RCC No.112

RAILWAY CONVENTION COMMITTEE
(2004)

(FOURTEENTH LOK SABHA)

SIXTH REPORT
ON
RATE OF DIVIDEND FOR 2007-08 AND OTHER ANCILLARY MATTERS

Presented in Lok Sabha on 26.04.2007

Laid in Rajya Sabha on 26.04.2007

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LOK SABHA SECRETARIAT
NEW DELHI

April, 2007/Vaisakha 06, 1929 (Saka)

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RAILWAY CONVENTION COMMITTEE (2004)

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2.	Shri A. Louis Martin	-	Joint Secretary
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* Nominated vide Bulletin dated 29.3.2005 as Member of RCC *vice* Shri S. Bangarappa, who resigned from Lok Sabha on 10th March, 2005

Nominated vide Bulletin dated 28.04.2006 as Member of RCC vice Shri K. Rama Mohana Rao, MP, retired from Rajya Sabha w.e.f 02.04.2006

$ Nominated vide Bulletin dated 23.5.2006 as Member of RCC vice Late Shri Mahboob Zahedi, MP, Lok Sabha (died on 8 April, 2006)

&Shri Babu Lal Marandi,MP, Lok Sabha has resigned w.e.f. 22 May, 2006

INTRODUCTION

I, the Chairman, Railway Convention Committee (2004), having been authorized by the Committee to present the Report on their behalf, present this Sixth Report on Rate of Dividend payable by the Railway Undertaking to General Revenues and Other Ancillary Matters for the financial year 2007-08.

2. The Railway Convention Committee (2004) presented their Fifth Report on `Rate of Dividend for the year 2006-07 and other Ancillary Matters' to Lok Sabha on 18st August, 2006 and laid in Rajya Sabha on the same day. The action taken notes of the Government on the recommendations contained in the Fifth Report are given in Appendix-**III** to this Report.

3. An interim Memorandum on `Rate of Dividend for the year 2007-08 and other ancillary matters' containing the views of both the Ministry of Railways and the Ministry of Finance was furnished by the Ministry of Railways on 11th January, 2007. The Committee took evidence of the Ministry of Railways on 12th February and both the Ministry of Railways and the Ministry of Finance together on 09th April, 2007.

4. The Ministry of Railways vide their communication dated 3rd October, 2006 and also vide Supplementary Memorandum to Interim Memorandum dated 5th February, 2007 sought approval of the Committee in respect of charging of the appropriation to Capital Fund of the amount needed for payment of principal component of the lease charges through the Major Head 3006 instead of Major Head 3001.

5. The Committee considered and adopted this Report at their sitting held on 19th April, 2007. The Minutes of the sittings of the Committee are appended to the Report in **Part – II**.

6. The Committee wish to express their thanks to the Representatives of both the Ministry of Railways as well as the Ministry of Finance for placing before them their views and for furnishing information required by the Committee.

New Delhi ;
19th April, 2007
Chaitra 29, 1929 (S)

GINGEE N. RAMACHANDRAN
CHAIRMAN
RAILWAY CONVENTION COMMITTEE

REPORT

I. GENESIS OF SEPARATION OF RAILWAY FINANCE

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 taxpayer 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 successive Railway 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. Projects costing up to Rs. 100 crore, Planning Commission is required to concur before the work can be included in the Budget. Works costing over Rs. 100 crore the Planning Commission prepares an appraisal note on it 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.

5. 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.

6. The Railways' revenue receipts are derived from the Gross Traffic Receipts, viz., passenger earnings, other coaching 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.

7. 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.

8. 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

9. 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

10. 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.63,243.07 crore in 2007-08(BE). This amount excludes Capital outlay of Rs.5,451.43 crore (BE 2007-08) on Metropolitan Transport Projects (MTP) at Mumbai, Kolkata, Delhi, Secunderabad, Chennai and Circular Railway (Kolkata).

(C). Dividend Paid

11. It is observed from the Budgetary documents that the annual dividend payable to General Revenues used to be less than Rs.100 crore till 31 March 1964, but increased to Rs.3,908.54 crore by 2007-08 (BE) excluding payment of deferred dividend. In all, the Railways have paid to the General Revenues an amount of Rs.49,306 crore as Dividend which comes to 77.96 per cent of the Capital-at-charge on Indian Railways upto end of 2007-08 (BE). However, the Ministry of Finance had permitted deferment of payment of dividend to the tune of Rs.1,000 crore in 2001-02 together with Rs.1,823 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.2,159 crore by end of 2006-07 and proposed to repay Rs.664 crore in 2007-08 (BE).

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

(D). Payment Of Dividend To General Revenues

13. The Railway Convention Committee (2004) had, in paras 45 & 46 of their Fifth Report had recommended that as a purely interim measure, the Dividend for the year 2006-07 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 2005-06. 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 2006-07.

14. Apart from above, the Committee vide para number 23 of the third report has also extended the concession in payment of dividend as available on new lines on strategic consideration to on-going and future gauge conversion works taken up on strategic consideration.

