CHAPTER I: OVERVIEW

1.1 Profile of the Union Territory

Geographical profile: The Union Territory (UT) of Puducherry is located on the East Coast of India and extends over an area of 490 sq.km. UT consists of four regions namely, Puducherry, Karaikal, Mahe and Yanam geographically separated from each other. UT is administered under the provisions of the Government of Union Territories Act, 1963.

Population profile: As per 2011 census, UT's population was 12.48 lakh, which recorded a decadal growth rate of 25.83 *per cent* as compared to 2001 census. The population projection as per National Commission on Population was 16.09 lakh during 2020-21 in UT of Puducherry. The percentage of population below the poverty line was 9.69, which was lower than the all India average of 21.92. UT's literacy rate increased from 81.24 *per cent* (as per 2001 census) to 85.80 *per cent* (as per 2011 census).

Economic profile: UT's Gross State Domestic Product (GSDP) in 2020-21 at current price was ₹ 36,402 crore. The revenue receipts of the UT was ₹ 5,890 crore and revenue expenditure was ₹ 7,260 crore leading to revenue deficit of ₹ 1,370 crore. During 2020-21, the total receipts of UT of Puducherry was ₹ 8,419 crore and total disbursements was ₹ 8,342 crore.

1.1.1 Gross State Domestic Product of the UT of Puducherry

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the UT's economy as it denotes the extent of changes in the level of economic development of the UT over a period of time.

Changes in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to the Agriculture, Industry and Service sectors. The trends in the annual growth of India's Gross Domestic Product (GDP) and UT's GSDP at current prices are indicated in **Table 1.1**.

The terms and abbreviations used in this Report are listed in the Glossary at Page No.151.

Table 1.1: Trends in GSDP compared to the National GDP

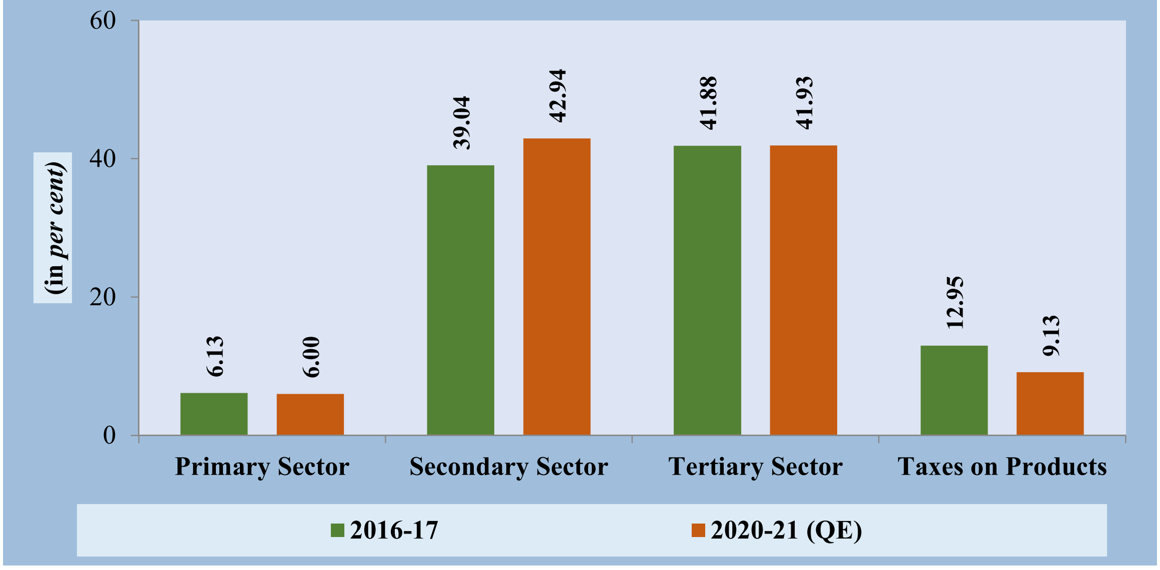
(₹ in crore)

Year	2016-17	2017-18	2018-19	2019-20	2020-21
National GDP (2011-12 Series)	1,53,91,669	1,70,90,042	1,88,86,957	2,03,51,013	1,97,45,670
Growth rate of GDP over previous year (in *per cent*)	11.76	11.03	10.51	7.75	(-) 2.97
UT's GSDP (2011-12 Series)	29,573	32,129	36,555	37,959	36,402
Growth rate of GSDP over previous year (in *per cent*)	11.11	8.64	13.78	3.84	(-) 4.10

(Source of data: Directorate of Economics and Statistics, Puducherry)

