R. C. C. No. 19

RAILWAY CONVENTION COMMITTEE (1973)

ELEVENTH REPORT

Rate of Dividend for 1976-77 and other Ancillary Matters

LOK SABHA SECRETARIAT
NEW DELHI

December, 1975/Agrahayana, 1897 (S)

Price : 0.50 P

CORRIGENDA

Eleventh Report of the Railway Convention Committee, 1973 on "Rate of Dividend for 1976-77 and other Ancillary Matters".

Page	Para	Line		For	Read
3	4(v)(a)	5	Delete	"viz. 1976-77"	
3	5	8		(Commercail)	(Commercial)
4	7	3		tre	the
5	11	5		accounts	account
6	15	2		into the	into with the
13	-	3		decision	decisions
13	-	30		concurrence	concurrent
18	-	3		recommendation	recommendations
19	Sl. No.1	3		economics	economies
19	- Col.1		Add	"2" against para 4	
22	Cols.1 & 2		Add	"4" and "14" against Col.3	
22	Sl.No.5	10		add "," after 'Association'	

Shri Avtar Singh Rikhy—*Additional Secretary.*

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

* Nominated on the 29th March, 1975 *vice* Shri L. N. Mishra died.

**Nominated on the 5th December, 1975 *vice* Shri Y. B. Chavan resigned from the Membership of the Committee.

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(1973)

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3. Shri Chandrika Prasad
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SECRETARIAT

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1459 LS—1.

INTRODUCTION

I, the Chairman, Railway Convention Committee, 1973, having been authorised by the Committee to present this Eleventh Report on their behalf, present this Report on "Rate of Dividend for 1976-77 and other Ancillary Matters".

2. The Sixth Report of the Committee on the Rate of Dividend for the year 1975-76 and other Ancillary Matters was presented to Parliament on the 16th December, 1974. The recommendations of the Committee concerning the rate of Dividend were adopted by the Lok Sabha on the 17th December, 1974 and by the Rajya Sabha on 21st December, 1974. The Tenth Report of the Committee dealing with action taken by Government on the other recommendations contained in the Sixth Report was presented to Parliament on the 7th August, 1975.

3. The Committee have also since finalised their Eighth and Ninth Reports on "Railways' Fourth & Fifth Five Year Plans and Other Ancillary Matters" and "Social Burdens on Indian Railways" respectively. Another Report on "Organisational set-up and functions of the Railway Board" is being processed and will be presented to Parliament in due course. Pending finalisation of this Report, they have decided to present this Report on the rate of dividend etc. for 1976-77 so as to enable finalisation of the Railway Budget for the next financial year.

4. The Committee considered and finalised the Eleventh Report at their sitting held on the 4th December, 1975. A statement showing the summary of principal recommendations of the Committee is appended to the Report.

5. 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 other officers and staff.

NEW DELHI;
December 16, 1975.

Agrahayana 25, 1897 (*S*).

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

REPORT

In their Ninth Report on Social Burdens on Indian Railways, the Committee have analysed in detail the impact on their financial position of the various social burdens that the Railways are called upon to bear. The Committee have noted that Railway systems in several countries are compensated in some form or the other for meeting wholly or partly the losses, arising out of their social obligations. The Committee have made some suggestions to provide relief to Railways in certain areas which they consider to be justified keeping in view their overall financial position. They have at the same time emphasised the need for ensuring optimum utilisation of assets created at an enormous cost to the public revenues and to restore the financial equilibrium that the Railways had till 1965-66.

2. The Committee note that in the wake of the emergency, the Railways have taken a series of measures to tone up their operational efficiency and in particular, to improve the daily wagon loadings so as to augment their earnings. The Committee need hardly emphasise that utmost economy in working expenses is the need of the hour and that vigorous and sustained efforts in this direction are called for. What the Committee are looking for is a firm determination and action at all levels of the Railways to put to best use the assets created with nation's money, to keep the wheels turning ever faster in the interest of speedier and safe delivery of goods and to provide a passenger service which is a by-word for punctuality and comfortable travel and earn larger revenues to generate surpluses.

