R.C.C. No. 72

RAILWAY CONVENTION COMMITTEE (1991)

(TENTH LOK SABHA)

FIRST REPORT

RATE OF DIVIDEND FOR 1992-93 AND OTHER ANCILLARY MATTERS

Presented in Lok Sabha on 24.2.1992
Laid in Rajya Sabha on 24.2.1992

LOK SABHA SECRETARIAT
NEW DELHI

February, 1992/Phalguna, 1913 (S)

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CORRIGENDA TO FIRST REPORT OF RAILWAY CONVENTION COMMITTEE (1991)

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INTRODUCTION

I, the Chairman of Railway Convention Committee (1991), 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 1992-93.

2. Dividend to General Revenues is at present being paid at 6 per cent on the capital invested on Railways excluding Metropolitan Transport Projects upto 31.3.80 (inclusive of payment to States in lieu of passenger fare tax) and 6.5 per cent on capital invested thereafter. The dividend during the years 1985—90 was also paid at the rate of 6.5 per cent on the basis of interim recommendations of the Committee. Consequent on the dissolution of Eighth Lok Sabha in November 1989, that Committee became functus officio and they could not give their final recommendations.

3. Based on interim memoranda submitted by the Ministry of Railways, the Railway Convention Committee (1989) gave the same recommendations to be applied in regard to rate of dividend and other ancillary matters for the years 1990-91 and 1991-92 in their First and Third Reports. This Committee also became functus officio on the dissolution of Ninth Lok Sabha in March 1991.

4 As the Railways' Eighth Five Year Plan has not been finalised so far, the Ministry have stated that it is presently not feasible to prepare a detailed memorandum on the subject of Dividend etc. for the consideration of the Committee. They have, therefore, submitted an Interim Memorandum for the consideration of the Committee. The Committee considered this Memorandum on 28 January 1992. The Report on Rate of Dividend for 1992-93 and other ancillary matters was also considered and adopted the same day. Minutes of the sitting of the Committee form Part II of the Report.

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

NEW DELHI;
February 19, 1992

Phalguna 30, 1913 (S)

M. BAGA REDDY,
Chairman,
Railway Convention Committee.

RAILWAY CONVENTION COMMITTEE
(1991)

Shri M. Baga Reddy—*Chairman*

MEMBERS

Lok Sabha

2. Shri Era Anbarasu
3. Shri Lal Jan S.M. Basha
4. Shri Saifuddin Choudhury
5. Prof. Prem Dhumal

*6. Shri Nitish Kumar

7. Shri Gurudas Vasant Kamat
8. Shri Aslam Sher Khan
9. Shri Ram Naik
10. Shri V. Krishna Rao
11. Shri Rajvir Singh

@12. Shri Lokanath Choudhury

Rajya Sabha

13. Shri Pramod Mahajan
14. Shri Ramsinh Rathwa
15. Shri Dayanand Sahay
16. Choudhry Hari Singh
17. Shri P. Upendra
18. Shri Ranjan Prasad Yadav

SECRETARIAT

1. Shri G.L. Batra — *Additional Secretary*
2. Shri K.K. Sharma — *Joint Secretary,*
3. Shri B.B. Pandit — *Director*
4. Shri R.K. Malik — *Under Secretary*

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* Shri Nitish Kumar, M.P. nominated on 17 December, 1991 *vice* resignation of Shri Srikanta Jena w.e.f. 16 December, 1991.

@ Shri Lokanath Choudhury, M.P. nominated on 30 January, 1992 *vice* resignation of Shri Surya Narayan Singh w.e.f. 28 January, 1992.

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REPORT

In pursuance of the resolution adopted by Lok Sabha on 16 September 1991 and concurred in by Rajya Sabha on the same day, the Railway Convention Committee (1991) was constituted on 25 November 1991 to review the rate of dividend which is at present payable by the Railway Undertaking to General Revenues as well as the other ancillary matters in connection with the Railway Finance vis-a-vis General Finance and make recommendations thereon.

2. Dividend to General Revenues is at present being paid at 6 per cent on the capital invested in Railways excluding Metropolitan Transport Projects upto 31.3.80 (inclusive of payment to States in lieu of passenger fare tax) and 6.5 per cent on capital invested thereafter. The dividend during the years 1989-91 was also paid at the rate of 6.5 per cent on the basis of interim recommendations of the Committee. Consequent on the dissolution of Ninth Lok Sabha in March 1991, the Railway Convention Committee (1989) became functus officio and they could not give their final recommendations.

