RAILWAY CONVENTION COMMITTEE (2009)

(FIFTEENTH LOK SABHA)

SIXTH REPORT

ON

RATE OF DIVIDEND FOR THE YEAR 2013-14 AND OTHER ANCILLARY MATTERS

LOK SABHA SECRETARIAT
NEW DELHI

May, 2013 /Vaisakha 1935 (Saka)

RCC No. 124

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Presented to Lok Sabha on 08.05.2013

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RAILWAY CONVENTION COMMITTEE

(2009)

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4.	Smt.	Juby Amar	-	Deputy Secretary
5.	Smt.	Hema Joshi	-	Committee Officer

* Nominated *vide* Bulletin dated 15.02.2012 as Member of RCC vice Vacancy caused on account of resignation of Shri K. C. Venugopal, MP from the Committee *w.e.f* 21 December, 2011.

** Ceased to be a Member of the Committee on his retirement from Rajya Sabha on 27.01.2012. Re-nominated *w.e.f.* 02.02.2012 *vide* Bulletin Part-II No. 3634 dated 06.02.2012.

INTRODUCTION

I, the Chairman of the Railway Convention Committee (2009),having been authorized by the Committee to present the Report on their behalf, present this Sixth Report on Rate of Dividend payable by the Railways to General Revenues and Other Ancillary Matters for the financial year 2013-14.

2. The Railway Convention Committee (2009) presented their Third Report on Rate of Dividend for the year 2012-13 and other Ancillary Matters to Lok Sabha on 18 May, 2012 and laid in Rajya Sabha the same day. The action taken notes of the Government on the recommendations contained in the Third Report of RCC (2009) are given in Appendix-III to this Report.

3. Interim Memorandum on 'Rate of Dividend for the year 2013-14 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 15 February, 2013. The Committee took evidence of both the Ministry of Railways and the Ministry of Finance on 25 March, 2013.

4. After considering the Interim Memorandum and the oral evidence tendered by the officials of the Ministries of Railways and Finance, the Committee have recommended purely as an interim measure, that dividend to General Revenue for the year 2013-14 may be paid at the rate of ... 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 by the Railways to the General Revenues for payment to States as grants in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the year 2013-14. All other concessions now available are also allowed to continue on the existing basis for the year 2013-14.

5. The Committee considered and adopted this Report at their sitting held on 7 May, 2013. The Minutes of the sittings of the Committee are appended to the Report in Part – II.

6. The Committee express their thanks to the officials of the Ministry of Railways and of the Ministry of Finance for placing before them their views and for furnishing information desired by the Committee.

7. The Committee place on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

8. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the Report.

New Delhi ;
.... May, 2013
.....Vaisakha, 1934 (Saka)

ARJUN CHARAN SETHI,
Chairman,
Railway Convention Committee.

PART - I

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 20 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 Railways to the General Revenues as well as other financial matters are reviewed periodically by the Railway Convention Committee of Parliament.

II. GUIDING PRINCIPLE OF RATE OF DIVIDEND

3. The first Convention Committee was set up after independence in the month of April, 1949. One of the basic principles enunciated by this Committee was the fixation of 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 Railways. 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 upto the year 1981-82. From the year 1981-82 onwards keeping in view the financial health of the Railways, the rate of dividend has been fixed by successive Railway Convention Committees 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 matters of the Railways. 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 is not the case for the projects of other Ministries. Once the survey reports become available, these are thoroughly scrutinized in the Railway Board and those which show some potential are recommended to the Planning Commission for consideration. For Projects costing up to Rs. 300 crore, Planning Commission is required to concur before the work can be included in the Budget. For works costing over Rs. 300 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 Ministry of Statistics and 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 other sundry 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 is governed by the Rules of allocation based on the principles introduced by the Railway Convention Committee, 1949, as amended by the successive Railway Convention Committees from time to time.

8. In pursuance of the Resolution adopted by the 15th Lok Sabha on 15 December, 2009 and concurred in by the Rajya Sabha on 17 December, 2009, the Railway Convention Committee (2009) was constituted on 15 March, 2010 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-a-vis* General Finance and to make recommendations thereon.

IV. PAYMENT OF DIVIDEND TO GENERAL REVENUES

9. The 'Rate of Dividend' payable by the Railways to the General Revenues is based on the recommendations of the Committee. The Interim Memorandum for the year 2013-14 on 'Rate of Dividend payable to General Revenues' was submitted to the Committee by the Ministry of Railways on 15 February, 2013 after incorporating the comments of the Ministry of Finance.

10. Capital-at-charge indicates 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 the Parliament. The capital-at-charge of the Indian Railways has increased from Rs 827 crore in 1950-51 to Rs 1,68,636 (BE) crore in 2013-14. This is 16.6% higher than the capital charge of Rs 1,44,886 (RE) crore for the year 2012-13.

11. The annual dividend payable to General Revenues used to be less than Rs.100 crore till 31 March 1964. This has increased over the years. As against Dividend of Rs. 5,340 (RE) crore paid for the year 2012-13, provision of Rs 6,249 crore has been made for the year 2013-14.

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

13. The Railway Convention Committee (2009) after considering the overall financial position of the Railways prevalent at that time as also the need to urgently develop the railway infrastructure including modernization and safety related works, in their Third Report at Para No.73 had *inter-alia* recommended purely as an interim measure, that for the year 2012-13, the rate of dividend payable by the Railways to the General Revenues be determined at 4% 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 2012-13. The Railway Convention Committee (2009) had also recommended that all concessions on rate of dividend/ reliefs in dividend available on residential buildings, new lines, subsidies from General Revenues, etc., be allowed to continue on the existing basis for the year 2012-13.

14. Also, the Railway Convention Committee (2004) *vide* Para No. 23 of their Third Report (2004) had 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. The basis for calculation of dividend payable to General Revenues as also the subsidy available in payment of dividend, based on recommendations of Railway Convention Committee (2009) applicable for 2012-13 has been brought out in **Appendix-II.**

V. PRESENT STATUS OF RAILWAY FINANCES

15. The financial position of the Railways as explained by the Ministry of Railways, in their Fourth interim Memorandum on "Rate of Dividend for the year 2013-14 and other ancillary matters' is detailed in the succeeding paragraphs.

16. As a result of several measures taken, the financial position of the Railways showed considerable improvement during the period from 2003-04 to 2007-08. Besides discharging the full dividend liability from 2002-03 onwards, the Railways also successfully cleared the entire deferred dividend liability of Rs. 2,823 crore by 2007-08. However, after 2007-08 the buoyant trend in earnings could not be sustained particularly under freight traffic due to impact of global recession on the national economy since 2008-09 and sharp increase in expenditure consequent upon implementation of the recommendations of the VI Central Pay Commission.

17. The Performance of the Railways during the year 2011-12 as indicated in the Fourth Interim Memorandum of the Ministry of Railways was as under:

> "An incremental loading of 71 million tonnes was required to achieve the target of 993 mt. In keeping with the lower trend of freight traffic being offered, the loading target was scaled down to 970 mt at the Revised Estimate stage. However, considering the rationalization of freight rate structure during the year, the budgeted freight earnings of Rs. 68,620 crore were retained in the Revised Estimates. While the revised loading target was almost achieved, the earnings exceeded

the target by Rs 927 crore. The unit realization at Rs 71.7 crore per million tonnes also exceeded the target of Rs 70.7 crore per million tonne.

The financial performance in the passenger segment was not so encouraging and the budgeted passenger earnings target of Rs 30,456 crore had to be scaled down to Rs 28,800 crore in the Revised Estimates and actuals were still lower by Rs 554 crore. The total earnings from Other Coaching and Sundry also fell short of the Revised Estimates by Rs 90 crore.

However, due to better freight earnings, the actual Gross Traffic Receipts achieved was Rs 1,04,110 crore, which exceeded the Revised Estimates by Rs 193 crore.

With implementation of the recommendations of the VI CPC, hike in certain allowances by 25% consequent upon the DA crossing 50% limit, hike in price of HSD oil & electricity tariff, higher lease charges, etc., the Ordinary Working Expenses (OWE) increased to Rs 74,537 crore in 2011-12 as against Rs 68,139 crore in the previous year. The pension liabilities on account of the enhanced benefits conferred upon pensioners far exceeded the expected outgo and touched Rs 17,920 crore as against Rs 17,000 crore provided in the Revised Estimates.

The overall internal generation for Plan kept at Rs 7,708 crore in the Revised Estimates fell short marginally by Rs 31 crore. However, the 'Excess' left after payment of dividend worked out to Rs 1,126 crore against the Revised target of Rs 1,492 crore.

A loan of Rs 3,000 crore was extended by Ministry of Finance in 2011-12 at a rate of interest of 8.55% to tide over carried forward negative balances of 2010-11 in Development Fund and Capital Fund. Despite this, the year 2011-12 closed with negative balances in the Funds to the extent of Rs 384 crore."

18. Presenting the financial performance of the Ministry of Railways during the year 2012-13, the Ministry in their Interim Memorandum stated as follows:

"The trend of loading and earnings for the first six months of the current financial year has been better than the last year though still short of the budgeted expectations. As against the loading target of 1025 mt for the full year, Railways have achieved a loading of 647.11 mt to end of November, 2012, which though higher by 29.06 mt compared to corresponding period of previous year (COPPY), is short of budget proportion by 11.14 mt. Taking into account earnings from Passenger and other segments, the total earnings of the Railways up to November, 2012 in the current year are short of the proportionate target by about Rs 2,967 crore. The growth over previous year achieved so far in the total earnings works out to 18.6% as against the budgeted growth of 23.3%. The growth achieved during the corresponding period of the previous year was 10.5%. The Revised Estimates will have to be prepared with lower loading and goods earnings performance.

Due to higher outgo on account of implementation of the VI Central Pay Commission, unprecedented additional recruitment to eliminate vacancies in critical & safety categories, rising inflation, hike in price of HSD oil and electricity tariff, etc., the Ordinary Working Expenses have increased substantially. The working expenses, which have exceeded the Budget Proportions up to November, 2012 by Rs 726 crore may have to be increased in the Revised Estimates for providing the essential safety and operations requirements including higher allocations for fuel due to hike in price of HSD oil and electricity tariff during the year. The appropriation to Pension Fund may also have to be increased by at least Rs 1,000 crore to provide for obligatory pension payments. While the Railways are making all efforts to reverse the downtrend in loading, the expenditure both plan and non-plan is being strictly regulated so as to match the available resources. The plan investment during the year has already been scaled down from Rs 60,100 crore to Rs 55,881 crore* during the year and may have to be further reduced in the Revised Estimates." (* In the Budget Speech, the Railway Minister stated "The Plan investment during the year has been adjusted from Rs.60,100 Cr. to Rs.52,265 Cr.)"

