

# **CHAPTER I**

## **FINANCE ACCOUNTS**

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

### 1.1 Introduction

This chapter discusses the financial position of the Union Territory Government, based on the analysis of the information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the Union Territory Government. Some of the terms used in this chapter are described in Appendix 1.

#### EXHIBIT – I

#### SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF THE UNION TERRITORY OF PONDICHERRY AS ON 31 MARCH 2001

As on 31.03.2000	Liabilities	As on 31.03.2001
	<b>Public Debt:</b>	
	Loans and Advances from Central Government	
262.59	Non-plan loans <span style="float: right;">337.74</span>	
433.85	Loans for Union Territory plan schemes <span style="float: right;">465.85</span>	
0.01	Loans for Central plan schemes <span style="float: right;">0.01</span>	
1.90	Loans for Centrally Sponsored schemes <span style="float: right;">1.89</span>	
698.35		805.49
0.50	<b>Contingency Fund</b>	0.50
249.62	<b>Surplus on Government Account :</b>	
	Opening balance brought forward <span style="float: right;">250.73<sup>1</sup></span>	
	Add: Current year's surplus <span style="float: right;">27.66</span>	278.39
<b>948.47</b>		<b>1084.38</b>
As on 31.03.2000	Assets	As on 31.03.2001
	<b>Gross Capital Outlay:</b>	
358.79	Investments in shares of Companies, Corporations, etc., <span style="float: right;">402.71</span>	
514.53	Other Capital Outlay <span style="float: right;">584.58</span>	987.29
	<b>Loans and Advances:</b>	
9.03	Loans to Co-operatives <span style="float: right;">9.11</span>	
31.63	Other Development Loans <span style="float: right;">28.63</span>	
15.15	Loans to Government Servants <span style="float: right;">22.17</span>	59.91
19.34	<b>Cash Balance</b>	37.18
<b>948.47</b>		<b>1084.38</b>

<sup>1</sup> Differs from previous year due to *Pro forma* correction of Capital expenditure booked to Revenue in the previous years : Rs 1.11 crore

**EXHIBIT – II**

**SOURCES AND APPLICATION OF FUNDS**

(Rupees in crore)

<b>1999-2000</b>	<b>Sources</b>	<b>2000-2001</b>
877.48	1. Revenue receipts	946.73
130.11	2. Public debt – Loans and Advances from Government of India	155.40
3.78	3. Recoveries of Loans and Advances	5.44
<b>1011.37</b>	<b>TOTAL</b>	<b>1107.57</b>
<b>1999-2000</b>	<b>Application</b>	<b>2000-2001</b>
845.57	1. Revenue expenditure	919.07
43.00	2. Repayment of loan to Government of India	48.26
9.34	3. Lending for development and other purposes	14.54
103.07	4. Capital expenditure	107.86
10.39	5. Increase in Cash Balance	17.84
<b>1011.37</b>	<b>TOTAL</b>	<b>1107.57</b>

**EXHIBIT-III**  
**ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR**  
**THE YEAR 2000-2001**

**Section-A: Revenue****(Rupees in crore)**

Receipts			Disbursements					
1999-2000		2000-2001	1999-2000		Non-plan	Plan	Total	2000-2001
<b>877.48</b>	<b>I</b>			<b>I</b>				
	Revenue receipts	<b>946.73</b>	<b>845.57</b>	Revenue expenditure-	697.34	221.73	919.07	<b>919.07</b>
260.59	-Tax revenue 291.86			General Services	201.01	7.52	208.53	
218.47	-Non-tax revenue 255.13		196.02	Social Services-	181.22	136.49	317.71	
			302.78	Education, Sports, Arts and Culture	88.55	42.84	131.39	
			131.57	Health and Family Welfare Services	48.18	32.23	80.41	
398.42	-Grants-in-aid and Contributions : 399.74		73.15	Water supply, Sanitation, Housing and Urban Development	9.79	26.05	35.84	
			28.80	Social Welfare and Nutrition	24.81	22.04	46.85	
265.86	Non-Plan 274.93		46.97	Others	9.89	13.33	23.22	
			22.29	Economic Services-	313.09	77.72	390.81	
	Plan:			Agriculture and Allied Activities	13.99	27.36	41.35	
	Union Territory Plan Schemes 115.10		343.95	Energy	268.45	1.77	270.22	
119.85			44.06	Industry and Minerals	5.41	11.10	16.51	
			234.41	Others	25.24	37.49	62.73	
	Central Plan Schemes Nil		19.14	Grants-in-aid and Contributions	2.02	--	2.02	
			46.34	Revenue surplus carried over to Section B				<b>27.66</b>
Nil	Centrally Sponsored Plan Schemes 9.71		2.82					
12.71								
<b>Nil</b>	<b>II</b>			<b>II</b>				
	Revenue deficit carried over to Section B Nil	<b>Nil</b>	<b>31.91</b>					
<b>877.48</b>	<b>TOTAL</b>	<b>946.73</b>	<b>877.48</b>	<b>TOTAL</b>				<b>946.73</b>

