

GOVERNMENT OF INDIA

MINISTRY OF STATES



सत्यमेव जयते

INDIAN STATES  
FINANCES ENQUIRY  
COMMITTEE

1948-49

SUPPLEMENTARY REPORT

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HYDERABAD

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PRINTED IN INDIA BY THE MANAGER  
GOVT. OF INDIA PRESS, NEW DELHI 1950

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# HYDERABAD

## INTEGRATION OF FEDERAL FINANCES

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## I. INTRODUCTORY.

We have so far furnished detailed Scheme-Reports for the integration of the federal finances of the following States (*vide* paragraph 5 of Part I of our main Report).

- (1) Baroda (First Interim Report);
  - (2) Travancore-Cochin (Second Interim Report);
  - (3) Mysore
  - (4) Saurashtra Union
  - (5) Patiala and East Punjab States Union
  - (6) Vindhya Pradesh Union
  - (7) Rajasthan Union
  - (8) Madhya Bharat Union
- } (Part II of our main Report).

For the reasons explained in paragraph 4 of Part I of our Report, we have not specifically dealt with the following States or groups of States:—

- (i) States, other than Baroda, whose administrations have been integrated with those of certain provinces of India under the Instruments executed in that behalf by their Rulers and under the powers conferred by the Extra-Provincial Jurisdiction Act, 1947;
- (ii) States whose administrations have been similarly integrated into newly constituted Chief Commissioners' Provinces;
- (iii) Non-viable States; and
- (iv) Jammu and Kashmir.

There remains only Hyderabad to be dealt with.

2. As observed in paragraph 8 of Part I of our Report, Hyderabad is at present outside the field of the wider constitutional relations which have been established between the Centre and the other States and Unions in India; further, it is the only State which is still not represented on the Constituent Assembly. Nevertheless, we have extended our enquiry to this State also, in order that a Scheme-Report *following the same basis and principles* as have been adopted in the case of all other States and Unions (*vide* Parts I and II of our main Report) may be available for consideration, in the event of the question of federal financial integration of this State coming up for active examination at some future date.

Our thanks are due to the Government of Hyderabad for the facilities accorded to us to carry out the necessary investigations and for their co-operation and helpful suggestions in the course of our discussions.

3. All computations in this Scheme-Report are in terms of Hyderabad currency; to arrive at the corresponding figures in Indian currency, they must be converted at the official rate of exchange (6 Indian Rupees to 7 Hyderabad Rupees).

## II. INTEGRATION OF FEDERAL REVENUES AND EXPENDITURE.

4 With effect from the date on which federal financial integration becomes effective, all items of "federal" revenues and "federal" expenditure in Hyderabad, together with the administration of the Departments concerned, should be taken over by the Central Government, as falling within their functional ambit.

The following Departments (*inter alia*) would thus be transferred to the control of the Central Government:—

(1) "*Federal*" Revenue Departments:

- Taxes on Income.
- Central Excise Duties.
- Railways.
- Posts and Telegraphs.
- Telephones.
- Currency and Mint.

(2) *Other Federal Departments:*

- National Highways.
- Defence (sanctioned I. S. F. Units only)
- Aviation.
- Broadcasting.
- Meteorology.
- Archaeology.
- Geological Survey.
- Patents, Copyrights and Trade Marks.
- Registration of Joint Stock Companies and Firms.
- Audit and Accounts.
- Insurance.

Even if, for administrative reasons, the taking over of any of the "federal" services is postponed for a short period, the Government of India should nevertheless assume financial responsibility for (and consequently financial control over) the Departments concerned. In other words, any "federal" Departments not taken over immediately upon federal financial integration must be administered by the Hyderabad Government on "agency" terms to be agreed upon between the two Governments.

### Net "Revenue-gap" arising out of Federal Financial Integration

5. Statements I and II appended to this Report bring out the net revenue effect upon the finances of Hyderabad of

- (i) the transfer of "federal" revenues and "federal" expenditure to the Centre and the extinction of certain "immunities"; and

(ii) the abolition of internal customs duties, as a result of federal financial integration.

The figures in Statements I and II are based upon the Budget Estimates of the State for its financial year 1358 Fasli (ending 30th September 1949) and are given here purely for illustrative purposes. They are subject to the following limitations:

(i) Many of the figures will require further scrutiny and correction in the light of the remarks embodied in the notes appended to the Statements themselves.

