crore and the interest realised on investment of cash balances during 2008-09 increased by Rs 30.69 crore over the previous year.

The efficiency of handling of cash balances by the UT can also be assessed by monitoring the trends in the monthly daily average of cash balances held by the UT to meet its normal banking transactions. **Table 1.14** presents the trends in monthly average daily cash balances and investments of cash balances in 14 day Treasury Bills for the last two years (2007-09).

Table-1.14: Trends in Monthly Average Daily Cash Balances and Investment in 14 day Treasury Bills

(Rupees in crore)

Month	Monthly Average Daily Cash Balances		Investment in 14 day Treasury Bills	
	2007-08*	2008-09	2007-08*	2008-09
(1)	(2)	(3)	(4)	(5)
April	--	0.15	--	709.36
May	--	0.15	--	655.57
June	--	0.15	--	620.23
July	--	0.16	--	662.99
August	--	0.18	--	600.27
September	--	0.16	--	531.68
October	--	0.16	--	523.20
November	--	0.16	--	485.46
December	0.16	0.15	313.04	725.18
January	0.15	0.16	339.17	743.32
February	0.15	0.21	461.21	706.24
March	0.75	0.25	530.94	756.24

(Source: Figures provided by Directorate of Accounts and Treasuries)

* Separate Public Account for the UT Government was opened on 17 December 2007 only. Up to 16 December 2007, the cash balance of the UT had been merged with the cash balance of the Union Government.

- Governments invest their cash balances in GOI Treasury Bills. Investments in 14 day Treasury Bills exceeded Rs 500 crore in 11 months during 2008-09. Keeping huge balances in 14 day Treasury Bills points to the inadequacies in the Government fund flow management system.

1.7 Assets and Liabilities

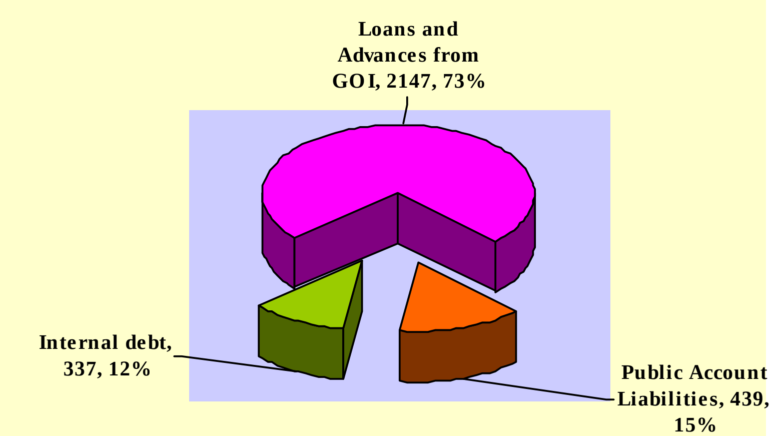
1.7.1 Growth and composition of Assets and Liabilities

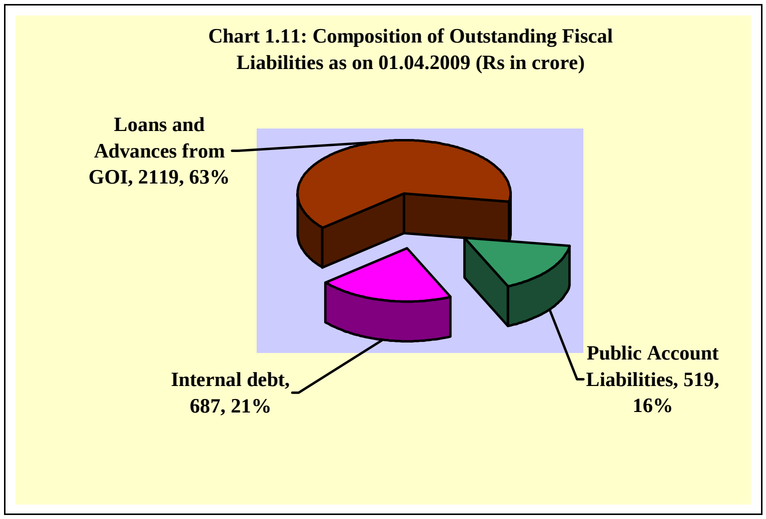
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the UT Government and cash balances.

