RAILWAY CONVENTION COMMITTEE (1999)

(THIRTEENTH LOK SABHA)

SECOND REPORT
ON

RATE OF DIVIDEND FOR 2001-02 AND OTHER ANCILLARY MATTERS

Presented in Lok Sabha on 23.02.2001
Laid in Rajya Sabha on 23.02.2001

LOK SABHA SECRETARIAT
NEW DELHI
February, 2001/Phalguna 1922 (S)

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RAILWAY CONVENTION COMMITTEE (1999)

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2. Shri R.C. Gupta Deputy Secretary
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INTRODUCTION

I, the Chairperson, Railway Convention Committee (1999), having been authorised by the Committee to present the Report on their behalf, present this Second Report on Rate of Dividend payable by the Railway Undertaking to General Revenues and other Ancillary Matters for the financial year 2001-02.

2. The Railway Convention Committee (1999) was constituted on 21 January, 2000. Based on an interim Memorandum submitted by the Ministry of Railways, in consultation with the Ministry of Finance, on 25th April, 2000, the Railway Convention Committee (1999), in their First Report, had recommended, purely as an interim measure, that dividend for the year 2000-2001 to General Revenues be paid at the rate of 7 per cent irrespective of the year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant-in-lieu of passenger fare tax and contribution for assisting the states for financing safety works during the year 1999-2000. The First Report of RCC(1999) was presented to Lok Sabha on 22nd August, 1999 and laid in Rajya Sabha on the same day. The action taken notes of the Government on the recommendations contained in the First Reports were furnished by the Ministry of Railways on 20th February, 2001, which forms **Appendix-V** to this Report.

3. Another interim Memorandum on Rate of Dividend for the year 2001-2002 containing the views of both Ministries of Railways and Finance was furnished by the Ministry of Railways on 13th December, 2000 wherein the Ministry of Finance had proposed that keeping in view the average borrowing rate of Government, the dividend paid by Railways needs to be increased and that for the year 2001-2002, the Railways should pay dividend at the rate of 7.5 per cent on Capital-at-charge irrespective of the year of investment. After considering the interim Memorandum, the Committee had recommended, purely as an interim measure, that dividend to General Revenues for the year 2001-2002 may be paid at the rate of 7 per cent on the entire capital invested on Railways from the General Revenues irrespective of the year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the year 2000-2001. All other concessions now available are also allowed to continue on the existing basis for the year 2001-2002.

4. The Committee have advised the Ministry of Railways to increase their internal resources and put an end to extravagant expenditure. While cautioning the Ministry of Railways, the Committee have recommended that they will be keeping a strict vigil on the performance of the Railways during the year and the same would be taken into consideration while reviewing the Rate of Dividend for the year 2001-02.

5. While making appropriation to Depreciation Reserve Fund, Pension Fund, Development Fund and Capital Fund, the Committee have recommended for creation of a new Railway Fund with the nomenclature 'Railway Safety Fund' for financing works of converting unmanned level crossings and for construction of Railway over bridges/Railway under bridges at busy level crossings. In regard to the financing of this new fund, the Committee have recommended that the new fund should be funded through the Railway Revenue i.e., out of the 'Excess' left in the financial results ; transfer of funds by the Central Government from the Central Road Fund and the present 20 per cent contribution which is being made by the Ministry of Railways to the existing Railway Safety Works Fund out of the dividend being paid to the General Revenues.

6. The Committee considered, finalised and adopted this Report at their sitting held on 20th February, 2001. The minutes of the sitting of the Committee are appended to the Report in **Part – II**. For facility of reference, the recommendations and observations of the Committee have been printed in thick type in the body of the Report.

New Delhi ; ***BHAVNABEN CHIKHALIA***
February 20, 2001 CHAIRPERSON
Phalguna 1, 1922 (S) RAILWAY CONVENTION COMMITTEE

REPORT

I. GENESIS OF SEPARATION OF RAILWAY FINANCE

The first Railway in India as also in Asia was opened by the Great Indian Peninsular Railway Company (present Central Railway) formed in England. The Company completed the survey work taken in hand in 1850 in about 3 years. The first train steamed out of Bombay on April 16, 1853 to Thane – a distance of about 33 Kms. A new Chapter in the history of India was thus opened.