3. Based on an interim memorandum submitted by the Ministry of Railways on 23 January 1991, the Railway Convention Committee (1989) had made certain recommendations in regard to rate of dividend for the year 1991-92 and other ancillary matters in their Third Report presented to Lok Sabha on 22 February 1991 and laid in Rajya Sabha on the same day. The Resolution approving the recommendations made in Paragraphs 13 to 17 of the Third Report was moved in Lok Sabha on 11 March 1991 by the Minister of Railways and was also adopted on that date.

4. The recommendations contained in the Third Report and action taken by Government thereon are at Appendix I.

5. As the Ministry of Railways' Eighth Five Year Plan has not been finalised so far, the Ministry have stated that it is presently not feasible to prepare a detailed memorandum on the subject of Dividend etc. for the consideration of the Committee. They have, therefore, submitted an interim memorandum for the consideration of the Committee. In the memorandum submitted to the Committee, the Ministry of Railways *inter alia* have stated:

> "The VIII Five Year Plan, which was to commence initially from 1990-91, will now cover the period 1992—97 and the years, 1990-91 and 1991-92 will be treated as Annual Plans. The VIII Five Year Plan of the Railways is under finalisation. After receipt of the approved plan, the Ministry of Railways, in consultation with the Ministry of

Finance, will, as soon as possible, submit their proposals on the matter of payment of dividend, taking into account, among other things, the past performance of the Railways, the burden of uneconomic services, the growth of working expenses, the investment needs relating to replacement and renewals of overaged assets as well as growth in transport activity. In the meantime, it is submitted for the consideration of the Committee whether the 'interim recommendation' referred to above, which was the basis of Railway Budget 1991-92, may be made applicable for the year 1992-93 also."

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% 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.

In the recent years, there has been gradual decline in the budgetary support received from General Revenues for Railways' Plan expenditure. The budgetary support declined from 58% in the VI Plan to 42% in the VII Plan. In the years 1990-91 and 1991-92, the budgetary support towards Railways Plan expenditure was only 32%. In order to maintain an adequate Plan size, the Railways had to resort to market borrowings through issue of Railway Bonds by the Indian Railway Finance Corporation (IRFC). Since 1987-88, Railways have been paying lease charges to the IRFC. The lease charges, which form part of Railways working expenses, have increased from Rs. 26 crores in 1987-88 to 626 crores during 1991-92 as per Budget Estimates. The lease charges are paid at approximately 14.5% per annum. This includes an element of redemption of the borrowed Capital that is due for return to the Bond holders at the expiry of 10 years from the date of issue of the bonds by IRFC. The Capital provided by General Exchequer carries a dividend liability of 6.5%, whereas funds raised through IRFC carry a much higher lease liability of 14.5%. As per Budget Estimate of 1991-92, the Capital provided by the General Exchequer is Rs. 1,694 crores and funds to be raised from IRFC are 1,500 crores. The composite cost of this Capital works out to 10.25% which is much higher than the Dividend rate of 6.5% on fresh Capital. The recourse to the expensive mode of market borrowings does not seem avoidable in view of the declining budgetary support. In the current market situation, the cost of raising funds is going up and the 9 per cent Tax Free Bond is not as popular, as it used to be. It may soon happen that the lease charges get further increased, resulting in greater strain on the railway finances.

The Railways have been able to discharge in full their dividend liability in the VII Plan and in 1990-91. They expect to make full payment of dividend in 1991-92 as well. While this is so, the Railways have not been able to liquidate their deferred dividend liability of Rs. 416 crores and have also not been able to pay back the Development Fund loan of Rs. 476 crores. Any increase in the rate of dividend will further increase the indebtedness of the Railways to the General Revenues.

Pending the final recommendations of the Committee on the detailed proposals that the Ministry of Railways will submit after finalisation of the VIII Plan (1992-97), it is proposed for the consideration of the Committee that the existing rate of dividend, may provisionally be adopted for the year 1992-93 also. All other concessions now available, as listed in the Appendix — II may also be allowed to continue."

7. The Ministry of Railways have also forwarded the recommendations of the Ministry of Finance in regard to payment of dividend to General Revenues which are as under:

"Ministry of Finance have recommended that the dividend to General Revenues may be paid provisionally at 7 per cent on all capital invested on Railways, irrespective of the year of investment. All other concessions now available, viz., dividend on residential buildings, new lines, subsidies from General Revenues, etc., may however, be continued as existing presently.

