RCC No. 83

RAILWAY CONVENTION COMMITTEE (1991)

(TENTH LOK SABHA)

TWELFTH REPORT ON RATE OF DIVIDEND FOR 1996-97 AND OTHER ANCILLARY MATTERS

Presented in Lok Sabha on 12-3-96
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LOK SABHA SECRETARIAT
NEW DELHI

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RAILWAY CONVENTION COMMITTEE
(1991)

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* Shri Nitish Kumar, MP, nominated on 17 December, 1991 *vice* resignation of Shri Srikanta Jena w.e.f. 16 December, 1991.

@ Shri Ram Nagina Mishra, MP, nominated on 12 September, 1995 *vice* resignation of Shri Ram Naik, MP, w.e.f. 11 July, 1995.

** Shri C.K. Jaffar Sharief, MP, nominated on 18 April, 1994 *vice* resignation of Shri V. Krishna Rao, MP w.e.f. 17 March, 1991.

£ Shri Lokanath Choudhury, MP, nominated on 30 January, 1992 *vice* resignation of Shri Surya Narayan Singh w.e.f. 28 January, 1992.

$ Shri O. Rajagopal, MP, nominated on 18 May, 1994 *vice* resignation of Shri Pramod Mahajan, MP, w.e.f 17 May, 1994.

‡ S/Shri Manmohan Singh, Madhavsinh Solanki & Ajit P.K. Jogi, MPs, nominated on 18 May, 1994 *vice* S/Shri Ramsinh Rathwa, Dayanand Sahay and Ch. Hari Singh, MPs, ceased to be Members of the Committee consequent upon their retirement from Rajya Sabha on 2 April, 1994.

INTRODUCTION

I, the Chairman, Railway Convention Committee (1991), having authorised by the Committee to present the Report on their behalf, present this Twelfth Report on Rate of Dividend payable by the Railway Undertaking to the General Revenues and other ancillary matters for the financial year 1996-97.

2. Based on an interim Memorandum furnished by the Ministry of Railways in consultation with the Ministry of Finance on 2nd January, 1995 and after considering the view points put forward by the representatives of the Planning Commission, Ministry of Finance and Ministry of Railways, the Railway Convention Committee (1991) in their Ninth Report, had recommended, purely as an interim measure, that the capital invested on the Railways upto 1952 might be treated as 'dividend free' and the dividend for the year 1995-96 to General Revenues on the remaining capital invested thereafter be paid at the rate of 7% irrespective of the year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the year 1994-95.

3. The Ministry of Railways had in consultation with the Ministry of Finance, submitted on 7th January, 1996 the final Memorandum for the consideration of the Committee. The Committee at their sitting held on 30th January, 1996 considered this Memorandum and decided to take evidence of the representatives of the Ministries of Finance and Railways on 13th February, 1996.

4. After considering the final Memorandum and the arguments given by the Ministries of Finance and Railways, the Committee have not found any justification to modify their earlier interim recommendation. They have finally recommended that the capital invested upto 1952 may be treated as 'dividend free' and the dividend for the year 1996-97 to General Revenues on the remaining capital invested thereafter be paid at the rate of 7% irrespective of year of investment inclusive of the amount that was payable by Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the financial year 1995-96. All other concessions now available *viz.* dividend on residential buildings, new lines, subsidies from General Revenues etc. may also be allowed to continue on the existing basis while framing final Budget Estimates for 1996-97.

5. The Committee feel that there is some discrepency about the exact amount of social burden being borne by the Railways. In their Memorandum, the Ministry of Railways had submitted that the amount on this account was Rs. 1515 crore during 1994-95 whereas during evidence, the Chairman, Railway Board deposed that the amount was Rs. 1973 crore during the same period and after subtracting the cost towards law and order, staff welfare, etc. it came to Rs. 1250 crore. The Committee have desired that the Ministry of Railways should inform them about the exact amount of social burden borne by the Indian Railways during 1994-95 and that the Ministry of Railways should finalise in consultation with the Ministry of Finance the manner in which they can be compensated.

6. The Committee have not accepted the proposal of Ministry of Railways to make the appropriation to Capital Fund as first charge on the net revenue followed by Dividend and appropriation to Development Fund as this Fund was agreed to be created on the suggestion of the Ministry of Railways itself from the year 1992-93. When there was no possibility of generating sufficient excess for appropriation to this Fund, the Committee have desired to know the reasons for mooting the proposal for creation of the Fund by the Ministry. The Committee have opined that in case the Railways feel that there will not be any scope to generate sufficient surplus in the near future for appropriation to the Capital Fund, there is no point in continuing this Fund any further. The Ministry of Railways may, if considered necessary, abolish it and the surplus left after making payment of all liabilities may be credited to Development Fund as was being done earlier.

7. The Committee considered, finalised and adopted this Report on Rate of Dividend for 1996-97 and other ancillary matters at their sitting held on 8th March, 1996. The minutes of the sitting of the Committee held on 13th February and 8th March, 1996 are appended to the Report .

8. A statement containing the recommendations and observations of the Committee is appended to this Report at Appendix-III. For facility of reference these have been printed in thick type in the body of the Report.

9. The Committee would like to express their thanks to the representatives of the Ministry of Finance (Department of Economic Affairs) and the Ministry of Railways (Railway Board) for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
March 8, 1996
Phalguna 18, 1917(S)

M. BAGA REDDY,
Chairman,
Railway Convention Committee.

REPORT

In pursuance of the Resolution adopted by Lok Sabha on 17 September 1991, the Railway Convention Committee (1991) was constituted on 25 November, 1991 to review the rate of divided which is at present payable by the Railway Undertaking to General Revenues, as well as other ancillary matters in connection with the Railway Finance *vis-a-vis* General Finance and to make recommendations thereon.

2. Dividend to General Revenues was paid at 6 per cent on the capital invested in Railways prior to 1980, excluding Metropolitan Transport Projects, upto 31-3-1980 (inclusive of payment to States in lieu of passenger fare tax) and 6.5 per cent on capital invested thereafter. For the year 1993-94, the rate of dividend was paid at the rate of 7% on the entire capital invested on Railways, irrespective of the year of investments (inclusive of payment to States in lieu of passenger fare tax).

3. Based on an interim memorandum submitted by the Ministry of Railways on 2 January, 1995, the Railway Convention Committee (1991) had made certain interim recommendations in regard to the rate of dividend for the year 1995-96 and other ancillary matters in their Ninth Report presented to Lok Sabha on 14 March, 1995 and laid in Rajya Sabha on 15 March, 1995. The resolution approving the recommendations made in paragraphs 56, 57, 58, 59, 60, 61, 62, 63, 64 & 65 of the Ninth Report.was admitted in Lok Sabha on 10th April, 1995 and the same was adopted on 4 May, 1995.

Guiding Principle of Rate of Dividend

4. The first Convention Committee was set up after Independence in April 1949. One of the basic principles enunciated by this Committee was the fixation of definite rate of dividend which included an element of contribution to the General Revenues over and above the bare interest paid by the Government on the capital provided for Railways. This principal was enunciated on the consideration that, in essence, the general tax payer is the owner and sole shareholder of the undertaking.

Capital-at-charge of the Indian Railways

5. The capital-at-charge of the Indian Railways has increased from Rs. 850 crores in 1951-52 to Rs. 22,699.85 crores in 1995-96.

Dividend Paid

6. The annual dividend payable to General Revenues used to be less than Rs. 100 crores till 31-3-1964 but increased to Rs. 1,360.16 crores by 1995-96 (RE). In all,

the Railways have paid/payable to the General Revenues an amount of Rs. 16,257.35 crores as dividend from 1952-53 to 1995-96. This forms 71.62 per cent of the Capital-at-charge of Rs. 22,699.85 crores.

