

**RAILWAY CONVENTION
COMMITTEE
(1989)**

(NINTH LOK SABHA)

FIRST REPORT

**RATE OF DIVIDEND FOR 1990-91 AND OTHER
ANCILLARY MATTERS**

Presented in Lok Sabha on 13-3-1990

Laid in Rajya Sabha on 14-3-1990



**LOK SABHA SECRETARIAT
NEW DELHI**

March 1990/Phalguna 1911 (S)

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RAILWAY CONVENTION COMMITTEE

(1980)

Shri Hari Kishore Singh—Chairman

MEMBERS

Lok Sabha

2. Shri Rajendra Agnihotri
3. Shri T. Basheer
4. Shri Sudam Deshmukh
5. Dr. Ramchandra Dome
6. Shri George Fernandes
7. Shri P. G. Narayanan
8. Dr. Laxminarayan Pandey
9. Shri Uttam Rathod
10. Shri S. B. Sidnal
11. Shri Brij Bhushan Tiwari
12. Shrimati Usha Verma

Rajya Sabha

13. Shri R. T. Gopalan
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15. Shri M. M. Jacob
16. Shri Vishwasrao Ramrao Patil
17. Shri Dayanand Sahay
18. Chowdhry Hari Singh

SECRETARIAT

1. Shri R. D. Sharma—*Joint Secretary*
2. Shri B. B. Pandit—*Deputy Secretary*
3. Smt. Paramjeet Kaur—*Under Secretary*

INTRODUCTION

I, the Chairman of Railway Convention Committee (1989) having been authorised by the Committee to submit the Report on their behalf present this First Report on the Rate of Dividend payable by the Railway Undertaking to the General Revenues and other Ancillary Matters for the financial year 1990-91.

2. Based on an Interim Memorandum submitted by the Ministry of Railways on 14 January 1988, the Railway Convention Committee (1985) had made certain recommendations in regard to rate of dividend for the year 1989-90 and other ancillary matters in their Thirteenth Report. Consequent on the dissolution of the Eighth Lok Sabha in November, 1989, that Committee became *functus officio* and they could not give their final recommendations.

3. The Ministry of Railways have stated that memorandum on the financial aspects of Railway Working will be submitted in due course in consultation with the Ministry of Finance. In the meantime, they have furnished an Interim Memorandum on Dividend payable by Railways to General Revenues, contribution to the Railway Depreciation Reserve Fund, Railway Pension Fund etc. for the year 1990-91 for the consideration of the Committee. The Committee considered the memorandum on 12 March 1990. The Report of the Committee was also adopted on the same day. Minutes of the sitting of the Committee form Part-II of the Report.

4. The Committee wish to express their thanks to the Ministry of Railways (Railway Board) for placing before them all the information and material in connection with the examination of the subject.

5. A statement of the recommendations of the Committee contained in this Report is at Appendix III.

NEW DELHI;

March 12, 1990

Phalguna 21, 1911 (S)

HARI KISHORE SINGH

Chairman,

Railway Convention Committee.

REPORT

In pursuance of the Resolution adopted by Lok Sabha on 28 December 1989 and concurred in by Rajya Sabha on 29 December 1989, the Railway Convention Committee, 1989 was constituted on 6 February 1989 to review the rate of dividend which is at present payable by the Railway Undertaking to General Revenues as well as other ancillary matters in connection with the Railway Finance vis-a-vis the General Finance and make recommendations thereon.

2. Based on an interim memorandum submitted by the Ministry of Railways on 16 January 1989, the Railway Convention Committee, 1985, had made certain recommendations in regard to rate of dividend for the year 1989-90 and other ancillary matters in their Thirteenth Report presented to Parliament on 22 February 1989. The Resolution approving the recommendations made in paragraphs 9 to 12 of the Thirteenth Report was moved in Lok Sabha on 17 March 1989 by the Minister for Railways and was also adopted on that day.

3. The recommendations contained in the Thirteenth Report and action taken by Government thereon are indicated in Appendix I.

4. The Thirteenth Report of the Railway Convention Committee, 1985, contained the Committee's interim recommendations on the Rate of Dividend for 1989-90 and other ancillary matters. The dividend during the years 1985-90 was also paid on the basis of interim recommendations of the Committee. Consequent on the dissolution of the Eighth Lok Sabha in November, 1989, that Committee became *functus officio* and they could not give their final recommendations.

5. The Ministry of Railways have stated that Memorandum on the financial aspects of Railway working will be submitted to the Committee in due course in consultation with the Ministry of Finance. In the meantime, they have furnished an interim memorandum for the consideration of the Committee.