19. While mentioning the achievements of Indian Railways, the Minister of Railways in his Budget Speech for the year 2013, stated as follows:-

> "This year the Indian Railways is set to achieve the milestone of entering the one Billion Tonne Select Club, joining Chinese, Russian and US Railways this year, the originating freight loading is estimated to be 1007 MT about 38 MT over 2011-12 Besides running of long-haul trains has enabled the Indian Railways to join another Select Club of Railways, which run freight trains of more than 10,000 tonnes load..........
>
> It has also been informed that all the "PSUs of Railways paid the highest ever dividend of 14.3% in 2011-12 and were also successful in securing several important contracts in other countries for construction/ rehabilitation of Railways lines and supply of rolling stock............
>
> As a result of our consistent efforts at maintaining Strict financial discipline during the year, the operating ratio is estimated at 88.8%........... .
>
> It needs no reiteration that the Railways need substantially higher resources to meet its requirement of development expenditure and capacity augmentation to match the demand for transport infrastructure in India's growing economy."

20. The Railway Minister also informed that the special loan of Rs.3000 crore taken from Ministry of Finance during 2011-12 has been repaid entirely alongwith interest in the current financial year.

VI. CAPACITY AUGMENTATION REQUIREMENTS

(i) XIIth Five Year Plan

21. Highlighting the need for relief in rate of dividend for providing resources for investments in important works, the Ministry of Railways in their Fourth Memorandum stated: -

> "In keeping with the demands of the growing national economy, the Railways will have to implement long term measures to augment carrying capacity of the system in both passenger and freight segments. Against the loading target of 1020 mt set for the terminal year of the XI Plan, the Railways could achieve only 970 mt. The process for formulation of the 12th Five Year Plan has started. Ministry of Railways have planned to increase investment in building rail infrastructure during the XII Five Year Plan Period with a view to create capacity for running freight and passenger services. It is estimated to carry 1405 million tonne of freight in 2016-17 (terminal year of 12th Plan) at a Compounded Annual Growth Rate (CAGR) of 7.8% during the Plan period. The capacity enhancement works planned in the 12th Five Year Plan are as under:

	12th Plan Physical Target (KMs)
New Lines	4000
Eastern & Western Dedicated Freight Corridors	3338 (double line except 400 Km)
Doubling	7653
Gauge Conversion	5500
Railway Electrification	6500

To garner targeted investment of Rs 1 lakh crore through PPP, new policy initiatives are being finalized to attract private investment in last mile rail connectivity, logistics parks, private freight terminals, high speed corridor, station development, wagon leasing and other wagon investment schemes. However, implementation of Plan depends upon its final approval by Government of India and provisioning of required budgetary support.

The Vision 2020 of the Indian Railways will guide the investment levels necessary to achieve much higher rail transport requirements during the plan period, both for freight and passenger segments. The growth scenario would warrant not only speedy completion of certain critical and throughput enhancement works but also taking up of ambitious mega projects for rapid modernization and expansion of the Railway network. While there had been steady growth in internal generation of resources till 2007-08, the same suffered a declining growth thereafter. The other options of funding like market borrowings and Public Private Partnerships will have to be resorted to with prudence, in view of the heavy cost of debt and intrinsic long-gestation nature of railway projects. As a result of fall in internal generation due to reasons mentioned earlier, Railways have not been able to meet the target of internal resources as set in the XI Plan. While Ministry of Finance and Planning Commission have been approached for higher Gross Budgetary Support as also recommended by the Committee in its Second Report, the continuing rate of dividend will enable the Indian Railways to provide correspondingly higher growth of resources critically required for investment in safety related and other important works".

(ii) Dedicated Freight Corridors

22. While explaining the mega projects for construction of Dedicated Freight Corridors (DFC), the Ministry of Railways in their Fourth Interim Memorandum stated as follows: -

"With a view to reduce saturation in the high density Golden Quadrilateral route, mega projects for construction of Eastern and Western Dedicated Freight Corridors from Dankuni to Ludhiana (Eastern Corridor) and from Rewari to Jawaharlal Nehru Port (Western Corridor) have been taken up in the XI Five Year Plan. Four more Dedicated Freight Corridors being planned are viz. North-South, East-West, East Coast and Southern. All these Freight Corridors would enable the movement of cargo at a higher speed through longer and heavier trains, thereby improving the overall efficiency in Railway operation and providing assured transit time for freight movement. These additional Freight Corridors along with accelerated programme of containerization would contribute towards increasing the share of Railways in non bulk traffic and create capacities to meet the exponential demand for container movement to and from ports. Besides increasing the average speed of the goods trains, it will result in smooth flow of traffic and thus contributes immensely to the national economy. As per the present estimates, the two freight corridors may cost nearly Rs 1 lakh crore, largely to be funded during the 12th Plan period".

(iii) Carrying Capacity

23. While explaining the need to augment the carrying capacity, the Ministry of Railways in their Fourth Memorandum stated as follows:-

> **"**The loading target of 1405 MT by the terminal year of the proposed XII Plan would be difficult to achieve unless the capacity of the system is augmented and also new connecting routes are opened for traffic. This would require investment at an accelerated pace. The capacity of railways for generating internal resources being limited, there is bound to be a greater dependence on GBS from government to meet the resource requirement.
>
> The Budgetary Support is primarily used for financing construction of new lines, works for gauge conversion, doubling, traffic facilities, railway electrification and investments in new workshops. All these projects are vital and very critical for augmenting the carrying capacity of the system which otherwise is now reaching a plateau".

(iv) Backlog of Projects

24. Regarding the backlog of projects and financing the same, the Ministry of Railways in their Fourth Interim Memorandum stated as follows:-

> "The throw forward on new lines is about Rs 91,603 crore. With an outlay of Rs 5,872 crore on new lines (including land acquisition for Dedicated Freight Corridor) in the year 2012-13 it would take around 15-16 years to complete the projects on hand with the current level of funding. The situation is likely to get even more challenging with addition of new projects every year based on the Railways' operational needs as also on socio economic considerations. With funds getting thinly distributed over a large shelf of projects, time overruns and cost escalation are bound to happen leading to further pressure on limited resources. Besides this the throw forward in plan heads of doubling and gauge conversion is around Rs 60,852 crore. Apart from the above Modernization of the Railway infrastructure has been identified as one of the high priority areas by the Government.

Though some of the new line projects as those in Jammu and Kashmir and NE Region are being funded separately as National Projects, most of the other projects under new lines are funded entirely through Budgetary Support.

As many of the new line projects have low or negative rate of return, it would be only prudent not to expect substantial investment through the public private partnership route. Further, the flagship project of Dedicated Freight Corridors, both Eastern and Western will require huge counterpart funding, during the XII Plan period. For the timely completion of new lines and projects under other plan heads taken up through funds from GBS or internal and external resources it is felt that would become inescapable to substantially increase the Gross Budgetary Support and internal resource generation so that railways are able to expand their capacity in line with the growth of economy."

25. The Ministry of Railways have further stated: -

"Contrary to the increased requirement of GBS, Planning Commission has proposed an allocation of only Rs 1.94 lakh crore during the 12th Plan period. Out of this funding, DFC would need Rs 1 lakh crore, and another Rs 25,000 to Rs 30,000 crore for National Projects. Further, ROB/RUB/Manning of LCs requires about Rs 20,000 crore catering to safety concerns at level crossings. Most of GBS having been consumed by the above investment, would hardly leave any funds to progress existing projects. Further with the implementation of the VI Pay Commission’s recommendations, the expenditure of railways has increased substantially squeezing the internal resource generation."

VII. CURRENT LIABILITIES OF THE RAILWAYS

26. Elaborating the current liabilities of Ministry of Railways, the Ministry in their Interim Memorandum stated as follows:

"Railway has extended financial assistance to Konkan Rail Corporation Ltd. (KRCL). The KRCL was set-up with an investment of Rs 3555 crore out of which Rs 2755 crore was borrowed from the market on the strength of letter of comfort issued by Ministry of Railways. While KRCL has been able to generate revenue sufficient only to cover its operating expenses, it has not been able to service the interest and debt liabilities. As a result, Ministry of Railways had to extend support to KRCL by way of loans. Up to March 2008, the loans extended to KRCL amounted to Rs 2731.40 crore with an accrued interest of Rs 491.06 crore. As a part of the financial restructuring package recommended by Board of Re-construction of Public Sector Enterprises (BRPSE), this liability was converted into fully paid up Non-cumulative Preferential Shares redeemable at par at the end of 20 years and the dividend rate payable on these Non-cumulative Redeemable Preferential Shares would be the same as being paid by Ministry of Railways to the General Exchequer. In 2008-09 and 2009-10 Ministry of Railways has again extended Rs 251.50 crore and Rs 297 crore, respectively, to KRCL which along with accrued interest has again been converted into fully paid Non-cumulative Preferential Shares, redeemable at par at the end of 15 years carrying the same dividend liability payable by Ministry of Railways to the General Exchequer. Ministry of Railways has provided financial assistance to KRCL of Rs 308.18 crore to cover up full interest servicing and 50% of the Bonds in 2010-11.

Due to reduction in the internal resource generation and inadequate budgetary support, the Railways have been resorting to market borrowings, which are becoming increasingly costly and will put additional strain on the railways finances in terms of increased interest liability. The lease payments are already touching an alarming level of Rs 9,352 crore and would exceed Rs 10,000 crore in 2013-14.

The continuing impact of the recommendations of the Central Pay Commission for railway employees and pensioners is also to be borne by the Railway Revenues. With implementation of the recommendations of the VI Central Pay Commission, the Railways have so far paid more than Rs 98,000 crore additionally on staff cost and pension liability.

With the expansion of Indian Railways infrastructure, the requirement of resources for maintenance and renewal also increases. The expenditure on replacement and renewal, being met out of Depreciation Reserve Fund, is required to be stepped up to more than Rs 10,000 crore in the coming years. The contribution to DRF is to be made from internal resources. Timely renewal of track and rolling stock is extremely critical for safe operations of the trains.

