CHAPTER I

FINANCES OF THE UNION TERRITORY GOVERNMENT

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The Union Territory (UT) of Puducherry is administered under the provisions of the Government of Union Territories Act, 1963. The UT consists of four regions, namely, Puducherry, Karaikal, Mahe and Yanam, geographically separated from each other. The UT's population increased from 9.74 lakh in 2001 to 12.44 lakh in 2011 (provisional figure), recording a decadal growth rate of 27.72 *per cent*. The compound annual growth rate of Gross State Domestic Product (GSDP) for the period 2002-03 to 2011-12 was 12.37 *percent*. The Union Territory of Puducherry has higher literacy level and lower poverty level as compared to the all India average **(Appendix 1.1 Part A).**

This chapter provides a broad perspective of the finances of the Government of the Union Territory of Puducherry during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure of Government Accounts and the layout of the Finance Accounts are shown in **Appendix 1.1 Part B and Part C.** The methodology adopted for the assessment of the fiscal position of the UT is given in **Appendix 1.2.** A time series data on the UT Government finances is given in **Appendix 1.3.**

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the UT Government's fiscal transactions during the current year (2011-12) *vis-à-vis* the previous year (2010-11), while **Appendix 1.4 - Part A** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

The terms and abbreviations used in this Report are listed in the Glossary at Page No.81

Table 1.1 Summary of Current Year's Fiscal Operations

(₹ in crore)

2010-11	Receipts	2011-12	2010-11	Disbursements	2011-12		
Section-A: Revenue					Non Plan	Plan	Total
3,200	**Revenue receipts**	**2,771**	**3,540**	**Revenue expenditure**	**1,955**	**1,267**	**3,222**
1,074	Tax revenue	1,329	865	General services	933	35	968
743	Non-tax revenue	153	1,379	Social services	649	849	1,498
Nil	Share of Union Taxes/ Duties	Nil	1,292	Economic services	369	383	752
1,383	Grants from the Government of India	1,289	4	Grants-in-aid and Contributions	4	Nil	4
Section-B: Capital							
Nil	Miscellaneous Capital Receipts	Nil	371	Capital Outlay	(-)6**	381	375
4	Recoveries of Loans and Advances	4	2	Loans and Advances disbursed	2	Nil	2
854	Public Debt receipts	788	148	Repayment of Public Debt	106	51	157
Nil	Contingency Fund	Nil	Nil	Contingency Fund			Nil
393	Public Account receipts	1,059	772	Public Account disbursements	*	*	795
1,210	Opening Cash Balance	828	828	Closing Cash Balance			899
5,661	**Total**	**5,450**	**5,661**	**Total**			**5,450**

(Source: Finance Accounts); * Bifurcation of Plan and Non-Plan not available

** Minus expenditure is due to value of issue of stock more than the value of purchase

The following are the significant changes during 2011-12 as compared to the previous year 2010-11:

- There was reduction in revenue receipts by ₹ 429 crore (13.41 *per cent)* over the previous year due to less receipt of non-tax revenue. The decrease in non-tax revenue was mainly due to permission given to the Electricity Department to utilise the receipts on sale of power towards purchase of power.
- Revenue expenditure decreased by ₹ 318 crore due to less expenditure on economic services (₹ 540 crore), which was offset by the increased expenditure on general services (₹ 103 crore) and social services (₹ 119 crore) in the year 2011-12.
- Capital expenditure increased just by ₹ four crore (1.07 *per cent*) during the year and it was at 10.42 *per cent* of the aggregate expenditure.
- Public Accounts receipts and disbursements increased by ₹ 666 crore and ₹ 23 crore respectively, which led to net increase in the cash balance by ₹ 71 crore at the close of 2011-12.
- As in the previous year, there were no transactions in the contingency fund during 2011-12.

Fiscal position

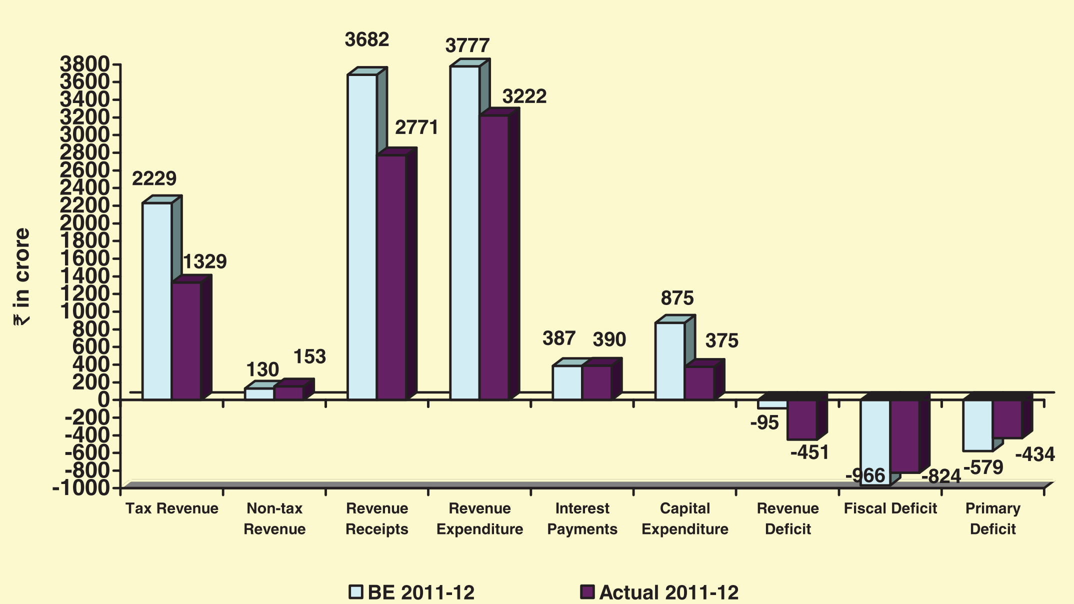
The fiscal deficit of the Government during the year (₹ 824 crore) increased by ₹ 115 crore (16 *per cent*) over the previous year (₹ 709 crore). The fiscal deficit to GSDP was at six *per cent* in 2011-12, which stood at five *per cent* in 2010-11. The outstanding fiscal liabilities increased by 19 *per cent* from ₹ 4,588 crore in 2010-11 to ₹ 5,441 crore in 2011-12. As the Twelfth Finance Commission recommendations were not applicable to the UT of Puducherry, the FRBM Act was not enacted. However, the Deputy Director (Ways and Means), stated that fiscal road map based on the principles of GOI's FRBM Act had been prepared and approved by the Union Home Ministry.

Budget Analysis

The Budget papers presented by a State/Union Territory Government provide description of the estimated revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the budget estimates are indicative of non-attainment of the desired fiscal objectives, due to a variety of causes, some within the control of Government and some outside.

Chart 1.1 presents the budget estimates and actuals for some important fiscal parameters.

Chart 1.1 : Selected Fiscal Parameters : Budget estimates vis-a-vis Actuals in 2011-12



The actual revenue receipts were less by ₹ 911 crore as compared to the budget estimates, mainly due to less receipts of tax revenue. The revenue expenditure and capital expenditure were less by ₹ 555 crore and ₹ 500 crore respectively than the budget estimates. The less capital expenditure was noticed in education, sports, art and culture and water supply; sanitation; housing and urban development under social services and transport and energy under economic services. The less revenue expenditure as compared to the budget estimates was mainly due to less expenditure on education, sports and art and culture; health and family welfare; water supply; sanitation; housing and urban development and welfare of SC, ST and OBCs under social services. The actual revenue deficit (₹ 451 crore) far exceeded the budget estimate (₹ 95 crore).

The wide gap between the estimates and actuals of some of the parameters do reflect the fact that either the estimates were not realistic or there were poor control in realising the targets.

