RCC No.108

RAILWAY CONVENTION COMMITTEE
(2004)

(FOURTEENTH LOK SABHA)

SECOND REPORT
ON
RATE OF DIVIDEND FOR 2005-06 AND OTHER ANCILLARY MATTERS

Presented in Lok Sabha on 28.4.2005

Laid in Rajya Sabha on 28.4.2005

S
E
A
L

LOK SABHA SECRETARIAT
NEW DELHI

April, 2005/Vaisakha, 1927 (S)

Price Rs.

CONTENTS

Composition of the Railway Convention Committee (2004)

Introduction

PART - I

1. Report

2. Recommendations

APPENDICES

I. Statement showing important financial figures in respect of Indian Railways for the period 1950-51 to 2005-2006

II. Concessions/reliefs on dividend available to the Railways

III. Statement showing recommendations contained in the First Report of Railway Convention Committee (2004) on Rate of Dividend for 2004-05 and other ancillary matters

PART II

Minutes of the : -

(i) Sixth sitting of the Railway Convention Committee (2004) held on 10th March, 2005

(ii) Seventh sitting of the Railway Convention Committee (2004) held on 5th April, 2005

RAILWAY CONVENTION COMMITTEE (2004)

CHAIRMAN

Shri Gingee N. Ramachandran, MP

MEMBERS
LOK SABHA

2. Shri Atique Ahamad
* 3. Prof. Rasa Singh Rawat
4. Shri Raghunath Jha
5. Shri Kailash Joshi
6. Shri Babu Lal Marandi
7. Shri Nizamoddin
8. Shri M. Rajamohan Reddy
9. Shri Madan Lal Sharma
10. Shri D. Venugopal
11. Shri Rajesh Verma
12. Shri Mahboob Zahedi

RAJYA SABHA

13. Shri Vijay J. Darda
14. Shri Surendra Lath
15. Dr. Narayan Singh Manaklao
16. Shri K.Rama Mohana Rao
17. Shr Dwijendra Nath Sharmah
18. Shri A. Vijaya Raghavan

SECRETARIAT

1.	Shri P.D.T. Achary	-	Secretary
2.	Smt. Paramjeet Kaur Sandhu	-	Joint Secretary
2.	Shri V.S. Negi	-	Deputy Secretary
3.	Shri O.P. Shokeen	-	Under Secretary

---

* Nominated vide Bulletin dated 29.3.2005 to be Member of RCC *vice* Shri S. Bangarappa, who resigned from Lok Sabha on 10th March, 2005

INTRODUCTION

I, the Chairman, Railway Convention Committee (2004), having been authorised by the Committee to present the Report on their behalf, present this Second Report on Rate of Dividend payable by the Railway Undertaking to General Revenues and Other Ancillary Matters for the financial year 2005-06.

2. Based on an interim Memorandum submitted by the Ministry of Railways, in consultation with the Ministry of Finance, the Railway Convention Committee (2004), in their First Report, had recommended, purely as an interim measure, that dividend for the year 2004-05 to General Revenues be paid at the rate of 6.5 per cent irrespective of the year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant-in-lieu of passenger fare tax and contribution for assisting the States for financing safety works during the year 2003-04. The First Report of Railway Convention Committee (2004) was presented to Lok Sabha on 21st December, 2004 and laid in Rajya Sabha on the same day. The action taken notes of the Government on the recommendations contained in the First Report are yet to be furnished by the Ministry of Railways, which forms Appendix-III to this Report.

3. Another interim Memorandum on Rate of Dividend for the year 2005-06 containing the views of both the Ministries of Railways and Finance has been furnished by the Ministry of Railways on 9th February, 2005 wherein the Ministry of Finance have stated that the existing rates and modalities for determining the dividend payable by the Railways on the investment from General Revenues and subsidy from General Revenues to Railways may be increased to 7% for the year 2005-06. The Ministry of Railways, have however, pleaded for reducing the

rate of dividend to 6 percent.. The Committee, while examining the Memorandum, took evidence of the Representatives of the Ministries of Railways and Finance on 10th March, 2005. The Committee wish to express their thanks to the Representatives of both the Ministries for placing before them their views and for furnishing information the Committee desired.

4. After considering the Interim Memorandum and the oral and written submissions made before them by the Ministries, the Committee have recommended, purely as an interim measure, that dividend to General Revenues for the year 2005-06 may be paid at the rate of 6.5 per cent on the entire capital invested on Railways from the General Revenues irrespective of the year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the year 2004-05. All other concessions now available are also allowed to continue on the existing basis for the year 2005-06.

5. The Committee considered and adopted this Report at their sitting held on 5th April, 2005. The Minutes of the sittings of the Committee are appended to the Report in **Part – II**.

New Delhi ;
26th April, 2005
6 Vaisakha, 1927 (S)

Gingee N Ramachandran
CHAIRMAN
RAILWAY CONVENTION COMMITTEE

REPORT

I. GENESIS OF SEPARATION OF RAILWAY FINANCE

1 Railway Finances till 1924 were included in the Budget of the Government of India. But in order to secure stability for Civil estimates by providing for an assured contribution from Railway Revenues and also to introduce flexibility in the administration of Railway Finance, the Railway Finances were separated from the General Finance by a Resolution of the Central Legislature adopted on 20th September, 1924 and was approved by the Secretary of State. The possibility of legislation to separate the Railway Finances from the General Finance was considered and it was decided that it would be preferable to ask the House to agree to a Convention, the advantage in a Convention being that it can be adjusted from time to time to varying needs and difficulties. This Convention is commonly known as "Separation Convention".

2. Under the 'Separation Convention' the Railways are required to pay dividend at a fixed rate on the Capital advanced by the Government of India. The 'Rate of Dividend' payable by the Railway Undertaking to the General Revenues as well as other financial matters are determined periodically by the Railway Convention Committee of Parliament.

II. GUIDING PRINCIPLE OF RATE OF DIVIDEND

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

Undertaking. This principle of the rate of dividend being higher than the average borrowing rate of interest paid by the Government was followed by the successive Railway Convention Committees up to the year 1981-82. From 1981-82 onwards keeping in view the financial health of the Railways, the rate of dividend has been fixed by the Convention Committee at a level lower than the average borrowing rate of interest.

III. FINANCIAL STRUCTURE OF INDIAN RAILWAYS

4. The financial arrangements between the Railways and the General Revenues have been reviewed from time to time and modifications/changes carried out to meet the requirements of the changing times. As a result, the Ministry of Railways have been delegated with substantial administrative and financial powers relating to all Railway matters. The Railways have their own independent and integrated financial set up, viz ;

i) Railway Budget is presented and voted by the Parliament separately, independent of General Budget.

ii) Railway Ministry enjoy substantial powers of financial sanction to incur expenditure.

iii) Accounts are maintained by the Railways' own accounting cadres.

iv) Railway projects are also free from clearance by Public Investment Board as it is not for the projects of other Ministries. Once the survey reports become available, these are thoroughly scrutinised in the Railway Board and those which show some potential are recommended to the Planning Commission for consideration. For projects costing up to Rs. 100 crore, Planning Commission is required to concur before the work can be included in the Budget. For works costing over Rs. 100 crore the Planning Commission prepares an appraisal note which is then considered by an Expanded Board consisting of Members of the Railway Board and Secretaries of the Ministry of Finance (Expenditure), Planning Commission and the Department of Programme Implementation. The proposals for projects are then sent to the Cabinet Committee on Economic Affairs (CCEA) for approval with the recommendations of the Expanded Board, and once CCEA approves, the projects are included in the Railway Budget for seeking the approval of the Parliament.