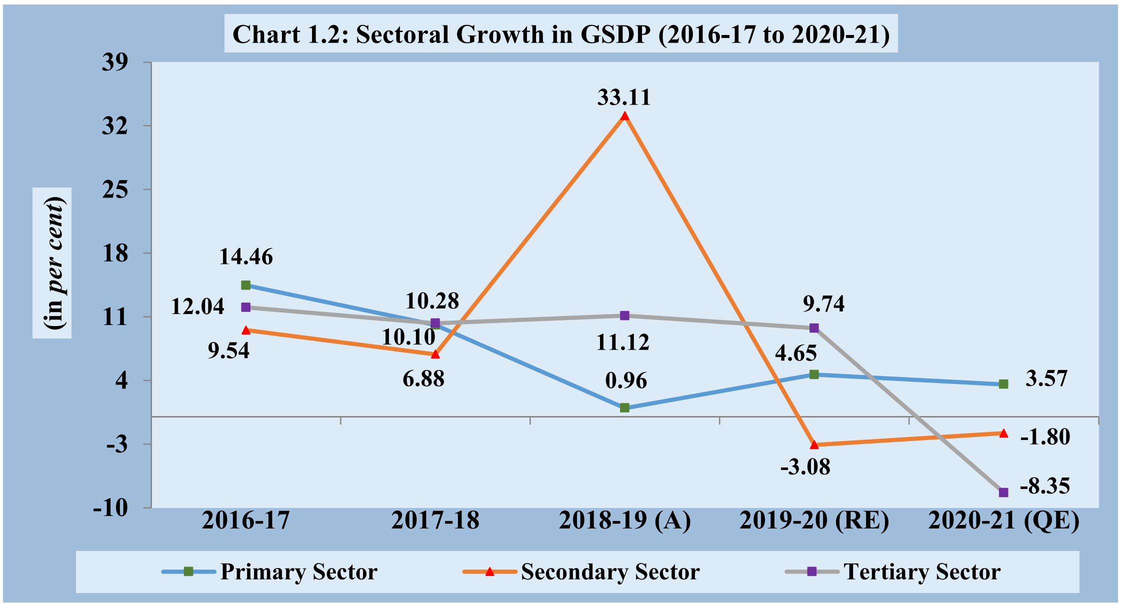
The changes in sectoral contribution to GSDP and sectoral growth in GSDP is given in **Chart 1.1 and 1.2** respectively.

Chart 1.1: Change in sectoral contribution to GSDP (2016-17 and 2020-21)



QE: Quick Estimates

(Source of data: Directorate of Economics and Statistics, Puducherry)



(A: Actuals; RE: Revised Estimates; QE: Quick Estimates)

(Source of data: Directorate of Economics and Statistics, Puducherry)

1.2 Basis and approach to Union Territory Finances Audit Report

In terms of Section 49 of the Government of Union Territories Act, 1963 (UT Act, 1963), the Reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a Union Territory (UT) are to be submitted to the Lieutenant Governor of the UT, who shall cause them to be laid before the Legislature of the UT. The UT Finances Audit Report (UTFAR) is prepared and submitted under Section 49 of the UT Act, 1963.

The Director of Accounts and Treasuries prepares the Finance Accounts and Appropriation Accounts of the UT annually from the vouchers, challans and subsidiary accounts rendered by the offices and departments responsible for keeping of such accounts functioning under the control of the UT Government and the statements received from the Reserve Bank of India. These accounts are audited independently by the Accountant General (Audit-II), Tamil Nadu and Puducherry and certified by the CAG.

Finance Accounts and Appropriation Accounts of the UT constitute the core data for this report. Other sources include the following:

- Budget of the UT: For assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of audit carried out by the Office of the Accountant General (Audit-II), Tamil Nadu and Puducherry;
- Other data with Departmental Authorities;

- GSDP data and other UT related statistics;
- Various Audit Reports of the CAG of India; and
- Fiscal Road Map (FRM) based on the principles of Government of India's Fiscal Responsibility and Budget Management (FRBM) Act.

The analysis is also carried out in the context of Fiscal Road Map, best practices and guidelines of the Government of India (GoI). The draft report has been sent to Government in December 2021. A meeting was held with the Finance Secretary of the Government of UT of Puducherry in January 2022 to discuss the Report. The views expressed by the Government during the meeting are suitably incorporated in the report.