(ii) Furthermore, when decisions are taken concerning some of the matters referred to in Parts I and II of our main Report, corresponding modifications in the computations must be carried out.

(iii) The final computations must be based on the "actuals" of the "basic period" prescribed for the purpose of working out the financial adjustments required, for the transitional period between the Government of India and the State. As pointed out in paragraph 4 of Part II of our main Report, this "basic period" in the case of Hyderabad would be

(a) in regard to Revenue, the three financial years of the State immediately preceding the date of financial integration; and

(b) in regard to Expenditure, the last completed financial year of the State immediately preceding financial integration.

6. It will be seen from Statements I and II that the net dependence of Hyderabad on "federal" revenues and on internal customs duties may be analysed (in round figures) as follows:—

	<i>Rs. in lakhs</i>		
	Internal Customs	"Federal," Revenues	Total
Revenue . . . . .	400	557	95
Expenditure . . . . .	35	336	371
Balance . . . . .	365*	221	586

The total net "revenue-gap" resulting from federal financial integration will thus amount to Rs. 586 lakhs.

Although the above figures would require revision in certain respects as already indicated, they are of a sufficient order of accuracy for assessing the effects of federal financial integration and for considering the nature of

\*Includes Revenue formerly creditable to Sarfi-Khas

transitional financial adjustments required so as to avoid any sudden dislocation of the State's financial structure.

### Financial adjustments required

#### Internal Customs.

7. The loss of revenue which will result from the total abolition of internal customs duties is not, strictly speaking, a consequence of federal financial integration as such but arises from the operation of Articles 16 and 244 of the Draft Constitution. Accordingly, and also for the reasons given in paragraph 22 of Part I of our main Report, there can be no question of the Central Government extending any financial assistance to the State in regard to this matter. The loss must be made good by the State itself, by developing alternative sources of revenue in the "provincial" field.

In view of the large amount involved, however, the abolition of these duties in Hyderabad must necessarily be spread over some years. We suggest the following scheme:—

- (a) In 1359 Fasli (1949-50), there should be *no* increase in the present rates of Customs Duties (or of export "surcharges") or in the items subjected to such duties or charges.
- (b) During 1359 F. the subject of general Sales Tax should be thoroughly investigated and the necessary organisation planned and set up well before the end of that year.
- (c) In 1360 F. (1950-51), a low general Sales Tax should be imposed; and Customs Duties (and Surcharges) should be abolished on corresponding items. In effect this will mean the continuance of Customs Duties and Surcharges upon only those items or transactions which are exempted from Sales Tax.
- (d) The process in (c) above should be carried further into 1361 F. (1951-52).
- (e) All Customs Duties and Surcharges should be abolished in 1362 F. (1952-53), or as soon as the net revenue from Sales Tax reaches Rs. 350 lakhs, *whichever may be earlier*.

#### "Federal" Revenues and Expenditure

8. There remains the net "federal" revenue-gap of Rs. 221 lakhs to be considered. Following the general plan which we have adopted in the case of other States, we recommend the following scheme of transitional adjustments for Hyderabad:

- (1) If "R" represents the net *total* financial dislocation as a result of federal integration (*including* the loss from the abolition of internal

Customs duty as computed with reference to the actuals of the prescribed "basic period"); and

If "C" represents the net loss from the abolition of the internal customs duties included in "R"; then the Central Government must guarantee to re-imburse to the Hyderabad Government a sum of Rs. (R—C) per annum, for a transitional period of ten (or fifteen) years, as may be provided in Article 258 of the Draft Constitution when finally passed.

(2) The guarantee of reimbursement should be implemented by the Central Government as follows:—

(a) By paying to the Hyderabad Government its share of divisible Income-tax (and of all other divisible "federal" taxes, such as they may be from time to time) computed in the same manner, on the same basis and in accordance with the same principles as applicable to the Provinces of India; and

(b) to the extent that the amount payable under (a) should fall short of the guaranteed amount in any year, by further paying to the Hyderabad Government an amount equal to the short-fall, as a special *ad hoc* grant-in-aid in that year;

(c) in any year in which the amount payable under (a) does *not* fall short of the guaranteed amount, the Hyderabad Government will receive the amount due under (a), and the guarantee will be inoperative for that year.

