R.C.C No. 74

RAILWAY CONVENTION COMMITTEE

(1991)

(TENTH LOK SABHA)

THIRD REPORT

ON

RATE OF DIVIDEND FOR 1993-94 AND OTHER ANCILLARY MATTERS

Presented in Lok Sabha on 23.2.1993

Laid in Rajya Sabha on 23.2.1993

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

February, 1993/Phalguna, 1914(S)

Price: Rs. 9.00

CONTENTS

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 Gurudas Vasant Kamat
*7. Shri Nitish Kumar
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. Chowdhry 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*
5. Shri R.C. Gupta — *Assistant Director*

---

* 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.

@ Shri Pramod Mahajan, M.P. renominated on 21 July, 1992.

INTRODUCTION

I, the Chairman of Railway Convention Committee (1991), having been authorised by the Committee to submit the Report on their behalf, present this Third Report on the Rate of Dividend payable by the Railway Undertaking to the General Revenues and other ancillary matters for the financial year 1993-94.

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. Keeping in view the arguments given by the Ministry of Railways and the Ministry of Finance as also the average borrowing rate, the Railway Convention Committee (1991), gave the same recommendations to be applied in regard to Rate of Dividend and other Ancillary Matters for the year 1992-93 purely as an interim measure.

5. The VIII Five Year Plan which was to commence initially from 1990-91, now, covers the period 1992-97 and the years 1990-91 and 1991-92 have been treated as Annual Plans. The VIII Five Year Plan of the Railways has since been finalised. After receipt of the approved Plan, the Ministry of Railways, in consultation with the Ministry of Finance have submitted the Second Interim Memorandum for the consideration of the Committee.

6. The Committee considered this Memorandum on 8 January, 1993 and decided to take evidence of the representatives of the Ministry of Railways and the Ministry of Finance on 18 January, 1993.

7. Based on the materials furnished by the Ministry of Railways in consultation with the Ministry of Finance and the evidence tendered by the

representatives of both the Ministries before them, the Committee considered, finalised and adopted this Interim Report on Rate of Dividend and other Ancillary Matters at their sitting held on 27.1.1993. The Minutes of the sittings form Part-II of the Report.

8. A statement containing recommendations and conclusions of the Committee is appended to this Report at Appendix-V. For facility of reference these have been printed in thick type in the body of the Report.

9. The Committee would like to express their thanks to the representatives of the Ministry of Railways and the Ministry of Finance (Department of Economic Affairs) for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
February 23, 1993
Phalguna 4, 1914(S)

M. BAGA REDDY,
Chairman,
Railway Convention Committee.

REPORT

In pursuance of the resolution adopted by Lok Sabha on 16 September 1991 and concurred in by Rajya Sabha on 17 September, 1991, 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 to 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 3.1.1992, the Railway Convention Committee (1991) had made certain interim recommendations in regard to rate of dividend for the year 1992-93 and other ancillary matters in their First Report presented to Lok Sabha on 24 February 1992 and laid in Rajya Sabha on the same day. The Resolution approving the recommendations made in Paragraphs 12, 13, 16, 19 and 22 on the First Report was moved in Lok Sabha on 11 March 1992 by the Minister of Railways and was adopted on 17 March, 1992.

4. The recommendations contained in the First Report of the Railway Convention Committee (1991) and action taken by Government thereon are at Appendix-I.

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 also share holder of the undertaking.

CAPITAL-AT-CHARGE OF THE INDIAN RAILWAYS

6. The Capital-at-charge of the Indian Railways has increased from Rs. 850 crores in 1951-52 to Rs 19,409 crores in 1992-93 (Budget Estimates).

The broad break-up of the Capital-at-charge of Rs. 19,409 crores in the different dividend bearing segments is as under:—

	Rs. in crores
(a) Pre-1964 Capital on which dividend at the rate of 4.5% is payable. In addition, 1.5% of this segment of capital is paid to States in lieu of repealed Passenger Fare Tax etc.	1,927
(b) Capital invested from 1.4.1964 to 31.3.1980 on which dividend at the rate of 6% is paid	3,375
(c) Capital invested after 1.4.1980 on which dividend at the rate of 6.5% is payable.	14,107
Total	19,409

DIVIDEND PAID

7. The annual dividend payable to General Revenues used to be less than Rs. 100 crores till 31.3.1964 but upto Rs. 1,150 crores in 1992-93 (Budget Estimates), year-wise details are given in Appendix-II. Thus, in all, the Railways have paid to the General Revenues an amount of Rs. 11,980 crores (including proposed payments in 1992-93) from 1950-51 onwards. This forms 61.72% of the Capital-at-charge of Rs. 19,409 crores.

THE PROPOSAL REGARDING DIVIDEND PAYABLE TO GENERAL REVENUES

8. In their Interim Memorandum, the Ministry of Railways have made the following proposals for the consideration of the Committee:

> "The VIII Five Year Plan, which was to commence initially from 1990-91, now covers the period 1992-97 and the years 1990-91 and 1991-92 have been treated as Annual Plans. The VIII Five Year Plan of the Railways has been finalised. After receipt of the approved Plan, the Ministry of Railways, in consultation with the Ministry of Finance have submitted their proposals on the matter of payments 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.

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 which was 58% in the VI Plan, 42% in the VII Plan, 34% in 1990-91 and 32% in 1991-92 will now be about 20% in the VIII Plan. If 1992-93, the first year of the VIII Plan is excluded, the budgetary support during the remaining Plan period will be about 16% only. 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. 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 Rs. 855 crores. during 1992-93 as per Budget Estimates. The lease charges are paid at 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 the General Exchequer carries a dividend liability of 6.5% whereas funds raised through IRFC carry a much higher lease liability of 14.5% per annum. As per Budget Estimates of 1992-93, the Capital provided by the General Exchequer is Rs. 1,925 crores and funds to be raised from IRFC are Rs. 1,200 crores. The composite cost of this Capital works out to 9.6% on fresh Capital which is much higher than the dividend rate of 6.5% on fresh Capital. In the current bond market condition, it is becoming increasingly difficult to find buyers for the 9 per cent tax free Bonds, even with a management fee of 15%. Because of the heavy management fee that may have to be paid, it is likely that the lease charges get further increased, resulting in greater strain on the railway finances. The rate on the tax-free Bonds has since increased to 10.5% and this may result in increase in lease charges. In this background, any increase in the rate of dividend is not justified as it will further increase the pressure on Railway Finances.

Pending final recommendations of the Committee on the detailed proposals submitted by the Ministry of Railways, it is submitted for the consideration of the Committee that the existing rate of dividend, may provisionally be adopted for the year 1993-94 also. All the other concessions now available, as listed in Appendix-III, may also be allowed to continue."

9. During evidence, the Chairman, Railway Board pleading for not to increase the present rate of dividend, stated:

".......The Railways at the moment have a social burden in excess of Rs. 2200 crores per annum. In 1991-92 Railways' Burden was

Rs. 2227 crores by way of uneconomic branch lines, by way of passenger services and by way of freight carried at below remunerative rates. With this kind of subsidisation there being no freedom to fix fares and freights according to market forces, Railways are in a situation where any attempt or any decision to have higher rate of dividend to the general revenues would necessarily have to be at the cost of the development of Railways and at the cost of upgrading and modernisation, maintenance of the infrastructure and to that extend might be counter-productive in so far as providing a very essential sector in the economic growth of the country is concerned."

He further stated that:

"Railways are borrowing money from the market at a fairly high rate of interest and in 1991-92 out of the total plan fund requirement of Rs. 5700 crores, the share of what Railways are supported to get from the market is Rs. 1200 crores. This is against the budgetary support is Rs. 1925 crores, which means about 38 per cent of Railways' total capital requirement. With this scenario Railways would strongly plead to the Railway Convention Committee that they may not be asked to shoulder a burden heavier than what they already have in terms of payment of dividend to the general revenue."