Government provides additional GBS for taking up construction of national projects in Kashmir and Northeast region. Further, railways also undertake several newline projects on socio economic considerations that are not financially remunerative. While relief in payment of dividend may be available, the operating losses incurred on the national projects as well as other projects are quite substantial which are being borne by the railways. In addition, the losses on passenger services operations are estimated to touch more than Rs 20,000 crore in 2012-13. These have a crippling effect on the internal resources, and limit the railways' ability to generate enough surplus for undertaking investments in passenger amenities, safety related works and for expansion".

VIII. ISSUES RELATED TO RATE OF DIVIDEND FOR THE YEAR 2013-14

27. On the issue of rate of dividend for the year 2013-14, the Ministry of Railways submitted following proposals for consideration of the Committee:-

(i) In view of the present difficult financial position, the rate of dividend for 2013-14 may be retained at the present rate of 4%.

(ii) Other modalities for determining the dividend as brought out in **Appendix-II** of the Interim Memorandum may continue to be adopted for the year 2013-14. All concessions now available as listed therein may be allowed to continue for the year 2013-14.

(iii) The contribution to Depreciation Reserve Fund from Revenue in 2013-14 may be allowed to be made in consonance with the Railway plan for 2013-14 to be finalised later during the year.

(iv) The contribution to Pension Fund from Revenues in 2013-14 may be allowed to be made in keeping with the requirement submitted by the Railways in their Budget Estimates Projections.

(v) Capital investment in socially desirable projects and green initiatives projects may be exempted from payment of dividend.

(vi) Creation of a Fund for providing for committed liabilities such as implementation of future Pay Commissions and debt servicing liabilities for multi-lateral loans.

(vii) The principles governing interest on various Railway Reserve Funds and Development Fund may remain as at present.

(i) Exemption in payment of dividend sought for socially desirable projects

28. Seeking exemption in payment of dividend in respect of capital investment in Socially Desirable Projects, the Ministry of Railways in their Interim Memorandum stated as follows-

"Vision 2020 of Indian Railways spells out that Indian Railways shall provide efficient, affordable, customer-focused and environmentally sustainable integrated transportation solutions. It shall be a vehicle of inclusive growth, connecting regions, communities, ports and centres of industry, commerce, tourism and pilgrimage across the country.

Government also has been emphasizing on inclusive growth. Railways is the lifeline of the nation and a major catalyst that triggers socio-economic growth. To facilitate inclusive growth of the nation, Railways has to provide connectivity to most part of the country. Taking Railways to the hinterland for connecting the backward regions with the mainstream, a number of projects will have to be implemented purely on social considerations which may not be otherwise financially remunerative. Many proposals for socially desirable projects are pending for a long time and a no. of such projects will have to be initiated in future. These projects will necessarily be completed with the exclusive budgetary support from the General Exchequer."

29. When asked whether the Ministry of Railways are in agreement with the contentions of Ministry of Finance that after getting these concessions against the dividend paid by the Ministry of Railways, the net dividend effectively translates into about 2.3% of the total Capital-at-charge in 2011-12, the Ministry of Railways in their written reply stated as follows:-

"Payment of dividend to Ministry of Finance by Railways and the subsidies being reimbursed by Ministry of Finance on that are two different issues and need to be viewed accordingly. 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".

30. In regard to the contention of the Ministry of Railways that they continue to incur operating losses on the financially unviable projects they stated as follows:-

"These are financially unviable projects from railways perspective and in fact after these lines are operationalised, railways continue to incur operating losses. The number of such socially desirable projects of new lines currently on hand is 115 costing Rs 1,06,603 crore". The Ministry therefore submitted that the capital investment in these projects should be excluded while calculating the dividend liability till these lines start making profit. Railways assured the so that they will continue to bear operating losses on these socially desirable lines till a different funding mechanism is decided by the Government."

31. When asked about the operational losses incurred on strategic lines and National projects and the extent to which these have been compensated through subsidies, the Ministry of Railways in their written reply stated as below:-

"The details of the operational losses incurred on strategic lines and the reimbursement thereof made by Ministry of Finance during the last three years are as under:

(Rs. in crore)

Year	Opening Balance of operating losses to be reimbursed by MOF	Operating losses incurred during the year	Reimbursement of operating losses made by MOF during the year	Closing Balance of operating losses to be reimbursed by MOF (2+3)-4)
1.	2.	3.	4.	5.
2009-10	56	816	654	218
2010-2011	218	724	610	332
2011-12	332	733	652	413

The operating losses of national projects are not being reimbursed by the Government."

(ii) Exemption from payment of dividend on capital investment in Green Initiative Projects

32. In so far as exemption from payment of dividend on capital investment in Green Initiative Projects is concerned, the Ministry of Railways in their Fourth Interim Memorandum proposed as follows :-

"Indian Railway has been instrumental in providing an energy efficient environmental friendly mode of transport through electrical traction and is constantly endeavoring to adopt various energy saving measures including renewable energy resources viz. solar and wind energy and adoption of energy efficient appliances/equipment. 'Vision 2020' document placed earlier in Parliament envisages sourcing of at least 10% of energy used from renewable sources over the decade. In line with the set objectives some of the important initiatives being taken are adoption of regenerative braking technology in three phase electric locomotives and EMUs, solar based water heating systems, street lights, solar panels at level crossing gates, construction of energy conservation buildings, use of energy efficient CFLs and T-5 luminaries, etc.

Accordingly, Railways have undertaken various projects costing about Rs 500 cr in this regard. These projects will be funded through Joint Ventures (JVs) with various parties. Railways' share in these projects would be about Rs 150 to Rs 200 cr, primarily from the budgetary support and would increase in the coming years. The Ministry submitted for the consideration of the Committee that the capital investments in these projects may be exempted from the payment of dividend. This would be in sync with the current philosophy and policy perspective of the Government in promoting use of green energy in the country."

33. When the Committee desired to know the percentage of energy used in Railways so far from renewable sources, the Committee were informed as follows :

"Vision 2020 envisages sourcing at least 10% energy use on Indian Railway from renewable sources by 2020. Indian Railway consumed 16.6 billion units electricity with peak requirement of about 3800 MW during 2011-12 for Traction and Non-traction purpose. Accordingly Indian Railway is planning to harness solar & wind energy.

Indian Railway generated about 27 million units (mU) during 2011-12 from its existing 10.5 MW of wind energy, plant & about 4.5MW of solar energy plants, which was only 0.16% of energy consumed during that year."

34. When pointed out that the Railways being a part of the Government do have the responsibility to promote Green energy use atleast which is in their jurisdiction, and the future plans in this regard the Ministry explained as follows:-

"Harnessing of solar energy for additional 7.83 MWp capacity by providing solar PV modules at 200 stations, 21 administrative buildings, 2000 level crossing gas and 5 other roof top locations have been planned.
Wind energy plant of about 168 MW capacity (157.5 MW in JV mode & 10.5 MW with IRs funding) has been planned to be harnessed."

35. The Ministry of Railways further stated :-

"Wind energy is highly capital intensive (@ about Rs.6 crore/MW) and Railways is not getting any incentive for wind energy from Ministry of New & Renewable energy (MNRE) or otherwise. However, about 30% subsidy is available on solar photo voltaic module projects for other than North East states."

36. In this context it can be seen from the outcome budget of the Ministry of New Renewable Energy that the GBS to the Ministry is a meagre amount of Rs.1521 Cr.(BE) for the year 2013-14.

37. The Ministry of Finance while explaining their views on exemption from payment dividend on socially desirable projects and green initiative projects stated in their written reply as follows: -

> "Railways enjoys a number of reliefs and concessions towards dividend payment to General Revenues as given in Appendix II of the Interim Memorandum. Subsidy from General Revenues towards dividend relief and other concessions, reimbursement of losses on operating 'strategic' lines and the concessional rate of dividend (the applicable rate of dividend for the year 2012-13 is 4%) are aimed at providing relief to Railways. The effective rate of dividend (after excluding these concessions from the gross dividend paid by Railways) works out to 1.9% only in the year 2012-13. Thus, there is no ground for providing further relief to Ministry of Railways towards discharging its dividend liability."

(iii) Creation of a Fund for providing for Committed Liabilities

38**.** While proposing creation of a new fund for Committed Liabilities such as implementation of future Pay Commissions and Debt Service Payment in respect of loans, the Ministry of Railways submitted as follows:-

> "The loan repayment liability for undertaking projects like Dedicated Freight Corridors, Metropolitan urban transportation Projects MUTP, etc., which are funded primarily from the loans provided by World Bank and other financial institutions, is a future committed liability required to be met out of IR's revenue. Similarly, implementation of future Pay Commissions and similar awards also tend to have massive impact on railway revenues. A careful planning for meeting these committed future liabilities is required to avoid repeat of the financial difficulties faced by IR after the 6th CPC. It is, therefore, considered prudent to make regular provision for such future committed liabilities as above to build enough reserves to successfully discharge them on time."

39**.** Elucidating the proposals of Railways regarding the committed liability project, the Financial Commissioner, Ministry of Railways further submitted as under:-

> "The other major proposal put forth is the creation of a separate fund for meeting committed liabilities for the multilateral loans and also for the anticipated pay-outs of the next Pay Commission. For the Dedicated Freight Corridor which is an iconic project of the country we have availed of loans from JICA and the World Bank. Very soon we would be committed to start returning these loans with the interest. So, that is the reason why the Ministry of Railways this year decided to create a separate Fund called

Debt Service Fund and the Railway Liability Reserve Fund so that we could set aside money to discharging our liabilities. This would be a non-lapsable and a permanent fund, especially because of the huge liability on debt servicing. I would expect that with the loan of Rs. 50,000 crore which we have availed from the JICA and the World Bank, the annual pay out and the liability would exceed Rs. 3,000 crore. This Fund would receive appropriations only from the Railway revenues and that is from the excess after we meet and provide for our development fund and the capital fund. Building reserves in this Fund would not only improve the ways and means position but also would be a good step towards accrual accounting. Our liability to service the debts would start perhaps in the very current year, 2013-14 itself and hence the creation and operation of such a Fund has become imperative. Creation of a Debt Service Fund would only indicate that the Ministry of Railways is very serious in fiscal consolidation and enforcing fiscal discipline."