1.2 Resources of the Union Territory

1.2.1 Resources of the Union Territory as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute resources of the Government. Revenue receipts consist of tax revenues, non-tax revenues and grants-in-aid from GOI. Capital receipts comprise miscellaneous capital receipts such as recoveries of loans and advances, debt receipts from internal sources (market loans), loans and advances from GOI as well as accruals from the Public Account. **Table-1.1** presents the receipts and disbursements of the UT during the current year as recorded in its Annual Finance Accounts, while **Chart 1.2** depicts the trends in various components of the receipts during 2007-12. **Chart 1.3** depicts the composition of resources during the current year.

Chart 1.2: Trends in Receipts

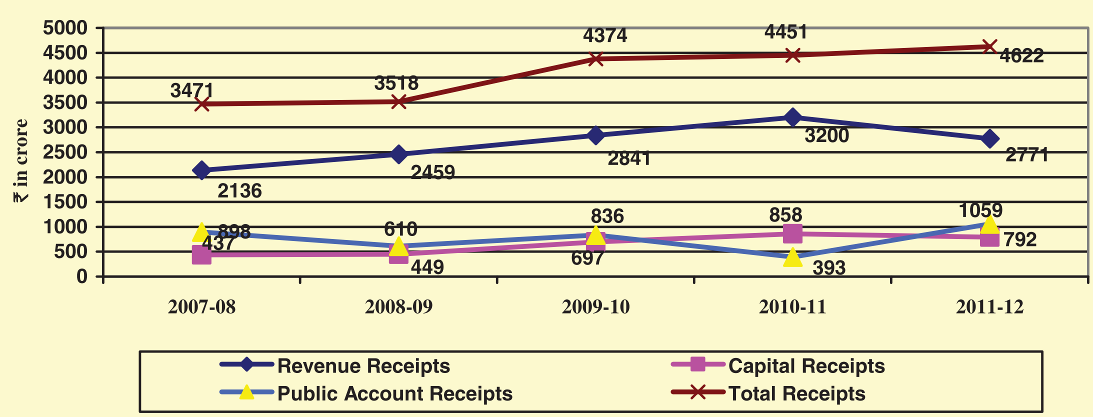
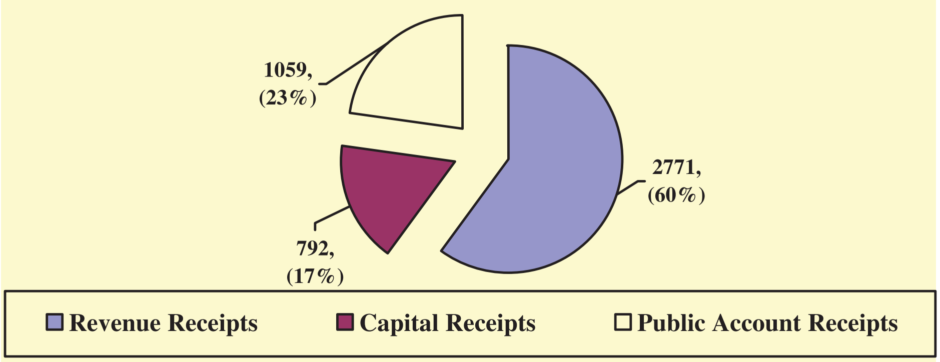


Chart 1.3: Composition of Receipts during 2011-12
(₹ in crore and percentage to total)



Greater part of the UTs receipts consist of revenue receipts (60 *per cent*) followed by Public Account (23 *per cent*).

During 2011-12, the total receipts of the UT increased meagerly by ₹ 171 crore (four *per cent*) over the previous year as the increase of ₹ 666 crore (169 *per cent)* in public accounts receipts was offset by decrease of ₹ 429 crore (13 *per cent)* in revenue receipts and ₹ 66 crore (eight *per cent*) in capital receipts.

1.2.2 Funds transferred to UT Implementing Agencies outside the UT Budget

The Central Government has been transferring a sizeable quantum of funds directly to UT implementing agencies[1] for the implementation of various schemes/programmes in social and economic sectors recognised as critical. As these funds are not routed through the UT Budget/UT Treasury System, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the UT's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. The funds directly transferred during 2011-12 to UT implementing agencies under the control of four departments *viz*., Education, Health, Information and Technology and Rural Development in respect of seven major programmes assisted by GOI are presented in **Table 1.2.**

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

Table-1.2: Funds transferred directly to UT Implementing Agencies

(₹ in crore)

Programme/ Scheme	Implementing Agency in the UT	Funds transferred directly by GOI during 2011-12
Capacity Building Scheme	Puducherry e-Governance Society, Puducherry	0.99
Member of Parliament-Local Area Development Programme	District Rural Development Agency	5.00
Mahatma Gandhi National Rural Employment Guarantee Act Scheme		1.00
Swarnajayanthi Gram Swarojgar Yojana		2.38
Provision of urban amenities in rural areas		14.72
Sarva Shiksha Abhiyan	State Project Office	7.58
National Rural Health Mission	State Rural Health Mission	15.04
Total		**46.71**

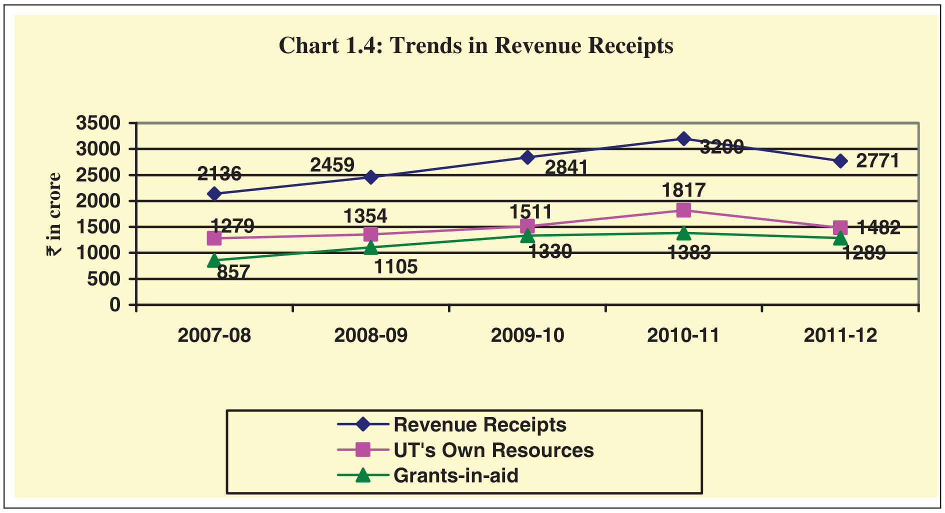
(Source : Figures furnished by four departments are given in the table and this may not reflect the entire fund transfers to the State implementing agencies in the Union Territory)

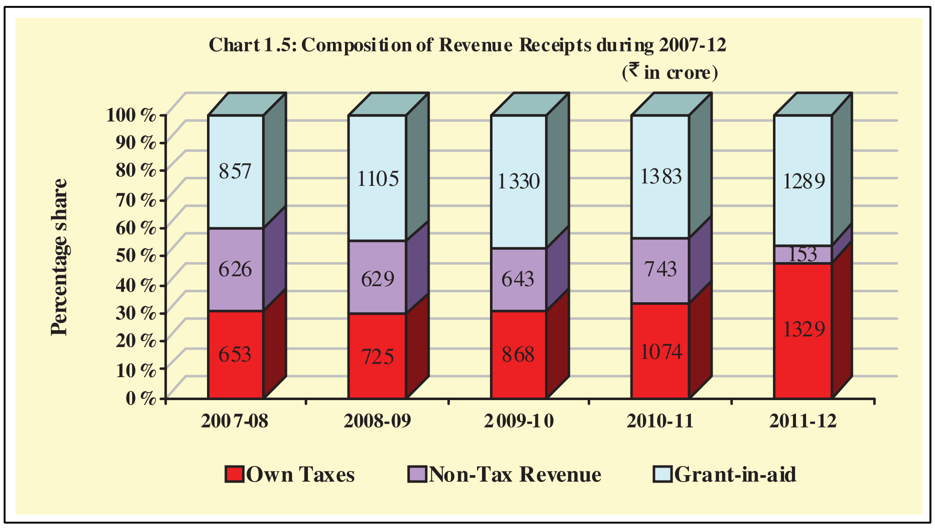
Out of ₹ 46.71 crore transferred to UT implementing agencies, a major portion of ₹ 23.10 crore (49 *per cent*) was transferred to the District Rural Development Agency.

