

**RAILWAY CONVENTION
COMMITTEE, 1973**

TENTH REPORT

**(Action taken by Government on the recommen-
dations contained in the Sixth Report of
the Railway Convention Committee,
1973 on Rate of Dividend for
the year 1975-76 and other
Ancillary Matters)**



**LOK SABHA SECRETARIAT
NEW DELHI**

August, 1975/Sravana, 1897 (Saka)

Price : 35. Paise

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TENTH REPORT OF THE RAILWAY CONVENTION COMMITTEE, 1973.

(Presented on 7.8.1975)

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LIST OF MEMBERS OF THE RAILWAY CONVENTION
COMMITTEE (1973)

Shri B. S. Murthy—*Chairman*

2. Shri Jagadish Bhattacharya
3. Shri Chandrika Prasad
4. Shri S. A. Kader
5. Shri M. Kalyanasundaram
6. Shri Tha Kiruttinan
7. Shri Mukhtiar Singh Malik
8. Shri G. S. Mishra
9. Shri Mohd. Shafi Qureshi*
10. Shri Damodar Pandey
11. Shri Chintamani Panigrahi
12. Shri S. B. Patil
13. Shri C. Subramaniam**
14. Shri Virbhadra Singh
15. Shri Lal K. Advani***
16. Dr. K. Nagappa Alva
17. Shri N. C. Buragohain***
18. Shri Yogendra Makwana
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.*

*Nominated on 29th March, 75 in the vacancy caused by the death of Shri L. N. Mishra.

**Nominated on 5th December, 74 *vice* Shri Y. B. Chavan resigned from the Membership of the committee.

***Nominated on 9th May, 74 *vice* Dr. Bhai Mahavir retired from Rajya Sabha and Sarvashri Harsh Deo Malaviya and Mohd. Usman Arif resigned from the Membership of the Committee.

INTRODUCTION

1. I, the Chairman, Railway Convention Committee, 1973 having been authorised by the Committee, present this Tenth Report of the Committee on action taken by Government on the recommendations contained in their Sixth Report on "Rate of Dividend for the year 1975-76 and other Ancillary Matters".

2. The Sixth Report of the Railway Convention Committee, 1973 was presented to both the Houses of Parliament on the 16th December, 1974. Government furnished their replies indicating the action taken on the recommendations contained in the Report on the 9th April, 1975.

3. The Committee finalised their comments on the replies of the Government and the draft Chapter I of the Report at their sitting held on the 15th July, 1975.

4. The Report has been divided into the following Chapters:

- I. Report.
- II. Recommendations which have been accepted by Government.
- III. Recommendations which the Committee do not desire to pursue in view of Government's replies.
- IV. Recommendations in respect of which Government's replies have not been accepted by the Committee.
- V. Recommendations in respect of which final replies of Government are still awaited.

5. An analysis of the action taken by Government on the recommendations contained in the Sixth Report of the Railway Convention Committee, 1973 is given in Appendix. It would be observed therefrom that out of 9 recommendations made in the Report, 7 recommendations i.e. 77.8 per cent have been accepted by Government. The reply in respect of one recommendation i.e. 11.1 per cent has not been accepted by the Committee and the final reply in respect of the remaining one recommendation' i.e. 11.1 per cent is still awaited.

NEW DELHI;
August 4, 1975.

Shravana 13, 1897 (S).

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

CHAPTER I

REPORT

The Sixth Report of the Railway Convention Committee, 1973, contained their recommendations with regard to the Rate of Dividend payable by the Railways to the General Revenues and other Ancillary Matters covering the second year of the Fifth Five Year Plan *viz.* 1975-76. The following motion concerning the Report was adopted by the Lok Sabha on 17th December, 1974 and by the Rajya Sabha on 21st December, 1974:—

“That this House approves the recommendations made in paras 13, 16, 19, 20, 21 and 23 contained in the Sixth Report of the Committee appointed to review the Rate of Dividend payable by the Railway Undertaking to General Revenues as well as other Ancillary Matters in connection with the Railway Finance and General Finance which was presented to Parliament on 16th December, 1974, and

That this House further directs that the action taken by Government on the other recommendations made in the Report should be reported to the Committee”.

Rationalisation of freight and fare structure (S. No. 1, Para No. 8).

In para 8 of their Sixth Report, the Committee had expressed the view that the question whether Railways should continue to carry raw materials for industrial use at a great loss to themselves, needed a thorough and careful examination. The Ministry of Railways have stated that the freight rates on all commodities other than those which affect the general cost of living *e.g.* foodgrains were revised substantially upwards in 1974-75 and it is now expected that freight charges on industrial raw materials would generally be adequate to cover the cost of their carriage. **The Committee would, in this connection, like to draw attention to the recommendation made by the Public Accounts Committee in their 148th Report (Fifth Lok Sabha) to the effect that “all other items (excepting Government owned cereals and pulses and Government relief materials) should be carried at ‘the cost plus’ rates basis. . .” They would, therefore, like the Ministry of Railways to initiate commodity-wise studies with a view to find out the element of subsidy, if any, still involved in the carriage of various commodities, particularly industrial raw materials, even after the latest revision of freight rates and to take appropriate action to rationalise the freight structure in the light of the findings of such a study.**

In regard to the question of ascertaining the unit cost of haulage of air-conditioned, first and second class coaches, the Committee note that the results of study in this regard are still to be finalised. As

quite sufficient time has already elapsed since the costing study was undertaken, the Committee would like the matter to be finalised without further delay so that the true cost of transport of various classes of travel is known and can be utilised in the interest of appraising existing and projected services and effecting necessary improvement.