40. When asked about the source of funding and modalities of operating this fund the Ministry in their written reply stated as follows :

"The CLRF has been proposed but would be created after obtaining the approval of Ministry of Finance, CGA, C&AG and the RCC. This fund would be non-lapsable and receive appropriations from Railway Revenues i.e. "Excess".This fund is proposed to be created on permanent basis. Annual contribution to this Fund would be made after working out the future requirements for each of the committed liability/expenditure. Building reserves in this Fund would not only improve the ways and means position of the Government but will also be a step towards accrual accounting and in sync with the continuing accounting reforms.

This Fund will be operated as the Development Fund and will attract the same rate of interest. The withdrawal from the Fund would be permitted only for identified liabilities for which the contributions to the Fund have been made earlier. Annual contributions would be made from the 'Excess' after meeting mandatory requirements of Capital Fund and Development Fund.

The modalities and terms of the proposed fund would be worked out after in principle approval of the CGA and C&AG."

The Ministry have further stated that the Debt Liability Fund will be created in the interest bearing section of the Public Account.

41. Explaining the difference between interest bearing and non-interest bearing sections of Public Account especially in the context of Debt Liabilities Fund, the Ministry of Finance stated as follows :

"Public Account contains two sections viz. interest bearing section and non-interest bearing section. Generally, provident funds, insurance funds, reserve funds of departmentally run commercial undertakings, specific deposits, are kept in the interest bearing section of the Public Account.

Funds, created out of Government revenues or created for dedicated puposed like Pararmbhik Shiksha Kosh, Universal Service obligation Fund, Central Road Fund, National Investment Fund, various welfare funds, etc., are kept in the non-interest bearing section of the public account. Interest is not paid on these funds as the corpus of such funds are created out of Government revenues.

Railway Funds viz. Depreciation Reserve Fund, Pension Fund, Staff Benefit Fund, Capital Reserve Fund and Development Fund are kept in the interest bearing section of the Public Account."

42. On being asked about the reservations of the Ministry of Finance on creation of a fund for Committed Liabilities in the interest bearing section of Public Account, they stated in their written reply as follows : -

"The rate of interest applicable on all Reserve Funds of Railways, except Development Fund, is the same rate at which Railways pay dividend on capital-at-charge to General Revenues. Railways claim interest on balances available in Development Fund at the rate of loan from General Revenues for Development Works. Investment loans from General Revenues to Central Public Sector Undertakings in the current financial year carry interest at the rate of 11.5% p.a. Railways may have proposed to receive this rate of interest on the fund to be constituted, providing for committed liabilities such as implementation of future Pay Commissions and Debt Service payment in respect of loans raise by Railways. This Ministry is not in favour of creating this fund in the interest-bearing section of Public Account."

(iv) Views of Ministry of Finance on the proposals of the Ministry of Railway

43. While disagreeing with the proposals of the Ministry of Railways submitted to Railway Convention Committee, the Ministry of Finance submitted their comments/observations as follows :

"(a) The weighted average cost of market borrowing for the Government has increased from 7.69% in 2008-09 to 8.52% in 2011-12. In the current year, the weighted average cost of market borrowing is 8.4% upto December, 2012;

(b) The contention of Ministry of Railways to reduce rate of dividend on the grounds of additional expenditure arising out of the implementation of the recommendations of the 6th Central Pay Commission, is not tenable, as the same commitments on a much larger scale for this entire Government has to be met from the General Revenues. In fact, this argument of Railways is oft repeated and does not carry any weight as the recommendations of 6th CPC have remained implemented for 7 years;

(c) It may be pleaded on behalf of the President as the owner, to be entitled to increased rate of dividend on the surplus generated by Railways, for the moneys invested out of General revenues. In 2003-04 the rate of dividend was 7 percent, when the performance of Railways was far below and not comparable to the vastly improved performance and surpluses in subsequent years. The performance of Railways has deteriorated in the recent past due to its inability to generate adequate surpluses by suitable revision of its tariff;

(d) Railways have been getting a number of reliefs and concessions from Government. One of the important concessions, in the form of dividend relief, is subsidy from General Revenues on capital invested in respect of certain specific items, the details of which are given in Appendix II to draft Memorandum to RCC. After taking into account the concessions in the form of subsidies (Rs. 2034 crore) and reimbursement of losses on operation of strategic lines (Rs. 652 crore) that are provided to Railways, the effective rate of dividend in 2011-12 at Rs. 2,967 crore (Rs. 5,653 crore, the dividend paid by Railways in 2011-12 minus subsidy at Rs. 2,034 crore minus reimbursement of losses of strategic lines at Rs. 652 crore) works out to 2.4% of the total capital-at-charge upto the end of 2011-12 (RE) (Rs. 1,22,583.96 crore);

(e) The rate of interest on the investments in the form of loans to Public Sector Enterprises for the current year stands at 11.5%. As against this, investment made in Railways, being treated as ‘loan in perpetuity’, is highly concessional even at 7%, though in practice it translates into much lower rate of dividend payment of 2-3%, after taking into account the concessions and reliefs allowed;

(f) The Budget Support (excluding contribution towards Special Railway Safety Fund (SRSF) but including additional budget support towards projects of national importance) being provided to Ministry of Railways is increasing over the recent past years as may be seen from the table given below:

(Rs in crore)

Year	Total GBS (1)	SRSF (2)	(1)-(2)	%age growth
2004-05	8467.99	2975.00	5492.99	3.35
2005-06	7811.46	2499.00	5312.46	-3.29
2006-07	7554.21	1365.00	6189.21	16.50
2007-08	8134.55	1165.00	6969.55	12.61
2008-09	9545.35	…	9545.35	36.96
2009-10	16910.84	…	16910.84	77.16
2010-11	18384.79	…	18384.79	8.72
2011-12	23013.44	…	23013.44	25.17
2012-13 (BE)	24000.00	…	24000.00	4.28*

*If Rs 3,000 crore provided to Railways in 2011-12 is excluded, the increase in 2012-13 works out to 19.92%.

(g) Ministry of Railways are getting committed additional budgetary support during the course of the financial year over and above Gross Budgetary Support provided by the Planning Commission towards the projects of national importance such as Udhampur-Srinagar-Baramulla new line and other projects in North Eastern Areas. The following amounts were provided to these projects of 'national importance' over the recent years:

(Rs in crore)

Year	Additional Budget Support
2004-05	700
2005-06	665
2006-07	1050
2007-08	1235
2008-09	1299
2009-10	1900
2010-11	2258

(h) Given the fact that the budget support provided to Ministry of Railways is increasing substantially in the recent years and that the Railways are being compensated through subsidy and reimbursement of losses on operation of 'strategic' lines, there is no ground for Ministry of Railways for maintaining the lower rate of dividend for payment to General Revenues. In fact, Railways should endeavor to pay higher dividend to General Revenues and in turn get higher investments from General Revenues.

(i) As regards exemption in payment of dividend in respect of capital investment in socially desirable projects and green initiatives projects, it is submitted that Railways enjoy lower rate of dividend in comparison to normal rate of interest (11.5%) on one hand and take benefit from dividend and other concessions in the form of subsidy from general revenues on the other hand. Railways cannot increase the number of concessions on the pretext of one ground or the other for reducing the quantum of dividend payable to general revenues, the very ground by which Railways enjoy investments at concessional rates. In fact, Railways, being an arm of the Government, should contribute more to the general exchequer enabling Government to fulfill its social obligations. The net dividend of Rs. 3,072 [Rs. 6676 crore (gross dividend) minus Rs. 3604 crore (subsidy)] as percentage of total GBS provided to Railways [Rs. 24000 crore(investment)+ Rs. 1102 crore(share of diesel cess)] in Railways in BE 2012-13 works out to 12.2%. This will further come down to 9.3% on accepting the recommendation of RCC for reducing the rate of dividend from 5% to 4% in 2012-13. Further, the net dividend in BE 2012-13 as percentage of capital at charge (Rs. 1,16,133.52 crore in BE 2011-12) works out to 2.6% assuming the rate of dividend at 5%. In case the dividend rate is reduced to 4%, the same works out to 2.0%. Adding further concessions to the list of concessions will further reduce this ratio to abysmal level.

(j) Railways have also proposed to create a fund for providing for committed liabilities such as implementation of future Pay Commissions and Debt Service payment in respect of loans on the premise that building reserves in this fund would improve the ways and means position of the Government and also be a step towards accrual accounting and In sync with the continuing reforms. This is proposed to be created in the interest bearing section of the Public Account and on similar lines with Capital Fund. Annual contributions would be made from the 'Excess' after meeting mandatory requirements of Capital Fund and Development Fund. This Ministry agree with this proposal subject to the following conditions:

(i) The first charge on the surplus generated by Railways will continue to be dividend payment to general revenues;
(ii) Fund may be created in the non-interest bearing section of the Public Account;
(iii) In case the fund is created in the interest bearing section of the Public Account, the interest rate will be the same rate at which Railways will pay dividend to the General Revenues. There should not be any ambiguity by aligning with Capital fund or other fund of Railways."

44**.** Presenting the views of the Ministry of Finance on the proposals of the Ministry of Railways, the Finance Secretary, deposed before the Committee as follows:-

"There is no doubt that Railways play a very important and a very critical role for the country and for the economy. We are aware that the Railways have, during the last six months to one year, been managing their finances well in the current difficult phase of the economy. But it is equally important to also know the state of the Government's finances and how the Government has been raising its resources to finance its various programmes and schemes in the current difficult fiscal situation faced by the country. In the current year, 2012-2013, we began the year hoping to achieve a fiscal deficit of 5.1 per cent of the GDP. However, due to the slow down in the global economy, the growth of the Indian economy also contracted. The purpose of the Budget is really to create the economic pace and find the economic resources to achieve the socio-economic objectives. At present, because of the high fiscal deficit, our economic space is severely constrained. Reliance on foreign inflows is tremendous to finance the Current Account Deficit. We have a significantly lower savings and investment rate and a tight monetary policy which has been used to contain inflation and we still face very strong external events. In September, 2012, the Government accepted the recommendations of Dr. Kelkar Committee for the fiscal consolidation. Red lines were drawn for fiscal deficit at 5.3 per cent of the GDP for the current year, 2012-2013 and 4.8 per cent of the GDP for the year 2013-2014. With concerted efforts and strong economy measures taken by the Government plus measures to raise resources, the Government has been able to contain the expenditure and we expect to close the current year with a fiscal deficit of 5.2 per cent of the GDP. In 2011-2012, our net borrowings from the market was Rs. 4,36,000 crore. This scheme at an average interest cost of 8.52 per annum. In the current year, 2012-2013, the net market borrowing is estimated at Rs. 4,67,000 crore. This is expected at an average interest cost of 8.36 per cent per annum. Next year, for 2013-2014, the net market borrowing is estimated at Rs. 4,84,000 crore. It also needs to be noted that while the capital provided by the Government to the Railways is not returned by the Railways. The Government has to not only pay higher rates of interest on its borrowings but it also has to repay the principal loan amounts. So, fiscal deficit in 2013-2014 has been estimated at a lower level of 4.8 per cent of the GDP. Now, this is absolutely essential for the position of the Government in the international strata. The Government is committed to adhering to the path of fiscal consolidation. The Government has also placed before Parliament the rolling targets of reaching the fiscal deficit at 4.2 per cent of the GDP in 2014-2015 and thereafter to 3.6 per cent in 2015-2016. The Government's resolve is to ensure fiscal consolidation. Within this resolve, however, keeping in view the importance of Railways, the Government has been doing its best to support the Railways."