(E) Present State of Railway Finances

15. With regard to the financial position of Railways, the Ministry of Railways, in their interim Memorandum submitted to the Committee on 11th January, 2007 stated as under:-

> "Due to vigorous efforts made, financial position of the Railways has shown considerable improvement. Besides paying the full dividend from 2002-03 onwards, the Railways have also cleared the deferred dividend liability to the extent of Rs.1496 crore upto 2005-06 and has budgeted for a clearance of Rs.663 crore in 2006-07. By the end of 2007-08, this liability will be fully cleared.

16. As regards performance of the Railways during the year 2005-06, the Ministry of Railways further submitted as follows:

"Railways ended the fiscal year 2005-06 with a freight loading of 667.39 million tonnes (mt), 32.39 mt higher than the budgeted target. Railways achieved an unprecedented incremental loading of 64.61 mt and growth rate of 10.72% in freight loading in 2005-06. In the passenger segment also, the target for number of Passengers Originating has been surpassed. As a result, the freight and passenger earnings at Rs.51,413 crore for the fiscal surpassed the budgeted targets by Rs.2,853 crore. The internal resource generation stood at Rs.10,148 crore compared to the budgeted internal resource of Rs.6,124 crore and the revised estimate of Rs.9,959 crore. As per revised estimates of 2005-06, the fund balances were expected to close at Rs.11,280 crore. However, due to improved financial results, the actual closing balances are at Rs.12,138 crore, indicating an improvement of Rs.858 crore over RE. Railway also cleared the deferred dividend liability to the extent of Rs.663 crore."

17. Regarding the performance of the Railways during the year 2006-07, the Ministry of Railways submitted as follows:-

"The trend of loading and earnings as seen from the figures available for the first eight months of the financial year is encouraging. As against the loading target of 726 mt for the full year, Railway has achieved loading of 464.39 mt to end of November, 2006, which is 42.44 mt more than the loading achieved during the corresponding period of previous year i.e. 2005-06. As against the budgeted growth of 8.8% in freight traffic, the performance during April to November in 2006-07 reflects a healthy growth of about 10.1% in freight traffic. Passenger traffic is also showing a growth of 7.6%. Accordingly, earnings of the Railways upto November (Approx.) in the current year have exceeded the proportionate target by around Rs.254 crore and represents a growth of 14.2% over the earnings achieved during the corresponding period of 2005-06. As a result, the internal resources projected in the Budget Estimates are also expected to go up further during the year

Besides carrying a liability of Rs.1,326 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). The KRCL was set up with an investment of Rs.3,555 crore. Out of this, about Rs.2,755 crore was borrowed from market on the strength of letters of comfort issued by the Ministry of Railways. While KRCL is now 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, the Ministry of Railways has had to extend support to KRCL by way of loans. As of 31.3.2006, the Ministry of Railways has lent around Rs.2,354 crore on this account on which an interest of

Rs.273 crore is also due as on 31.03.2006, which the Corporation has not been able to pay. In the current fiscal a provision of Rs.224 crore has been made in the Railway Budget for giving loans to KRCL to meet the interest liabilities of the bonds of the corporation held by private parties. A proposal on financial restructuring is being proposed to the Ministry of Finance but will not provide any relief to Indian Railway's resources'.

(F). <u>Issue of Rate of Dividend for the year 2007-08</u>

18. Pointing out the need for substantial resources required for modernization, expansion and renewal and replacement of rail infrastructure, the Ministry of Railways submitted for consideration of the Committee that the rate of dividend, which the Committee has reduced to 6.5% for 2004-05, 2005-06 and 2006-07, may continue for the year 2007-08 also.

The Ministry of Railways also requested that other modalities for determining the dividend as brought out in **Appendix-II** may continue to be adopted for the year 2007-08 and that all concessions now available as listed therein may also be allowed to continue for the year 2007-08.

19. The Ministry of Finance have, however, sought restoration of the rate of dividend to 7.0 per cent and have stated as follows:-

> "The Ministry of Railways have been seeking reduction in the rate of dividend paid to General Revenues for the fourth year successively on the plea that over the years the Government's average cost of borrowing has been decreasing consistently whereas Railways have to keep investing for improving infrastructure. This plea is untenable in view of the fact that the weighted average cost of market borrowings has been increasing steadily, from 5.71% in 2003-04 to 8.03% in 2005-06. Apart from this, Indian Railways are getting a number of concessions and subsidies in the form of dividend relief. After setting off these concessions against the dividend paid by the Railways, the net dividend paid by Railways effectively translates into about 4% of the total capital-at-charge.
>
> The relief provided by reducing the rate of dividend and the various other concessions/reliefs in addition to Budgetary and additional Budgetary support provided to the Ministry of Railways, has had a favourable impact on the Railways Finances in these years. Their financial position has vastly improved

and surpluses have quadrupled from Rs.1,091 crore in 2003-04 to Rs.4,338 crore in 2005-06 in a short span of 3 years. Surpluses are appropriated to the various Railway Funds after meeting dividend liability. Balances lying in the credit of the Railways funds also earn interest from Government.

Finally, in view of the Fiscal and Revenue deficit targets set out under Fiscal Responsibility and Budgetary Management Act (FRBM) to be achieved by 2008-09, and the need to attain fiscal sustainability by reducing debt while creating fiscal room to fund priority spending needs, the proposal of the Ministry of Railways for payment of dividend at the rate of 6.5% on the capital-at-charge to the General Revenue is not agreed to. Instead, Railways may pay dividend to the General Revenues at the rate of 7% on the capital-at-charge for the year 2007-08."

