

CHAPTER I
FINANCES OF THE UNION
TERRITORY GOVERNMENT OF
PUDUCHERRY

AN OVERVIEW OF THE FINANCES OF THE UNION TERRITORY GOVERNMENT OF PUDUCHERRY

1.1 Introduction

The accounts of the Union Territory (UT) Government are maintained in (i) the Consolidated Fund in which receipts from revenues, loans and recoveries of loans are accounted and expenditure incurred with the authorisation from the Legislature and (ii) the Contingency Fund which is in the nature of an imprest to meet urgent unforeseen expenditure pending authorisation from the Legislature. There is no Public Account in the UT to account for money kept by the Government as a banker; the transactions relating thereto are included in the Public Account of the Government of India (GOI). The cash balance of the UT Government is merged in the general cash balance of the GOI. GOI amended (September 2001) the constitution providing maintenance of separate cash balance by the UT of Puducherry with Reserve Bank of India (RBI) and powers for raising of market loans. Government of Puducherry issued notification (May 2006) fixing 10 May 2006 as the date of separation of its cash balance from the cash balance of GOI. The separation has, however, not taken place as yet (November 2007).

Finance Accounts of the UT Government of Puducherry are laid out in sixteen statements, presenting receipts and expenditure (revenue as well as capital), in the Consolidated Fund and Contingency Fund of the UT. The lay out of the Finance Accounts is depicted in **Appendix 1.1 -Part A**.

1.1.1 Summary of receipts and disbursements

Table-1.1 summarises the finances of the UT Government of Puducherry for the year 2006-07 covering revenue receipts and expenditure and capital receipts and expenditure as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table-1.1: Summary of receipts and disbursements for the year 2006-07

2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
					Non-Plan	Plan	Total
Section-A: Revenue							
1,802	Revenue receipts	1,884	1,794	Revenue expenditure	1,229	698	1,927
479	Tax revenue	570	381	General services	416	47	463
511	Non-tax revenue	550	683	Social services	275	426	701
--	Share of Union Taxes/Duties	--	726	Economic services	534	225	759
812	Grants from Government of India	764	4	Grants-in-aid and contributions	4	--	4
Section-B: Capital							
--	Miscellaneous Capital Receipts	--	289	Capital Outlay	4	356	360
6	Recoveries of Loans and Advances	8	4	Loans and Advances disbursed	2	1	3
353	Public debt receipts	444	86	Repayment of Public Debt			97
--	Contingency Fund	--	--	Contingency Fund			--
256	Opening Cash Balance	244	244	Closing Cash Balance			193
2,417	Total	2,580	2,417	Total			2,580

Following are the significant changes during 2006-07 over previous year:

- Revenue receipts grew by Rs 82 crore over previous year. The increase is mainly contributed by tax revenue (Rs 91 crore) and non-tax revenue (Rs 39 crore) off set by decrease in Grants received from GOI (Rs 48 crore).
- Revenue expenditure and capital expenditure increased by Rs 133 crore and Rs 71 crore respectively over previous year.
- Increase in the recovery of loans was due to writing off the outstanding loan of Rs 2.39 crore under Village Housing Projects. The disbursement of loans on the other hand have decreased by Rs one crore during 2006-07 over the previous year.
- Public Debt receipts have increased by Rs 91 crore due to increased borrowings from GOI for meeting the non-plan expenditure while repayment increased only by Rs 11 crore.
- Cash balance of the UT at the close of current year as a result of inflows/outflows listed above have decreased by Rs 51 crore mainly to meet the increased revenue expenditure.

1.1.2 Trends in fiscal aggregates

Fiscal position of the UT Government as reflected by the key fiscal indicators during the current year as compared to the previous year is given in **Table-1.2**.

Table-1.2

(Rupees in crore)

2005-06	Sl. No	Major Aggregates	2006-07
1,802	1.	Revenue Receipts (2+3+4)	1,884
479	2.	Tax Revenue	570
511	3.	Non-Tax Revenue	550
812	4.	Other Receipts	764
6	5.	Non-Debt Capital Receipts	8
6	6.	<i>Of which</i> Recovery of loans	8
1,808	7.	Total Receipts (1+5)	1,892
1,150	8.	Non-Plan Expenditure	1,235
1,148	9.	On Revenue Account	1,229
171	10.	<i>Of which</i> Interest payments	187
(-) 1*	11.	On Capital Account	4
3	12.	On Loans disbursed	2
937	13.	Plan Expenditure	1,055
646	14.	On Revenue Account	698
290	15.	On Capital Account	356
1	16.	On Loans disbursed	1
2,087	17.	Total Expenditure (13+8)	2,290
(+) 8	18.	Revenue Surplus (+) / Deficit (-) (1-9-14)	(-) 43
(-) 279	19.	Fiscal Surplus (+) / Deficit (-) (17-1-5)	(-) 398
(-) 108	20.	Primary Surplus (+) / Deficit (-) (19-10)	(-) 211

* The minus expenditure was due to issue of more stores from 'Stock' than that purchased during the year

During the current year, revenue receipts increased by 4.55 *per cent* (Rs 82 crore), revenue expenditure increased by seven *per cent* (Rs 133 crore) over previous year resulting in an increase of deficit of Rs 51 crore during 2006-07 from the revenue surplus of Rs eight crore in previous year. Given the deficit of Rs 51 crore in revenue account in 2006-07 along with an increase of Rs two crore under non-debt capital receipts accompanied with an increase of Rs 71 crore in capital expenditure and a decline of Rs one crore in disbursement of loans and advances led to an increase of

Rs 119 crore in fiscal deficit during 2006-07 from the level of Rs 279 crore in 2005-06. An increase of Rs 119 crore in fiscal deficit along with an increase of Rs 16 crore in interest payments led to an increase of Rs 103 crore in primary deficit during 2006-07 from Rs 108 crore in 2005-06.

1.2 Audit methodology

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts are analysed wherever necessary over the period from 2001-02 to 2006-07 and observations are made on their behavior. Assuming that Gross State Domestic Product (GSDP)¹ is the good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices.

Table – 1.3: Trends in growth of GSDP

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06 (P)	2006-07 (QE)
GSDP	4,259	4,931	5,439	5,192	5,700	6,299
Growth rate of GSDP	10.2	15.8	10.3	(-) 4.5	9.8	10.5

Source : Directorate of Economics and Statistics, Government of Puducherry.

P: Provisional; QE: Quick Estimate

The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure, etc., with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure, etc., are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. Audit observations on the Statements of Finance Accounts for the year 2006-07 bring out the trends in the major fiscal aggregates of receipts and expenditure; Time series data on Union Territory Government finances (**Appendix 1.2**), Abstract of Receipts and Disbursements (**Appendix 1.3**), Sources and Applications of funds (**Appendix 1.4**) and Summarised Financial position of the UT Government (**Appendix 1.5**). The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1 Part B**.

