

**RAILWAY CONVENTION
COMMITTEE
(1985)**

(EIGHTH LOK SABHA)

THIRD REPORT

**RATE OF DIVIDEND FOR 1986-87 AND OTHER
ANCILLARY MATTERS**

Presented in Lok Sabha on 21-2-1986

Laid in Rajya Sabha on 21-2-1986



**LOK SABHA SECRETARIAT
NEW DELHI**

February, 1986/Magha, 1907 (Saka)

Price : Re. 1.00

385-13R
M.S. 4

CONTENTS

	PAGE
COMPOSITION OF THE RAILWAY CONVENTION COMMITTEE (1985)	(iii)
INTRODUCTION	(v)
REPORT	I

APPENDICES

I. Reliefs in Dividend and Subsidy as recommended by the Railway Convention Committee upto 1984-85.	9
II. Summary of recommendations/observations]	12

PART II

Minutes of the sitting of the Railway Convention Committee (1985) held on 11th February, 1986.	14
--	----

385.13 R

M5.4

PARLIAMENT LIBRARY
Centre for Publications
Acc. No. 2279302(5.)
Date.....

RAILWAY CONVENTION COMMITTEE

(1985)

1. Shri Subhash Yadav—*Chairman*

MEMBERS

Lok Sabha

2. Shri Bansi Lal
3. Shri Basudeb Acharia
4. Shri B. Devarajan
5. Prof. Narain Chand Parashar
6. Shri Vijay N. Patil
7. Shri Janardhan Poojary
8. Shri Ram Dhan
9. Shri Ram Ratan Ram
- *10. Shri Madhavrao Scindia
11. Shri S. Thangaraju
12. Shri V. Tulsiram

Rajya Sabha

13. Shri Vishwanath Pratap Singh
14. Shri Dipen Ghosh
15. Shri M. Maddanna
16. Shri Bhagatram Manhar
17. Shri Kalpnath Rai
18. Shri P. Upendra

SECRETARIAT

1. Shri N. N. Mehra—*Joint Secretary*
2. Shri K. H. Chhaya—*Chief Financial Committee Officer*
3. Shri Krishnapal Singh—*Senior Financial Committee Officer.*

* Nominated on 27-1-1986 Vice Shri Manvendra Singh resigned.

INTRODUCTION

I, the Chairman of Railway Convention Committee (1985) having been authorised by the Committee to present the Report on their behalf present this Third Report on the Rate of Dividend payable by the Railway Undertaking to the General Revenue and other Ancillary Matters for the financial year 1986-87.

2. The Ministry of Transport (Deptt. of Railways—Railway Board) submitted an Interim Memoranda on (i) the Rate of Dividend payable by Railways to the General Revenue for 1986-87; (ii) contribution to the Railway Depreciation Reserve Fund; and (iii) contribution to the Railway Pension Fund. The Committee considered the memoranda on 11th February, 1986. This Report of the Committee was also adopted on the same day. Minutes of the sitting form Part-II of the Report.

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

4. A statement showing the summary of the recommendations of the Committee contained in this Report is at Appendix II.

NEW DELHI;

February 11, 1986

Magha 22, 1907 (Saka)

SUBHASH YADAV,

Chairman,

Railway Convention Committee.

REPORT

In pursuance of the Resolution adopted by Lok Sabha on 20th March, 1985, and concurred in by Rajya Sabha on 28th March, 1985, the Railway Convention Committee 1985, was constituted on the 21st May, 1985 "to review the rate of dividend which is at present payable by the Railway Undertaking to General Revenues as well as other Ancillary Matters in connection with the Railway Finance *vis-a-vis* the General Finance and make recommendations thereon".

