R.C.C. No. 14

RAILWAY CONVENTION COMMITTEE (1973)

SIXTH REPORT

Rate of Dividend for 1975-76 and other Ancillary Matters

LOK SABHA SECRETARIAT
NEW DELHI

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CONTENTS

APPENDICES

RAILWAY CONVENTION COMMITTEE, 1973

Shri B. S. Murthy—*Chairman*

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2. Shri Jagadish Bhattacharyya
3. Shri Chandrika Prasad
*4. Shri C. Subramaniam
5. Shri S. A. Kader
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19. Shri Kota Punnaiah
20. Shri Nageshwar Prasad Shahi
**21. Shri Gunanand Thakur

SECRETARIAT

Shri Avtar Singh Rikhy—*Additional Secretary.*

Shri Jainti Prasad Goel—*Senior Financial Committee Officer.*

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*Nominated on 5th December, 1974 *vice* Shri Y. B. Chavan *resigned* from the Membership of the Committee.

**Nominated on 9th May, 1974 *vice* Dr. Bhai Mahavir retired from Rajya Sabha and Sarvashri H. D. Malaviya and Mohd. Usman Arif *resigned* from Membership of the Committee.

INTRODUCTION

I, the Chairman, Railway Convention Committee, 1973 having been authorised by the Committee to present this Sixth Report on their behalf, present this Report on "Rate of Dividend for 1975-76 and other Ancillary Matters".

2. The Interim Report of the Committee on the Rate of Dividend for 1974-75 *i.e.* the first year of the Fifth Five Year Plan was presented to Parliament on the 11th December, 1973. The recommendations of the Committee concerning the rate of dividend were adopted by the two Houses on the 17th December, 1973. The Committee have subsequently finalised/presented the following Reports:—

(1) First Report on Action taken by Government on the recommendations contained in their Interim Report.

(2) Second Report on Action Taken by Government on the recommendations contained in the First Report of the Railway Convention Committee, 1971 on "Accounting Matters".

(3) Third Report on Action Taken by Government on the recommendations contained in the Second Report of the Railway Convention Committee, 1971 on "Suburban Services".

(4) Fourth Report on Action Taken by Government on the recommendations contained in the Third Report of the Railway Convention Committee, 1971 on "Commercial and Allied Matters (Part II)".

(5) Fifth Report on Action Taken by Government on the recommendations contained in the Fourth Report of the Railway Convention Committee, 1971 on "Commercial and Allied Matters (Part II)".

3. At their fifth sitting held on the 5th March, 1974, the Committee decided to take up, in the first instance, the following subjects for detailed examination on a priority basis:—

(i) Appraisal of Railways' Fourth Five Year Plan;

(ii) Financial implications of Railways' Fifth Five Year Plan;

(iii) Social Burdens on Railways; and

(iv) Organisational set-up and functions of the Railway Board.

4. The Committee invited Memoranda from the recognised Railwaymen's Unions at the National and Zonal levels with regard to the functioning of the Indian Railways and the measures to be taken to improve their financial position. Only two Unions *viz.* the Eastern Railwaymen's Union, Calcutta and the Western Railway Employees' Union, Bombay, have so far furnished Memoranda to the Committee.

5. The Committee have also received a Memorandum from the North Eastern Council, Shillong, suggesting certain relaxations in the existing financial criteria for construction of new railway lines to facilitate development of the hilly and backward areas in the North Eastern Region. The Convener, Himachal Pradesh State Committee, has also requested the Railway Convention Committee to treat the proposed new lines in Himachal Pradesh as national investments as in the case of Jammu-Kathua line. Comments of the Ministry of Railways on the various suggestions contained in the Memorandum submitted by the North Eastern Council have been received on the 4th December, 1974, and are under consideration of the Committee. The comments of the Ministry in regard to the points made out in the other Memorandum submitted by the Himachal Pradesh State Committee are still awaited.

