RAILWAY CONVENTION COMMITTEE

(1999)

(THIRTEENTH LOK SABHA)

FIFTH REPORT

ON

RATE OF DIVIDEND FOR 2002-03 AND OTHER ANCILLARY MATTERS

LOK SABHA SECRETARIAT

NEW DELHI

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RAILWAY CONVENTION COMMITTEE
(1999)

Smt. Bhavnaben Chikhalia - Chairperson

MEMBERS

LOK SABHA

2. Shri Adhir Chowdhary
3. Shri Gurcharan Singh Galib
4. Shri Anant Gangaram Geete
5. Shri R.L. Jalappa
6. Shri Raghunath Jha
7. Dr. (Smt.) C. Suguna Kumari
8. Shri Hannan Mollah
9. Shri Ravindra Kumar Pandey
10. Shri Manabendra Shah
11. Shri Saleem Iqbal Sherwani
12. Shri Radha Mohan Singh

RAJYA SABHA

13. Shri Lakhiram Agarwal
14. Shri Maurice Kujur
15. Shri Dina Nath Mishra
16. Shri Suresh Pachouri
17. Shri Solipeta Ramachandra Reddy

18. Shri A. Vijaya Raghavan

SECRETARIAT

1.	Shri John Joseph	Additional Secretary
2.	Shri R.C. Gupta	Director
3.	Smt. Abha Singh Yaduvanshi	Assistant Director

INTRODUCTION

I, the Chairperson, Railway Convention Committee (1999), having been authorised by the Committee to present the Report on their behalf, present this Fifth Report on Rate of Dividend payable by the Railway Undertaking to General Revenues and other Ancillary Matters for the financial year 2002-03.

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 13^{th} December, 2001, the Railway Convention Committee (1999), in their Second Report, had recommended, purely as an interim measure, that dividend for the year 2001-02 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 2000-01. The Second Report of RCC(1999) was presented to Lok Sabha on 23^{rd} February, 2001 and laid in Rajya Sabha on the same day. The action taken notes of the Government on the recommendations contained in the Second Report were furnished by the Ministry of Railways on 12^{th} October, 2001, which forms **Appendix-III** to this Report.

3. Another interim Memorandum on Rate of Dividend for the year 2002-03 containing the views of both the Ministries of Railways and Finance was furnished by the Ministry of Railways on 4^{th} January, 2002 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 2002-03, 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, and the views expressed by both the Ministries, the Committee had recommended, purely as an interim measure, that dividend to General Revenues for the year 2002-03 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 2001-02. All other concessions now available are also allowed to continue on the existing basis for the year 2002-03.

4. The Committee have, however, advised the Ministry of Railways to increase their internal resources by taking suitable steps, 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 their performance during the year and the same would be taken into consideration while reviewing the Rate of Dividend for the year 2003-04.

5. Keeping in view the statutory provisions, the Committee have also recommended that the Ministry of Railways should ensure that tariffs are fixed on a rational basis with provision for automatic adjustment based on cost of inputs.

6. The Committee have expressed their happiness on creation of 'Non Lapsable Special Railway Safety Fund' with a clear cut demarcation regarding its funding. They have, however, stressed that the Ministry of Finance and Ministry of Railways should ensure adequate availability of resources to this Fund.

7. The Committee considered, finalised and adopted this Report at their sitting held on 25th February, 2002. 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***
25th February, 2002	CHAIRPERSON
6 Phalguna, 1923 (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:-

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

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

iii) Accounts are maintained by the Railways' own accounting cadres.

iv) Railway projects are also 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 crore, Planning Commission is required to concur before the work can be included in the Budget. For works costing over Rs. 50 crore 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:-

i) Revenue expenditure or non-Plan expenditure; and

ii) 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.

(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.35823.30 crore in 2001-02 (BE). This amount excludes Capital outlay on Metropolitan Transport Projects (MTP) and Circular Railway (Calcutta). The Capital outlay on MTP at Mumbai, Kolkata, Delhi and Chennai is Rs.3187.42 crore (BE) in 2001-02 and that of Circular Railway (Kolkata) is Rs.211.95 (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.2352.00 crore (BE) by 2001-02. In all, the Railways have paid so far to the General Revenues an amount of Rs.25,406 crore as Dividend. It comes to

70.92 per cent of the Capital-at-charge on Indian Railways. However, the Ministry of Finance have permitted deferment of payment of dividend to the tune of Rs.1000 crore in 2001-02 together with Rs.1823 crore deferred in 2000-01 i.e., the total outstanding liability works out to Rs.2823 crore by the end of 2001-02.

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

(D). Payment Of Dividend To General Revenues

13. In regard to Rate of Dividend, the Railway Convention Committee (1999) had, in paras 40 & 41 of their Second Report recommended that the Dividend for the year 2001-02 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 2000-01. 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 2001-02.

(E) Present State of Railway Finances

14. Regarding the financial position of Railways, the Ministry of Railways, in their interim Memorandum submitted to the Committee on 4th January, 2002, stated that the Indian Railways' finances continue to be under great strain. While the expenditure has begun to stabilize as a result of various economy and austerity measures being taken by Railways, the earnings have fallen short of the target as the freight traffic is not materializing up to the expectations due to the recessionary trends in the economy.

15. Elaborating the financial position of the Indian Railways during the year 2000-01, the Ministry of Railways furnished the following in their interim Memorandum :

> "Freight loading target for the year was 475 mt. The actual loading achieved in the year was 473.50 mt, which was fairly close to the target. 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. 303 crore from the Budget estimates of freight earnings. There was a shortfall in other coaching earnings (Rs.92 crore) and sundry other earnings (Rs.,714 crore) also.

Due to all these reasons, the overall earnings fell short by Rs. 742 crore despite enhanced Passenger earnings being (Rs. 367 crore) more than budgeted.

The position of recovery of freight dues from the Railway users worsened further. As against the recovery of Rs. 500 crore envisaged in the Budget Estimates, there was an accretion of Rs. 407 crore to the traffic outstanding. As a result, the estimates of Gross Traffic Receipts was missed by Rs.1649 crore.

On the expenditure side, the Railways maintained tight control and could achieve a saving of Rs. 581 crore over the B.E. after absorbing the impact of a number of post-budgetary developments such as diesel price hike, increase in price of electricity tariff, rates of running allowance, incentive bonus etc.