10. During evidence, Committee wanted to know the views of Ministry of Finance in the matter. The Secretary, Deptt. of Economic Affairs submitted the following:

"The basic problem that we face is there is no source from which loan making activity can be financed without any limit. Our position is that every time the Budget has provided a substantial amount of capital. This capital is provided through the Budget by borrowing. Effectively from the Budgetary side this imposes a continuing cost in terms of servicing of the loans that have gone into providing this capital. Our cost on borrowing is currently estimated to be around 10.4 per cent and as the interest rates have been rising in the market the average cost of borrowing for the Government in 1993-94 is estimated roughly at 10.7 per cent. Against this the dividend rate is very low at the moment. Difference is in effect borne by the present Budget. Budget involves a budgetary support of Rs. 1929 crores. Amongst the economic sector, Railways is the sector which receives the maximum support. In addition there are other elements. If these are added, we estimate the total offer to the Railways is Rs. 2391 crores. It is in this context keeping in mind the fact that our cost of borrowing is very high, we have proposed that there should be an increase in the divided rate so that the net burden on the budget is kept at manageable limit."

11. Asked whether Ministry of Finance would reimburse to the Railways the loss on account of social services, the Ministry of Finance stated:

> "It is true that the Railways bear a heavy social burden and some of the points that have already been mentioned are certainly valid. There is a burden because of subsidy, because of passenger transport, because of uneconomic branch lines and because they carry substantial commodities at reasonable rates. Some of these burdens are taken into account by the subsidy which is provided. As I mentioned 10.7 per cent being the cost of borrowing, dividend rate of 7 per cent would leave a gap of almost 3.7 per cent. Apart from the separate subsidy in the form of dividend, relief that that is being provided is to the extent to which there is a burden because of subsidy on passenger transport."

He further stated:

> "The Ministry of Finance's view is that there is definitely a role and logic for subsidising passenger transport but it must be done within the limits that the budget can bear so that the desired level of subsidy should be met through a system of cross-subsidy. It should not lead to a situation where volume of subsidy is expanding continuously and every time the budget is being forced to meet the requirement of capital for the Railways at a high cost of borrowing while not being able to generate a return for that investment."

12. The Committee pointed out to the Chairman, Railway Board that all along it has been the practice to make a token contribution to the General Revenue over and above the average borrowing rates. Since the borrowing rate has gone upto 10.4 or 10.7 per cent, the Committee enquired why it will not be fair for the Finance Ministry to accept that the dividend should be, if not equal to the rate of borrowing, at least nearer to that figure.

In reply to this, the Chairman, Railway Board, submitted the following:

> "I will make a general point and then with your permission I shall request my colleague the Financial Commissioner, to supplement. What I would like to tell the Committee is that even with the present rate of dividend that we are paying, we have carried out an exercise and according to that in the year 1992-93 we shall be paying out from our funds to the general revenues a net amount of Rs. 72 crores. According to our estimates it is going to rise to Rs. 171 crores in the year 1994-95 and gradually to Rs. 240 crores in the year 1996-97. Therefore, as far as net flow of fund is concerned, we are already on the threshold of a situation where we will be

making a good contribution towards the general funds rather than drawing from the general funds on a year to year basis."

The Financial Commissioner, Railway Board in this context stated:

"I would first of all like to state that the Railways are a public utility and it should not be compared to a commercial organisation. As our Chairman has pointed out already, we are asked to bear a lot of social burden and in that context, it would not be fair to compare us with a commercial organisation and expect us to pay a dividend equal to the average borrowing rate of the Government."

He further added:

"The Indian Railways, as far as I know, are the only railway system in the whole world which, instead of being subsidised by the Central Government, because of various services which it renders to the Central Government is actually subsidising the Central Government. The fiqure which has been given regarding the subsidy at present rates of interest is that, we are paying at the rate of 6 per cent, and the average borrowing rate is 10.7 per cent, the difference comes to about Rs. 880 crore plus we are having another subsidy for about Rs. 300 crore for the dividend cencessions etc. As against that, the Railways are bearing a social burden of Rs. 2200 crore. Taking this into account, I don't think that it would be fair to expect that we should pay a higher dividend.

Another point that I would like to make is that the Railways ultimately are the cheapest and the best mode of transport at least for bulk commodities. Unless, we are left with enough resources to be able to expand our network, there is a tremendous loss to the Government.

Coming to fuel economy of the Railways, I would say that we spend only about one-sixth of the diesel which trucks would utilise to carry the same commodity. If the Railways are not allowed to expand due to shortage of funds and traffic is carried more and more through roadways, we shall be losing a lot of foreign exchange as is already happening. This can be stopped only if we are allowed to generate enough resources to expand our system."

13. When the Committee pointed out that there is a lot of scope for economy and the Railways can cut down their expenditure as a consequence of which the rate of dividend continues to be stagnant between 6 per cent and 6.5 per cent in spite of the inflow of money from the general revenues and asked to comment, the Chairman, Railway board said:

"I would like to submit that the very fact that we are having to depend upon internal resources generation and faced with the alternative of having to borrow from the market at an extremely high rate of interest this itself would be a sufficient incentive for us to streamline further and to economise further. I would also like to submit that we have in the last three successive years adopted extremely stringent measures and counted the return on each penny that we have been spending and we have been able to generate internal revenues higher than what were expected on the basis of the previous year's performance. I would like to assure the Committee that we are very much alive of the need for increasing the productivity and to economise the expenditure. We also assure that this effort will continue to be accentuated and will also be forced upon by us by the fact that the Budgetary support will not be forthcoming except for a very small portion of our needs."

POSITION REGARDING FLOW OF FUNDS

14. With regard to the claims by Railways that against Government capital contribution of Rs. 19,410 crores they have paid upto 1992-93 Rs. 11,980 crores as dividend which amounts to 61.72% of funds advanced, the Ministry of Finance submitted the following:

"This statement does not reveal the full facts. The amount, Rs. 11,980 crores indicated by Railways as dividend paid was spread over 40 years and it also needs to be reduced by the subsidies received from General Revenues. Further, during this period General Revenues have incurred over Rs. 16,600 crores as interest charges on the funds borrowed to provide capital to Railways. Thus, Railways have actually paid less than 60% of the interest costs incurred by Central Government.

It may be brought to the attention of the RCC that the financial resources of the VIII Plan approved by NDC assumes increased contribution by PSEs, including Railways, amounting to 4.3% of GDP compared to 3.7% in the VII Plan. Accordingly, the rate of dividend paid by Railways need to be increased both in absolute and relative terms.

Taking into consideration one views of Ministry of Finance, as communicated with regard to the other Memoranda to RCC 1991, the Railways should pay a flat rate of 7% on all Railway capital for the year 1992-93."

Regarding flow funds, the Ministry of Railways has submitted the following:

"While as per the Budget Estimates, Railways will be receiving Rs. 1,925 crores from the Ministry of Finance as budgetary support, the amount paid to General Revenues works out to Rs. 2,157 crores, made up of:

		(Rs. in crores)
(a)	Dividend	1,150
(b)	Deferred dividend	416
(c)	Repayment of DF Loan together with interest charges	281
(d)	Increase in Fund balances	310
		2,157

There is thus a reverse flow of funds. As already mentioned, the size of the VIII Plan has been kept at Rs. 27,202 crores, with a budgetary support of Rs. 5,375 crores. If the budgetary support of Rs. 1,925 crores given in the first year of the Plan, namely the current year, is excluded, the budgetary support available for the remaining 4 years would be only Rs. 3,450 crores. This works out to an average of Rs. 860 crores, per year which will be more than the normal level of dividend. In other words, the phenomenon of reverse flow of funds is likely to continue in the remaining years of the VIII Plan. This point may kindly be taken note of by the Railway Convention Committee (1991) in considering reduction in the rate of dividend. It may be mentioned here that the subsidy received by way of dividend concessions etc. (Rs. 339 crores in 1992-93) is much less when compared to the cost of social burdens borne by the Indian Railways (Rs. 2,227 crores in 1991-92); the latter as a matter of fact should be borne by the Ministry of Finance.

In view of the position brought out above, there is no justification in increasing the rates of dividend. If at all, because of the setting in of a new phenomenon of reverse flow of funds, RCC(1991) may consider lowering the rate of dividend. The Railways play a pivotal role towards economic development of the Nation. Any increase in the dividend would reduce their internal resource generation capacity and put their developmental efforts in jeopardy and to that extent, the Railways, would not be able to build up their infrastructure, rehabilitate their assets and modernise their system."

UNIFORMITY IN THE RATE OF DIVIDEND

16. In this context, the Committee enquired from the Ministry of Finance whether payment of dividend at the rate of 7% uniformly was not less advantageous to Railways considering the fact that the money invested earlier bore a lesser rate of interest.

