and Unions which may agree to integrate with the rest of India on "federal" financial matters. The point is, therefore, one which, we suggest, the Government should decide as a question of general policy.

V.—ALLOCATION OF ASSETS AND LIABILITIES

Capital Assets and Liabilities

22. As regards the allocation of *Capital* Assets, both productive and non-productive, together with the *connected* liabilities, we have little to add to what we have already stated by way of governing principles in paragraph 11 *supra*. Their practical application will have results as illustrated below by reference to the position as it was on 31st July 1948, *i.e.*, at the end of the State's financial year 1947-48.

23. All *unproductive* specific Capital Assets connected with the various "Central" functions and departments dealt with in Section IV of this Report should be taken over by the Central Government. These assets will consist mainly of lands, buildings, aerodromes, aviation works, laboratories, apparatus, appliances, furniture, office equipment and appliances, stocks of stationery and forms, etc. in use on the date of the merger in the various "Central" departments. There are unlikely to exist any comprehensive lists of such assets, except perhaps some departmental lists, with book values noted in some cases only. These assets must be taken over by the Central Government as they are, in each Department, by inventory. No valuation need be attempted as it will serve no useful purpose.

All running, or "continuing" liabilities and outstandings in each "Central" Department must similarly be taken over. On the "cash" system of accounting (followed by all Governments) these items will not have been "accounted" for at the time of account closing. They will consist of pending bills for supplies, stores, contracts, services and contingencies; pending assessments; arrears of revenues and refunds; outstanding claims for and against Government, etc., etc. No "account" need be rendered of these also; but an immediate inventory at the time of taking over would be desirable.

24. Similarly, the Central Government must take over all the *productive* specific Capital assets connected with "Central" functions together with any specific debts connected with them. Depreciation Funds connected with them not having been specifically invested separately, will be taken over as deductions from the book values of these assets, *except to the extent* of any excess of current or liquid assets that may be available after meeting the current and "funded" liabilities of the State.

The "Central" Productive Capital Assets, on 31st July 1948, were only two, as follows:—

		Rs. (Lakhs)
Productive Capital Assets—Central :		
(1)	Telephones—(Book Value)	12·27
	Add Expenditure out of Post-War Reconstruction Fund .	0·51
		12·78
	Less Depreciation Fund (not invested)	*
		12·78
(2)	Railways—(Book Value of Baroda State Railway *plus* the State's financial interest in the Tapti Vally Railway ; *vide* "Note" below).	653·47
	Less Depreciation Fund (not invested)	*
		653·47

*These Funds, though not separately invested, are *not* deducted here from Book Values because, on 31-7-48, there was a surplus of liquid or current assets over current liabilities sufficient to cover these Depreciation funds [*vide* paragraph 28 (ii) below].

Specific Debt :—		
(1)	Telephones	*Nil*
(2)	Railways (Loan from "Khangi" for Vijapur-Kalol Bailway)	3·00
	Loan from "Khangi" for the Tapti Valley Railway .	39·08
		42·08

The *net* value of productive Capital assets to be taken over by the Central Government would thus, be Rs. 624.17 lakhs on 31st July 1948.

NOTE.—(i) The total amount paid by the Baroda State for their interest in the Tapti Valley Railway was Rs. 51·47 lakhs (inclusive of a "premium" of Rs. 8·50 lakhs). Of this only Rs. 12·39 lakhs was actually paid out of State Funds, and the balance (Rs. 39·08 lakhs) was paid out of "Khangi" Reserve. This did not matter so long as H.H. The Gaekwar continued to be the *de facto* Ruler of the State; but now that the State is to merge into the Dominion, the entire interest must pass to the Government of India. It follows that the amount paid out of "Khangi Reserve" must be reimbursed to it, to be subsequently dealt with in the same manner as other assets held against that Fund. This is provided for in the above computation by taking the book value of this Railway at Rs. 51·47 lakhs and showing the payment originally made out of "Khangi" as a specific railway *Debt* to be made good to "Khangi" by the Government of India.

(ii) Subsequent to the merger, the Government of India will have to write off the "premium" amount of Rs. 8·50 lakhs included in the book value of the Tapti Valley Railway.

