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RAILWAY CONVENTION COMMITTEE

(2014)

(SIXTEENTH LOK SABHA)

MINISTRY OF RAILWAYS

(RAILWAY BOARD)

RATE OF DIVIDEND PAYABLE BY THE RAILWAYS TO THE GENERAL REVENUES FOR THE YEAR 2016-17 AND OTHER ANCILLARY MATTERS

सत्यमेव जयते

LOK SABHA SECRETARIAT

NEW DELHI

November, 2016 /Agrahayana, 1938 (Saka)

SIXTH REPORT

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(2014)

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Presented to Lok Sabha on 2.12.2016

Laid in Rajya Sabha on 2.12.2016

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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. Vacant*
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

Members

Rajya Sabha

13. Shri Derek O' Brien
14. Shri T.K. Rangarajan
15. Shri Prem Chand Gupta
16. Shri Abdul Wahab
17. Smt. Vandana Chavan
18. Shri Ranvijay Singh Judev

SECRETARIAT

1.	Shri	S.C. Chaudhary	-	Joint Secretary
2.	Shri	M. K. Madhusudhan	-	Director
3.	Shri	D. R. Mohanty	-	Additional Director

*Vacancy occurred w.e.f. 05th July, 2016 vice Smt. Anupriya Patel was appointed MOS.

INTRODUCTION

I, the Chairperson of the Railway Convention Committee (2014), having been authorized by the Committee, present this Sixth Report on Rate of Dividend payable by the Railways to General Revenues for the financial year 2016-17 and Other Ancillary Matters.

2. The Railway Convention Committee (2014) presented their First Report on Rate of Dividend for the year 2014-15, 2015-16 and other Ancillary Matters to Lok Sabha on 22nd December, 2015 and also laid in Rajya Sabha the same day. The Action Taken Notes of the Government on the Observations/Recommendations contained in the First Report of RCC (2014) are given at Appendix-VI to this Report.

3. The Second Memorandum on 'Rate of Dividend for the years 2016-17 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 23 June, 2016. The Committee took evidence of the Ministry of Railways (Railway Board) on 28th June, 2016 and 27th September, 2016. The Committee took evidence of the Ministry of Finance (Department of Expenditure) on 19th September, 2016. The Committee also obtained post-evidence information from both the Ministries.

4. After considering the Second Memorandum and the oral evidence tendered by the officials of the Ministries of Railways and Finance, the Committee keeping in view the precarious state of Railway Finances, especially owing to the implementation of the recommendations of the 7th Central Pay Commission have recommended purely as one time measure, that dividend to General Revenue for the year 2016-17 may be waived off. All other concessions now available have been endorsed by the Committee to continue on the existing basis for the year 2016-17. At the same time, the Committee have impressed upon the Ministry of Railways to embark upon urgent effective measures and put in place a robust mechanisms to ensure higher internal revenue generation and

contribute more to the General Exchequer for attainment of larger national objectives.

5. The Committee considered and adopted this Report at their sitting held on 30th November, 2016. 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 ease of reference, the Observations/Recommendations of the Committee have been printed in bold letters in the Report.

New Delhi: BHARTRUHARI MAHTAB
30 November, 2016 CHAIRPERSON
09 Agrahayana, 1938 (SAKA) RAILWAY CONVENTION COMMITTEE

REPORT

PART - I

I. GENESIS OF SEPARATION OF RAILWAY FINANCES

Till 1924 the Railway Finances 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. Pursuant to 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. 2,27,319.60 Cr. (RE) in 2015-16 and Rs. 2,58,620.20 Cr.(BE) in the year 2016-17.

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. 9,173.55 Cr.(in Actual) paid for the year 2014-15, in the revised estimate 2015-16, it has been placed at Rs. 8,495.44 Cr. and for 2016-17 (BE) the dividend is estimated at Rs. 9,731.29 Cr.

12. The Railway Convention Committee (2014), vide Paras Nos. 11 and 12 of their First Report (2015) had recommended purely as an interim measure, that for the year 2014-15, the rate of Dividend be determined at per cent 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 determined at 4 per cent 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 had reserved 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. The Committee also recommended 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.

CURRENT STATUS OF RAILWAY FINANCES

13. As explained by the Ministry of Railways in their second memorandum on Rate of Dividend for the year 2016-17 and other ancillary matters, the financial position of the Railways for the year 2014-15 is given as under:

(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 were enhanced from BE of Rs 1,05,770 crore to Rs 1,06,927 crore in R.E, taking into account the impact of certain post-budgetary measures like levy of port congestion charges and container haulage charges. However, as per Actuals the Railways could lift only 1095.26 MT which was less than the target by 5.99 MT. Consequently freight earnings fell short of RE target by about Rs 1,136 crore.

(ii) Negative trend in originating passengers seen since 2013-14, continued in 2014-15 as well. Target for Originating Passengers had accordingly been reduced from 8,645 million in B.E. to 8,350 million in RE. Keeping with the negative trend in passenger traffic, Passenger Earnings budgeted at Rs 44,645 crore was reduced to Rs 43,002 crore in RE. As per Actuals, originating passengers fell further to 8,224.12 million depicting a negative growth of 2.1% over 2013-14. Consequently the passenger earnings fell short of the RE target by Rs 812 crore.

(iii) Despite a lowering of the earnings target under Other Coaching and Sundry segments in the RE keeping with the trend, the

Actuals have reported a shortfall of Rs 178 cr under both these segments.

(iv) Accounting for the accumulation of traffic outstanding by Rs 361 cr, the Gross Traffic Receipts at the end of the year came to Rs 1,56,711 crore i.e. Rs 2,537 crore less over RE.

(v) Mainly due to drop in price of HSD (High Speed Diesel) for traction during the year, Ordinary Working Expenses have reported savings of Rs 2,974 crore over RE. Pension expenditure also showed savings of Rs 646 crore.

(vi) As a result, the Operating Ratio of 91.3% was achieved against the RE target of 91.8%. Railway Fund balances (excluding RSF) have improved from Rs 5,220 crore in 2013-14 to Rs 6,776 crore.

(vii) Plan investment during the year was at Rs 58,718 crore compared to Rs 53,989 crore in the previous year. Internal resource component in the plan increased to Rs 15,347 crore in 2014-15 from Rs 9,709 crore in previous year i.e. by about 58%. The shortfall with regard to BE/RE was mainly on account of non-materialization of investment from PPP and lowering of market borrowings from IRFC to match the requirements.

14. The financial performance with respect to financial year 2015-16 upto the end of February 2016, is detailed as under:

(i) In 2015-16 (BE), Railways had targeted to carry 1,186.25 Million Tonnes (MT) of freight traffic as against 1095.26 MT carried previous year representing a growth of 8.3%.

Similarly, Railways had estimated to carry 8,601 million passengers in 2015-16 (BE) as against 8224.12 million carried previous year representing a growth of 4.6%. Based on the estimated growth in traffic at BE stage, the total traffic earnings were budgeted at Rs.1,83,528 cr in 2015-16 (BE) i.e. a growth target of 16.8% over P.Y. Traffic earnings in BE comprised earnings from passenger at Rs 50,175 cr, freight at Rs 1,21,423 cr, other coaching at Rs 4,612 cr and sundry other earnings at Rs 7,318 cr envisaging a growth of 18.9%, 14.8%, 15.4% and 43.7% over P.Y., respectively.

(ii) Growth rate in loading was however very sluggish during the year largely due to low growth in the core sectors of the economy. The loading target for the year has accordingly been reduced to 1107 MT in RE 2015-16 representing a growth of 1.1% over previous year.

(iii) As against the proportionate budgeted loading target of 1005.36 MT, to end of February, 2016, Railways carried 1001.34 MT of freight traffic. The incremental loading achieved during the period works out to 8.02 MT over COPPY representing a growth of 0.8%. Consequently, the loading to end of February, 2016 fell short of the BP by 4.02 MT.

(iv) Keeping in view the negative growth in passengers witnessed since 2013-14 which persisted during the current year also, the originating passengers target has been reduced to 8101 million in RE 2015-16 representing a growth of (-) 1.5% over previous year. Against the proportionate budgeted passenger booking target of 7872.85 million passengers, to end of February, 2016, Railways carried 7472.90 million passengers with a negative growth of 0.9% over COPPY. Except for PRS segment which indicated a positive growth of 4.8% over COPPY, rest of the segments, i.e. sub-urban and non-suburban(Non-PRS), contributed to the overall negative growth in passengers.

(v) Taking into account the revised loading and passenger target for the year as also the trend of earnings under Other Coaching and Sundry segments to end of Nov'15, respective earning targets have been revised downwards in RE. Accordingly, total traffic earnings have been reduced in the Revised Estimates to Rs.1,67,784 i.e. a growth target of 6.8% over P.Y. Traffic earnings in RE comprise earnings from passenger at Rs 45,376 cr, freight at Rs 1,11,853 cr, other coaching at Rs 4,325 cr and Sundry other earnings at Rs 6,230 cr envisaging a growth of 7.6%, 5.7%, 8.2% and 22.3% over P.Y., respectively.

(vi) The revenue expenditure on Railways consists mainly of Ordinary Working Expenses (OWE), appropriation to Pension Fund and Depreciation Reserve Fund (DRF). The OWE was budgeted at Rs.1,19,410 cr in 2015-16 (BE) representing an increase of 12.7% over Rs.1,05,996 cr incurred during P.Y. The appropriation to Pension Fund and DRF were kept at

Rs.34,900 cr and Rs. 7,900 cr respectively in 2015-16 (BE). Taking into account the saving accruing from the decline in HSD prices, declining trend noticed in other inputs and also stringent austerity/expenditure control measures enforced during the year, the provision for OWE has been reduced to Rs. 1,10,690 cr in RE representing a growth of 4.4% over previous year. Taking note of the resource position emerging in RE, appropriation to DRF and Pension Fund have been suitably adjusted downwards in the RE.

(vii) The Railways have accordingly revised the Operating Ratio target to 90% as against 88.5% envisaged in 2015-16 BE. This is, however, better than 91.3% achieved in 2014-15.

(viii) Further, pending recommendations of the Railway Convention Committee for 2015-16, the rate and other arrangements of dividend payment in BE 2015-16 was provisionally applied at 5% as recommended by the RCC (2009) for 2013-14. Since, the RCC (2014) has reduced the rate of dividend for 2015-16 to 4%, the dividend liability estimated at Rs 10,811 crore in BE 2015-16 has been reduced to around Rs 8,500 cr in the RE.

(ix) The internal resource generation target of Rs 22,166 cr set in BE 2015-16 has accordingly been reduced to Rs 16,902 cr in RE. Railway Fund balances (excluding RSF) budgeted to close at Rs 12,438 cr have now been assessed to close at Rs 9,239 cr in RE. The shortfall in traffic earnings is bound to adversely impact all the above three goals substantially, and may even jeopardize the chances of making full payment of dividend during the year.

15. The financial results for 2015-16 till end of February 2016 are stated to be as under:

"Further to finalization of Revised Estimates 2015-16, the financial position emerging in the February 2016 accounts is given below:

	RE 2015-16 (Rs. in cr.)	Earnings/Expenditure up to February (Rs. in cr.)		Position up to February 2016 as a %age of RE	Growth(%) in 2015-16 over 2014-15 (COPPY)
		2015-16	2014-15		
Passenger	45376	40513	38057	89.3%	6.5%
Other Coaching	4325	3973	3616	91.9%	9.9%
Goods	111853	99259	94986	88.7%	4.5%
Sundries	6230	4311	3913	69.2%	10.2%
Total	**167784**	**148056**	**140572**	**88.2%**	**5.3%**
OWE	110690	101612	99543	91.8%	2.1%

(i) Traffic earnings to end of Feb'16 at Rs 1,48,056 cr though yielded a growth of 5.3% over COPPY, fell short of the target of 6.8% in RE. The growth trend lagged in all segments of earnings except for Other Coaching. On the other hand, the growth in Other Working Expenses (OWE) at 2.1% to end of Feb'16 was lower than the full year growth of 4.4% provided in 2015-16 (RE). Although the earnings performance to end of Feb'16 has not been as per revised expectations, it would be premature to quantify any year-end shortfall at this juncture since some of it is likely to be offset by savings under OWE and pension expenditure. The trends in the physical and financial performance are being closely watched and zonal railways have been instructed to make all out efforts not only to achieve but also exceed their earnings target set in RE and also to give further savings in OWE.

(ii) Plan expenditure of Rs 1,00,011 cr set in BE 2015-16 comprised an internal resource component of Rs. 17,793 cr. This has been kept at Rs one lakh crore in the RE comprising Rs 32,000 crore of Gross Budgetary Support/Capital, Rs 16,638 crore of internal resources, Rs 2,661 crore from Railway Safety Fund and Rs 48,701 crore of extra-budgetary resources.

16. While unveiling the vision for restructuring and rejuvenating the Indian Railways, the Minister of Railways in his Budget speech for the year 2016-17 stated as follows:-

> "The three pillars of the strategy that I am laying out today reflect this new thought process.
>
> a) Nav Arjan – New revenues: IR typically has focused on increasing revenues through tariff hikes. We want to change that and challenge our conventional thinking on freight policies to win back our share in the transportation sector. We will exploit new sources of revenue so that every asset, tangible or non-tangible, gets optimally monetized.
>
> b) Nav Manak – New norms: Each rupee that gets expensed will be re-examined to ensure optimal productivity. We will take a 'zero-based budgeting' approach to the financials of the ensuing year. We will improve our efficiency yardsticks and procurement practices to bring them in line with international best practices. We will continue to innovate and optimize our outgo on each activity.
>
> c) Nav Sanrachna – New structures: We need to Re-imagine the conventional ways of solving issues. Co-operation, Collaboration, Creativity and Communication should be the hallmark of our decision-making and actions. We will revisit all processes, rules, and structures to enable

this transformation of IR. We will draw upon our inherent strengths, diverse talents and rich experience to emerge stronger."

DIVIDEND FOR 2016-17

17. Emphasizing the need for dividend exemption/relief in view of the difficult financial position of Railways, the Ministry of Railways in their second memorandum have submitted the following:-

(i) IR has significantly higher funds requirements for investments to be undertaken as per the investment plan as indicated last year. To reiterate, Rs 8.5 lakh crore of investment is envisaged in Railways, with three clear assumptions: Quantum jump in the level of Gross Budgetary Support (GBS), market borrowing through IRFC for Rolling Stock and huge resource mobilization, to the tune of Rs 2.5 lakh to 3 lakh crore, though Institutional Finance. Further, investments are required for the purpose of depreciation, debt servicing & modernization to be met from out of internal resource generation. The internal resource generation is likely to be adversely impacted on account of the implementation of the recommendations of the 7th CPC.

(ii) It is being ensured that all aspects are carefully considered such as project viability, a judicious rolling stock procurement program based on acquisition for a period of three years including throw forward, etc so as to optimize investments. Notwithstanding this, the internal resource generation by IR has limitations and will continue so until the decongestion investments materialize, DFC is in place resulting increased freight traffic & the expenditure on account of 7th PC stabilizes.

(iii) Until that happens, IR will require hand-holding from Government in the form of higher GBS, financial support for the implementation of the 7th CPC and also dividend relief.

The amounts received on this account will be ploughed back as investment in Railways. Thus a dividend relief would be a strong boost to Railways till the planned increase in capacity and consequent internal generation of resources from the investments presently being made are available.

(iv) In view of this, it is requested that the Railways may be exempted from payment of dividend for at least 5 years. In any case, the dividend payable may have to be deferred to the 'Deferred Dividend Liability Account' to the extent the Railways are not able to pay the same. To reduce the future liability of the Railways on account of the likely deferment, RCC is requested to suitably reduce the rate of dividend or at least retain the rate of dividend at 4% as recommended for 2015-16 to give Railways the space in meeting with the requirement of investment and implementing the recommendations of the 7th CPC.

INVESTMENT REQUIREMENTS

18. Recapitulating the investment requirements of Railways which have already been brought before the Committee in their first memorandum on Rate of Dividend, the Ministry of Railways in their second memorandum submitted as under:-

> "If the Railways is to become the engine of growth as enshrined in various documents including the Economic Survey for 2014-15, it would require a Plan investment of Rs 5.19 lakh crore in the 12th Five Year Plan to be financed 37% from GBS (Rs 1.94 lakh crore), 20% from internal generation (Rs 1.05 lakh crore) and 42% from extra-budgetary sources (Rs 2.20 lakh crore)."

FIVE YEAR INVESTMENT PLAN 2015-19

(i) 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 track length from 1,14,000 km to 1,38,000 km and grow our annual freight carrying capacity from 1 billion to 1.5 billion tonnes.

(ii) To this end, an investment plan (2015-2019) has been formulated which envisages an investment of about Rs 8.56 lakh crore over next five years as tabulated below:-

Item	Amount (Rs 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 Kashmir Connectivity projects)	39,000
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) The expected funding for this will come from a mix of GBS, Internal Resource Generation, PPP, Stake holders & Users' Partnerships, Debt and entering into JV's with States. Needless to say, support in the form of GBS from the General Exchequer will be a key component of the funding and it is envisaged that over 30% of the above Five Year Plan will be funded from this stream. In fact, in order to modernize, upgrade and achieve this goal, commitment of funding from GBS is critical.

(iv) Considering the need of the growth of economy and creating adequate rail infrastructure for smooth movement of both men and material across the country, the investment requirement of rail sector cannot be postponed. While Ministry of Finance have been approached for higher Gross Budgetary Support, lowering the rate of dividend will enable the Indian Railways to provide correspondingly higher resources critically required for investment in safety related and other important works.

Dedicated Freight Corridors Investment

(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 crore 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 crore from IBRD and JICA, and Rs 29,112 crore from GBS. Four more such dedicated freight corridors being planned are viz. North-South, East-West, East Coast and Southern in phases. 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.

(ii) A dividend relief will significantly ease out debt servicing burden on a long term basis and sustain these projects.