DIVIDEND PAYABLE TO GENERAL REVENUES

6. The Ministry of Railways have made the following proposals for the consideration of the Committee:

"Dividend to General Revenues is at present being paid at 6 per cent on the capital invested on Railways excluding

Metropolitan Transport Projects upto 31-3-1980 (inclusive of payment to States in lieu of passenger fare tax etc.) and 6.5 per cent on capital invested thereafter.

This Ministry's proposals on the rate of dividend applicable during the 8th Plan viz., 1990-91 to 1994-95 will be submitted in due course. Pending the final recommendations of the Committee, it is proposed for their consideration whether the present rate of dividend, that is, 6.5 per cent on the fresh capital investment may, provisionally, be adopted for the year 1990-91 also as was agreed to for the year 1989-90. All the other concessions now available, as listed in the Appendix-II may also be allowed to continue in the meantime."

DEPRECIATION RESERVE FUND

7. The Railway Convention Committee (1985) in their Thirteenth Report, approving the recommendation of the Ministry of Railways regarding contribution to be made to Depreciation Reserve Fund in 1989-90, had observed as under:

"The Committee also recommend that the contribution to Depreciation Reserve Fund from Revenue may be provided at Rs. 1715 crores in 1989-90 so as to ensure adequate internal generation of revenue to finance plan expenditure for 1989-90".

In this connection, the Ministry of Railways have proposed to the Committee as follows:

"The appropriation to the Fund during the past few years has been stepped up progressively keeping in view the higher outlay on replacement/renewals. The contribution to DRF has been increased from Rs. 920 crores in 1985-86 to Rs. 1715 crores in the current year. The withdrawals have also progressively increased from Rs. 981.48 crores in 1985-86 to Rs. 1489 crores in 1989-90. The annual Railway plan for 1990-91 is under finalisation in consultation with the Ministry of Finance and the Planning Commission. The balance in the Fund is expected to be about Rs. 804 crores at the end of the current year. However, it is considered essential that the increasing levels of contribution to the Fund to be maintained, so that the Railways may have an adequate financial base for meeting the

substantial volume of replacements and renewals that are to be carried out in the course of the VIII Plan period."

The Ministry have also proposed that the contribution to Depreciation Reserve Fund from Revenue may be provided at Rs. 1950 crores in 1990-91 subject to minor adjustment keeping in view the requirement of resources for the Annual Plan 1990-91.

PENSION FUND

8. The Railway Convention Committee (1985) in their Thirteenth Report, approving the recommendation of the Railway Ministry regarding contribution to be made to Pension Fund in 1989-90, had observed:

"The Committee are concerned to note that during the past few years, the withdrawals from the Pension Fund have exceeded the contribution resulting in reduction in balances in the Fund. The closing balance in the Pension Fund which was Rs. 432.26 crores in 1984-85 was reduced to Rs. 208.02 crores in 1987-88. The Committee, therefore, recommend that the contribution to Pension Fund to which appropriation was Rs. 550 crores in 1988-89 be suitably enhanced in 1989-90 in order to reverse the above trend."

In this regard, the Ministry of Railways have submitted:

"Keeping in view the above recommendations, the appropriation to Pension Fund was increased to Rs. 700 crores during 1989-90. However, the balance in the Fund came down to Rs. 56.28 crores at the beginning of 1989-90, while the expected outgo from the Fund in the current year is about Rs. 790 crores as against the budgeted figure of Rs. 700 crores. The increased withdrawals from the Fund have arisen from the liberalisation in pensionary benefits based upon the recommendations of the IVth Pay Commission. The number of persons entitled to pension is also increasing. Under the circumstances, it is proposed for the consideration of the Committee that the contribution to the Pension Fund as part of working expenses in the current year be suitably raised to about Rs. 728 crores in the Revised Estimates of 1989-90 so as to enable the Railways to meet the anticipated outgo from the Fund in the current year.

The reasons for increasing the appropriation to Pension Fund mentioned above will apply equally while deciding such appropriation for the next year (1990-91). It is accordingly

submitted for the consideration of the Committee whether the contribution to Pension Fund as part of the working expenses may be suitably enhanced to about Rs. 900 crores in 1990-91 keeping in view the likely withdrawals and the financial position of the Railways."

INTEREST ON RAILWAY FUNDS AND LOAN TO DEVELOPMENT FUND

9. In their Thirteenth Report the Railway Convention Committee (1985), had recommended as under:

"The Committee also recommend that the balances in the various Railway Reserve Funds (other than Development Fund) may carry the same rate of interest as the rate of dividend, and 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 1989-90".

The Ministry of Railways have submitted for the consideration of the Committee whether the above recommendations may be made applicable for the year 1990-91 also.