25. The Provincial Government should take over all the remaining unproductive and productive *Capital* assets. While no inventory is possible (or need necessarily be taken) of the former, assets of the latter category on 31st July 1948 were as follows:—

Productive Capital Assets Provincial:

	Rs. (Lakhs)	Rs. (Lakhs)
(1) Electric Schemes (Book Value)	46·22	
Add Expenditure out of Post-War Reconstruction Fund.	0·05	
	46·27	
Less Depreciation Fund (not invested)	*	46·27
(2) Port Okha—Minor Port—(Book Value)	63·00	
Add Further Expenditure as above	26·33	
	89·33	
Less Depreciation	*	89·33
(3) Productive Irrigation Works & Vijapur Tube Wells (Book Value)	31·43 20·49	51·83
(4) Govt. Printing Press (Book Value)	4·60	
Less Depreciation	*	4·60
(5) State Furniture Factory (Book Value)		0·30
		192·33

There was no specific debt outstanding against the above Assets.

*These Funds, though not separately invested, are *not* deducted here from Book values because, on 31st July 1948, there was a surplus of liquid or current assets over current liabilitie sufficient to cover these Depreciation Funds [*Vide* paragraph 28 (ii) below].

Current or Banking Assets and Liabilities:

26. We now turn to the allocation of the State's current or "banking" assets and liabilities. As already stated in paragraph 12, "the proper procedure here is first to allocate the current and funded *liabilities* of the State between the two successor Governments..............upon the *functional* basis, coupled with the principle of public convenience". Statement III attached hereto shows what these liabilities were on 31st July 1948, arranged in their

"order of priority"—beginning with liabilities due to "outsiders" and ending with non-specific Development Funds and Reserves,—and showing how they should be allocated between the two Governments on the basis stated.

Apart from certain purely "computational" notes concerning certain items embodied in Statement III, the following important points arise in connection with some of them:—

(1) State Savings Bank (Item 1 of Section A of Statement III).

This is *not a* "Postal" Savings Bank, but a State concern like the Savings Bank Department of any ordinary Commercial Bank. It is not, therefore, a "Central" subject.

This Savings Bank scheme in the State is *additional* to the ordinary Postal Savings Bank run by the Government of India through the Posts and Telegraphs Department. The State's Savings Bank accounts are maintained at the various State Treasuries; and the Depositors are free to maintain a Savings Bank account either with the Government of India (at Post Offices) or with the Government of Baroda (at their Treasuries). Functionally, as well as on grounds of public convenience, it will be best for these State Savings Bank accounts to be carried in future by the Bombay Government; any other decision would, moreover, have adverse consequences on the "Ways and Means" position of Bombay, which must be avoided. We recommend accordingly.

The question whether, besides continuing the existing State Savings Bank accounts, the Bombay Government should accept any *new* accounts or any further deposits from the existing depositors, stands on a different footing. In our opinion, the answer must be in the negative (especially as regards opening *new* accounts), unless Bombay is already conducting a Savings Bank Department through its own treasuries.

We would add that the recommendations which we have made on this subject are designed, on the one hand, to avoid any immediate inconvenience to existing depositors or any immediate disturbance in Bombay's Ways and Means position and, on the other, to provide for the gradual "voluntary" liquidation of this Department over a period of years by not permitting any fresh deposits and allowing only withdrawals.

(2) State Life Assurance Fund (Item 3 of Section A of Statement III)

This, again, is not a "postal" insurance scheme, but an ordinary "Life Assurance" scheme run by the State (confined to Government Servants) in the same way as by any Insurance Company. Functionally, as well as on grounds of public convenience, there is no need to allocate the Fund to the

Central Government. We recommend that the Bombay Government may take it over and decide subsequently whether it should be transferred (together with corresponding investments), at its actuarial valuation to the Indian Posts and Telegraphs Department. In any arrangement finally adopted, the interests of the assured (quite irrespective of whether their services are transferred to the Bombay Government or to the Central Government, as a result of the merger) must be fully safeguarded, and the facility which they now enjoy, of having their premia deducted from their pay bills, must be continued.

