

## CHAPTER I

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

#### In summary

- The fiscal deficit increased from Rs 113 crore in 2002-03 to Rs 136 crore in 2003-04 due to increase in non-plan and plan revenue expenditure.
- The mobilisation of revenue from own resources improved from 55 *per cent* to 62 *per cent* of revenue receipts during 1999-2004. Ninety five *per cent* of non-tax revenue was contributed by Electricity Department which derived revenue from sale of power (Rs 430 crore). This revenue was just enough to offset the expenditure of Rs 428 crore incurred by the Department on purchase, transmission and distribution of power. The Government depended on grants from Government of India for other revenue expenditure.
- The overall revenue expenditure of Government grew from Rs 845.57 crore in 1999-2000 to Rs 1293.60 crore in 2003-04. Of this, 74 *per cent* was under non-plan.
- Fiscal liabilities grew from Rs 698.35 crore in 1999-2000 to Rs 1312.31 crore in 2003-04. The interest rate on fiscal liabilities is higher than the rate of growth of Gross State Domestic Product during 2001-04, indicating poor debt sustainability. During 2003-04, the revenue surplus and the net available borrowed funds contributed to increase in cash balance by Rs 62.78 crore, indicating unnecessary borrowing to this extent and creation of the consequent interest liability thereon.

#### 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 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 and advances given over the revenue receipts and non-debt miscellaneous capital receipts. The primary deficit is the fiscal deficit excluding interest payments. While

revenue and fiscal deficits indicate the inadequacy of resources to meet the obligations towards revenue expenditure and the 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)

2002-03	Serial number	Major aggregate	2003-04
<b>1185</b>	<b>1</b>	<b>Revenue Receipts</b>	<b>1303</b>
276	2	Tax Revenue	353
412	3	Non -Tax Revenue	454
497	4	Grants-in-aid	496
<b>6</b>	<b>5</b>	<b>Non- Debt Capital Receipts</b>	<b>6</b>
6	6	Recovery of loans	6
<b>1191</b>	<b>7</b>	<b>Total Receipts (1+5)</b>	<b>1309</b>
<b>885</b>	<b>8</b>	<b>Non -Plan Expenditure</b>	<b>967</b>
880	9	On Revenue Account	962
116	10	Of which Interest payments	134
5	11	On Capital Account	5
5	12	Of which loans disbursed	4
<b>419</b>	<b>13</b>	<b>Plan Expenditure</b>	<b>478</b>
271	14	On Revenue Account	332
148	15	On Capital Account	146
**	16	Of which loans disbursed	1
<b>1304</b>	<b>17</b>	<b>Total Expenditure (8+13)</b>	<b>1445</b>
<b>1151</b>	<b>18</b>	<b>Revenue Expenditure (9+14)</b>	<b>1294</b>
<b>153</b>	<b>19</b>	<b>Capital expenditure including loans disbursed (11+15)</b>	<b>151</b>
<b>113</b>	<b>20</b>	<b>Fiscal Deficit (17-1-5)</b>	<b>136</b>
--	<b>21</b>	<b>Revenue Deficit (18-1)</b>	--
<b>34</b>		<b>Revenue Surplus (1-18)</b>	<b>9</b>
<b>***</b>	<b>22</b>	<b>Primary Deficit (20-10)</b>	<b>2</b>

