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

1.1 Introduction

The accounts of the Union Territory (UT) Government are maintained in (i) the Consolidated Fund in which receipts from revenues, loans and recoveries of loans are accounted and expenditure incurred with the authorisation from the Legislature and (ii) the Contingency Fund which is in the nature of an imprest to meet urgent unforeseen expenditure pending authorisation from the Legislature. There was no Public Account for the UT till 16 December 2007. The transactions of UT pertaining to the Public Account were included in the Public Account of the Union Government. The cash balance of the UT was also merged in the general cash balance of the Union Government upto 16 December 2007. Consequent on the creation of separate Public Account for the UT from 17 December 2007 in accordance with the introduction of section 47A of Government of UT Act, 1963, the cash balance has been transferred to the Union Territory Public Account. The transactions relating to 'Debt' (other than those included in Part-I), 'Deposits', 'Advances', 'Remittances' and 'Suspense' are recorded in the Public Account.

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

1.1.1 Summary of receipts and disbursements

Table-1.1 summarises the finances of the UT Government of Puducherry for the year 2007-08 including revenue receipts, revenue expenditure, capital receipts, capital expenditure and Public Accounts receipts and disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table-1.1: Summary of receipts and disbursements for the year 2007-08

(Rupees in crore)

2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
					Non-Plan	Plan	Total
Section-A: Revenue							
1,884	**Revenue receipts**	**2,136**	**1,927**	**Revenue expenditure**	**1,357**	**844**	**2,201**
570	Tax revenue	653	463	General services	468	70	538
550	Non-tax revenue	626	701	Social services	282	569	851
--	Share of Union Taxes/Duties	--	759	Economic services	603	205	808
764	Grants from Government of India	857	4	Grants-in-aid and contributions	4	--	4
Section-B: Capital							
--	**Miscellaneous Capital Receipts**	**--**	**360**	**Capital Outlay**	**7**	**268**	**275**
8	**Recoveries of Loans and Advances**	**12**	**3**	**Loans and Advances disbursed**	**3**	**--**	**3**
444	**Public debt receipts**	**425**	**97**	**Repayment of Public Debt**			**109**
--	**Contingency Fund**	**--**	**--**	**Contingency Fund**			**--**
	Public Accounts Receipts	**898**		**Public Accounts Disbursements**			**214**
244	**Opening Cash Balance**	**193**	**193**	**Closing Cash Balance**			**862**
2,580	**Total**	**3,664**	**2,580**	**Total**			**3,664**

Following are the significant changes during 2007-08 over previous year:

- Revenue receipts grew by Rs 252 crore (13 *per cent*) over previous year. The increase is mainly contributed by tax revenue (Rs 83 crore), non-tax revenue (Rs 76 crore) and grants received from GOI (Rs 93 crore).

- Revenue expenditure increased by Rs 274 crore (14 *per cent*) over previous year mainly due to increase in expenditure on Collection of land revenue (Rs 20 crore), Interest payments (Rs 30 Crore), Pension and other retirement benefits (Rs 16 crore), Medical and Public Health (Rs 23 crore), Housing and Urban Development (Rs 76 crore) and Energy (Rs 57 crore).

- Capital expenditure decreased by Rs 85 crore (24 *per cent*) over previous year mainly due to decrease in expenditure on Water Supply and Sanitation Services (Rs 14 crore), Flood Control Projects (Rs 12 crore) and Industries and Minerals (Rs 55 crore).

- While public debt receipts decreased by Rs 19 crore, repayment of public debts increased by Rs 12 crore.

- Due to transfer of balances under Public Account from Union Account to the Union Territory Account, the receipt and disbursement under Public Account stood at Rs 898 crore and Rs 214 crore respectively during 2007-08.

- Cash balance of UT increased from Rs 193 crore during 2006-07 to Rs 862 crore during 2007-08 due to transfer of accumulated balance relating to Public Account from Union Account to the newly opened Public Account of Union Territory.

Trends in fiscal aggregates

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

Table-1.2: Fiscal position of the UT Government

(Rupees in crore)

2006-07	Sl. No	Major Aggregates	2007-08
1,884	**1.**	**Revenue Receipts (2+3+4)**	**2,136**
570	2.	Tax Revenue	653
550	3.	Non-Tax Revenue	626
764	4.	Other Receipts	857
8	**5.**	**Non-Debt Capital Receipts**	**12**
8	6.	*Of which* Recovery of loans	12
1,892	**7.**	**Total Receipts (1+5)**	**2,148**
1,235	**8.**	**Non-Plan Expenditure**	**1,367**
1,229	9.	On Revenue Account	1,357
187	10.	*Of which* Interest payments	217
4	11.	On Capital Account	7
2	12.	On Loans disbursed	3
1,055	**13.**	**Plan Expenditure**	**1,112**
698	14.	On Revenue Account	844
356	15.	On Capital Account	268
1	16.	On Loans disbursed	--
2,290	17.	**Total Expenditure (13+8)**	**2,479**
(-) 43	18.	Revenue Surplus (+) / Deficit (-) (1-9-14)	(-) 65
(-) 398	19.	Fiscal Surplus (+) / Deficit (-) (17-1-5)	(-) 331
(-) 211	20.	Primary Surplus (+) / Deficit (-) (19-10)	(-) 114

During the current year, revenue receipts increased by 13 *per cent* (Rs 252 crore), revenue expenditure increased by 14 *per cent* (Rs 274 crore) over previous year resulting in an increase of revenue deficit by Rs 22 crore during 2007-08. Given the incremental deficit of Rs 22 crore, increase in non-debt capital receipt by Rs four crore and decrease in capital expenditure by Rs 85 crore, the fiscal deficit decreased by Rs 67 crore. Decrease in fiscal deficit accompanied with an increase of Rs 30 crore in interest payment led to an improvement of Rs 97 crore in primary deficit during 2007-08 over the previous year.

1.2 Audit methodology

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts are analysed wherever necessary over the period from 2002-03 to 2007-08 and observations are made on their behaviour. Assuming that Gross State Domestic Product (GSDP)[1] is the good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices.

Table – 1.3: Trends in growth of GSDP

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07 (P)	2007-08 (QE)
GSDP	4,931	5,439	5,192	6,214	6,401	7,103
Growth rate of GSDP	15.8	10.3	(-) 4.5	19.7	3.0	11.0

Source : Directorate of Economics and Statistics, Government of Puducherry.
P: Provisional; QE: Quick Estimate

The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure, etc., with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure, etc., are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. Audit observations on the Statements of Finance Accounts for the year 2007-08 bring out the trends in the major fiscal aggregates of receipts and expenditure; wherever necessary, they were analysed and are presented in the light of Time series data on Union Territory Government finances **(Appendix 1.2)**, Abstract of Receipts and Disbursements (**Appendix 1.3**), Sources and Applications of funds (**Appendix 1.4**) and Summarised financial position of the UT Government (**Appendix 1.5**). The overall

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

financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1-Part B**.

1.3 Trends and composition of aggregate receipts

The aggregate receipts of the UT Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues and grants-in-aid from the GOI. Capital receipts comprise recoveries of loans and advances given by the Government, loans and advances obtained from GOI and internal debt (market loans and borrowing from financial institutions/commercial banks) as well as accruals from Public Account.

Table-1.4 shows that the total receipts of the UT Government for the year 2007-08 were Rs 3,471 crore. Of these, the revenue receipts were Rs 2,136 crore, constituting 62 *per cent* of the total receipts. The balance came from borrowings under Public Debt (Rs 425 crore : 12 *per cent*), receipts from recovery of loans and advances (Rs 12 crore) and Public Account receipts (Rs 898 crore : 26 *per cent*).

