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RAILWAY CONVENTION COMMITTEE

(2014-19)

(SIXTEENTH LOK SABHA)

MINISTRY OF RAILWAYS

(RAILWAY BOARD)

RATE OF DIVIDEND PAYABLE BY THE RAILWAYS TO THE GENERAL REVENUES FOR THE YEARS 2014-15 AND 2015-16 AND OTHER ANCILLARY MATTERS

सत्यमेव जयते

LOK SABHA SECRETARIAT

NEW DELHI

December, 2015 /Pausha, 1935 (Saka)

FIRST REPORT

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(SIXTEENTH LOK SABHA)

MINISTRY OF RAILWAYS

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RATE OF DIVIDEND PAYABLE BY THE RAILWAYS TO THE GENERAL REVENUES FOR THE YEARS 2014-15 AND 2015-16 AND OTHER ANCILLARY MATTERS

Presented to Lok Sabha on 22.12.2015

Laid in Rajya Sabha on 22.12.2015

LOK SABHA SECRETARIAT

NEW DELHI

December, 2015/ Pausha, 1935 (Saka)

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COMPOSITION OF THE RAILWAY CONVENTION COMMITTEE

(2014-19)

Shri Bhartruhari Mahtab, MP- Chairperson

MEMBERS

LOK SABHA

2. Shri Abhishek Banerjee
3. Shri Sanganna Amarappa Karadi
4. Shri K. Ashok Kumar
5. Shri Kamalbhan Singh Marabi
6. Smt. Anupriya Patel
7. Shri Nana Patole
8. Shri Janak Ram
9. Shri Rahul Ramesh Shewale
10. Shri Bharat Singh
11. Shri Liladharbhai Khodaji Vaghela
12. Shri K.C. Venugopal

RAJYA SABHA

13. Shri Avinash Rai Khanna
14. Shri Derek O' Brien
15. Dr. Vijaylaxmi Sadho
16. Shri Arvind Kumar Singh
17. Shri T.K. Rangarajan
18. Shri K.C. Tyagi

SECRETARIAT

01.	Shri K. Vijayakrishnan	-	Additional Secretary
02.	Shri M. K. Madhusudhan	-	Director
03.	Shri D. R. Mohanty	-	Additional Director

INTRODUCTION

I, the Chairperson of the Railway Convention Committee (2014-19), having been authorized by the Committee, present this First Report on Rate of Dividend payable by the Railways to General Revenues for the financial years 2014-15 and 2015-16 and Other Ancillary Matters.

2. The Railway Convention Committee (2009-14) presented their Sixth Report on Rate of Dividend for the year 2013-14 and other Ancillary Matters to Lok Sabha on 8th May, 2013 and also laid in Rajya Sabha the same day. The Action Taken Notes of the Government on the Observations/Recommendations contained in the Sixth Report of RCC (2009-14) are given at Appendix-IV to this Report.

3. The Interim Memorandum on 'Rate of Dividend for the years 2014-15 and 2015-16 and other Ancillary Matters' containing the views of both the Ministry of Railways (Railway Board) and the Ministry of Finance (Department of Expenditure) was furnished by the Ministry of Railways on 11 June, 2015. The Committee took evidence of the Ministry of Railways (Railway Board) on 15th July, 2015. The Committee took further evidence of the Ministry of Railways (Railway Board) and also that of the Ministry of Finance (Department of Expenditure) on 20 August, 2015. The Committee also obtained post-evidence information from both the Ministries.

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 years 2014-15 and 2015-16 may be paid at the rate of 5 percent and 4 percent, respectively, 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 by the Railways to the General Revenues for payment to States as grants in lieu of passenger fare tax as well as contribution for assisting the States for financing safety works during the years 2014-15 and 2015-16. All other concessions now available have

been endorsed by the Committee to continue on the existing basis for the years 2014-15 and 2015-16.

5. The Committee considered and adopted this Report at their sitting held on 17th December, 2015. The Minutes of the sittings of the Committee are appended to the Report.

6. The Committee express their thanks to the representatives of the Ministry of Railways (Railway Board) and the Ministry of Finance (Department of Expenditure) for tendering evidence before the Committee and furnishing requisite written information as desired by the Committee in connection with the examination of the subject.

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/Recommendations of the Committee have been printed in bold letters in the Report.

New Delhi:
18 December, 2015
27 Agrahayana, 1937 (SAKA)

BHARTRUHARI MAHTAB
CHAIRPERSON
RAILWAY CONVENTION COMMITTEE

PART - I

REPORT

I. GENESIS OF SEPARATION OF RAILWAY FINANCE

The 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 the '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 up to 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 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 the 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) All Railway project proposals are first shortlisted by NITI Ayog and Railway Board. Proposals, concurred in by NITI Ayog and costing between Rs. 500 crore to Rs. 1000 crore require appraisal by the Expanded Board and approval of the Minister of Railways. Projects costing more than Rs. 1000 crore require appraisal by Expanded Board and approval of the Cabinet Committee on Economic Affairs. Once the approval of CCEA is obtained the projects are included in the Railway Budget for seeking the approval of 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 gross budgetary support inclusive of Diesel Cess allocation 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 either category 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 16th Lok Sabha on 11.3.2015 and concurred in by the Rajya Sabha on 17.3.2015, the Railway Convention Committee (2014-19) was constituted on 27.4.2015 to review the "Rate of Dividend" payable by the Railway undertakings to General Revenues, as well as other ancillary matters pertaining to the Railway Finance vis-a-vis General Finance and to make recommendations thereon.

IV. PAYMENT OF DIVIDEND TO GENERAL REVENUES

9. As mentioned above, the 'Rate of Dividend' payable by the Railways to the General Revenues is based on the recommendations of the Committee. The First Interim Memorandum on Rate of Dividend for the year 2014-15 and 2015-16 was submitted to the Committee by the Railway Board

on 11.6.2015 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 Cr. in 1950-51 to Rs. 1,98,009.84 Cr. (RE) in 2014-15 and Rs. 2,35,328.79 Cr.(BE) in the year 2015-16.

11. The annual dividend payable to General Revenues used to be less than Rs. 100 Cr. till 31 March, 1964. This has increased manifold over the years. As against dividend of Rs. 8,008.67 Cr.(in Actual) paid for the year 2013-14, in the revised estimate 2014-15, it has been placed at Rs. 9,174 Cr. and for 2015-16 (BE) the dividend is estimated at Rs. 10,811 Cr.

12. The Railway Convention Committee (2004-09), *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 predecessor Railway Convention Committee (2009-14), 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 Sixth Report at Para No.76, had *inter-alia* recommended purely as an interim measure, that for the year 2013-14, the rate of dividend

payable by the Railways to the General Revenues be determined at 5 percent 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. The Committee 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 2013-14.

V. PRESENT STATUS OF RAILWAY FINANCES

13. The financial position of the Railways as explained by the Ministry of Railways in their First Interim Memorandum on "Rate of Dividend for the year 2014-15 and 2015-16" and other ancillary matters' is detailed as under:

(i) Railway finances have witnessed a nose-dive after 2007-08 particularly because of steep increases in staff cost and pension obligation consequent upon implementation of the recommendations of the VI Central Pay Commission. Railways continued to reel under the impact of the 6th Pay Commission while the freight traffic had its worst incremental growth of 39.5 MT in 2008-09 and 33.9 MT in 2010-11 as compared to average incremental tonnage of around 64 MT from 2005-06 to 2007-08. 'Excess', after paying dividend, touched a nadir of mere Rs. 75 lakhs in 2009-10. Consequently the operating ratio touched the worst in recent years at 95.3 percent in 2009-10. Railway Funds were fully depleted and in fact two successive years, 2010-11 and 2011-12, closed with negative balances. As a result, a loan of Rs. 3,000 Cr. had to be taken from Ministry of Finance in 2011-12 for appropriation to Railway Development Fund.

(ii) Due to a string of actions to mobilize revenues, improve traffic performance and strict financial management, the financial consolidation resulted in an improved scenario. Loan of Rs. 3,000 Cr. was repaid entirely along with interest to Ministry of Finance in 2012-13. Dividend liability had been fully discharged during all these years from 2007-08 onwards and efforts made to increase revenue steadily since 2012-13.

14. The Performance of the Railways during the year 2013-14 as indicated in the First Interim Memorandum of the Ministry of Railways is as under:

"Railways surpassed the BE target of 1047 MT and RE target of 1051.55 MT, to reach 1051.64 MT, an incremental loading of 43.55 MT over 2012-13. The freight earnings was Rs. 93,906 Cr. as against BE target of Rs. 93,554 Cr. and RE target of Rs. 94,000 While the revised loading target was surpassed, the earnings fell short of the revised target by Rs. 94 Cr. mainly because of fall in lead. The yield per MT was Rs. 89.29 Cr. and earnings per NTKM was Rs. 141.04 paisa as compared to a yield of Rs. 84.58 Cr. per MT and Rs. 123.27 paisa per NTKM for 2012-13."

15. The Ministry of Railways further stated as under:

(i) "The financial performance in the passenger segment declined mainly due to negative growth in originating passengers which were 8397.06 million at the end of the year against the BE and RE target of 9089 million and 8471.97 million, respectively. Passenger earnings target of Rs. 42,210 Cr. in BE had to be scaled down to Rs. 37,500 Cr. in the RE. The actual passenger earnings at Rs. 36,532 Cr. were still lower by Rs. 968 Cr. attributable mainly to reduced number of passengers than targeted. The actual Gross Traffic Receipts achieved was Rs. 1,39,558 Cr., which fell short of RE by Rs. 942 Cr. and BE by Rs. 4,184 Cr..

(ii) Ordinary Working Expenses (OWE) budgeted at Rs. 96,500 Cr. and enhanced to Rs. 97,060 Cr. in R.E. registered an excess of Rs. 511 Cr. The pension payments at Rs. 24,762 Cr., however, exceeded expected outgo of Rs. 24,000 Cr. provided for in RE. Accordingly appropriation to Pension Fund had to be stepped up to Rs. 25,165 Cr. in the actual from Rs. 24,015 Cr. in RE.

(iii) The overall internal resource generation for plan was Rs. 11,668 Cr. as against Rs. 14,496 Cr. assessed in RE, registering a shortfall of Rs. 2,828 Cr.

(iv) Despite slippage from Budgeted target, in 2013-14 fund balances improved to Rs. 5,220 Cr. against Rs. 2,391 Cr. in the railway funds' closing balance in 2012-13."

16. Presenting the financial performance of the Ministry of Railways during the year 2014-15, the Ministry of Railways stated as follows:

(i) "The incremental loading target of 49.6 MT which translated to a BE loading target of 1101.25 MT was retained in the RE. Goods earnings was enhanced from BE of Rs. 1,05,770 Cr. to Rs. 1,06,927 Cr. in RE, taking into account the impact of certain post-budgetary measures like levy of port congestion charges and container haulage charges. As per provisional figures for the fiscal, however, loading at 1094.61 MT is less than the target by 6.64 MT. Consequently freight earnings are short of RE target by about Rs. 1,181 Cr.

(ii) Negative trend in originating passengers seen since 2013-14, has continued in 2014-15 as well. Revised targets for Originating Passengers had accordingly to be reduced from 8645 million in B.E. to 8350 million in RE. Keeping with the negative trend in passenger traffic, Passenger Earnings budgeted at Rs. 44,645 Cr. was reduced to Rs. 43,002 Cr. in RE. As per approximate figures, originating passengers at 8234 million is a growth of (-) 1.9 percent over 2013-14. Consequently the passenger earnings have fallen short of the RE target by Rs. 815 Cr. approximately."

(iii) Taking into account of Rs. 4,028 Cr. of Other Coaching earnings and Rs. 5,241 Cr. of Sundry earnings, Gross Traffic Receipts in RE has been reduced by Rs. 917 Cr. and fixed at Rs. 1,59,248 Cr. as against BE of Rs. 1,60,165 Cr. In the fiscal just ended, accounting for a shortfall of Rs. 179 Cr. approximately under Other Coaching and Sundry earnings and accumulation of traffic outstanding by Rs. 387 Cr., the gross traffic receipts come to Rs. 1,56,637 Cr. approximately, i.e. Rs. 2,611 Cr. less over RE.

(iv) Taking advantage of the drop in price of HSD (High Speed Diesel) for traction during the year, Ordinary

Working Expenses budgeted at Rs. 1,12,649 Cr. was reduced to Rs. 1,08,970 Cr. in RE. Requirement for pensions is estimated at Rs. 29,288 Cr. in RE against a budget provision of Rs. 28,850 Cr. considering the pension outgo trend. Plan investment during the year has however been increased, especially under internal resource segment, from Rs. 65,445 Cr. in BE to Rs. 65,798 Cr. in RE.

(v) Both OWE and Pension expenditure have reported savings of Rs. 2,676 Cr. and Rs. 1,013 Cr., respectively, over RE. Savings under OWE has helped to achieve an Operating Ratio of 91.3 percent against 91.8 percent targeted in RE despite shortfall in Gross Traffic Receipts.

(vi) After 2007-08, Operating Ratio achieved is better than that targeted in BE. Operating Ratio of 91.3 percent was achieved against a BE target of 92.5 percent. This was mainly expenditure driven arising out of lower fuel costs than budgeted for. With overall improvement in financial position, Railway Fund balances have improved from Rs. 5,220 Cr. in 2013-14 and are likely to close at Rs. 7,412 Cr."