The Additional Secretary, Deptt. of Economic Affairs, Ministry of Finance submitted the following:

> "It is only the average cost of borrowing that we ask them to pay. When we compute the borrowing, we always take into account the average cost of borrowing. The borrowings that we have done twenty years ago is always included."

She further added:

> "Some loans are twenty years old. The interest was only three to four per cent at that time. Today, it is 12 per cent or 13 per cent."

Ministry of Finance further stated:

> "In order to align the dividend rate closer to the average borrowing rate of the Government, the rate of dividend may be stepped up by 0.5% each year so that it reaches a level of 9% by the year 1996-97. The endeavour should be to gradually restore, at least around the end of the IX Plan, the old position of the Railways making a token contribution to the General Revenues. The above gradual increase is suggested as a measure of relief to the Railways."

17. Pleading to do away with the principle of segmentation of investment, the Ministry of Finance stated:

> "The Principle of segmentation of Railway capital with reference to the year of investment is also not valid for the reason that while Railways do not return the capital contributed, the Central Government have to return the earlier borrowing through fresh borrowing at progressively higher rates of interest. Hence a rational way would be that on the entire block (except for the concessional capital) a uniform rate of dividend is fixed with reference to the present average cost of borrowing of government which takes into account the interest paid in the year on all current loans. Accordingly, Ministry of Finance do not support segmentation of the Railway Capital with reference to the year of investment, as suggested by Railways.
>
> The rates of dividend suggested above are exclusive of the contribution of Railways towards the share of States with regard to Passenger Fare Tax in respect of which the views of Ministry of Finance have been communicated separately.
>
> The Railways may, however, continue to get the existing dividend reliefs as a result of which the effective rates would be much lower and will be lower than the average borrowing rate of Government.

ADDITIONAL BURDEN

18. The Committee drew attention of the Ministry of Finance to the following points submitted by the Ministry of Railways in the Memorandum:—

"The extra burden in 1992-93 would be about Rs. 233 crores, made up of (a) extra dividend at the proposed rate of 7% on the entire Capital at charge etc. (Rs. 106 crores), and (b) payment in lieu of passenger fare tax of Rs. 127 crores (Rs. 150 crores—Rs. 23 crores already being paid by the railways). This impact will increase further year after year, both as a result of the higher rate of dividend and possible pronouncements by Finance Commissions for payment of more amount to the States in lieu of passenger fare tax.

19. In this context, the Committee pointed out to the Ministry of Finance that even if the Ministry of Railways agree to pay dividend at the rate of 7 per cent, Ministry of Finance will get only Rs. 106 crores whereas Ministry of Finance will have to pay to the States Rs. 127 crores. So, in this way, Ministry of Finance will have to pay Rs. 21 crores more to the States.

To this, the Additional Secretary, Deptt. of Economic Affairs stated that the Ministry of Finance are not sure how on amount of Rs. 106 crores has been worked out by the Ministry of Railways and mentioned that the difference should come to something like Rs. 214 crores.

20. Later the Ministry of Railways in a writen note to the Committee explained the calculations regarding the amount of Rs. 106 crores referred to above which are at Appendix—IV.

Average Rate of Borrowing

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

Year	Current Annual borrowing rate of interest of the Central Govt.		Average rate of interest on Government borrowings			Dividend rate actually applicable
	Provisional:—	Final	Budget Estimate	Revised Estimate	Actuals	
1	2	3	4	5	6	7
1949-50	3.00	3.00	3.20	3.20	3.18	—
1950-51	3.00	3.25	3.20	3.17	3.16	4.00
1951-52	3.25	3.25	3.13	3.12	3.12	4.00
1952-53	3.25	3.50	3.10	3.10	3.11	4.00
1953-54	3.75	3.75	3.12	3.13	3.14	4.00

1	2	3	4	5	6	7	
1954-55	3.75	3.75	3.17	3.19	3.19	4.00	
1955-56	3.75	3.75	3.25	3.25	3.25	4.00	
1956-57	3.75	3.75	3.28	3.30	3.29	4.00	
1957-58	4.00	4.00	3.34	3.38	3.36	4.00	
1958-59	4.00	4.00	3.39	3.45	3.45	4.00	
1959-60	4.00	3.75	3.53	3.55	3.55	4.00	
1960-61	4.00	4.00	3.58	3.57	3.57	4.00	
1961-62	4.00	4.00	3.60	3.59	3.59	4.25	
1962-63	4.25	4.25	3.65	3.67	3.66	4.25	
1963-64	4.25	4.25	3.77	3.75	3.75	4.50	
1964-65	4.50	4.50	3.82	3.84	3.84		4.50% on capital upto 1963-64 & 5.75% on fresh capital.
1965-66	5.00	5.00	3.90	3.93	3.93		
1966-67	5.00	5.00	4.05	4.06	4.05		
1967-68	5.25	5.25	4.15	4.23	4.22		
1968-69	5.00	5.00	4.25	4.35	4.33		
1969-70	5.00	5.00	4.40	4.43	4.43		
1970-71	5.50	5.50	4.52	4.54	4.53		
1971-72	5.50	5.50	4.65	4.65	4.65		
1972-73	5.50	5.50	4.76	4.77	4.77		
1973-74	5.50	5.50	4.90	4.92	4.92		
1974-75	6.00	6.00	5.01	5.15	5.15		
1975-76	6.50	6.50	5.20	5.30	5.30		5.50% on capital upto 1963-64 & 5.75% on fresh capital. Pre-1964 capital included 1.0% as payment in lieu of passenger fare tax.
1976-77	6.50	6.50	5.40	5.40	5.40		
1977-78	6.50	6.50	5.50	5.50	5.50		
1978-79	6.75	6.75	5.60	5.63	5.63		
1979-80	6.75	6.75	5.80	5.82	5.82		
1980-81	7.00	7.00	6.00	6.10	6.10		
1981-82	7.50	7.50	6.25	6.30	6.30		
1982-83	8.50	8.50	6.50	6.60	6.60		
1983-84	9.50	9.50	6.90	7.00	7.00		
1984-85	10.00	10.00	7.30	7.40	7.40		
1985-86	11.00	11.00	7.80	8.00	8.00		Dividend Net 1.4.1980 on capital upto 1979-80 @6.0% and on capital thereafter @6.5%. Pre-80 capital includes 1.5% on capital upto 1963-64 for payment in lieu of passenger fare-tax.
1986-87	11.40	11.40	8.50	8.50	8.50		
1987-88	11.30	11.30	8.80	9.00	9.00		
1988-89	—	11.40	9.30	9.30	9.30		
1989-90	—	11.50	9.60	9.60	9.60		
1990-91	—	—	9.85	10.00	—		
1991-92	—	—	10.20	10.20	—		
1992-93	—	—	10.40	—	—		

22. 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 of 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.

(iv) The average rate of borrowing for the year 1983-84 was 7% and since then it has gone upto 10.4% (BE) for the year 1992-93. The average cost of borrowing for the Government in 1993-94 is estimated roughly at 10.7%.

DEPRECIATION RESERVE FUND

23. Appropriation to the 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 Railways Ministry regarding Contribution to Depreciation Reserve Fund, in the Budget for 1992-93, the Railway Convention Committee (1991) had, in their First Report observed as under:—

"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 VIII Plan period. The Committee, therefore, recommend that the contribution to Depreciation Reserve Fund from Revenue 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."

24. In regard to Committee's recommendation for reassessing and revaluing the cost of Railway assets by an Expert Committee, the Ministry of Railways in their Action Taken Notes on the First Report of RCC (1991), had submitted the following:—

"A working group comprising 6 Executive Directors of the Railway Board, drawn from various Railway Disciplines such as Finance/Accounts, Civil, Electrical, Mechanical, Signal and Telecommunications, Engineering has been constituted to reassess and revalue the cost of assets held by the Railways as on 1st April, 1992. The Working Group is expected to submit its Report by June, 1993. The Report of the Working Group will be examined and submitted for Committee's consideration."

25. The Ministry of Railways have submitted the following for consideration of the Committee:—

"The anticipated withdrawal from the Fund to meet the expenditure on replacements/renewals in 1992-93 is Rs.2,300 crs. The balance in the Fund at the end of 1992-93 is expected to be about Rs.1,163 crs. The contribution to the Fund for the year 1993-94, will have to be higher than that for 1992-93 on account of the new assets added and the element of inflation. It is suggested that the contribution to the Fund in 1993-94 may be kept at Rs.2,400 crs., 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. For subsequent years, the recommendations of RCC (1991) may await the results of the review by the Expert Committee since appointed in pursuance of their recommendations referred above."