Uneconomic Branch Lines (S. No. 1, Para No. 9)

In para 9 of the Sixth Report, the Committee had desired that the Ministry of Railways may 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.

The Ministry have submitted that in view of the very large number of unremunerative lines, it is not feasible to mention specifically in the budget documents the reasons for losses on each line and the steps being taken to improve its working, as the information would be largely repetitive and would make the documents voluminous. The Ministry have, however, informed the Committee that the information will be included in a summarised form in the budget documents. **The Committee desire that the information to be furnished in the Budget Documents should contain all the vital details and also the measures to affect economy and improve efficiency in the working of these lines and the results achieved as a result of the measures taken.**

Task Force on Budgetary, Accounting and Management Practices on the Railway (S. No. 9, Para No. 23)

In para 23 of the Sixth Report the Committee desired to be informed early about the action taken by the Ministry of Railways on the recommendations made by the Task Force appointed by the Ministry of Railways in pursuance of the recommendation of the Railway Convention Committee, 1971 to undertake a detailed study of the Budgetary, Accounting and Management practices on the Railways.

The Committee have been informed that the First Report of the Task Force deals with restructuring of the Demands for Grants and budgetary documents. The Task Force has envisaged that the recommendations contained therein can be implemented only by means of a completely new accounting classification which will be dealt with in its Second Report.

The Committee would like the Task Force to expedite its work and they should be informed about the action taken by the Government in pursuance of the recommendations made in its Reports.

CHAPTER II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (S. No. 2, Para No. 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.”

Reply of Government

This is already being complied with.

[Ministry of Railways (Railway Board) O.M. No. 74-B (RCC)-4202 dated the 19th April 1975]

Recommendation (S. No. 3, Para No. 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-Tiruvandrum 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.

Reply of Government

Implemented in the Budget for 1975-76.

[Ministry of Railways (Railway Board) O.M. No. 74-B (RCC)-4202 dated the 19th April, 1975]

Recommendation (S. Nos. 4 & 5, Para Nos. 15 & 16)

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.

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.

Reply of Government

Noted and implemented in the Revised Budget for 1974-75. and the Budget for 1975-76.

[Ministry of Railways (Railway Board) O.M. No. 74-B (RCC)-4202 dated the 19th April, 1975]

.. **Recommendation (S. No. 6, Para No. 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.

Reply of Government

Implemented in the Budget for 1975-76. .

[Ministry of Railways (Railway Board) O.M. No. 74-B
(RCC)-4202 dated the 19th April, 1975]

Recommendation (S. No. 7, Para No. 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.

Reply of Government

Noted and implemented in the Budget for 1975-76.

[Ministry of Railways (Railway Board) O.M. No. 74-B
(RCC)-4202 dated the 19th April, 1975]

Recommendation (S. No. 8, Para No. 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.

Reply of Government

Noted and implemented in the Budget for 1975-76.

[Ministry of Railways (Railway Board) O.M. No. 74-B
(RCC)-4202 dated the 19th April, 1975]

CHAPTER III

**RECOMMENDATIONS WHICH THE COMMITTEE DO NOT
DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES.**

— N I L —

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH GOVERNMENT'S REPLIES HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

(Recommendation (S. No. 1, Para No. 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.

Reply of Government

The observations of the Committee are noted.

[Ministry of Railways (Railway Board) O.M. No. 74-B
(RCC)-4202 dated the 19th April, 1975]

Recommendation (S. No. 1, Para No. 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.

Reply of Government

No specific cost study has been undertaken recently as indicated in the recommendation Costing exercises are being done regularly

during the past few years to ascertain the profitability of movement of various commodities. The methodology of costing is under constant review and is being continuously modified and updated to reflect changes arising out of operating practices, technological innovations and accounting refinements.

The freight rates on all commodities other than those which affect the general cost of living e.g. foodgrains were revised substantially upwards in 1974-75. With this it is expected that freight charges on industrial raw materials would generally be adequate to cover the cost of their carriage.

As regards unit cost of haulage of air conditioned, first class and second class coaches, it is observed that the study, undertaken for the first time on the Indian Railways, has revealed areas where improvements have to be made. These are under further examination. When the study is finalised it is hoped that it will be possible to determine costs by individual classes of travel.

[Ministry of Railways (Railway Board) O.M. No. 74-B (RCC)-4202 dated the 19th April, 1975.]