17. The Performance Estimate for the financial year 2015-16 is as under:-

(i) "BE 2015-16 envisages a loading of 1186.25 MT which is 85 MT incremental over RE 2014-15 & 91.6 MT over the Provisional Accounts 14-15. Taking into account this incremental traffic as also additional revenue anticipated from increase in class rates by 10 percent, rationalization of commodity classification and distance slabs, the freight earnings have been estimated at Rs. 1,21,423 Cr. This is a growth of 13.6 percent over RE and 14.8 percent over approx. 2014-15.

(ii) On the passenger side, though Railways have suffered persistent negative growth in the originating passengers in 2013-14 and in 2014-15, the BE 2015-16 targets an originating Passenger of 8601 million with a growth of 3% over RE 2014-15, in line with the anticipated resurgence in the economy and also a slew of measures being taken to capture more passenger traffic. In addition to the anticipated passenger traffic, a few measures like increasing the advance reservation period from 60 days to 120 days and revision of clerk age & cancellation charges, passenger earnings target has been estimated at Rs. 50,175 Cr. This is a growth of 16.7% over RE and 18.9% over approx. 2014-15.

(iii) The Gross Traffic Receipts of the Railways in BE 2015-16 comes to Rs. 1,83,578 Cr. which is 15.3% higher than in RE and 17.2% over approx. 2014-15.

(iv) Ordinary Working Expenses have been restricted to Rs. 1,19,410 Cr., a growth of 9.6% only over RE 2014-15 which has increased to 12.7% over approx. 2014-15, anticipating stability in fuel bill. Requirement for pensions is also estimated at Rs. 33,220 Cr. against a RE 2014-15 provision of Rs. 29,288 Cr. i.e. a growth of only 13.4% over RE and 17.5% over approx. 2014-15.

(v) The rate of dividend, at 5%, as recommended by the RCC (2009) for 2013-14 was provisionally applied for BE 2015-16. The dividend liability in BE 2015-16 is thus estimated at Rs. 10,811 Cr. This is an interim provisioning and our plea is that the rate be reduced as brought out in subsequent Paras.

(vi) Internal resources for plan expenditure in BE 2015-16 are provided for at Rs. 17,793 Cr. compared to Rs. 15,730 Cr. in RE 2014-15, viz. a growth of 13.1%; an increase in the rate of dividend beyond what has been budgeted for will automatically impact the resource position of Railways and the plan outlay.

(vii) BE operating ratio is targeted at 88.5%. Railway Fund balances are estimated to close at Rs. 12,438 Cr.

18. While mentioning about the execution of concrete strategy to rejuvenate the Indian Railways, the Minister of Railways in his Budget Speech for the year 2015-16 stated as follows:-

> "To deliver a sustained and measurable improvement in customer experience we are launching initiatives that will systematically address customer concerns about cleanliness, comfort, accessibility, service quality and speed of trains. Given the importance of rail travel for our citizens we will increase our daily passenger carrying capacity from 21 million to 30 million. We will also increase track length by 20% from 1,14,000 kms. to 1,38,000 kms. and we will grow our annual freight carrying capacity from 1 billion to 1.5 billion tonnes.
>
> Transforming the Railways will require us to partner with the key stakeholders... We will partner with PSUs to ensure that sufficient capacity is built to transport critical commodities like coal, iron ore, and cement, etc. from

where they are extracted or imported to where they are consumed or processed. We will partner with multilateral and bi-lateral organizations and other governments to gain access to long term financing and technology from overseas. We will partner with the private sector to improve last mile connectivity, expand our fleet of rolling stock and modernize our station infrastructure…… Over the next five years, we envisage an investment of Rs. 8.5 lakh Cr. It has also been informed that the operating ratio for 2015-16 is 88.5% as against a targeted operating ratio of 91.8% in 2014-15 and 93.6% in 2013-14……..

The Railways will not be able to deliver sustained improvement in operating efficiency unless changes are made to speed up decision making, tighten accountability, and improve management information systems."

VI. CAPACITY AUGMENTATION REQUIREMENTS

(i) XIIth Five Year Plan

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

"Successive Plans have allocated less to railways compared to transport sector. The share of railways in total plan outlay is only 5.5% vis-a-vis about 11% for other transport sectors and its share in overall development expenditure has remained low at below 2% over the past decade resulting in railways diminishing in its share in GDP and consequently its contribution to the GDP. In keeping with the demands of the growing national economy, Railways will have to implement long term measures to augment carrying capacity of the system in both passenger and freight segments. Ministry of Railways had planned to increase investment in building rail infrastructure during the XII Five Year Plan period with a view to creating capacity for running freight and passenger services. It is estimated to carry 1405 million tons of freight in 2016-17 (terminal year of 12th Plan) at a CAGR of 7.8% during the Plan period. The capacity enhancement works planned in 12th Five Year Plan are as under:

Plan Head	12th Plan Physical Target (km)
New Lines	4,000
Eastern & Western Dedicated Freight Corridors	3,338 (double line except 400 km)
Doubling	7,653
Gauge Conversion	5,500
Railway Electrification	6,500

The XII Plan was approved at 5.19 lakh Cr. of which 37% is to be financed from GBS (1.94 lakh Cr.), 20% from Internal Generation (1.05 lakh Cr.) and 42% from Extra Budgetary Resources (2.20 lakh Cr.).

To garner targeted investment of 1 lakh Cr. through PPP, several new policy initiatives have been taken up or are being finalized to attract private investment in projects of last mile rail connectivity, logistics parks, private freight terminals, high speed corridors, station development, wagon leasing and other wagon investment schemes.

(ii) Five Year Investment Plan (2015-19)

20. Elaborating on the investment plan 2015-19, the Ministry stated as follows:-

> "The thrust of the Railway Budget 2015-16 is on the goal that IR reaffirms its position as the growth engine of this country. To this intent, identified works have to be undertaken such as the decongestion of heavy haul routes and speeding up of trains, gauge conversion, doubling, tripling and electrification. In order to achieve this, higher resource mobilization will be required for higher investments. The target is to increase daily passenger carrying capacity from 21 million to 30 million: increase track length by 20% from 1,14,000 km to 1,38,000 km: grow our annual freight carrying capacity from 1 billion to 1.5 billion tonnes.
>
> An investment plan (2015-2019) which envisages an investment of about 8.56 lakh Cr. over next five years is as under:-

Item	Amount (in cr)
Network Decongestion (including DFC; Electrification; Doubling including electrification; and Traffic Facilities)	1,99,320
Network Expansion (including electrification)	1,93,000
National Projects (North Eastern and	39,000

Kashmir Connectivity projects)	
Safety (Track renewal; Bridge works; ROB, RUBs; Signalling & Telecom)	1,27,000
Information Technology / Research	5,000
Rolling Stock (locomotives, coaches, wagons – production & maintenance)	1,02,000
Passenger Amenities	12,500
High Speed Rail & Elevated corridor	65,000
Station redevelopment and logistics park	1,00,000
Others	13,200
Total	8,56,020

(iii) Dedicated Freight Corridors Investment

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

(i) "With a view to reducing saturation on 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 already been taken up. According to current estimates, these two corridors would cost nearly Rs. 81,459 Cr. excluding the 534 km Dankuni – Sonnagar section of Eastern DFC that would be done through PPP mode. Presently, the approved funding pattern includes total debt at Rs. 52,347 Cr. from IBRD and JICA, and Rs. 29,112 Cr. from GBS. Four more such 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 contribute immensely to the national economy. A dividend relief will significantly ease out debt servicing burden on a long term basis and sustain these projects.

(ii) There is another important issue that merits serious consideration. Dedicated Freight Corridors, both Eastern and Western, are ‘new lines’ but because the investment by Ministry of Railways is partly as equity and partly as land cost, the benefit of dividend relief as admissible for any ‘new line’ has not been extended to this project. Presently for all new lines, payment of dividend is deferred during the period of construction and first five years after opening of line. This deferred amount is recoverable between sixth to twentieth year only if the new line leaves a surplus after payment of current dividend. The unliquidated liability is extinguished at the end of 20th year. However, dedicated freight corridor having been denied such benefit, the dividend liability is from the first year itself even while the project is under construction.”

VII. CURRENT LIABILITIES OF THE RAILWAYS

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

(i) "Railways have been extending financial assistance to Konkan Rail Corporation Ltd. KRCL was set up with an investment of Rs. 3,555 Cr. of which Rs. 2,755 Cr. was borrowed from the market on the strength of letter of comfort issued by Ministry of Railways. KRCL has been able to generate revenue sufficient only to cover its operating expenses, which is inadequate to service interest and debt liabilities. Hence Ministry of Railways had to extend support to KRCL by way of loans.

(ii) In 2013-14, KMRCL (Kolkata Metro Rail Corporation) has been transferred by Government of West Bengal to Ministry of Railways. This was done with the approval of the Cabinet. Thus presently, KMRCL project, at a 2008-09 sanctioned cost of Rs. 4875 Cr., is shared between Ministry of Railways (74%) and Ministry of Urban Development (26%). Equity investment and subordinate debt liabilities pertaining to Railways diminishes the capital available with Railways for its own requirements. Positive revenue flow from suburban projects are unlikely as can be seen from the fact that Kolkata Metro Railway, commissioned on 24.10.1984 and after 30 years of expansion and operations, is as yet having an operating ratio of 259.9% in RE 2014-15.

(iii) To some extent railways have been making up the gap in its capital investment requirement by resorting to market borrowings through IRFC (Indian Railway Finance Corporation) which require debt servicing that cannot be defaulted. The level of lease charges has increased substantially from mere Rs. 3,041 Cr. in 2000-01 to Rs. 11,084 Cr. in 2013-14. The spiraling burden it had entailed required containment which could somehow be addressed in 2014-15. Therefore, borrowing was reduced to 11,773 Cr. in 2014-15 (RE). In BE 2015-16, however, borrowing is pegged at 17,276 Cr. Railways would pay to IRFC in 15-16 8,500 Cr. as lease charges (interest component) and Rs. 6,293 Cr. as lease charges (principal component). Since 2010-11, lease payment to IRFC, interest plus principal, has seen a CAGR of 18.6%.

(iv) The financial impact of recommendations of the 6th Central Pay Commission, has been more than Rs. 1 lakh Cr. Clear indications regarding the imminent burden arising from 7th Pay Commission has already been given by the Finance Minister in his Budget Speech 2015-16, where at para 23 under Fiscal Roadmap he stated, "we also have to take into account the drastically reduced fiscal space; uncertainties that implementation of GST will create; and the likely burden from the report of the 7th Pay Commission." As an illustration of the enormity of scale involved, for 2012-13, out of the total civilian regular working manpower of about 30.84 lakh, Railways alone constitute about 42%.

(v) IR will be resource stretched if it is required to bear the impact of 7th Pay Commission. For all other Ministries and Departments, the impact of the same is borne by the General Exchequer while Ministry of

Railways is required to cater to successive revisions from out of its resource generation. Here, it may be reiterated that the only source of revenues that IR has is related to train operation which may have limitations to regular revisions of fare and freight.

(vi) It has been the experience that every Pay Commission cycle sets Railway financial health and resultant investments and growth backwards for a few years. Pay Commissions come every 10 years, and if it takes about five years for the Railways to come out of its shadow and look up to better growth prospects, another pay commission puts the investment clock backwards. This cannot be sustained if Railways has to contribute to the economy and not remain a mere vestigial organization surviving for its own sake. Further, the ever expanding number of pensioners (an estimated 5 lakh pensioners will be added in this decade) and the relaxation in Pension rules from time to time have seen a sharp rise in the pension bill of the Indian Railways.

(vii) With the expansion of rail infrastructure, the requirement of resources for maintenance and renewal also increases. This has critical safety implications. The expenditure on replacement and renewal, being met out of Depreciation Reserve Fund & funded from Internal Resources, is required to be stepped up to about Rs. 15,000 Cr. to Rs. 20,000 Cr. in the coming years. The requirement under Development Fund, that specifically allocates for works under safety category, traffic facilities, terminal improvement, passenger amenities, computerization and staff welfare also need an accelerated requirement to the tune of Rs 7,000 Cr. to Rs. 8,000 Cr. in the coming years.

(viii) The operating losses incurred on the national projects as well as other projects are quite substantial which are being borne by the railways. Despite hike in passenger fares w.e.f. 21.01.2013, 07.10.2013 and 25.06.2014, losses on coaching services have ballooned to Rs. 34,298 Cr. in RE 2014-15. This includes concessions and uneconomic branch lines. These have a crippling effect on the internal resources, and limit Railways' ability to generate enough surplus for undertaking investments in passenger amenities, safety related works and for expansion. Fare-hikes and fare rationalization can be applied only to a certain extent which may also prove to be counterproductive beyond a point."

VIII. ISSUES RELATED TO RATE OF DIVIDEND FOR THE YEARS 2014-15 and 2015-16.

23. On the issue of rate of dividend for the years 2014-15 and 2015-16, the Ministry of Railways submitted following proposals for consideration of the Committee:-

(i) In view of the present difficult financial position and Railways being seen as an engine of growth through a massive investment plan ahead, IR may be exempted from payment of dividend for the period 2015-16 to 2019-20. Pending consideration of the same, the rate of dividend for 2014-15 may be reduced to 4%. Other modalities for determining the dividend as brought out in Annexure 'I' may continue to be adopted. All concessions now available as listed therein may be allowed to continue for the year 2014-15 as well as 2015-16.