PENSION FUND

26. The Railway Convention Committee (1991), in their First Report, approving the recommendations of the Railway Ministry regarding contribution to be made to Pension Fund in 1992-93, had recommended as under:—

"The Committee note that the balance in the Pension Fund is expected to be about Rs.180 cr. at the end of the current financial year. The Committee agree with the proposal of Ministry of Railways that the contribution to Pension Fund may, as part of the working expenses, be enhanced to Rs.1,200 cr. in 1992-93 subject to minor adjustments 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 cr. to Pension Fund during 1992-93, the Ministry would be able to meet the future pensionary liabilities."

27. Regarding contribution to Pension Fund for 1993-94, the Ministry of Railways have submitted on 13th January, 1993, the following for consideration of the Committee:—

"The Revised Estimates for the year 1992-93 and the Budget Estimates for the year 1993-94 prepared by the Ministry of Railways have since been received and studied by the Ministry of Finance. As against the anticipated withdrawal of about Rs.1,140 cr. from the Pension Fund in 1992-93 the Railways have projected a withdrawal of about Rs.1,280 cr. The increase is mainly on account of additional Dearness Relief and increase in the number of pensioners. Keeping in view the likely increase in the number of pensioners and additional Dearness Relief, the likely withdrawals during 1993-94 would be around Rs.1,500 cr. It is, accordingly, submitted for the consideration of the Railway Convention Committee that the contribution to Pension Fund in the year 1993-94 may be kept at Rs.1,500 cr."

28. The Ministry of Finance have suggested that contribution to Depreciation Reserve Fund and Pension Fund may be restricted to the actual requirements in 1993-94 so that there is no excess transfer to Public Account.

In this regard, the Ministry of Railways have stated as under:—

"The views of the Ministry of Finance are acceptable except the following:

It is stated that in the past few years there has been much difference between the appropriation to and withdrawals from DRF. Similar has been the position in the case of Pension Fund. While as far as possible the suggestions of the Ministry of Finance will be kept in view, it is submitted that there is a need to appropriate more to Pension Fund than to withdraw from it so as to slowly build up the Pension Fund.

As regards the DRF, the appropriations under this Fund during 1993-94 have been proposed at Rs.2,400 crs. The withdrawals from this Fund are not likely to be less than this."

OTHER RAILWAY FUNDS

29. Besides Depreciation Reserve Fund and Pension Fund, the Ministry of Railways are also operating 3 other Funds viz., Development Fund (DF), Accident Compensation, Safety and Passenger Amenities Fund (ACSPF) and Revenue Reserve Fund (RRF).

DEVELOPMENT FUND (DF)

30. In their Interim Memorandum, the Ministry of Railways have submitted the following:—

Development Fund is used for meeting expenditure on

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

The excess of revenue over the total working expenses after clearing in full the dividend liability, is credited to this Fund. In a year where the amount is not sufficient, the Railways borrow money from the General revenues. This money together with the interest thereon has to be repaid.

ACCIDENT COMPENSATION, SAFETY AND PASSENGER AMENITIES FUND (ACSPF)

31. Accident Compensation, Safety and Passenger Amenities Fund (ACSPF) is created by levy of surcharge on passenger fares and is operated to meet expenditure on the following items:—

(a) Compensation arising out of train accidents.

(b) Expenditure on certain specific safety items like:

(i) Track circuiting or axle counters,

(ii) Provision of lifting barriers at level crossings,

(iii) Railway's share of road over/under bridges in replacement of level crossings.

(c) Expenditure on certain specific amenities for users of railway transport:

(i) Provision of goods platform, and cover over goods platform;

(ii) Train indications at important stations;

(iii) Rest-shelters for licensed porters;

(iv) Other items as may be added from time to time.

REVENUE RESERVE FUND

32. This was initially started as the Railway Reserve Fund with effect from Ist April, 1924 in pursuance of the "Separation Convention". The receipts in the Fund consisted of the surplus which remained out of the net receipts of Railways after payment to general revenues of the contribution fixed by the Convention. If the amount of such surplus exceeded, in any year, three crores of rupees, two thirds only of the excess over Rs. 3 cr. was transferred to the Fund and the remaining one third to the General Revenues. This Fund was renamed as "Revenue Reserve Fund" with effect from Ist April 1950 and is credited with such appropriations out of the surplus, as may be voted by the Parliament through the "Demands for Grants." This was to be utilised primarily for maintaining the agreed payments to the General Revenues and for making up any deficit in the working of the Railways. A portion of the amount standing at the credit of the Fund has been invested in securities and loans to Branch Line Companies and the balance is held in deposit with the Central Government. Interest accruing on the amount held with the Central Government on loans and dividend on the securities is credited to the Fund.

33. The utility of these Funds has been reviewed by the Ministry of Railways and the following suggestions made:

REVENUE RESERVE FUND

34. Till 1977-78, the Railways used to borrow money from General Revenues to meet the dividend liability whenever their net revenues was not adequate to discharge the dividend liability in full. Such loans carried interest at the current borrowing rate. The system of taking temporary loans was discontinued from Ist April, 1978 and from that date, the concept of Deferred Dividend Liability, on which no interest is charged, came into vogue. Since then the utility of this Fund has ceased to exist. The balance as on 31.3.1992 was only Rs.67 lakhs and every year the accretion to the Fund is about Rs.3 lakhs, most of which is on account of interest on balance in the Fund. It is suggested that this fund is abolished and the balance transferred to Development Fund.

ACCIDENT COMPENSATION, SAFETY AND PASSENGER AMENITIES FUND (ACSPF)

35. The Accident Compensation, Safety and Passenger Amenities Fund (ACSPF) came into existence with effect from 01.4.1974. This Fund was created in consultation with Ministry of Finance and the Comptroller and Auditor General of India. This was a sequel to Indian Railways (Second Amendment) Act, 1973, which received Presidential Assent on 14.12.1973 and had the effect of raising the upper limit of compensation in case of death or total disablement from the existing Rs.20,000 to Rs.50,000. In order to enable the Railways to meet this enhanced liability, it was decided to levy a surcharge on all passenger tickets with effect from 01.01.1974. It was decided that the surcharge so collected will initially be treated as "Miscellaneous Receipts" and then appropriated to the new fund under the caption "Appropriation to Accident Compensation, Safety and Passenger Amenities Fund."

It is felt that the main purpose of creation of this fund can still be met by charging the incidence of accident compensation directly to revenue. The portion relating to ACSPF (c), i.e., for expenditure on specified passengers' and other users' amenities, can be merged with expenditure getting booked under DF(I). This will avoid overlap that exists presently. It will also help in accumulating all the expenditure as passenger and other amenities under one allocation head. Safety works are essentially in the nature of unremunerative operatily improvements. However, expenditure on safety works may be allocated to separate head designated as DF(IV). With these changes, the ACSPF will get abolished.

INTEREST ON RAILWAY FUNDS AND LOAN TO DEVELOPMENT FUND

36. In para 22 of their First Report, the Railway Convention Committee (1991) had recommended as under:—

> "The Committee 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 Budget Estimates for 1992-93."

37. The Ministry of Railways have now submitted for the consideration of the Committee that regarding Interest on Railway Funds and loan to Development Fund, the recommendation of R.C.C. for the year 1992-93 may be made applicable for 1993-94 as well with the scope of the Development Fund may be enlarged as proposed above.

38. In this context, the Ministry of Railways have forwarded the following views of Minstry of Finance (Department of Economic Affairs) in the matter:—

"(i) Abolition of Revnue Reserve Fund and ACSPF is agreed to.

(ii) Interest on various Railway Funds may continue at the existing rate."

A NEW RAILWAY FUND—CAPITAL FUND

39. The Ministry of Railways have submitted the following regarding creation of this new Funds:—

"Having reviewed the existing funds, the need to have new Funds has also been examined.

The Plan expenditure initially used to be met from out of the budgetary support received by the Railways from the Central Government and their own internal resource generation. In view of the acute resource crunch, the budgetary support provided by the Central Government to the Railways started dwindling, the budgetary support which on an average was 58% in the Sixth Plan camedown to 41% in the Seventh Plan and then to 32% in 1991-92. The internal resource generation capacity for the Railways being limited, it became necessary for the Railways to raise money through market borrowing to meet the balance portion of the Plan expenditure.

