CHAPTER I

FINANCE ACCOUNTS

AN OVERVIEW OF THE FINANCES OF THE UNION TERRITORY GOVERNMENT

In summary

- The fiscal deficit has come down from Rs 146 crore in 2001-02 to Rs 113 crore in 2002-03 mainly because of receipt of more grants from Government of India to cover non-plan deficit in revenue account.

- Though the mobilisation of revenue from own resources improved from 53 *per cent* to 58 *per cent* of revenue receipts during 1998-2003, there was steep decline in receipt from tax revenue against the peak attained in 2000-01. The receipt from sale of power (Rs 387.93 crore), which was 94 *per cent* of total non-tax revenue was offset by the expenditure of Rs 408 crore incurred on collection of this revenue. The Government depended on grant from Government of India for other revenue expenditure.

- The overall revenue expenditure of Government grew from Rs 688.94 crore in 1998-99 to Rs 1151.31 crore in 2002-03. Of this, nearly 76 *per cent* was under non-plan, which did not contribute to development.

- Fiscal liabilities grew from Rs 611.25 crore in 1998-99 to Rs 1113.25 crore in 2002-03. The interest rate on fiscal liabilities is higher than the rate of growth of Gross State Domestic Product during 2001-03, indicating poor debt sustainability. The net available borrowed funds after meeting repayment of loan and interest were not utilised for development during 1998-2003. During 2002-03, the revenue surplus and the net available borrowed funds contributed to increase in cash balance by Rs 55.61 crore, indicating unnecessary borrowing to this extent and consequent interest liability thereon.

1.1 Introduction

The accounts of the Union Territory (UT) Government are maintained in (i) 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) Contingency Fund which is in the nature of imprest to meet urgent unforeseen expenditure pending authorisation from the Legislature. There is no Public Account in the UT to account for moneys kept by the Government as a banker; the transactions relating thereto are included in the Public Account of Government of India (GOI). The cash balance of the UT Government is merged in the general cash balance of GOI.

The layout of the Finance Accounts is depicted in the box below:

Statement 1	Presents the summary of transactions in the Consolidated and Contingency Funds.
Statement 2	Contains the summarised statement of capital outlay showing progressive expenditure to the end of the financial year.
Statement 3	Contains the summarised debt position showing receipts, repayments and current balance.
Statement 4	Contains the details of loans and advances by the Government.
Statement 5	Contains details of guarantees given by the Government of India on behalf of the Government of Pondicherry.
Statement 6	Contains the summary of balances under Consolidated and Contingency Funds.
Statement 7	Contains the revenue and expenditure under different heads as a percentage of total revenue /expenditure.
Statement 8	Shows the distribution between charged and voted expenditure.
Statement 9	Contains detailed account of revenue by minor heads.
Statement 10	Contains detailed account of revenue expenditure by minor heads.
Statement 11	Contains detailed account of capital expenditure by minor heads incurred during the year and the expenditure to the end of the year.
Statement 12	Contains details of investments made in Government companies and co-operative institutions up to the end of the year.
Statement 13	Contains capital and other expenditure and the principal sources of funds for such expenditure.
Statement 14	Contains details of receipts, disbursements and balances under debt, loans and advances and Contingency Fund.
Statement 15	Contains detailed position of debt.
Statement 16	Contains details of loans and advances by Government.

1.2 Financial position of the Union Territory Government

1.2.1 The main sources of revenue for the UT Government are Revenue and Capital receipts which are utilised for meeting plan and non-plan expenditure including lending for development and other purposes. The gap between receipts and expenditure represents deficit/surplus in the Government Accounts. The Revenue Surplus/Deficit is the gap between revenue receipts and the revenue expenditure and Fiscal Deficit is the excess of revenue and capital expenditure including net loans given over the revenue receipts^. The Primary Deficit is the Fiscal Deficit excluding interest payments. While Revenue and Fiscal Deficits indicate the inadequacy of resource to meet the obligations towards revenue expenditure and total commitment, the Primary Deficit indicates the inability of the Government even to meet the current expenditure commitments without resorting to borrowings.

1.2.2 The financial position of the UT Government during the current year as compared to the previous year is given in Table 1.

Table 1 - Financial position of the UT Government

(Rupees in crore)

2001-02	Serial number	Major aggregate	2002-03
1073	**1**	**Revenue Receipts**	**1185**
269	2	Tax Revenue	276
302	3	Non -Tax Revenue	412
502	4	Grants-in-aid	497
6	**5**	**Non- Debt Capital Receipts**	**6**
6	6	Recovery of loans	6
1079	**7**	**Total Receipts (1+5)**	**1191**
858	**8**	**Non -Plan Expenditure**	**885**
853	9	On Revenue Account	880
101	10	Of which Interest payments	116
5*	11	On Capital Account	5
7	12	Of which loans disbursed	5
367	**13**	**Plan Expenditure**	**419**
246	14	On Revenue Account	271
121	15	On Capital Account	148
--	16	Of which loans disbursed	**
1225	**17**	**Total Expenditure (8+13)**	**1304**
1099	**18**	**Revenue Expenditure (9+14)**	**1151**
126	**19**	**Capital expenditure including loans disbursed (11+15)**	**153**
146	**20**	**Fiscal Deficit (17-7)**	**113**
26	**21**	**Revenue Deficit (18-1)**	**---**
---		**Revenue Surplus (1-18)**	**34**
25	**22**	**Primary Deficit (20-10)**	*******