The Railways at present pay dividend at the rate of 6% on the Capital-at-charge up to 31st March, 1980 and 6.5% on the Capital invested thereafter. This is inclusive of 1.5% on the Capital invested up to 31st March, 1964 for payment to States in lieu of Passenger Fare Tax and to assist States for execution of Safety works."

8. In this connectioin, the Ministry of Railways have stated that the rate of 7% now proposed by the Ministry of Finance includes payment to States in lieu of Passenger Fare tax and for assisting them in execution of Safety work at the rate of 1.5% of the capital invested up to 31st March, 1964. They have further stated that the increase in the rate of dividend proposed by the Ministry of Finance will result in enhancement of the dividend liability of the Railways by about Rs. 101 crore, computed on the Capital-at-charge budgeted for 1991-92.

9. The Ministry of Railways have given the following reasons for not increasing the rate of dividend and recommended that the existing rates of dividend may be continued for the year 1992-93 as well as, any increase in the rate of dividend may further increase their indebtedness which is not desirable feature:

"(i) Indian Railways have been carrying a number of commodities like foodgrains, fodder, salt etc. at concessional rates. In regard to passenger transport as well, the Railways have been incurring. heavy and recurring losses. The financial effect of these social burdens during 1990-91 was estimated at Rs. 2222 crore. No compensation is given to the Indian Railways for these losses.

(ii) In the recent years, due to gradual decline of budgetary support from General Revenues; Indian Railways had to resort to market borrowings to finance part of their plan expenditure. The cost of market funds is 14.5 per cent which is much higher than the existing dividend rate of 6.5 per cent on capital provided by General Revenues. The market borrowings up to 1991-92 have gone up to Rs. 5190 crores and on these borrowings, the additional annual burden, by way of difference between the lease charges and the dividend, is Rs. 415 cr. The Railways will have to continue raising frunds through market borrowings in future, which will further erode the financial viability of the system.

(iii) The Railways have been able to discharge in full their dividend liability in VII Plan and in 1990-91. However, the Railways have not been able to liquidate the outstanding Development Fund loan and deferred dividend liability. In fact, during VII Plan period, the Railways had to take loan to meet the cost of works chargeable to Development Fund and to meet interest liability on the outstanding loan, thus increasing their indebtedness to General Revenues by Rs. 198.08 crores."

10. Having regard to the unhappy state of Railway Finances and pending further consideration in the matter, the Railway Convention Committee (1980) had in their Seventh Report recommended purely as an interim measure the dividend at the following rates to be paid by the Railways to General Revenues for the period 1980-84:

"6% on the capital invested upto 31.3.1980, inclusive of 1.5% on capital invested upto 31.3.1964 for payment to States in lieu of passenger fare tax etc. Out of this 1.5%, an amount of Rs. 23.12 crores is to be passed on to the States in lieu of passenger fare tax and the balance utilised to assist the States in providing their portion of the resources required for financing the Safety Works.

2. A mean percentage of 6.5 may be adopted for payment of dividend on the capital invested in the Railways after 31st March 1980."

The above percentage was worked out by that Committee on the basis of the following average borrowing rates:

1980-81	—	6.1 percent
1981-82	—	6.3 percent
1982-83	—	6.5 percent

1983-84	—	6.7 percent (assumed)
1984-85	—	6.1 percent (assumed)

That Committee, in their subsequent Report agreed to extend the above arrangements for 1984-85 as well but reiterated their reluctance to depart from the time-honoured principle of expecting the Railways to make at least a token contribution to the General Revenues over and above the average borrowing rate of interest on Capital-at-Charge. That Committee also stated "though this liability has been well recognised, they had agreed in view of the present position of Railway Finances." However with the dissolution of the 7th Lok Sabha in 1985 that Committee became functus officio before they could make their final recommendations.

The subsequent Railway Convention Committees of 1985 and 1989 also could not give their final Reports on Rate of Dividend and other ancillary matters.