6. At their eighth sitting held on the 7th August, 1974 the Committee took the evidence of the representative of the Western Railway Employees' Union, Bombay on various problems concerning the finances and functioning of the Railways.

7. The Committee also undertook tours to various Zonal Railways and held informal discussions with the General Managers/ Heads of Departments/Divisional Superintendents concerned. They also visited some Railway Workshops, Production Units and Research & Training establishments. These visits and discussions have helped the Committee to have a first hand impression of the working of the field units of the Railways.

8. The Committee considered and finalised the Sixth Report at their sittings held on the 9th and 12th December, 1974. A statement showing the summary of principal recommendations of the Committee is appended to the Report.

9. The Committee wish to place on record their appreciation of the valuable assistance rendered to them by the Chairman and Members of the Railway Board, the Financial Commissioner for Railways and their officers and staff. They also wish to express their thanks to the representatives of the Planning Commission and the Ministries of Steel & Mines and Energy for tendering evidence before the Committee.

NEW DELHI;
December 14, 1974.
Agrahayana 23, 1896 (*S*).

B. S. MURTHY,
Chairman.
Railway Convention Committee.

REPORT

The Interim Report of the Committee contained a broad review of the working of the Railways during the Fourth Plan and the financial proposals in the quinquennium 1974—79.

2. A detailed questionnaire on the Railways' Fourth and Fifth Five Year Plans and other Ancillary Matters was drawn up by the Committee and forwarded to the Ministry of Railways (Railway Board) on the 6th August, 1974 for furnishing written replies in a month's time. Another questionnaire on Social Burdens was issued on the 19th September, 1974. Complete replies to all the questions in the first Questionnaire were received from the Ministry of Railways (Railway Board) on the 19th November, 1974, while replies to the second Questionnaire on Social Burdens are still awaited.

3. The Committee took the evidence of the official representatives of the Ministries of Railways (Railway Board), Steel & Mines and Energy and the Planning Commission on Railways' Fourth and Fifth Five Year Plans and other Ancillary Matters on the 25th and 26th November, 1974.

4. The examination of material and evidence of the official representatives of the Ministries of Railways, Steel & Mines and Energy and the Planning Commission has thrown up several important issues concerning Railway planning most important of which are:—

(i) Persistent and heavy shortfalls in traffic materialisation in the successive Five Year Plans in respect of all the 8 major commodities which constitute about 75 per cent of Railway Traffic—these shortfalls were particularly marked during the Fourth Plan, the final year of the Fourth Plan, i.e. 1973-74 being "the worst year for Railway finances for many decades."

(ii) While there have been heavy shortfalls in the traffic materialisation during the Fourth Plan, the Railways have exceeded the mid-term Plan provision of Rs. 1400 crores by Rs. 19 crores.

(iii) Although the traffic showed a consistent decline from 207.9 million tonnes in 1969-70 to 185.2 million tonnes in 1973-74, the average lead showed a marked increase from 613 kms. in 1968-69 to 643 kms. in 1969-70, 678 kms. in 1972-73 and 673 kms. in 1973-74. The total workload on the Railways in terms of net tonne kms. increased from 125.1 billion net tonne kms. in 1968-69 to 128.2 billion net tonne kms. in 1969-70 and 136.5 billion net tonne kms. in 1972-73 but declined to 124.6 billion net tonne kms. in 1973-74.

(iv) As against the highest figure of about 208 million tonnes of originating traffic achieved in 1969-70 and the lowest level of 185 million tonnes in 1973-74, the Planning Commission have set a target of 300 million tonnes for the Railways in the draft Fifth Plan. The Railways are, however, stated to be working to a slightly lower target of 280 million tonnes which they consider as more realistic. As the Fifth Plan has not yet been finalised, both the targets are at present tentative.

(v) There seems to be no agreement between the Planning Commission and the Ministry of Railways on the anticipated lead of traffic during the Fifth Plan—the former having taken the view that the lead may come down to 630 kms. (as against 678 kms. recorded in 1972-73) while, according to the Railways, it may be in the region of 660 kms. Precise commodity-wise details of the anticipated lead have still to be worked out.