1.3 Report Structure

The UTFAR is structured into the following five Chapters:

Chapter - 1	**Overview** This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of Government accounts, budgetary processes, macro-fiscal analysis of key indices and UT's fiscal position including the deficit/surplus.
Chapter - II	**Finances of the Union Territory** This chapter provides a broad perspective of the finances of the UT, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2016-17 to 2020-21, debt profile of the UT and key Public Account transactions based on the Finance Accounts of the UT.
Chapter - III	**Budgetary Management** This chapter is based on the Appropriation Accounts of the UT and reviews the appropriations and allocative priorities of the UT Government and reports on deviations from provisions relating to budgetary management prescribed in the Government of UT Act, 1963 and GFR 2017.
Chapter - IV	**Quality of Accounts and Financial Reporting Practices** This chapter comments on the quality of accounts rendered by various authorities of the UT Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the UT Government.
Chapter - V	**Union Territory Public Sector Undertakings** This chapter presents the summary of financial performance of Government Companies. It also deals with CAG's mandate to

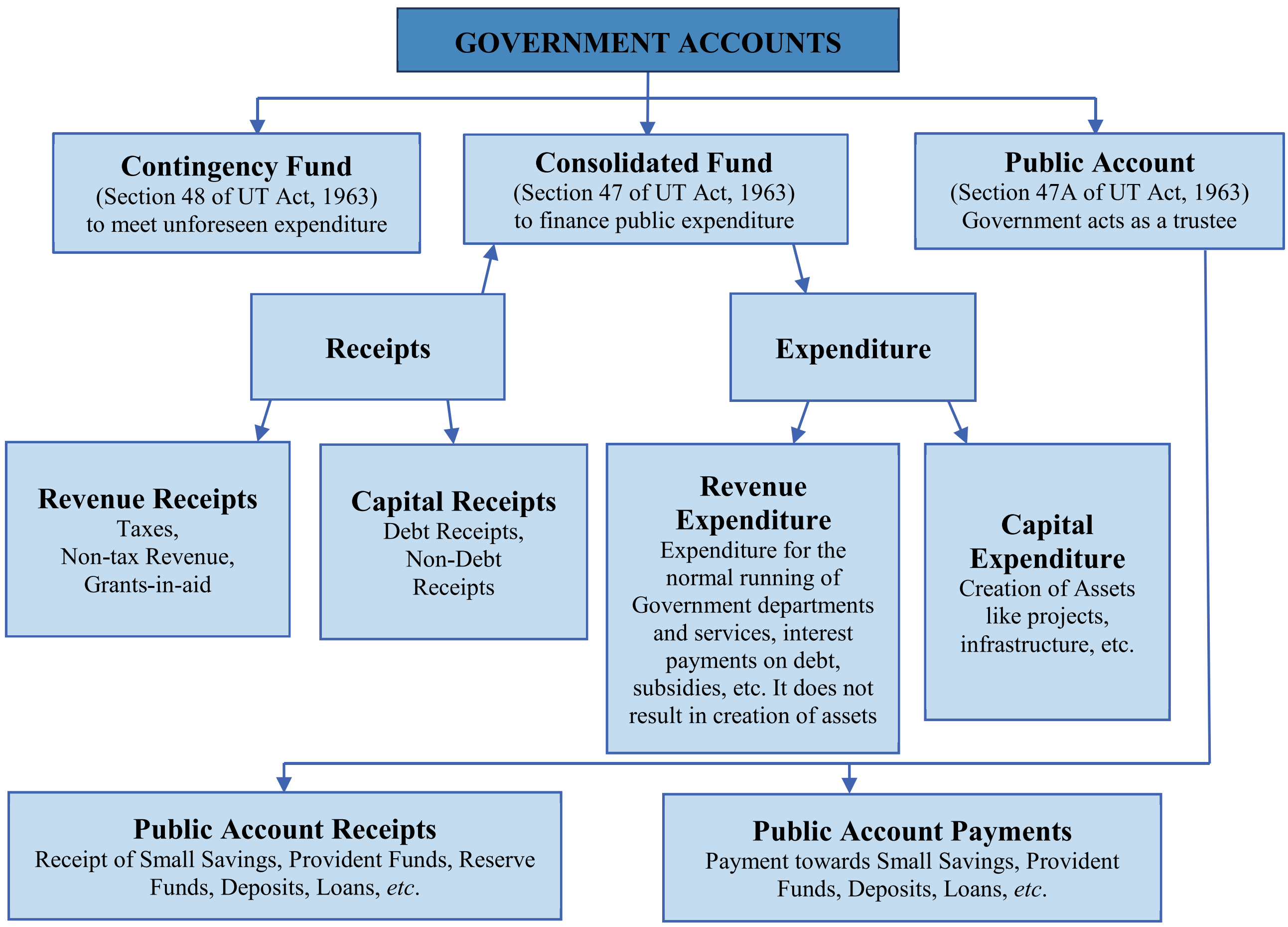
	conduct a supplementary audit of the audit on the accounts of Public Sector Undertakings (PSUs) conducted by statutory auditors who were appointed by the CAG.

1.4 Overview of Government Account Structure and Budgetary Processes

It is necessary to understand the structure of Government Accounts in order to appreciate the analysis of the finances of the UT Government which is given in **Chapter II** of this report.