(ii) All National Projects and Projects of National Importance including identified strategic and border area projects may be declared dividend free or eligible for subsidy relief on dividend liability.

(iii) Reimbursement of operational losses on National Projects, Projects of National Importance, uneconomic branch lines, Border area projects, projects funded by Ministry of External Affairs and Ministry of Defence and all strategic lines

(iv) Dedicated Freight Corridors to be considered at par with new lines for relief in dividend payment.

(v) All special or exclusive coaches provided in trains for physically handicapped and women may be added to list of assets exempt from dividend.

(vi) Dividend should not be computed on the taxation amount of a project cost.

(vii) Reimbursement of GRP cost to Railways by the Ministry of Finance.

(viii) Rules of allocation to provide for

(ix) (a) Deployment of capital from GBS to fund (a.i) traffic facilities, terminal capacity enhancement where 'rate of return' is more than dividend rate and (a.ii) basic passenger amenity works with relief in Dividend.

(b) Loan from General revenues against Railway Safety Fund to meet with if required higher amounts for accelerated works on elimination of crossings and ROBs/RUBs and such loans to be offset against future diesel cess appropriations to Railways as per Central Road Fund Act.

(x) The Debt Service Fund rules may be modified to allow it to provide for debt service obligations arising out loans & borrowings under 'Institutional Finance' arrangements.

(xi) The contribution to Depreciation Reserve Fund from Revenue in 2014-15 and 2015-16 may be allowed in consonance with the Railway plan.

(xii) The contribution to Pension Fund from Revenues in 2014-15 and 2015-16 may be allowed in keeping with the requirement submitted by the Railways.

(xiii) Railway Safety Fund rules to allow for interest free loan against this fund should the fund balance require and the repayment to be adjusted against future allocations to Railways under diesel cess.

(xiv) The principles governing interest on various Railway Reserve Funds, including newly created Debt Service Fund (Railway Liability Reserve Fund) and Development Fund may remain as at present.

IX. COMMENTS OF MINISTRY OF FINANCE ON THE PROPOSAL OF THE MINISTRY OF RAILWAYS ON RATE OF DIVIDEND

24. While disagreeing with the proposals of the Ministry of Railways made in the Ist interim memorandum submitted to Railway Convention Committee, the Ministry of Finance submitted their comments/observations as follows:-

(i) Dividend rate even at 7% is concessional, when it is compared with the cost of borrowing of the government at 8-8.5%. The weighted average cost of market borrowing for the Government has increased from 7.69% in 2008-09 to 8.52% in 2011-12, 8.36% in 2012-13 and 8.41% (upto December, 2013). It may also be pointed out that when reliefs given to Railways by the Government for various Public service obligations are included, effective rate of dividend is of the order of 2-3%.

(ii) At the end of FY 2015, it is estimated that Capital employed from the General revenues is approximately Rs.2.2 lakh Cr. (at historical cost). Bulk of this Capital is borrowed by the sovereign at approx. 8%. Therefore, if the revenue foregone by the sovereign is calculated at the differential of sovereign borrowing rate and effective dividend rate, the amount works out to Rs.11,000 Cr. (Rs.2.2 lakh Cr.*(8%-3%) ~= Rs.11,000 Cr.) on a conservative basis.

(iii) The total support expected to be given to Railways in 2015–16 from Budget will be of the order of Rs.51,000 Cr. (Rs.40,000 Cr. GBS + Rs.11,000 Cr. revenue foregone for the public service obligations of Railways). Clearly, any decision to reduce the rate of dividend will increase the Budget support to Railways through enhanced revenue foregone;

(iv) It has therefore been decided that the rate of dividend may be seen in terms of principle of keeping ‘total impact on fiscal balance': defined as Gross budgetary support + Revenue foregone due to interest concessions, as constant. Axiomatically, a 1% reduction in dividend rate – implying higher revenue foregone - will result in concomitant decrease in budget support. The principle while allowing RCC discretion to fix the dividend rate will make the whole transaction fiscal neutral.

(v) The rate of dividend for 2014-15 and 2015-16 is thus proposed to be kept at 7% of capital employed. Principle as suggested above to be followed for deciding about the "Total impact on fiscal balance" to cushion the fiscal balance, if the decided rate is different from 7%. Objective is to cushion the fiscal balance while keeping the Budget support to Railways constant.

(vi) 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 6th Central Pay Commission, is not tenable, as the same commitments on a much larger scale for the entire Government has to be met from the General Revenues.

(vii) 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;

(viii) 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 at 7% and as stated earlier translates into much lower rate of dividend payment of 2-3%, after taking into account the concessions and reliefs allowed;

(ix) 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 follows :-

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	24131.89	…	24131.00	4.86*

2013-14	27072.40		27072.40	12.18
2014-15 (RE)	30100.00		30100.00	11.18
2015-16 (BE)	40000.00		40000.00	32.89

(x) Ministry of Railways are getting committed additional budgetary support during the course of the financial year over and above Gross Budgetary Support 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 Cr.)

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
2011-12	....
2012-13	265

From BE 2011-12 onwards, these provisions were provided to MoR upfront as part of GBS provided by the Planning Commission in the beginning of the year. BE 2011-12 contained a provision of Rs. 2100 Cr. and Rs. 2400 Cr. in BE 2012-13 for National Projects. Despite this additional budget support to the tune of Rs. 265 Cr. was provided in 2011-12. BE 2013-14 contained Rs. 3000 Cr. for national projects BE 2014-15 contained Rs. 6000 Cr. and BE 2015-16 Rs. 6000 crore.

(xi) The budget support provided to MoR 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.

(xii) The revenue is foregone by the Government on account of the public service obligations (PSO) of Railways. Such obligations require exact quantification and precise definitions. Railways may consider bringing in more precision in qualifying and quantifying its public service obligations in such cases. It is further worth consideration, if an independent body lays down norms for qualification of an activity as “Public service obligation” of Railways and also decides extent of relief which can be claimed from Government on that count. The independent committee may be in the nature of an inter–ministerial committee with representation of M/o Finance.

(xiii) After the award of XIV Finance Commission resources of Center are considerably constrained. Presently Budgetary support, internal resources and extra budgetary resources raised by Railways form the funding sources of Railways. In the wake of XIV FC recommendations Railways needs to look at States as possible source of funding for State specific projects. It will be appropriate if a framework of tripartite arrangements between the Union, Railways and States is worked out for executing State specific projects, with part of funding to flow from States.

X. VIEWS OF MINISTRY OF RAILWAYS ON THE ARGUMENTS OF MINISTRY OF FINANCE ON THEIR PROPOSALS

25. Responding to the views of the Ministry of Finance and reiterating the constraints on the Railways' finance, the Ministry of Railways put forth further arguments emphasizing that the Rate of Dividend may be maintained at 4% for the financial year 2014-15 and 2015-16 as follows:-

(i) Ministry of Finance has proposed that the rate of dividend should be seen in terms of the principle of keeping the total impact of fiscal balance as constant. The objective is to cushion the Government of India's fiscal balance while keeping the Budget support to Railways 'constant'. Total impact of fiscal balance has been defined as 'GBS+ Revenue foregone due to interest concessions'. As a principle, 'Constant' GBS would only result in the erosion of GBS based on the principle of time value of money. In fact, the concept should be taken as a factor of Receipts of Govt. of India. This will then impart necessary dynamism to it. The 'constant' of Rs. 51,000 Cr. would need to be linked and increased in proportion to a factor say, increase in receipts of the General Revenues.

(ii) According to the Brochure on Pay & Allowances published by Ministry of Finance for 2012-13, the total civilian regular working manpower is about 30.84

lakh. Of this total, Railways alone constitutes about 42%. Out of the total expenditure on pay & allowances of the Central Government, Railways alone bear about 35.68% & Railways alone raise resources on their own to meet this liability. It is reiterated that the Indian Railways has a limited source of revenue out of which it will be required to take care of normal expenditure in addition to bearing the imminent impact of the Pay Commission.

(iii) The Railways' requirement to fund urgent needs of capacity augmentation, modernization and safety are huge. Therefore, the argument for higher payment of dividend is not tenable. Losses on coaching services have ballooned to Rs. 34,298 Cr. in RE 2014-15. These have a crippling effect on the internal resources, and limit Railways' ability to generate enough surplus for undertaking investments in passenger amenities, safety related works and for expansion. The scope of fare-hike as a measure to offset these losses is limited given the socio-economic dynamic in our country.

(iv) The fare-to-freight ratio and the freight traffic of IR is one of the highest as compared to world railways systems. Further, the scope of cutting the costs is constrained as staff payments & fuel bill constitute about 75% of Ordinary Working Expenses. IR also bears the burden of operating losses on many New Lines, border areas, uneconomic lines, etc which reduces the capacity of internal resources generation. Thus despite best efforts of Railways, the performance cannot be optimized beyond a limit and the government needs to come forward for handholding.

(v) Indian Railways cannot be compared with a regular PSE. The model which governs Indian Railways is not for profit seeking. All internal surplus which is generated is ploughed back as investment in Railways. Further, the impact of interest payment always is much higher in case of loan in perpetuity.

(vi) The 'National Projects' have been taken up as per the policy of the Government to ensure integration of far-flung, under-developed areas with the national mainstream and help socio-economic development of these regions notwithstanding that operational losses will accrue to Indian Railways on these. The GBS extended to these projects is considered outside the normal Budgetary Support provided to the Railways. The same therefore cannot be accounted for as being given for the Railways normal capital investments.

(vii) The Railways are tying up with the State governments for funding/sharing the new projects which interest the States. In this, in fact, the investment from the States will be interest free in the shape of grants, deposits, etc. It may however be pointed out that this would also require matching contribution from the Railways and hence, the level of investment needed would go up if the projects are to be expedited."

26. In evidence, the Chairman, Railway Board, briefly apprised the Committee about the present difficult financial position of the Railways as under:-

> "Over a period of time, we have been facing a lot of constraints. We are not able to improve the services. We are not able to meet the additional demands, particularly on passenger segment due to inadequate investments over a period of time and congestions on the network. We had taken a step that we will try to de-congest the network and put in large investment. We have, therefore, planned an investment of Rs.1 lakh Cr. in the current financial year as against some Rs. 59,000 Cr. last year. This Rs.1 lakh Cr. is planned to be financed out of gross budgetary support which will be of the order of Rs.40000 Cr. plus Rs.1645 Cr. from safety cess and the total comes to Rs.41645 Cr. which makes 42 per cent of the total plan outlay. We intend to generate internal resources to the extent of about Rs.17800 Cr. which is around 18 per cent and balance 40 per cent is supposed to be financed from extra budgetary support that will include IRFC borrowings of around Rs.17500 Cr. and Rs.17200 Cr. as institutional financing. It is for the first time in Indian Railways that we are going to LIC and others for taking money for financing the project which are remunerative like doubling, tripling, railway electrification, etc and a small sum of Rs.5800 Cr. through PPP mode."

27. Pleading for lowering rate of dividend for the years 2014-15 and 2015-16, the Chairman, Railway Board submitted in evidence as under:-

> "This year, the dividend liability is Rs. 10800 Cr.. In 2015-16, the whole GBS that I get is Rs. 40 or 41,000 Cr., out of that Rs. 10000 Cr. I return to Ministry of Finance as dividend liability and more than Rs. 30000 Cr. goes in the social obligations, whether it is passenger or coaching traffic which I subsidies or I charge from public much less than the cost on economic lines, various concessions that are given to different sections of society. My request is that seeing our financial position we definitely deserve a concession on dividend liability and substantial relief. I would also like to submit it to you that we are not a commercial undertaking. Whatever dividend relief we get is ultimately ploughed back in the railway system to improve the infrastructure and improve the capacity for the growth of the country. So, this will be a great help. Whatever reduction in dividend is there, ultimately it comes as an additional internal resource to us for funding the infrastructure."

28. Supplementing the Chairman, Railway Board, the Financial Commissioner, Railway Board, deposed as under:

> "In the current Budget, in 2015-16, a Five Year Plan was envisaged wherein we invest Rs. 8.56 lakh Cr. with a mix of GBS, internal resources and market borrowings. Of this, the total investment of Rs. One

lakh is targeted from internal generation mainly to fund safety works, unremunerative traffic facilities, welfare, passenger amenities and these works do not have a rate of return which justifies that it should be invested from GBS. This would roughly entail that in the next five years we would have to invest about Rs. 20000 Cr. on an average per year. Just to explain, internal generation is a residual amount available to me after taking care of my working expenses and pension. So, whatever is the balance available with me I have to use it for my replacements and renewals. I have to use it for payment of dividend. I use it for the principal component of the lease borrowings and thereafter whatever surplus remains I have to use it for the much needed development works of safety, traffic facilities, passenger amenities, etc.

In the year 2014-15 this internal resource available after payment of dividend was only Rs. 15000 Cr. inclusive of the amount which I need for DRF and the Debt Service requirements. In the year 2015-16, we have projected an available fund of about Rs. 22000 Cr.. It is therefore evident that the internal generation is stretched. Further, the inelastic nature of our revenue expenditure in terms of staff cost, pension, lease payment leaves very little scope for me to bolster internal generation by cost cutting. On the revenue side about 54 per cent of my originating passenger traffic is from suburban commuter segment and 40 per cent unreserved second class. Both together constitute about 94 per cent.

