

**RAILWAY CONVENTION
COMMITTEE
(1998)**

(TWELFTH LOK SABHA)

**SECOND REPORT
ON
RATE OF DIVIDEND FOR 1998-99 AND
OTHER ANCILLARY MATTERS**

Presented in Lok Sabha on.....
Laid in Rajya Sabha on.....



**LOK SABHA SECRETARIAT
NEW DELHI**

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**RAILWAY CONVENTION COMMITTEE
(1998)**

Shri Bijoy Krishna Handique — *Chairman*

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2. **Shri John Joseph** — *Joint Secretary*
3. **Shri R.C. Gupta** — *Deputy Secretary*
4. **Shri S.S. Kalra** — *Assistant Director*

INTRODUCTION

1. The Chairman, Railway Convention Committee (1998), having been authorised by the Committee to present the Report on their behalf, present this Second Report on Rate of Dividend payable by the Railway Undertaking to the General Revenues and other Ancillary Matters for the financial year 1998-99.

2. Based on an interim Memorandum submitted by the Ministry of Railways in consultation with the Ministry of Finance on 16 October, 1997, the Railway Convention Committee (1996) in their Third Report, had recommended, purely as an interim measure, that dividend for the year 1997-98 to the General Revenues be paid at the rate of 7 per cent irrespective of the year of investment, 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 year 1996-97. The Third Report of Railway Convention Committee (1996) was presented to Lok Sabha on 2 December, 1997 and laid in Rajya Sabha on 25 March, 1998. The recommendations contained in the Third Report of Railway Convention Committee (1996) and Action Taken by the Government thereon are at Appendix-IV.

3. Consequent upon the dissolution of Ninth Lok Sabha on 4 December, 1997, the Railway Convention Committee (1996) became *functus officio* and they could not give their final recommendations.

4. The Railway Convention Committee (1998) was constituted on 22 July, 1998 and the interim Memorandum on Rate of Dividend for the year 1998-99 containing the views of both Ministries of Railways and Finance was furnished by the Ministry of Railways on 18 November, 1998 wherein the Ministry of Finance had proposed that dividend paid by the Railways needs to be increased and that for the year 1998-99, the Railways should pay dividend at the rate of 7.5% on Capital-at-charge irrespective of the year of investment.

5. After considering the interim memorandum, the Committee had recommended, purely as an interim measure, that pending finalisation of Railways' Ninth Five Year Plan and submission of detailed memorandum in consultation with Ministry of Finance on Rate of Dividend and other Ancillary Matters to them. Dividend to General Revenues for the current financial year may be paid at the rate of 7 per cent on the entire capital invested on Railways from the General Revenues irrespective of year of investment, 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 year 1997-98. All other concessions now available are also allowed to continue on the existing basis for the year 1998-99.

(vi)

6. The Committee considered, finalised and adopted this Report at their sitting held on 27 January, 1999. The Minutes of the sitting of the Committee are appended to the Report. For facility of reference, the recommendations and observations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI;
27 January, 1999
7 Magha, 1920 (S)

BIJOY KRISHNA HANDIQUE,
Chairman,
Railway Convention Committee.

REPORT

Genesis of Separation of Railway Finance

The first Railway in India as also in Asia was opened by the Great Indian Peninsular Railway Company (present Central Railway) formed in England. The Company took up the survey work in 1850 and it was completed in about 3 years. The first train steamed out of Bombay on April 16, 1853 to Thane—a distance of about 33 Kms. A new Chapter in the history of India was thus opened.

2. The growth and development of Indian Railways owes much to Lord Dalhousie, Governor-General of India (1848—1856), who suggested a system of trunk lines connecting the hinterland of Bombay, Bengal and Madras Presidencies with their principal ports and also with each other. As the Government had neither the funds nor the technical personnel to undertake the work, the same was entrusted to private companies who were guaranteed a return of 5 per cent on their Capital for a period of 25 years. In return, the companies were expected to share their surplus profit with the Government and to sell the Railways to the Government after 25 years. As the expected profit failed to materialise and the guaranteed return continued to be a drain on the exchequer, the Government purchased the Railways on the expiry of the period of contract, though the management of the railways continued to be with the companies. Following the recommendations of the Ackworth Committee (1920-21) the Government took over the management of the bulk of the Railways.