CURRENT LIABILITIES AND CONCERNS

19. Explaining the significant burden of liabilities borne by the Railways, the Ministry in their second inter memorandum stated as under:

(i) Railways have been extending financial assistance to Konkan Rail Corporation Ltd. (KRCL) which was set up with an investment of Rs 3,555 crore of which Rs 2,755 crore 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 2012-13, Union Cabinet transferred East-West Metro Corridor Kolkata Project to Ministry of Railways for its execution, commissioning, operation and maintenance. Prior to this transfer, the East-West Metro Line Kolkata was being constructed by Kolkata Metro Rail Corporation Limited (KMRCL) a company formed in 2008 with 50% equity each by Ministry of Urban Development and Government of West Bengal. Presently, KMRCL project, at a 2008-09 sanctioned cost of Rs 4875 crore, is shared between Ministry of Railways (74%) and Ministry of Urban Development (26%). Thus while earlier in 2008 Government of West Bengal was to bear Rs 1452 crore as its equity share, the burden on Ministry of Railways due to transfer of the project is at Rs 1939 cr. Not only a higher burden has been transferred to Railways but it may be further appreciated that 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 235.5% in R.E. 2015-16.

(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 repayment of lease charges has increased substantially from a mere Rs 3,041 cr in 2000-01 to Rs 14,533 cr in 2015-16 and is estimated at Rs 16,188 cr in BE 2016-17. Further a new source for plan financing in the form of Institutional Finance has been tapped from 2015-16 onwards. This is the money that is being borrowed from LIC (Life Insurance Corporation) through IRFC to finance network decongestion and network expansion projects as mentioned in para 7.0.The targets envisaged under Institutional Finance in R.E. 2015-16 and B.E. 2016-17 are Rs 9,584 crore and Rs 20,985 crore. This will involve repayment and debt service/lease charges obligations and though there is a five year moratorium before the actual outgo starts, the accrued obligations will get capitalized during the moratorium and hence has to be fully provided for under DSF (Debt Service Fund)/CF (Capital Fund).

SEVENTH PAY COMMISSION

20. Elaborating the adverse impact of the recommendations of Seventh Pay Commission on the financial position of the Railways, the Ministry in their second interim memorandum stated as follows:

(i) The cumulative financial impact of recommendations of the 6th Central Pay Commission has been more than Rs 1 lakh crore. The recommendations of the 7th CPC are due to be implemented from 1.1.2016. Railways constitute 42% of the total Government civilian regular working manpower of about 30.84 lakh. It has been assessed that the financial impact of implementing the recommendations of the 7th CPC is likely to be more than Rs 28,000 cr on pay & allowances on Railways. However, our internal estimates indicate that the number will be higher than Rs 31,000 cr.

(ii) Considering the financial position being faced presently, IR will not be in a position to bear fully 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. The only source of revenues that IR has is related to train operations which may prove to be very limited to bear the entire cost of 7th CPC this time.

(iii) Hence, support of Ministry of Finance may be required at least to partly bear the burden of the 7th CPC on Railways.

NEW PROPOSALS

21. Apart from the various issues the Ministry of Railways in their second interim memorandum enumerated the following new proposals which the Committee may take into cognizance. These are given as under :

(i) Creation of Rashtriya Rail Sanraksha Kosh (RRSK)

(i) To finance the Railways' needs to urgently replace and clear the backlog of over-aged assets, which the Railways could not do on its own due to lack of resources, a Special Railway Safety Fund was set up in 2001 with the support of the Government. This Fund received Rs 17,000 cr during its tenure from 2001 to 2007-08, out of which Rs 12,000 cr was provided by the MoF and balance by Railways by levying a safety cess on passenger fares. The Fund was abolished in 2007-08.

(ii) It is proposed to frame a suitable proposal to the Government for creation of yet another Safety Fund, may be by the name of 'Rashtriya Rail Sanraksha Kosh (RRSK)' with a view to obtaining funding assistance to support safety related modernization concerns of IR system. Reports of two special purpose committees, viz., 'High Level Safety Review Committee' and 'Modernization Committee' set up by the Ministry of Railways, have also given their recommendations. These Committees have also suggested immediate investments in Railways towards ensuring safety and convenience of railway users. To assess the requirement of funds in this regard, various sub-committees of expert panel in Railway Board were constituted who after much deliberations have come to the conclusion that an additional expenditure of Rs 1,20,000 cr over a period of 5-7 years would be required for further enhancing railway safety. Looking at IR's capacity to generate internal resources, generation of funds of this magnitude is not possible internally, especially as the 7th CPC implementation is due from 01.01.2016 onwards and the traffic trends are also not very encouraging due to low growth in demand-side of the economy. This proposed Fund would be financed by levy of safety surcharge and additional budgetary support from MoF. The freight rates have already reached a level beyond which any increase in them would be counter-productive. Therefore, safety surcharge will be imposed on passenger segment. The contribution from MoF in the form of dividend free GBS is also anticipated.

(iii) The Railways having very limited resources which will come under further strain on implementing the recommendations of the 7th CPC cannot address this expenditure unless an exclusive grant is provided by the Ministry of Finance towards this end. A formal proposal on creation of RRSK to address the safety needs as brought out above will be sent to MoF in due course. The RCC is requested to support the Railways' demand in this regard.

(ii) Creation of Infrastructure Loan Fund

The Railway Debt Service Fund (RDSF) has been set up basically to be used for servicing the debts on account of loan received from World Bank, JICA, etc., through MoF for the railway mega projects like Dedicated Freight Corridor, etc. MoF in this regard has suggested to create yet another Fund, viz., Infrastructure Loan Fund for channelizing the money received from MoF as loan. The RDSF will work as gateway for repaying the debts/funds withdrawn from the Infrastructure Loan Fund. This Fund will be operated under the category 'Non-interest bearing Fund'.

(iii) Presently East West Metro Corridor Kolkata Project being executed by KMRCL is not a sanctioned project under Ministry of Railways. Details on this has been discussed at para 11.1.2. It is proposed that the project may be taken like other few MTP (Metropolitan Transportation Project) projects under Ministry of Railways. This project would be taken as a part of sanctioned works under the administrative control of Metro Railway Kolkata. The justification for this arrangement is derived from the Cabinet Note itself as per the decision of which the project was brought under the aegis of Ministry of Railways with 74% equity participation. As per the Cabinet Decision, the ground for the transfer of the project was based on 'the rationale that it would not be appropriate to have two different agencies working in the same city for a common transportation system on different technical parameters and Kolkata Metro would be better equipped to take forward the project'. Secondly, the North-South and East-West axis can have a smooth commuter traffic interface due to this amalgamation. Thirdly the project, including underground station constructions, requires prolonged coordination between the executing agency and the Railways including adherence to stringent safety norms given the dense train operations at Howrah station, and a unified control and command structure would enable efficient and timely execution of the Project. Therefore, it would be most appropriate if the project is taken as a Metropolitan Transportation Project under Metro Railway Kolkata, which presently, as already mentioned at para 9.0.1.2, has an Operating Ratio of 235.5% as per R.E. 2015-16. Metro Railway Kolkata in 2015-16 has five MTP projects under it except the East-West Metro Corridor Project. Similar advantage of being treated as an MTP project should be accorded to this project also.

ISSUES RELATING TO RATE OF DIVIDEND FOR THE YEAR 2016-17

22. With respect to the rate of dividend for the year 2016-17, the Ministry of Railways has submitted the following proposals for consideration of the Committee:

(i)In view of the present difficult financial position, the Railways may be exempted from payment of dividend for at least 5 years. Alternatively, if the waiver is not considered for acceptance, RCC is requested to suitably reduce the rate of dividend for 2016-17 or at least retain present rate of 4% as recommended for 2015-16 for at least five more years to give relief to the Railways in meeting with the requirement of investment and implementing the recommendations of the 7th CPC.

(ii) Creation of Rashtriya Rail Sanraksha Kosh (RRSK) with a view to funding safety related modernization concerns of IR system. Reports of two special purpose committees, viz., 'High Level Safety Review Committee' and 'Modernization Committee' set up by the Ministry of Railways, have also given their recommendations. These Committees have also suggested immediate investments in Railways towards ensuring safety and convenience of railway users. This proposed Fund would be financed by levy of safety surcharge and dividend free budgetary support/grant from MoF.

(iii) Creation of Infrastructure Loan Fund: MoF in this regard has suggested to create yet another Fund, viz., Infrastructure Loan Fund for channelizing the money received from MoF as loan. The RDSF will work as gateway for repaying the debts/funds withdrawn from the Infrastructure Loan Fund. This Fund will be operated under the category 'Non-interest bearing Fund'.

(iv) East West Metro Corridor Kolkata Project being executed by KMRCL may be taken declared as a Metropolitan Transportation Project (MTP) under Ministry of Railways under the administrative control of Metro Railway Kolkata.

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

(vii) Repayments of borrowings and debt servicing being obligatory in nature may become a first charge on net revenue.

(viii) Methodology for computation of dividend should allow for deduction of the taxation amount of a project cost from arriving at capital-at-charge on which dividend is payable.

(ix)Rules of allocation to provide for deployment of capital from GBS to fund works where 'rate of return' is more than dividend.

(x) Loan from General revenues against Railway Safety Fund(RSF) 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(CRF) Act. Further, the ambit of work to be taken up under RSF including the expanded scope as per the changes in CRF Act in Finance Bill 2016, may also include the cost of land for New Line etc.

(xi) Loan from General Revenues against CF and DRF to meet obligatory expenditure to be met out of these funds in exigencies should the fund balances turn negative or the revenue is insufficient to provide for the obligatory expenditure.

(xii) Other modalities for determining the dividend as brought out separately (Annexure 'I') may continue to be adopted for the year 2016-17. All concessions now available as listed therein may be allowed to continue for the 2016-17.

(xiii) The contribution to Depreciation Reserve Fund from Revenue in 2016-17 may be allowed to be made at Rs 3,200 cr from revenue and Rs 200 cr from Production Units.

(xiv) The contribution to Pension Fund from Revenues in 2016-17 may be allowed to be made at Rs 42,600 cr and from Production Units at Rs 300 cr.

(xv) 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.

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

23. Disagreeing with the proposals of the Ministry of Railways made in the second interim memorandum submitted to Railway Convention Committee, the Ministry of Finance submitted their comments/observations as follows:

1 RATE OF DIVIDEND

This Ministry is not in favour of exempting Ministry of Railways from payment of dividend for at least 5 year or alternatively, reducing the present rate of dividend for 2016-17 or retaining the present rate of 4% for five years more, as proposed by Ministry of Railways. This Ministry urges the Ministry of Railways to pay dividend on capital-at-charge to General Revenues at 7.88% for the year 2016-2017 on the following considerations:

i The rate of dividend, which was 7% during 2003-04, has been brought down to 4% in 2015-16 as evident from the following table:

Year	Rate of Dividend
2003-04	7.0%
2004-05	6.5%
2005-06	6.5%
2006-07	6.5%
2007-08	7.0%
2008-09	7.0%
2009-10	6.0%

2010-11	6.0%
2011-12	5.0%
2012-13	4.0%
2013-14	5.0%
2014-15	5.0%
2015-16	4.0%

ii The weighted Average cost of market borrowing for the Government, which stood at 8.52% in 2011-12, was 7.88% in 2015-16. The trend of weighted average cost of market borrowing from 2011-12 is as given below:

Year	Weighted average cost of market borrowing
2011-12	8.52%
2012-13	8.36%
2013-14	8.39%
2014-15	8.51%
2015-16	7.88%

iii From the above two tables, it is evident that Ministry of Railways have been enjoying a favourable dividend rates for more than a decade, and keeping in view the fact that Railways is a commercial organisation, higher rate of dividend is justified. In Central Road Fund allocations (percentage of which has been increased through Finance Act from 7.2% to 14.0%), Railways should not mind paying Government of India's cost of funds on balance GBS. It needs to be kept in view that Government of India has many other social commitments and dividend free capital would come at expense of other pressing expenditure;

iv 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 7th Central Pay Commission, is not tenable, as the same kind of commitment on a much larger scale for the entire Government has to be met from the General Revenues;

v 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;

vi Railways have been getting a number of reliefs and concessions from Government. One of the important concessions, in the form of dividend relief, is subsidy from General Revenues on capital invested in respect of certain specific items. After taking into account the concessions in the form of subsidies (Rs. 3,720.97 crore) and reimbursement of losses on operation of strategic lines (Rs. 638.81 crore) that were provided to Railways 2015-16, the effective rate of dividend in 2015-16 at Rs. 4,135.66 crore [Rs. 8,495.44 crore, the dividend paid by Railways in 2015-16 minus subsidy at Rs. 3,720.97 crore minus reimbursement of losses of strategic lines at Rs. 638.81 crore)] works out to about 2.1% of the total capital-at-charge upto the end of 2015-16 (RE) (Rs.1,97,991.76 crore);

vii The rate of interest on the investments in the form of loans to Public Sector Enterprises for the year 2015-16 stood at 11.5%. As against this, investment made in Railways, being treated as 'loan in perpetuity', is highly concessional even at 7.88%. In practice it translates into much lower rate of dividend payment of about 2%, after taking into account the concessions and reliefs allowed. Railways should move out of dependency syndrome and focus on improving its efficiencies and professional orientation;

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

(Rs in Crore)

Year	GBS (1)	Share from CRF (2)	Total (1)+(2)	%age growth
2009-10	16910.84	1068.75	17979.59	74.23
2010-11	18384.79	932.81	19317.60	7.44
2011-12	23013.44	1059.56	24073.00	24.62
2012-13	24131.89	1102.45	25234.34	4.82*
2013-14	27072.40	1102.45	28174.85	11.65
2014-15	30121.16	1496.00	31617.16	12.22
2015-16 (RE)**	35000.00	2507.60	37507.60	18.63
2016-17 (BE)	34220.00	10780.00	45000.00	19.98

* If ` Rs. 3,000 crore provided to Railways as loan for excess drawl from the balances available in Railway Funds in 2011-12 is excluded, the increase in 2012-13 works out to 19.75%.

** An amount of Rs. 3,000 crore was allowed over and above Rs. 32,000 crore kept in RE 2015-16.

This percentage growth is much more than that provided to other sectors and is thus adversely compromising Government of India's commitment for other needy sectors.

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

(Rs in Crore)

Year	Additional Budget Support for national projects
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

Note: From BE 2011-12 onwards, these provisions were provided to MoR upfront as part of GBS in the beginning of the year.

x Given the fact that the budget support provided to MoR is increasing substantially in 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 endeavour to pay higher dividend at par with other CPSUs (11.5%) for the year 2016-17 to General Revenues. This would only prove Government's capability to provide and in turn get higher investments from General Revenues in future years.

2. RASHTRIYA RAIL SANRAKSHA KOSH

Regarding creation of Rashtriya Rail Sanraksha Kosh (RRSK), this Ministry is in receipt of separate proposal from Minister of Railways for the same. The requirement of funds over a period of 5 years is projected at Rs. 1,19,183 crore, over the next five years, out of which Rs. 1,11,683 crore is sought to be financed out of contribution from General Revenues. This Ministry will not be in a position to finance the requirement of this magnitude. This Ministry will consider agreeing to this proposal subject to the following conditions:

(i) 75% of the total requirement may require to be financed by Ministry of Railways through resource mobilisation either by way of levy of surcharge or suitable increase in passenger/freight rates to finance the objective;

(ii) 25% of the balance requirement may be earmarked out of the GBS provided by General Revenues over a period of 5 years. This works out to about Rs. 6,000 crore per year;

(iii) The contribution from General Revenues will be in the form of dividend bearing capital in Railways as Ministry of Railways has already been receiving capital from General Revenues at a highly concessional rate.

INFRASTRUCTURE LOAN FUND

24. As regards creation of 'Infrastructure Loan Fund' in the non-interest bearing section of Public Account, the agreement of Ministry of Finance is based on requests received from various administrative Divisions of Ministry of Railways. Creation of Railway Debt Service Fund was, in principle, agreed at the time of submission of interim Memorandum to RCC (for determining the rate of dividend for the year 2013-14) and hence, if RDSF serves both the purpose, the same may be operationalized.

OTHER PROPOSALS

25. Apart from the applicable rate of dividend for the year 2016-17, Ministry of Railways has been seeking numerous concessions in an indirect manner towards reducing the dividend outgo from Railway finances. Similarly, certain proposals which were considered and not agreed by RCC earlier are sought to be included again in the present

memorandum. Other routine proposals, which are administrative in nature, are also made in the memorandum. Since the principal objective of RCC is to determine the rate of dividend payable by Railways for maintaining a healthy relationship between general finances and railway finances, Ministry of Railways is requested to exclude the following proposals from the second memorandum. Further, Ministry of Railways is advised that it may not attempt to confuse issues and refrain from raising issues not agreed by RCC yet again to save valuable time of RCC and other Departments. Views of this Ministry against each of them in the Table given below:

Proposal of Ministry of Railways	Comments of Ministry of Finance
(i) East West Metro Corridor Kolkata Project being executed by KMRCL may be taken declared as an Metropolitan Transportation Project (MTP) under Ministry of Railways under the administrative control of Metro Railway Kolkata	This proposal cannot be agreed to as Ministry of Railways seeks to make the investment in East West Metro Corridor Kolkata project dividend free. This position has not been brought out clearly in the Memorandum and hence, this may be excluded from the Memorandum. It may, if required, seek support from beneficiary States.
(ii) All special or exclusive coaches provided in trains for physically handicapped and women may be added to list of	This was proposed in the first memorandum to RCC (2014) and was not considered by the Committee. Further,

assets exempt from dividend	unquantified relief in the form of exemption of coaches provided in trains for physically challenged and women from the assets for payment of assets cannot be entertained by this Ministry. If required, Ministry of Railways may cross subsidise from other services. Hence, this may not be proposed again to RCC.
(iii) Repayments of borrowings and debt servicing being Service in nature may suggested in charge on net the first generated by Railways will	At the time of creation of Debt Fund, this Ministry obligatory clear terms that become a first charge on the 'surplus' revenue. continue to be dividend payment to general revenues. There was no recommendation contrary to this statement of Ministry of Finance in the sixth report of the RCC(2009). Hence, the position should remain same and payment of dividend should be a first charge on the 'surplus' generated by Railways. Incidentally, dividend paid by

	Railways is by nature a sort of repaying debt with interest. Railways is advised to drop this proposal from the Memorandum.
(iv) Methodology for computation of dividend should allow for deduction of the taxation amount of a project cost from arriving at capital-at-charge on which dividend is payable.	This was proposed in the first memorandum to RCC (2014) and was not considered by the Committee. Further, this proposal has no rationale and payment of tax and payment of dividend are two different issues. The proposal practically amounts to making projects tax free and same is not as per taxation statute and incorrect taxation principle. Hence, this may not be proposed to RCC.
(v) The proposal regarding modification of Debt Service Fund Rules in order to provide for debt service obligations arising out of loans and borrowings under 'institutional finance' arrangement.	This may be considered for being excluded from the Memorandum to RCC as it is an administrative issue.
(vi) Loan from General	This was proposed in the first

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.	memorandum to RCC (2014) and was not considered. With the amendment to CRF Act through Finance Act, 2016, Railways are already entitled for higher share from CRF. CRF grants can be used for safety works Hence this proposal may not be made before RCC. Moreover, the accumulations in CRF cannot be estimated in advance and proposed securitization of future CRF accruals is not realistic.
(vii) Loan from General Revenues against CF and DRF to meet obligatory expenditure to be met out of these funds in exigencies should the fund balances turn negative or the revenue is insufficient to provide for the obligatory expenditure.	Excess withdrawals from any of the Railway funds over and above the balances will have adverse impact on cash flow for the Government. Hence, such cases should be sent to Department of Expenditure for case to case examination and decision taken on merit of each case. Automatic facility like loan from general revenues cannot be agreed to.