Should the Bombay Government decide to continue the Department themselves, they should not, of course, issue any *new* policies, since the existing Postal Insurance scheme of the Government of India *already* provides the necessary facility for all Government servants in India.

(3) Accident Insurance Fund (Item 4 of Section A of Statement III)

The position here is the same, *mutatis mutandis*, as stated above in connection with the State's Life Assurance Fund, except that there need be no objection to the Bombay Government's continuing to carry on the Accident Insurance Fund by further annual contributions to it.

(4) Provident Fund (Item 5 of Section A of Statement III)

The Provident Funds relating to the staff employed in Railways, Broadcasting and Telephones will have to be wholly taken over by the Central Government.

So much of the Provident Fund balances of the "Other Departments" (Statement III) as may relate to the staff to be taken over by the Central Government will also have to be taken up by the Central Government. As the ascertainment of this staff is not - likely to be delayed beyond a month after the date of the merger, all the required particulars will be readily available at the time of account-closing as at the date of the merger.

The rest of the Provident Fund Balances must be taken over by the Bombay Government.

It is *most important* that there should be an account-closing as at the date of the merger, and that it should be complete in all respects, including the interest (and Government contributions, if any), creditable to various Provident Fund Accounts—in detail (*i.e.*, for each subscriber) as well as for the funds as a whole.

(5) Departmental and other Deposits (Item 7 of Section A of Statement III)

(a) *Military Pedhi.*—This is a small loan bank of military personnel. This must be taken over by the Central Government.

(b) *Railways*
(c) *Broadcasting*
(d) *Telephones*

The deposit balances of these three departments must be wholly taken over by the Central Government.

(e) *"Central Revenues" in suspense deposits.*—This represents the collections made by the State by way of "Central" excise Duties (on Tobacco, Matches and Vegetable products), but kept in deposit, pending division with the Central Government under the "pooling" arrangements now in force. Strictly speaking, the division of this between the two successor Governments must be made in accordance with what *would* have been the position had the division been *determined and finalised*, on the date of the merger itself, in accordance with the "pooling" formulae between the Government of India and the Government of *Baroda*. The share payable to the Central Government must, therefore, go *wholly* to them and the balance, which would have gone wholly to the Baroda Government must remain over as part of the *current assets* of the State to be divided (in the event of there being a surplus of current assets over current liabilities) between the two successor Governments as part of such surplus, on the lines indicated in sub-paras. 28(ii) and (iii) below.

A contrary set of adjustments would be necessary in regard to Customs Revenue which, though divisible through a "pooling" arrangement with the Government of India is in fact credited by the State direct to its revenues; so that here, Baroda's share has already been received by it, credited to revenue and included in assets, whereas the amount payable to the Government of India remains *wholly* as an outstanding liability *not* shown in the State's accounts at the account-closing date but treated as payable out of next year's revenues.

A broad consideration of the figures relating to Central Excise and Customs Duties indicates however that the *net* amount likely to fall to the share of Bombay, after making appropriate adjustments and calculations as above, would be comparatively trifling. Accordingly, we recommend that the *entire* joint "Central" revenues held in deposit, should go wholly to the Central Government, and no further adjustments need be made. We may mention, however, that there would, of course, be no objection, in principle, to dealing with the matter on the more meticulous lines already indicated, if that should be preferred.

(6) Remittance Account (Item 9 of Section A of Statement III)

It is obviously impossible to allocate this balance until "cleared" by entries to appropriate accounts on the receipt of advices from the remitting departments. When so "cleared", the sorting between "Provincial" and "Central" categories will be automatically achieved on a functional basis. For the present, however, it is assumed that the entire balance is "Provincial".

(7) Suspense (Item 10 of Section A of Statement III)

We have the same comments to offer here as under (6) above.

(8) Army (Military) Funds (Item 10 of Section B of Statement III)

These are partly Regimental Funds, and partly Reserve Funds for Military Establishments, Training, Building, Installation and Equipment. These are clearly "Central" functions; and the funds must, therefore, be taken over by the Central Government. We were given to understand, however, that during the current year substantial sums have been re-appropriated for the benefit of current revenues of the State. In our opinion, such re-appropriation to the extent that it represents a re-appropriation of funds intended for *non*-I. S. F. units or for raising and training new units, need not be objected to.