¹ GSDP is defined as the total income of the State or the market value of goods and services produced using labour and all other factors of production

1.3 Trends and composition of aggregate receipts

The aggregate receipts of the UT Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues and grants-in-aid from the GOI. Capital receipts comprise recoveries of loans and advances given by the Government and loans and advances obtained from GOI.

Table-1.4 shows that the total receipts of the UT Government for the year 2006-07 were Rs 2,336 crore. Of these, the revenue receipts were Rs 1,884 crore, constituting 81 *per cent* of the total receipts. The balance came from borrowings (Rs 444 crore) and receipts from recovery of loans and advances (Rs eight crore).

Table 1.4: Trends in Growth and Composition of Aggregate Receipts
(Rupees in crore)

Sources of UT Receipts	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
I Revenue Receipts	1,073	1,185	1,303	1,631	1,802	1,884
II Capital Receipts	199	236	274	354	359	452
Recovery of Loans and Advances	6	6	6	6	6	8
Public Debt Receipts	193	230	268	348	353	444
Total Receipts	1,272	1,421	1,577	1,985	2,161	2,336

Total receipts of the UT increased from Rs 1,272 crore in 2001-02 to Rs 2,336 crore in 2006-07. While the share of revenue receipts declined from 84 *per cent* to 81 *per cent*, the share of Public Debt receipts which create future repayment obligation increased from 15 *per cent* to 19 *per cent* in 2001-07, indicating an increased dependence on borrowings.

1.3.1 Revenue receipts

Statement-9 of the Finance Accounts details the revenue receipts of the Government. Revenue receipts consist of its own tax and non-tax revenues and grants-in-aid from GOI. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table-1.5**.

Table-1.5: Revenue receipts - Basic parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Revenue receipts (RR) (Rupees in crore)	1,073	1,185	1,303	1,631	1,802	1,884
Own taxes (<i>per cent</i>)	269 (25)	276 (23)	353 (27)	404 (25)	479 (27)	570 (30)
Non-tax revenue (<i>per cent</i>)	302 (28)	412 (35)	454 (35)	501 (31)	511 (28)	550 (29)
Grants-in-aid (<i>per cent</i>)	502 (47)	497 (42)	496 (38)	726 (44)	812 (45)	764 (41)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Rate of growth of RR (per cent)	13.3	10.4	10.0	25.2	10.5	4.6
RR/GSDP (per cent)	25	24	24	31	32	30
Revenue buoyancy² (ratio)	1.3	0.7	1.0	(-) 5.6	1.1	0.4
State's own taxes buoyancy (ratio)	(-) 0.8	0.2	2.7	(-) 3.2	1.9	1.8
Revenue buoyancy with reference to State's own taxes (ratio)	(-) 1.6	3.5	0.4	1.8	0.6	0.2
GSDP Growth (per cent)	10.2	15.8	10.3	(-) 4.5	9.8	10.5

Figures in bracket indicates percentage to revenue receipts

General trends

Revenue receipts have shown a progressive increase over the period with marginal changes in their composition over the period 2001-07. While the share of own taxes shown a marked increase, the share of grants-in-aid from GOI declined from 47 per cent to 41 per cent. The share of non-tax revenue remained almost stable during 2001-07 with inter year variations. The lower growth rate of revenue receipts during 2006-07 over 2005-06 inspite of realisation of higher revenue from own resources was due to reduction in grants-in-aid from GOI.

Tax revenue

Tax revenue increased by 19 per cent during the current year (Rs 570 crore) over the previous year (Rs 479 crore). The increase was mainly from sales tax (20 per cent) due to boom in business and strict collection measures, stamps duty and registration fees (29 per cent) due to sale of more non-judicial stamps and land revenue (194 per cent) due to remittance of unutilised housing subsidy and other compensation payable to Tsunami victims which was released during 2004-05. The trends in various components of tax revenue during 2002-07 are given in Paragraph 6.1 of Chapter VI of this Report.

Non-tax revenue

Non-tax revenue which constituted 29 per cent of revenue receipts increased only by eight per cent during the current year from Rs 511 crore during 2005-06 to Rs 550 crore during 2006-07. The major contributors for increase over previous year are Power (Rs 22.07 crore) due to sale of more power to existing and new consumers; Medical and Public Health

² Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 0.4 during 2006-07 implies that revenue receipts tend to increase by 0.4 percentage points if the GSDP increases by one per cent

(Rs 3.95 crore) due to increase in hospital charges, licence fees collected by Food and Drug administration and more receipt of share from Employees State Insurance Corporation and other administrative services (Rs 5.26 crore) due to more receipts from motor garages, guest house, Government hostels and sale of election forms and documents.

Grants-in-aid

Grants-in-aid from GOI decreased from Rs 812 crore in 2005-06 to Rs 764 crore during 2006-07. The decrease was under UT Plan schemes (Rs 54 crore) and Centrally Sponsored Schemes (Rs 18 crore), was partly off set by increase in Non-plan grants (Rs 24 crore). Details of grants-in-aid are given in **Table-1.6**.

Table 1.6: Grants-in-aid from GOI

	(Amount – Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Grants for UT plan schemes	126	136	122	132	297	243
Non Plan grants	362	348	361	578	468	492
Grants for Centrally Sponsored Schemes	14	13	13	16	47	29
Total	502	497	496	726	812	764
Percentage of increase (+) /decrease (-) over previous year	(+) 26	(-) 1	(-) 0.2	(+) 46	(+) 12	(-) 6

Arrears of revenue

Arrears of revenue pending collection which was Rs 109.39 crore in 2005-06 increased to Rs 142.41 crore in 2006-07 (30 per cent). These mainly relate to Electricity Department (Rs 91.80 crore), State Excise (Rs 13.97 crore) and Commercial Taxes (Rs 28.72 crore). Of the arrears pending collection by Electricity Department, Rs 27.55 crore were due from Government institutions and Rs 13.77 crore were under litigation. The pendency in State Excise was due to non-payment of fees by the lessees of arrack and toddy shops. The arrears pending collection by Commercial Taxes Department include Rs 22.63 crore covered under official liquidator and miscellaneous action and Rs 5.76 crore covered by appeals in Court.

1.4 Application of resources

1.4.1 Growth of expenditure

Statement 10 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The UT raises resources to perform its sovereign functions, to maintain the

existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge debt service obligations. The total expenditure of the UT which comprises revenue expenditure, capital expenditure and loans and advances increased from Rs 1,225 crore in 2001-02 to Rs 2,290 crore in 2006-07. Total expenditure, its annual growth rate and ratio of expenditure to the GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-1.7**.