As a result of shortfall in earnings and non-clearance of outstanding dues, the internal generation of resources fell significantly during the year. Consequently, the budgeted Plan expenditure of Rs.11000 crore was reduced to Rs. 9395 crore. Even the reduced Plan outlay could be met only by deferring payment of Dividend to General Revenues to the extent of Rs. 1823 crore. The 'Net Revenue' of the Railways was found sufficient to pay dividend only to the extent of Rs. 308 crore against the total dividend payable of Rs. 2131 crore. It may be recalled that the Railways had provided for payment of dividend to the extent of Rs. 615 crore and Rs. 584 crore respectively, in BE & RE stages of 2000-01 after deferring Rs. 1500 crore to the 'Deferred Dividend Liability Account".

16. Giving details of the performance of the Indian Railways for the year 2001-02, 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 November, 2001 show a shortfall of Rs. 761 crore in the overall earnings position as compared to the proportionate target. Though the year targets at a freight loading of 500 mt., the performance so far has not been satisfactory; the loading to end November is 314.79 mt against the proportionate target of 323.75 mt and is 8.10 mt higher than that achieved during the corresponding period last year. Freight earnings during the period are lower than proportionate target by Rs. 576 crore. The passenger earnings, the Other Coaching earnings and Sundry earnings (even after excluding the target of earnings from leasing of 'right of way' for laying the OFC) have also fallen short of the target by Rs. 185 crore. The working expenses on the other hand, are showing a savings of around Rs. 1070 crore making the net position favourable by Rs. 309 crore. But, with the normal end of the year adjustments and post-budgetary factors like increase in rate of HSD oil and electricity tariffs etc., the present position is likely to get neutralized.

Another area of concern is the non-clearance of outstanding dues. Against a clearance target of Rs. 750 crore, set in BE 2001-02, there has been an accretion of Rs. 918 crore to end of September. Though the Railways are making all 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 (KRCL). KRCL has been set up with an investment of Rs. 3500 crore. Out of this, about Rs. 2500 crore was borrowed from market on the strength of letter of comfort issued by the Ministry of Railways. After commissioning, while the KRCL has been able to generate revenue just sufficient to cover its operating expenses, it has not been able to service the interest and debt liability. As a result. Ministry of Railways has to extend support to KRCL in the form of interest free loans. As of 31.3.2001, this Ministry has lent Rs. 634 crore on this account. KRCL's demand this year is about Rs. 744 crore of which Rs. 230 crore has already been paid out of the current year's budget allotment. Apart from Rs. 514 crore more in the current year; over the next 8 fiscal years, KRCL would need an additional amount of approximately Rs.3500 crore for servicing its debt. The Railways, itself financially distressed, are finding it difficult to bear this additional liability.

Thus, the financial position of Railways continues to be critical and under great strain. In order to enable Railways to meets its Plan needs, Ministry of Finance has permitted deferment of payment of dividend to the tune of Rs. 1000 crore in 2001-02. Together with Rs. 1823 crore deferred in 2000-01, the total outstanding dividend liability works out to Rs. 2823 crore at the end of 2001-02."

(F). Issue of Rate Of Dividend

17. In the above context, the Ministry of Railways have proposed to the Committee that :

"Given this financial position, it is submitted that the existing rates and modalities for determining the dividend as brought out in **Appendix-II** may continue to be adopted for the year 2002-03 also. All concessions now available, as listed therein may also be allowed to continue for the year 2002-03".

18. In this connection, the Ministry of Railways have forwarded the following views 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 order to enable Railways to meet its plan needs, this Ministry has permitted deferment of dividend to the tune of Rs. 1000 crore in the current year. Together with Rs.1823 crore deferred in 2000-01 the total dividend deferred will be Rs. 2823 crore at the end of 2001-02. The deferment of dividend liability in the last two years has been agreed to enable the Railways to improve their finances. This has been agreed to despite serious pressure on fiscal deficit and despite the fact that Government is committed to conform to the obligations under the "Fiscal Responsibility & Budget Management Bill, 2000".

The Budget support given to the Railways is an investment from General Revenues in the Railways. During the current year, additional budgetary support of Rs. 1898 crore to Railways from the general revenues for the Special Railway Safety Fund (Rs. 1000 crore) and Last Miles projects (Rs. 898 crore) over and above the budget support of Rs. 3540 crore provided for in the Budget Estimates 2001-02 has, already been agreed to/ 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. The rate at which dividend is paid by the Railways is considerably lower than cost of borrowing by the Government. 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 11.33% average borrowing rate of the Central Government in the year 2000-01. 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.

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 which was Rs. 312 crore in the year 1991-92 has been budgeted for Rs. 913 crore in 2001-02.

Keeping in view the above scenario, it is reiterated that the rate of dividend paid by the Railways needs to be increased. It is, therefore, proposed that railways should pay a flat rate of 7.5% dividend on capital-at-charge. It is also necessary that the Railways must pay dividend to General Revenue regularly, for which they need to take necessary measures to augment their earnings and keep working expenses under strict control. In this context, the recommendation of the Railway Convention Committee for setting up a Railway Tariff Regulatory Authority assumes significance. This Ministry is also of the opinion that the Railways should constitute a Railway Tariff Regulatory Authority with the mandate to fix tariff on a rational basis with automatic adjustment based on cost of inputs including fuel, electricity tariff and staff costs".

19. 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. The Committee accepted the viewpoint of the Ministry of Railways and allowed the rate of dividend and other concessions to continue without change. As it happens, even at the existing rate, the Railways have not been able to pay the dividend fully in 2000-01 and 2001-02.

The financial position of the Railways continues to be unsatisfactory 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."

20. As regards setting up of a Railway Tariff Regulatory Authority the Ministry of Railways submitted before the Committee :

"as has already been conveyed to the Committee (vide Action Taken Note on the Committee's recommendation contained in para 114 of the First Report of the 1999 on Rate of Dividend for 2000-01 etc) the Ministry of Railways are of the view that under the Railway's Act 1989, full powers have been conferred on the Ministry of Railways (Railway Board) to fix the tariff rates. Setting up of any autonomous regulatory authority would not be possible under the existing statutory provisions. The Ministry of Railways have, therefore, decided not to constitute any Rail Tariff Regulatory Authority for the present".

21. At the time of consideration of rate of dividend for 2000-01, the representatives of the Ministry of Railways, Ministry of Finance and Planning Commission had appeared before the Committee. On being asked about the basis on which the Railways were allowed to defer the payment of dividend liability, the Secretary (Expenditure) had submitted before the Committee :

> "This is a one time facility, which the Finance Minister has agreed to give to the Railways, because, otherwise their Annual Plan would have to be cut drastically. There was an increase in the budgetary support in the Plan by almost Rs. 1000 crore or so and this amount of Rs. 1500 crore without that, there would have been a steep decline in investment. It was a stop gap arrangement. It is not a write off. They have to make up this amount of Rs. 1500 crore in the subsequent years".

