CHAPTER I

FINANCES OF THE UNION TERRITORY GOVERNMENT

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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, geographically separated from each other. The UT's population increased from 9.74 lakh in 2001 to 12.44 lakh in 2011 (provisional figure), recording a decadal growth rate of 27 *per cent*. The UT has higher literacy level and the compound annual growth rate of Gross State Domestic Product (GSDP) for the period 2001-02 to 2010-11 has been over 13 *per cent*. As per the estimate (2004-05) of the Central Planning Commission, 22.4 *per cent* of the UT's population was below poverty line (**Appendix 1.1 Part A**).

This chapter provides a broad perspective of the finances of the Government of the Union Territory 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 the 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 (2010-11) *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)

2009-10	Receipts	2010-11	2009-10	Disbursements	2010-11		
Section-A: Revenue					**Non Plan**	**Plan**	**Total**
2,841	**Revenue receipts**	**3,200**	**3,083**	**Revenue expenditure**	**2,319**	**1,221**	**3,540**
868	Tax revenue	1,074	871	General services	833	32	865
643	Non-tax revenue	743	1,265	Social services	578	801	1,379
-	Share of Union Taxes/ Duties	--	943	Economic services	904	388	1,292
1,330	Grants from the Government of India	1,383	4	Grants-in-aid and Contributions	4		4
Section-B: Capital					**Non Plan**	**Plan**	**Total**
33	Miscellaneous Capital Receipts	--	369	Capital Outlay	2	369	371
5	Recoveries of Loans and Advances	4	2	Loans and Advances disbursed	2	--	2
659	Public Debt receipts	854	131	Repayment of Public Debt	*	*	148
	Contingency Fund	--	-	Contingency Fund			--
836	Public Account receipts	393	614	Public Account disbursements	*	*	772
1,023	Opening Cash Balance	1,210	1,198	Closing Cash Balance			828
5,397	**Total**	**5,661**	**5,397**	**Total**			**5,661**

(Source: Finance Accounts)

* Bifurcation of Plan and Non-Plan not available

The following are the significant changes during 2010-11 as compared to the previous year:

- Revenue receipts grew by ₹ 359 crore (13 *per cent)* over the previous year. The increase was contributed by tax revenue (₹ 206 crore), non-tax revenue (₹ 100 crore) and grants received from the Government of India (₹ 53 crore).
- Revenue expenditure increased by ₹ 457 crore (15 *per cent)* over the previous year due to increase in expenditure on Social Services (₹ 114 crore), and Economic Services (₹ 349 crore) which were offset by decrease in expenditure on General Services (₹ six crore).
- Revenue expenditure on Social Services and Economic Services increased by nine *per cent* and 37 *per cent* respectively.
- Capital expenditure increased marginally by ₹ two crore (0.54 *per cent)* during the year and it was at nine *per cent* of the aggregate expenditure.
- Public Account receipts decreased by ₹ 443 crore (53 *per cent)* mainly due to transfer of Central Sales Tax collections of ₹ 422 crore pertaining to years 2009-10 and 2010-11 kept under 'suspense' head in the Public Account to 'Grants-in-aid from GOI' head during 2010-11. The Public Account disbursements increased by ₹ 158 crore (26 *per cent).* Net disbursements under the Public Account increased by ₹ 285 crore during

the year which led to a significant decrease of ₹ 382 crore in the cash balance at the end of the year over the previous year.

Review of the fiscal situation

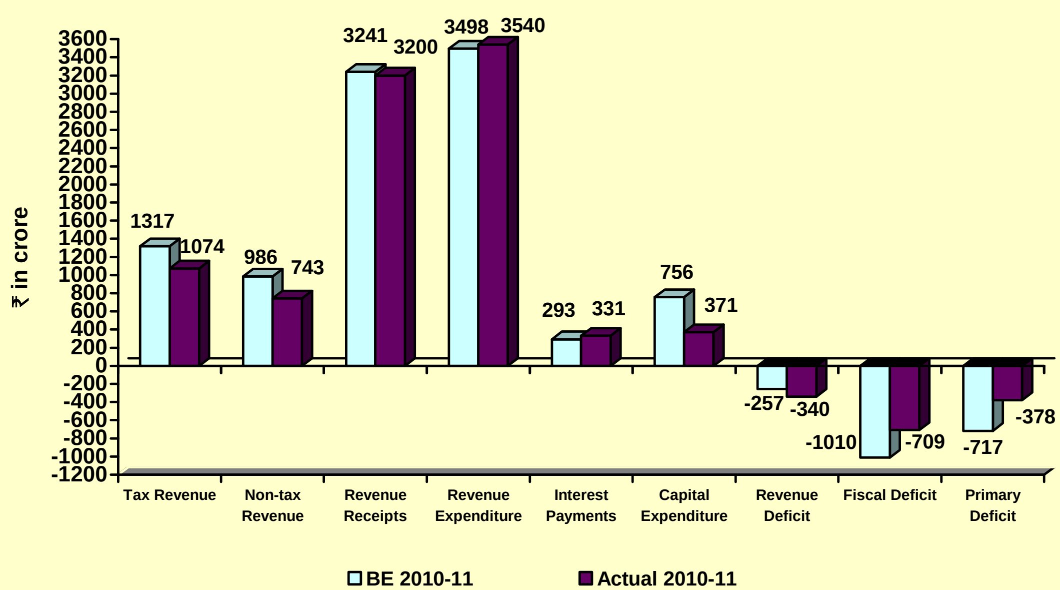
The fiscal deficit of the Government during the year (₹ 709 crore) increased by ₹ 134 crore (23 *per cent*) over the previous year (₹ 575 crore). The fiscal deficit to GSDP was at five *per cent* in 2010-11 as it was in 2009-10. The outstanding fiscal liabilities increased from ₹ 3,887 crore in 2009-10 to ₹ 4,588 crore (18 *per cent*) in 2010-11. As the Twelfth Finance Commission recommendations were not applicable to the UT of Puducherry, the FRBM Act was not enacted. However, a road map has been prepared based on the principles of FRBM Act, which is pending for approval by the Government of India.

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 in 2010-11



Though tax revenue and non-tax revenue were less each by ₹ 243 crore than budget estimates, the actual revenue receipts during 2010-11 were almost in line with the budget estimates due to receipt of more grants-in-aid from GOI than the budget estimates.