Table-1.7: Total expenditure – Basic parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Total expenditure (TE) (Rupees in crore)	1,225	1,304	1,445	1,771	2,087	2,290
Rate of Growth (per cent)	17.6	6.4	10.8	22.6	17.8	9.7
TE/GSDP Ratio (per cent)	28.8	26.4	26.6	34.1	36.6	36.4
RR /TE Ratio (per cent)	88	91	90	92	86	82
Buoyancy of total expenditure with reference to :						
GSDP (ratio)	1.7	0.4	1.0	(-) 5.0 ³	1.8	0.9
RR (ratio)	1.3	0.6	1.1	0.9	1.7	2.1

Total expenditure during the current year has increased by Rs 203 crore over the previous year of which revenue expenditure was Rs 133 crore, capital expenditure was Rs 71 crore off set marginally by decrease of Rs one crore in loans and advances. The increase in revenue expenditure was on account of increased expenditure under land revenue (Rs 33.22 crore) mainly under plan, interest payments (Rs 15.95 crore) under Non-plan, Pension and other retirement benefits (Rs 18.49 crore) under Non-plan, General Education (Rs 30.28 crore) mainly under Plan, Medical and Public Health (Rs 57.92 crore) mainly under Plan, Social Security and Welfare (Rs 33.83 crore) mainly under Plan and Power (Rs 37.87 crore) mainly under Non-plan. The increases under these heads were observed mainly due to payment of arrears due to revision of pay scales retrospectively, increased loan liability, payment of dearness relief and arrears due to revision of scales to pensioners, increased purchase of medicines, surgical chemicals and equipment and increase in service tax and gas rate and Unified Load Despatch and Communication charges. The increase in capital expenditure was contributed mainly under Plan due to increased expenditure on Power projects (Rs 4.95 crore), Industry and Minerals (Rs 46.40 crore) and Roads and Bridges (Rs 19.15 crore). During the current year, 82 per cent of the total expenditure was met from its revenue

³ Negative buoyancy of total expenditure with reference to GSDP is due to decline in the growth rate of GSDP

receipts and the remaining from capital receipts and borrowed funds. The buoyancy of total expenditure to GSDP which stood at 0.9 in 2006-07 indicates that pace of Government expenditure was lower than the rate of increase in GSDP of the UT. The higher buoyancy of total expenditure to revenue receipts indicates increase in receipts enhanced the propensity of the Government to spend during the year.

Trends in total expenditure by activities: In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table-1.8**.

Table-1.8: Components of Expenditure – Relative Share

	(in per cent)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	19.3	20.7	21.1	20.2	19.5	21.7
Of which interest payments	8.2	8.9	9.3	8.6	8.2	8.2
Social Services	27.9	30.7	31.5	36.3	37.2	33.9
Economic Services	52.0	48.0	46.8	43.0	42.9	44.1
Grants-in-aid	0.2	0.2	0.2	0.2	0.2	0.2
Loans and Advances	0.6	0.4	0.4	0.3	0.2	0.1

The share of expenditure on General Services, marginally increased mainly due to increase in the salary of Government servants with retrospective effect. The share of Economic Services declined steeply from 52 per cent to 44.1 per cent during 2001-07 whereas the share of Social Services increased from 27.9 per cent to 33.9 per cent during this period.

1.4.2 Incidence of revenue expenditure

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment of past obligations and as such does not result in any addition to the infrastructure and service network of the UT. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-1.9**.

Table-1.9: Revenue expenditure: Basic parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE) (Rupees in crore) <i>Of which</i>	1,099	1,151	1,294	1,573	1,794	1,927
Non-plan Revenue Expenditure (NPRE)	853	879	962	1,142	1,148	1,229
Plan Revenue Expenditure (PRE)	246	272	332	431	646	698
Rate of Growth (<i>per cent</i>)	19.6	4.7	12.4	21.6	14.0	7.4
NPRE	22.4	3.0	9.4	18.7	0.5	7.1
PRE	10.8	10.6	22.1	29.8	49.9	8.0
NPRE/GSDP (<i>per cent</i>)	20.0	17.8	17.7	22.0	20.1	19.5
NPRE as <i>per cent</i> of TE	69.6	67.4	66.6	64.5	55.0	53.7
NPRE as <i>per cent</i> of RR	79.5	74.2	73.8	70.0	63.7	65.2
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	1.9	0.3	1.2	(-) 4.7 ⁴	1.4	0.7
Revenue Receipts (ratio)	1.5	0.5	1.2	0.9	1.3	1.6

The revenue expenditure increased by 75 per cent from Rs 1,099 crore in 2001-02 to Rs 1,927 crore in 2006-07. While NPRE has increased by 44 per cent during this period, the PRE increased by 184 per cent. The lesser increase in NPRE is due to non-transfer of completed plan schemes to Non-plan as stipulated by the guidelines of Planning Commission. The UT Government did not transfer schemes costing Rs 143.09 crore from eighth Five Year Plan onwards as the GOI did not agree to provide increased grant under Non-plan. Besides, the UT Government booked Rs 19.60 crore spent on the scheme of distribution of free rice to all ration card holders under Plan, without approval of the Planning Commission, resulting in boosting of plan expenditure. The increase in NPRE during the current year was mainly due to increased expenditure in land revenue collection charges and survey and settlement operations (Rs 3.94 crore), assistance to agriculture co-operatives (Rs 5.55 crore), interest payments (Rs 15.95 crore), medical and public health (Rs 3.67 crore), transmission and distribution of power (Rs 32.44 crore) and payment of pension and other retirement benefits (Rs 18.49 crore). The increase in PRE over previous year was mainly due to increased expenditure on welfare of aged, infirm and destitute (Rs 28.66 crore), medical and public health (Rs 54.24 crore), general education (Rs 22.64 crore) and land revenue operations (Rs 29.04 crore) off set by a decrease in expenditure under relief for natural calamities (Rs 75 crore).

⁴ Negative buoyancy of revenue expenditure with GSDP was due to decline in the growth rate of GSDP

1.4.3 Committed expenditure

Expenditure on salaries

Table 1.10: Expenditure on salaries

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on salaries (Rupees in crore)	258	281	299	327	364	429
<i>Of which</i>						
Non-plan head	223	237	249	268	287	326
Plan head	35	44	50	59	77	103
<i>As per cent of GSDP</i>	6.1	5.7	5.5	6.3	6.4	6.8
<i>As per cent of Revenue Receipts</i>	24.0	23.7	22.9	20.1	20.2	22.8

During 2006-07, expenditure on salaries was Rs 429 crore (Non-plan Head - Rs 326 crore; Plan Head - Rs 103 crore). The share of salaries in revenue expenditure was 22 *per cent* during 2006-07 while relative to GSDP and revenue receipts it was 6.8 and 22.8 *per cent* respectively. The expenditure on salaries increased by 18 *per cent* over previous year (Rs 364 crore in 2005-06) mainly due to revision of pay scales with retrospective effect and payment of arrears.