\*\* Rs 28.98 lakh ; \*\*\* Interest payments were more than fiscal deficit

**1.2.3** The increase in the revenue expenditure, both under plan and non-plan, not only decreased the revenue surplus but also increased the Fiscal Deficit during 2003-04. The fiscal deficit was met by obtaining loans 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 2003-04 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				
2002-03	2003-04		2002-03	2003-04			
	<b>Section A: Revenue</b>			<b>Revenue Expenditure</b>	<b>Non-Plan</b>	<b>Plan</b>	<b>Total</b>
	<b>Revenue Receipts</b>						
276.38	- Tax Revenue	352.76	249.34	- General Services	282.87	11.52	294.39
411.90	- Non-Tax Revenue	454.34	361.07	- Social Services	206.76	204.37	411.13
Nil	- Share of Union Taxes/Duties	Nil	538.30	- Economic Services	469.62	115.59	585.21
497.21	- Grants from Government of India	495.42	2.60	- Grants-in-aid and contributions	2.87	Nil	2.87
Nil	Revenue deficit carried over to Section B	Nil	34.18	Revenue surplus carried over to Section B			<b>8.92</b>
<b>1185.49</b>	<b>Total</b>	<b>1302.52</b>	<b>1185.49</b>	<b>Total</b>			<b>1302.52</b>
	<b>Section B: Capital and others</b>						
29.99	Opening cash balance	85.60	Nil	Opening cash balance			Nil
Nil	Miscellaneous Capital Receipts	Nil	147.51	Capital Outlay			146.48
5.88	Recoveries of Loans and Advances	6.22	5.43	Loans and Advances disbursed			4.95
34.18	Revenue Surplus brought down	8.92	Nil	Revenue Deficit brought down			Nil
229.96	Public Debt Receipts	268.40	61.47	Repayment of Loans and Advances to Central Government			69.33
Nil	Amount transferred to Contingency Fund	Nil	Nil	Expenditure on Contingency Fund			Nil
Nil	Excess of disbursement over receipt	Nil	85.60	Cash balance at end			148.38
<b>300.01</b>	<b>Grand Total</b>	<b>369.14</b>	<b>300.01</b>	<b>Grand Total</b>			<b>369.14</b>

1.3.2 The net effect of receipts and disbursements during 2003-04 was increase in the cash balance by Rs 62.78 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	1999-2000	2000-01	2001-02	2002-03*	2003-04**
GSDP at current prices (Rupees in crore)	3119.21	3780.64	4166.71	4428.07	4666.95
Rate of growth (in per cent)	4.6	21.2	10.2	6.3	5.4

\* Provisional

\*\* Quick estimates

The GSDP for 2001-02 and 2002-03 differed from the amounts shown in last year's report as the provisional and quick estimates have been updated due to actual and provisional estimates.

**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 the 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<sup>1</sup> estimates have been provided to indicate the responsiveness of the parameters like sources of receipts, application of funds and management of liabilities to change in GSDP. 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 the 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 1999-2004.

**Table 4 - Source of receipts**

(Rupees in crore)

Year	Revenue receipts	Capital receipts		Total Receipts
		Public Debt	Recovery of loan	
1999-2000	877.49	130.10	3.77	1011.36
2000-01	946.73	155.40	5.44	1107.57
2001-02	1072.59	193.34	6.24	1272.17
2002-03	1185.49	229.96	5.88	1421.33
2003-04	1302.52	268.40	6.22	1577.14

### Revenue receipts

**1.5.2** The revenue receipts comprising tax and non-tax revenue and grants-in-aid from GOI and their share to total revenue receipts are indicated in Table 5.

**Table 5 - Revenue receipts - Basic parameters**

(Rupees in crore)

Serial number	Receipts	1999-2000	2000-01	2001-02	2002-03	2003-04
1.	Tax revenue	260.59 (30)	291.86 (31)	268.59 (25)	276.38 (23)	352.76 (27)
2.	Non-tax revenue	218.47 (25)	255.13 (27)	302.31 (28)	411.90 (35)	454.34 (35)
3.	Mobilisation from own resource (1+2)	479.06 (55)	546.99 (58)	570.90 (53)	688.28 (58)	807.10 (62)
4.	Grants-in-aid	398.43 (45)	399.74 (42)	501.69 (47)	497.21 (42)	495.42 (38)
5.	Revenue receipts (3+4)	877.49	946.73	1072.59	1185.49	1302.52

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

<sup>1</sup> Buoyancy is the ratio of rate of growth of parameters to rate of growth of GSDP

**1.5.3** The improvement in the mobilisation of revenue from own resources is indicated by increase in the relative share of tax and non-tax revenue. Though no fresh taxes were levied and the changes made in the rates of taxes did not contribute to the increase, the tax revenue increased mainly due to increased sale of stamps and stamp papers, increase in lease rent of Arrack and Toddy shops, steep increase in sale of Indian Made Foreign Liquor and increased sales tax due to opening of new petrol pumps. Ninety five *per cent* of non-tax revenue was contributed by Electricity Department which derived revenue from sale of power (Rs 430 crore). This revenue was, however, offset by the expenditure of Rs 428 crore incurred by the Department on purchase, transmission and distribution of power.