While revenue expenditure was almost in line with the budget estimates, capital expenditure was less by ₹ 385 crore mainly due to less expenditure incurred on education, sports, art and culture and water supply, sanitation, housing and urban development under Social Sector and energy and transport under Economic Sector than the budget estimates. This led to less fiscal deficit of ₹ 301 crore than the budget estimate.

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 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 2006-11. **Chart 1.3** depicts the composition of resources during the current year.

Chart 1.2: Trends in Receipts

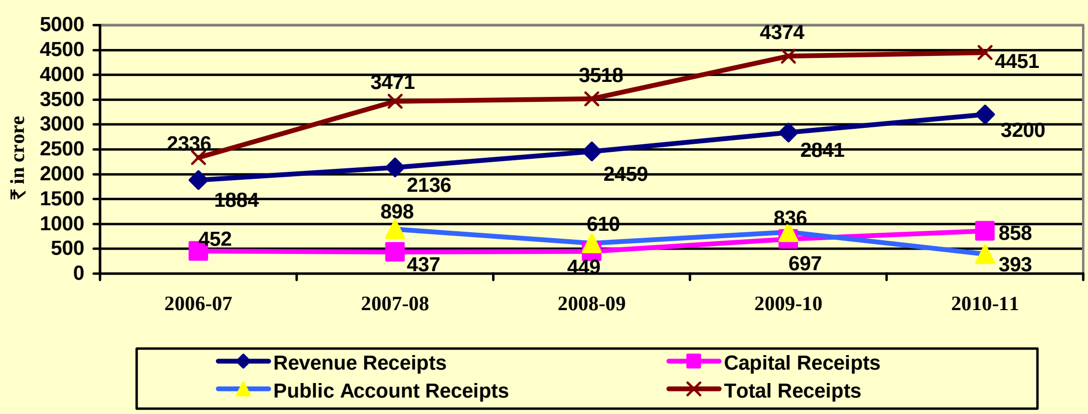
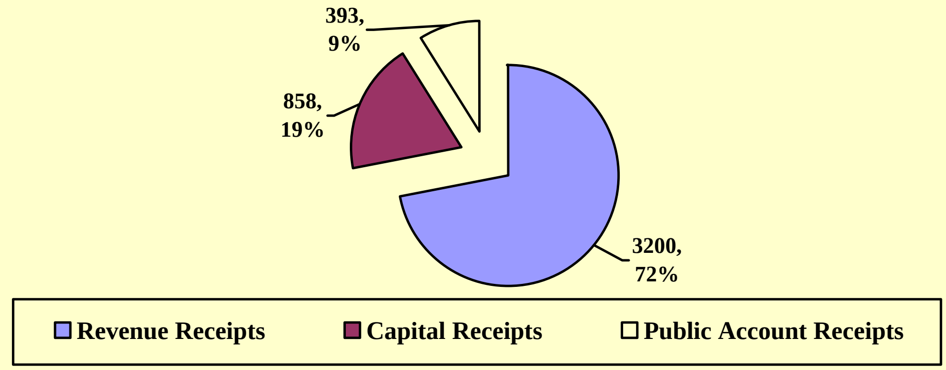


Chart 1.3: Composition of Receipts during 2010-11
(₹ in crore and percentage to total)



The total receipts of the UT increased by ₹ 77 crore (1.76 *per cent*) over the previous year, due to increase of ₹ 359 crore (13 *per cent)* in revenue receipts and ₹ 161 crore (23 *per cent)* in capital receipts which was offset by a decrease of ₹ 443 crore in Public Account receipts.

The UT's tax revenue increased from ₹ 868 crore in 2009-10 to ₹ 1,074 crore in 2010-11 (increase of 24 *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 2010-11 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 2010-11
State Services Delivery Gateway and State Portal	Puducherry e-Governance Society, Puducherry	5.69
Member of Parliament-Local Area Development Programme	District Rural Development Agency	4.00
National Rural Employment Guarantee Act Scheme		30.82
Swarnajayanthi Gram Swarojgar Yojana		2.68
Sarva Shiksha Abhiyan	State Project Office	4.85
Swarna Jayanthi Shahari Rozgar Yojana	Puducherry Urban Development Agency	0.50
National Rural Health Mission (NRHM)	State Rural Health Mission	11.92
Total		**60.46**

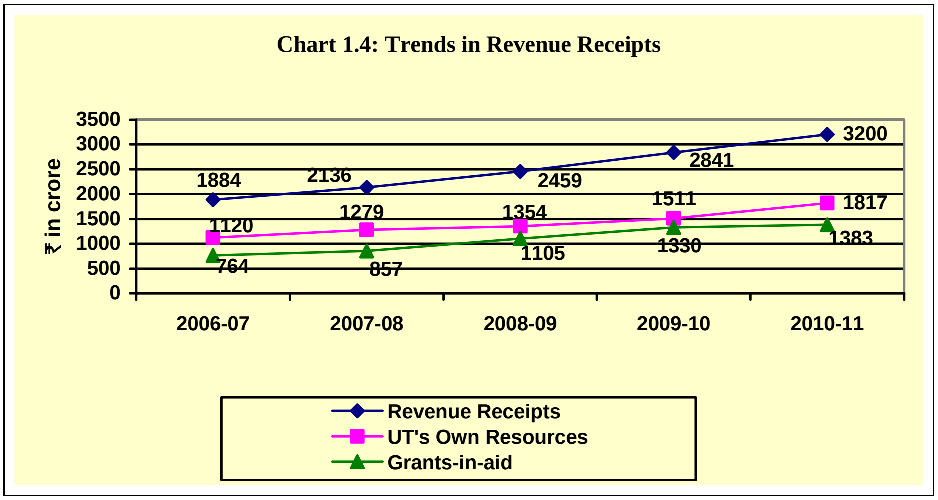
(Source : Figures furnished by the five departments are given in the table and this may not reflect the entire fund transfers to State implementing agencies in the Union Territory.)