Pension payments

Table-1.11: Expenditure on pensions

Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions (Rupees in crore)	46.67	57.24	71.82	77.33	85.68	104.16
Rate of growth	(-) 1.2	22.6	25.5	7.7	12.1	20.2
<i>As per cent of GSDP</i>	1.1	1.2	1.3	1.5	1.5	1.7
<i>As per cent of RR</i>	4.4	4.8	5.5	4.7	4.8	5.5
<i>As per cent of RE</i>	4.3	5.0	5.6	4.9	4.8	5.4

The increase in pension payment by 22 *per cent* from Rs 85.68 crore in 2005-06 to Rs 104.16 crore in 2006-07 was mainly due to increase in number of pensioners, payment of two instalments of dearness relief to pensioners and revision of retirement benefits due to upgradation of pay scale with retrospective effect.

Interest payments

Table-1.12: Interest payments

Year	Total Revenue Receipts	Total Revenue Expenditure	Interest Payments	Percentage of interest payments with reference to	
				Revenue Receipts	Revenue Expenditure
(Rupees in crore)					
2001-02	1,073	1,099	101	9.42	9.19
2002-03	1,185	1,151	116	9.75	10.04
2003-04	1,303	1,294	134	10.33	10.40
2004-05	1,631	1,573	152	9.37	9.72
2005-06	1,802	1,794	171	9.51	9.55
2006-07	1,884	1,927	187	9.93	9.70

Expenditure on interest was mainly on loans from GOI. The rate of interest on plan and non-plan loans from GOI ranged between 11 to 12 *per cent* in 2001-02. By 2006-07, it had fallen and ranged between 9 to 9.5 *per cent*. As the borrowings from GOI increased from Rs 193.34 crore during 2001-02 to Rs 443.76 crore during 2006-07, the interest payments have also gone up steadily.

Subsidies

Trends in subsidies given by the UT Government are given in **Table-1.13**.

Table-1.13: Subsidies

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2001-02	2.08	--	0.17
2002-03	3.89	87	0.30
2003-04	6.70	72	0.46
2004-05	11.07	65	0.62
2005-06	17.93	63	0.86
2006-07	16.63	(-) 7.3	0.73

The amount indicated in the table represents the expenditure booked under the object head 'Subsidy' under rural housing, welfare of scheduled castes, animal husbandry, fisheries, rural development, village and small industries and supply of Liquefied Petroleum Gas to Below Poverty Line families but does not include major subsidies on free supply of electricity to small farmers and poor people, supply of rice at subsidised rates to

ration card holders, free supply of rice, cloth, etc., made by various departments and cash incentives and subsidies paid to agriculturists as these are either not shown as subsidy in Government Accounts or classified as ‘other charges’, or ‘grants-in-aid’ to agencies implementing the scheme.

1.5 Expenditure by allocative priorities

1.5.1 Quality of expenditure

The availability of better social and physical infrastructure in the UT is reflected in its quality of expenditure. The ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better is quality of expenditure. **Table-1.14** gives these ratios during 2001-07.

Table-1.14 – Indicators of quality of expenditure

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	119	148	146	193	289	360
Revenue Expenditure	1,099	1,151	1,294	1,573	1,794	1,927
<i>Of which</i>						
Social and Economic Services with						
(i) Salary Component	210.42	224.72	238.15	258.65	266.41	318.29
(ii) Non-Salary Component	662.90	674.65	758.19	968.56	1,143.49	1,141.49
As per cent of Total Expenditure (excluding loans and advances)						
Capital Expenditure	9.8	11.4	10.1	10.9	13.9	15.7
Revenue Expenditure	90.2	88.6	89.9	89.1	86.1	84.3
As per cent of GSDP						
Capital Expenditure	2.8	3.0	2.7	3.7	5.1	5.7
Revenue Expenditure	25.8	23.3	23.8	30.3	31.5	30.6

The capital expenditure indicated an increasing trend with a marginal dip in 2003-04. The capital expenditure was incurred mainly on construction of Government buildings, water supply and sanitation, flood control projects, industries and minerals, power projects and roads and bridges. Both salary and non-salary components indicated increasing trends but the salary component increased sharply during 2006-07 due to revision of pay scales whereas the non-salary component marginally declined. However, non-salary component

of revenue expenditure incurred on social and economic services remained dominant throughout the period and constituted on an average about 77 per cent of revenue expenditure on social and economic services. These trends indicate that impetus is being given by the UT Government to asset formation and quality of these services.

1.5.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc., have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table-1.15** summarises the expenditure incurred by the UT Government in expanding and strengthening of social services during 2001-07.

Table-1.15: Expenditure on Social Services

(Rupees in crore)						
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Education, Sports, Art and Culture						
Revenue expenditure	137.24	153.22	157.86	177.64	192.80	218.57
<i>Of which</i>						
(a) Salary component	95.70	104.61	109.30	122.30	126.36	143.43
(b) Non-salary component	41.54	48.61	48.56	55.34	66.44	75.14
Capital expenditure	6.61	14.69	12.09	16.82	38.69	18.31
Total expenditure	143.85	167.91	169.95	194.46	231.49	236.88
Health and Family Welfare						
Revenue expenditure	79.95	77.90	81.79	93.44	107.83	167.91
<i>Of which</i>						
(a) Salary component	46.02	49.03	52.66	57.48	64.81	73.68
(b) Non-salary component	33.93	28.87	29.13	35.96	43.02	94.23
Capital expenditure	0.54	2.15	3.59	8.30	10.51	13.25
Total expenditure	80.49	80.05	85.38	101.74	118.34	181.16
Water Supply, Sanitation, Housing and Urban Development						
Revenue expenditure	31.93	43.16	55.98	104.09	115.81	99.98
<i>Of which</i>						
(a) Salary component	4.73	4.85	4.88	5.27	5.43	6.67
(b) Non-salary component	27.20	38.31	51.10	98.82	110.38	93.31
Capital expenditure	14.61	21.84	27.21	34.25	40.84	38.32
Total expenditure	46.54	65.00	83.19	138.34	156.65	138.30

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Other Social Services						
Revenue expenditure	70.08	86.79	115.50	203.80	267.42	214.77
<i>Of which</i>						
(a) <i>Salary component</i>	15.90	17.02	18.59	16.22	13.77	18.95
(b) <i>Non-salary component</i>	54.18	69.77	96.91	187.58	253.66	195.82
Capital expenditure	0.47	1.00	0.89	5.00	3.63	5.46
Total expenditure	70.55	87.79	116.39	208.80	271.05	220.23
Total (Social Services)						
Revenue expenditure	319.20	361.07	411.13	578.97	683.86	701.23
<i>Of which</i>						
(a) <i>Salary component</i>	162.35	175.51	185.43	201.27	210.36	242.73
(b) <i>Non-salary component</i>	156.85	185.56	225.70	377.70	473.50	458.50
Capital expenditure	22.23	39.68	43.78	64.37	93.67	75.34
Total expenditure	341.43	400.75	454.91	643.34	777.53	776.57