11. The following table compares the average rate of borrowing with the rate of dividend:

Year	Capital-at-Charge (Rs. in crores)	Annual borrowing rate	Average borrowing rate	Rate of dividend
1	2	3	4	5
1950-51	827	3.25	3.16	4.00
1951-52	850	3.25	3.12	4.00
1952-53	857	3.50	3.11	4.00
1953-54	869	3.75	3.14	4.00
1954-55	902	3.75	3.19	4.00
1955-56	969	3.75	3.25	4.00
1956-57	1,072	3.75	3.29	4.00
1957-58	1,222	4.00	3.36	4.00
1958-59	1,357	4.00	3.45	4.00
1959-60	1,432	3.75	3.55	4.00
1960-61	1,521	4.00	3.57	4.00
1961-62	1,683	4.00	3.59	4.25
1962-63	1,897	4.25	3.66	4.25
1963-64	2,160	4.25	3.75	4.50
1964-65	2,435	4.50	3.84	4.50% on capital upto 31st March 1964 and 5.75% on fresh capital.
1965-66	2,680	5.00	3.93	
1966-67	2,842	5.25	4.05	5.50% on capital upto 31st March 1964 (inclusive of 1% on capital invested upto 31st March 1964 for payment to States in lieu of passenger fare tax etc.) and 6% on fresh capital.
1967-68	2.978	5.25	4.22	
1968-69	3.101	5.00	4.33	
1669-70	3.195	5.00	4.43	
1970-71	3,331	5.50	4.53	
1971-72	3,521	5.50	4.65	
1972-73	3,726	5.50	4.77	
1973-74	3,893	5.50	4.92	

Year	Capital-atCharge (Rs. in crores)	Annual borrowing rate	Average borrowing rate	Rate of dividend
1	2	3	4	5
1974-75	4,106	6.00	5.15	
1975-76	4,355	6.50	5.30	
1976-77	4,534	6.50	5.40	-do-
1977-78	4,797	6.50	5.50	
1978-79	5,024	6.75	5.63	
1979-80	5,485	6.75	5.83	
1980-81	6,096	7.00	6.10	6% on capital-at-Charge upto 31st March, 1980 (inclusive of 1.5% on capital invested upto 31st March, 1964 for payment to States in lieu of passenger fare tax etc.) and 6.5% on capital invested after 31st March, 1980.
1981-82	6,698	7.50	6.30	
1982-83	7,251	8.50	6.60	
1983-84	7,568	9.50	7.00	
1984-85	8,286	10.00	7.40	
1985-86	9,078	11.00	8.00	
1986-87	10,373	11.40	8.50	
1987-88	11,622	11.30	9.00	
1988-89	12,987	11.40	9.30	
1989-90	14,629	11.50	9.60	
1990-91	16,091	N.A.	N.A.	
1991-92 (BE)	17,[illegible]	N.A.	N.A.	

The Committee find from the above table that:

(i) the rate of dividend rates both for pre-1964 and post-1964 were higher than the average borrowing rates of the Government upto 1969-70.

(ii) From 1970 onwards the average borrowing rates became higher than the rate of dividend rate for pre-1964 capital but remained below the dividend rate of 6% for post-1964 capital till 31st March 1980.

(iii) From 1980-81 the average borrowing rate crossed the limit of 6 per cent and from 1982-83 the average borrowing rate became much higher than the present rate of dividend of 6.5 per cent.

The average borrowing rate for the year 1983-84 was 7 per cent and since then it has gone upto 9.60 per cent for the year 1989-90. The average borrowing rate for the years 1990-91 and 1991-92 are not presently available with the Ministry of Railways.

Recommendation

12. Keeping in view the arguments given by the Ministry of Railways and the Ministry of Finance as also the average borrowing rate, the Committee, pending their final recommendations, recommend, purely as an interim measure, that the dividend at the following rates be paid by the Railways to the General Revenues for the year 1992-93.

(i) 6 per cent on the capital invested upto 31.3.1980 inclusive of 1.5 per cent on the capital upto 31.3.1964 less the capital qualifying for subsidy for payment ot States as grant in lieu of passenger

fare tax and contribution for assisting the States for financing Safety Works;

(ii) 6.5 per cent on the capital invested from 1.4.1980 to 31.3.1993.

13. All other concessions now available viz dividend on residential buildings, new lines, subsidies from General Revenues, etc. may provisionally be allowed to continue on the existing basis while framing Budget Estimates for 1992-93.