Table 1.4: Trends in Growth and Composition of Aggregate Receipts

(Rupees in crore)

Sources of UT Receipts	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
I Revenue Receipts	**1,185**	**1,303**	**1,631**	**1,802**	**1,884**	**2,136**
II Capital Receipts	**236**	**274**	**354**	**359**	**452**	**437**
Recovery of Loans and Advances	6	6	6	6	8	12
Public Debt Receipts	230	268	348	353	444	425
III Contingency Fund	--	--	--	--	--	--
IV Public Accounts Receipts	**--**	**--**	**--**	**--**	**--**	**898**
a. Small Savings, Provident Fund etc.	--	--	--	--	--	294
b. Reserve Fund	--	--	--	--	--	--
c. Deposits and Advances	--	--	--	--	--	203
d. Suspense and Miscellaneous	--	--	--	--	--	327
e. Remittances	--	--	--	--	--	74
Total Receipts	**1,421**	**1,577**	**1,985**	**2,161**	**2,336**	**3,471**

Total receipts of the UT increased from Rs 1,421 crore in 2002-03 to Rs 3,471 crore in 2007-08. While revenue receipts increased by Rs 252 crore during 2007-08, capital receipts decreased by Rs 15 crore. The debt Capital receipt created future repayment obligation with interest after increasing from Rs 230 crore in 2002-03 to Rs 444 crore in 2006-07, slightly decreased to Rs 425 crore in 2007-08. Separate Public Account was opened with Reserve Bank of India on 17 December 2007 with the cash balance of Rs 324.13 crore being the net credit balance available in the Public Account transactions of the UT Government as of 31 October 2007 settled by GOI. Transactions relating to Public Account were booked from 17 December 2007 including the balances under various heads as of 16 December 2007 as transactions relating to this year. This mainly contributed to the increase in total receipts of the UT during this year.

1.3.1 Revenue receipts

Statement-10 of the Finance Accounts details the revenue receipts of the Government. Revenue receipts consist of its own tax and non-tax revenues and grants-in-aid from GOI. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table-1.5.**

Table-1.5: Revenue receipts - Basic parameters

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue receipts (RR) (Rupees in crore)	1,185	1,303	1,631	1,802	1,884	2,136
Own taxes (*per cent*)	276 (23)	353 (27)	404 (25)	479 (27)	570 (30)	653 (31)
Non-tax revenue (*per cent*)	412 (35)	454 (35)	501 (31)	511 (28)	550 (29)	626 (29)
Grants-in-aid (*per cent*)	497 (42)	496 (38)	726 (44)	812 (45)	764 (41)	857 (40)
Rate of growth of RR (*per cent*)	10.4	10.0	25.2	10.5	4.6	13.4
RR/GSDP (*per cent*)	24	24	31	29	29	30
Revenue buoyancy[2] (ratio)	0.7	1.0	(-) 5.6	0.5	1.5	1.2
State's own taxes buoyancy (ratio)	0.2	2.7	(-) 3.2	0.9	6.3	1.3
Revenue buoyancy with reference to State's own taxes (ratio)	3.5	0.4	1.8	0.6	0.2	0.9
GSDP Growth (*per cent*)	15.8	10.3	(-) 4.5	19.7	3.0	11.0

Figures in bracket indicates percentage to revenue receipts

[2] Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.5 during 2005-06 implies that revenue receipts tend to increase by 0.5 percentage points if the GSDP increases by one *per cent*

General trends

The rate of growth of revenue receipts which had shown a declining trend from 25.2 *per cent in* 2004-05 to 4.6 *per cent* during 2006-07 increased to 13.4 *per cent* during 2007-08 as compared to the revenue receipts of 2006-07. This was due to increase in receipt of its own taxes, non-tax revenue as well as grants-in-aid from GOI. While the share of own taxes in Revenue Receipts increased from 23 *per cent* to 31 *per cent* during 2002-08, the share of non-tax revenue declined from 35 *per cent* to 29 *per cent* during this period. The share of grants from GOI which increased from 42 *per cent* to 45 *per cent* during 2002-06 declined to 40 *per cent* during 2007-08. The revenue buoyancy which was below one during 2002-03 exceeded to one during 2006-08. This indicates that revenue receipt grew faster than GSDP. Revenue buoyancy with reference to UT Governments' own taxes buoyancy was 0.9 during 2007-08. This indicates that growth of own taxes was faster than that of revenue receipts.

Tax revenue

Tax revenue mainly comprises of receipts from Sales Tax (Rs 355 crore – 54 *per cent*), State Excise (Rs 224 crore – 34 *per cent*), Taxes on vehicles (Rs 32 crore – five *per cent*) and Stamp and Registration (Rs 41 crore – seven *per cent*). Tax revenue increased by 14.6 *per cent* (Rs 83 crore) during the current year (Rs 653 crore) over the previous year (Rs 570 crore). The increase was mainly from State Excise (Rs 80 crore) due to introduction of additional excise duty to bring all units under tax network and stamps and registration fees (Rs 10 crore) due to sale of more non-judicial stamps. Counter balance by the decrease of Rs 10 crore from Sales Tax was due to transfer of levy on Indian Made Foreign Liquor to Excise Department and also due to implementation of Value Added Tax. The trends in various components of tax revenue during 2002-08 are given in Paragraph 4.1 of Chapter IV of this Report.

Non-tax revenue

Non-tax revenue is realized from sale of power (Rs 570 crore – 91 *per cent*), interest receipts (Rs 18 crore – three *per cent*), Public Works Department (Rs nine crore - two *per cent*), Medical and Public Health (Rs eight crore – one *per cent*) and other departments (Rs 21 crore – three *per cent*). Non-tax revenue which constituted 29 *per cent* of revenue receipts increased by Rs 76 crore (14 *per cent*) during the current year (Rs 626 crore) over the previous year (Rs 550 crore). The major contribution for increase over previous year is from sale of power (Rs 61.41 crore), interest receipts due to (i) more receipt of interest by investing cash balance in 14 days treasury bills (ii) receipt of interest from Prime Minister's Relief Fund towards waiver of loan given by Fisheries Department (Rs 11.53 crore) and receipt of dividend from Puducherry Power Corporation Limited (Rs 2.56 crore).

Grants-in-aid

Grants-in-aid from GOI increased from Rs 764 crore in 2006-07 to Rs 857 crore during 2007-08. The increase was under UT Plan schemes (Rs 15 crore), Centrally Sponsored Schemes (Rs 39 crore) and non-plan grants (Rs 39 crore). Details of grants-in-aid are given in **Table-1.6**.

Table 1.6: Grants-in-aid from GOI

(Amount – Rupees in crore)

	2002-03	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Grants for UT plan schemes	136	122	132	297	243	258
Non-Plan grants	348	361	578	468	492	531
Grants for Centrally Sponsored Schemes	13	13	16	47	29	68
Total	**497**	**496**	**726**	**812**	**764**	**857**
Percentage of increase (+) /decrease (-) over previous year	(-) 1	(-) 0.2	(+) 46	(+) 12	(-) 6	(+) 12

Grants-in-aid from GOI increased mainly due to receipt of more non-plan grants in lieu of share of central taxes and duties (Rs 44 crore), block grants for plan schemes (Rs 14 crore) and increased grants for Centrally Sponsored Schemes *viz.* Police Modernisation Scheme (Rs 16.51 crore), Tourism Schemes (Rs 9.54 crore), construction of Fishing Harbour at Karaikal (Rs three crore).

