CHAPTER I

FINANCES OF THE UNION TERRITORY GOVERNMENT

The Union Territory (UT) of Puducherry is administered under the provisions of the Government of Union Territories Act, 1963. The UT consists of four regions, namely, Puducherry, Karaikal, Mahe and Yanam, lying geographically separated from one another. As per the 2001 census, the UT had a population of 9.70 lakh, of which the urban population was 66.57 *per cent*. The UT had a literacy rate of 81.24 *per cent* (2001). The infant mortality rate of the UT was 25 per 1000 live births (2009). As per the estimate (2004-05) of the Central Planning Commission, 21.7 *per cent* of the UT's population was below the poverty line. (**Appendix 1.1 Part A**).

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 Part B and Part C.** 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 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the UT Government's fiscal transactions during the current year (2009-10) *vis-à-vis* the previous year, while **Appendix 1.4 - Part A** 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

(₹ in crore)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
Section-A: Revenue					**Non Plan**	**Plan**	**Total**
2,459	**Revenue receipts**	**2,841**	**2,570**	**Revenue expenditure**	**1,995**	**1,088**	**3,083**
725	Tax revenue	868	681	General services	806	65	871
629	Non-tax revenue	643	959	Social services	489	776	1,265
-	Share of Union Taxes/ Duties	-	926	Economic services	696	247	943
1,105	Grants from the Government of India	1,330	4	Grants-in-aid and Contributions	4	-	4
Section-B: Capital							
-	Miscellaneous Capital Receipts	33	261	Capital Outlay	(-) 4	373	369
5	Recoveries of Loans and Advances	5	3	Loans and Advances disbursed	*	*	2
444	Public Debt receipts	659	123	Repayment of Public Debt	*	*	131
-	Contingency Fund		-	Contingency Fund	*	*	
610	Public Account receipts	836	400	Public Account disbursements	*	*	614
862	Opening Cash Balance	1,023	1,023	Closing Cash Balance			1,198
4,380	**Total**	**5,397**	**4,380**	**Total**			**5,397**

(Source: Finance Accounts of the Union Territory of Puducherry for the years 2008-09 and 2009-10)

* Bifurcation of Plan and Non-Plan not available

The following are the significant changes during 2009-10 as compared to the previous year :

- Revenue receipts grew by ₹ 382 crore (16 *per cent)* over the previous year. The increase was mainly contributed by tax revenue (₹ 143 crore), non-tax revenue (₹ 14 crore) and grants received from the Government of India (GOI) (₹ 225 crore).
- Revenue expenditure increased by ₹ 513 crore (20 *per cent)* over the previous year, mainly due to increase in expenditure on General Services (₹ 190 crore), Social Services (₹ 306 crore) and Economic Services (₹ 17 crore).
- Revenue expenditure on Social Services and Economic Services increased by 32 *per cent* and two *per cent* respectively.
- Capital expenditure increased by ₹ 108 crore (41 *per cent)* during the year and stood at 10.68 *per cent* of the aggregate expenditure.
- Public Account receipts increased by ₹ 226 crore (37 *per cent)* and disbursements increased by ₹ 214 crore (54 *per cent).* Net receipts under the Public Account increased by ₹ 12 crore during the year.
- The net impact of these transactions led to a significant increase of ₹ 175 crore in the cash balance at the end of the year over the previous year.

Review of the fiscal situation

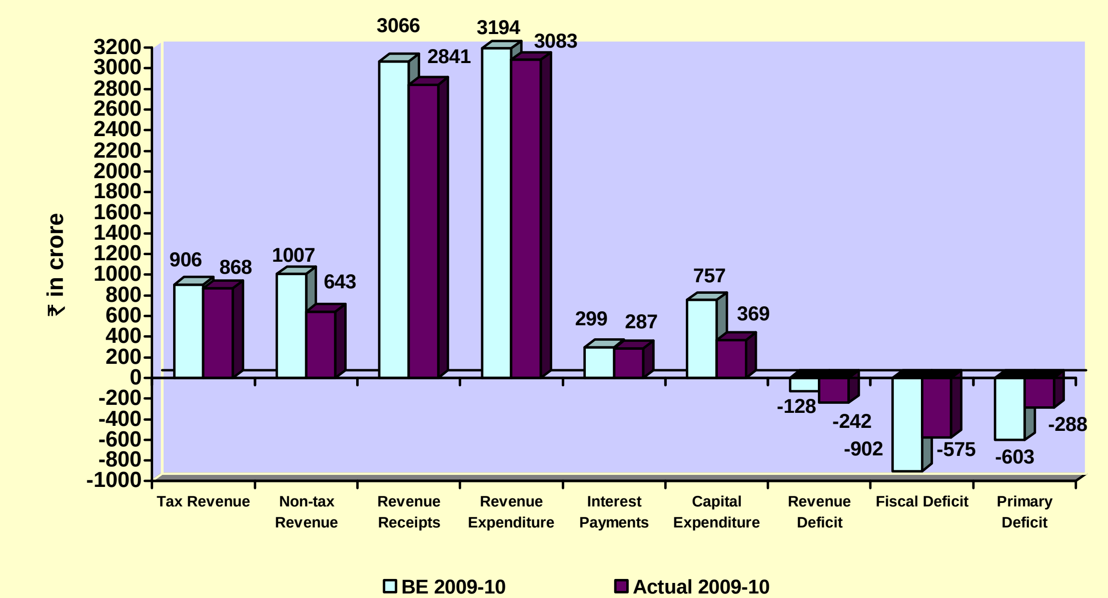
The fiscal deficit of the Government during the year (₹ 575 crore) increased by ₹ 205 crore (55 *per cent*) over the previous year (₹ 370 crore). The fiscal deficit to GSDP increased from 3.6 *per cent* in 2008-09 to 5.1 *per cent* in 2009-10. The outstanding fiscal liabilities increased from ₹ 3,325 crore in 2008-09 to ₹ 3,887 crore (16.9 *per cent*) in 2009-10. 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

Budget papers presented by a State/Union Territory Government provide a description of the 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.

Chart 1.1 : Selected Fiscal Parameters : Budget estimates vis-a-vis Actuals for 2009-10



During 2009-10, while the actuals under tax revenue were almost in line with the budget estimates, revenue receipts were less by ₹ 225 crore than the budget estimates mainly due to low collection of non-tax revenue by ₹ 364 crore (36 *per cent*).

Revenue expenditure was less by ₹ 111 crore (three *per cent*) than the budget estimates, mainly due to less expenditure incurred under 'Relief on account of natural calamities'.

While the revenue deficit was more than the budget estimate by ₹ 114 crore, mainly due to less collection of non-tax revenue than budget estimate, the fiscal deficit and the primary deficit were less than the budget estimates, mainly due to less capital expenditure.