Although the Railway Finances have been separated from the General Finances, the former continue to be part of the overall Government Finances as the estimates relating to receipts and expenditure of the Railways are incorporated in the General Budget as part of the total receipts and expenditure of the Government of India.

5. The Railways' revenue receipts are derived from the Gross Traffic Receipts, viz., passenger earnings, goods earnings and sundry other earnings. The expenditure of the Railways falls in the following two categories:-

i) Revenue expenditure or non-Plan expenditure : This expenditure is met out of the revenue receipts of the Railways. It consists of ordinary working expenses of Railways, appropriations to the various reserve funds and other miscellaneous expenditure like subsidy/rebate to worked lines, expenditure on miscellaneous establishments, etc.

ii) Other expenditure or Plan expenditure : The Plan expenditure is financed from budgetary support provided by the General Revenues, and withdrawals from various Railway Funds, including Capital Fund, and the market borrowings.

6. The allocation of Railway expenditure to one or the other of the above mentioned categories (referred to as allocation heads of expenditure) is governed by the rules of allocation based on the principles introduced by the Railway Convention Committee, 1949, as amended by the successive Convention Committees from time to time.

7. In pursuance of the Resolution adopted by both the Houses of Parliament, the Railway Convention Committee (2004) was constituted on 17th September, 2004 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 *vis-à-vis* General Finance and to make recommendations thereon.

(A). Determining The Rate Of Dividend

8. The Committee generally present their Report on 'Rate of Dividend' during the Budget Session of Parliament and their recommendations are reflected in the Railway Budget. The Memorandum on 'Rate of Dividend' payable to General Revenues' is submitted to the Committee by the Ministry of Railways after obtaining the comments/concurrence of the Ministry of Finance.

(B) Capital-At-Charge Of Indian Railways

9. Capital-at-charge means Capital contributed to the Indian Railways by General Revenues in the form of interest bearing loan capital, except that part of it on which no dividend is payable on the basis of reliefs recommended by successive Convention Committees and approved by Parliament. The capital-at-charge of the Indian Railways has increased from Rs.827 crore in 1950-51 to Rs.50821 crore in 2004-05(RE). This amount excludes Capital outlay on Metropolitan Transport Projects (MTP) and Circular Railway (Kolkata). The Capital outlay on MTP at Mumbai, Kolkata, Delhi, Secunderabad, Chennai and Circular Railway (Kolkata) is Rs.4276.10 crore in 2004-05 (RE).

(C). Dividend Paid

10. The annual dividend payable to General Revenues used to be less than Rs.100 crore till 31 March, 1964 but increased to Rs.3638.00 crore for 2005-06(BE) In all, the Railways have paid to the General Revenues an amount of Rs.36709 crore as Dividend. which comes to 73.62 per cent of the Capital-at-charge on Indian Railways. However, the Ministry of Finance

had permitted deferment of payment of dividend to the tune of Rs.1000 crore in 2001-02 together with Rs.1823 crore deferred in 2000-01 i.e., the total outstanding liability works out to Rs.2823 crore by the end of 2001-02. The Ministry of Railways (Railway Board) have repaid Rs.650 crore by end of 2004-05 and proposed to repay Rs.300 crore in 2005-06(BE).

11. Statement showing important financial figures in respect of Indian Railways is at Appendix – I.

(D). Payment Of Dividend To General Revenues

12. The Railway Convention Committee (2004) had, in paras 45 & 46 of their First Report had recommended that as a purely interim measure, the Dividend for the year 2004-05 to General Revenues on the entire capital be paid at the rate of 6.5 per cent irrespective of the year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting States for financing safety works during the financial year 2003-04. All other concessions as already available on residential buildings, new lines, subsidies from General Revenues, etc. were also allowed to continue on the existing basis for the year 2004-05.

(E) Present State of Railway Finances

13. With regard to the financial position of Railways, the Ministry of Railways, in their interim Memorandum submitted to the Committee (2004) on 9th February 2005 stated as under:-

> "Due to vigorous efforts made, financial position of the Railways has begun to show some signs of improvement. As a result, the Railways repaid the loan of Rs.249 crore in 2001-02 that was taken from the General Exchequer in 2000-01 for Plan needs. Besides paying the full dividend from 2002-03 onwards. The Railways have also cleared the deferred dividend liability to the extent of Rs.350 crore upto 2003-04 and budgeted a clearance of Rs.300 crore in 2004-05. The position, however, is far from satisfactory and the Railways have still to garner the required funds for essential safety and developmental needs of the system.

While the Railways have been able to arrest the growth rate of working expenditure in the recent years, augmenting the earnings to the desired level in the face of stiff competition from the road sector is an uphill task. The Railways at present are making all out efforts to find adequate resources to take care of its modernization, developmental and expansion programme, which requires substantial funding, to retain its status as the prime mover of the country. Resources are also required for safety related renewals of over-aged assets. Despite the recommendations of an inter-Ministerial group, the Railways are yet to be compensated for their social service obligations.

There has also been increase in non-payment of Railways' dues by the Railway users, particularly the State Electricity Boards. The balance of outstanding payments is approx. Rs.2963 crore as on 30.11.2004. Railways' resources become an interest-free working capital resource for the cash strapped State Electricity Boards. Persistent accumulation to the Railways' outstanding dues has adversely affected the Railways' financial performance. This also reduces the internal resources generated leading to reduced availability for Railways Plan expenditure. The shortfall then has to be met through market borrowings or by augmented budgetary support. The annual financial projections of the Railways also go awry as clearance of outstanding dues anticipated in the Budget Estimates do not materialise. Although certain steps have been taken for example prepayment of freight, adjustment of outstanding dues against traction bills of State Electricity Boards (SEB), advance payment at destination station apart from holding regular meetings with SEB authorities etc., the dues outstanding are still substantial. A pilot project for setting up Electronic Payment Gateway for freight has, recently (in January, 05) been implemented for Badarpur Thermal Power Station resulting in a clearance of Rs.110 crore from their outstanding dues. This facility will be extended to all major customers during the coming years and is likely to eliminate cumbersome and time consuming paper work while ensuring instant and secure transfer of funds from customer's bank account to Railway's account. Though Railways have taken a number of initiatives, results are likely to fructify after some time only.