Arrears of revenue

Arrears of revenue pending collection which was Rs 142.41 crore in 2006-07 increased to Rs 199.09 crore in 2007-08 (40 *per cent*). These mainly relate to Electricity Department (Rs 113.52 crore), State Excise (Rs 13.23 crore) and Commercial Taxes (Rs 65.80 crore). Of the arrears pending collection by Electricity Department, Rs 32 crore were due from Government institutions and local bodies and Rs 12.80 crore were under litigation. The pendency in State Excise was due to non-payment of fees by the lessees of arrack and toddy shops.

1.4 Application of resources

1.4.1 Growth of expenditure

Statement 11 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The UT raises resources to perform its sovereign functions, to maintain the existing nature of delivery of Social and Economic Services, to extend the network of these services through capital expenditure and investments and to discharge debt service obligations. The total expenditure of the UT which comprises revenue expenditure, capital expenditure and loans and advances increased from Rs 1,304 crore in 2002-03 to Rs 2,479 crore in 2007-08. Total expenditure, its annual growth rate and ratio of expenditure to the GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-1.7.**

Table-1.7: Total expenditure – Basic parameters

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total expenditure (TE) (Rupees in crore)	1,304	1,445	1,771	2,087	2,290	2,479
Rate of Growth (*per cent*)	6.4	10.8	22.6	17.8	9.7	8.3
TE/GSDP Ratio (*per cent*)	26.4	26.6	34.1	33.6	35.8	34.9
RR /TE Ratio (*per cent*)	91	90	92	86	82	86
Buoyancy of total expenditure with reference to :						
GSDP (ratio)	0.4	1.0	(-) 5.0[3]	0.9	3.2	0.8
RR (ratio)	0.6	1.1	0.9	1.7	2.1	0.6

The total expenditure increased at an annual average rate of growth of 18 *per cent* from Rs 1,304 crore in 2002-03 to Rs 2,479 crore in 2007-08. Total expenditure comprises 88.8 *per cent* of revenue expenditure (Rs 2,201 crore), 11.1 *per cent* of capital expenditure (Rs 275 crore) and 0.1 *per cent* of loans and advances (Rs three crore). An increase of Rs 189 crore in 2007-08 was contributed by revenue expenditure (Rs 274 crore) which was partially offset by a decrease of Rs 85 crore in capital expenditure. The increase in revenue expenditure was on account of increased expenditure under interest payment (Rs 30.03 crore), Medical and Public Health (Rs 23.18 crore), Housing (Rs 40.69 crore); Urban Development (Rs 34.87 crore), Social Security and Welfare (Rs 21.74 crore) and Power (Rs 57.26 crore). The increases under these heads were mainly due to payment of interest towards subscription of General Provident Fund and Group Insurance Scheme on account of creation of Public Account for the UT, payment of additional dearness allowance, payment of arrears for medical staff, repair carried out in Government staff quarters, cleaning of urban drains and maintenance of drainage system, purchase of more power and revision of tariff by Neyveli Lignite Corporation Limited. The buoyancy of total expenditure to GSDP which stood at 0.8 in 2007-08 indicates that pace of Government expenditure was lower than the rate of increase in GSDP of the UT.

Against the growth of 91 *per cent* in the revenue expenditure during 2002-08, the capital expenditure grew by 86 *per cent* only. The steady growth of capital expenditure during 2002-07 was retarded during 2007-08 mainly due to less investment in share capital to Pondicherry Industrial Promotion and

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

Development Investment Corporation (Rs 56.50 crore), less expenditure on Flood Control Projects (Rs 15.52 crore) and Water Supply and Sanitation Projects (Rs 13.44 crore). In spite of decrease in plan capital expenditure, the total plan expenditure increased by 5.4 *per cent* against the growth of 10 *per cent* in non-plan expenditure primarily on account of an increase of 21 *per cent* in plan revenue expenditure in 2007-08 relative to the previous year. The revenue receipts constitute 86 *per cent* of total expenditure during 2007-08 indicating that the remaining 14 *per cent* was met from borrowings.

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

Table-1.8: Components of Expenditure – Relative Share

(in *per cent*)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
General Services	20.7	21.1	20.2	19.5	21.7	23.1
Of which interest payments	8.9	9.3	8.6	8.2	8.2	8.8
Social Services	30.7	31.5	36.3	37.2	33.9	36.7
Economic Services	48.0	46.8	43.0	42.9	44.1	39.9
Grants-in-aid	0.2	0.2	0.2	0.2	0.2	0.2
Loans and Advances	0.4	0.4	0.3	0.2	0.1	0.1

The share of expenditure on General Services increased marginally mainly due to payment of interest towards subscription of General Provident Fund, Employees Group Insurance Scheme and Defined Contribution Pension Scheme on account of creation of separate Public Account for the UT and payment of additional dearness relief to pensioners and payment of arrears due to revision of retirement benefits. The share of Economic Services declined from 48 *per cent* to 39.9 *per cent* during 2002-08 whereas the share of Social Services increased from 30.7 *per cent* to 36.7 *per cent* during this period.

1.4.2 Incidence of revenue expenditure

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

Table-1.9: Revenue expenditure: Basic parameters

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Expenditure (RE) (Rupees in crore) *Of which*	1,151	1,294	1,573	1,794	1,927	2,201
Non-plan Revenue Expenditure (NPRE)	879	962	1,142	1,148	1,229	1,357
Plan Revenue Expenditure (PRE)	272	332	431	646	698	844
Rate of Growth (*per cent*)	4.7	12.4	21.6	14.0	7.4	14.2
NPRE	3.0	9.4	18.7	0.5	7.1	10.4
PRE	10.6	22.1	29.8	49.9	8.0	20.9
NPRE/GSDP (*per cent*)	17.8	17.7	22.0	18.5	19.2	19.1
NPRE as *per cent* of TE	67.4	66.6	64.5	55.0	53.7	54.7
NPRE as *per cent* of RR	74.2	73.8	70.0	63.7	65.2	63.5
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	0.3	1.2	(-) 4.7[4]	0.7	2.5	1.3
Revenue Receipts (ratio)	0.5	1.2	0.9	1.3	1.6	1.1

The revenue expenditure increased by 91 *per cent* from Rs 1,151 crore in 2002-03 to Rs 2,201 crore in 2007-08. While NPRE has increased by 54 *per cent* (Rs 1,357 crore) during this period, the PRE increased by 210 *per cent* (Rs 844 crore). The increase of Rs 274 crore in revenue expenditure was contributed by increase of Rs 128 crore in NPRE and Rs 146 crore in PRE. The increase in NPRE during the current year was mainly due to increased expenditure in interest payments (Rs 30.03 crore), increased expenses on purchase of power (Rs 60.22 crore) mainly due to upward revision of tariff by major supplier (Neyveli Lignite Corporation) and payment of pension and other retirement benefits (Rs 15.87 crore). The increase in PRE over previous year was mainly due to increased expenditure on Housing (Rs 46.22 crore), Urban Development (Rs 37.95 crore); Land revenue and operations (Rs 20.56 crore) and Technical Education (Rs 8.13 crore).

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

1.4.3 Committed expenditure

Expenditure on salaries

Table 1.10: Expenditure on salaries

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on salaries (Rupees in crore) *Of which*	281	299	327	364	429	445
Non-plan head	237	249	268	287	326	336
Plan head	44	50	59	77	103	109
As *per cent* of GSDP	5.7	5.5	6.3	5.9	6.7	6.3
As *per cent* of Revenue Receipts	23.7	22.9	20.1	20.2	22.8	20.8

During 2007-08, expenditure on salaries was Rs 445 crore (Non-plan Head - Rs 336 crore; Plan Head - Rs 109 crore). The share of salaries relative to revenue receipts continued to remain around 22 *per cent* during the period 2002-08 and it was 20.8 *per cent* during 2007-08. The expenditure on salaries increased marginally by four *per cent* over previous year (Rs 429 crore in 2006-07).