DEPRECIATION RESERVE FUND

14. Appropriation to Depreciation Reserve Fund has been progressively stepped up during the last few years with a view to accelerate the pace of replacements/renewals of overaged assets. While approving the recommendations of the Railway Ministry regarding contribution to Depreciation Reserve Fund, in the Budget for 1991-92, the Railway Convention Committee (1989) had, in their Third Report, observed as under:

> "The Committee note that the balance in the Depreciation Reserve Fund is expected to be about Rs. 927 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. 2,300 crores in 1991-92 subject to minor adjustment keeping in view the requirement of resources for the Annual Plan 1991-92."

15. The Ministry of Railways have suggested to the Committee as follows:

"The size of Railway's Annual Plan for 1991-92 earlier projected at Rs. 6,500 crores, was finally fixed at Rs. 5,325 cr. Keeping in view the requirement of resources for the Annual Plan the contribution to Depreciation Reserve Fund from Revenues has been kept at Rs. 2,000 cr., as against Rs. 2,300 cr., envisaged earlier. The anticipated withdrawal from the Fund to meet the expenditure on replacements/ renewals in 1991-92 is Rs. 1,887 crores. The balance in the Fund at the end of 1991-92 is expected to be about Rs. 1,061 cr. The size of the Annual Plan 1992-93 has been projected as Rs. 6,000 cr., including Rs. 2,550 cr. required for replacement and renewals. This amount of Rs. 2,550 cr. will, therefore, have to be withdrawn from the Fund during the year 1992-93, and will be higher than that for 1991-92 on account of the new assets added and the element of inflation. It is anticipated that the contribution to the Fund in 1992-93 may require to be placed at Rs. 2,300 crores, subject to minor adjustments keeping in view the size of the Annual Plan finally fixed and the capacity of the system to generate internal resources."

Recommendation

16. The Committee note that the balance in the Depreciation Reserve Fund is expected to be about Rs. 1,061 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. Agreeing with the Ministry of Railways the Committee recommend that the contribution to Depreciation Reserve Fund from Revenues may be stepped up to Rs. 2,300 crores in 1992-93 subject to adjustment keeping in view the size of the Annual Plan 1992-93, that may be fixed, and the capacity of the system to generate internal resources. However, the Committee, feel that in view of the escalation in cost of assets held by the Railways the same must be reassessed and revalued by an Expert Committee and results submitted to this Committee as early as possible.

PENSION FUND

17. The Railway Convention Committee (1989), in their Third Report, approving the recommendation of the Railway Ministry regarding contribution to be made to Pension Fund in 1991-92, had recommended as under:

"The Committee note that the balance in the Pension Fund is expected to be about Rs. 40 cr. at the end of the current year. The Committee agree with the proposal of the Ministry of Railways that the contribution to Pension Fund may, as part of the working expenses, be enhanced to Rs. 1,050 cr. in 1991-92 subject to minor adjustment keeping in view the likely withdrawals and financial position of the Railways and any excess of contribution to and over withdrawals from the Pension Fund may be reckoned towards internal resource generation for the Railway Plan.

As for the past some years the Railways had not been able to match the liability by making sufficient appropriations to the Pension Fund, the Committee hope that with the contribution of Rs. 1,050 crore to Pension Fund during 1991-92, the Ministry would be able to meet the future pensionary liabilities."

18. In this regard, the Ministry of Railways have submitted:

"Keeping in view the above recommendations, the appropriation to Pension Fund has been kept at Rs. 1,050 crores in 1991-92. The balance in the Fund which came down to Rs. 13 crores at the close of the year 1989-90 increased to Rs. 116 crores at the end of year 1990-91, primarily because of appropriation of Pension Fund having been increased from Rs. 900 crores to Rs. 970 crores. The balance in the Fund at the end of the current year is expected to be around Rs. 180 cr.

It is submitted for the consideration of the Committee that the contribution to Pension Fund may be enhanced to about Rs. 1,200 crs. in 1992-93, keeping in view the increase in the number of pensioners and the pensions being increased with each DA instalment. This contribution to the fund will be subject to minor adjustment, keeping in view the likely withdrawals and the financial position of the Railways."

Recommendation

19. The Committee note that the balance in the Pension Fund is expected to be about Rs. 180 crores at the end of the current financial year. The Committee agree with the proposal of the Ministry of Railways that the contribution to Pension Fund may, as part of the working expenses, be enhanced to Rs. 1200 crores in 1992-93 subject to minor adjustment keeping in view the likely withdrawals and financial position of the Railways and any excess of contribution to and over withdrawals from the Pension Fund which may be reckoned towards internal resource generation for the Railway Plan.