3. Originally, Railway Finances were included in the Budget of the Government of India. In order to secure stability for Civil estimates by providing for an assured contribution from Railway Revenues and also to introduce flexibility in the administration of Railway Finance, the same were separated from the General Finance by a Resolution of the Central Legislature adopted on September 20, 1924 and was approved by the Secretary of State. The possibility of legislation to separate Railway Finance from General Finance was considered, but it was decided that it would be preferable to ask the House to agree to a Convention, the advantage in a Convention being that it can be adjusted from time to time to varying needs and difficulties. This Convention is commonly known as "Separation Convention".

4. Under the 'Separation Convention' the Railways are required to pay dividend at a fixed rate on their Capital, the whole of which was advanced by the Government of India. The 'Rate of Dividend' payable by the Railway Undertaking to the General Revenues as well as other financial matters are determined periodically by the Railway Convention Committee

of Parliament. This, in brief, is the genesis of Separate Railway Finance in India.

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 sole shareholder of the Undertaking.

Financial structure of Indian Railways

6. The financial arrangements between the Railways and the General Revenues have been reviewed from time to time and modifications/changes carried out to meet the requirements of the changing times. As a result, the administrative and financial set up of the Ministry of Railways has come to acquire a somewhat unique character, in that the Railway Ministry has been delegated with substantial powers relating to all Railway matters and the Railways have their own independent and integrated financial set up, in that:—

- (i) Railway Budget is presented and voted by the Parliament separately independent of General Budget.
- (ii) Railway Ministry enjoys substantial powers of financial sanction to expenditure.
- (iii) Accounts are maintained by the Railways' own accounting cadres.
- (iv) Railway projects are also not cleared by PIB as is done for projects of other Ministries. Recently a system of clearance by expanded Board has been introduced for projects costing over Rs. 50 crores.

Although the Railway Finances have been separated from the General Finances, the former continue to be part of the overall Government Finances in that estimates relating to receipts and expenditure of the Railways are incorporated in the General Budget as part of the total receipts and expenditure of the Government of India.

7. The revenue receipts of the Railways are derived from Gross Traffic Receipts which include passenger earnings, goods earnings and sundry other earnings. The expenditure of the Railways falls in two categories:—

- (i) Revenue expenditure or non-Plan expenditure; and
- (ii) Other expenditure or Plan expenditure.

The revenue expenditure is met out of the revenue receipts of the Railways. It consists of ordinary working expenses of Railways,—appropriations to the various reserve funds and other miscellaneous expenditure like subsidy/rebate to worked lines, expenditure

on miscellaneous establishments, etc. The Plan expenditure is financed from budgetary support provided by the General Revenues, and withdrawals from various Railway Funds including Capital Fund as also from market borrowings.

8. The allocation of railway expenditure to one or the other of the above mentioned sources (referred to as allocation heads of expenditure) is governed by the rules of allocation based on the principles introduced by the Railway Convention Committee, 1949, as amended by the successive Convention Committees from time to time.

9. In pursuance of the Resolution adopted by Lok Sabha on 2nd June, 1998, the Railway Convention Committee (1998) was constituted on 22 July, 1998 to review the rate of dividend payable by the Railway Undertaking to General Revenues, as well as other ancillary matters in connection with the Railway Finance *vis-a-vis* General Finance and to make recommendations thereon.

Determining the rate of dividend prior to presentation of Railway Budget

10. The Committee generally present their Report on 'Rate of Dividend' during the Budget Session of Parliament and their recommendations are reflected in the Railway Budget. The Memorandum of the Ministry of Railways on 'Rate of Dividend payable to General Revenues' is submitted to the Committee only after obtaining the comments/concurrence of the Ministry of Finance.

Capital-at-charge of the Indian Railways

11. Capital-at-charge means Capital contributed by General Revenues. The Capital-at-charge on the Railways is in form of interest bearing loan capital, except part of it on which no dividend is payable on the basis of reliefs recommended by successive Convention Committees and approved by Parliament. The Capital-at-charge of the Indian Railways has increased from Rs. 827 crore in 1950-51 to Rs. 25323.86 crore in 1997-98 (RE). This amount excludes Capital outlay on Metropolitan Transport Projects and Circular Railway (Calcutta).