45. Explaining the support by the Ministry of Finance to the Ministry of Railways in terms of Gross Budgetary Support (GBS) and allowing issue of tax free bonds vis-a-vis Internal and Extra Budgetary Support (IEBR) to the Ministry of Railways, the Finance Secretary further stated as follows:-

"The GBS to Railways in 2012-2013 Budget Estimates was estimated at Rs. 24,000 crore, with specific ear-marking of Rs. 2,400 crore towards national projects. Considering higher requirements, in the current year, the share of general revenues towards national projects was enhanced by Rs. 265 crore and the total GBS to Railways in the current year 2012-2013 is placed at Rs. 24,265 crore. The Budget Estimates for the next year 2013-2014 provides a GBS of Rs. 26,000 crore to Railways. In addition, there is a plan support of Rs. 1,102 crore to be provided to Railways in 2012-2013 and 2013-2014 towards the Railways' share of the cess. It may be noted that while plan support to various Ministries and Departments in the financial year has been very drastically reduced keeping in view the pace of expenditure and the absorptive capacity, the GBS to Railways has not been reduced in the current year in spite of the difficult fiscal situation faced in the current financial year.

In the Eleventh Plan, as against the approved GBS of Rs.50,063 crore, excluding the support for the national projects, actually an amount of Rs.71,492 crore was provided as GBS which is 43 per cent more than the GBS which was actually approved for the Eleventh Plan. So, this shows that despite fiscal constraints, the GBS to Railways sought to has been enhanced by the Government.

On the other hand, the Internal and External Budgetary Resources of the Railways during the Eleventh Plan period was projected at Rs.1,69,000 crore. Of that, the Railways were able to achieve only Rs.1,16,000 crore. It was a shortfall of 31 per cent in the IEBRs. Apart from the GBS, the IRFC, which is an arm of the Railways, meant to finance rolling-stock requirements, was allowed to issue tax-free bonds worth Rs. 5,000 crore in 2009-10; Rs.10,000 crore in 2011-12 and another Rs.10,000 crore in 2012-13. So, overall, the point that we are trying to make is that there has not been any dearth of funds provided to the Ministry of Railways. I am sure the Railways are being provided funds from GBS adequately. The Railways, however, need to improve their own operational parameters. While, as pointed out, the Railways have improved in the current year, 2012-13, where they have brought down their operating ratio to 88.8 per cent from a level of 94.9 per cent in 2011-12 and they do have a BE in 2013-14 of 87.8 per cent, they need to put in greater efforts in improving their operating ratio."

He further added:-

"The Railways, being a Departmentally-run commercial undertaking, are expected to supplement the resources of general revenues by way of paying dividend at reasonable rates The Railways are already enjoying numerous concessions and reliefs. Taking these concessions and reliefs into account, the net dividend payable by Railways in the current year, even though approved by the Committee at 4 per cent, works out only to 1.9 per cent on the capital at charge. Since the Railways are being provided higher GBS through borrowing at a definite high cost, 8.36 per cent in the current fiscal year and the Government has also to repay principal of the loan borrowing, there is absolutely no reason for fixing the rate of dividend payable by the Railways at a rate lower than 7 per cent. In fact, we have made a humble request that the Committee should consider restoring the dividend rate which was prevalent earlier. "

46. Disagreeing with the proposals of Railways for exemption of socially desirable and green initiative projects from payment of dividend, the Finance Secretary stated as under:

> "The fact is that all the projects of the Railways necessarily have to be socially desirable. There is no question of any project of the Railways not being socially desirable. But these are all part of the commercial operations. The Railways clearly need to share Government's liabilities for welfare programmes and there needs a contribution on the money which the Government provides at an interest which it is paying so that Government can fund the various programmes for the weaker sections of the society and the social sectors like education, health, housing, rural development, water supply, etc. So, clearly, there is no point in saying that all the socially desirable or the green projects should be exempted. If that is so, then, they are saying, in a sense, that all projects of Railways should be exempted...."

47. Regarding the creation of Committed Liability fund the Finance Secretary submitted before the Committee as under :-

> "Another point mentioned was that they would like to have a separate Debt Service Fund. In that context, what the Financial Commissioner mentioned was regarding JICA loans to be repaid. Clearly, whenever any loan is taken, you have to provide for adequate generation of funds to pay not just the interest but also the principal amount. So, there is nothing new in that.
> As regards the second request for debt service separate fund, it is part of the normal operations of Railways. However, if they do wish to earmark a separate fund, it should be non-interest bearing. "

48. While disagreeing with the proposal of the Ministry of Railways to maintain the Rate of Dividend on the Capital-at-charge at 4% for the year 2013-14, the Ministry of Finance in the Fourth Interim Memorandum stated as follows: -

> "Railways do not pay dividend at the specified rate on all the investments made from General Revenues. Railways pay dividend at 4% ... on entire dividend-paying capital, irrespective of the year of investment (inclusive of 1.5% on dividend bearing capital, less subsidy capital invested upto 31.3.1964, for payment to States in lieu of passenger fares tax), except for the capital cost of residential buildings which bears dividend at 3.5%. In addition, Railways do not pay dividend on capital in respect of: (a) Strategic Lines... (b) Un-remunerative branch lines... (c) Ferries, welfare buildings and non-strategic portion of the North-East Frontier Railways... (d) Ore lines provided that they are not remunerative... (e) 28 new lines taken up on or

after 1st April, 1955 on other than financial considerations except those which become remunerative during the year. This applies also to Jammu-Kathua and Tirunelvelli-Trivandrum-Kanyakumari lines which are known as national investments, (f) The gauge conversion works taken up on strategic consideration and (g) 50% of the outlay in a year on capital works-in-progress is exempted from payment of dividend for a period three years. In addition, an amount of Rs.1,102.45 crore each has been provided in these two years from Central Road Fund towards Railway Safety Works.The effective rate of dividend (net of subsidy paid by General Revenues towards dividend relief and other concessions and reimbursement of losses on operating strategic lines) for the years 2012-13(RE) and 2013-14 (BE) is 1.9% and 2.0% respectively."

49. The Ministry of Finance further stated that there has been support of additional budget to Railways by the Planning Commission towards projects of National importance for the year 2013-14 viz.,

"In BE 2013-14, an allocation of Rs.3,000 crore has been made for National Projects within the Plan GBS of Rs. 26,000 crore allocated to Railways by Planning Commission."

50. The Ministry of Finance in their written reply further added that:-

"Railways cannot ask for higher GBS on one hand and seek lower rate of dividend on the other hand. Railways, being a departmentally run commercial undertaking, should be able to contribute to General Revenues in the form of dividend at reasonable rates(at least 7%) towards sharing the larger liability of the Government in social sectors like education, health, rural development, water supply, housing, welfare of SC/ST/OBCs, etc.

Considering the implementation of National Food Security Act, Government is looking for resources through revenue generation and rationalisation of Government expenditure. Railways, being part of the Government, should endeavour to participate in this exercise by rationalising their expenditure through cost cutting measures and augmenting their revenues towards contributing to Government exchequer.

With the surplus of about of Rs.13,147 crore, estimated to be generated in the next fiscal viz. 2013-14 by Railways, the Committee may consider enhancing the rate of dividend from the existing level of 4%".

51. The Ministry of Finance have, however, agreed to the following proposals of the Ministry of Railways: -

(i) Other modalities for determining the dividend as brought out in Appendix II may continue to be adopted for the year 2013-14. All concessions now available as listed therein may be allowed to continue for the year 2013-14.

(ii) The contribution to Depreciation Reserve Fund from Revenue in 2013-14 may be allowed to be made in consonance with the Railway plan for 2013-14 to be finalised later during the year.

(iii) The contribution to Pension Fund from Revenues in 2013-14 may be allowed to be made in keeping with the requirement submitted by the Railways in their Budget Estimates Projections.

(iv) The principles governing interest on various Railway Reserve Funds and Development Fund may remain as at present.

(V) Views of the Ministry of Railways on the arguments of the Ministry of Finance on their proposals.