**1.5.4** Unlike States, UTs are not given the share of Central taxes by GOI. However, the GOI releases grants to fill the gap between receipts (tax and non-tax) and non-plan revenue expenditure. Besides, GOI also releases grants for meeting plan expenditure. Thus, the release of GOI grants is largely 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**

	1999-2000	2000-01	2001-02	2002-03	2003-04
1. Growth of revenue receipts (in <i>per cent</i> )	17.4	7.9	13.3	10.5	9.9
2. Growth of GSDP (in <i>per cent</i> )	4.6	21.2	10.2	6.3	5.4
3. <b>Buoyancy (1÷2)</b>	3.8	0.4	1.3	1.7	1.8
4. Share of revenue receipts to GSDP (in <i>per cent</i> )	28	25	26	27	28

**1.5.6** It is seen that there is no clear relationship between the GSDP growth rate and growth of revenue receipts. When the GSDP growth rate peaked at 21 *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). The grants-in-aid to cover the gap in resources received from GOI (Rs 361 crore) was in excess of the actual deficit (Rs 155.02 crore).

#### **Arrears of revenue**

**1.5.7** Arrears of revenue pending collection as of March 2004 amounted to Rs 83.04 crore. Of this, Rs 50.67 crore (61 *per cent*) related to Electricity dues, Rs 14.56 crore (18 *per cent*) to State Excise and Rs 10.87 crore (13 *per cent*) to Commercial Taxes. The arrears of revenue increased

from Rs 77 crore in 2002-03 to Rs 83.04 crore in 2003-04 (8 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. This is 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 268.40 crore from GOI during 2003-04. 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 have been restricted to the liability towards capital expenditure and loans and advances. In view of the increase in the cash balance by Rs 62.78 crore as of March 2004, the debt raised to that extent under non-plan loan during 2003-04 was avoidable; this would increase the interest liability during subsequent years.

## **1.6 Application of resources**

**1.6.1** The total expenditure comprises revenue and capital expenditure and loans and advances. 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)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue expenditure	845.57	919.07	1098.72	1151.31	1293.60
Capital expenditure	103.07	107.86	119.24	147.51	146.48
Loans and advances	9.34	14.54	7.32	5.43	4.95
<b>Total expenditure</b>	<b>957.98</b>	<b>1041.47</b>	<b>1225.28</b>	<b>1304.25</b>	<b>1445.03</b>
Rate of growth of total expenditure (in per cent)	18.3	8.7	17.6	6.4	10.8
Percentage of total expenditure to GSDP	30.7	27.5	29.4	29.5	31.0
Percentage of total expenditure to revenue receipts	109	110	114	110	111
Buoyancy of total expenditure to GSDP	4.0	0.4	1.7	1.0	2.0

**1.6.2** Overall expenditure of the Government increased from Rs 957.98 crore in 1999-2000 to Rs 1445.03 crore in 2003-04. The percentage of total expenditure to revenue receipts during 1999-2004 was 109 to 114 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**

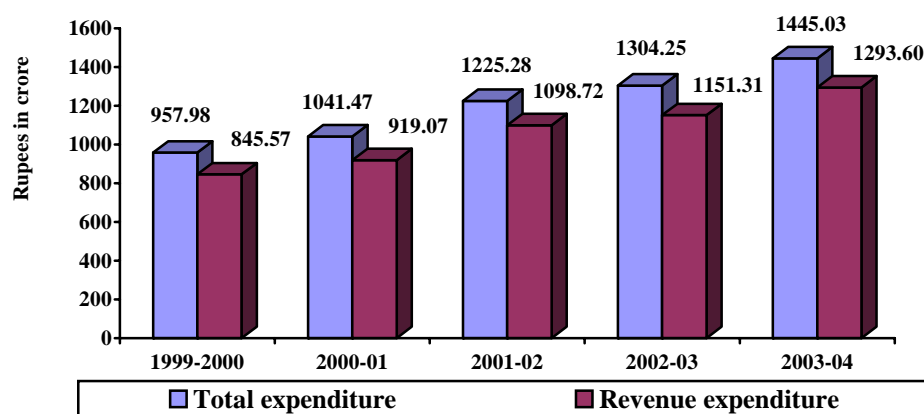
	(in per cent)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
General Services excluding interest payments	13.5	12.6	11.1	11.8	11.8
Interest payments	7.8	8.3	8.2	8.9	9.3
Social Services	34.2	32.8	27.9	30.7	31.5
Economic Services	43.2	44.7	52.0	48.0	46.8
Loans and advances	1.0	1.4	0.6	0.4	0.4
Grants-in-aid	0.3	0.2	0.2	0.2	0.2