Direct transfers of funds from the Union Government to UT implementing agencies without routing them through the UT budget can be risky, unless uniform accounting practices are diligently followed by all these agencies. Further, without proper documentation and timely reporting of expenditure, it would be difficult to monitor the end use of these direct transfers.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the UT's own taxes and non-tax revenues and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2007-12 are presented in **Appendix 1.3** and depicted in **Charts 1.4** and **1.5** respectively.





It was observed that the UT Government continued to depend heavily on GOI as the latter contributed 46.52 *per cent* of the total revenue receipts of UT in 2011-12. As already mentioned, the revenue receipts of UT decreased by ₹ 429 crore over the previous year (13 *per cent)*. While tax revenue increased by ₹ 255 crore, non-tax revenue decreased drastically by ₹ 590 crore, mainly because the Electricity Department was permitted to utilise the revenue receipts from sale of power towards purchase of power. Grants-in-aid from GOI decreased by ₹ 94 crore over the previous year.

The trends of revenue receipts relative to GSDP are presented in **Table 1.3** below:

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (₹ in crore)	**2,136**	**2,459**	**2,841**	**3,200**	**2,771**
Rate of growth of RR (per cent)	13.38	15.12	15.53	12.64	(-)13.41
UT's own taxes (₹ in crore)	653	725	868	1,074	1,329
Rate of growth of own taxes (per cent)	14.56	11.02	19.72	23.73	23.74
GSDP growth (per cent)	10.98	8.64	22.43	11.08	3.02
Buoyancy Ratios					
RR/GSDP[2] (per cent)	23.09	24.47	23.09	23.41	19.68
Revenue buoyancy with reference to GSDP (ratio)	1.22	1.75	0.69	1.14	(-)4.44
UT's own tax buoyancy with reference to GSDP (ratio)	1.33	1.28	0.88	2.14	7.86

(Source: Finance Accounts)

The GSDP, at the current prices, was estimated to increase from ₹ 13,667 crore in 2010-11 to ₹ 14,081 crore in 2011-12, representing a small growth of 3.02 *per cent* when compared to previous years. The revenue receipts, as a percentage of GSDP, hovering around 23 *per cent* during 2007-11 decreased to 19.68 *per cent* in 2011-12.

The buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. As against the GSDP growth rate of 3.02 *per cent* during 2011-12, the growth rate of UT's revenue receipts declined by 13.41 *per cent.* It means that even when the GSDP had grown by 3.02 *per cent* in 2011-12, the revenue receipts had declined drastically implying great distortion. While the total revenue buoyancy with reference to GSDP turned into negative (-4.44) during the year, UT's own tax buoyancy ratio increased from 2.14 in 2010-11 to 7.86 in 2011-12, indicating that the rate of growth of own taxes was faster than the growth rate of GSDP.

1.3.1 Union Territory's Own Resources

The UT's performance in mobilisation of resources was assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The gross collection in respect of major taxes and duties as well as the components of non-tax receipts are given in **Table 1.4**.

[2] Provisional and Quick estimates of GSDP of ₹ 13,667 crore and ₹ 14,081 crore have been adopted for 2010-11 and 2011-12.

Table 1.4: Components of UT's Own Resources

(₹ in crore)

Revenue Head	2007-08	2008-09	2009-10	2010-11	2011-12
Tax Revenue					
Taxes on sales, trades etc.	355	382	453	595	750
State excise	224	280	329	379	447
Taxes on vehicles	32	32	35	48	54
Stamp duty and Registration fees	41	31	50	51	77
Land revenue	1	--	1	1	1
Total	**653**	**725**	**868**	**1,074**	**1,329**
Non-Tax Revenue					
Interest receipts	18	44	51	37	35
Dividends and Profits	4	4	6	5	4
Other non-tax receipts	604	581	586	701	114
Total	**626**	**629**	**643**	**743**	**153**

(Source: Finance Accounts)

The Union Territory's tax revenue increased by ₹ 255 crore (24 *per cent*) in 2011-12 over the previous year. The increase was mainly contributed by sales tax (₹ 155 crore) due to better compliance of payment of tax and collection of tax arrears; state excise (₹ 68 crore) due to upward revision of excise duty and additional excise duty on IMFL and beer and stamps and registration fees (₹ 26 crore) on account of sale of more non-judicial stamps.

The Non-tax revenue receipts of ₹ 153 crore, which constituted just six *per cent* of the revenue receipts, decreased by ₹ 590 crore during the year over the previous year mainly because the Electricity Department was permitted to utilse the revenue realized from sale of power towards purchase of power.

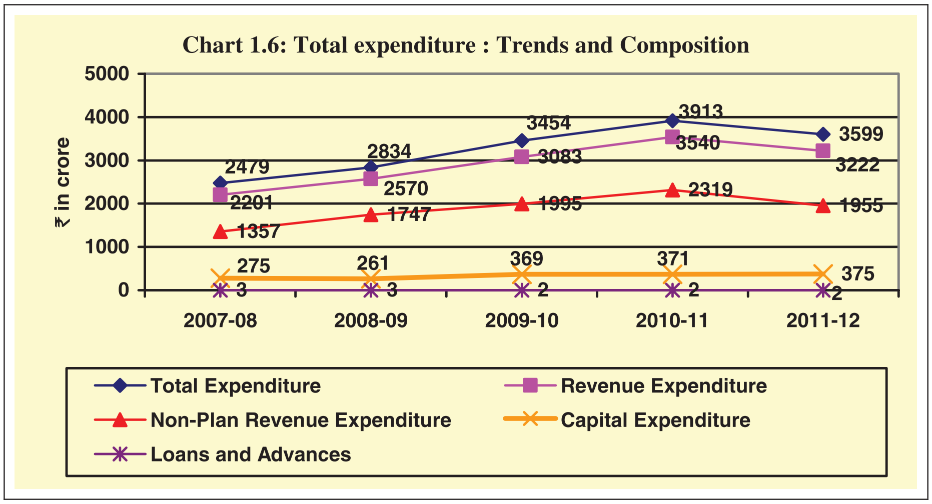
The UT's own resources of ₹ 1,482 crore (₹ 1,329 crore – tax revenue and ₹ 153 crore – non-tax revenue) as well as recovery of loans and advances of ₹ four crore was not sufficient to meet the Non-Plan revenue expenditure of ₹ 1,955 crore. This led to revenue deficit.

1.4 Application of Resources

Analysis of the allocation of expenditure at the UT Government level assumes significance since major expenditure responsibilities are entrusted with them. In view of budgetary constraints in raising public expenditure financed by deficit or borrowings, it is important to ensure that the ongoing fiscal correction and consolidation process is not at the cost of expenditure especially directed towards the development of social sectors.