Dividend paid

12. The annual dividend payable to General Revenues used to be less than Rs. 100 crore till 31 March, 1964 but increased to Rs. 1545.62 crore by 1997-98. In all, the Railways have paid so far to the General Revenues an amount of Rs. 19478.55 crore as Dividend. It comes to 76.92 per cent of the Capital-at-charge on Indian Railways.

13. Two statements showing important financial figures of Indian Railways are at Appendix—I.

Payment of Dividend to General Revenues

14. In regard to Rate of Dividend, the Railway Convention Committee (1996) had, in paras 64 & 65 of their Third Report recommended that the Dividend for the year 1997-98 to General Revenues on the entire capital be paid at the rate of 7 per cent irrespective of the year of investment, 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 States for financing safety works during the financial year 1996-97 and all other concessions as already available on residential buildings new lines, subsidies from General Revenues, etc. be allowed to continue on the existing basis while framing the Railway Budget for 1997-98.

15. Accordingly, the dividend and the reliefs and concessions were computed and adopted by the Ministry of Railways in both Budget Estimates and Revised Estimates for the year 1997-98.

16. In their Interim Memorandum dated 18 November, 1998, the Ministry of Railways (Railway Board) have submitted the following:

"It is proposed for the consideration of the Committee that the dividend to the General Revenues and subsidy from the General Revenues to the Railways may provisionally be computed for the year 1998-99 based on the principles as per Appendix-II, adopted earlier for the year 1997-98."

17. In this connection, the Ministry of Railways have forwarded the following views of Ministry of Finance:

"The rate of dividend has all along been fixed by the Railway Convention Committee having regard to the cost of borrowing. A statement showing Rate of Dividend paid by the Railways and average borrowing rate from the year 1951 upto 1998-99 (BE) is at Appendix-III. It can be seen therefrom that upto the year 1979-80, the Rate of Dividend paid by the Railways to General Revenues were more or less equal to average borrowing rate of the Government. But since 1980-81, the margin has been reduced and currently the average borrowing rate is considerably higher than the rate of dividend paid by the Railways.

Current Year's Budget assumes Rs. 1777 crore, as dividend to be paid by the Railways. This figure includes an amount of Rs. 628 crore of subsidy paid to the Railways from the General Revenues. Thus, although dividend rate is calculated at 7% on Capital-at-Charge effective Rate of Dividend after excluding the subsidy element is only 4.21% as compared to the average borrowing rate of Government (12.20%). While Railways do not return the capital contributed from General Revenue, the General Revenue has to return the earlier borrowing through fresh borrowing at progressively higher rate of

Over interest and above this, Tenth Finance Commission has recommended grants to the States to the order of Rs. 380 crore as payment to States in lieu of tax on passenger fare. But Railways pay only Rs. 23 crore for passing the amount to the States. Even this amount is included in dividend paid by Railways. Such a situation is costing every year the General Revenues an additional expenditure of Rs. 357 crore. In such a situation, the rate of dividend paid by the Railways need to be increased both in absolute and relative terms. It is, therefore, proposed that Railways should pay dividend at the rate of 7.5% on Capital-at-Charge irrespective of year of investment, for the year 1998-99, Railways may get other dividend concessions as at present available to them on the basis of the recommendations made by RCC."

18. Commenting on the above views of Ministry of Finance, the Railway Board have submitted the following for consideration of the Committee:

"Ministry of Finance has in the past too has been raising the issue of increasing the rate of dividend to keep it at par with the average cost of borrowing. However, keeping in view the Railways financial position, the declining capital from General Exchequer and the social burden which the Railways have to bear without any compensation from the General Exchequer, the RCC has had considered it appropriate not to increase the rate of dividend paid by the Railways.

The financial position of the Indian Railways has not been very satisfactory in the current year as there has been shortfall of Rs. 618 crore in the earnings upto the month of September, 1998 due to less loading to the extent of 14 million tonnes compared to the proportionate budget target. Keeping in view the recession in the economy, it seems that the Railways will not be able to make good the shortfall in the remaining part of the year.