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 revenues, non-tax revenues and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as recoveries of loans and advances, debt receipts from internal sources (market loans), 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 during 2005-10. **Chart 1.3** depicts the composition of resources during the current year.

Chart 1.2: Trends in Receipts

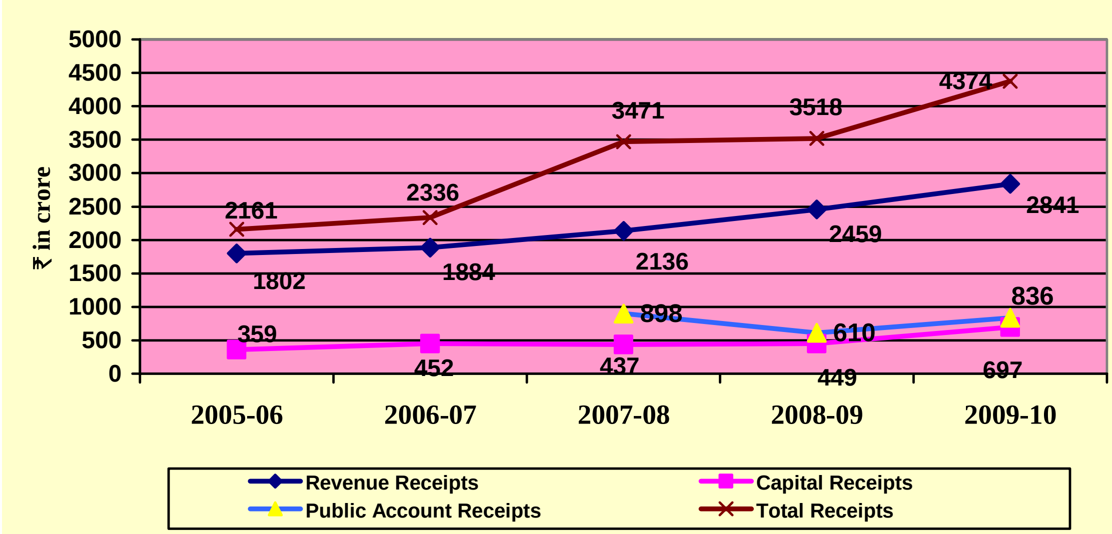
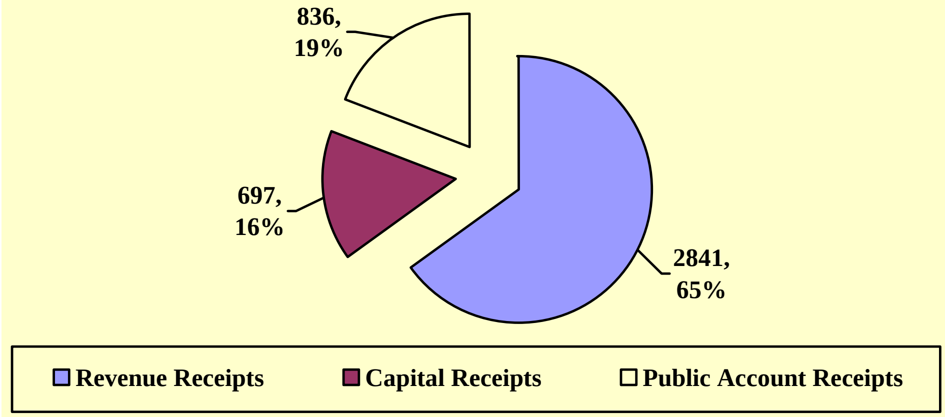


Chart 1.3: Composition of Receipts during 2009-10
(₹ in crore and percentage to total)



The total receipts of the UT increased by ₹ 856 crore (24 *per cent*) over the previous year, due to increase of ₹ 382 crore (16 *per cent)* in revenue receipts, ₹ 248 crore (55 *per cent)* in capital receipts and ₹ 226 crore (37 *per cent)* in the Public Account receipts.

Capital receipts of ₹ 33 crore were realised during the year due to buy back of Government shares from Pondicherry Power Corporation Limited.

The UT's tax revenue increased from ₹ 725 crore in 2008-09 to ₹ 868 crore in 2009-10 (increase of 19.7 *per cent*).

1.2.2 Funds transferred to UT Implementing Agencies outside the UT Budget

The Central Government has been transferring a sizeable quantum of funds directly to UT 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 during 2009-10 to UT implementing agencies under the control of five departments *viz*., Education, Health, Information and Technology, Local Administration and Rural Development in respect of six major programmes assisted by GOI are presented in **Table 1.2.**

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

Table-1.2: Funds transferred directly to UT Implementing Agencies

(₹ in crore)

Programme/ Scheme	Implementing Agency in the UT	Funds transferred directly by GOI during 2009-10
State Services Delivery Gateway and State Portal	Puducherry e-Governance Society, Puducherry	9.38
Total Sanitation Campaign Programme	District Rural Development Agency	0.25
Member of Parliament-Local Area Development Programme	District Rural Development Agency	7.00
Sarva Shiksha Abhiyan	State Project Office	6.70
Swarna Jayanthi Shahari Rozgar Yojana	Puducherry Urban Development Agency	0.06
National Rural Health Mission (NRHM)	State Rural Health Mission	1.91
	Total	**25.30**

Source : Figures furnished by the five 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 ₹ 25.30 crore transferred to UT implementing agencies, a major amount of ₹ 9.38 crore (51 *per cent*) was transferred to the Puducherry e-Governance Society.

Direct transfers of funds from the Union to UT implementing agencies without routing them through the UT budget can be risky unless uniform accounting practices are diligently followed by all these agencies. Further, without 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-11 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 2005-10 are presented in **Appendix 1.3** and depicted in **Charts 1.4** and **1.5** respectively.