Besides carrying a liability of Rs.2173 crore towards General Exchequer on account of dividend deferred in 2000-01 and 2001-02, the Railways are also required to extend financial assistance to the Konkan Railway Corporation (KRCL). KRCL has been set up with an investment of Rs.3500 crore. Out of this, about Rs.2500 crore was borrowed from market on the strength of letters of comfort issued by the Ministry of Railways. After commissioning, while KRCL has been able to generate revenue just sufficient to cover its operating expenses, it has not been able to service the interest and debt liability. As a result, Ministry of Railways has had to extend support to KRCL by way of loans. As of 31.3.2004, Ministry of Railways has lent Rs.1950 crore on this account. Though the need for financial restructuring has been admitted by Ministry of Finance, no workable solution has emerged so far.

Modernization of Railway infrastructure has been identified as one of the high priority areas by the Government. Accordingly, Railways have formulated an Integrated Modernization Plan covering the period 2005-06 to 2009-10 with the aim of transforming the Indian Railways into a modern system by global standards through a number of initiatives. Anticipated investment required for these identified items would be about Rs.24,000 crore. Out of this, Rs.4,000 crore is available under Special Railway Safety Fund for corresponding sanctioned works relating to urgent replacement and renewal of railway assets. Of the remaining Rs.20,000 crore, Rs.3,730 crore are to be mobilized through internal generation, Rs.6,000 crore through market borrowing and for the balance of Rs.10,270 crore enhanced budgetary support is being sought".

14. With regard to the performance of the Railways for the year 2004-05, the Ministry of Railways further submitted as follows:

"The earnings of the Railways in the current year have so far exceeded the proportionate target. Actuals to end of December, 2004 show an excess of Rs.1,089 crore in the overall earnings position.. The freight loading target which has been kept at 580 mt for the current fiscal, is likely to be surpassed. To end of December, 2004 Railways have already been able to achieve a freight loading of 438.36 mt which is 8.17. mt more than the proportionate target for the year and 31.21 mt. more than the loading during the corresponding period last year. As a result, the freight earnings have also been registering higher growth. These have exceeded the proportionate target to end of December, 2004 by Rs.1,052 crore The budgeted passenger earnings which is 4.8% higher than last year earnings, are also likely to be surpassed. The other coaching earnings and sundry earnings, taken together, are falling short of the proportionate targets by Rs.17 crore. The ordinary working expenses, however, are showing a trend of excess of Rs.84 crore to end of December, 2004 due to a marginally higher expenditure than expected and are likely to increase further mainly as a result of the multiple doses of increase in price of High Speed Diesel (HSD) oil. The impact of increases in price of HSD oil that have already taken place during the year works out to around Rs.550 crore and this is bound to eat into the surplus generated."

(F). Issue of Rate Of Dividend for the year 2005-06

15. Keeping in view their financial position as indicated in aforesaid paragraphs, the Ministry of Railways have proposed as under :

"The budgetary support provided to the Railways from the General Exchequer is sourced from the borrowings of the Government of India. Over the last few years the average cost of such borrowings has been decreasing consistently. The Government of India's average cost of borrowings, which was around 12% for 1998-99, has reduced to about 7% for 2002-03 and to 5.7% in

2003-04. In the current financial year also, this low rate of interest continues to prevail.

Given this and the fact that Railways have to keep investing for improving infrastructure, it is submitted that the rate of dividend, which the Committee has been kind enough to reduce to 6.5% for 2004-05, may be brought down further to 6% for the year 2005-06. Other modalities for determining the dividend as brought out in Appendix-II may continue to be adopted for the year 2005-06. All concession now available, as listed therein may also be allowed to continue for the year 2005-06".

16. In this connection, while pleading in favour of reduction in the rate of dividend, the Chairman (Railway Board), during evidence submitted as under:

"the reasons in brief why we have pleaded for a reduction in the dividend rate from 7 per cent to 6 per cent. The first is that we have some very essential safety works to take up. We have an elaborate safety plan which is a ten-year plan running from 2003 to 2013. It has got to be supported a lot from our internal resources. We are contributing to the Depreciation Reserve Fund from out internal resources and this is part of out total working expenditure; and all the annual arisings of the renewal of out assets are met from the DRF. As far as developmental needs are concerned, we need money for that. Developmental needs are mainly covered by the Development Fund …… Then, modernisation programme is another item which we discussed…….So, for these modernisation programmes, we have to induct some new technologies. We have to go for the technological upgradation, if we have to keep pace with the GDP growth. These works are inevitable and most of these works are also to be supported by our internal generation."

He further added:

"The, State Electricity Boards balances have gone, unfortunately, very high inspite of our best efforts. As on 30th November, 2004, the outstanding of the State Electricity Boards stand at Rs.2963 crore. This is another area which is causing us worry because this is something on which we are losing interest on our capital and this is something which is affecting our developmental works and internal generation in a nutshell……Then hikes in the prices of the HSD oil. We know that during the last calender year, there were three hikes of the diesel oil on 15th of June, then on 1st of August and then on 3rd of November. These were considerably high – Rs.1/- per litre in the first instance, then Rs.1.48 paise per litre in the second instance and Rs.2.12 paise per litre in the third instance. And because of this the total impact on the Railways exchequer on the expenses tantamount to nearly Rs.940 crore. So, this is another burden to us and that adds to our total working expenses. The last item in support for the reduction in the dividend rate is average rate of borrowing. This used to be 12 per cent in 1998-99 for the Government of India and now it is 5.7 per cent in 2003-04".

17. In connection with reduction of Rate of Dividend, the Ministry of Railways have also forwarded the following views of the Ministry of Finance:-

> "The Ministry of Railways gets annual budgetary support in the form of investment from Planning Commission. In addition to this, additional budgetary support for projects of national importance like Udhampur-Srinagar-Baramulla New Line projects in North East and budget support for last mile projects are also give during the course of the year by Ministry of Finance over and above what has been allocated by the Planning Commission.
>
> The effective rate of dividend paid by Railways works out to only 3.6% of capital invested in Indian Railways after netting out the subsidy from the General Revenue from the dividend paid by the Railways. Though the average cost of borrowing raised during the year has come down to 5.7% in 2003-04, the weighted average cost of all outstanding borrowing of the Government still remains at 9.3%. In addition, not only do the Railways enjoy tax-free concessional capital, they do not return the capital invested from General Revenues. Railways also carry on undischarged liability of Rs.2173 crore (deferred dividend) towards General Revenues and are unwilling to give a commitment on the time-frame within which this liability will be discharged despite RCC's recommendation that the liability be extinguished within three years. Given the Government's commitment to eliminate the revenue deficit by 31.3.2009 under the provisions of Fiscal Responsibility and Budget Management Act, 2003, it is essential that Railways should continue to pay dividend at the rate of 7% on capital invested from General Revenues. The proposal regarding payment of dividend on capital-at-charge on new lines at the same rate i.e. 7% is agreed to."