29. The Financial Commissioner further apprised:

> "Coming on our head is the Seventh Pay Commission which will inevitably impact the expenditure further adversely. Further there will be additional requirement for debt servicing as market borrowings have increased from Rs. 12,000 Cr. in 2014-15 to about Rs. 17,000 Cr. in the year 2015-16. Therefore, the surplus would also have to cater for lease payment leaving very little for these works of development nature. The plea of this Ministry therefore to exempt dividend arises from this concern. The net dividend payment per year after subsidy would be roughly about Rs. 5000 to Rs. 6000 Cr.. What we do is we calculate the total dividend due to the Government and then we also get some subsidies from the Government for certain strategic lines and other national projects and all that. So, taking all that, the net dividend which we pay is about Rs. 5000 to Rs. 6000 Cr. per year which would translate to about Rs. 25000 Cr. in five years. If relief is given to us it would help us to bridge the shortfall in internal generation to meet the essential capital expenditure plan of the Railways from internal resources. This handholding will go a long way in helping the Indian Railways to put in place the necessary infrastructure in achieving a growth of 1.5 billion tonnes at the end of five years. The relationship between the Railways and the general finances should not been seen as that of between a borrower and a commercial lender as IR is the biggest

asset of the nation which promotes and drives economic growth and any relief in the dividend is not meant for profit but to be ploughed back as capital investment".

30. Asked to state the financial impact of the 7th Pay Commission, whose report has recently been submitted to the Government, the Railway Board explained as follows:

(i) The Operating Ratio of the Railways sharply deteriorates due to sudden spurt in expenditure due to steep rise in staff cost and appropriation to pension fund to match the pension outgo.

(ii) Fund Balances are adversely affected. In fact in 6th CPC the fund balances became consistently negative for about 2 years in 2010-11 and 2011-12, it was negative in Capital Fund during 2012-13. Though after 6th CPC the payment of dividend was not deferred but in 5th CPC the same was deferred to the extent of Rs. 2823 Cr. during 2000-01 and 2001-02 which could be paid off in six years from 2002-03 to 2007-08. Besides a loan was also obtained from general finances both in 5th CPC and 6th CPC, on which interest had also to be paid.

The 7th CPC report, at page 864 mentions the likely annual assessment at Rs. 28,450 Cr. over 'business as usual'. However, the immediate assessment of this Ministry suggests that the same may be around Rs. 36,000 Cr. if the 7th CPC is to be implemented during 2016-17 but would be effected from 01.01.2016, thereby implying 15 months impact to be factored in

2016-17. Further, the 7th CPC has been silent about 12 important allowances including Running Allowances which will further impact the outgo.

Such a scenario would put the Railway Finances in jeopardy and the Railways' Operating Ratio going above 100% cannot be ruled out even after deferring the dividend. It may be pointed out here that the worst ever Operating Ratio recorded was at 98.3% in 2000-01 while implementing the 5th CPC. This scenario will also lead to total wiping out of the internal resources needed for plan finances besides not having any fund left for payment of lease charges, which is an obligatory expenditure. It may also be pointed out here that resilience in the form of railway fund balances, which was there at about Rs. 20,000 cr. in 2007-08 which eventually came handy in mitigating the then 6th CPC, is not available this time.

As already pleaded with the RCC, the massive impact of implementing the 7th CPC would be sustained only by handholding by the General Finances. The Committee has also been requested to permit waiver from payment of dividend firstly to come out of the above situation and also because the Railways will be in no position to pay the dividend for quite some time in future. Since the vital replacement and renewal expenditure with safety implications, which is met out of DRF will get massive hit due to depletion of internal resources, creation of Special Railway Safety Fund-II (SRSF-II) with full budgetary support from General Exchequer may be recommended. At present, Railways are bearing a loss of about Rs. 31,727 cr. as Social Service Obligations on account of carrying certain goods and services below cost, which goes without being reimbursed by the Government. Railways have pleaded that these costs be reimbursed to the Railways, which will go in a big way in meeting the impact of the Pay Commission. Presently the principal component of lease charges is paid out of Capital Fund which is third charge on Net Revenue. Since no money will be available consequent to above for payment of obligatory lease charges, it is requested that payment of principal component of lease charges be made first charge on Net Revenue before payment of dividend to General Revenues.

31. The Committee then desired to know whether the estimated additional expenditure arising out of the implementation of the Central Pay Commission reports is an oft-repeated plea on the part of the Railway Board. In response, the Railway Board inter-alia stated as under:

"The contention of this Ministry about the financial set-back caused by implementation of successive pay-commissions is factual. It needs to be appreciated that being a service industry with about Rs. 13.34 lakh work-force, the cost structure of the department is such that more than two-third of the total working expenses are inelastic, as brought out in the table in reply to point no. 11. The 6th CPC had an impact of more than Rs 1 lakh Cr.. Moreover, 6th CPC was unique as compared to previous pay commissions in that it had an in-built dynamic rate of enhancing basic-rate of several allowances by making it a function of dearness rate over which, again, railways have no control since dearness rates are announced by the Government. Regarding pension also several revisions have been effected as orders on pension revision has been issued as late as 2012-13.

Further, unlike other departments of the Government, Railways wholly meet their salary and pension liabilities from out of its own revenues without any support from the General Exchequer. The staff cost including pension constitute about 57% and, further, the fuel for traction and lease constitute another about 26% of total expenditure. Railways have no control on staff cost which get fundamentally determined by the pay commissions. Railways also have no control on fuel prices and lease charges either. The margin of expenditure control, over the balance 17% is therefore slender depending on (i) safety and operational need as well as (ii) economy-wide inflation effecting input prices of supplies and contracts.

The scope of pass-through of increased amounts arising out of pay-commissions revisions is limited by the concern of keeping affordable fares. Further, as far as tariff rationalization to offset all the increases in cost of railway service is concerned, there are inherent limitations to the extent of ‘what the traffic can bear’ and its consequential economy-wide inflationary impact. The monopolistic tariff regime of railways may in fact be counterproductive by diminishing railways share in the transport sector, which again is not in the overall interest of the economy.

Every pay commission sets railway finances and investments backwards by a few years as Annexure IIA reveals. In 4th CPC, the Operating Ratio jumped from 90.6% in 1985-86 (pre-4th CPC year) to 92.2% and it was only by 1991-92 that it started improving over pre-4th CPC level. Again in 5th CPC, the O.R. deteriorated from 90.9% in 1997-98 when pay commission was implemented to 93.3% in 1998-99 touching an all time worst of 98.3% in 2000-01 and only in 2004-05 was it at the level of 91.0% which was the pre-5th CPC level. The same pattern was visible in 6th CPC as well, when the O.R. was 90.5% in 2008-09 (when 6th CPC was implemented), touched 95.3% in 2009-10 and it was only in 2014-15 when it is 91.3%.

It is reiterated that the IR has a limited source of revenue out of which it will be required to take care of normal expenditure in addition to bearing the imminent impact of the 7th CPC. Hence at this juncture particularly, softer dividend rates would help stabilize railways internal generation and implementation of plan activities funded solely from internal generation."

32. Explaining the support by Ministry of Finance to the Ministry of Railways in terms of GBS and other reliefs and concessions and the rationale for increasing the rate of dividend in 2014-15, the Finance Secretary during evidence stated as follows:-

"......Sir, the current rate of dividend is 5 percent. The Ministry of Finance submits that this prevailing rate is very concessional and should be increased to 7 percent. Sir, the ground for moving the submission are as follows:

Sir, the rate of dividend was 7 percent in the years 2007-08 and 2008-09. This came down to 6 percent in 2009-10 and

2010-11. This was further reduced to 5 percent in the year 2011-12 and again reduced to 4 percent in 2012-13. In 2013-14, the applicable rate of dividend was marginally fixed at 5 percent. The Government has been providing substantial Gross Budgetary Support to the Ministry of Railways out of money which is borrowed by the Government of India. The weighted average cost of market borrowing is currently in the range of 8.48 to 8.51 per cent. Moreover, the gross budgetary support has been of the level of Rs.27000 Cr. in the year 2013-14 but this year, it has been increased to Rs.40000 Cr. because the Government is giving much greater emphasis on Railway projects and capital investments.

The trend of total support to the Railways by the Government has been increasing and the Government supports the Railways not only through the source of GBS but also reimbursement of losses on operational strategic projects. We also give dividend relief and other concessions like the Central Road Fund which is a Cess based fund which is given to the Railways and other such supports.

This year, taking into account all these measures, the BE for 2015-16 inclusive of GBS for capital expenditure is nearly Rs.47040 Cr.. As I have mentioned, the Government of India gives support in the form of dividend relief and reimbursement of losses on strategic lines. Therefore, if we calculate the effective dividend on the basis data of 2014-15, it actually comes to 2-3 per cent only."

33. The Secretary, Department of Expenditure, further stated:-

"The Government of India has been providing resources for Railway safety works from the Central Road Fund. Therefore, the total disbursement on account of other support than GBS is nearly Rs.6155 Cr. in the year 2014-15. Coming to the plan GBS of 2015-16, it has been increased by 33 per cent. This is a huge jump in the plan support and reflects the Govt. of India's strategy to modernize, upgrade and expand Railway operations.

The Government considers Railways as an engine of economic growth and also expects the Ministry of Railways to make commensurate efforts in this direction. The concern of the Government is about the increasing operating ratio of the Railways as is evident from the trends of the last 7 to 8 years. The operating ratio which had been the lowest in the year 2007-08 at 76.3 per cent which basically describes the income minus the expenditure what the Railways generates itself. This has been going up from 76.3 per cent in 2007-08, it went up to 93.5 in the year 2013-14 and the last years estimate has been about 92.4. This year the Railways have projected a reduction of 88.5 per cent which is a significant reduction which we will hope they will achieve."

34. As regards dividend relief in dedicated freight corridors, national projects, etc., the Secretary, Department of Expenditure, deposed before the Committee:

"I would seek your permission to raise issue of dividend relief for investment in dedicated freight corridors. The Ministry of Railways has been seeking the approval for treating dedicated freight investment as at par with new lines to get dividend relief. In this regard, I would like to submit that there has been a decision of the Cabinet for payment of dividend of 7 per cent on these investments since the same is financed through external borrowings. I would like to point out to the Committee that any agreement to proposal of the Ministry of Railways for treating the DFC investment at par with new lines will go against the decision of the Cabinet taken on 17.09.2009.

I would like to submit further that other proposals of the Ministry of Railways such as dividend free investments on national projects, reimbursement of operational losses on national projects, reimbursement of GRP cost to Railways by general revenues will put severe stress on general finances. With the Government's commitment towards fiscal consolidation, this year's target is to achieve a fiscal deficit of 3.9 per cent of GDP; we feel that these concessions may not be viable for being borne by the general revenues of the Government. Hence, I appeal to the Committee that these proposals of the Ministry of Railways may not be considered favorably.

Finally, I would like to impress upon the Committee that Railways being a commercial undertaking while it has major social responsibilities for which these concessions are already being made by the Ministry of Finance, the Railways should endeavour to participate in the objectives of the Government by contributing more to general revenues in the form of higher dividend. Therefore, we recommend that 7 per cent should be accepted as capital at charge.

This proposed improvement in the operating ratio by 3 per cent in this financial year is a welcome step. However, the

Ministry of Railways needs to announce concrete steps to affect this. The high operating ratio in conjunction with the decline in the Operating Working Expenses (OWE) is again a matter of concern and the Railways are advised to watch against any further slippages. Moreover, the current report on the performance of the Railways has been showing a decline in the earnings and use of capacities. As per the report received recently from the MOR, there has been negative growth in the passenger and freight earnings and even in the volume of originating passengers. With the Government's commitment towards fiscal consolidation, this year's target is to achieve a fiscal deficit of 3.9 per cent of GDP; we feel that these concessions may not be viable for being borne by the general revenues of the Government. Hence, I appeal to the Committee that these proposals of the Ministry of Railways may not be considered favorably.

The Railways being a commercial undertaking while it has major social responsibilities for which these concessions are already being made by the Ministry of Finance, the Railways should endeavour to participate in the objectives of the Government by contributing more to general revenues in the form of higher dividend. Therefore, we recommend that 7 per cent should be accepted as capital at charge."

35. The Committee then pointed out that Railways has a greater social responsibility to undertake and many Railway projects and development initiatives are un-remunerative and economically unviable. While losses on the strategic lines are being compensated, investment in projects like new lines, take a much longer period to generate marginal surplus and the system has to

incur operating losses year after year. In this context, the Committee desired to be apprised of the Finance Ministry' contention that Railways were enjoying highly concessional Rate of Dividend, i.e. 2-3 percent.

36. In response, the Expenditure Secretary submitted in evidence:

> " ... at the end of the financial year 2015-16, it is estimated that the Capital employed from general revenues is approximately Rs. 2.2 lakh Cr. at historical cost. Now, bulk of this capital has been borrowed by the sovereign at around 8 percent which I mentioned. Therefore, if the revenue foregone is calculated at that different sovereign rate and effective dividend rates, we have made this calculation, the amount works to nearly Rs. 11,000 Cr. which is, if we take capital as Rs. 2.2 lakh Cr., 8 percent minus three, which is 5 percent. So it is rough estimate. It is like a revenue foregone which we are saying. I completely accept the fact that the Railways have a social responsibility and that is why these concessions are being given......"