2. At their sittings held on 8th July and 13th August, 1985 the Committee selected the following subjects for examination and report in a phased manner:—

1. On-going projects including doublings/conversions.
2. Electrification of Railways.
3. Review of the rolling stock position of the Railways *vis-a-vis* increase in passenger and goods traffic on the Indian Railways.
4. Review of passenger amenities including catering services and punctuality of trains as also the allocations to the Development Fund of the Railways.
5. Surveys of new lines conducted during the last fifteen years but not taken up.
6. Study of various modes of traction on the Railways and the fuel cost.
7. Employment of casual labour and their conditions of service including de-casualisation and recruitment.
8. Review of accidents and the progress in implementation of the recommendations made by Kunzru Committee and Sikri Committee.
9. Generation of resources for meeting the needs of the Railways including policy of freights and rates.
10. Payment of compensation claims on Railways.
11. Review of Hours of Employment Regulations Act on the Railways.
12. Seventh Plan Prospects: Tentative forecasts of the Financial prospects of the Indian Railways during the Seventh

Five Year Plan Period (1985-86 to 1989-90) on the basis of the present freight rates and fares, price level and the anticipated traffic.

13. Dividend: A review of the reasonableness of the present rates of dividend payable to General Revenues, taking into account reliefs granted by earlier Convention Committee on certain special elements of capital and the cost of Government borrowing, and also keeping in mind the recommendations of the Railway Reforms Committee and the views of the earlier Convention Committees in the matter.
 14. Review of the annual payment to the States in lieu of the repealed Passenger Fare Tax and the basis of determining the amount and its distribution during the Seventh Five Year Plan period, taking into account the recommendations made by the Eighth Finance Commission on the subject.
 15. Railway Funds: The rate at which contribution should be made to the Depreciation Reserve Fund during the Seventh Five Year Plan Period to meet the cost of renewal/replacement of Railway assets, keeping in view the recommendations of the Railway Reforms Committee and the earlier Convention Committees.
 16. Social Burdens: Compensation to the Railways for carrying social burdens in the form of maintenance of uneconomic branch lines, strategic lines, suburban services, etc., keeping in view the observations of the earlier Convention Committees.
3. As these subjects have a vital bearing on the economy of the Railways it is only proper that the final report of the Committee on the rate of Dividend etc. should take into account the findings and conclusions of the Committee in these areas.
4. The Department of Railways have pleaded that they would take time to submit Memoranda to the Committee on all the above mentioned subjects selected by the Committee, as the Seventh Five Year Plan "proposals have just been finalised". They have also stated that this would be done in consultation with the Ministry of Finance. On receipt of the Memoranda, the Committee may have to call for evidence, written and/or oral, as may be necessary before finalising their Report.

5. In the Interim Memorandum furnished to the Committee on 15th January, 1986, the Department of Railways have submitted that they require an approved basis in respect of (i) Dividend payable by Railways to the General Revenues, (ii) contribution to the Railways Depreciation Reserve Fund, and (iii) contribution to the Railway Pension Fund for adoption in the Revised Estimates of the current year and the Budget Estimates of the next year due to be placed before the Parliament in February, 1986.

6. The Department of Railways have, therefore, made the following proposal in respect of rate of dividend payable to the General Revenues:—

“The recommendations of the Railway Convention Committee (1980), approved by Parliament, in respect of the rate of dividend payable to the General Revenues, reliefs in dividend and by way of subsidy, and interest on Railway Fund balances, as applicable for the Sixth Plan period 1980—85 are brought out in the Annexure-I. With these recommendations as the basis, the payment of dividend to and subsidy from the Central Government and the interest on the balances in the various Railway Funds have been provisionally worked out and adopted in the Budget for the current year 1985-86. It is proposed for the consideration of the Committee that the same rates of dividend, the same basis for subsidy and the same rates of interest on Fund balance may continue to be provisionally retained for the current year and also adopted in the Budget Estimates of the next year, subject to retrospective adjustment in the accounts of the year in which the recommendations of the Committee based upon the detailed memoranda to be submitted by the Department of Railways, are available with Parliament's approval thereon.”

