V. ASSETS AND LIABILITIES

Classification of Assets and Liabilities

18. The basic principles to be followed in the matter of allocation and apportionment of assets and liabilities have already been outlined in paragraphs 3 and 7 of this report. The detailed plan is explained below. For this purpose, assets and liabilities have to be considered under the following categories:

(1) Assets:

(a) *Specific Capital Assets,* i.e. Specific assets of a more or less durable character, consistng of:—

(i) Unproductive Assets i.e. not capable of yielding any revenue; and

(ii) Productive Assets i.e. yielding (or capable of yielding) revenue.

Any "specific debt" connected with these assets will go with them, and should be taken in reduction of their book values.

(b) *Current Assets* such as Cash and Bank Balance, investments etc. *i.e* liquid assets, essentially of a "banking" character.

(2) Liabilities:

(a) *Current or Banking Liabilities* which are of the nature of current obligations to "outsiders", (*e.g.* Bank over-drafts, Savings Bank Deposits, Provident Fund Deposits, Insurance Funds, Sinking Funds, Trustee Liabilities etc.).

(b) Liabilities in respect of various *Funds* and *Reserves.*

(c) *Permanent debt* i.e. Public debt other than "specific debt" referred to above in connection with capital assets.

The actual allocation of assets and liabilities between the Central and the two State Governments will have to be made with reference to the accounts figures as at the date of federal financial integration. For purely illustrative purposes, however, the book values of assets and liabilities of the Travancore and Cochin States as at the end of their financial year 1123 M.E. have been adopted in the following paragraphs.

Specific Capital Assets

19. "Productive" and "unproductive" specific capital assets, together with the "specific debt" if any associated with them, must be allocated to the Central Government or to the Travancore and Cochin Governments on a functional

basis, that is to say, such of these assets as may be connected with "Central" functions and revenues should go to the Central Government and the rest to the respective State Governments. The actual taking over of "Central" assets by the Government of India will be as follows:—

(2) 'Productive' Capital Assets:

As already stated no account can be prepared of such assets nor is it necessary to do so. The Central Government will take over by inventory all unproductive capital assets connected with 'Central' functions or 'Central' revenues. The Travancore and Cochin states will retain the rest.

(2) 'Productive' Capital Assets:

(a) The Government of India will take over all specific productive capital assets connected with 'Central' functions. These are:—

	As at the end of 1123 M. E. (1947-48)	
	Travancore	Cochin
	Rs. (in lakhs)	
1. Railways	144·40 86·20	117·97
2. Telephones	27·23	..
3. Broadcasting	2·43	..
4. Mint	1·20	..
5. Cochin Harbour Development Expenditure—		
(Travancore's share)	0·78	
	262·24	117·9
Less Specific Debt (Railways)	144·40	70·6
	117·84	47·

The "specific debt" of Rs. 144.40 lakhs in the case of Travancore re[illegible] s[illegible] the amount advanced by the Government of India tow[illegible] Railway construction in Travancore. The "taking over this de[illegible] by the Central Government will mean that the amount owing Travancore must be written off the Government of India's bo[illegible]

(b) The Travancore and Cochin States will retain all 'productive' capital assets connected with 'provincial' functions. These are:—

	As at the end of 1123 M. E. (1947-48)	
	Travancore	Cochin
	Rs. (in lakhs)	
Electric Schemes	*480·14	65·26
State Transport *less* depreciation . .	14·64	..
Coastal Transport	5·97	3·47
Productive Irrigation Works . .	81·34	4·80
Government Industrial Concerns . .	27·22	5·02
Navigation Canals	..	40·17
Investment in Harbour Reclamation .	..	15·93
Town Improvement Works . .	..	36·98
Long-term Loans for Provincial purposes	..	2·40
TOTAL .	609·31	174·03
Deduct Specific Debt (amount so far spent by Cochin out of Rs. 100 lakhs loan for Hydro-Electric Schemes) . .	..	30·00
GRAND TOTAL .	609·31	144·03

Liquid Assets, and Current Liabilities, Reserves and Funds

20. We now turn to the allocation of the current or "banking" assets, and current liabilities, Funds and Reserves in accordance with the general principles indicated in paragraph 7 of this Report.

In the first place, the Government of India must be allotted such of the liabilities, Funds and Reserves as would, upon federal financial integration, be functionally theirs; the rest will remain with the Travancore and Cochin Governments. At the end of the State financial year 1123 M.E. these liabilities, Funds and Reserves stood as follows (*vide* Statement III for a complete analysis):

Section	Particulars	Travancore			Cochin		
		Central	"Others"	"Total"	Central	"Others"	"Total"
		Rs. (in lakhs)					
A.	Banking or current liabilities, Trust Funds, Sinking Fund etc.	33·61 (plus ?)	1206·21	1239·82	..	333·37	333·37

*Less depreciation.