Chart 1.4: Trends in Revenue Receipts

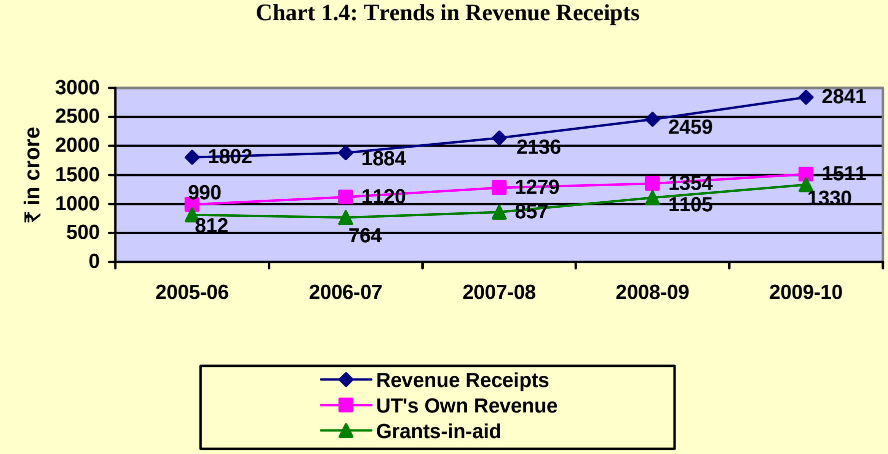
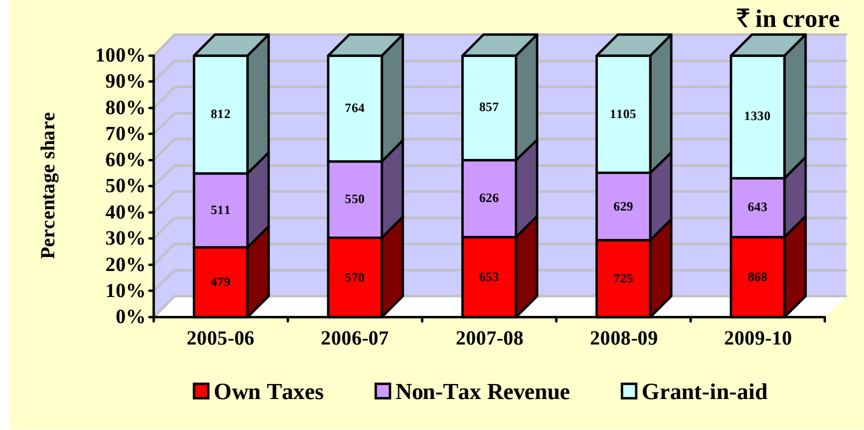


Chart 1.5: Composition of Revenue Receipts during 2005-10



The revenue receipts showed an increase of ₹ 382 crore over the previous year (16 *per cent).* The increase, however, could not keep pace with the increase of ₹ 513 crore in revenue expenditure (20 *per cent).*

There was a marginal increase (two *per cent*) under non-tax revenue receipts which increased by ₹ 14 crore over the previous year. Grants-in-aid from GOI increased from ₹ 1,105 crore in 2008-09 to ₹ 1,330 crore in 2009-10 (increase of 20 *per cent*), mainly due to receipt of more Non-Plan revenue deficit grant.

The buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. As the GSDP grows the UT's own tax revenue should also increase. It is seen that as against the GSDP growth rate of 9.68 *per cent* during 2009-10, the growth rate of UT's own taxes was 19.7 *per cent* over the previous year. Therefore, the revenue buoyancy was at 1.6, indicating that revenue receipts grew faster than the GSDP. The UT's own tax buoyancy ratio was at two, indicating that the rate of growth of own taxes was faster than the growth rate of GSDP.

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

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) (` in crore)	**1,802**	**1,884**	**2,136**	**2,459**	**2841**
Rate of growth of RR (per cent)	10.5	4.6	13.4	15.1	15.5
UT's own taxes (` in crore)	479	570	653	725	868
Rate of growth of own taxes (per cent)	18.60	18.99	14.60	11.02	19.70
GSDP growth (per cent)	38.63	4.49	12.65	9.30	9.68
Buoyancy Ratios					
RR/GSDP[2] (per cent)	22.6	22.6	22.8	24.0	25.2
Revenue buoyancy with reference to GSDP (ratio)	0.27	1.0	1.1	1.6	1.6
UT's own tax buoyancy with reference to GSDP (ratio)	0.48	4.2	1.2	1.2	2.0

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

[2] Provisional and Quick estimates of GSDP of ₹ 10,263 crore and ₹11,255 crore have been adopted for 2008-09 and 2009-10.

The GSDP, at the current rate, was estimated to increase from ₹ 10,263 crore in 2008-09 to ₹ 11,255 crore in 2009-10, representing an increase of 9.68 *per cent*.

Revenue receipts, as a percentage of GSDP, increased marginally from 24 in 2008-09 to 25.2 in 2009-10.

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

(₹ in crore)

Revenue Head	2005-06	2006-07	2007-08	2008-09	2009-10
Tax Revenue					
Taxes on Sales, Trades etc.	304	365	355	382	453
State excise	125	144	224	280	329
Taxes on vehicles	26	29	32	32	35
Stamp duty and Registration fees	24	31	41	31	50
Land revenue	--	1	1	--	1
Total	**479**	**570**	**653**	**725**	**868**
Non-Tax Revenue					
Interest receipts	2	6	18	44	51
Dividends and Profits	2	1	4	4	6
Other non-tax receipts	507	543	604	581	586
Total	**511**	**550**	**626**	**629**	**643**

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

The Union Territory's tax revenue increased by ₹ 143 crore (20 *per cent*) over the previous year. The increase was mainly contributed by State excise (₹ 49 crore) on higher production of Indian made foreign liquor (IMFL) and beer, sales tax (₹ 71 crore) on increase in number of registered dealers and strict compliance of payment and collection of tax arrears, taxes on vehicles (₹ three crore) on account of more number of registration of vehicles and stamp duty and registration fees (₹ 19 crore) due to more sale of non-judicial stamps.

Non-tax revenue receipts of ₹ 643 crore, which constituted 22.63 *per cent* of revenue receipts, were realised from sale of power (₹ 549 crore), interest receipts (₹ 51 crore), dividends and profits (₹ six crore) and other receipts under various administrative services/departments (₹ 37 crore) during 2009-10. Non-tax revenue increased by ₹ 14 crore during the year over the previous year.

The UT's own resources of ₹ 1,511 crore (₹ 868 crore – Tax revenue and ₹ 643 crore – Non-tax revenue) as well as recovery of loans and advances of ₹ five crore was not sufficient to meet even the Non-Plan revenue expenditure of the UT (₹ 1,995 crore).

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 2009-10 by the Principal Accountant General (Commercial and Receipt Audit) revealed under-assessment/ short levy/ loss of revenue amounting to ₹ 9.88 crore in 28 cases.

1.3.3 Revenue Arrears

Arrears of revenue pending collection increased from ₹ 261.50 crore in 2008-09 to ₹ 342.06 crore in 2009-10 (30.81 *per cent*), which constituted 9.3 *per cent* of the UT's tax revenue and more than the revenue deficit by ₹ 100 crore. These arrears were due for collection mainly by the Electricity (₹ 163.65 crore), Commercial Taxes (₹ 146.81 crore) and Public Works (₹ 16.88 crore) departments. Of the arrears pending collection by the Electricity Department, ₹ 37.28 crore was due from Government institutions and local bodies and ₹ 12.80 crore and ₹ 3.78 crore were under litigation and recoverable through the Revenue Recovery Act respectively. Of the arrears pending collection by the Commercial Taxes Department, ₹ 123.88 crore and ₹ 22.30 crore were covered by court stay orders and the Revenue Recovery Act respectively.