***** **Capital expenditure was Rs (-) 2 crore which was due to issue to more materials from stock than that purchased by Electricity Department**
****** **Rs 28.98 lakh**
******* **Interest payments were more than Fiscal Deficit**

^ **including non-debt miscellaneous capital receipts**

1.2.3 The improvement from Revenue Deficit in 2001-02 to Revenue Surplus in 2002-03 was mainly due to excess receipt of grants-in-aid from GOI over and above the actual non-plan deficit in revenue account. This also resulted in reduction in the Fiscal Deficit, which was met by obtaining loan from GOI.

1.3 Summary of receipts and disbursements

1.3.1 Table 2 summarises the state of finances of the UT Government for the year 2002-03 covering receipts and disbursements under revenue and capital, as emerging from the Finance Accounts.

Table 2 -Summary of Receipts and Disbursements

(Rupees in crore)

Receipts			**Disbursements**				
2001-02		**2002-03**	**2001-02**				**2002-03**
	Section A: Revenue						
	Revenue Receipts			**Revenue Expenditure**	**Non-Plan**	**Plan**	**Total**
268.59	- Tax Revenue	276.38	223.03	- General Services	240.56	8.78	249.34
302.31	- Non-Tax Revenue	411.90	319.19	- Social Services	191.31	169.76	361.07
Nil	- Share of Union Taxes/Duties	Nil	554.12	- Economic Services	445.15	93.15	538.30
501.69	- Grants from Government of India	497.21	2.38	- Grants-in-aid and contributions	2.60	Nil	2.60
26.13	Revenue deficit carried over to Section B	Nil	Nil	Revenue surplus carried over to Section B			34.18
1098.72	**Total**	**1185.49**	**1098.72**	**Total**	**879.62**	**271.69**	**1185.49**
	Section B: Capital and others						
37.18	Opening cash balance	29.99	Nil	Opening cash balance			Nil
Nil	Miscellaneous Capital Receipts	Nil	119.24	Capital Outlay			147.51
6.24	Recoveries of Loans and Advances	5.88	7.32	Loans and Advances disbursed			5.43
Nil	Revenue Surplus brought down	34.18	26.13	Revenue Deficit brought down			Nil
193.34	Public Debt Receipts	229.96	54.08	Repayment of Loans and Advances to Central Government			61.47
Nil	Amount transferred to Contingency Fund	Nil	Nil	Expenditure on Contingency Fund			Nil
Nil	Excess of disbursement over receipt	Nil	29.99	Cash balance at end			85.60
236.76	**Grand Total**	**300.01**	**236.76**	**Grand Total**			**300.01**

1.3.2 The net effect of Receipts and Disbursements during 2002-03 was increase in the cash balance by Rs 55.61 crore.

1.4 Audit methodology

1.4.1 Pondicherry consists of four separate geographical areas located in the States of Tamil Nadu, Kerala and Andhra Pradesh and its economy is affected by the policies of neighbouring States. The growth of economy is measured by the growth of Gross State Domestic Product (GSDP). The growth rates of GSDP at current prices during the five year period are given in Table 3.

Table 3 – GSDP and its rate of growth

Year	1998-99	1999-2000	2000-01	2001-02*	2002-03**	Average
GSDP at current prices (Rupees in crore)	2982.02	3119.21	3780.64	4008.25	4266.38	3631.30
Rate of growth (in *per cent*)	13.6	4.6	21.2	6.0	6.4	10.4

*** Provisional** **** Quick estimates**

The average growth rate of GSDP during the five year period was 10.4 *per cent*.

1.4.2 Audit observations on the statements of Finance Accounts for the year bring out the trends in major fiscal aggregate of receipts and expenditure and wherever necessary, show these in light of periodic comparisons. Fiscal aggregates like tax and non-tax revenues, revenue and capital expenditure and fiscal liabilities have been presented as a percentage of GSDP at current market prices. Buoyancy projections have been provided to indicate the responsiveness of the parameters like sources of receipts, application of funds and management of assets and deficits to change in GSDP[1]. Overall performance of the Government has been presented along with a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

1.5 Mobilisation of resources

Sources

1.5.1 Resources of UT consist of revenue receipts (comprising tax and non-tax revenue and grants-in-aid from GOI) and capital receipts (mainly borrowing from GOI and recoveries of loans and advances). The UT Government is not empowered to raise finance by market borrowings. Table 4 shows the receipts from different sources for the period 1998-2003.