While it is true that the Ministry of Finance has been bearing a substantial part of the amount recommended by the Tenth Finance Commission towards grants to States in lieu of passenger fare tax, it may be mentioned that when the Railways themselves are in need of resources and have to get capital from the General Exchequer, it would be unrealistic to expect that they should share any part of their resources with the State Governments. For correct appreciation of the Railways' resource position in the recent years, it has to be noted that the Capital from the General Exchequer has reduced very considerably and the Railways have been resorting to increasing levels of market borrowing through the Indian Railway Finance Corporation. Such market borrowing is not only at relatively high cost but has also to be returned to the investors within a fixed time-frame. Consequently, the lease charges which the Railways pay to the Indian Railway Finance Corporation have been increasing rapidly from year

to year reaching a level of Rs. 2392 crore (which includes relatively small amounts relating to the 'Own Your Wagon Scheme' and the 'Build, Operate, Lease, Transfer Scheme'). This feature has severely constrained the resource capacity of the Railways. Apart from this, the issues raised by the Railways in regard to compensation for social obligations borne and subsidy provided for freight traffic to North-Eastern States still remain to be resolved in favour of the Railways. Under the circumstances, even a small increase in the dividend rate at this juncture would be a further burden on the Railways' resources. The implications of increasing the dividend to 7-1/2, from the existing 7% would be about Rs. 113 crore over and above the figure of Rs. 1777 crore computed for the current year towards dividend to General Revenues; relief by way of existing concessions in dividend would only be about Rs. 20 crore."

Depreciation Reserve Fund (DRF)

19. This fund has been created to meet the expenditure on replacement and renewal, including inflationary and improvement elements. Appropriation to this fund is met from out of revenues.

20. The Railway Convention Committee (1996) had, in para 66 of their Third Report, recommended the following:

"Although the Committee (1991) in their Twelfth Report had recommended for an appropriation of Rs. 2000 crore to the Depreciation Reserve Fund (DRF) subject to suitable need based adjustment, yet the final appropriation to DRF was kept at Rs. 2200 crore as warranted by the Plan needs for 1996-97. However, the Committee find that at the end of the current financial year the balance in the DRF is expected to be Rs. 1561 crore. The Committee agree with the proposal of the Ministry of Railways that the contribution to the DRF for the Budget Estimates of 1997-98 may be kept at Rs. 2000 crore, subject to the minor adjustments as warranted by the Annual Plan for 1997-98 and the capacity of the system to generate internal resources."

21. In this connection, the Ministry of Railways, in their Interim Memorandum have submitted the following:

"In regard to the Depreciation Reserve Fund, appropriation from the Revenue was made at the level of Rs. 2000 crore in the Budget Estimates but was reduced to Rs. 1904 crore in the Revised Estimates as warranted by the Plan needs for that year and the overall financial position of the Railways. The balance in the Fund at the end of 1997-98 was, expected to be Rs. 1516 crore.

Keeping in view the requirement of outlay on works chargeable to the Depreciation Reserve Fund and taking into account the financial position of the Railways, the appropriation from Revenue to the Fund

has been provided for at Rs. 2473 crore. This, together with a contribution of Rs. 49 crore chargeable to the Production Units of the Railways and the interest of Rs. 103 crore that is likely to accrue, will match the withdrawable of Rs. 2625 crore estimated to be made from the Fund. The amount proposed to be appropriated, however, is subject to need-based adjustment."

22. The Ministry of Railways have also stated that the above proposal has the concurrence of the Ministry of Finance.

Pension Fund

23. This Fund has been created to cover the current pension payments as also to meet the accumulated liability on account of pension benefits earned in each year of service. The appropriation to this Fund is from revenue.

24. The Railway Convention Committee (1996) had, in para 67 of their Third Report, recommended the following:

"The Committee note that the balance in the Pension Fund is expected to be around Rs. 875 crore which will partly take care of the impact of the Fifth Pay Commission recommendations on pensionary charges. The Committee agree with the proposal of Ministry of Railways that the contribution to the Pension Fund to be kept at Rs. 2200 crore in the Budget Estimates for 1997-98 subject to minor adjustment keeping in view the likely withdrawals anticipated for the year and the financial position of the Railways."