**Section-B: Others**

(Rupees in crore)

Receipts			Disbursements					
1999-2000		2000-2001	1999-2000		Non-plan	Plan	Total	2000-2001
8.95	iii Opening Cash balance	19.34	Nil	iii Opening Balance				Nil
Nil	iv Miscellaneous Capital Receipts	Nil	103.07	iv Capital Outlay :	0.76	107.10	107.86	107.86
			7.63	General Services	--	9.38	9.38	
			24.84	Social Services-	--	24.37	24.37	
			8.99	Education, Sports, Arts and culture	--	6.53	6.53	
			13.68	Water supply, Sanitation, Housing and Urban Development	--	15.08	15.08	
			2.17	Others	--	2.76	2.76	
			70.60	Economic Services-	0.76	73.35	74.11	
			16.20	Energy	0.76	19.17	19.93	
			30.46	Industries and Minerals	--	28.86	28.86	
			23.94	Others	--	25.32	25.32	
3.78	v Recoveries of Loans and Advances- -From Government Servants	5.44	9.34	v Loans and advances disbursed				14.54
2.58		3.48	0.10	- Loans for Social Services	--	0.10	0.10	
1.20	-From others	1.96	1.66	- Loans for Economic Services	1.96	1.98	3.94	
31.91	vi Revenue surplus brought down	27.66	7.58	- Loans for Government Servants	10.50	--	10.50	
	vii Public debt receipts-		Nil	vi Revenue deficit brought down				Nil
130.11	Loans and Advances from Central Government	155.40	43.00	vii Repayment of Loans and Advances to Central Government	19.42	28.84	48.26	48.26
65.26	Non-plan	94.57						
64.81	Plan	60.72						
0.04	Centrally Sponsored Schemes	0.11		viii Appropriation to Contingency Fund	--	--	--	Nil
Nil	viii Appropriation to Contingency Fund	Nil	Nil	ix Expenditure from Contingency Fund	--	--	--	Nil
Nil	ix Amount transferred to Contingency Fund	Nil	Nil	x Cash Balance at end				37.18
Nil	x Excess of disbursement over receipt	Nil	19.34					
174.75	<b>TOTAL</b>	207.84	174.75	<b>TOTAL</b>				207.84

### Explanatory notes for Exhibits I, II and III

1. The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts.
2. Government Accounts being mainly on cash basis, the surplus on Government Accounts as shown in Exhibit - I indicates the position on cash basis as opposed to accrual basis in commercial accounting. Consequently, items payable and receivable or items like depreciation or variation in stock figures, etc., do not figure in the accounts.
3. There is no Public Account for the Union Territory. The transactions pertaining to 'Debt' (other than those included in the Consolidated Fund), 'Deposits', 'Advances', 'Remittances' and 'Suspense' are accounted for in the Public Account of the Union Government.
4. The cash balance of the Union Territory Government is merged in the general cash balance of the Government of India (GOI). Though the GOI had decided that from 1 April 1994, the Union Territory of Pondicherry should operate their own account separately and their cash balance of Consolidated Fund, positive or negative, should not form part of the general cash balance of GOI, the separation had not taken effect and the cash balance of Union Territory Government remained merged with the balance of GOI as of 31 March 2001. The balance, adopted here *pro forma* to agree the total receipts with total disbursements, represents the excess of receipts over expenditure in the Union Territory.