[1] **Buoyancy is the ratio of rate of growth of parameters to rate of growth of GSDP**

Table 4 - Source of receipts

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts		Total Receipts
		Recovery of loan	Public Debt	
1998-99	747.44	8.32	110.03	865.79
1999-2000	877.49	3.77	130.10	1011.36
2000-01	946.73	5.44	155.40	1107.57
2001-02	1072.59	6.24	193.34	1272.17
2002-03	1185.49	5.88	229.96	1421.33

Revenue receipts

1.5.2 The revenue receipts under tax and non-tax revenue and grants-in-aid from GOI and trend of growth are indicated in Table 5.

Table 5 - Revenue receipts - Basic parameters

(Rupees in crore)

Serial number	Receipts	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
1.	Tax revenue	224.98 (30)	260.59 (30)	291.86 (31)	268.59 (25)	276.38 (23)	264.48 (27)
2.	Non-tax revenue	171.96 (23)	218.47 (25)	255.13 (27)	302.31 (28)	411.90 (35)	271.95 (28)
3.	Mobilisation from own resource (1+2)	396.94 (53)	479.06 (55)	546.99 (58)	570.90 (53)	688.28 (58)	536.43 (55)
4.	Grants-in-aid	350.50 (47)	398.43 (45)	399.74 (42)	501.69 (47)	497.21 (42)	429.51 (45)
5.	Revenue receipts (3+4)	747.44	877.49	946.73	1072.59	1185.49	965.94

(Figures in brackets denote the share as a percentage of revenue receipts)

1.5.3 Though there has been a slight improvement in the mobilisation of revenue from own resources, the relative share of tax revenue has declined steeply from 2000-01 due to introduction of uniform taxes on sales, trades, etc. This was compensated largely by the steep increase in non-tax revenue mainly due to increase in power tariff. However, the entire revenue realised during 2002-03 from sale of power (Rs 387.93 crore), which constituted 94 *per cent* of total non-tax revenue was less than the expenditure thereon (Rs 408 crore); there was no net earning from sale of power.

1.5.4 Unlike other States, the UT is not given the share of Central taxes by GOI. However, the GOI releases grant to fill the gap between tax and non-tax receipts and non-plan revenue expenditure. Besides, GOI also releases grant for meeting plan expenditure. Thus, the release of GOI grants was dependent on the revenue gap.

1.5.5 Table 6 indicates the rate of growth of revenue receipts and the rate of growth of GSDP.

Table 6 – Growth of revenue receipts and GSDP

		1998-99	1999-2000	2000-01	2001-02	2002-03	Average
1.	Growth of revenue receipts (in *per cent*)	24.1	17.4	7.9	13.3	10.5	14.6
2.	Growth of GSDP (in *per cent*)	13.6	4.6	21.2	6.0	6.4	10.4
3.	Buoyancy (1÷2)	1.8	3.8	0.4	2.2	1.6	2.0
4.	Percentage of revenue receipts to GSDP	25	28	25	27	28	27

1.5.6 It is seen that there is no linear relationship between the GSDP growth rate and growth of revenue receipts. When the GSDP growth rate peaked at 21.2 *per cent* in 2000-01, the growth of revenue receipts declined to eight *per cent* resulting in buoyancy of less than unity and while growth rate of GSDP declined during subsequent years, the growth of revenue receipts increased resulting in buoyancy of greater than unity. However, the revenue receipts maintained a ratio of 25 to 28 *per cent* to GSDP mainly because GOI had made good the deficit (difference between non-plan revenue expenditure and the tax plus non-tax revenues).

Arrears of revenue

1.5.7 Arrears of revenue pending collection as of March 2003 amounted to Rs 77 crore. Of this, Rs 48.49 crore (63 *per cent*) relates to Electricity dues, Rs 14.73 crore (19 *per cent*) to State Excise and Rs 7.39 crore (10 *per cent*) to Commercial Taxes. The arrears of revenue has increased from Rs 66.90 crore in 2001-02 to Rs 77 crore in 2002-03 (15 *per cent*). The details are discussed in Chapter VI of this Report.

Capital receipts

1.5.8 The main component of Capital receipts is Public Debt comprising borrowings from GOI, used to meet plan and non-plan capital expenditure including investments and disbursement of loans and advances under various schemes. The UT Government obtained a loan of Rs 229.96 crore from GOI during 2002-03. The borrowings increased year after year mainly to meet the increasing repayment liability of loans obtained during earlier years. As GOI released grants to meet the entire revenue expenditure, the borrowings from GOI should be restricted to the liability towards capital expenditure and loans and advances. In view of the increase in the cash balance by Rs 55.61 crore as of March 2003, the debt raised to that extent under non-plan loan during 2002-03 was avoidable; this would increase the interest liability during subsequent years.

1.6 Application of resources

1.6.1 The total expenditure is comprised of revenue and capital expenditure, loans and advances and repayment of borrowings. The growth of expenditure of the UT in relation to GSDP and Revenue Receipts is given in Table 7.