18. The Secretary (Expenditure), Ministry of Finance, while deposing before the Committee also submitted as under:-

> "The Central Government is in deficit. We intend to borrow about Rs.150,000 crore to meet our expenditure. So, Rs.150,000 crore is our deficit which we intend to borrow in 2005-06. Out of this borrowing, we give money to the Railways as the gross budgetary support. This money is carrying an interest cost. It was 5.7 per cent in the year during 2003-04. In 2004-05, it had increased to 6.2 per cent. So, there is not a decline in the interest rate in the market at which the Government of India borrows. It has increased actually by 0.5 per cent. If at all there is a case, there is a case for increase in the rate of dividend from 6.5 per cent to 7 per cent because our own cost of borrowing actually has increased in the market.

19. The Ministry of Railways (Railway Board) while commenting on the above views of Ministry of Finance have submitted the following for consideration of the Committee :

> "The arguments proffered by the Ministry of Finance are in the same vein as given by them in earlier years. Notwithstanding this, the RCC (2004) has, on the basis of the position explained by Railways, already recommended lowering the rate of dividend from 7% to 6.5% in its first interim report on the rate of dividend for 2004-05. Considering the present state of Railways' financial position and the need for expansion, modernization and safety, this Ministry requests the Committee to kindly lower the rate of dividend further to 6% for 2005-06.
>
> However certain points raised by Ministry of Finance need to be clarified. Firstly, the additional Budgetary Support for the Udampur-Srinagar-Baramulla New Line project is being provided outside the Railways plan as it has been held by the Government as a national commitment and, therefore, has also been declared dividend free. Unlike this, the Railways are required to pay dividend on the Budgetary Support provided for the Last Mile Projects.
>
> Regarding commitment on the time-frame within which the deferred dividend liability of Rs.2173 crore is to be cleared, the RCC recommendation was duly considered by the Government which then decided a time frame of 9 years for liquidating this liability by Railways. It goes without saying that Railways would abide by this and accordingly are making provision in their budget for this payment since 2003-04".

Funds of Railways

<u>(A)</u> Depreciation Reserve Fund (DRF)

20. Depreciation Reserve Fund (DRF) has been created to meet the expenditure on replacement and renewal of over aged assets including inflationary and improvement elements. Appropriation to this fund is met from out of revenues.

21. While approving the proposal of the Ministry of Railways regarding appropriation to be made to the Depreciation Reserve Fund in 2004-05, the Railway Convention Committee (2004) in their First Report, had recommended as under:

"The contribution to DRF may be allowed to be made in consonance with the capacity of the system to generate internal resources and they desire to be kept informed of the actual amount of contribution made to DRF in the fiscal year 2004-05".

22. In this connection, the Ministry of Railways have submitted the following:-

"An amount of Rs. 2762 crore consisting of Rs. 2662 crore from Revenues and Rs. 100 crore from Production Units were appropriated to the DRF in 2004-05 . In the Budget Estimates 2005-06, the appropriation to DRF has been kept at Rs. 3604 crore and Rs. 100 crore respectively, from the Revenue and Production Units. The balance in the DRF is estimated to be Rs. 4778 crore at the end of the financial year 2005-06".

23. On this proposal of Railways, the Ministry of Finance have observed that the Railway Plan requirement for 2005-06 would be finalized by the Planning Commission in consultation with the Ministry of Railways. Hence, appropriation to the DRF may be made in consonance with the capacity to generate internal resources and Plan requirements. These observations made by the Ministry of Finance are acceptable to the Ministry of Railways.

(B) Pension Fund (PF)

24. This Fund has been created to cover the current pension payments as also to meet the accumulated liability on account of pension benefits earned in each year of service. The appropriation to this Fund is met out of revenue earned by the Railways.

25. The Railway Convention Committee (2004) in their First Report, while approving the proposal of the Ministry of Railways regarding contribution to be made to Pension Fund in 2004-05, had recommended as under :

"The appropriation to Pension Fund from revenues may be kept at Rs. 6300 crore in 2004-05, subject to adjustments keeping in view any variations of the estimated withdrawal during the course of the year. This, together with appropriation of Rs. 100 crore from Production Units will enable the Railways to meet the pension requirement of Rs. 6400 crore during the year".

26. Regarding the Pension Fund, the Ministry of Railways in their interim Memorandum, have submitted the following for consideration of the Committee :

> "An amount of Rs.6650 crore consisting of Rs.6550 crore from Revenues and Rs.100 crore from Production Unit was appropriated to the Pension Fund in 2004-05. In the Budget Estimates 2005-06, the appropriation to the Pension Fund have been kept at Rs.6950 crore and Rs.100 crore respectively from Revenues and production units to cater to the pension liability likely to be around Rs.7150 crore during the year. The balance in the Pension Fund is estimated to be Rs.1479 crore at the end of the financial year 2005-06.

27. In regard to this proposal of the Ministry of Railways, the Ministry of Finance have observed that contribution to Pension Funds in 2005-06, could be on the basis of trends of actual expenditure in last few years. These observations made by the Ministry of Finance are acceptable to the Ministry of Railways.

(C). Development Fund (DF)

28. This fund has four segments and is used for meeting expenditure on

(i)	Passengers and users' amenities;	DF I
(ii)	Labour welfare works;	DF II
(iii)	Unremunerative operating improvements; and	DF III
(iv)	Safety Works	DF IV

The appropriation to the Fund is made out of the 'Excess' left after meeting the dividend liability. Whenever the 'Excess' is not sufficient, the Railways may borrow money from the General Revenues as per the recommendation of the Railway Convention Committee, 1954. The money borrowed, together with the interest thereon, has to be repaid in subsequent years.

29. The Ministry of Railways in their Memorandum, have apprised the Committee that in the Revised Estimates 2004-05, the appropriation to this Fund has been kept at Rs.1725 crore and in the Budget Estimates 2005-06, the appropriation to this fund has been kept at Rs. 1853 crore.

(D). Capital Fund (CF)

30. As approved by the Railway Convention Committee (1991) vide their Third Report, the Capital Fund was created with effect from 1992-93, with the express purpose of financing part of the requirement for works of a capital nature. After providing for appropriation to Development Fund, the balance of 'Excess' is appropriated to the Capital Fund. Since the Railways are not able to generate enough internal resources for being appropriated to the Capital Fund, the same has been kept inoperative. No appropriation of funds is proposed for 2005-06.

(E) Railway Safety Fund (RSF)

31. As recommended by the Railway Convention Committee (1999) vide their Second Report, the Railway Safety Fund has been created with effect from 1.4.2001. This fund has been created for financing works relating to conversion of unmanned level crossings and for construction of Railway over/under bridges at busy level crossings. The Fund is currently financed through transfer of funds by the Central Government from the Central Road Fund (out of diesel cess), as well as the contribution that was being made to the Railway Safety Works Fund(RSWF) out of the dividend being paid by the Ministry of Railways to the General Revenues. Apart from this amounts can also be appropriated out of Railway revenues, i.e., out of the 'Excess' left after payment of dividend to General Revenues.

