B. ASSETS AND LIABILITIES

64. The practical application to Madhya Bharat of the general principles relating to allocation of assets and liabilities (*cf.*, paragraphs 25 and 30 of Part I of our Report and also Chapter III of this Part) is illustrated below with reference to the readily available data. 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 all unproductive capital assets connected with "federal" functions, services or revenues ; the Madhya Bharat Government will retain the rest.

(2) "Productive" Capital Assets :

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

	(Rs. in lakhs.)	
Railways (Book value) :		
(*i*) Owned and worked by the Madhya Bharat Government . . .	124·19	(30-6-1946)
(*ii*) Owned by the Madhya Bharat Government and worked by the Government of India	167·73	,,
(*iii*) Contribution to Government of India (as a permanent non-transferable investment) towards construction of railways lying within State territory . .	220·00	
Telephones (Book Value)	?	
Posts and Telegraphs (Book Value)	?	
Total .	511·92 *plus* ?	

Item (*iii*) above under Railways comprises a loan of Rs. 70 lakhs advanced by the Maharajah Holkar of Indore and a loan of Rs. 150 lakhs advanced by the Maharajah Scindia of Gwalior towards the construction of stretches of the G.I.P. and B.B & C. I. Railway systems lying within their respective territories. These loans are at present borne in the Government of India's books as specific railway debt and are included in the capital at charge of the Indian Government Railways. From the point of view of the Madhya Bharat Union, there would not be any question, in the normal course, of the amounts thus invested being withdrawn and utilised for 'provincial' or other purposes. We are of the considered opinion that these investments must be regarded as permanent investments in productive capital assets of a "federal" nature which should pass to the Central Government upon federal financial integration (*vide* paragraph 30 of Part I and paragraph 15 of Chapter III). From the revenue point of view the income from these investments has been included in Statement I and, as pointed out in paragraph 63 (2) above, there will be a *net* gain to the State by the transfer of all 'federal' revenues and 'federal' expenditure to the Central Government.

There is *no* 'specific' debt connected with any of the abovementioned assets.

(*b*) The Madhya Bharat Government will retain all other productive capital assets.

They are :

	(Rs. in lakhs.)
Electricity Schemes*	?
State Transport* (other than Railways) .	?
Industrial & Commercial Concerns* . .	?
Productive Irrigation Works . . .	?
Total .	?

*departmentally operated.

There is *no* 'specific' debt connected with these assets.

(3) Current Assets, Liabilities, Reserves and Funds.

(*a*) Here it is best to deal first with current liabilities, Funds, Reserves etc. A list of these, classified in convenient categories will be found in Statement III attached hereto. Such of these liabilities and Funds as are functionally of a "federal" character will be allocated to the Central Government; the rest will remain with, or be discharged by the

Madhya Bharat Government. These liabilities etc., may be summarised as follows :—

Group	Particulars	"Central"	"Provincial"	Total
			(Rs. in lakhs.)	
A	Current or "banking" liabilities, Trust Funds, Sinking Funds etc., ...		100·30 (*plus* ?)	100·30 (*plus* ?)
B	(*i*) *Specific* "functional" Funds.	7·77	1121·62	1129·39
	(*ii*) Non-specific Funds and Reserves with ear-marked investments. . . .		271·01*	271·01*
C	(*i*) Depreciation Funds . .	71·70	..	71·70
	(*ii*) Capital Reserve Funds .	80·00	..	80·00
D	*Non-specific* Funds and Reserves (*without* ear-marked investments).		?	?
		159·47 (*plus* ?)	1492·93 (*plus* ?)	1652·40 (*plus* ?)

*These are non-specific Development Funds. The available information goes to show that these Funds were intended for purposes which would be "provincial" after federal financial integration. We accordingly recommend that no portion of these Funds should be allocated to the Central Government.

(*b*) The total liquid assets and investments likely to be available on the 31st March 1950 have been estimated as follows :—

	(Rs. in lakhs.)
1. Cash & Bank Balances	99·38
2. Government and other authorised securities	1337·84
3. Debentures . . .	91·53
4. Shares	300·39
5. Properties	5·01
6. Loans (Mortgages) ,, (Banking)	251·24
7. Fixed Deposits and Current Accounts .	38·90
8. Other Loans and Advances . . .	?
	2124·29

NOTE.—(1) The above statement excludes

(*i*) Capital contributions to the Government of India as permanent loans for railway construction. These have been included in sub-paragraph (2) above.

(*ii*) Certain capitalised payments which were made to the Government of India by the Indore Durbar (Rs. 23·82 lakhs in 1865 and subsequent years), and by the Dhar Durbar (Rs. 3 lakhs in 1880) for the maintenance of the Malwa Bhil Corps. These amounts represent an outright capital contribution made in the past, from the income of which certain military expenditure (a 'federal' subject) was met by the Government of India ; they must clearly continue to vest in the Government of India after integration of federal finances.

NOTE.— (2) *Advances for purchase of food grains* will be included under item 8 above. The amount of such advances will be represented *actually* by

(*i*) cost of stocks of food grains on hand ; and

(*ii*) accumulated losses :

(*a*) State's share

(*b*) Government of India's share (subsidy), if any.

The figures for such "Advances" should be substituted, when preparing the Statement of Assets on the date of federal financial integraion by (*i*) and (*ii*) (*b*) above ; and (*ii*) (*a*) should be written off against the revenues of the State up to that date.

It will be seen that there are sufficient investments to meet all the liabilities and Funds in full. They should therefore be first allocated between the two Governments to the extent equivalent to the liabilities, Reserves and Funds allotted to each.

(*c*) There will then remain for apportionment the surplus of liquid assets over liabilities. We gather that out of this surplus, a substantial sum (say Rs. 60 lakhs) may have to be treated as written off from the book value of shares in commercial concerns, which are likely to have depreciated considerably since they were acquired. The balance of the surplus, approximately Rs. 500 lakhs (in round figures) must be divided between the Central Government and the State Government in some equitable manner. Following the general principle laid down in paragraph 18 of Chapter III, we recommend that the Central Government may take over 10% of this with the express condition that it shall be earmarked for Developmental expenditure on " federal " objectives *in* Madhya Bharat. The Madhya Bharat Government should be consulted in regard to the choice of schemes on which the amount is to be expended.