For the past some years the Railways had not been able to match the liability by making sufficient appropriations to the Pension Fund. The Committee hope that with the contribution of Rs. 1,200 crores to Pension Fund during 1992-93, the Ministry would be able to meet the future pensionary liabilities.

INTEREST ON RAILWAY FUNDS AND LOAN TO DEVELOPMENT FUND

20. In para 15 of their Third Report, the Railway Convention Committee (1989) 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 1991-92."

21. The Ministry of Railways have submitted for the consideration of the Committee that:

"While presently the balances in the various Railway Reserve Funds carry the same rate of interest as the rate of dividend (presently 6.5%), the rate of interest charged on the loan from General Revenues for developmental works is higher and currently more than 10%. It would be just and equitable to allow the same rate of interest for railway funds lying with the Government of India as is charged on loans taken from General Revenues for developmental works."

Recommendation

22. The Committee do not see any justification, as this stage, in modifying the recommendations made by the predecessor Committee (1989) in regard to interest payable by Government on Railway funds without examining in detail the entire issue relating to dividend payable from Railway Finances to General Revenues. The Committee, 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, 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 1992-93.

NEW DELHI;
February 19, 1992
Magha 30, 1913(S)

M. BAGA REDDY
Chairman,
Railway Convention Committee.

APPENDICES

APPENDIX I

(*Vide* Para 4)

Statement showing the recommendations contained ~~in~~ the Third Report of the Railway Convention Committee (1989) on Rate of Dividend for 1991-92 and other Ancillary Matters and action taken thereon

Sl. No.	Para No.	Recommendation	Action taken by Government
1	2	3	4
1.	13	Pending finalisation of Railways' Eighth Five Year Plan and submission of detailed Memorandum, in consultation with the Ministry of Finance, on reasonableness of Rate of Dividend and Other Ancillary Matters, the Committee have carefully considered the proposals given by the Ministry of Railways and recommend that the dividend to General Revenues and the subsidy from the General Revenues to the Railways may be computed for the year 1991-92 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.	The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1991-92.

1	2	3	4
2.	14	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 1991-92.	The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1991-92.
3.	15	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 1991-92.	The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1991-92.
4.	16	The Committee note that the balance in the Depreciation Reserve Fund is expected to be about Rs. 927 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. 2300 crs. in 1991-92 subject to minor adjustment keeping in view the requirement of resources for the Annual Plan 1991-92.	In view of the allocation for the Annual Plan for Railways for 1991-92 having been fixed at Rs. 5325 crores instead of Rs. 6500 crores, as envisaged earlier and based on assessment of Depreciation as per Railway Reforms Committee recommendation, a contribution of Rs. 2000 crores instead of the proposed amount of Rs. 2300 crores of the DRF has been provided in the Railway Budget 1991-92.

1	2	3	4
5.	17	The Committee note that the balance in the Pension Fund is expected to be about Rs. 40 crores at the end of the current year. The Committee agree with the proposal of the Ministry of Railways that the contribution to Pension Fund may, as part of the working expenses, be enhanced to Rs. 1050 crores in 1991-92 subject to minor adjustment keeping in view the likely withdrawals and financial position of the Railways and any excess of contribution to and over withdrawals from the Pension Fund may be reckoned towards internal resource generation for the Railway Plan. As for the past some years the Railways had not been able to match the liability by making sufficient appropriations to the Pension Fund, the Committee hope that with the contribution of Rs. 1050 crores to Pension Fund during 1991-92 the Ministry would able to meet the future pensionary liabilities.	The Recommendation of the Committee has been accepted and implemented in the Railway Budget 1991-92. Further the balance in Pension Fund came down to a very low figure of Rs. 13.23 crores as on 31.3.1990, equivalent to 1.67% of the withdrawal of Rs. 791.65 crores during 1989-90. Actual contribution to Pension Fund during 1990-91 has, therefore, been increased to Rs. 970 crs. as against Rs. 900 crores provided in the Budget Estimates and Revised Estimates following the recommendation of the Railway Convention Committee 1989 in their First Report submitted to Lok Sabha on 13.3.1990. This is being brought to the notice of the Railway Convention Committee.

APPENDIX II

(Vide Para 6)

The rate of dividend on the Capital-at-charge of Railways and reliefs in dividend and by way of subsidy, based on the interim recommendations of the Railway Convention Committee (1985) applicable upto 1989-90 and Railway Convention Committee (1989) applicable for 1990-91 and 1991-92 are as under:

I DIVIDEND

(i) The rate of dividend is 6 per cent on capital invested on the Railways 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) 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-Titlagar.