The Proposal regarding Dividend Payable to General Revenues

7. The Railway Convention Committee (1991), in their Ninth Report had recommended purely as an interim measure, that the capital invested on the Railways upto 1952 may be treated as "dividend free' and the dividend for the year 1995-96 to General Revenues on the remaining capital invested thereafter be paid at the rate of 7% irrespective of year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the year 1994-95. The Committee also recommended that the concessions available to Railways *viz.* dividend on Residential Buildings, New Lines, Subsidies from General Revenues, etc. might also be allowed on the existing basis, provisionally, while framing the Budget Estimates for 1995-96. These interim recommendations were made, pending final recommendations of Railway Convention Committee.

8. The recommendations contained in the Ninth Report of the Railway Convention Committee (1991) and action taken by Government thereon are at Appendix-I.

9. The Ministry of Railways, in their Final Memorandum forwarded the following observation of the Ministry of Finance on the above recommendation of RCC:—

> "Railway should pay dividend at the rate of 7% on entire dividend bearing capital invested from General Revenues as recommended by the RCC in its fifth report and not on the basis of Ninth Report, in which the Committee recommended that the capital invested upto 1952 may be treated as "dividend free" and Railways may adjust the rest of the dividend against the dues from State Electricity Boards. The dividend rate of 7% compared to the Government's current borrowing rate of over 13.5% is already highly subsidised. As, such huge adjustment in the dividend payments by Railways will have adverse impact in the fiscal deficit of the Government, the recommendations made in the Ninth Report have not been accepted by this Ministry."

10. Commenting on the above observation of the Ministry of Finance, the Ministry of Railways, in their Memorandum dated 7 January, 1996 stated as under:—

> "The Railways being a Government department, their Plan requirements should be financed through the budgetary support from the General Exchequer. It was so till recently when the Government decided to reduce the budgetary support, thus leaving the Railways to finance their Plan requirements through the internal and extra-budgetary resources. Railways are doing their best in augmenting internal resources and have almost reached the position of saturation as regards the internal generation of resources and no fat is left. As regards the extra-budgetary resources the market borrowings being too expensive and uncertain also adversely affect the Railways internal resource generation capacity. The position has further

been aggravated due to non payment of Railways' dues by the Power Houses and State Electricity Boards which means extending a dividend free budgetary support to them at the cost of Railways own resources crunch. This is further compounded as Railways have to bear social burden of about Rs. 1515 crore only because it is a Government Department. The position to which the Railways have been thrown open are quite impracticable and the Railways' Plan will not survive unless some additional reliefs are provided."

11. During evidence, when the Committee asked as to why the Ministry of Finance did not raise any objection to the above recommendation either when resolution on the subject was admitted or when moved by the Railway Minister in Lok Sabha, the Additional Secretary (Budget), Ministry of Finance (Department of Economic Affairs) stated as under :—

"Normally it is the practice in the Government that when a Resolution on behalf of the Government—not on behalf of a particular Ministry is to be introduced, then all the concerned Ministries should be consulted and their views obtained and a final view of the Government formed and the Resolution moved. In this particular case it seems to have happened that the Resolution which was moved by the Railways did not contain the prior concurrence of the Finance Ministry."

12. In this connection, the Financial Commissioner, Railway Board, clarified as under:—

"We had given the memorandum to the RCC regarding the rate of dividend and other reliefs in January 1995 itself. The Finance Ministry were also called in evidence before the RCC. The RCC considered both the representations of the Railway Ministry as also the views of the Finance Ministry before finalising their recommendations. The practice in the Railway Ministry is that as soon as the final report of the Committee is received, we process it for moving a Resolution before the Parliament. Therefore, we did not consider it necessary to make a fresh reference to the Ministry of Finance even though strictly speaking, what the Additional Secretary, Ministry of Finance says is right. Moreover, in this Committee, both the Railway Minister as well as the Finance Minister are members. So perhaps it has been presumed all along that when the recommendations are made by the RCC, it had the tacit, if not overt, approval of the Finance Ministry. That is why we have all along presumed that their views have been taken into account before RCC gave their recommendations."

13. When the Committee wanted to know whether there was any instance when there had been a difference of opinion between the two Ministries, the witness stated:

"Every year we give a memorandum before Budget on what should be the rate of dividend and what should be the relief given to us. The Ministry of Finance also give their views on these points. It has been more or less following a set pattern and every year they gave the recommendation on what should be the dividend and what should be the relief and on that basis, the Budget is prepared. And then, we move a resolution in Parliament. We have not come across a case so far where there has been a difference of opinion between the Ministries of Railways and Finance on any particular recommendation."

He added:—

"The Railway Convention Committee has been sympathetic to the Ministry this year for the consideration of giving relief in dividend to the Ministry of Railways. We have been pleading for the last so many years, that we have been facing a shortage of resources. The Electricity Boards are not paying us. Our Budgetary support is dwindling, whereas our commitments are increasing in terms of expansion of network, renewal of assets, etc. We have always been pleading with the Convention Committee that some relief should be given to us in the matter of dividend. The Finance Ministry has not been agreeing to give any relief in dividend payment. Every year, the argument has been more or less on predictable lines. In the Ninth Report, for the first time, we have got about Rs. 50 crore relief from the Convention Committee and also an important recommendation that if the Electricity Boards do not pay us, then to that extent there can be a postponment of the payment of the dividend till we realise the money. Since, it was in our favour, and time was short, we moved a Resolution in Parliament."

14. In their Final Memorandum dated 7 January, 1996 the Ministry of Railways (Railway Board) made the following proposal to the Committee regarding dividend payable to the General Revenues:—

"As per the approximates available to end of November, 1995 the earnings are up by Rs. 258 crore and there is a saving of Rs. 344 crore in working expenses. Thus, the net position is favourable by Rs. 602 crore. But with the normal end of the year adjustments and post-budgetary factors like sanction of second instalment of Interim Relief, higher DA than anticipated, higher Productivity Linked Bonus due to raising of limits for the current year as also for the last year, the merger of higher DA for determining the DCRG etc., the above favourable position is likely to be wiped out. This apart, the rising liability on account of costly market borrowings is a cause for concern. The lease charges payable to IRFC which is about Rs. 1400 crore in the year 1995-96 is likely to go up to more than Rs. 1800 crore in the next year. As the market borrowing is a costly proposition besides being uncertain and, therefore, cannot be resorted to endlessly. As Railways need large resources for meeting its obligations for expanding/upgrading the railway network, private investments have been invited under "BOLT" and "Own Your Wagon" schemes. The cost of private investment is very high and the lease charges will further go up and thus curtailing the Railways Net Revenue.

The fact that the Railways have been forced to finance most of its plan requirement on its own due to fast dwindling budgetary support, need not be reiterated. Appreciating the problems faced by the Railways, the RCC

(1991) in Para 35 of their Fifth Report have recommended that the budgetary support to Railways need to be increased substantially. As desired by the Committee, Ministry of Finance and Planning Commission were pursued to increase the budgetary support. But despite the recommendations of the RCC, increase in budgetary support has not been forthcoming from the General Exchequer. In fact, the budgetary support for 1995-96 has been fixed at the level of Rs. 1150 crore for a Plan size of Rs. 7500 crore as against Rs. 1150 crore budgetary support on a Plan size of Rs. 6515 crore for 1994-95. Thus the budgetary support has been reduced to 15% only in 1995-96."