25. In this connection, the Ministry of Railways, in their Interim Memorandum, have submitted the following for consideration of the Committee:

"Appropriation to Pension Fund from Revenue was kept at Rs. 2200 crore in the Budget Estimates. However, it was stepped up to Rs. 3367 crore in the Revised Estimates in order to meet the anticipated impact of the recommendations of the Fifth Central Pay Commission. The balance at the end of the year was expected to be Rs. 765 crore. The appropriation to the Pension Fund from Revenue has been placed at Rs. 2218 crore. Along with appropriation of Rs. 10 crore under Miscellaneous Expenditure (which caters for the Railway Board, Research, Designs and Standards Organisation and various other miscellaneous Railway establishments), Rs. 20 crore as contribution in respect of Production Units and Rs. 52 crore by way of interest likely to accrue, this will meet the anticipated outgo of Rs. 2300 crore. The estimate of outgo takes into account the fact that the retirement age of Railway servants has been raised from 58 years to 60 years. The contribution to the Fund, however, is subject to adjustments keeping in view any variations of the estimated withdrawals and the financial position of the Railways."

26. The Ministry of Railways have also stated that the above proposal has been agreed to by the Ministry of Finance.

Development Fund

This Fund is used for meeting expenditure on

- | | |
|--|--------|
| (i) Passengers and users' amenities; | DF I |
| (ii) Labour welfare works; | DF II |
| (iii) Unremunerative operating improvements; and | DF III |
| iv) Safety Works | DF IV |

The amount required for the above is credited to this Fund, after clearing in full the dividend liability, from the excess of revenue over the total working expenses. 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.

27. The Railway Convention Committee (1996) had, in para 68 of their Third Report recommended as follows:

“With regard to Development Fund the Committee note that keeping in view the Plan needs, Rs. 314 crore has finally been appropriated in 1996-97 and an amount of Rs. 350 crore has been projected in the Budget Estimate 1997-98. The Committee desire that the Ministry of Railways should, in their action taken notes, apprise them about the actual amount that will be credited to this Fund at the end of the current financial year.”

28. The Ministry of Railways, in their Interim Memorandum submitted the following for consideration of the Committee:

“An amount of Rs. 350 crore has been appropriated to this Fund in the estimates of 1997-98. In 1998-99, the appropriation to this Fund has been made at Rs. 475 crore in keeping with the Plan needs.”

Capital Fund

29. The Capital component of Railways Plan expenditure was earlier being financed from out of the budgetary support received from the general exchequer. With the budgetary support declining over the years and market borrowings being expensive and uncertain, a new Fund named Capital Fund has been created w.e.f. 1 April, 1992 with the approval of RCC (1991). This Fund is used to finance part of the capital works requirements on the Railways. After appropriation to Development Fund, the 'Excess' is appropriated to the Capital Fund.

30. The Railway Convention Committee (1996) had, in para 69 of their Third Report, recommended as under:

“The Committee note that in 1996-97, Capital Fund has been credited with Rs. 1803 crore and it has been estimated by the

Ministry of Railways that this Fund will be credited with Rs. 1024 crore in the Budget Estimates 1997-98. The Committee desire the Ministry of Railways to apprise them in their action taken notes about the actual amount that has been credited at the end of the current financial year."

31. For the year 1998-99, the Ministry of Railways have made the following proposal in their Interim Memorandum:

"An amount of Rs. 1120 crore has been appropriated to this fund in 1997-98 (RE). In 1998-99, an appropriation of Rs. 1181 crore to this Fund has been made, which, together with Rs. 74 crore as interest likely to accrue, will permit withdrawal of Rs. 1255 crore estimated for Plan needs. The above mentioned appropriations to the Development Fund and Capital Fund, taken together, match the estimated 'Excess' of Rs. 1656 crore."

Interest on Railway Funds and Loan to Development Fund

32. In para 70 of their Third Report, the Railway Convention Committee (1996) had recommended as under:

"The Committee do not see any logic in modifying the principles governing interest on various Railway Funds and, therefore, recommend that the balances in the various Railway Reserve Funds (other than Development Fund) may carry the same rate of interest as the rate of dividend. 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 1997-98."

33. The Ministry of Railways have submitted that these recommendations of RCC may be made applicable for 1998-99 as well.