The Committee hope that the sense of discipline and enthusiasm generated by the emergency will permeate all levels of Railway administration so that all traces of complacency and drift are rooted out and the nation's largest public undertaking regains its reputation as an efficient organisation devoted to the service of the nation. The Committee would like the Railway Board to present a detailed note to Parliament about the improvements and economies effected in the working of the Railways since the declaration of the emergency.

A. Rate of Dividend etc.

3. In their Report on "Organisational set-up and functions of the Railway Board", the Committee propose to deal broadly with the problems of Railway management in India. Pending finalisation

of the same, they would like that the recommendations already made by them with regard to the rate of dividend etc. in their earlier Reports may apply for the next financial year i.e. 1976-77 as well.

4. **The Committee accordingly 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 percentage 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 1976-77.

(3) The present arrangement of adopting differential rates of dividend on Capital invested in the Railways upto 31st March, 1964 and that invested thereafter, may continue during 1976-77. 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 1976-77.

(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 1976-77.

(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 viz. 1976-77.

(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. 1976-77.

5. In paragraphs 5.79 and 5.80 of their Ninth Report, the Committee have observed as follows:—

"In paragraph 16 of their Sixth Report, the Railway Convention Committee had recommended that 50 per cent (instead of 25 per cent as hithertofore) 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 (Commercail), 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. This recommendation has since been approved by Parliament.

Having regard to the difficult financial position of the Railways and also taking into consideration the long period of construction|gestation of Railway investment in general, the Committee recommend that 50 per cent of the outlay on capital works-in-progress, other than those specified above, may continue to remain exempted from payment of dividend for a period of three years in each case, during the entire period of the Fifth Plan i.e., 1974—79."

B. Railway Funds

6. In pursuance of the recommendation made by the Railway Convention Committee 1971 in their First Report on 'Accounting Matters', Government appointed a Working Group 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. The Working Group have since completed their study and their recommendations are stated to be under Government's consideration.

7. The Working Group have reached the conclusion that there is no fundamental necessity to change the present system of working out tre provision to Depreciation Reserve Fund based on current replacement costs and that there is no need to create a separate Renewal Reserve Fund. They have observed:

> "The current replacement cost approach should be followed in the Railways for the purpose of charging depreciation considering the permanent character of the Railways and their crucial role in providing infra-structure for economic development. Accordingly, the estimated inflationary and improvement element will form part of this replacement cost."

8. The Working Group have, however, outlined three alternative systems to calculate the depreciation requirements, should a change in the existing procedure be called for. These are:

System I—Calculation of depreciation provision based on asset registers for each individual asset. Another refinement of the same system would be the adoption of Group Plan System of working out depreciation for a given recognised group of asset.

System II—Calculation of depreciation provision based on the already available data on wasting railway assets contained in the Block Account *i.e.* working out separately the provision on account of the three elements *viz.* the provision based on original cost of the assets, the provision on account of inflation, and the provision on account of improvement element. The sum total of these provisions would automatically meet the requirements of current replacement cost approach.

System III—Calculation of depreciation provision based on available data of Railways' wasting assets in terms of physical units under clearly assignable asset groups and estimating their current replacement cost by evaluating them and thus arriving at the provision for Depreciation Reserve Fund.

9. In view of the cumbersome procedure as well as substantial recurring expenditure of about Rs. 60 lakhs involved in System I, the Working Group have recommended adoption of either System II or System III to ensure that there is no serious under-provisioning or over-provisioning.