Table 7 - Total expenditure - Basic parameters

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue expenditure	688.94	845.57	919.07	1098.72	1151.31	940.72
Capital expenditure	109.95	103.07	107.86	119.24	147.51	117.53
Loans and advances	11.17	9.34	14.54	7.32	5.43	9.56
Repayment of borrowings	46.81	43.00	48.26	54.08	61.47	50.72
Total expenditure	**856.87**	**1000.98**	**1089.73**	**1279.36**	**1365.72**	**1118.53**
Rate of growth of total expenditure (in *per cent*)	23.8	16.8	8.9	17.4	6.7	14.7
Percentage of total expenditure to GSDP	28.7	32.1	28.8	31.9	32	30.7
Percentage of total expenditure to revenue receipts	115	114	115	119	115	116
Buoyancy of total expenditure to GSDP	1.8	3.7	0.4	2.9	1.0	2.0

1.6.2 Overall expenditure of the Government increased from Rs 856.87 crore in 1998-99 to Rs 1365.72 crore in 2002-03. Despite the decline in the rate of growth in 2000-01 and 2002-03, the average rate of growth was 15 *per cent*. The ratio of total expenditure to revenue receipts during 1998-2003 was 114 to 119 *per cent* indicating that current revenues were not sufficient to meet the total expenditure thereby forcing the Government to resort to borrowings from GOI.

1.6.3 The relative share of components in total expenditure is indicated in Table 8.

Table 8 - Components of expenditure – Relative share

(in *per cent*)

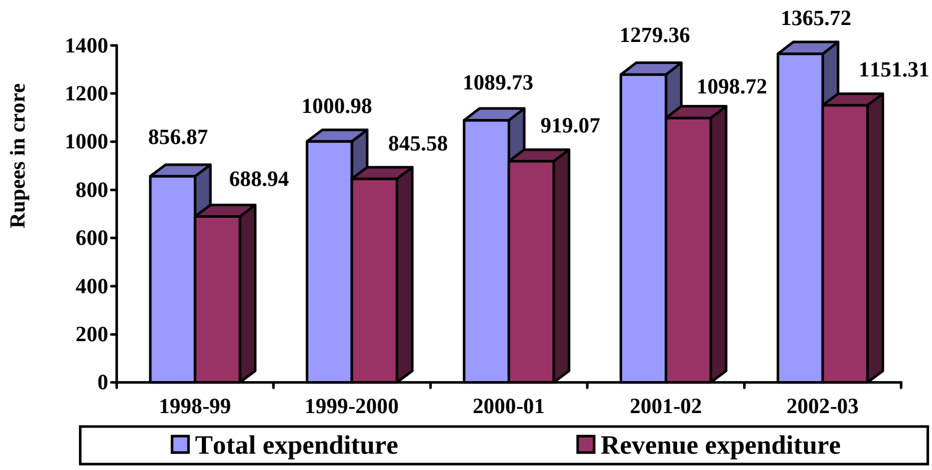
	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
General Services	12	13	12	11	11	12
Interest payments	9	7	8	8	9	8
Social Services	31	33	31	27	29	30
Economic Services	40	41	43	50	46	44
Loans and advances including repayment of borrowings	7	5	6	5	5	6
Grants-in-aid	1	1	--	--	--	--

1.6.4 Of the total expenditure, the average share of General Services and Interest payments amounted to 20 *per cent*. The remaining 80 *per cent* on Social and Economic Services and Loans and advances are normally considered to be developmental in nature.

Revenue expenditure

1.6.5 The bar chart given below depicts the growth of total expenditure *vis-à-vis* revenue expenditure.

Growth of total expenditure *vis-a-vis* revenue expenditure



It was seen that the growth of total expenditure is mainly contributed by growth in revenue expenditure.

Incidence of revenue expenditure

1.6.6 The basic parameters of revenue expenditure are given in Table 9.

Table 9 – Revenue expenditure – Basic parameters

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Non-plan expenditure	531.62	638.06	697.34	852.53	879.62	719.83
Plan expenditure	157.32	207.52	221.73	246.19	271.69	220.89
Revenue expenditure	688.94	845.58	919.07	1098.72	1151.31	940.72
Percentage of non-plan expenditure to revenue expenditure	77	75	76	78	76	76
Rate of growth of revenue expenditure (in *per cent*)	22.1	22.7	8.7	19.5	4.8	15.6
Percentage of revenue expenditure to GSDP	23.1	27.1	24.3	27.4	27	25.8
Buoyancy of revenue expenditure to GSDP	1.6	4.9	0.4	3.3	0.8	2.2
Revenue expenditure as percentage of revenue receipts	92	96	97	102	97	97

1.6.7 Seventy-Six *per cent* of revenue expenditure in 2002-03 was non-plan expenditure. The sudden decline in the growth of revenue expenditure during 2002-03 was due to refund of unutilised grants and non-release of grants to Sugar and Textile industries. The buoyancy of revenue expenditure to GSDP was more than one in three years. The ratio of revenue expenditure to revenue receipt indicates that there was revenue surplus except during 2001-02.

1.7 Expenditure by allocative priorities

Non-developmental expenditure

1.7.1 Table 10 gives the expenditure on administration, subsidies and stipends, interest payments, repayment of borrowings and other charges and their relative percentages to total expenditure during 1999-2003.