37. The Committee asked the impediments on the part of the Finance Ministry in keeping the DFCs at par with the new lines so far as relaxation and the dividend liability were concerned so as to ease out the debt service burden. In response, the Expenditure Secretary submitted:

> " ... coming specifically to DFCs, basically these cannot be treated as new lines in our view. It is so because we have borrowed the money through external sources. It could be JICA loan, EIB loan or it could be a World Bank loan for which the government is giving money on the external borrowing at whatever rate they have given us. These DFCs

are really for commercial purpose, they have been created to generate economic activities, not economic subsidies. That is the reason why we are saying that they should not be treated as such. We will support the national projects, strategic projects. These are our responsibility. We are not shying away from that."

38. Asked to state the percentage of operating losses incurred by the Railways on strategic lines and their reimbursement by the Finance Ministry, the Expenditure Secretary deposed:

"If I recall, reimbursement of losses on operational and strategic lines is about Rupees 600 Cr. a year. We give it to the Railways. I will confirm it but we are reimbursing the railways or strategic lines because of the problem which we have mentioned. May be, the requirement is more but we are definitely, specifically on this issue. We are not insensitive to this."

39. The Committee desired to know whether the Finance Ministry had any proposal to mobilize private investment in Indian Railways for enabling them to achieve the ambitious target set during the 12th Five Year Plan. The Committee further asked whether the Finance Ministry, in the light of the Economic Survey agreed that there was an imperative need for higher GBS to the railways. In reply, the Expenditure Secretary submitted:

"... the Government is very clear that we want to give more money to the Railways. We want more investment whether it is railways, roads, etc. And that emphasis has been reflected in the Budget for 2015-16. As I mentioned, there is an increase of GBS by 33 percent and this amount of Rs. 8 lakh Cr. goes much beyond the 12th Five Year Plan. So, while the observations of the Economic Survey may have taken into account the past but as far as the future is concerned Railways is seen as a very important sector both socially and commercially because it is a major engine of growth for the economy of the country...”

40. The Expenditure Secretary concluded by submitting that taking all the above factors into account, the Finance Ministry felt that 7 percent dividend demand was a fairly reasonable one, but he left it to the Committee to take a final call on this.

41. When the Committee desired to hear the views of the Ministry of Railways on the above contentions of the Finance Ministry, the Chairman, Railway Board, submitted in evidence as under:

“... Railway plays an important role in the socio-economic development of the country. While we are expected to work on commercial lines like a commercial undertaking, we have to work on uneconomic lines. We have to work on projects of social growth. In fact, we are the largest passenger carrier in the world carrying 3 Cr. passengers per day. Our passenger fares are lowest in the world. We have serious problem of congestion. We are not able to improve the services. We are not able to fully meet their demands due to inadequate investments...”

42. The Chairman, Railway Board further contended as under:

“... If there is a waiver or relief from dividend, it results in a surplus which is ploughed back as a capital investment in the infrastructure itself. I am not a private entity that it goes as a profit which goes as a dividend to the shareholders. It is ploughed back in the system and any investment in Railways has a multiplier effect on the GDP of the country.

I would also like to submit that our relationship with the Ministry of Finance should not be treated as that of a lender and we as a borrower. It is after all one Government unit. All over the world, the infrastructure is supported by the Government. The infrastructure in all the railways in the world is provided by the Government. There are various operators who operate the system. Here in Railways, whether it is infrastructure or the operation, it is handled by one Railway Unit and we need support of the Government for infrastructure development. We need a handholding from the Government of India by way of dividend relief so that we are able to improve the infrastructure which in turn benefits the country, improves the GDP and all results and benefits flow from there ...”

43. When asked whether the Ministry of Railways are in agreement with the contention of Ministry of Finance that after getting concessions against the dividend paid by Ministry of Railways, the net dividend effectively translated into about 2.3 percent of the total capital-at-charge, the Ministry of Railways in their written reply stated as follows:-

“Dividend relief from Ministry of Finance could be categorized into three main groups, namely those exempt from dividend payment, under which only National Project of Udhampur-Srinagar-Baramula is included, (ii) second category comprises of concessional rate of dividend which presently comprises of residential buildings and (iii) thirdly, subsidy in dividend which comprises of new lines, strategic lines, etc. The Ministry would like to highlight that subsidy in new lines are temporary reprieves and not concession or exemption but mere deferment of the liability. While the net dividend paid translates to what has been stated by the Ministry of Finance, it is important to point out here that this relief is given only on the items of investment which are totally unremunerative in nature, taken up mostly in public interest. Operationally too, these investments are unviable and operating losses on most of these lines become a drain on IR's finances".

44. Asked to state the cost cutting measures being taken to curtail their operational expenditure, the Ministry of Railways in their written replies submitted as under:-

"In 2015-16, Ordinary Working Expenses have been given a modest growth of 12.7% over previous year 2014-15. Specific costs cutting/saving measures such as better man-power planning, monitoring of asset utilization, improvement in inventory management, optimization of fuel consumption, energy saving measures like increased usage of CFL/LED, etc., overtime allowance, purchase of material and management of works contracts, austerity and economy in areas such as hospitality, publicity, advertisement, inaugural ceremonies seminars, workshops, contingent office expenses, etc. have been put in place in advance to regulate the pace of expenditure as per need. Instructions have already been reiterated to keep a check on profligacy as well as to save as much as possible by effecting economy and austerity as per guidelines of the

Government. Further specific measures announced in the Budget speech 2015-16 indicate the cost cutting/efficiency enhancing measures such as Systems Audit, Global Benchmarking for key activities, Water Conservation/Audit, HR Audit to raise productivity, Energy Audit & Energy Conservation including attention to alternate sources of energy."

45. When enquired 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 losses reimbursed by the MoF are:-

(Rs in cr)

Railway Zone T	2011-12	2012-13	2013-14	2014-15 (Prov)
Northern Railway	63.24	57.84	75.64	59.45
Northeast Frontier Railway	564.83	553.94	538.20	569.33
North Western Railway	22.76	23.31	23.26	25.82
Western Railway	1.17	1.91	2.90	2.30
Total for IR	**652.00**	**637.00**	**640.00**	**656.90**

46. Explaining the amount of subsidy paid by General Revenue towards dividend relief and other concessions during 2013-14, 2014-15 (RE) and 2015-16 (BE), the Ministry of Finance stated in a written reply as follows:-

"The following table brings out the details of subsidy paid by General Revenues to Railways towards dividend relief and other concessions and reimbursement of losses on operation of strategic lines during 2013-14, 2014-15 (RE) and 2015-16 (BE).

Year	Subsidy towards dividend relief	Reimbursement of losses on operation of strategic lines	Total Subsidy(Rs. Cr.)
	(1)	(2)	(1) + (2)
2013-14	3370.56	640.00	4010.56
2014-15 (RE)	4002.13	656.90	4659.03
2015-16 (BE)	4728.71	664.82	5393.53

47. When asked about the sharing of operational liabilities in terms of increasing GBS or/and context with low Rate of Dividend at 4%, the Ministry of Finance reproduced their views as under:

"Consequent upon implementation of the recommendations of the 14th Finance Commission (FFC), the share of the States in Central taxes and duties has been increased from 32% to 42%. Accordingly, 42% of net proceeds of Central taxes and duties are devolved to State Governments. Further, certain schemes are required to be funded fully under statutory requirement such Mahatma Gandhi National Rural Employment Guarantee Act, National Food Security Act, Right to Education Act. While Government is also committed to provide impetus to economic growth by large spending in infrastructure sector, it is committed to the process of fiscal consolidation by rationalization of the expenditure and augmenting the resources. Hence, Railways should strive to pay higher dividend to General Revenues by enhancing their efficiency."

48. The Ministry of Finance in their written reply further elaborated:

"Government has been making investment in numerous Central Public Sector Enterprises (CPSEs), Public Sector Banks (PSBs) and Indian Railways. All the CPSEs and PSBs pay dividend to Government of India depending on their profits. There has been stipulations made by this Ministry that all profit-making PSEs declare a minimum dividend on equity of 20% or a minimum dividend pay out of 20% of post-tax profits, whichever is higher. The minimum dividend pay out in respect of Oil, Petroleum, Chemical and other infrastructure sectors should be 30% of post-tax profits. Whereas Indian Railways has been paying dividend at the rate of 5%, which is highly concessional. It may therefore not be appropriate to provide further concession in the form of exemption from payment of dividend by Indian Railways on different grounds."

49. When the Committee desired to be apprised of the amount involved towards the social obligations of the Indian Railways, the Chairman, Railway Board submitted in evidence:

"... today, my social obligations itself work out to more then Rs. 30,000 Cr. by way of passenger and coaching fares which are below the cost. I carry certain commodities, which are below the cost, there are uneconomic branch lines, which I operate. There are various concessions, which are granted to different categories of people. All that works out to more then Rs. 30,000 Cr.

> Dividend payable is more then Rs. 10,000 Cr. I get the GBS of Rs. 41,000 Cr. So this all goes back by way of payment of dividend and social obligation...”

50. Giving a breakup of the percentage of inelastic expenditure and the justifications for relief on the dividend, the Chairman, Railway Board deposed:

> “...Sir, our total staff cost including the pension is 52 percent approximately. Our fuel bill is around 22 percent. Our lease payments to IRFC are around 4.5 percent. Stores is around 33 percent and other expenditures are around 8 percent. Most of these expenses. are inelastic expenses There is hardly any scope for saving. My operating ratio is more than 90 percent, which leaves me with a very little leeway for any development activity on infrastructure side. So, I desperately need the support of the Government and the support of the Ministry of Finance by way of increased GBS and as also relief on the dividend.”

XI. FUNDS OF RAILWAYS

(i) Depreciation Reserve Fund (DRF)

51. The Committee were informed that in 2013-14, the appropriation to DRF was kept at Rs. 8,100 Cr. consisting of Rs. 7,900 Cr. from the Revenue and Rs. 200 Cr. from Production Units. Closing balance in DRF was Rs. 1021.38 Cr. at the end of the fiscal 2013-14.

52. Similarly, in the Budget Estimates 2014-15, the appropriation to DRF was kept at Rs. 7,050 Cr. comprising Rs.. 6,850 Cr. from Revenues and Rs. 200 Cr. from Production Units.

The same has been increased to Rs. 7,975 Cr. in RE comprising Rs. 7,775 cr from Revenue and Rs. 200 Cr. from Production Units. The final provision in 2014-15 would be based on the position of the internal generation of resources and the ways and means of the Railways.

53. In BE 2015-16, the appropriation to DRF has been kept at Rs. 8,100 Cr. comprising Rs.. 7,900 Cr. from Revenues and Rs. 200 Cr. from Production Units. The final provision in 2015-16 would be based on position of the internal generation of resources and the ways and means of the Railways.

(ii) Pension Fund

54. As regards the Pension Fund, the Committee were apprised that in 2013-14, the appropriation to Pension Fund made was Rs. 25,165 Cr. consisting of Rs. 24,865 Cr. from the Revenue and Rs. 300 Cr. from Production Units, against an outgo of Rs. 24,762 Cr. from the Fund. The Pension Fund has closed with a balance of Rs. 419.04 Cr. in 2013-14.

55. The appropriation to the Pension Fund was placed at Rs. 28,865 Cr. in the Budget Estimates for 2014-15 comprising Rs. 28,565 Cr. from revenue and Rs. 300 Cr. from Production Units. The same was however increased in RE to Rs. 29,540 Cr. comprising Rs. 29,240 Cr. from Revenue and Rs. 300 Cr. from Production Units based on the trend and requirements projected by Railways. The final provision in the year 2014-15 would be based on trend of expenditure from the Fund and the requirement submitted by the Railways and other spending units.

56. The appropriation to the Fund for 2015-16 has been kept at Rs. 35260 Cr. comprising Rs. 34960 Cr. from Revenue and

Rs. 300 Cr. from Production Units. The final provision in the year 2015-16 may also be allowed to be made in keeping with the requirement submitted by the Railways and other spending units in subsequent stages.

(iii) Development Fund (DF)

57. The Committee were informed that the Development Fund has four segments used for meeting expenditure on:

a. Passengers and users' amenities: DF I
b. Labour welfare works: DF II
c. Un-remunerative operating improvements: DF III and
d. Safety Works: DF IV

58. 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.

59. In 2013-14, the appropriation to this Fund was kept at Rs. 3,075 Cr. keeping in view the 'Excess' and also Plan requirements from this fund.

60. In the Budget Estimates 2014-15 the appropriation to DF was estimated at Rs. 300 Cr. only. The same has been increased to Rs. 1305.62 Cr. in RE. The final provision in 2014-15 would

be based on ways and means of the Railways which will be intimated to the Committee.

61. The appropriation to the Fund for 2015-16 has been estimated at Rs. 5750 Cr. However, the actual position will be determined in keeping with the Plan outlay for the year and the overall resource availability.

(iv) Capital Fund

62. As approved by the Railway Convention Committee (1991) vide their Third Report, the Capital Fund was created with effect from 1992-93, with the express purpose of financing part of the requirement for works of capital nature, including equity investments in other entities. After providing for appropriation to Development Fund, the balance of ‘Excess’ is appropriated to the Capital Fund.

