Mr. Speaker: What committee is going to be appointed?

Shri Achar: That is to settle the priorities for railway lines.

Shri Jagjivan Ram: There is no committee and there is no necessity for such a committee. The priority is fixed on the basis of the development of industry or mines or agriculture in different areas of the country; and that is done by the Planning Commission in consultation with the Ministries concerned and the Railway Ministry.

Mr. Speaker: Now, I will put the Demands to vote.

Shri T. B. Vittal Rao: What about the cut motions, Sir?

Mr. Speaker: I do not think the cut motions are pressed.

Shri T. B. Vittal Rao: I do not press them, Sir.

Mr. Speaker: Has the hon. Member leave of the House to withdraw his cut motions?

The cut motions were, by leave, withdrawn.

Mr. Speaker: I have already said that those cut motions which are not pressed will be treated as having been withdrawn.

Now, the question is:

"That a supplementary sum not exceeding Rs. 60,000 be granted to the President to defray the charges which will come in course of payment during the year ending the 31st day of March, 1961, in respect of 'Miscellaneous Expenditure'.".

The motion was adopted.

16.28 hrs.

RESOLUTION *RE*: REPORT OF RAILWAY CONVENTION COMMITTEE

The Minister of Railways (Shri Jagjivan Ram): Sir, I beg to move:

"That this House approves the recommendations contained in the Report of the Committee appointed to review the rate of dividend which is at present payable by the Railway undertaking to General Revenues as well as other ancillary matters in connection with the Railway Finance *vis-a-vis* the General Finance which was presented to Parliament on 30th November, 1960."

The House is aware that a committee of both the Houses of Parliament was set up for the purpose of making the aforesaid review, by a Resolution adopted by this House on 22nd April, 1960 and concurred in by the Rajya Sabha on the 28th April, 1960. The House will also remember that, by Resolutions passed by the two Houses of the Parliament in April-May, 1959, the 5-year period from 1955-56 to 1959-60 covered by the Railway Convention Committee—1954, was extended by a further year, that is, up to 31st March, 1961, with the result that the period covered by the present Committee's recommendations synchronises with the Third Plan period. Some copies of the material, including a forecast of the Railways finances in this period as compiled by the Railway Board for the consideration of the Committee, have been placed in the Parliament Library for reference of Members; this has already been notified in the Lok Sabha Secretariat's Bulletin for 30th November, 1960.

The review made by the Committee has shown that the principles of separation of Railway Finance from the General Finance, the main feature of which is the contribution by the Railways to the General Exchequer of a dividend at a fixed percentage rate on the capital-at-charge have worked satisfactorily on the whole and have placed the Railways in a reasonably adequate position to discharge their obligations. The Railways no doubt have had to draw heavily on the past accumulations in the Depreciation Reserve Fund and Development Fund, and have had to take recourse even to temporary loans from the General Revenues to finance the Development Fund. But it has to be appreciated that the Railways have contributed, towards the execution of the Railways' Second Plan, an amount well in access of the contribution of Rs. 375 crores which the Railways had to make from their own resources towards the Plan according to the original understanding when the Second Plan was framed. The Committee have also taken note of the fact that the Railways have had to make adjustments in freight rates of goods in this period in order to meet their obligations and balance the rising working expenses resulting from unavoidable increases in wages and prices.