**1.6.4** Of the total expenditure, the share of General Services including Interest payments amounted to 19 to 22 per cent. The remaining 78 to 81 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 growth of total expenditure vis-à-vis revenue expenditure is given below:

**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)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Non-plan expenditure	638.06	697.34	852.53	879.62	962.12
Plan expenditure	207.51	221.73	246.19	271.69	331.48
Revenue expenditure	845.57	919.07	1098.72	1151.31	1293.60
Percentage of non-plan expenditure to total revenue expenditure	75	76	78	76	74
Rate of growth of revenue expenditure (in per cent)	22.7	8.7	19.6	4.8	12.4
Percentage of revenue expenditure to GSDP	27.1	24.3	26.4	26	27.7
Buoyancy of revenue expenditure to GSDP	4.9	0.4	1.9	0.8	2.3
Revenue expenditure as percentage of revenue receipts	96	97	102	97	99

**1.6.7** Seventy-four per cent of revenue expenditure in 2003-04 was non-plan expenditure. 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 a revenue surplus in all these years 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 and interest payments and their share to total revenue expenditure and tax and non-tax revenue during 1999-2004.

**Table 10 – Non-developmental expenditure – Basic parameters**

	(Rupees in crore)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Administrative expenditure including pensionary charges	355.42	378.70	374.27	403.10	446.32
Subsidies and stipends	5.80	6.58	5.80	9.84	14.37
Interest payments	74.53	86.40	100.99	115.59	134.51
<b>Total</b>	<b>435.75</b>	<b>471.68</b>	<b>481.06</b>	<b>528.53</b>	<b>595.20</b>
Percentage to revenue expenditure	52	51	44	46	46
Percentage to tax and non-tax revenue	91	86	84	77	74

The amount shown under 'Subsidies' do not include free supply of electricity to small farmers and poor people under 'One Hut One Bulb scheme'; further, free supply of rice, cloth, etc., made by various departments are classified as Other Charges.

**1.7.2** Thus, 74 per cent of tax and non-tax revenue was spent on non-developmental activities during 2003-04 and the share of non-developmental expenditure in revenue expenditure was 46 per cent.

Audit scrutiny of establishment expenditure incurred in Health and Police departments disclosed the following:

**1.7.3** When pay scale of Central Health Scheme was extended to the Medical Officers of the UT Government in 1996, their pay were erroneously fixed taking into consideration the service rendered in posts held by them on *ad hoc* basis. While refixing the pay of these officials in 1998 to rectify the mistakes, the pay drawn due to wrong fixation was protected resulting in fixing higher pay than admissible. Test check of pay fixation in respect of 15 Medical Officers revealed that there was an excess payment of Rs 17.02 lakh (approximately) for the period from May 1999 to August 2004.

**1.7.4** The scales of pay allowed to the Wireless Operators of Police Department during their deputation in Electricity Department was continued even after their reversion to Police Department, though there was no sanction for these scales in the Police Department. Test check of the pay allowed to 8 such officials revealed an excess expenditure of Rs 5.48 lakh (approximately) during May 1998 to August 2004.

Thus, the failure to follow the provisions of service rules contributed to increased establishment expenditure.

***Financial assistance to local bodies and other institutions***

**1.7.5** Table 11 gives the financial assistance paid to various autonomous bodies and other institutions during 1999-2004.

**Table 11 – Financial assistance to autonomous bodies and other institutions**

	(Rupees in crore)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Private educational institutions	6.58	5.63	9.15	8.75	12.01
Municipalities	11.41	15.06	16.62	26.89	21.73
Commune panchayats	8.43	9.75	12.10	11.49	14.39
Statutory boards/authorities	39.55	39.77	48.10	48.96	61.59
Other institutions					
(i) Co-operative institutions	11.13	14.15	11.50	9.53	15.44
(ii) Others	1.56	2.35	2.80	6.24	6.50
<b>Total</b>	<b>78.66</b>	<b>86.71</b>	<b>100.27</b>	<b>110.86</b>	<b>131.66</b>
Percentage of growth over previous year	26	10	16	11	19
Assistance as a percentage of revenue expenditure	9	9	9	10	10

**1.7.6** 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 Directorate of Accounts and Treasuries (DAT) within 18 months (amended as 12 months from December 2003) from the date of

sanction, unless specified otherwise. Of the 1393 utilisation certificates aggregating Rs 116.37 crore due in respect of grants and loans released upto September 2002, only 493 utilisation certificates for Rs 43.23 crore had been received by 31 March 2004 and 900 certificates for an aggregate amount of Rs 73.14 crore were in arrears (Appendix 1). Out of this, 349 utilisation certificates for Rs 11.93 crore relates to grants and loans released during 1998-99 and earlier years.