1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends of total expenditure over a period of five years (2007-12). Its composition in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.7 and 1.8** respectively**.**

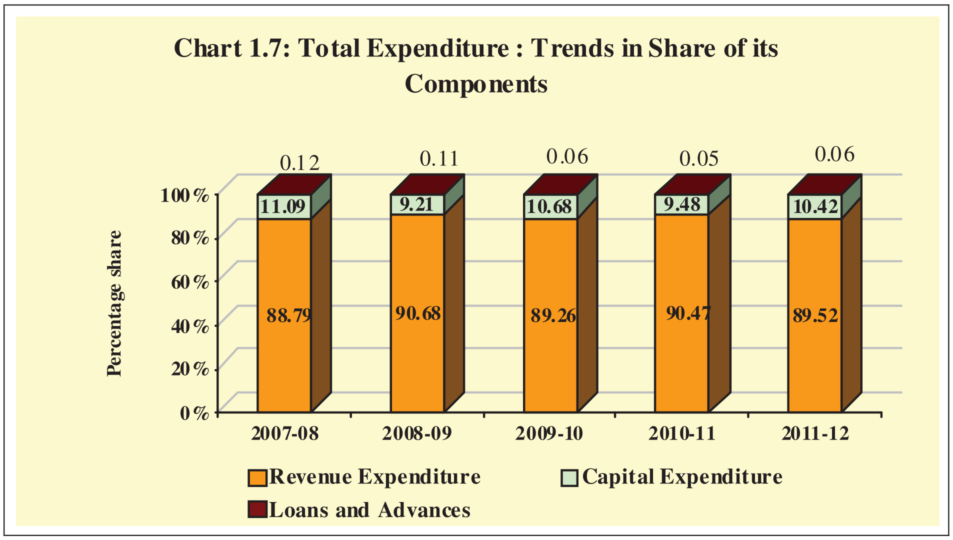


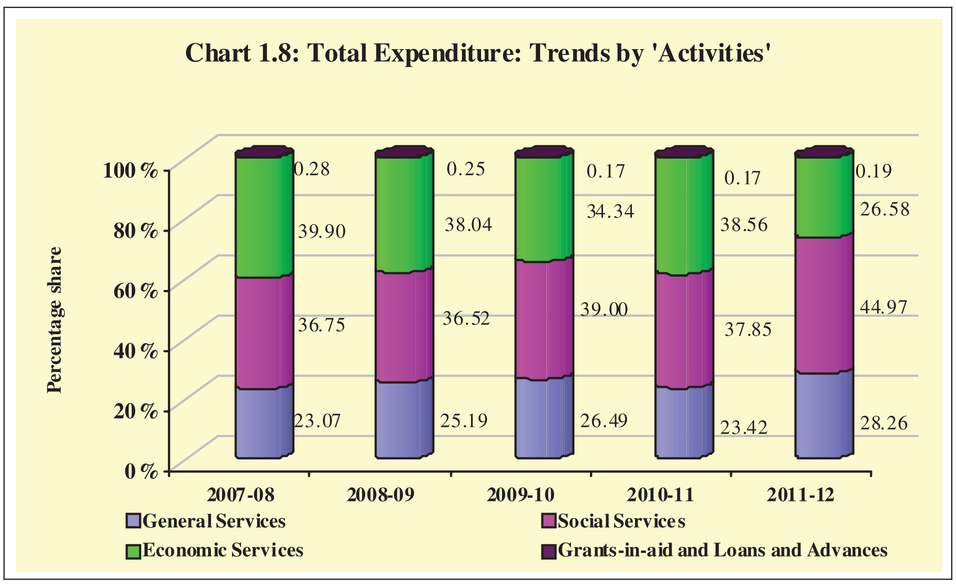
The total expenditure[3] of the UT increased by 45.17 *per cent* from ₹ 2,479 crore in 2007-08 to ₹ 3,599 crore in 2011-12. But, the total expenditure during the current year decreased by ₹ 314 crore (8.02 *per cent*) over the previous year. The revenue expenditure decreased by ₹ 318 crore (8.98 *per cent*) and the capital expenditure increased by just ₹ four crore (1.07 *per cent*) during 2011-12.

The revenue expenditure was 89.52 *per cent* of the total expenditure, of which 60.68 *per cent* was the Non-Plan component. The capital expenditure accounts for 10.42 *per cent* of the total expenditure in 2011-12.

The revenue receipts of the UT could meet only 86 *per cent* of the revenue expenditure during 2011-12.

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





During 2011-12, while the expenditure on General Services and Social Services increased by 10.97 *per cent* and 9.28 *per* cent respectively, the expenditure on Economic Services decreased by 36.60 *per cent*. The development expenditure, i.e., expenditure on Social and Economic Services decreased by 13.87 *per cent* over the previous year. Bulk of the expenditure (44.97 *per cent)* was incurred in the social sector.

The decrease in the expenditure on Economic Services (₹ 552 crore) was mainly due to less expenditure on power on account of permission given to the Electricity Department to utilise the revenue receipts from sale of power towards purchase of power.

1.4.2 Committed Expenditure

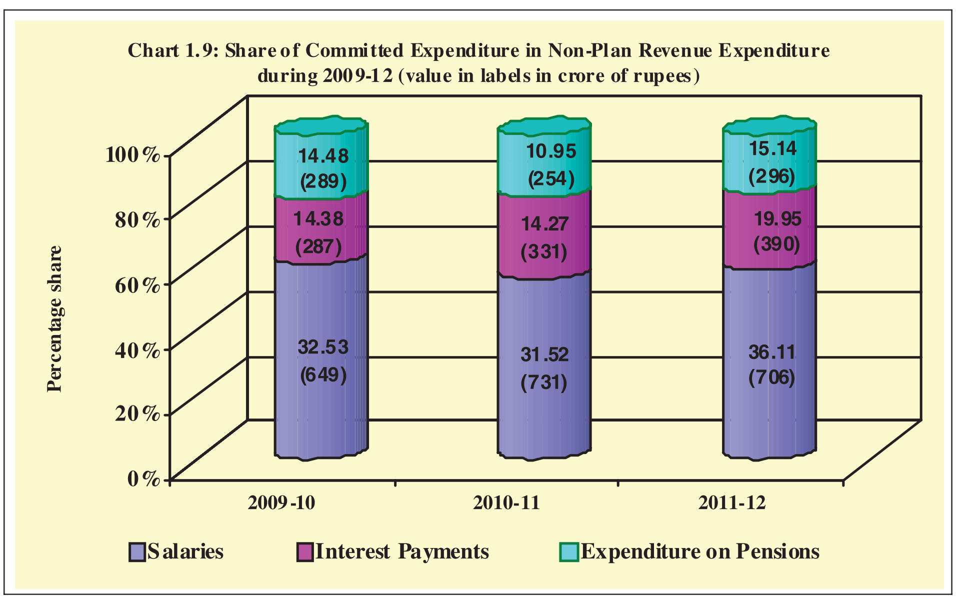
The committed expenditure of the UT Government on the revenue account mainly consists of interest payments, expenditure on salaries and pensions and subsidies. **Table 1.5** presents the trends of expenditure on these components during 2007-12 and **Chart 1.9** presents the share of committed expenditure in Non-Plan revenue expenditure on salaries, interest payments and pension during 2009-12.

Table-1.5: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12
Salaries, *of which*	445 (21)	688 (28)	868 (31)	987 (31)	956 (34)
Non-Plan Head	336	515	649	731	706
Plan Head**	109	173	219	256	250
Interest Payments	217 (10)	260 (11)	287 (10)	331 (10)	390 (14)
Expenditure on Pension	120 (6)	166 (7)	289 (10)	254 (8)	296 (11)
Subsidies	31 (1)	31 (1)	46 (1)	82 (3)	88 (3)
Total	**813 (38)**	**1145 (47)**	**1490 (52)**	**1654 (52)**	**1730 (62)**

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



The Committed expenditure increased continuously from 2007-08 to 2011-12 and in 2011-12 it (₹ 1730 crore) constituted 62.43 and 53.69 *per cent* of revenue receipts and revenue expenditure respectively.