It is hardly necessary for me to explain to the House that the major constituent of the 4½ per cent. 'dividend' recommended by the Committee is interest on capital, the average rate of which is 3·58 per cent. according to current year's estimate. Without going into the argument exactly to what extent the Railways are a commercial undertaking and to what extent a public utility service, it is only appropriate that the large investments in the Railways should yield at least some margin of return after payment of interest charges. In recommending a dividend of 4½ per cent for the 5 year period, 1961 to 1966, the Committee have allowed a margin of return which is appreciable, but is less than a return of the order of nearly one per cent such as was maintained in the past. In other words, the Committee have duly allowed for the sizable indirect contributions to General Revenues and to general welfare, which the Railways are making in an increasing measure as a public utility concern. The Committee have endorsed the continuance of two principles adopted in pursuance of the 1954 Convention Committee's recommendation, namely that moratorium for a certain number of years be allowed in respect of dividend payable on the capital investment on all new lines, and a reduced rate of dividend—limited to the average rate of interest—to be paid on the element of over-capitalisation included in the Railway's capital account which is assessed about at Rs. 120 crores. The present Committee have also recommended that any return on the Railway's capital-at-charge over and above the interest charges should not reasonably be expected in respect of the Northeast Frontier Railway which, working at a loss, is maintained and operated in the larger interests of the country. Similarly, the Committee have recommended that not only the dividend will not payable on the capital-at-charge of strategic lines as accepted on the recommendation of the 1954 Convention Committee but the annual loss on the working of strategic lines should be borne by the General Finance and not by Railway Revenues as, in fact, was laid down at the very inception of separation of Railway Finances in 1924-25.

I should make a passing reference to a recommendation of the 1954 Convention Committee the scope of which has been clarified by the present Committee. This is that the deferred amount in respect of dividend on the capital at charge on new lines should be repaid from the sixth year onwards in addition to the current dividend out of the net income of the new lines. The addition of the words 'out of the net income of the new lines' in the 1954 Convention Committee's Report in itself meant that the deferred dividend would be paid from the 6th year onwards only if the net income of the new lines leaves a surplus after payment of the current dividend. The present Committee have ruled that

[Shri Jagjivan Ram]

this would be the appropriate interpretation of the 1954 Convention Committee's recommendation.

Another important recommendation of the Committee is in the matter of re-orientation of the additional levy on railway passengers made since September, 1957 in the shape of passenger fare tax, the proceeds of which are allocated by the General Finance to the different States.

It only remains for me to refer to the Committee's recommendations in regard to financing the Depreciation Reserve Fund and the Development Fund. As the House is aware, even the increased allocation of Rs. 45 crores to the Depreciation Reserve Fund, against Rs. 35 crores recommended by the 1954 Convention Committee, has proved inadequate in view of the arrears of renewals that have had to be overtaken particularly those inherited from the war and post-war years and from the Railways which have come under the Central Government since Independence. The Railway Freight Structure Enquiry Committee, after going fully into the matter, had suggested that the appropriation to the Depreciation Reserve Fund should have increased progressively and reached a figure of Rs. 66 crores in 1960-61.

On an assessment of the anticipated renewals in the third Plan period, which method is more realistic than any other method based on percentage etc., it has been recommended by the Committee that the total contribution to the Depreciation Reserve Fund in the next quinquennium as a whole should be Rs. 350 crores. This would work out to an average annual contribution of about 3·8 per cent. of the average capital-at-charge in the period 1961-66, which is considered reasonable in comparison with any other method, for the purpose of reflecting the financial results realistically and at the same time providing for the efficient maintenance of railways' assets.

As regards the Development Fund, the present forecast of the railways' finances for the next five years, at the present level of rates and fares, indicates that the net surplus, from which only the Development Fund is fed, will not be sufficient to meet the anticipated expenditure from the Development Fund. The Committee have, therefore, recommended a continuance of the provision, made in pursuance of the 1954 Convention Committee's Report, for temporary loans being taken from general revenues on which railways will pay interest at the average rate of interest only and not the full rate of dividend. With a view, however, to liquidate the outstanding liability of the Development Fund to general revenues on 31st March, 1961, without its being carried forward into the third Plan period and thus vitiating the picture for that period, the Committee have endorsed a proposal for the liquidation of this liability by an *ad hoc* write-back from the Development fund to capital and by repayment of any liability still remaining, from the balance in the Revenue Reserve Fund which will stand at about Rs. 53 crores on 31st March, 1961.

The proposal for writing-back to capital the cost of all new lines under construction on 1st April, 1955, which were charged to the Development Fund under the 1949 Convention Committee's recommendation, though technically departing from the normal principle that works in progress would continue to be allocated under the earlier principles in force at the time the construction was commenced, will be in keeping with the general principle adopted on the 1954 Convention Committee's recommendations of charging the cost of all new lines to capital. It is also in conformity with the spirit of certain suggestions made by the Comptroller and Auditor-General.