22. The then Secretary (Expenditure) had further clarified during evidence:

> "This is not even a one-time relief. It is a deferral of dividend, which has to be made. It is not a waiver. They have to make it in subsequent years. It is not a write-off".

23. The witness had further added :

> "The Railways is a very important infrastructure sector and any set back in the investment needs of the Railways has a cascading effect in the other sectors of the economy…. Therefore, we need to protect a bare minimum level of investment and so this one time relief was given".

24. For the year 2001-02, the Ministry of Finance had again agreed to deferment of dividend payment to the extent of Rs. 1000 crore to enable the Ministry of Railways to take necessary measures to improve their finances, al beit this deferment has put tremendous strain on General Revenues.

25. The Ministry of Finance had permitted deferment of payment of dividend to the tune of Rs. 1500 crore in the year 2000-01 and Rs. 1000 crore in the year 2001-02 to enable the Ministry of Railways to take necessary measures to improve their finances. However, the Ministry of Railways have now brought out in their Memorandum on rate of dividend and other ancillary matters for the year 2002-03 that actual deferment of dividend for the year 2000-01 is Rs. 1823 crore and for the year 2001-02 is Rs. 1000 crore.

Funds of Railways

(A) Depreciation Reserve Fund (DRF)

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

27. While approving the proposal of the Ministry of Railways regarding appropriation to be made to the Depreciation Reserve Fund in 2001-02, the Railway Convention Committee (1999) in their Second Report, had recommended as under:

> "The contribution to DRF may be allowed to be made in consonance with the capacity of the system to generate internal resources and the Plan requirement for 2001-02 which would be finalized by the Planning Commission in consultation with the Ministry of Railways".

28. 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. 2704 crore in BE 2001-02.

The process of formulation of the Railways' plan for the fiscal year 2002-03 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 2002-03 which would be finalized by end December, 2001/January, 2002. The actual amount of contribution made to DRF in the fiscal year 2002-03 will be intimated to the Committee in due course."

29. On this proposal of Railways, the Ministry of Finance have observed that the Railway Plan requirement for 2002-03 would be finalized by the Planning Commission in consultation with the Ministry of Railways. Hence the appropriation to the DRF may be made in consonance with the capacity to generate internal resources and plan requirement.

30. It may be brought out that on similar ground the Committee had recommended that Appropriation 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 the Planning Commission in consultation with the Ministry of Railways.

(B) Pension Fund (PF)

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

32. The Railway Convention Committee (1999) in their Second Report, while approving the proposal of the Ministry of Railways regarding contribution to be made to Pension Fund in 2001-02, had recommended as under :

"The appropriation to Pension Fund from revenues may be enhanced to Rs. 5800 crore in 2001-02, 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".

33. Regarding the Pension Fund 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. 5800 crore in the BE 2001-02.
>
> Pension liability is likely to go up to around Rs. 6300 crore in the year 2002-03 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. 6100 crore in 2002-03, 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."

34. In regard to this proposal of the Ministry of Railways, the Ministry of Finance have observed that appropriation to Pension Fund in 2002-03 could be based on the trend of actual expenditure in last few years.

(C). Development Fund (DF)

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

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

The appropriation to the Fund is made out of the 'Excess' left after meeting the dividend liability. Whenever the 'Excess' is not sufficient, the Railways may borrow money from the

General Revenues as per the recommendation of the Railway Convention Committee, 1954. The money borrowed, together with the interest thereon, has to be repaid in subsequent years.

36. The Railway Convention Committee (1999) had, in para 46 of their Second Report recommended the following;

> "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."

37. The Ministry of Railways in their action taken notes have submitted that in 2000-01, an amount of Rs. 732 crore has been appropriated to the Development Fund and for the year 2001-02, the appropriation to this Fund has been kept at Rs. 511 crore.

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

(D). Capital Fund (CF)

39. 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 of the Railways after appropriation to Development Fund and the 'Excess' is appropriated to the Capital Fund.

40. The Railway Convention Committee (1999) had, in para 47 of their Second Report made the following recommendation:

"The Committee note that the appropriation to Capital Fund has been kept at Rs. 594 crore in the Budget Estimate for 2000-01. 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 2001-02, the Committee recommend that the appropriation to Capital Fund may be made out of the excess left after meeting the dividend liability".

The Ministry of Railways explained in their Memorandum as follows :

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

Due to the difficult financial position, the Railways have not been able to generate enough internal resources to sufficiently contribute to this fund. In the year 2000-01 a loan of Rs. 249 crore has to be taken from the General Exchequer in order to ensure that the ongoing works under this Fund do not languish. However, even with this, it was difficult to provide the balance amount required from Railways' diminishing internal generation. Since the rules of allocation for Capital & for Capital Fund are the same, it has been decided to not operate Capital Fund for the present. All the works hitherto charged to this fund will now be met from the Capital support provided by the General Exchequer. The Fund has, however, not been closed as the loan of Rs. 249 crore obtained for this fund in 2000-01 and the interest accrued thereon have still to be paid."

41. The Ministry of Railways further informed the Committee that an amount of Rs. 17 crore has been appropriated to this Fund in BE 2001-02 to pay off the interest liability for the year. However, the Ministry of Finance have suggested that these funds may be made out of excess left after meeting the dividend liability.

(E) Railway Safety Fund (RSF)

42. The Railway Convention Committee (1999), in para 48 of their Second 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 over bridges/Railway under bridges 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 would since then 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 between the Ministries of Railway 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 finalisation 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, desired to know the latest position in this regard."

43. The Ministry of Railways, in their interim Memorandum, submitted the following for the information and consideration of the Committee :

> "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 Railway over/under bridges at busy level crossings. The Fund would be financed through transfer of funds by the Central Government from the Central Road Fund, the contribution that is being made presently to the Railway Safety Works Fund (RSWF) out of the dividend being paid by the Ministry of Railways to the General Revenues and the Railway Revenues i.e., out of the excess left after payment of dividend to General Revenues. It is submitted that as against the earlier proposal of contributing only 20% of the 'annual contribution to the RSWF' to the RSF, it has now been decided, with the consent of the Ministry of Finance, to put the entire 'contribution to RSWF' in to the new RSF. The RSWF has accordingly been closed. Arrangements are being made to complete reimbursement of the State Government's dues from the balance in the fund by 31.3.2002. Thereafter, the balances standing at the credit of the fund will be transferred to the RSF.
>
> In BE 2001-02, an appropriation of Rs. 302.77 crore has been made to the Fund, consisting of Rs. 300 crore transferred by the Central Government from the Central Road Fund and Rs. 2.77 crore worked out as contribution that was supposed to be made for the (RSWF) out of the Dividend."