(3) The Hyderabad Government should not be required to bear any portion of the net "federal" revenue-gap during the transitional period; the reason is that their net loss by the abolition of internal customs would itself far exceed 40 per cent. of the total "Revenue-gap"; (*cf.* paragraph 32 of Part I of our main Report).

(4) With effect from the prescribed date, the Hyderabad Government should as a direct consequence of federal financial integration, be entitled to receive food subsidies as in the case of Provinces at the rate of 75 per cent. of the loss on the sale of imported foodgrains. These subsidies and all grants-in-aid, 'bonuses' and other forms of financial and technical assistance from the Centre, whether in cash or kind, whether on revenue or capital account, and whether by way of loans or outright grants, should be payable to the Hyderabad Government by the Government of India quite independently of the above scheme of transitional adjustments, i.e., *in addition* to the amounts guaranteed under sub-para: (1) and (2) above, and on the same basis and principles as applicable to Provinces.

#### (5) Privy Purse

The figures given in paragraph 6 above have been worked out on the assumption that the Ruler's "Privy Purse" would continue to be a charge on the State Revenues, even after federal financial integration. By "Privy



Purse" is meant the *personal* allowance payable to the Ruler from the State revenues, as distinguished from—

- (a) Allowance to his relatives;
- (b) Allowance payable to the Ruler as Expenditure incurrable for him as Head of the State (*e.g.*, Rajpramukhs in Unions or Governors in Provinces).

If it should be decided ultimately that for political and/or constitutional reasons "Privy Purse" should be payable by the Centre as a "federal" charge, it would follow that in the case of Hyderabad there should be a classification of the existing payments to the Ruler under two heads, one corresponding to allowances payable to Rajpramukhs of Unions or to Governors of Provinces, and the other corresponding to "Privy Purse" of Rulers of States which have been integrated with Unions. The former will continue to be a charge on the revenues of the State, while the latter must be taken up by the Central Government and would accordingly be included in Statement II as "federal" expenditure. The *net* "Revenue-gap" would be recomputed on this basis but there would be no other change in the scheme of transitional financial adjustments outlined above.

9. Our proposals will ensure that Hyderabad finances will be fully protected for the transitional period of ten (or fifteen) years, to the extent of the State's present dependence upon "federal" revenues. On the termination of the transitional period, when there would be no longer any guaranteed reimbursement, the financial relationship between Hyderabad and the Central Government would be exactly the same as that between any of the Provinces and the Centre.

We are confident that Hyderabad's share of divisible "federal" taxes and the normal development of "Provincial" revenues in the State would render it possible for the State Government to dispense with the Central guarantee at the end of the transitional period, without creating any dislocation of its finances.

#### **Currency and Coinage**

10. Reference must be made here to the local "Osmania Sicca" Currency and Coinage of Hyderabad. Federal financial integration will involve the assumption by the Central Government of the responsibility for the entire currency administration in Hyderabad; accordingly the entire stock of unissued currency notes and coinage on hand together with all the connected assets in the Paper Currency Reserve and in the mint, must be taken over by the Central Government on the date of financial integration.

For the purpose of computation of loss of revenue to the State on financial integration, we recommend that the income from the Paper Currency Reserve, the O. S. Stabilisation Reserve, and the Mint should be based on the average net receipts of the three financial years of the State ending 30th September 1946. This will eliminate not only the period 1946-47 and 1947-48 during

which, for political reasons, the State Government embarked upon a policy of ousting Indian Currency from the State, but also the period subsequent to the police action during which there has been an abnormal demand for conversion of the State Currency into Indian Currency.

It will be for the Central Government to decide, in due course, whether and if so when and in what manner, the Hyderabad currency and coinage should be demonetised. Any loss (or profit) on the substitution of Indian currency and coinage for the State currency (after federal financial integration) will then be on the Central Government's account. Meanwhile, as we have said, the Mint, the Paper Currency Reserve and the O. S. Stabilisation Reserve together with the relative assets and investments should be taken over by the Government of India upon federal financial integration. The two Reserve Funds would be administered as separate, self-contained and self-liquidating Statutory Funds, in accordance with

- (a) the statutory obligations of the Funds themselves, and
- (b) such currency and coinage policy as the Centre might decide to adopt in due course.