5. The Committee have called for further information on all these and other pertinent points which have a vital bearing on Railway investments during the Fifth Plan. They have also called for written information on points which could not be covered during oral evidence. This is likely to take some time.

6. At their ninth sitting held on the 20th November, 1974, the Committee decided to set up a sub-Committee consisting of seven Members to study the question of requirements and availability of wagons in depth and to report to the Committee at an early date.

7. The Committee propose to finalise their Reports on the various subjects taken up by them for detailed examination as expeditiously as possible. The Committee attach particular importance to the question of Social Burdens on Railways. They note that the financial effect of these burdens was estimated to be as high as Rs. 225.44 crores in 1973-74 and that out of this amount the Railways are stated to be losing as much as Rs. 115.4 crores on low rated commodities, Rs. 95.06 crores on coaching services and Rs. 10.98 crores on un-remunerative branch lines.

8. The Committee would like the Ministry of Railways to expedite the costing studies which they are reported to have undertaken recently so that they may be able to review the freight structure in the light of the findings thereof. The Committee consider that the question whether Railways should continue to carry raw materials for industrial use at a great loss to themselves, needs a thorough and careful examination. It is also necessary for the Railways to ascertain precisely the unit cost of hauling the air-conditioned, First and Second Class coaches so that the losses being incurred on each of them could be accurately determined.

9. In regard to the uneconomic branch lines, the Committee would like the Ministry of Railways to examine the feasibility of mentioning specifically in the budget documents, the reasons for losses on each line and the steps being taken to improve their working.

10. The Committee note that the publication "Central Facts and Major Problems" circulated along with the budget papers gives in brief the break-up of the losess being incurred on various unremunerative services. They suggest that the Explanatory Memorandum to the Railway budget should also give in brief the incidence of various social burdens on Railways.

11. Pending finalisation of their Reports on "Railways' Fourth & Fifth Five Year Plans," "Social Burdens" and other subjects taken up for detailed examination, the Committee have decided to present this Interim Report in order to enable the Ministry of Railways to formulate their proposals for the next financial year i.e. 1975-76."

12. The Railway Minister in his speech in the Lok Sabha on the 21st August, 1974 observed: "Taking together the sharp increase in working expenses by Rs. 106.81 crores and the steep fall in the anticipated earnings by Rs. 140 crores (during 1974-75) the financial position of the Railways is indeed highly parlous and a cause for deep concern".

13. The Committee fully share the anxiety of the Minister of Railways in regard to Railway finances. Pending finalisation of their Reports on various matters taken up for detailed examination, particularly the question of social burdens on Railways, the Committee suggest that the reliefs|exemptions already given to the Railways may continue during the next financial year i.e. 1975-76. They, therefore, recommend as follows:—

A. Rate of Dividend etc.

(1) The present mode of payment of a fixed dividend on the capital invested in the Railways as computed annually in

lieu of the interest charges plus a small element of contribution to General Revenues, may continue in the interest of financial discipline.

(2) The present manner of fixing the payment of dividend to General Revenues, viz. at fixed percentages of the Capital-at-charge of the Railways excluding the capital of strategic lines and making special provision for certain ore lines, Jammu-Kathua section and Tirunelveli-Kanyakumari-Trivandrum line etc. may continue during the financial year 1975-76.

(3) The present arrangement of adopting differential rates of dividend on Capital invested on the Railways upto 31st March, 1964 and that invested thereafter, may continue during 1975-76. The existing rates of dividend at 4.5 per-cent of the Capital invested on the Railways upto 31st March, 1964 with an addition of 1 per cent in lieu of the tax on passenger fares and to assist the State Governments in financing the Railway Safety Works and 6 per cent on Capital invested on Railways after 31st March, 1964 may also be retained with the following ancillary provisions, including equitable concessions to the Railways, as below:—

(i) Out of the amount of additional 1 per cent dividend on the capital invested in the Railways upto 31st March, 1964 a sum of Rs. 16.25 crores may be passed on to the States as payment in lieu of passenger fare tax and the balance utilised to assist the States in providing their portion of the resources required for financing safety works as at present.