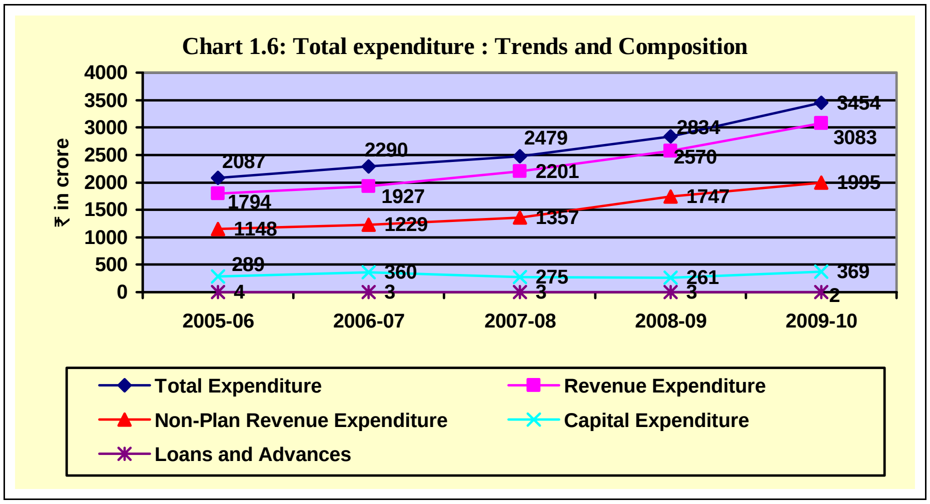
Considering the huge sums involved, the Government needs to take expeditious steps to recover the revenue arrears.

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 ongoing fiscal correction and consolidation process is not at the cost of expenditure especially directed towards the development of social sectors.

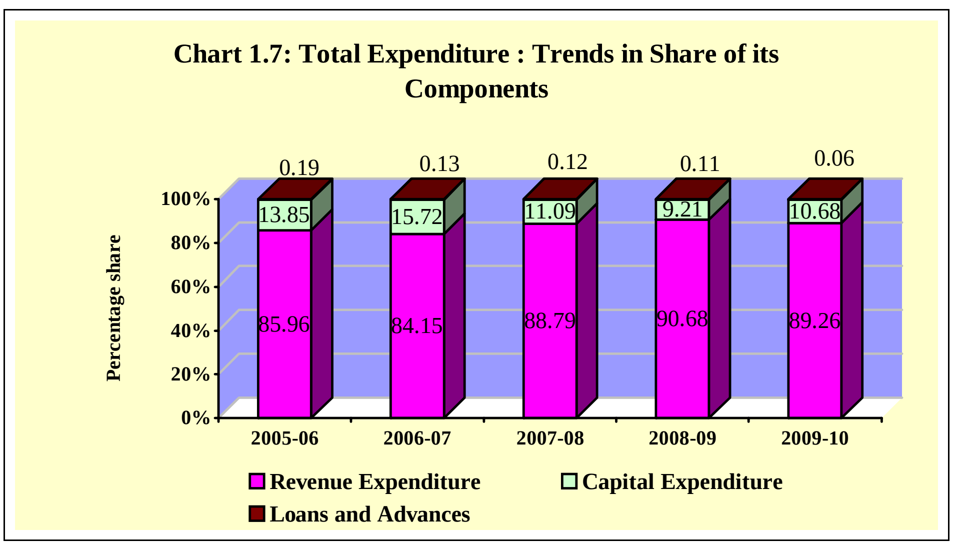
1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends of total expenditure over a period of five years (2005-10). Its composition in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.7 and 1.8** respectively**.**

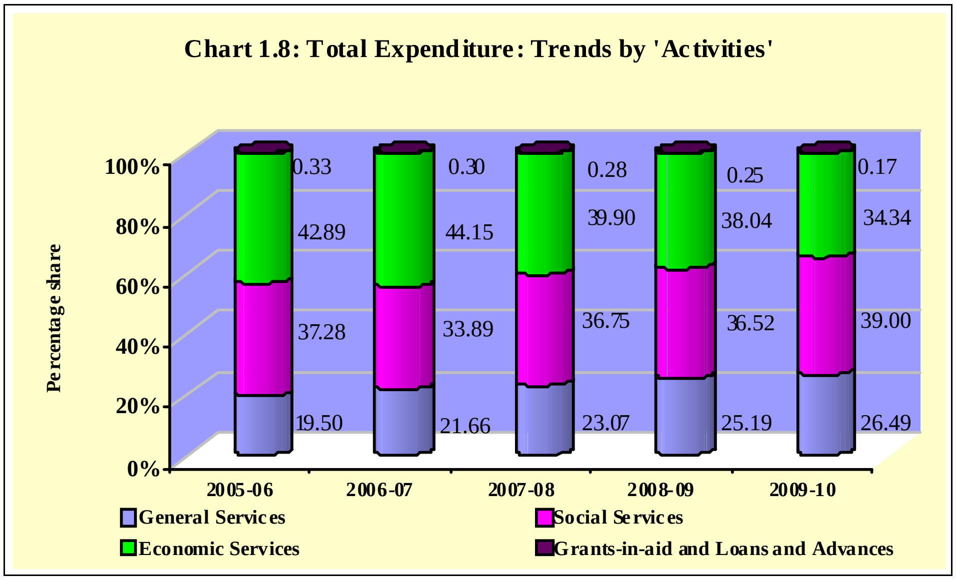


The total expenditure[3] of the UT increased by 65.5 *per cent* from ₹ 2,087 crore in 2005-06 to ₹ 3,454 crore in 2009-10. The total expenditure during the current year increased by ₹ 620 crore (21.88 *per cent*) over the previous year. The revenue expenditure increased by ₹ 513 crore (19.96 *per cent*) and the capital expenditure increased by ₹ 108 crore (41.37 *per cent*) during 2009-10. The revenue expenditure was 89.26 *per cent* of the total expenditure, of which 64.71 *per cent* was the Non-Plan component.

Revenue receipts of the UT met 82 *per cent* of the total expenditure during 2009-10 as against 87 *per cent* during 2008-09.



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



The expenditure on General Services, Social Services and Economic Services during 2009-10 grew by 28.15 *per cent*, 30.14 *per cent* and 10.02 *per cent* respectively. However, the development expenditure, i.e., expenditure on Social and Economic Services together accounted for 73.34 *per cent* in 2009-10 as against 74.56 *per cent* in 2008-09.

The increase in the expenditure on Social Services (₹ 312 crore) was mainly on account of increased spending on Education, Sports, Art and Culture (₹ 111 crore), Health and Family Welfare (₹ 110 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 71 crore) under the revenue account.