(9) Railway Betterments Fund (Item 11 of Section B of Statement III)

This is clearly a "Central" function and the Fund must, therefore, be taken over by the Central Government. The present Baroda administration is anxious not only that these funds should be expended, for the purposes intended, exclusively on the Baroda State Railway system, but also that as corresponding liquid assets are readily available, such expenditure should not (subject to the usual canons of financial propriety), be unduly delayed. Their concern in this respect is both understandable and proper; we, therefore, recommend that the Central Government should deal with this Fund in the sense desired by the present Baroda Administration.

(10) Railway Capital Reserve Fund (Item 3 of Section C of Statement III)

This is in addition to the Railway Depreciation Fund; since "Railways" is clearly a "Central" function, the Reserve Fund must be wholly taken over by the Central Government. As in the case of the Railway "Betterments Fund" referred to above, the present Baroda administration is naturally anxious, —and we support them in that respect—that this Fund should be utilised for Capital Improvements, Extension and Development of the Baroda Railway system *alone*, and that, subject to considerations of financial propriety, such expenditure should not be unduly delayed.

One important matter to which we must especially invite attention in this connection is that for a number of years up to 1947-48, the State's policy, as regards the "appropriation" of net Railway revenues (after charging depreciation), was to take to general revenues an amount equal to 4 per cent. of the capital at charge and to credit the balance to the Railway Capital Reserve Account. During the current year (in December 1948), however, it was decided to change this policy. The details of the new formula, as also its effect on the current year's contribution by the Railways to the general revenues of the State, are for our present purposes irrelevant. But it has been sought to give *retrospective* effect to the new formulae by directing that any short-contributions found (according to the new formula) to have been made in the past (from 1942-43 onwards) should be made good in the current year by a re-appropriation from the Railway *Capital* Reserve; (the amount involved is Rs. 58.30 lakhs). We were inclined to regard this procedure as altogether irregular: but it was pointed out to us that—

(i) for some years the Railways had not contributed to general revenues even according to the old formula;

(ii) during the years in which that formula had effectively operated the Railways had contributed far less to general revenues and far more to the Reserves than they should or need have done in accordance with the principles followed by the Government of India in regard to their Railway earnings; and

(iii) during 1948-49 the need for a special contribution to general revenues, —even from the Railway Capital Reserves, if need be,—was most urgent in view of the prevailing famine and foodgrains scarcity.

We have examined these arguments. particularly that set out in (i) above, sympathetically; and we consider that, in the circumstances, the re-appropriation need not be objected to. We recommend accordingly.

(11) Post-War Reconstruction Fund (Item 1 of Section E of Statement III)

This has been *provisionally* classified in Statement III as "provincial".

On 31st July 1948 this was the only Reserve Fund with *non-specific* objectives. It has been built up out of revenue surpluses during war years. The expenditure already incurred out of it (up to 31st July 1948) was as follows:—

	Rs. (in Lakhs)
On "Central" Capital Assets.	
Telephones . . .	0·51
On "Provincial" Capital Assets.	
Electric Schemes . . .	0·05
Okha Port . . .	26·33
TOTAL .	26·89

The balance of the Fund on 31st July 1948 was, therefore, Rs. (216·61—26·89) lakhs=Rs. 189·72 lakhs, represented by (unspecified) assets included among current "banking" assets.

We have anxiously considered whether the whole of this should go to the Bombay Government for expenditure in the "provincial" field in Baroda territories, or whether any part should equitably be taken by the Central

Government for expenditure on "Central" objectives *in those territories*. It is not easy to decide this issue on any *a priori* grounds. For while it is true, that having been built up out of the conjoint "central" and "provincial" revenues of Baroda in the past, the Central Government can appropriately insist upon taking over a not unsubstantial part of this fund, on the basis perhaps of the *pro-rata* "central" and "provincial" revenues of years during which the Fund was accumulated, one must also have regard to the "needs" in the two fields of expenditure in Baroda, which are now to be separated. On that basis, it must be conceded that the Railway and Defence Capital requirements of the future have been fairly adequately provided for by the separate Capital Reserves existing specifically for those purposes and that only the Telephone and "National Highways" requirements of the future remain principally to be considered so far as "Central" functions in Baroda territories are concerned.