(ii) The present arrangement of deducting losses in the working of strategic lines from the payment to General Revenues may also continue during the next financial year with the complementary arrangement that the earnings of such lines, if any, after meeting working expenses, depreciation and other charges may be paid to the General Revenues to the level of normal dividend.

(iii) The present arrangement of exempting the Capital-at-charge of the non-strategic portions of the Northeast Frontier Railway, unremunerative Branch lines and the element of over-capitalisation from the payment of dividend may continue during 1975-76.

(iv) The present arrangement of permitting the Railways to take credit for the difference between the dividend rate of 6 per cent and the average borrowing rate at which interest would actually accrue in respect of their various fund balances banked with the General Revenues may also be continued during 1975-76.

(v) The existing arrangement of:

(a) deferring the payment of dividend on the capital-at-charge of New Lines chargeable at the average rate of interest during the period of their construction as well as for the first five years after their opening and (b) closing the account of deferred dividend on New Lines after a period of 20 years from the date of their opening, extinguishing any liability for deferred dividend not liquidated within that period may be continued during the next financial year viz. 1975-76.

14. The Financial Commissioner for Railways had suggested in his Memorandum to the Committee (copy enclosed as Appendix I) that having due regard to the long period of construction/gestation of railway investment in general and the time taken by such investments to reach full earning potential, exemption from payment of dividend for a period of three years may be given in respect of 50 per cent of the outlay in a year (instead of 25 per cent as at present) on Capital works-in-progress, other than those pertaining to strategic lines, Northeast Frontier Railway (Commercial), over-capitalisation, ore lines, Jammu-Kathua and Tirunelveli-Kanyakumari-Trivandrum lines, New Lines and P & T line wires.

15. The Committee note that the financial forecast for the Fifth Five Year Plan period based on the then existing structure of fare and freight rates and on the level of goods and passenger traffic projected in the draft Plan frame as well as the ruling wages and prices, submitted to them by the Financial Commissioner for Railways in October, 1973 indicates a net shortfall of Rs. 319 crores in the quinquennium 1974—79 on the basis of the present rate of dividend and also taking into account the reliefs/exemptions granted by the Railway Convention Committee, 1971. In case the further relief now asked for by the Railways is to be granted, the anticipated shortfall during 1974—79 would come down to Rs. 280 crores, that is to say, the exemption of 50 per cent of the outlay on capital works-in-progress (for a period of three years as at present) would give a relief of about Rs. 39 crores to the Railways during the five year period under review.

16. Ordinarily, the Committee would have dealt with the question of granting relief to the Railways after they had completed their examination of the investments made by the Railways in the Fourth Five Year Plan and those proposed for the Fifth Plan. However, having regard to the difficult financial position of the Railways, the Committee have no objection to the proposed relief being given. They, therefore, recommend that 50 per cent of the capital outlay in the years 1974-75 and 1975-76 on works-in-progress, other than those pertaining to strategic lines, Northeast Frontier Railway (Commercial), over-capitalisation, ore lines, Jammu-Kathua and Tirunelveli-Kanyakumari-Trivandrum lines, New Lines and P&T line wires, may be exempted from payment of dividend for a period of three years.

B. Railway Funds

17. In para 74 of the Interim Report, the Committee had observed that they would like to examine in detail the question of making appropriations to the Depreciation Reserve Fund on receipt of the report of the Working Group appointed to examine the basis for making provision for depreciation in respect of Railway assets created during the Fourth Plan period and to determine whether it is necessary to create a separate Renewal Reserve Fund to provide for inflationary and improvement elements in the cost of assets.

18. The Committee have been informed that due to the unprecedented situation on the Railways during the recent months it has taken more time than anticipated to finalise the report of the Working Group. The Report which was expected to be ready by the end of October, 1974, has not yet been made available to the Committee.