15. During evidence the Committee wanted to know from the Finance Secretary as to how the Railways can be asked to mobilise their own resources without depending much on budgetary support for the Indian Railways carried social burden amounting to Rs. 1515 crores in 1994-95 alone. The witness deposed the following before the Committee:—

"We had recognized that there is a certain element of social purpose, that some part of the Railways serve and I think, this recognition is reflected in many of the existing parameters. For example, the investment in Metro Railways is not included for dividend payment. There are uneconomic lines. There are special allowances made for those parts of the Railway network, on which a conscious decision is taken that they constitute a social burden and I think, the total subsidy built into it comes to about Rs. 400 crore. Our feeling is that while there is some element of social service in what the Railways are doing, the dominant product which the Railways are producing is in fact a commercial product and there is no reason why it should not be possible to run it on economic principles. Even if you allow that, the fact of the matter is that we are charging an extremely low rate of dividend. The dividend rate is seven per cent, whereas the rate at which the Government has to borrow to finance its expenditure is much higher. I am not saying that Railways are not making losses. In different places, that may be due either to inadequate charging for their services or it may be due to operational inefficiency. But if we want the Railways to function efficiently, to our mind, a rate of dividend of seven per cent, after making exemptions for the capital which is identifiable for social purposes, is already an uneconomic rate and if beyond this, if the Railways are making a loss, that loss should be made up by charging an economic price for the services they provide. Otherwise, this pressure to reduce the dividend will be continuous and we will simply have to offer "zero" dividend and you will still have the same problem. The basic problems of running loss-making operations has to be handled through a combination of greater efficiency to the extent possible and economic pricing and that is the only real solution to the problem of Railway finances."

16. When the Committee pointed out as to how could a hike in tariff be a solution as this would have an adverse impact on the cost of production, the witness stated as follows:—

"We fully agree with this and I would suggest that the solution does not necessarily lie in raising the freight charge. It is true that if you raise the charge of freight, it will feed into the cost of production and it will also affect competitiveness. What has been happening is that we have been deliberately undercharging Railway Passenger transport. This is the reason why on the freight side, Railways are overcharging whereas on the passenger side, it has an excessive subsidy. The fact that we are a welfare State does not mean that we should be so generous on the passenger side. The group that benefits does not necessarily qualify for a subsidized provision of this service. When we continue with the system in which we are not raising passenger fares and are overcharging the freight side, it results in a situation where transport is shifting from the Railways to the goods sector and Railways do not have enough money to modernise, so the quality of service is deteriorating and thus, they are left with carrying bulk goods. Therefore, it is a self—destructive strategy."

The Finance Secretary further added:—

"The solution is we have to totally restructure the fare structure. It cannot be done just now but can be done over a period of five to six years. If a conscious attempt is made to realign the passenger fare structure to a level in which the Railways are in a position to make very large investments which they need in signalling, etc. to provide high quality of service, then that is the only way by which the problem can be solved. The problem will not be solved simply by adjusting dividends and secondly, we will be hurting the budget because the fact is that, over the years, on all fronts, the budget is under threat; fiscal pressures are mounting; we are borrowing at higher rates whether it is in the Railways or in the public sector. There is lot of criticism that this strategy is leading to internal debt and that in turn, is leading to inflation. We have to get out of it. I feel that the signal that should be given is that the dividend rate is too low and over the next few years, rate of dividend should be raised. The financial position of the Railways is very serious. Though the job done by them is remarkable, we have to face the fact that if we do not readjust the fare structure, we will be condemning the Railway structure as non-viable which will jeopardise their functioning in the next few years.

17. Elaborating the point of social burden the Chairman, Railway Board submitted as follows:—

"Regarding social cost incurred by the Railways, it was Rs. 1973 crores in 1994-95 and from that, we have been told to subtract the cost towards staff welfare, law and order, etc. After subtracting, it comes to Rs. 1215 crores in 1994-95. It is largely due to certain uneconomic coaching service. For suburban sector, the amount is Rs. 21·1 crores and non-suburban sector, it is largely due to ordinary second class which amounts to Rs. 1716 crores. It may be kindly considered that we have our limitations in increasing fares for the ordinary people who travel in second class. Even on the freight side, it is not as if all the services are profitable. We are carrying certain commodities like salt for human consumption & sugarcane etc. below cost for which the burden comes to Rs. 47 crores. Therefore, we are rendering some social service. There is a large component of social burden in our total budget structure or the total revenue budget of the Railways. Here, we want to make a point that to some extent we should be compensated from the Government on this account. Apart from incurring losses from the revenue budget, we have to undertake new lines which are not remunerative for five to ten years. On the Plan side also, we need greater budgetary support, so that we are able to invest on such unviable projects like taking up new lines etc."

18. Asked to state whether the Ministry of Finance agree with the assessment made by the Ministry of Railways regarding cost of social burden and a greater need for increased budgetary support, the Finance Secretary submitted the following:—

"We may be theoretically in a position to finance the developmental efforts. That finance is available at 18—20 per cent. Now, infrastructural development cannot afford to have it at 18—20%. If Indian Railways have to become financially strong in the years to come to meet the needs of economic growth, they can have certain amount of concessional finance. It is not that we cannot get money at higher rates but it will not be in the interest of the Railways. If we borrow at 20 per cent, our projects are not able to give that much of return. So, the burden is very much there. Thus, there is a need for continuous budgetary support at a concessional rate. I am in favour of giving budgetary support to the Railways just like ITDC and others. I do not think that it is widely realised that we have to run out of fiscal manoeuvrability. If we are serious about reducing national debt and if there is real concern amongst Members of Parliament that national debt is too high and that we should reduce it, then there is only one way of doing it. We have to borrow less and start repaying it. I do not think that we can ever eliminate it but we have to cut down deficit and given the innumerable demands like the ones for rural development, for primary education, for primary health, for rural roads and so on, I do not believe that subsidising Railways would be very high on the agenda of anyone constructing a budget. It is easy for me to simply agree that they are performing a social service, but the fact is that there is some element of social service that should be cross-subsidised from the other elements of the railways' total traffic."

The witness elaborated further:—

"We cannot possibly regard the Railways, our most important source of transport, as something that is going to be run on subsidy basis. If some part of it has to be subsidised, it must be subsidised by the rest of it. What this means is that the railway traffic as a whole cannot expect subsidy from the rest of the country because the beneficiaries of the railway traffic are not the poorest part of the country's population. There are many other sections of the society whose claim on the limited resources for subsidy will be much stronger. So, in my view, if they want to invest, they should invest. They can, in fact, charge an economic rate; they can charge less somewhere and more somewhere. But the opinion that finances will be provided from the budget would be a recipe for financial disaster. Any effort to plan railway modernisation based on an expansion of budgetary support is fiscally unsustainable. If we fail to recognise this, whoever is making that plan is being fiscally irresponsible. I would go further and say that I see no reason to believe that the fare structure over a five year period cannot be adjusted in a manner which should generate resources they need. The other thing is that we have to look at methods of increasing efficiency on the resource utilisation. All losses and all costs should not be passed off as if they are performing social objectives. That is simply not true."

19. Clarifying the position in this regard, the Financial Commissioner, Railway Board stated as follows:—

"Railways have consciously tried to cut down their working expenses. If you analyse the budget you will find that in the last four years the rate of increase in revenue expenses has been much less than the inflation rate. Most of the increase has been because of post-budgetary factors which are beyond the control of Railways. This year, we have incurred an additional expenditure of about Rs. 800 crore because of the additional Interim Relief awarded by the 5th Pay Commission and because of the raising of limit of the productivity-linked Bonus with retrospective effect. We are making a conscious effort to improve our efficiency. The proof of that can be found on an analysis of the budgets of the last ten years. That means we are making a conscious effort to cut our costs. However, there is a limit to our raising the fare and freight. We have been consciously trying to increase our freights and fares, but as an Hon'ble Member correctly pointed out, ultimately it is the Parliament which decides. In spite of a ruling by the Speaker that the railway freight and fares are not a tax but are charges for services rendered and so, technically speaking, Parliament's approval is not required for raising of freight and fares, by convention we have always been approaching Parliament for approval of any increase in freight and fares."

20. In this connection, the Ministry of Railways, in their Final Memorandum, have submitted as under:—

"Over the years, the Railways have been following the policy of tariff restraint and have not passed on in full the rising cost of staff, fuel and other inputs to the rail users. While during the period 1970-71 to 1993-94, the cost of inputs has gone up 11.87 times, average rate realised per tonne km. rose to 8.96 times and the earnings per passenger kms. increased to 6.6 times. Railways also carried a social burden amounting to Rs. 1515 crore during 1994-95. Though RCC (1991) *vide* para 36 of their Fifth Report have recommended that the railway should also be properly compensated for carrying the social burdens, no relief has been granted to Railways in this regard.