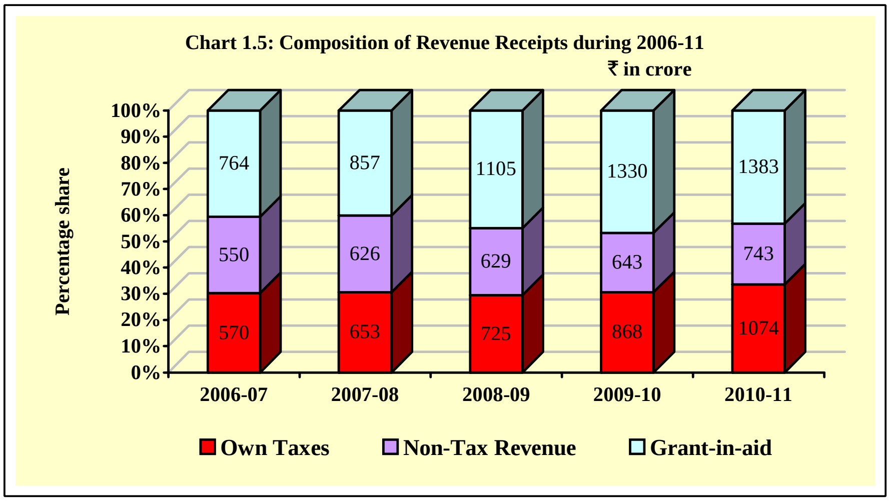
Out of ₹ 60.46 crore transferred to UT implementing agencies, a major amount of ₹ 37.50 crore (62 *per cent*) was transferred to the District Rural Development Agency.

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 2006-11 are presented in **Appendix 1.3** and depicted in **Charts 1.4** and **1.5** respectively.





The revenue receipts showed an increase of ₹ 359 crore over the previous year (13 *per cent).* The increase, however, could not keep pace with the increase of ₹ 457 crore in revenue expenditure (15 *per cent).*

Non-tax revenue increased by ₹ 100 crore (15 *per cent*) over the previous year mainly due to increased revenue under sale of power. Grants-in-aid from GOI increased marginally by ₹ 53 crore (3.98 *per cent*) over the previous year.

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

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Receipts (RR) (₹ in crore)	**1,884**	**2,136**	**2,459**	**2841**	**3,200**
Rate of growth of RR (per cent)	4.55	13.38	15.12	15.53	12.64
UT's own taxes (₹ in crore)	570	653	725	868	1,074
Rate of growth of own taxes (per cent)	18.99	14.60	11.02	19.72	23.73
GSDP growth (per cent)	4.49	10.98	8.64	12.88	13.97
Buoyancy Ratios					
RR/GSDP[2] (per cent)	22.60	23.09	24.47	25.04	24.75
Revenue buoyancy with reference to GSDP (ratio)	1.01	1.22	1.75	1.21	0.90
UT's own tax buoyancy with reference to GSDP (ratio)	4.23	1.33	1.28	1.53	1.70

(Source: Finance Accounts)

The GSDP, at the current prices, was estimated to increase from ₹ 11,344 crore in 2009-10 to ₹ 12,929 crore in 2010-11, representing an increase of 13.97 *per cent.*

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 against the GSDP growth rate of 13.97 *per cent* during 2010-11, the growth rate of UT's revenue receipts was 12.64 *per cent* only. The revenue buoyancy with reference to GSDP, which was 1.21 in 2009-10, came down during the year to 0.90, indicating that the growth of revenue receipts was slower than the GSDP growth rate. However, the UT's own tax buoyancy ratio was at 1.70, indicating that the rate of growth of own taxes was faster than the growth rate of GSDP.

Revenue receipts, as a percentage of GSDP, decreased marginally from 25.04 in 2009-10 to 24.75 in 2010-11 and it remained more or less stagnant during the last three years.

1.3.1 Union Territory's Own Resources

The UT's performance in 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**.

[2] Provisional and Quick estimates of GSDP of ₹ 11,344 crore and ₹12,929 crore have been adopted for 2009-10 and 2010-11.

Table 1.4: Components of UT's Own Resources

(₹ in crore)

Revenue Head	2006-07	2007-08	2008-09	2009-10	2010-11
Tax Revenue					
Taxes on Sales, Trades etc.	365	355	382	453	595
State excise	144	224	280	329	379
Taxes on vehicles	29	32	32	35	48
Stamp duty and Registration fees	31	41	31	50	51
Land revenue	1	1	--	1	1
Total	**570**	**653**	**725**	**868**	**1,074**
Non-Tax Revenue					
Interest receipts	6	18	44	51	37
Dividends and Profits	1	4	4	6	5
Other non-tax receipts	543	604	581	586	701
Total	**550**	**626**	**629**	**643**	**743**

(Source: Finance Accounts)

The Union Territory's tax revenue increased by ₹ 206 crore (24 *per cent*) over the previous year. The increase was mainly contributed by sales tax (₹ 142 crore) due to increase in number of registered dealers and better compliance of payment and collection of tax arrears; state excise (₹ 50 crore) by higher production of Indian Made Foreign Liquor (IMFL) and beer, and taxes on vehicles (₹ 13 crore) on account of more number of registration of vehicles.

Non-tax revenue receipts of ₹ 743 crore, which constituted 23.22 *per cent* of the revenue receipts, were realised mainly from sale of power (₹ 663 crore), interest receipts (₹ 37 crore), receipts from motor garages (₹ 10 crore) and receipts from Employees State Insurance Scheme (₹ 9 crore). Non-tax revenue increased by ₹ 100 crore during the year over the previous year.

The UT's own resources of ₹ 1,817 crore (₹ 1,074 crore – Tax revenue and ₹ 743 crore – Non-tax revenue) as well as recovery of loans and advances of ₹ four crore was not sufficient to meet the Non-Plan revenue expenditure of ₹ 2,319 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 2010-11 by the Principal Accountant General (Commercial and Receipt Audit) revealed under-assessment/ short levy/ loss of revenue amounting to ₹ 13.65 crore in 70 cases.

1.3.3 Arrears of revenue

Arrears of revenue pending for collection increased from ₹ 342.06 crore in 2009-10 to ₹ 425.03 crore in 2010-11 (24.26 *per cent*), which constituted

23.39 *per cent* of the UT's tax and non-tax revenue and more than the revenue deficit by ₹ 84.93 crore. These arrears were due for collection mainly by the Commercial Taxes (₹ 201.14 crore), Electricity (₹ 198.31 crore), State Excise (₹ 12.95 crore) and Public Works (₹ 8.75 crore) departments. Of the arrears pending for collection by the Commercial Taxes Department, ₹ 142.08 crore and ₹ 1.54 crore were covered by court cases and the Revenue Recovery proceedings respectively.