1.4.2 Committed Expenditure

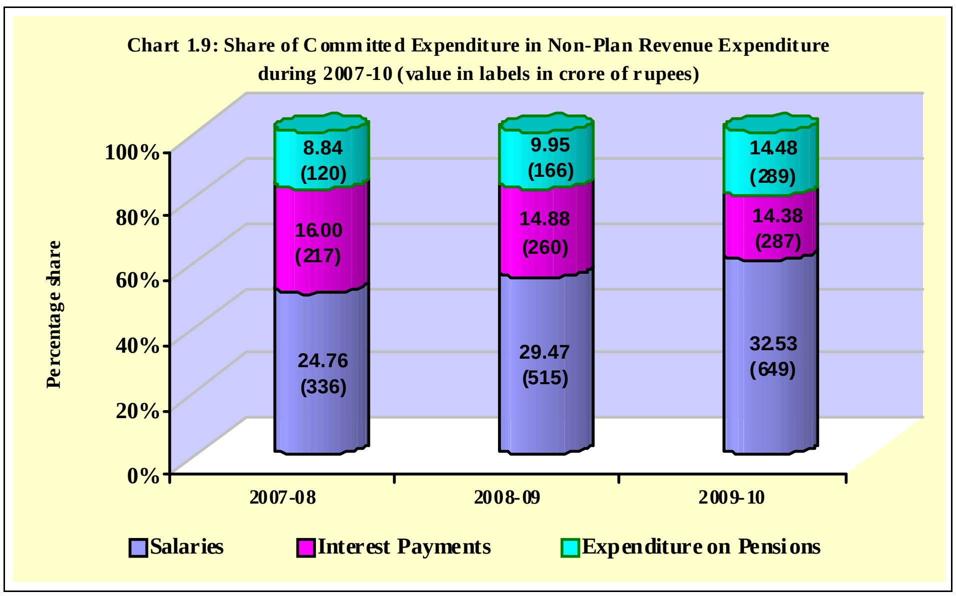
The committed expenditure of the UT Government on the revenue account mainly consists of interest payments, expenditure on salaries and pensions and subsidies. **Table 1.5** presents the trends of expenditure on these components during 2005-10 and **Chart 1.9** presents the share of committed expenditure in Non-Plan revenue expenditure on salaries, interest payments and pension during 2007-10.

Table-1.5: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10
Salaries *, of which*	364 (20)	429 (23)	445 (21)	688 (28)	868 (31)
Non-Plan Head	287	326	336	515	649
Plan Head**	77	103	109	173	219
Interest Payments	171 (9)	187 (10)	217 (10)	260 (11)	287 (10)
Expenditure on Pension	86 (5)	104 (6)	120 (6)	166 (7)	289 (10)
Subsidies	18 (1)	17 (1)	31 (1)	31 (1)	46 (1)
Total	**639 (35)**	**737 (39)**	**813 (38)**	**1145 (47)**	**1490 (52)**

(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, which was 38 *per cent* of revenue receipts in 2007-08, increased gradually to 47 *per cent* in 2008-09 and 52 *per cent* in 2009-10.

Expenditure on salaries under Non-Plan and Plan during the current year was ₹ 649 crore and ₹ 219 crore respectively. It increased by 26.16 *per cent* over the previous year, mainly due to payment of the second instalment of arrears (30 *per cent*) consequent on the implementation of the Sixth Central Pay Commission's recommendations. The Government is liable to pay the third and final instalment of arrears (30 *per cent*) in 2010-11. The share of salaries relative to revenue receipts increased from 28 *per cent* in 2008-09 to 31 *per cent* during 2009-10.

Pension payments increased by 74 *per cent* from ₹ 166 crore in 2008-09 to ₹ 289 crore in 2009-10, mainly due to payment of second instalment arrears of revised pension/family pension consequent on the implementation of the Sixth Central Pay Commission's recommendations. The Government is liable to pay the third and final instalment of arrears of pensions (30 *per cent*) in 2010-11.The share of pension payments to revenue receipts increased from seven *per cent* in 2008-09 to10 *per cent* in 2009-10.

Interest payments increased by ₹ 27 crore (10 *per cent)* over the previous year, mainly due to payment of interest for market loans (₹ 26 crore).

Subsidies (1.6 *per cent* of revenue receipts in 2009-10) 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

(₹ in crore)

Financial Assistance to Institutions	2005-06	2006-07	2007-08	2008-09	2009-10
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	11.54	10.93	12.09	13.16	29.92
Municipalities	43.26	40.67	19.20	18.86	27.78
Panchayati Raj Institutions	31.11	19.78	10.15	28.97	18.66
Development agencies and autonomous bodies	218.44	151.50	213.93	232.75	346.41
Co-operatives	25.47	27.78	22.26	27.59	24.38
Other Institutions*	2.28	9.57	3.80	5.42	6.09
Total	**332.10**	**260.23**	**281.43**	**326.75**	**453.24**
Assistance as percentage of revenue expenditure	19	14	13	13	15

(Source: Director of Accounts and Treasuries, Puducherry)

* Welfare societies and Hindu religious institutions

Financial assistance extended to local bodies and other institutions increased from ₹ 326.75 crore in 2008-09 to ₹ 453.24 crore in 2009-10. The increase was mainly due to increased financial assistance to Autonomous bodies and Municipalities. The financial assistance as a percentage of revenue expenditure was 15 in 2009-10.

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. **Table 1.7** analyses the fiscal priority (ratio of expenditure category to aggregate expenditure) of the UT Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year and compares the fiscal priority given to different categories of expenditure of the Union Territory of Puducherry in 2005-06 and 2009-10.

Table-1.7: Fiscal Priority of the UT in 2005-06 and 2009-10

Fiscal Priority of the UT		**AE/GSDP**	**DE/AE**	**SSE/AE**	**CE/AE**
Puducherry Ratio	2005-06	26.16	80.35	37.28	13.85
	2009-10	30.69	73.34	39	10.68

AE: Aggregate Expenditure; DE: Development Expenditure; SSE: Social Sector Expenditure; CE: Capital Expenditure.
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

Public expenditure of the UT of Puducherry increased as a proportion of GSDP in 2009-10 compared to 2005-06.

Development Expenditure is a sum of Social Sector Expenditure and Economic Sector Expenditure. In 2009-10, the fiscal priority given to Social Sector Expenditure increased compared to 2005-06. However, the priority given to Development Expenditure, as a whole, was significantly lower in 2009-10 due to inadequate priority given to Economic Sector Expenditure.

The ratio of Capital Expenditure to Aggregate Expenditure declined from 13.85 in 2005-06 to 10.68 in 2009-10 indicating less priority for asset creation.

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 UT Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[4]. Apart from improving the allocation towards development expenditure[5], particularly in view of the fiscal space being created on account of decline in 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 being incurred 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 2005-10, **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 2008-09 and 2009-10.