The "upper" limit to the Central Government's claim is thus furnished by the "*pro-rata* revenue" test, according to which the maximum they could claim would be almost exactly one-third of the gross amount at the credit of the fund *less* the expenditure already incurred on telephones. On that basis, and by reference to the position as at 31st July 1948 the Centre should get one-third of Rs. 216·61 lakhs, *less* Rs. 0·51 lakhs, *i.e.* Rs. 71·70 lakhs of this Fund. On the other hand, the "lower" limit is furnished, in general terms, by the "needs" in the Central field, as indicated above. And it is important in this connection to keep two circumstances in mind—

first, that the Trunk Telephone system in Baroda is still very much incomplete; and

second, that there is only a very small mileage of trunk roads in the state which is *now* eligible for classification as "National Highways" and that an important road which will eventually qualify as "National Highway" is now at the "alignment" stage and will require considerable expenditure.

These needs are urgent, and their satisfaction will be both expensive and for the lasting benefit of the people of the State. We would, accordingly, recommend that the portion of the fund which should go to the Central Government should be 12 per cent. of the gross amount at credit, *less* the expenditure already incurred on "Central" objectives. The result (at 31st July 1948) would be—

	Rs. (in Lakhs)
One-tenth of Rs. 216·61 lakhs. . . .	21·66
Less Expenditure on telephones. . .	0·51
	21·15

The balance of the *net* amount at credit of the fund, *i.e.*, (Rs. 189·72—21·15) lakhs = Rs. 168·57 lakhs should go to the Bombay Government.

27. The result of the foregoing discussion and recommendations may be summarised in the following form showing the proposed allocation of current and funded liabilities shown in Statement III, between the two Governments:—

Section.	Particulars.	"Provincial" (Rs. in Lakhs)	"Central" (Rs. in Lakhs)	"Total" (Rs. in Lakhs)
A.	Banking or Current Liabilities (subject to re-allocation of "other" Provident Funds) .	732·14	393·77	1125·91
B.	Specific "Functional" Funds.	39·32	60 10	99·42
C.	Specific Capital Reserve .	24·73	177·54	202·27
D.	Land Revenue Equalisation Fund	107·03	...	107·03
E.	Post-War Reconstruction Fund	194·95	21·66	216·61
	Less Amount already spent thereout-of on Productive Capital Assets	—26·38	—0·51	—26·89
	TOTAL .	1071·79	652·56	1724 35

NOTE.—The above summary does not include the liability on account of Depreciation Funds which have *not been specifically invested* (Rs. 27·93 lakhs "Provincial" and Rs. 54·67 lakhs "Central"—Total Rs. 82·60 lakhs); as already stated, these amounts should be taken in reduction of the book-values of the assets concerned, except to the extent that investments in the shape of "current" or liquid assets are actually available *after* providing for *all* current liabilities and Funded obligations.

28. Turning now to the current or liquid Assets of the State, Statement IV attached hereto shows what these assets were as at 31st July 1948. [Items 13 and 14 in that Statement are, for the present, assumed to be of "provincial" character for the same reasons as those stated against the corresponding liability items of Statement III,—*vide* sub-paras. (6) and (7) of para. 26.]

The *primary* basis for apportioning and allocating these current assets should, in our opinion, be that each successor Government must be given sufficient assets to meet the *liabilities* or Funds allocated to it—*vide* paras. 12, 26 and 27 *supra*, and that within this over-all primary limit, each Government must, so far as possible, first take up those specific assets which are appropriate to the liabilities allocated to it and/or to its functions. Finally, any surplus of current assets over liabilities must first be allocated against Depreciation Funds (*vide* note under para. 27) and the balance, if any, divided between the two Governments on some equitable basis. (The *income* arising from 'current' assets must be classified as 'Central' or 'Provincial' according to the allocation of the assets themselves as between the two Governments).