2 The growth and development of Indian Railways owes much to Lord Dalhousie, Governor-General of India (1848 – 1856), who suggested a system of trunk lines connecting the hinterland of Bombay, Bengal and Madras Presidencies with the principal ports and also with each other. As the Government had neither the funds nor the technical personnel to undertake the work, the same was entrusted to private companies who were guaranteed a return of 5 per cent on their Capital for a period of 25 years. On their part, the companies were expected to share their surplus profit with the Government and to sell the Railways to the Government after 25 years. As the expected profit failed to materialize and the guaranteed return continued to be a drain on the exchequer, the Government purchased the Railways on the expiry of the period of contract, though the management of the Railways continued to be with the companies. Following the recommendations of the Acworth Committee (1920-21) the Government took over the management of the bulk of the Railways.

3 Originally, Railway Finances were included in the Budget of the Government of India. 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 September 20, 1924 and was approved by the Secretary of State. The possibility of legislation to separate Railway Finance from General Finance was considered, but it was decided that it would be preferable to ask the House to agree to a Convention, the advantage in a Convention being that it can be adjusted from time to time to varying needs and difficulties. This Convention is commonly known as "Separation Convention".

4. Under the 'Separation Convention' the Railways are required to pay dividend at a fixed rate on the Capital, the whole of which was advanced by the Government of India. The 'Rate of Dividend' payable by the Railway Undertaking to the General Revenues as well as other financial matters are determined periodically by the Railway Convention Committee of Parliament. This, in brief, is the genesis of Separate Railway Finance in India.

II. GUIDING PRINCIPLE OF RATE OF DIVIDEND

5. The first Convention Committee was set up after Independence in 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 tax payer is the owner and sole shareholder of the Undertaking. This principle of 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. Subsequently, keeping in view the financial health of the Railways the rate of dividend has been lower than the average borrowing rate of interest since then.

III. FINANCIAL STRUCTURE OF INDIAN RAILWAYS

6. 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 administrative and financial set up of the Ministry of Railways has come to acquire a somewhat unique character, in that the Ministry of Railways have been delegated with substantial powers relating to all Railway matters. The Railways have their own independent and integrated financial set up, in that:-

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

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

Accounts are maintained by the Railways' own accounting cadres.

Railway projects are also not cleared by Public Investment Board as is done for projects of other Ministries. Once the survey reports become available, these are thoroughly scrutinised in the Railway Board and those which show some potential are recommended to the Planning Commission for consideration. For projects costing up to Rs. 50 crores, Planning Commission is required to concur before the work can be included in the Budget. For works costing over Rs. 50 crores the Planning Commission prepares an appraisal note which is then considered by an Expanded Board which consists of Members of the Railway Board and Secretaries of the Ministry of Finance (Expenditure), Planning Commission and the Department of Programme Implementation. The proposals for projects are then sent to the Cabinet Committee on Economic Affairs (CCEA) for approval with the recommendations of the Expanded Board, and once CCEA approves, the projects are included in the Railway Budget for seeking the approval of the Parliament.

Although the Railway Finances have been separated from the General Finances, the former continue to be part of the overall Government Finances in that 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.

7. The revenue receipts of the Railways are derived from Gross Traffic Receipts, which include passenger earnings, goods earnings and sundry other earnings. The expenditure of the Railways falls in two categories:-

Revenue expenditure or non-Plan expenditure; and
Other expenditure or Plan expenditure.

The revenue 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. The Plan expenditure is financed from budgetary support provided by the General Revenues, and withdrawals from various Railway Funds, including Capital Fund, as also from market borrowings.

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

9. In pursuance of the Resolution adopted by Lok Sabha on 21st December, 1999 and concurred in by Rajya Sabha on 23rd December, 1999, the Railway Convention Committee (1999) was constituted on 21st January, 2000 to review the rate of dividend payable by the Railway Undertaking to General Revenues, as well as other ancillary matters in connection with the Railway Finance vis-à-vis General Finance and to make recommendations thereon.