EXHIBIT - IV

TIME SERIES DATA ON UNION TERRITORY GOVERNMENT FINANCES

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
<b>Part A. Receipts</b>					
<b>1. Revenue Receipts</b>	<b>502(86)</b>	<b>602(87)</b>	<b>747(86)</b>	<b>877(87)</b>	<b>947(86)</b>
(i) Tax Revenue	193(38)	208(35)	225(30)	261(30)	292(31)
Taxes on Sales, Trade, etc.	123	133	149	171	194
State Excise	44	47	52	61	66
Taxes on vehicles	13	15	16	18	19
Stamps and Registration fees and other taxes	13	13	8	11	13
(ii) Non-tax Revenue	128(26)	132(22)	172(23)	218(25)	255(27)
(iii) Grants-in-aid from Government of India	181(36)	262(43)	350(47)	398(45)	400(42)
<b>2. Miscellaneous Capital Receipts</b>	--	--	--	--	--
<b>3. Total Revenue and Non debt capital receipts (1+2)</b>	<b>502</b>	<b>602</b>	<b>747</b>	<b>877</b>	<b>947</b>
<b>4. Recoveries of Loans and Advances</b>	<b>5</b>	<b>3</b>	<b>8</b>	<b>4</b>	<b>5</b>
<b>5. Public Debt Receipts</b>	<b>74(13)</b>	<b>85(12)</b>	<b>110(13)</b>	<b>130(13)</b>	<b>155(14)</b>
Loans and Advances from Government of India	74	85	110	130	155
<b>6. Total receipts in the Consolidated Fund (3+4+5)</b>	<b>581</b>	<b>690</b>	<b>865</b>	<b>1011</b>	<b>1107</b>
<b>7. Total receipts of the Union Territory</b>	<b>581</b>	<b>690</b>	<b>865</b>	<b>1011</b>	<b>1107</b>
<b>Part B. Expenditure/Disbursement</b>					
<b>8. Revenue Expenditure</b>	<b>454(79)</b>	<b>564(82)</b>	<b>689(80)</b>	<b>845(84)</b>	<b>919(84)</b>
Plan	115(25)	131(23)	157(23)	207(24)	222(24)
Non-plan	339(75)	433(77)	532(77)	638(76)	697(76)
General Services (including interest payments)	96	138	174	196	208
Social Services	173	209	247	302	318
Economic Services	181	208	261	344	391
Grants-in-aid and contributions	4	9	7	3	2
<b>9. Capital Expenditure</b>	<b>87(15)</b>	<b>93(13)</b>	<b>110(13)</b>	<b>103(10)</b>	<b>108(10)</b>
Plan	85(98)	90(97)	110(100)	105(100)	107(99)
Non-plan	2(2)	3(3)	\$	(-2)	1(1)
General Services	4	4	7	8	10
Social Services	9	9	17	25	24
Economic Services	74	80	86	70	74
<b>10. Disbursement of Loans and Advances</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>10</b>	<b>14</b>
<b>11. Total (8+9+10)</b>	<b>552</b>	<b>668</b>	<b>810</b>	<b>958</b>	<b>1041</b>
<b>12. Repayments of Public Debt</b>	<b>23(4)</b>	<b>24(3)</b>	<b>47(5)</b>	<b>43(4)</b>	<b>48(4)</b>
Loans and Advances from Government of India	23	24	47	43	48
<b>13. Total disbursement out of Consolidated Fund (11+12)</b>	<b>575</b>	<b>692</b>	<b>857</b>	<b>1001</b>	<b>1089</b>
<b>14. Total disbursement by the Union Territory</b>	<b>575</b>	<b>692</b>	<b>857</b>	<b>1001</b>	<b>1089</b>
<b>Part C. Deficit/Surplus</b>					
<b>15. Revenue surplus(1-8)</b>	<b>48</b>	<b>38</b>	<b>58</b>	<b>32</b>	<b>28</b>
<b>16. Fiscal deficit (3+4-11)</b>	<b>45</b>	<b>63</b>	<b>55</b>	<b>77</b>	<b>89</b>
<b>Part D. Other data</b>					
17. Interest payments (included in revenue expenditure)	39	52	78	75	86
18. Arrears of revenue (Percentage on Tax and Non-tax Revenue Receipts)	41(13)	46(14)	59(15)	64(13)	68(12)
19. Financial assistance to local bodies, etc.,	46	62	62	79	87
20. Outstanding debt (year end)	487	548	611	698	805
21. Outstanding guarantees (year end)	14	15	15	21	22
22. Maximum amount guaranteed (year end)	21	23	21	28	31
23. Number of incomplete projects @		35	24	24	32
24. Capital blocked in incomplete projects @		27	23	22	30

Note : Figures in brackets represent percentages to total of each sub-heading

\$ : Rs 5,16,046

@ : Compiled only from 1997-98

## **1.2 Financial position of the Union Territory**

Government Accounts are mainly on cash basis as opposed to accrual basis in commercial accounting. However, the Government Accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. Exhibit - I gives an abstract of such liabilities and the assets as on 31 March 2001 compared with the corresponding position on 31 March 2000. While the liabilities in this statement consist mainly of loans and advances from the GOI, the assets comprise mainly the capital outlay, loans and advances given by the Union Territory (UT) Government and the cash balance. It would be seen from Exhibit - I that the liabilities grew by 15.3 *per cent*, while the assets grew by 14.3 *per cent* during 2000-2001, mainly due to assets created out of grants from GOI.