10. The Committee note that the total provision to the Depreciation Reserve Fund during the Fifth Plan under the three systems would be Rs. 730 crores, Rs. 658 crores and Rs. 750 crores respectively. The Working Group have recommended a provision of Rs. 660 to Rs. 750 crores for the Fifth Plan based on System II or System III. The Working Group have further observed:

"The Railway system is an important infra-structure for the economy. It is extensive in its area of operations with a route kilometrage of about 60,000 and is complex in its variety of operations. Hence, in the interests of prudent financial management, if the financial situation permits, the Working Group recommends the maintenance of at least 5 per cent of the block value of wasting assets as the balance in the Depreciation Reserve Fund to meet the unforeseen exigencies which may be caused by the unpredictable inflationary situation as also due to the rapid strides in the field of technological advancement."

11. In his Memorandum submitted to the Committee, the Financial Commissioner for Railways had stated:

"Pending a full examination of the matter on the lines suggested by the Convention Committee, 1971, the total requirement on replacement accounts is expected to be Rs. 650 crores as per the draft Fifth Five Year Plan for Railways. This would require a contribution of Rs. 120 crores in 1974-75 rising up to Rs. 140 crores in 1978-79, giving an average of Rs. 130 crores per year over the five-year period."

12. In their Interim Report, the Committee had recommended that pending receipt of the Report of the Working Group and its consideration by Government, appropriation to the Depreciation Reserve Fund in 1974-75—the first year of the Fifth Plan may be of the same order as in the final year of the Fourth Plan *i.e.* Rs. 115 crores. Provision of the same order was recommended by the Committee for the year 1975-76 (*vide* paragraph 19 of Sixth Report).

13. In a note subsequently furnished to the Committee (*vide* Appendix I), the Financial Commissioner for Railways has pointed out that in satisfaction of the covenant entered into with the International Development Association in August, 1975, the minimum contribution to the Depreciation Reserve Fund has to be Rs. 130 crores per annum. He has added that the shortfall of the previous two years amounting to Rs. 15 crores would need to be made good in the subsequent years of the Fifth Plan. So far as the next year *i.e.* 1976-77 is concerned, the Fund is likely to bear an expenditure of Rs. 135 crores.

14. The Committee would like Government to come to a decision on the recommendations of the Working Group without delay so that the allocations to the Depreciation Reserve Fund could be made on a rational and scientific basis. As the recommendations of the Working Group envisage enhancement of the provision of Rs. 650 crores proposed by the Financial Commissioner for the Fifth Plan period, the matter would have to be considered carefully in the light of the revenue position of the Railways. The Committee would like to be apprised of Government's decisions on the recommendations of the Working Group.

15. The Committee note that Railways are obliged under a covenant recently entered into the International Development Association, to make a minimum contribution of Rs. 130 crores per annum to the Depreciation Reserve Fund during the quinquennium 1974—79. Keeping in view the depreciation requirements for 1976-77, the requirements as assessed by the Working Group on Depreciation and the commitment made to the International Development Association, the Committee have no objection to the contribution to the Depreciation Reserve Fund being raised to Rs. 135 crores in 1976-77 as against Rs. 115 crores during each of the first two years of the Fifth Plan.

16. 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.

17. 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

(a) *Task Force on Budgetary Accounting and Management Practices in the Railways:*

18. The Railway Convention Committee, 1971 had recommended in their First Report on Accounting Matters that a Task Force may be constituted to examine the budgetary, accounting and management practices in the Railways. The Task Force was, *inter alia,* required to examine the structure of Demands for Grants and other budget documents with a view to achieving rationalisation and simplification so that the Railway Budget could provide information in a lucid and intelligible manner to the common man and at the same time furnish complete information to the Members of Parliament, containing meaningful data of co-relating costs to results. The Task Force was also required to suggest the manner in which the Performance Budget could be introduced as an integrated part of Demands for Grants. The other items of reference of the Task Force included development of 'Responsibility Accounting' and an effective system of 'Management Accountancy' with a view to draw strategies and plans to achieve clearly defined objectives.