44. In regard to Railway Safety Fund, the Ministry of Finance observed as follows:

"Railway Safety Fund, which has been created for financing works relating to conversion of unmanned level crossings and for construction of Railway over/under bridges at busy level crossings is financed by transfer of funds from Central Road Fund wherein receipts collected from additional cess levied on petrol and diesel are credited. This fund has been created in Public Account of India and General revenue is paying interest on the balances of this fund. Since the fund is being financed by transfers from general revenue, it is proposed that interest need not be paid from the general revenue on the balance of the fund".

(F) Creation of Special Railway Safety Fund :

45. Regarding creation of Special Railway Safety Fund, the Ministry of Railways, in their interim Memorandum submitted as follows:

"The Railway Safety Review Committee (1998) in its report had inter-alia recommended that in the interest of safety of the traveling public, the Central Government should provide a one time grant to the Railways so that arrears in the renewal of vital safety equipment are wiped out within a fixed time frame of 5 to 7 years. The Committee had also recommended that a one time grant of Rs. 15000 crore be given by the Central Government to the Railways to wipe out arrears of replacement of over aged assets. The cost of replacement of such over-aged assets has been re-assessed at current price levels as Rs. 17000 crore. The Government has accordingly decided to set up a non-lapsable Special Railway Safety Fund to wipe out the arrears of replacement on the Railways in a fixed time schedule, as recommended by the Justice Khanna Committee. This Special Railway Safety Fund will be funded mainly through two sources viz., (1) Railways' contribution through the levy of Safety Surcharge on passenger traffic and (2) through additional financial assistance to be given by the Ministry of Finance".

It is expected that with the levy of the Safety Surcharge, the Railways would be able to raise Rs. 5000 crore over a period of 6 years including the current financial year, which will be credited to the newly created non-lapsable Special Railway Safety Fund. The remaining Rs. 12000 crore would be provided by the Ministry of Finance. In the current financial year the Ministry of Finance have agreed to provide Rs. 1000 crore towards this fund. The balance amount would be provided over the next five years. The surcharge, which is being levied from 1.10.01 onwards, is expected to fetch Rs. 400 crore in the current year.

The amount of safety surcharge will form part of the 'Miscellaneous Receipts' of the Railways and will be appropriated to the 'Special Railway Safety Fund' in Demand No. 14 as part of the miscellaneous expenditure of the Railways.

With the creation of this non-lapsable Special Railway Safety Fund, railways expect to be able to wipe out its arrears of replacement of assets in a time bound manner and thereby considerably improve the safety of the travelling public. The identification of these arrears is in an advanced stage. Only works relating to replacement. renewal of safety related assets and those relating to safety enhancement, as approved by the Expanded Railway Board, would be charged to this Fund. Such works will be incorporated in a separate book of sanctioned projects called the 'Green Book".

46. The Ministry of Railways in their interim Memorandum have sought approval for creation of the Special Railway Safety Fund as brought out above.

47. In this connection, the Ministry of Finance commented as follows:

"It has been decided to set up a non-lapsable Special Railway Safety Fund to wipe out arrears of replacement of over-aged assets. It is proposed to provide Rs. 1000 crore to the fund from General Revenues this year, as dividend free additional budgetary support. Railways have already been advised to present supplementary demands for grants for this amount, in the current session of the Parliament. It is proposed to keep the fund in the section “Reserve Funds not bearing interest” in the Public Account of India. Transfers to this fund from the General Revenues in the next five years will be need based”.

48. The Ministry of Railways (Railway Board) had furnished a Memorandum for the construction of a new broad gauge line between Kolayat and Phalodi (111.394 kms) on strategic consideration to the Committee on 6th June, 2001 wherein the Ministry of Railways had stated that in view of the persistent request received from the Ministry of Defence (Army Headquarters) for taking up construction of this 111.394kms. project, a Reconnaissance Engineering-Cum-Traffic Survey was conducted by the Ministry of Railways. The Survey was completed in January, 1999. The matter was then referred to the Ministry of Finance who advised that the proposal needs to be placed before the Railway Convention Committee for their recommendation. The Planning Commission also supported the views expressed by the Ministry of Finance.

49. The Committee took evidence of the representatives of the Ministry of Railways, Planning Commission and Ministry of Finance and examined the issue in depth. During evidence Chairman, Railway Board had suggested that the concessions now available on the constructions of new lines on strategic considerations may also be extended to the gauge conversion works taken up on strategic considerations. The Committee, had inter-alia recommended that a note on the above suggestion along with the views of Ministry of Finance may be incorporated in the Memorandum on Rate of dividend for 2002-03 and other ancillary matters and the same may be sent to the Committee for their consideration.

50. The Committee note that Ministry of Railways had proposed to transfer Rs. 1500 crore to Deferred Dividend Liability Account for the year 2000-01. During the examination of witnesses at the time of finalization of their First Report, the Secretary (Expenditure) had submitted before the Committee that deferment of Dividend for the year 2000-01 to the extent of Rs.1500 crore was a one time facility to enable the Railways to meet its planned needs as otherwise their annual plan would have been cut drastically. The deferment of dividend is not a waiver of the amount and the Ministry would have to repay it subsequently.

However, the Committee find that the Ministry of Finance have again allowed deferment of payment of dividend to the tune of Rs. 1000 crore again in 2001-02. The Committee desire to know why the Ministry of Finance have repeatedly allowed deferment of payment of dividend, even though it was stated to be one time measure / facility to the Ministry of Railways for putting their finances in order. They would like to know from the Ministry of Finance as to how it is going to help the Ministry of Railways in the long run.

51. The Committee are unhappy to note that the actual deferment of payment of dividend during the year 2000-01 has been Rs. 1823 crore instead of Rs. 1500 crore as intimated to them. They are perturbed about the manner in which the Ministry of Railways have proposed and the Ministry of Finance permitted excess deferment of payment of dividend without bringing it to the knowledge of the Committee and seeking its approval. They take a serious view about the way in which both the Ministries have kept the Committee in the dark. They desire to know as to when and under what circumstance this enhanced deferment was proposed by Ministry of Railways and agreed to by the Ministry of Finance. The Committee recommend that the entire situation may be explained to them within a period of three months.

