

B. ASSETS AND LIABILITIES

33. The practical application to Mysore of the general principles relating to allocation of assets and liabilities, discussed in paragraphs 25 and 30 of Part I of our Report and further elaborated in Chapter III of this Part is illustrated below, with reference to the position at the close of the State financial year 1947-48. The final allocation and apportionment should be made on the same lines, on the basis of a complete statement of assets and liabilities to be compiled as at the date of federal financial integration.

(1) "Unproductive" Capital Assets

The Central Government will take over by inventory all 'unproductive' capital assets connected with 'federal' revenues and 'federal' functions and services. The Mysore Government will retain the rest.

(2) Specific "Productive" Capital Assets

(a) The Central Government will take over all specific productive Capital assets connected with "Federal" functions as at the date of federal financial integration. The book value of these assets as at the close of the State financial year 1947-48 was as follows :

<i>Particulars</i>	<i>Rs. in lakhs</i>
Mysore State Railway, including Kolar Gold Field Railway and Nanjangud—Chamrajanagar Railway and excluding Tramways	733·07
Telephones	16·19
	749·26
<i>Less amount at credit of Depreciation Funds :</i>	
Railways 70·38	
Telephones 3·82	74·20
	675·06

Note.—The figure of Rs. 70·38 lakhs for the Railway Depreciation Fund has been arrived at after deducting "special" contributions ; the latter have been separated from the Depreciation Fund and treated as a Special Railway Capital Reserve, *vide* paragraph 34 (2) below.

(b) The Mysore Government will retain all productive Capital assets connected with 'Provincial' functions. The book value of these assets at the end of 1947-48 was as follows :

<i>Particulars</i>	<i>Rs. in lakhs</i>
Krishnaraja Sagar Irrigation Works	507·40
Irrigation Works not charged to Revenue	21·94
Hydro-Electric Works	1055·47
Industrial and other Works	200·87
Iron and Steel Works and Cement Plant	235·25
	2023·93

Less amount at credit of Depreciation Funds

	<i>Rs. in lakhs</i>	
Electrical Works Depreciation Fund	165.13	
Sandal Oil Factory	8.05	
K.G.F. Water Works	10.61	
Chamraj Sagar Water Works	19.61	
Soap Factory	2.67	
Mysore Iron & Steel Works and Cement Plant Depreciation Fund	198.89	
Other Industrial Concerns Deprecia- tion Fund	15.95	420.91
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		1603.02

(3) Current Assets, Liabilities, Reserves and Funds

The proper procedure here will be to allocate first the current and funded *liabilities* of the State, as between the Centre and Mysore and to place at the disposal of each equivalent "current" assets, so far as may be available. The allocation of the *liabilities* themselves should be upon the functional basis, subject to any modifications necessary on grounds of public convenience.

These liabilities, Funds and Reserves, enumerated in their order of 'priority', stood as follows at the end of 1947-48. (A more detailed analysis is given in Statement III) :

	<i>Central</i>	<i>Others</i>	<i>Total</i>
(1) Current and banking liabilities, Trust Funds, sinking funds etc.	?	2232.16	2232.16
(2) Specific Functional Funds	69.41	69.41
(3) Reserve Funds for Assets	146.39	0.95	147.34
(4) Non-Specific General Funds & Reserves	830.91	830.91
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	146.39	3133.43	3279.82

The total liquid assets and investments which were available on the 1st July 1948 amounted to Rs. 3382.55 lakhs as detailed in Statement IV. There was thus a surplus of current assets over current liabilities, Funds and Reserves, to the extent of Rs. 102.73 lakhs. The corresponding surplus, if any, on the date of federal financial integration must be earmarked *pro-rata* against each of the Depreciation Funds mentioned in sub-para (2) above. The balance of the amounts at the

credit of the Depreciation Funds, that is to say, the amounts not covered by "current" assets, will alone be taken in reduction of the book value of the assets.