Section	Particulars	Travancore			Cochin		
		Central	"Others"	"Total"	Central	"Others"	"Total"
B.	Specific ("Functional") Funds.	..	120·15	120·15	..	12·92	12·92
C.	(*i*) Depreciation Funds	..	*	..	..	..	..
	(*ii*) Asset Reserve Fund.	..	22·56	22·56	..	2·00	2·00
	(*iii*) Post-War Funds	..	524·07	524·07@	..	7·91	7·91@
D.	Open or General Reserves.	..	75·30	75·30@	..	61·75	61·75@
E.	Public Debt, other than "Specific Debt" ** (*Less* Sinking Fund)	..	348·25	348·25	..	33·58	33·58
	TOTAL . .	33·61	2296·54 (plus?)	2330·15	..	451.53	451·53

Notes.—*taken in reduction of the book value of the capital assets concerned, as current assets are insufficient to meet liabilities.

@ No part of these Funds and Reserves is allotted to the Centre, as current assets are insufficient to cover them by a substantial amount.

** "Specific Debt" has been taken into account in paragraph 17.

A careful study of the analysis of these figures in Statement III shows that very few of the above liabilities or Funds can be classified as "Central". The "Savings Banks Deposits" included among Banking liabilities (in group 'A' above) will become a "Central" liability if the "Anchal" should be taken over by the P. & T. Department and so abolished as a separate organisation run by the States themselves. Similarly, a portion of the Provident Fund balances will also have to be transferred to the Government of India, along with the personnel taken over in connection with the administration of "Central" subjects; and some of the Departmental and other Deposits may be of a "Central" character.

Financially, the allocation of any item of current liability to the Government of India or to the Travancore and Cochin Governments, *together with an equivalent allocation of liquid assets* to meet such liabilities, should not present any difficulty to the extent to which "current assets" were in fact available for allocation to either Government along with an equivalent amount of current liabilities. If however, (as in the case of these two states), there should be an excess of liabilities over 'current' assets, such excess must be equitably apportioned between the two Governments. This problem is dealt with in the next paragraph.

Treatment of Excess of Liabilities and Public Debt Over 'Current' Assets

21. **I. Travancore.**

(i) The total liquid assets available at the end of 1123 M.E. amounted to Rs. 1,680.94 lakhs as follows:—(*Vide* Statement IV for a complete analysis).

	Rs. (Lakhs)
Cash and Bullion	2·65
Bank Deposits	68·70
Shares & Investments	1045·89
Loans and Advances	418·18
Miscellaneous	145·52
	1680·94

The liquid assets were sufficient to meet *in full* only the following out of the liabilities and Funds of this State set out in the preceding paragraph:—

	Rs. (Lakhs)
Section A—Banking Liabilities , ...	1239·82
Section B—Specific Funds	120·15
Section C—Reserve Funds (for Capital Assets) .	22·56
Section D—Reserves (*Invested*)	75·30
	1457·83

Utilising the remainder of the Current Assets, *i.e.*, Rs. (1,680.94 *less* 1,457.83) lakhs = Rs 223.11 lakhs for the Post-War Funds, there is left over an "uncovered liability", wholly in respect of those Funds, amounting to Rs. 300.96 lakhs. In addition to this, there was a (net) uncovered Public Debt amounting to Rs. 348.25 lakhs. It now remains for us to suggest how these two uncovered liabilities should be dealt with.

(ii) The uncovered Liability in respect of Post-War Funds is a mere "book" liability of a character which should be sharply distinguished from liabilities owing to *outsiders* in respect of moneys (or benefits) "had and received". The former is not a debt due to anyone; the latter is. The true nature of a liability in respect of a Fund of this description is a *liability to incur expenditure* (a) for the purposes for which the Fund was created, *and* (b) to the extent to which assets are in fact available. When assets are *not* available, the Fund must be regarded as exhausted or extinguished to that extent. But even if this last point were ignored, on the ground that assets *must* have existed when the Fund was created and that, to the extent of the present shortage, they must have been *properly* spent (*e.g.*, by being spent on unproductive assets, both "Central" and "provincial") though not accounted for as such, then clearly the matter is merely one of wrong accounting, which can now be rectified by tracing back the expenditure so incurred and writing it off against the "uncovered" balance of the Fund. There will then be no "uncovered" balance to be "allocated"; and nothing more will remain to be done since, on the principles already stated, there can be no question of the Central Government having to *pay* anything for any unproductive "Central" assets allocable to them on a functional basis.