26. The proposals relating to transfers to various Railway Reserve Funds and the principles governing interest rate there for and rules of allocation to provide for deployment of capital from GBS to fund works where 'RoR' is more than dividend are agreed to.

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

27. In response to the comments of the Ministry of Finance on their proposals on the Rate of Dividend and reiterating the constraints on the Railways' finance, the Ministry of Railways put had forth further arguments emphasizing that the Rate of Dividend may be maintained at 4% for the financial year 2016-17 as follows:

(i) Justifications for seeking the exemption/relaxation in payment of dvidend have been sufficiently addressed in the Memorandum (ibid) vide paras 5.0 to 15.0. The fact of the matter is that in view of the post 7th CPC scenario, IR would not find adequate resources for funding its essential replacement and renewal needs let alone the payment of dividend. This issue has also been repeatedly raised with the MoF through correspondence and also in the Memorandum No. 2015-RCC(2014/204/1) dated 11.06.2015 to the RCC. RCC is requested to kindly consider the request of the MoR for relaxation in rate of dividend/ exemption.

(ii) The dividend is in form of interest liability and is paid by MoR in perpetuity. In the past five years dividend has been paid at the rate of 4% to 5% as recommended by the RCC taking into account all factors raised by this Ministry in the memorandums of the concerned years.

(iii) This point that the rate of dividend be lowered has already been covered in the extant Memorandum in paras 5.0 to 15.0. The dividend for infrastructure projects, especially those which helps in socio-economic development of regions, the cost of capital has to be kept at a minimum. For eg: JICA, a Japanese Governmental Agency has offered loans at 0.1% for Ahmadabad Mumbai High Speed Railways for a long duration loan. RCC may kindly appreciate that the intention of MoR is not to seek profit for its own sake but to plough back Net Revenue as investment in Railways. Undoubtedly, Infrastructure growing at a higher rate creates ground for higher national economic growth. Thus a dividend relief at this time would be a strong boost to Railways. As regards to contribution from CRF, the same is collected from diesel cess and is utilised only for improving safety of Road and Rail users and is to be transferred to MoR as per the terms of the CRF Act.

(iv) Ministry of Railways is perhaps the only Ministry which pays for the salaries and pensions of its employees out of its own revenue. Elasticity of its revenue is dependent on economic growth as well as policy with regard to passenger fares (60% of the actual cost is recovered). In the Brochure on Pay &

Allowances published by MoF (latest for 2013-14) it is mentioned as an illustration that for 2013-14, of the total civilian regular working manpower of about 32.24 lakh, Railways alone constitute about 42%. Out of the total expenditure on pay & allowances of the Central Government, Railways bear about 35.87%. Total receipts on the other side, in 2015-16 was Rs 1.68 lakh crore for the IR as compared to total revenue receipts of Rs 12.06 lakh crore for Ministry of Finance. Total non-tax receipts of the Government in 2015-16 was Rs 2.58 lakh crore (out of Rs 12.06 lakh crore) compared to IR's total receipts at Rs 1.68 lakh crore. Burden on IR is grossly disproportionate. 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 PC.

(v) The performance of Railways in 2016-17 continues be below the estimated trends. Freight earnings are dependent upon the growth in the core sector of the economy and this has adversely impacted the earnings. Further, even though passenger earnings have increased, IR is facing negative growth in originating passengers the third year in running. Any dividend payout will put a further squeeze on Internal resources generation. This in turn will lead to reduction in CAPEX and will be counterproductive for economy in general.

(vi) MoR has taken up several projects on national interest and on socio-economic considerations as well as on Strategic considerations. These are per-se unremunerative and unviable but important for national/socio-economic considerations. They also result in operating losses which will be on recurring basis. In fact, the operating losses on account of operation of many new lines which are essential for development of certain region are being absorbed currently by the Railways. For instance, in the Northeast Frontier Railways, operating losses on strategic lines are likely to run to about Rs. 900 crores. Further, only two such lines have been declared as strategic and five lines are pending notification by the Ministry of Defense. This is just a case in point. If Railways is to function purely as commercial entity, these investments would not have been taken up by Indian Railways. Hence these concessions in the past have been given by RCC after due considerations. For IR to grow and provide a fair & reasonable return to the Government on its investments the real issue is a conscious policy decision to invest more into the system and also to handhold the system in the early years of investment. Since the last two years, with the increased investment of the GOI into the IR system, the network expansion has been the beneficiary.

(vii) The Dividend is payable out of the profits earned in any financial year. The GBS support has turned out to be 'loan in perpetuity'. From the current trends and implementation of 7th Pay Commission recommendations, the surplus will be adversely impacted. In such a scenario dividend payout should be limited.

(viii) The GBS as per BE 2015-16 was Rs 40,000 cr which was revised to Rs. 35,000 cr at RE. For 2016-17 only Rs. 34220 cr is provided with balance coming from the proceeds of the CRF which have to be transferred to MoR as per the Act in any event.

(ix) Railways undertakes projects of National importance, even when they are unviable financially and will result in operating losses. These projects require dedicated funding from the annual budgets besides separate capital funding for construction.

(x) It must be noted that the 'subsidies and reimbursement of loss on strategic lines' (Rs. 4360 crore) is a tiny fraction of the magnitude of Public Service Obligations estimated at Rs. 34,031 crore. The subsidy and reimbursement of losses on operation of 'Strategic' lines is due to the fact that railways are operating these lines on other than commercial grounds. The CPSUs are running only on commercial basis with profits as their primary focus. Railway being a natural monopoly is an infrastructure sector being owned and operated by GOI through MoR and hence such comparison is redundant.

(xi) It is noted that MoF has appreciated the need for the creation of the Fund. The formal proposal, under preparation in MoR, will be sent shortly to MoF. It also needs to be noted that MoR's ability to fund part of RRSK is dependent on the dividend relief that is being sought.

<u>INFRASTRUCTURE LOAN FUND</u>

(xii) MoF has agreed to creation of Infrastructure Loan Fund.

OTHER PROPOSALS

(xiii) Other proposals contained in the Memorandum are on issues like declaring KMRCL as MTP, exemption in payment of dividend on investment made in coaches for physically handicapped & women, making debt servicing first charge on net revenue, deduction of taxation on project cost to arrive at dividend bearing capital at charge, loan from General Revenue against future contribution to RSF to meet higher ROB/RUB works, automatic loan from General Revenue in case balances in CF and DRF turn negative, etc. On other proposals which MoF has asked to exclude from the Memorandum, decision of the Committee is solicited on the basis of the merit of the case as brought out in MoR memorandum.

28. During evidence the Chairman Railway Board apprised the Committee of the difficult financial position of the Railways as follows:

> "Railway is going for the high investment targets and we have set for ourselves the targets of around Rs. 8.5 lakh crores over a period of five years. Last year, we ended up with a capital expenditure of around Rs. 94,000 crore marginally less than that and in 2016-17 we are targeting a capital expenditure of Rs. 1,21,000 crore........This year, out of that, we are planning around Rs. 1,21,000 crore. The broad break-up of Rs. 1,21,000 crore is, a gross budgetary support we are getting around Rs. 34,220 crore and from road safety fund we are getting around Rs. 10,780 crore, so the sum total is Rs. 45,000 crore. From internal resources, we intend to generate Rs. 16,675 crore and extra budgetary resources, which includes funding from LIC and funding through bonds from IRFC and through various PPP is around Rs. 59,000 crore. The present situation, the way it is, we are finding internal resources to be generated which is around Rs. 16,675 crore budgeted in this year which is a very difficult target. There

are primarily two reasons, one is that Pay Commission, which is likely to be accepted as per the newspaper reports very shortly and that will give us a burden of around Rs. 31,000 crore even though the Pay Commission Report says the impact on Railways of around Rs. 28,000 crore but our internal assessment is that it is going to be Rs. 31,000 crore. That is going to be a substantial burden on Indian Railways and the internal resources to the extent of Rs. 11,679 crore in

BE 2016-17 that we were proposing to generate out of the surpluses from earning vis-à-vis the ordinary working expenses. This figure is very difficult to achieve in the present circumstances. So, we need support of Government in handholding Indian Railways. If we have to meet the higher capital expenditure and we have to meet all other requirements and also pay Pay Commission dues then we need higher GBS. We need even direct financial support from the Ministry of Finance for 7th Pay Commission and any dividend relief also adds to that because the dividend itself works out to Rs. 9731.29 in BE 2016-17 crore which is estimated at the present rate. If that relief is given, that indirectly compensates. So, my submission to the hon. Committee is that Railway may be exempted from dividend liability and since there is this Pay Commission impact, it takes quite some time for Railways to absorb the impact of that, we have also requested that we may be exempted for five years from payment of dividend liability. If the hon. Committee does not find it viable or practical to accede the Railway Ministry's request, we leave it to the judgment of hon. Committee to reduce it to the extent they consider it reasonable."

29. Chairman Railway Board further added:-

"One more thing that I would like to submit for the consideration of the Committee and which hon. Members are already aware is that our passenger fares are lowest in the

> world...... We are cross subsidizing it by charging higher on freight side, something which is not desirable. This cross subsidy burden is of the order of around Rs. 34,000 crore. This is something which is hurting us. Any relief that you give no dividend indirectly increases may surplus which ultimately is reinvested in the Railway projects. As I have also mentioned, the Pay Commission impact is around Rs. 31,000 crore for which we need the support of the Committee by substantial grant from the Ministry of Finance as well as waiver of dividend liability."

30. Chairperson Railway Board, during further evidence held on 27th September, 2016 stated:-

> "Another factor that is impacting our performance substantially is on account of traffic earnings that we are getting. From the budget projections, up to August 2016 figures which are available, there is a shortfall from projected earnings o around Rs. 11,000 crore. We hope that traffic will pick up after the rains are over. In case it remains at the pace that it has so far remained, then this shortfall is further going to increase. So, we are in a very difficult financial situation. Any relief on dividend will definitely help us to partly compensate for the shortfalls that we have on account of 7th CPC as well as traffic shortfall."

31. Explaining their stand on the Rate of Dividend payable by Railways, the Finance Secretary during evidence deposed as under:-

> "Conventionally, there is a rate (Dividend) which used to be seven per cent in 2003-04 which has over the years reduced and in 2015-16, the rate fixed was four per cent. The support which is provided to the Ministry of Railways by the Ministry of Finance has seen considerably increase over the years. If you compare the budgetary estimates for 2016-17, the Government of India has agreed to give Rs. 45,000 crore as GBS in comparison to last year which was Rs. 37514 crore.

So, there is an increase of about 19 to 20 per cent over the last year.

As the Hon'ble Members are aware that there are some concessions which are being given to the Railways by the Ministry of Finance on some of the works which they undertake which are known as strategic lines which are not remunerative. For that there is a discount which is given to the Railways and we do not charge for that capital. Similarly, there are other segments for which the Railways is not liable to pay dividends. So, if you want to gross it up for, let us say, last year 2015-16 the actual payment which the Railways make may be even less than 4 per cent. According to our calculation it is going to be 2 per cent on the total capital which is deployed because a lot of that capital is not liable to be charged dividend on. Whereas if we see the cost of borrowing for the Government of India, the cost of borrowing has, over the last few years, has been in the range of 8.5 per cent. Of late, it has shown some decline. In 2015-16, the cost of borrowing for Government of India was 7.88 per cent. Now, clearly, since Government of India also raises these resources from the market and we run a deficit, so the expectation from the commercial organizations like the Railways would be that they at least provide the cost of funds to the Government of India. Therefore, we would feel that given the nature of obligations which the Ministry of Railways perform, given the vast network which they run for the convenience of the passengers, if Railways is not expected to give a market rate of return at least the cost of borrowing should be defrayed by the Railways for the market borrowings which the Railways resort to, which is also a substantial part of outlay. They, in any case, are paying to IRFC what the market rate is, at which the IRFC borrows. The cost of borrowing as per our calculation which the Railways have given to IRFC in 2014-15 was 8.96 per cent. Given the fact that the market borrowings in 2016-17 are estimated to be of the order of Rs. 59325 crore, our submission before the Committee would be that if such a large proportion of capital is being serviced at 8.96 per cent or whatever would be the current cost of borrowing in 2016-17, the Budgetary Support which is provided should also at least get the cost of borrowing of Government of India of the Ministry of Finance which is almost one per cent lower than IRFC's stated borrowing or it could be even more.

So, that in a nutshell is our request that it would bring about a considerable amount of financial discipline for a commercial undertaking like the Railways to bear the actual cost of funds. The other CPSUs which are run under the Government of India, they also when they borrow, they also are paying the market rates. This would be our request."

32. Explaining the adverse impact on the financial performances of Railways on account of implementation of 7th Pay Commission recommendations Chairman Railway Board during evidence held on 28th June, 2016 deposed as under:-

> "Another factor which has impacted our financial performance substantially this year is the burden of 7th Pay Commission. The total impact that we have assessed at present including the arrears for last three months works out to an additional burden of Rs. 35,600 crore. A broad breakup is : on account of pay it is Rs. 15,000 crore, on account of pension it is Rs. 10,600 crore, and the allowances which are still to be finalized and which would be paid in this financial year is assessed to be around Rs. 10,000 crore. That makes it Rs. 35,600 crore. Against this, in our budget we have provided Rs.20,500 crore – Rs. 12,000 crore on account of pay and Rs. 8,500 crore on account of pension – as per the assessment at that point of time. So effectively there is a shortfall of Rs. 15,100 crore which is a substantial burden on us and which we are finding very very difficult to bear..... Any relief on dividend will definitely help us to partly compensate for the shortfalls that we have on account of 7th CPC as well as traffic shortfall."

33. When asked about the action plan envisaged by the Ministry of Railways to mop up the requisite funds in 2016-17 for meeting the salary and pension requirements on account of the implementation of the recommendations of the 7th Pay Commission, the Ministry of Railways in their written reply stated as under:-

> "It is mentioned that the 7th Pay Commission liability in 2016-17 has been assessed at Rs 12,000 crore on account of salary, out of which Rs 3,000 crore would be met from available balances in Debt Service Fund and a net higher provision of Rs 9,000 crore has been made in Ordinary Working Expenses (O.W.E.).
>
> 7th Pay Commission liability as pension outgo has been assessed at Rs 8,500 in BE 2016-17. This has been provided by matching appropriation to Pension Fund. The appropriation to Pension Fund in R.E. 2015-16 was Rs 34,560 crore while in B.E. 2016-17 appropriation to Pension Fund has been kept at Rs 42,600 crore viz. higher by Rs 8,040 crore over RE 2015-16.
>
> As advised by the Ministry of Finance, provisioning in B.E. 2016-17 for 7th CPC liability was to be made for salary and pension alone. Hence liability on account of allowances due to 7th CPC has not been factored at B.E. stage. The provision of impact of 7th CPC on allowances will be made during the course of the year depending upon the acceptance of the report of the 7th CPC on individual allowances by the Government.
>
> The provision towards the above have been made out of the projected receipts of Railways during the year and fund balance available in Debt Service Fund for the purpose. All out efforts are being made to achieve the estimated receipts target."

34. During the further evidence held on 27th September, 2016 Chairman, Railway Board stated:-

> "Sir, it is a fact that every Pay Commission puts the finances on back foot for at least few years. Then we recover and every time our operating ration deteriorates by 4 to 5 per cent immediately after the implementation of Pay Commission recommendations and then gradually with the earnings picking up, the situation gets stabilized. This year is bad in the sense that our earnings are not picking up to the extent that we had projected in our Budget and, as I had mentioned, the Pay Commission has put an additional burden of Rs. 35,600 crore. So, this year the situation is quite bad, I would say and we need the support of the Hon. Committee as well as the Finance Ministry to handhold us for at least few years till the impact of Pay Commission is completely absorbed by the Railways."

35. The Finance Commissioner, Railway Board added:-

> "We have worked out around Rs. 32,000 crore for the 7th Pay Commission, but it does not include the allowances. We will have to factor in that when the recommendations of the Committee of Secretaries are given approval to by the competent authority – the Cabinet and the PMO. However, in case we have to pay the allowances, then we would beseech you to kindly consider our dispensation of the dividend which is around Rs. 10,000 crore because our analysis is that it will be additional Rs. 10,000 crore at least for this year. That is one of the major reasons why we are requesting for a waiver of dividend for us."