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the UT are presented in **Appendix 1.3.** However, the composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Charts 1.10** and **1.11.**

Chart 1.10: Composition of Outstanding Fiscal Liabilities as on 01.04.2008 (Rs in crore)





- The outstanding fiscal liabilities have shown a steady increase from Rs 1553 core in 2004-05 to Rs 3325 crore in 2008-09.
- The fiscal liabilities as at the end of 2008-09 represented 135 *per cent* of revenue receipts during the year as against 95 *per cent* in 2004-05.
- While internal debts which constituted 12 *per cent* of the fiscal liabilities in 2007-08 increased to 21 *per cent* in 2008-09, loans and advances from GOI decreased from 73 *per cent* to 63 *per cent* of the fiscal liabilities during the same period. The Public Account liabilities increased marginally from 15 *per cent* in 2007-08 to 16 *per cent* in 2008-09.

1.7.3 Status of Guarantees – Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the UT Government in cases of defaults by borrowers for whom the guarantees have been extended.

Guarantees for the purpose of administration of Union Territories, prior to the amendment of the Union Territories Act on 6 September 2001, were given by GOI under Article 292 of the Constitution of India. In the event of the guarantees being invoked, the payment would initially be charged to the Consolidated Fund of India and the amount subsequently recovered from the Government of the Union Territory. Consequent on the amendment of the UT Act on 6 September 2001 and issue of its notification by the Government of India on 10 May 2006, the Government of Union Territory of Puducherry was empowered to give guarantees. However, the cash balance was settled by GOI only on 17 December 2007. No guarantee was given during the year by the UT Government. Besides, no law to control the guarantees to be given was enacted by the UT Government. As per Statement 5 of the Finance Accounts, the maximum amount for which guarantees were given by GOI on behalf of the UT and outstanding guarantees for the last three years are given in **Table1.15.**

Table-1.15: Guarantees given by the Government of India on behalf of the Union Territory of Puducherry

(Rupees in crore)

Guarantees	2006-07	2007-08	2008-09
Maximum amount guaranteed	33.78	20.98	20.98
Outstanding amount of guarantees	4.26	6.84	6.23
Percentage of maximum amount guaranteed to total Revenue receipts	1.8	1.0	0.9

(Source: Finance Accounts of the Union Territory of Puducherry)

- GOI gave guarantees for a maximum amount of Rs 20.98 crore, on behalf of the UT Administration, to the Pondicherry Co-operative Central Land Development Bank Limited (Rs 6.48 crore), the Pondicherry State Co-operative Housing Federation Limited (Rs 9.50 crore) and the Pondicherry Adi-Dravidar Development Corporation Limited (Rupees five crore).
- As a percentage of revenue receipts, it came down from 1.8 in 2006-07 to 0.9 in 2008-09. As a percentage of GSDP, it came down from 0.40 in 2006-07 to 0.18 in 2008-09.
- No guarantee was invoked during any of the three years.

1.8 Debt Sustainability

Apart from the magnitude of debt of the UT Government, it is important to analyse various indicators that determine the debt sustainability[7] of the UT. This section assesses the sustainability of debt of the UT Government in terms of debt stabilisation[8], sufficiency of non-debt receipts[9], net availability

7 Debt sustainability is defined as the ability of the UT to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to the sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between the costs of additional borrowings and the returns from such borrowings. It means that the rise in fiscal deficit should match the increase in the capacity to service the debts.

8 A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided the primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and the quantum spread (Debt x rate spread), the debt sustainability condition states that if the quantum spread together with the primary deficit is zero, the debt-GSDP ratio would be constant or the debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising and in case it is positive, the debt-GSDP ratio would eventually be falling.

9 Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

of borrowed funds[10], burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of the UT Government's debts. **Table 1.16** analyses the debt sustainability of the UT according to these indicators for a period of three years beginning from 2006-07.