Pending a decision as regards the future of the State's Currency, it is essential that the public should be given an assurance that the value of the Hyderabad currency and coinage would be *firmly* maintained at the present official rate of exchange and that unlimited exchange facilities would be available to the public at that rate; it would also be necessary, in the event of a final decision being taken to demonetise the local currency, to give adequate facilities to all holders of Hyderabad currency to effect conversion of their holdings into Indian Government currency, over a sufficiently long period and at the official rate of exchange, at all treasuries and banks in the State.

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### 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
		1857.13 (31-3-49)
Telephone (Book value) . . . . .		28.37 (At close of
		1356 F.)
Mint . . . . .		? .
	<hr/>	
TOTAL		1880.50 (Plus ?)
		<hr/>

(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
		<hr/>
TOTAL		1218.77
		<hr/>

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 1957 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 Reserve (Post-War Development Reserve).	Nil	2801	2801
<b>GRAND TOTAL</b>	<b>613</b>	<b>5865</b>	<b>6478</b>

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 1957 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 1957 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 1957 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 1957 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 1957 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 1957 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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**STATEMENTS**

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## HYDERABAD STATE

## STATEMENT I\*

*Particulars of Revenues which will be lost to the State as a result of Federal Financial Integration.*

(Figures based on the Budget Estimate for the year ending 30th September 1949).

S. No.	Particulars	Amount (Rs. in lakhs)	Remarks or reference to foot- notes
<i>A. "Federal" Revenues which will merge with the Revenues of the Government of India.</i>			
1.	Customs duties on foreign trade . . . . .	Nil.	
2.	Corporation tax and Business Profits tax . . . . .	3·000	(1)
3.	Income-tax other than agricultural income-tax and Corporation tax. . . . .	90·00	
4.	Central Excise duties . . . . .	133·25	(2)
5.	Railways—(net receipts) . . . . .	{ 68·00 (Interest) 78·51	(3)
6.	Posts— " " " . . . . .	{ 4·20 —20·00	(4)
7.	Telephones— " " . . . . .	{ ·77 (Interest) 2·24	
8.	Currency & Mint—(net receipts) . . . . .	141·26	(5)
9.	Interest on "federal" investments . . . . .	?	(6)
10.	Miscellaneous (Berar rent) . . . . .	29·17	(7)
Total of Section 'A' . . . . .		557·40	
<i>B. Taxes which will be abolished on financial integration.</i>			
11.	Salt . . . . .	Nil	
12.	Import-Export Duties on Indian (Internal) trade . . . . .	400·00	(8)
Total of Section 'B' . . . . .		400·00	
<b>GRAND TOTAL</b>		<b>957·40</b>	

\*All figures in this Statement are in terms of Hyderabad currency : to arrive at the corresponding figures in Indian currency, they must be converted at the official rate of exchange (6 Indian Rupees to 7 Hyderabad Rupees).



## HYDERABAD STATE

## NOTES CONCERNING STATEMENT I

## (1) Corporation Tax and Business Profits Tax

The Budget Estimates of Income-tax are allocated as follows on the basis of estimates furnished by the Commissioner of Income-tax:

	Rs. (Lakhs).
B. P. T. ... ..	5
Corporation Tax ... ..	25
Income-tax on non-Agricultural Income ... ..	90
Income-tax on Agricultural Income ... ..	5
Income-tax on Jagirdari Income ... ..	30
	155

The B. P. T. Act was in force for only one year. Nevertheless, the revenue from this is taken into account as B. P. T. is still in force in India.

E. P. T. being no longer in force, either in the State or in India, has been ignored. The E. P. T. collected under the State Act is credited not to Revenue but to a Fund for expenditure on general charitable purposes. E. P. T. Deposits were also collected under the State Act. It is expected that these deposits would be fully refunded and that all outstanding E. P. T. Assessments and B. P. T. Assessments would be fully completed before 31st March 1950.