## **1.3 Sources and application of funds**

**1.3.1** Exhibit - II gives the position of sources and application of funds during the current and the preceding year. The main sources of funds include the revenue receipts of the Government, recoveries of loans and advances and public debt. These are applied mainly on revenue and capital expenditure and lending for developmental purposes. The revenue receipts constitute the most significant source of funds for the Government and their relative share decreased marginally from 86.8 *per cent* in 1999-2000 to 85.5 *per cent* during 2000-2001. The receipts from the public debt increased from 12.9 *per cent* in 1999-2000 to 14 *per cent* during 2000-2001 and the receipts from recoveries of loans and advances given for developmental purposes increased marginally from 0.4 *per cent* to 0.5 *per cent*.

**1.3.2** The funds were mainly applied for revenue expenditure, whose share in the total expenditure remained static at 84 *per cent* in 1999-2000 and 2000-2001. The share of capital expenditure declined marginally from 10.3 to 9.9 *per cent*, while that of repayment of loan and lending for developmental purposes increased marginally from 4.3 to 4.4 *per cent* and 1 to 1.3 *per cent* respectively.

## **1.4 Financial operations of the Union Territory Government**

**1.4.1** Exhibit - III gives the details of the receipts and disbursements made by the Government. The revenue receipts (Rs 947 crore) during the year was more than the revenue expenditure (Rs 919 crore) resulting in a revenue

surplus of Rs 28 crore. The revenue receipts comprised tax revenue (Rs 292 crore), non-tax revenue (Rs 255 crore) and grants-in-aid from the Central Government (Rs 400 crore). The main sources of tax revenue were Taxes on Sales, Trade, etc., (66 *per cent*), state excise (23 *per cent*) and taxes on vehicles (7 *per cent*). Ninety four *per cent* of non-tax revenue was from sale of power by Electricity Department (Rs 238.79 crore). To realise this revenue, the department incurred an expenditure of Rs 270.12 crore.

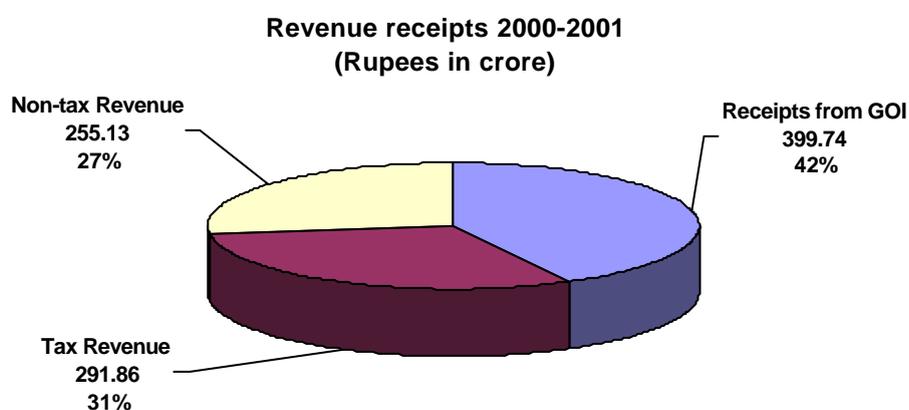
**1.4.2** The capital receipts comprised Rs 155 crore from public debt and Rs 5 crore from recoveries of loans and advances. Against this, the expenditure was Rs 108 crore on capital outlay, Rs 14 crore on disbursement of loans and advances and Rs 48 crore on repayment of public debt. The excess expenditure was met from the revenue surplus of Rs 28 crore. There is no Public Account for the UT Government and the net effect of the transactions in the Consolidated Fund and Contingency Fund was an increase in the cash balance from Rs 19.34 crore at the beginning of the year to Rs 37.18 crore at the end of the year. The cash balance would have been only Rs 19.71 crore had the Government cleared the balances under the suspense heads as discussed in Paragraph 1.11(ii) and (iii).

**1.4.3** The financial operations of the Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in Exhibit - III and the time series data for the five year period from 1996-97 to 2000-2001 presented in Exhibit - IV.

## 1.5 Revenue receipts

**1.5.1** The revenue receipts consist of tax and non-tax revenue and receipts from GOI. Their relative shares are shown in Figure 1. The revenue receipts grew at an average annual rate of 22 *per cent* during 1996-97 to 2000-2001. The increase in 2000-2001 compared to 1999-2000 was 8 *per cent*.

**Figure 1**



### **1.5.2 Tax revenue**

The share of tax revenue in revenue receipts increased to 31 *per cent* in 2000-2001, compared to 30 *per cent* in 1999-2000. The rate of growth of the tax revenue, which increased from 8 *per cent* in 1998-99 to 16 *per cent* in 1999-2000, declined to 12 *per cent* in 2000-2001. The increase in tax revenue during 2000-2001 was due to increase in Taxes on Sales, Trade, etc. (13 *per cent*), state excise (8 *per cent*) and taxes on vehicles (9 *per cent*) over the previous year.