Pension payments

Table-1.11: Expenditure on pensions

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Pensions (Rupees in crore)	57.24	71.82	77.33	85.68	104.16	120.04
Rate of growth	22.6	25.5	7.7	12.1	20.2	15.2
As *per cent* of GSDP	1.2	1.3	1.5	1.4	1.6	1.7
As *per cent* of RR	4.8	5.5	4.7	4.8	5.5	5.6
As *per cent* of RE	5.0	5.6	4.9	4.8	5.4	5.5

The pension payment increased by 15 *per cent* from Rs 104.16 crore in 2006-07 to Rs 120.04 crore in 2007-08 mainly due to increase in number of pensioners, payment of two instalments of dearness relief to pensioners and revision of retirement benefits due to upgradation of pay scale with retrospective effect.

Interest payments

Table-1.12: Interest payments

Year	Total Revenue Receipts	Total Revenue Expenditure	Interest Payments	Percentage of interest payments with reference to	
	(Rupees in crore)			Revenue Receipts	Revenue Expenditure
2002-03	1,185	1,151	116	9.75	10.04
2003-04	1,303	1,294	134	10.33	10.40
2004-05	1,631	1,573	152	9.37	9.72
2005-06	1,802	1,794	171	9.51	9.55
2006-07	1,884	1,927	187	9.93	9.70
2007-08	2,136	2,201	217	10.16	9.86

Expenditure on interest was mainly on loans from GOI. The rate of interest on plan and non-plan loans from GOI ranged between 10.5 and 11.5 *per cent* in 2002-03. By 2007-08, it had fallen and ranged between 9 and 9.5 *per cent*. As the borrowings from GOI increased from Rs 230 crore during 2002-03 to Rs 425 crore during 2007-08, the interest payments have also gone up steadily. The increase of Rs 30 crore in interest payment during 2007-08 over the previous year was due to payment of interest for loans received for Non-plan schemes, National Small Saving Fund from GOI, payment of interest towards subscription of General Provident Fund, Union Territory Government Employees' Group Insurance Scheme and defined Contribution Pension Scheme on account of separation of Cash Balance.

Subsidies

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

Table-1.13: Subsidies

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2002-03	3.89	87	0.30
2003-04	6.70	72	0.46
2004-05	11.07	65	0.62
2005-06	17.93	63	0.86
2006-07	16.63	(-) 7.3	0.73
2007-08	30.91	86	1.25

The amount indicated in the table represents the expenditure booked under the object head 'Subsidy' under rural housing, welfare of scheduled castes, animal husbandry, fisheries, rural development, village and small industries and civil supplies. The increase of subsidy by Rs 14.28 crore was mainly due to increased subsidy given to scheduled castes for construction of low cost units and houses (Rs 6.92 crore) and "Motivation of entrepreneurs to start village and small industries" (Rs 7.68 crore). Major subsidies on free supply of electricity to small farmers and poor people, supply of rice at subsidised rates to ration card holders, free supply of rice, cloth, etc., made by various departments and cash incentives and subsidies paid to agriculturists were, however, classified in the budget as well as in accounts under 'other charges', or 'grants-in-aid' to agencies implementing the schemes. Since the UT Administration Budget has distinct head only for explicit subsidies, therefore implicit subsidies given on account of the facilities listed above are not counted for and to that extent this resulted in under statement of subsidy given by UT Government.

1.5 Expenditure by allocative priorities

1.5.1 Quality of expenditure

The availability of better social and physical infrastructure in the UT is reflected in its quality of expenditure. The ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing Social and Economic Services determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP, better is quality of expenditure. **Table-1.14** gives these ratios during 2002-08.

Table-1.14 – Indicators of quality of expenditure

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Capital Expenditure	148	146	193	289	360	275
Revenue Expenditure	1,151	1,294	1,573	1,794	1,927	2201
Of which Social and Economic Services with						
(i) Salary and Wage Component	224.72	238.15	258.65	266.41	318.29	333.98
(ii) Non-Salary and Wage Component	674.65	758.19	968.56	1,143.49	1,141.49	1324.91
As *per cent* of Total Expenditure (excluding loans and advances)						
Capital Expenditure	11.4	10.1	10.9	13.9	15.7	11.1
Revenue Expenditure	88.6	89.9	89.1	86.1	84.3	88.9
As *per cent* of GSDP						
Capital Expenditure	3.0	2.7	3.7	4.7	5.6	3.9
Revenue Expenditure	23.3	23.8	30.3	28.9	30.1	31.0

The capital expenditure decreased by Rs 85 crore during 2007-08 (Rs 275 crore) over previous year 2006-07 (Rs 360 crore). Against the increase of 49 *per cent* in Salary and Wage component under Social and Economic Services sectors, there was an increase of 96 *per* cent under the Non-salary and Wage component under these sectors during 2007-08. The Non-salary and Wage component incurred on Social and Economic Services remained dominant throughout the period and constituted an average of about 80 *per cent* of revenue expenditure on Social and Economic Services. These trends indicate that impetus is being given by the UT Government to asset formation and quality of these services.

1.5.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc., have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table-1.15** summarises the expenditure incurred by the UT Government in expanding and strengthening of Social Services during 2002-08.

Table-1.15: Expenditure on Social Services

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
Education, Sports, Art and Culture						
Revenue expenditure	153.22	157.86	177.64	192.80	218.57	241.23
Of which						
(a) Salary and Wage component	104.61	109.30	122.30	126.36	143.43	158.24
(b) Non-salary and Wage component	48.61	48.56	55.34	66.44	75.14	82.99
Capital expenditure	14.69	12.09	16.82	38.69	18.31	18.59
Total expenditure	**167.91**	**169.95**	**194.46**	**231.49**	**236.88**	**259.82**
Health and Family Welfare						
Revenue expenditure	77.90	81.79	93.44	107.83	167.91	190.64
Of which						
(a) Salary and Wage component	49.03	52.66	57.48	64.81	73.68	78.87
(b) Non-salary and Wage component	28.87	29.13	35.96	43.02	94.23	111.77
Capital expenditure	2.15	3.59	8.30	10.51	13.25	14.08
Total expenditure	**80.05**	**85.38**	**101.74**	**118.34**	**181.16**	**204.72**

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Water Supply, Sanitation, Housing and Urban Development						
Revenue expenditure	43.16	55.98	104.09	115.81	99.98	172.84
Of which						
(a) Salary and Wage component	4.85	4.88	5.27	5.43	6.67	6.58
(b) Non-salary and Wage component	38.31	51.10	98.82	110.38	93.31	166.26
Capital expenditure	21.84	27.21	34.25	40.84	38.32	24.42
Total expenditure	**65.00**	**83.19**	**138.34**	**156.65**	**138.30**	**197.26**
Other Social Services						
Revenue expenditure	86.79	115.50	203.80	267.42	214.77	246.26
Of which						
(a) Salary and Wage component	17.02	18.59	16.22	13.77	18.95	19.13
(b) Non-salary and Wage component	69.77	96.91	187.58	253.66	195.82	227.13
Capital expenditure	1.00	0.89	5.00	3.63	5.46	3.37
Total expenditure	**87.79**	**116.39**	**208.80**	**271.05**	**220.23**	**249.63**
Total (Social Services)						
Revenue expenditure	361.07	411.13	578.97	683.86	701.23	850.97
Of which						
(a) Salary and Wage component	175.51	185.43	201.27	210.36	242.73	262.82
(b) Non-salary and Wage component	185.56	225.70	377.70	473.50	458.50	588.15
Capital expenditure	39.68	43.78	64.37	93.67	75.34	60.46
Total expenditure	**400.75**	**454.91**	**643.34**	**777.53**	**776.57**	**911.43**