19. Pending receipt of the Report of the Working Group appointed by Government, the Committee recommend that appropriations to the Depreciation Reserve Fund in 1975-76 may be of the same order as in the final year of the Fourth Plan i.e. Rs. 115 crores.

20. Having regard to the unsatisfactory state of Railway Finances, the Committee further recommend that the existing provision of temporary loans from General Revenues being advanced to the Railway Development Fund, whenever the available balance in the Development Fund is insufficient to meet the cost of works chargeable to that Fund and payment of interest thereon at the average borrowing rate, may be continued.

21. The Committee further recommend that the Railways may be permitted to take temporary loans as at present from the General Revenues to meet the full dividend liability when the Railways' net

revenue is not adequate to pay the dividend to the General Revenues and the Revenue Reserve Fund has no or insufficient balance to make good the shortfall. The interest on such loans may be paid by the Railways at the current borrowing rate.

C. Other matters

22. In para 79 of their Interim Report, the Committee had recommended that the existing system of classification of Railway expenditure between Capital, Revenue, Depreciation Reserve Fund and Development Fund may be maintained till the Task Force appointed by the Ministry of Railways to undertake a detailed study of the Budgetary, Accounting and Management practices on the Railways had finalised their Report. In their First Report submitted to Government very recently, the Task Force have *inter alia* stated:

> "...it is the considered opinion of the Task Force, that there should be a single demand for all works expenditure irrespective of the source of financing *viz.* Revenue, Capital, Depreciation Reserve Fund, Development Fund or the Accident Compensation, Safety & Passenger Amenities Fund. The demand should bear the nomenclature: Assets Acquisition, Construction & Replacement, to correctly describe the character of the demand."

23. The Committee have not been informed of the decision taken on the above as well as several other recommendations which have a bearing on classification of Railway expenditure etc. The Committee would like to be informed early of the action taken by the Ministry of Railways on the recommendations made by the Task Force. In the meantime, the Committee have no objection to the existing system of classification being continued in the next financial year i.e. 1975-76.

NEW DELHI;
December 14, 1974.
Agrahayana 23, 1896 (*S*).

B. S. MURTHY,
Chairman,
Railway Convention Committee.

APPENDIX I

(*Vide* para 14)

SUPPLEMENTARY MEMORANDUM OF THE FINANCIAL COMMISSIONER FOR RAILWAYS ON EXEMPTION OF 50% OF OUTLAY IN A YEAR FOR A PERIOD OF THREE YEARS (FIFTH PLAN PERIOD 1974—79)

In the case of construction of new lines, the earlier Railway Convention Committees have accepted the view that during the period of construction and 5 years after opening of the line, the capital invested thereon does not start earning the anticipated return. The existing ruling provides that during the period of construction and 5 years thereafter, the rate of interest chargeable for the capital investment would be at the average borrowing rate and the amount of interest would become due for payment from the 6th year onwards of the opening of the line. The interest accrued or the deferred dividend, as it is called, would be payable out of the surplus earned in the operation of the line after meeting current dividend liability. In case there is no surplus, the deferred dividend would be kept in the books and the account will be closed after a period of 20 years from the date of opening of the line.

2. Apart from new lines, the Railways' capital investment which comprises many other items such as line capacity works, doublings, electrification of railway lines, provision of marshalling yards, investment on machinery and plant and augmentation of workshop facilities etc. etc. do not contribute to profitability or increase of earnings until they are commissioned. The period involved in the creation of these facilities is long and the investment thereon lies entirely idle till the facilities have been brought into commission. Even after these works have been completed and brought into use, it takes some years before their full earning potential can be realised. To allow for the period of construction of this investment as also for the time taken to reach the full earning potential created by these facilities, some relief from the payment of dividend on such capital is justified and reasonable. This case was represented to the Railway Convention Committee, 1971 with a suggestion to consider exemption of 25 per cent of outlay on works-in-progress in a year from the payment of dividend for 3 years. The outlay for this purpose was to be computed after eliminating the capital investment on strategic lines, N. F. Railway (Commercial), over-capitalisation, unremunerative branch lines, ore lines, investment

on national projects like Jammu-Kathua and Tirunelveli-Kanyakumari- Trivandrum lines, new lines, and P & T line wires. This suggestion was agreed to by the Railway Convention Committee, 1971.