### **1.5.3 Non-tax revenue**

The share of non-tax revenue in the revenue receipts of the Government declined from 26 *per cent* in 1996-97 to 22 *per cent* in 1997-98 and steadily increased thereafter and stood at 27 *per cent* during the current year.

### **1.5.4 Grants-in-aid from the Central Government**

These constitute the major share of the revenue receipts and have increased significantly from 36 *per cent* in 1996-97 to 47 *per cent* in 1998-99 and declined to 42 *per cent* in 2000-2001. Out of the grant of Rs 407.74 crore received from GOI during 2000-2001, only Rs 399.74 crore was shown as receipt in Government Account. The Government transferred Rs 8 crore received for implementing Centrally Sponsored Schemes to the 'Deposit' head thereby understating the grants received to that extent. It was seen that 69 *per cent* of the grant received from GOI was to cover non-plan deficit and the Government obtained a grant of Rs 274.93 crore to cover non-plan deficit during 2000-2001, against the budgeted deficit of Rs 245.45 crore. The actual deficit was, however, Rs 150.35 crore only.

## **1.6 Revenue expenditure**

**1.6.1** Revenue expenditure accounted for most (84 *per cent*) of the expenditure of the Government and had increased by 9 *per cent* during 2000-2001, over the previous year. This does not include the expenditure met from suspense heads as discussed in Paragraph 1.11(ii) and (iii). Of the total expenditure, the non-plan revenue expenditure accounted for 76 *per cent*. Trend analysis shows that the growth in non-plan component was 106 *per cent* while the growth in plan expenditure was 93 *per cent*, in the five year period 1996-2001.

**1.6.2** Sector-wise analysis shows that while the expenditure on General Services increased by 117 *per cent* (from Rs 96 crore in 1996-97 to Rs 208 crore in 2000-2001), the corresponding increases in expenditure on Social Services and Economic Services were only 84 and 116 *per cent*

respectively. As a proportion of total expenditure, the share of General Services increased from 21 *per cent* in 1996-97 to 23 *per cent* in 2000-2001. The share of Economic Services increased from 41 *per cent* in 1999-2000 to 43 *per cent* in 2000-2001 whereas the share of Social Services decreased from 36 *per cent* in 1999-2000 to 35 *per cent* during 2000-2001.

**1.6.3** The Revenue-Non-plan expenditure includes Rs 4.49 crore which was actually incurred for Capital-Plan works. The case has been discussed in detail in Paragraph 4.1. Similarly, Revenue-Plan expenditure includes Rs 1.30 crore paid as grant to Pondicherry Textile Corporation Limited (PTC) for sanctioning Natural Calamity advance to its employees. As the terms and conditions of grant stipulated that the amount was repayable to Government, the amount was to have been classified only as loan assistance and not grant.

#### **1.6.4 Interest payments**

Interest payments increased by 121 *per cent* from Rs 39 crore in 1996-97 to Rs 86 crore in 2000-2001. The increase was mainly due to 109 *per cent* increase in loans and advances from GOI during this period.

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

The quantum of assistance by way of grants provided to different local bodies, etc., during the period of five years ending 2000-2001 was as follows:

	(Rupees in crore)				
	1996-97	1997-98	1998-99	1999-2000	2000-2001
Private Educational Institutions	3.34	4.80	5.41	6.58	5.63
Municipalities	6.66	7.22	8.96	11.41	15.06
Commune Panchayats	5.79	8.87	6.74	8.43	9.75
Statutory Boards/Authorities	22.21	30.73	32.09	39.55	39.77
Other Institutions					
(i) Co-operative Institutions	6.58	6.67	8.22	11.13	14.15
(ii) Others	1.31	3.71	0.94	1.56	2.35
Total	45.89	62.00	62.36	78.66	86.71
Percentage of growth over previous year	41	35	0	26	10
Assistance as a percentage of revenue expenditure	10	11	9	9	9

The amount of assistance to the local bodies, statutory boards and others increased from Rs 45.89 crore in 1996-97 to Rs 86.71 crore in 2000-2001 (an increase of 89 *per cent*).

#### **1.6.6 Loans and advances by the Union Territory Government**

The Government gives loans and advances to Government companies, corporations, local bodies, autonomous bodies, co-operatives, etc., for

developmental and non-developmental activities. It also disburses loans to Government servants for construction of houses, purchase of vehicles, etc. The position for the last five years given below shows that there was no improvement in recovery as a result of which the closing balance increased every year.