34. In this connection, the Ministry of Railways have forwarded the following views of Ministry of Finance:

"The balance in the various Railway Reserve Fund (other than Development Fund) may carry the same rate of interest as the rate of dividend. The rate of interest on balance in the Development Fund may be the same as the rate of interest on the loan from General Revenues for Development Fund on the basis of the recommendations made by Railway Convention Committee".

RECOMMENDATIONS

35. After considering the arguments put forth by both the Ministries of Railways and Finance, the Committee are of the considered view that the issue of increasing the Rate of Dividend so as to keep it at par with the average cost of borrowing cannot be taken up in isolation without going into the issue of compensation to be paid to the Indian Railways for discharging the public service obligation which amounts to Rs. 1800 crore in 1996-97 as

per the Status Paper. Agreeing with the Ministry of Railways that they should be compensated suitably for social obligation borne by them in general and for movement of freight traffic in North Eastern States in particular, the Committee would like to be apprised about the precise action taken by the Government on the findings of Inter-Ministerial Working Group Report on Social Service Obligation of Indian Railways (May 1997). As the above Report has been an unanimous Report of both the Ministries of Railways and Finance and the Planning Commission, the Committee do not find any reason for delay in its implementation.

36. Pending finalisation of the Railways' Ninth Five Year Plan and submission of detailed memorandum in consultation with the Ministry of Finance on the rate of dividend and other ancillary matters, the Committee, after considering the present proposals given by the Ministry of Railways alongwith the views expressed by the Ministry of Finance, recommend, purely as an interim measure, that for the year 1998-99 dividend to General Revenues may be paid at 7% on the entire Capital invested on Railways from the General Revenues, irrespective of year of investment, inclusive of the amount that was payable by the Railways to the General Revenue 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 1997-98.

37. All other concessions now available on residential buildings, new lines subsidies from General Revenues, etc. may be allowed to continue on the existing basis for the year 1998-99.

38. Although the Committee in their Third Report (Eleventh Lok Sabha) had recommended for an appropriation of Rs. 2000 crore to the Depreciation Reserve Fund (DRF) subject to suitable need based adjustment the final appropriation to DRF was kept at Rs. 1904 crore as warranted by the Plan needs for 1997-98. At the end of 1997-98 the balance in the DRF was expected to be Rs. 1516 crore only. Keeping in view the above position, the Committee agree with the proposal of the Ministry of Railways that the contribution to the DRF for the Budget Estimates of 1998-99 may be kept at Rs. 2473 crore, subject to minor adjustments as warranted by the Annual Plan for 1998-99 and the capacity of the system to generate internal resources.

39. The Committee note that the appropriation to Pension Fund (PF) from Revenues was kept at Rs. 2200 crore in the Budget Estimates of 1997-98. However, in order to meet the anticipated impact of the recommendations of Fifth Pay Commission, the same was stepped up to Rs. 3367 crore in the Revised Estimates. The balance at the end of the financial year 1997-98 under this Head was expected to be Rs. 765 crore. Agreeing with the proposal of Ministry of Railways, the Committee recommend that the contribution to Pension Fund be kept at Rs. 2228 crore for the year 1998-99 subject to minor adjustment,

keeping in view the likely withdrawals anticipated for the year and the financial position of the Railways.

40. In regard to Development Fund (DF), the Committee find that an amount of Rs. 350 crore was finally appropriated in 1997-98 under this Head and a sum of Rs. 475 crore has been projected in the Budget Estimate 1998-99. The Committee desire that the Ministry of Railways should, in their action taken notes, apprise them about the actual amount that will be credited to this Fund at the end of the current financial year.

41. The Committee note that in 1997-98, Capital Fund has been credited with Rs. 1120 crore and an appropriation of Rs. 1181 crore to this fund has been made in 1998-99, which, together with Rs. 74 crore as interest likely to accrue, will permit withdrawal of Rs. 1255 crore estimated for Plan needs. However, the Committee desire the Ministry of Railways to apprise them about the actual amount that would be credited to this Fund at the end of the current financial year.

42. The Committee do not see any logic in modifying the principles governing interest on various Railway Funds and, therefore, recommend that the balances in the various Railway Reserve Funds (other than Development fund) may carry the same rate of interest as the rate of dividend. 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 1998-99.