As a result of the above, Railway finances have come under great strain and to relieve the Railways' from the strain either the budgetary support should be increased substantially or further relief in payment of dividend may be considered. It is submitted for the consideration of Committee that the existing rates and modalities for determining the dividend may be adopted for the year 1996-97 also."

21. The Railway Board have also submitted the following for consideration of the Committee:—

"The rates of dividend both for pre-1964 and post-1964 capital were higher than the average borrowing rates of the Government till 1969-70. Thus Railways have been contributing to the General Exchequer over and above the average borrowing rate in respect of the capital i.e. Rs. 3196 crore invested on the Railways upto 1969-70. It is submitted that the Committee may please consider making the capital invested upto 1969-70 as dividend free. This will give a relief of Rs. 224 crore to the Railways which is inclusive of dividend exemption on pre-52 capital recommended by RCC in their Ninth Report.

The rate of dividend of 7%, as has been approved by the RCC tentatively, may be allowed to be charged on the capital invested on Railways from the year 1970-71 to 1996-97.

All the other concessions now available, as listed in Appendix-II may also be allowed to continue."

Average rate of borrowing

22. The following table compares the average rate of borrowing with the rate of dividend:

Year	Average rate of interest on Govt. borrowings Actuals	Dividend rate actually applicable
1950-51	3.16	4.00
1951-52	3.12	4.00
1952-53	3.11	4.00
1953-54	3.14	4.00
1954-55	3.19	4.00
1955-56	3.25	4.00
1956-57	3.29	4.00
1957-58	3.36	4.00
1958-59	3.45	4.00
1959-60	3.55	4.00
1960-61	3.57	4.00
1961-62	3.59	4.25
1962-63	3.66	4.25
1963-64	3.75	4.50
1964-65	3.84	4.50 on Capital upto 1963-64 & 5.75% on fresh Capital
1965-66	3.93	
1966-67	4.05	
1967-68	4.22	
1968-69	4.33	
1969-70	4.43	5.50% on Capital upto1963-64 & 5.75% on fresh Capital.
1970-71	4.53	
1971-72	4.65	
1972-73	4.77	
1973-74	4.92	
1974-75	5.15	
1975-76	5.30	
1976-77	5.40	
1977-78	5.50	
1978-79	5.63	

1.	2.	3.
1979-80	5.82	
1980-81	6.10	
1981-82	6.30	
1982-83	6.60	
		on Capital upto 1979-80 6.0% and on Capital thereafter 6.5%
1983-84	7.00	
1984-85	7.40	
1985-86	8.00	
1986-87	8.50	
1987-88	9.00	
1988-89	9.50	
1989-90	9.50	
1990-91	10.00	
1991-92	10.30	
1992-93	10.50	
1993-94	10.90	7% from 1993-94 onwards
1994-95(RE)	11.10	
1995-96(BE)	11.20	

23. The Committee find from the above table that:—

(i) the rate of dividend both for pre-1964 and post-1964 were higher than the average borrowing rates of the Government upto 1969-70.

(ii) From 1970 onwards the average borrowing rates become higher than the rate of dividend of pre-1964 capital but remained below the dividend rate of 6% for post-1964 capital till 31st March, 1980.

(iii) From 1980-81 the average borrowing rate crossed the limit of 6% and in 1983-84 the average borrowing rate became equal to the present rate of dividend of 7%. Since, then the averare borrowing rate has gone upto 11.20% for the year 1995-96 (BE).

Depreciation Reserve Fund

24. Appropriation to the Depreciation Reserve Fund has been progressively stepped up during the last few years with a view to accelerate the pace of replacements/renewals of overaged assets. While approving the recommendations of the Railway Ministry regarding contribution to Depreciation Reserve Fund, in the Budget for 1995-96, the Railway Convention Committee (1991) had, in para 61 of their Ninth Report observed as under:—

"The Committee note that though they had recommended for an appropriation of Rs. 2,700 crores to the Depreciation Reserve fund (DRF) but the final appropriation to DRF was kept at Rs. 2,300 crores in the Budget Estimates due to an overall reduction in the size of the Plan by Rs. 500

crores. The Committee find that at the end of the current financial year the balance in the DRF is expected to be Rs. 1,100 crores. The Ministry of Railways have informed the Committee that the draft Report by the Working Group on DRF has been prepared and the same is likely to be finalised and presented early. The Committee expect that the above report shall be furnished to them without any further delay. However, keeping in view the new assets added and the element of inflation, the Committee agree with the proposal of Ministry of Railways that the contribution to the DRF in 1995-96 may be kept at Rs. 2,650 crores, subject to minor adjustments keeping in view the size of the Annual Plan finally fixed and the capacity of the system to generate internal resources."

25. For 1996-97 the Ministry of Railways have suggested to the Committee as under:—

"The report by the working group on DRF had been submitted initially on 29-4-1995 but was referred back to the group for carrying out more detailed analysis. This revised report has been submitted recently and is under examination by the Ministry of Railways. As soon as the same is accepted by the Railway Ministry it would be made available to RCC.

Though the Committee had recommended for an appropriation of Rs. 2,650 crore to the DRF, the final appropriation to DRF has been kept at RS. 2,000 crore in the Budget Estimates. This has been made as warranted by the Plan needs for 1995-96 and the overall financial position of the Railways. The balance in the Fund at the end of 1995-96 is expected to be Rs. 1,200 crores. Incidentally, it may be mentioned here that the appropriation to DRF in the year 1994-95 was Rs. 1,885 crore.

It may also be pertinent to bring to the notice of the Committee that a sizeable investment in Rolling Stocks has been made by IRFC over the last few years. Since these Rolling Stocks are not the property of Railways and are on lease only, no provision towards their replacement need to be made by the Railways. Further, the IRFC investment is deployed partly against the assets requiring replacement which would have otherwise been met out of the DRF. Also, substantial balance is lying in the credit of the DRF. In view of these, appropriation to DRF may have to be kept at the reduced level, even lower than the withdrawals.

Thus, the contribution to the fund in 1996-97 is proposed to be kept at Rs. 2,000 crore, subject to minor adjustments as warranted by the Annual Plan for 1996-97 and the capacity of the system to generate internal resources."

Pension Fund

26. The Railway Convention Committee (1991), in their Ninth Report, approving the recommendation of the Railway Ministry regarding contribution to be made to Pension Fund in 1995-96, had recommended as under:

"The Committee note that the balance in the Pension Fund is expected to be around Rs. 380 crore at the end of the current financial year. The Committee agree with the proposal of the Ministry of Railways that the contribution to Pension Fund may be enhanced to Rs. 1,900 crore in 1995-96 keeping in view the increase in the number of pensioners and the pensions being increased with each DA instalments. However, the contribution to the fund will be subject to minor adjustment keeping in view the likely withdrawals and the financial position of the Railways."

27. In this regard, the Ministry of Railways have submitted the following:

"Keeping in view the above recommendations, the appropriation to Pension Fund has been kept at Rs. 1,970 crore in 1995-96. With the sanction of Interim Relief and merger of higher rate of DA with DCRG, this amount may become inadequate in meeting with the requirement, and, thus may have to be stepped up suitably. The appropriation to the Pension Fund in the year 1994-95 was stepped up to Rs. 2,005 crore and the balance projected in the fund during current year will be around Rs. 770 crore.

It is submitted for the consideration of the Committee that the contribution to Pension Fund may be enhanced to Rs. 2,450 crore in 1996-97, keeping in view the increase in the number of pensioners and the pensions being increased with each DA instalments. This contribution to the Fund will be subject to adjustments, keeping in view the likely withdrawals and the financial position of the Railways."