32. The Ministry of Railways, in their interim Memorandum, submitted the following :-

> "The amount of appropriation of Rs.403.74 crore made in Budget Estimates 2004-05 has been retained in Revise Estimates 2004-05 also. In Budget Estimates 2005-06, an appropriation of Rs. 713.55 crore has been made to the Fund, consisting of Rs. 710.81 crore transferred by the Central Government from the Central Road Fund and Rs. 2.74 crore worked out as contribution that was supposed to be made for the RSWF out of the Dividend."

(F) Special Railway Safety Fund :

33. Regarding Special Railway Safety Fund, the Ministry of Railways, in their interim Memorandum have submitted as follows:

> "In pursuance of the Railway Safety Review Committee (1998)'s recommendation that the Central Government should provide a one time grant to the Railways so that arrears in the renewal of vital safety equipment are wiped out within a fixed time frame of 5 to 7 years, the Government has decided to set up a non-lapsable Special Railway Safety Fund w.e.f., 1.10.2001. The cost of replacement of the over-aged assets to be replaced from the fund has been assessed as Rs,. 17000 crore inclusive of provision for inflation for the period of execution. The Special Railway Safety Fund is funded mainly through two sources viz., (1) Railways' contribution through the levy of Safety Surcharge on passenger traffic and (2) through additional financial assistance to be given by the Ministry of Finance.
>
> It was expected that with the levy of the Safety Surcharge, the Railways would be able to raise Rs. 5000 crore over a period of 6 years starting from 2001-02, which would be credited to the newly created non-lapsable Special Railway Safety Fund. The remaining Rs. 12000 crore would be provided by the Ministry of Finance. In the initial years the annual contribution from the General Exchequer as also the surcharge collection have been less than what was envisaged when the fund was planned. The expenditure however has been more than was initially budgeted. The shortfalls have been made good from Railway revenues.
>
> An amount of Rs. 3645 crore consisting of Rs. 2975 crore contributed by the Ministry of Finance and Rs. 670 crore being the Railways' share, has been appropriated to the fund in 2004-05 (RE).
>
> As per BE 2005-06, the appropriation to this fund has been kept at Rs. 3522 crore, consisting of Rs. 2699 crore contributed by the Ministry of Finance and Rs. 823 crore being the expected surcharge on passenger fare."

(G) Other Issues

Exemption from payment of dividend on capital-at-charge belonging to structural assets received 40 years ago.

34. In their interim memorandum, the Ministry of Railways have furnished the following:-

> "The capital-at-charge, which represents the government's investment in Railways, is also referred to as "loan in perpetuity", for which interest (called dividend) in required to be paid every year. As things stand, the payment of interest would also have to be done in perpetuity. On the total dividend bearing capital-at-charge, (i.e. excluding investment made in MTP projects and Special Railway Safety Fund), which stood at Rs.45672 crore as on 31.3.2004, Railways have paid a total Rs.30,667 crore as dividend, which works out to almost 67% of the capital-at-charge. In fact, on investments made decades ago, the Railways have already paid more than double or treble the investments.
>
> RITES report on 'Depreciation Policy Study for Indian Railways, 1987' had suggested that no depreciation need be provided on the capital-at-charge of structural assets (i.e. stations and offices, workshops and stores buildings, residential buildings, track formation, bridges, permanent way material etc.) Instead the capital-at-charge utilized on these assets should be amortized, as has been the practice on British Railways, over a limited period of, say, 40 years. The logic for treating them differently in the above manner is that these assets are seldom completely replaced on account of wear and tear. These are generally kept in fit condition by regular upkeep and maintenance at fixed periodicity.
>
> Pre-1965 capital-at-charge on the structural assets stands at Rs.1094 crore on which the railways, so far, have paid dividend of more than Rs.2,700 crore. A decision, therefore, will have to be taken to specify the period after which the investment made in a year on such assets would not attract dividend payment. Accordingly, this Ministry submits for the consideration of the Committee that the Railways be exempted from this point onwards from payment of dividend on capital-at-charge belonging to the structural assets that was received 40 years ago. For 2005-06, the exemption sought would be for the period prior to 1965-66. Such an exemption would give a relief of about Rs.77 crore to the Railways in 2005-06."

35. In this connection, the Ministry of Railways have also furnished views of Ministry of Finance as under:

"The reason given for exempting capital-at-charge pertaining to structural assets, created 40 years ago, that these assets are seldom replaced completely is not convincing. The comparison of dividend paid on the book-value of age-old assets is not acceptable as the dividend paid by Railways to General Revenues can only be compared with the revalued (appreciated value) assets. Fine distinction need not be drawn between the assets which are fetching revenue and assets which are not fetching revenue. As far as General Revenue is concerned, any investment from General Revenues should fetch a return at reasonable rates."

36. Commenting on the above views of Ministry of Finance, the Ministry of Railways have stated as under:-

> "the observations made by the Ministry of Finance on exempting the Railways from paying dividend on old capital-at-charge, this Ministry still feels that the interest on capital invested cannot be paid till eternity, particularly on the long lasting assets, the upkeep of which is to be done by the Railway itself. The argument that the dividend paid by Railways to General Revenues can only be compared with the revalued (appreciated value) assets is not tenable as in that case the value of dividend paid would also have to be updated in proportion to the revalued assets. Therefore, a decision is called for to specify the period after which the investment made on at least these assets would not attract the dividend liability."

(H) Principle governing the rate of interest on the Railway Reserve Funds

37. The Ministry of Railways in their Memorandum have submitted for consideration as under :

> "It is submitted that the recommendations of Railway Convention Committee (1999) in their Eighth Report for the year 2003-04 may be made applicable for 2005-06 also in respect of interest on the balances in the various Railway Funds. According to this, the balances in the various Railway Reserve Funds (other than Development Fund, Railway Safety Fund and Special Railway Safety Fund) may carry the same rate of interest as the rate of dividend. The rate of interest on the balance in Development Fund may be the same as the rate of interest on loan from General Revenues for Development Works. The Railway Safety Fund and the Special Railway Safety Fund are 'interest free' funds".

38. In this connection, the Ministry of Railways have also forwarded the following views of Ministry of Finance :

> "The existing principle governing interest (as the rate applicable to dividend rate on investement by General Revenues) on various Railway Fund balances placed in the Public Account of India may be allowed to continue during the year 2005-06 also."

Recommendations

39. Keeping in view the arguments put forth by both the Ministries of Railways and Finance on the issue of rate of dividend, the Committee recommend purely as an interim measure, that for the year 2005-06 dividend to General Revenues be paid at 6.5% on the entire capital invested on Railways from the General Revenues irrespective of the year of investment inclusive of the amount that was payable to States as grants in lieu of the passenger fare tax and contribution for assisting States for safety works during the year 2004-05.

40. All other concessions now available on residential buildings, new lines, subsidies from General Revenues, etc., be allowed to continue on the existing basis for the year 2005-06.