20. Reacting to the views of the Ministry of Finance, the Ministry of Railways (Railway Board) have held that while the interest rates have hardened marginally, it has also to be kept in mind that:-

a) Railways pay dividend in perpetuity whereas the borrowings of the Government have a fixed tenor;

b) Concessions in payment of Dividend termed subsidy are in fact mostly a legitimate grant due to the Railways recognizing investments undertaken by Railways in projects and development expenditures that are unremunerative and economically unviable and yet important for national development. Most of these works were taken up only at the instance of the Government itself and the exemption in payment of dividend on them is available after due deliberations as per the recommendation of Railway Convention Committee.

c) The Railways also carry social service obligation of around Rs.6,000 crore by carrying certain passenger and goods services below cost in the larger interest of society on socio-politico considerations, without being compensated. Taking together the dividend being paid to the General Exchequer, the Railways in a way is returning around 16% of the capital invested by the nation in it; 10% in form of the social service obligations and 6% in form of dividend to the Ministry of Finance. In fact, on the total dividend bearing capital-at-charge, which stood at Rs.53,062 crore as on 31.03.2006, Railways have paid a total Rs.40,492 crore as dividend by that period, which works out to about 76% of the former. Thus, in a way, earlier investments have already been doubly or trebly paid back.

(d) Railways have, over the past few years, consistently improved operational efficiency to generate more revenues for development expenditure. All internal generations of the Railways arising from this improvement in performance are ploughed back into expansion and modernization projects, thereby affording considerable relief to the general exchequer. In the absence of this improved performance of the Railways and buoyant internal generation, the Railway would be imposing further burden on the budgetary support.

21. Pleading for the retention of the rate of dividend at 6.5 per cent, the Ministry of Railways further stated as follows:-

> "The funds available for investments in rail infrastructure are very inadequate. The Railways expect to carry 1,200 million tonnes per annum and 8,200 million passengers per annum by the end of the 11th Plan. Thus several new initiatives like the Heavy Haul Dedicated Freight Corridors, projects for strengthening the Golden Quadrilateral and the diagonals, freight and passenger terminal up-gradation, 25 T axle load freight movement on identified routes, Port connectivity projects, locomotives and coaches with latest technology and improved performance are being planned for. This apart, the Railways also has a considerable shelf of sanctioned projects with a throw forward liability of more than Rs.50,000 crore. The Railways has still to liquidate Rs.1,326 cr of the deferred dividend liability. The debt servicing liability in respect of Konkan Railway Corporation is also being borne by the Railways. In view of the above, this Ministry requests the Committee to retain the rate of dividend at 6.5% for 2007-08 also."

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

> "In 2003-04, the rate of dividend was seven per cent. At that time, the performance of the Railways was far below the performance of the Railways today. It was fixed at seven per cent when the performance of the Railways was not even comparable to the performance today. Today, we have vastly improved performance of the Railways, a vastly improved financial position of Railways. Their surpluses have risen from Rs.1,091 crore in 2003-04 to Rs.4,338 crore in 2005-06, that is, four times."

He further stated: -

> "The Railways have been arguing for a reduction on the ground that the cost of borrowing for the government has gone down. I would like to place on record that the cost of borrowing of the government has been steadily rising. From 5.73% in 2003-04 it has reached 7.8% in 2006-07. If we take into account the concessions which are given in the form of subsidies and other losses that are reimbursed, the effective rate of dividend on the capital that Government has invested works out to less than 3 per cent. So the rising cost of borrowing for the Government which is further set to rise because of the hardening interest rate is another argument for restoration.
>
> In the event the Committee does restore to 7 per cent, I am here to commit that whatever additional resources that may come to the Government will be given back to the Railways for investment in projects of national importance…….the restoration of the rate of dividend from 6.5 per cent to 7 per cent would mean an outgo of a miniscule amount of Rs.150 crore. I do not know the exact calculation. This is not going to impact the investments or the expansions or the renewal plans of the Railways."

23. As regards the claim of Railways that on the total capital at charge, dividend of about 74 per cent has been paid and thus, earlier investments have already been doubly or trebly paid back, the Secretary (Expenditure), Ministry of Finance said:-

> "This argument is very difficult to comprehend. For example, I will say, for the consideration of the Hon'ble Committee, that if you buy a share and suppose you keeping holding on to the share, you will get dividend every year. Maybe, after 30 years the total dividend paid may be more than the value of the share. But does that mean you do not pay dividend? There is no logic to this argument."

24. Similarly, on the question of Railways carrying social service obligation of around Rs.6,000 crore which when included works out a rate of return of 16 per cent, the Secretary(Expenditure) stated as follows:-

> "From the Ministry of Finance we do not accept this argument. The whole purpose of Government is to undertake social obligations. All Public Sector Undertakings are in the Public Sector because they undertake social obligations.

> You cannot calculate the return to Government by how much social obligation that you have discharged. That would be a completely wrong method of accounting. It is not an accepted method of accounting for Government Undertakings. Railway is one of the largest commercial Undertakings of the Government and on the social obligation the entire Government is committed to discharge it. This is not the proper way of calculating the return to Government."