19. In their Tenth Report 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' the Railway Convention Committee, 1973 had observed that they would like to be informed about the action taken by Government in pursuance of the recommendations made in the First Report of the Task Force dealing with restructuring of the Demands for Grants and budgetary documents and also on the other reports being prepared by the Task Force. The Ministry of Railways have since furnished to the Committee a statement showing Government's decisions on the recommendations contained in the First Report of the Task Force. The same is reproduced in Appendix II. Some of the important recommendations and Government's views thereon are given below:

(1) The Task Force had recommended a change in the concept of "Gross" budgeting and had suggested that budgeting under the heads "Stores Suspense", "Workshop Manufacture Suspense" and to some extent under "Revenue

Expenditure" should be on a "net" basis because it is the net expenditure which finally gets booked in accounts and is reflected in the financial results of the Railways. Government are of the view that unless the interpretation by the Comptroller & Auditor General with regard to the Constitutional provision which requires a vote of Parliament for "Grants" expenditure from the Consolidated Fund of India is revised by the Ministry of Finance in consultation with the Comptroller & Auditor General, the concept of 'net' budgeting cannot be adopted on the Railways. Therefore, the revised Demands for Grants will be submitted to vote of Parliament for the 'Gross' amount until the basis of 'net' budgeting is adopted by Government as a whole.

(2) The suggestion of the Task Force that the proposed Demand No. 15 dealing with Dividend to General Revenues, should show the Dividend separately under "Interest" and "Contribution" has not been accepted by Government. The Ministry of Finance would, however, continue to be furnished with this information for departmental use.

(3) The introduction of booklet "Key to Budget" has been accepted.

20. The Ministry of Railways have further stated that since the Task Force had recommended a very major restructuring of the Railway Budget (Demands and sub-heads of Demands), intensive training to staff and officers dealing with budgeting on the Railways will be arranged before implementation which may take a period of about 2|3 years, provided the Second Report of the Task Force dealing with revised classification of accounts is not delayed.

21. The Committee would like the Ministry of Railways to obtain the prior approval of the Estimates Committee with regard to the revised format of the Budget Estimates proposed by Government in the light of the Reports of the Task Force.

(b) *Financing the construction of Staff Quarters*:

22. In his Memorandum to the Committee, the Financial Commissioner for Railways has stated:

"In view of the unsatisfactory position of the Development Fund, it is clear that it will not be possible to expect any substantial allocation from that Fund for the construction of staff quarters. In fact it may be said that the present state of the Development Fund is acting as an inhibiting factor in this matter.

"Considering the inability of the Railways to generate surplus for accretion to Development Fund during the Fifth Plan period to meet even the minimum housing programme for staff, apart from other expenditure chargeable to the Fund (such as on users' amenities and unremunerative operating improvements), the question of the source of financing of expenditure on staff quarters is being examined by Government.

"In the circumstances, the following alternatives are submitted for the consideration of the Convention Committee:—

(1) To continue the existing procedure of financing staff quarters only from the Development Fund, borrowing money from General Revenues, if necessary.

(2) The cost of construction of staff quarters be charged to Capital with effect from 1-4-1974, dividend being payable on such capital, utilised for construction of staff quarters, only if the Railways have surplus after discharge of all other liabilities".

23. The Committee would in this connection like to draw attention to the recommendation contained in paragraph 6.47 of their Ninth Report which reads as follows:—

"So far as the question of financing the construction of staff quarters is concerned, the Committee agree with the Railways' suggestions, concurred in by the Ministry of Finance, that the cost of construction of staff quarters may be charged to Capital during the Fifth Plan period, dividend on such capital being payable only if the Railways have surplus after discharging other dividend obligations"

NEW DELHI;
December 16, 1975
Agrahayana 25, 1897 (*S*)

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

APPENDIX I

(*vide* para 13)

Contribution to the Depreciation Reserve Fund in 1976-77

The Convention Committee, 1971, had recommended constitution of a Working Group for suggesting a rational and scientific basis for working out depreciation, taking into account the cost and life of various assets. It was further recommended that the requirements of Depreciation Reserve Fund for the Fifth Five Year Plan should be worked out on the above basis and placed before the next Convention Committee. Pending a full examination of the matter on the lines indicated by the Convention Committee, 1971, the replacement requirements during the Fifth Plan were estimated at Rs. 650 crores as per details indicated in para 14, Chapter 5 of the Memoranda for the Railway Convention Committee, 1973. Accordingly and in line with the V Plan frame, contribution to Depreciation Reserve Fund during each year of the Fifth Plan was proposed to be made at the following rate:—

(Crores of Rs.)