52. With the emergence of liberalized economy, the principle of survival of the fittest has come to the fore. The Committee are of the view that the present unprecedented financial crisis faced by the Indian Railways is nothing but teething problems faced by them while adapting itself to the liberalized economy. They are of the opinion that today in open economies, subsidies are being curbed so that the competition takes place and the fittest survives. In such a scenario protection, viz., deferment of payment of dividend repeatedly makes the entire railway system sluggish and unproductive. The Committee are convinced that the Indian Railways would be able to overcome this financial crisis if they strive to put right the structural imbalances in their system. They emphasize that

exploring alternative avenues for resource mobilization viz., utilization of their resources to the maximum, such as making the best use of the space at railway stations, advertisement on coaches and other places, encouragement to private sector participation, restructuring of passenger and freight tariffs, etc., are some of the measures in this direction.

53. The Committee are unable to understand the two-faced strategy of the Ministry of Finance. On the one hand, the Ministry of Finance have proposed that Railways should pay a flat rate of 7.5 % dividend on Capital-at-Charge so that the rate of dividend becomes closer to average borrowing rate of the Government whereas on the other, they have permitted deferment of dividend year after year. The Committee do not see any logic as to how an organization which has been unable to pay dividend at a lower rate be asked to pay dividend at an enhanced rate. Hence, the Committee feel that it is unreasonable to ask Railways to pay dividend at an increased rate of 7.5% for the present.

54. After considering the arguments put forth both by the Ministries of Railways and Finance on the issue of rate of dividend, the Committee recommend as a purely interim measure, that for the year 2002-03 dividend to General Revenues may be paid at 7 % on the entire capital invested on Railways from the General Revenues irrespective of the year of investment inclusive of the amount that was payable to States as grants in lieu of the passenger fare tax and contribution for assisting States for safety works during the year 2001-02.

55. 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 2002-03.

56. Though the Committee have not agreed for any increase in the rate of dividend for the year 2002-03, they would like to caution the Ministry of Railways to put their financial condition in order. The Committee have <u>inter-alia</u> found that their earlier suggestions for following prudential policies so as to increase generation of their internal resources apart from putting an end to extravagant expenditure has not been translated into action in letter and spirit and the policies followed by the Ministry so far has not brought about the desired results. They, therefore, suggest that the Ministry of Railways should strive to explore alternative avenues, reform inherent structural imbalances in their system and promote private participation wherever possible. The Ministry should also follow such policies as to increase generation of internal resources by the optimum utilization of available resources and at the same time curtailing their extravagant expenditure. The Committee will be keeping a vigilant eye on the financial performance of the Railways during the year and the result thereof would be taken into consideration while reviewing the rate of dividend for the year 2003-04.

57. The Railway Convention Committee (1999) in their First Report had suggested for setting up of Rail Tariff Regulatory Authority with the mandate to fix tariffs on rational basis with automatic adjustment based on the cost of inputs, including fuel and electricity tariffs. At that time, the Committee had also cautioned the Government that while setting up of a Tariff Regulatory Authority for Indian Railways, the Government should take utmost care and ensure that this transition is gradual, smooth and above all with a human face. The Ministry of Finance, in their comments included in the Interim Memorandum on Rate of Dividend for 2002-03 and other ancillary matters, have endorsed the views of the Committee on the issue. However, the Ministry of Railways, in the same Memorandum, have submitted that full powers have been conferred on the Ministry of Railways to fix the tariff rates and as such setting up of an autonomous Regulatory Authority would not be possible under existing statutory

provisions. Keeping in view the statutory provisions, the Committee recommend that the Ministry of Railways should, under these circumstances, ensure that tariffs are fixed on a rational basis with provision for automatic adjustment based on cost of inputs. The Committee desire to be kept apprised about concrete steps taken by the Ministry of Railways in this regard.

58. When the Railway Convention Committee (1999) were examining the subject 'Construction of new Broad Gauge line between Kolayat and Phalodi on strategic consideration', the Chairman, Railway Board, during evidence, had suggested that the concession now available on the construction of new line on strategic considerations may also be extended to gauge conversion works taken up on strategic considerations. The Committee had, recommended, in their Third Report, that a note on the above suggestion along with the views of the Ministry of Finance may be incorporated in the Memorandum on 'Rate of Dividend for 2002-03 and other ancillary matters' for their consideration. However, they find that no such note has been incorporated in the Memorandum. The Committee have, therefore, decided to consider this matter after the proposal along with the comments of Ministry of Finance is received by them.

59. The Committee had, in their Second Report, recommended 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 2001-02 which would be finalized by the Planning Commission in consultation with the Ministry of Railways. They, however, find that the Ministry of Railways have again submitted the same reason that the process of formulation of Railways' Plan for the fiscal year 2002-03 is yet to begin and therefore 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 2002-03 which would be finalized by the end of December, 2001/ January, 2002. Though the Committee agree with

the proposal of the Ministry of Railways, they desire to be kept informed of the actual amount of contribution made to DRF in the fiscal year 2002-03.

60. The appropriation to the Pension Fund (PF) from revenues was kept at Rs.5800 crore for the year 2001-02. The Ministry of Railways have proposed to enhance the appropriation to the Pension Fund keeping in view the pension liability which is likely to go up to around Rs.6300 crore in the year 2002-03 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.6100 crore in 2002-03, subject to adjustments and keeping in view any variations of the estimated withdrawal during the course of the year. This, together with the appropriation of Rs.200 crore from Production Units will enable the Railways to meet the pension requirement of Rs. 6300 crore during the year.

61. The Committee find that the appropriation to Development Fund has been kept at Rs.511 crore in BE 2001-02. However, for the year 2002-03, the Ministry of Railways have proposed that the appropriation to Development Fund be made out of the excess left after meeting the dividend liability. Though the Committee approve the proposal of the Ministry of Railways, they 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 2002-03.

62. The Committee were apprised that the Railways have not been able to generate enough internal resources to sufficiently contribute to the Capital Fund. In the year 2000-01, a loan of Rs. 249 crore had to be taken from the General Exchequer in order to ensure that the ongoing works under this Fund do not languish. However, even with this, it was difficult to provide the balance amount required from the Railways' diminishing generation of internal resources. Since the rules of allocation for Capital and for Capital Fund are the same, the Ministry

decided not to operate the Capital Fund for the present. The Committee are concerned to note that the Ministry of Railways have decided themselves not to operate this Fund. In their opinion, they should have taken the approval of the Committee before taking this decision, particularly when this Fund was created with their concurrence.