41. The Committee note that for the year 2004-05 an amount of Rs.2762 crore consisting of Rs.2662 crore from revenues and Rs.100 crore from Production Units has been appropriated to Depreciation Reserve Fund (DRF) and in the Budget Estimates 2005-06 the appropriation to DRF has been kept at Rs. 3604 crore and Rs. 100 crore respectively from the Revenue and Production Units. The balance in the DRF is estimated to be Rs. 4778 crore at the end of the financial year 2005-06. The Committee, therefore, recommend that the contribution to DRF may be allowed to be made in consonance with the capacity of the system to generate internal resources and they desire to be kept informed of the actual amount of contribution made to DRF in the fiscal year 2005-06.

42. The Committee observe that the appropriation to the Pension Fund (PF) in 2004-05 was kept at Rs. 6550 crore and Rs. 100 crore respectively from Revenues and Production Units. The balance in the Pension Fund would be Rs. 1479 crore at the end of the financial year 2005-06. The Ministry of Railways have now proposed that the appropriation to Pension Fund from revenues may be kept at Rs.6950 crore in 2005-06 subject to adjustments. The Committee, while agreeing with the proposal of the Ministry of Railways, recommend that the appropriation to Pension Fund from Revenues be kept at Rs.6950 crore in 2005-06 in view of a possible higher requirement than expected on account of merger of 50% DA with the basic pension subject to adjustments and keeping in view any variations of the estimated withdrawal during the course of the year. This, together with the appropriation of Rs.100 crore from Production Units will enable the Railways to meet the pension requirement of Rs. 7050 crore during the year.

43. The Committee find that during the year 2004-05, the appropriation to Development Fund was kept at Rs. 1725 crore. However, for the year 2005-06, the Ministry of Railways have proposed that the appropriation to Development Fund be made out of the excess left after meeting the dividend liability and is kept at Rs.1853 crore (BE). Though the Committee approve the proposal of the Ministry of Railways, they desire that the Ministry of Railways should, in their action taken notes, apprise the Committee about the actual amount that will be credited to this Fund at the end of the financial year 2005-06.

44. In regard to the Capital Fund (CF) the Committee agree with the proposal of the Ministry of Railways that since the Railways cannot generate enough internal resources for being appropriated to Capital Fund, they, therefore, recommend that the Fund may not be operated for the present.

45. On the issue of exemption from paying dividend on capital-at-charge pertaining to structural assets received 40 years ago, while keeping in view the views put forth by the Ministries of Railway and Finance, the Committee feel that further indepth study on the issue needs to be done and therefore, the question of exemption from paying of dividend be taken up separately later. They also desire that the Ministry of Railways should submit a comprehensive note on the issue incorporating the year-wise funds received and dividend paid so far on capital-at-charge received 40 years ago.

46. The existing principle governing interest on various Railway Fund balances placed in the Public Accounts of India may be allowed to continue during the year 2005-06 also. The Committee also agree that the balances in the Railway Safety Fund and the Special Railway Safety Fund may be treated as interest free since both these funds have been constituted with the contribution from the General Revenue only.

New Delhi;
26th April, 2005
6 Vaisakha 1927 (S)

Shri Gingee N Ramachandran
Chairman
Railway Convention Committee

APPENDIX I

(Vide Para 12)

STATEMENT SHOWING IMPORTANT FINANCIAL FIGURES IN RESPECT OF INDIAN RAILWAYS FOR THE PERIOD 1950-51 TO 2005-06

(Rs. In Crores)

Year	Capital at Charge	Investment from Capital Fund	Gross Traffic Receipts	Total working Expenses	Net Revenue	Dividend Paid *	Excess (+) Shortfall (-)	Operating Ratio
1950-51	827.00	0.00	263.01	210.23	47.56	32.51	15.05	81.0
1951-52	850.11	0.00	290.82	224.35	61.75	33.41	28.34	77.0
1952-53	857.38	0.00	270.56	218.17	47.18	33.99	13.19	80.6
1953-54	869.30	0.00	274.29	231.75	86.92	84.36	2.56	84.4
1954-55	901.58	0.00	286.78	236.09	44.06	84.96	9.10	82.3
1955-56	968.98	0.00	316.29	258.22	50.34	36.12	14.22	81.6
1956-57	1071.71	0.00	347.57	279.27	58.38	38.16	20.22	80.3
1957-58	1222.44	0.00	379.78	309.44	57.78	44.40	13.38	81.5
1958-59	1856.69	0.00	390.21	321.44	59.32	50.89	8.93	82.4
1959-60	1432.28	0.00	422.33	334.62	74.55	54.43	20.12	79.2
1960-61	1520.87	0.00	456.80	358.24	87.87	55.86	32.01	78.4
1961-62	1682.98	0.00	500.50	390.51	99.75	75.85	24.40	78.0
1962-63	1896.81	0.00	566.79	429.52	123.32	81.26	42.06	75.8
1963-64	2159.63	0.00	632.21	472.27	145.19	95.95	49.24	74.7
1964-65	2135.12	0.00	660.85	528.11	118.11	101.93	13.18	79.9
1965-66	2680.82	0.00	733.57	583.04	134.84	116.20	18.56	79.5
1966-67	2841.57	0.00	768.78	639.25	114.12	182.39	318.27	83.2
1967-68	2978.03	0.00	818.14	693.80	110.12	141.53	-31.53	84.7
1968-69	3101.27	0.00	898.84	741.93	142.81	150.67	-7.86	82.5
1969-70	3195.51	0.00	951.28	790.02	146.56	156.39	-9.83	83.0
1970-71	3330.78	0.00	1006.69	847.34	144.73	164.58	-19.84	84.2
1971-72	3520.99	0.00	1096.59	911.85	169.08	151.24	17.84	83.1
1972-73	3725.81	0.00	1162.42	982.62	164.43	161.51	2.92	84.5
1973-74	3893.38	0.00	1137.89	1066.88	55.41	170.91	-115.51	93.7