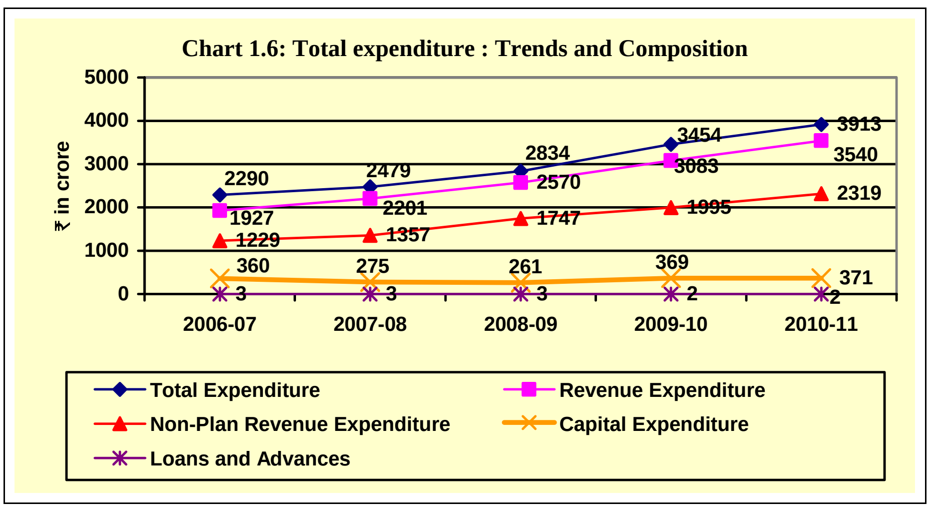
Considering the huge sums involved, the Government needs to take expeditious steps to recover the revenue arrears.

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 (2006-11). 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 70.87 *per cent* from ₹ 2,290 crore in 2006-07 to ₹ 3,913 crore in 2010-11. The total expenditure during the

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

current year increased by ₹ 459 crore (13.29 *per cent*) over the previous year. The revenue expenditure increased by ₹ 457 crore (14.82 *per cent*) and the capital expenditure marginally increased by ₹ two crore (0.54 *per cent*) during 2010-11. The revenue expenditure was 90.47 *per cent* of the total expenditure, of which 65.51 *per cent* was the Non-Plan component.

Revenue receipts of the UT met 81.77 *per cent* of the total expenditure during 2010-11.

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

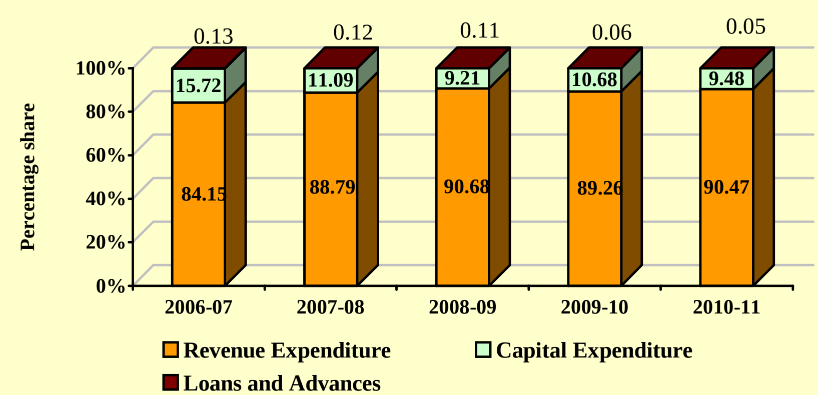
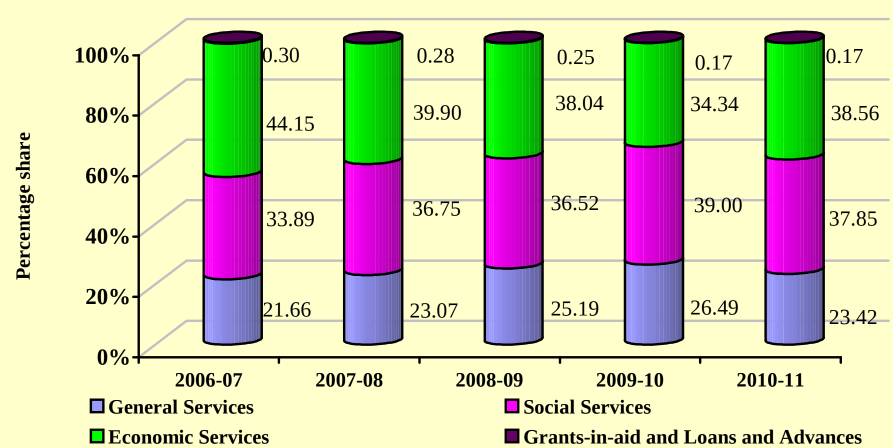


Chart 1.8: Total Expenditure: Trends by 'Activities'



While the expenditure on General Services and Social Services increased marginally by 0.13 *per cent* and 0.10 *per* cent, the expenditure on Economic Services during 2010-11 grew by 27 *per cent*. The development expenditure, i.e., expenditure on Social and Economic Services grew by 18.06 *per cent* over the previous year.

The increase in the expenditure on Economic Services (₹ 323 crore) was mainly due to increased revenue expenditure of ₹ 176.17 crore due to purchase of power and increased capital expenditure on transport of ₹ 32.70 crore.

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 2006-11 and **Chart 1.9** presents the share of committed expenditure in Non-Plan revenue expenditure on salaries, interest payments and pension during 2008-11.