Now the Ministry of Railways have proposed that all the works hitherto charged to this Fund will be met from the Capital support provided by the General Exchequer. The Fund has, however, not been closed as the loan of Rs.249 crore obtained for this Fund in 2000-01 and the interest accrued thereon have still to be repaid. An amount of Rs.17 crore has been appropriated to this Fund in BE 2001-02 to pay off the interest liability for the year. The Committee may be informed of the actual appropriation to this fund for 2002-03.

63. The Committee, in their Second Report, had recommended creation of a Railway Safety Fund (RSF) w.e.f., 1.4.2001 and to keep them apprised of the progress in this regard as the actual modalities for operation of this Fund were under finalisation in consultation with the Ministry of Finance. The Ministry of Railways have submitted to the Committee that it has now been decided, with the consent of the Ministry of Finance, to put the entire contribution to 'Railway Safety Works Fund' (RSWF) into the new RSF instead of the earlier proposal to contribute 20% of annual contribution to the RSWF. The RSWF has accordingly been closed and arrangements are being made to complete reimbursement of the State Governments' dues from the balance in the fund by 31.3.2002. Thereafter, the balances standing at the credit of the fund will be transferred to the RSF. In BE 2001-02, an appropriation of Rs. 302.77 crore has been made to the Fund, consisting of Rs. 300 crore transferred by the Central Government from the Central Road Fund and Rs. 2.77 crore worked out as contribution that was supposed to be made for the RSWF out of the Dividend.

64. The Committee were informed that, in accordance with the recommendation of Justice Khanna committee Report on Railway Safety, the Ministry of Railways have decided to set up a non-lapsable Special Railway Safety

Fund to wipe out the arrears in renewal of vital safety equipments and replacement of over-aged assets on the Railways in a fixed time schedule of 5 to 7 years. They have been apprised that the cost of replacing of such over-aged assets has been reassessed to Rs.17000 crore at the current price level. They have also been informed that it is expected that with the levy of safety surcharge the Railways would be able to raise Rs. 5000 crore over a period of six years, including the current financial year. The remaining 12000 crore would be provided by the Ministry of Finance. The Ministry of Railways have further submitted that during the current financial year the Ministry of Finance have agreed to provide Rs. 1000 crore towards this Fund, whereas the surcharge which was levied from 1.10.2001 onwards is expected to fetch Rs. 400 crore in the current year. The Committee are happy on the creation of this Fund and a clear cut demarcation regarding its funding. However, they desire that the Ministry of Finance should ensure adequate availability of funds to the Ministry of Railways in the coming years so that they may not suffocate due to lack of resources. At the same time, they also suggest to the Ministry of Railways to make concerted efforts to ensure availability of the promised amount from their own resources towards this Fund.

65. 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 2002-03.

New Delhi;
25 February, 2002
6 Phalguna, 1923 (S)

(BHAVNABEN CHIKHALIA)
Chairperson
Railway Convention Committee

APPENDIX I

(Vide Para 12)

STATEMENT SHOWING IMPORTANT FINANCIAL FIGURES IN RESPECT OF INDIAN RAILWAYS FOR THE PERIOD 1950-51 TO 2000-01

(Rs. In Crores)

Year	*Capital at Charge	Investment from Capital Fund	Gross Traffic Receipts	Total working Expenses	Net Revenue	Dividend Paid *	Excess (+) Shortfall (-)	Operating Ratio
1950-51	827.00	0.00	263.01	210.23	47.56	32.51	15.05	81.0
1951-52	850.11	0.00	290.82	224.35	61.75	33.41	28.34	77.0
1952-53	857.38	0.00	270.56	218.17	47.18	33.99	13.19	80.6
1953-54	869.30	0.00	274.29	231.75	86.92	84.36	2.56	84.4
1954-55	901.58	0.00	286.78	236.09	44.06	84.96	9.10	82.3
1955-56	968.98	0.00	316.29	258.22	50.34	36.12	14.22	81.6
1956-57	1071.71	0.00	347.57	279.27	58.38	38.16	20.22	80.3
1957-58	1222.44	0.00	379.78	309.44	57.78	44.40	13.38	81.5
1958-59	1856.69	0.00	390.21	321.44	59.32	50.89	8.93	82.4
1959-60	1432.28	0.00	422.33	334.62	74.55	54.43	20.12	79.2
1960-61	1520.87	0.00	456.80	358.24	87.87	55.86	32.01	78.4
1961-62	1682.98	0.00	500.50	390.51	99.75	75.85	24.40	78.0

1962-63	1896.81	0.00	566.79	429.52	123.32	81.26	42.06	75.8
1963-64	2159.63	0.00	632.21	472.27	145.19	95.95	49.24	74.7
1964-65	2135.12	0.00	660.85	528.11	118.11	101.93	13.18	79.9
1965-66	2680.82	0.00	733.57	583.04	134.84	116.20	18.56	79.5
1966-67	2841.57	0.00	768.78	639.25	114.12	182.39	318.27	83.2
1967-68	2978.03	0.00	818.14	693.80	110.12	141.53	-31.53	84.7
1968-69	3101.27	0.00	898.84	741.93	142.81	150.67	-7.86	82.5
1969-70	3195.51	0.00	951.28	790.02	146.56	156.39	-9.83	83.0
1970-71	3330.78	0.00	1006.69	847.34	144.73	164.58	-19.84	84.2
1971-72	3520.99	0.00	1096.59	911.85	169.08	151.24	17.84	83.1
1972-73	3725.81	0.00	1162.42	982.62	164.43	161.51	2.92	84.5
1973-74	3893.38	0.00	1137.89	1066.88	55.41	170.91	-115.51	93.7
1974-75	4105.56	0.00	1408.19	1317.29	73.64	187.47	-113.83	93.5
1975-76	4354.78	0.00	1767.01	1609.62	137.03	198.14	-61.11	91.1
1976-77	4533.70	0.00	2036.11	1718.56	296.29	209.05	87.24	84.4
1977-78	4797.12	0.00	2123.42	1750.12	352.79	226.56	126.23	83.0
1978-79	5023.92	0.00	2151.04	1867.55	260.82	224.16	86.66	87.5
1979-80.	5484.64	0.00	2337.84	2142.38	227.29	293.53	-66.24	91.5
1980-81	6096.35	0.00	2624.02	2536.46	127.49	325.36	-197.87	96.1
1981-82	6698.05	0.00	3538.24	3182.05	408.06	356.47	46.59	89.4
1982-83	7251.09	0.00	43.76.21	3883.35	554.29	485.98	118.31	88.3
1983-84	7567.80	0.00	4986.24	4661.46	378.95	423.70	-44.75	93.9