The expenditure on Social Services increased at an average annual growth rate of 21 *per cent* from Rs 400.75 crore in 2002-03 to Rs 911.43 crore in 2007-08. Expenditure on Social Services during current year accounted for 37 *per cent* of total expenditure and 48 *per cent* of developmental expenditure[5]. Relative to 2006-07, the revenue expenditure under Social Services increased mainly due to increase in non-salary component. This indicates that the major expenditure in this sector was made on welfare schemes. Capital expenditure under Social Services sector increased by 52 *per cent* against the increase of 135 *per cent* recorded in revenue expenditure under this sector during 2002-08. Consequently, the share of revenue expenditure to total expenditure increased from 90 *per cent* to

[5] Developmental expenditure is defined as the total expenditure made on Social and Economic Services

99 *per cent* during 2002-08. The salary and wage component of revenue expenditure, however, decreased from 49 *per cent* to 31 *per cent* during 2002-08. The share of Education, Health, Water Supply, Sanitation, and Housing and Urban Development to the expenditure on Social Services declined from 76 *per cent* during 2002-03 to 71 *per cent* during 2007-08.

1.5.3 Expenditure on Economic Services

Expenditure on Economic Services includes all such expenditure as to promote directly or indirectly, productive capacity within the States' economy. The trend of expenditure under various components of this sector is shown in **Table-1.16**.

Table-1.16: Expenditure on Economic Services Sector

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
Agriculture and Allied Activities						
Revenue expenditure	49.74	56.92	70.59	89.86	100.98	85.91
Of which						
(a) Salary and Wage component	15.51	16.81	18.38	17.89	23.93	24.07
(b) Non-salary and Wage component	34.23	40.11	52.21	71.97	77.05	61.84
Capital expenditure	3.43	2.77	5.84	5.49	18.31	15.35
Total expenditure	**53.17**	**59.69**	**76.43**	**95.35**	**119.29**	**101.27**
Irrigation and Flood Control						
Revenue expenditure	13.94	13.24	18.57	17.70	19.15	17.27
Of which						
(a) Salary and Wage component	6.06	6.35	7.15	4.80	5.42	5.47
(b) Non-salary and Wage component	7.88	6.89	11.42	12.90	13.73	11.80
Capital expenditure	17.31	10.27	23.64	31.99	39.50	29.88
Total expenditure	**31.25**	**23.51**	**42.21**	**49.69**	**58.65**	**47.15**
Power and Energy						
Revenue expenditure	407.98	428.18	448.88	450.57	488.45	545.71
Of which						
(a) Salary and Wage component	15.07	16.09	17.41	18.48	29.20	23.74
(b) Non-salary and Wage component	392.91	412.09	431.47	432.09	459.25	521.97
Capital expenditure	22.04	23.30	25.07	28.62	38.74	44.28
Total expenditure	**430.02**	**451.48**	**473.95**	**479.19**	**527.19**	**589.99**

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Transport						
Revenue expenditure	19.00	23.21	29.00	48.45	44.66	31.33
Of which						
(a) Salary and Wage component	3.99	4.10	4.34	4.53	4.81	5.20
(b) Non-salary and Wage component	15.01	19.11	24.66	43.92	39.85	26.13
Capital expenditure	21.66	22.76	25.59	54.87	56.09	45.96
Total expenditure	**40.66**	**45.97**	**54.59**	**103.32**	**100.75**	**77.29**
Other Economic Services						
Revenue expenditure	47.64	63.66	81.20	119.44	105.31	127.70
Of which						
(a) Salary and Wage component	8.58	9.37	10.10	10.33	12.20	12.67
(b) Non-salary and Wage component	39.06	54.29	71.10	109.11	93.11	115.02
Capital expenditure	23.25	32.51	33.11	48.13	99.05	45.62
Total expenditure	**70.89**	**96.17**	**114.31**	**167.57**	**204.36**	**173.31**
Total (Economic Services)						
Revenue expenditure	538.30	585.21	648.24	726.03	758.55	807.92
Of which						
(a) Salary and Wage component	49.21	52.72	57.38	56.04	75.56	71.16
(b) Non-salary and Wage component	489.09	532.49	590.86	669.99	682.99	736.76
Capital expenditure	87.69	91.61	113.25	169.10	251.69	181.09
Total expenditure	**625.99**	**676.82**	**761.49**	**895.13**	**1,010.24**	**989.01**

The expenditure on Economic Services increased at an average annual growth rate of 9.7 *per cent* from Rs 626 crore in 2002-03 to Rs 989 crore in 2007-08. The expenditure on Economic Services (Rs 989.01 crore) during 2007-08 (**Table-1.16**) accounted for 40 *per cent* of the total expenditure and 52 *per cent* of the development expenditure. Out of total expenditure on Economic Services, 60 *per cent* was spent on Power and Energy.

Contrary to the trend in the Social Services sector, capital expenditure under Economic Services sector grew by 105 *per cent* during 2002-08 against the growth of 50 *per cent* in revenue expenditure. The share of capital expenditure under Economic Services sector increased from 14 *per cent* to 18 *per cent* during 2002-08 whereas the share of revenue expenditure decreased from 86 to 81 *per cent* during the period. Even though the share of revenue expenditure declined, the salary and wage component in revenue expenditure remained at nine *per cent* during 2002-03 as well as 2007-08.

1.5.4 Financial assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the six year period 2002-08 is presented in **Table-1.17.**

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

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Educational Institutions (Aided Schools)	8.75	12.01	10.90	11.54	10.93	12.09
Municipal Corporations and Municipalities	26.89	21.73	19.24	43.26	40.67	19.20
Commune Panchayats	11.49	14.39	8.27	31.11	19.78	10.15
Statutory Boards/Authorities	48.96	61.59	152.43	218.44	151.50	213.93
Co-operatives	9.53	15.44	31.71	25.47	27.78	22.26
Other Institutions*	5.24	6.50	5.59	2.28	9.57	3.80
Total	**110.86**	**131.66**	**228.14**	**332.10**	**260.23**	**281.43**
Assistance as per percentage of Revenue Expenditure	10	10	14	19	14	13

*** Welfare societies and Hindu religious institutions**

The financial assistance extended to local bodies and other institutions increased from Rs 260.23 crore in 2006-07 to Rs 281.43 crore in 2007-08. The decrease in assistance to Municipalities from Rs 40.67 crore in 2006-07 to Rs 19.20 crore in 2007-08 was mainly due to non-release of funds under "Member of Legislative Assembly Local Area Development Scheme". The increase in assistance to Statutory Boards/Authorities by Rs 62.43 crore was mainly due to increased grants released to Pondicherry Slum Clearance Board (Rs 32.68 crore) for implementing Housing and Sanitation Schemes for poor people, Project Implementing Agency (Rs 20.83 crore) for implementing Tsunami Reconstruction Project and Karaikal Planning Authority (Rs 6.76 crore) for implementing their schemes.

1.5.5 Delay in furnishing utilisation certificates

Of the 2,624 utilisation certificates (UC) due in respect of grants and loans aggregating Rs 500.73 crore paid up to March 2007, 1,603 UCs for an aggregate amount of Rs 381.05 crore were not received by March 2008. Details of department-wise break-up of outstanding UCs are given in **Appendix 1.6**.

1.6 Misappropriations, losses, defalcations, etc.

State Government reported 296 cases of misappropriation, defalcation, etc involving Government money amounting to Rs 7.41 crore up to the period March 2008 on which final action was pending. The department-wise break up of pending cases is given in **Appendix 1.7**.