## (2) Central Excise

The amount shown against this item is made up as follows:—

	Rs. (Lakhs).
Duty on matches ... ..	35
„ sugar ... ..	12
„ cigarettes ... ..	45
„ tobacco ... ..	35
„ cloth ... ..	6
„ vegetable products ... ..	0.25
	133.25

Except for the duty on matches, there is no arrangement for pooling or sharing any Excise Duties with the Government of India. The match duty

revenue shown above represents the estimated appropriate share of Hyderabad during 1358 F., the practice being to credit actual collections to a Deposit Account and to take to Revenue only the appropriate share under the pooling arrangement.

### (3) Railways

The figures of "Interest" and "Revenue" shown against Railways are exclusive of the corresponding figures for the Road Transport Department which is managed by the State Railways. 'Road Transport' not being a 'federal' subject its receipts must be separated. The Railway revenue proper is computed as follows:

(Rs. in Lakhs).

Interest as shown in Budget	
<i>Less</i> Estimated interest on Capital at Charge on	
Road Transport           ...           ...           ...	68.00
General Contribution excluding loss on Road Trans-	
port                   ...           ...           ...	78.51

### (4) Postal Department

The Postal Department is expected to incur a heavy loss in 1358 F. on account of considerable re-organisational expenditure. However, as the average of three years will be taken as the final basis for computations, the result will not be abnormal because the re-organisational expenditure really represents expenditure which should have been incurred over the last two or three years.

An addition of Rs. 4.20 lakhs has been made to cover the loss which Hyderabad will suffer on account of the purchase of Service Postage Stamps after federal financial integration at Government of India Postal Rates which are approximately double the local rates.

### (5) Currency

The figures shown against Currency and Mint is made up of a profit of Rs. 18.92 lakhs on minting, and a net income of Rs. 122.34 lakhs from the Paper Currency Reserve. In the final computations, the figure to be taken in respect of income from the Paper Currency Reserve should be based upon the average income from the Reserve during the three financial years of the State ending 30th September 1946 (*vide* paragraph 10 of the Report).

### (6) Interest

The amount to be entered against this item will be the interest *receivable* by the Central Government upon such investments as may be allocated to it on the date of federal financial integration, under the scheme of apportionment of assets and liabilities, *less* interest *payable* on such liabilities as may be allocated to the Centre under the same scheme.

**(7) Miscellaneous**

The amount representing "Berar Rent" has been included here on the assumption that it will continue to be payable until terminated as a result of federal financial integration. If however it should be decided that this demand should cease before that date, it will have to be excluded from Statement I.

**(8) Import-Export duties on Indian (Internal) trade**

The figure for the Internal Customs Duties is made up as follows:—

	Rs. (Lakhs).
Ordinary Import-Export Duties including the share formerly payable to <i>Sarf-i-khas</i> ... ..	350
Export Surcharge on certain oil seeds, etc. ... ..	50
	400
	400

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## HYDERABAD STATE

## STATEMENT II

*Particulars of Expenditure, which will be saved to the State as a result of Federal Financial Integration.*

(Figures based on the Budget Estimates for the year ending 30th September 1949)

S. No.	Particulars	Amount (Rs. in lakhs)	Reference to footnotes
<b>SECTION A.—Expenditure to be taken over by the Government of India :</b>			
1.	Cost of collection of taxes :		
	(1) Central Excise duties :		
	Tea and Coffee . . . . . }	2.00	(Estimated)
	Matches . . . . . }	5.81	
	(2) Income-tax . . . . .	17.43	(1)
2.	National Highways . . . . .	200.00	(2)
3.	Defence (I. S. F. Units only) . . . . .	4.49	(3)
4.	Aviation . . . . .	9.46	(4)
5.	Broadcasting . . . . .	.56	
6.	Meteorology . . . . .	2.55	
7.	Archaeology . . . . .	?	
8.	Geology (Survey) . . . . .	.70	
9.	Patents, Copyrights, Trade Marks, Joint Stock Companies.	1.86	
10.	"Federal" Civil Works . . . . .	18.17	(5)
11.	Pensions of Military and other 'federal' personnel . . . . .	15.18	(6)
12.	Accounts and Audit . . . . .	.30	
13.	Superintendent of Insurance . . . . .	57.50	(5)
14.	Dearness Allowance . . . . .		
	<b>TOTAL OF SECTION A . . . . .</b>	<b>336.01</b>	
<b>SECTION B.—Expenditure which will cease to be incurred on federal financial integration :</b>			
15.	Salt . . . . .	..	
16.	Internal Customs . . . . .	35.06	
	<b>TOTAL OF SECTION B . . . . .</b>	<b>35.06</b>	
	<b>GRAND TOTAL . . . . .</b>	<b>371.07</b>	

\*All figures in this Statement are in terms of Hyderabad Currency ; to arrive at the corresponding figures in Indian Currency, they must be converted at the official rate of exchange (6 Indian Rupees to 7 Hyderabad Rupees).