	(Rupees in crore)				
	1996-97	1997-98	1998-99	1999-2000	2000-2001
Opening Balance	38.08	44.11	52.40	50.25 <sup>2</sup>	50.81 <sup>3</sup>
Amount advanced during the year	11.13	11.33	11.17	9.34	14.54
Amount recovered during the year	5.10	3.04	8.32	3.78	5.44
Closing Balance	44.11	52.40	55.25	55.81	59.91
Net addition	6.03	8.29	2.85	5.56	9.10
Interest received	1.07	1.17	1.33	1.46	1.23

The reduced interest receipt during 2000-2001 was due to arrears in payment by co-operative societies.

The Departmental Officers, who maintain detailed accounts for loans, are to furnish particulars of arrears in recovery of loan to Director of Accounts and Treasuries (DAT). While nine Heads of Department had not furnished the information, the details furnished by the remaining three Heads of Department revealed that out of Rs 4.14 crore pending collection (Principal : Rs 3.63 crore and Interest : Rs 0.51 crore), Rs 1.34 crore related to 1998-99 and earlier years.

Test-check of the records of Local Administration and Industries Departments revealed the following:

(a) *Local Administration Department*

This department sanctioned loans to Municipalities and Commune Panchayats for purchase of vehicles, construction of buildings for remunerative enterprises etc. The Finance Accounts revealed a balance of Rs 2.27 crore pending recovery as of March 2001 from the local bodies. It was seen that the department, instead of drawing the bills for payment of such loan, permitted the local bodies to present the bill to DAT with counter-signature of a designated Officer. The local bodies remit the instalment due with interest direct to Government account. The department maintains the loan ledger by obtaining information, regarding drawal of loan and repayment made, from the local bodies concerned and this ledger was not in complete shape. Though the balance of loan pending recovery as per this ledger did not agree with the balance as per Finance Accounts communicated by DAT, the department furnished the certificate accepting the balance as of March 2001 to DAT. Further, due to improper

2 Differs from previous year due to *Pro forma* correction

3 Differs from previous year due to *Pro forma* dropping of Rs 5 crore loan converted as share capital

maintenance of the ledger, the department failed to claim penal interest as per the terms and conditions of loans in respect of belated repayments and accepted the interest calculated and paid by the local bodies. Test-check revealed short collection of penal interest of Rs 0.65 lakh in respect of three loans amounting to Rs 6 lakh paid to Karaikal Municipality (Rs 2 lakh) and Mannadipet Commune Panchayat (Rs 4 lakh).

(b) *Industries Department*

Of the balance of loan pending recovery from the loanees as of March 2001, Rs 18.30 crore related to loans sanctioned by this department. The pendency was mainly due to non-recovery of loans paid to Village and Small Scale Industries (Rs 0.05 crore) for which the department maintained loan ledger and short term loans paid to PTC (Rs 14.85 crore) and Pondicherry Tourism and Transport Development Corporation Limited (Rs 3.40 crore). It was seen that though Government ordered conversion of short term loan of Rs 4 crore paid to PTC as share capital as early as in August 1996, the department failed to obtain Legislative approval for the conversion and effect necessary adjustment in the Finance Accounts. Further, Government, while converting various short term loans paid to PTC as share capital, ordered that the interest due from the company be treated as interest free loan. But the department failed to calculate the interest due from the company for treating the dues as loan in the Government Accounts. The department also failed to maintain any ledger for the loans paid to these industries and hence did not furnish the acceptance certificate for the balance of loan pending recovery as of March 2001 to DAT.

Thus, there was no system for watching the recovery of loans paid to local bodies by the Local Administration Department and the Industries Department failed to maintain proper records for watching the recovery of loans paid by Government.

## **1.7 Capital expenditure**

Capital expenditure includes expenditure on creation of assets, investment in institutions or undertakings outside Government (Public Sector Undertakings, Corporations, etc.), extending loans and advances and repayment of loan to GOI. The capital expenditure which declined by 7 per cent during 1999-2000 over the previous year had increased by 10 per cent during 2000-2001. Repayment of loans to GOI constituted 28 per cent of the capital expenditure including loans and advances. Exhibit - IV shows that while the share of capital outlay on Social Services slightly declined during 2000-2001, the share of capital

outlay on General and Economic Services marginally increased during 2000-2001 compared to the previous year.

## 1.8 Quality of expenditure

**1.8.1** Government spends money for different activities ranging from maintenance of law and order, regulatory functions and various developmental activities. Government expenditure is broadly classified into plan and non-plan and revenue and capital. While the capital expenditure and plan expenditure under revenue are usually associated with asset creation and welfare activities, the non-plan component under revenue expenditure is identified with expenditure on establishment, maintenance and services. By definition, therefore, in general the plan and capital expenditure can be viewed as contributions to the quality of expenditure. Increase in the expenditure on General Services, which is mainly non-plan, to the detriment of Economic and Social Services and funds blocked in incomplete projects would affect the quality of expenditure, in terms of benefits provided.