Contribution to Depreciation Reserve Fund

7. The Railway Convention Committee (1980) in their Tenth Report (February 1984) recommended, after taking note of the assessment of the Railway Reforms Committee (in Part IV of their Report on Railway Reserve Funds, November 1982) and the views of the Ministry of Finance, that for the year 1984-85, the contribution to the Depreciation Reserve Fund may be suitably stepped up keeping in view the Railways' capacity to generate additional internal resources. The assessment of the Railway Reforms Committee was that from 1983-84 onwards, the appropriation to the DRF should

be made at the level of Rs. 1,110 crores plus depreciation provision for new assets added from year to year with suitable adjustment for price variations. Railways provided for appropriation to the DRF of Rs. 850 crores in each of the years 1983-84 and 1984-85, and for Rs. 920 crores in the year 1985-86. While the railway operations resulted in deficit of Rs. 44.75 crores and Rs. 195.59 crores during 1983-84 and 1984-85 respectively, the current year is expected to show a surplus. Withdrawal from the Fund in the current year, which was estimated at Rs. 870 crores is now expected to be about Rs. 974 crores due to faster replacement of assets. This will cause some depletion of the balance in the Fund.

8. Emphasising the need for higher contribution to Depreciation Reserve Fund, the Department of Railways have in their interim Memorandum stated:—

“The Seventh Plan Outlay approved for the Railway is Rs. 12,334.39 crores. Out of this, the outlay from the DRF may be Rs. 6000 crores. In order to provide for a matching accretion to the Fund, it is necessary to appropriate from the revenue at least an amount of Rs. 1250 crores, to begin with, in the year 1986-87. This, taken together with the enhanced appropriation to the Pension Fund proposed for the next year, and the normal rise in the cost of inputs to support the higher level of activity forecast, will lead to a shortfall of Rs. 505 crores at current tariff rates of fare and freight.

In order to overtake the arrears in replacements and renewals and to approach the required momentum for remaining current, it is absolutely essential that investment from and appropriation to the Depreciation Reserve Fund are stepped up, commencing with the proposed higher level in 1986-87. The Railway Reforms Committee have sounded a note of caution that unless appropriation to the Fund is made on the basis recommended by them, it will be difficult to arrest rapid deterioration of the system.

Pending submission of a detailed Memorandum on the subject, it is for the consideration of the Committee that appropriation to the DRF from Railway Revenues at Rs. 920 crores in the current year may be confirmed and appropriation of Rs. 1250 crores in the year 1986-87 may be approved.”

9. In regard to Pension Fund, the Department have stated:—

“Withdrawal from the Railway Pension Fund has gradually increased over the years to cover the increasing number of Railway pensioners, reliefs granted from time to time and liberalisation of the rules for payment of pension. It will increase further by about Rs. 85 crores in the current year over the budgeted figure of Rs. 277 crores as a result of recent orders by which death-cum-retirement gratuity and commuted value of pension have gone up considerably. This increase is proposed to be met from the balance available in the Fund without making any additional contribution to the Fund. However, it is necessary to enhance the appropriation from Revenue in the next year by Rs. 85 crores over the current year's level of Rs. 265 crores based on the anticipated additional withdrawals. Appropriation to the Fund in the last few years has in fact been made with reference to likely withdrawals, pending actuarial evaluation which is currently being made by the Controller of Accounts in the Ministry of Finance.”

Contribution
of Pension
Fund.

10. Pending submission of detailed memoranda, the Committee recommend that the existing rates of dividend of 6% on the capital invested on the Railways upto 31-3-1980 (inclusive of 1.5% on the capital invested upto 31-3-1964, less the capital qualifying for subsidy, for payment to States as grant in lieu of Passenger Fare Tax, and contribution for assisting the States for financing Safety Works) and 6.5% on capital invested thereafter may be adopted while framing the Revised Estimates for 1985-86 and the Budget Estimates for 1986-87.

11. The concessions available to Railways in the matter of computing dividend and the subsidy to Railways from the General Revenues on the existing basis may also be adopted provisionally while framing Revised Estimate for 1985-86 and Budget Estimate for 1986-87.

12. The balances in the various Railway Reserve Funds (other than Development Fund) may carry the same rate of interest as the rate of dividend.

13. The rate of interest on the loans from General Revenues for Development Fund works may be the same as of dividend payable to the Central Government for the purposes of the Revised Estimates for 1985-86 and Budget Estimates for 1986-87.