Table-1.8: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10
Development Expenditure (a to c)	1,673.78 (80)	1,788.07 (78)	1,910.12 (77)	2,113.43 (75)	2,532.68 (73)
a. Development Revenue Expenditure	1410 (68)	1460 (64)	1659 (67)	1885 (66)	2207.78 (64)
b. Development Capital Expenditure	263 (13)	327 (14)	251 (10)	228 (8)	324.89 (9)
c. Development Loans and Advances	0.78 (0.04)	1.07 (0.05)	0.12 (0.01)	0.43 (0.02)	0.01 (Nil)
(Source: Finance Accounts of the Union Territory of Puducherry) Figures in parentheses indicate percentage of aggregate expenditure					

4 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.

5 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.

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

(Percentage)

Social/Economic Infrastructure	2008-09		2009-10	
	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	5.97	70.11	2.67	76.56
Health and Family Welfare	9.74	73.38	1.50	55.71
Water Supply, Sanitation and Housing and Urban Development	22.49	9.08	23.04	6.75
Total (SS)	**7.33**	**41.65**	**6.08**	**40.72**
Economic Services (ES)				
Agriculture and Allied Activities	6.13	32.62	9.49	32.19
Irrigation and Flood Control	53.86	49.94	65.46	52.74
Power and Energy	6.61	5.78	7.39	7.22
Transport	37.34	19.85	65.68	28.58
Total (ES)	**14.07**	**11.69**	**20.49**	**13.84**
Total (SS+ES)	**10.77**	**26.93**	**12.83**	**29.24**

(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 2005-10. However, as a percentage of aggregate expenditure, it came down from 80 in 2005-06 to 73 in 2009-10. The development capital expenditure, as a percentage of aggregate expenditure, increased from eight in 2008-09 to nine in 2009-10.

Expenditure on Social Services

The share of capital expenditure to total expenditure on Social and Economic Services increased from 10.77 *per cent* in 2008-09 to 12.83 *per cent* in 2009-10.

The capital expenditure on Social Services as a percentage of total expenditure on Social Services decreased from 7.33 in 2008-09 to 6.08 in 2009-10.

The share of capital expenditure in the total expenditure under General Education, Health and Family Welfare decreased sharply whereas Water Supply and Sanitation, Housing and Urban Development increased marginally in 2009-10 over the previous year, indicating that the Government's spending on infrastructural requirement of General Education and Health and Family Welfare was not keeping pace with the overall development expenditure.

Expenditure on Economic Services

The capital expenditure on Economic Services, as a percentage of total expenditure on Economic Services, increased from 14.07 *per cent* in 2008-09 to 20.49 *per cent* in 2009-10.

Under Agriculture and Allied Activities, Irrigation and Flood Control, and Power and Energy, the share of capital expenditure to total expenditure marginally increased during 2009-10, whereas there was a steep increase under Transport.

The share of salaries and wages in the revenue expenditure on Economic Services increased from 11.69 *per cent* in 2008-09 to 13.84 *per cent* in 2009-10, mainly due to payment of the second instalment of the Sixth Central Pay Commission's arrears.

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 returns 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 information on incomplete projects and a broad financial analysis of investments 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 2010 is given in **Table 1.10.**

Table 1.10: Department-wise profile of incomplete projects

(₹ in crore)

Department	No. of Incomplete Projects*	Initial Cost	Revised Total Cost of Projects	Cost Over-runs	Cumulative expenditure as on 31.3.2010
Public Works Department	12	22.36	34.97	12.61	23.05

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

* Only those projects which were scheduled to be completed before 31 March 2010 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 non-availing of negotiated loan.

1.6.2 Investment and returns

As of 31 March 2010, the Government had invested ₹ 867.50 crore, mainly in Government companies and Co-operatives **(Table 1.11)**. The return on these investments was 0.7 *per cent* while the Government paid interest at an average rate of eight *per cent* on its borrowings during 2009-10.

Table-1.11: Return on Investment

Investment/Return/Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (₹ in crore)	606.98	712.36	760.91	817.03	867.50
Return (₹ in crore)	1.74	1.03	3.68	4.15	6.39
Return *(per cent)*	0.3	0.1	0.5	0.5	0.7
Average rate of interest on Government borrowings *(per cent)*	10.1	9.4	8.5	8.3	8.0
Difference between interest rate and return *(per cent)*	9.8	9.3	8.0	7.8	7.3

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

As of March 2010, the Government had invested ₹ 673.42 crore in 14 Government companies and one statutory corporation and ₹ 194.08 crore in 364 co-operative institutions. Though heavy losses were incurred by the Pondicherry Textiles Corporation Limited (₹ 47.89 crore) and the Bharathi Swadeshi Textiles Mills Limited (₹ 11.17 crore), the Government invested ₹ 49.04 crore and ₹ seven crore respectively in them during the year.

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 2010 and interest receipts *vis-à-vis* interest payments during the last three years**.**

Table-1.12: Outstanding loans and interest received on loans and advances by the UT Government

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2007-08	2008-09	2009-10
Opening Balance	**36.74**	**27.82**	**25.70***
Amount advanced during the year	2.68	2.87	2.17
Amount repaid during the year	11.60	5.00	4.76
Closing Balance	**27.82**	**25.69**	**23.11**
Net addition	(-) 8.92	(-) 2.13	(-) 2.59
Interest Receipts	7.94	1.98	2.53
Interest receipts as percentage of outstanding Loans and advances	24.6	7.4	10.4
Interest payments as percentage of outstanding fiscal liabilities of the UT Government.	7.4	7.8	7.3
Difference between interest payments and interest receipts (*per cent*)	17.2	(-) 0.4	3.1

(Source: Finance Accounts of the UT of Puducherry)
* Differs due to proforma dropping

The quantum of loan advanced decreased from ₹ 2.87 crore in 2008-09 to ₹ 2.17 crore in 2009-10 and repayments also decreased from ₹ five crore in 2008-09 to ₹ 4.76 crore in 2009-10. The total amount advanced of ₹ 2.17 crore during the year included loans and advances of ₹ 2.16 crore to Government servants.