3. Since the submission of the Memoranda to the Railway Convention Committee, 1971, the financial position of the Railways has deteriorated sharply. At that time it was anticipated that the indebtedness of the Railways to the General Revenues as at the end of 1973-74 will be only Rs. 15.03 crores; at the time of submission of memoranda to the Railway Convention Committee, 1973, however, the quantum of this indebtedness was placed at Rs. 201.01 crores. The Railways are not currently finding it possible to pay the full dividend to General Revenues or to make any contribution to the Development Fund. During the Fifth Five-Year Plan period, the Railways will add Rs. 1500 crores to their capital-at-charge. In a memorandum submitted in October 1973 to the Committee, it was brought out that based on the then existing structure of fares and freight rates and on the level of goods and passenger traffic projected in the draft Plan frame as well as the ruling wages and prices, the Railways will end the quinquennium 1974—79 with a net shortfall of Rs. 319 crores. In the memorandum to the Railway Convention Committee, 1973 it has accordingly been represented that 50 per cent of the outlay on capital works-in-progress may be exempted from the payment of dividend for 3 years as at present during the Fifth Plan period.

4. The pattern of capital investment during the last few years shows that increasingly major portion of the annual Plan outlay on works goes towards the works-in-progress and relatively only small amounts are spent on new works. During the year 1972-73, the proportion of the capital expenditure on works-in-progress and new works was 76 per cent and 24 per cent respectively. For the year 1974-75 the proportions charged to 82 per cent and 18 per cent. During 1975-76, it is anticipated that the ratio will be 90 per cent and 10 per cent, The quantum of works-in-progress as at the end of each year in the Fifth Five Plan will be greater than that in the Fourth Five Year Plan.

5. In all these circumstances, it is considered that exemption of 1|4th of the outlay on capital works-in-progress from payment of dividend would not give adequate relief. In the situation as explained above there would be a justification for enhancing relief of dividend on capital works-in-progress. It is, therefore, submitted for the consideration of the Railway Convention Committee, 1973 that instead of 25 per cent, 50 per cent of capital outlay on works-in-progress for 3 years may be exempted from payment of dividend.

6. The financial implications of the proposal would be as follows on the basis of the capital investment envisaged at the time of the preparation of the Fifth Plan document:

(In crores of rupees)

Year	At 25% outlay being exempted (as at present)	At 50% outlay being exempted	Increase over Col. 2 (i.e. additional relief)
1	2	3	4
1974-75	6·85	8.65	1·80
1975-76	7·89	13·50	5·61
1976-77	9·75	19·50	9·75
1977-78	10·66	21·20	10·54
1978-79	11·44	22·89	11·45
TOTAL :—	46.59	85·74	39·15

7. However, due to constraint on financial resources, as against the capital investment of Rs. 255 crores as initially anticipated for the year 1974-75, the investment has been reduced to Rs. 203 crores approximately. Also the level of capital investment in 1975-76 may be assumed to be of the same order. This reduced capital allotment would result in a reduction of relief to the extent of Rs. 1.8 crores as indicated below:

Relief on the reduced capital outlay of Rs. 203 crores for 1974-75 and for 1975-76.

Year	Capital invest-ment	At 25% outlay being exempted	At 50% outlay being exempted	Increased relief	Reduction in relief from earlier assessment
1974-75	203	6·12	7·53	1·41	—0·39
1975-76	203	6·43	10·63	4·20	—1·41
		12·55	18·16	5·61	—1·80

8. Consequently, the anticipated additional relief would be about Rs. 37.35 crores during the Fifth Plan period provided that the capital investment during the remaining three years of the Plan is maintained at approximately the same level as anticipated. If this anticipation does not materialise, and the capital investment falls short of anticipations, the quantum of relief actually accruing will be still lower.