25. In this connection, Member, traffic (Railway Board) submitted as follows:-

> "On our passenger services we incur a loss of the order of Rs.6,000 crore. Now we are facing a lot of competition both from road in the case of freight and in the case of passenger traffic from airlines as well as road traffic. So, one lesson from that is that I have to keep my cost down and have to be competitive. But because I am not compensated anywhere for this Rs.6,000 crore that I lose on passenger traffic, I have very little flexibility left in my freight traffic."

26. Pleading for retention of rate of dividend at 6.5%, the Financial Commissioner (Railway Board) submitted during evidence as under:-

> "We do have good surplus during the year but we have our burdens also which we have to discharge over the next five years. In the just concluded financial year, our loading has been 726 million tonnes. We expect to increase this loading to 800 million tonnes in 2007-08. Similarly, in respect of passenger traffic also, we had carried 6,242 million passengers in the just concluded year, and in the coming year it has to increase to 6,600 million passengers. In any case, there is a large quantum of passengers and a large quantum of freight which we will have to carry in the coming years. By 2010-11, the freight that we have to carry will be of the order of 1,100 million tonnes to 1,200 million tonnes. For this, there is no capacity available with the Railways, as of now, and we have to go for a massive expansion of the rail capacity, adding more and more the doublings, gauge conversions, traffic facilities and more and more terminal facilities. I am not talking about the new lines right now. The new lines would depend upon the budgetary support that the Government gives to us. We will try to adjust it and distribute the resources in a thin way over all the projects. But we have to do the doubling projects, gauge conversion projects, traffic facilities, rolling stock infusion, increase the number of locomotives, coaches, and wagons. For that, whatever money that we have earned as surplus, the entire money is being ploughed back into the expansion of capacity. We do not see the

possibility of getting a higher budgetary support. At least in one small way, Government can help us by allowing to pay the dividend at the rate of 6.5 per cent instead of 7 per cent because even small money will count."

27. While presenting the future scenario of Railway finances, the Financial Commissioner, (Railway Board) inter-alia stated:-

> "The Railways would have to prepare themselves to invest nearly about Rs.2,20,000 crore during the next five year period. Incidentally 2007-08 is going to be the first year of the 11^{th} Five Year Plan Period. We are making efforts to invest Rs.2,20,000 crore so that we will be in a comfortable position to meet the traffic demand of 1,100 to 1,200 million tonnes in the terminal year of the plan. In this, our sources identified are like this. We will generate an internal surplus, which will be fully utilized for the Railway expansion to the extent of Rs.1 lakh crore, and we expect a budgetary support of Rs.95,000 crore during the next five years, and for the balance of Rs.50,000 crore to Rs.60,000 crore we will go for market borrowings and also go for implementation of projects through public-private partnership mode."

28. The Committee observed from the Budget speech of the Minister of Railways that the Railways have turned in a record breaking performance during 2006-07, and the cash surplus before dividend was expected to be Rs.20,063 crore. According to the Ministry of Finance, the weighted average cost of market borrowings has been increasing steadily from 5.1% in 2003-04 to 8.03% in 2005-06. The Financial Commissioner, Railway Board submitted that rate of dividend should not be linked to interest on the borrowings made by the Government.

29. Pointing out that the contention of the Railways that the dividend should not be linked to the cost of borrowing, is contrary to their stand taken in 2003-04, the Secretary, Expenditure stated:-

> "When the Railways argued before this august Committee at that time, the main argument that was put forward was the lower cost of borrowing of the Government. That was the main argument put forward that the Hon'ble Committee was pleased to accept. It is in writing that because the cost of

borrowing has gone down, therefore, the dividend should be reduced. Today, they are saying the opposite that the dividend should not be linked to the cost of borrowing. I leave it to your judgement."

Funds of Railways

(A) Depreciation Reserve Fund (DRF)

30. 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.

31. While approving the proposal of the Ministry of Railways regarding appropriation to be made to the Depreciation Reserve Fund in 2006-07, the Committee in their Fifth 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 2006-07."

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

> "An amount of Rs.4,407 crore consisting of Rs.4,307 crore from Revenues and Rs.100 crore from Production Units were appropriated to the DRF in 2006-07(BE) ."

In this regard, it is observed from the Explanatory Memorandum on the Railway Budget for 2007-08 that in the Budget Estimates 2007-08, the appropriation to DRF has been kept at Rs.5,350 crore and Rs.100 crore respectively from the Revenue and Production Units. The balance in the DRF is estimated to be Rs.3,387.14 crore at the end of the financial year 2007-08.

33. On this proposal of Railways, the Ministry of Finance have observed that the appropriation to the DRF for 2007-08 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)

34. 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.

35. The Committee in their Fifth Report, while approving the proposal of the Ministry of Railways regarding contribution to be made to Pension Fund in 2006-07, had recommended as under:-

> "The appropriation to Pension Fund from revenues be kept at Rs.8,000 crore in 2006-07 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 appropriation of Rs.100 crore from Production Units will enable the Railways to meet the pension requirement of Rs.8,100 crore during the year."