Table 1.16: Debt Sustainability: Indicators and Trends

(Rupees in crore)

Indicators of Debt Sustainability	2006-07	2007-08	2008-09
Debt Stabilisation (Quantum Spread + Primary Deficit)	277	172	62
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 119	(+) 67	(-) 39
Net Availability of Borrowed Funds	161	538*	142
Burden of Interest Payments (IP/RR Ratio)	0.1	0.1	0.1
Maturity Profile of Internal Debt and GOI Loans (in years)			
0 – 1		122 (4.9)	131 (4.7)
1 – 3		279(11.3)	304(10.8)
3 – 5		319(12.9)	334(11.9)
5 – 7		285(11.5)	276 (9.8)
7 and above		1,479(59.4)	1,761(62.8)

Figures in parentheses represents percentage of total outstanding internal debts and GOI loans.

* Net available borrowed funds in 2007-08 included Rs 324 crore transferred to the UT Government by the GOI, being the cash balance under the Public Account of the Union Territory as on 31 October 2007, hitherto merged in the Public Account of GOI.

- Even though the debt stabilization indicator declined from Rs 277 crore in 2006-07 to Rs 62 crore in 2008-09, it was still stable. However, it declined at the rate of 38 *per cent* in 2007-08 and 64 *per cent* in 2008-09. The possibility of the debt stabilization turning out to be negative in the ensuing years resulting in increase in the debt – GSDP ratio cannot be ruled out unless suitable measures are taken by the Government to mobilize additional tax and non-tax resources.
- The resource gap turned negative during 2008-09 due to insufficiency of non-debt receipts to meet the primary expenditure.
- The maturity profile of the UT's debt indicates a year-on-year increase in its repayment burden.

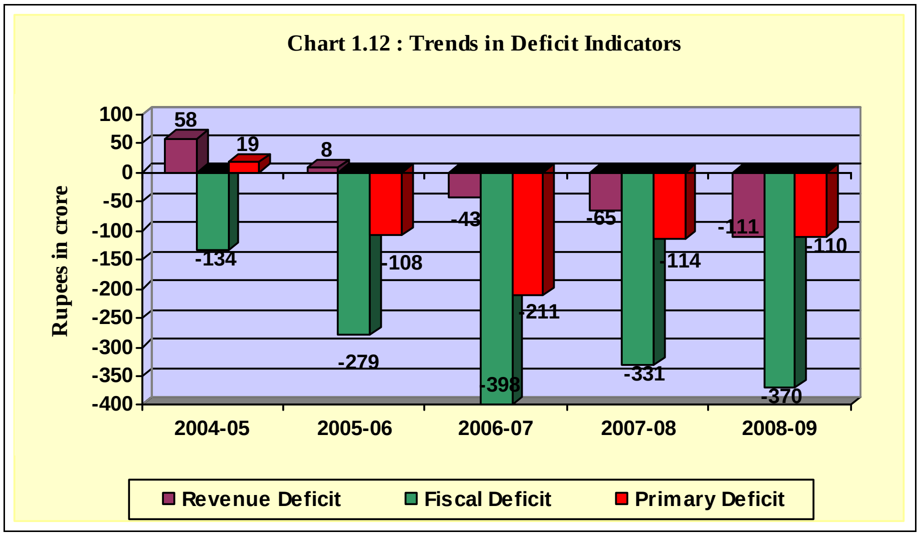
1.9 Fiscal Imbalances

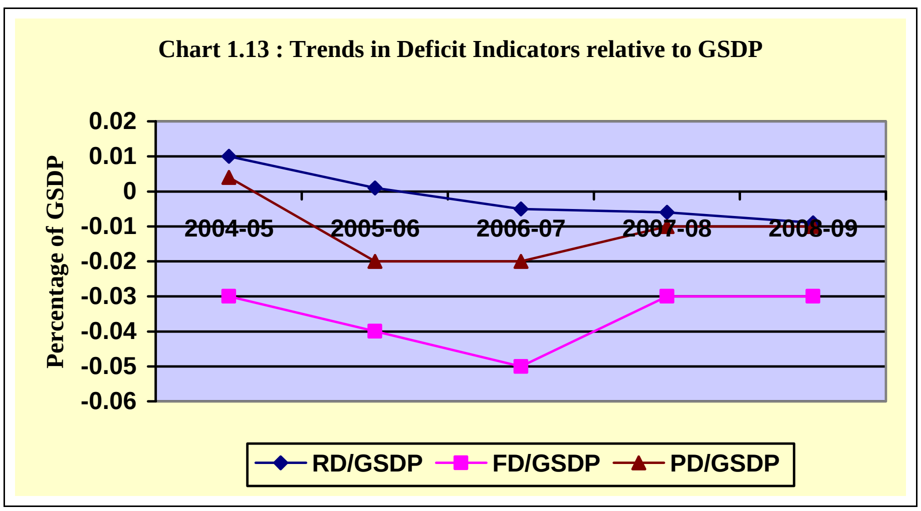
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the UT Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied, are important pointers to its fiscal health. This section presents the trends, nature, magnitude and manner of financing these deficits.