36. As regards the request of the Railway Ministry regarding financial support of the Ministry of Finance to partly bear the burden of expenditure on account of 7th Pay Commission Report on Railways, the Finance Secretary during evidence deposed as under:-

> "…. But regarding the burden of the Seventh Pay Commission, they had known when the Budget estimates were prepared just as the Finance Ministry was aware on the likely burden of the Seventh Pay Commission when we prepared the General Budget. The expectation was that adequate provisions will

be made in the Budget for 2016-17. So, it is only fair to expect that the Railways should generate the revenues which are required to take care of their projected liabilities."

37. When asked about the response of the Ministry of Finance to the comments made by the Ministry of Railways in respect of their observations on the Rate of Dividend for 2016-17, the Ministry of Finance in their written reply stated as under:-

(i) "The payment of dividend or payment of interest on loan in perpetuity is part of any Government entity functioning on commercial principles. Since Indian Railways are, at present, functioning on commercial principles, payment of dividend on its capital borrowed from General Revenues reflects its operational viability and efficiency of its performance.

(ii) The liability on account of implementation of the recommendations of 7th Central Pay Commission is much larger in comparison to the liability of Indian Railways arising out of implementation of 7th CPC. Being a commercial entity, Railways may need to generate adequate resources through mobilization of revenue, innovative business operations and rationalization of its expenditure.

(iii) While the Union Government are to fulfil the social objectives in areas such as education, rural development, health, welfare of SC/STs, housing, etc., Railways being part of Government should also take part in discharging its social obligations. Railways cannot exclude itself from the overall objectives of the Government on one hand and claim reimbursement from Ministry of Finance on account of social service obligations on the other hand.

(iv) Railways have been enjoying numerous concessions in the form of highly concessional capital from General

Revenues, subsidy from dividend relief and reimbursement of losses on operation strategic lines. Higher concessions and reliefs would only lead to complacency and inefficient function. Dividend paid by Railways is ploughed back in Railways through higher GBS to Railways.

(v) Rashtriya Rail Sanraksha Kosh is proposed to be constituted for a dedicated purpose and resources there for are to flow from a committed resources in the form of a special levy or surcharge on the tariffs. General Revenues, with its large social commitments, cannot finance the requirement of this magnitude of Railways on this account."

38. The Committee desired to know about the improvements brought out in the system as also cost cutting measures adopted by the Railways so as to become more competitive. In response the Finance Commissioner during the evidence deposed as under:-

"Sir, you will be happy to know that we put in internally a series of austerity measures in the month of November last year especially with regard to direct relationship of traffic with expenditure as well as severe curtailment and optimization of energy as well as fuel costs. We have been able to reduce almost Rs. 14,000 crore last year as a result of these austerity measures and tightening of our controls. So far as cost is concerned, in an environment where we could not get more traffic, we have been able to link costs with activity and reduce it. That is why; we have been able to keep our operating ratio last year to 90.3 per cent finally."

39. The Finance Commissioner further added:-

"Let us come first to electricity savings. Last year, we could get the deemed licensee status and the open access tenders were floated. We have been able to save about Rs. 30 crore last year itself on cost of electricity. In addition, technical changes in certain internal mechanisms have been done like merging of the traction substations by which the difference between the maximum contracted demand and the actual consumption has been minimized. This helps in optimizing our utilization of electricity against the benchmark of payments that are made to the electricity authorities.

Some of the electricity authorities have given us an incentive of one to two per cent of bills if online payments are made. Through RTGS, we have 100 per cent gone online and saved this amount. The cost of traction electricity has substantially come done by about Rs. 2 per unit due to this competitive mechanism. This year, we have budgeted a reduction of Rs. 1,806 crore in our electricity bill notwithstanding the fact that there is going to be a 50 million tones increase in our traffic.

So far as diesel is concerned, there is a two-pronged approach. The first is to arrest leakages of reduce inventories. There was an age old system in which the diesel was being supplied to our fuel depots through trains, through tank wagons. We have been able to reduce this and have increased road supplies to about 90 per cent of our fuel depots except to places which are highly inaccessible. This has reduced our cost substantially.

Secondly, earlier the inventory carried in each fuel depot was more than ten to fifteen days' stock. With the new system of road supply, we have brought it down below five days on an average. The inventory carrying cost has reduced.

Then, we have already gone for open tenders for procurement of diesel at the lowest cost. Earlier, we used to go only to the three major public sector companies. This has given us price advantage.

We have taken a trial project of vendor managed inventory. It is going on in Jaipur where instead of the Railways having its own installation and managing its fuel installation, it is the petroleum marketing company which is going to hold it just like a normal petrol pump and we are going to pay as and when the locos are fuelled through an electronic payment gateway. These are the initiatives which we hope would give us an immediate relief of Rs. 2,500 crore per annum. This year, we plan to reduce diesel expenses by about 3,350 crore. Of course, we have taken an average cost. Unfortunately, there has been a little bit of hike in prices, but definitely we are going to achieve substantially once more and more fuel depots are coming on to the vendor managed inventory.

Apart from that, we will save on manpower cost also of managing these fuel depots which were earlier being managed by the Railways."

40. When asked about the reasons for negative trend in originating passengers since 2013-14 and what specific and innovative measures are proposed to be taken to improve the passenger traffic earnings, the Ministry of Railways in their written reply stated as follows:-

(a) "The reasons for decline in passenger traffic since 2013-14 are attributable to various factors including improvement in road infrastructure offering better and faster connectivity leading to increase in the number of personal and commercial vehicles, diversion of passenger traffic to metro rail projects in cities, cancellation of trains due to agitations, natural calamities, etc. during this period.

(b) "In order to improve passenger traffic, Alternate Train Accommodation Scheme known as VIKALP has been introduced on pilot basis to provide confirmed accommodation to waitlisted passengers in the alternate trains based on the choice exercised by them and to ensure optimum utilization of available accommodation. Measures are also undertaken to augment ticket dispensing capacity through operation of Automatic Ticket Vending Machines (ATVM), mobile ticketing, utilizing the services of ticketing agents like Jan Sadharan Ticket Booking Sewaks (JTBS), Station Ticket Booking Agents (STBA), Yatri Ticket Suvidha

Kendra (YTSK), etc. Temporary/permanent augmentation of on-board capacity by attaching additional coaches/running of special/Suvidha trains to meet the demand is a continuous exercise."

41. Elaborating the measures taken to effect cost recovery on account of passenger operations Chairman, Railway Board during the evidence held on 28th June, 2016 the stated as under:-

> "In this Budget, we have announced some new services like Tejas, Hamsafar, etc. and some trains we are already running like Suvidha, etc. in premium classes where we want to charge exactly the cost of service. So, the new class of trains, which will come up will be on dynamic fare; will be on a different pricing; and will be with premium facilities where people are prepared to pay and they will recover the cost of service. One such service is Gatimaan Expres, which runs between Delhi and Agra where the charges are much more than what are the charges on other trains.
>
> So, with the new passenger services coming with cost recovery I think that losses on passenger services will come down to some extent and the other train option will always be available. The one who wish to travel by these services can travel by these services."

42. The Committee having noted that Railways have introduced dynamic pricing method for tapping peak demand for berths by way of introduction of Suvidha trains. When asked about the experience of the Railways in this regard, the Ministry of Railways in their written reply stated as follows:-

> "W.e.f 01.07.2015 in place of premium trains, Suvidha trains are introduced during peak seasons like winter rush, summer rush, Dussehara rush, Holi rush and on other occasions as jointly decided by COMs and CCMs of the zonal

Railways. Confirmed, RAC and WL tickets are issued for this train. ARP of the train is maximum 30 days and minimum 10 days. Both Counter PRS ticket and e-ticket is issued. No concession, no free/complimentary pass is applicable and also for children full adult fare is charged.

Minimum fare of Suvidha train is Tatkal fare and increases after booking of every 20% of seats/berths subject to maximum three times of Tatkal fare. Other applicable supplementary charges like reservation charge, superfast charge, service tax etc. is levied separately. 50% refund of fare is granted upto 6 hours before the scheduled departure of the train or preparation of the chart whichever is earlier. After that no refund is permissible. The average occupancy of Suvidha Trains is 62% approx. since the time of introduction. However, during peak season, holidays & festivals Suvidha trains on most routes have 90 – 100% occupancy."

43. When asked about the surge pricing method that was introduced recently in certain premium express trains by the Railways and the revenue expected to be generated on account of this, the Chairman, Railway Board during evidence stated as under:-

"The flexi fare that has been talked about on premium trains, there is nothing like surge pricing. This is, perhaps, a misnomer because the fares that we have move on dynamic basis and they are quite predictable. There is no unpredictability in the fares that we have put and let me submit that it has been introduced for seeing the impact on a very small number of trains which cater only 0.65 per cent of the total passengers..... and they are the passengers who are generally in a very good financial position. They cannot be said to be poor passengers. So, we felt that perhaps they can afford it. It is not that this small increase that we have adopted is going to bail us out. It is very small money. But nevertheless that is the attempt made to raise little more resources."

44. He further added :-

> "....we have taken a conscious decision of effecting fare increase on some small number of trains and for other trains, no decision has been taken at this stage and so, it will not be appropriate for me to comment on that."

45. In a written reply the Ministry of Railways have enumerated the various measures taken for optimizing the internal resource generation by way of enhancing revenues and economizing revenue expenditure. These are given as under:-

"<u>Various revenue enhancement measures include:</u>

- Targeting progressively higher volume of passenger and freight traffic.
- Incentivizing freight traffic in empty flow direction
- Policy on private freight terminals, sidings etc.
- Periodic revision/rationalization of passenger fare and freight rates.
- Better rake utilisation
- Exploration of alternate sources of revenue like commercial exploitation of surplus railway land, advertisement on Railway premises and assets.

<u>Various expenditure control measures being effected by Railways include:</u>

- Constant endeavour to effect economy in expenditure on controllable heads like travelling allowances, over-time allowance etc.;
- Austerity and economy measures in areas such as hospitality, publicity, advertisements, inaugural ceremonies, seminars/workshops and contingent office expenses etc.
- Implementation of guidelines on expenditure control and management circulated by MoF.
- Imposition of Spending Limits and Exchequer control
- Rigorous monitoring of expenditure w.r.t. the monthly budget proportions.
- Pre-check of indents and estimates.
- Concurrent and internal audit functions.
- Ban on creation of posts except safety categories and against new assets.
- Manpower planning, benchmarking and yardsticks based on work studies
- Post checks of pension payment by banks
- Efficiency and productivity of assets

Investments under EBR (Partnership) were not being mapped till 2015-16, Therefore the amount was not being reported in the earlier years. The exercise to map and reconcile the investments through Partnership route was undertaken in 2015-16. The items that were included in this exercise that are covered under EBR(Partnership) are investments under PPP by private parties, investment under partnerships from state governments, contribution from MPLADS funds, CSR finds etc.

An investment of Rs. 15081 crore was received through EBR (Partnership) in the year 2015-16. The target for 2016-17 is Rs. 18340 crore."

46. The Committee enquired about the additional/innovative measure that are contemplated for the future and whether Railway Board is confident that in the coming years there would be a marked improvement in enhancing revenue generation by Indian Railways. In response the Ministry of Railways in their written reply stated as under:-

> "Internal resource generation is dependent on (i) higher growth rate in railway receipts and (ii) minimization of the growth in railway expenditure. Railways' efforts are however hamstrung by inflexibility of a major part of revenue expenditure, periodic slowing down of the core sector of the economy, stiff competition of the ever expanding road sector to Railways' passenger and goods traffic and implementation of periodic pay commissions. Internal resource generation targets are kept in BE/RE stages based on optimistic growth in revenue and bare minimum growth on expenditure. Despite measures taken, certain slippage in estimated growth in earnings or expenditure do occur due to circumstances beyond the control of Railways or due to unforeseen developments which lead to shortfalls in internal resource generation.
>
> However, despite bearing a huge social service obligation by carrying certain classes of passengers and certain essential commodities below cost, continuous endeavour towards maximization of revenue and minimisation of expenditure have helped Railways to improve internal resource generation over the years. Due to measures adopted, internal resource generation could improve from Rs. 4,811 cr in 2004-05 to Rs. 18,928 cr in 2007-08 and

from Rs. 2,229 cr in 2009-10 to Rs. 16,106 cr in 2015-16. In a few years from 2008-09, the internal resource generation dipped due to implementation of 6th CPC.

In BE 2016-17, Railways have kept an internal resource generation target of Rs. 11,679 cr despite spurt in staff cost owing to 7th CPC. A number of short-term and long term measures have been adopted to enhance internal resource generation.

Efforts towards maximizing Passenger and Goods earnings:

IR has initiated various steps to increase the share of rail in transportation market. The strategy adopted to increase share of Railways in freight movement is multi-pronged. It includes directed and focused investments to increase transportation capacity in congested sections and also tariff and non-tariff policy initiatives aimed at attracting more traffic (including new traffic) streams to Railways. Some of these are as under:

(i) Ministry of Railways is working on the budget announcements such as expansion of the freight basket of IR, expansion of container sector to all traffic (barring Coal & specified Mineral 14 Ores) and access to container traffic for all existing terminals/sheds.

(ii) Steps already initiated to attract more freight traffic to rail include:

- Permitting all covered wagons for booking of traffic to two-point/multi-point combinations, mini rake.
- Distance restriction applicable for mini rake has been relaxed from 400 to 600 kms.

- Automatic freight rebate scheme for traffic loaded in empty flow direction has also been introduced.
- Withdrawal of Port Congestion charge.
- Withdrawal of Busy Season Charge.
- Discontinuance of dual freight policy for Iron Ore traffic.
- Introduction of Roll-on-Roll-off policy.
- Merry-Go-Round (MGR) scheme has been further rationalized to attract short lead traffic.
- Electronic Registration of Demands & Electronic Transmission of Railway Receipt.
- SAMVAD – A process of structured dialogue between customers and top Railway authority has been initiated at Railway Board as well as zonal level to take continuous feedback from customers. Ten key Customer Managers at Railway Board level have been nominated to liaison with major freight stake holders.

iii) Initiatives taken to enhance passenger earnings include:

- Attachment of additional coaches, running of special trains during festivals and holidays, running of Suvidha trains, etc. for the convenience of passengers.
- Organising intensive ticket checking drives, including fortress checks, etc. to discourage ticketless travel.
- Augmentation of ticket selling capacity through operation of Automatic Ticket Vending Machines (ATVM), mobile ticketing, utilising the services of ticketing agents like Jan Sadharan

Ticket Booking Sewaks (JTBS), Station Ticket Booking Agents (STBA), Yatri Ticket Suvidha Kendra (YTSK) etc.

- Introduction of Alternate Train Accommodation Scheme known as VIKALP on pilot basis to provide confirmed accommodation to waitlisted passengers in the alternate trains based on the choice exercised by them and to ensure optimum utilization of available accommodation.
- Recently dynamic pricing has been implemented in Rajdhani, Duronto and Shatabdi express trains.

iv) Tapping of the revenue potential from non-fare revenue sources comprising, inter alia, of advertisement on Railways' premises, inside/outside coaches/locos, along tracks, commercial exploitation of vacant land, space rights over station buildings/redevelopment of stations, monetization of soft assets etc has been given priority. To attract parcel traffic, policy on Parcel Cargo Express Train and Comprehensive Parcel Leasing Policy has been further liberalized.

<u>Efforts towards IR's capacity augmentation and thereby earnings:</u>

- To reap the benefits of past investments at the earliest, projects are also being prioritized with ring-fenced allocations for time-bound completion. Last mile projects are also being funded to the full extent for early completion so as to contribute to the revenues.
- A five year(2015-19) investment plan of Rs. 8.56 lakh crore has been chalked out with focus on capacity enhancement works

under Doubling, Traffic Facilities and Electrification which is expected to give a boost both to freight and passenger traffic in the years to come and thereby to Railways' revenues.

- Currently, two major network expansion projects – Dedicated Freight Corridors (DFC), Eastern & Western, of around 3300 km. are being constructed to augment freight transportation capacity of Indian Railways and to increase rail freight share. Due to the massive transport capacity that would be created by the DFCs and with the released capacity available for passenger traffic, there would be overall positive impact on the revenue generation of IR. With the shifting of freight traffic to DFC, substantial capacity on existing network would be released for increase the services and improvement in the services.

Efforts towards minimizing OWE:

Comprehensive instructions on Expenditure Management - Economy Measures, Austerity, Cost control, Rationalization of Expenditure have been circulated to all concerned for being followed scrupulously. Broadly, the measures taken to rationalize and control expenditure revolve around the following areas:-

- Constant endeavour to effect economy in expenditure on controllable heads like travelling allowances, over-time allowance, etc.;
- Austerity and economy measures in areas such as hospitality, publicity, advertisements, inaugural ceremonies, seminars/workshops and contingent office expenses, etc.

- Implementation of guidelines on expenditure control and management circulated by Ministry of Finance.
- Imposition of Spending Limits and Exchequer control.
- Rigorous monitoring of expenditure with regard to the monthly budget proportions.
- Pre-check of indents and estimates.
- Rigorous concurrent and internal audit functions.
- Various cost cutting measures in purchase and use of fuel - both electric and diesel, like purchase of power as distribution licensee, purchase of power at lower rates from various State Electricity Boards and other units, taking up of various energy conservation measures, fitment and working of auxiliary power units, use of bio diesel, rationalization of fuelling pattern, improvement in SFC and SEC, etc. IR has leveraged provisions of the Electricity Act, 2003 to procure power directly at competitive rates, using its status as Deemed Distribution Licensee. Power Procurement Contracts (PPAs) in various states of approximately 1000 MW already signed will mean an annualized saving of Rs. 1,500 crore.
- Manpower planning, benchmarking and yardsticks based on work studies.
- Post checks of pension payment by banks.
- Efficiency and productivity test of assets, etc.