63. In 2013-14, Rs. 500 Cr. was appropriated to this Fund. The Fund closed with a balance of Rs. 557 Cr. in 2013-14.

64. In B.E. 2014-15, the appropriation to this Fund was kept at Rs. 5,662.74 Cr., which has been increased to Rs. 5,919.03 Cr. in RE. The final position may have to be suitably readjusted in view of the overall ways and means position which will be intimated to the Committee.

65. The appropriation to the Fund for 2015-16 has been estimated at Rs. 7,615.71 Cr. This will, however, be determined in keeping with the Plan outlay for that year and the overall resource availability.

(v) Debt Service Fund

66. The creation of Debt Service Fund was approved by the Railway Convention Committee (2009) vide their Recommendation contained in their Sixth Report. The Railway Liability Reserve Fund has been created from 2013-14 and has since been renamed as the Debt Service Fund. This Fund has been created with the sole purpose of providing for future debt service obligations in respect of loans from JICA, World Bank and for future implementation of Pay Commissions, etc. As recommended by the Committee, this Fund has been created in the interest bearing section of Public Account. Appropriation to this Fund will be from the ‘Excess’, after meeting the dividend liability, and meeting mandatory requirements of Capital Fund and Development Fund.

67. In 2013-14, the appropriation to this Fund was Rs. 165.40 Cr..

68. In BE 2014-15, the appropriation to this Fund was estimated at Rs. 101 Cr. which was reduced to Rs. 53.81 cr in RE. The final appropriation will be as per resource availability.

69. The appropriation to the Fund for 2015-16 has been estimated at Rs. 900 Cr. keeping with the overall resource position.

(vi) 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 Union 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 2013-14, an appropriation of Rs. 1,105.06 Cr. was made to the Fund. In R.E 2014-15, an appropriation of Rs. 1,498.61 Cr. has been made to the Fund.

72. The appropriation to this Fund in 2015-16 is estimated at Rs. 1648.21 Cr. consisting of Rs. 1645.60 Cr. transferred by the Union Government from the Central Road Fund and Rs. 2.61 Cr. worked out as contribution for the erstwhile RSWF out of the Dividend.

(vii) Principles governing rate of interest on the Railway Reserve Funds.

73. The Railway Board submitted that the recommendations of the Railway Convention Committee (2009) in respect of interest on the balances in the various Railway Funds as contained in their Sixth Report for the year 2013-14 may be made applicable for 2014-15 and 2015-16 also, including the newly created Railway Liability Reserve Fund (Debt Service Fund). 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.

PART-II

OBSERVATIONS/RECOMMENDATIONS

The Committee note that the rate of Dividend on the Capital invested by Indian Railways was 7 Percent each in the years 2007-08 and 2008-09. The Rate of Dividend came down to 6 percent in 2009-10 and 2010-11. It was reduced to 5 Percent in the 2011-12 and further reduced to 4 Percent in 2012-13. In 2013-14, the applicable rate of Dividend was marginally increased to 5 Percent. In their Memorandum submitted to the Committee, the Ministry of Railways (Railway Board) have requested that the rate of Dividend for 2014-15 may be fixed at 4 Percent and for the subsequent five years, i.e. from 2015-16 to 2019-20 payment of Dividend may be waived completely. On the other hand, the Ministry of Finance (Department of Expenditure) have submitted that the rate of Dividend payable by the Railways should be increased to 7 Percent for the 2014-15 fiscal. Both the Ministries have put forth their respective justifications before the Committee. After taking into consideration the written and oral depositions of the Ministries of Railways and Finance, the Committee have deliberated on the subject in detail and given their considered opinion in the succeeding paragraphs.

2. The Finance Ministry have contended that the Dividend rate even at 7 Percent is concessional when it is compared with the cost of borrowing of the Government at 8 to 8.5 Percent.

They have argued that when reliefs given to the Railways by the Government for various public service obligations are included, the effective rate of Dividend is of the order of 2 to 3 Percent. The Finance Ministry have, therefore, proposed that the rate of Dividend may be seen in terms of the principle of keeping 'total impact on fiscal balance' defined as Gross Budgetary Support + Revenue foregone due to interest concessions, as constant. Axiomatically, a one Percent reduction in the Dividend rate - implying higher revenue foregone - will result in concomitant decrease in the Budgetary Support. However, the Ministry of Railways have submitted that as a principle (of 'total impact on fiscal balance'), “Constant GBS” would only result in the erosion of GBS based on the principle of time value of money. The Railway Ministry have further stated that the concept should be taken as a factor of Receipts of the Government of India, and only then this will impart the necessary dynamism to it. The Committee feel that the submissions made by both the Ministries merit attention because of the high borrowing rate of the Government of India and Capital employed from the General Revenue, as also the predicament of the Railways in terms of operating losses, social obligations, etc. The Railways, being one of the most important Ministries of the Government of India, are supposed to play an effective role in the overall development of the country by contributing substantially to the General Exchequer while the Finance Ministry on their part have to extend wholehearted support, to the extent possible , to the Railways in their mission. The Committee are confident that the mutual cooperation between the two Ministries will enable the Government to fulfill its larger national objectives.

3. As reported by the Finance Ministry, the rate of interest on the investments in the form of loans to the Central Public Sector Enterprises (CPSEs) for the current year stands at 11.5 Percent whereas investments made in Railways, being treated as 'loan in perpetuity', are highly concessional at 7 Percent and as stated earlier, translates to 2 to 3 Percent, after taking into account the concessions and reliefs allowed. The Ministry have further reasoned that all the CPSEs and Public Sector Banks (PSBs) pay Dividend to the Government of India, depending on their profits, at a much higher rate than the Railways. As per the stipulations of the Finance Ministry, all profit-making PSEs declare a minimum Dividend on equity of 20 Percent or a minimum Dividend payout of 20 Percent of post-tax profits, whichever is higher. The minimum dividend payout in respect of Oil, Petroleum, Chemical and other infrastructure sectors is 30 Percent of post-tax profits. Responding to the above points furnished by the Finance Ministry, the Ministry of Railways have submitted that the Indian Railways cannot be compared with a regular PSE, since all internal surplus which are generated are ploughed back as investment in the Railways itself. Further, the Railways have contended that the impact of interest payment is always much

higher in case of ‘loan in perpetuity.’ Having taken into consideration the reasoning furnished by both the Ministries, the Committee feel that it is unfair to compare the CPSEs and PSBs with the Indian Railways, as the model which governs the Indian Railways is not an undertaking with the sole motive of profit making. In other words, though the Indian Railways is being considered a commercial Undertaking, it has major social responsibilities to fulfill. Though some concessions are being made to the Railways by the Finance Ministry towards achieving the former's social obligations, the Committee are of the considered view that it is imprudent to expect the Railways to pay Dividend at par or close anywhere to that being paid by the CPSEs, PSBs and Oil Companies. Having said that, the Committee also desire that the Railways, on their part, should relentlessly strive to participate in the Government's objectives and commitment towards overall fiscal consolidation by contributing more to the General Revenues in the form of reasonable Dividend and thus continue to play an important role in the socio-economic development of the country.

4. The Committee note that the trend of total support to the Railways by the Government has been increasing substantially not only through the GBS, but also support in the form of Dividend relief, reimbursement of losses on strategic lines, concessions like the Central Railway Fund, etc. In this context, the Committee find that the total GBS to the Railways during 2012-13 was Rs. 24,131.89 crore which was increased to

Rs.27,072.40 crore during 2013-14 and enhanced further to Rs.30,100 crore during 2014-15. For the year 2015-16, an amount of Rs.40,000 crore has been earmarked in the Budget Estimate. The Committee also observe that the Ministry of Railways are getting committed additional budgetary support during the course of a financial year over and above the GBS towards the projects of national importance such as the Udhampur-Srinagar-Baramulla new line and other projects in the North Eastern Region. For instance, the Budget Estimates 2011-12 and 2012-13 contained a provision of Rs.2100 crore and Rs.2400 crore, respectively, for National Projects. Despite this, an additional budgetary support to the tune of Rs. 265 crore was provided in 2011-12. Similarly, the Budget Estimate 2013-14 contained Rs.3000 crore for National Projects and the Budget Estimate 2014-15 and 2015-16 have provided for Rs. 6000 crore each for the purpose. The Ministry of Railways have submitted that the 'National Projects' have been taken up as per the policy of the Government to ensure integration of far-flung, under-developed areas with the national mainstream and help the socio-economic development of these regions, notwithstanding the operational losses that will accrue to the Indian Railways resultantly. The Railways have further reasoned that the GBS extended to these projects is considered outside the normal Budgetary support provided to the Railways and, hence, the same cannot be accounted for as being given for the normal capital investments made by the Railways. The

Committee are not convinced with the contentions of the Ministry of Railways because on the one hand they are saying that their relationship with the Finance Ministry should not be treated as that of a borrower and lender as they are after all one Government Unit, while on the other, they are submitting that 'National Projects' are the sole responsibility of the Government and the infrastructure in the Railways all over the world is fully supported by the Government. In view of the unquestionable support and increased GBS and dividend relief exemption (reimbursement) towards National Projects as extended to the Railways by the Government of India, the Committee stress that the Ministry of Railways should endeavor to improve their financial performance and contribute more to the General Revenues which will eventually lead to higher capital investments for the Indian Railways from the General Revenues.

5. The Committee note that during the years 2011-12, 2012-13, 2013-14 and 2014-15, an amount of Rs.652.00 crore, Rs. 637.00 crore, Rs. 640.00 crore, and Rs.656.90 crore, respectively has been reimbursed to the Railways by the Ministry of Finance towards operational losses incurred on strategic lines and National Projects. The Ministry of Railways have submitted that apart from the six notified strategic lines, the Railways should get reimbursement for several other lines either contiguous with the existing notified strategic lines or lines catering mostly to the strategic requirement by virtue of

carrying military traffic, with no commercial potential. Moreover, the progressive commissioning of sections under National Projects, Projects of National Importance, projects being funded by the Ministry of External Affairs, Ministry of Defence, Border Area Projects, etc. would add to the operational losses as these are not on commercial considerations. The Railways have further pleaded that certain sections under the National Project of the Udhampur-Srinagar-Baramulla line has been opened to traffic and the Indian Railways are incurring losses on these which should also be reimbursed . The Expenditure Secretary has submitted before the Committee that the Finance Ministry are not definitely insensitive towards reimbursing the Railways on losses incurred on the operation of strategic lines and they are reimbursing the Railways on that count, but he was candid to admit that may be the requirement of the Railways is more than what is being reimbursed. Taking note of the encouraging response of the Expenditure Secretary, the Committee desire that the Finance Ministry should sincerely consider reimbursing a substantial amount to the Railways every year for the operational losses they incur on strategic lines, National Projects, etc. which have been taken up at the behest of the Government of India while having no commercial potential.

6. According to the Railway Ministry, the social obligations of the Indian Railways at present works out to more than Rs. 30,000 crore on account of below cost passenger and coaching

fares, uneconomic branch lines, concessions granted to various categories of people, etc. The Committee further note that the total staff cost in the Railways, including pension, is about 52 Percent of the total expenditure of Railways. Fuel bill is around 22 Percent; lease payments to IRFC are around 4.5 Percent; expenditure to stores is around 33 Percent: and other miscellaneous expenses are around 8 Percent. The Chairman, Railway Board, has submitted that as most of the above expenses are inelastic, there is hardly any scope for saving. He has further submitted that since the operating ratio of the Indian Railway is 90 Percent, they have very little leeway for undertaking any development activities on the infrastructure side. The Railway Board, has, therefore, reasoned that they desperately need the support of the Government of India and the Ministry of Finance by way of increased GBS and relief in Dividend payment. The Expenditure Secretary in response, has submitted that the Government are committed to give more money and more investment to the Indian Railways and that commitment has been reflected in the GBS for 2015-16, i.e. an increase of 33 Percent vis-à-vis the previous year, as well as through other concessions and reimbursements. The Expenditure Secretary has further emphasized that side by side with the Government support, the Railways should also endeavour to participate in the objectives of the Government by contributing more to the General Revenues in the form of higher Dividend. The Ministry of Finance have also requested that the Public Service Obligations (PSO) of the Indian Railways towards which revenue is foregone by the Government require exact qualifications and precise definitions. While taking into account the vast social obligations of the Indian Railways resulting in an outgo of a huge amount of Rs. 30,000 crore and the operating ratio of 90 Percent, the Committee simultaneously appreciate the Government's commitment to infuse more money into the Indian Railways, as is evident from a sizeable increase in the GBS over the years, particularly in 2015-16, besides extension of a number of concessions and reimbursements. The onus therefore, lies more on the Indian Railways, of course with continuous support from the Finance Ministry, to further streamline their operational dynamics with a view to enabling the Government to realize its wider objectives. As suggested by the Finance Ministry, the Committee too desire that the Railways should consider bringing in more precision in quantifying and qualifying its Public Service Obligations, preferably through an independent body on the lines of an Inter-ministerial Committee, so as to decide the exact extent of relief that can be claimed from the Government in this regard.