(A). Determining The Rate Of Dividend Prior To Presentation Of Railway Budget

10. The Committee generally present their Report on 'Rate of Dividend' during the Budget Session of Parliament and their recommendations are reflected in the Railway Budget. The Memorandum of the Ministry of Railways on 'Rate of Dividend' payable to General Revenues' is submitted to the Committee only after obtaining the comments/concurrence of the Ministry of Finance. However, Interim Memoranda on Rate of Dividend were submitted to the Committee after presentation of the Railway Budgets for the years 1998-1999, 1999-2000 and 2000-2001.

(B) Capital-At-Charge Of The Indian Railways

11. Capital-at-charge means Capital contributed to the Indian Railways by General Revenues. The Capital-at-charge on the Railways is in the form of interest bearing loan capital, except that part of it on which no dividend is payable on the basis of reliefs recommended by successive Convention Committees and approved by Parliament. The Capital-at-charge of the Indian Railways has increased from Rs.827 crore in 1950-51 to Rs.32500.47 crore in 2000-01 (BE). This amount excludes Capital outlay on Metropolitan Transport Projects (MTP) and Circular Railway (Calcutta). The Capital outlay on MTP at Mumbai, Calcutta, Delhi and Chennai is Rs.2979.42 crore in 2000-2001 (BE) and that of Circular Railway (Calcutta) is Rs.154.37 (BE) for the same year.

(C). Dividend Paid

12. The annual dividend payable to General Revenues used to be less than Rs.100 crore till 31 March, 1964 but increased to Rs.2115.38 crore by 2000-01. In all, the Railways have paid so far to the General Revenues an amount of Rs.23,054 crore as Dividend. It comes to 77.74 per cent of the Capital-at-charge on Indian Railways.

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

(D). Payment Of Dividend To General Revenues

14. In regard to Rate of Dividend, the Railway Convention Committee (1999) had, in paras 116 & 117 of their First Report recommended that the Dividend for the year 2000-01 to General Revenues on the entire capital be paid at the rate of 7 per cent irrespective of the year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting States for financing safety works during the financial year 1999-2000. All other concessions as already available on residential buildings, new lines, subsidies from General Revenues, etc. were also allowed to continue on the existing basis for 2000-01.

15. The dividend and the reliefs and concessions were computed and adopted by the Ministry of Railways in Revised Estimates for the year 2000-01. In regard to the capital invested in each of various heads which qualify for relief subsidy towards payment of dividend to General Revenue as recommended by RCC (1999) in their First Report the Ministry submitted a statement up to 31st March, 2000 placed at **Appendix II**.

Present State of Railway Finances

16. In regard to the financial position of Railways, the Ministry of Railways, in their interim Memorandum submitted to the Committee on 13th December, 2000, stated that the Indian Railways' finances are passing through an extremely difficult phase consequent upon implementation of the recommendations of the Fifth Central Pay Commission coupled with a drop in freight loading during 1998-99 due to recessionary trends in the economy.

Elaborating the financial position of the Indian Railways during the year 1999-2000, the Ministry of Railways furnished the following in their interim Memorandum :

" A freight loading target of 450 mt was kept for the year. This seemed to be a tall order, against the background of the severe setback in the previous year, which ultimately ended with 421 mt as against that year's target of 450 mt. This was even lower than the previous year's actual loading of 429 mt. However, with the revival of the economy and a notable performance by the Railways, the loading actually surpassed the target, and a loading of 456 mt was achieved. However, on account of lower lead of traffic of certain commodity groups, the unit realization was less than was budgeted, thereby, resulting in a drop of Rs. 280 crore from the Budget estimates of freight earnings. The buoyancy of passenger earnings, however, continued into the year and, coupled with enhanced other coaching and sundry other earnings, the overall traffic earnings were above the Budget estimates by a margin of Rs. 13 crore.

The estimate of Gross Traffic Receipts (GTR), however, was missed by Rs. 372 crore on account of the worsening state of recovery of freight dues from the Powerhouses. On the expenditure side, the Railways maintained tight expenditure control and could achieve a saving of Rs.145 crore over the R.E after absorbing a number of post-budgetary impacts on account of diesel price hike, increase in price of electricity tariff, rates of running allowance, incentive bonus, etc.