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

> "In view of the trend of pension expenditure seen uptill December, 2006, the appropriation envisaged in the Budget estimate has been scaled down by Rs.200 to Rs.300 crore in the Revised Estimate for 2006-07. Thus, an amount of Rs.7,526 crore consisting of Rs.7,426 crore from Revenues and Rs.100 crore from Production Unit has been appropriated to the Pension Fund in 2006-07(RE). In the Budget Estimates 2007-08, the appropriation to the Pension Fund have been kept at Rs.8,660 crore and Rs.100 crore from Revenues and production units respectively subject to adjustments to cater to the pension requirement which is estimated to be around Rs.8,160 crore during the year taking into consideration the increase in number of pensioners and rate of Dearness Relief."

37. In regard to this proposal of the Ministry of Railways, the Ministry of Finance have observed that contribution to Pension Funds in 2007-08, could be on the basis of trends of actual expenditure in last few years.

(C). Development Fund (DF)

38. 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.

39. The Ministry of Railways in their Memorandum, have apprised the Committee that in the Budget Estimates 2006-07, the appropriation to this Fund has been kept at Rs.960 crore. It is observed from the Explanatory Memorandum on the Railway Budget for 2007-08 that in the Budget Estimates 2007-08, the appropriation to this fund has been kept at Rs.2,359 crore.

(D). Capital Fund (CF)

40. As approved by the Railway Convention Committee (1991) vide their Third Report, the Capital Fund was created with effect from 1992-93, with the expressed 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 were not able to generate enough internal resources for being appropriated to the Capital Fund, the same was kept inoperative till the year 2005-06 with the approval of the Committee. However, with the improved financial position of the Railways and the expectation of higher surplus generation than envisaged for the year 2005-06,the Committee in 2005-06 vide their Fourth Report had recommended for Revival of Capital Fund from 2005-06 onwards for utilizing available resources to complete critical thorough put enhancement and traffic facility works.

41. With regard to the amount appropriated to the Capital Fund during 2006-07, the Ministry of Railways have submitted the following :-

> "An amount of Rs.5,432.94 crore has been appropriated to the Capital Fund in 2006-07(BE). Out of this Rs.1,720 crore has been appropriated for payment of the principal component of the lease hire charges on the assets leased to the Railways by IRFC. The balance amount of Rs.3,713 crore was for financing the throughput enhancement works of capital nature."

It is, however, observed from the Explanatory Memorandum on the Railway Budget for 2007-08 that in the Budget Estimates 2007-08 the appropriation to this fund has been kept at Rs.8,396.17 crore and the balance in the fund is likely to be Rs.5,888.89 crore at the end of the financial year 2007-08.

42. The Railway Convention Committee (2004) in their Fifth Report had recommended as under:-

> "The Ministry of Railway have also proposed to appropriate funds from the Capital Fund through Major Head 3001 for repayment of principal component of lease charges to IRFC. The Committee agree to their proposal for charging the appropriation of the principal component of the lease charges to the Capital Fund through Major Head 3001."

43. The Ministry of Railways, however, informed vide their OM No.2004/RCC/2006/5 dated 3-10-2006 as follows:-

> "It is submitted that the Hon'ble Committee have kindly agreed to the proposal of the Ministry of Railways for charging the appropriation of the principal component of the lease charges to the Capital Fund through Major Head 3001. However, Audit after due deliberations, have advised the Capital expenditure can not be incurred out of Revenue and, therefore, it would not be appropriate to depict the Capital component of lease charges through Major Head 3001 under which Miscellaneous expenditure is booked. They have also pointed out that Capital Fund has all along been funded through Major Head 3006 and hence they have questioned the wisdom of making a deviation from this practice at this stage when the Fund was being revived. Having regard to the above, it has been decided that from Revised Estimates 2006-07, the entire appropriation to the Capital Fund, including the element

> of principal component of lease charges, will be made out of the 'Excess' after the appropriation to the Development Fund through Major Head 3006."

44. It was, however, observed from the correspondence between the Railways and the Comptroller and Auditor General(C&AG), that the C&AG had categorically stated as early as on 24th April, 2006 that the charging of appropriation to Capital Fund through Major Head 3001 cannot be agreed to. Had the Committee been immediately informed of this position, it would have enabled them to have a re-look at the proposal of the Railways when the Committee adopted their Report on 16th June, 2006. When asked as to how the Ministry of Railways explained the lapse in not immediately apprising the Railway Convention Committee of C&AG's stand on the issue, the Financial Commissioner (Railway Board) submitted as under:-

> "This has arisen out of what is called the Accounting Standard No.19 which mandates that a company like IRFC, which is the official borrowing arm of the Railways and who is in leasing business, to ensure compliance. We referred this to Audit. The first reply we got from them was that the principal portion of the repayment of the lease charge will go to the miscellaneous expenditure. The audit had confirmed the proposal officially subject to RCC approval. Based on that we made a submission before the Committee. Subsequently, we got another letter from the Audit stating that it would be better to take it to capital fund rather than to miscellaneous expenditure. So, the change that was proposed is in line with the modification suggested by the C&AG and not otherwise."

He further stated: -

> "At no point of time we consciously tried to misguide the Committee. It is only at the insistence of the Audit that we had done it. Both the things happened at the insistence of the Audit. We will submit both the letters to the august Committee."

(E) Railway Safety Fund (RSF)

45. The Railway Safety Fund has been created with effect from 1.4.2001 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.

46. The Ministry of Railways, in their interim Memorandum, submitted as follows :-

> "An appropriation of Rs.713.43 crore consisting of Rs 710.86 crore from the Central Road Fund and Rs.2.57 crore as contribution for RSWF has been made in Revised Estimates 2006-07 in the Railway Safety Fund."