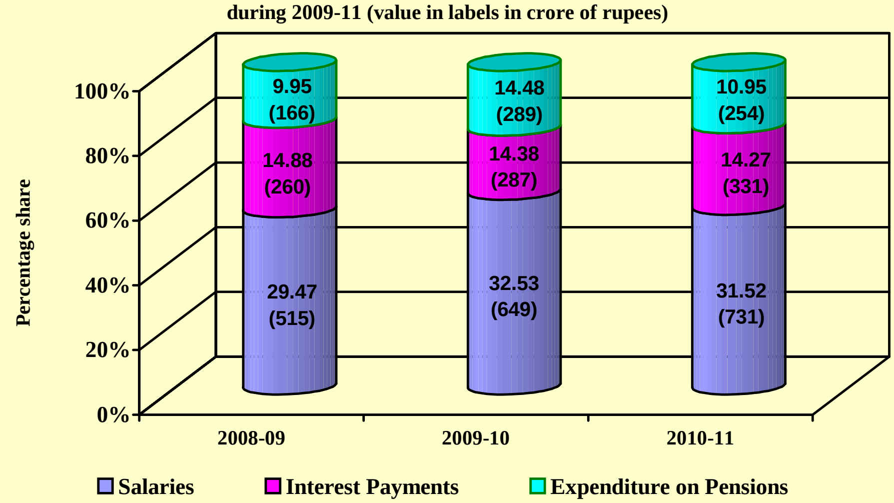
Table-1.5: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11
Salaries , *of which*	429 (23)	445 (21)	688 (28)	868 (31)	987 (31)
Non-Plan Head	326	336	515	649	731
Plan Head**	103	109	173	219	256
Interest Payments	187 (10)	217 (10)	260 (11)	287 (10)	331 (10)
Expenditure on Pension	104 (6)	120 (6)	166 (7)	289 (10)	254 (8)
Subsidies	17 (1)	31 (1)	31 (1)	46 (1)	82 (3)
Total	**737 (39)**	**813 (38)**	**1145 (47)**	**1490 (52)**	**1654 (52)**

(Source: Finance Accounts)
Figures in parentheses indicate percentage of revenue receipts
** *Plan head also includes the salaries paid under Centrally Sponsored Schemes.*

Chart 1.9: Share of Committed Expenditure in Non-Plan Revenue Expenditure during 2009-11 (value in labels in crore of rupees)



The Committed expenditure increased continuously from 2008-09 to 2010-11 and in 2010-11 it constituted 52 and 46.72 *per cent* of revenue receipts and revenue expenditure respectively.

Expenditure on salaries under Non-Plan and Plan during the current year was ₹ 731 crore and ₹ 256 crore respectively. It increased by 13.71 *per cent* over the previous year, mainly due to payment of the third instalment of arrears (30 *per cent*) consequent on implementation of the Sixth Central Pay Commission's recommendations. The share of salaries relative to revenue receipts was 31 *per cent* during 2010-11.

Pension payments decreased by 12 *per cent* from ₹ 289 crore in 2009-10 to ₹ 254 crore in 2010-11, due to payments on account of revision of pension for the period from 1.1.2006 to 31.8.2008 settled during 2009-10.

Interest payments increased by ₹ 44 crore (15 *per cent)* over the previous year, mainly due to payment of interest for market loans (₹ 41 crore) during 2010-11. The interest payments were at 10.34 *per cent* of the total revenue receipts.

Subsidies (three *per cent* of revenue receipts in 2010-11) 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	2006-07	2007-08	2008-09	2009-10	2010-11
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	10.93	12.09	13.16	29.92	32.55
Municipalities	40.67	19.20	18.86	27.78	58.95
Panchayati Raj Institutions	19.78	10.15	28.97	18.66	14.54
Development agencies and autonomous bodies	151.50	213.93	232.75	346.41	421.94
Co-operatives	27.78	22.26	27.59	24.38	25.86
Other Institutions*	9.57	3.80	5.42	6.09	5.28
Total	**260.23**	**281.43**	**326.75**	**453.24**	**559.12**
Assistance as percentage of revenue expenditure	14	13	13	15	16

(Source: Director of Accounts and Treasuries, Puducherry)

* Welfare societies and religious institutions

Financial assistance extended to local bodies and other institutions increased from ₹ 453.24 crore in 2009-10 to ₹ 559.12 crore in 2010-11. The increase was mainly due to increased financial assistance to municipalities and development agencies and autonomous bodies. The financial assistance as a percentage of revenue expenditure was 15.79 in 2010-11.

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 2007-08 and 2010-11.

Table-1.7: Fiscal Priority of the UT in 2007-08 and 2010-11

Fiscal Priority of the UT		AE/GSDP	DE/AE	SSE/AE	CE/AE	ESE/AE	Expenditure on Education, Sports, Art and Culture/AE	Expenditure on Health and Family Welfare/AE
Puducherry Ratio	2007-08	0.27	0.77	0.37	0.11	0.40	0.10	0.08
	2010-11	0.30	0.76	0.38	0.09	0.39	0.14	0.07

AE: Aggregate Expenditure; DE: Development Expenditure; SSE: Social Sector Expenditure; CE: Capital Expenditure; ESE: Economic Sector 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 2010-11 compared to 2007-08.

The ratio of Social Sector Expenditure to Aggregate expenditure remained more or less at the same level of 0.37 in 2007-08 and 0.38 in 2010-11. The Development Expenditure to Aggregate Expenditure also remained stagnant at 0.77 in 2007-08 and 0.76 in 2010-11.

The ratio of Capital Expenditure to Aggregate Expenditure declined from 0.11 in 2007-08 to 0.09 in 2010-11 indicating less priority given by Government 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

[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.

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 2006-11, **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 2009-10 and 2010-11.

Table-1.8: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11
Development Expenditure (a to c)	1,788.07 (78)	1,910.12 (77)	2,113.43 (75)	2,532.68 (73)	2990.21 (76)
a. Development Revenue Expenditure	1460 (64)	1659 (67)	1885 (66)	2207.78 (64)	2670.63 (68)
b. Development Capital Expenditure	327 (14)	251 (10)	228 (8)	324.89 (9)	319.58 (8)
c. Development Loans and Advances	1.07 (0.05)	0.12 (0.01)	0.43 (0.02)	0.01 (Nil)	-- (Nil)

(Source: Finance Accounts)

Figures in parentheses indicate percentage of aggregate expenditure

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

(Percentage)

Social/Economic Infrastructure	2009-10		2010-11	
	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	2.67	76.56	3.68	75.30
Health and Family Welfare	1.50	55.71	3.29	63.11
Water Supply, Sanitation and Housing and Urban Development	23.04	6.75	30.06	8.51
Total (SS)	**6.08**	**40.72**	**6.94**	**41.72**
Economic Services (ES)				
Agriculture and Allied Activities	9.49	32.19	4.35	25.28
Irrigation and Flood Control	65.46	52.74	52.56	54.52
Power and Energy	7.39	7.22	5.04	6.60
Transport	65.68	28.58	67.37	22.63
Total (ES)	**20.49**	**13.84**	**14.37**	**11.83**
Total (SS+ES)	**12.83**	**29.24**	**10.69**	**27.25**
TE: Total Expenditure on the sector/services concerned; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages.				