Development Fund

28. The Railway Convention Committee (1991) had, in para 63 of their Ninth Report, observed as under:

"With regard to Development Fund (DF) the Committee note that out of the excess of revenue over the total working expenses and after clearing in full the dividend liability, 'the amount required for the passengers and users' amenities (DF-I), labour welfare works (DF-II), unremunerative operating improvements (DF-III) and Safety Works (DF-IV) is credited to this Fund. The Ministry of Railways have stated that the Budget Estimates 1994-95 provide for appropriation of Rs. 290 crores to this Fund. The Committee desire that the Ministry of Railways should, in their action taken notes, apprise them about the actual amount that will be credited to this Fund at the end of the current financial year."

29. In this connection, the Ministry of Railways, in their Final Memorandum, have submitted as under:

"This fund is used for meeting expenditure on

(i) Passengers and users' amenities; DF-I

(ii) Labour welfare works; DF-II

(iii) Unremunerative operating improvements; DF-III and

(iv) Safety Works DF-IV

From out of the excess of revenue over the total working expenses after clearing in full the dividend liability, the amount required for the above is credited to this Fund. In a year where the amount is not sufficient, the Railways borrow money from the General Revenues. This money together with the interest thereon has to be repaid.

Budget Estimates 1995-96, provide for appropriation of Rs. 350 crore to this Fund."

Capital Fund

30. The Ministry of Railways, in their Second Interim Memorandum furnished to Railway Convention Committee (1991) had proposed to create a new Fund to be called 'Capital Fund' with effect from 1992-93. The Ministry of Railways at that time had stated that the source of financing this Fund would be:

(a) Budgetary support provided by the General Exchequer; and

(b) part of the internally generated resources to be utilised for building up the infrastructure.

31. In this regard, the Ministry of Finance had expressed the following views:—

"As regards the new Capital Fund, it is not necessary to transfer budget support to the Capital Fund. Government Capital should remain distinct as it is now. Only internally generated resources should be transferred to Capital Fund."

32. The Ministry of Railways had also accepted the above view of Ministry of Finance.

33. The Railway Convention Committee (1991), vide their Third Report, while agreeing with the proposal of Ministry of Railways for creating the Capital Fund with effect from 1992-93, endorsed the views expressed by Ministry of Finance and recommended to the Ministry of Railways that this Fund should be used to finance capital works only and not for improving the general ways and means position of the Government.

34. The Capital Fund is credited with all the "Excess" earlier referred to as "surplus" left after Appropriation to Development Fund etc.

35. In this context, the Ministry of Railways have now submitted the following for the consideration of the Committee:

"As the financial performance did not come up to the expectations, sufficient 'excess' could not be generated for being appropriated to this fund in 1992-93 and 1993-94 thereby forcing the Railways to reduce the Annual Plans. This also led to lot of problems leading to occurrence of excess expenditure in the allocation 'Capital'. The expenditure which should have been booked under 'Capital Fund' had to be transferred to 'Capital' allocation for want of adequate funds in 'Capital Fund'. As these funds are required to finance the same nature of works as are funded through the Budgetary Support, it is submitted for the consideration of the Committee that 'Appropriation to this Fund' may be made as first charge on the Net Revenue, which at present has been the Dividend Payable to the General Revenues.

In 1995-96 this Fund is estimated to be credited with Rs. 1,705 crore."

36. In this context, the Ministry of Railways have also furnished the following views expressed by the Ministry of Finance:

> "The Railways' proposal that 'Appropriation to Capital Fund' may first be charged on the Net Revenue followed by dividend and appropriation to Development Fund cannot be accepted. Agreement on such a proposal can lead to a situation, when Railways can avoid paying dividend to General Revenue in case sufficient surplus is not generated. The creation of the Capital Fund was agreed to subject to the condition that the Fund should be fed only after all liabilities such as dividend payments, Development Fund requirements and loan repayment obligations, if any, to Governments are discharged."

37. Reacting to the above observation of the Ministry of Finance, the Ministry of Railways, in their memorandum, submitted as under:

> "The apprehension about avoiding payment of dividend to General Revenues expressed by the Ministry of Finance on Railways' suggestion that appropriation to Capital Fund be made the first charge on net revenue, it is to be submitted that even at present the payment of dividend can be deferred in such years when adequate 'excess' is not generated. Such deferred dividend is, however, to be paid in later years. The Railways record in this regard is clear in as much as the Railways have always promptly liquidated all their liabilities on account of accumulated deferred dividend and there is no outstanding left. Even at present when the required surplus is not generated the expenditure earmarked for capital fund is borne by the General Exchequer. Thus, it will not result in any backing out from the Railways commitments but will rather ensure greater administrative/financial convenience."

Interest on Railway Funds and Loan to Development Fund

38. In para 65 of their Ninth Report, the Railway Convention Committee (1991) had recommended as under:

> "The Committee do not see any logic in modifying the principles governing interest on various Railway Funds and, therefore, recommend that the balances in the various Railway Reserve Funds (other than Development Fund) may carry the same rate of interest as the rate of dividend. The rate of interest on the balance in Development Fund may be the same as the rate of interest on loan from General Revenues for Development Fund Works for the purpose of Budget Estimates for 1995-96."

39. In this regard, the Ministry of Railways have suggested the following:

> "It is submitted that these recommendations of RCC may be made applicable for 1996-97 as well."

Recommendations

40. The Committee had, in their Ninth Report recommended, purely as an interim measure that the capital invested on the Railways upto 1952 may be treated as 'Dividend free' and the dividend for the year 1995-96 to General Revenues on the remaining capital invested thereafter be paid at the rate of 7% irrespective of year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the financial year 1994-95. After considering the views of the Ministries of Railways and Finance, the Committee have come to the conclusion that there is no justification to modify their above interim recommendation.

In view of the arguments given by the Ministry of Finance the Committee do not agree with the proposal of the Ministry of Railways to treat the capital invested after 1952 to 1969-70 as dividend free. The Committee, therefore, finally recommend that the capital invested on the Railways upto 1952 may be treated as 'dividend free' and the dividend for the year 1996-97 to General Revenues on the remaining capital invested thereafter be paid at the rate of 7% irrespective of year of investment inclusive of the amount that was payable by Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the financial year 1995-96.

41. All other concessions now available viz. dividend on residential buildings, new lines, subsidies from General Revenues etc. may also be allowed to continue on the existing basis while framing final Budget Estimates for 1996-97.

42. The Committee in their Fifth and Ninth Reports (Tenth Lok Sabha) had recommended that the Railways should carry out a fresh study regarding compensation to be paid to the Railways for carrying social burden. The Committee feels that there is some discrepancy about the exact amount of social burden being borne by the Indian Railways because in their final Memorandum the Ministry of Railways have stated that the Railways carried a social burden amounting to Rs. 1515 crores during 1994-95. Whereas, the Chairman, Railway Board deposed during evidence that it was Rs. 1973 crores in 1994-95 and after substracting the cost towards staff welfare, law and order etc. it comes to Rs. 1215 crores. The Committee desire that in order to clear the doubt the Ministry of Railways should inform them about the exact amount of social burden borne by them during 1994-95. They also recommend that the Ministry of Railways should finalise in consultation with the Ministry of Finance the exact amount of social burden being borne by the Railways. The Committee reiterate their original recommendation made in para 59 of their Ninth Report that Railways should adequately be compensated for carrying social burden.

43. Although the Committee had recommended for an appropriation of Rs. 2,650 crores to the Depreciation Reserve Fund (DRF), yet the final appropriation to DFR was kept at Rs. 2,000 crores in the budget estimates as warranted by the Plan needs for 1995-96. However, they find that at the end of the current financial year the balance in the DRF is expected to be Rs. 1,200

crores. In this connection, the Ministry of Railways have informed the Committee that the Report of the working group on DRF which was initially submitted on 29 April, 1995, was referred back to the group for carrying out more detailed analysis. The Committee note that the revised report has since been submitted and is under examination of the Ministry of Railways. They expect that the above report would be examined without any further delay and a copy of the same alongwith action taken thereon may be made available to them at the earliest.