Test check of 15 institutions by audit revealed that Rs 26.86 crore were kept unutilised by seven institutions. The records of Local Administration Department revealed that the utilisation certificates were pending in respect of 520 items for Rs 14.33 crore from the local bodies in Pondicherry region whereas the records of DAT disclosed 445 items for Rs 27.24 crore (released during 1990-2002) were pending from these local bodies. The Department had not reconciled the huge variations.

It was seen that the Department failed to furnish utilisation certificates due to non-completion of works on account of (i) site dispute, (ii) public objections, (iii) delay on the part of the contractor and (iv) failure on the part of the Government companies to which works were entrusted to refund the unutilised money on completion of the work. Thus, the Department released grants in advance of requirement and also failed to monitor the utilisation of grants and furnish the certificates to DAT in time.

### ***Misappropriation and losses***

**1.7.7** Cases of misappropriation of Government money, stores etc., reported to Audit till the end of March 2004, on which final action was pending at the end of June 2004 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 2003 and outstanding at the end of June 2003	333*	309.06
2.	Cases reported during April 2003 to March 2004	33	2.22
	<b>Total</b>	<b>366</b>	<b>311.28</b>
3.	Cases closed during July 2003 to June 2004	14	1.06
4.	Cases outstanding at the end of June 2004	352	310.22

\* Two cases omitted during previous year has been included

The department-wise and year-wise analysis of the cases and their status as of June 2004 are indicated in Appendix 2.

## 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 2004 compared with the corresponding position on 31 March 2003.

**Table 13 – Assets and liabilities of the UT Government as on 31 March 2004**

(Rupees in crore)		
As on 31.03.2003	Liabilities	As on 31.03.2004
	<b>Public Debt:</b>	
	Loans and advances from Central Government:	
590.81	Non-plan loans	765.15
520.43	Loans for Union Territory plan schemes	545.99
--	Loans for central plan schemes	--
2.00	Loans for centrally sponsored schemes	1.17
1113.24		1312.31
0.50	<b>Contingency Fund</b>	0.50
286.08	<b>Surplus on Government Account :</b>	
	Opening balance brought forward	286.08
	Add: Proforma Corrections	1.16 <sup>2</sup>
	Current year's surplus	8.92
		296.16
<b>1399.82</b>	<b>Total</b>	<b>1608.97</b>
As on 31.03.2003	Assets	As on 31.03.2004
	<b>Gross Capital Outlay:</b>	
475.23	Investments in shares of Companies, Corporations, etc.,	416.73
788.62	Other Capital Outlay	994.97
		1411.70
	<b>Loans and Advances:</b>	
3.75	Loans to Co-operatives	3.80
21.33	Other development loans	20.75
25.29	Loans to Government Servants	24.34
		48.89
<b>85.60</b>	<b>Cash Balance</b>	<b>148.38</b>
<b>1399.82</b>	<b>Total</b>	<b>1608.97</b>

**1.8.2** The table indicates that assets amounting to Rs 1460.59 crore were created mainly out of funds borrowed from GOI and surplus on Government Account.

<sup>2</sup> Conversion of Grants-in-aid to Share Capital (Rs 0.05 crore) and treatment of cost of land as Share Capital (Rs 1.11 crore)

**Incomplete projects**

**1.8.3** As per the information received from the UT Government, there were 52 incomplete projects in which Rs 44.42 crore were blocked as of 31 March 2004. The delay was mainly due to change in plan, design and site, encroachment, contractors' delay and non-receipt of funds from GOI.

**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 1999-2004 with reference to the growth of revenue from own sources and GSDP.