(Source: Finance Accounts and figures furnished by the Director of Accounts and Treasuries for wages)

Development expenditure, in real terms, was increasing continuously during 2006-11. However, as a percentage of aggregate expenditure, it came down from 78 in 2006-07 to 73 in 2009-10 and increased to 76 in 2010-11. The development capital expenditure, as a percentage of aggregate expenditure, decreased from nine in 2009-10 to eight in 2010-11.

Expenditure on Social Services

While the capital expenditure on Social Services as a percentage of total expenditure marginally increased from 6.08 *per cent* in 2009-10 to 6.94 *per cent* in 2010-11, the capital expenditure on Economic Services as a percentage of total expenditure, decreased from 20.49 to 14.37 which led to overall decrease in the capital expenditure on Social and Economic service as a percentage of total expenditure.

The share of capital expenditure in the total expenditure under General Education, Health and Family Welfare and Water Supply and Sanitation, Housing and Urban Development increased in 2010-11 over the previous year.

The share of salaries and wages in the revenue expenditure on Social Services increased from 40.72 *per cent* in 2009-10 to 41.72 *per cent* in 2010-11, mainly due to payment of the third instalment of the Sixth Central Pay Commission's arrears.

Expenditure on Economic Services

The capital expenditure on Economic Services, as a percentage of total expenditure on Economic Services, decreased from 20.49 *per cent* in 2009-10 to 14.37 *per cent* in 2010-11.

Under Agriculture and Allied Activities, Irrigation and Flood Control, and Power and Energy, the share of capital expenditure to total expenditure decreased steeply during 2010-11, whereas there was a marginal increase under Transport.

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 2011 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 31.3.2011
Public Works Department	10	41.25	103.25	62.00	30.50

(Source: Finance Accounts)

* Only those projects which were scheduled to be completed before 31 March 2011 are included

Failure to complete the 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 2011, the Government had invested ₹ 910.91 crore, mainly in Government companies and Co-operatives **(Table 1.11)**. The return on these investments was 0.53 *per cent* while the Government paid interest at an average rate of 7.81 *per cent* on its borrowings during 2010-11.

Table-1.11: Return on Investment

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year (₹ in crore)	712.36	760.91	817.03	867.50	910.91
Return (₹ in crore)	1.03	3.68	4.15	6.39	4.84
Return *(per cent)*	0.1	0.5	0.5	0.7	0.5
Average rate of interest on Government borrowings *(per cent)*	9.4	8.5	8.3	8.0	7.8
Difference between interest rate and return *(per cent)*	9.3	8.0	7.8	7.3	7.3

(Source: Finance Accounts)

As of March 2011, the Government had invested ₹ 693.58 crore in 14 Government companies and one statutory corporation and ₹ 217.33 crore in 369 co-operative institutions. Though heavy losses were incurred by the Pondicherry Textiles Corporation Limited (₹ 46.39 crore), Bharathi Swadeshi Textiles Mills Limited (₹ 8.99 crore) and Pondicherry Tourism Development Corporation (₹ 3.74 crore), the Government invested ₹ 13.09 crore, ₹ 2.00 crore and ₹ 2.25 crore respectively in them during the year.

1.6.3 Loans and advances by UT Government

During 2010-11, Government had not provided any loans and advances to any institution/organisation. **Table 1.12** presents the outstanding loans and advances as on 31 March 2011 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	2008-09	2009-10	2010-11
Opening Balance	**27.82**	**25.70**	**20.01***
Amount advanced during the year	2.87	2.17	2.03
Amount repaid during the year	5.00	4.76	4.21
Closing Balance	**25.69**	**23.11**	**17.83**
Net increase (+)/ decrease (-)	(-) 2.13	(-) 2.59	(-) 2.18
Interest Receipts	1.98	2.53	2.57
Interest receipts as percentage of outstanding Loans and advances	7.4	10.4	13.58
Interest payments as percentage of outstanding fiscal liabilities of the UT Government.	7.8	7.3	7.21
Difference between interest payments and interest receipts (*per cent*)	(-) 0.4	3.1	6.37

(Source: Finance Accounts)

* Differs due to proforma dropping on account of conversion of loan into share capital assistance.

The quantum of loan advanced decreased from ₹ 2.17 crore in 2009-10 to ₹ 2.03 crore in 2010-11 and repayments also decreased from ₹ 4.76 crore in 2009-10 to ₹ 4.21 crore in 2010-11. The total amount of ₹ 2.03 crore advanced during the year included only loans and advances given 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 2011, compared with the corresponding position on 31 March 2010. 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 2011 was 0.91 indicating assets are not sufficient to meet the liabilities.

1.7.2 Fiscal Liabilities

Fiscal liabilities are internal debt, loans and advances from GOI and the Public Account liabilities comprising small savings and provident fund, reserve funds and deposits. The trends in outstanding fiscal liabilities of the UT are presented in **Appendix 1.3.** 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 31.03.2010 (₹ in crore)