44. The Committee further note that a sizeable investment in rolling stock has been made by IRFC over the last few years. As the rolling stock is not the property of Railways and is with the Railways on lease only, no provision towards their replacement need to be made. Keeping in view the fact that the IRFC investment is deployed partly against the assets requiring replacements which would have otherwise been met out of the DRF and that a substantial balance is already under DRF, the Committee agree with the proposal of Ministry of Railways that the contribution to the fund in 1996-97 may be kept at Rs. 2,000 crore, subject to minor adjustment as warranted by the Annual Plan for 1996-97 and the capacity of the system to generate internal resources.

45. The Committee note that the balance in the Pension Fund is expected to be around Rs. 770 crore at the end of the current financial year. The Committee agree with the proposal of the Ministry of Railways that the contribution to Pension Fund may be enhanced to Rs. 2,450 crore in 1996-97, keeping in view the increase in the number of pensioners and the pension being increased with each DA instalment. However, the contribution to the fund will be subject to minor adjustment keeping in view the likely withdrawals and the financial position of the Railways.

46. With regard to Development Fund (DF), the Committee note that out of the excess of revenue over the total working expenses and after clearing in full the dividend liability, the amount required for the passengers and users' amenities (DF-I), Labour welfare Works (DF-II), Unremunerative Operating Improvements (DF-III) and Safety Works (DF-IV) is credited to this fund. The Ministry of Railways have stated that the Budget Estimates for 1995-96 provided for appropriation of Rs. 350 crores to this Fund. The Committee desire that the Ministry of Railways should, in their action taken notes, apprise them about the actual amount that will be credited to this Fund at the end of the current financial year.

47. Capital Fund to which all surplus left after payment of dividend and appropriation to Development Fund etc. are to be credited, is used to finance capital works on the Railways. In 1995-96, this Fund is estimated to be credited with Rs. 1,705 crores. The proposal of the Ministry of Railways to make the appropriation to Capital Fund as first charge of the net revenue followed by Dividend and appropriation to Development Fund is not acceptable to the Committee as this Fund was agreed to be created on the suggestion of the Ministry of Railways itself from the year 1992-93. When there is no possibility of generating sufficient excess for appropriation to this Fund, it is incomprehensible

to the Committee as to why the above proposal was mooted by the Ministry. The Committee are, therefore, of the opinion that in case the Railways feel that there will not be any scope to generate sufficient surplus in near future for appropriation to the Capital Fund, there is no point in continuing this Fund any further. The Ministry of Railways may, if considered necessary, abolish it and the surplus left after making payment of all the liabilities may be credited to Development Fund as was being done earlier.

48. The Committee do not see any logic in modifying the principles governing interest on various Railway Funds and therefore recommend that the balances in the various Railway Reserve Funds (other than Development Fund) may carry the same rate of interest as the rate of Dividend. The rate of interest on the balance in Development Fund may be the same as the rate of interest on loan from General Revenues for Development Fund Works for the purpose of Budget Estimates for 1996-97.

New Delhi;	M. BAGA REDDY,
March 6, 1996	*Chairman,*
Phalguna 16, 1917(S)	*Railway Convention Committee.*

APPENDICES

APPENDIX I

(*Vide* Para 8)

Statement showing the recommendations contained in the Ninth Report of the Railway Convention Committee (1991) on Rate of Dividend for 1995-96 and other ancillary matters and action taken thereon

Sl. No.	Para No.	Recommendation	Action Taken by Government
1.	56	After considering the view point put forward by the Planning Commission and Ministry of Finance alongwith the arguments including the supplementary note given by the Ministry of Railways on the subject and keeping in view the average borrowing rate, the Committee recommend, purely as an interim measure, that the capital invested on the Railways upto 1952 may be treated as "Dividend free' and the dividend for the year 1995-96 to General Revenues on the remaining capital invested thereafter be paid at the rate of 7% irrespective of year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the financial year 1994-95.	The recommendation has been accepted and already made applicable in framing RE 1994-95 and BE 1995-96.
2.	57	From the Interim Memorandum, the Committee find that there has been a reverse flow of funds since 1993-94 onwards. The Ministry of Railways had to pay Rs. 1299 crores and Rs. 1372 crores as dividend liability during 1993-94 and 1994-95 respectively, against the Budgetary support of Rs. 960 crores and Rs. 1150 crores during the same period. The Committee feel that it is a clear case in which the Railways had to pay dividend on that Budgetary support which is to be adjusted against their dividend liability. Keeping in view the above	The recommendation has been accepted and will be made applicable while framing RE 1995-96.

Sl. No.	Para No.	Recommendation	Action Taken by Government
		facts and the resource crunch faced by the Railways and the inability of the Finance ministry and the Planning Commission to make available the necessary funds, the Committee recommend that the Railways should decide the quantum of dividend that can be paid during 1995-96 and the balance amount of dividend, if any, be treated as a deferred dividend liability on which no interest shall be charged. The amount of deferred dividend liability may be equal to or less than the amount due to the Railways from the various State Electricity Boards. The Committee, while making this recommendation have taken into account the system of deferred dividend liability that was prevalent from 1.4.1978 till 1992-93.	
3.	58	All other concessions now available *viz.* dividend on residential buildings, new lines, subsidies from General Revenues etc. may provisionally be allowed to continue on the existing basis while framing Budget Estimates for 1995-96.	The recommendation has been accepted and already made applicable in framing RE 1994-95 and BE 1995-96.
4.	59	The Committee do not see any reason as to why the present policy of the Government applicable to Public Sector Undertakings for mobilising their own resources and not to depend on plan outlay should also be made applicable to the Indian Railways for they carry huge social burden amounting to Rs. 2,000 crores which runs counter to the basic principle of a commercial undertaking. When the Ministry of Railways are themselves facing acute resource crunch, the Committee are	A Report regarding a fresh study conducted about the Social Burden being carried out by Indian Railways has already been submitted to the Railway Convention Committee and also sent to the Ministry of Finance.

Sl. No.	Para No.	Recommendation	Action Taken by Government
		in agreement with their countention that they should adequately be compensated for carrying social burden. In this, connection, the Committee had in their 5th Report (10th Lok Sabha) recommended that the Railways should carry out a fresh study regarding compensation to be paid to the railways for carrying social burden. However, the Committee regret to note that whereas the Railways, as stated by the Chairman, Railway Board during evidence, have made the necessary study on the subject, the details of the said study were neither furnished to them nor to the Ministry of Finance. They, therefore, stress that the Ministry of Railways should furnish the details of the study to the Committee and the Ministry of Finance expeditiously.	
5.	60	The Committee feel distressed to note that a staggering amount of Rs. 1095 crores was outstanding against the various State Electricity Boards as on 30.11.1994. The Committee are not convinced with the routine reply given by the Ministry of Railways about the steps taken by them to recover the dues. They need hardly point out that had the Ministry taken certain drastic steps the outstanding amount would not have mounted from a mere sum of Rs. 133.42 crores in March, 1989 to an alarming figure of Rs. 1096 crores as on 30.11.1994. The Committee feel that the scarcity of resources being acutely felt by the Ministry of Railways could be lessened to some extent, if they had recovered the outstandings. They are, therefore,	Wherever the consent of State Electricity Board has been received, necessary instructions have been issued to the Railways *vide* Board's letter No. TCIV/95/4105/5/RC dated 3.7.95 to implement the above recommendation in consultation with their associate finance. Where the consent has not been received as yet the matter is being vigorously pursued with the concerned Electricity Boards to give their consent. At present Rail-users have the facility of booking their consignments by rail either

