

### III. ASSETS AND LIABILITIES.

11. The general principles relating to allocation of assets and liabilities are discussed in paragraphs 25 and 30 of Part I of our Report and have been further elaborated in Chapter III of Part II. The application of these principles to Hyderabad is illustrated below with reference to the latest particulars available. The final allocation and apportionment of the State's assets and liabilities should follow the same principles and must be made on the basis of a complete statement of assets and liabilities, to be compiled as at the date on which federal financial integration may become effective.

#### (1) "Unproductive" Capital Assets

The Centre will take over by inventory all unproductive capital assets connected with "federal" revenues and "federal" functions and services. These will consist mainly of buildings and equipment, aerodromes, military lands, etc., actually in use in the various "federal" departments. The Hyderabad Government will retain the rest.

#### (2) "Productive" Capital Assets

(a) The Central Government will take over all specific productive capital assets connected with "federal" functions. These are mainly :—

		<i>Rs. in lakhs.</i>	
Railways (Book value)	. . . . .	1898.49	
Less Specific Debt (Statement III)	. . . . .	41.36	
		<hr/>	As at
Telephone (Book value)	. . . . .	1857.13	(31-3-49)
		23.37	(At close of 1356 F.)
Mint	. . . . .	?	
	TOTAL	<hr/>	
		1880.50	
		(Plus ?)	

(b) The Hyderabad State will retain all other Productive Capital assets. At the end of 1356 F. they were as follows :—

		<i>Rs. in lakhs.</i>	
Irrigation	. . . . .	747.39	
Other Productive Works	. . . . .	3.44	
Road Transport	. . . . .	223.78	(31-3-49)
Investment in Commercial Concerns and Works, such as Electricity, Distilleries, Hyderabad Electric Schemes, Godavari Valley Development Scheme	. . . . .	267.53	
Less Telephones (Book value).	. . . . .	23.37	
		<hr/>	244.16
	TOTAL	<hr/>	
		1218.77	

NOTES.—(i) There is no 'Public Debt' specifically connected with any Provincial Productive Assets.

(ii) The Depreciation Funds and Reserves of the Road Transport Organisation are carried in the books of the N. S. Rly. They must be made over to the State unless it should be agreed that N. S. Railway may continue to manage the State's Road Transport even after federal financial integration.

### (3) Currency and Coinage Reserves

The Paper Currency Reserve and the O. S. Stabilisation Reserve in Hyderabad together with their assets and investments fall in a separate category by themselves. We have already recommended in paragraph 10 of Section I that they should be dealt with, not as part of the general liabilities and assets of the State, but as separate, self-contained and self-liquidating Statutory Funds which should be taken over by the Centre upon federal financial integration. This will not entail any financial adjustments between the State and the Centre except of course as regards the loss to the State of the net income from these reserves ; and this we have already taken into account in Statement I.

### (4) Current Assets and Liabilities (Other than those pertaining to Currency Reserves) ; Reserves and Funds

The proper procedure here would be to allocate first the current and funded liabilities of the State as between the Central Government and Hyderabad ; such of these liabilities and Funds as are functionally of a " federal " character will be allocated to the Centre and the rest will remain with or be discharged by the Hyderabad Government. Any non-specific Funds *i.e.* Funds of which the objects cannot be distinguished as wholly federal or provincial will have to be apportioned between the two Governments on some equitable basis *e.g.* on a consideration of the " needs " of the State in the " federal " and " provincial " fields, respectively. These Liabilities, Funds, and Reserves enumerated in their order of priority stood as follows at the end of 1357 F. A detailed analysis is given in Statement III attached hereto.

	<i>Rs. in lakhs</i>		
	" Federal "	Provincial	Total
(A) Current and Banking Liabilities, Trust Funds, Sinking Funds, etc.	613	2322	2935
(B) Specific Functional Funds . . . . .	Nil	523	523
(C) Reserve Funds for Assets (Securities Adjustment Reserve).	Nil	219	219
(D) Non-specific General Funds and Reserves (Post-War Development Reserve).	Nil	2801	2801
GRAND TOTAL . . . . .	613	5865	6478

NOTE.—For the special reasons explained below, no portion of the Post-War Development Reserve is allocated in the above analysis as " federal ".

As against the above liabilities, the liquid assets and investments which were available to the State at the end of 1357 F. amounted in the aggregate to Rs. 5659 lakhs. (An analysis is given in Statement IV.)

As stated in paragraph 16 of Chapter III in Part II of our Report :

" the *primary* rule should be that the Centre and the State should each be given sufficient liquid assets to meet the liabilities or Funds allocated to it . . . . . ;

and within this over-all limit, each Government must, so far as possible, take up those specific items of liquid assets or investments which are appropriate to the liabilities allocated to it and/or to its functions.

“ In this connection, we make the specific recommendation that the allocation of any Reserve Fund (in whole or in part) to the Centre must be regarded as entailing a special obligation on the Centre to ensure that the liquid assets so transferred to it with such Fund or Reserve are expended *within the State* concerned on those objectives for which the Fund or Reserve was intended.”

In the case of Hyderabad, it is clear that there were sufficient liquid assets at the end of 1357 F. to cover all banking and current liabilities of the State and also the various Funds and Reserves with the exception of the “ Post-War Development Reserve ” which was left “ uncovered ” to the extent of about Rs. 819 lakhs. In view of this over-all shortage of liquid assets, the Centre cannot be allotted any portion of the Post-War Development Reserve. It will be open to the Hyderabad Government to treat the Reserve as extinguished to the extent of the shortage or to carry the Reserve in their books at its nominal figure ; there will, however, be no financial adjustments to be made between the Centre and the State on this account—*vide* paragraph 19 of Chapter III in Part II of our Report.

#### (5) Public Debt

12. There remains for consideration the ‘ Public Debt ’. An amount of Rs. 41.36 lakhs included in the ‘ Public Debt ’ has already been treated as “ specific ” Railway debt ; [sub-para. (2) (a) in the preceding paragraph]. Excluding this, the amount of Public Debt outstanding at the end of 1357 F. was as follows :—

Ways and Means Loans . . . . .	Rs. 1194 lakhs.
General Public Debt : : : : }	Rs. 1624 „
Less Redemption Fund . . . . .	

“ Ways and Means ” loans were contracted in 1357 F. (and later) in connection with or in consequence of the police action and must, in the normal course, be continued wholly as the liability of the State. It has been represented to us however by the Hyderabad Government that we should not overlook the fact that substantial capital expenditure was incurred in 1357 F. and that at least Rs. 200 lakhs out of this was for “ federal ” purposes. We accordingly recommend that an amount equal to the capital expenditure incurred in 1357 F. on “ federal ” services should be treated as the “ federal ” share of the “ Ways and Means ” Debt, the rest of such debt being wholly allocated to the State.

The remaining Public Debt, *less* the provision already made for its redemption, must be allocated between the Central Government and the Hyderabad Government in proportion to the net book value of the productive capital assets allotted to each Government.

#### (6) General

13. Any other matters arising in connection with the implementation of the scheme of federal financial integration for Hyderabad, if not specifically

dealt with in this Scheme-Report, should be decided in accordance with the principles elucidated in Part I of our Report and the further explanations contained in Chapters I to III of Part II.

G. SWAMINATHAN,  
*Secretary.*

HYDERABAD HOUSE,  
NEW DELHI;

*Dated, the 31st July, 1949.*

V. T. KRISHNAMACHARI,  
*Chairman.*

S. K. PATIL,  
*Member.*

N. DANDEKER,  
*Member.*

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