47. Explaining the various measures taken to augment the resource generation so as to improve the overall financial performance of the Railways, the Ministry of Railways in a written note submitted as under:-

“A number of short term and long term measures have been contemplated to augment resource generation.

To give a boost to the passenger earnings while introduction of trains on cost recovery basis and with dynamic pricing are planned, rationalization of freight rates to attract bulk traffic to Railways i.e. review of busy season surcharge / port congestion charge and expanding the basket of commodities carried by Railways are being considered.

A lot of emphasis is also being attached to generation of non-tariff revenues through commercial exploitation of vacant land and space rights over station buildings, monetizing land along railway tracks, monetizing the soft assets, advertising, overhaul of parcel business and revenue from manufacturing activity. Toward this end a dedicated Directorate has been created in the Ministry to address related issues so that the share of non-tariff revenues increases.

Capacity constraints are being addressed by a five year investment plan (2015-19) with substantial investment on capacity enhancing works under Doubling, Traffic Facilities and Electrification. Priority projects and last mile projects are being provided with adequate outlays for their early completion so as to reap the benefits of investment.

On the other hand, various economy measures are also adopted to keep the Ordinary Working Expenses under check. Comprehensive instructions on Expenditure Management-Economy Measures, Austerity, Cost Control, Rationalization of Expenditure and Revenue Augmentation have been circulated to all concerned for being followed scrupulously and the budget targets are being monitored at all levels.

As regards the performance in the current year, the declining trend in traffic so far and the impact of 7th CPC implementation presents a very difficult year ahead 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."

48. Enquired about the status of physical progress achieved with respect to construction of Eastern and Western freight corridors the Ministry of Railways in their written reply submitted as under:-

"The overall progress of both Eastern and Western Dedicated Freight Corridors (DFC) is satisfactory. The progress upto October 2016 is summarised below:-

(i) Land Acquisition:- 20F Award under RAA 2008 has been declared for 94% of the land excluding Sonnagar-Dankuni Section (534 Kms.).

(ii) Contract Awarded on both Eastern and Western DFCs:-

- Civil Contracts:- 92%
- System Contracts:- 82%

(iii) Physical Progress:- 33.9%

(iv) Financial Progress:- 32.2%

49. As regards the number of sections in these corridors that would be completed by the end of Phase-I by 2017, the Ministry of Railways stated as under:-

"The Sasaram-Durgawati Section (56 km) of Eastern DFC has been completed. In the year 2017 no Section of DFC is scheduled to be completed. Different sections of Eastern and Western DFCs are targeted to be completed in phases from year 2018 to 2019."

50. Asked as to whether any cost and time overruns expected in completing the projects under these corridors, the Ministry of Railways in their written reply stated as under:-

"The revised cost estimate of the DFC Projects is Rs. 81,459 crore (excluding construction cost of Sonnagar-Dankuni) (Western DFC- Rs. 51,101 crore & Eastern DFC – Rs. 30,358 crore). For both Eastern and Western DFCs, implementation schedule and timelines have been drawn up and are being monitored on regular basis in order to complete the projects in phases by December 2019. Cost overruns are likely in land acquisition due to the provisions for compensation in the new Act and of land in Mumbai area."

51. When asked about the approximate cost over runs on account of land acquisition in Mumbai area, the Ministry of Railways in their written reply stated as under:-

"Earlier sanctioned land estimate for Dedicated Freight Corridor Project (DFC) was Rs.8067.76 crore. Now revised land estimate for DFC has been prepared for Rs.16208.13 crore and is under process for approval. The cost overrun is due to New Land Acquisition Act and land in Mumbai area costing Rs.8480 crore. Being statutorily determined, there is no option but to defray these costs."

52. During evidence, Chairman, Railway Board apprised the Committee of the latest status with respect to progress of DFC project as under:-

> "DFC is a project, which is linking east to north and west to north. The Easter Dedicated Freight Corridor is likely to carry the bulk of the commodities like coal etc. The Western Dedicated Freight Corridor is expected to move a lot of container traffic from various ports and to the ports. The land acquisition, which is the most difficult of all processes, has substantially moved; it is around 91 per cent today. The balance, in small patches, they have left. We are pursuing with various State Governments. I think we will be able to complete the balance land acquisition in less than one year. DFC progress 33.9 per cent means the overall progress. We have phase-wise commissioning target. We propose to commission both the Dedicated Freight Corridors by December 2019."

53. On being enquired about the views of the Ministry of Finance on the desirability of giving dividend relief to DFCs, the Secretary, Ministry of Finance during evidence deposed as under:-

> "When you decide on the tariff, which you impose on the users – and these freight corridors by definition are meant for carriage of goods – it cannot be anybody's proposition that the Government should subsidize the movement of goods because that provides a substantial chunk of revenue to the Railways. Most of the users in this, would be those users who are also operating on commercial principles. So, if there is a thought that movement of goods should also be subsidized, then that

may actually not be in the interest of the commercial operations of both the Railways as well as the commercial principles on which the private industry or the public industry is expected to work.

But it is possible for the Railways to structure their fare in such a way that the recovery period is elongated. So, that itself can provide some relief in the short run to the users. This is a methodology, which is used by many industries in the market that they do not frontload their recoveries. They spread them out evenly, or in many cases depending on the commodity, depending on the market, they back in their recoveries so that there is an initial phase of market development and then the recoveries get stretched in that manner. But I would only like to resubmit before the Committee that we should not encourage the Railways to subsidize freight in any way."

54. The Secretary, Finance further added:-

"Sir, any concession given, will provide relief. I cannot dispute that fact. My only submission is that rather than providing relief in such a way where the costs of funds are depressed, the Railways can structure their fares in such a way that they recover their investments in a gradual fashion so that there is an adequate period of market development in which the market comes back to the Railways and it is not frightened by the high tariff, which the Railways might charge."

55. Emphasizing the need for dividend free grant/cess for the proposed Rashtriya Rail Sangraksha Kosh ,Chairman, Railway Board during evidence,submitted as under:-

"Another submission that we are going to make to the hon. Committee is that we have not been able to provide adequate funds for rehabilitation of various assets due to various reasons while we are providing minimal to maintain the safety levels those are required but we have proposed the Rashtriya Rail Sanraksha Kosh which is basically for rehabilitation of various over-aged assets. This total amount in this Kosh we are proposing to be around Rs. 1.2 crore which is to be spent over around five years. We propose to levy a safety surcharge. We want a grant from Ministry of Finance for this Kosh. We want a dividend free GBS. So, based on this we propose to have this Kosh."

56. During the further evidence held on 27th September, 2016 the Chairman, Railway Board deposed as under:-

"We have proposed to the Finance Ministry a Rail Suraksha Kosh like it was created in 2003. We have proposed around Rs. 1,19,000 crore fund for replacing all those stressed assets. But somehow the Finance Ministry's responses have not been very positive. They have said that they can only share a very small percentage of the total fund that we are seeking, and balance we should generate from rising the resources. So, raising the resources means raising the fares and freights. Freights are already very high, and I cannot afford to lose any more freight by raising the freight charges. The only alternative left to me is 'passenger fare increase' which is an unpleasant thing for passengers. The profile of the persons who use rail services perhaps cannot afford that substantial increase in fares. So, we are in a difficult situation."

57. On being asked about the action taken by the Ministry of Finance on the proposal of creation of Rail Sangraksha Kosh, a representative of Ministry of Finance during evidence stated as under:-

> "Regarding the proposal of Railways for creation of Rashtriya Rail Sanraksha Kosh, the requirement of funds projected by Railways for five years is Rs. 1,19,000 crore, out of which Rs. 1.11 lakh crore is sought to be financed out of contribution from General Revenues. However, the Ministry of Finance is not in a position to bear this huge expenditure because it would amount to cutting corners on other part of the expenditure given our fiscal deficit targets which are there. Hence, we have proposed to Railways that it may meet 75 per cent of the requirement through resource mobilization either by way of levy, surcharge or increase in passenger/freight fares, and secondly, 25 per cent of the balance can be earmarked out of the enhanced gross budgetary support that we are giving to Railways......the Central Road Fund /share of Railways has been increased from 6.2 per cent in last year to 14 per cent this year. The contribution has hugely increased and this time it has become four times – from around Rs. 2,500 crore provided last year, it is about Rs. 10,000 crore in this financial year. What we have said is, you could meet 25 per cent out of that. That part would be non-interest bearing."

58. The representative of the Ministry of Finance further stated:-

> "Sir, given our fiscal situation of the Government of India, if we give enhanced contribution to the Railways, it will have to come at the expense of some other expenditure and we are also duty bound to comply with the fiscal deficit targets prescribed by the FRBM Act. So, under the current circumstances, we thought it fit that in case the Railway wants more funds, it could mobilize it this way."

59. When asked about what was the response of Railways to the stand taken by the Ministry of Finance the representative stated that they (Railways) have not responded and they are yet to come back to us.

FUNDS OF RAILWAYS

(i) Depreciation Reserve Fund (DRF)

60. In 2014-15 appropriation to DRF was kept at Rs. 7,975 cr comprising Rs. 7,775 cr from Revenue and Rs 200 crore from Production Units. DRF has closed with a balance of Rs 1,777 crore in 2014-15.

61. In BE 2015-16, the appropriation to DRF has been kept at Rs 8,100 crore comprising Rs. 7,900 crore from Revenue and Rs 200 crore from Production Units. In view of reduced financial resources, the appropriation to DRF from Revenue has been scaled down to Rs 5,700 cr in the Revised Estimates 2015-16 comprising of Rs 5,500 crore from Revenue and Rs 200 crore from Production Units.

62. In BE 2016-17, the appropriation to DRF has been placed at Rs 3,400 crore comprising of Rs 3,200 crore from Revenue and Rs 200 crore from Production Units. The lower appropriation from Revenue is

due to stress on railway resources on account of 7th CPC provisioning. The requirement from DRF to meet plan outlay as per B.E. 2016-17 is Rs 7,160 crore out of which Rs 4,000 crore is to be met through credit from scrap sale of released materials and the balance Rs 3,160 crore is to be met by withdrawal from the Fund. The Fund is estimated to close with a balance of Rs 216 crore in 2015-16 and Rs 470 crore in 2016-17.

(ii) Pension Fund

63. In 2014-15 the appropriation to the Pension Fund was placed at Rs 29,540 cr comprising Rs 29,225 cr from revenue and Rs 300 cr from Production Units. Pension Fund has closed with a balance of Rs 1,360 cr in 2014-15.

64. The appropriation to the Fund in BE 2015-16 was kept at Rs 35,260 cr comprising Rs 34,960 cr from Revenue and Rs 300 cr from Production Units. The appropriation to Pension Fund has been kept at Rs 34,560 cr from Revenue and Rs 300 cr from Production Units in the Revised Estimates 2015-16.

65. In BE 2016-17, the appropriation to Pension Fund has been placed at Rs 42,600 cr from revenue and Rs 300 cr from PUs to cater to an estimated outgo of Rs 45,500 cr from the Fund. The provision provided in BE 2016-17 also takes into account the likely impact of the 7th CPC on pension. The Fund is estimated to close with a balance of Rs 3,088 cr in 2015-16 and Rs 559 cr in 2016-17.

(iii) Development Fund (DF)

66. This Fund is utilized mainly for meeting expenditure on Passengers and users' amenities, Labour welfare works, Un-remunerative operating improvements and Safety Works.

67. 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.

68. In 2014-15 the appropriation to DF has been made at Rs 1,375 cr. The Fund closed with a balance of Rs 2,013 crore in 2014-15.

69. The appropriation to the Fund in BE 2015-16 was estimated at Rs 5,750 cr, which in the Revised Estimates has been scaled down to Rs 1,324 cr.

70. The appropriation to the Fund in BE 2016-17 has been kept at Rs 2,515 cr. The Fund is likely to close with a balance of Rs 384 cr in 2015-16 and Rs 415 cr in 2016-17.

(iv) Capital Fund

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

72. In 2014-15, the appropriation to this Fund was kept at Rs 6,233 cr. The fund has closed at Rs 1,389 cr.

73. The appropriation to the Fund in BE 2015-16 was estimated at Rs 7,616 cr, which has been kept at Rs 6,293 cr in RE.

74. The appropriation to the Fund in BE 2016-17 has been kept at Rs 5,750 cr. The Fund is likely to close with a balance of Rs 1,444 cr in 2015-16 and Rs 227 cr in 2016-17.

(v) Debt Service Fund

75. The creation of this Fund was approved by the Railway Convention Committee (2009) vide their Recommendation No. 3 of its sixth Report submitted to the Parliament on 8th of May, 2013. Railway Liability Reserve Fund has been created from 2013-14 and has since been renamed as 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. 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.

76. In 2014-15 the appropriation to this fund has been kept at Rs 57 cr. The closing balance in the Fund in 2014-15 was Rs 236 cr.

The appropriation to the Fund in BE 2015-16 was estimated at Rs 900 cr, which has been increased to Rs 3,786 cr in the RE. The closing balance in the Fund is intended to be used for partially meeting the impact of the 7th CPC on pay during 2016-17.

77. The appropriation to the Fund in BE 2016-17 has been kept at Rs 214 cr whereas the outgo from the Fund has been kept at Rs 3,000 cr for partially meeting the impact of 7^{th} CPC. The Fund is likely to close with a balance of Rs 4107 cr in 2015-16 and Rs 1430 cr in 2016-17.

(vi) Railway Safety Fund (RSF)

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

79. In 2014-15 an appropriation of Rs 1,499 cr, comprising of Rs 1496 cr of Railways' share from the Central Road Fund, has been made to the Fund. The Fund has closed with a balance of Rs 97 cr in 2014-15.

80. The appropriation to this Fund in BE 2015-16 was Rs 1,648 cr consisting of Rs 1,645 cr transferred by the Central Government from the Central Road Fund and Rs 3 cr worked out as contribution for the erstwhile RSWF out of the Dividend. MoF gave an additional Rs 862 cr for this Fund and accordingly the appropriation to this Fund in RE has been increased to Rs 2,510 cr including Rs 3 cr from dividend.

81. The appropriation to this Fund in BE 2016-17 has been kept at Rs 10,782 crore comprising Rs 10,780 cr of the transfer from the Central Road Fund and Rs 2 cr worked out as contribution for the erstwhile RSWF out of the dividend. The Ministry of Finance has increased the ambit of works that can be met from this Fund. Apart from road related safety works, now Ministry of Finance has permitted financing works relating to new lines, gauge conversion, electrification & safety also from this Fund. Accordingly, in BE 2016-17, works relating to new lines & gauge conversion have also been provided out of this Fund including the cost of land for these project plan heads.

Principle governing the rate of interest on the Railway Reserve Funds.

82. It is submitted that the recommendations of 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 also. According to this, balances in various Railway Reserve Funds (other than Development Fund and Railway Safety Fund) may carry the same rate of interest as the rate of dividend. The rate of interest on the balance in Development Fund may be the same as the rate of interest on loan from General Revenues for Development Works. The Railway Safety Fund is a ‘Non-interest bearing’ Fund.

MERGER OF RAILWAY FINANCES WITH THE GENERAL FINANCES

83. The NITI Ayog in its paper on “Dispensing with the Railway Budget” authored by Dr. Bibek Debroy, Member NITI Ayog and Shri Kishore

Desai and presented to the Government suggested phasing out of the separate Railway Budget and merging it with the Union Budget.

84. In a background note submitted to the Committee on the issue of merger of Railway Budget with General Budget the Ministry of Railways have stated as follows:-

85. On the issue of merger of Rail Budget, Ministry of Railways has communicated to Ministry of Finance that prima facie, merger of Railway Budget with Union Budget is a workable idea and Ministry of Railways is positively inclined towards the suggestion. However, Railways has also stated that the merger would be useful if it serves to:-

a) Facilitate a clear demarcation between the commercial and social parts of the Railway which are presently intermingled. The commercial part of the business should be managed on sound commercial principles and the social part can be costed and compensated by general exchequer on pre-defined efficiency benchmarks.

b) Safeguard the speed and autonomy of decision making considering the scale and complexity of operations of Railways.

c) Ensure adequate funding to expand and modernize the Railway network.

86. Subsequently MOF has communicated its approval to merge the Railway Budget with the General Budget from 2017-18. The unified budget would include estimates of Ministry of Railways and a single Appropriation Bill will be presented to Parliament. To work out the procedural details and other operational modalities for the merger of Railway Budget with the General Budget, a Committee of officials from

Ministry of Finance and Ministry of Railways has been constituted, which has since submitted its report on 07.09.2016.

87. Explaining the positive spin offs that would result due to merger of Railway Budget with General Budget, Ministry of Railways in their written reply stated as under:-

> "Merger of Railway Budget with General Budget is a decision of the Government and is aimed at bringing the affairs of the Railways to centre stage of Government's fiscal policy and present a holistic picture of the financial position of the Government. The merger would facilitate multimodal transport planning between highways, railways and inland waterways. This will also save precious time of Parliament by not having to hold separate consideration and passing of two Appropriation Bills.
>
> Despite the merger, the Railways will continue to maintain its distinct entity as a departmentally run commercial undertaking and will also continue to meet all its revenue expenditure including Ordinary Working Expenses, pay, allowances and pensions etc from its revenue receipts. Ministry of Railways will continue to receive Gross Budgetary Support from the Government towards meeting part of its capital expenditure. However, since the Capital-at-charge will get wiped off, there will be no dividend liability for the Railways, thereby adding to overall resources of Railways. However, in the eventuality of having a revenue deficit, MoR would pursue for submerging the

gap in the Consolidated Fund of India or, at the least, meeting such a gap by getting a grant from MoF."

88. On being asked as to what extent the relief from payment of Dividend would impact the overall financial health of the Railways the Ministry of Railways in a written reply stated:-

"In Memorandum for 2016-17, Ministry of Railways has requested the Railway Convention Committee to exempt the Railways from payment of dividend at least for five years beginning from the fiscal 2016-17 to give relief to the Railways in meeting with the requirement of funds. In BE 2016-17, Railways have estimated a dividend payment of Rs. 9731.29 cr (provisionally @ 4%). A favourable recommendation to this effect would enable Railways, in the current year, to get a relief to this extent.