If, however, there should actually be an over-all shortage of "current" assets on the date of federal financial integration, as compared with the *total* of "current" liabilities, Funds and Reserves, the available "current" assets should be utilised to make provision for

- (i) "current" liabilities,
- (ii) Specific Functional Funds,
- (iii) Reserve Funds for Assets, and
- (iv) Non-Specific General Funds and Reserves,

in that order of priority. Sufficient 'current' assets are in any case likely to be available to cover the first three categories in full and the last in part. The shortage of 'current' assets will thus have to be treated as extinguishing a corresponding amount of the 'non-specific General Funds and Reserves' of which there is only one in Mysore, namely, the "Special Reserve Fund".

(4) There will then remain for apportionment the Public Debt. This amounted at the end of 1947-48 to Rs. 1620·97 lakhs *less* Sinking Fund Rs. 356·05 lakhs, *i.e.*, Rs. 1264·92 lakhs *net*. This Debt must be shared by the Central Government and the Mysore Government in the ratio of the $\frac{\text{net}}{\text{book}}$ value of Specific Productive Capital Assets allocated to each Government.

34. Specific matters concerning assets and liabilities.

(1) Exclusion of certain Capital Works from the list of productive assets (Provincial)

The Mysore Government have requested that in computing the ratio of productive capital assets, 'federal' and 'provincial', for the purpose of apportionment of Public Debt,

- (a) the Krishnarajasagar Irrigation Works, the yield from which has not covered the interest on capital so far, should be excluded from the list of 'provincial' productive assets; and
- (b) that "productive" works which are in the course of construction and are likely to become remunerative only after a period of several years should also be excluded.

With regard to (a) above, we notice that the normal *net* return from the works in question is of the order of Rs. 4 to 5 lakhs a year. The capital cost according to the books amounted to Rs. 507·40 lakhs at the end of 1947-48. We agree that the works are over-capitalised

and in our opinion it would not be reasonable to take a figure of more than Rs. 150 lakhs as the "productive" capital expenditure in respect of this asset.

With regard to (b) above, we regret we are unable to agree to the exclusion of important productive capital assets, merely on the ground that they have not yet reached the full revenue earning stage. Such assets can properly be financed from loan funds and there is no justification for ignoring them in considering the apportionment of Public Debt.

(2) Railway Depreciation Fund

The Mysore Government have pointed out that the balance at the credit of this Fund includes a sum of Rs. 146.39 lakhs representing special contributions made to the Fund during the period 1941-42 to 1947-48. They desire that this special contribution should be distinguished from the normal contributions to the Fund, as calculated with reference to the formula adopted by the Government of India (Railway Board). We see no objection to this course and have accordingly included the total amount of the special contributions (Rs. 146.39 lakhs) as a Special Railway Reserve in Statement III. This Reserve being of a "federal" nature will be taken over by the Central Government upon financial integration, with the specific obligation that it will be applied to special Railway expenditure of a Capital nature within the Mysore State.

An alternative suggestion was also made by the Mysore Government that they should be allowed to withdraw the special contribution altogether from the Fund and utilise it for their general ("Provincial") purposes. We consider it altogether wrong in principle that any such withdrawal should be authorised at this juncture.

(3) Mysore State Insurance Fund : Mysore State Savings Bank

The Mysore Government desire to continue under their own management their State Insurance and Savings Bank Schemes. We see no objection to this course *vide* our remarks in this connection in paragraph 24 of Chapter III.

(4) Loans and Advances

The Mysore Government desire to make some allowance for irrecoverable advances in the amount of "loans and advances" (Rs. 297.94 lakhs) included as item 7 in the list of current assets (Statement IV). We consider that this may be permitted, (when the final statement of Assets and Liabilities is drawn up as at the date of federal financial integration), up to the same percentage as

the amount actually written off during 1948-49 may bear to the total amount of "loans and advances" made during the year.

(5) While accepting the principle of non-payment of compensation for 'federal' capital assets transferred to the Centre upon federal financial integration, the Mysore Government represented that certain Residency Buildings, for which (upon retrocession) they had already made payment to the Central Government, should have come to them free; and that the amount already paid by them to the Central Government on this account should be refunded. It was contended that the matter should be reviewed in the context of the impending federal financial integration.

We recommend that the Mysore Government's contention should be dealt with on the lines indicated in paragraph 23 of Chapter III.