The allocation to social services increased at an average annual growth rate of 21 per cent from Rs 341.43 crore in 2001-02 to Rs 776.57 crore in 2006-07. Expenditure on social services during current year accounted for 34 per cent of total expenditure and 43 per cent of developmental expenditure⁵. Relative to 2005-06, the revenue expenditure under ‘Social Services’ increased due to revision of pay scales of Government employees of Education and Health departments. A consistent increase in expenditure on education and health sectors during the period 2001-07 as well as its dominant proportion in both the revenue and total expenditure incurred on social services indicates the Government’s increasing commitment to improve social well being of the society.

1.5.3 Expenditure on Economic Services

Expenditure on economic services includes all such expenditures as to promote directly or indirectly, productive capacity within the States’ economy. The trend of expenditure under various components of this sector are shown in **Table 1.16**.

⁵ Developmental expenditure is defined as the total expenditure made on social and economic services

Table-1.16: Expenditure on Economic Sector

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Agriculture and Allied Activities						
Revenue expenditure	48.16	49.74	56.92	70.59	89.86	100.98
<i>Of which</i>						
(a) Salary component	14.96	15.51	16.81	18.38	17.89	23.93
(b) Non-salary component	33.20	34.23	40.11	52.21	71.97	77.05
Capital expenditure	5.75	3.43	2.77	5.84	5.49	18.31
Total expenditure	53.91	53.17	59.69	76.43	95.35	119.29
Irrigation and Flood Control						
Revenue expenditure	11.30	13.94	13.24	18.57	17.70	19.15
<i>Of which</i>						
(a) Salary component	6.41	6.06	6.35	7.15	4.80	5.42
(b) Non-salary component	4.89	7.88	6.89	11.42	12.90	13.73
Capital expenditure	7.16	17.31	10.27	23.64	31.99	39.50
Total expenditure	18.46	31.25	23.51	42.21	49.69	58.65
Power and Energy						
Revenue expenditure	408.68	407.98	428.18	448.88	450.57	488.45
<i>Of which</i>						
(a) Salary component	14.44	15.07	16.09	17.41	18.48	29.20
(b) Non-salary component	394.24	392.91	412.09	431.47	432.09	459.25
Capital expenditure	24.93	22.04	23.30	25.07	28.62	38.74
Total expenditure	433.61	430.02	451.48	473.95	479.19	527.19
Transport						
Revenue expenditure	15.27	19.00	23.21	29.00	48.45	44.66
<i>Of which</i>						
(a) Salary component	3.74	3.99	4.10	4.34	4.53	4.81
(b) Non-salary component	11.53	15.01	19.11	24.66	43.92	39.85
Capital expenditure	15.71	21.66	22.76	25.59	54.87	56.09
Total expenditure	30.98	40.66	45.97	54.59	103.32	100.75
Other Economic Services						
Revenue expenditure	70.71	47.64	63.66	81.20	119.44	105.31
<i>Of which</i>						
(a) Salary component	8.52	8.58	9.37	10.10	10.33	12.20
(b) Non-salary component	62.19	39.06	54.29	71.10	109.11	93.11
Capital expenditure	28.90	23.25	32.51	33.11	48.13	99.05
Total expenditure	99.61	70.89	96.17	114.31	167.57	204.36

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Total (Economic Services)						
Revenue expenditure	554.12	538.30	585.21	648.24	726.03	758.55
<i>Of which</i>						
(a) Salary component	48.07	49.21	52.72	57.38	56.04	75.56
(b) Non-salary component	506.05	489.09	532.49	590.86	669.99	682.99
Capital expenditure	82.45	87.69	91.61	113.25	169.10	251.69
Total expenditure	636.57	625.99	676.82	761.49	895.13	1,010.24

The allocation to economic services increased at an average annual growth rate of 10 per cent from Rs 637 crore in 2001-02 to Rs 1,010 crore in 2006-07. The expenditure on Economic Services (Rs 1,010 crore) during 2006-07 (**Table-1.16**) accounted for 44 per cent of the total expenditure and 57 per cent of the development expenditure. Of this, 52 per cent was spent on Power and Energy. While the increase in the revenue expenditure under this sector over 2005-06 was due to revision of pay scales of Government employees in Agriculture and Electricity departments, the sharp increase in Capital expenditure was due to increased investments in Government companies and establishment of fishing harbour at Karaikal.

1.5.4 Financial assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the six year period 2001-07 is presented in **Table-1.17**.

Table-1.17: Financial assistance to local bodies and other institutions

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Educational Institutions (Aided Schools)	9.15	8.75	12.01	10.90	*11.54	10.93
Municipal Corporations and Municipalities	16.62	26.89	21.73	19.24	43.26	40.67
Commune Panchayats	12.10	11.49	14.39	8.27	31.11	19.78
Statutory Boards/Authorities	48.10	48.96	61.59	152.43	*218.44	151.50
Co-operatives	11.50	9.53	15.44	31.71	25.47	27.78
Other Institutions**	2.80	5.24	6.50	5.59	2.28	9.57
Total	100.27	110.86	131.66	228.14	332.10	260.23
Assistance as per percentage of Revenue Expenditure	9	10	10	14	19	14

* Differs from last year's report due to rectification of misclassification

** Welfare societies and Hindu religious institutions

The financial assistance extended to local bodies and other institutions decreased from Rs 332.10 crore in 2005-06 to Rs 260.23 crore in 2006-07.

The decrease was mainly due to lesser assistance to Project Implementation Agency and local bodies for Tsunami relief over 2005-06.

1.5.5 Delay in furnishing utilisation certificates

Of the 2,587 utilisation certificates (UC) due in respect of grants and loans aggregating Rs 464.66 crore paid up to March 2006, 1,718 UCs for an aggregate amount of Rs 292.85 crore were not received by March 2007. Details of department-wise break-up of outstanding UCs are given in **Appendix 1.6**. Audit scrutiny revealed that Puducherry and Oulgaret Municipalities did not refund Rs 17.97 lakh though the works for which this amount was given as grant were executed under other schemes. Besides, these Municipalities did not furnish UCs for Rs 59.62 lakh though the works were completed during May 2003 to February 2007 as final bills were not settled.

1.5.6 Non-submission of accounts

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance and the total expenditure of the institutions. As 43 autonomous bodies did not furnish 71 accounts relating to 2001-02 to 2006-07, institutions which attract audit could not be determined.