1.7 Assets and Liabilities

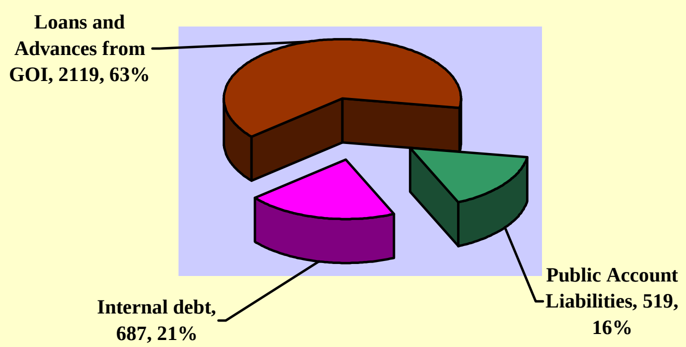
1.7.1 Growth and composition of Assets and Liabilities

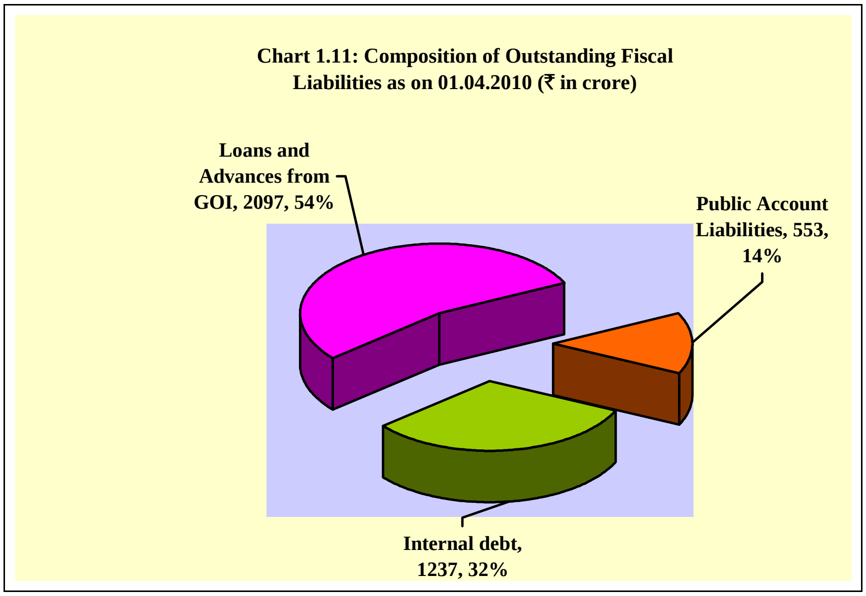
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4 – Part B** gives an abstract of such liabilities and the assets as on 31 March 2010, compared with the corresponding position on 31 March 2009. 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. The ratio of cumulative assets to liabilities as on 31 March 2010 was 0.97 indicating deficit on Government account in 2009-10 for the first time.

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 01.04.2009 (₹ in crore)





The outstanding fiscal liabilities have shown a steady increase from ₹ 1,820 crore in 2005-06 to ₹ 3,887 crore in 2009-10.

The fiscal liabilities as at the end of 2009-10 represented 137 *per cent* of revenue receipts during the year as against 101 *per cent* in 2005-06.

While internal debts which constituted 21 *per cent* of the fiscal liabilities in 2008-09 increased to 32 *per cent* in 2009-10, loans and advances from GOI decreased from 63 *per cent* to 54 *per cent* of the fiscal liabilities during the same period. The Public Account liabilities increased from ₹ 519 crore in 2008-09 to ₹ 553 crore in 2009-10.

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-9 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 **Table1.13.**

Table-1.13: Guarantees given by the Government of India on behalf of the Union Territory of Puducherry

Guarantees	2007-08	2008-09	2009-10
Maximum amount guaranteed (₹ in crore)	20.98	20.98	20.98
Outstanding amount of guarantees (₹ in crore)	6.84	6.23	11.97
Percentage of maximum amount guaranteed to total Revenue receipts	1.00	0.9	0.7

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

As a percentage of revenue receipts, it came down from one in 2007-08 to 0.7 in 2009-10. 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 of the UT. This section assesses the sustainability of debt of the UT Government in terms of debt stabilisation, sufficiency of non-debt receipts, net availability of borrowed funds[6], burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of the UT Government's debts.

Public Debt receipts increased from ₹ 444 crore in 2008-09 to ₹ 659 crore in 2009-10 (48.4 *per cent*). **Table 1.14** analyses the debt sustainability of the UT according to these indicators for a period of three years beginning from 2007-08.

Table 1.14: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2007-08	2008-09	2009-10
Debt Stabilisation (Quantum Spread + Primary Deficit)	(-) 25	(-) 81	(-) 231
Sufficiency of Non-debt Receipts (Resource Gap)	(+) 67	(-) 39	(-) 205
Net Availability of Borrowed Funds	538*	142	275
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)	148 (4.4)
1 – 3	279(11.3)	304(10.8)	914 (27.4)
3 – 5	319(12.9)	334(11.9)	492 (14.8)
5 – 7	285(11.5)	276 (9.8)	591 (17.7)
7 and above	1,479(59.4)	1,761(62.8)	1189 (35.7)

Source : Finance Accounts of the Union Territory of Puducherry

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

* Net available borrowed funds in 2007-08 included ₹ 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.

Debt stabilization means that, if the primary deficit together with the quantum spread turns out to be negative, the debt – GSDP ratio would be rising. There has been an alarming warning signal in the debt stabilization indicator since

6 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.

the value moved from a sustainable position in 2007-08 to a significantly negative ₹ 231 crore in 2009-10. Unless corrective measures are taken to convert the primary deficit to surplus, debt could become unsustainable in the medium term.

The resource gap (the difference between incremental total expenditure and incremental non-debt receipts) widened during 2009-10, showing that unless concerted efforts are made to narrow this gap, by increasing the non-debt receipts in the coming years, or to contain primary expenditure, debt sustainability could become a major problem in future.

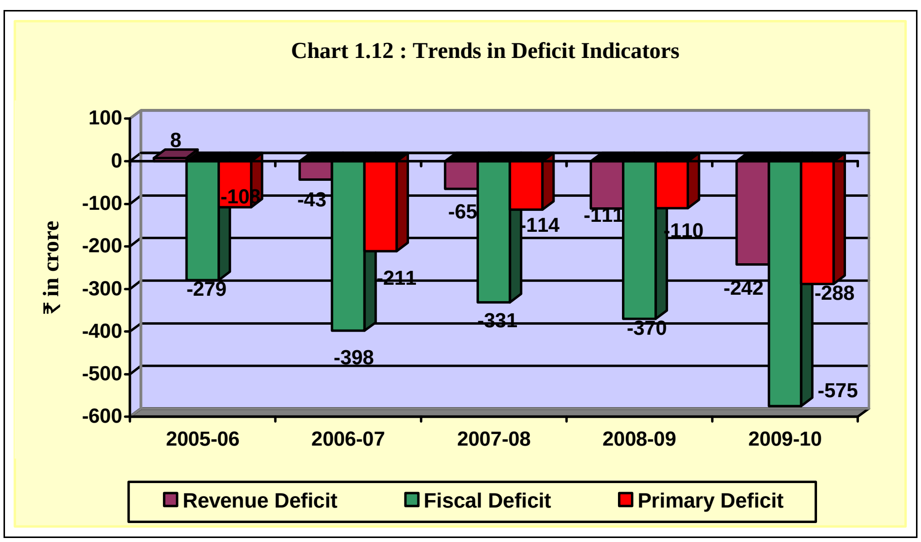
The maturity profile of the UT Government's Public Debt indicates that nearly 46.6 *per cent* of the total Public Debt is repayable within next five years while 53.4 *per cent* loans are required to be repaid after five years. Ideally, further borrowings in future should be made in such a way that there is no bunching of repayments in any particular year as it would cause undue stress on the budget.