Arising from this, the overall target of Net Revenue and 'Excess' could not be achieved and the 'Excess' of Rs. 899 crore anticipated in RE reduced to Rs. 846 crore.

The plan expenditure was regulated to a great extent at the Revised Estimate stage, with some excess in the actuals. However, on account of higher pensionary debits than projected at the RE stage, the Fund balances reduced from Rs 253 crore (RE) to Rs. 149 crore."

17. Regarding the performance of the Indian Railways for the year 2000-01, the Ministry of Railways further submitted as follows:

"The earnings of the Railways in the current year have so far fallen short of the budgeted expectations. Approximates to end of September, 2000 show a shortfall of Rs. 128 crore in the overall earnings position as compared to the proportionate target. The freight loading performance has been satisfactory; the actuals are 228.86 mt against the target of 227.38 mt. Freight earnings are higher than the proportionate targets by Rs. 41 crore. Passenger earnings are also showing a buoyant trend and have exceeded the proportionate target of Rs. 4909 crore by Rs. 109 crore. There is, however, an overall shortfall, mainly due to the slow pace of realization from Other Coachings and Sundry Other earnings. The Railways have for the first time budgeted for income from some non-traditional sources like lease of "Right of Way" for Optic Fibre Cables, commercial exploitation of land, commercial publicity etc. Significant achievement in this regard has, however, still to take place as it takes time for such earnings to take shape and materialize. The Railways, therefore, hope for an improvement on this account in the remaining months. The working expenses, on the other hand, show a saving of Rs. 220 crore making the net position favourable by Rs. 91 crore. But, with the normal end of the year adjustments and post-budgetary factors like increase in rate of HSD oil and electricity tariffs, sanction of a higher Productivity Linked Bonus etc., the present favourble position is likely to get neutralized.

Another area of concern is the non-clearance of outstanding dues. The outstanding dues which stood at Rs. 1,662 crore as on 31.3.2000 have increased further to Rs.2,757 crore as on 31.8.2000. Though Railways are making efforts at the highest level for clearance of these dues, the past experience has not been very encouraging.

The Railways are also required to extend financial assistance to the Konkan Railway Corporation in the form of a long-term loan in order to help the Corporation meet its financial obligations. A provision of Rs. 200 crore made in the Budget Estimate of 2000-01 is likely to be increased to Rs. 324 crore in the ensuing Revised Estimate by adjustment within the Capital from the General Exchequer.

Thus, the financial position of the Railways continues to be critical and under great strain. The Railways have already accumulated a deferred dividend liability of Rs. 1,500 crore in 2000-01 and have also taken a loan of Rs. 249 crore for Capital Fund to supplement its internal resources."

(F). Issue of Rate Of Dividend

18. Keeping in view the above facts, the Ministry of Railways have proposed to the Committee that ;

"Given the financial position, it is submitted that the existing rates and modalities for determining the dividend as brought out in **Appendix – III** may continue to be adopted for the year 2001-02 also. All concessions now available, as listed therein may also be allowed to continue for the year 2001-2002."

19. In this connection, the Ministry of Railways have forwarded the following view of the Ministry of Finance ;

"Budget 2000-01 assumes dividend from Railways at 7% on the entire capital invested on Railways from the General Revenues, irrespective of year of investment, inclusive of the amount that is payable by the Railways to the General Revenues for payment to State as grant in lieu repealed passenger fare tax.

In this year General Revenues has assumed an amount of Rs. 1500 crore as dividend deferred from Railways taking into account the financial position of
Railways. The deferment was agreed to by this Ministry to enable the Ministry of Railways to take necessary measures to improve their finances. This support has been extended as a one-time measure despite serious pressure on fiscal deficit.

The Budget support given to the Railways is an investment from General Revenues in the Railways. As the Government has raised money for the construction of Railways, it is reasonable that the return given by the Railways should chiefly be based on the moneys thus raised. The return on investment in Railways is not commensurate with the cost of Government borrowing. As a commercial undertaking, Railways have tax free concessional capital. The rate at which the dividend is paid by the Railways is considerably lower than cost of borrowing by the Government (**Appendix IV**). Although the dividend is calculated at 7% on capital-at-charge for the current year, the effective rate of dividend after excluding subsidy element is about 4% as compared to about 12% average borrowing rate of the Central Government in the current year. While Railways do not return capital contributed from the General Revenues, the Central Government have to return their earlier borrowings at a progressively higher rate of interest.