Table 10 – Non-developmental expenditure – Basic parameters

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	Average
Administrative expenditure including pensionary charges	355.42 (36)	378.70 (35)	374.27 (29)	403.10 (30)	377.87 (32)
Grants-in-aid and contribution	117.17 (12)	121.42 (11)	143.28 (11)	126.50 (9)	127.09 (11)
Subsidies and stipends	5.80 (1)	6.58 (1)	5.80 (1)	9.84 (1)	7.01 (1)
Interest payments	74.53 (7)	86.40 (8)	100.99 (8)	115.59 (8)	94.38 (8)
Repayment of borrowings	43.00 (4)	48.26 (4)	54.08 (4)	61.47 (5)	51.70 (4)
Other charges	63.57 (6)	53.81 (5)	54.42 (4)	73.24 (5)	61.26 (5)
Total non-developmental expenditure	**659.49 (66)**	**695.17 (64)**	**732.84 (57)**	**789.74 (58)**	**719.31 (61)**

(Figures in brackets indicate percentage to total expenditure)

1.7.2 The share of these items of expenditure, which are mainly non-developmental in nature, to the total expenditure declined from 66 *per cent* to 58 *per cent* during 1999-2003. This was mainly due to the decline in the share of administrative expenditure. Allocation of more funds for non-developmental expenditure would contribute little to the growth of GSDP.

Financial assistance to local bodies and other institutions

1.7.3 Table 11 gives the financial assistance paid to various autonomous bodies and other institutions during 1998-2003.

Table 11 – Financial assistance to autonomous bodies and other institutions

(Rupees in crore)

	1998-99	**1999-2000**	**2000-01**	**2001-02**	**2002-03**
Private educational institutions	5.41	6.58	5.63	9.15	8.75
Municipalities	8.96	11.41	15.06	16.62	26.89
Commune panchayats	6.74	8.43	9.75	12.10	11.49
Statutory boards/authorities	32.09	39.55	39.77	48.10	48.96
Other institutions					
(i) Co-operative institutions	8.22	11.13	14.15	11.50	9.53
(ii) Others	0.94	1.56	2.35	2.80	6.24
Total	**62.36**	**78.66**	**86.71**	**100.27**	**110.86**
Percentage of growth over previous year	0	26	10	16	11
Assistance as a percentage of revenue expenditure	9	9	9	9	10

1.7.4 As per financial rules, when grants are given for specific purposes, certificates of utilisation should be obtained from the grantees, verified and forwarded to the Director of Accounts and Treasuries within 18 months from the date of sanction, unless specified otherwise. Of the 1661 utilisation certificates aggregating Rs 102.44 crore due, only 676 utilisation certificates for Rs 45.28 crore had been furnished by 31 March 2003 and 985 certificates for an aggregate amount of Rs 57.16 crore were in arrears (Appendix 1). Out of this, 404 utilisation certificates for Rs 12.15 crore relate to grants and loans given during 1997-98 and earlier years. Test-check of 14 institutions by audit revealed that Rs 19.07 lakh were kept unutilised by four institutions.

1.7.5 The accounts for the year 2002-03 had not been received as of July 2003 from 35 grantees to identify the institutions which attract audit by the Comptroller and Auditor General of India. Thirty one grantees had not furnished accounts for earlier years pertaining to the period 1997-2002. This makes the verification of utilisation of grants by the grantees impossible.

Misappropriation and losses

1.7.6 Cases of misappropriation of Government money, stores etc., reported to audit till the end of March 2003, on which final action was pending at the end of June 2003 are given in Table 12.

Table 12 – Details of cases of misappropriation and losses

Serial number		Number of cases	Amount (Rupees in lakh)
1.	Cases reported to the end of March 2002 and outstanding at the end of June 2002	311*	36.61
2.	Cases reported during April 2002 to March 2003	27	269.39
	Total	**338**	**306.00**
3.	Cases closed during July 2002 to June 2003	7	1.97
4.	Cases outstanding at the end of June 2003	331	304.03

*** One case omitted to be included during previous year has been included**

1.7.7 The department-wise and year-wise analysis of the cases and their status as of June 2003 are indicated in Appendix 2. While Rs 400 were recovered in respect of one case, Rs 2.64 lakh were written off in respect of three cases.

1.8 Assets and Liabilities

1.8.1 The Government accounting system does not attempt a comprehensive accounting of fixed assets i.e., land, building, etc., owned by the Government. However, the Government Accounts do capture the financial liabilities of the Government and the assets created out of the expenditure. Statements 11, 13, 15 and 16 of the Finance Accounts show the year end balances of various assets and liabilities of the Government. Table 13 presents an abstract of such liabilities and the assets as on 31 March 2003 compared with the corresponding position on 31 March 2002.