Government Accounts are defined by the twin principles of fund based accounting and functional classification of transactions of the Government. Fund based accounting system involves sourcing and allocating all receipts and disbursements to one of the three Funds, *viz*., Consolidated Fund, Contingency Fund and Public Account. These Funds are created by the Government of UT Act, 1963 and function as instruments of public accountability.

Structure of Government Accounts



The accounting classification system in Government is both functional and economic.

	Attribute of transaction	Classification
Standardised in LMMH by Controller General of Accounts	Function: Education, Health, etc./Department	Major Head under Grants (4-digit)
	Sub-Function	Sub-Major Head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States/UT Government	Scheme	Sub-Head (2-digit)
	Sub-scheme	Detailed Head (2-digit)
	Economic nature/Activity	Object Head: Salary, Minor works, etc. (2-digit)

The functional classification lets us know the department, function, scheme or programme and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, etc. Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Head. For instance, 0 and 1 is for Revenue receipts, 2 and 3 for Revenue expenditure, etc. Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, while "salary" object head is Revenue expenditure, "construction" object head is Capital expenditure. Object head is the primary unit of appropriation in the budget documents.

Budgetary Processes

In terms of Section 27 of Government of UT Act, 1963, the Lieutenant Governor of UT shall cause to be laid before the UT Legislature, a statement of the estimated receipts and expenditure of the UT in the form of an Annual Financial Statement. In terms of Section 27 (2), the statement is submitted to the UT Legislature in the form of Demands for Grants and after approval of these, the Appropriation Bill is passed by the Legislature under Section 29 of UT Act, 1963 to provide for appropriation of the required money out of the Consolidated Fund. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the UT Government are detailed in **Chapter III** of this Report.

1.4.1 Snapshot of Finances

The following **Table 1.2** provides the details of actual financial results and Budget Estimates for the year 2020-21 *vis-à-vis* actuals of 2019-20.

Table 1.2: Budget Estimates and actuals for the year 2020-21 *vis-à-vis* actuals of 2019-20

(₹ in crore)

Sl. No.	Components	2019-20	2020-21		Percentage of Actuals to Budget Estimate	Percentage of Actuals to GSDP*
		Actuals	Budget Estimate	Actuals		
1	Tax revenue	2,475	3,673	1,948	53.04	5.35
2	Non-tax revenue	1,638	1,574	1,460	92.76	4.01
3	Share of Union taxes/duties	Nil	Nil	Nil		
4	Grants from the Government of India	2,668	2,023	2,482	122.69	6.82
5	**Revenue receipts (1+2+3+4)**	**6,781**	**7,270**	**5,890**	**81.02**	**16.18**
6	Recoveries of loans and advances	1	2	0		
7	Other receipts	Nil	Nil	Nil		
8	Borrowings and other Liabilities #	1,043	1,410	2,529	179.36	6.95
9	**Capital Receipts (6+7+8)**	**1,044**	**1,412**	**2,529**	**179.11**	**6.95**
10	**Total Receipts (5+9)**	**7,825**	**8,682**	**8,419**	**96.97**	**23.13**
11	**Revenue expenditure**	**6,836**	**7,715**	**7,260**	**94.10**	**19.94**
12	Interest payments	690	737	757	102.71	2.08
13	**Capital expenditure**	**327**	**378**	**245**	**64.81**	**0.67**
14	Capital Outlay	327	372	240	64.52	0.66
15	Loans and advances	Nil	6	5	83.33	0.01
16	**Total Expenditure (11+13)**	**7,163**	**8,093**	**7,505**	**92.73**	**20.62**
17	**Revenue Deficit (-) / Surplus (+) (5-11)**	**(-) 55**	**(-) 445**	**(-) 1,370**	**307.87**	**(-) 3.76**
18	**Fiscal Deficit {16-(5+6+7)}**	**(-) 381**	**(-) 821**	**(-) 1,615**	**196.71**	**(-) 4.44**
19	**Primary Deficit/Surplus (18-12)**	**309**	**(-) 84**	**(-) 858**	**1,021.43**	**(-) 2.36**

* GSDP at current prices is ₹ 36,402 crore.

\# Borrowings and other Liabilities: Net (Receipts *minus* Disbursements) of Public Debt + Net of Contingency Fund and Net (Receipts *minus* Disbursements) of Public Account + Net of Opening and Closing Cash Balance.

(Source: Finance Accounts of the respective years)

It could be seen that the Revenue receipts of the UT during 2020-21 decreased by ₹ 891 crore over the previous year. This coupled with the increase in Revenue expenditure of ₹ 424 crore had resulted in revenue deficit of ₹ 1,370 crore. The Capital outlay decreased by ₹ 87 crore from ₹ 327 crore in 2019-20 to ₹ 240 crore in 2020-21. The fiscal deficit increased steeply from ₹ 381 crore in 2019-20 to ₹ 1,615 crore in 2020-21.