(i) The result of this recommendation can be readily appreciated by a reference to the "remarks" column in Statement IV. It shows that items 4, 8 and 12 (a) totalling Rs. 47·61 lakhs must be taken up by the Central

Government, and that items 1, 7, 9, 10, 11, 12(b), 13 and 14 totalling Rs. 737·80 lakhs, must be taken up by the Provincial Government. The position will then be as follows:—

	"Provincial" (Rs. in Lakhs)	"Central" (Rs. in Lakhs)	"Total" (Rs. in Lakhs
Allocation of Liabilities and Funds (paragraph 27 *supra*)	1071·79	652·56	1724·35
Allocation of Current Assets as above . .	737·80	47·61	785·41
Balance (uncovered Liabilities)	333·99	604·95	938·94

(ii) The balance of available current assets would then be items 2, 3, 5 and 6 of Statement IV namely,

	Rs. (Lakhs).
Government Securities	63·826
Bolus and Debentures	18 00
Industrial & Commercial Sahres . .	248.61
Fixed Deposits	513·64
TOTAL .	1418·51

This amount is sufficient to provide:—

Firstly, assets to the *full* extent of the uncovered balance of the liabilities (Rs. 938·94 lakhs) assigned to the two Governments—Sub-para, (i) above;

Secondly, assets to the *full* extent of the Depreciation Funds (Rs. 82.60 lakhs), which would otherwise have to be taken in deduction of the book-value of the assets concerned (*vide* para. 24 and Note under paragraph 27).

There will then remain an over-all net surplus of assets over liabilities (Rs. 396·97) lakhs) to be divided between the two Governments on some equitable basis. Theoretically there are two alternative ways of sharing this over-all surplus:—

either in proportion to the "Central" and "Provincial" revenues of the State, from which, obviously, this surplus was built up.

or in proportion to the "Central" and "Provincial" *expenditure*, upon which this surplus would have been spent by the State.

The former alternative favours the Central Government; this is particularly so in this case, because a glance at the relative amounts already spent on "central" and "provincial" productive *capital* assets (paragraphs 24 and 25 *supra*) will show that the expenditure in the past on assets of the former category has been relatively heavy. For these reasons, the expenditure-basis would, we consider, be more equitable. We recommend accordingly. The result will be that the Centre will be entitled to only *one-tenth* of the surplus assets.

(iii) The final division of the residual assets, enumerated at the commencement of sub-para. (ii) above, which we recommend, in accordance with the principles there enunciated, is accordingly as follows:—

	Against Unoovered Liabilities.	Against Depreciation Funds.	Out of net over-all surplus.	TOTAL
	Rs. in lakhs	Rs. in lakhs	Rs. in lakhs	Rs. in lakhs
To the Central Govt.	604·95	54·67	39·70	699·32(x)
To the "Provincial" Govt.	333·99	27·93	357·27	719·19(y)
TOTAL	938·94	82·60	396·97	1418·51(z)

We further recommend that *each component item* of the liquid assets as at (z) above should be divided between the Central Government and the Provincial Government, so far as possible, in the ratio (x): (y).

29. There remains the question of indicating the *modus operandi* in the event of there being an excess of liabilities over assets on the date of the merger.

In such a contingency, there can, of course, be no question of providing any liquid assets against Depreciation Funds. These should, in such circumstances, be taken in reduction of the book value of the assets concerned.

As regards the remaining liabilities and Funds, a careful consideration of the summary, set out in paragraph 27 above, itself furnishes the answer. Those liabilities have been arranged in descending order of priority; and of them those grouped under Sections A and B are either "outside" or earmarked liabilities which *must* be met, whereas those under Sections C to E are in the nature of "surpluses" credited to Funds or Reserves.

It follows that any excess of liabilities, as there grouped, over current assets must *first* be utilised to "extinguish" the funds grouped under Section E, next the Reserves under Section D, and finally the Reserves under Section C. In so extinguishing these Funds and Reserves, the "Central" portion of each Fund or Reserve may, as a matter of justifiable concession, be extinguished *before* the "Provincial" portion. We recommend accordingly.