Sl. No.	Para No.	Recommendation	Action Taken by Government
		constrained to recommend that the amount recoverable from State Electricity Boards etc. should be adjusted from the future power tariff bills of SEBs, etc. At the same time they also desire the Finance Ministry and the Planning Commission to examine whether the outstanding against various State Electricity Boards could be adjusted against the Central assistance to States and the amount so realised is credited to the Railways. The Committee further recommend that the Ministry of Railways should also follow the 'cash and carry' scheme for all consignments to be booked in future.	on the basis of 'pre-payment' of freight (Cash & Carry system) or on the basis of 'to pay' system. In the case of the former, the freight is paid at the time of booking before the consignment is transported and in the latter the freight is paid at the time of delivery. A surcharge is levied for availing of the facility under the 'to pay' scheme since the Railways give a kind of credit to the Rail-users by collecting the freight after the service has been rendered. This surcharge is at present 15% for coal consignments and 10% for others. While it would be a desirable situation to cover all the commodities in the 'Cash & Carry' Scheme so that there are no freight outstandings left for recovery, it is felt that selective adoption of compulsory pre-payment would have the desire effect of ensuring that the charges due for the Railways are paid in time by the Rail-users. In fact, such selective imposition is being restored to by the Railways whenever it is observed that among certain categories of Rail-users or in certain streams of traffic there is a tendency or delay in clearing the Railway dues. This selective approach is being suggested

Sl. No.	Para No.	Recommendation	Action Taken by Government
			since denial of the option to book under the 'to pay' system may, in certain cases, divert the traffic from the Railways, since in the absence of a guaranteed transit and delivery the 'Cash & Carry' or compulsory 'Pre-Payment' condition would appear unattractive to the customers despite a lower rate. It will also be difficult to withdraw a facility that a customer has enjoyed all along. Already coal booked by some of the State Electricity Boards/Power Houses is being transported under the 'Cash & Carry' Scheme. Progressively, this could be extended to other commodities as and when conditions so warrant. It is, therefore, proposed to adopt selective approach in implementing the 'Cash & Carry' principle in order to ensure that the traffic is retained by the Railways and at the same time prevent excessive accumulation of outstanding freight charges.
6.	61	The Committee note that though they had recommended for an appropriation of Rs, 2700 crores to the Depreciation Reserve Fund (DRF) but the final appropriation to DRF was kept at Rs. 2300 crores in the Budget Estimates due to an overall reduction in the size of the Plan by Rs. 500 crores. The	As warranted by the Plan needs for 1995-96 and the overall financial position of the Railways, the appropriation to DRF has been kept at Rs. 2000 crore as against Rs. 2650 cr. informed to RCC. Change, if any, in this will be brought to the notice

Sl. No.	Para No.	Recommendation	Action Taken by Government
		Committee find that at the end of the current financial year the balance in the DRF is expected to be Rs. 1,100 crores. The Ministry of Railways have informed the Committee that the draft Report by the Working Group on DRF has been prepared and the same is likely to be finalised and presented early. The Committee expect that the above report shall be furnished to them without any further delay. However, keeping in view the new assets added and the element of inflation, the Committee agree with the proposal of Ministry of Railways that the contribution to the DRF in 1995-96 may be kept at Rs. 2650 crores, subject to minor adjustments keeping in view the size of the Annual Plan finally fixed and the capacity of the system to generate internal resources.	of the RCC while submitting the next Interim Memorandum.
7.	62	The Committee note that the balance in the Pension Fund is expected to be around Rs. 380 crores at the end of current financial year. The Committee agree with the proposal of Ministry of Railways that the contribution to Pension Fund may be enhanced to Rs. 1900 crore in 1995-96, keeping in view the increase in the number of pensioners and the pensions being increased with each DA instalment. However, the contribution to the fund will be subject to minor adjustment keeping in view the likely withdrawals and the financial position of the Railways.	In line with the above recommendation of RCC, the appropriation to Pension Fund in BE 1995-96 has been kept at Rs. 1970 crore.
8.	63	With regard to Development Fund (DF) the Committee note that out of the excess of revenue over the total working expenses and after clearing	Appropriation to Development Fund is Rs. 257.62 Crores.

Sl. No.	Para No.	Recommendation	Action Taken by Government
		in full the dividend liability, the amount required for the passengers and user's amenities (DF-I), labour welfare works (DF-II), unremunerative operating improvements (DF-III) and safety works (DF-IV) is credited to this Fund. The Ministry of Railways have stated that the Budget Estimates 1994-95 provide for appropriation of Rs. 290 crores to this Fund. The Committee desire that the Ministry of Railways should, in their action taken notes, apprise them about the actual amount that will be credited to this Fund at the end of the current financial year.	
9.	64	The Committee also note that in 1994-95 Capital Fund, to which all surplus left after payment of dividend and appropriation to Development Fund, etc. are to be credited and which, in turn, would be used to finance Capital Works on the Railways, is estimated to be Rs. 1680 crores. The Committee expect the Ministry of Railways to apprise the Committee, in their action taken note, about the amount that has actually been credited to this Fund at the end of the current financial year.	Appropriation to Capital Fund is Rs. 2188.78 crores.
10.	65	Lastly, the Committee do not see any logic in modifying the principles covering interest on various Railway Funds and therefore recommend that the balances in the various Railway Reserve Fund (other than Development Fund) may carry the same rate of interest as the rate of Dividend. The rate of interest on the balance in Development Fund may be the same as the rate of interest on loan from General Revenues for Development Fund Works for the purpose of Budget Estimates for 1995-96.	The recommendation has been accepted and already made applicable in framing RE 1994-95 and BE 1995-96.

APPENDIX II

(*vide* para 21)

The rate of dividend on the Capital-at-charge of the Railways and reliefs in dividend and by way of subsidy, based on the interim recommendations of the Railway Convention Committee (1991) applicable for 1995-96 are as under:—

I. DIVIDEND

The rate of dividend is 7 per cent on the entire Capital invested on the railways irrespective of the year of investment and inclusive of the amount that is payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the financial year 1993-94. The amount payable on this account to the General Revenues was Rs. 23.12 crores in 1993-94.

Pre-52 capital-at-charge is exempted from payment of dividend. Similarly, no dividend is payable on capital expenditure on Metropolitan Transport Projects and unremunerative strategic lines. The annual loss in the working of much lines is to be borne by General Revenues and if the working of these lines leaves a surplus it should be transferred to General Revenues (upto the level of normal dividend).

II. SUBSIDY FROM GENERAL REVENUES

Capital invested in the following cases qualifies for subsidy from the General Revenues to the extent of the dividend calculated at the rates specified above:

(a) Strategic lines.

(b) 28 new lines taken up on or after 1.4.1955 on other than financial considerations. Dividend becomes payable if any line becomes remunerative adopting the marginal cost principle. The arrangement is to be applied also to the two national Investments *viz.* Jammu-Kathua and Tirunelveli-Kanya Kumari-Trivandrum line.

(c) Northeast Frontier Railway (Non-strategic portion).

(d) Unremunerative Branch lines subject to their unremunerativeness being established on the marginal cost principle in each case through an annual review of their financial results.

(e) The Ore Lines between Bimalgarh-Kiriburu and Sambalpur-Titlagar.

(f) Ferries and Welfare buildings.

(g) 50% of the capital invested on all works in the current year and in the two previous years, excluding capital invested in strategic lines, Northeast Frontier Railway (Commercial), Ore Lines, Jammu-Kathua and Tirunelveli-Kanya Kumari-Trivandrum Lines, Ferries and Welfare buildings and unremunerative branch lines which qualify in full for subsidy, capital invested in new lines on which the dividend payable is deferred during the period of construction and the first five years after opening of the lines for traffic, and the capital cost of line wires taken over from the P & T Department.

APPENDIX III

Statement of Recommendations/observations

Sl. No.	Para No.	Ministry/ Deptt. Concerned	Recommendation/observations
1	2	3	4
1.	40	Ministry of Railways	The Committee had, in their Ninth Report recommended, purely as an interim measure that the capital invested on the Railways upto 1952 may be treated as 'Dividend free' and the dividend for the year 1995-96 to General Revenues on the remaining capital invested thereafter be paid at the rate of 7% irrespective of year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the financial year 1994-95. After considering the views of the Ministries of Railways and Finance, the Committee have come to the conclusion that there is no justification to modify their above interim recommendation. In view of the arguments given by the Ministry of Finance the Committee do not agree with the proposal of the Ministry of Railways to treat the capital invested after 1952 to 1969-70 as dividend free. The Committee, therefore, finally recommend that the capital invested on the Railways upto 1952 may be treated as 'dividend free' and the dividend for the year 1996-97 to General Revenues on the remaining capital invested thereafter be paid at the rate of 7% irrespective of year of investment inclusive of the amount that was payable by Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the financial year 1995-96.
2.	41	-do-	All other concessions now available *viz.* dividend on residential buildings, new lines, subsidies from General Revenues etc. may also be allowed to continue on the existing basis while framing final Budget Estimates for 1996-97.