Central Government has been giving grants to State Governments in lieu of repealed tax on passenger fares. The level of transfer on this account was Rs. 380 crore per annum from 1995-96 to 1999-2000. Currently, the level of transfers is Rs.570 crore per annum, as recommended by the Eleventh Finance Commission. However, the Railway contribute only Rs. 23 crore to General Revenues on this account. Even this amount is included in the dividend paid by the Railways. This will cost the General Revenues an additional amount of Rs. 547 crore from this year.

Total quantum of concessions and subsidies from General Revenues to Railways has been steadily increasing over the years. Such quantum of subsidy from General Revenues to Railways for dividend relief and other concessions, was Rs. 796 crore in 2000-01.

Keeping in view the above situation, the rate of dividend paid by the Railways needs to be increased both in absolute and relative terms. It is, therefore, proposed that Railways should pay a flat rate of 7.5% dividend on capital-at-charge."

20. Commenting on the above views of Ministry of Finance, the Ministry of Railways (Railway Board) have submitted the following for consideration of the Committee :

"Ministry of Finance had made similar observations last year also. In response to these observations, the Ministry of Railways had submitted that in view of the difficult financial position of the Railways, it would not be possible to pay an enhanced rate of dividend. As may be recalled, the Railways have not been able to pay fully the dividend even at the existing rate and has been constrained to borrow for the Capital Fund in 2000-01(BE). The Committee accepted the viewpoint of the Ministry of Railways and allowed the rate of dividend and other concessions to continue without change.

The financial position of the Railways continues to be unsatisfactory as explained earlier and no significant improvement is anticipated in the coming year. With increasing strain on resources, the Railways are also borrowing from the market through the Indian Railways Finance Corporation to finance more than 30% of the Plan outlay, at higher cost. Even a half per cent increase of the dividend rate will impose a net additional outgo to the extent of about Rs. 100 crore. The Committee is, therefore, requested to recommend continuance of the existing rate of dividend of 7% on capital invested on Railways from General Revenues, together with all other reliefs and concessions earlier recommended."

FUNDS OF RAILWAYS

Depreciation Reserve Fund (DRF)

21. This fund has been created to meet the expenditure on replacement and renewal, including inflationary and improvement elements. Appropriation to this fund is met from out of revenues.

While approving the proposal of the Ministry of Railways regarding appropriation to be made to the Depreciation Reserve Fund in 2000-01, the Railway Convention Committee (1999) in their First Report, had observed as under:

Keeping in view the Railways' plan outlay for 2000-01 which provides for expenditure of Rs. 2582 crore from DRF, the Committee agree with the proposal of the Ministry of Railways that the appropriation from revenues to DRF for the Budget Estimates of 2000-01 may be kept at Rs. 2441 crore which together with contribution of Rs. 136 crore from Production Units and Rs. 5 crore by way of interest in the fund will enable the Railways to meet the plan needs subject to adjustments keeping in *view any variations of the estimated withdrawals of the financial position during the course of the year.*

22. In this connection, the Ministry of Railways have submitted the following in their Memorandum :

"As recommended by the Committee above, the appropriation to DRF from revenues has been kept at Rs. 2441 crore in BE 2000-01.

The process of formulation of the Railways' plan for the fiscal year 2001-02 is yet to begin. The contribution to DRF may be allowed to be made in consonance with the capacity of the system to generate internal resources and the plan requirement for 2001-02 which would be finalized by end December, 2000/January, 2001. The actual amount of contribution made to DRF in the fiscal year 2001-02 will be intimated to the Committee in due course."

23. In this connection, the Ministry of Finance have suggested that the contribution to the DRF may be made on the basis of the Railway Plan to be finalized by the Planning Commission in consultation with the Ministry of Railways.