Expenditure on salaries under Non-Plan and Plan during the current year was ₹ 706 crore and ₹ 250 crore respectively. During 2011-12, though expenditure on salary decreased marginally in real terms, as a percentage of revenue receipts, it increased from 31 in 2010-11 to 34 in 2011-12.

Pension payments increased by 16.54 *per cent* from ₹ 254 crore in 2010-11 to ₹ 296 crore in 2011-12, due to settlement of Modified Assured Career Progression (MACP) revision to the pensioners.

Interest payments increased by ₹ 59 crore (17.82 *per cent)* in 2011-12 over the previous year, mainly due to payment of interest for market loans (₹ 50.85 crore) during 2011-12. The interest payments in 2011-12 were at 14 *per cent* of the total revenue receipts as against 10 *per cent* in 2010-11.

Subsidies (three *per cent* of revenue receipts in 2011-12) represent the expenditure booked under the object head 'Subsidies' under rural housing, welfare of Schedule Castes, crop husbandry, animal husbandry, fisheries, rural development, minor irrigation, village and small industries and civil supplies.

Thus, due to increase in payments of interest and pension, the committed expenditure had increased to 62 *per cent* of revenue receipts in 2011-12 as against 52 *per cent* in 2010-11.

1.4.3 Financial Assistance by UT Government to Local Bodies and other Institutions

The Panchayati Raj system in Puducherry is governed by the provisions of the Pondicherry Village and Commune Panchayat Act, 1973 which has devolved several powers to village and commune panchayats. The legislation was further amended in 1994, so as to conform to the 73rd amendment to the Constitution. In Puducherry, there are five municipalities, 10 commune panchayats and 98 village panchayats. The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.6.**

Table 1.6: Financial Assistance to Local Bodies etc.

(₹ in crore)

Financial Assistance to Institutions	2007-08	2008-09	2009-10	2010-11	2011-12
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	12.09	13.16	29.92	32.55	25.15
Municipalities	19.20	18.86	27.78	58.95	48.37
Panchayati Raj Institutions	10.15	28.97	18.66	14.54	30.91
Development agencies and autonomous bodies	213.93	232.75	346.41	421.94	302.86
Co-operatives	22.26	27.59	24.38	25.86	30.42
Other Institutions*	3.80	5.42	6.09	5.28	6.75
Total	**281.43**	**326.75**	**453.24**	**559.12**	**444.46**
Assistance as percentage of revenue expenditure	13	13	15	16	14

(Source: Director of Accounts and Treasuries, Puducherry)

* Welfare societies and religious institutions

Financial assistance extended to local bodies and other institutions decreased from ₹ 559.12 crore in 2010-11 to ₹ 444.46 crore in 2011-12. The decrease was mainly due to less financial assistance given to development agencies and autonomous bodies. The financial assistance as a percentage of revenue expenditure in 2011-12 was 14 *per cent,* which was more or less similar to the trend prevailing in the previous years.

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the UT generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e., adequate provisions for providing public services); efficiency of expenditure use and effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure are largely assigned to State/UT Governments. Enhancing human development levels requires the States/UTs to step up their expenditure on key Social Services like education, health etc. **Table 1.7** analyses the fiscal priority (ratio of expenditure category to aggregate expenditure) of the UT Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year and compares the fiscal priority given to different categories of expenditure of the Union Territory of Puducherry in 2008-09 and 2011-12.

Table-1.7: Fiscal Priority of the UT in 2008-09 and 2011-12

Fiscal Priority of the UT		AE/GSDP	DE/AE	SSE/AE	CE/AE	ESE/AE	Expenditure on Education, Sports, Art and Culture/AE	Expenditure on Health and Family Welfare/AE	Per capita expenditure on Education, Sports, Art and Culture (in Rupees)	Per capita expenditure on Health and Family Welfare (in Rupees)
Puducherry Ratio	2008-09	0.28	0.75	0.37	0.09	0.38	0.13	0.06	3,264	1,600
	2011-12	0.26	0.72	0.45	0.10	0.27	0.14	0.09	3,866	2,646

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

Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

(Source: (1) Directorate of Economics and Statistics, Puducherry and (2) Finance Accounts for expenditure figures)

The ratio of aggregate expenditure to GSDP decreased from 0.28 in 2008-09 to 0.26 in 2011-12. This reflects stagnancy in adequacy of expenditure.

While the ratio of Social Sector expenditure to Aggregate expenditure increased from 0.37 in 2008-09 and 0.45 in 2011-12, the development expenditure to Aggregate expenditure decreased from 0.75 in 2008-09 to 0.72 in 2011-12.

The ratio of Capital expenditure to Aggregate expenditure remained at 0.10 in 2011-12 as against 0.09 in 2008-09 indicating no significant improvement and priority given by Government for asset creation.

Per capita expenditure on education, sports and art and culture; and per capita expenditure on health and family welfare stood at ₹ 3,866 and ₹ 2,646 respectively in 2011-12 as compared to ₹ 3,264 and ₹ 1,600 in 2008-09, which reflected improvement in these vital areas of social sector.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the UT Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods (refer **Glossary**). Apart from improving the allocation towards development expenditure (refer **Glossary**), the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure being incurred on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.8** depicts the trends in development expenditure relative to the aggregate expenditure of the UT during 2007-12, **Table 1.9** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected social and economic services during 2010-11 and 2011-12.

Table-1.8: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12
Development Expenditure (a to c)	1,910.12 (77)	2,113.43 (75)	2,532.68 (73)	2990.21 (76)	2575.35 (72)
a. Development Revenue Expenditure	1659 (67)	1885 (66)	2207.78 (64)	2670.63 (68)	2,249.43 (63)
b. Development Capital Expenditure	251 (10)	228 (8)	324.89 (9)	319.58 (8)	325.92 (9)
c. Development Loans and Advances	0.12 (0.01)	0.43 (0.02)	0.01 (Nil)	-- (Nil)	-- (Nil)

(Source: Finance Accounts)

Figures in parentheses indicate percentage of aggregate expenditure

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

(Percentage)

Social/Economic Infrastructure	2010-11		2011-12	
	Share of CE to TE	In RE, the share of S&W	Share of CE to TE	In RE, the share of S&W
Social Services (SS)				
General Education	3.68	75.30	4.29	76.56
Health and Family Welfare	3.29	63.11	7.05	55.09
Water Supply, Sanitation and Housing and Urban Development	30.06	8.51	36.17	32.84
Total (SS)	**6.94**	**41.72**	**7.47**	**38.90**
Economic Services (ES)				
Agriculture and Allied Activities	4.35	25.28	7.31	22.88
Irrigation and Flood Control	52.56	54.52	46.93	48.80
Power and Energy	5.04	6.60	13.95	26.03
Transport	67.37	22.63	33.37	34.69
Total (ES)	**14.37**	**11.83**	**21.42**	**22.39**
Total (SS+ES)	**10.69**	**27.25**	**12.66**	**33.38**
TE: Total Expenditure on the sector/services concerned; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages.				

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

The Development expenditure decreased by ₹ 414.86 crore from the previous year and as a percentage of aggregate expenditure, it came down from 76 in 2010-11 to 72 in 2011-12. The development capital expenditure, as a percentage of aggregate expenditure, increased just from eight in 2010-11 to nine in 2011-12.

Expenditure on Social Services

The capital expenditure on Social Services as a percentage of total expenditure increased from 6.94 *per cent* in 2010-11 to 7.47 *per cent* in 2011-12. The share of capital expenditure in the total expenditure under Health and Family Welfare increased from 3.29 in 2010-11 to 7.05 in 2011-12. The share of salaries and wages in the revenue expenditure on Social Services decreased from 41.72 *per cent* in 2010-11 to 38.90 *per cent* in 2011-12.