The UT received total compensation of ₹ 1,348.79 crore on account of loss of revenue arising out of the implementation of GST during 2020-21. Out of this, ₹ 606.79 crore was received by the UT as grants under revenue receipts.

However, due to inadequate balance in GST compensation fund during the year 2020-21, the UT also received back-to-back loan of ₹ 742 crore from GoI which has been classified under debt receipts of the UT Government with repayment obligations from the cess collected in GST compensation fund and not from any other resources of the UT. Due to this arrangement, the revenue deficit of ₹ 1,370 crore and the fiscal deficit of ₹ 1,615 crore during the year 2020-21 may be read in conjunction with debt receipt of ₹ 742 crore in lieu of GST compensation.

1.4.2 Snapshot of Assets and Liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds, and the assets comprise mainly the capital outlay and loans and advances given by the UT Government and cash balances.

Table 1.3: Summarised position of Assets and Liabilities

(₹ in crore)

Liabilities					**Assets**				
		2019-20	**2020-21**	**increase (+)/ decrease (-) (in *per cent*)**			**2019-20**	**2020-21**	**increase (+)/ decrease (-) (in *per cent*)**
Consolidated Fund									
A	External Debt	49.61	49.61	--					
	Internal Debt	6,911.07	7,978.35	15.44	a.	Gross Capital Outlay	7,086.80	7,326.36	3.38
B	Loans and Advances from GoI	1,418.50	2,042.06	43.96	b.	Loans and Advances	9.87	14.56	47.52
Contingency Fund		**0.50**	**0.50**	**--**					
Public Account									
A	Small Savings, Provident Funds, etc.	697.81	419.13	(-) 39.94	a.	Advances	0.63	0 .58	(-) 7.94
B	Deposits	506.92	550.10	8.52	b.	Remittance	0.00	0.00	0
C	Reserve Funds	232.17	247.25	6.50	c.	Suspense and Miscellaneous	106.91	--	--
D	Remittances	154.98	154.98	--	**Cash balance (including investment in Earmarked Fund)**		**1,642.05**	1,675.39	2.03
E	Suspense and Miscellaneous	--	69.80	--					
					Total		**8,846.26**	**9,016.89**	1.93
					Deficit in Revenue Account		**1,125.30**	**2,494.89**	121.71
Total		**9,971.56**	**11,511.78**	**15.45**	**Total**		**9,971.56**	**11,511.78**	**15.45**

It could be seen that the Internal Debt of the UT increased by 15.44 *per cent* from ₹ 6,911.07 crore in 2019-20 to ₹ 7,978.35 crore in 2020-21. The loans and advances from GoI also increased by 43.96 *per cent* from ₹ 1,418.50 crore in 2019-20 to ₹ 2,042.06 crore in 2020-21. This was due to the fact that the Government of India released an amount of ₹ 742 crore as back-to-back loan in lieu of GST Compensation shortfall instead of as Grants-in-aid. The Gross Capital Outlay increased by 3.38 *per cent* from ₹ 7,086.80 crore in 2019-20 to ₹ 7,326.36 crore in 2020-21.

1.5 Fiscal Balance: Achievement of deficit and total debt targets

As the UT of Puducherry was not covered under Finance Commission, Fiscal Responsibility and Budget Management (FRBM) Act was not enacted. However, Fiscal Road Map (FRM) based on the principles of GoI's FRBM Act was prepared (June 2012) and approved by GoI.

Three key fiscal parameters, *viz*., revenue, fiscal and primary deficits indicate the extent of overall fiscal imbalances in the finances of the Government during a specified period. The deficit in the Government Accounts represents the gap between its receipts and expenditure. Further, the ways in which the deficit is financed and the resources raised are applied are important indicators of its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set for the financial year 2020-21 under FRM. Major fiscal variables as targeted in the FRM along with actuals are given in **Table 1.4** and **Table 1.5**.

Table 1.4: Comparison of fiscal variable with road map during 2016-17 to 2020-21

Year	Fiscal variables	Revenue Deficit (-)/ Surplus(+) (₹ in crore)	Fiscal Deficit/ GSDP	Ratio of total outstanding debt of the Government to GSDP (in *per cent*)
2016-17	Targets proposed in FRM	(-) 197.32	(-) 1.68	27.60
	Targets proposed in the Budget	(-) 92.20	(-) 2.56	Not prescribed
	Actuals	(-) 75.30	(-) 1.89	30.08
2017-18	Targets proposed in FRM	(+) 16.78	(-) 0.64	25.08
	Targets proposed in the Budget	(+) 118.20	(-) 1.34	Not prescribed
	Actuals	(+) 196.01	(-) 0.61	27.31