Comments of the Committee

Please See Chapter I for Comments.

Recommendation (S. No. 1, Paragraph No. 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.

Reply of Government

The recommendation of the Convention Committee has been examined by the Ministry of Railways. It is submitted that, in view of the very large number of unremunerative lines, it is not feasible to mention specifically in the budget documents the reasons for losses on each line and the steps being taken to improve its working, as the information would be largely repetitive and would make the documents voluminous which the Railway Convention Committee (1971) wished to avoid (c.f. Appendix VII, S. No. 45 of Railway Convention Committee, 1971, First Report on Accounting Matters). The information, in a summarised form, will, however, be included in the budget documents.

[Ministry of Railways (Railway Board) O.M. No. 74-B (RCC)-4202 dated the 19th April, 1975]

Comments of the Committee

Please see Chapter I for Comments.

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

Para 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 *interalia* 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."

Recommendation (S. No. 9, Para No. 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."

Reply of Government

The terms of reference of the Task Force which was constituted in July, 1973 to undertake certain aspects of budgetary, accounting & management accounting practices on the Railways are reproduced below:

"The Committee should examine:

"(a) How far the structure of the Demands for Grants in the Railways Budget and the documents accompanying it can be rationalised and their contents simplified.

- “(b) The manner in which the Railway Budget should be prepared so as to present in a simple and lucid way meaningful data for correlating costs to results.
- “(c) For the purpose mentioned in (b) above, the manner in which the performance budget can be introduced as an integrated part of the Demands for Grants and the feasibility of its introduction according to a time bound programme.
- “(d) The need to evolve a fully developed system of Responsibility Accounting, as emphasised by the World Bank Team in January, 1970 and with this end in view, to reorient accounting classifications so as to bring in the eventual break-down of costs after eliminating all superfluous classifications which are now out-of-date or irrelevant.
- “(e) How best to get up an effective system of management accountancy with a view to defining clearly management objectives and strategies and plans to achieve these objectives and to evolving norms to monitor performance against objectives so set ; as a tool of management control, the system should be so devised as to provide concurrent and purposeful data at all strategic levels to help reach appropriate decisions.
- “(f) The present system of internal audit obtaining on each Railway under the Financial Adviser and Chief Accounts Officer and to suggest avenues of improvements therein.”

It will be observed that the Task Force has not been asked to review the existing rules regarding the classification of Railway expenditure. The Convention Committee were, however, informed in item X of the Financial Commissioner's Memorandum that should there be any need for changes in the rules of classification as a result of the recommendations of the Task Force, these would be considered by Government and necessary approval of the Committee obtained.

2. The Task Force has submitted its First Report dealing with restructuring of Demands for Grants and Budgetary documents. The recommendations made in that Report are under Government's consideration. In the particular recommendation of the Task Force, which has been quoted in para 22 of the Committee's Sixth Report, the Task Force has suggested merger of the existing three

'Works' Demands into a single demand for reasons given in their report. It may be submitted that this recommendation, *per se* would not call for any changes in the existing classification of railway expenditure.

3. It may be mentioned here that the Task Force has envisaged that the recommendations contained in its First Report can be implemented only by means of a completely new accounting classification which will be the subject matter of its Second Report. (Accounting Classification has to be distinguished from the Classification of Expenditure. The former deals with the detailed recording of all earnings and expenditure in the account books of the Railway, codified in a prescribed manner, whereas the latter deals with the broad division of expenditure between Capital, Revenue, DRF, DF, OLWR etc.).

[Ministry of Railways (Railway Board) O.M. No. 74-B (RCC)-4202
dated the 19th April, 1975]

Comments of the Committee

Please see Chapter I for Comments.

NEW DELHI:
August 4, 1975.

Sravana 13, 1897 (S).

B. S. MURTHY,
Chairman.

Railway Convention Committee.

APPENDIX

(*vide* Para 5 of Introduction)

Analysis of the action taken by Government on the recommendations contained in the Sixth Report of the Railway Convention Committee, 1973. .

I. Total No. of Recommendations	9
II. Recommendations which have been accepted by Government (<i>vide</i> recommendations at Sl. Nos. 2 to 8)	
Number	7
Percentage to total	77.8%
III. Recommendations which the Committee do not desire to pursue in view of the Government's reply.	Nil
IV. Recommendations in respect of which the replies of Government have not been accepted by the Committee (<i>vide</i> recommendation at Sl. No. 1)	
Number	1
Percentage to total	11.1
V. Recommendations in respect of which the final replies of Govt. are still awaited (<i>vide</i> recommendation at Sl. No. 9)	
Number	1
Percentage to total	11.1%

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PUBLISHED UNDER RULE 382 OF THE RULES OF PROCEDURE AND CONDUCT OF
BUSINESS IN LOK SABHA (FIFTH EDITION) AND PRINTED BY THE GENERAL
MANAGER, GOVERNMENT OF INDIA PRESS, MINTO ROAD, NEW DELHI.