1.7 Assets and liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, Government accounts do capture the financial liabilities of Government and the assets created out of the expenditure incurred. **Appendix 1.5** gives an abstract of such liabilities and the assets as on 31 March 2008, compared with the corresponding position on 31 March 2007. While the liabilities in this Appendix consist mainly of loans and advances from the GOI and receipts from Public Account, the assets comprise mainly the capital outlay and loans and advances given by the UT Government and cash balance. The good financial position of the Government is revealed by the fact that the Government liabilities constitute only 93 *per cent* of the assets. **Appendix 1.2** depicts the time series data on UT Government finances for the period 2002-08.

1.7.1 Incomplete projects

There were 85 incomplete projects which were scheduled for completion before 31 March 2008 on which Rs 129.10 crore of capital expenditure was incurred. The time over-run noticed as of March 2008 on 46 incomplete projects ranged between 26 days to 822 days. In respect of 14 projects, the budgeted cost of Rs 75.55 crore was revised to Rs 105.88 crore due to non-completion of the projects on projected date of completion resulting cost overrun amounting to Rs 30.33 crore in these projects requiring attention of the UT Government.

1.7.2 Investments and returns

As of 31 March 2008, Government had invested Rs 760.91 crore mainly in Government companies and Co-operatives **(Table-1.18)**. The return on this investment was 0.1 to 0.6 *per cent* during 2002-08 while the Government paid interest at the average rate of 8.5 to 11.2 *per cent* on its borrowings during 2002-08.

Table-1.18: Return on investment

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowing	Difference between interest rate and return
	(Rupees in crore)		(*per cent*)		
2002-03	476.59	2.84	0.6	11.2	10.6
2003-04	517.85	2.47	0.5	11.1	10.6
2004-05	554.12	2.79	0.5	10.7	10.2
2005-06	606.98	1.74	0.3	10.2	9.9
2006-07	712.36	1.03	0.1	9.4	9.3
2007-08	760.91	3.68	0.5	8.5	8.0

Government investment of Rs 760.91 crore as of March 2008 comprises of Rs 597.02 crore in 15 Public Sector Undertakings and Rs 163.89 crore in 368

Co-operative Institutions. The UT Government made investment of Rs 48.55 crore during 2007-08. The sectors/companies where major investments were made during 2007-08 included (i) Pondicherry Textiles Corporation (Rs 22.21 crore), (ii) Bharathi Swadeshi Textile Mills Limited (Rs 5.27 crore) and Co-operative Institutions (Rs 16.62 crore).

Of the 12 companies owned by the UT Government involving the investment of Rs 596.91 crore, five companies are profit earning and seven are loss making and three companies declared dividend aggregating Rs 3.67 lakh. The major companies incurring perennial losses include *viz.* Pondicherry Textile Corporation Limited, Bharathi Swadeshi Textile Mills Limited and Pondicherry Tourism Development Corporation Limited which had an accumulated loss of Rs 295.25 crore exceeding their paid up capital of Rs 259.07 crore. Detailed financial results of Government Companies are given in Chapter V of this report.

1.7.3 Loans and advances by UT Government

In addition to investments in Co-operative societies, Corporation and Companies, Government has also been providing loans and advances to many of these institutions/organisations, local bodies, Government servants and others. Total outstanding loans and advances as on 31 March 2008 was Rs 27.82 crore **(Table-1.19).**

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

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Opening balance*	50.82	50.16	44.89	44.06	41.76	36.74
Amount advanced during the year	5.43	4.95	5.46	3.85	3.08	2.68
Amount repaid during the year	5.88	6.22	6.26	6.15	8.11	11.60
Closing balance*	50.37	48.89	44.09	41.76	36.74	27.82
Net addition	(-) 0.45	(-) 1.27	(-) 0.80	(-) 2.30	(-) 5.02	(-) 8.92
Interest received	1.83	1.82	1.97	2.07	5.53	7.94
Interest received as *per cent* to outstanding loans and advances	3.6	3.7	4.5	4.8	14.1	24.6
Average interest rate (in *per cent*) paid on borrowings by UT Government.	11.2	11.1	10.7	10.2	9.4	8.5
Difference between average interest paid and received (*per cent*)	7.6	7.4	6.2	5.4	(-) 4.7	(-) 16.1

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

During the current year, loan was advanced to Co-operative Institutions (Rs 0.12 crore) and to Government servants for House Building, purchase of conveyance and computers (Rs 2.56 crore). The increased recovery during

2007-08 was on account of waiver of loan of Rs 6.15 crore due from fishermen by way of receipt of the dues from Prime Minister's Relief Fund. Similarly interest receipts are also inclusive of Rs 5.74 crore as interest relief from Prime Minister's Relief Fund on the loans outstanding towards Fishermen during the year.

Detailed accounts of loan are kept by the respective Heads of Departments (HODs) who released the loans. Of the ten HODs, five[6] did not give the details of overdue loan and interest thereupon. The amount due for recovery in respect of the remaining five departments was Rs 7.88 crore (Principal: Rs 3.79 crore and Interest: Rs 4.09 crore). Of this Rs 7.65 crore were due from 2005-06 and earlier years.

1.7.4 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances - ordinary and special - from Reserve Bank of India has been put in place.

As there was no Public Account for the UT till 16 December 2007, the cash balance of the UT Government was merged with cash balance of the Union Government. The UT Government opened a separate Public Account from 17 December 2007. GOI settled the net credit balance in various heads of accounts of the UT and the cash balance as of 31 October 2007 aggregating to Rs 324.13 crore was credited to the newly opened Public Account on 17 December 2007. The UT Government had not availed any Ways and Means Advances during 2007-08. The cash balance of the UT has increased mainly due to transfer of accumulated balances relating to Public Account to the newly opened Public Account of the UT.

1.8 Undischarged liabilities

1.8.1 Fiscal liabilities – Public debt and guarantees

There are two sets of liabilities, namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to

[6] Social Welfare, Fisheries, Industries, Local Administration and Civil Supplies

time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of Public Account, include deposits under small savings scheme, provident funds and other deposits. Statement 3 read with Statement 15 of the Finance Accounts show the year end balances under Debt, Deposit and Remittance heads from which the liabilities are worked out.

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

Table-1.20: Fiscal liabilities – Basic parameters

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities (Rupees in crore)	1,113	1,312	1,553	1,820	2,168	2,923
Rate of Growth (*per cent*)	17.8	17.9	18.4	17.2	19.1	34.8
Ratio of Fiscal Liabilities to						
GSDP (*per cent*)	23	24	30	29	34	41
Revenue Receipts (*per cent*)	94	101	95	101	115	137
Own Resources (*per cent*)	162	163	172	184	194	229
Buoyancy of Fiscal Liabilities to						
GSDP (ratio)	1.1	1.7	(-) 4.0[7]	0.9	6.4	3.2
Revenue Receipts (ratio)	1.7	1.8	0.7	1.6	4.2	2.6
Own resources (ratio)	0.9	1.0	1.5	1.8	1.5	2.5

Fiscal liabilities of the UT comprise Consolidated Fund liabilities and Public Account liabilities. Overall fiscal liabilities of the UT increased from Rs 1,113 crore in 2002-03 to Rs 2,923 crore in 2007-08. The Consolidated Fund liabilities (Rs 2,484 crore) comprise of market loan (Rs 337 crore) and loans from GOI (Rs 2,147 crore). The Public Account liabilities (Rs 439 crore) comprise of small savings, provident funds, etc., (Rs 252 crore), Interest bearing obligation (Rs one crore) and non-interest bearing obligations (Rs 186 crore) both containing deposits.