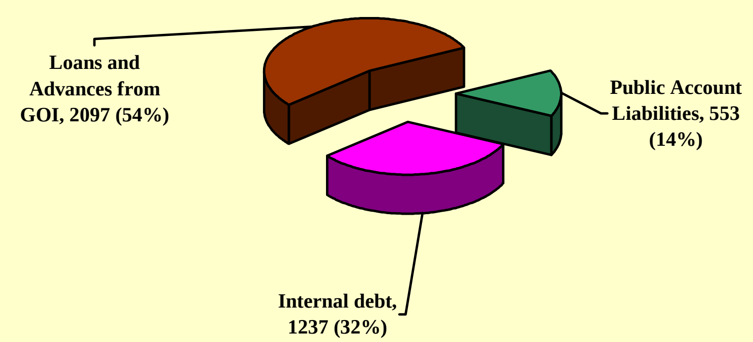
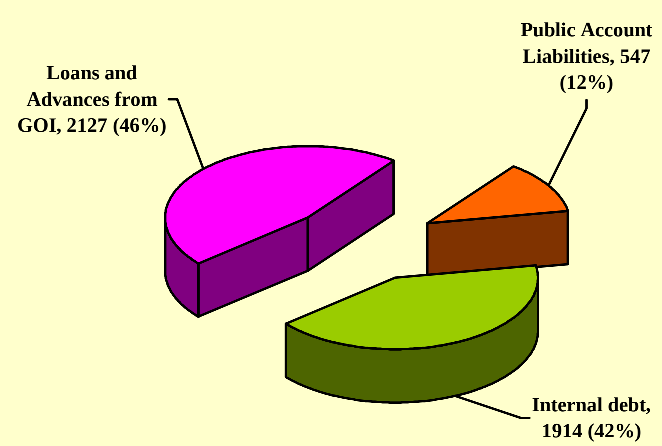


Chart 1.11: Composition of Outstanding Fiscal Liabilities as on 31.03.2011 (₹ in crore)



The outstanding fiscal liabilities have shown a steady increase from ₹ 2,168 crore in 2006-07 to ₹ 4,588 crore in 2010-11. The fiscal liabilities at the end of 2010-11 represented 143 *per cent* of revenue receipts (₹ 3200 crore) during the year as against 115 *per cent* in 2006-07.

While internal debts which constituted 32 *per cent* of the fiscal liabilities in 2009-10 increased to 42 *per cent* in 2010-11, loans and advances from GOI decreased from 54 *per cent* to 46 *per cent* of the fiscal liabilities during the same period. The Public Account liabilities decreased marginally from ₹ 553 crore in 2009-10 to ₹ 547 crore in 2010-11.

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 to 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. 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 **Table 1.13.**

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

Guarantees	2008-09	2009-10	2010-11
Maximum amount guaranteed (₹ in crore)	20.98	20.98	20.98
Outstanding amount of guarantees (₹ in crore)	6.23	11.97	7.90
Percentage of maximum amount guaranteed to total Revenue receipts	0.85	0.74	0.66

(Source: Finance Accounts)

As a percentage of revenue receipts, the amount of guarantee came down from 0.85 in 2008-09 to 0.66 in 2010-11. 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.

Table 1.14 analyses the debt sustainability of the UT for a period of three years beginning from 2008-09.

Table 1.14: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2008-09	2009-10	2010-11
Debt Stabilisation (Quantum Spread + Primary Deficit)	(-) 102	(-) 124	(-) 139
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 39	(-) 205	(-) 134
Net Availability of Borrowed Funds	142	275	385
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	131 (4.7)	148 (4.44)	156(3.86)
1 – 3	304(10.8)	513(15.39)	554(13.71)
3 – 5	334(11.9)	314 (9.42)	340(8.41)
5 – 7	276 (9.8)	592(17.76)	950(23.51)
7 and above	1,761(62.8)	1,767(52.99)	2,041(50.51)

(Source : Finance Accounts)

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

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 a warning signal in the debt stabilization indicator since the value increased from (-) ₹ 102 crore in 2008-09 to (-) ₹ 139 crore in 2010-11. 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) though decreased from ₹ 205 crore in 2009-10

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.

to ₹ 134 crore in 2010-11, it remains in negative which shows that unless concerted efforts are made to narrow this gap, by increasing the non-debt receipts in the coming years, or containing the primary expenditure, debt sustainability could become a problem in future.

The maturity profile of the UT Government's Public Debt indicates that nearly 25.98 *per cent* of the total Public Debt is repayable within next five years while 74.02 *per cent* of 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.

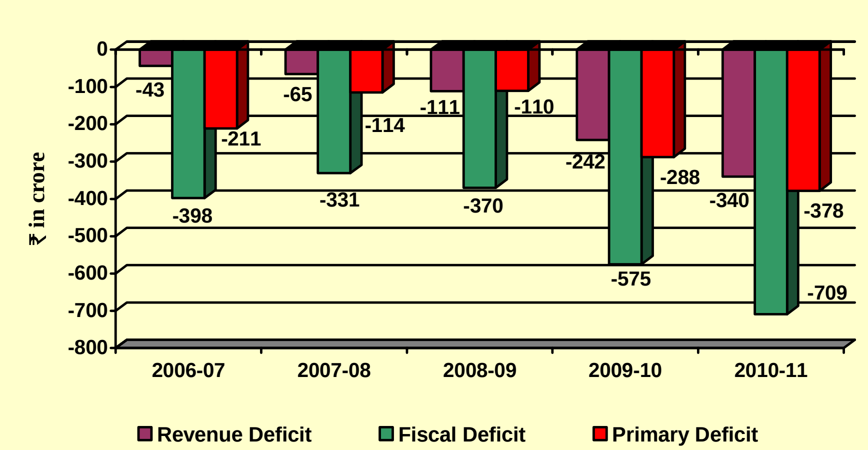
1.9 Fiscal Imbalances

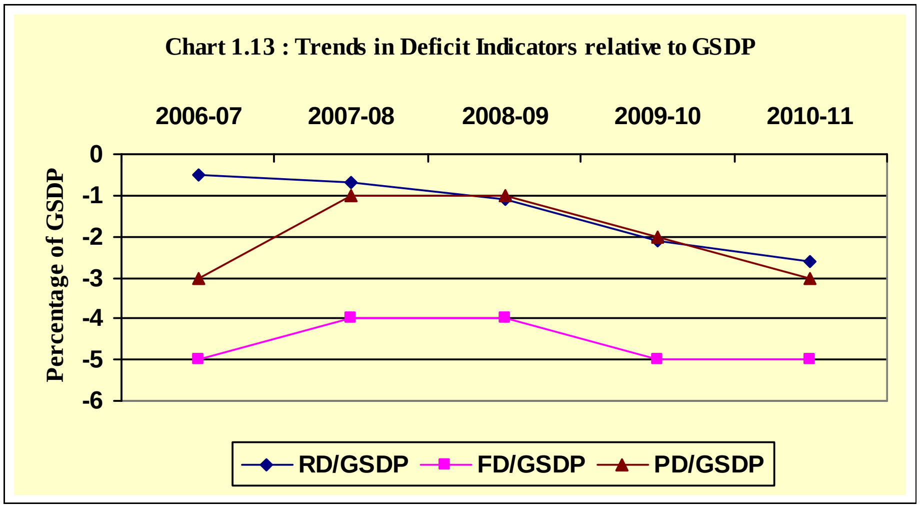
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the UT Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is 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** present the trends in deficit indicators over the period 2006-11.