It is observed from the Explanatory Memorandum on the Railway Budget for 2007-08 that Railways have made in Budget Estimates 2007-08, an appropriation of Rs.727.26 crore to the Fund.

(F) Special Railway Safety Fund:

47. 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 Railway 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 decided to set up a non-lapsable Special Railway Safety Fund(SRSF) 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.
>
> The SRSF was accordingly to get Rs.5,305 crore from the Railway through the levy of the safety surcharge and Rs.11,965 crore from Ministry of Finance as dividend free budgetary support, over a period of six years starting from 2001-02. Set up in October 2001, the SRSF will come to an

end on 31.03.2007. However, considering the pending works of around Rs.1,795 crore still to be completed from the Fund, it has been decided to extend the SRSF for one more year beyond 2006-07 with the approval of Government. In as far as availability of funds for SRSF for completion of the works in 2007-08 is concerned, the requirement will be met taking together the likely closing balance of Rs.478 crore in SRSF as on 31.03.2007, the amount of Rs.1,176 core still to be received from Ministry of Finance, and the balance required, if any, from Railway Revenue in the eventuality of safety surcharge being discontinued after 31.3.2007.

An amount of Rs.2,115 crore, consisting of Rs.1,365 crore contributed by the Ministry of Finance and Rs.750 crore being the Railway' share, has been appropriated to the fund in 2006-07 (BE)."

In this connection, however, it is observed from the Explanatory Memorandum on the Railway Budget for 2007-08 that the appropriation to this fund has been kept at Rs.1,217.52 crore in 2007-08 (BE), consisting of Rs.1,165 crore contributed by the Ministry of Finance and Rs.52.52 crore as Railway contribution, being the expected surcharge on passenger fares.

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

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

"The recommendations of Railway Convention Committee (2004) in their Fifth Report for the year 2006-07 be made applicable for 2007-08 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".

49. 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 investment by General Revenues) on various Railway Fund balances placed in the Public Account of India may be allowed to continue during the year 2007-08 also."

(H) Other proposals

(a) Adjustment of operating losses being incurred on strategic railway lines.

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

> "Presently, these losses (incurred on strategic railway lines) being borne by the General Revenues are deducted from the dividend payable to the Ministry of Finance(MoF). The entry being shown in the railway finances is the net dividend after effecting this deduction. It is felt that more transparency can be brought about in the railway accounts if these operating losses being borne by the General revenues are reimbursed to the Ministry of Railways through a credit note to be adjusted in operating expenses represented by the Ordinary Working Expenses(OWE) of the Railway. This treatment will be most suitable as the losses are incurred due to occurrence of higher expenditure than the earnings and the reimbursement of the losses should rightly go for reducing the excess expenditure. If this is done, the dividend payable to the Ministry of Finance will be grossed up to the extent the adjustment of losses is done with the OWE."

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

> "The proposal of Ministry of Railways for reimbursing the operating losses on `strategic lines' by General Revenues through budgetary procedure, instead of being netted out against gross dividend payable by Railways at present, is agreed to subject to the condition that Ministry of Railways remit the dividend payable to General Revenues in matching installments to offset the `expenditure' from General Revenues on account of reimbursement of the operating losses on `strategic lines'."

(b) Interest on balances lying in the credit of the railway funds with Ministry of Finance(MoF).

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

> "The Ministry of Finance gives interest on the closing balances on these Funds at the rates recommended by the Railway Convention Committee (RCC). Though forming part of the internal resource potential of the Railways, which is very much available for being spent on various items of Railway expenditure, these are not formally accounted for in the Railway's earnings. These are rather adjusted to the Railway Funds through the year-end proforma adjustment with the Ministry of Finance.
>
> Since, the interests earned on the Fund Balances are not reflected in the Railway Accounts and Budget, the Railway resources in the financial statements are not correctly reflected and remain understated. It is now decided that the amount of interest income accruing on the fund balances first should be taken as credit in the revenue account of Railways as Miscellaneous Receipts (Commercial/Strategic). Subsequently an amount equivalent to the interest earned on each fund along with the amount of appropriation required to be made should be appropriated out of the revenue surplus balance.
>
> As the above proposals will have no impact on the general finances in any form, these can be accepted so as to be given effect to in the Revised Estimates for 2006-07."

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

> "This proposal of Railways for taking credit on account of interest payments on railways fund balances from General Revenues under its miscellaneous receipts and then appropriating the same to the fund account maintained in the Public Account is agreed to subject to Ministry of Railways obtaining the concurrence of C&AG thereon."

Recommendations

54. The Committee are glad to note the remarkable performance of Railways which has led to an estimated net revenue of over Rs.14,000 crore during 2006-07. The Committee have considered the arguments put forth by the Ministry of Railways and the Ministry of Finance on the issue of restoring the rate of dividend to 7.0 per cent as fixed for the year 2003-04 and the years before. The Committee, considering the rise in the Government's average cost of borrowing and the improved performance of Railways, recommend purely as an interim measure, that for the year 2007-08, the rate of dividend to General Revenues be restored to 7.0 per cent on the entire capital (excluding dividend free 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 2006-07.

55. 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 2007-08.