(B) Pension Fund (PF)

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

The Railway Convention Committee (1999) in their First Report, approving the recommendation of the Ministry of Railways regarding contribution to be made to Pension Fund in 2000-01, had observed as under :

The Committee while agreeing with the proposal of the Ministry of Railways, recommend that appropriation to Pension Fund from revenues be kept at Rs. 5006 crore in the Budget Estimate for 2000-01. This, together with Rs. 10 crore for miscellaneous establishments, Rs. 300 crore from Production Units and Rs. 8 crore by way of interest will enable the Railways to meet the Pension requirement during the year. However, the appropriation made to Pension Fund in 2000-01 (BE) will be subject to adjustments keeping in view any variations of the estimated withdrawal during the course of the year.

24. In this connection, the Ministry of Railways, in their interim Memorandum, have submitted the following for consideration of the Committee :

"As recommended by the Committee above, the Appropriation to the Pension Fund from revenues has been kept at Rs. 5006 crore in the BE 2000-01.

Pension liability is likely to go up to around Rs. 6000 crore in the year 2001-02 due to an increase in the number of pensioners and the sanction of higher dearness relief to pensioners. It is, therefore, submitted for the consideration of the Committee that the appropriation to Pension Fund from revenues may be enhanced to Rs. 5800 crore in 2001-02, subject to adjustments. This, together with appropriation of Rs. 200 crore from Production Units will enable the Railways to meet the Pension requirement during the year."

26. The Ministry of Finance have also agreed to the above proposal of the Ministry of Railways of Rs.6000 crore against this fund.

(C). Development Fund (DF)

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

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

The appropriation to the Fund is made out of the 'Excess' left after meeting the dividend liability. 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 in subsequent years.

28. The Railway Convention Committee (1999) had, in para 121 of their First Report recommended the following;

"In regard to Development Fund (DF), the Committee find that an amount of Rs. 519 crore was finally appropriated in 1999-2000 under this Head and a sum of Rs. 831 crore has been projected in the Budget Estimate 2000-01. The Committee, agreeing with the proposal of the Ministry of Railways, desire that they should, in their action taken note, apprise the Committee about the actual amount that will be credited to this Fund at the end of the current financial year".

29. In this connection, the Ministry of Railways submitted the following in their Memorandum:

" In BE 2000-01, the appropriation to this Fund was kept at Rs. 831 crore as recommended by the Committee."

30. The Ministry of Finance have also proposed that the appropriation to Development Fund may be made out of the excess left after meeting the dividend liability.

(D). Capital Fund (CF)

31. The Capital component of Railways Plan expenditure was earlier being financed from out of the budgetary support received from the general exchequer. With the budgetary support declining over the years and market borrowings being expensive and uncertain, a new Fund named Capital Fund has been created w.e.f., 1 April 1992 with the approval of RCC (1991). This Fund is used to finance part of the capital works requirements on the Railways after appropriation to Development Fund and the 'Excess' is appropriated to the Capital Fund.

32. The Railway Convention Committee (1999) had, in para 122 of their First Report made the following recommendation:

"The Committee note that while the appropriation to Capital Fund was kept at Rs. 944 crore in the Budget Estimate for 1999-2000, the appropriation was revised to Rs. 380 crore in the Revised Estimate keeping in view with the reassessed plan requirement for the year. For the year 2000-01 (BE), as the 'Excess' being insufficient to meet the requirement of both Capital Fund and Development Fund, the Ministry of Railways in consultation with the Ministry of Finance, have proposed to take a loan of Rs. 249 crore from the General Revenues for the Capital Fund besides appropriating a sum of Rs. 345 crore from revenue to the Capital Fund. Thus making a total of Rs. 594 crore available under this Head. The Committee agree with the above proposal of the Ministry of Railways. However, the Committee recommended that the loan of Rs. 249 crore taken from the General Exchequer in the Capital Fund shall be treated as a loan carrying interest at the same rate as the rate of dividend and must be repaid within a period of 10 years with a stipulation of 3 years moratorium."

33. The Ministry of Railways have informed the Committee in their Memorandum that in the BE 2000-01, the appropriation to this fund has been kept at 594 crore as recommended by the Committee. This amount consists of Rs. 345 crore from internal resources and a loan of Rs. 249 crore extended by the General Revenues.