There is, therefore, no "allocation" to be made in respect of this uncovered "liability"; and no actual financial adjustments need accordingly be made between the Central Government and Travancore on this account.

(iii) *Public Debt.*—The only remaining item to be considered is the *net* Public Debt, which amounted to Rs. 348.25 lakhs, (after deducting the Sinking Fund provision already made). The Central Government must accept a share of this liability. We recommend that their share should be worked out in proportion to the net book value of the specific *productive* capital assets allotted to them and the Travancore Government respectively.

In this connection a suggestion was made by the representatives of the Travancore Government, at our joint meeting with them and with the representatives of the Cochin Government, that for the purpose of determining the ratio for the division of the Public Debt as above, an addition should be made to the productive Capital Assets for the value of the *unproductive* assets taken over by each Government *to the extent of the uncovered balance* in the Post-War Funds. For this purpose, the Travancore Government would furnish information regarding unproductive "Central" and "Provincial" assets acquired over the period during which the funds have been in existence.

We were at first inclined to accept this suggestion; but on further careful examination of its full implications, we regret we are unable to do so, as we consider it altogether wrong in principle. In the first place, we regard the uncovered balance in the Post-War Funds as altogether irrelevant to this issue; secondly, even that uncovered balance is, in our opinion, the result *either* of assets of the Fund having been already spent for current revenue purposes, in which case the Fund must be treated as having been exhausted on purposes other than those for which it was intended, *or* of incorrect accounting in respect of expenditure properly incurred from the Fund, in which case the correct remedy would be to rectify the error by writing off such expenditure against the so-called "uncovered" balance of the Fund, whereupon there will be no such balance left to argue about.

Thirdly, the method suggested has really the effect, indirectly, of requiring the Central Government to *pay* for unproductive assets, which, it is already agreed, would be incorrect in principle. We conclude therefore that no modification can be accepted to the formula suggested by us for the apportionment of the uncovered Public Debt between the two Governments.

II. **Cochin.**

The total liquid assets available at the end of 1123 M.E. amounted to Rs. 381.92 lakhs as follows:—

	Rs. (Lakhs)
Cash and Bank Balances	39·52
Bank Deposits	37·50
Shares & Investments	106·01
Loans & Advances	47·02
Miscellaneous	151·87
	381·92

These assets were sufficient to cover *fully* all banking or current liabilities, Specific (functional) Funds, Reserve Fund against Capital Assets, and Post-War Reconstruction Fund. After providing for these liabilities, the surplus of current assets left over was only Rs. 25.72 lakhs. This small surplus is likely to disappear by the end of 1124 M.E., when there may even exist an excess of current liabilities over liquid assets if the present drain on the State's resources caused by the food situation should continue as at present.

We proceed, therefore, on the basis that on the date of federal financial integration we should have to reckon with (a) uncovered Funds and Reserves (at least Rs. 61.75 lakhs) and (b) uncovered Public Debt (Rs. 70 lakhs) *less* Sinking Fund (Rs. 36.42 lakhs). The allocation of these uncovered liabilities between the Central Government and Cochin should be made on exactly the same principles as explained above for Travancore; that is to say, the general reserves (which are not specifically invested) must be treated as having been exhausted, and the Public Debt, together with any excess of current liabilities (due to outsiders) over liquid assets, should be apportioned between the Central Government and Cochin in proportion to the net book value of the specific *productive* Capital Assets allocated to each.

22. (1) **Outstanding Obligations and Revenues, not shown in accounts**

All running, or "continuing" liabilities and outstandings in each "Central" Department (whether on Capital or Revenue account) must be taken over by the Government of India. They will consist of all outstanding claims for and against

Government including refund claims, pending bills for supplies, stores, contracts, services and contingencies etc., and all uncollected "Central" revenues, whether assessed or not. In view of the "cash basis" of accounting followed in Government Departments, there will ordinarily be no "account" balances to be brought on to the books of the Government of India in respect of these items; but an inventory, so far as possible, should be prepared by each Department at the time of taking over.

With regard to accrued Capital expenditure on specific Productive Assets, such expenditure, even when subsequently paid by the *Central* Government (in respect of 'Federal' assets) in accordance with the foregoing recommendation, or by the Travancore-Cochin Union (in respect of "Provincial" assets), should be taken into account in the book valuation of these assets as on the date of financial integration.