1974-75	120
1975-76	130
1976-77	140
1977-78	130
1978-79	130
	650

2.1. In November, 1973, a credit of $80 million was negotiated with the International Development Association, agreement for which was signed by Government on 21st December, 1975. This credit was to finance bulk of the foreign exchange requirements of the Railways for the fifteen-month period January 1974 to March 1975. One of the covenants agreed to with the Association related to adequate contribution to the Depreciation Reserve Fund being made as part of the operating expenses of the Railways. It was agreed that the contribution to Depreciation Reserve Fund in each of the years 1973-74 to 1975-76 would not be less than Rs. 115 crores, Rs. 120 crores, and Rs. 125 crores respectively. The above rate of contribution to Depreciation Reserve Fund was agreed to keeping in view the recommendations contained in para 2.31 of Chapter 2 of the First Report of the Railway Convention Committee 1971, fixing the contribution during 1973-74 at Rs. 115 crores and the proposal contained in the Memoranda placed before Convention Committee, 1973, as referred to in the preceding paragraph.

2.2. The Railway Convention Committee 1973 *vide* paras 74 and 75 of their Interim Report and paragraph 19 of their Sixth Report, however, desired that pending consideration of the Report of the Working Group appointed by the Government in this regard, the contribution to Depreciation Reserve Fund may be made at the rate of Rs. 115 crores in each of the two years 1974-75 and 1975-76 *i.e.* at the same level as in 1973-74. Contribution to the Fund was accordingly made in the Budget Estimates for 1974-75 and 1975-76.

2.3. At the negotiations for a credit for the XIII Railway Project held in Washington in July 1975, the International Development Association expressed concern at the shortfall in the contribution to Depreciation Reserve Fund by Rs. 5 crores in 1974-75 and Rs. 10 crores in 1975-76. The circumstances leading to the lower level of contribution in these two years were explained to them and it was pointed out that the Convention Committee 1973, through their Interim Report and Sixth Report had made recommendation in this regard pending receipt and consideration of the Report of the Working Group appointed to go into question of contribution to Depreciation Reserve Fund. It was further explained to them that for the Fifth Plan period the total contribution to the Fund still stood at Rs. 650 crores and the shortfall in the first two years of the Fifth Plan would be made good in the subsequent three years of the Plan. The International Development Association finally accepted the position, subject to the total contribution to the Fund in the Fifth Plan period being not less than Rs. 650 crores in the aggregate and the contribution in each of the years 1976-77 to 1978-79 being made at not less than Rs. 130 crores. In the agreement signed with them on 26th August, 1975, for a credit of $110 million, a covenant to this effect has been incorporated.

3. As already mentioned above, the aggregate contribution to the Depreciation Reserve Fund in the Fifth Plan period is to be of the order of Rs. 650 crores which is also the lowest figure of the three alternatives suggested by the Working Group who have since submitted the Report. Taking into account the amount of Rs. 230 crores contributed in 1974-75 and 1975-76, the remaining amount to be contributed to the Fund in the three years from 1976-77 to 1978-79

would be Rs. 420 crores, giving an average of Rs. 140 crores per annum.