Resources are going to become more and more scares and the time is not far when the budgetary support may cease to exist. In fact, the budgetary support has come down drastically. The size of the Eighth Plan has been fixed at Rs.27,202 cr. with a budgetary support of Rs.5,375 crores. If the current year is excluded, for the remaining 4 years the budgetary support will be 16%."

In this regard the Ministry of Railways have further stated as under:

"Raising of resources from the market has been an expensive proposition. Railways (through LRFC) have so far been able to raise Rs.5,230 crores from the market for investment in rolling stock which has been leased to the Railways. The Railways in turn pay annual lease charges at the rate of 14.5% to Indian Railway Finance Corporation (IRFC), which is much more than the dividend rate of

6.5% paid on the budgetary support. The lease charges which were Rs.26 crores in 1987-88 have been gradually increasing and are estimated at Rs.855 crores in the current year. The lease charges which form part of the working expenses affect the investible surplus; the more the lease charges, the less would be the surplus. This apart, it has been noticed that 90% tax-free bonds are no longer popular. The efforts of IRFC to raise money through these bonds for Konkan Railway Corporation have not lately succeeded. This would mean that to make these bonds more popular, the rate of interest will have to be raised which in turn may lead to a higher rate of lease charges."

40. Commenting on declining budgetary support and market borrowings, the Railways Board have in their Interim Memorandum stated that:—

"In a situation like this when the budgetary support is declining and market borrowings are expensive and uncertain, the Railways have no option but to function on a self-sustaining, commercial basis. The Railways will have to generate more and more of internal resources so as to be able to meet their plan expenditure from out of their own funds. Otherwise, transport bottlenecks would be created which will impede the growth of national economy. A mechanism has also to be devised to enable the benefits from such additional resource mobilisation efforts being utilise for taking up works which were hitherto been financed from budgetary support provided by the General Exchequer. It is also possible that if the Railways are able to generate additional resources by themselves, the plan size may be adequately increased to meet in full the transport demands likely to be generated in the Eighth plan because of a significantly higher rate of growth of economy with accent on industrialisation."

41. For financing the new Capital Fund, the Ministry of Railways have suggested that:—

"It is accordingly proposed to create with immediate effect (from 1992-93 itself) a new Fund to be called "Capital Fund". The source of financing this Fund would be:

(a) Budgetary support provided by the General Exchequer; and

(b) part of the internally generated resources to be utilised for building up the infrastructure.

While dividend would be payable on the budgetary support, no dividend would be payable on the portion financed from out of internally generated resources. The projects which are financially remunerative would be allocated to Capital.

In the Budget Estimates for 1992-93, an excess (hitherto referred to as Surplus) of Rs. 563.54 crores has been projected. this amount has been shown in the budget documents as having been appropriated to Railway Development Fund for:—

	(Rs. in crores)
(a) Repayment of loan and interest	281.82
(b) Development works	145.00
(c) Balance for Plan Finance	136.72

With the creation of the Capital Fund, the amount of Rs. 136.72 crores kept for Plan Finance will be put into Capital Fund instead of appropriating it to Development Fund.

It will be ensured that the appropriations to the DRF and the Pension Fund will be made as per the requirements.

The Railway Reforms Committee had also recommended creation of a new fund "Capital Reserve Fund" to which all surplus left after payment of dividend and appropriation to Development Fund should be credited. They have recommended that this Fund should be used to finance capital works on the Railways and is not intended to improve the general ways and means position of the Government."

42. In this regard, the Ministry of Finance have expressed their following views:—

"As regards the new capital funds, it is not necessary to transfer budget support to the Capital Fund. Govt. Capital should remain distinct as it is now. Only internally generated resources should be transferred to Capital fund."

43. The Ministry of Railways have accepted the above views of Ministry of Finance.

Recommendations

44. After considering the arguments given by the Ministry of Railways and the Ministry of Finance and also keeping in view the average borrowing rate the Committee recommend, purely as an interim measure, that for the year 1993-94, dividend to General Revenues may be paid at 7% on the entire capital invested on Railways from the General Revenues, irrespective of year of investments, 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 financial year 1992-93.

45. 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 Estimate for 1993-94.

46. The Committee note that the balance in the Depreciation Reserve Fund is expected to be about Rs. 1163 crores at the end of the current year

(1992-93). The Working Group of the Ministry of Railways is reassessing and revaluing the cost of assets held by the Railways for reviewing the amount of contribution to the Depreciation Reserve Fund for subsequent years. However, it is considered essential that the increasing levels of contribution to the Fund be maintained as hithertofore 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 during the Eighth Plan period. The Committee, therefore, agree with the proposals of the Ministry of Railways that the contribution to Depreciation Reserve Fund from general revenues be stepped up to Rs. 2400 crores in 1993-94 subject to adjustments keeping in view the size of the Annual Plan, that may be finally fixed, and the capacity of the system to generate internal resources.

47. The Committee note that the balance in the Pension Fund is expected to be about Rs. 382 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. 1500 crores in 1993-94 subject to minor adjustments keeping in view the likely increase in the number of pensioners and additional Dearness Relief. Any excess of contribution to and over withdrawals from the Pension Fund may be reckoned towards internal resource generation for the Railway Plan.

48. The Committee note that the balance in Revenue Reserve Fund as on 31.3.1992 was Rs. 67 lakhs and that there has been a steady accretion of Rs. 3 lakhs annually to this fund. Most of the accretion is on account of interest on balance in the Fund. As with the introduction of the Deferred Dividend Liability the system of borrowing money from the General revenue to meet the Dividend liability in full has been dispensed with since 1978, the Revenue Reserve Fund seems to have lost its utility. The Committee, therefore, agree with the suggestion of Ministry of Railways, as also concurred in by the Ministry of Finance, that the Revenue Reserve Fund may be abolished immediately and balance may be credited to Development Fund.

49. Similarly, with regard to Accident Compensation, Safety and Passenger Amenities Fund (ACSPF), the Committee feel that by charging the incidence of accident compensation directly to revenue and by clubbing the portion of expenditure of certain specific amenities for users of railway transport under ACSPF with Passengers and Users' Amenities under Development Fund (DF-I), the basic purpose of creating this fund can still be fulfilled. These amendments will help the Railways in accumulating all the expenditure on passenger and other amenities under single head of allocation and shall also result in avoiding overlapping. However, the Committee are of the view that the expenditure on safety works which is generally of unremunerative nature, can be allocated to a separate new Head under Development fund as DF-IV. DF-II and DF-III are created to meet the expenditure on labour welfare works and unremunerative

operating improvements respectively. The Committee hope that with the abolition of RRF and ACSPF the scopte and purview of Development Fund will automatically get enlarged.

50. The Committee note that the Ministry of Railways now propose to create a new fund, the Capital Fund, to which all surplus left after payment of dividend and appropriation to Development Fund etc. are to be credited and this Fund would be used to finance capital works on the Railways.

51. The Committee further note that in the Budget Estimates for 1992-93, an excess of Rs. 563.54 crores has been projected and with the creation of the Capital Fund, the amount of Rs. 136.72 crores kept for Plan Finance will be put into Capital Fund instead of appropriating it to Development Fund. Agreeing with the proposal of Ministry of Railways for creating the new Capital Fund, the Ministry of Finance have stated that this Fund may be financed only from internally generated resources of the Railways and not from budgetary support provided by the General Exchequer. The Committee endorse the views expressed by the Ministry of Finance and advise the Ministry of Railways that these Funds should be used to finance capital works only and not for improving the general ways and means position of the Government.

52. The Committee do not see any logic in modifying the principles governing interest on various Railway Reserve 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 1993-94.

NEW DELHI;
February 23, 1993

Phalguna 4, 1914(S)

M. BAGA REDDY,
Chairman,
Railway Convention Committee.

APPENDICES

APPENDIX I

(*vide* para 4)

Statement showing the recommendations contained in the First Report of the Railway Convention Committee (1991) on Rate of Dividend for 1992-93 and other Ancillary Matters and action taken thereon.

Sl. No.	Para No.	Recommendation	Action taken by Government
1	2	3	4
1	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 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 in vested from 1.4.1980 to 31.3.1993.	The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1992-93.
2	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.	The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1992-93.