7. The Railway Board have submitted that the Dedicated Freight Corridors (DFCs) should be considered at par with new lines for relief in Dividend payment. They have reasoned that the Dividend liability for DFCs is from the first year itself, even while the project is under construction, unlike the new

lines where Dividend is deferred during the period of construction and for the first five years after opening of the line. Countering the contention of the Railways, the Expenditure Secretary has submitted that DFCs cannot be treated as new lines as the Government have borrowed money through external sources like loan from JICA, EIB and World Bank and the Government are paying interest on that. The Expenditure Secretary has further argued that the DFCs have been created for commercial purposes and to generate economic activities and certainly not for economic subsidy. While appreciating the constraints of the Finance Ministry, the Committee would however, like to recommend that the Finance Ministry should explore the feasibility of allowing the Railways to defer payment of Dividend on DFCs for some years, if not exactly on the same principles governing the 'new lines', in view of the losses incurred by the Railways on passenger and coaching services as well as the vast freight traffic which is in fare-to-freight ratio. At the same time, the Committee impress upon the Railways to make concerted efforts to ensure that the purpose for which the DFCs have been created, i.e., to generate economic activities, is truly achieved so that the Government are able to repay the loan taken through various external sources as per schedule.

8. The Committee have been informed by the Railway Board that the financial impact of the recommendations of the 6th Central Pay Commission was more than Rs. 1 lakh crore upon

the Railways. They have further submitted that the recommendations of the 7th Pay Commission, which have already been submitted to the Government, would put further stress on the financial health of the Railways. The Committee are also informed that every Pay Commission cycle sets the Railways' financial health and resultant investments and growth, backwards by a few years. Moreover, the ever expanding number of pensioners and the relaxation in Pension Rules, from time to time, has seen a sharp rise in the Pension bill of the Indian Railways. In response to the above views of the Railway Board, the Ministry of Finance have stated that the contention of the Railway Ministry to reduce rate of Dividend on the grounds of additional expenditure arising out of the implementation of the recommendations of the Pay Commission is not tenable, as the same commitments on a much larger scale for the entire Government have to be met from the General Revenues. Countering the views of the Finance Ministry, the Railway Board have deposed that unlike other Departments of the Government, Railways wholly meet their salary and pension liabilities from out of its own revenues without any support from the General Exchequer. Taking into consideration the submission made by the two Ministries, the Committee would like to stress that unlike other Departments of the Government of India, the Railways have been delegated with substantial administrative and financial powers relating to all matters of the Railways and they have their own independent and integrated financial setup. Therefore, the Railways have to meet the financial impact of the implementation of the recommendations of the Pay Commission and the expenditure arising out of the pension bill from their own budgetary resources and internal generation of revenue. Moreover, in furtherance of the Government's policies and commitments, Pay Commissions are bound to come every 10 years unless decided otherwise and Pension liabilities must be catered to as per the Government's Pension Rules. It, therefore, becomes imperative on the part of the Indian Railways to gear up themselves for generation of additional revenues to meet the obligatory expenses arising out of the Pay Commission's recommendations and Pensions. At the same time the Committee are not convinced with the Finance Ministry's proposal to increase the rate of Dividend to 7 Percent during 2014-15 as such a move at this particular juncture may further worsen the precarious financial health of the Indian Railways.

9. The Ministry of Finance have suggested that in the wake of the XIVth Finance Commission recommendations, Railways needs to look at States as possible source of funding for State-specific projects. In response, the Railway Board have submitted that the Railways are tying up with the State Governments for funding/sharing the new Projects that involve those States. This would require matching contribution from the Railways and hence the level of investment needed would

go up if the projects are to be expedited. In the given scenario, and in view of the increase in the share of the States in the Central Taxes and Duties from 32 Percent to 42 Percent consequent upon the recommendations of the XIVth Finance Commission, the Committee believe that it would be appropriate if a framework of Tripartite Agreements/arrangements among the Union Government, the Railways and the States is worked out, with matching contributions from the Railways and the States concerned for specific projects. The Union Government, on their part should extend requisite support and guidance so as to provide an impetus to the economic growth along with rationalization of expenditure and augmentation of infrastructure resources.

10. The Committee note that the Railways Annual Plan of 2014-15 was revised to Rs.65,798 crore from BE of Rs.65,445 crore, showing an increase of Rs.353 crore. The Ordinary Working Expenses of Rs.1,48,049 crore, in BE 2014-15 which was revised to Rs.1,45,970 crore have been scaled down almost by Rs.2,079 crore at the RE stage. The Committee are concerned to find that despite availability of adequate Capital Support from the General Revenues, the Railways have not been able to manage their developmental plan 2014-15, implying an inherent deficiency in monitoring the overall mechanism. The Plan outlay for the year 2015-16 is to the tune of Rs.1,00,011 crore which would be broadly financed through GBS of Rs.40,000 crore, Diesel Cess of Rs.1645.60 crore,

market borrowing under Extra budgetary support of Rs.17,655 crore and internal resources of Rs.17,793 crore. Further, the Railway's share of Diesel Cess from the Central Road Fund and funding through PPP would be to the tune of Rs.5781 crore. The Committee also find that the Railways have set a target of Rs.14,266 crore to be generated as a surplus in the year 2015-16. The Committee are concerned that over the years, there has been a sharp decline in the generation of internal resources by the Railways which has resulted in greater dependence on Budgetary Support and on market borrowings. The reasons for poor generation of Internal Resources have been primarily attributed to the Pension Fund, Dividend paid by Railways to the General Revenues and the impact of implementation of the 6th Central Pay Commission. The Committee are not convinced with these oft-repeated reasons and are of the view that the Railways should manage their resources in a more professional and prudent manner. In this context, the Committee appreciate that the Railways are embarking on various expenditure control measures like imposition of spending limits and Exchequer Control, rigorous monitoring of expenditure, concurrent and internal audit of Accounts, efficiency and productivity of assets, etc. The Committee feel that these steps are in the right direction and should be continued in right earnest for improving the financial health of the Railways. The Committee further desire that radical measures are imperative on the part of Railways to speed up decision making, tighten accountability and improve management information system, as highlighted in the Budget Speech of the Railway Minister, so as to deliver sustained improvement in the operating efficiency of Indian Railways which, in turn, would facilitate additional generation of resources. The Committee would specifically like the Indian Railways to impress upon the PSUs under their administrative control to leverage their performances and contribute substantially to the Railway Funds.

11. Taking into consideration the factors discussed in the preceding paragraphs and in view of the overall financial position of the Railways as also the need to urgently develop the Railways Infrastructure, including modernization and safety related work, the Committee recommend, purely as an interim measure, that for the year 2014-15, the rate of Dividend be determined at 5 Percent and for the year 2015-16, taking into consideration the imminent impact of the recommendations of the 7th Central Pay Commission, the rate of Dividend be determined at 4 Percent on the entire capital (excluding dividend free capital) invested in the 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 passenger fare, tax and contribution for assisting States for safety work during the years 2014-15 and 2015-16. The Committee reserve their comments beyond 2015-16, for either waiver of Dividend, as requested by the Ministry

of Railways, or continuation and increase in the rate of Dividend as requested by the Ministry of Finance.

12. The Committee also recommend that all concessions of 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 years 2014-15 and 2015-16.

13. The Committee note that the appropriation to the Depreciation Reserve Fund (DRF) in 2013-14 was kept at Rs.8100 crore consisting of Rs.7900 crore from Revenue and Rs.200 crore from production units. The closing balance in DRF was Rs.1021.38 crore at the end of the year 2013-14. The appropriation to DRF for 2014-15 has been budgeted to be Rs.7050 crore consisting of Rs.6850 crore and Rs.200 crore from Revenue and Production Units, respectively. The Committee further note that for the year 2014-15, an amount of Rs.7975 crore consisting of Rs.7775 crore from Revenues and Rs.200 crore from Production Units has been appropriated to Depreciation Reserve Fund (DRF) in the revised estimate. The appropriation to DRF for 2015-16 has been budgeted at Rs.8100 crore consisting of Rs.7900 crore from revenue and Rs.200 crore from production units. 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 years 2014-15 and 2015-16.

14. The Committee observe that the appropriation to the Pension Fund in 2013-14 was kept at Rs.25165 crore consisting of Rs.24865 crore from revenue and Rs. 300 crore from Production Units. The closing balance in the fund was Rs.419.4 crore at the end of 2013-14. The appropriation to the Pension Fund in 2014-15 has been budgeted at Rs.28865 crore consisting of Rs.28565 crore from Revenues and Rs.300 crore from Production Units, In the revised estimate for 2014-15, the appropriation to Pension Fund has been kept at Rs.29540 crore, consisting of Rs.29240 crore and Rs.300 crore from Revenues and Production Units respectively. The appropriation to pension fund for 2015-16 has been estimated at Rs.35260 crore consisting of Rs.34960 crore and Rs.300 crore from revenues and Production Units respectively. The Committee agree that the contribution to the Pension Fund may be made in keeping with the requirement submitted by the Railways in their projections, especially with regard to increase in the number of pensioners, rate of dearness relief, etc.

15. The Committee further observe that the appropriation to the Development Fund for the year 2013-14 was kept as Rs. 3075 crore in actual. The appropriation to the Development Fund for the year 2014-15 was budgeted at Rs.300 crore and the same was increased to Rs.1305.62 crore in RE stage. The

Ministry of Railways, however, stated that the appropriation to the Development Fund would be Rs.5750 crore in 2015-16. While endorsing the proposed allocation to the Depreciation Fund in 2015-16, the Committee would like to be apprised of the actual amount that was credited to this Fund at the end of the financial year 2014-15 and the projections in this regard in 2015-16.

16. The Committee find that the Capital Fund goes towards building up the infrastructure of Railways. During 2013-14, Rs. 500 crore was appropriated to the Capital Fund but there was no actual withdrawal. The appropriation to the Capital Fund was budgeted at Rs.5662.74 crore in 2014-15. The Committee further note that in the revised estimate for 2014-15 the same was increased to Rs.5919.03 crore at RE stage. The appropriation to the Capital Fund has been estimated as Rs.7615.71 crore in 2015-16. In keeping with the Plan outlay and the overall resource availability, the Committee endorse the allocation. However, in this case too, they would like to know the actual amount that has been credited to this Fund at the end of the financial year 2014-15 and the projection for 2015-16.

17. The Committee note that the Debt Service Fund was created for meeting committed liabilities such as repayment of loans provided by JICA, World Bank and other financial institutions and implementation of future Pay Commission

recommendations on the premises that building reserves in this Fund would improve the ways and means of the Government. The credits to the Fund are from the net surplus (Railway's excess of receipts over expenditure) of the Railways after appropriating the amounts to the Development Fund and the Capital Fund and also interest on closing balance of the Fund. The Committee note that the budgetary provision made for the Debt Service Fund was Rs.165.40 Crore (actual) for the year 2013-14. For the year 2014-15, the appropriation to this Fund was budgeted at Rs.101 crore in BE and the same was reduced to Rs.53.81 crore in RE. For financial year 2015-16, the appropriated amount is Rs.900 crore (BE). In line with the Plan outlay and the overall availability of resources, the Committee endorse the allocation; the committee desire that they should be apprised of the actual amount that has been appropriated to this fund at the end of the Financial Year 2014-15 and the estimates for 2015-16.

18. The Committee have observed that the budgetary provision made for the Railways Safety Fund was Rs.1105.6 crore in the year 2013-14, which was increased to Rs.1498.61 crore in 2014-15. For the financial year 2015-16, the appropriated amount to this Fund is Rs.1648.21 crore consisting of Rs.1645 crore transferred by the Union Government from the Central Road Fund and Rs.2.61 crore worked out as contribution for the erstwhile RSWF out of the Dividend. The Railway Safety Fund was created for financing

works relating to conversion of unmanned level crossing and for construction of Railway over/ under bridges to ensure the safety of the people. While endorsing the proposed allocation, the Committee would like to be informed of the actual amount that has been appropriated to this Fund at the end of the Financial Year 2014-15 and the projections in this regard for 2015-16, including the actual utilization of this Fund, as adequate funds have to be ensured and utilized for the safety of the people.

19. The Committee agree with the existing principles governing interest on various Railway Funds and, therefore, recommend that the balance in various Railways Reserve Fund (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 Fund may be treated as interest free given the fund has been constituted with the contribution from the General Revenues.