4. Keeping in view our commitment with the International Development Association to make a minimum contribution of Rs. 130 crores in each of the years 1976-77 to 1978-79 and of a total aggregate contribution of Rs. 650 crores in the Fifth Plan, as also the fact that expenditure from the Fund of the order of Rs. 135 crores is visualised during 1976-77, it is suggested that for 1976-77 the contribution to the Fund may be allowed at Rs. 135 crores. This would still leave Rs. 285 crores to be contributed to the Fund during the remaining two years of the Fifth Plan.

5. Summarising, it is requested that pending consideration and decision on the Report of the Working Group on contribution to the Depreciation Reserve Fund, the Convention Committee may consider recommending a contribution of Rs. 135 crores to the Depreciation Reserve Fund during 1976-77.

APPENDIX II

(*Vide* para 19)

Government's decision on the recommendations (1—14) contained in the First Report of the Task Force on Budgetary, Accounting and Management practices on the Railways.

In pursuance of the recommendations of Railway Convention Committee (1971), a Task Force was constituted to examine certain aspects of Budgetary, Accounting and Management Practices on the Railways. The Task Force was, *inter alia*, required to examine the structure of Demands for Grants and other budget documents with a view to achieving rationalisation and simplification so that the Railway Budget could provide information in a lucid and intelligible manner to the common man and at the same time furnish complete information to the Members of Parliament, containing meaningful data for co-relating costs to results. The Task Force was also required to suggest the manner in which the Performance Budget could be introduced as an integrated part of Demands for Grants. The other items of reference of the Task Force included development of 'Responsibility Accounting' and an effective system of 'Management Accountancy' with a view to draw strategies and plans to achieve clearly defined objectives. The Task Force submitted its first report on 'Budgetary, Accounting and Management Practices on Railways' which deals mainly with re-structuring of Demands for Grants and other budget documents.

The Task Force has recommended a revised structure of Demands for Grants based on function-oriented analysis of working expenses of the Railways. The scheme of revised Demands for Grants makes each grant distinguishable by the main activity to which it relates and the related objectives of expenditure under that Grant. This is intended to facilitate concurrence cost and budgetary control.

The Revised Demands for Grants, recommended by the Task Force, are 16 in number against 22 existing at present. The new Demands for Grants recommended by the Task Force are as under:—

Summary of the Revised Demand Structure
Demands for Grants
for
Expenditure on Railways

Group	Demand No.	Name of Demand
I. Policy Formulation & Services common to Railways.	1.	Railway Board.
	2.	Research, Audit & Miscellaneous Establishments.

1459LS—2.

Group	Demand	
	No.	*Name of Demand*
II. General Superintendence & Services on Railways.	3.	General Superintendence and Services on Railways.
III. Repairs & Maintenance.	4.	Repairs & Maintenance of Way & Works.
	5.	Repairs & Maintenance of Motive Power.
	6.	Repairs & Maintenance of Carriages & Wagons.
	7.	Repairs & Maintenance of Plant and Equipment.
IV. Operation.	8.	Operating Expenses—Rolling Stock and Equipment.
	9.	Operating Expenses—Traffic.
	10.	Operating Expenses—Fuel.
V. Staff Welfare, Retirement Benefits and Miscellaneous.	11.	Staff Welfare & Amenities.
	12.	Miscellaneous Working Expenses.
	13.	Provident Fund, Pension & other Retirement Benefits.
VI. Railway Funds, and Payments to General Revenues.	14.	Appropriation to Funds.
	15.	Dividend to General Revenues, Repayment of loans taken from General Revenues, and Amortisation of overcapitalisation.
VII. Works Expenditure.	16.	Assets—Acquisition, Construction and Replacement.

The salient features of the proposed re-structured Demands for Grants and other recommendations are given below:—

(a) The proposed Demands 1 and 2 are in the nature of general 'Overheads' covering expenditure on facilities common to the railways such as establishment of the Railway Board, R.D.S.O., Audit, Miscellaneous Establishments etc.