Expenditure on Economic Services

The capital expenditure on Economic Services, as a percentage of total expenditure on Economic Services, increased from 14.37 *per cent* in 2010-11 to 21.42 *per cent* in 2011-12, but in real terms it decreased by ₹ 12 crore. The share of salaries and wages in the revenue expenditure on economic services increased from 11.83 *per cent* in 2010-11 to 22.39 *per cent* in 2011-12.

1.6 Financial Analysis of Government Expenditure and Investments

The UT is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to dependence on market based resources, the UT Government needs to initiate measures to earn adequate returns on its investments and recover its cost of borrowed funds, rather than bearing the same on its budget in the form of implicit subsidies. This section presents information on incomplete projects and a broad financial analysis of investments by the Government during the current year *vis-à-vis* the previous years.

1.6.1 Incomplete projects

The information pertaining to incomplete projects in the Public Works Department as on 31 March 2012 is given in **Table 1.10.**

Table 1.10: Profile of incomplete projects

(₹ in crore)

Department	No. of Incomplete Projects*	Initial Cost	Revised Total Cost of Projects	Cost Over-runs	Cumulative expenditure as on 31.3.2012
Public Works Department	9	33.74	57.41	23.67	1.19

(Source: Finance Accounts)

* Only those projects which were scheduled to be completed before 31 March 2012 are included

Failure to complete the projects on time leads to escalation of project costs and delays accrual of the projects' benefits to the society at large. Further, delays also result in postponement of revenue realisation from the projects.

The projects/works were delayed mainly due to paucity of funds on account of non-availing of negotiated loan.

1.6.2 Investment and returns

As of March 2012, Government had invested ₹ 701.16 crore in 14 Government companies and one Statutory Corporation and ₹ 247.71 crore in 349 co-operative institutions **(Table 1.11)**. Though Pondicherry Textiles Corporation Limited had an accumulated loss of ₹ 458.56 crore, Government invested ₹ five crore during the year. The return on these investments was 0.4 *per cent,* while the Government paid interest at an average rate of 7.8 *per cent* on its borrowings during 2011-12.

Table-1.11: Return on Investment

Investment/Return/Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (₹ in crore)	760.91	817.03	867.50	910.91	948.87
Return (₹ in crore)	3.68	4.15	6.39	4.84	3.51
Return *(per cent)*	0.5	0.5	0.7	0.5	0.4
Average rate of interest on Government borrowings *(per cent)*	8.5	8.3	8.0	7.8	7.8
Difference between interest rate and return *(per cent)*	8.0	7.8	7.3	7.3	7.4

(Source: Finance Accounts)

1.6.3 Loans and advances by UT Government

During 2011-12, Government had not provided any loans and advances to any institution/organisation. **Table 1.12** presents the outstanding loans and advances as on 31 March 2012 and interest receipts *vis-à-vis* interest payments during the last three years.

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

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2009-10	2010-11	2011-12
Opening Balance	**25.70**	**20.01***	**17.83**
Amount advanced during the year	2.17	2.03	2.07
Amount repaid during the year	4.76	4.21	3.81
Closing Balance	**23.11**	**17.83**	**16.09**
Net increase (+)/ decrease (-)	(-) 2.59	(-) 2.18	1.74
Interest Receipts	2.53	2.57	2.30
Interest receipts as percentage of outstanding Loans and advances	10.4	13.58	13.56
Interest payments as percentage of outstanding fiscal liabilities of the UT Government.	7.3	7.21	7.16
Difference between interest payments and interest receipts (*per cent*)	3.1	6.37	6.40

(Source: Finance Accounts)

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

While the quantum of loan advanced increased marginally from ₹ 2.03 crore in 2010-11 to ₹ 2.07 crore in 2011-12, repayments of loan by the loanees decreased from ₹ 4.21 crore in 2010-11 to ₹ 3.81 crore in 2011-12. The total amount of ₹ 2.07 crore advanced during the year included only loans and advances given to Government servants. It may be noted and appreciated that Government earned interest at 13.56 *per cent,* which was higher than the interest payments (7.16 *per cent)* against its fiscal liabilities.

1.7 Assets and Liabilities

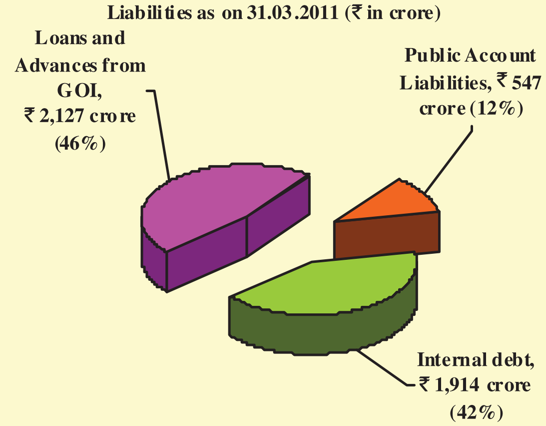
1.7.1 Growth and composition of Assets and Liabilities

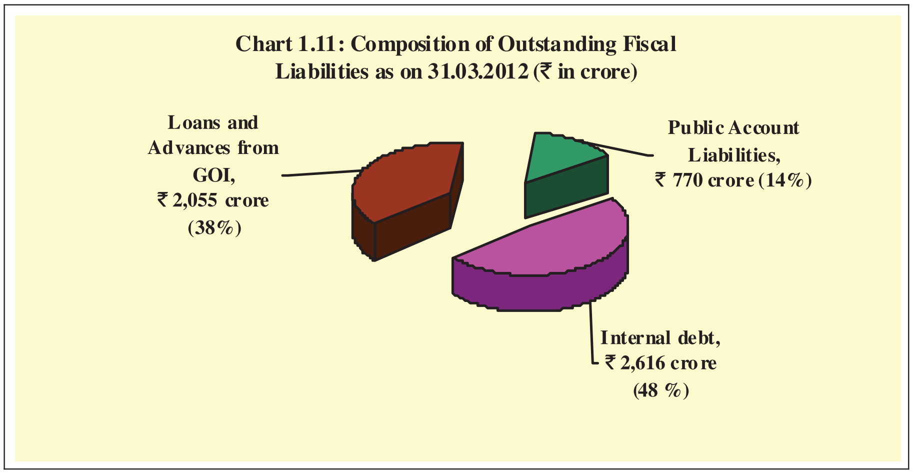
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4 – Part B** gives an abstract of such liabilities and assets as on 31 March 2012, compared with the corresponding position on 31 March 2011. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the UT Government and cash balances. The ratio of cumulative assets to liabilities as on 31 March 2012 was 0.87 indicating that assets were not sufficient to meet the liabilities.

1.7.2 Fiscal Liabilities

Fiscal liabilities are internal debt, loans and advances from GOI and the Public Account liabilities comprising small savings and provident fund, reserve funds and deposits. The trends in outstanding fiscal liabilities of the UT are presented in **Appendix 1.3.** The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Charts 1.10** and **1.11.**

Chart 1.10: Composition of Outstanding Fiscal Liabilities as on 31.03.2011 (₹ in crore)





The outstanding fiscal liabilities have shown a steady increase from ₹ 2,923 crore in 2007-08 to ₹ 5,441 crore in 2011-12. The fiscal liabilities at the end of 2011-12 represented 196 *per cent* of revenue receipts (₹ 2771 crore) during the year as against 137 *per cent* in 2007-08.

While internal debts which constituted 42 *per cent* of the fiscal liabilities in 2010-11 increased to 48 *per cent* in 2011-12, loans and advances from GOI decreased from 46 *per cent* to 38 *per cent* of the fiscal liabilities during the same period. The Public Account liabilities increased from ₹ 547 crore in 2010-11 to ₹ 770 crore in 2011-12. The fiscal liabilities represented 39 *per cent* of GSDP during 2011-12.

1.7.3 Status of Guarantees – Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the UT Government in cases of defaults by borrowers for whom the guarantees have been extended.