52. Responding to the views of the Ministry of Finance and reiterating the constraints on the Railway's finance, the Ministry of Railways put forth further arguments emphasizing that the Rate of Dividend may be maintained at 4% for the Financial year 2013-14 as follows: -

a) The Railway Convention Committee (RCC) have been considerate to fix the rate of dividend at 4% for the year 2012-13. Railways' proposal (ibid) does not seek any further reduction in this rate but urges to maintain the same during 2013-14 also. In fact, the investment during the 12^{th} Plan Period has been finalized with GBS of only Rs.1.94 lakh crore against a requirement of more than Rs 3 lakh crore. While the Railways are striving hard to improve the financial viability by taking a number of steps to improve traffic output and revision of rates of fare and freight, it will be unreasonable to burden them with additional liability on account of dividend payment.

b) Railways being part of the government should also receive its appropriate share in the revenues of the government and the rate of dividend should not be linked purely with the current borrowing rate of the Ministry of Finance. Railways have no control over the salary structure of the employees and are striving hard to move ahead but the impact of VI Pay Commission has been extremely stifling. As the concerns of safety have to be addressed and plan investment through internal resources needs to be stepped up.

c) Railways are the only Ministry that has to meet its entire staff cost and pension liabilities from its own resources. The total employee strength of the railways is nearly 14 lakh and in fact with the expansion of the network and increase in activity, the number is likely to go up to ensure safe operations. The Railways also have more than 12 lakh pensioners. Owing to enormous increase in staff and pension expenses from about Rs 26,000 cr in 2007-08 to Rs 63,000 crore in 2012-13, there is a pressure on internal resources. While sustained efforts to increase earnings have resulted in a growth of about 85% in earnings during this period, the ordinary working expenses and the pension payments have increased by 113%. There is much less scope in reduction of working expenses as 85% of the costs are in the nature of fixed costs (such as staff cost, fuel, lease charges, etc., and pension).

d) Railways have, over the past few years, consistently improved operational efficiency to generate more revenues for development expenditure. However, in the years of implementation of pay commissions, Railways always face this problem of resource crunch, which persists for a few years. It is worth mentioning that all internal generations of the Railways are ploughed back for renewals, replacement, and expansion and modernization projects, thereby affording considerable relief to the general exchequer.

e) Railways pay dividend in perpetuity whereas the borrowings of the Government have a fixed tenure. Further, 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 on projects 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. While it is true that losses on strategic lines are compensated, but investments in Railways newlines take a much longer period to generate profit and the system has to incur operating losses year after year. In fact, the operating losses on account of operations of many new lines are being absorbed currently by the railways.

f) The Railways also carry social service obligations of more than Rs 22,000 crore by carrying certain passenger and goods services below cost in the larger interest of society on socio-politico considerations, without being compensated. This is in addition to the dividend being paid and thus Railways should not be equated with other purely commercial public sector undertakings.

g) Railways are in a dire need for resources to meet the requirement of expansion & modernization of the system as has already been brought out in the Memorandum (ibid). The proposed rate of dividend if accepted would immensely help Railways in taking up urgent renewal and replacement works including those affecting safety.

h) The growing economy has placed unprecedented demands for expansion on the Railways. Inadequate plan investment in the rail infrastructure will lead to stunted growth thereby creating bottleneck in the progress of the nation. A significant increase in the overall Gross Budgetary Support to the Railways is the need of the hour. The current focus on global warming also mandates that the fuel and energy efficient mode of transport receives maximum state support in national interest reducing overall fuel consumption and carbon emission. Hence, investment in socially desirable projects and green initiative projects will get a boost, if cheaper capital in the form of dividend free investment is extended by the Government in these areas.

i) Over the years, Railways have been increasing the market borrowings to fund its rolling stock acquisition that was earlier being funded through Capital. The level of market borrowing has increased tremendously from Rs 2,897 crore in 2000-01 to Rs 15,000 crore in 2012-13. This has of course suppressed the resource generation capacity as the quantum of payment of lease charges continues to grow and it now stands at about Rs 9,400 crore as against Rs 3,041 crore in the year 2000-01. The relief in payment of dividend on capital invested in socially desirable projects and green initiatives will provide some relief to Railways and it would be in a better position to service the debt. The proposed Committed Liability Fund may be created as agreed by the Ministry of Finance in 'Interest Bearing Section' of the Public Account. The interest rate will be the same rate at which Railways pay dividend to the General Revenue.

53. During the evidence, the Financial Commissioner, Railway Board briefly apprised the Committee about the present difficult financial position of the Railways as under:-

"The year 2012-13 was a very difficult year in the Railways as we faced a resource gap of about Rs. 7300 crore up to the end of 2011-12 and a deficit in our fund balances. This was largely due to the Sixth Pay Commission and also the continuous shortfall in our earnings on account of over all slow down in the economy. This also compelled the Railway Ministry to seek a loan of Rs. 3000 crore from the Ministry of Finance which they extended immediately in February, 2012... We have repaid this entire loan together with interest for the year 2012 itself. This prompted the Railway Ministry in the year 2012-13 to enforce a slew of measures to stabilise our finances. Significant of these were rationalisation of freight and fare rates which helped us to generate additional resources, strict regulation of expenditure to match our earnings, roll back of passenger fares coupled with the reduced earnings had forced us to reduce the plan expenditure from the original estimate of Rs. 60,100 crore to Rs. 52,000 crore... We also returned loan of Rs. 3,000 crore for which we had made a provision in the beginning of the year itself so that we do not default on this loan repayment, yet despite the stringent measures taken towards fiscal consolidation the trend of loading and earnings for the year 2012-13 has fallen short of the budgeted expectations."

54. The Financial Commissioner, Railway Board further stated:-

"Our revised estimates for the year 2012-13..., project a total earning at Rs. 1,25,635 crore over the original budget estimate figure of Rs. 1,32,500 crore which gave an overall reduction of Rs. 6,870 crore over the original estimates. However..., the ordinary working expenses, we have been able to maintain a strict control. We have retained it at Rs. 84,400 crore as originally estimated. Though we had additional requirement on account of various factors and including hike in the diesel and fuel charges, yet due to our stringent financial discipline the ordinary working expenses did not exceed the budgeted estimates. However, our requirement under pension has gone up from the originally estimated Rs. 18,000 crore to Rs. 20,000 crore in the year 2012-13. With strict fiscal discipline we hope to end the year 2012-13 with an operating ratio of 88.8 per cent which is below 90 per cent and this has happened after a very long time, but this has come at a heavy cost to us because due to the reduced earnings we had to effect spending cuts in the areas of, to some extent, in safety and development works, though we took care not to affect the critical safety areas. The overall reduction on account of this i.e. Rs. 3185 crore."

Against our budgeted gross earnings of Rs. 1,46,620 crores, our total working expenses for the year 2013-14 including pension and DRF would amount to Rs. 1,27,230 crores. This would leave us with only a balance of Rs. 19,396 crores of which Rs.6249 crore has to be set aside for the dividend which is payable."

55. Pleading for retaining the rate of dividend for the year 2013-14 at 4%, the Financial Commissioner, Railway Board submitted before the Committee during the evidence:-

"The Ministry of Finance has also argued that dividend was seven per cent in 2003-04 when railway performance was far below standards but there was no Sixth Pay Commission and the growth in the staff cost was only 2.3 per cent whereas today, the staff cost is around 11 per cent and we are also faced with the increasing cost of diesel and electricity tariffs.

The Ministry of Finance has further stated that with all the concessions given, the dividend actually translates to only 2 to 2.5 per cent. This is right but this itself, even with the concessions, works out to Rs. 3500 crores as a payout for the dividend for 2013-14. On an average, the Ministry of Railways has been annually paying a net dividend of Rs. 3000 crore over the last ten years on an average which translates to about Rs.30,000 crores for the last ten years.

The Financial Commissioner, Railway Board further submitted :

"why should Ministry of Finance feel the Ministry of Railways as a CPSU earning profits. Railways are a crucial and integral part in the development of the economy and all over the world, no other railways pays dividend to their own Government.

The Ministry of Railways is seeking the support of the Committee to only retain the dividend at four per cent which the Committee had so kindly agreed for 2013-14. We are not asking for any further reduction below four per cent. This would of course include all the existing concessions which go with it. This itself means a new liability of Rs. 3500 crores to the Ministry of Railways for 2012-13."

IX. FUNDS OF RAILWAYS

(i) Depreciation Reserve Fund (DRF)

56. In 2011-12 the appropriation to DRF was kept at Rs 6,520 crore and Rs 200 crore from the Revenue and Production Units, respectively. The closing balance in the DRF was a meager Rs 5 crore at the end of the fiscal 2011-12.

57. In the Budget Estimates 2012-13 the appropriation to DRF was kept at Rs 9500 crore and Rs 200 crore from the Revenue and Production Units, respectively. In revised estimates 2012-13 the appropriation to DRF had been kept at Rs. 7000 crore and Rs. 200 crore from the revenue and production units. The final provision in 2012-13 would be based on position of the internal generation of resources and the ways and means of the Railways.

58. The appropriation to the DRF for 2013-14 has been budgeted to be Rs. 7700 crore, consisting of Rs. 7500 crore and 200 crore from revenue and production units respectively.

(ii) Pension Fund (PF)

59**.** In 2011-12 the appropriation to Pension Fund was kept at Rs 17,620 crore and Rs 300 crore from the Revenue and Production Units, respectively, against an out go of Rs 17,919 crore from the Fund. The Pension Fund has closed with a balance of Rs 7 crore in 2011-12.

60. The appropriation to the Pension Fund was placed at Rs 18,810 crore in the Budget Estimates for 2012-13 comprising Rs 18,510 crore from revenue and Rs 300 crore from Production Units. In the revised estimates for the year 2012-13, the appropriation to the pension fund was kept Rs. 20,310 crore consisting of Rs. 20,010 crore from revenues and 300 crore from production units. The appropriation to the pension fund in 2013-14 has been budgeted to be Rs. 22315 crore consisting of Rs. 22015 crore from revenues and 300 crore from production units.

(iii) Development Fund (DF)

61. 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	:	DF III and
(iv)	Safety Works	:	DF IV

62. The appropriation to the Fund is made out of the 'Excess' remaining after meeting the dividend liability. Wherever 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.

63. Due to reduction in internal resource generation, the 'Excess' in 2011-12 decreased from the Revised Estimates of Rs 1,492 crore to Rs 1,127 crore in the actual. Out of the 'Excess' of Rs 1,127 crore, Rs 517 crore was appropriated to Capital Fund and the balance of Rs 610 crore to the Development Fund. Since, the Development Fund in 2011-12 had opened with a negative balance of Rs 1,213 crore, a loan of Rs 3,000 crore was advanced by the Ministry of Finance for this Fund. This together with the appropriation of Rs 610 crore helped the Railways to wipe out the negative balance in the Fund and fully finance the works expenditure of Rs 2,223 crore from the Fund. The Development Fund had closed with a meager balance of Rs 5 crore in 2011-12.

64. In BE 2012-13, the appropriation to this Fund was kept at Rs 10,557 crore, and the same was reduced to Rs. 9984 crore at RE stage.

65. The appropriation to the Fund for 2013-14 has been budgeted to be Rs. 3550 crore.

(iv) Capital Fund (CF)

66. 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 capital nature. After providing for appropriation to Development Fund, the balance of 'Excess' is appropriated to the Capital Fund.

67. In 2011-12, Rs 517 crore was appropriated to this Fund. The Capital Fund opened with a negative opening balance of Rs 886 crore in 2011-12. The appropriation to the Fund during the year proved to be inadequate in covering the negative opening balance. No expenditure was accounted for in the Capital Fund. Accordingly, the Fund was closed with a negative balance of Rs 400 crore in 2011-12.