56. The Committee note that for the year 2006-07 an amount of Rs.4,407 crore consisting of Rs.4,307 crore from Revenues and Rs.100 crore from Production Units has been appropriated to Depreciation Reserve Fund (DRF) and in the Budget Estimates 2007-08 the appropriation to DRF has been kept at Rs. 5,350 crore and Rs. 100 crore respectively from the Revenue and Production Units. The balance in the DRF is estimated to be Rs. 3,387.14 crore at the end of the financial year 2006-07. The Committee, therefore, recommend that the contribution to DRF be made in consonance with the capacity of the system to generate internal

resources. The Committee would like to be informed of the actual amount of contribution made to DRF in the financial year 2007-08.

57. The Committee observe that the appropriation to the Pension Fund (PF) in 2006-07 has been kept at Rs. 7,526 crore and Rs. 100 crore respectively from Revenues and Production Units. The Ministry of Railways have now proposed that the appropriation to Pension Fund from Revenues may be kept at Rs.8,660 crore in 2007-08 subject to adjustments. The balance in the Pension Fund would be Rs. 1,592.66 crore at the end of the financial year 2006-07. While agreeing with the proposal of the Ministry of Railways, the Committee recommend that the appropriation to Pension Fund from Revenues be kept at Rs.8,660 crore in 2007-08 in view of possible higher requirement than expected on account of merger of 50% DA with the basic pension subject to adjustments and also 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. 8,160 crore during the year.

58. The Committee find that during the year 2006-07, the appropriation to Development Fund has been kept at Rs.960 crore. However, for the year 2007-08, 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 have budgeted an amount of Rs.2,359 crore (BE). The Committee approve the proposal of the Ministry of Railways and desire the Ministry of Railways to inform them of the actual amount that will be credited to this Fund at the end of the financial year 2007-08.

59. In regard to the Capital Fund (CF), the Committee note that an amount of Rs.5,432.94 crore has been appropriated to the Fund during 2006-07. Out of this Rs.1,720 crore has been appropriated for payment of the principal component of the lease hire charges on the assets leased to the Railways by Indian Railway Finance Corporation (IRFC) as recommended by the Committee in their Fifth Report. The balance amount of Rs.3,713 crore is for financing the throughput enhancement works of capital nature. The Committee in this connection seriously view the failure of the Railway Ministry to communicate to the Committee in time about the C&AG's stand on the proposal of Railways to appropriate funds from the Capital Fund through Major Head 3001 for repayment of principal component of lease charges to IRFC. The communication gap eventually led the Committee to give consent, in their Fifth Report, to the proposal of Railways in this regard. The Committee hope that there will be no recurrence of such lapses in future. The Committee urge the Ministry of Railways to appropriate funds from the Capital Fund through Major Head 3006 as suggested by the C&AG.

60. 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 2007-08 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.

61. As regards compensating operating losses on strategic lines through budget and treatment of interest on railway fund balances as `Miscellaneous Receipts' of Railways, the Committee feel that the Ministry of Railway should obtain the views of the C&AG on these proposals and the matter be placed before the Committee thereafter.

New Delhi ;
19th April, 2007
Chaitra 29, 1929 (S)

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 2007-08

(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
11980-81	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	48957.11	10389.83	47370.21	42758.88	5273.54	3199.31	2074.23	91.0
2005-06	53062.43	12815.94	54491.38	45488.34	10143.15	3949.83	6193.32	83.2
2006-07(RE)	58244.9	17630.94	63220	49615	14869.74	4242.26	10627.48	78.7
2007-08 (BE)	63243.07	25849.94	71318	56687	16021.99	4572.54	11449.45	79.6

- Dividend paid inclusive of payment of deferred dividend also.

APPENDIX II

(Vide Para 18)

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 2006-07 are as under: -

I. DIVIDEND

(a) The rate of dividend is 6.5 per cent on the entire Capital invested on the Railways (excl. dividend free capital) irrespective of the year of investment including 1.5% on the Capital invested up to 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.

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

(c) 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.

(d) 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.

(e) 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:

(a) Strategic lines.

(b) Gauge conversion works taken up on strategic consideration.

(c) 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.

(d) Northeast Frontier Railway (Non-strategic Portion)

(e) Un-remunerative Branch Lines subject to their un-remunerativeness being established on the marginal cost principle in each case through an annual review of their financial results.

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

(g) Ferries and Welfare buildings.

(h) 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.

PART II

MINUTES OF THE TWENTIETH SITTING OF THE RAILWAY CONVENTION COMMITTEE (2004) HELD ON 12TH FEBRUARY, 2007.

* * *

The Committee sat on Monday, the **12th February, 2007** from **1500 hrs to 1600 hrs** in Committee Room No.53, Parliament House, New Delhi. In the absence of Chairman, the Committee chose Shri Rajesh Verma, MP to act as Chairman under rule 258 (3) of Rules of Procedure and Conduct of Business in Lok Sabha.