1.5.7 Abstract of performance of the autonomous bodies

Audit of accounts of Union Territory of Puducherry Legal Services Authority has been entrusted to the Comptroller and Auditor General of India under section 19(2) of Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act, 1971. The Separate Audit Report for the year 2005-06 was placed before the Legislature in April 2007.

1.6 Misappropriations, losses, defalcations, etc.

State Government reported 297 cases of misappropriation, defalcation, etc involving Government money amounting to Rs 7.41 crore up to the period March 2007 on which final action was pending. The department-wise break up of pending cases is given in **Appendix 1.7**.

In Para 1.6.8 of Report of the Comptroller and Auditor General of India for the year ended 31 March 2006, Audit pointed out the non-reconciliation of Government receipts by Electricity Department leading to misappropriation

by the cashier. The reconciliation was, however, not carried out and it was noticed in audit that Rs 79.96 lakh shown as remitted by cheque during October 2006 towards power bill was not credited to Government Account by State Bank of India, Yanam. When the non-accountal of revenue was pointed out by Audit in July 2007, the Bank credited the money and attributed the delay to administrative reason. It was, however, seen in audit that the challan kept by the cashier in proof of remittance of the cheque in October 2006 did not bear the stamp of the Bank. As such, the remittance shown in cash book was doubtful and the non-remittance would have gone undetected but for the remittance verification by Audit. The matter has been brought to the notice of the Government by Audit for Vigilance investigation.

1.7 Assets and liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, Government accounts do capture the financial liabilities of Government and the assets created out of the expenditure incurred. **Appendix 1.5** gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities in this Appendix consist mainly of loans and advances from the GOI, the assets comprise mainly the capital outlay and loans and advances given by the UT Government and cash balance. The good financial position of the Government is revealed by the fact that the Government liabilities constitutes only 87 *per cent* of the assets. **Appendix 1.2** depicts the time series data on UT Government finances for the period 2001-07.

1.7.1 Incomplete projects

There were 46 incomplete projects which were scheduled for completion before 31 March 2007 on which Rs 57.90 crore of Capital expenditure was incurred. The time over-run noticed as of March 2007 on incomplete projects ranged between nine days to 633 days. In respect of seven projects, Rs 21.82 crore were spent as of March 2007 against the budgeted cost of Rs 15.37 crore and no revised sanction were issued for these works.

1.7.2 Investments and returns

As of 31 March 2007, Government had invested Rs 712.36 crore mainly in Government companies and Co-operatives (**Table-1.18**). The return on this investment was 0.1 to 0.6 *per cent* during 2001-07 while the Government paid interest at the average rate of 9.4 to 11.5 *per cent* on its borrowings during 2001-07.

Table-1.18: Return on investment

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowing	Difference between interest rate and return
	(Rupees in crore)		(per cent)		
2001-02	446.76	0.73	0.2	11.5	11.3
2002-03	476.59	2.84	0.6	11.2	10.6
2003-04	517.85	2.47	0.5	11.1	10.6
2004-05	554.12	2.79	0.5	10.7	10.2
2005-06	606.98	1.74	0.3	10.2	9.9
2006-07	712.36	1.03	0.1	9.4	9.3

The UT Government made investment of Rs 105.39 crore during 2006-07. The sectors/companies where major investments were made were (i) Pondicherry Industrial Promotion, Development and Investment Corporation Limited (Rs 56.50 crore), (ii) Pondicherry Textiles Corporation Limited (Rs 17 crore) and Co-operative Institutions (Rs 18.67 crore). The investment included Rs 565.09 crore in 15 Public Sector Undertakings, of which twelve were owned by the UT Government. Of this, five companies are profit earning and six are loss making; one company had not finalised its first account. Two companies declared dividend aggregating Rs 82.56 lakh.

1.7.3 Loans and advances by UT Government

In addition to investments in Co-operative societies, Corporation and Companies, Government has also been providing loans and advances to many of these institutions/organisations, local bodies, Government servants and others. Total outstanding loans and advances as on 31 March 2007 was Rs 36.74 crore (Table-1.19).

Table-1.19: Average interest received on loans advanced by the UT Government

(Rupees in crore)						
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Opening balance*	53.74	50.82	50.16	44.89	44.06	41.76
Amount advanced during the year	7.32	5.43	4.95	5.46	3.85	3.08
Amount repaid during the year	6.24	5.88	6.22	6.26	6.15	8.11
Closing balance*	54.82	50.37	48.89	44.09	41.76	36.74

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Net addition	1.08	(-) 0.45	(-) 1.27	(-) 0.80	(-) 2.30	(-) 5.02
Interest received	3.15	1.83	1.82	1.97	2.07	5.53
Interest received as <i>per cent</i> to outstanding loans and advances	5.7	3.6	3.7	4.5	5.0	15.1
Average interest rate (in <i>per cent</i>) paid on borrowings by UT Government.	11.5	11.2	11.1	10.7	10.2	9.4
Difference between average interest paid and received (<i>per cent</i>)	5.8	7.6	7.4	6.2	5.2	(-) 5.7

* The difference between opening balance and closing balance of previous year were due to *pro forma* corrections made during the respective years.

During the current year major portion of loan was advanced to Co-operative Institutions (Rs 1.07 crore) and to Government servants for purchase of conveyance and computers (Rs 1.72 crore). The increased recovery during 2006-07 was due to writing off of Rs 2.39 crore due from Village Housing Projects. Similarly, interest received included Rs 3.24 crore being the written off interest due from Village Housing Projects. Excluding this, interest received against the loans advanced was 6.2 *per cent* during 2006-07 as against five *per cent* in previous year and the difference between interest paid and received would be 3.2 *per cent* instead of (-) 5.7 *per cent*.

Five Heads of Departments viz., Social Welfare, Fisheries, Industries, Local Administration and Civil Supplies had not given the certificates of acceptance of balances outstanding as reflected in Government account.

Audit scrutiny of the loan recovery records maintained by Agriculture, Social Welfare, Fisheries and Industries departments revealed the following:

- The Agriculture Department did not take any action to recover the loan of Rs 1.48 crore outstanding from a private sugar mill which ceased to function from 2003-04. The assets of the mill were sold by a nationalised bank and after recovering the dues, the balance amount was kept under the custody of High Court.
- Though the Social Welfare Department obtained Government orders in January 2007 for writing off the balance of Rs 2,306 and Rs 3,279 under the head 6235-02-800 and 6250-800 respectively, the outstanding loan were not written off from Government accounts during 2006-07.
- The balances under various heads recorded in the books of the Fisheries Department did not match with those reflected in Government Accounts.