In recommending a minimum annual provision of Rs. 3 crores for railway users' amenities, the Committee have taken note of the fact that there have been suggestions for increasing this amount. I may point out to the House that this is clearly referred to as a minimum figure, in conformity with the tentative provision made so far in the third Plan; but the position is till flexible, and I have no doubt that increases above the miniumum allocation, where justifiably required, can be considered in due course without necessarily increasing the minimum figure at this stage.

The Committee have not recommended the immediate setting up of an Amortisation Fund, having regard to the fact that the railway finances in the next quinquennial period are not likely to permit this. I should point out, however, in this context that the charge to capital is already being kept down at the cost of revenue through the Depreciation Reserve Fund and the Development Fund, according to the rules of allocation of expenditure adopted on the recommendations of the 1949 and 1954 Convention Committees; this indirectly serves the same purpose as a formal amortisation from revenue. Since interest on the element of over-capitalisation included in the capital-at-charge is payable—even though not the full rate of dividend—it can be said that, on the whole, the system of a fixed dividend on capital-at-charge of railways provides for a fair contribution by railways to general revenues.

I would assure the House that the recommendations of the Committee take full note of the needs of the railway revenues as well as the requirements of the general finance during the third Five Year Plan, and by their adoption we would be making a satisfactory working arrangement in the interests of the country as a whole. With these introductory remarks I commend the resolution to the House.

Mr. Deputy-Speaker: Motion moved:

"That this House approves the recommendations contained in the Report of the Committee appointed to review the rate of dividend which is at present payable by the Railway Undertaking to General Revenues as well as other ancillary matters in connection with the Railway Finance *vis-a-vis* the General Finance which was presented to Parliament on 30th November, 1960."

There is a substitute motion by Shri Bharucha. He might move it.

Shri Naushir Bharucha (East Khandesh): I beg to move:

That for the original resolution, the following be substituted, namely:—

"That this House having considered the recommendations contained in the Report of the Committee appointed to review the rate of dividend which is at present payable by the Railway Undertaking to General Revenues as well as other anicllary matters in connection with the Railway Finance *vis-a-vis* the General Finance which was presented to Parliament on 30th November, 1960, recommends that the Report be referred back to the Committee with the following opinion of the House:—

(a) That the Report contains no governing principles on which the Rate of Dividend payable by the Railways to the General Revenues has been recommended to be fixed at 4·25 per cent. for the period from 1961 to 1966;

(b) That no case appears to have been made out by the Committee for fixing the rate of Dividend at 4·25 per cent;

(c) That principles for the determination of Capital-at-charge require to be so modified that the Railways do not evade the burden of a fair share of contribution to General Revenues;

[Shri Naushir Bharucha]

(d) That the Report discloses no governing principles as to the method and manner of depreciation accounting, and does not show how the overall sum of Rs. 350 crores for 1961-66 has been arrived at;

(e) That the 'Rule-of-the-thumb' method of depreciation accounting adopted by the Committee,—

(i) camouflages the real financial position of Railways, and fails to give a correct picture of financial stability of the Railways to the House and the public;

(ii) permits corrosion of capital assets by provision of inadeqpate depreciation;

(iii) makes allocation of costs, an unreality;

(iv) defeats the main purpose of depreciation accounting,

(f) That no case had been made out by the Committee for the recommendation that the outstanding liability of the Development Fund should be 'liquidated';

(g) That the proposed provision of Rs. 3 crores for passengers' amenities is on the low side;

(h) That the question of amortisation has been by-passed by the Committee;

(i) That no case has been made, out for not paying Deferred Dividends on new lines as and when the same becomes due and payable;

and the Committee be directed to submit its Report to the House on or before the 20th December, 1960".