1974-75	4105.56	0.00	1408.19	1317.29	73.64	187.47	-113.83	93.5
1975-76	4354.78	0.00	1767.01	1609.62	137.03	198.14	-61.11	91.1
1976-77	4533.70	0.00	2036.11	1718.56	296.29	209.05	87.24	84.4
1977-78	4797.12	0.00	2123.42	1750.12	352.79	226.56	126.23	83.0
1978-79	5023.92	0.00	2151.04	1867.55	260.82	224.16	86.66	87.5
1979-80.	5484.64	0.00	2337.84	2142.38	227.29	293.53	-66.24	91.5
1980-81	6096.35	0.00	2624.02	2536.46	127.49	325.36	-197.87	96.1
1981-82	6698.05	0.00	3538.24	3182.05	408.06	356.47	46.59	89.4
1982-83	7251.09	0.00	43.76.21	3883.35	554.29	485.98	118.31	88.3
1983-84	7567.80	0.00	4986.24	4661.46	378.95	423.70	-44.75	93.9
1984-85	8285.65	0.00	5358.77	4142.17	270.10	465.69	-195.59	96.3
1985-86	9078.07	0.00	2084.16	5828.14	685.87	507.04	178.83	90.6
1986-87	10373.10	0.00	7505.66	6900.56	680.84	578.85	101.99	92.2
1987-88	11622.22	0.00	8435.25	7802.95	723.15	638.86	84.29	92.5
1988-89	12987.51	0.00	9259.29	8632.99	737.33	715.66	21.67	93.0
1989-90	14629.45	0.00	20739.41	9887.73	982.07	808.81	173.26	91.5
1990-91	16125.80	0.00	12096.49	11153.86	1113.78	938.11	175.67	92.0
1991-92	17620.02	0.00	13729.74	12389.19	1540.95	1105.95	435.00	89.5
1992-93	20123.20	0.00	15688.44	13980.08	1955.43	1514.38	441.05	87.4
1993-94	20373.58	1746.99	17946.02	15134.54	3102.13	1296.05	1806.08	82.9
1994-95	21762.92	3161.88	20100.99	16590.12	3808.11	1361.71	2446.40	82.6
1995-96	22247.85	5465.04	22417.85	18524.90	4135.07	1264.44	2870.63	82.5
1996-97	23474.67	7437.10	24319.41	21000.80	3624.46	1507.46	2117.06	86.2
1997-98	25320.28	8526.05	28589.03	25876.03	3024.43	1489.21	1535.22	90.9
1998-99	27312.84	9516.50	29619.46	27834.60	2141.16	1742.08	399.08	93.3
1999-2000	29655.31	10116.75	32938.81	30843.99	2735.67	1889.78	845.89	93.3
2000-2001	32661.88	10390.00	34880.48	34667.34	1071.23	2130.94	763.59	98.3
2001-2002	36757.52	10389.83	37837.59	36293.21	2337.53	2337.18	1000.35	96.0
2002-03	40709.26	10389.83	41068.22	38025.75	3830.23	2714.83	1115.40	92.3
2003-04	45671.95	10389.83	42904.94	39482.21	4478.49	3387.08	1091.41	92.1
2004-05(RE)	50821.25	10389.83	46785.00	42462.00	5300.88	3576.08	1724.80	91.2
2005-06(BE)	54366.26	10389.93	50968.00	46144.00	5913.98	3938.00	1975.98	90.8

* Dividend paid inclusive of payment of deferred dividend also.

APPENDIX II
(Vide Para 17)

Basis for calculation of Dividend payable to General Revenues as also the subsidy available in payment of Dividend

The rate of dividend on the Capital-at-charge of the Railways and reliefs in dividend and by way of subsidy, based on the recommendations of the Railway Convention Committee (2004) applicable for 2004-05 are as under :-

I. DIVIDEND

(f) The rate of dividend is 6.5 per cent on the entire Capital invested on the Railways (excl. Metropolitan Projects) irrespective of the year of investment including 1.5% on the Capital invested upto 31.3.1964 (less Capital qualifying for Subsidy) which is to be used for making a contribution of Rs.23.11 cr. for grants to States in lieu of passenger fare tax and the balance amount, if any, to be contributed to the Railway Safety Fund.

.

(g) A concessional dividend of 3.5 per cent is payable on the Capital cost of residential buildings.

(h) In respect of the Capital invested on New Lines, excluding the 28 New Lines taken up on or after 1.4.1955 on other than financial considerations, the dividend payable is to be calculated at the least of the rate of dividend or average borrowing rate charged to the commercial departments for each year, but deferred during the period of construction and the first five years after opening of the lines for traffic, the deferred liability is to be paid out of the future surpluses of the line after payment of current dividend. The account of unliquidated deferred dividend liability on New Lines is to be closed after a period of 20 years from the date of their opening, extinguishing any liability not liquidated within that period.

(i) Losses in the working of strategic lines are borne by the General Revenues. Surplus, if any, of such lines, after meeting working expenses, depreciation and other charges are paid to General Revenues upto the level of normal dividend.

(j) Shortfall, if any, in the payment of dividend on account of inadequacy of net revenue is treated as a deferred liability on which no interest is charged.

SUBSIDY FROM GENERAL REVENUES

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

(g) Strategic lines.

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

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

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

(k) The Ore Lines between Bimalgarh-Kiriburu and Sambalpur-Titlagarh.

(l) Ferries and Welfare buildings.

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

APPENDIX - III

(Vide Para 2 of Introduction)

Statement showing the recommendations contained in the First Report of the Railway Convention Committee (2004) on Rate of Dividend for 2004 - 2005 and other Ancillary Matters and action taken thereon

Sl. No.	Para No.	Recommendation	Action Taken by Government
1	2	3	4
1.	45	Keeping in view the arguments put forth by both the Ministries of Railways and Finance on the issue of rate of dividend, the Committee recommend purely as an interim measure, that for the year 2004-05 dividend to General Revenues be paid at 6.5% on the entire capital invested on Railways from the General Revenues irrespective of the year of investment inclusive of the amount that was payable to States as grants in lieu of the passenger fare tax and contribution for assisting States for safety works during the year 2003-04.	Yet to be taken
2.	46	All other concessions now available on residential buildings, new lines, subsidies from General Revenues, etc., be allowed to continue on the existing basis for the year 2004-05. The Committee also recommend that the Ministry of Railways should also intimate them in monetary terms these concessions, head-wise, henceforth.	Yet to be taken
3.	47	The Committee note that for the year 2003-04 an amount of Rs.2976 crore consisting of Rs.2868 crore from revenues and Rs.100 crore from Production Units has been appropriated to Depreciation Reserve Fund (DRF) and in the	Yet to be taken.

		Budget Estimates 2004-05 the appropriation to DRF has been kept at Rs. 2267 crore and Rs. 100 crore respectively from the Revenue and Production Units. The balance in the DRF is estimated to be Rs. 2587 crore at the end of the financial year 2004-05. The Committee, therefore, recommend that the contribution to DRF may be allowed to be made in consonance with the capacity of the system to generate internal resources and they desire to be kept informed of the actual amount of contribution made to DRF in the fiscal year 2004-05.	
4.	48	The Committee observe that the appropriation to the Pension Fund (PF) in 2003-04 was kept at Rs. 6400 crore and Rs. 100 crore respectively from Revenues and Production Units. The balance in the Pension Fund is Rs. 1598 crore at the end of the financial year 2003-04. The Ministry of Railways have now proposed that the appropriation to Pension Fund from revenues may be kept at Rs.6300 crore in 2004-05 subject to adjustments. The Committee, while agreeing with the proposal of the Ministry of Railways, recommend that the appropriation to Pension Fund from Revenues be kept at Rs.6300 crore in 2004-05, subject to adjustments and keeping in view any variations of the estimated withdrawal during the course of the year. This, together with the appropriation of Rs.100 crore from Production Units will enable the Railways to meet the pension requirement of Rs. 6400 crore during the year.	Yet to be taken
5.	49.	The Committee find that during the year 2003-04, the	Yet to be taken