1	2	3	4
1.	40	Ministry of Railways	The Committee in their Fifth and Ninth Report (Tenth Lok Sabha) had recommended that the Railways should carry out a fresh study regarding compensation to be paid to the Railways for carrying social burden. The Committee feels that there is some discrepancy about the exact amount of social burden being borne by the Indian Railways because in their final Memorandum the Ministry of Railways have stated that the Railways carried a social burden amounting to Rs. 1515 crores during 1994-95. Whereas, the Chairman, Railway Board deposed during evidence that it was Rs. 1973 crores in 1994-95 and after substracting the cost towards staff welfare, law and order etc. it comes to Rs. 1215 crores. The Committee desire that in order to clear the doubt the Ministry of Railways should inform them about the exact amount of social burden borne by them during 1994-95. They also recommend that the Ministry of Railways should finanlise in consultation with the Ministry of Finance the exact amount of social burden being borne by the Railways. The Committee reiterate their original recommendations made in para 59 of their Ninth Report that Railways should adequately be compensated for carrying social burden.
4.	43	-do-	Although the Committee had recommended for an appropriation of Rs. 2,650 crores to the Depreciation Reserve Fund (DRF), yet the final appropriation of DRF was kept at Rs. 2,000 crore in the budget estimates as warranted by the Plan needs for 1995-96. However, they find that at the end of the current financial year the balance in the DRF is expected to be Rs. 1,200 crores. In this connection, the Ministry of Railways have informed the Committee that the Report of the working group of DRF which was initially submitted on 29 April, 1995, was referred back to the group for carrying out more detailed analysis. The Committee note that the revised report has since been submitted and is under examination of the Ministry of Railways. They expect that the above report would be examined

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			without any further delay and a copy of the same alongwith action taken thereon may be made available to them at the earliest.
5.	44	Ministry of Railways	The Committee further note that a sizeable investment in rolling stock has been made by IRFC over the last few years. As the rolling stock is not the property of Railways and is with the Railways on lease only, no provision towards their replacement need to be made. Keeping in view the fact that the IRFC investment is deployed partly against the assets requiring replacements which would have otherwise been met out of the DRF and that a substantial balance is already under DRF, the Committee agree with the proposal of Ministry of Railways that the contribution to the fund in 1996-97 may be kept at Rs. 2,000 crore, subject to minor adjustment as warranted by the Annual Plan for 1996-97 and the capacity of the system to generate internal resources.
6.	45	-do-	The Committee note that the balance in the Pension Fund is expected to be around Rs. 770 crores at the end of the current financial year. The Committee agree with the proposal of the Ministry of Railways that the contribution to Pension Fund may be enhanced to Rs. 2,450 crores in 1996-97, keeping in view the increase in the number of pensioners and the pension being increased with each DA instalment. However, the contribution to the fund will be subject to minor adjustment keeping in view the likely withdrawals and the financial position of the Railways.
7.	46	-do-	With regard to Development Fund (DF), the Committee note that out of the excess of revenue over the total working expenses and after clearing in full the dividend liability, the amount required for the passengers and users' amenities (DF-I), labour welfare works (DF-II), Unremunerative operating improvements (DF-III) and Safety Works (DF-IV) is credited to this Fund. The Ministry of Railways have stated that the Budget Estimates for 1995-96 provided for appropriation

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			of Rs. 350 crores to this Fund. The Committee desire that the Ministry of Railways should, in their action taken notes, apprise them about the actual amount that will be credited to this Fund at the end of the current financial year.
8.	47	Ministry of Railways	Capital Fund to which all surplus left after payment of dividend and appropriation to Development Fund etc. are to be credited, is used to finance capital works on the Railways. In 1995-96, this Fund is estimated to be credited with Rs. 1,705 crores. The proposal of the Ministry of Railways to make the appropriation to Capital Fund as first charge on the net revenue followed by Dividend and appropriation to Development Fund is not acceptable to the Committee as this Fund was agreed to be created on the suggestion of the Ministry of Railways itself from the year 1992-93. When there is no possibility of generating sufficient excess for appropriation to this Fund, it is incomprehensible to the Committee as to why the above proposal was mooted by the Ministry. The Committee, are, therefore, of the opinion that in case the Railways feel that there will not be any scope to generate sufficient surplus in near future for appropriation to the Capital Fund, there is no point in continuing this Fund any further. The Ministry of Railways may, if considered necessary, abolish it and the surplus left after making payment of all the liabilties may be credited to Development Fund as was being done earlier.
9.	48	-do-	The Committee do not see any logic in modifying the principles governing interest on various Railway Funds and therefore recommend that the balances in the various Railway Reserve Funds (other than Development Fund) may carry the same rate of interest as the rate of Dividend. The rate of interest on the balance in Development Fund may be the same as the rate of interest on loan from General Revenues for Development Fund Works for the purpose of Budget Estimates for 1996-97.

APPENDIX IV

Minutes of the 60th sitting of the Railway Convention Committee (1991) held on 13th February, 1996

60th sitting of the Railway Convention Committee was held on Tuesday, the 13th February, 1996 in Committee Room 'D', Parliament House Annexe from 1500 hours to 1730 hours.

The folllowing members were present:

Shri M. Baga Reddy—*Chairman*

Lok Sabha

2. Shri R. Anbarasu
3. Shri Saifuddin Choudhury
4. Shri Gurudas Vasant Kamat
5. Shri Ram Nagina Mishra
6. Shri Lokanath Choudhury

Rajya Sabha

7. Shri O. Rajagopal
8. Shri Ajit P.K. Jogi

SECRETARIAT

1. Shri T.R. Sharma—*Deputy Secretary*
2. Shri R. C. Gupta—*Under Secretary*

2. The Committee took evidence of the representatives of the Ministries of Finance (Department of Economic Affairs) and Railways (Railway Board) on the subject of "Rate of Dividend for 1996-97 and other ancillary matters".

3. The representatives of both the Ministries clarified various points raised by the members of the Committee on the subject.

4. A verbatim record of the proceedings was kept.

The Committee then adjourned.

Minutes of the 61st sitting of the Railway Convention Committee (1991) held on 8th March, 1996

61st sitting of the Railway Convention Committee was held on Friday, the 8th March, 1996 in Committee Room "62', Parliament House Annexe from 1500 hours to 1545 hours.

The folllowing members were present:

Shri M. Baga Reddy—*Chairman*

Lok Sabha

2. Shri Lal Jan S.M. Basha
3. Shri Saifuddin Choudhury
4. Prof. Prem Dhumal
5. Shri Nitish Kumar
6. Shri Rajvir Singh
7. Shri Lokanath Choudhury

Rajya Sabha

8. Shri Ranjan Prasad Yadav

SECRETARIAT

1. Shri T.R. Sharma—*Deputy Secretary*
2. Shri R. C. Gupta—*Under Secretary*

2. The Committee took up for consideration the Draft Report on Rate of Dividend for 1996-97 and other ancillary matters and adopted the same with the following amendment/modification:

Page	*Para*	*Line*	*For*	*Substitute*
21	42	17	and the manner in which the Ministry of Railways can be compensated.	The Committee reiterate their original recommendations made in para 59 of their Ninth Report that Railways should adequately be compensated for carrying social burden.

3. The Committee also authorised the Chairman to present the Report to both the Houses of Parliament after making verbal or other consequential changes arising out of factual verification by the Ministry of Railways.

The Committee then adjourned.