10. Pending submission of detailed memorandum, the Committee recommend that the dividend to General Revenues and the subsidy from the General Revenues to the Railways may be computed for the year 1990-91 at the rate of 6 per cent on the capital invested on the Railways upto 31-3-1980 (inclusive of 1.5 per cent on the capital invested upto 31-3-1964, less the capital qualifying for subsidy, for payment to States as grant in lieu of Passenger Fare Tax, and contribution for assisting the States for financing Safety Works) and 6.5 per cent on capital invested thereafter.

11. The other concessions available to Railways in the matter of computing dividend may also be allowed on the existing basis provisionally while framing Budget Estimates for 1990-91.

12. The Committee also recommend that the balances in the various Railway Reserve Funds (other than Development Fund) may carry the same rate of interest as the rate of dividend, and 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 the Budget Estimates for 1990-91.

13. The Committee note that the balance in the Depreciation Reserve Fund is expected to be about Rs. 804 crores at the end of the current year. However, it is considered essential that the increasing levels of contribution to the Fund be maintained, so that the Railways may have an adequate financial base for meeting the substantial volume of replacements and renewals that are to be carried out in the course of the VIII Plan period. The Committee therefore recommend that the contribution to Depreciation Reserve Fund from Revenue may be provided at Rs. 1850 crores in 1990-91 subject to minor adjustment keeping in view the requirement of resources for the Annual Plan 1990-91.

14. The Committee observe that for the past some years the Railways have not been able to match the liability by making sufficient appropriations to the Pension Fund. The Committee hope that the Railways would make adequate financial arrangements to meet the future pensionary liabilities. The Committee, recommend that the contribution to the Pension Fund may, as part of working expenses in the current year, be suitably raised to Rs. 728 crores in the Revised Estimates of 1989-90 so as to enable the Railways to meet the anticipated outgo from the Fund in the current year and that it may be enhanced to Rs. 900 crores in 1990-91 keeping in view the likely withdrawals for the year and the financial position of the Railways.

HARI KISHORE SINGH,

Chairman,

Railway Convention Committee.

NEW DELHI;
March 12, 1990.

Phalguna 21, 1911 (S).

APPENDICES

APPENDIX I

(vide para 3)

Statement showing the recommendations contained in the Thirteenth Report of the Railway Convention Committee (1985) on Rate of Dividend for 1989-90 and other Ancillary Matters and action taken thereon.

Sl. No.	Para No.	Recommendation	Action taken by Government
1	2	3	4
1	9	The Committee recommend that the dividend to General Revenues and subsidy from the General Revenues to the Railways may be computed for the year 1989-90 at the rate of 6 per cent on the capital invested on the Railways up to 31 March 1980 (inclusive of 1.5 per cent on the capital invested up to 31 March 1964, less, the capital qualifying for subsidy, for payment to States as grant in lieu of Passenger Fare Tax etc. and contribution for assisting the States for financing safety works) and 6.5 per cent on capital invested thereafter.	The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1989-90.
2	10	The Committee also 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, and 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 the Budget Estimates for 1989-90.	The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1989-90.

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3 11 The Committee also recommend that the contribution to Depreciation Reserve Fund from revenue may be provided at Rs. 1715 crores in 1989-90 so as to ensure adequate internal generation of revenues to finance the plan expenditure for 1989-90.

4 12 The Committee are concerned to note that during the past few years, the withdrawals from the Pension Fund have exceeded the contribution resulting in reduction in balance in the Fund. The closing balance in the Pension Fund which was Rs. 432.26 crores in 1984-85 was reduced to Rs. 208.02 crores in 1987-88. The Committee therefore, recommend that the contribution to Pension Fund to which appropriation was Rs. 550 crores in 1988-89 be suitably enhanced in 1989-90 in order to reverse the above trend.

5 13 The Committee had earlier agreed with the observations of the Railway Reforms Committee that the capital investment on all new lines should not attract dividend liability and that if, in any year, these lines after their opening to traffic show a surplus on marginal costing principle, the surplus should be transferred to General Revenues upto the level of normal dividend for that year. However, the Ministry of Railways (Railway Board) have now in their reply to the recommendation contained in Para 15 of their 10th Report, requested the Railway Convention Committee that 75 per cent of the annual loss, if any, for working such lines should be borne by the General Revenues and the remaining 25 per cent by the Railways. They have also suggested that the

The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1989-90.

The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1989-90, by raising the amount of appropriation to Rs. 705 crores.

The Ministry of Finance, who were approached to convey their concurrence to the acceptance of the Committee's Recommendations, have expressed their inability to do so on the ground of extreme pressure on the General Exchequer as also having regard to substantial subsidies presently available to the Railways from the General Revenues.

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Railways should be freed from maintaining the deferred dividend liability on new lines and the existing deferred liability on this account should be extinguished.