**1.8.2** The following table lists out the trend in these indicators :

	1996-97	1997-98	1998-99	1999-2000	2000-2001
1. Plan expenditure as a percentage of total expenditure**	35	32	31	31	30
2. Capital expenditure excluding loans as a percentage of total expenditure**	15	13	13	10	10
3. Expenditure on General Services as a percentage of total expenditure**	17	21	21	20	20
4. Amount of wastage and diversion of funds reported in Audit Reports (Rupees in crore)	0.35	4.38	7.92	20.98	16.13
5. Amount blocked up due to non-completion of works detected during test audit (Rupees in crore)	2.62	1.59	1.23	4.21	1.66
6. Non-remunerative expenditure on incomplete projects (Rupees in crore)##	@	27.22	22.90	22.28	30.34
7. Amount booked as expenditure but not spent during the year (Rupees in crore)	3.66	0.70	3.88	1.93	2.29

\*\* Total expenditure represents total disbursement out of Consolidated Fund

@ Compiled only from 1997-98

## Represents cumulative expenditure on incomplete projects to the end of the year

It would be seen that the share of capital expenditure has been declining while the expenditure on General Services has been on the increase upto 1998-99 and declined thereafter marginally. The table also shows that substantial amounts remained blocked in incomplete projects and a significant amount of expenditure booked every year did not actually take

place, in addition to the substantial amounts of wastage and diversion of funds brought out in the Audit Reports. This, in turn, affected the quality of expenditure incurred by the Government.

## 1.9 Financial management

The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this report deal extensively with these issues especially as they relate to the expenditure management in the Government, based on the findings of test audit. Some other parameters which can be segregated from the accounts and other related financial information of the Government are discussed in this section.

### 1.9.1 Investments and returns

Investments are made out of the capital outlay by the Government to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as under:

**(Rupees in crore)**

Sector	Number	Amount invested	
		As on 31.3.2001	During 2000-2001
Government companies	11	336.23	26.52
Co-operative institutions	347	66.48	9.59
<b>Total</b>	<b>358</b>	<b>402.71</b>	<b>36.11</b>

The details of investments and the returns realised during the last five years by way of dividend and interest were as follows:

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowing (per cent per annum)
	(Rupees in crore)			
1996-97	196.51	0.83	0.40	13
1997-98	250.58	0.50	0.20	13
1998-99	313.44	0.54	0.20	12.5
1999-2000	358.79	0.65	0.20	12.5
2000-2001	402.71*	0.23	0.05	12.5

\* Includes Rs 7.80 crore due to *Pro forma* corrections and actual investment based on share certificates

While the Government was raising high cost borrowings from GOI, its investments in Government companies etc., fetched insignificant returns. The working results of eleven Government companies (discussed in detail in

Chapter VII) revealed that ten out of eleven companies with a total investment of Rs 329.90 crore did not pay any dividend during 2000-2001; seven of these companies did not declare any dividend during the past eight to ten years.

### 1.9.2 Incomplete projects

As of 31 March 2001, there were 32 incomplete projects in which Rs 30.34 crore were blocked.

### 1.9.3 Arrears of revenue

According to information collected from various Government departments, the arrears of revenue pending collection which stood at Rs 41 crore in 1996-97 increased to Rs 68 crore in 2000-2001. The percentage of arrears to tax and non-tax revenue receipts decreased marginally from 13 *per cent* in 1996-97 to 12 *per cent* during 2000-2001. The arrears mainly related to Electricity, State Excise and Transport Departments as discussed in Chapter VI of this report. The overall deterioration in the position of arrears of revenue showed a slackening of efforts on revenue collection by the Government.

### 1.9.4 Deficit/Surplus

1.9.4.1 Deficit/Surplus in Government account represent gap between the receipts and expenditure. The nature of deficit is an important indicator of the prudence of financial management in the Government. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers of the fiscal prudence of the Government. The discussion in this section relates to two concepts of deficit *viz.*, Revenue Deficit and Fiscal Deficit.

1.9.4.2 The Revenue Surplus/Deficit is the gap between the revenue receipts and the revenue expenditure. The Fiscal Deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received). The following exhibit gives a break-up of the deficit in Government Account.