- Industries Department released loans on personal security to 85 persons (Rs 6.82 lakh – Principal : Rs 1.85 lakh and Interest : Rs 4.97 lakh) which could not be recovered through Revenue Recovery Act. Besides, out of 59 loanees who received loan on mortgaging their assets, the whereabouts of 52 loanees could not be traced and seven loanees expired. Consequently, the Department sent write off proposals for Rs 14.80 lakh (Principal : Rs 4.41 lakh and Interest : Rs 10.39 lakh) in respect of all the 59 loanees in March 2005.

1.8 Undischarged liabilities

1.8.1 Fiscal liabilities – Public debt and guarantees

The fiscal liability of the UT Government was only public debt which comprises loans and advances from the Central Government and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts.

Table-1.20 gives the fiscal liabilities of the UT, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table-1.20: Fiscal liabilities – Basic parameters

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities (Rupees in crore)	945	1,113	1,312	1,553	1,820	2,168
Rate of Growth (<i>per cent</i>)	17.4	17.8	17.9	18.4	17.2	19.1
Ratio of Fiscal Liabilities to						
GSDP (<i>per cent</i>)	22	23	24	30	32	34
Revenue Receipts (<i>per cent</i>)	88	94	101	95	101	115
Own Resources (<i>per cent</i>)	165	162	163	172	184	194
Buoyancy of Fiscal Liabilities to						
GSDP (ratio)	1.7	1.1	1.7	(-) 4.0 ⁶	1.8	1.8
Revenue Receipts (ratio)	1.3	1.7	1.8	0.7	1.6	4.2
Own Resources (ratio)	4.0	0.9	1.0	1.5	1.8	1.5

⁶ Negative buoyancy of fiscal liabilities to GSDP is due to decline in the growth rate of GSDP

Overall fiscal liabilities of the UT increased from Rs 945 crore in 2001-02 to Rs 2,168 crore in 2006-07. The growth rate of fiscal liabilities was 19.1 *per cent* during 2006-07 over previous year. The fiscal liabilities of the UT at the close of the year 2006-07 comprised of non-plan loans (Rs 1,614.64 crore); loans for plan schemes (Rs 551.94 crore) and loans for CSS (Rs 1.16 crore). The ratio of fiscal liabilities to GSDP also increased from 22 *per cent* in 2001-02 to 34 *per cent* in 2006-07. These liabilities stood at 1.15 times of revenue receipts and 1.94 times of the own resources of the UT as at the end of 2006-07. The fiscal liabilities had grown faster than the GSDP of the UT during 2001-06 except in 2004-05. The buoyancy of these liabilities with reference to GSDP and Revenue Receipts during 2006-07 was more than one indicating higher growth of fiscal liabilities compared to growth of revenue.

1.8.2 Status of guarantees – contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. Though the Government of UT Act, 1963, was amended empowering the Government of Puducherry to maintain separate cash balance and give guarantees on the strength of its Consolidated Fund yet the UT Government had not maintained separate cash balance. The guarantees for the purpose of administration of the UT are continued to be given by the GOI. In the event of any guarantee being invoked, the payment is made initially by GOI and subsequently recovered from the UT Government. Statement 5 of the Finance Accounts gives the maximum amount for which guarantees were given by GOI and outstanding guarantees at the end of the year since 2001-02 as shown in **Table-1.21**.

Table-1.21: Guarantees given by Government of India for the Government of Union Territory of Puducherry

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees
2001-02	37.55	22.90
2002-03	37.55	18.38
2003-04	34.94	11.38
2004-05	22.14	8.53
2005-06	34.94	7.78
2006-07	33.78	4.26

No guarantee was invoked during any of the six years.

1.9 Debt Sustainability

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

1.9.1 Debt stabilisation

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the Debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt * rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, Debt-GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, Debt-GSDP ratio would be rising and in case it is positive, Debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilisation are indicated in **Table 1.22**.

Table 1.22 : Debt stabilisation : Indicators and Trends

	2002-03	2003-04	2004-05	2005-06	2006-07
Average Interest Rate (<i>per cent</i>)	11.2	11.1	10.7	10.2	9.4
GSDP growth (<i>per cent</i>)	15.8	10.3	(-) 4.5	9.8	10.5
Interest spread (<i>per cent</i>)	4.6	(-) 0.8	(-) 15.2	(-) 0.4	1.1
Outstanding Debt (Rs crore)	1,113	1,312	1,553	1,820	2,168
Quantum Spread (Rs crore)	51.20	(-) 10.50	(-) 236.06	(-) 7.28	23.85
Primary Deficit (-) / Surplus (+) (Rs crore)	(+) 3	(-) 2	(+) 19	(-) 108	(-) 211

Table 1.22 reveals that quantum spread together with primary deficit except in 2002-03, continued to remain negative from 2003-04 to 2006-07 indicating the rising Debt-GSDP ratio which has increased from 24 to 34 *per cent* during this period. Although the ratio of fiscal liabilities to GSDP is relatively low but its increasing trend viewed along with the increasing Fiscal Deficit – GSDP ratio is cause of concern as it may impair the UT's capacity to sustain debt in the medium to long run.

1.9.2 Sufficiency of non-debt receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table 1.23** indicates the resource gap as defined for the period 2001-07.

Table 1.23: Incremental revenue receipts and expenditure

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2001-02	127	169	15	184	(-) 57
2002-03	112	64	15	79	(+) 33
2003-04	118	123	18	141	(-) 23
2004-05	328	307	19	326	(+) 2
2005-06	171	298	18	316	(-) 145
2006-07	84	187	16	203	(-) 119

The negative resource gap indicated the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. Although a cycle of positive and negative resource gap was observed during the period 2001-05 but the magnitude of the gaps were small and might have not posed any problem. However, huge negative gap during the last two years may deteriorate capacity of the UT to sustain the debt in the medium to long run unless the trend is reversed in the ensuing years.

1.9.3 Net availability of funds

Borrowings from GOI constitute the debt of the UT. The ratio of debt redemption (Principal and Interest Payments) to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e. they are (a) not being used for financing revenue expenditure; and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

Table-1.24 below gives the position of the receipt and repayment of loans and advances from GOI over the last six years.

Table-1.24: Net availability of borrowed funds

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Loans and advances from GOI						
Receipts	193.34	229.96	268.40	347.54	353.33	443.76
Repayment (Principal + Interest)	155.07	177.06	203.84	259.70	257.40	283.65
Net fund available	38.27	52.90	64.56	87.84	95.93	160.11
Net fund available (per cent)	20	23	24	25	27	36

The net funds available on account of the loans and advances from the GOI after providing for interest and repayments increased from 20 per cent in 2001-02 to 36 per cent in 2006-07.

1.10 Management of deficits

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.