The growth rate of fiscal liabilities was 34.8 *per cent* during 2007-08 over previous year which was due to raising of market loan as well as transfer of balances under General Provident Fund, Insurance and Pension Fund from the Public Account of GOI to the newly opened Public Account of the UT. The ratio of fiscal liabilities to GSDP also increased from 23 *per cent* in 2002-03 to 41 *per cent* in 2007-08. These liabilities stood at 1.37 times of revenue receipts and 2.29 times of the own resources of the UT as at the end of 2007-08.

[7] Negative buoyancy of fiscal liabilities to GSDP is due to decline in the growth rate of GSDP

1.8.2 Status of guarantees – contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. Government of Union Territories has no power to give guarantees on the security of their Consolidated Fund. Guarantees for the purpose of administration of Union Territories were given by Government of India under Article 292 of the Constitution of India. In the event of the guarantees being invoked, the payment will initially be charged to the Consolidated Fund of India and the amount will subsequently be recovered from the Government of the Union Territory. Consequent on the amendment of UT Act on 6 September 2001 and issue of notification by Government of India on 10 May 2006, the Government of Union Territory of Puducherry is empowered to give guarantee. However, the cash balance was settled by GOI only on 17 December 2007. Besides, no law to control the guarantee to be given was enacted by the UT Government. GOI gave guarantees for a maximum amount of Rs 20.98 crore on behalf of UT Administration to Pondicherry Co-operative Central Land Development Bank Limited (Rs 6.48 crore), Pondicherry State Co-operative Housing Federation Limited (Rs 9.50 crore) and Pondicherry Adi-Dravidar Development Corporation Limited (Rs five crore). Statement-5 of the Finance Accounts gives the outstanding guarantees at the end of the year since 2002-03 as shown in **Table-1.21.** No guarantee was invoked during any of the six years.

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

(Rupees in crore)

Year	Outstanding amount of guarantees
2002-03	18.38
2003-04	11.38
2004-05	8.53
2005-06	7.78
2006-07	4.26
2007-08	6.84

1.9 Debt Sustainability

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

A prior condition for debt sustainability is the debt stabilisation in term of debt/GSDP ratio.

1.9.1 Debt stabilisation

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

Table 1.22 : Debt stabilisation : Indicators and Trends

	2003-04	2004-05	2005-06	2006-07	2007-08
Average Interest Rate (*per cent)*	11.1	10.7	10.2	9.4	8.5
GSDP growth (*per cent)*	10.3	(-) 4.5	9.8	10.5	11.0
Interest spread (*per cent)*	(-) 0.8	(-) 15.2	(-) 0.4	1.1	2.5
Outstanding Debt at the beginning of the year (Rs in crore)	1,113	1,312	1,553	1,820	2,168
Quantum Spread (Rs in crore)	(-) 8.9	(-) 199.42	(-) 6.21	20.82	54.20
Primary Deficit (-) / Surplus (+) (Rs in crore)	(-) 2	(+) 19	(-) 108	(-) 211	(-) 114

Table 1.22 reveals that quantum spread together with primary deficit continued to remain negative from 2003-04 to 2007-08 indicating the rising Debt-GSDP ratio which has consistently increased from 24 to 41 *per cent* during this period. The increasing trend in fiscal liabilities to GSDP viewed along with the significantly high Fiscal Deficit-GSDP ratio is cause of concern as it may impair the UT's capacity to sustain debt in the medium to long run.

1.9.2 Sufficiency of non-debt receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. The negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. **Table 1.23** indicates the resource gap as defined for the period 2002-08.

Table 1.23: Incremental revenue receipts and expenditure

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2002-03	112	64	15	79	(+) 33
2003-04	118	123	18	141	(-) 23
2004-05	328	307	19	326	(+) 2
2005-06	171	298	18	316	(-) 145
2006-07	84	187	16	203	(-) 119
2007-08	256	159	30	189	(+) 67

The trends in resource gaps indicate the oscillations between positive and negative magnitudes during the period 2002-08. These oscillations in resource gaps exactly correspond to the trends in fiscal deficit during the period 2002-08. The positive resource gap in the current year was mainly due to steep decline in capital expenditure (Rs 85 crore) on one hand and a sharp increase of Rs 252 crore in incremental revenue receipts in 2007-08 on the other hand in relation to the previous year.

1.9.3 Net availability of funds

Another important indicator of debt sustainability is the net availability of funds after the payment of the principal on account of earlier contracted liabilities and interest. **Table-1.24** below gives the position of the receipt and repayment of loans and advances from GOI and market loan over the last six years.

Table-1.24: Net availability of borrowed funds

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
Internal Debt [8]						
Receipts	--	--	--	--	--	337.00
Repayment (Principal + Interest)	--	--	--	--	--	0.13
Net fund available	--	--	--	--	--	336.87
Net fund available (*per cent*)	--	--	--	--	--	100
Loans and advances from GOI						
Receipts	229.96	268.40	347.54	353.33	443.76	88.04
Repayment (Principal + Interest)	177.06	203.84	259.70	257.40	283.65	320.78
Net fund available	52.90	64.56	87.84	95.93	160.11	(-) 232.74
Net fund available (*per cent*)	23	24	25	27	36	--

[8] Internal Debt represents market loan raised during the year. As Public Account was opened only from 17 December 2007, no market loan was raised during 2002-07.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Total						
Receipts	229.96	268.40	347.54	353.33	443.76	425.04
Repayment (Principal + Interest)	177.06	203.84	259.70	257.40	283.65	320.91
Net fund available	52.90	64.56	87.84	95.93	160.11	104.13
Net fund available (*per cent*)	23	24	25	27	36	24

The debt redemption ratio remained within the range of 73 to 77 *per cent* during the period 2002-08 except in 2006-07 when it declined to 64 *per cent*. In fact, during the current year, internal debt redemption was negligible while the redemption of GOI loans was 265 *per cent* resulting in debt redemption ratio at 76 *per cent* as compared to 64 *per cent* in 2006-07.

1.10 Management of deficits

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 raised are applied are important pointers to its fiscal health.

1.10.1 Trends in Deficits

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

Table-1.25: Fiscal imbalances: Basic parameters

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

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue deficit (RD) (-)/Revenue surplus (+)	(+) 34	(+) 9	(+) 58	(+) 8	(-) 43	(-) 65
Fiscal deficit (FD)	(-) 113	(-) 136	(-) 134	(-) 279	(-) 398	(-) 331
Primary deficit (PD) (-)/ Primary Surplus (+)	(+) 3	(-) 2	(+) 19	(-) 108	(-) 211	(-) 114
RD/GSDP	--	--	--	--	0.7	0.9
FD/GSDP	2.3	2.5	2.6	4.5	6.2	4.7
PD/GSDP	--	negligible	--	1.7	3.3	1.6
RD/FD	--	--	--	--	10.8	19.6

-- indicates surplus

Revenue deficit indicates the excess of revenue expenditure over revenue receipts. It is revealed from the trends in **Table 1.25** that after experiencing revenue surplus for four years (2002-06) although with wide inter year variations, it turned into revenue deficit from 2006-07 which further deteriorated during the current year. The increase of revenue deficit by Rs 22 crore during 2007-08 was due to increase of revenue expenditure by Rs 274 crore against an increase of Rs 252 crore in the revenue receipt. Despite the fact that about 40 *per cent* of the incremental revenue receipts are contributed in the form of grants-in-aid from GOI and State's own resources increased at an average rate of growth of 14 *per cent* in 2007-08 over the previous year; a steep increase in interest payments, increased expenditure under housing, urban development and enhancement in expenses on purchase of power due to upward revision of tariff resulted in increase in revenue deficit during the year.