Moreover, the issue regarding doing away with the practice of dividend payment and subsidy thereon was taken up with the Ministry of Finance at length in the context of merger of Railway Budget with the General Budget. The Government, while deciding the said merger w.e.f. the fiscal 2017-18, has also decided to do away with the practice of dividend payment by the Ministry of Railways to Ministry of Finance. MoR would also stop receiving (i) subsidy from Ministry of Finance towards dividend relief and other concessions and (ii) reimbursement of operating loss on strategic lines. Thus, going by the BE 2016-17 figures, Railways' would save about Rs. 4610 cr in 2017-18 net of subsidy which is paid back by the Ministry of Finance on payment of dividend and operating loss on strategic lines."

89. When asked about the impact of the proposed merger on the Railways future projects, the Finance Secretary in his deposition stated as under:-

> "The nature of Indian Railways which would essentially regarded as a commercial undertaking that nature should continue because it is in the business of providing services both for movement of men and material. It has a mechanism by which it imposes charges on the users. Therefore, it is eminently in a position where it can generate revenue which should at least meet its expenses. So, we feel that even after the merger of the Budget, the commercial nature of the Railways should continue because when you operate on commercial principles, there is certain financial discipline, there is a degree of prudence which such organizations are expected to adhere to."

90.The Finance Secretary further added:-

> "It is our thinking that given the complex nature of Railway operations the administrative autonomy which Railway enjoys and different procedures it follows for apprising their projects, various approval they obtain within the system, we believe that functional independence should be given to the Railways so that they are able to take these decisions keeping in view peculiar nature of their operations."

91. To a specific query as to what would be the fate of Dividend payment once the proposal to merge Railway Finance with the Government Finance is effected, the Ministry of Finance in their written reply stated:-

> "With the merger of Railway Budget with General Budget from Budget for 2017-18, it has been decided by the Government that Railways will get exemption from payment of dividend to General Revenues and its capital-at-charge would stand wiped off. This takes effect from the fiscal for 2017-18."

PART-II

OBSERVATIONS/RECOMMENDATIONS

The Committee note a discerning trend in the falling of traffic-both freight and passenger over the last few years and the consequent deterioration of railway finances. For the year 2014-15, the Committee find that as against RE of 1101.25 MT of total freight loading, Railways could load only 1095.26 MT, which was short by 5.99 MT. Resultantly, the freight earnings fell short of RE target of Rs. 106927 crore by about Rs. 1136 crore. As regards passenger traffic, as against the RE target of 8350 million (reduced from 8465 million in BE) the actual originating passengers fell to 8224.12 million showing a negative growth of 2.1% over 2013-14. Consequently the passenger earning fell short of RE target by Rs. 812 crore. However, due to drop in price of high speed diesel for traction during the year, the ordinary working expenses have reported savings of Rs. 2974 crore over RE and there were also savings to the tune of Rs. 646 crore in the pension expenditure. As a result, the operating ratio during 2014-15 improved to 91.3% as against the RE target of 91.8%. With respect to the financial year 2015-16 (BE) Railways targeted to carry 1186.25 MT of freight traffic which was subsequently reduced to 1107 MT in RE, representing a growth of 1.1% over actuals of the 2014-15. However, as against the proportionate budgeted loading target of 1005.36 MT, till the end of February, 2016, Railways carried

1001.40 MT of freight traffic. The incremental loading achieved during the period works out to 8.09 MT over COPPY, representing a growth of 0.8%. Consequently, the loading till end of February, 2016 fell short of the projection by 3.96 MT. Insofar as passenger traffic, the originating passengers target bas been reduced to 8101 million in RE 2015-16 from 8601 million in BE representing a growth of (-) 1.5% over previous year. Against the proportionate budgeted passenger booking target of 7872.85 million passengers, till end of February, 2016, Railways carried 7472.90 million passengers with a negative growth of 0.9% over COPPY. The Committee were informed that except for PRS segment which indicated a positive growth of 4.8% over COPPY, rest of the segments, i.e. sub-urban and non-suburban (Non-PRS), contributed to the overall negative growth in passengers. The Committee note from the financial results for 2015-16 (till end of February, 2016) that the overall traffic earnings till end of Feb’16 stood at Rs 1,48,056 cr. as against the full year target of Rs. 167784 crore for 2015-16 (RE). Though it yielded a growth of 5.3% over 2014-15(COPPY), it fell short of the target of 6.8% in RE. The growth trend lagged in all segments of earnings except for Other Coaching. On the other hand, the growth in OWE at 2.1% till end of Feb’16 was lower than the full year growth of 4.4% provided in 2015-16 (RE). According to the Railways, although the earnings performance till end of Feb’16 has not been as per revised expectations, it would be premature to quantify any year-end shortfall at this juncture since some of it is likely to be offset by savings under OWE and pension expenditure.

The Committee are given to understand from a report that during April-September,2016 , both freight loading as well as passenger bookings/traffic have reportedly went down compared to the corresponding period of last year and as a result during the first half of the current financial year, the total earnings are going to fall short of the target by Rs 12400 cr and less than last year level by Rs. 3000 cr. Consequently the Operating Ratio is reportedly going to shoot up to reach 114%. Going by the available trends, the Committee are quite skeptical that there would be any upward movement in the growth in its core business of freight loading and passenger bookings during the remainder of the financial year 2015-16. Although owing to the current benign oil prices (HSD) there would be negative growth in OWE of Railways which would lead to savings, the Committee apprehend whether the savings that are going to accrue would be sufficient to offset the losses on account of falling passenger and freight revenues and generate surplus.

2. The Committee have been apprised by the Railways that the growth rate in freight loading was sluggish during the year 2015-16 on account of low growth in core sectors. As regards passenger traffic, the reasons were attributed to various factors including improvement in road infrastructure thereby offering better and faster connectivity leading to increase in the number of personal

and commercial vehicles, diversion of passenger traffic to metro rail projects in cities, cancellation of trains due to agitations, natural calamities, etc. The Committee have been informed by the Railways that to give a boost to the passenger earnings, introduction of trains on cost recovery basis and with dynamic pricing are being planned, rationalization of freight rates to attract bulk traffic to Railways i.e. review of busy season surcharge / port congestion charge, and expanding the basket of commodities carried by Railways are being considered. A lot of emphasis is also being given towards generation of non-tariff revenues through commercial exploitation of vacant land and space rights over station buildings, monetizing land along railway tracks, monetizing the soft assets, advertising, overhaul of parcel business and revenue from manufacturing activity to shore up the revenues. Toward this end a dedicated Directorate has been created in the Ministry to address related issues so that the share of non-tariff revenues increases. It was also stated that Capacity constraints are being addressed by a five year investment plan (2015-19) with substantial investment on capacity enhancing works under Doubling, Traffic Facilities and Electrification. Priority projects and last mile projects are being provided with adequate outlays for their early completion so as to reap the benefits of investment. The Committee express the hope that various measures being taken by the Railways would lead to attracting more traffic and in turn generate more revenues. However, the Committee are constrained to find that the crux of the problem of the Railways lies in its business model which caters mostly to the bulk cargo and according to one assessment the bulk cargo accounts for only 30% of the Economy's total transportation effort and they have very little or no share in the non bulk transportation business. Further what is more disturbing is the fact that Road transport is cornering most of the incremental bulk cargo business, much to the chagrin of Railways. The Committee therefore, recommend that Railways should make all out efforts to not only garner more market share in the incremental Cargo business but also take recourse to urgent measures to corner a sizable market share in the non bulk transport business. They also recommend that with a view to compete with the Road sector, the Railways should streamline their operational systems and procedures so as to ensure timely delivery of goods to the consignees. The Committee trust that with sustained and prudent efforts, the Railways in the medium term, would be in a position to regain its lost market share in the inter modal transport sector.

3. In the backdrop of the dismal state of Railway finances , the Committee have taken into consideration the written submissions and oral depositions of the Ministries of Railways and Finance, for determining the Rate of Dividend payable by the Railways to the General revenues, for the year 2016-17 and given their considered views in the succeeding paragraphs .

4. In their second memorandum submitted to the Committee, Ministry of Railways have submitted that in view of the present difficult financial position, the Railways may be exempted from

payment of dividend for at least 5 years. Alternatively, if the waiver is not considered for acceptance, the Committee may suitably reduce the rate of dividend for 2016-17 or at least retain the present rate of 4%, as recommended for 2015-16 for at least five more years so as to give relief to the Railways in meeting with the requirement of investment and implementing the recommendations of the 7th CPC. On the other hand, the Ministry of Finance have contended that they are not in favour of exempting Railways from payment of dividend for at least 5 years or alternatively reducing the present rate of dividend for 2016-17 or retaining the present rate of 4% for five years or more. They have urged the Ministry of Railways to pay dividend on capital-at-charge to General Revenues at 7.88% for the year 2016-2017 on the ground that the weighted Average cost of market borrowing for the Government, which stood at 8.52% in 2011-12, was 7.88% in 2015-16. The Finance Ministry have further stated that after taking into account the concessions in the form of subsidies (Rs. 3,720.97 crore) and reimbursement of losses on operation of strategic lines (Rs. 638.81 crore) that were provided to Railways during 2015-16, the effective rate of dividend in 2015-16 at Rs. 4,135.66 crore [Rs. 8,495.44 crore, the dividend paid by Railways in 2015-16 minus subsidy at Rs. 3,720.97 crore minus reimbursement of losses of strategic lines at Rs. 638.81 crore)] works out to about 2.1% of the total capital-at-charge upto the end of 2015-16 (RE) [Rs.1,97,991.76 crore]. Further given the fact that the budgetary support provided to MoR is increasing substantially in 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. However, the Ministry of Railways have pleaded that in view of the post 7th CPC scenario, IR would not find adequate resources for funding its essential replacement and renewal works/needs, let alone the payment of dividend. The Ministry of Railways have contended that subsidies and reimbursement of losses on strategic lines' (Rs. 4360 crore) is a tiny fraction of the magnitude of Public Service Obligations borne by the Railways, which is estimated at Rs. 34,031 crore. The performance of Railways in 2016-17 continues to be below the estimated trends. Freight earnings are dependent upon the growth in the core sector of the economy and this has adversely impacted the earnings. Further, even though passenger earnings have increased, IR is facing negative growth in originating passengers for the third year in running. The Ministry of Railways have argued that any dividend payout will put a further squeeze on internal resources generation, which in turn will lead to reduction in CAPEX and will be counterproductive for economy in general. The Committee feel that the submissions and contentions of both the Ministries deserve due and careful consideration. On one hand, the Government have a committed liability on account of ever increasing higher outlays on various social sectors and flagship programmes in areas of Education, Health, Rural development etc., while on the other hand the near flat or very low incremental freight loading and negative growth in passenger traffic over the last few years, coupled with financial burden due to 7th Pay Finance Commission Report have made the state of Railway Finances quite precarious. Though in normal course, Railways being a commercial undertaking are expected to generate sufficient surplus and contribute generously to the General Exchequer by paying higher Dividend, the Ministry of Finance should also take into consideration the various constraints faced by the Railways in the form of carrying social burden on account of below cost operations and its inability to raise freight tariff beyond a point as it would prove counter-productive. The Ministry of Finance are, therefore, on their part should strive to extend all possible financial support and relief to the Railways in fulfillment of their various objectives and missions. The Committee are quite hopeful that the mutual cooperation between the two ministries will enable the Government to fulfill its broader national objectives.

5. The Committee are not convinced with the request made by the Ministry of Railways for exemption of payment of dividend for at least 5 years. Notwithstanding the various problems faced by the Railways, the Committee are of the view that the demand for blanket moratorium of dividend for a period of five consecutive years is unreasonable as it goes against the canons of a commercial organization which is expected to pay reasonable return on the capital invested. Though the Committee understand the difficulties faced by Railways on account of adverse impact of 7th CPC recommendations on their finances, nevertheless they are of

the view that since 7th Pay Commission was set up more than two years back ie., in 2014 the Railways should have anticipated the expected financial burden well in advance and taken appropriate measures for allocation of funds. The Committee also do not agree with the contention of the Ministry of Finance that Railways should pay dividend to General revenues equivalent to the weighted average cost of market borrowings of the Government i.e., 7.88%, which is farfetched and beyond the resources of the Railways. Further the argument of the Ministry of Finance that rate of interest on investments in the form of loans to Public Sector Enterprises for the year 2015-16 was 11.5% whereas the investment made in Railways is highly concessional even at 7.88% (weighted average cost of market borrowings) is totally misplaced. Unlike the Railways, PSUs not only enjoy functional and financial autonomy but also are not saddled with any social burden. In contrast Railways, despite being a commercial organization, have to fulfill the various social objectives of the Government, whereby they have to carry huge social burden on account of various concessions and below cost operations. The Committee are, therefore, of the considered opinion that the contentions and plight of the Railways deserve a sympathetic consideration.

6. According to the Ministry of Railways, a slew of measures have been taken by them for optimizing the internal resource generation by way of enhancing revenues and economizing expenditure, which amongst others, include expansion of the freight basket of IR, expansion of container sector to all traffic (barring Coal & specified

Mineral 14 Ores) , access to container traffic for all existing terminals/sheds, permitting all covered wagons for booking of traffic to two-point/multi-point combinations, mini rake, automatic freight rebate scheme for traffic loaded in empty flow direction, withdrawal of Port Congestion Charge and Busy Season Charges, discontinuance of dual freight policy for Iron Ore traffic, introduction of Roll-on-Roll-off policy etc. As regards attracting more passenger traffic and increase the revenues, various steps have reportedly been taken which inter-alia include attachment of additional coaches , running of special trains during festivals and holidays, running of Suvidha trains, etc. for the convenience of passengers, organising intensive ticket checking drives, including fortress checks, etc. to discourage ticketless travel, introduction of Alternate Train Accommodation Scheme known as VIKALP on pilot basis to provide confirmed accommodation to waitlisted passengers in the alternate trains and implementation of dynamic pricing in Rajdhani, Duronto and Shatabadi express trains. Further, constant endeavors are being made by the Railways to effect economy in expenditure on controllable heads like travelling allowances, over-time allowance etc., austerity and economy measures in areas such as hospitality, publicity, advertisements, inaugural ceremonies, seminars/workshops and contingent office expenses etc, imposition of spending limits and exchequer control, rigorous monitoring of expenditure w.r.t. the monthly budget proportions, pre-check of indents and estimates, concurrent and internal audit functions, manpower planning, post checks of pension payment by banks, etc.

While appreciating the various measures taken for augmenting the revenue generation, the Committee recommend that the Ministry of Railways should identify the various bottlenecks impeding the passenger services and freight traffic loading and suitably address the same, besides checking and showing zero tolerance towards the revenue leakages in the system. The Committee further recommend that Railways should frequently interact with the industry and trade associations both at Zonal and Division level, at periodic intervals so as to understand and sort out the problems faced by them in relation to freight loading etc. which would resultantly give a fillip to the Railway revenue.

7. The Committee were informed by the Railways that the overall physical progress of both Eastern and Western Dedicated Freight Corridors (DFCs) was 33.6% and that of financial progress as 32% ,as on September, 2016. As regards land acquisition, award has been declared for 93.5% of the land excluding Sonnagar-Dankuni Section (534 kms.), and 92.13% of works have been awarded under civil contracts and 82.03% under system contracts in both the Eastern and Western DFCs. It has also been informed that the revised cost estimate of these DFC Projects is Rs. 81,459 crore (excluding construction cost of Sonnagar-Dankuni) [Western DFC- Rs. 51,101 crore & Eastern DFC- Rs. 30,358 crore] and implementation schedule and timelines for both Eastern and Western DFCs, have been drawn up and are being monitored on regular basis in order to complete the projects in phases by December, 2019. Given the critical importance of these projects, the Committee cannot but

emphasize that Railways should closely monitor the progress of these projects at periodical intervals and should make all out efforts to ensure that the Western and Eastern DFCs are completed as per the stipulated timelines so as to avoid time and cost overruns. The Committee further note that three more DFCs viz. (i) East-West Corridor (2328 kms) (Kolkata-Mumbai); (ii) North-South Corridor (2343 km) (Delhi-Chennai); and (iii) East Coast Corridor (1114 km) (Kharagpur – Vijaywada) have been identified for implementation and the Preliminary Engineering cum Traffic Survey (PETS) Reports of these Corridors have been completed and are under examination in the Railway Board. The Committee desire that the PETS Reports of these corridors should be examined expeditiously by the Railway Board and detailed project reports of these corridors be prepared at the earliest.

8. In their Second Memorandum of Rate of Dividend submitted to the Committee, the Ministry of Railways have drawn attention to a new proposal viz. Creation of Rashtriya Rail Sanraksha Kosh (RRSK) and sought concurrence/approval of the Committee. Elaborating, the Ministry of Railways have stated that with a view to funding safety related modernization concerns of IR system, two special purpose committees, viz., 'High Level Safety Review Committee' and 'Modernization Committee' set up by the Ministry of Railways, have suggested immediate investments in Railways towards ensuring safety and convenience of rail users. This proposed Fund would be financed by levy of safety surcharge and dividend free budgetary support/grant from the Ministry of Finance. In response

to the proposal of the Ministry of Railways, the Finance Ministry have informed the Committee that under the RRSK, the requirement of funds over a period of 5 years is projected at Rs..1,19,183 crore, out of which Rs. 1,11,683 crore is sought to be financed out of contribution from General Revenues and they will not be in a position to finance the requirement of this magnitude. However, the Ministry will consider agreeing to this proposal, subject to the conditions that - (i) 75% of the total requirement may require to be financed by Ministry of Railways through resource mobilization either by way of levy of surcharge or suitable increase in passenger/freight rates to finance the objective; and (ii) 25% of the balance requirement may be earmarked out of the GBS provided by General Revenues over a period of 5 years, which works out to about Rs. 6,000 crore per year. The Ministry of Finance have further stated that the contribution from General Revenues will be in the form of dividend bearing capital in Railways as Ministry of Railways have already been receiving capital from General Revenues at a highly concessional rate. During evidence, the Chairman, Railway Board while referring to the stand taken by the Ministry of Finance on the matter has submitted that raising the resources for the proposed RRSK would mean increasing the fares and freights. As freights are already very high, Railways cannot afford to lose any more freight by raising the freight charges and the only alternative left to Railways is 'passenger fare increase', which may attract resistance from may quarters. The Ministry of Finance on the other hand have contended that they are not in a position to bear this huge expenditure because it would amount to cutting corners on other part of the expenditure given the fiscal deficit targets in place. The Committee feel that setting up of Rashtriya Rail Sanraksha Kosh is definitely a welcome step as this will provide assured flow of funds for financing all safety related works in the Railways. However, in view of the imminent merger of Railway Budget with General Budget, it is imperative that both the Ministries engage in serious and meaningful discussions to arrive at a mutual consensus for the modalities of financing the proposed new fund.