(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, 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

Sl. No.	*Para No.*	*Page No.*	***Recommendation/Conclusions***
1	2	3	4
1.	12	10	Keeping in view the arguments given by the Ministry of Railways and the Ministry of Finance as also the average borrowing rate, the Committee, pending their final recommendations, recommend, purely as an interim measure, that the dividend at the following rates be paid by the Railways to be the General Revenues for the year 1992-93: (i) 6 per cent on the capital invested upto 31.3.1980 inclusive of 1.5 per cent on the capital 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; (ii) 6.5 per cent on the capital invested from 1.4.1980 to 31.3.1993.
2.	13	10	All other concessions now available viz. dividend on residential buildings, new lines, subsidies from General Revenues, etc. may provisionally be allowed to continue on the existing basis while framing Budget Estimates for 1992-93.
3.	16	13	The Committee note that the balance in the Depreciation Reserve Fund is expected to be about Rs. 1,061 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. Agreeing with the

1	2	3	4
			Ministry of Railways the Committee recommend that the contribution to Depreciation Reserve Fund from Revenues may be stepped up to Rs. 2,300 crores in 1992-93 subject to adjustment keeping in view the size of the Annual Plan 1992-93, that may be fixed, and the capacity of the system to generate internal resources. However, the Committee, feel that in view of the escalation in cost of assets held by the Railways the same must be reassessed and revalued by an Expert Committee and results submitted to this Committee as early as possible.
4.	19	16	The Committee note that the balance in the Pension Fund is expected to be about Rs. 180 crores at the end of the current financial year. The Committee agree with the proposal of the Ministry of Railways that the contribution to Pension Fund may, as part of the working expenses, be enhanced to Rs. 1200 crores in 1992-93 subject to minor adjustment keeping in view the likely withdrawals and financial position of the Railways and any excess of contribution to and over withdrawals from the Pension Fund which may be reckoned towards internal resource generation for the Railway Plan. For the past some years the Railways had not been able to match the liability by making sufficient appropriation to the Pension Fund. The Committee hope that with the contribution of Rs. 1,200 crores to Pension Fund during 1992-93, the Ministry would be able to meet the future pensionary liabilities.
5.	22	18	The Committee do not see any justification, at this stage, in modifying the recommendations made by the predecessor Committee (1989) in regard to interest payable by Government on Railway Funds without examining in detail the entire issue relating to dividend payable from Railway Finances to General Revenues. The Committee, therefore, recommend that the

1	2	3	4
			balance in the various Railway Reserve Funds (other than Development Fund) may carry the same 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 1992-93.

PART II

Minutes of the Sitting of the Railway Convention Committee (1991) held on 28 January 1992

PART II

MINUTES OF THE FOURTH SITTING OF THE RAILWAY CONVENTION COMMITTEE HELD ON 28 JANUARY 1992

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Fourth sitting of the Railway Convention Committee was held on Tuesday, the 28th January 1992 from 1100 hours to 1200 hours in Committee Room No. 'C', Parliament House Annexe, New Delhi. The following Members were present in the meeting:

Shri M. Baga Reddy—*Chairman*

MEMBERS

Lok Sabha

2. Shri Era. Anbarasu
3. Shri Saifuddin Choudhury
4. Prof. Prem Dhumal
5. Shri Gurudas Vasant Kamat
6. Shri Rajvir Singh

Rajya Sabha

7. Shri Dayanand Sahay
8. Chowdhry Hari Singh
9. Shri P. Upendra

Secretariat

1. Shri K.K. Sharma —*Joint Secretary*
2. Shri R.K. Malik —*Under Secretary*
3. Smt. Anita Jain —*Committee Officer*

2. The Committee took up for consideration the draft Report on the Rate of Dividend for the year 1992-93 and other ancillary matters and adopted the same with the following addition at the end of recommendation at Para 16 of the draft Report:

> "However, the Committee feel that in view of the escalation in cost of assets held by the Railways, the same must be reassessed and revalued by an Expert Committee and results submitted to this Committee as early as possible."

3. The Committee authorised the Chairman to finalise the draft Report in the light of factual verification received from the Ministry of Railways and present the same to the House.

The Committee then adjourned.