## NOTES CONCERNING STATEMENT II

(1) **National Highways.**—According to the latest information furnished by the Roads Organisation of the Government of India (Ministry of Transport) a length of 581 miles of road in Hyderabad will be eligible for declaration as “National Highways”. The expenditure on this has been taken into account, in accordance with the estimates furnished by the Ministry of Transport, at Rs. 3,000 per mile.

(2) **Defence (I. S. Forces only).**—It is difficult to estimate accurately the normal expenditure on the sanctioned I. S. F. Units of the Hyderabad Defence Forces on the post-war basis. On the information available the amount has been estimated at Rs. 2 crores. The cost of irregular troops (Nizam Forces etc.) has been excluded.

(3) **Aviation.**—The amount shown against this item includes expenditure on the Hyderabad Aero-Club.

(4) **Broadcasting.**—The expenditure according to the Revised Estimates has been shown against this item.

(5) **Pensions and Dearness Allowance.**—Dearness Allowance and Pensions have been estimated on the basis of the ratio of ‘federal’ expenditure to total expenditure on ‘Salaries’.

(6) **Accounts and Audit.**—It is assumed that the responsibility for audit and accounts in the State for both ‘provincial’ and ‘federal’ transactions would be taken over by the Centre upon federal financial integration ; the entire cost of the existing organisation (corresponding to the audit and accounts department in Provinces) been accordingly has taken against this item.

(7) **General.**—There may be a few other items of “federal” expenditure which will have to be added to Statement II in the final computation, after ascertaining the exact amount involved ; e.g.

(i) Subventions to the Hyderabad, Secunderabad and Aurangabad Cantonments ;

(ii) The cost of management of the “federal” portion of the Public Debt ;

(iii) Any subsidies paid to Civil Aviation Companies, Flying Clubs, etc. if not included against item 4 of this statement.

## HYDERABAD

## STATEMENT III

*Analysis of Current Liabilities, Funds and Public Debt as at the end of the State  
Financial year 1357 F. (30th September 1946).*

S. No.	Particulars	"Federal"	"Provincial"	Total	Reference to Foot- notes
		(Rs. in lakhs)			
<i>A. "Banking" or Current Liabilities.</i>					
1.	Life Insurance and Provident Funds . . . . .	?	214.70	214.70	(1)
2.	Depreciation Funds and Reserves . . . . .	?	37.59	37.59	(2)
3.	Postal Savings Bank and other Postal Savings.	264.12	..	264.12	
4.	E. P. T. Deposits . . . . .	..	85.75	85.75	(3)
5.	Compulsory Savings Deposits . . . . .	..	61	61	
6.	Personal and Temporary Deposits . . . . .	?	276.75	276.75	(4)
7.	Courts Deposits . . . . .	..	41.61	41.61	
8.	Deposits from Local Bodies. . . . .	..	152.11	152.11	
9.	Excise Duty on Matches . . . . .	..	-5.21	-5.21	
10.	Jagir Akbari Rights . . . . .	..	62.38	62.38	
11.	Railway Deposits . . . . .	349.39	..	349.39	
12.	E. P. T. Fund . . . . .	..	157.69	157.69	(5)
13.	Govt. Accounts and other Deposits . . . . .	?	399.78	399.78	(4)
14.	Road Fund . . . . .	..	14.70	14.70	
15.	Debt Redemption Reserve . . . . .	..	653.52	653.52	
16.	Famine Reserve . . . . .	..	229.88	229.88	
	TOTAL SECTION A . . . . .	613.51	2321.86	2935.37	
<i>B. Specific Functional Funds.</i>					
17.	Industrial Reserve . . . . .	..	498.44	498.44	
18.	Deposits Reserve . . . . .	..	24.85	24.85	
	TOTAL SECTION B . . . . .	..	523.29	523.29	

\*All figures in this Statement are in terms of Hyderabad Currency ; to arrive at the corresponding figures in Indian Currency, they must be converted at the official rate of exchange Indian Rupees to 7 Hyderabad Rupees).