PRESENT

Shri Rajesh Verma - Acting Chairman

MEMBERS

LOK SABHA

2. Shri Raghunath Jha
3 Shri Sartaj Singh Chhatwal
4. Shri P. Rajendran

RAJYA SABHA

5. Shri Vijay J. Darda
6. Dr. Narayan Singh Manklao

SECRETARIAT

(1)	Shri V.S. Negi	- Director
(2)	Smt. Rita Jailkhani	- Under Secretary

REPRESENTATIVES OF THE MINISTRY OF RAILWAYS

(1)	Shri J.P. Batra	- Chairman, Railway Board and ex- officio Principal Secretary to the Govt. of India.
(2)	Shri R. Sivadasan	- Financial Commissioner, Railways and ex-officio Secretary to the Government of India.
(3)	Shri S.K. Vij	- Member Engineering, Railway Board and ex-officio Secretary to the Government of India
(4)	Shri S.B. Ghosh Dastidar	- Member Traffic, Railway Board and ex-officio Secretary to the Government of India.

(5) Smt. Sabita Gopal - Additional Member (Budget)

(6) Ms. Anjali Goyal - Executive Director, Finance (Budget)

2. At the outset, the Acting Chairman welcomed the Members and representatives of the Ministry of Railways to the sitting of the Committee and also invited their attention to Direction 58 of the Directions by the Speaker, Lok Sabha. Thereafter, the Committee took oral evidence of the representatives of the Ministry of Railways on the subject 'Rate of Divided for 2007-08 and other ancillary matters'. The representatives of the Ministry of Railways (Railway Board) placed before the Committee their considered views for retaining the current rate of dividend at 6.5%. However, the evidence remained inconclusive.

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

The Committee then adjourned.

MINUTES OF THE TWENTY-FIRST SITTING OF THE RAILWAY CONVENTION COMMITTEE HELD ON 09TH APRIL, 2007.

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The Committee sat on Monday, the 09th April, 2007 from 1500 hrs. to 1630 hrs. in Committee Room No.62, Parliament House, New Delhi.

PRESENT

Shri Gingee N. Ramachandran - Chairman

MEMBERS

LOK SABHA

2. Shri Rasa Singh Rawat
3. Shri Raghunath Jha
4. Shri Kailash Joshi
5. Shri Sartaj Singh Chhatwal
6. Shri G. Nizamuddin
7. Shri Madan Lal Sharma
8. Shri D. Venugopal
9. Shri P. Rajendran

RAJYA SABHA

10. Shri Vijay J. Darda
11. Shri Surendra Lath
12. Dr. Narayan Singh Manaklao
13. Shri Mahendra Mohan
14. Shri Dwijendra Nath Sharmah
15. Shri A. Vijayaraghavan

SECRETARIAT

(1)	Shri A. Louis Martin	-	Joint Secretary
(2)	Shri V.S. Negi	-	Director
(3)	Smt. Rita Jailkhani	-	Deputy Secretary-II

REPRESENTATIVES OF THE MINISTRY OF RAILWAYS

1.	Shri R. Sivadasan	-	Financial Commissioner, Railways & ex-officio Secretary to the Govt. of India.
2.	Shri S.K. Vij	-	Member Engineering, Railway and ex-officio Secretary to the Govt. of India.
3.	Shri V.N. Mathur	-	Member Traffic, Railway and ex-officio Secretary to the Govt. of India
4.	Shri R.K. Rao	-	Member Mechanical, Railway and ex-officio Secretary to the Govt. of India.

5.	Smt. Sabita Gopal	-	Additional Member(Budget)
6.	Ms. Anjali Goyal	-	Executive Director, Finance(Budget)

REPRESENTATIVES OF THE MINISTRY OF FINANCE

1.	Dr. Sanjiv Misra	-	Secretary, Deptt. of Expenditure
2.	Ms. L.M. Vas	-	Joint Secretary(Budget), Deptt. of Economic Affairs.
3.	Shri P.R. Das	-	Additional Budget Officer, Deptt. of Economic Affairs.

2. At the outset, the Chairman welcomed the Members and the representatives of the Ministry of Railways and Ministry of Finance to the sitting of the Committee and invited their attention to Direction 58 of the Directions by the Hon'ble Speaker, Lok Sabha. Thereafter, the Committee took further oral evidence of the representatives of the Ministry of Railways and the Ministry of Finance on `Rate of Dividend for 2007-08 and other ancillary matters'. The evidence was concluded.

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

The Committee then adjourned.

MINUTES OF THE TWENTY-SECOND SITTING OF THE RAILWAY CONVENTION COMMITTEE HELD ON 19TH APRIL, 2007.

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The Committee sat on Thursday, the 19th April, 2007 from 1500 hrs. to 1530 hrs. in Committee Room `B', Parliament House Annexe, New Delhi.

PRESENT

Shri Gingee N. Ramachandran - Chairman

MEMBERS

LOK SABHA

2. Shri Rasa Singh Rawat
3. Shri Raghunath Jha
4. Shri Kailash Joshi
5. Shri Sartaj Singh Chhatwal

RAJYA SABHA

6. Shri Mahendra Mohan
7. Shri Dwijendra Nath Sharmah

SECRETARIAT

(1)	Shri A. Louis Martin	-	Joint Secretary
(2)	Shri V.S. Negi	-	Director
(3)	Smt. Rita Jailkhani	-	Deputy Secretary-II

2. At the outset the Hon'ble Chairman welcomed the Members to the sitting of the Committee. Thereafter, the Committee considered and adopted the Draft Report on `Rate of Dividend for 2007-08 and Other Ancillary Matters' without any amendment/modifications.

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

The Committee then adjourned.

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