Even with the increase in revenue deficit in 2007-08, fiscal deficit was reduced by Rs 67 crore relative to previous year mainly on account of a steep fall in capital expenditure by Rs 85 crore (23.6 *per cent*) over the previous year. The decline in fiscal deficit on account of fall in capital expenditure does not seem to be desirable as it tend to reduce the productive capacity of the economy but also adversely affects the asset back up of fiscal liabilities. As proportion to GSDP, fiscal deficit had decreased from 6.2 *per cent* in 2006-07 to 4.7 *per cent* in 2007-08 mainly due to decrease in the fiscal deficit by 17 *per cent* against the growth rate of 11 *per cent* in GSDP. An improvement in fiscal deficit position along with an increase in interest payments by Rs 30 crore led to a decrease of Rs 97 crore in primary deficit during the year.

1.10.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary Deficit into primary revenue deficit[9] and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. After experiencing revenue surplus for four years (2002-06) although with wide inter year variations, revenue account of UT turned into deficit again from the year 2006-07 indicating the fact that some part of borrowed funds are diverted towards current consumption. Moreover, the ratio of RD to FD has also increased to 20 *per cent* in 2007-08 from 11 *per cent* in the previous year indicating 1/5th of the borrowed funds will be used to meet the current consumption requirements of UT Government.

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

Table 1.26: Primary deficit/Surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary Revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Non-debt receipts *vis-à-vis* Primary Revenue expenditure	Primary deficit (-) / surplus (+)
(1)	(2)	(3)	(4)	(5)	(6) (3 + 4 + 5)	(7) (2 - 3)	(8) (2 - 6)
2002-03	1,191	1,035	148	5	1,188	156	(+) 3
2003-04	1,309	1,160	146	5	1,311	149	(-) 2
2004-05	1,637	1,420	193	5	1,618	217	(+) 19
2005-06	1,808	1,623	289	4	1,916	185	(-) 108
2006-07	1,892	1,740	360	3	2,103	152	(-) 211
2007-08	2,148	1,984	275	3	2,262	164	(-) 114

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2002-08 reveals **(Table 1.26)** that non-debt receipts of the UT were enough to meet the primary revenue expenditure thereby generating surplus which increased from Rs 156 crore in 2002-03 to Rs 164 crore in 2007-08 with wide inter year fluctuations. In other words, non-debt receipts of the UT were enough to meet the primary expenditure requirement in the revenue account and some receipts were left to meet the expenditure under the capital account. It was only during 2002-03 and 2004-05, the UT of Puducherry experienced the primary surplus when total non-debt receipts were adequate to meet the total primary expenditure and in the remaining years, it experienced the primary deficit largely on account of increasing capital expenditure.

1.11 Fiscal Ratios

The table on indicators of fiscal health relating to 2007-08 of UT of Puducherry is given below:

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

Fiscal Indicators	2003-04	2004-05	2005-06	2006-07	2007-08
(1)	(2)	(3)	(4)	(5)	(6)
I Resource Mobilisation (in ratio)					
Revenue Receipt/GSDP	24	31	29	29	30
Revenue Buoyancy	1.0	(-) 5.6	0.5	1.5	1.2
Own Tax/GSDP	6.5	7.8	7.8	8.9	9.2
Own Tax buoyancy	2.7	(-) 3.2	0.9	6.3	1.3

(1)	(2)	(3)	(4)	(5)	(6)
II Expenditure Management					
Total Expenditure/GSDP (in ratio)	27	34	34	36	35
Revenue Receipts/ Total Expenditure (in ratio)	90	92	86	82	86
Revenue Expenditure/Total Expenditure (in ratio)	90	89	86	84	89
Revenue Expenditure on Social and Economic Services (Rs in crore)	1,294	1,573	1,794	1,927	2,201
Capital Expenditure/Total Expenditure (in ratio)	10	11	14	16	11
Buoyancy of TE with RR (in ratio)	1.1	0.9	1.7	2.1	0.6
Buoyancy of RE with RR (in ratio)	1.2	0.9	1.3	1.6	1.1
III Management of Fiscal Imbalances					
Revenue deficit (-) /Revenue Surplus (+) (Rs in crore)	(+) 9	(+) 58	(+) 8	(-) 43	(-) 65
Fiscal deficit (Rs in crore)	(-) 136	(-) 134	(-) 279	(-) 398	(-) 331
Primary Deficit (-)/ Primary Surplus (+) (Rs in crore)	(-) 2	(+) 19	(-) 108	(-) 211	(-) 114
Revenue Deficit/Fiscal Deficit (in ratio)	-	-	-	11	20
Quantum spread (Rs in crore)	(-) 8.9	(-) 199.42	(-) 6.21	20.02	54.2
IV Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP (in ratio)	24	30	29	34	41
Fiscal Liabilities/RR (in ratio)	101	95	101	115	137
Buoyancy of FL with RR (in ratio)	1.8	0.7	1.6	4.2	2.6
Buoyancy of FL with Own Receipt (in ratio)	1.0	1.5	1.8	1.5	2.5
Net Funds Available under Public Debt (in percentage)	24	25	27	36	24
V Other Fiscal Health Indicators					
Return on Investment (in percentage)	0.5	0.5	0.3	0.1	0.5
Balance from Current Revenue (Rs in crore)	206	341	310	383	454
Financial Assets/Liabilities (in ratio)	1.23	1.23	1.20	1.15	1.08

The trends in ratio of revenue receipts and UT's own taxes to GSDP indicate the adequacy and accessibility of UT to resources. Revenue receipts comprise not only the tax and non-tax resources of the UT but also the grants from Union Government. The revenue receipts as a ratio to GSDP remained almost static around 30 *per cent* during the last four years (2004-08). The UT's own taxes relative to GSDP, however, improved consistently from 6.5 in 2003-04 to 9.2 in 2007-08.

Various ratios concerning the expenditure management of the UT indicate quality of its expenditure and sustainability of these in relation to its resource mobilisation efforts. The revenue expenditure as a percentage to total expenditure declined from 92 *per cent* in 2004-05 to 84 *per cent* in 2006-07 but it increased to 89 *per cent* in 2007-08. Decreasing reliance on revenue receipts to finance the total expenditure which stood at 86 *per cent* during 2007-08 indicates increasing dependence on borrowed funds. This is also reflected by the increasing ratio of fiscal liabilities to revenue receipts.

A deterioration in revenue deficit accompanied with a steep decline in fiscal and primary deficits and improvement in Balance from Current Revenue during 2007-08 indicates the situation of imbalance in UT's finances.

1.12 Conclusion

The fiscal health of UT of Puducherry viewed in terms of key fiscal parameters – revenue, fiscal and primary deficits – indicated mixed trends during 2007-08 over the previous year. An increase in revenue deficit (Rs 22 crore) was accompanied with a significant improvement in fiscal deficit (Rs 67 crore) as well as primary deficit (Rs 97 crore) during 2007-08 in relation to the previous year. This situation was in fact mainly on account of a steep fall in capital expenditure (Rs 85 crore) over the previous year. The decline in fiscal deficit on account of fall in capital expenditure does not seem to be desirable as it tend to reduce the productive capacity of the economy but also adversely affects the asset back up of fiscal liabilities. Mobilisation of resources by the UT comprising its tax and non-tax revenue as well as recovery of loans and advances could not meet the Non-plan revenue expenditure and the Government was heavily dependent on grants from GOI for meeting both NPRE and PRE requirements during the current year. Within NPRE, salaries, interest and pension payments as well as subsidies consumed little more than half of NPRE during 2007-08. Moreover, the increasing fiscal liabilities accompanied with negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to a situation of unsustainable debt situation in medium to long run unless suitable measures are initiated to compress the Non-plan revenue expenditure and to mobilise the additional resources both through the tax and non-tax sources in ensuing years.