[10] Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption, indicating the net availability of borrowed funds.

1.9.1 Trends in Deficits

Charts 1.12 and **1.13** presents the trends in deficit indicators over the period 2004-09.





The revenue deficit indicates the excess of revenue expenditure over revenue receipts. As exhibited in **Chart 1.12**, after experiencing revenue surplus for two years 2004-05 and 2005-06, the position turned into a deficit from 2006-07. The increase of revenue deficit by Rs 46 crore during 2008-09 was due to the increase in revenue expenditure by Rs 369 crore against an increase in revenue receipts by Rs 323 crore.

1.9.2 Composition of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1.17.**

Table 1.17: Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Decomposition of Fiscal Deficit		**(-) 134**	**(-) 279**	**(-) 398**	**(-) 331**	**(-) 370**
1	Revenue Deficit	(+) 58	(+) 8	(-) 43	(-) 65	(-) 111
2	Net Capital Expenditure	(-) 193	(-) 289	(-) 360	(-) 275	(-) 261
3	Net Loans and Advances	(+) 1	(+) 2	(+) 5	(+) 9	(+) 2
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	--	--	--	337	350
2	Loans from GOI	241	267	347	-21	-29
3	Special Securities issued to National Small Savings Fund	--	--	--	--	--
4	Loans from Financial Institutions	--	--	--	--	--
5	Small Savings, PF etc	--	--	--	252	41
6	Deposits and Advances	--	--	--	187	27
7	Suspense and miscellaneous	--	--	--	239	98
8	Remittances	--	--	--	6	32
9	Reserve Funds	--	--	--	--	12
10	Overall Surplus/Deficit (cash balance)	107	(-) 12	(-)51	669	161
*All these figures are net of disbursements/outflows during the year						

(Source: Finance Accounts of the Union Territory of Puducherry)

- The fiscal deficit increased by Rs 39 crore during 2008-09, mainly due to increase in revenue deficit by Rs 46 crore. The increase in fiscal deficit along with an increase in interest payments by Rs 43 crore led to a decrease of Rupees four crore in the primary deficit during the year.

- The UT is increasingly banking on market borrowings for financing its fiscal deficit. The increase in the overall surplus in 2007-08 was mainly due to the creation of a separate Public Account and transfer of cash balances to the UT Public Account from GOI.

1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the UT's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The bifurcation of the primary deficit **(Table 1.18)** would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may have been desirable to improve the productive capacity of the UT's economy.

Table 1.18: Primary Deficit/Surplus – Bifurcation of Factors

(Rupees in crore)

Year	Revenue Receipts	Recovery of Loans and Advances	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary Revenue Deficit (-) /Surplus (+)	Primary Deficit (-) / Surplus (+)
1	**2**	**3**	**4 (2+3)**	**5**	**6**	**7**	**8 (5+6+7)**	**9 (2-5)**	**10 (4-8)**
2004-05	1,631	6	1,637	1,420	193	5	1,618	211	(+) 19
2005-06	1,802	6	1,808	1,623	289	4	1,916	179	(-) 108
2006-07	1,884	8	1,892	1,740	360	3	2,103	144	(-) 211
2007-08	2,136	12	2,148	1,984	275	3	2,262	152	(-) 114
2008-09	2,459	5	2,464	2,310	261	3	2,574	149	(-) 110

(Source: Finance Accounts of the Union Territory of Puducherry)

- During 2004-05 to 2008-09, primary expenditure increased from Rs 1,618 crore to Rs 2,574 crore (59 *per cent*) against the increase of non-debt receipts from Rs 1,637 crore to Rs 2,464 crore (51 *per cent*).