(b) Demands 3 to 13 provide for working expenses of the Railways. The main changes suggested under this head relate to splitting up of some of the unwieldy Demands. The present Demand 5, 'Repairs and Maintenance' has been split into constituent functional Demands separately to record expenditure on maintenance of 'Track', 'Motive Power' and 'Plant and Equipment'. Demands 6, 8 and 9 covering expenditure on 'Operating Staff', 'Operation other than Staff and Fuel' and 'Miscellaneous Expenses', respectively, have been re-grouped and amalgamated into the revised relevant demands according to the activity classification of the expenditure.

(c) The Works Demands, presently numbering 3, have been amalgamated into a single Demand for all works expenditure, irrespective of the source of financing. The Works expenditure under this Demand as recommended by the Task Force, seeks to group together certain items of individual plan heads.

(d) An important feature emerging from the recommendations of the Task Force is the change in the concept of 'gross' budgeting. It has been suggested that budgeting for 'Stores Suspense' and 'Workshop Manufacture Suspense' and to a minor extent under 'Revenue Expenditure' should be on a 'net' basis because it is the net expenditure which finally gets booked in accounts and is reflected in the financial results of the Railways.

(e) The Task Force has also dealt with other budget documents. It has suggested elimination of certain items of expenditure presently included in the Explanatory Memorandum on Railway Budget. At the same time it has recommended addition of certain charts and statistical data.

(f) The Task Force has recommended complete discontinuance of the booklet 'Works, Machinery and Rolling Stock Programme Part-I (Summary)'.

(g) It has suggested introduction of a new booklet titled 'Key to Budget' on the lines issued by Ministry of Finance with the General Budget.

The recommendations of the Task Force, contained in its First Report, have been examined in detail and the Government have decided to accept its recommendations dealing with re-structured Demands for Grants and other budgetary documents subject to the following:—

(i) The Constitutional provision as now interpreted by Comptroller and Auditor General, requires a vote of Parliament for 'gross' expenditure from the Consolidated Fund of India. Unless the interpretation of the Constitution is revised by Ministry of Finance, in consultation with Comptroller and Auditor General, the concept of net budgeting cannot be adopted on Railways. Revised Demands for Grants will be submitted to vote of Parliament for the gross amount until the basis of net budgeting is adopted by the Government as a whole.

(ii) Under the proposed Demand 11—Staff Welfare and Amenities additional sub-heads showing "Grants-in-aid to non-railway schools" and "Educational Assistance to railway employees" will be provided to record expenditure on these distinct activities.

(iii) The suggestion made by Task Force that the explanatory note below the proposed demand number 15, dealing with Dividend to General Revenues, should show the dividend split up under 'Interest' and 'Contribution' is not acceptable. This information will continue to be furnished separately to Ministry of Finance for departmental use through cash requirement statements without being shown in the Demand Book.

(iv) In the proposed 'Works Demands' the sub-heads shall directly correspond to the standard 'Plan-Heads' and the grouping of certain items suggested by the Task Force is not being accepted. The standard 'Plan-Heads' have come to stay and are in common usage in the offices of the Finance Ministry, Planning Commission etc. who provide funds for financing works under these heads.

(v) The recommendation regarding discontinuance of 'Works, Machinery and Rolling Stock Programme Part-I (Summary)' has not been accepted as it contains valuable summarised details.

(vi) Similarly, the deletion of portions from the Explanatory Memorandum is also not acceptable as this is a useful reference book providing meaningful and consolidated information at one place.

(vii) The introduction of the booklet 'Key to Budget' has been accepted.

Since the Task Force has recommended a very major re-structuring of Railway Budget (Demands and sub-head of Demands) intensive training to staff and officers dealing with budgeting on the railways will be arranged before implementation which may take a period of about 2/3 years, provided the Second Report of the Task Force dealing with revised classification of accounts is not delayed.

The Railway Convention Committee may like to consult the Estimates Committee, if considered necessary, in regard to the revised format of the Budget Estimates proposed to be introduced, as brought out in the foregoing paragraphs.