1	2	3	4
3	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.	The Committee's Recommendation in regard to contribution to Depreciation Reserve Fund has been accepted and implemented in the Railway Budget for the year 1992-93. In regard to Committee's recommendation for reassessing and revaluing the cost of Railway assets by an Expert Committee, it is submitted that a Working Group comprising 6 Executive Directors of the Railway Board, drawn from various Railway Disciplines such as Finance/Accounts, Civil, Electrical, Mechanical, Signal & Telecommunication, Engineering has been constituted to reassess and revalue the cost of assets held by the Railways as on 1st April, 1992. The Working Group is expected to submit its Report by June, 1993. The report of the Working Group will be examined and submitted for Committee's consideration.

1	2	3	4
4	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 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.	The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1992-93.
5	22	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 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.	The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1992-93.

APPENDIX II

(*Vide* para 7)

The table showing dividend paid, dividend payable, shortfall in payment of dividend transferred to deferred dividend liability and payment of deferred dividend:

(in crores of Rs.)

Year	Dividend paid	Dividend payable	Shortfall in payment of Dividend transferred to deferred dividend liabilities	Payment of deferred dividend
1	2	3	4	5
1950-51	32.51	32.51	—	—
1951-52	33.41	33.41	—	—
1952-53	33.99	33.99	—	—
1953-54	34.36	34.36	—	—
1954-55	34.96	34.96	—	—
1955-56	36.12	36.12	—	—
1956-57	38.16	38.16	—	—
1957-58	44.40	44.40	—	—
1958-59	50.39	50.39	—	—
1959-60	54.43	54.43	—	—
1960-61	55.86	55.86	—	—
1961-62	75.35	75.35	—	—
1962-63	81.26	81.26	—	—
1963-64	95.95	95.95	—	—
Total	701.15	701.15		
1964-65	104.93	104.93	—	—
1965-66	116.28	116.28	—	—
1966-67	132.39	132.39	—	—
1967-68	141.53	141.53	—	—

1	2	3	4	5
1968-69	150.67	150.67	—	—
1969-70	156.39	156.39	—	—
1970-71	164.57	164.57	—	—
1971-72	151.24	151.24	—	—
1972-73	161.51	161.51	—	—
1973-74	170.92	170.92	—	—
1974-75	187.47	187.47	—	—
1975-76	198.14	198.14	—	—
1976-77	209.05	209.05	—	—
1977-78	226.56	226.56	—	—
1978-79	224.16	341.75@	117.59*	1.98
1979-80	227.29	293.53	66.24	0.43
1980-81	227.49	325.36	197.87	—
	2850.59	3232.20	381.70	2.41
1981-82	356.47	356.47	—	2.52
1982-83	435.98	435.98	—	71.95
1983-84	378.95	423.70	44.75	—
1984-85	270.10	465.69	195.59	—
1985-86	507.04	507.04	—	116.73
1986-87	578.85	578.85	—	—
1987-88	638.86	638.86	—	—
1988-89	715.66	715.66	—	—
1989-90	808.81	808.81	—	—
1990-91	926.14	926.14	—	11.97
1991-92RE	1039.00	1039.00	—	—
1992-93BE	1150.00	1150.00	—	416.46
Total	7805.86	8046.20	240.34	619.63
Grand Total	11357.60	11979.64	622.04	622.04

* Balance of outstanding loan due from Railway Revenues to General Revenues (provisionally assessed Rs. 122.19 crores but later revised to Rs. 117.59 crores as per C&AG's Report 1978-79 (Indian Govt. Railways), treated as "Deferred Dividend Liability" in terms of Para 18(7) of 5th Report of RCC (1977).

@This includes also Rs. 117.59 crores in respect of deferred dividend as explained above.

APPENDIX-III

(*Vide* Para 8)

The rate of dividend on the Capital-at-charge of the 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, Railway Convention Committee (1989) applicable for 1990-91 and 1991-92 and Railway Convention Committee (1991) applicable for 1992-93 are as under:-

I DIVIDEND

(i) The rate of dividend is 6% on Capital invested on the Railways upto 31.3.1980, including 1.5% 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 divident is 6.5% on Capital invested from 1.4.1980 onwards.

II A concessional dividend of 3.5% 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 1.4.55 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 5 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 chages 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.

SUBSIDY FROM GENERAL REVENUES

VI 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-Kanyakumari-Trivandurm 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, Northeast Frontier Railway (Commercial), Ore-Lines, Jammu-Kathua and Tirunelveli-Kanyakumari-Trivandurm 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 Department.

APPENDIX IV

(*Vide* Para 20)

DIVIDEND

(figures in crores of Rupees)

	Existing Rates			Modified Rates			Diff. between existing & MOF rates
					Dividend		
	Rate %	Di-vidend Capital	Divi.	Rate %	Capital	Div.	
Pre 80 Capital	6.0	5046	303	7.0	5046	353	50
Post 80 Capital	6.5	11617	756	7.0	11617	813	57
Staff Quarters	3.5	544	19	7.0	544	38	19
New Lines	10.5	1381	145	7.0	1381	97	−48
Total		18588	1223	7.0	18588	1301	78
Add. Deffd. Divi.			9			9	0
Less Loss on Strategic lines			89			89	0
Net Divi. Payable			1143			1221	78

SUBSIDY

	Existing Rates			Modified Rates			Diff. between existing & MOF Rates
	Rate %	Subsidy Capital	Subsi.	Rate %	Subsi. Capital		
Pre 80 Capital	6.0	489	29	7.0	489	34	5
Post 80 Capital	6.5	2465	160	7.0	2465	173	13

1	2	3	4	5	6	7	8
Staff Quarters	3.5	79	3	7.0	79	6	3
New Lines	10.5	1381	145	7.0	1381	97	−48
Total		4414	337	7.0	4414	309	−28
Total impact of increased dividend & decreased subsidy							106

APPENDIX V

Statement of Recommendations/Conclusions

Sl. No.	Para No.	Page No.	Reccmmendation / Conclusion
1	2	3	4
1.	42	27	After considering the arguments given by the Ministry of Railways and the Ministry of Finance and also keeping in view the average borrowing rate, the Committee recommend, purely as an interim measure, that for the year 1993-94, dividend to General Revenues may be paid at 7% on the entire capital invested on Railways from the General Revenues, irrespective of year of investments, 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 financial year 1992-93.
2.	43	27	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 Estimate for 1993-94.
3.	44	27	The Committee note that the balance in the Depreciation Reserve Fund is expected to be about Rs. 1163 crores at the end of the current year (1992-93). The working Group of the Ministry of Railways is reassessing and revaluing the cost of assets held by the Railways for reviewing the amount of contribution to the Depreciation Reserve Fund for subsequent years. However, it is considered essential that the increasing levels of contribution to the Fund be maintained as hithertofore 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 during the Eighth Plan period. The Committee therefore, agree with the proposals of the Ministry of Railways that the contribution to Depreciation Reserve Fund from General Revenues

1	2	3	4
			be stepped up to Rs. 2400 crores in 1993-94 subject to adjustments keeping in view the size of the Annual Plan, that may be finally fixed, and the capacity of the system to generate internal resources.
4.	45	28	The Committee note that the balance in the Pension Fund is expected to be about Rs. 382 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. 1500 crores in 1993-94 subject to minor adjustments keeping in view the likely increase in the number of pensioners and additional Dearness Relief. Any excess of contribution to and over withdrawals from the Pension Fund may be reckoned towards internal resource generation for the Railway Plan.
5.	46	28	The Committee note that the balance in Revenue Reserve Fund as on 31.3.1992 was Rs. 67 lakhs and that there has been a steady accretion of Rs. 3 lakhs annually to this fund. Most of the accretion is on account of interest on balance in the Fund. As with the introduction of the Deferred Dividend Liability the system of borrowing money from the General Revenues to meet the Dividend liability in full has been dispensed with since 1978, the Revenue Reserve Fund seems to have lost its utility. The Committee, therefore, agree with the suggestion of Ministry of Railways, as also concurred in by the Ministry of Finance, that the Revenue Reserve Fund may be abolished immediately and balance may be credited to Development Fund.
6.	47	29	Similarly, with regard to Accident Compensation, Safety and Passenger Amenities Fund (ACSPF), the Committee feel that by charging the incidence of accident compensation directly to revenue and by clubbing the portion of expenditure of certain specific amenities for users of railway transport under ACSPF with Passengers and Users' Amenities under Development Fund (DF-I), the basic purpose of creating this fund can still be fulfilled. These amendments will help the Railways in accumulating all the expenditure on passenger and other amenities under