14. The Committee observe that the Railway working for the year 1985-86 is likely to result into a deficit of about Rs. 505 crores at the current tariff of fares and freight due to increase in the cost of inputs etc. The Committee would urge the Ministry of Transport (Department of Railways) to effect speedy steps for intensive utilisation of railway assets and economy in avoidable expenditure so as to maximise the efficiency and arrest the increase in working costs.

15. The Committee confirms provisionally that the contribution to Depreciation Reserve Fund from Railways Revenue may be at Rs. 920 crores in 1985-86 which might be stepped up to Rs. 1250 crores in 1986-87.

16. The objective of funding the pensionary liabilities of the serving Railway employees was to reflect the true commercial state of financial health of the Railways from year to year. The Committee observe that it is unfortunate that for the past some years the Railways have not been able to match the liability by making sufficient appropriations to the Pension Fund. The Committee would urge the Railways to ensure early finalisation of actuarial estimation and make arrangements to fund sufficient amounts to meet the future pensionary liabilities. The Committee, however, provisionally approve that the contribution to Pension Fund may be Rs. 265 crores in 1985-86 which might be enhanced to Rs. 350 crores in 1986-87, subject to retrospective adjustments in respect of paragraphs 10 to 12 above.

NEW DELHI;

SUBHASH YADAV,

February 11, 1986

Chairman,

Magha 22, 1907 (Saka)

Railway Convention Committee.

APPENDICES

APPENDIX I

(Vide paragraph 6)

Reliefs in dividend and subsidy as recommended by the Railway Convention Committee upto 1984-85

The rate of dividend on the Capital-at-charge of the Railways and reliefs in dividend and by way of subsidy, based on the recommendations of the Railway Convention Committee applicable upto 1984-85 and also taken into account provisionally while preparing the Budget for 1985-86 are as under:—

I. Dividend

(i) The rate of dividend is 6 per cent on Capital invested on the Railways upto 31-3-1960, including 1.5 per cent on the capital invested upto 31-3-1964 (less capital qualifying for subsidy) for contribution for grants to States in lieu of Passenger Fare Tax and contribution for assisting the States for financing Safety works.

(ii) The rate of dividend is 6.5 per cent on Capital invested from 1-4-1960 onwards.

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

III. In respect of the capital invested on new lines, excluding the 23 new lines taken up on or after 1-4-1955 on other than financial considerations, the dividend payable is to be calculated at the average borrowing rate for each year but deferred during the period of construction and the first five years after opening of the lines for traffic. The deferred liability is to be paid out of the future surpluses of the lines after payment of current dividend. The account of unliquidated deferred dividend liability on new lines is to be closed after a period of 20 years from the date of their opening, extinguishing any liability not liquidated within that period.

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

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

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

- (a) Strategic lines.
- (b) 28 new lines taken up on or after 1-4-1955 on other than financial considerations dividend becomes payable if any line becomes remunerative adopting the marginal cost principle. The arrangement is to be applied also to the two National Investments viz. Jammu-Kathua and Tirunelveli-Kanyakumari-Trivandrum line.
- (c) North-east Frontier Railway (Non-strategic portion).
- (d) Unremunerative Branch lines subject to their unremunerativeness being established on the marginal cost principle in each case through an annual review of their financial results.
- (e) The Ore Lines between Bimlagarh Kiriburu and Sambalpur-Titlagar.
- (f) Ferries and Welfare buildings.
- (g) 50 per cent of the capital invested on all works in the current year and in the two previous years, excluding capital invested in strategic lines, North-East Frontier Railway (commercial), Ore lines, Jammu-Kathua and Tirunelveli-Kanya Kumari-Trivandrum lines, Ferries and Welfare buildings and unremunerative branch lines which qualify in full for subsidy, capital invested on 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

VII. *Interest on Railway Funds:* The balances in the various Railway Reserve Funds (except Development Fund) carry the same rate of interest at which dividend is actually paid. In the case of Development Fund, the rate of interest on the balance in the Fund is the same as the rate of interest payable on the loans to the Fund provided from General Revenues, as long as such loans are outstanding.