The Committee are of the view that instead of 75% of the annual loss, if any, for working of new lines 40 per cent should be borne by the Railways and the remaining 60 per cent by the General Revenues. As for deferred dividend liability on new lines, the Committee see no justification for extinguishing the deferred dividend liability.

APPENDIX II

(Vide Para 6)

The rate of dividend on the Capital-at-Charge of the Railways, reliefs and other concessions in dividend and by way of subsidy:—

I. Dividend

(i) The rate of divident is 6 per cent on Capital invested on the Railway upto 31-3-1980, including 1.5 per cent on the capital invested upto 31-3-1964 (less capital qualifying for subsidy) for contribution for grants to States in lieu of Passenger Fare Tax and Contribution for assisting the States for financing safety works.

(ii) The rate of dividend is 6.5 per cent on Capital invested from 1-4-1980. onwards.

II. A concessional dividend of 3.5 per cent is payable on the capital cost of residential buildings.

III. 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 lines 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.

IV. 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.

V. 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.

VI. *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) North-East 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 Bimal garh-Kiriburu and Sam-balpur-Titlagar.
- (f) Ferries and Welfare buildings.
- (g) 50 per cent of the capital invested on all works in the current year and in the two previous years, excluding capital invested in strategic lines, North-East 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 line wires taken over from the P & T Departments.

APPENDIX III

Statement of recommendations/Conclusions

S. No.	Page No.	Recommendation/Conclusion
1	2	3
	10	Pending submission of detailed memorandum, the Committee recommend that the dividend to General Revenues and the subsidy from the General Revenues to the Railways may be computed for the year 1990-91 at the rate of 6 per cent on the capital invested on the Railways upto 31-3-1980 (inclusive of 1.5 per cent on the capital invested upto 31-3-1964, less the capital qualifying for subsidy, for payment to States as grant in lieu of Passenger Fare Tax, and contribution for assisting the States for financing Safety Works) and 6.5 per cent on capital invested thereafter.
2	11	The other concessions available to Railways in the matter of computing dividend may also be allowed on the existing basis provisionally while framing Budget Estimate for 1990-91.
3	12	The Committee also recommend that the balances in the various Railway Reserve Funds (other than Development Fund) may carry the same rate of interest as the rate of dividend, and 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 the Budget Estimates for 1990-91.

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4 13 The Committee note that the balance in the Depreciation Reserve Fund is expected to be about Rs. 804 crores at the end of the current year. However, it is considered essential that the increasing levels of contribution to the Fund be maintained, so that the Railways may have an adequate financial base for meeting the substantial volume of replacements and renewals that are to be carried out in the course of the VIII Plan period. The Committee therefore recommend that the contribution Depreciation Reserve Fund from Revenue may be provided at Rs. 1950 crores in 1990-91 subject to minor adjustment keeping in view the requirement of resources for the Annual Plan 1990-91.

5 14 The Committee observe that for the past some years the Railways have not been able to match the liability by making sufficient appropriations to the Pension Fund. The Committee hope that the Railways would make adequate financial arrangements to meet the future pensionary liabilities. The Committee, recommend that the contribution to the Pension Fund may, as part of working expenses in the current year, be suitably raised to Rs. 728 crores in the Revised Estimates of 1989-90 so as to enable the Railways to meet the anticipated outgo from the Fund in the current year and that it may be enhanced to Rs. 900 crores in 1990-91 keeping in view the likely withdrawals for the year and the financial position of the Railways.

PART II

**Minutes of the sitting of the Railway Convention Committee
(1989) held on 12 March 1989.**

PART II

MINUTES OF THE 2ND SITTING OF THE RAILWAY CONVENTION COMMITTEE HELD ON 12-3-1990

Second sitting of the Railway Convention Committee was held on Monday, the 12th March 1990 from 1500 hours to 1545 hours in Committee Room No. 53, Parliament House, New Delhi. The following Members were present in the meeting:

Shri Hari Kishore Singh—*Chairman*

MEMBERS

Lok Sabha

2. Shri T. Basheer
3. Shri George Fernandes
4. Dr. Laxminarayan Pandey
5. Shri Uttam Rathod
6. Shri Brij Bhushan Tiwari

Rajya Sabha

7. Shri Dayanand Sahay
8. Chowdhry Hari Singh

SECRETARIAT

1. Shri R. D. Sharma—*Joint Secretary*
2. Shri B. B. Pandit—*Deputy Secretary*
3. Shri R. C. Gupta—*Committee Officer*

2. The Committee considered and adopted the Draft Report on Rate of Dividend for 1990-91 and other Ancillary Matters without any amendment/modification.

3. The Committee also authorised the Chairman to present the Report to the House.

* * * * *

Thereafter, the Committee adjourned.

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