68. In BE 2012-13, the appropriation to this Fund was kept at Rs 5,000 crore and it was revised to Rs. 425 crore.

69. The appropriation to the Fund for 2013-14 (BE) has been kept at Rs. 5433 crore.

(v) Railway Safety Fund (RSF)

70. 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 road 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.

71. In 2011-12, an appropriation of Rs 1,062 crore was made to the Fund, consisting of Rs 1,059 crore transferred by the Central Government and Rs 3 crore worked out as contribution for the erstwhile RSWF out of the Dividend.

72. In BE 2012-13, an appropriation of Rs 1,105 crore was made to the Fund, consisting of Rs 1,102 crore transferred by the Central Government from the Central Road Fund and Rs 3 crore worked out as contribution for the erstwhile RSWF out of the Dividend. The appropriation to this Fund in 2013-14 has been kept at Rs. 1105 crore (BE).

(vi) Rate of interest on the Railway Reserve Funds

73. It is submitted by the Ministry of Railways that the recommendations of Railway Convention Committee (2009) in respect of interest on the balances in the various Railway Funds as contained in their Third Report for the year 2012-13, may be made applicable for 2013-14 also. According to this, balances in various Railway Reserve Funds (other than Development Fund and 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 is an 'interest free' fund.

OBSERVATIONS AND RECOMMENDATIONS OF THE COMMITTEE

74. The Committee note that in the year 2012-13 various areas have shown significant growth over previous year at the revised estimate stage like Capital-at-Charge has increased to Rs. 1,44,674 crore (17.8% over previous year), freight loading has increased to 1007 MT (3.92% over previous year), Passenger earnings have increased to Rs. 32,500 crore (15.1% over the previous year), total traffic earnings was Rs. 1,25,635 crore (20.6% over the previous year), total receipts have increased to Rs. 1,28,202 crore (20.7% over previous year) and Internal Resource Generation has increased to Rs. 17,469 crore (127.6% over previous year). The Committee also note that the expenditure side has also increased considerably such as the ordinary working expenses have increased to Rs. 84,400 crore (13.2% over previous year) and the total working expenses have increased to Rs. 1,11,400 crore (12.9% over previous year). The Committee find that the Ministry of Railways are expecting better performance in the year 2013-14 especially eyeing growth in areas such as Capital-at-Charge to Rs.168636 (BE) (increase of 16.6% over previous year), freight loading at 1047MT (BE) (increase of 3.97%), Passenger earnings Rs.42210 crore (BE) (increase of 29.9% over previous year), total traffic earnings Rs.143692 crore (BE) (hike of 14.4% over previous year), total receipts of Rs.146626 crore (BE) (increase of 14.4% over previous year) and internal resource generation to Rs.20707 crore (BE) (increase of 18.5% over previous year). The Ministry also informed that the incremental internal resource generation in 2013-14 has been targeted over the already sizable growth achieved in 2012-13.

75. The Committee note the submission of the Ministry of Finance that the budget support (excluding contribution towards Special Railway Safety Fund (SRSF) but including additional budget support towards projects of national importance) being provided to Ministry of Railways has increased substantially from Rs.5,493 crore in 2004-05 to Rs.23,013 crore in 2011-12 and further to Rs.24,000 crore in 2012-13. The Gross Budgetary Support provided to Railways for capital expenditure is Rs.26,000 crore in 2013-14.

The Committee were also apprised that the Railways are getting committed additional budgetary support during the course of the financial year over and above the Gross Budgetary Support provided by the Planning Commission towards the projects of national importance such as Udhampur-Srinagar-Baramulla new line and other projects in North Eastern Areas. The Committee note that during the year 2012-13, the Ministry of Railways enforced a slew of measures to stablise their finances. Significant of these were rationalisation of freight and fare rates and strict regulation of expenditure which helped them to generate additional resources. The Committee observe that roll back of passenger fares had forced Ministry of Railways to reduce the Plan expenditure from the original estimate of Rs.60,100 crores to Rs.52,000 crores during 2012-13. The Committee are of the opinion that there is an urgent need for Railways to further improve their ability to enhance the internal resource generation. The Committee urge the Ministry to focus on early implementation of the on-going projects as prioritised by the Ministry of Railways. The Committee also recommend that the Railways should observe greater financial discipline and lay greater stress on their performance for reducing their working expenses and project costs.

(Rec Sr. No.1)

76. The Committee have carefully considered the arguments put forth by both the Ministries of Railways and Finance on the issue of Rate of Dividend payable by the Railways to the General Revenues. They note the submission of the Ministry of Railways for maintaining the last year's rate of dividend at 4% during 2013-14 as well, and ploughing back the dividend payable in Railways itself for financing the safety related requirements. According to the Ministry of Finance, rate of dividend during 2011-12 worked out to only 2.4% after reliefs and subsidies. The Ministry of Finance have also informed that rate of interest on the investments in the form of loans to public enterprises for the current year stands at 11.5% and as against this even a 7% rate of dividend (which was the case earlier) is at highly concessional rate as it translates into 2.3% after grant of concessional reliefs by the Ministry of Finance. They further apprised the Committee that taking into consideration the concessions and reliefs, the net dividend payable by

Railways in current year, i.e. 4% actually works out to only 1.9% of the Capital-at-Charge for the year 2012-13 and 2% for the year 2013-14.

The Committee note the announcement made by the Minister of Railways in his Budget Speech for the year 2013-14 that this year the Railways are set to achieve the milestone of entering the one billion tonne select club, joining the Chinese, Russian and US Railways and the originating freight loading is estimated to be 1007 MT, that is, about 38 MT over 2011-12. The Minister of Railways has also mentioned in his Budget speech that due to their consistent efforts at maintaining strict financial discipline during the year, the operating ratio is estimated at 88.8% for the year 2012-13 and the BE of operating ratio for the year 2013-14 is 87%. Also for the first time in the last 25 years, Railways did not present any Supplementary Demands for Grants in the Parliament in the year 2012. The Committee note that the loan of Rs.3000 crore taken by Indian Railways from Ministry of Finance has been repaid fully with interest. The Committee also note that the Minister of Railways in his Budget Speech has proposed to segregate fuel component in tariffs as Fuel Adjustment Component (FAC) and also suggested that this component will be dynamic in nature and will change in either direction with the change in fuel cost twice a year. It is also proposed to implement the FAC linked revision in only freight tariff from 1st April, 2013.

The Committee further note that as per the estimates, the Railways are hopeful of generating a surplus of about Rs.13,147 crore in the year 2013-14. They find that GBS (excluding contribution towards Special Railway Safety Fund but including additional budget support towards national projects) to Ministry of Railways, has increased substantially from Rs.5,493 crore in 2004-05 to Rs.26,000 crore for the year 2013-14. The Ministry has also been allowed tax free bonds worth Rs.10,000 crore for capacity enhancement works of Railways. The Committee observe that Railways cannot ask for higher GBS on one hand and seek lower rate of dividend on the other hand. Railways being a departmentally run commercial

undertaking, is supposed to contribute to General Revenues in the form of dividend at reasonable rates towards sharing the larger liability of the Government in social sectors like education, health, rural development, water supply, housing welfare of SC/ST/OBC, etc. Considering the current economic scenario where the Government is committed to support the economic growth through higher public expenditure despite several fiscal stresses, the Committee feel that the rate of dividend at 4% is only going to further stress the resources of the Government. The Committee feel that the Railways being a part of the Government is bound to carry social costs and obligations. The Committee note that the Railways are on the right track by taking necessary steps towards financial discipline such as rationalization of tariff, efforts to raise additional revenues through non-traditional resources, optimal utilization of infrastructure towards generating higher revenues, prioritization of on going projects, analytically actively seeking the participation of the private sector and reducing expenditure. They feel that Railways are capable of contributing towards social obligations without seeking to reduce the dividends payable to Government. Besides, the Ministry of Finance have also assured to provide requisite funds for uneconomic and strategic lines as also for the national projects. The Committee, are of the view that Railways should make efforts to pay higher dividend to the General Revenues and in turn get higher capital investments from it.

In view of the improvement in operating ratio at 88.8% during the year, the improved performance of Railways due to concrete measures being adopted and the rise in the average cost of borrowing, the Committee recommend purely as an interim measure, that for the year 2013-14, the rate of dividend be determined at 5% on the entire Capital(excluding dividend free capital) invested on Railways from the General Revenues irrespective of the year of investment and 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 2013-14.

(Rec. Sr. No.2)

77. The Committee find that the Railways have proposed to create a new fund namely 'Debt Service Fund' for meeting the committed liabilities such as repayment of loans provided by World Bank and other financial institutions and implementation of future Pay Commission on the promise that building reserves in this fund would improve the ways and means of the Government. Annual contribution to this Fund would be made after working out the future requirements for each of the committed liability/expenditure. The Committee have been apprised that building reserves in this Fund would not only improve the way and means position of the Government but will also be a step towards accrual accounting and in sync with the continuing accounting reforms. The withdrawl from the Fund would be permitted only for identified liabilities for which the contributions to the Fund have been made earlier. They also informed the Committee that this Fund would be non-lapsable and receive appropriations from Railway Revenues, i.e. Excess, and this Fund would be created on a permanent basis. The Committee note that this Fund is proposed to be created by the Ministry of Railways in the interest bearing section of the Public Account and will be operated as the Development Fund. The Ministry of Railways have further proposed that the interest rate will be the same at which Railways pay dividend on Capital-at-Charge to the General Revenue. The Committee note that the said proposal of the Ministry of Railways is acceptable to the Ministry of Finance subject to the condition that the first charge on the surplus generated by the Railways will continue to be payment as dividend to General Revenues. The Ministry of Finance is, however, not in favour of creating this fund in the interest bearing section of Public Account.

Considering the arguments put forth by the Ministries, the Committee arrived at the conclusion that the request of the Ministry of Railways for creation of a debt liability fund is acceptable though these liabilities arise as a part of normal operations of the Railways, subject to the condition that the first charge on the surplus generated by the Railways will continue to be

dividend payment to General Revenues. The Committee also agreed with the proposal of the Ministry of Railways that in case the fund is created in the non-interest bearing section of Public Account, the interest rate for this proposed fund will be the same at which Railways pay dividend on Capital-at-Charge to the General Revenues. At the same time, the Committee also suggest to the Ministry of Railways to make concerted efforts to ensure availability of the promised amount from their own internal generation towards this fund instead of looking for other sources such as market borrowing etc.