1.10.1 Trends in Deficits

The trends in fiscal parameters depicting the position of fiscal equilibrium in the UT are presented in **Table 1.25**.

Table-1.25: Fiscal imbalances: Basic parameters

(Value - Rupees in crore and ratios in per cent)

Parameters	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue deficit (RD) (-)/Revenue surplus (+)	(-) 26	(+) 34	(+) 9	(+) 58	(+) 8	(-) 43
Fiscal deficit (FD)	(-) 146	(-) 113	(-) 136	(-) 134	(-) 279	(-) 398
Primary deficit (PD) (-)/ Primary Surplus (+)	(-) 45	(+) 3	(-) 2	(+) 19	(-) 108	(-) 211
RD/GSDP	0.6	--	--	--	--	0.7
FD/GSDP	3.4	2.3	2.5	2.6	4.9	6.3
PD/GSDP	1.0	--	negligible	--	1.9	3.3
RD/FD	17.8	--	--	--	--	10.8

-- indicates surplus

Revenue deficit indicates the excess of revenue expenditure over revenue receipts. It is revealed from the trends in Table 1.25 that after experiencing

revenue surplus for four years (2002-06) although with wide inter year variations, it turned into revenue deficit during the current year as revenue receipts increased by five *per cent* (Rs 82 crore) against the increase of seven *per cent* (Rs 133 crore) in revenue expenditure over previous year resulting in an increase of deficit of Rs 51 crore during 2006-07 from the revenue surplus of Rs eight crore in previous year. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs 146 crore in 2001-02 to Rs 398 crore in 2006-07. Given the deficit of Rs 51 crore in revenue account in 2006-07 along with an increase of Rs two crore under non-debt capital receipts accompanied with an increase of Rs 71 crore in capital expenditure and a decline of Rs one crore in disbursement of loans and advances led to an increase of Rs 119 crore in fiscal deficit during 2006-07 from the level of Rs 279 crore in 2005-06. As proportion to GSDP, fiscal deficit had reached 6.3 *per cent* in 2006-07.

An increase of Rs 119 crore in fiscal deficit along with an increase of Rs 16 crore in interest payments led to an increase of Rs 103 crore in primary deficit during 2006-07 from Rs 108 crore in 2005-06.

1.10.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary Deficit into primary revenue deficit⁷ and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. After experiencing revenue surplus for four years (2002-06) although with wide inter year variations, revenue account of UT turned into deficit again during the current year indicating the fact that some part of borrowed funds are diverted towards current consumption.

Table 1.26: Primary deficit/Surplus – Bifurcation of factors

(Rupees in crore)							
Year	Non-debt receipts	Primary Revenue expenditure	Capital expenditure	Loans and advances	Primary Expenditure	Primary revenue deficit (-) / surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2001-02	1,079	998	119	7	1,124	81	(-) 45
2002-03	1,191	1,035	148	5	1,188	156	(+) 3
2003-04	1,309	1,160	146	5	1,311	149	(-) 2
2004-05	1,637	1,420	193	5	1,618	217	(+) 19
2005-06	1,808	1,623	289	4	1,916	185	(-) 108
2006-07	1,892	1,740	360	3	2,103	152	(-) 211

⁷ Primary revenue deficit defined as gap between non interest revenue expenditure of the State and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2001-07 reveals (**Table 1.26**) that the State has not only experienced the primary revenue surplus throughout this period but it increased from Rs 81 crore in 2001-02 to Rs 152 crore in 2006-07 with wide inter year fluctuations. In other word non-debt receipt of the State were enough to meet the primary expenditure requirement in the revenue account rather left some receipts to meet the expenditure under the capital account. It was only during 2002-03 and 2004-05, the UT of the Puducherry experienced the primary surplus when total non-debt receipts were adequate to meet the total primary expenditure and in the remaining years it experienced the primary deficit largely on account of increasing capital expenditure.

1.11 Fiscal Ratios

The table on indicators of fiscal health relating to 2006-07 of UT of Puducherry is given below:

Table 1.27: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07
(1)	(2)	(3)	(4)	(5)	(6)
I Resource Mobilisation					
Revenue Receipt/GSDP	24	24	31	32	30
Revenue Buoyancy	0.7	1.0	(-) 5.6	1.1	0.4
Own Tax/GSDP	5.6	6.5	7.8	8.4	9.0
Own Tax buoyancy	0.2	2.7	(-) 3.2	1.9	1.8
II Expenditure Management					
Total Expenditure/GSDP	26	27	34	37	36
Revenue Receipts/ Total Expenditure	91	90	92	86	82
Revenue Expenditure/Total Expenditure	89	90	89	86	84
Capital Expenditure/Total Expenditure	11	10	11	14	16
Buoyancy of TE with RR	0.6	1.1	0.9	1.7	2.1
Buoyancy of RE with RR	0.5	1.2	0.9	1.3	1.6
III Management of Fiscal Imbalances					
Revenue deficit (-) /Revenue Surplus (+) (Rs in crore)	(+) 34	(+) 9	(+) 58	(+) 8	(-) 43
Fiscal deficit (Rs in crore)	(-) 113	(-) 136	(-) 134	(-) 279	(-) 398
Primary Deficit (-) / Primary Surplus (+) (Rs in crore)	(+) 3	(-) 2	(+) 19	(-) 108	(-) 211
Revenue Deficit/Fiscal Deficit	-	-	-	-	11

(1)	(2)	(3)	(4)	(5)	(6)
IV Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	23	24	30	32	34
Fiscal Liabilities/RR	94	101	95	101	115
Buoyancy of FL with RR	1.7	1.8	0.7	1.6	4.2
Buoyancy of FL with Own Receipt	0.9	1.0	1.5	1.8	1.5
Net Funds Available under Public Debt	23	24	25	27	36
V Other Fiscal Health Indicators					
Return on Investment	0.6	0.5	0.5	0.3	0.1
Financial Assets/Liabilities	1.26	1.23	1.23	1.20	1.15

1.12 Conclusion

The performance of UT of Puducherry viewed in terms of key fiscal parameters – revenue, fiscal and primary deficits – indicates deteriorating fiscal health during 2006-07 over the previous year. Mobilisation of resources by the UT comprising its tax and non-tax revenue as well as recovery of loans and advances could not meet the Non-plan revenue expenditure and the Government was heavily dependent on grants from GOI for meeting both NPPE and PRE requirements during the current year. NPPE not only continued to constitute the dominant proportion of revenue expenditure but within NPPE the four items – salaries, pension payments, interest payments and subsidies – shared more than half during 2006-07. Moreover, the increasing fiscal liabilities accompanied with negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to a situation of unsustainable debt situation in medium to long run unless suitable measures are initiated to compress the Non-plan revenue expenditure and to mobilise the additional resources both through the tax and non tax sources in ensuing years.