9. It is submitted to the Railway Convention Committee, 1973 that having due regard to the long period of construction|gestation of railway investment in general and the time taken by such investments to reach full earning potential, exemption from payment of dividend for a period of three years may be granted in respect of 50 per cent of the outlay in a year on capital works-in-progress, other than those pertaining to strategic lines, Northeast Frontier Railway (Commercial), over-capitalisation, ore lines, Jammu-Kathua and Tirunelveli-Kanyakumari-Trivandrum lines, new lines, and P & T line wires.

APPENDIX—II

(*Vide* para 8 of Introduction)

Summary of the recommendations|conclusions contained in the Report.

Sl. No.	Reference to para no. of the Report	Recommendation/Conclusion
1	2	3
1	7	The Committee propose to finalise their report on the various subjects taken up by them for detailed examination as expeditiously as possible. The Committee attach particular importance to the question of Social Burdens on Railways. They note that the financial effect of these burdens was estimated to be as high as Rs. 225.44 crores in 1973-74 and that out of this amount the Railways are stated to be losing as much as Rs. 115.4 crores on low rated commodities, Rs. 95.06 crores on coaching services and Rs. 10.98 crores on unremunerative branch lines.
	8	The Committee would like the Ministry of Railways to expedite the costing studies which they are reported to have undertaken recently so that they may be able to review the freight structure in the light of the findings thereof. The Committee consider that the question whether Railways should continue to carry raw materials for industrial use at a great loss to themselves, needs a thorough and careful examination. It is also necessary for the Railways to ascertain precisely the unit cost of hauling the air-conditioned, First and Second Class coaches so that the losses being incurred on each of them could be accurately determined.

1	2	3
	9	In regard to uneconomic branch lines, the Committee would like the Ministry of Railways to examine the feasibility of mentioning specifically in the budget documents, the reasons for losses on each line and the steps being taken to improve their working.
2	10	The Committee note that the publication "Central Facts and Major Problems" circulated along with the Budget papers gives in brief the break-up of the losses being incurred on various unremunerative services. They suggest that the Explanatory Memorandum to the Railway budget should also give in brief the incidence of various social burdens on Railways.
3	13	The Committee fully share the anxiety of the Minister of Railways in regard to Railway finances. Pending finalisation of their Reports on various matters taken up for detailed examination, particularly the question of social burdens on Railways, the Committee suggest that the reliefs/exemptions already given to the Railways may continue during the next financial year i.e. 1975-76. They, therefore, recommend as follows:— (1) The present mode of payment of a fixed dividend on the capital invested in the Railways as computed annually in lieu of the interest charges plus a small element of contribution to General Revenues, may continue in the interest of financial discipline. (2) The present manner of fixing the payment of dividend to General Revenues, viz. at fixed percentages of the Capital-at-charge of the Railways excluding the capital of strategic lines and making special provision for certain ore lines, Jammu-Kathua section and Tirunelveli Kanyakumari-Trivandrum line etc. may continue during the financial year 1975-76.

1	2	3
		(3) The present arrangement of adopting differential rates of dividend on Capital on the Railways upto 31st March, 1964 and that invested thereafter, may continue during 1975-76. The existing rates of dividend at 4.5 per cent of the Capital invested on the Railways upto 31st March, 1964 with an addition of 1 per cent in lieu of the tax on passenger fares and to assist the State Governments in financing the Railway Safety Works and 6 per cent on Capital invested on Railways after 31st March, 1964 may also be retained with the following ancillary provisions, including equitable concessions to the Railways, as below:—
		(i) Out of the amount of additional 1 per cent dividend on the capital invested in the Railways upto 31st March, 1964 a sum of Rs. 16.25 crores may be passed on to the States as payment in lieu of passenger fare tax and the balance utilised to assist the States in providing their portion of the resources required for financing safety works as at present.
		(ii) The present arrangement of deducting losses in the working of strategic lines from the payment to General Revenues may also continue during the next financial year with the complementary arrangement that the earnings of such lines, if any, after meeting working expenses, depreciation and other charges may be paid to the General Revenues to the level of normal dividend.
		(iii) The present arrangement of exempting the Capital-at-charge of the non-strategic portions of the Northeast Frontier Railway, unremunerative Branch lines and the element of over-capitalisation