APPENDIX III

(*Vide* para 4 of Introduction)

Summary of the recommendation|conclusions contained in the Report

S. No.	Reference to para No. of the Report	Recommendations	Conclusions
1	2	3
1	2	The Committee note that in the wake of the emergency, the Railways have taken a series of measures to tone up their operational efficiency and in particular, to improve the daily wagon loadings so as to augment their earnings. The Committee need hardly emphasise that utmost economy in working expenses is the need of the hour and that vigorous and sustained efforts in this direction are called for. What the Committee are looking for is a firm determination and action at all levels of the Railways to put to best use the assets created with nation's money, to keep the wheels turning ever faster in the interest of speedier and safe delivery of goods and to provide a passenger service which is a by-word for punctuality and comfortable travel and earn larger revenues to generate surpluses. The Committee hope that the sense of discipline and enthusiasm generated by the emergency will permeate all levels of Railway administration so that all traces of complacency and drift are rooted out and the nation's largest public undertaking regains its reputation as an efficient organisation devoted to the service of

1	2	3
		the nation. The Committee would like the Railway Board to present a detailed note to Parliament about the improvements and economics effected in the working of the Railways since the declaration of the emergency.
	4	The Committee 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 percentage 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 1976-77.
		(3) The present arrangement of adopting differential rates of dividend on Capital invested in the Railways upto 31st March, 1964 and that invested thereafter, may continue during 1976-77. 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

1	2	3
		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 1976-77.
		(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 1976-77.
		(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 con-

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		struction 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.,* 1976-77.
3	5	In paragraphs 5.79 and 5.80 of their Ninth Report, the Committee have observed as follows:— "In paragraph 16 of their Sixth Report, the Railway Convention Committee had recommended that 50 per cent (instead of 25 per cent as hithertofore) 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. This recommendation has since been approved by Parliament. Having regard to the difficult financial position of the Railways and also taking into consideration the long period of construction/gestation of Railway investment in general, the Committee recommend that 50 per cent of the outlay on capital works-in-progress, other than those specified above, may continue to remain exempted from payment of dividend for a period of three

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1	2	3
		years in each case, during the entire period of the Fifth Plan, *i.e.*, 1974—79."
		The Committee would like Government to come to a decision on the recommendations of the Working Group without delay so that the allocations to the Depreciation Reserve Fund could be made on a rational and scientific basis. As the recommendations of the Working Group envisage enhancement of the provision of Rs. 650 crores proposed by the Financial Commissioner for the Fifth Plan period, the matter would have to be considered carefully in the light of the revenue position of the Railways. The Committee would like to be apprised of Government's decisions on the recommendations of the Working Group.
5	15	The Committee note that Railways are obliged under a covenant recently entered into with the International Development Association, to make a minimum contribution of Rs. 130 crores per annum to the Depreciation Reserve Fund during the quinquennium 1974—79. Keeping in view the depreciation requirements for 1976-77, the requirements as assessed by the Working Group on Depreciation and the commitment made to the International Development Association the Committee have no objection to the contribution to the Depreciation Reserve Fund being raised to Rs. 135 crores in 1976-77 as against Rs. 115 crores during each of the first two years of the Fifth Plan.
6	16	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

1	2	3
		to that Fund and payment of interest thereon at the average borrowing rate, may be continued.
7	17	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.
8	21	The Committee would like the Ministry of Railways to obtain the prior approval of the Estimates Committee with regard to the revised format of the Budget Estimates proposed by Government in the light of the Reports of the Task Force.
9	23	The Committee would like to draw attention to the following recommendation contained in paragraph 6.47 of their Ninth Report:— "So far as the question of financing the construction of staff quarters is concerned, the Committee agree with the Railways' suggestions, concurred in by the Ministry of Finance, that the cost of construction of staff quarters may be charged to Capital during the Fifth Plan period, dividend on such capital being payable only if the Railways have surplus after discharging other dividend obligations".

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