Mr. Deputy-Speaker, I am afraid the Report of the Railway Convention Committee makes a disappointing document in that there has been no intelligle approach to the numerous questions which it purports to deal with, nor has the Committee applied its mind to the principles underlining the basic questions, nor is the approach business—like at all and, notwithstanding what the hon. Minister has just said about more money going to the General Fund, I am afraid the recommendations are completely unfavour- to the general budget.

The Railway Convention Committee has dealt with 11 basic issues and I propose briefly to discuss a l the 11 points within the limited time at my disposal. In the first place, the questions that were dealt with are the present mode of contribution to the general revenues, the rate of such contribution, the rate of dividend on capital at charge on the unproductive lines like the North East Frontier Railways, the question of the basis of depreciation reserve, allocation to depreciation reserve fund, rules regarding allocation of expenditure between capital, revenue, depreciation and development fund, development fund itself, it purpose and method of financing it, the railway users' amenities fund, the merger of passenger tax with railway fares, the problem of amortisation fund, and, finally, deferred dividend on new lines. I propose to deal with all these questions.

As I said, in all these matters the performance of the Committee has been very disappointing and the interests of the general revenues have been very sadly neglected. So far as the present mode of contribution to general revenues is concerned, the report distinctly says that it called for certain statistics on the assumption that there was no better method of fixing the basis of contribution by railways to the general revenues. I am surprised at that. When we asked the Railway Convention Committee to look into this matter, it definitely involved the consideration of whether the basis of linking contribution to the capital at charge was correct or not. In spite of that, from the very start they called for data on the unwarranted presumption that no other basis can be found. It is my opinion that it is fundamentally wrong to link the contribution to the capital at charge because the capital at charge does not include several items of expenditure including the so-called over-capitalisation, and nobody has defined what over-capitalisation is. It is not merely a matter of legal language but it is a question of policy and accountancy also. Nobody has defined over-capitalisation. Also, it does not include contribution towards construction of strategic lines and so on and so forth. We do not know what items are there which go to formulate the capital at charge. I am of the opinion that it is necessary that a separate committee of Parliament should be appointed to investigate into the structure of the capital at charge itself. When you calculate a particular amount at a particular rate, that is, the capital-at-charge multiplied by 4 per cent. that is, the contribution, you must know exactly what the connotation of capital-at-charge is. But that very fundamental defintion is lacking in all our calculations. Therefore I say that linking of contribution with such type of vague capital-at-charge is unscientific.

Secondly, the preset method of determing the capital-at-charge enables the Railways to evade its legitimate share of contribution. Strangely enough, the contribution includes, what is very euphemistically called, 'an element of interest'. What that element of interest is requires to be looked into. Why is it that the Railways contribute only 4 per cent? On what basis? They say that out of that the interest rate works out at 3·2 per cent.—it is 3·18 or 3·19; let us say 3.2 per cent.—and .8 per cent. is their contribution to the General Revenues for the so-called welfare and prosperity of the nation and all the things that the hon. Minister was pleased to mention in the course of his speech.

Shri Jagjivan Ram: All these things are over and above that.

Shri Naushir Bharucha: ·8 per cent. is over and above the element of interest. That is what I am saying.

Shri Jigjivan Ram: Over and above the four per cent.

Shri Naushir Bharucha: Over and over the so-called prosperity is a different thing. If the Railways cannot contribute to the general prosperity of the nation, I do not understand what the reason for their existence is.

Shri Jagjivan Ram: You will take some time before you can understand it.

Shri Naushir Bharucha: Therefore this contribution can be split up into two parts—first the element of interest, and secondly, the real contribution. It has been calculated that in the next five-year period this rate of interest will slightly harden up. They calculate that the average rate will be 3·58 per cent. Therefore they say that in order to preserve that contribution of ·8 per cent. to the General Revenues they have added that to it and made it 4¼ per cent. Is this justified? I say 'Certainly not'. The reason for it is that the General Revenues have contracted dollar obligations which are being used exclusively for the benefit of the Railways. Dollar loans worth Rs. 140 crores have been contracted at rates not less than 5½ to 6 per cent. and that too exclusively for the benefit of the Railways. Who should pay that?

Shri Rajendra Singh (Chapra): Why only for the Railways? It is for the whole country.