Year	Fiscal variables	Revenue Deficit (-)/ Surplus(+) (₹ in crore)	Fiscal Deficit/ GSDP	Ratio of total outstanding debt of the Government to GSDP (in *per cent*)
2018-19	Targets proposed in FRM	(-) 2.00	(-) 1.28	23.90
	Targets proposed in the Budget	(-) 2.00	(-) 1.20	Not prescribed
	Actuals	(+) 13.54	(-) 0.82	24.95
2019-20	Targets proposed in FRM	(+) 60.00	0.84	22.39
	Targets proposed in the Budget	Nil	1.37	Not prescribed
	Actuals	(-) 54.49	1.00	21.90
2020-21	Targets proposed in FRM	(+) 100.00	0.95	21.12
	Targets proposed in the Budget	(-) 445.00	2.26	Not prescribed
	Actuals	(-) 1,369.59	4.44	25.62*

* Calculated excluding the back-to-back loan of ₹ 742 crore received from GoI in lieu of GST Compensation shortfall

(Source: Finance Audit Report of the respective years and FRM for the year 2020-21)

Table1.5: Actuals *vis-à-*vis projection in FRM for 2020-21

(₹ in crore)

Sl. No.	Fiscal Variables	Projection as per FRM	Actuals (2020-21)	Variation between projection and actuals	Variation (in *per cent*)
1	Own Tax Revenue	3,678	1,948	(-) 1,730	(-) 47.04
2	Non-tax Revenue	1,644	1,460	(-) 184	(-) 11.19
3	Share of central taxes	0	0	0	0.00
4	Grants-in-aid from GoI	2,078	2,482	404	19.44
5	Revenue receipts (1+2+3+4)	7,400	5,890	(-) 1,510	(-) 20.41
6	Revenue expenditure	7,300	7,260	(-) 40	(-) 0.55
7	Revenue Deficit (-)/ Surplus (+) (5-6)	100	(-) 1,370	(-) 1,470	(-) 1,470.00
8	Fiscal Deficit (-)/ Surplus (+)	(-) 398	(-) 1,615	(-) 1,217	(-) 305.78
9	Debt-GSDP ratio (*per cent*)	21.12	25.62*	6.54	
10	GSDP growth rate at current prices (*per cent*)	10.95	(-) 4.10	(-) 15.05	

* Calculated excluding the back-to-back loan of ₹ 742 crore received from GoI in lieu of GST Compensation shortfall

The trends in deficits, fiscal liabilities and GSDP are exhibited in **Charts 1.3, 1.4** and **1.5**.