34. The Ministry of Finance have suggested to the Ministry of Railways that the appropriation to Capital Fund may be made out of the excess left after meeting the dividend liability.

Railway Safety Fund (RSF)

35. The Railway Convention Committee (1999), in para 123 of their First Report had recommended the following for creation of a new Railway Fund viz., Railway Safety Fund :

"While approving the proposal of the Ministry of Railways for creation of a new Railway Fund with the nomenclature 'Railway Safety Fund' for financing works of converting unmanned level crossings and for construction of Railway overbridges/Railway underbridges at busy level crossings, the Committee also agree to the suggestion of the Ministry of Finance for merging the existing Railway Safety Works Fund with the proposed 'Railway Safety Fund'. They, therefore, recommend that the new fund should be funded through the Railway Revenue i.e., out of the 'Excess' left in the financial results after payment of dividend to General Revenues ;

transfer of funds by the Central Government from the Central Road Fund and the present 20 per cent contribution which is made by the Ministry of Railways to the existing Railway Safety Works Fund out of the dividend being paid to the General Revenues. The Committee also desire that the entire issue of contribution of about Rs. 2.5 crore to the existing Railway Safety Works Fund which will hitherto form part of the new Railway Safety Fund needs further consideration between the Ministries of Railways and Finance particularly because 80 per cent of the accruals to Railway Safety Works Fund are provided towards the State Government's share of expenditure on such works. Pending further consideration, meanwhile 20 per cent share of the Railways towards the Railway Safety Works Fund only be transferred to the Railway Safety Fund and the balance 80 per cent share should continue to be given to the States for carrying out Safety Works."

36. The Ministry of Railways, in their interim Memorandum, have informed the Committee that the actual modalities for operation of this Fund are being finalized in consultation with Ministry of Finance and the Fund is proposed to be created w.e.f., 1.4.2001.

37. The Ministry of Finance are also in agreement with the above view of the Ministry of Railways.

Principles governing the rate of interest on the Railway Reserve Funds:

38. The Railway Convention Committee (1999), in para 124 of their First Report had made the following recommendations :

"The Committee do not see any logic in modifying the principles governing interest on various Railway Funds and, therefore, recommend that the balance in the various Railway Reserve Funds (other than Development 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 Fund Works for the purpose of Budget Estimates for 2000-01."

39. In this connection, the Ministry of Railways in consultation with the Ministry of Finance have submitted in their Memorandum as follows:

"It is submitted that the recommendations of Railway Convention Committee (1999) in their First Report for the year 2000-01 may be made applicable for 2001-02 also in respect of interest on the balances in the various Railway Funds. According to this, the balances in the various Railway Reserve Funds (other than Development Fund) 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."

RECOMMENDATIONS

40. After considering the arguments put forth by the Ministries of Railways and Finance on the issue of rate of dividend, the Committee, recommend, purely as an interim measure, that for the year 2001-2002 dividend to General Revenues may be paid at 7% on the entire capital invested on Railways from the General Revenues, irrespective of year of investment, inclusive of the amount that was payable to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the financial year 2001-2002.

41. All other concessions now available on residential buildings, new lines, subsidies from General Revenues etc. may be allowed to continue on the existing basis for the year 2001-2002.

42. While the Committee have not agreed for any increase in the rate of dividend for the year 2001-2002 they will like to caution the Ministry of Railways to put their finances in order. The Committee (1999) presented their First Report on Rate of Dividend for 2000-2001 and other ancillary matters on 22nd August, 2000 to the House. Due to short span of time the outcome of prudential policies followed by the Ministry of Railways, could not have come to the fore. The Committee suggest that the need of the hour is to adopt such policies so as to increase generation of their internal resources while putting a thumping end to extravagant expenditure. The Committee will keep a watchful eye on the financial performance of the Railways during the year and the same would be taken into consideration while reviewing the Rate of Dividend for the year 2002-2003.