(Rec. Sl. No.3)

78. The Committee are aware that the Railways are undertaking social responsibility projects for developing remote and far flung areas including hilly areas carrying all sections of society to their destinations, operating in areas which are not very remunerative and becoming a catalyst in creation of large scale operations. They, however, also note that the Railways being a Departmentally run commercial undertaking which operates on commercial principles. Further, the Committee are satisfied to note that Railways have taken some concrete steps towards financial discipline such as rationalization of freight and fare structures, continuous efforts to capture more and more traffic, customer oriented and dynamic freight policies, deployment of additional coaches in patronized trains, avoiding wasteful expenditure, controlling of non-Plan expenditure, prioritization of expenditure on works for better use of available resources, optimizing the fuel consumption, tight control over expenditure in areas such as contractual payment, overtime allowance, purchase of material, etc. They also note that these steps have led to mobilization of additional resources and resulted in higher internal resource generation.

The Railways have proposed for exemption in payment of dividend in respect of Capital investment in socially desirable projects. According to the Ministry of Finance, the Railways are enjoying lower rate of dividend in comparison to normal rate of interest (11.5%) and are also taking benefit from dividend and other concessions in the form of subsidy from general revenues. The Committee note that the Government is also funding projects

between 100% to 75% of the investment for the National Projects which are mostly in remote / under developed or strategically located thereby mostly unremunerative projects. The Committee find that the subsidy from General Revenues towards dividend relief and other concessions, reimbursement of losses on operating 'Strategic' lines are aimed at providing relief to Railways and do contribute to a certain extent towards the socially desirable projects which are usually also unremunerative projects. The Committee note that the total subsidy provided to Ministry of Railways was Rs.3,021.23 crore (RE) and Rs.3,406 crore (BE) for the financial year 2012-13 and 2013-14, respectively. The effective rate of dividend (after excluding these concessions from the Gross dividend paid by Railways) works out to 1.9% only in the year 2012-13. They also find that the Ministry of Finance reimburse the operating losses incurred on strategic lines by the Ministry of Railways to a significant extent. The Committee feel that being a semi-commercial undertaking, all the projects of Railways are socially desirable and being an arm of the Government, the Railways should also participate in the overall development of the country by contributing maximum to the General Exchequer enabling the Government to fulfill its social obligations in other areas such as education, food security, health, etc. The Committee are, therefore, of the view that the plea of the Railways to exclude the Capital investment on socially desirable projects while calculating the dividend liability on the grounds of socially desirable projects being financially unviable, is devoid of merit not only because of the fact that the Railways are paying lower rate of dividend in comparison to the prevailing rate of interest on borrowings but also getting other concessions in the form of subsidy from general revenues. The Committee, therefore, do not agree with the proposal of the Ministry of Railways relating to exemption in payment of dividend in respect of capital investment in socially desirable projects. They recommend that the Ministry should continue to take prudent steps for maintaining financial discipline and explore new avenues for raising their revenues and mobilizing resources while curbing avoidable expenditure. The Committee also desire that the Railways should share the social burden of the Government instead of demanding dividend free capital investment in

socially desirable projects as the Government is already granting concessions in terms of subsidy and a significantly low rate of dividend on capital invested vis-à-vis market borrowing rate of interest and funding of national projects. This would allow the Government to take up developmental avenues for sectors other than Railways by contributing to General Exchequer and meet the very objective of separation convention, *i.e.* contribution by the Railways to the General Exchequer.

(Rec Sr. No.4)

79. The Committee note that the Indian Railways in their document Vision 2020, placed earlier in Parliament in 2009, envisages sourcing of atleast 10% of energy used from renewable sources over the decade. They find that Indian Railways have been instrumental in providing an energy efficient, environment friendly mode of transport through electrical traction and is adopting various energy saving measures including renewable energy resources, *viz*. solar and wind energy and adoption of energy efficient appliances / equipment. The Committee have been informed that in line with the objectives of Vision 2020, some of the important initiatives are being taken such as adoption of regenerative braking technology in three phase electric locomotives and EMUs, solar based water heating systems, street lights, solar panels at level crossing gates, construction of energy conservation buildings and use of energy efficient CFLs and T-5 luminaries, etc. The Committee were informed that Indian Railways generated about 27 million units (MU) during 2011-12 from its existing 10.5 MW of wind energy plant and about 4.5MW of solar energy plants, which, however, is only 0.16% of energy consumed during that year. The Committee were apprised that harnessing of solar energy for additional 7.83 MW capacity by providing solar PV models at 200 stations, 21 administrative buildings, 200 level crossing gates and 5 other rooftop locations have been planned. Wind energy plant of about 168 MW capacity (157.5MW in joint venture and 10.5 MW with Indian Railways funding) has been planned to be harnessed. They also find that about 30% subsidy is available on solar photovoltaic module projects of Railways for other than North Eastern States. The Committee are also aware that Rs.1,00,000 crore has been set for

generating investment through PPP during 12th Five Year Plan. The Committee are aware that the Ministry of New and Renewable Energy is largely private sector oriented, with approved outlay of Rs.1,521 crore only for the year 2013-14.

The Committee appreciate the Green initiatives taken by the Ministry of Railways and their future plans to harness the new and renewable energy and use the same to meet their electricity requirements in different areas. However, they feel that the outcome is almost insignificant vis-à-vis their targets for use of renewable resources to meet energy requirement in Vision 2020. Further, the Government is already granting about 30% subsidy on solar photovoltaic module projects for other than North Eastern States thereby making such projects more viable economically. Therefore, the Committee are of the view that there is no reason for exempting the green initiatives projects from payment of dividend. The Committee recommend that the Ministry of Railways should aggressively pursue their goal of achieving 10% of their energy requirements through new and renewable energy sources, i.e. by taking green initiatives as envisaged in their document Vision 2020. They also emphasise that the Ministry of Railways should involve private sector in their green initiative projects so as to draw investment in this area.

(Rec. Sl. No.5)

80. The Committee recommend that all concessions on rate of dividend/ reliefs in dividend now available on residential buildings, new lines, subsidies from General Revenues, etc., be allowed to continue on the existing basis for the year 2013-14.

(Rec Sr. No.6)

81. The Committee note that the appropriation to the Depreciation Reserve Fund (DRF) in 2011-12 has been kept at Rs. 6,520 crore from Revenue and Rs. 200 crore from Production Units. The closing balance in DRF was Rs. 5.04 crore (RE) at the end of the year 2011-12. They further note that for the year 2012-13 an amount of Rs. 7,200 crore (RE) consisting of Rs. 7,000 crore

from Revenue and Rs. 200 crore from Production Units has been appropriated to DRF in the revised estimates. The appropriation to the DRF for 2013-14 has been budgeted to be Rs. 7,700 crore, consisting of Rs. 7,500 crore and Rs. 200 crore from Revenue and Production Units, respectively. The Committee recommend that the contribution to the DRF may be allowed to be made in consonance with the capacity of the system to generate internal resources. The Committee desire to be informed of the actual amount of contribution made to DRF in the year 2013-14.

(Rec Sr. No.7)

82. The Committee find that there are more than 12 lakh Railway Pensioners They observe that the appropriation to the Pension Fund (PF) in 2011-12 was kept at Rs. 17,920 crore, consisting of Rs. 17,620 crore and Rs. 300 crore from Revenue and Production Units respectively. The closing balance in the Fund was Rs. 6.52 crore at the end of the 2011-12. In the Revised Estimates for the year 2012-13, the appropriation to the Pension Fund was kept Rs. 20,310, crore consisting of Rs.20,010 crore from Revenues and Rs.300 crore from Production Units. The appropriation to the Pension Fund in 2013-14 (Budget Estimates) has been budgeted to be Rs. 22,315 crore consisting of Rs. 22,015 crore from Revenues and Rs.300 crore from Production Units. The Committee agree that the contribution to Pension Fund may be made in keeping with the requirement submitted by the Railways in their projections especially with regard to increase in number of pensioners, rate of dearness relief, etc.

(Rec Sr. No.8)

83. The Committee observe that the appropriation to the Development Fund for the year 2011-12 was kept at Rs. 1,492 crore (RE) which reduced to Rs. 610 crore in actual. The appropriation to the Development Fund for the year 2012-13 was kept at Rs. 10,557 crore and the same was reduced to Rs. 9,984 crore at RE stage. The Ministry of Railways have, however, stated that the appropriation to Development Fund would be Rs. 3,550 crore in 2013-14. The Committee endorse the allocation.

(Rec Sr. No.9)

84. The Committee find that the Capital Fund goes towards building up the infrastructure of the Railways. During 2011-12, Rs. 515.57 crore was appropriated to the Capital Fund but there was no actual withdrawal. For the year 2012-13, the appropriation to Capital Fund was budgeted at Rs. 5000 crore (BE) and it was revised to Rs. 425 crore. For the year 2013-14, the appropriation to Capital Fund has been kept at Rs. 5,434 crore (BE). In keeping with the Plan outlay and the overall resource availability, the Committee endorses the allocation. However, they would like to be apprised of the actual amount that would be credited to this Fund at the end of the financial year 2013-14.

(Rec Sr. No.10)

85. The Committee find that the Railway Safety Fund was created for financing the works relating to conversion of unmanned level crossings and for construction of Railway over/ under bridges to ensure the safety of the people. The Committee note that budgetary provision made for the Railway Safety Fund was Rs. 1,062 crore (actual) for the year 2011-12. For the year 2012-13, the appropriation to this Fund was budgeted at Rs.1,105 crore in BE and the same was kept as RE. For the financial year 2013-14 the appropriated amount is Rs. 1104 crore (BE). While endorsing the proposed allocation the Committee would like to be apprised of the actual amount that would be appropriated to this Fund at the end of the financial year 2013-14 as this is a vital aspect of Railways where adequate funds have to be ensured.

(Rec Sr. No.11)

86. The Committee agree with the existing principles governing interest on various Railway Funds and therefore, recommend that the balance in various Railway Reserve Funds (other than Development Fund) may carry the same rate of interest as the rate of dividend payable by the Railways to the General Revenues. 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 and the balances in Railway Safety Funds may be treated as interest free since the fund has been constituted with the contribution from General Revenues.

(Rec Sr. No.12)

New Delhi:	**ARJUN CHARAN SETHI**
7th May, 2013	**Chairman**
17 Vaisakha, 1935 (Saka)	**Railway Convention Committee**