1	2	3	4
			single head of allocation and shall also result in avoiding overlapping. However, the Committee are of the view that the expenditure on safety works which is generally of unremunerative nature, can be allocated to a separate new Head under Development Fund as DF-IV. DF-II and DF-III are created to meet the expenditure on labour welfare works and unremunerative operating improvements respectively. The Committee hope that with the abolition of RRF and ACSPF the scope and purview of Development Fund will automatically get enlarged.
7.	48	29	The Committee note that the Ministry of Railways now propose to create a new fund, the Capital Fund, to which all surplus left after payment of dividend and appropriation to Development Fund etc. are to be credited and this Fund would be used to finance capital works on the Railways.
8.	49	30	The Committee further note that in the Budget Estimates for 1992-93, an excess of Rs. 563.54 crores has been projected and with the creation of the Capital Fund, the amount of Rs. 136.72 crores kept for Plan Finance will be put into Capital Fund instead of appropriating it to Development Fund. Agreeing with the proposal of Ministry of Railways for creating the new Capital Fund, the Ministry of Finance have stated that this Fund may be financed only from internally generated resources of the Railways and not from budgetary support provided by the General Exchequer. The Committee endorse the views expressed by the Ministry of Finance and advise the Ministry of Railways that these Funds should be used to finance capital works only and not for improving the general ways and means position of the Government.
9.	50	30	The Committee do not see any logic in modifying the principles governing interest on various Railway Reserve 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 1993-94.

PART II

MINUTES OF THE SITTING OF THE RAILWAY CONVENTION COMMITTEE (1991) HELD ON 18 AND 27 JANUARY, 1993

PART-II

MINUTES OF THE 24TH SITTING OF THE RAILWAY CONVENTION COMMITTEE HELD ON 18TH JANUARY, 1993

Twenty-fourth sitting of the Railway Convention Committee was held on Monday, the 18th January, 1993 from 1500 hours to 1700 hours in Committee Room No. 50, Parliament House, New Delhi. The following Members were present in the meeting.

Shri M. Baga Reddy — *Chairman*

MEMBERS

Lok Sabha

2. Shri Saifuddin Choudhury
3. Prof. Prem Dhumal
4. Shri Gurudas Vasant Kamat
5. Shri V. Krishna Rao

Rajya Sabha

6. Shri Ramsinh Rathwa
7. Chowdhry Hari Singh
8. Shri P. Upendra

Witnesses

Ministry of Railways

1. Shri A.N. Shukla — Chairman, Railway Board
2. Shri C.S. Anand — Financial Commissioner Railways

Ministry of Finance

1. Shri Montek Singh Ahluwalia — Secretary to the Govt. of India, Deptt. of Economic Affairs
2. Smt. Janaki Kathpalia — Additional Secretary to the Govt. of India, Deptt. of Economic Affairs

SECRETARIAT

1. Shri K.K. Sharma — *Joint Secretary*
2. Shri B.B. Pandit — *Director*
3. Shri R.K. Malik — *Under Secretary*
4. Shri R.C. Gupta — *Assistant Director*

The Committee took up for examination the interim Memorandum on Dividend Payable by Railways to the General Revenues, Contribution to the Railway Depreciation Reserve Fund and Railway Pension Fund etc. submitted by the Ministry of Railways in concurrence with the Ministry of Finance. The salient features of the discussion are as under:

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. Based on an interim memorandum submitted by the Ministry of Railways on 3.1.1992, the Railway Convention Committee (1991) had also recommended as an interim measure that dividend at the rate of 6.5 per cent be paid for the year 1992-93.

CAPITAL-AT-CHARGE OF THE INDIAN RAILWAYS

The Capital-at-charge of the Indian Railways has increased from Rs. 850 crores in 1951-52 to Rs. 19,409 crores in 1992-93 (Budget Estimates).

The board break-up of the Capital-at-charge of Rs. 19,409 crores in the different dividend bearing segments is as under:—

		Rs. in crores
(a)	Pre—1964 Capital on which dividend at the rate of 4.5% is payable. In addition, 1.5% of this segment of capital is paid to States in lieu of repealed Passenger Fare Tax etc.	1,927
(b)	Capital invested from 1.4.1964 to 31.3.1980 on which dividend at the rate of 6% is paid.	3,375
(c)	Capital invested after 1.4.1980 on which dividend at the rate of 6.5% is payable.	14,107
	Total	19,409

THE PROPOSAL REGARDING DIVIDEND PAYABLE TO GENERAL REVENUES

In their Interim memorandum, 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 which was 58% in the VI Plan, 42% in the VII Plan, 34% in 1990-91 and 32% in 1991-92 will now be about 20% in the VIII Plan. If 1992-93, the first year of the VIII Plan is excluded, the budgetary support during the remaining Plan period will be about 16% only. 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. 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 Rs. 855 crores during 1992-93 as per Budget Estimates. The lease charges are paid at 15.4 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 the General Exchequer carries a dividend liability of 6.5% whereas funds raised through IRFC carry a much higher lease liability of 14.5% per annum.

Pending final recommendations of the Committee on the detailed proposals submitted by the Ministry of Railways, it is submitted for the consideration of the Committee that the existing rate of dividend, may provisionally be adopted for the year 1993-94 also.

The Chairman, Railway Board pleading for not to increase the present rate of dividend, stated:

"...... The Railways at the moment have a social burden in excess of Rs. 2200 crores per annum. In 1991-92 Railways' burden was Rs. 2227 crores by way of uneconomic branch lines, by way of passenger services and by way of freight carried at below remunerative rates. With this kind of subsidisation there being no freedom to fix fares and freights according to market forces, Railways are in a situation where any attempt or any decision to have higher rate of dividend to the general revenues would necessarily have to be at the cost of the development of Railways and at the cost of the growth and upgrading and modernisation, maintenance of the infrastructure and to that extent might be counter-productive in so far as providing a very essential sector in the economic growth of the country is concerned."

He further stated that:

"Railways are borrowing money from the market at a fairly high rate of interest and in 1991-92 out of the total plan fund requirement of

Rs. 5700 crores, the share of what Railways are supposed to get from the market is Rs. 1200 crores, and the budgetary support is Rs. 1925 crores, which means about 38 per cent of Railways' total capital requirement. With this scenario Railways would strongly plead to the Railway Convention Committee that they may not be asked to shoulder a burden heavier than what already they have in terms of payment of dividend to the general revenue."

The Committee also wanted to know the views of Ministry of Finance in the matter. The Secretary, Deptt. of Economic Affairs submitted the following:

"The basic problem that we face is there is no source from which loan making activity can be financed without any limit. Our position is that every time the Budget has provided a substantial amount of capital. This capital is provided through the Budget by borrowing. Effectively from the Budgetary side this imposes a continuing cost in terms of servicing of the loans that have gone into providing this capital. Our cost on borrowing is currently estimated to be around 10.4 per cent and as the interest rates have been rising in the market the average cost of borrowing for the Government in 1993-94 is estimated roughly at 10.7 per cent. Against this the dividend rate is very low at the moment. Difference is in effect borne by the present Budget. Budget involves a budgetary support of Rs. 1929 crores. Amongst the economic sector, Railways is the sector which receives the maximum support. In addition there are other elements. If these are added, we estimate the total offer to the railways is Rs. 2391 crores. It is in this context, keeping in mind the fact that our cost of borrowing is very high, we have proposed that there should be an increase in the dividend rate so that the net burden on the budget is kept at a manageable limit."

Asked whether Ministry of Finance would reimburse to the Railways the loss on account of social services. The Ministry of Finance stated:

"It is true that the Railways bear a heavy social burden and some of the points that have already been mentioned are certainly valid. There is a burden because of subsidy, because of passenger transport, because of uneconomic branch lines and because they carry substantial commodities at reasonable rates. Some of these burdens are taken into account by the subsidy which is provided. As I mentioned 10.7 per cent being the cost of borrowing, dividend rate of 7 per cent would leave a gap of almost 3.7 per cent. Apart from the separate subsidy in the form of dividend, relief that is being provided is to the extent to which there is a burden because of subsidy on passenger transport."