1984-85	8285.65	0.00	5358.77	4142.17	270.10	465.69	-195.59	96.3
1985-86	9078.07	0.00	2084.16	5828.14	685.87	507.04	178.83	90.6
1986-87	10373.10	0.00	7505.66	6900.56	680.84	578.85	101.99	92.2
1987-88	11622.22	0.00	8435.25	7802.95	723.15	638.86	84.29	92.5
1988-89	12987.51	0.00	9259.29	8632.99	737.33	715.66	21.67	93.0
1989-90	14629.45	0.00	20739.41	9887.73	982.07	808.81	173.26	91.5
1990-91	16125.80	0.00	12096.49	11153.86	1113.78	938.11	175.67	92.0
1991-92	17620.02	0.00	13729.74	12389.19	1540.95	1105.95	435.00	89.5
1992-93	20123.20	0.00	15688.44	13980.08	1955.43	1514.38	441.05	87.4
1993-94	20373.58	1746.99	17946.02	15134.54	3102.13	1296.05	1806.08	82.9
1994-95	21762.92	3161.88	20100.99	16590.12	3808.11	1361.71	2446.40	82.6
1995-96	22247.85	5465.04	22417.85	18524.90	4135.07	1264.44	2870.63	82.5
1996-97	23474.67	7437.10	24319.41	21000.80	3624.46	1507.46	2117.06	86.2
1997-98	25320.28	8526.05	28589.03	25876.03	3024.43	1489.21	1535.22	90.9
1998-99	27322.38	9559.05	30416.36	28400.00	2731.09	1742.08	619.39	94.3
1999-2000	29655.31	10116.75	32938.81	30843.99	2735.67	1889.78	845.89	93.3
2000-2001	32608.50	10408.75	35467.00	34937.60	1351.55	2083.51	767.98	98.5
2001-2002 (BE)	35823.30	10408.75	39939.50	38684.00	2183.20	2352.05	831.20	98.5

* Inclusive of payment of deferred dividend also.

APPENDIX II

(Vide Para 17)

Basis for calculation of Dividend payable to General Revenues as also the subsidy available in payment of Dividend

The rate of dividend on the Capital-at-charge of the Railways and reliefs in dividend and by way of subsidy, based on the recommendations of the Railway Convention Committee (1999) applicable for 2001-02 are as under :-

I. DIVIDEND

(a) The rate of dividend is 7 per cent on the entire Capital invested on the Railways (excl. Metropolitan Projects) irrespective of the year of investment including 1.5% on the Capital invested upto 31.3.1964 (less Capital qualifying for Subsidy) which is to be used for making a contribution of Rs.23.11 cr. for grants to States in lieu of passenger fare tax and the balance amount, if any, to be contributed to the Railway Safety Fund.

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

(c) In respect of the Capital invested on New Lines, excluding the 28 New Lines taken up on or after 1.4.1955 on other than financial considerations, the dividend payable is to be calculated at the average borrowing rate for each year but deferred during the period of construction and the first five years after opening of the lines for traffic, the deferred liability is to be paid out of the future surpluses of the line after payment of current dividend. The account of unliquidated deferred dividend liability on New Lines is to be closed after a period of 20 years from the date of their opening, extinguishing any liability not liquidated within that period.

(d) Losses in the working of strategic lines are borne by the General Revenues. Surplus, if any, of such lines, after meeting working expenses, depreciation and other charges are paid to General Revenues upto the level of normal dividend.

(e) Shortfall, if any, in the payment of dividend on account of inadequacy of net revenue is treated as a deferred liability on which no interest is charged.

II. SUBSIDY FROM GENERAL REVENUES

Capital invested in the following cases qualifies for subsidy from the General Revenues to the extent of the dividend calculated at the rates specified above:

(a) Strategic lines.

(b) 28 New Lines taken up on or after 1.4.1955 on other than financial considerations. Dividend becomes payable if any line becomes remunerative adopting the marginal cost principle. The arrangement is to be applied also to the two National Investments viz. Jammu-Kathua and Tirunelveli-Kanya Kumari-Trivandrum line.

(c) Northeast Frontier Railway (Non-strategic portion).

(d) Unremunerative Branch Lines subject to their unremunerativeness being established on the marginal cost principle in each case through an annual review of their financial results.

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

(f) Ferries and Welfare buildings.

(g) 50% of the capital invested on all works in the current year and in the two previous years, excluding capital invested in strategic lines, Northeast Frontier Railway (Commercial), Ore Lines, Jammu-Kathua and Tirunelveli-Kanya Kumari-Trivandrum Lines, Ferries and Welfare buildings and unremunerative branch lines which qualify in full for subsidy, capital invested in New Lines on which the dividend payable is deferred during the period of construction and the first five years after opening of the lines for traffic, and the capital cost of lines wires taken over from the P&T Department.

APPENDIX - III

(Vide Para 2 of Introduction)

Statement showing the recommendations contained in the Second Report of the Railway Convention Committee (1999) on Rate of Dividend for 2001 - 2002 and other Ancillary Matters and action taken thereon

Sl. No.	Para No.	Recommendation	Action Taken by Government
1	2	3	4
1.	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 toGeneral Revenue 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 2000-2001.	The recommendation has been given effect to while working out the Budget Estimates of dividend payable for 2001-2002. The contribution for assisting the states for financing safety works (Rs.2.77 cr in 2001-2002), which earlier used to be appropriated to the Railway Safety Works Fund has, with the approval of Ministry of Finance, been appropriated to the newly created Railway Safety Fund. This is in pursuance of RCC's recommendation that the existing Railway Safety Works Fund be merged with the new Railway Safety Fund.
2.	41	All other concessions now available on residential buildings, new lines, subsidies from General	The recommendation has been given effect to while working out the Budget Estimates of dividend payable for

		Revenues etc. may be allowed to continue on the existing basis for the year 2001-2002.	2001-2002.
3.	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.	The Committee's concern is noted. The Railways are taking all possible steps to increase internal resources by maximizing earnings and controlling expenditure.
4.	43.	The Railway Convention	Rs.2441 crore from Revenues and