Guarantees for the purpose of administration of Union Territories, prior to the amendment of the Union Territories Act on 6 September 2001, were given by GOI under Article 292 of the Constitution of India. In the event of the guarantees being invoked, the payment would initially be charged to the Consolidated Fund of India and the amount subsequently recovered from the Government of the Union Territory. Consequent to amendment of the UT Act on 6 September 2001 and issue of its notification by the Government of India on 10 May 2006, the Government of Union Territory of Puducherry was empowered to give guarantees. No guarantee was given during the year by the UT Government and no law to control the guarantees to be given was enacted by the UT Government. As per Statement-9 of the Finance Accounts, the maximum amount for which guarantees were given by GOI on behalf of the UT and outstanding guarantees for the last three years are given in **Table 1.13.**

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

Guarantees	2009-10	2010-11	2011-12
Maximum amount guaranteed (₹ in crore)	20.98	20.98	20.98
Outstanding amount of guarantees (₹ in crore)	11.97	7.90	5.83
Percentage of maximum amount guaranteed to total Revenue receipts	0.74	0.66	0.76

(Source: Finance Accounts)

As a percentage of revenue receipts, the maximum amount guaranteed increased from 0.66 in 2010-11 to 0.76 in 2011-12. No guarantee was invoked during any of the three years.

1.8 Debt Sustainability

Apart from the magnitude of debt of the UT Government, it is important to analyse various indicators that determine the debt sustainability of the UT. This section assesses the sustainability of debt of the UT Government in terms of debt stabilisation, sufficiency of non-debt receipts, net availability of borrowed funds[4], burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of the UT Government's debts.

Table 1.14 indicates the debt sustainability of the UT for a period of three years beginning from 2009-10.

Table 1.14: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2009-10	2010-11	2011-12
Debt Stabilisation (Quantum Spread + Primary Deficit)	193	(-) 251	(-) 652
Sufficiency of Non-debt receipts (Resource Gap)	(-) 205	(-) 134	(-) 111
Net availability of borrowed funds	275	385	474
Burden of Interest Payments (IP/RR Ratio)	0.1	0.1	0.14
Maturity profile of internal debt and GOI loans (in years)			
0 – 1	148 (4.44)	156(3.86)	189 (4.04)
1 – 3	513(15.39)	554(13.71)	625 (13.38)
3 – 5	314 (9.42)	340(8.41)	707 (15.14)
5 – 7	592(17.76)	950(23.51)	1,115 (23.87)
7 and above	1,767(52.99)	2,041(50.51)	2,035 (43.57)

(Source : Finance Accounts)

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

4 Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption, indicating the net availability of borrowed funds.

Debt stabilization means that, if the primary deficit together with the quantum spread turns to negative, the debt – GSDP ratio would be rising. There has been a warning signal in the debt stabilization indicator since the value increased from ₹ 193 crore in 2009-10 to (-) ₹ 652 crore in 2011-12. Unless corrective measures are taken by the Government to convert the primary deficit to surplus, the debt could become unsustainable in the medium term.

The resource gap (the difference between incremental total expenditure and incremental non-debt receipts) marginally decreased from ₹ (-) 134 crore in 2010-11 to ₹ (-) 111 crore in 2011-12. The continuing negative trend shows that unless concerted efforts are made to narrow the gap, by increasing the non-debt receipts in the coming years, or containing the primary expenditure, debt sustainability could become a problem in future.

The burden of interest payment, which was 10 *per cent* of the Revenue receipts in 2009-10, has increased to 14 *per cent* in 2011-12 showing the increasing interest burden.

The maturity profile of the UT Government's Public debt indicates that nearly 32.56 *per cent* of the total Public debt is repayable within next five years, while 67.44 *per cent* of loans are required to be repaid after five years. Ideally, further borrowings in future should be made in such a way that there is no bunching of repayments in any particular year as it would cause undue stress on the budget of that year.

Short allocation of fund for amortization of loan

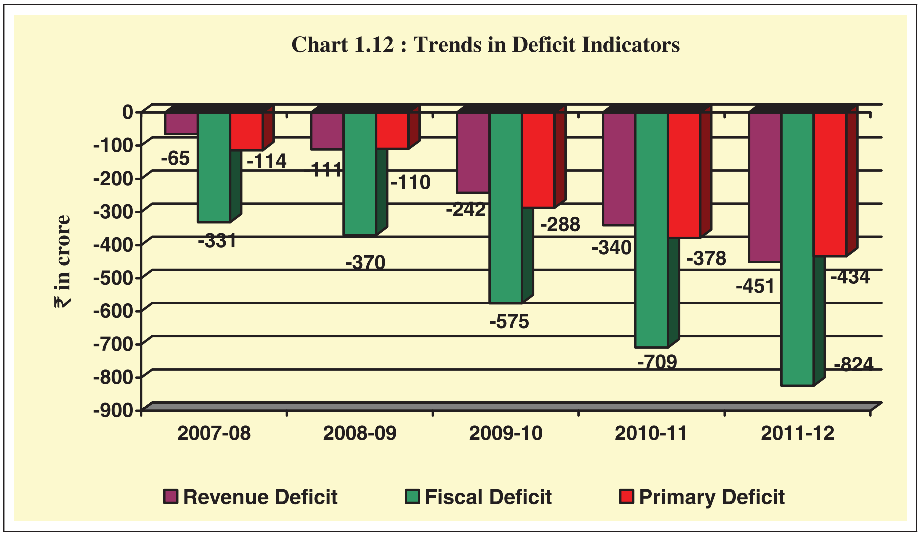
The Union Territory Government, under the guidance of the Reserve Bank of India, set up 'The Puducherry Consolidated Sinking Fund Scheme, 2009' during November 2009 for redemption of the outstanding liabilities. As per the scheme guidelines, a yearly provision of not less than 0.5 *per cent* of the total liabilities at the end of the previous year was to be made towards the fund. However during 2011-12, an allocation of ₹ 11.87 crore only was made against the actual requirement of ₹ 22.11 crore. Such short allocation of fund towards amortization would pose a strain on finances of the Union Territory Government during repayment of loans on their maturity.

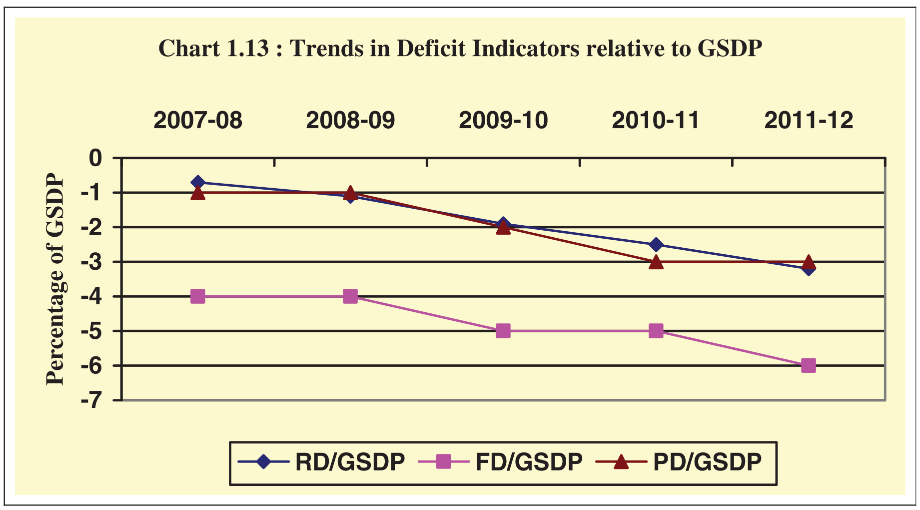
1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal soundness or imbalances in the finances of the UT Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources are applied, are important pointers to its fiscal health. This section presents the trends, nature, magnitude and manner of financing these deficits.