Chart 1.3 : Trends in Deficit Indicators

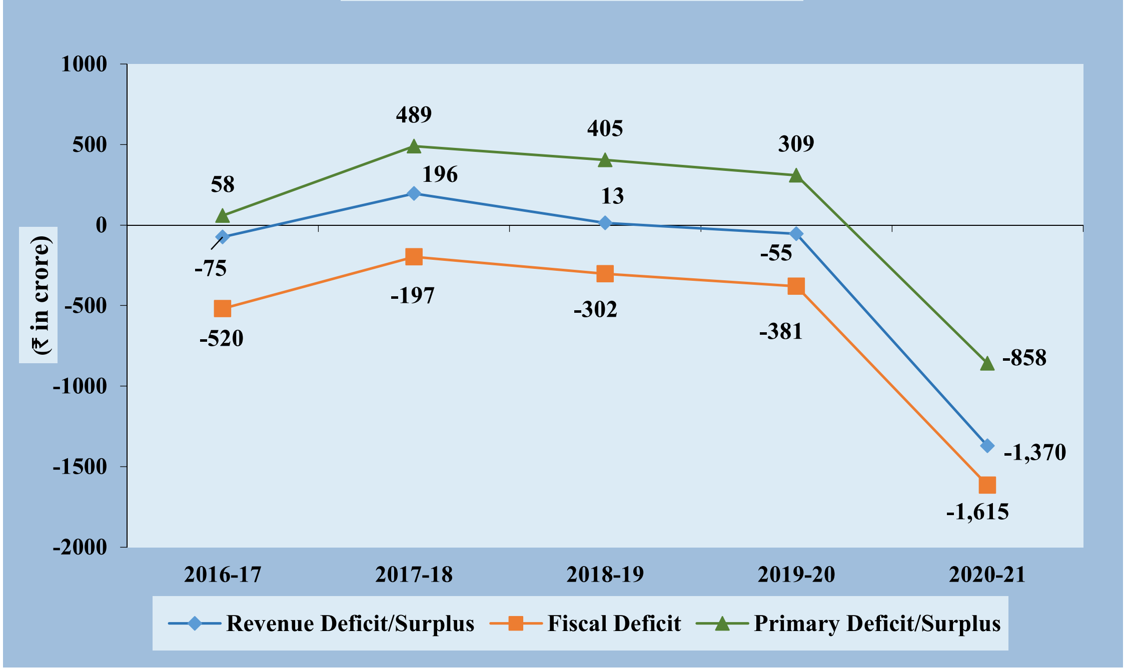
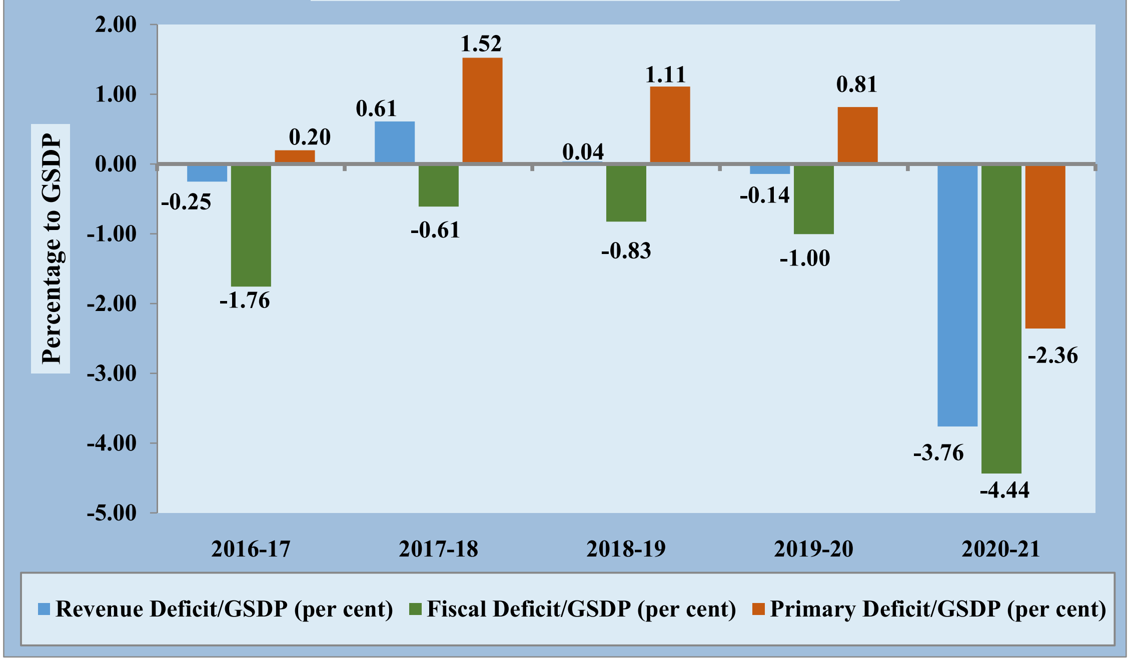
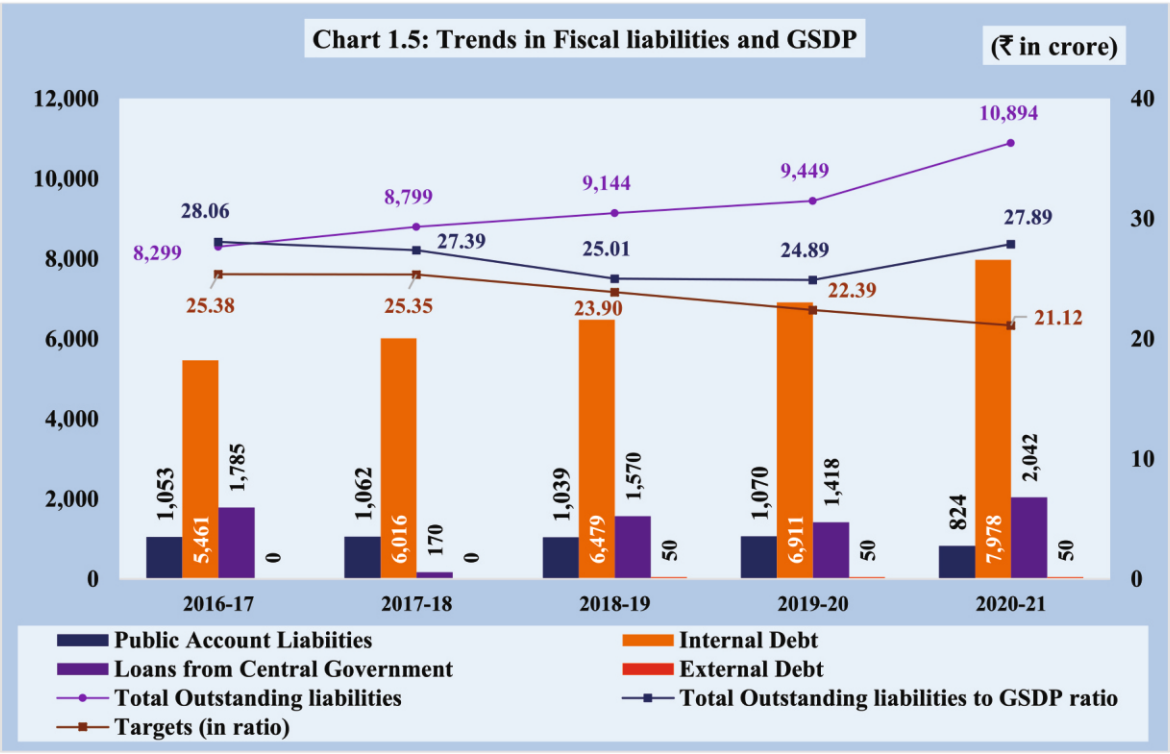