		Committee (1999) in their First Report had recommended that keeping in view the Railways' plan outlay for2000-2001 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	Rs.136 from Production Units were appropriated to the DRF in the Budget Estimates for 2002-2001. This was scaled down to Rs.2171 crore from Revenues and to Rs.124 crore from Production Units in the Revised Estimates. Subsequently the appropriation was increased to Rs.2301 crore from Revenues in the Actuals, with Production Units being retained at Rs.124 crore in keeping with the requirement of the Plan outlay. In the Budget Estimates 2001-2002, the appropriations to DRF have been kept at Rs.2704 crore and Rs.100 crore, respectively, from revenues and ProductionUnits. The balance in the DRF is estimated to be Rs.158 crore at the end of the financial year 2001-2002.

		consultation with the Ministry of Railways.	
5.	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.	Appropriation to DRF depends upon the Plan requirements as fixed in consultation with the Planning Commission taking into account the financial position and resource availability. The withdrawal from DRF is done taking into account the replacement, renewal of over-aged assets, likely in a year. There has not been much variation in contribution to and withdrawal from the DRF, except in the years 1998-99 and 1999-00, when, as a consequence of overall resource constraint being felt as a result of implementation of the V Central Pay Commission, heavy drawdown from the fund had to be resorted to.
6.	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 arount 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	Rs.5006 crore from Revenues and Rs.300 crore from Production Units were appropriated to the Pension Fund in the Budget Estimates for 2000-2001. This was scaled down to Rs.4962 crore from Revenues and to Rs.200 crore from Production Units in the Revised Estimates and subsequently to Rs.4832 crore from Revenues and Rs.200 crore from Production Units in the Actuals, respectively, in keeping with 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.	reduced requirement on account of lesser Pensionary outgo during the year. As recommend by the Committee, in the Budget Estimates 2001-2002, the appropriations to the Pension Fund have been kept at Rs.5800 crore and Rs.200 crore, respectively, from revenues and Production Units. The balance in the Pension Fund is estimated to be Rs.288 crore at the end of the financial year 2001-2002.
7.	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 the 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.	In 2000-2001, an amount of Rs.732 crore has been appropriated to the Development Fund. In the Budget Estimates 2001-2002, the appropriation to this Fund has been kept at Rs.511 crore.
8.	47	The Committee note that appropriation to the Capital Fund has been kept at Rs.594 crore in the BE 2000-2001. This amount	Rs.345 crore from internal resources and Rs.249 crore as a loan extended by the General Revenues were appropriated to the Capital Fund in the

		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.	Budget Estimated for 2000-2001. The Internal Generation of resources further reduced during the year due to shortfall in earnings and non-clearance of dues by the Railway users. Thus on the basis of a re-assessed Plan outlay, certain works which were budgeted to be financed from Capital Fund were transferred to the 'Capital' at the Revised Estimate stage. For the remaining works under the Capital Fund, an amount of Rs.280 crore, consisting of Rs.31 crore from internal resources and Rs.249 crore of loan, has finally been appropriated to the Fund. In view of the continuing resource crunch, it has been decided that the Capital Fund will not be operated for financing the annual plan of the Railways from 2001-2002. All the works hitherto charged to this fund have been transferred to 'Capital'. Only an amount of Rs.17.43 crore from General Revenues has been appropriated to the Capital Fund in the Budget Estimates 2001-2002, representing the interest payable to the General Exchequer on the loan of Rs.249 crore extended to the Railways in 2000-2001.
9.	48	While approving the proposal of	As recommended by the Hon'ble

		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 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; transter 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	Committee, the Railway Safety Fund has been created w.e.f. 1.4.2001. This Fund opens with a balance of Rs.127.29 crore in BE 2001-2002, being the amount transferred from the balance of the Development Fund representing the unspent amount of Rs.300 crore received during 2000-2001 (RE) from Central Government as 'transfer from Central Road Fund' for safety works. An amount of Rs.302.77 crore has been appropriated to this Fund in 2001-2002 (BE) consisting of Rs.300 crore transferred by Central Government from the Central Road Fund in 2001-2002 (BE) and Rs.2.77 crore being the amount worked out as contribution to the Railway Safety Works Fund out of the dividend being paid to the General Revenues. It is submitted here that Ministry of Finance has agreed for transfer of the entire amount of Railways' share of 'contribution to Railway Safety Works Fund' to the new 'Railway Safety Fund'. The Railway Safety Works Fund has accordingly been closed. Arrangements are being made to complete reimbursement of the State Governments' dues from the fund by 31.3.2002. Thereafter, the balances

		would since then form part of the new Railway Safety Fund needed further consideration between the Ministries of Railways and Finance particularly because 80 percent 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 percent share of the Railways towards the Railway Safety Works Fund only be transferred to the Railway Safety Fund and the balance 80 percent 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.	standing at the credit of the fund will be transferred to the Railway Safety Fund.
10.	49	The Committee do not see any logic in modifying the principles governing interest on various	The recommendation of the Committee has been given effect to while working out the Budget

		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.	Estimates for 2001-2002.

PART –II

MINUTES OF THE TWENTY THIRD SITTING OF THE RAILWAY CONVENTION COMMITTEE (1999) HELD ON 25 FEBRUARY, 2002

The Twenty Third sitting of the Railway Convention Committee was held on Monday, the 25th February, 2002 in Room No.133-A, Chairperson's Chambers, Parliament House Annexe from 1500 hrs. to 1600 hrs.

The following Members were present:

Shrimati Bhavnaben Chikhalia - Chairperson

Lok Sabha

2. Shri Raghunath Jha
3. Dr. (Smt.) C. Suguna Kumari
4. Shri Hannan Mollah
5. Shri Ravindra Kumar Pandey
6. Shri Manabendra Shah

Rajya Sabha

7. Shri Lakhiram Aggarwal
8. Shri Maurice Kujur

SECRETARIAT

1. Shri John Joseph - Additional Secretary
2. Shri R.C. Gupta - Director

3. Smt. Abha Singh Yaduvanshi - Assistant Director

2. At the outset, the Committee took up for consideration the Draft Report on 'Rate of Dividend for 2002-2003 and other ancillary matters' and adopted the same with minor modification/amendment as mentioned in Annexure.

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

4. The Committee then adjourned.

ANNEXURE

AMENDMENT/MODIFACATION

Page	Para	Lines	Amendment
23	57	15-17	Delete 'appoint themselves….fixed' Add 'ensure that tariffs are fixed'