1.9.1 Trends in Deficits

Charts 1.12 and **1.13** present the trends in deficit indicators over the period 2007-12.





The revenue deficit indicates the excess of revenue expenditure over the revenue receipts. As exhibited in **Chart 1.12**, the revenue deficit in 2011-12 was ₹ 451 crore and it increased continuously and steadily from 2007-08 to 2011-12. The increase of revenue deficit by ₹ 111 crore in 2011-12 over 2010-11 was mainly due to decrease in receipts of non-tax revenue.

The fiscal deficit has also increased manifold from ₹ 331 crore in 2007-08 to ₹ 824 crore in 2011-12.

While the fiscal deficit to GSDP and primary deficit to GSDP increased from four *per cent* to six *per cent* and one *per cent* to three *per cent* respectively, the revenue deficit as a percentage of GSDP increased sharply *i.e.* from 0.7 *per cent* in 2007-08 to 3.2 *per cent* in 2011-12. A high level of fiscal deficit to GSDP is indicative of unsound economical position of the UT Government.

1.9.2 Composition of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1.15.**

Table 1.15: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Decomposition of Fiscal Deficit		**(-) 331**	**(-) 370**	**(-) 575**	**(-) 709**	**(-)824**
1	Revenue Deficit	(-) 65	(-) 111	(-) 242	(-) 340	(-)451
2	Net Capital Expenditure	(-) 275	(-) 261	(-) 336	(-) 371	(-)375
3	Net Loans and Advances	(+) 9	(+) 2	(+) 3	(+) 2	(+)2
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	337	350	549	677	703
2	Loans from GOI	(-)21	(-)29	(-) 21	30	(-)72
3	Special Securities issued to National Small Savings Fund	--	--	--	--	--
4	Loans from Financial Institutions	--	--	--	--	--
5	Small Savings, PF etc	252	41	48	42	19
6	Deposits and Advances	187	27	(-) 15	(-)41	203
7	Suspense and miscellaneous	239	98	147	(-) 365	25
8	Remittances	6	32	41	(-)24	5
9	Reserve Funds	--	12	1	8	12
10	Overall Surplus/Deficit (cash balance)	669	161	175	382	(-)71
*All these figures are net of disbursements/outflows during the year						

(Source: Finance Accounts); -- indicates nil.

The fiscal deficit increased by ₹ 115 crore during 2011-12, mainly due to increase in revenue deficit by ₹ 111 crore. The increase in fiscal deficit, along with increase in interest payments by ₹ 59 crore, led to an increase of ₹ 56 crore in the primary deficit during the year. The UT has been increasingly relying on market borrowings for financing its fiscal deficit.

1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the UT's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The bifurcation of the primary deficit (**Table 1.16**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may have been desirable to improve the productive capacity of the UT's economy.

Table 1.16: Primary Deficit/Surplus – Bifurcation of Factors

(₹ in crore)

Year	Revenue Receipts	Recovery of Loans and Advances	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances disbursed	Primary Expenditure	Primary Revenue Deficit (-) / Surplus (+)	Primary Deficit (-) / Surplus (+)
1	**2**	**3**	**4 (2+3)**	**5**	**6**	**7**	**8 (5+6+7)**	**9 (2-5)**	**10 (4-8)**
2007-08	2,136	12	2,148	1,984	275	3	2,262	152	(-) 114
2008-09	2,459	5	2,464	2,310	261	3	2,574	149	(-) 110
2009-10	2,841	38*	2,879	2,796	369	2	3,167	45	(-) 288
2010-11	3,200	4	3,204	3,209	371	2	3,582	(-) 9	(-) 378
2011-12	2,771	4	2,775	2,832	375	2	3,209	(-)61	(-)434

(Source: Finance Accounts)

* Includes miscellaneous capital receipt of ₹ 33 crore

Non-debt receipts in 2010-11 and 2011-12 were not sufficient to cover the primary revenue expenditure. As the receipts were not enough to cover the primary revenue expenditure, there was primary deficit in all the years. The primary deficit, which was ₹ 114 crore in 2007-08 rose to ₹ 434 crore in 2011-12. The primary revenue surplus gradually declined from 2007-08 and turned into deficit of ₹ nine crore in 2010-11 and ₹ 61 crore in 2011-12, indicating that revenue receipts of that periods were not enough to meet the primary revenue expenditure.

1.10 Conclusion and Recommendations

Inadequate mobilization of revenue receipts: As against the revenue receipts of ₹ 2,771 crore, the revenue expenditure incurred during the year 2011-12 was ₹ 3,222 crore, which indicates that the revenue receipts were not enough to meet the revenue expenditure. The Revenue receipts, as a percentage of GSDP, hovering around 23 *per cent* during 2007-11 decreased to 19.68 *per cent* in 2011-12. The UT Government continue to depend heavily on Government of India as the latter contributed to 46.52 *per cent* of the total revenue receipts of UT. *Government need to make concerted efforts to increase the revenue receipts, particularly the non tax revenue.*

Funds transferred directly to implementing agencies: During 2011-12, GOI directly transferred ₹ 46.71 crore to the Union Territory implementing agencies for implementation of various schemes/programmes. As these funds were not routed through the UT budget, the Annual Finance Accounts had not captured the flow of these funds and to that extent, the receipts and expenditure of the UT as well as other fiscal variables/parameters derived from them were underestimated. *Government need to ensure proper* *documentation of such releases and expenditure and timely reporting of expenditure by the implementing agencies.*

High share of revenue expenditure in total expenditure: The revenue expenditure of ₹ 3,222 crore during 2011-12 constituted 89.52 *per cent* of total expenditure. The committed expenditure such as salaries, pension and interest payments constituted 53.69 *per cent* of revenue expenditure and 62.43 *per cent* of the revenue receipts. *Measures are required to be taken to compress the revenue expenditure particularly the ones which do not create useful assets.*

Inadequate priority to Development expenditure: The Capital expenditure increased just by ₹ four crore from ₹ 371 crore in 2010-11 to ₹ 375 crore in 2011-12 and it accounted for 10.42 *per cent* of the total expenditure. The development expenditure (expenditure on social and economic sectors) as percentage of aggregate expenditure decreased from 76 in 2010-11 to 72 in 2011-12. Bulk of the expenditure (44.97 *per cent*) was incurred in the social sector. *Government need to take appropriate actions to improve the capital expenditure and development expenditure.*

Low return on investments: As of 31 March 2012, Government had invested ₹ 948.87 crore in Government companies and co-operative institutions. The return on these investments was 0.4 *per cent,* while the Government paid interest at an average rate of 7.8 *per cent* on its borrowings during 2011-12. *Government needs to take measures to ensure better returns on its investments.*

High ratio of fiscal liabilities to GSDP: The outstanding fiscal liabilities increased from ₹ 2,923 in 2007-08 to ₹ 4,588 crore in 2010-11 and to ₹ 5,441 crore (19 *per cent*) in 2011-12. The fiscal liabilities constituted 39 *per cent* of GSDP in 2011-12. *Government need to set in place a strategy to limit the quantum of fiscal liabilities, as sustainability of its debt would become a problem in future due to increasing resource gap, rising interest burden and rising debt-GSDP ratio*.

Increasing deficits: The revenue deficit in 2011-12 was ₹ 451 crore (3.2 *per cent* of GSDP) and it increased steadily from 2007-08 (₹ 65 crore) to 2011-12. The increase of revenue deficit by ₹ 111 crore in 2011-12 over 2010-11 was mainly due to decrease in non tax receipts. The fiscal deficit also increased manifold from ₹ 331 crore in 2007-08 to ₹ 824 crore in 2011-12 (six *per cent* of GSDP). High levels of these deficits and ever increasing trend are indicators of unsound economical position of the UT Government. *Government should take concerted efforts to contain the deficit.*