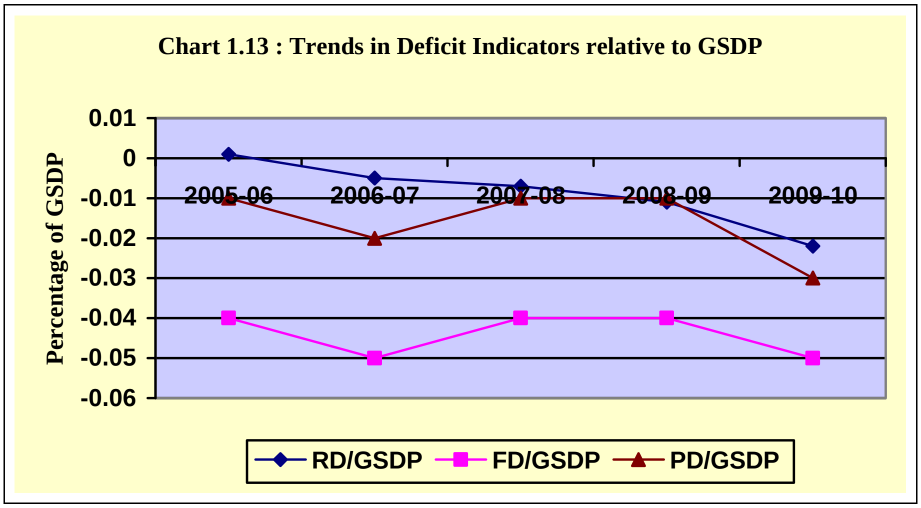
1.9 Fiscal Imbalances

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.

1.9.1 Trends in Deficits

Charts 1.12 and **1.13** presents the trends in deficit indicators over the period 2005-10.





The revenue deficit indicates the excess of revenue expenditure over revenue receipts. As exhibited in **Chart 1.12**, after experiencing revenue surplus in 2005-06, the position turned into a deficit from 2006-07. The increase of revenue deficit by ₹ 131 crore during 2009-10 was due to the increase in revenue expenditure by ₹ 513 crore against an increase in revenue receipts by ₹ 382 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 1.15.**

Table 1.15: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
Decomposition of Fiscal Deficit		**(-) 279**	**(-) 398**	**(-) 331**	**(-) 370**	**(-) 575**
1	Revenue Deficit	(+) 8	(-) 43	(-) 65	(-) 111	(-) 242
2	Net Capital Expenditure	(-) 289	(-) 360	(-) 275	(-) 261	(-) 336
3	Net Loans and Advances	(+) 2	(+) 5	(+) 9	(+) 2	(+) 3
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	--	--	337	350	549
2	Loans from GOI	267	347	(-)21	(-)29	(-) 21
3	Special Securities issued to National Small Savings Fund	--	--	--	--	--
4	Loans from Financial Institutions	--	--	--	--	--
5	Small Savings, PF etc	--	--	252	41	48
6	Deposits and Advances	--	--	187	27	(-) 15
7	Suspense and miscellaneous	--	--	239	98	147
8	Remittances	--	--	6	32	41
9	Reserve Funds	--	--	--	12	1
10	Overall Surplus/Deficit (cash balance)	(-) 12	(-)51	669	161	175
*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 ₹ 205 crore during 2009-10, mainly due to increase in revenue deficit by ₹ 131 crore. The increase in fiscal deficit, along with an increase in interest payments by ₹ 27 crore, led to an increase of ₹ 178 crore in the primary deficit during the year.

Capital receipts during the year were ₹ 33.26 crore due to buy back of shares from Pondicherry Power Corporation Limited. The fiscal deficit of the year was reduced to that extent.

The UT is increasingly relying on market borrowings for financing its fiscal deficit.

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 1.16)** 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 1.16: Primary Deficit/Surplus – Bifurcation of Factors

(₹ in crore)

Year	Revenue Receipts	Recovery of Loans and Advances	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances disbursed	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)**
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
2009-10	2,841	38*	2,879	2,796	369	2	3,167	45	(-) 288

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

* Includes miscellaneous capital receipt of ₹ 33 crore

Though the non-debt receipts in the past five years were enough to cover primary revenue expenditure, the receipts were not enough to cover capital expenditure. Hence, there was primary deficit in all the years. The primary deficit, which was ₹ 108 crore in 2005-06 rose to ₹ 288 crore in 2009-10 mainly due to increase in capital expenditure during that year.

Even though the capital expenditure increased from ₹ 289 crore in 2005-06 to ₹ 369 crore in 2009-10, as a percentage of primary expenditure, it decreased from 15.08 in 2005-06 to 11.65 in 2009-10.

1.10 Conclusion and Recommendations

Arrears of revenue pending collection increased from ₹ 261.50 crore in 2008-09 to ₹ 342.06 crore in 2009-10 (30.81 *per cent)* which constituted 9.3 *per cent* of the UT's tax revenue and was more than the revenue deficit for the year by ₹ 100 crore.

The Government needs to make urgent and concerted efforts to ensure that the respective departments recover the arrears of revenue. This would help in reducing the revenue deficit.

The Non-Plan revenue expenditure increased from ₹ 1,747 crore in 2008-09 to ₹ 1,995 crore (increase of 14 *per cent*) in 2009-10.

The Government should make serious efforts to contain the Non-Plan revenue expenditure as it would be necessary to make available more funds for developmental purposes and also to contain revenue deficit.

The resource gap widened by ₹ 166 crore during 2009-10, due to which debt sustainability would become a major problem in future.

The Government needs to make concerted efforts to narrow the resource gap, by increasing non-debt receipts in the coming years, or to contain unproductive expenditure to ensure debt sustainability.

The Government's investments as of 31 March 2010 stood at ₹ 867.50 crore The return on these investments was 0.7 *per cent* during 2009-10 while the Government paid interest at an average rate of eight *per cent* on its borrowings.

The Government needs to ensure that funds borrowed at higher rates of interest are not invested for lesser returns. Wherever there is a clear social justification, high priority non-revenue generating projects may be taken up only after a diligent socio-economic cost benefit analysis so that there is transparency in prioritization of projects.

Blocking of huge sums in incomplete projects delayed and undermined the economic benefits realisable through them.

Execution of large projects should be closely monitored to avoid blocking of funds in incomplete projects.