9. Taking into consideration the factors discussed in the preceding paragraphs, and keeping in view the precarious state of Railway finances owing to especially the adverse impact of the recommendations of the 7th Central Pay Commission which had severely dented the internal resource generation , as also the need to urgently develop the Railways Infrastructure, including modernization and safety related works, the Committee recommend, purely as a one-time move, that the Rate of Dividend payable by Railways to the General Revenues for the year 2016-17 be waived off. At the same time, the Committee are of the firm view that it is high time the Railways embarked upon urgent effective measures and put in place a robust monitoring mechanism to ensure higher internal revenue generation in all segments and thus contribute more to the General Exchequer in future for the attainment of larger national objectives.

10. 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 year 2016-17.

11. The Committee note that in 2014-15 appropriation to Depreciation Reserve Fund (DRF) was kept at Rs. 7,975 crore comprising Rs. 7,775 crore from Revenue and Rs. 200 crore from Production Units. The closing balance in the fund was Rs. 1,777 crore in 2014-15. They further note that in 2015-16, the appropriation to DRF which was budgeted at Rs. 8,100 crore (comprising 7,900 crore from Revenue and Rs. 200 crore from Production Units) has been scaled down to Rs. 5,700 crore in the Revised Estimates 2015-16 comprising of Rs. 5,500 crore from Revenue fund and Rs. 200 crore from Production Units. The appropriation to DRF 2016-17 has been budgeted at Rs. 3,400 crore comprising of Rs. 3,200 crore from Revenue and Rs. 200 crore from Production Units. The Ministry of Railways have stated that the lower appropriation from Revenue is due to stress on Railway resources on account of 7th CPC provisioning. The Committee note that the requirement from DRF to meet the plan outlay, as per B.E. 2016-17 is Rs. 7,160 crore, out of which Rs. 4,000 crore is to be met through credit from scrap sale of released materials and the balance Rs. 3,160 crore is to be met by withdrawal from the Fund. While endorsing the proposed allocation to the DRF, the Committee recommend that the shortfall to the fund, if any from the scrap sale

component should be made good by appropriation from the Railway revenues.

12. The Committee find that the appropriation to the Pension Fund in 2014-15 was kept at Rs. 29,540 crore comprising Rs. 29,225 crore from revenue and Rs. 300 crore from Production Units. The Fund closed with a balance of Rs. 1,360 crore in 2014-15. The appropriation to the Fund in 2015-16 was budgeted at Rs. 35,260 crore comprising Rs. 34,960 crore from Revenue and Rs. 300 crore from Production Units. In the Revised Estimates 2015-16, the appropriation to Pension Fund has been scaled down to Rs. 34,560 crore from the revenue component. They also note that in 2016-17, the appropriation to Pension Fund has been budgeted at Rs. 42,600 crore from revenue and Rs. 300 crore from PUs to cater to an estimated outgo of Rs. 45,500 crore from the Fund, which also takes into account the likely impact of the 7th CPC on pension. The closing balance of the fund is estimated to Rs. 3,088 crore in 2015-16 and Rs. 559 crore in 2016-17. While endorsing the allocation to the pension fund submitted by the Railways in their projection the Committee recommend that Railways should ensure that allocation should be in keeping with the requirements especially those arising out of the impact of 7th Central Pay Commission and also likely increase in the number of pensioners.

13. The Committee observe that in 2014-15 the appropriation to Development Fund (DF) has been kept at Rs. 1,375 crore and the fund closed with a balance of Rs. 2,013 crore for the year. They also

note that the appropriation to the Fund in 2015-16 which was budgeted at Rs. 5,750 crore in the Revised Estimates has been scaled down to Rs. 1,324 croe. According to the Railways, the appropriation to the Fund in BE 2016-17 has been kept at Rs. 2,515 crore and the fund is likely to close with a balance of Rs. 384 crore in 2015-16 and Rs. 415 crore in 2016-17. The Committee while endorsing the proposed allocation to the Fund would like to be apprised of the actual amount that has been credited during 2015-16 and the projection in this regard for 2016-17.

14. The Committee note that Capital Fund was created in 1992-93 with the expressed purpose of financing part of the requirement for works of capital nature including equity investments in other entities. The Committee observe that in 2014-15 the appropriation to this Fund was kept at Rs. 6,233 crore and the fund had a closing balance of Rs. 1,389 crore. The appropriation to the Fund in 2015-16 which was budgeted at Rs. 7,616 crore was revised to Rs. 6293 crore at RE stage. They further note that the appropriation to the Fund in BE 2016-17 has been kept at Rs. 5,750 crore. The Fund is likely to close with a balance of Rs. 1,444 crore in 2015-16 and Rs. 227 crore in 2016-17. The Committee while endorsing the allocation to the Fund would like to be apprised of the actual amount that has been credited to this Fund at the end of Financial Year 2015-16 and projections for 2016-17.

15. The Committee find that the Debt Service 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 Commission. This Fund has been created in the interest bearing section of Public Account and appropriation to this Fund will be from the 'Excess' after meeting the dividend liability, and meeting mandatory requirements of Capital Fund and Development Fund. The Committee note that in 2014-15, the appropriation to this fund has been kept at Rs. 57 crore. The Fund had a closing balance of Rs. 236 crore in 2014-15. They also note that appropriation to the Fund in 2015-16, which was budgeted at Rs. 900 crore, has been steeply increased to Rs. 3,786 crore at the RE stage. According to the Railways the closing balance in the Fund is intended to be used for partially meeting the impact of the 7th CPC on pay during 2016-17. The Committee further note that the appropriation to the Fund in 2016-17 (BE) has been kept at Rs. 214 crore whereas the outgo from the Fund has been kept at Rs. 3,000 crore for partially meeting the impact of 7th CPC. The Fund is likely to close with a balance of Rs. 4107 crore in 2015-16 and Rs. 1430 crore in 2016-17. Subject to the overall availability of resources, the Committee endorses the allocation to the fund and would like to be apprised of the actual amount that has been appropriated to this fund in the Financial Year 2015-16 and the projections for 2016-17.

16. The Committee note that in 2014-15 an appropriation of Rs. 1,499 crore, comprising of Rs. 1496 crore of Railways share from the Central Road Fund, has been made to the Railway Safety Fund (RSF). The closing balance of the Fund was Rs. 97 crore in 2014-15. They also note that appropriation to this Fund in 2015-16 was

budgeted at Rs. 1,648 crore (comprising of Rs. 1,645 croe transferred by the Central Government from the Central Road Fund and Rs. 3 crore worked out as contribution for the erstwhile RSWF out of the Dividend. The Ministry of Finance gave an additional Rs. 862 crore for this Fund and accordingly the appropriation to this Fund in RE has been increased to Rs. 2,510 crore including Rs. 3 crore from dividend. The Committee further note that the appropriation to this Fund in BE 2016-17 has been kept at Rs. 10,782 crore comprising Rs. 10,780 crore of the transfer from the Central Road Fund and Rs. 2 crore worked out as contribution for the erstwhile RSWF out of the dividend. The Ministry of Railway have stated that Finance Ministry has increased the ambit of works that can be met from this Fund, whereby apart from road related safety works, now Ministry of Finance has permitted financing works relating to new lines, gauge conversion, electrification & safety also from this Fund. Accordingly, in BE 2016-17, works relating to new lines & gauge conversion have also been provided out of this Fund including the cost of land for these project plan heads. While endorsing the proposed allocation, the Committee would like to emphasize that in keeping with the objectives of this fund, i.e. Railway Safety, priority should be given for financing the safety works viz. conversion of unmanned level crossings and for construction of road over/under bridges at busy level crossings works over the Capital works. The Committee would like to be apprised of the actual amount that has been appropriate to this fund at the end of Financial Year 2015-16 and the projections in this regard for 2016-17 including the actual utilization of this fund.

17. The Committee endorse 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.

18. In the context of the proposed merger of Railway Budget with General Budget announced by the Hon. Finance Minister recently, the Committee would like to briefly recapitulate the genesis of separation of Railway Finances from the General Finances which dates back to 1924. Based on the Report of Acworth Committee (1921), a Resolution for the separation of Railway Finances from General Finances commonly known as "Separation Convention" was adopted by the House on 20th September, 1924, whereunder, a definite annual contribution from Railways to general revenues is calculated with reference to the Capital at Charge of the Railway system and the profits earned by it has to be paid. The rationale for such an arrangement was that since the Government has raised the money for the construction of Railways in India on its credit, it is

reasonable that the return given by the Railways should be chiefly based on the moneys thus raised; such a return is best calculated on the moneys expended on lines expected eventually to yield a return, and not on lines built for quite different reasons. Thereafter, post-Independence, various Railways Convention Committees (RCC) (starting with the 1949 Convention) which were set up for reviewing the financial arrangements between the Railways and GOI periodically reviewed matters such as Railways' extent financial position, dividend payment principles to the Government, etc.

The Committee note that over the years the pre eminent position of the Railways in the inter model transport sector declined gradually. As per Indian Railways Year Book 2014-15, as against the existing total route kilometers 53,596 in 1950-51, the Railways could add only around 12,500 kilo metres to its network taking the total route kilo metres to 66030 as on 2014-15. According to the Ministry of Railways a study by RITES shows that over the years IR's share (in originating tonnage) has come down from 89 per cent in 1951 to 30 per cent in 2007-08. Similarly in passenger transport, the share of IR (in PKMs) has declined from 74.3 per cent in 1951 to 12.9 per cent in 2004-05, while the share of road has increased from 25.7 per cent to 86.7 per cent during the period. It has also been stated that slow growth in network capacity has resulted in progressively increasing congestion, particularly on the arterial trunk routes. While Freight traffic (NTKMs) between 1950-51 and 2013-14 grew 15 times, Passenger traffic (PKM) grew 15.7 times. In sharp contrast, the Total route kilometers grew by 1.23 times only.

The White Paper on Indian Railways released in February 2015 states that since Independence, while Railway freight loading grew by 1344% and passenger kilometers by 1642%, route kilometers grew merely 23% and multiple route length grew by 289%. In the backdrop of difficult situation of Railways both financially and otherwise, successive Governments over the years had set up several Committees to analyze and suggest corrective measures on a range of issues including institutional restructuring and budgetary relationship with Government of India etc. In this connection it is worth mentioning that Dr. Rakesh Mohan Committee on "Policy imperative for re-invention and growth" in its Report submitted to the Minister of Railways in July 2001 had stated amongst others that the time is again ripe to review and reorganize railway finances along with the necessary organizational restructuring and recommended that a key milestone of great symbolic value would be abolishing the Railway Budget by 2002. According to the said Expert Committee this will be a potent symbol of the changing reality and will help set the stage for creating a modern rail system to meet the needs of a modern India. Further, the High Level Committee for Mobilization of Resources for Major Railway projects and Restructuring of Railway Ministry and Railway Board (Bibek Debroy Committee) in its report submitted to the Government in July 2015 also recommended that at this stage a separate Railway Budget can be discontinued. Very recently the NITI Ayog in its paper titled "Dispensing with the Railway Budget" authored by Dr. Bibek Debroy, Member NITI Ayog and presented to the Government had suggested phasing out of the separate Railway Budget and merging it with the Union Budget, on the grounds that:

(i) historical factors leading to Ackworth Committee's recommendations in 1921 for separation of Railway Budget from the General Budget do not hold good now, (ii) size of Railway Budget being much smaller compared to Union Budget; and (iii) Separate Railway Budget has led to excessive populism especially in the matter of fare fixation and selection and funding of projects and failed to achieve commercialization of Railway for generation of adequate funds for projects or make it accountable for delivery of services. The paper inter alia suggested a conceptual framework for merger, whereunder after a portion of the surplus (revenues – ordinary working expenses) is being transferred to Railway Capital Funds viz. DRF, DF, etc. , the balance surplus, if any, is merged with the Consolidated Fund of India. As capital-at-charge is proposed to be wiped off, the Gross Budgetary Support by the Government for capital works of Railways and its departmental entities is to be given in a similar manner as Gross Budgetary Support for other Government departments, which is to be net off dividend.

The committee note that in pursuance of the recommendation of the NITI Ayog the Finance Minister on 22nd September, 2016 announced the decision of the Government to merge Railway Budget with the General Budget from the next fiscal year i.e. 2017-18. Elaborating the modalities of merger, the Ministry of Railways informed the Committee that merger of Railway Budget with the General Budget is a decision of the Government and is aimed at bringing the affairs of the Railways to centre stage of Government's fiscal policy and present a holistic picture of the financial position of the Government, besides facilitating multimodal transport planning between highways, railways and inland waterways. It was stated that despite the merger, the Railways will continue to maintain its distinct entity as a departmentally run commercial undertaking and will also continue to meet all its revenue expenditure including Ordinary Working Expenses, pay, allowances and pensions etc from its revenue receipts. Railways will continue to receive Gross Budgetary Support from the Government towards meeting part of its capital expenditure. As regards the issue of dividend payment and subsidy thereon, the Ministry of Railways informed the Committee that Government, while deciding the said merger w.e.f. the fiscal 2017-18, has also decided to do away with the practice of dividend payment by the Ministry of Railways to Ministry of Finance. MoR would also stop receiving (i) subsidy from Ministry of Finance towards dividend relief and other concessions and (ii) reimbursement of operating loss on strategic lines. The Ministry of Railways stated that they would save about Rs. 4610 cr in 2017-18 net of subsidy going by the BE 2016-17 figures, which is paid back by the Ministry of Finance on payment of dividend and operating loss on strategic lines. During evidence the Finance Secretary stated that even after the merger of the Budget, the commercial nature of the Railways should continue and functional independence should be given to the Railways so that they are able to take their decisions keeping in view peculiar nature of their operations.

The Committee trust that notwithstanding the merger of Railway Finances with General Finances, the basic structure of the organization is not going to alter and Railways will continue to operate on commercial principles besides fulfilling its social obligations . They also expect that Railway will not only continue to maintain its distinct entity as a departmentally run commercial undertaking but also continue to enjoy functional autonomy in their operations as well as financial autonomy in matters of investment decisions. Since Railways were starved of under investment over the years, which had led to their inability to expand their network and capacity addition , the Committee express the hope that after the merger , Govt will infuse more funds to the railways in the form of GBS and help them raise Extra Budgetary Resources so as to finance the projects for capacity expansion and decongestion of network. Post merger of the Railway Budget with the General Budget in 2017-18, the Committee hope that Railways will not only become the new growth engine for the economy but will also evolve into a more vibrant organization and contribute significantly to the economic growth and nation building.

New Delhi:
30 November, 2016
09 Agrahayana, 1938 (SAKA)

BHARTRUHARI MAHTAB
CHAIRPERSON
RAILWAY CONVENTION COMMITTEE

APPENDIX-I

RAILWAY CONVENTION COMMITTEE (2014)

MINUTES OF THE SEVENTEENTH SITTING OF THE COMMITTEE

The Committee sat on Wednesday, the 28th June, 2016, from 1130 hrs. to 1300 hrs. in Committee Room-C, Parliament House Annexe, New Delhi.

PRESENT

Shri Bhartruhari Mahtab - Chairperson

Members

Lok Sabha

2. Shri Sanganna Karadi
3. Shri K. Ashok Kumar
4. Shri Nana Patole
5. Shri Janak Ram
6. Shri L.K. Vaghela

Rajya Sabha

7. Shri T.K. Rangarajan
8. Shri Prem Chand Gupta

Secretariat

1.	Sh. K. Vijayakrishnan	-	Additional Secretary
2.	Sh. S.C. Chaudhary	-	Joint Secretary
3.	Sh. M. K. Madhusudhan	-	Director
4.	Sh. D. R. Mohanty	-	Additional Director

Witnesses

Representatives of the Ministry of Railways (Railway Board)

1.	Sh. A.K. Mital	-	Chairman, Railway Board
2.	Sh. S. Mookerjee	-	Financial Commissioner, Railway Board
3.	Sh. A.K. Mittal	-	Member (Engineering)
4.	Mohd. Jamshed	-	Member (Traffic)

5.	Sh. Shahzad Shah	-	Additional Member (Budget)
6.	Sh. H.K. Kala	-	Additional Member (Planning)
7.	Sh. Girish Pillai	-	Additional Member (Infra.)

2. At the outset, the Chairperson welcomed the Members and the representatives of the Ministry of Railways (Railway Board) to the sitting of the Committee, convened to have a briefing on the subject "Rate of Dividend payable by the Railways to the General Revenues for the year 2016-17 and other ancillary matters". Impressing upon the witnesses to keep the proceedings of the Committee confidential, the Chairperson asked the Chairman, Railway Board to brief the Committee on the Railways' proposal for payment of percentage of Dividend during 2016-17 and the justification thereof the views of the Finance Ministry, measures taken/proposed to generate adequate resources for the 2016-17 financial year, mechanism put in place/contemplated to bring in fiscal discipline, etc.