- The primary deficit, which was Rs 108 crore in 2005-06 rose to Rs 211 crore in 2006-07, due to increase in capital expenditure during that year. However, in 2007-08 and 2008-09, it improved slightly to Rs 114 crore and Rs 110 crore respectively, mainly due to less capital expenditure during those years.

- Capital expenditure, as a percentage of primary expenditure, declined from 17 in 2006-07 to 10 in 2008-09 as the Government curtailed the capital expenditure due to cancellation of sanctioned market loans by HUDCO, originally sanctioned for financing projects/works under all sectors.

- The non-debt receipts were not adequate to meet expenditure requirements under the capital account including loans and advances, resulting in primary deficit from 2005-06.

1.9.4 Union Territory's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the UT on account of improvement in its own resources. This is an indicator of the durability of the corrections in deficit indicators. **Table 1.19** presents the changes in revenue receipts of the UT Government and the corrections of the deficit during the last three years.

Table-1.19: Change in Revenue Receipts and Correction of Deficit

(Rupees in crore)

Parameters	2006-07	2007-08	2008-09	
			BE	Actual
Revenue Receipts (a to c)	1884	2136	2086	2459
a. UT's Own Tax Revenue	570	653	732	725
b. UT's Own Non- tax Revenue	550	626	651	629
c. Grants-in-Aid	764	857	703	1,105
Revenue Expenditure	1,927	2,201	2,979	2,570
Revenue Deficit/Surplus	(-) 43	(-) 65	(-) 893	(-) 111
Fiscal Deficit/Surplus	(-) 398	(-) 331	(-) 1103	(-) 370

(Source: Finance Accounts of the Union Territory of Puducherry)

- The percentage of revenue deficit to GSDP which was 0.6 in 2007-08 increased to 0.9 in 2008-09.

- The fiscal deficit to GSDP decreased from five *per cent* in 2006-07 to three *per cent* in 2007-08 and remained constant in 2008-09.

- The percentage of revenue receipts to GSDP which was 31.45 in 2004-05 came down to 20.89 in 2008-09.

1.10 Conclusion

The increase in revenue deficit of Rs 46 crore was mainly due to disproportionate growth of revenue expenditure (17 *per cent*) *vis-à-vis* revenue receipts (15 *per cent*). The UT's own tax revenue is not keeping pace with its GSDP.

The revenue deficit, fiscal deficit and primary deficit were less than the budget estimates, indicating lapses in budgeting.

Mobilisation of resources by the UT comprising its tax and non-tax revenue as well as recovery of loans and advances could not meet the Non-Plan revenue expenditure and the Government was heavily dependent on grants from GOI for meeting both Non-Plan and Plan revenue expenditure requirements during the current year.

The committed expenditure consumed 47 *per cent* of the revenue receipts during 2008-09 as against 38 *per cent* during 2007-08, mainly due to increase in salaries, pension and subsidies. Capital expenditure on asset creation, as a percentage of aggregate expenditure, stood at 9.2 *per cent* as against the national average of 16.87 *per cent.*

Blocking of huge sums in incomplete projects delayed and undermined the economic benefits realisable through them. Investments in Government companies and co-operatives continued to yield meagre returns.

The increasing fiscal liabilities accompanied with negligible rates of return on Government investments and inadequate interest cost recovery of loans and advances, might lead to a situation of unsustainable debt in the medium and long run unless suitable measures are initiated to curtail the non-plan revenue expenditure or to mobilise the additional resources both through tax and non-tax sources in the ensuing years.

1.11 Recommendations

- The Government may institute a mechanism for centralised monitoring of utilisation of funds released directly to State implementing agencies by the Government of India.
- Greater fiscal priority may be given to capital expenditure.
- The Government needs to arrest the increase in committed expenditure on salaries and subsidies.
- Execution of large projects should be closely monitored to avoid blocking of funds in incomplete projects.
- Subsidies provided by the Government for implementation of various welfare schemes may be classified under the head 'Subsidies' instead of under 'Other Charges' or 'Grants-in-aid'.