He further stated:

"The Ministry of Finance's view is that there is definitely a role and logic for subsidising passenger transport but it must be done within the limits that the budget can bear so that the desired level of subsidy should be met through a system of cross-subsidy. It should not lead to a situation where volume of subsidy is expanding continuously and every time the budget is being forced to meet the requirement of capital for the Railways at a high cost of borrowing while not being able to generate a return for that investment."

The Committee pointed out to the Chairman, Railway Board that all along it has been the practice to make a token contribution to the General Revenues over and above the average borrowing rates. Since the borrowing rate has gone upto 10.4 or 10.7 per cent, the Committee enquired why it will not be fair for the Finance Ministry to accept that the devidend should be, if not equal to the rate of borrowing, at least nearer to that figure.

In reply to this, the Chairman, Railway Board, submitted the following:

"I will make a general point and then with your permission I request my colleague to supplement. What I would like to tell the Committee is that even with the present rate of dividend that we are paying, we have carried out an exercise and according to that in the year 1992-93 we shall be paying out from our funds to the General Revenues an amount of Rs. 72 crores. According to our estimates it is going to rise to Rs. 171 crores in the year 1994-95 and gradually to Rs. 240 crores in the year 1996-97. Therefore, as far as net flow of fund is concerned, we are already on the threshold of a situation where we will be making a good contribution towards the general funds rather than drawing from the general funds on a year to year basis."

The Financial Commissioner, Railway Board in this context stated:

"I would first of all like to state that the Railways are a public utility and it should not be compared to a commercial organisation. As our Chairman has pointed out already, we are asked to bear a lot of social burden and in that context, it would not be fair to compare us with a commercial organisation and expect as to pay a dividend equal to the average borrowing rate of the Government."

He further added:

"The Indian Railways, as far as I know, are the only railway system in the whole world which, instead of being subsidised by the Central Government, because of various services which it renders to the

Central Government is actually subsidising the Central Government. The figure which has been given regarding the subsidy at present rates of interest is that, we are paying at the rate of 6 per cent and the average that the Government gets is 10.7 per cent, the difference comes to about Rs. 880 crore plus we are having another subsidy for about Rs. 300 crores for the specific losses due to strategic lines etc. As against that, the Railways are bearing a social burden of Rs. 2200 crore. Taking this into account, I don't think that it would be fair to expect that we should pay a higher dividend.

Another point that I would like to make is that the Railways ultimately are the cheapest and the best mode of transport at least for bulk commodities. Unless we are left with enough resources to be able to expand our network, there is a tremendous loss to the Government *viz.* foreign exchange.

Coming to fuel economy of the Railways, I would say that we spend only about one-sixth of the diesel which trucks would utilise to carry the same commodity. If the Railways are not allowed to expand due to shortage of funds and traffic is carried more and more through roadways, we shall be losing a lot of foreign exchange as is already happening. This can be stopped only if we are allowed to generate enough resources to expand our system."

When the Committee pointed out that there is a lot of scope for economy and the Railways can cut down their expenditure as a consequence of which the rate of dividend continues to be stagnant between 6 per cent and 6.5 per cent in spite of the inflow of money from the General Revenues and asked to comment, the Chairman, Railway Board said:

"I would like to submit that the very fact that we are having to depend upon internal resources generation and faced with the alternative of having to borrow from the market at an extremely high rate of interest this itself would be a sufficient incentive for us to streamline further and to economise further. I would also like to submit that we have in the last three successive years adopted extremely stringent measures and counted the return of each penny that we have been spending and we have been able to generate internal revenues higher than what we were earlier expected on the basis of the previous year's performance. I would like to assure the Committee that we are very much alive of the need for increasing the productivity and to economise the expenditure. We also assure that this effort will continue to be accentuated and will also be forced upon by us by the fact that the Budgetary support will not going to be forthcoming except for a very small portion of our needs."

POSITION REGARDING FLOW OF FUNDS

With regard to the claims by Railways that against Government capital contribution of Rs. 19410 crores they have paid upto 1992-93 Rs. 11980 crores as dividend which amounts to 60.5% of funds advanced, the Ministry of Finance submitted the following:

> "This statement does not reveal the full facts. The amount, Rs. 11980 crores indicated by Railways as dividend paid was spread over 40 years and it also needs to be reduced by the subsidies received from General Revenues. Further, during this period General Revenues have incurred over Rs. 16600 crores as interest charges on the funds borrowed to provide capital to Railways. Thus, Railways have actually paid less than 60% of the interest costs incurred by Central Government."

In this context, the Committee enquired from the Ministry of Finance whether payment of dividend at the rate of 7% uniformly was not less advantageous to Railways considering the fact that the money invested earlier bore a lesser rate of interest.

The Additional Secretary, Deptt. of Economic Affairs, Ministry of Finance submitted the following:

> "It is only the average cost of borrowing that we ask them to pay. When we compute the borrowing, we always take into account the average cost of borrowing. The borrowings that we have done twenty years ago is always included."

She further added:

> Some loans are twenty years old. The interest was only three to four per cent at that time. Today, it is 12 per cent or 13 per cent."

ADDITIONAL BURDEN

The Committee drew attention of the Ministry of Finance to the following points submitted by the Ministry of Railways in the Memorandum:

> "The extra burden in 1992-93 would be about Rs. 233 crores, made up of (a) extra dividend at the proposed rate of 7% on the entire capital at charge etc. (Rs. 106 crores), and (b) payment in lieu of passenger fare tax of Rs. 127 crores (Rs. 150 crores—Rs. 23 crores already being paid by the railways). This impact will increase further year after year, both as a result of the higher rate of dividend and possible pronouncements by Finance Commissions for payment of more amount to the States in lieu of passenger fare tax."

In this context, the Committee pointed out to the Ministry of Finance that even if the Ministry of Railways agree to pay dividend at the rate of 7 per cent, Ministry of Finance will get only Rs. 106 crores whereas they (Ministry of Finance) will have to pay to the States Rs. 127 crores. So, in this way, Ministry of Finance will have to pay Rs. 21 crores more to the States.

To this, the Additional Secretary, Deptt. of Economic Affairs stated that the Ministry of Finance are not sure how an amount of Rs. 106 crores has been worked out by the Ministry of Railways and mentioned that the difference should come to something like Rs. 214 crores.

The Committee then adjourned.

MINUTES OF THE 25TH SITTING OF THE RAILWAY CONVENTION COMMITTEE HELD ON 27TH JANUARY, 1993

Twenty-fifth sitting of the Railway Convention Committee was held on Wednesday, the 27 The January, 1993 from 1500 hours to 1630 hours in Committee Room 'D', Parliament House Annexe, New Delhi. The following Members were present in the meeting:

Shri M. Baga Reddy — *Chairman*

MEMBERS

Lok Sabha

2. Prof. Prem Dhumal
3. Shri Gurudas Vasant Kamat
4. Shri Nitish Kumar
5. Shri Rajvir Singh

Rajya Sabha

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

SECRETARIAT

1. Shri K.K. Sharma — *Joint Secretary*
2. Shri B.B. Pandit — *Director*
3. Shri R.K. Malik — *Under Secretary*
4. Shri R.C. Gupta — *Assistant Director*

The Committee considered the Draft Report on Rate of Dividend for 1993-94 and other ancillary matters and adopted the same with amendments/modifications shown in (Annexure-I).

2. The Committee also authorised the Chairman to finalise the Report, keeping in view the amendments suggested by the Committee, and to present the Report to the House.

Thereafter the Committee adjourned.

ANNEXURE-I

AMENDMENTS/SUGGESTIONS MADE BY THE COMMITTEE IN REGARD TO DRAFT REPORT ON RATE OF DIVIDEND FOR 1992-94 AND OTHER ANCILLARY

Page	Line	For	Read
26	3	*Delete* "provisionally"	
26	12-13	*Delete* "The contribution of Railways to General Revenue for making grants to States in lieu of passenger fare tax should be provisionally maintained at the current level."	
28	11	for	of
29	1—11	The Paragraph "The Committee....... on the Railways." be *substituted* by the following: "The Committee note that the Ministry of Railways now propose to create a new fund, the Capital Fund, to which all surplus left after payment of dividend and appropriation to Development Fund etc. are to be credited and this Fund would be used to finance capital works on the Railways."	