Shri Naushir Bharucha: No, these amounts go exclusively to the Railways.

Who should pay this amount? The Railways must pay. If we calculate

[Shri Naushir Bharucha]

the so-called average rate of 3·58 per cent. and add to that these interest charges the element of interest itself will exceed 4 per cent. Therefore what the Railways purport to contribute, that is 4 or 4¼ per cent.......

Shri Jagjivan Ram: Pure arithmetic.

Shri Naushir Bharucha: What the Railways are contributing is nothing more than the interest charges. There is nothing over and above that. It will actually come to less than the interest charges. Definitely it will come to less than the interest charges because during the next five years the tendency for interest rates will be to continue to harden. I do not think in the near future or in the next five years we shall be able to raise money at anything less than 4½ to 5 per cent. Therefore the General Revenues are deprived twofold—firstly, the element of interest on dollar loan which is not taken into account and, secondly, what the hon. Minister says that 4¼ per cent. also includes contribution, which in reality it does not.

Shri Achar (Mangalore): Out of Rs. 2,300 and odd crores, the higher rate is only for Rs. 140 crores.

Shri Naushir Bharucha: Rs. 2,300 crores is not the amount. Whatever it is, I have no objection if the actual amount were calculated and accordingly the contribution was raised. I have no objection to that. Therefore, my submission is that the contribution, instead of 4¼ per cent. should have been at least 5 per cent. and to the extent of ¾ per cent. for five years, general revenues are losing.

There is another question, namely the rate on unproductive lines. It is not as if on whatever the Government invest, they get the return. So far as un-productive lines are concerned, I think there is some reason for accepting the Committee's proposal. In the case of the North East Frontier Railway, part of it is unproductive and part of it is purely for strategic purposes. So far as strategic lines are concerned, I am definitely of the view that this amount must be borne exclusively by the Defence budget. It is most unfair that the burden of maintaining the strategic lines should fall on the Railways. They are bound to run at a considerable loss. These lines are constructed for the security of the nation. Therefore, the entire amount must be debited to the Defence budget, that is, the general revenues. So far as the unproductive part of such lines are concerned, I agree with the recommendation made by the Railway Convention Committee in that behalf.

Coming to the very vexed question of the Depreciation Reserve fund, here, we have got to consider two aspects: first, the basis of the Depreciation fund and secondly the quantum proposed to be set aside, namely Rs. 70 crores on an average per annum for the next five years. Speaking of the basis of Depreciation fund, it has been my grievance ever since I have dealt with the Railway Convention in 1958 and 1959, that no principles at all are being prescribed. On what basis did you arrive at Rs. 70 crores? I could have understood if the Railway Convention Committee had stated that this is the straight line method. Every year they propose to set aside a particular sum of money. Or the Sinking fund method: with compound interest, at the end of the prescribed life of the asset, it will come to that. Nothing of the kind is being done. What the Railway Convention Committee has endorsed is what is really known as the rule of the thumb method of setting aside depreciation. That is to say, a method which takes into account no known criteria for fixing depreciation amount. Because they cannot afford to pay more or because they can afford to pay this much and no more, a particular figure has been set aside. As I mentioned in my substitute motion, this 'rule-of-thumb-method' cannot be adopted by the Committee. First, it camouflages the real financial position of the Railways and fails to give a correct picture of the financial stability of the Railways. Secondly, it corrodes into the capital assets of the Railwals on account of inadequate depreciation. Thirdly, it makes allocation of costs an unreality. Fourthly, it defeats the very purpase of depreciation accounting.