43. The Railway Convention Committee (1999) in their First Report had recommended that keeping in view the Railways' plan outlay for 2000-2001 which provides for expenditure of Rs.2582 crore from DRF, they agreed with the proposal of the Ministry of Railways that the appropriation from revenues to DRF for the Budget Estimates of 2000-2001 may be kept at Rs.2441 crore, which together with contribution of Rs.136 crore from Production Units and Rs.5 crore by way of interest in the fund will enable the Railways to meet the Plan needs subject to adjustments keeping in view any variations of the estimated withdrawals of the financial position during the course of the year. However, as the process of formulation of Railways' plan for the fiscal 2001-2002 is yet to begin, the Committee recommend that the contribution to DRF may be allowed to be made in consonance with the capacity of the system to generate internal resources and the plan requirement for 2001-2002 which would be finalized by the Planning Commission in consultation with the Ministry of Railways.

44. From successive Memoranda submitted by the Ministry of Railways regarding Rate of Dividend and other ancillary matters, the Committee find that contribution to and withdrawal from the DRF varies significantly from year to year. The Committee desire to be intimated about the criteria adopted by the Ministry of Railways in contributing to and withdrawals from DRF.

45. The appropriation to the Pension Fund (PF) from revenues was kept at Rs.5006 crore for the year 2000-2001. Keeping in view the pension liability which is likely to go up to around Rs.6000 crore in the year 2001-2002 due to an increase in the number of pensioners and the sanction of higher dearness relief to pensioners, the Committee while agreeing with the proposal of the Ministry of Railways, recommend that the appropriation to Pension Fund from revenues may be enhanced to Rs.5800 crore in 2001-2002, subject to adjustments keeping in view any variations of the estimated withdrawal during the course of the year. This, together with appropriation of Rs.200 crore from Production Units will enable the Railways to meet the pension requirement during the year.

46. The Committee find that the appropriation to Development Fund has been kept at Rs.831 crore in BE 2000-2001 However, the Committee desire that the Ministry of Railways should, in their action taken notes, apprise the Committee about the actual amount that will be credited to this Fund at the end of the financial year 2000-2001. However, for the year 2001-2002, the appropriation to Development Fund be made out of the excess left after meeting the dividend liability.

47. The Committee note that appropriation to the Capital Fund has been kept at Rs.594 crore in the BE

2000-2001. This amount consists of Rs.345 crore from internal resources and a loan of Rs.249 crore extended by the General Revenues. However, for the year 2001-2002, the Committee recommend that the appropriation to Capital Fund may be made out of the excess left after meeting the dividend liability.

48. While approving the proposal of the Ministry of Railways for creation of a new Railway Fund with the nomenclature `Railway Safety Fund' for financing works of converting unmanned level crossings and for construction of Railway overbridges/Railway underbridges at busy level crossings, the Committee had also agreed to the suggestion of the Ministry of Finance for merging the existing Railway Safety Works Fund with the proposed `Railway Safety Fund'. They, therefore, recommended that the new fund should be funded through the Railway Revenue i.e., out of the `Excess' left in the financial results after payment of dividend to General Revenues; transfer of funds by the Central Government from the Central Road Fund and the present 20 per cent contribution which is made by the Ministry of Railways to the existing Railway Safety Works Fund out of the dividend being paid to the General Revenues. The Committee also desired that the entire issue of contribution of about Rs.2.5 crore to the existing Railway Safety Works Fund which would since then form part of the new Railway Safety Fund needed further consideration between the Ministries of Railways and Finance particularly because 80 per cent of the accruals to Railway Safety Works Fund are provided towards the State Governments' share of expenditure on such works. Pending further consideration between the Ministries of Railways and Finance, the Committee had recommended that 20 per cent share of the Railways towards the Railway Safety Works Fund only be transferred to the Railway Safety Fund and the balance 80 per cent share should continue to be given to the States for carrying out Safety Works. As the actual modalities for operation of this Fund are still under finalization in consultation with the Ministry of Finance, the Committee while recommending for the creation of the proposed Railway Safety Fund w.e.f. 1.4.2001, desire to know the latest position in this regard.

The Committee do not see any logic in modifying the priciples governing interest on various Railway Funds and, therefore, recommend that the balance in the various Railway Reserve Funds (other than Development 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 Fund Works for the purpose of Budget Estimates for 2001-2002.

New Delhi; **(BHAVNABEN CHIKHALIA)**
19 February, 2001 Chairperson
30 Magha, 1922 (S) Railway Convention Committee