Table 13 – Assets and liabilities of the UT Government as on 31 March 2003

(Rupees in crore)

As on 31.03.2002	Liabilities		As on 31.03.2003
	Public Debt:		
	Loans and advances from Central Government:		
453.93	Non-plan loans	590.81	
489.08	Loans for Union Territory plan schemes	520.43	
--	Loans for central plan schemes	--	
1.74	Loans for centrally sponsored schemes	2.00	
944.75			1113.24
0.50	**Contingency Fund**		0.50
251.15	**Surplus on Government Account :**		
	Opening balance brought forward	251.90[2]	
	Add: Current year's surplus	34.18	
			286.08
1196.40	**Total**		**1399.82**
As on 31.03.2002	**Assets**		**As on 31.03.2003**
	Gross Capital Outlay:		
446.76	Investments in shares of Companies, Corporations, etc.,	475.23	
664.83	Other Capital Outlay	788.62	1263.85
	Loans and Advances:		
3.93	Loans to Co-operatives	3.75	
25.74	Other development loans	21.33	
25.15	Loans to Government Servants	25.29	50.37
29.99	**Cash Balance**		**85.60**
1196.40	**Total**		**1399.82**

1.8.2 The table indicates that assets valuing Rs 1314.22 crore were created mainly out of funds borrowed from GOI and surplus on Government Account. In reality, the surplus on Government Account was created only through Revenue Surplus from year to year which was the result of release of more grant by GOI to cover the gap between revenue receipts and non-plan expenditure. This indicates the complete dependency of the UT on GOI for asset creation.

Incomplete projects

1.8.3 As per the information received from the UT Government, there were 32 incomplete projects in which Rs 33.73 crore were blocked as of 31 March 2003. The delay was mainly due to change in plan, design and site, encroachment, contractors' delay and non-receipt of funds from GOI.

[2] **Differs from previous year due to *pro forma* corrections for Rs 0.75 crore**

Fiscal liabilities – Public debt

1.8.4 The fiscal liabilities of the UT Government represent mainly the outstanding debt due to GOI (Statement 15 of Finance Accounts). Table 14 indicates the growth of fiscal liabilities during 1998-2003 with reference to the growth of revenue from own sources and GSDP.

Table 14 – Fiscal liabilities – Basic parameters

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Fiscal liabilities (Rupees in crore)	611.25	698.35	805.49	944.75	1113.24	834.62
Rate of growth	11.5	14.2	15.3	17.3	17.8	15.2
Percentage of fiscal liabilities-						
(i) to GSDP	20.5	22.4	21.3	23.6	26.1	23.0
(ii) to own resources	154	146	147	165	162	155
Buoyancy of fiscal liabilities-						
(i) With GSDP	0.9	3.1	0.7	2.9	2.8	2.1
(ii) With own resources	0.7	0.7	1.1	4	0.9	1.5

1.8.5 The fiscal liabilities of the UT Government increased steadily every year and its growth was faster than the growth of GSDP. Besides, on an average for each one *per cent* increase in GSDP and own resources, the fiscal liabilities of the UT Government had gone up by 2.1 and 1.5 *per cent* respectively.

1.8.6 Increasing liabilities raise the issue of sustainability. Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. In the UT, the interest rate on fiscal liabilities during 1998-2003 exceeded the rate of growth of GSDP in the last two years as indicated in Table 15.

Table 15 – Debt sustainability – Interest rate and GSDP growth

(in *per cent*)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Weighted interest rate	12.6	12.6	12.5	11.6	11.1
GSDP Growth	13.6	4.6	21.2	6.0	6.4
Interest spread	1.0	-8.0	8.7	-5.6	-4.7

1.8.7 Another important indicator of debt sustainability is net availability of funds after repayment of the principal on account of the earlier contracted liabilities and interest. Table 16 gives the position of receipt and repayment of debt over the last five years.

Table 16 – Net availability of borrowed funds

(Rupees in crore)

Loans and advances from GOI	1998-99	1999-2000	2000-01	2001-02	2002-03
Receipt	110.03	130.11	155.40	193.34	229.96
Repayment (Principal + Interest)	125.08	117.53	134.66	155.07	177.06
Net funds available	(-)15.05	12.58	20.74	38.27	52.90
Net funds availability (in *per cent*)	--	10	13	20	23
Cash balance	8.95	19.34	37.18	29.99	85.60

1.8.8 The net funds available on account of the loans and advances from GOI after providing for interest and repayments steadily increased from 10 *per cent* to 23 *per cent*. However, there was huge cash balance with the UT Government indicating that the borrowed funds available for development works were not actually utilised.

1.9 Guarantees given by the GOI

1.9.1 The Government of Union Territories Act, 1963, does not empower the UT Governments to give guarantees; the guarantees for the purposes of administration of the UT are given by the GOI under Article 292 of the Constitution. In the event of any guarantee being invoked, the payment is made initially by the GOI and subsequently recovered from the UT. Thus, the guarantees given by the GOI constitute a contingent liability to the UT Government.

1.9.2 Government of India guaranteed the repayment of loans upto a maximum of Rs 37.55 crore and payment of interest thereon on behalf of four co-operative institutions and one Government company[3] as on 31 March 2003. The contingent liability of the guarantees stood at Rs 19.15 crore (Principal - Rs 18.38 crore; Interest - Rs 0.77 crore) as on 31 March 2003. No guarantee was invoked during the year.