Chart 1.12 : Trends in Deficit Indicators





The revenue deficit indicates the excess of revenue expenditure over revenue receipts. As exhibited in **Chart 1.12**, revenue deficit increased continuously from 2006-07 to 2010-11. The increase of revenue deficit by ₹ 98 crore during 2010-11 was due to the increase in revenue expenditure by ₹ 457 crore against an increase in revenue receipts by ₹ 359 crore.

The fiscal deficit has increased from ₹ 398 crore in 2006-07 to ₹ 709 crore in 2010-11.

While fiscal deficit to GSDP and primary deficit to GSDP were more or less stagnant during the last five years, revenue deficit as a percentage of GSDP increased five times i.e. from 0.5 *per cent* in 2006-07 to 2.6 *per cent* in 2010-11.

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	2006-07	2007-08	2008-09	2009-10	2010-11
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Decomposition of Fiscal Deficit		**(-) 398**	**(-) 331**	**(-) 370**	**(-) 575**	**(-) 709**
1	Revenue Deficit	(-) 43	(-) 65	(-) 111	(-) 242	(-) 340
2	Net Capital Expenditure	(-) 360	(-) 275	(-) 261	(-) 336	(-) 371
3	Net Loans and Advances	(+) 5	(+) 9	(+) 2	(+) 3	(+) 2
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	--	337	350	549	677
2	Loans from GOI	347	(-)21	(-)29	(-) 21	30

(1)	(2)	(3)	(4)	(5)	(6)	(7)
3	Special Securities issued to National Small Savings Fund	--	--	--	--	--
4	Loans from Financial Institutions	--	--	--	--	--
5	Small Savings, PF etc	--	252	41	48	42
6	Deposits and Advances	--	187	27	(-) 15	(-) 41
7	Suspense and miscellaneous	--	239	98	147	(-) 365
8	Remittances	--	6	32	41	(-) 24
9	Reserve Funds	--	--	12	1	8
10	Overall Surplus/Deficit (cash balance)	(-)51	669	161	175	382
*All these figures are net of disbursements/outflows during the year						

(Source: Finance Accounts)

The fiscal deficit increased by ₹ 134 crore during 2010-11, mainly due to increase in revenue deficit by ₹ 98 crore. The increase in fiscal deficit, along with increase in interest payments by ₹ 44 crore, led to an increase of ₹ 90 crore in the primary deficit during the year. 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)**
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
2010-11	3,200	4	3,204	3,209	371	2	3,582	(-) 9	(-) 378

(Source: Finance Accounts)

* Includes miscellaneous capital receipt of ₹ 33 crore

Though non-debt receipts in the past four years were enough to cover the primary revenue expenditure (PRE), the non-debt receipts for the year 2010-11 were not sufficient to cover PRE. As the receipts were not enough to cover primary revenue expenditure, there was primary deficit in all the years. The primary deficit, which was ₹ 211 crore in 2006-07 rose to ₹ 378 crore in 2010-11 mainly due to increase in primary revenue expenditure during that year. The primary revenue surplus gradually declined from 2006-07 and turned into deficit during 2010-11, indicating that revenue receipts of 2010-11 were not enough to meet the primary revenue expenditure.

1.10 Conclusion and Recommendations

Inadequate mobilization of revenue receipts: During the year 2010-11, revenue receipts grew by 13 *per cent* whereas revenue expenditure grew by 15 *per cent*. This indicates that revenue receipts are not enough to meet revenue expenditure. *Government need to make concerted efforts to increase the revenue receipts.*

Funds transferred directly to implementing agencies: During 2010-11, GOI directly transferred ₹ 60.46 crore to Union Territory implementing agencies for implementation of various schemes/programmes. As these funds were not routed through the UT budget, the Annual Finance Accounts had not captured the flow of these funds and to that extent, the receipts and expenditure of the UT as well as other fiscal variables/parameters derived from them were underestimated. *Government need to ensure proper documentation and timely reporting of expenditure by the implementing agencies.*

Arrears of revenue : Arrears of revenue pending for collection increased from ₹ 342.06 crore in 2009-10 to 425.03 crore in 2010-11 (24.26 *per cent)* which constituted 23.39 *per cent* of the UT's own revenue and was more than the revenue deficit for the year by ₹ 84.93 crore. *The Government need to make concerted efforts to ensure that the respective departments recover the arrears of revenue.*

High share of revenue expenditure in total expenditure: The revenue expenditure during 2010-11 constituted 90.47 *per cent* of total expenditure and the committed expenditure constituted 46.72 *per cent* of revenue expenditure. *As such expenditure may not create useful assets, measures are to be taken to compress the revenue expenditure.*

Inadequate priority to Development expenditure: The Capital expenditure remained at ₹ 369 crore in 2009-10 and ₹ 371 crore in 2010-11 and the development capital expenditure as a percentage of aggregate expenditure decreased from nine in 2009-10 to eight in 2010-11. *Government should take appropriate actions to improve the capital expenditure.*

Low return on investments: As of 31 March 2011, the Government had invested ₹ 910.91 crore in Government companies and co-operative institutions. The return on these investments was 0.53 *per cent*, while the Government paid interest at an average rate of 7.81 *per cent* on its borrowings during 2010-11. *Government should ensure better value for its investments.*

High ratio of fiscal liabilities to GSDP: The outstanding fiscal liabilities increased from ₹ 3,887 crore in 2009-10 to ₹ 4,588 crore (18 *per cent*) in 2010-11 which constituted 35 *per cent* of GSDP. *Government need to set in place a strategy to limit the quantum of fiscal liabilities.*

Increasing deficits: The fiscal deficit increased by ₹ 134 crore during 2010-11, mainly due to increase in revenue deficit by ₹ 98 crore. The increase in fiscal deficit, along with increase in interest payments by ₹ 44 crore, led to an increase of ₹ 90 crore in the primary deficit during the year. *Government should make concerted efforts to contain the deficits.*