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		from the payment of dividend may continue during 1975-76.
		(iv) The present arrangement of permitting the Railways to take credit for the difference between the dividend rate of 6 per cent and the average borrowing rate at which interest would actually accrue in respect of their various fund balances banked with the General Revenues may also be continued during 1975-76.
		(v) The existing arrangement of: (a) deferring the payment of dividend on the capital-at-charge of New Lines chargeable at the average rate of interest during the period of their construction as well as for the first five years after their opening and (b) closing the account of deferred dividend on New Lines after a period of 20 years from the date of their opening, extinguishing any liability for deferred dividend not liquidated within that period may be continued during the next financial year *viz.* 1975-76.
4	15	The Committee note that the financial forecast for the Fifth Five Year Plan period based on the then existing structure of fare and freight rates and on the level of goods and passenger traffic projected in the draft Plan frame as well as the ruling wages and prices, submitted to them by the Financial Commissioner for Railways in October, 1973 indicates a net shortfall of Rs. 319 crores in the quinquennium 1974—79 on the basis of the present rate of dividend and also taking into account the reliefs|exemptions granted by the Railway Convention Committee, 1971. In case the further relief now asked for by the Railways is to be granted, the anticipated shortfall during 1974—79 would come down to Rs. 280 crores, that is to say, the exemption of 50 per cent

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		of the outlay on capital works-in-progress (for a period of three years as at present) would give a relief of about Rs. 39 crores to the Railways during the five-year period under review.
5	16	Ordinarily, the Committee would have dealt with the question of granting relief to the Railways after they had completed their examination of the investments made by the Railways in the Fourth Five Year Plan and those proposed for the Fifth Plan. However, having regard to the difficult financial position of the Railways, the Committee have no objection to the proposed relief being given. They, therefore, recommend that 50 per cent of the capital outlay in the years 1974-75 and 1975-76 on works-in-progress, other than those pertaining to strategic lines, Northeast Frontier Railway (Commercial), over-capitalisation, ore lines, Jammu-Kathua and Tirunelveli-Kanyakumari-Trivandrum lines, New Lines and P&T line wires, may be exempted from payment of dividend for a period of three years.
6	19	Pending receipt of the Report of the Working Group appointed by Government, the Committee recommend that appropriations to the Depreciation Reserve Fund in 1975-76 may be of the same order as in the final year of the Fourth Plan *i.e.* Rs. 115 crores.
7	20	Having regard to the unsatisfactory state of Railway Finances, the Committee further recommend that the existing provision of temporary loans from General Revenues being advanced to the Railway Development Fund, whenever the available balance in the Development Fund is insufficient to meet the cost of works chargeable to that Fund and payment of interest thereon at the average borrowing rate, may be continued.
8	21	The Committee further recommend that the Railways may be permitted to take temporary loans as at present from the General Revenues to meet the full dividend liability when the

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		Railways' net revenue is not adequate to pay the dividend to the General Revenues and the Revenue Reserve Fund has no or insufficient balance to make good the shortfall. The interest on such loans may be paid by the Railways at the current borrowing rate.
9	23	The Committee have not been informed of the decision taken on the above as well as several other recommendations which have a bearing on classification of Railway expenditure etc. The Committee would like to be informed early of the action taken by the Ministry of Railways on the recommendations made by the Task Force. In the meantime, the Committee have no objection to the existing system of classification being continued in the next financial year *i.e.* 1975-76.

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