1.10 Investments and returns

1.10.1 Statement 12 of the Finance Accounts showed that as on 31 March 2003, Government had invested Rs 475.23 crore in 12 companies

[3] **(1) Pondicherry Co-operative Central Land Development Bank Limited, (2) Pondicherry Co-operative Milk Producers' Union Limited, (3) Pondicherry State Co-operative Housing Federation Limited, (4) Jayaprakash Narayan Co-operative Spinning Mills Limited, Karaikal and (5) Pondicherry Adi-dravidar Development Corporation Limited**

(10 owned by the UT Government and two owned by other State/GOI) and 359 co-operative institutions. Table 17 shows the details of investments and returns realised during the past five years by way of dividend.

Table 17 - Return on investment

Year	Investments at the end of the year	Returns	Percentage of return	Rate of interest on amount borrowed (Weighted)
	(Rupees in crore)			
1998-99	313.44	0.54	0.2	12.63
1999-2000	358.79	0.65	0.2	12.64
2000-01	402.71	0.23	0.1	12.50
2001-02	446.76	0.73	0.2	11.57
2002-03	475.23	2.84	0.6	11.05

1.10.2 While the Government was raising high cost borrowings from GOI, its investments in Government companies and co-operative institutions fetched insignificant return. The working results of the Government companies owned by the UT Government are discussed in detail in Chapter VII of this Report. During 2002-03, only three companies paid dividend; six companies did not declare any dividend during the past nine to eleven years.

1.11 Loans and advances by UT Government

1.11.1 The Government gives loans and advances to Government companies, corporations, local bodies, autonomous bodies, co-operatives etc., for developmental and non-developmental activities. It also disburses loans to Government servants for construction of houses, purchase of vehicles, etc. The details of loans advanced and recovered during 1998-2003 and the outstanding balances are given in Table 18.

Table 18 –Loans and advances by UT Government

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Opening balance	52.40	50.25	50.81	53.74	50.82
Amount of advance during the year	11.17	9.34	14.54	7.32	5.43
Amount repaid during the year	8.32	3.78	5.44	6.24	5.88
Closing balance	55.25	55.81	59.91	54.82	50.37
Net addition	2.85	5.56	9.10	1.08	(-) 0.45
Interest received	1.33	1.46	1.23	3.15	1.83

1.11.2 The reduction in opening balance compared to the closing balance of previous years was due to conversion of loan into share capital and grants-in-aid and conversion of interest on loan to interest free loans. In spite of such conversions, the outstanding loan showed an increasing trend and the principal and interest recovered constituted meagre percentage of the outstanding loan.

1.11.3 The departmental officers who maintain detailed accounts of loans, are to confirm the balance and furnish particulars of overdue amount to Director of Accounts and Treasuries. The details furnished by eight Heads of Department revealed that out of Rs 20.07 crore (Principal: Rs 11.79 crore and Interest: Rs 8.28 crore) pending recovery, Rs 12.48 crore related to 2000-01 and earlier years.

Test-check of the records of Agriculture Department and Rural Development Department disclosed the following:

Agriculture Department

1.11.4 The Agriculture Department did not maintain loan ledgers. While the balance of Takavi loans to cultivators and asset-oriented loans outstanding was Rs 71.10 lakh as per departmental records, Rs 70.49 lakh was shown as balance in Director of Accounts and Treasuries records due to misclassification. Without rectifying this misclassification, Government orders were obtained for writing off Rs 70.49 lakh. Consequently, Rs 0.61 lakh was still kept pending in departmental accounts. Besides, the interest due for the period from April 2001 to March 2002 for the outstanding loan amount of Rs 70.49 lakh was not written off.

1.11.5 The short-term loan of Rs 1 crore paid to Pondicherry Agro Products Food and Civil Supplies Corporation Limited in September 1999 and due for repayment in March 2000 was not repaid even by March 2003.

1.11.6 During 1999-2000, the Government fixed higher price for purchase of sugar cane from cane growers by the sugar mills in the UT. Consequently, New Horizon Sugar Mills Limited, a private mill, requested for loan of Rs 1.48 crore for payment of additional price. Even though the mill was not in sound financial position for repaying the loan, Government released the loan by obtaining security. Out of Rs 99.16 lakh overdue by February 2003, the mill paid only Rs 20 lakh. The Department, instead of attaching the land offered as security for the loan, preferred to invoke Revenue Recovery Act by referring to Revenue Department for recovering the dues. The Department also arrived at the overdue amount as of March 2003 wrongly as Rs 75.16 lakh instead of Rs 89.75 lakh (which includes penal interest).

Rural Development Department

1.11.7 The Director of Rural Development had not maintained any loan ledger; yet he confirmed the balance of loan under 'Village Housing Project

Scheme' even though the Block Development Officers of Yanam region did not furnish the outstanding particulars. Government proposed to waive the entire balance of Rs 2.54 crore under this scheme.