New Delhi:
18 December, 2015
27 Agrahayana, 1937 (Saka)

BHARTRUHARI MAHTAB
CHAIRPERSON
RAILWAY CONVENTION COMMITTEE

APPENDIX-I

RAILWAY CONVENTION COMMITTEE (2014-2019)

MINUTES OF THE FIFTH SITTING OF THE COMMITTEE

The Committee sat on Wednesday, the 15th July, 2015 from 1100 hrs. to 1245 hrs. in Committee Room-B, Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Shri Bhartruhari Mahtab - Chairperson

Members

Lok Sabha

2. Shri Kamalbhan Singh Marabi
3. Shri K.C. Venugopal
4. Shri K. Ashok Kumar
5. Shri Janak Ram
6. Smt. Anupriya Patel

Rajya Sabha

7. Shri Arvind Kumar Singh
8. Shri Derek O Brien
9. Shri T.K. Rangarajan
10. Shri K.C. Tyagi

Secretariat

1.	Sh. K. Vijayakrishnan	-	Addl. Secretary
2.	Smt. Anita Jain	-	Joint Secretary
3.	Sh. M. K. Madhusudhan	-	Director

Witnesses

Representatives of the Ministry of Railways (Railway Board)

S.No	S/Shri	Designation
1.	A . K. Mittal	Chairman, Railway Board
2.	Rajalakshmi Ravikumar	Financial Commissioner
3.	V.K. Gupta	Member (Engineering)
4.	Ajay Shukla(L/A)	Member (Traffic)
5.	Navin Tondon	Member (Electrical)
6.	Hemant Kumar	Member (Mechanical)
7.	Pradeep Kumar	Member (Staff)
8.	H.K. Kala	Addl. Member (Planning)
9.	S. Subramhanyan	Addl. Member (Budget)
10.	B.N. Mohapatra	Adviser (Accounts)
11.	Girish Pillai	Adviser (Infrastructure)
12.	Mohan Tiwari	Chairman & Managing Director (IRCON)
13.	S. Vijayaraghvan	Addl. Member (Finance)

2. At the outset, the Chairperson welcomed the Members and the representatives of the Ministry of Railways (Railway Board) to the sitting. Drawing the attention of the witnesses to Directions 55 and 58 of Directions by the Speaker regarding Confidentiality of proceedings of the Committee, the Chairperson requested the Chairman, Railway Board, to brief the Committee on various aspects of the financial health of the Railways

and the Rate of Dividend payable for the year 2014-15 and 2015-16. Accordingly, the Chairman, Railway Board in support of his contention to reduce the Rate of Dividend payable for 2014-15 by the Railways to the general revenues from the existing 5% to 4% and moratorium of five years on payment of dividend, briefly apprised the Committee about the extant difficult financial position of Railways, the reasons thereof, its impact on the performance of Railways and efforts being made by the Railways to overcome the financial crisis. Thereafter, the Committee sought clarifications on the Rate of Dividend payable by the Railways to the general revenue. The representatives of the Ministry of Railways responded to the queries.

3. The Committee thereafter, took up the subject "Role of IRCON in infrastructure building of Indian Railways" for examination. The CMD, IRCON, briefed the Committee about the genesis of IRCON and its role in infrastructure building for Indian Railways. Thereafter, the Chairperson and the members raised queries on various issues concerning the subject, viz. strategy/policies adopted by IRCON to cover entire spectrum of construction activities and services in the infrastructure projects for Indian Railways, cost and time over-run effects in completion of Railway Projects by IRCON, role of Railways administration for reviewing the overall performance of the company, etc. The representatives of the Ministry of Railways responded to the queries.

4. As some queries required detailed and statistical reply and on which information was not readily available, the Chairperson asked the Chairman, Railway Board to furnish replies thereon within ten days.

5. The Chairperson thanked the witnesses for appearing before the Committee and furnishing the available information that the Committee desired in connection with the examination of the two subjects.

The witnesses then withdrew.

A verbatim copy of the proceedings was kept on record.

The Committee then adjourned.

APPENDIX-II

RAILWAY CONVENTION COMMITTEE (2014-2019)

MINUTES OF THE SIXTH SITTING OF THE COMMITTEE

The Committee sat on Thursday, the 20th August, 2015 from 1100 hrs. to 1330 hrs. in Committee Room-D, Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Shri Bhartruhari Mahtab - Chairperson

Members

Lok Sabha

2. Shri Sanganna Amarappa Karadi
3. Shri K. Ashok Kumar
4. Smt. Anupriya Patel
5. Shri Nana Patole
6. Shri Janak Ram
7. Shri Rahul Ramesh Shewale
8. Shri K.C. Venugopal

Rajya Sabha

9. Dr. Vijaylaxmi Sadho
10. Shri Arvind Kumar Singh
11. Shri T.K. Rangarajan
12. Shri K.C. Tyagi

Secretariat

1.	Sh. K. Vijayakrishnan	-	Addl. Secretary
2.	Sh. M. K. Madhusudhan	-	Director
3.	Sh. D.R. Mohanty	-	Addl. Director

Witnesses

Representatives of the Ministry of Railways (Railway Board)

1.	Sh. A. K. Mittal	Chairman,Railway Board
2.	Smt. Rajalakshmi Ravikumar	Financial Commissioner
3.	Sh. Navin Tondon	Member (Electrical)
4.	Sh. V. K. Gupta	Member (Engineering)
5.	Sh. Hemant Kumar	Member (Mechanical)
6.	Sh. Kundan Sinha (L/A)	Member (Traffic)
7.	Sh. Pradeep Kumar	Member (Staff)
8.	Sh. H. K. Kala	Addl. Member (Planning)
9.	Sh. S. Subramhanyan	Addl. Member (Budget)
10.	Sh. B.N. Mohapatra	Addl. Member (Accounts)
11.	Sh. Girish Pillai	Adviser (Infrastructure)

Representatives of the Ministry of Finance (Department of Expenditure)

12.	Sh. Ratan P. Watal	Secretary
13.	Sh. H. K. Srivastava	Director (Budget)
14.	Sh. Sigy Thomas Vaidhyan	Deputy Secretary (Budget)
15.	Sh. T. Uthava Kumar	Addl. Budget Officer

2. At the outset, the Chairperson welcomed the Members and the representatives of the Ministry of Finance (Department of Expenditure) to the sitting of the Committee convened to take evidence of the representatives of the Ministry of Finance (Department of Expenditure) on the subject "Rate of Dividend payable by the Railways for the year 2014-15 and 2015-16". Impressing upon the witnesses to keep the proceedings of the Committee "Confidential", the Chairperson requested the Secretary, Department of Expenditure, to brief the Committee on the rationale of the proposal of the Ministry of Finance to increase the percentage of dividend payable by the Railways during 2014-15 and 2015-16. The Expenditure Secretary apprised the Committee about the concessions and relief provided to the Ministry of Railways and emphasized that the Rate of Dividend

payable by the Railways should not be lower than 7% for the year 2014-15 and 2015-16 and also underlined the need for participation of Railways in the objectives of the Government by contributing more to the General Revenue in the form of Dividend. The Committee were also informed about the increasing trend of Government support to the Railways not only through the source of Gross Budgetary Support but also reimbursement of losses on operational strategic projects. The representatives of the Ministry of Finance also responded to various queries raised by the Members. As some queries required detailed and statistical reply, the Chairperson asked the Expenditure Secretary to furnish written reply thereon within 3 weeks. The Expenditure Secretary assured to comply.

The representatives of Ministry of Finance then withdrew.

The Committee adjourned for tea.

3. The Committee re-assembled after tea break and the representatives of the Ministry of Railway (Railway Board) were then called in. The Chairperson welcomed them to the sitting and apprised them of the confidentiality of the proceedings of the Committee. The Chairman (Railway Board) outlined a brief resume of the difficult financial position of the Railways, the reasons thereof, its impact on the performance of Railways and steps taken to improve the finances of Railways by various means. Thereafter, the Committee sought clarifications on various aspects for determining the Rate of Dividend payable by the Railways. The representatives of the Ministry of Railways replied to the queries. The Chairperson asked the Chairman, Railway Board, to furnish written reply to the un-answered queries. The Chairman, Railway Board, assured to comply.

4. The Chairperson thanked the witnesses for appearing before the Committee and for furnishing the available information that the Committee desired in connection with the examination of the subject.

The witnesses then withdrew.

A verbatim copy of the proceedings was kept on record.

The Committee then adjourned.

APPENDIX-III

RAILWAY CONVENTION COMMITTEE (2014-19)

MINUTES OF THE TENTH SITTING OF THE COMMITTEE

The Committee sat on Thursday, the 17th December, 2015, from 1015 hrs. to 1045 hrs. in Room No.-133A, (Chairperson's Chamber), First Floor, Parliament House Annexe, New Delhi.

PRESENT

Shri Bhartruhari Mahtab - Chairperson

MEMBERS

Lok Sabha

2. Shri K. Ashok Kumar
3. Shri Nana Patole
4. Shri Rahul Ramesh Shewale
5. Shri Bharat Singh
6. Shri K.C. Venugopal

Rajya Sabha

7. Shri Avinash Rai Khanna
8. Shri Derek 'O' Brien
9. Shri T. K. Rangarajan
10. Shri Arvind Kumar Singh
11. Shri K. C. Tyagi

Secretariat

1. Sh. K. Vijayakrishnan - Additional Secretary
2. Sh. M. K. Madhusudhan - Director
3. Sh. D. R. Mohanty - Additional Director

2. At the outset, the Chairperson welcomed the Members to the sitting and apprised them that the meeting convened to consider and adopt the Draft Reports on 'The Rate of Dividend payable by the Railways to the General Revenue for the years 2014-15 and 2015-16 and other ancillary matters' and 'Role of IRCON in infrastructure building of Indian Railways' had been fixed at 1015 hrs. to facilitate the Members' timely presence in Lok Sabha/Rajya Sabha. Giving an overview of the important recommendations contained in both the Draft Reports, the Chairperson solicited the views suggestions of the Members.

3. The Committee then took up for consideration the following Draft Reports:

(i) Rate of Dividend payable by the Ministry of Railways to the General Revenues for the years 2014-15 and 2015-16 and other ancillary matters.

(ii) Role of IRCON in infrastructure building of Indian Railways.

4. One of the Members, appreciating the balanced recommendations given in the Draft Reports, suggested that in view of the huge social responsibilities of the Railways, they should be allowed exemption from paying Dividend to the General Revenues. The Chairperson clarified that taking into consideration the views expressed by the Ministries of Railways and Finance, the Committee have recommended 5 percent Dividend for the year 2014-15 and 4 percent for the year 2015-16. The Chairperson further apprised that all other suggestions of the Railway Ministry regarding appropriation and interest to various Railway Funds have been endorsed by the Committee. The Members took note of this and the Draft Reports were then adopted by the Committee.

5. The Committee then authorized the Chairperson to finalize the Reports in the light of consequential changes that might arise out of factual verification of the Draft Reports and present the same to both the Houses.

6. The Committee then decided to undertake an On-the-Spot Study Visit during the first/second week of February, 2016 to get first hand knowledge of the subjects under examination.

The Committee then adjourned.

APPENDIX-IV

(Vide Para 2 of Introduction)

STATEMENT SHOWING THE RECOMMENDATIONS CONTAINED IN THE SIXTH REPORT OF THE RAILWAY CONVENTION COMMITTEE (2009) ON RATE OF DIVIDEND FOR 2013-14 AND OTHER ANCILLARY MATTERS AND ACTION TAKEN THEREON

Sl. No.	Para No.	Recommendations	Action taken by Government
1	2	3	4
1.	74 & 75	**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. 1,68,636 (BE) (increase of 16.6% over previous year), freight loading at 1,047 MT (BE) (increase of 3.97%), Passenger earnings Rs. 42,210 crore (BE) (increase of 29.9% over previous year), total traffic earnings Rs.1,43,692 crore (BE) (hike of 14.4% over previous year), total receipts of Rs.1,46,626 crore (BE) (increase of 14.4% over previous year) and internal resource generation to Rs.20,707 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.** **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**	**The observations of the Committee are noted for necessary action.**

		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 ongoing projects as prioritized 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.	
2.	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	The recommendations of the Committee for increasing the rate of dividend to 5% for the year 2013-14 will be given effect while finalizing the Revised Estimates for 2013-14.

		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.	
3.	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 withdrawal 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	The 'Debt Service Fund' has been created in the interest bearing section, the interest rate for which will be the same as the rate of dividend payable by Railways to the General Revenues as accepted by the Committee.

		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.	
4.	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	The observation of the Committee is noted. It has been the endeavour of the Railways to take all possible steps to maintain financial discipline and explore new avenues for raising their revenues and mobilizing resources while curbing avoidable expenditure.

		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.	
5.	79.	The Committee note that the Indian Railways in their document Vision 2020, placed earlier in Parliament in 2009, envisages sourcing of at least 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	The observations of the Committee are noted.

		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.	
6.	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.	The recommendations of the Committee will be given effect while finalizing the Revised Estimates for 2013-14.
7.	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.	The appropriation to Depreciation Reserve Fund (DRF) in 2012-13 was kept at Rs 7,050 crore consisting of Rs. 6,850 crore from the Revenue and Rs. 200 crore from Production Units. The closing balance in the DRF was Rs 9.8 crore at the end of the fiscal 2012-13. The Committee will be informed of the actual amount of contribution that would be made to DRF in the fiscal year 2013-14 at the appropriate stage.
8.	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.	The appropriation to Pension Fund (PF) in 2012-13 was kept at Rs 21,020 crore consisting of Rs. 20,720 crore from the Revenue and Rs. 300 crore from Production Units. The closing balance in the PF was Rs 5.8 crore at the end of the fiscal 2012-13. The Committee will be informed of the actual amount of contribution that would be made to PF in the fiscal year 2013-14 at the appropriate stage.
9.	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.	Rs.7,815 crore was appropriated to the Development Fund in 2012-13. The Development Fund has

		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.	closed with a balance of Rs. 2,333 crore in 2012-13.
10.	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.	In 2012-13, Rs.451 crore was appropriated to the Capital Fund. The Fund has closed with a balance of Rs 43 crore in 2012-13. The Committee will be informed of the actual amount of contribution that would be made to Capital Fund in the fiscal year 2013-14 at the appropriate stage.
11.	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.1,104 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.	In 2012-13, an appropriation of Rs. 1,105 crore was made to the Railway Safety Fund, consisting of Rs. 1,102 crore transferred by the Central Government and Rs. 3 crore worked out as contribution for the erstwhile RSWF out of the Dividend. The Committee will be informed of the actual amount of contribution that would be made to this Fund in the fiscal year 2013-14 at the appropriate stage.
12.	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.	The recommendations of the Committee will be given effect while finalizing the Revised Estimates 2013-14.