(Rupees in crore)

Consolidated Fund				
Receipt	Amount		Disbursement	Amount
Revenue	947	Revenue surplus : 28	Revenue	919
Miscellaneous Capital receipts	Nil		Capital	108
Recovery of loans and advances	5		Loans and advances disbursed	14
Sub total	952	Gross Fiscal deficit : 89	Sub total	1041
Public debt	155		Public debt repayment	48
<b>Total</b>	<b>1107</b>	<b>Surplus in Consolidated Fund : 18</b>		<b>1089</b>

The table shows that there was a Revenue Surplus of Rs 28 crore in 2000-2001. The surplus was mainly due to excess release of grants-in-aid by GOI over and above the actual revenue gap. The capital expenditure of Rs 170 crore was financed partly by the Revenue Surplus and partly by the Public debt (loans and advances from GOI). Exhibit - IV reveals that the Revenue Surplus decreased from Rs 48 crore to Rs 28 crore, and the Fiscal Deficit increased from Rs 45 crore in 1996-97 to Rs 89 crore in 2000-2001.

### 1.9.5 Guarantees given by the Government of India

The Government of Union Territories Act, 1963 does not empower the UT Governments to give guarantees; the guarantees for the purpose of administration of the Union Territories are given by the GOI under Article 292 of the Constitution. In the event of any guarantee being invoked, the payment is made initially by the GOI and subsequently recovered from the UT. Under this arrangement, the GOI had guaranteed, as on 31 March 2001, the repayment of loans and debentures upto a maximum of Rs 31 crore and payment of interest thereon on behalf of four Co-operative institutions and one Government Company<sup>4</sup>. The contingent liability on account of the guarantees stood at Rs 22.38 crore (Principal : Rs 21.76 crore; Interest: Rs 0.62 crore) as on 31 March 2001. No guarantee was invoked during the year.

## 1.10 Public debt

The Government of Pondicherry is not empowered to raise loans in open market. The Public debt of the Government consists of only loans and advances from GOI.

The amount of funds raised through Public debt, the amount of repayment and net funds available are given in the following table:

	(Rupees in crore)				
	1996-97	1997-98	1998-99	1999-2000	2000-2001
Loans and advances from GOI :					
- Receipt during the year	73.78	84.94	110.03	130.11	155.40
- Repayment	23.44	23.87	46.81	43.00	48.26
Net funds available	50.34	61.07	63.22	87.11	107.14
(per cent)	(68)	(72)	(57)	(67)	(69)
Outstanding debt	486.96	548.03	611.25	698.35	805.49

<sup>4</sup> Pondicherry Co-operative Central Land Development Bank Limited, Pondicherry Co-operative Milk Producers' Union Limited, Pondicherry State Co-operative Housing Federation Limited, Jayaprakash Narayan Co-operative Spinning Mills Limited, Karaikal and Pondicherry Adidraavidar Development Corporation Limited

The net available funds for investments and other expenditure was 69 *per cent* of the loans and advances received. However, the outstanding debt has been on the rise over the last five years, leading to increase in debt burden.

### **1.11 Public Account transactions**

The UT Government has no separate Public Account and such transactions are made under the 'Public Account' of the Union Government. A perusal of such transactions in the Public Account (Central) prepared by the DAT revealed the following:

(i) *Pay and Accounts Office Suspense Account*

This account pertains to the expenditure incurred on payment of pension of other State pensioners, Defence and Central Government pensioners and National Highways works. The balance under this head is cleared as and when reimbursement is made by the department/Government concerned. As of March 2001, Rs 3.57 crore was pending clearance of which Rs 0.63 crore related to expenditure incurred during 1984-85 to 1997-98. Further, Rs 0.74 crore related to expenditure incurred on National Highways works which was not settled by the Ministry of Surface Transport for want of audit certificates, stamped vouchers, budget allocation, etc.

(ii) *Other Suspense heads*

The suspense heads 'Cash Settlement Suspense Account', 'Departmental Adjusting Account (Suspense)' and 'Material Purchase Settlement Suspense Account' are operated to temporarily book the expenditure of the Government and cleared after providing necessary funds under the final head. Normally, the balances under these heads are to be cleared in the same year so that the expenditure incurred during the year is reflected in the Accounts of the Government. It was seen that there was a balance of Rs 7.90 crore under these suspense heads pending clearance as of March 2001 for want of funds under the respective final heads.

(iii) *8674 – Security deposits made by Government*

According to the List of Major and Minor Heads, 'Security Deposits' made by Government departments to higher courts to obtain stay order on the decree awarded by lower courts and to statutory organisations like Electricity Board, Corporations, Municipalities, etc., are to be recorded under this head. The departments, however, operated this head for booking expenditure for payment of land acquisition compensation to land

acquisition officers for eventual clearance by providing funds under relevant grants and there was a balance of Rs 9.57 crore as of March 2001.