1.12 Public Account transactions

A perusal of Public Account transactions in the Central Account prepared by the Director of Accounts and Treasuries revealed the following:

Pay and Accounts Office Suspense Account

1.12.1 This account pertains to the expenditure incurred on payment of pension of other State pensioners, Defence and Central Government pensioners and National Highways works. The balance under this head is cleared as and when reimbursement is made by the department/Government concerned. Out of Rs 1.75 crore pending clearance as of March 2003, Rs 0.53 crore related to expenditure incurred during 1984-99. Further, Rs 1.06 crore related to expenditure incurred on National Highways works which was yet to be settled by the Ministry of Road Transport and Highways.

Other Suspense heads

1.12.2 The suspense heads 'Cash Settlement Suspense Account', 'Departmental Adjusting Account (Suspense)' and 'Material Purchase Settlement Suspense Account' are operated to temporarily book the expenditure of the Government and cleared after providing necessary funds under the final head. Normally, the balances under these heads are to be cleared in the same year so that the expenditure incurred during the year is reflected in the accounts of the Government. However, there was a balance of Rs 9.08 crore under these suspense heads pending clearance as of March 2003, for want of funds under the respective final heads.

1.13 Performance with reference to Budget

1.13.1 While presenting the Budget proposals for 2002-03 in March 2002, Government stated that the GOI has been continually insisting upon increasing receipts from own sources to meet the increasing expenditure. Government also assured to take up certain new projects, legislations and re-organisation during 2002-03. The major assurances and the action taken thereon are given in Table 19.

Table 19 – Action taken on the assurances made in the Budget Speech

Serial number	Sector	Assurances made	Action taken and achievement
1.	Water Supply and Sanitation	To ensure the regulation of usage of ground water "Regulation of Ground Water" Bill would be enacted.	The Pondicherry Ground Water (Control and Regulation) Act, 2002, has been enacted and notified in January 2003.
2.	Agriculture	To re-orient farm economy "Uzhavar Udhaviyagam" would be established in rural areas. These Udhaviyagams would provide one stop solution to all problems and requirements of farmers in agriculture and allied fields. Four Udhaviyagams in Pondicherry region and two in Karaikal region would be established during 2002-03.	Six Udhaviyagams have been established in May 2002 and 10,539 farmers were benefitted during 2002-03.
3.	Irrigation	A separate "Water Resource Department" would be created with the objective of conservation and augmentation of water resources and to meet the irrigation needs of farmers as well as drinking water requirements of people.	Draft Government order for creation of Water Resources Organisation by amalgamating the Irrigation divisions of Public Works Department and Ground Water Units of Department of Agriculture has been formulated and submitted to Government in March 2003. No orders were issued as of October 2003.
4.	Fisheries	A Fish Farmers' Development Agency would be set up in Pondicherry region. The fishing harbour constructed at Pondicherry would start functioning from June 2002.	Fish Farmers' Development Agency, Pondicherry has been registered under the Societies Registration Act on 4 April 2003. The fishing harbour was inaugurated in October 2003.

1.13.2 A comparison of the Budget estimates of various components of revenue and expenditure *vis-à-vis* actual receipts and expenditure is given in the Table 20.

Table 20 – Summary of Budgetary position of the Government of Union Territory of Pondicherry as on 31 March 2003

(Rupees in crore)

Serial number	Consolidated Fund	Budget Estimate 2002-03	Revised Estimate 2002-03	Actual 2002-03
1.	Revenue Receipts	1075.53	1159.60	1185.49
2.	Expenditure met from Revenue (Net)	1058.33	1157.23	1151.31
3.	Surplus (+)/deficit(-) on Revenue account	(+) 17.20	(+) 2.37	(+) 34.18
4.	Capital Receipts	181.02	182.91	235.84
5.	Expenditure met from Capital including loans and advances (Net)	198.22	214.77	214.41
6.	Surplus (+)/deficit(-) on Capital account	(-) 17.20	(-) 31.86	(+) 21.43
7.	Total Consolidated Fund (Net)	---	(-) 29.49	55.61
8.	Opening Balance	---	29.49	29.99
9.	Closing Balance	---	---	85.60

1.13.3 In spite of directions from GOI, the Government could not increase the revenue from own resources and obtained financial assistance by way of grants and loans to meet their revenue and capital expenditure. The excess of grants and loans received resulted in increase in cash balance and additional liability due to interest on loan. Further, the revenue receipts is understated to an extent of Rs 13.71 crore, on account of transferring the grants received for implementing Centrally Sponsored Schemes that could not be spent during the year, to Public account of GOI as deposits. There were no significant variations between revised estimates and actual expenditure.

1.14 Conclusion

The Pondicherry Government is entirely dependent on GOI grants. The Revenue Surplus during 2002-03 was mainly due to receipt of grants-in-aid from GOI in excess of the amount required to cover the gap between non-plan revenue expenditure and the resources mobilised by the Government. The major portion of the expenditure was of non-developmental nature and the investments fetched poor returns. Even the net funds available on account of loans and advances from GOI, after providing for interest and repayments was not fully utilised but kept as cash balance.