(2) Inter-Governmental outstandings accrued and due, but not settled, by the prescribed date (Travancore and Cochin).

The list of liabilities set out in Statement III does not also include certain important item of *current* inter-Governmental outstanding. Thus the entire Central Excise collections have been taken to the credit of Travancore revenues without keeping any portion in suspense for payment to the Government of India upon final settlement of their claim. Likewise, the share of Customs revenue from Cochin Port, net receipts from Railways, etc., which have accrued but have not yet been paid by the Government of India, have not been included in the statement of assets. There may be several other items of this kind which, though not important individually, may amount in the aggregate to a substantial sum. Outstanding items of this nature clearly fall in a different category from "unaccounted" arrears of revenue and pending obligations to outsiders; and we recommend that all inter-Governmental claims *in respect of transactions upto the prescribed date* (whether accounted for or not) should be settled, in due course, by cash payment on either side, notwithstanding the coming into force of the federal financial integration scheme.

Miscellaneous matters connected with assets and liabilities

23. The following important points arise in connection with some of the individual items of assets and liabilities:—

(1) State Savings Bank Deposits (Travancore and Cochin)

The Savings Bank is operated through the Anchal Department, and therefore corresponds to the Indian Post Office Savings Bank. It will have to be taken over by the Central Government in the event of the Anchal itself being abolished and replaced by the normal postal services under the Indian P. & T. Department. In that case, it will be necessary for the Centre to take over an amount of current assets equal to the outstanding liability on the prescribed date. As the sudden withdrawal of a large amount of current assets in this way will, however, almost certainly embarrass the State Governments seriously from a "ways & means" point of view, it will be best for the Central Government to treat the amount as an advance to them at the average rate at which it was borrowed.

If, however, the Government of India decide to permit the continuance of the Anchal as a separate service, to be worked by the Travancore and Cochin Governments for a period of years on an 'agency' basis, we recommend that the Central Government should also postpone the taking over of the Savings Bank until the Anchal is itself fully absorbed. A reference is invited in this connection to our remarks in paragraph 16(7).

(2) State Life Insurance Fund, Accident Insurance Fund (Travancore and Cochin), and Transport Insurance Fund (Travancore)

The continuance of the Insurance Funds is not directly covered by any entry in the "federal" list of subjects in the Draft Constitution. There appears to be no need, therefore, to allocate the Funds to the Central Government. There is no reason why the Travancore and Cochin Governments should not carry on these business activities in the same way as any Insurance Company.

(3) Provident Funds (Travancore and Cochin)

No portion of the Provident Fund amounts shown in Statement III has been classified as "Central". Actually, so much of the Provident Fund balances as may relate to the staff to be taken over by the Central Government will have to be separated and transferred to the Government of India. It should not be difficult to collect the required particulars as soon as possible after the date of federal financial integration. The rest of the Provident Fund balances will continue on the books of the Travancore and Cochin States.

It is important that each account should be complete in all respects including interest credits on the prescribed date.

(4) Post-War Services Reconstruction Fund

This must be taken over by the Central Government.

(5) **Balances under Remittance and Suspense**

It is obviously impossible to allocate this balance until "cleared" by transfers to appropriate accounts when full particulars are known. When so "cleared", the sorting between "Provincial" and "Central" will be automatically achieved on a functional basis. For the present, it is assumed that the entire balance is "Provincial".

(6) **Departmental and Other Deposits**

These will have to be sorted out in detail and allocated functionally between the Central and State Governments.

(7) **Tax Free Loans**

The "tax-free" rights attached to any Public Loans of these States outstanding at the prescribed date should be continued by the Central Government.

Banking and Treasury Arrangements

24. With the taking over by the Central Government of the responsibility for direct administration of departments connected with Central revenues and Central services, it will be necessary to extend to the Travancore and Cochin States the Rules and Regulations connected with Banking and Treasury procedure of the Central Government in so far as the transactions of the "Central" departments are concerned. It would also be desirable that the banking and treasury arrangements of the States themselves in respect of "Provincial" transactions should fall in line with the system prevailing in Provinces. We have not examined this aspect of the matter in detail, as the State Governments represented that their existing arrangements were adequate and working smoothly, and desired to postpone consideration of this question until some time after the introduction of federal financial integration. We recommend that their request should be examined sympathetically.

Borrowing Powers

25. Immediately upon the introduction of federal financial integration, the borrowing powers of the Travancore and Cochin Governments will be regulated by the same Constitutional provisions as are applicable to provinces—*vide* Section 163 of the Government of India Act 1935 (as amended), and Article 269 of the Draft Constitution.