**Table 14 – Fiscal liabilities – Basic parameters**

	1999-2000	2000-01	2001-02	2002-03	2003-04
Fiscal liabilities (Rupees in crore)	698.35	805.49	944.75	1113.24	1312.31
Rate of growth	14.2	15.3	17.3	17.8	17.9
Percentage of fiscal liabilities-					
(i) to GSDP	22.4	21.3	22.7	25.1	28.1
(ii) to own resources	146	147	165	162	163
Buoyancy of fiscal liabilities-					
(i) With GSDP	3.1	0.7	1.7	2.8	3.3
(ii) With own resources	0.7	1.1	4	0.9	1.0

**1.8.5** The fiscal liabilities of the UT Government increased steadily every year and its growth was faster than the growth of GSDP. For each one *per cent* increase in GSDP, the fiscal liabilities of the UT Government increased by nearly 2.5 *per cent* during 1999-2004.

**1.8.6** Increasing liabilities raise the issue of sustainability. One of the indicators of fiscal sustainability is the existence of positive spread between rate of growth of GSDP and average interest rate. In the UT, the interest rate on fiscal liabilities during 1999-2004 exceeded the rate of growth of GSDP in four out of five years as indicated in Table 15.

**Table 15 – Debt sustainability – Interest rate and GSDP growth**

	<b>(in per cent)</b>				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Weighted interest rate	12.6	12.5	11.6	11.1	10.0
GSDP Growth	4.6	21.2	10.2	6.3	5.4
Interest spread	-8.0	8.7	-1.4	-4.8	-4.6

**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	1999-2000	2000-01	2001-02	2002-03	2003-04
Receipt	130.11	155.40	193.34	229.96	268.40
Repayment (Principal + Interest)	117.53	134.66	155.07	177.06	203.84
Net funds available	12.58	20.74	38.27	52.90	64.56
Net funds availability (in per cent)	10	13	20	23	24
Cash balance	19.34	37.18	29.99	85.60	148.38

**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 24 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. The excess borrowing increased the interest liability without in any way contributing to the economy of the UT.

## **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 34.94 crore and payment of interest thereon on behalf of four co-operative institutions and one Government company<sup>3</sup> as on 31 March 2004. The contingent liability of the guarantees stood at Rs 11.73 crore (Principal - Rs 11.38 crore; Interest - Rs 0.35 crore) as on 31 March 2004. No guarantee was invoked during the year.

<sup>3</sup>

- (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-draavidar Development Corporation Limited

## 1.10 Investments and returns

**1.10.1** Statement 12 of the Finance Accounts showed that as on 31 March 2004, Government had invested Rs 512.91 crore in 12 companies (10 owned by the UT Government and two owned by other State/GOI) and 361 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)			
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
2003-04	512.91	2.47	0.5	9.98

**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 2003-04, only five companies paid dividend; six companies did not declare any dividend during the past five to 14 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 1999-2004 and the outstanding balances are given in Table 18.

**Table 18 –Loans and advances by UT Government**

	(Rupees in crore)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Opening balance	50.25	50.81	53.74	50.82	50.16
Amount of advance during the year	9.34	14.54	7.32	5.43	4.95
Amount repaid during the year	3.78	5.44	6.24	5.88	6.22
Closing balance	55.81	59.91	54.82	50.37	48.89
Net addition	5.56	9.10	1.08	(-) 0.45	(-) 1.27
Interest received	1.46	1.23	3.15	1.83	1.82

**1.11.2** The reduction in opening balance compared to the closing balance of previous years in all these years was due to conversion of loan into share

capital. In spite of such conversions, the interest recovered constituted meagre percentage of the outstanding loan.

**1.11.3** The eleven departmental officers who maintain detailed accounts of loans, are to confirm the balance and furnish particulars of overdue amount to DAT. The certificate of confirmation furnished by six Heads of Department revealed that out of overdue amount of Rs 9.51 crore (Principal: Rs 5.21 crore and Interest: Rs 4.30 crore) pending recovery, Rs 6.15 crore related to 2001-02 and earlier years.