S. No.	Particulars	"Federal" "Provincial"		Total	Reference to Foot- notes
		(Rs. in lakhs)			
<i>C. Reserve Funds for Assets.</i>					
19.	Securities, Adjustment Reserve . . .	..	218.78	218.78	
<i>D. Non-specific General Funds and Reserves.</i>					
20.	Post-war Development Reserve . . .	..	2800.65	2800.65	
<i>E. Currency and Coinage Reserves.</i>					
21.	O. S. Stabilisation Reserve . . . . .	300.00	..	300.00	(6)
22.	Paper Currency Reserve . . . . .	5408.70	..	5408.70	(6)
TOTAL SECTION E		5708.70	..	5708.70	
<i>F. Public Debt.</i>					
23.	Development Loans . . . . .	2277.55			
	Less Redemption Fund . . . . .	653.52	?	1624.03	(7)
24.	Railway "Shares" and Balance of Old Loans.		41.36	41.36	(8)
25.	"Ways and Means" Loans . . . . .	..	1194.21	1194.21	(7)
TOTAL SECTION F		41.36	2818.24 (plus ?)	2859.60 (plus ?)	
GRAND TOTAL		6363.57	8682.82	15046.39	

## NOTES CONCERNING STATEMENT III

(1) **Life Insurance Fund.**—Life Insurance Fund, even in respect of personnel in “federal” Departments may continue with the State; but Provident Fund balances of such personnel will have to be taken over by the Centre.

(2) **Depreciation Funds and Reserves.**—Depreciation Funds and Reserves of “federal” Commercial Departments (*e.g.* Railways, Telephones, Broadcasting etc.) must be transferred to the Centre.

(3) **E. P. T. Deposits.**—Represents collections of refundable E. P. T. Deposits.

(4) **Personal and Temporary Deposits.**—Any deposits relating to “federal” departments or to personnel in such departments or by outsiders in relation to the work of such department must be transferred to the Centre.

(5) **E. P. T. Fund.**—E. P. Tax collections in the State have not been credited to revenue but to this Fund which is intended for charitable purposes.

(6) **Currency and Coinage Reserves.**—The Currency and Coinage Reserves require special treatment *vide* paragraph 10 of the Report.

(7) **Public Debt.**—The “federal” share of the Public Debt will have to be worked out in due course as suggested in paragraph 12 of the Report.

(8) **Railway Debt.**—The Railway Debt has been treated as “Specific Debt” which should be treated as wholly ‘federal’ on a “functional” basis.

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## HYDERABAD

## STATEMENT IV\*

*Statement of Liquid Assets as at the end of the State Financial year 1357 F.  
(30th September 1949).*

S. No.	Particulars	Rs. (lakhs)	Footnotes
1.	Cash . . . . .	788.57	(1)
2.	<i>Earmarked Investments :</i>		
	Against Reserves and Funds . . . . .	3053.22	
3.	Loans and Advances . . . . .	1817.65	(2)
	TOTAL . . . . .	5659.44	

(1) **Cash.**—This includes substantial sterling balances and perhaps some balances at Karachi. If any of these are a total loss by the time federal financial integration becomes effective, the actual cash balance then will be considerably lower.

(2) **Loan and Advances.**—Advances for purchase of foodgrains will be included against this item. The amount of such advances will be represented actually by—

- (i) cost of stocks of foodgrains on hand ; and
- (ii) accumulated losses which must be written off.

(3) **General.**—The liquid assets held against the Paper Currency Reserve (Rs. 5408.70 lakhs) and the O. S. Stabilisation Reserve (Rs. 300 lakhs) fall in a separate category and have been excluded from this Statement.

\*All figures in this Statement are in terms of Hyderabad Currency ; to arrive at the corresponding figures in Indian Currency, they must be converted at the official rate of exchange (6 Indian Rupees to 7 Hyderabad Rupees).