3. The Chairman, Railway Board, accordingly briefed the Committee highlighting, *inter-alia*, the financial constraints and requirements of the Indian Railways, the short term and long term planning to mobilize additional revenues, measures taken/proposed to reduce operational expenses, the support needed from the Ministry of Finance, especially in view of the implementation of the recommendations of the Seventh Pay Commission, etc.

4. The representatives of the Ministry also attended to various queries raised by the Members. As some queries remained unanswered and required detailed reply, the Chairperson asked the Chairman, Railway Board, to furnish written reply thereon within 15 days. The Chairman, Railway Board, assured to comply.

5. 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.

RAILWAY CONVENTION COMMITTEE (2014)

MINUTES OF THE TWENTY FIRST SITTING OF THE COMMITTEE

The Committee sat on Wednesday, the 19th September, 2016, from 1430 hrs. to 1530 hrs. in Room No.-G-074, Parliament Library Building, New Delhi.

PRESENT

Shri Bhartruhari Mahtab - Chairperson

Members

Lok Sabha

2. Shri K. Ashok Kumar
3. Shri Janak Ram
4. Shri Bharat Singh
5. Shri Rahul Ramesh Shewale

Rajya Sabha

6. Shri Prem Chand Gupta

Secretariat

1. Sh. K. Vijaykrishnan - Additional Secretary
2. Sh. S.C. Chaudhary - Joint Secretary
3. Sh. M. K. Madhusudhan - Director
4. Sh. D. R. Mohanty - Additional Director

Witnesses

Representatives of the Ministry of Finance

1.	Sh. Ashok Lavasa	-	Finance Secretary
2.	Sh. Vivek Joshi	-	Joint Secretary (PPP)
3.	Sh. Prashant Goyal	-	Joint Secretary (Budget)
4.	Sh. N.M. Jha	-	Director (Budget)
5.	T. Uthaya Kumar	-	Additional Budget Officer

2. At the outset, the Chairperson welcomed the Members and the representatives of the Ministry of Finance to the sitting of the Committee, convened to have a briefing on the subject "Rate of Dividend payable by the Railways to the General Revenues for the year 2016-17 and other ancillary matters". Impressing upon the witnesses to keep the proceedings of the Committee "Confidential", the Chairperson asked the Finance Secretary to brief the Committee on the Finance Ministry's version of Dividend liability of Indian Railways for the year 2016-17 and related aspects.

3. The Finance Secretary, accordingly apprised the Committee of the various concessions and relief provided to the Ministry of Railway and emphasized that the Rate of Dividend payable by the Railways should not be lower than 7% for the year 2016-17. The Finance Secretary also underline the need for participation of Railways in the larger objectives of the Government by contributing more to the General Revenues in the form of Dividend. The Committee were also informed about the Government's initiative to support Railways not only through Gross Budgetary Support but also reimbursement of losses on projects of strategic and national importance. The representatives of the Ministry of Finance also responded to the queries raised by the Members. As some queries required detailed and statistical reply, the Chairperson asked the Finance Secretary to furnish written reply thereon within 15 to 20 days. The Finance Secretary assured to comply.

4. 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 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)

MINUTES OF THE TWENTY SECOND SITTING OF THE COMMITTEE

The Committee sat on Wednesday, the 27th September, 2016, from 1130 hrs. to 1230 hrs. in Room No.-G-074, Parliament Library Building, New Delhi.

PRESENT

Shri Bhartruhari Mahtab - Chairperson

Members

Lok Sabha

2. Shri K. Ashok Kumar
3. Shri Sanganna Karadi
4. Shri Janak Ram
5. Shri Nana Patole
6. Shri Rahul Ramesh Shewale
7. Shri Bharat Singh
8. Shri K.C. Venugopal

Rajya Sabha

9. Shri Prem Chand Gupta

Secretariat

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

Witnesses

Representatives of the Ministry of Railways (Railway Board)

1.	Sh. A.K. Mital	-	Chairman, Railway Board
2.	Sh. K.B. Nanda	-	Financial Commissioner, Railways
3.	Sh. Aditya Kumar Mittal	-	Member (Rolling Stock)
4.	Sh. Mohd. Jamshed	-	Member (Traffic)
5.	Sh. Shahzad Shah	-	AM (Budget)
6.	Sh. Achal Khare	-	Adv. (Infra)

2. At the outset, the Chairperson welcomed the Members and the representatives of the Ministry of Railways (Railway Board) to the sitting of the Committee, convened to take evidence of the Ministry on the subject "Rate of Dividend payable by the Railways to the General Revenues for the year 2016-17 and other ancillary matters". Impressing upon the witnesses to keep the proceedings of the Committee "Confidential", the Chairperson asked the Chairman, Railway Board, to apprise the Committee of the justifications of the Railways' submissions for complete waiver of Dividend payment for the year 2016-17 and the measures taken to improve the financial health of the Railways.

3. The Chairman, Railway Board, accordingly reasoned for Dividend relief during the current fiscal citing inter-alia the impact of the 7th Central Pay Commission, shortfalls in internal generation of revenue, inadequate Budgetary support, etc. The representatives of the Ministry of Railways also responded to the queries raised by the Members on various aspects of the subject matter. As some queries required detailed and statistical reply, the Chairperson asked the Chairman (Railway Board) to furnish written reply thereon within 15 to 20 days. The Chairman (Railway Board) assured to comply.

4. 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 subject.

The witnesses then withdrew.

A verbatim copy of the proceedings was kept on record.

The Committee then adjourned.

RAILWAY CONVENTION COMMITTEE (2014)

MINUTES OF THE TWENTY-FIFTH SITTING OF THE COMMITTEE

The Committee sat on Wednesday, the 09th November, 2016, from 1100 hrs. to 1130 hrs. in Committee Room-D, Parliament House Annexe, New Delhi.

PRESENT

Shri Bhartruhari Mahtab - Chairperson

Members

Lok Sabha

2. Shri Sanganna Amarappa Karadi
3. Shri Janak Ram

Rajya Sabha

4. Shri Prem Chand Gupta

Secretariat

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

2. At the outset, the Chairperson welcomed the Members to the sitting of the Committee convened to consider and adopt the draft report on the subject "Rate of Dividend payable by the Railways to the General Revenues for the year 2016-17 and other ancillary matters". The Chairperson apprised the Members of the main Recommendations contained in the Draft Report. After some discussions, the Members suggested certain modifications in the Draft Report. The Chairperson asked the Secretariat to revise the Draft Report accordingly and circulate the Revised Report to the Members for consideration and adoption on a later date.

The Committee, then, adjourned due to lack of quorum.

APPENDIX-V

RAILWAY CONVENTION COMMITTEE (2014)

MINUTES OF THE TWENTY-SIXTH SITTING OF THE COMMITTEE

The Committee sat on Wednesday, the 30th November, 2016, from 1015 hrs. to 1100 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 Sanganna Amarappa Karadi
3. Shri K. Ashok Kumar
4. Shri Nanabhau Patole
5. Shri Bharat Singh

Rajya Sabha

6. Shri T.K. Rangarajan
7. Shri Ranvijay Singh Judev

Secretariat

1. Sh. Sukhi Chand Chaudhary - Joint 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 of the Committee convened to consider and adopt the draft Reports on the subjects "Rate of Dividend payable by the Railways to the General Revenues for the year 2016-17 and other ancillary matters" and Action Taken by the Government on the Observations/Recommendations of the Committee contained in their Second and Third Reports on IRCON and RLDA respectively. Giving an overview of the important recommendations contained in 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 Railways to the General Revenues for the year 2016-17 and other ancillary matters.

(ii) Action Taken by the Government on the Observations/Recommendations of the Committee contained in their Second Report (Sixteenth Lok Sabha) on Role of IRCON in Infrastructure Building in Indian Railways.

(iii) Action Taken by the Government on the Observations/Recommendations of the Committee contained in their Third Report (Sixteenth Lok Sabha) on Commercial Utilisation of Surplus Railway Land- Role of Rail Land Development Authority (RLDA).

4. After some discussions, the above Draft Reports were adopted unanimously 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.

The Committee then adjourned.

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STATEMENT SHOWING THE RECOMMENDATIONS CONTAINED IN THE FIRST REPORT OF THE RAILWAY CONVENTION COMMITTEE (2014) ON RATE OF DIVIDEND PAYABLE BY THE RAILWAYS TO THE GENERAL REVENUES FOR THE YEARS 2014-15 AND 2015-16 AND OTHER ANCILLARY MATTERS AND ACTION TAKEN THEREON

Sl. No.	Para No.	Recommendations	Action Taken by Government
1.	2.	3.	4.
1.	1	**The Committee note that the rate of Dividend on the Capital invested by Indian Railways was, 7 Per cent each in the years 2007-08 and 2008-09. The Rate of Dividend came down to 6 Per cent in 2009-10 and 2010-11. It was reduced to 5 Per cent in the year 2011-12 and further reduced to 4 Per cent in 2012-13. In 2013-14, the applicable Rate of Dividend was marginally increased to 5 Per cent. 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 Per cent 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 Per cent 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.**	**This recommendation is in the form of observation only not calling for any action.**
2.	2	**The Finance Ministry have contended that the Dividend rate even at 7 Per cent is concessional when it is compared with the cost of borrowing of the Government at 8 to 8.5 Per cent. 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 Per cent. The Finance Ministry have, therefore, proposed that the rate of**	**This recommendation is in the form of observation and is pointed towards MoF.**

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1.	2.	3.	4.
		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 Per cent 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 fulfil its larger national objectives.	

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Sl. No.	Para No.	Recommendations	Action Taken by Government
1.	2.	3.	4.
3.	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 Per cent whereas investments made in Railways, being treated as 'loan in perpetuity', are highly concessional at 7 Per cent and as stated earlier, translates to 2 to 3 Per cent, 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 Per cent or a minimum Dividend payout of 20 Per cent of post-tax profits, whichever is higher. The minimum dividend payout in respect of Oil, Petroleum, Chemical and other infrastructure sectors is 30 Per cent 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**	**Observations of the Committee are noted.**

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Sl. No.	Para No.	Recommendations	Action Taken by Government
1.	2.	3.	4.
		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.	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 Road 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**	**Observations of the Committee are noted**.

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Sl. No.	Para No.	Recommendations	Action Taken by Government
1.	2.	3.	4.
		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	

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Sl. No.	Para No.	Recommendations	Action Taken by Government
1.	2.	3.	4.
		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 endeavour 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.	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**	**Committee in this recommendation has desired 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. The Ministry of Railways will pursue the case for reimbursement of operating losses on the above projects with Ministry of Finance appropriately.**

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1.	2.	3.	4.
		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.	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 Per cent of the total expenditure of Railways. Fuel bill is around 22 Per cent; lease payments to IRFC are around 4.5 Per cent; expenditure to stores is around 33 Per cent; and other miscellaneous**	**Ministry of Railways has approached to Ministry of Finance through an OM dated 28th January, 2016 followed by reminder from the Finance Commissioner (Railways) dated 4th May, 2016, for constitution of Inter-Ministerial Body for evaluation of Public Service Obligations borne by Indian Railways. Reply from Ministry of Finance is still awaited.**

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1.	2.	3.	4.
		expenses are around 8 Per cent. 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 Per cent, 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 Per cent 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 Per cent, the Committee simultaneously appreciate the Government's commitment to infuse more	

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1.	2.	3.	4.
		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.	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**	**Observations of the Committee are noted.**

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1.	2.	3.	4.
		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.	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**	**The observations and suggestion of the Committee to the Railways to bear the expenditure arising out of implementation of the 7th CPC recommendations has been noted. The other observations regarding the rate of Dividend is pointed towards MoF.**

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1.	2.	3.	4.
		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	

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1.	2.	3.	4.
		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 Per cent during 2014-15 as such a move at this particular juncture may further worsen the precarious financial health of the Indian Railways.	
9.	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 Per cent to 42 Per cent 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**	**Ministry of Railways (MoR) has been forming JV companies only after approval from the Union Cabinet. JV agreements are signed between MoR and State Government/s with equity participation of MoR (limited to maximum 50%) and the concerned State Government/s.**

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1.	2.	3.	4.
		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.	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**	**The observation of the Committee is noted. Taking steps to speed up decision making, increased accountability, improvement in management information system resulting in improved operating efficiency leading to additional resource generation is a continuous endeavour of the Railways which is being further stressed upon to yield desired results.**

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1.	2.	3.	4.
		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 feels 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.	11	**Taking into consideration the factors discussed in the preceding paragraphs and in view of the overall financial position of the Railways as**	**The recommendation of the Committee on rate of Dividend for 2014-15 at 5% and for 2015-16 at 4% has already been given effect to.**

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1.	2.	3.	4.
		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 Per cent 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 Per cent 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.	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.**	**The recommendation of the Committee on rate of Dividend/Reliefs in Dividend available on residential buildings, new lines, subsidies from General Revenues etc. has already been given effect to.**
13.	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**	**The appropriation to Depreciation Reserve Fund (DRF) in 2014-15 was kept at Rs. 7,975 crore consisting of Rs. 7,775 crore from the Revenue and Rs. 200 crore from Production Units. The closing balance in the DRF was Rs.1777.12 crore at the end of the fiscal 2014-15.** **The appropriation to Depreciation Reserve Fund (DRF) in 2015-16 was kept at Rs. 5,800 crore consisting of Rs. 5,600 crore from the Revenue and Rs. 200 crore from Production Units. The closing balance in the DRF was Rs.34.17 crore**

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Sl. No.	Para No.	Recommendations	Action Taken by Government
1.	2.	3.	4.
		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.	**at the end of the fiscal 2015-16.**
14.	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**	**The appropriation to Pension Fund (PF) in 2014-15 was kept at Rs. 29,540 crore consisting of Rs. 29,240 crore from the Revenue and Rs. 300 crore from Production Units. The closing balance in the PF was Rs.1360.36 crore at the end of the fiscal 2014-15.** **The appropriation to Pension Fund (PF) in 2015-16 was kept at Rs. 34,860 crore consisting of Rs. 34,560 crore from the Revenue and Rs. 300 crore from Production Units. The closing balance in the PF was Rs.5657.30 crore at the end of the fiscal 2015-16.**

APPENDIX-VI

(Vide para 2 of Introduction)

STATEMENT SHOWING THE RECOMMENDATIONS CONTAINED IN THE FIRST REPORT OF THE RAILWAY CONVENTION COMMITTEE (2014) ON RATE OF DIVIDEND PAYABLE BY THE RAILWAYS TO THE GENERAL REVENUES FOR THE YEARS 2014-15 AND 2015-16 AND OTHER ANCILLARY MATTERS AND ACTION TAKEN THEREON

Sl. No.	Para No.	Recommendations	Action Taken by Government
1.	2.	3.	4.
		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.	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 Development 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.**	**The appropriation to Development Fund (DF) in 201 4-15 was kept at Rs. 1374.94 crore. The closing balance in the DF was Rs.2013.13 crore at the end of the fiscal 2014-15.** **The appropriation to Development Fund (DF) in 2015-16 was kept at Rs. 1219.74 crore. The closing balance in the DF was Rs.391.46 crore at the end of the fiscal 2015-16.**
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**	**The appropriation to Capital Fund (CF) in 2014-15 was kept at Rs. 6233.36 crore. The closing balance in the CF was Rs.1388.90 crore at the end of the fiscal 2014-15.** **The appropriation to Capital Fund (CF) in 2015-16 was kept at Rs. 5798.22 crore. The closing balance in the CF was Rs.916.68 crore at the end of the fiscal 2015-16.**

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(Vide para 2 of Introduction)

STATEMENT SHOWING THE RECOMMENDATIONS CONTAINED IN THE FIRST REPORT OF THE RAILWAY CONVENTION COMMITTEE (2014) ON RATE OF DIVIDEND PAYABLE BY THE RAILWAYS TO THE GENERAL REVENUES FOR THE YEARS 2014-15 AND 2015-16 AND OTHER ANCILLARY MATTERS AND ACTION TAKEN THEREON

Sl. No.	Para No.	Recommendations	Action Taken by Government
1.	2.	3.	4.
		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.	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.**	**The appropriation to Debt Service Fund (DSF) in 2014-15 was kept at Rs. 56.64 crore. The closing balance in the DSF was Rs.236.07 crore at the end of the fiscal 2014-15.** **The appropriation to Debt Service Fund (DSF) in 2015-16 was kept at Rs. 3487.97 crore. The closing balance in the DSF was Rs.3803.25 crore at the end of the fiscal 2015-16.**

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STATEMENT SHOWING THE RECOMMENDATIONS CONTAINED IN THE FIRST REPORT OF THE RAILWAY CONVENTION COMMITTEE (2014) ON RATE OF DIVIDEND PAYABLE BY THE RAILWAYS TO THE GENERAL REVENUES FOR THE YEARS 2014-15 AND 2015-16 AND OTHER ANCILLARY MATTERS AND ACTION TAKEN THEREON

Sl. No.	Para No.	Recommendations	Action Taken by Government
1.	2.	3.	4.
18.	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.**	**The appropriation to Railway Safety Fund (RSF) in 2014-15 was kept at Rs. 1498.61 crore. The closing balance in the RSF was Rs.97.15 crore at the end of the fiscal 2014-15.** **The appropriation to Railway Safety Fund (RSF) in 2015-16 was kept at Rs. 2510.21 crore. The closing balance in the RSF was Rs.15.52 crore at the end of the fiscal 2015-16.**
19.	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**	**The recommendation of the Committee has already been given effect to in 2014-15 and 2015-16.**

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(Vide para 2 of Introduction)

STATEMENT SHOWING THE RECOMMENDATIONS CONTAINED IN THE FIRST REPORT OF THE RAILWAY CONVENTION COMMITTEE (2014) ON RATE OF DIVIDEND PAYABLE BY THE RAILWAYS TO THE GENERAL REVENUES FOR THE YEARS 2014-15 AND 2015-16 AND OTHER ANCILLARY MATTERS AND ACTION TAKEN THEREON

Sl. No.	Para No.	Recommendations	Action Taken by Government
1.	2.	3.	4.
		constituted with the contribution from the General Revenues.	