### ***Loans for Housing and Tourism schemes***

Test check of the records relating to loans released under housing schemes implemented by five departments and loans released by Tourism Department revealed the following deficiencies:

The balance pending recovery as per Finance Accounts and as per the departmental records are given below:

Name of scheme	Department	Balance as per Finance Accounts	Balance as per departmental records
		(Rupees in lakh)	
Low cost housing	Adi-dravidar Welfare	40.33	43.55
Village Housing Project Scheme	Rural Development	246.14	259.16
Housing colonisation for fishermen	Fisheries	20.74	24.49
Loans to housing societies for promoting housing facilities to economically weaker sections	Co-operation	99.23	100.73
Loans to Pondicherry Tourism and Transport Development Corporation Limited	Tourism	340.00	Nil

In spite of the differences, the Director, Rural Development Department and the Registrar of Co-operative Societies had furnished the certificate of acceptance of balances to DAT. Audit scrutiny revealed that Rs 3 lakh released in March 1986 under 'Village Housing Project' scheme was treated as loan for 'Low Cost Housing' scheme by Adi-dravidar Welfare Department and the balance as per Co-operation Department included Rs 99000 relating to loan released to Fisheries Societies. Though the discrepancies in maintaining loan accounts by Fisheries Department had been pointed out in paragraph 1.6.5 of the Report of the Comptroller and Auditor General of India for the year ending March 2002, the Department did not take any action to reconcile the differences.

Adi-dravidar Welfare Department was issuing free land *pattas* to poor SC beneficiaries and provided Rs 2500 to construct a hut on the land allotted. During 1985-88, the Department constructed 440 houses through Pondicherry Housing Board and treated the cost of construction as loan to the beneficiaries. The distribution of *pattas* for these lands was to be made only after the repayment of the loan by the beneficiaries. As of March 2004,



only three beneficiaries had repaid the loan with interest and the proposal for waiver of the loan (April 1993) was not accepted by Government. Though the title of the land for these houses had not been passed on to the beneficiaries, the Department requested (September 1993) the Revenue Department to take action under Revenue Recovery Act and again requested the Government (September 2000) to waive the loan amount as the beneficiaries could not repay the amount. Thus, the Department failed to take effective action to recover the loan.

Under 'Village Housing Project', the Rural Development Department released Rs 3.61 crore as loan to 5452 beneficiaries for construction/improvement of houses during 1965-1998 and recovered Rs 0.94 crore from 1653 beneficiaries as of March 2003. Based on the assurance given by the Chief Minister on the floor of the House (March 2003) to waive the balance loan with interest, the Government addressed GOI (July 2004) seeking approval for waiver. The proposal included Rs 1.05 crore which had not fallen due as of March 2003. Decision of GOI is awaited (October 2004).

Though the provision of GFR stipulated that inclusion of prompt repayment conditions while sanctioning interest free loan, the Co-operation Department failed to include this condition while sanctioning Rs 31.93 lakh as interest free loan to Pondicherry State Co-operative Housing Federation during 1993-98. The Federation had not repaid the loan as of March 2004.

The Tourism Department proposed (April 2002) for the conversion of short-term loan of Rs 3.40 crore sanctioned during 1994-98 to Pondicherry Tourism and Transport Development Corporation Limited as share capital and for treating the interest of Rs 2.72 crore accumulated upto 31 March 2001 as interest free loan. Even before the proposal was approved by Government, the Finance Department obtained the approval of Legislature by including it in the Supplementary Demand as a foot note under the Demand for Information and Publicity.

Government, while approving the proposal, ordered (July 2002) the conversion prospectively and stipulated that the interest accrued had to be paid to Government. The Department while issuing the order (April 2003), however, treated the interest accrued upto March 2001 as interest free loan repayable in 20 annual instalments. When the inconsistency in the order was pointed out by Audit, the Department stated (November 2004) that a revised proposal for remittance of the interest accrued upto March 2003 would be sent to Government. Consequently, the conversion could not be reflected in the Government Account for 2003-04.

## **1.12 Public Account transactions**

A scrutiny of the Public Account transactions in the Central Account prepared by the DAT revealed the following:

### ***Pay and Accounts Office Suspense Account***

**1.12.1** This account pertains to the expenditure incurred on payment of (a) pension of other State pensioners, Defence and Central Government pensioners and (b) National Highways works. The balance under this head is cleared as and when reimbursement is made by the department/Government concerned. Out of Rs 1.61 crore pending clearance as of March 2004, Rs 0.51 crore related to expenditure incurred during 1984-99. Further, Rs 1.22 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 4.12 crore under these suspense heads pending clearance as of March 2004, for want of funds under the respective final heads.

## **1.13 Conclusions**

The Pondicherry Government is highly dependent on GOI grants. The revenue surplus during 2003-04 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.