APPENDIX II

(Vide para 4 of Introduction)

Summary of the Recommendations/Observations

S. No.	Para No.	Recommendations/Observations
i	2	3
1	10	Pending submission of detailed memoranda, the Committee recommend that the existing rates of dividend of 6 per cent on the capital invested on the Railways upto 31-3-1980 (inclusive of 1.5 per cent on the capital invested upto 31-3-1964, less the capital qualifying for subsidy, for payment to States as grant in lieu of Passenger Fare Tax, and contribution for assisting the States for financing Safety Works) and 6.5 per cent on capital invested thereafter may be adopted while framing the Revised Estimates for 1985-86 and the Budget Estimates for 1986-87.
2	11	The concessions available to Railways in the matter of computing dividend and the subsidy to Railways from the General Revenues on the existing basis may also be adopted provisionally while framing Revised Estimate for 1985-86 and Budget Estimate for 1986-87.
3	12	The balances in the various Railway Reserve Funds (other than Development Fund) may carry the same rate of interest as the rate of dividend.
4	13	The rate of interest on the loans from General Revenues for Development Fund works may be the same as of dividend payable to the Central Government for the purposes of the Revised Estimates for 1985-86 and Budget Estimates for 1986-87.

1

2

3

5

14

The Committee observe that the Railway working for the year 1985-86 is likely to result into a deficit of about Rs. 505 crores at the current tariff of fares and freight due to increase in the cost of inputs etc. The Committee would urge the Ministry of Transport (Department of Railways) to effect speedy steps for intensive utilisation of railway assets and economy in avoidable expenditure so as to maximise the efficiency and arrest the increase in working costs.

6

15

The Committee confirms provisionally that the contribution to Depreciation Reserve Fund from Railways Revenues may be at Rs. 920 crores in 1985-86 which might be stepped up to Rs. 1250 crores in 1986-87.

7

16

The objective of funding the pensionary liabilities of the serving Railway employees was to reflect the true commercial state of financial health of the Railways from year to year. The Committee observe that it is unfortunate that for the past some years the Railways have not been able to match the liability by making sufficient appropriations to the Pension Fund. The Committee would urge the Railways to ensure early finalisation of actuarial estimation and make arrangements to fund sufficient amounts to meet the future pensionary liabilities. The Committee, however provisionally approve that the contribution to Pension Fund may be Rs. 265 crores in 1985-86 which might be enhanced to Rs. 350 crores in 1986-87, subject to retrospective adjustments in respect of paragraphs 10 to 12 above.

RAILWAY CONVENTION COMMITTEE

(1985)

(EIGHTH LOK SABHA)

Part II

**MINUTES OF THE SITTING OF THE RAILWAY CONVENTION
COMMITTEE HELD ON 11TH FEBRUARY, 1986, RELATING TO**

THIRD REPORT

ON

**RATE OF DIVIDEND FOR 1986-87 AND OTHER ANCILLARY
MATTERS**

**LOK SABHA SECRETARIAT
NEW DELHI**

February, 1986 | Magha, 1907 (S)

RAILWAY CONVENTION COMMITTEE

(1985)

10th Sitting

11-2-1986

The Railway Convention Committee held its sitting from 15.00 hrs. to 15.30 hrs.

PRESENT

Members of the Committee:

1. Shri Ram Dhan—*in the Chair*
2. Shri Vijay N. Patil
3. Shri Dipen Ghosh
4. Shri M. Maddanna
5. Shri Bhagatram Manhar
6. Shri Kalpnath Rai

SECRETARIAT

1. Shri K. H. Chhaya—*Chief Financial Committee Officer.*
2. Shri Krishnapal Singh—*Senior Financial Committee Officer.*

In the absence of Chairman, Railway Convention Committee, Shri Ram Dhan presided.

The Committee considered the Draft Report on Payment of Rate of Dividend and other Ancillary Matters for 1986-87.

The Committee then adopted the Report subject to following modification:

add "and economy in avoidable expenditure".

after the word "assets" in line 8 of para 14.

The Committee authorised the Chairman to make any consequential corrections as might become necessary and present the Report in Parliament.

The Committee then adjourned.