I have also included as one of the reasons that it makes the question of allocation of costs an unreality. What is the real purpose of depreciation accounting? Whenever a business concern tries to estimate what is the cost of production of its unit of product, it has to take into consideration not only the raw materials consumed, labour employed, but also how much machinery has been used by way of wear and tear in producing that particular product. All the cost accounting would have no meaning unless adequate provision is made by way of depreciation. Take for instance, I produce product A in a factory using the plant for 8 hours a day and sell it at Rs. 5. Then I say that the plant has been worn out in its production to the extent of one rupee, and my cost of production is Rs. 5. Suppose I use my plant in two shifts and produce twice the number of articles and sell for the same price, surely my wear and tear goes to Rs. 2. If I say that it is only one rupee and I can produce the product cheaply, such is not the case. Ultimately, the effect of it is that your capital assets are corroded. The Railway Minister may not be there in 1966 when the question comes up as to how to rehabilitate the worn out railways. Therefore, I attach very great importance to the question how depreciation is set aside. Whether it is Rs. 70, Rs. 80 or Rs. 90 crores is not really the question, but the basis on which it is set aside.

The committee has not applied its mind at all to the 'service-life' of the assets. There are certain assets which depreciate very rapidly; there are certain assets the service-life of which can be easily determined. Depreciation should have been set aside in accordance with the service life of the assets which is normally the case among commercial concerns which follow sound, conservative business principles. But the committee has not applied its mind at all to this important aspect of depreciation accounting.

It is not that there is only one basis on which it can be set aside. What I have mentioned is a widely accepted basis. There is another basis namely 'replacement costs' basis. If for instance, today a locomative is purchased at Rs. 4 lakhs, and if it has got a service life of 20 years, then every year a particular amount would be set aside to cover within 20 years that particular amount, namely Rs. 4 lakhs. But by the end of that period you may find that the locomotive costs Rs. 5 or Rs. 6 lakhs. Therefore, your depreciation may have to take into consideration the replacement cost as well. I am not prepared to say that your depreciation should be completely based on replacement cost, because it is extremely difficult to do it, but there must be some scientific basis for taking into account replacement costs.

Depreciation is a serious fact, and what has the committee done? Has it mentioned a single word about the governing principles on which depreciation is to be based? How very unscientific and unbusiness like this method is. And the hon. Railway Minister says he is satisfied that Rs. 70 crores would do. He says they have found out by experience that only to this extent they shall have to draw upon the depreciation reserves for making good the loss by wear and tear. In plain language, what he means is that they have adopted the 'rule-of-thumb-method'. I strongly protest against that because the railways are vital national assets, and they are being eaten into by inadequate provision of depreciation. That inadequate, provision serves to give illusory surpluses in the railway budget. The railway budget, instead of economis-

[Shri Naushir Bharucha]

ing on their administrative expenses directly and indirectly, eats into the capital assets of the railways, and thereby they tend to show that their cost of operation is less. I say the entire budget would become illusory.

Suppose, having regard to the extent of depreciation, Rs. 90 crores are necessary per annum to be set aside, and suppose the Railway Minister produces a surplus of Rs. 10 crores next year. He will say it is a surplus, but I will say it is a deficit because he has not set aside correct amount of depreciation. That is where the camouflage of railway finances comes in. The public is being hoodwinked, and the House is being misled. Today by inadequate provision of depreciation, the Railway Minister manages to spend more and extravagantly on other operating expenses. That has to be set right.

The justification of the hon. Minister for setting aside Rs. 70 crores is that they have found from experience that this is sufficient to take care of the wear and tear of our assets which will be replaced in five years. But what is the position of the railway rolling stock today? I am sure, Sir, you have been travelling in the first class, and you must have seen the fittings, fixtures and other things provided for the amenties of the first class passengers, let alone the third class. What shabby, broken and ramshackle state they continue to exist in, as if the first class coaches belong to nobody! And it is on this basis that Rs. 70 crores are set aside. What would be the depreciation, I ask the hon. Minister, if the railway coaches and locomotives are to be kept in proper maintenance condition? At least on an empirical basis, that is the amount he should have set aside. That he has not chosen to do.

My submission is that nothing less than Rs. 90 crores, even by the 'rule-of-thumb-method', would have to be set aside. I shall now develop that argument.

Mr. Deputy-Speaker: He can continue tomorrow.

17 hrs.

The Lok Sabha then adjourned till Eleven of the Clock on Tuesday, December 6, 1960/Agrahayana 15, 1882 (Saka).