Chart 1.4: Trends in Deficit indicators relative to GSDP





- It could be seen that, though the UT has achieved revenue surplus during 2017-18 and 2018-19, it ended up with revenue deficit during 2019-20 and 2020-21. Though the revenue deficit during 2019-20 was ₹ 55 crore, it increased alarmingly to ₹ 1,370 crore during 2020-21 as against the revenue surplus target of ₹ 100 crore proposed in the FRM. This was mainly due to lower receipt of GST compensation (₹ 255 crore) from Government of India and decrease in Revenue receipts (₹ 891 crore) during 2020-21 and due to increase in Revenue expenditure (₹ 424 crore). Existence of revenue deficit is a cause of concern, as Revenue receipts were not able to meet even Revenue expenditure. Further, part of Capital receipts, which include borrowings, was utilised to meet Revenue expenditure which otherwise could have been utilised for creation of capital assets of productive nature.

- The total liabilities increased from ₹ 8,299 crore in 2016-17 to ₹ 10,894 crore in 2020-21, the ratio of outstanding liabilities to GSDP decreased from 28.06 in 2016-17 to 27.89[1] in 2020-21. The loans and advances from GoI increased from ₹ 1,785 crore in 2016-17 to ₹ 2,042 crore in 2020-21. This was due to release of ₹ 742 crore by the Government of India as back-to-back loan in lieu of GST Compensation shortfall instead of as Grants-in-aid.

1 Calculated excluding the back-to-back loan of ₹ 742 crore received from GoI in lieu of GST compensation shortfall

- The UT was not able to contain the ratio of fiscal deficit to GSDP as envisaged in the FRM during 2020-21. The ratio of fiscal deficit to GSDP during 2020-21 was 4.44 *per cent* as against the target of 0.95 *per cent* contemplated in the FRM and 2.26 *per cent* proposed in the budget as well.

1.6 Deficits and total debt after examination in audit

1.6.1 Post audit - Deficits

In accordance with the Puducherry Consolidated Sinking Fund Scheme, 2009, the UT Government may contribute to the Fund on a modest scale of atleast 0.5 *per cent* of the outstanding liabilities as at the end of the previous year. During the beginning of the financial year 2020-21, the outstanding liabilities stood at ₹ 8,030.64 crore. As such, an amount of ₹ 40.15 crore should have been contributed to the Fund. However, it was seen that only ₹ 15.08 crore has been contributed to the Fund during 2020-21 which resulted in understatement of Revenue/Fiscal deficit to the tune of ₹ 25.07 crore.

1.6.2 Analysis of outstanding debt

The Public Debt comprised of External Debt, Internal Debt, Market loans and Loans and Advances from GoI. The total outstanding liabilities include outstanding Public Debt and outstanding Public Account liabilities.

Analysis of the total outstanding debts/liabilities of the UT Government in terms of (i) debt as a percentage of GSDP and (ii) rate of growth of outstanding Government debts are detailed in **Table 1.6**.

Table 1.6: Total outstanding debts/liabilities

(₹ in crore)

	2016-17	2017-18	2018-19	2019-20	2020-21
Total outstanding debt/liabilities	8,299	8,799	9,137	9,449	10,894
Rate of growth of outstanding debt (in *per cent*)	7.03	6.02	3.84	3.41	15.29
GSDP at current prices	29,573	32,129	36,555	37,959	36,402
Ratio of total outstanding debt to GSDP (in *per cent*)	28.06	27.39	25.00	24.89	27.89*

* Calculated excluding the back-to-back loan of ₹ 742 crore received from GoI in lieu of GST compensation shortfall

(Source: Finance Accounts of the respective years)

- The outstanding debt grew by 15.29 *per cent* over previous year.
- Considering the capital expenditure of only ₹ 240 crore during 2020-21 and the fiscal deficit of ₹ 1,615 crore, it is indicative that the borrowing during the year was utilised for financing the revenue expenditure mainly on interest payments and lower priority accorded to spending on capital assets. To the extent of reduced capital formation, debt acts as 'burden' on future generations.