		appropriation to Development Fund was kept at Rs. 730 crore. However, for the year 2004-05, the Ministry of Railways have proposed that the appropriation to Development Fund be made out of the excess left after meeting the dividend liability and is kept at Rs.715 crore (BE). Though the Committee approve the proposal of the Ministry of Railways, they desire that the Ministry of Railways should, in their action taken notes, apprise the Committee about the actual amount that will be credited to this Fund at the end of the financial year 2004-05.	
6.	50	In regard to the Capital Fund (CF) the Committee agree with the proposal of the Ministry of Railways that since the Railways cannot generate enough internal resources for being appropriated to Capital Fund, they, therefore, recommend that the Fund may not be operated for the present.	Yet to be taken
7.	51	Keeping in view the fact that the average borrowing rate of Government of India has now exceeded the rate of dividend paid by the Ministry of Railways, the Committee recommend that the dividend on the capital-at-charge of the new lines may be computed at the least of the rate of dividend or average borrowing rate charged to the commercial departments. Further the Committee desire that the Ministry of Railways should inform them about the exact monetary benefit likely to accrue to Railways on this account, although the extent of such benefit in future years will depend upon the capital-at-	Yet to be taken

		charge on the new lines completing the moratorium period.	
8.	52	The Committee note that in order to upgrade the rail infrastructure in the city of Mumbai so as to increase its transport capacity and reduce overcrowding suburban rail system, a joint venture project viz. between the Indian Railways and the Government of Maharashtra, Mumbai Urban Transport Project (MUTP) at an estimated cost of Rs.3125 crore has come into existence and the World Bank would also provide to the extent of 50% of the cost partly as a loan and partly as credit. The loan and credit, alongwith interest and service charges will be repaid in 20 years and 35 years respectively. The cost of the project will be recovered from a levy of MUTP surcharge, already imposed w.e.f. 15.9.2003 from the public using Mumbai Suburban Rail System and the revenue generated from this levy would be shared on a 50:50 basis between the Ministry of Railways and Government of Maharashtra. However, the Railways' share from the MUTP surcharge will be passed on to Ministry of Finance towards World Bank loan repayment charges. In order to keep a proper account of surcharge and payment to Ministry of Finance towards the servicing of loan, the Ministry of Railways have now requested the Committee for creation of a new Fund viz. 'Loan Repayment Reserve Fund-Mumbai Suburban Rail System' and proposal for the same has been sent to Ministry of Finance. Keeping in view the	Yet to be taken

		above fact, the Committee reserve their views on the matter and desire to have the comments of the Ministry of Finance in this regard.	
9.	53	The existing principle governing interest on various Railway Fund balances placed in the Public Accounts of India may be allowed to continue during the year 2004-05 also. The Committee also agree that the balances in the Railway Safety Fund and the Special Railway Safety Fund may be treated as interest free since both these funds have been constituted with the contribution from the General Revenue only.	Yet to be taken

PART II

MINUTES OF THE SIXTH SITTING OF THE RAILWAY CONVENTION COMMITTEE (2004) HELD ON 10TH MARCH, 2005.

* * *

The Committee sat on Thursday, the 10TH March, 2005 in Committee Room 'B', Parliament House Annexe New Delhi from 1500 hrs to 1630 hrs.

PRESENT

Shri Gingee N. Ramachandran - Chairman

MEMBERS

LOK SABHA

2. Shri Mahboob Zahedi

RAJYA SABHA

3. Shri Vijay J. Darda
4. Shri Surendra Lath
5. Dr. Narayan Singh Manaklao
6. Shri K. Rama Mohana Rao
7. Shri A. Vijaya Raghavan

SECRETARIAT

1.	Shri Paramjeet Kaur Sandhu	-	Joint Secretary
2.	Shri V.S. Negi	-	Deputy Secretary
3.	Shri O.P. Shokeen	-	Under Secretary

REPRESENTATIVES OF MINISTRY OF RAILWAYS

(i)	Shri R.K. Singh	-	Chairman, Railway Board and ex-officio Principal Secretary to the Government of India.
(ii)	Smt. Vijayalakshmi Viswanathan	-	Financial Commissioner, Railways and ex-officio Secretary to the Government of India
(ii)	Shri R.R. Jaruhar	-	Member Engineering, Railway Board and ex-officio Secretary to the Government of India.
(iv)	Shri R.N. Aga	-	Member Traffic, Railway Board and ex-officio Secretary to the Government of India.

REPRESENTATIVES OF MINISTRY OF FINANCE

(i)	Shri D. Swarup	-	Secretary, Department of Expenditure, Ministry of Finance
(ii)	Dr. Adarsh Kishore	-	Officer on Special Duty (Expenditure) Department of Expenditure, Ministry of Finance

2. At the outset, the Chairman welcomed the Members and the representatives of the Ministry of Railways to the sitting of the Committee and invited their attention to Direction 58 of the Directions by the Speaker, Lok Sabha. Thereafter the Committee first took the oral evidence of the representatives of the Ministry of Railways on the subject 'Rate of Dividend for 2005-2006 and Other Ancillary Matters'. Thereafter, the Committee took the oral evidence of the representatives of the Ministry of Finance on the subject. The representatives of both the Ministries briefed the Committee and placed their views on the subject before the Committee. They were asked to submit their replies, which were not readily available, to some of the points raised by the Members within a week's time. The evidence concluded.

4. A verbatim record of the proceedings has been kept.

The Committee then adjourned.

MINUTES OF THE SEVENTH SITTING OF THE RAILWAY CONVENTION COMMITTEE (2004) HELD ON 5TH APRIL, 2005.

* * *

The Committee sat on Tuesday, the 5th April, 2005 in Committee Room 'C', Parliament House Annexe, from 1100 hrs to 1150 hrs. In the absence of Chairman, the Committee chose Shri A. Vijaya Raghavan, MP to act as Chairman under rule 258(3) of Rules of Procedure and Conduct of Business in Lok Sabha.

PRESENT

Shri A. Vijayaraghavan - Acting Chairman

MEMBERS

LOK SABHA

2. Prof. Rasa Singh Rawat
3. Shri Babu Lal Marandi
4. Shri Nizamoddin
5. Shri M Rajamohan Reddy
6. Shri Madan Lal Sharma
7. Shri Rajesh Verma

RAJYA SABHA

8. Shri Surendra Lath
9. Shri K. Rama Mohana Rao
10. Shri Dwijendra Nath Sharmah

SECRETARIAT

(1)	Smt. Paramjeet Kaur Sandhu	-	Joint Secretary
(2)	Shri V.S. Negi	-	Deputy Secretary
(3)	Shri O.P. Shokeen	-	Under Secretary

2. At the outset, the Acting Chairman welcomed the Members to the sitting of the Committee and also congratulated Prof. Rasa Singh Rawat, MP on his nomination to this Committee *vice* Shri S. Bangarappa who resigned from the Lok Sabha on 10th March, 2005. Thereafter, the Committee considered and adopted the Draft Report on 'Rate of Dividend for 2005-2006 and Other Ancillary Matters' without any amendment/modification.

3. The Committee also authorized the Chairman to finalise the Report and present the same to both the House of Parliament after making consequential changes, if any, arising out of the factual verification by the Ministry of Railways.

The Committee then adjourned.