New Delhi;
27 January, 1999

BIJOY KRISHNA HANDIQUÉ,
Chairman,
Railway Convention Committee.

7 Magha, 1920 (S)

APPENDIX I
(Vide Para 13)
TABLE-A

(Rs. in crores)

Year	*Capital at Charge	Investment from Capital Fund	Gross Traffic Receipts	Total Working Expenses	Net Revenue	Dividend Paid*	Excess(+) Short-fall(-)	Operating Ratio
1	2	3	4	5	6	7	8	9
1950-51	827.00	0.00	263.01	210.23	47.56	32.51	15.05	81.0
1951-52	850.11	0.00	290.82	224.35	61.75	33.41	28.34	77.0
1952-53	857.38	0.00	270.56	218.17	47.18	33.99	13.19	80.6
1953-54	869.30	0.00	274.29	231.75	86.92	84.36	2.56	84.4
1954-55	901.58	0.00	286.78	236.09	44.06	84.96	9.10	82.3
1955-56	968.98	0.00	316.29	258.22	50.34	36.12	14.22	81.6
1956-57	1071.71	0.00	347.57	279.27	58.38	38.16	20.22	80.3
1957-58	1222.44	0.00	379.78	309.44	57.78	44.40	13.38	81.5
1958-59	1856.69	0.00	390.21	321.44	59.32	50.89	8.93	82.4
1959-60	1432.28	0.00	422.33	334.62	74.55	54.43	20.12	79.2
1960-61	1520.87	0.00	456.80	358.24	87.87	55.86	32.01	78.4
1961-62	1682.98	0.00	500.50	390.51	99.75	75.85	24.40	78.0
1962-63	1896.81	0.00	566.79	429.52	123.32	81.26	42.06	75.8
1963-64	2159.63	0.00	632.21	472.27	145.19	95.95	49.24	74.7
1964-65	2135.12	0.00	660.85	528.11	118.11	101.93	13.18	79.9

1965-66	2680.82	0.00	733.57	583.04	134.84	116.20	18.56	79.5
1966-67	2841.57	0.00	768.78	639.25	114.12	182.39	318.27	83.2
1967-68	2978.03	0.00	818.14	693.80	110.00	141.53	-31.53	84.7
1968-69	3101.27	0.00	898.84	741.93	142.81	150.67	-7.86	82.5
1969-70	3195.51	0.00	951.28	790.02	146.56	156.39	-9.83	83.0
1970-71	3330.78	0.00	1006.69	847.34	144.73	164.58	-19.84	84.2
1971-72	3520.99	0.00	1096.59	911.85	169.08	151.24	17.84	83.1
1972-73	3725.81	0.00	1162.42	982.62	164.43	161.51	2.92	84.5
1973-74	3893.38	0.00	1137.89	1066.88	55.41	170.91	-115.51	93.7
1974-75	4105.56	0.00	1408.19	1317.29	73.64	187.47	-113.83	93.5
1975-76	4354.78	0.00	1767.01	1609.62	137.03	198.14	-61.11	91.1
1976-77	4533.70	0.00	2036.11	1718.56	296.29	209.05	87.24	84.4
1977-78	4797.12	0.00	2123.42	1750.12	352.79	226.56	126.23	83.0
1978-79	5023.92	0.00	2151.04	1867.55	260.82	224.16	86.66	87.5
1979-80	5484.64	0.00	2337.84	2142.38	227.29	293.53	-66.24	91.5
1980-81	6096.35	0.00	2624.02	2536.46	127.49	325.36	-197.87	96.1
1981-82	6698.05	0.00	3538.24	3182.05	408.06	356.47	46.59	89.4
1982-83	7251.09	0.00	4376.21	3883.35	554.29	485.98	118.31	88.3
1983-84	7567.80	0.00	4986.24	4661.46	378.95	423.70	-44.75	93.9
1984-85	8285.65	0.00	5358.77	5142.17	270.10	465.69	-195.59	96.3
1985-86	9078.07	0.00	2084.16	5823.14	685.87	507.04	178.83	90.6

	1	2	3	4	5	6	7	8	9
1986-87		10373.10	0.00	7505.66	6900.56	680.84	578.85	101.99	92.2
1987-88		11622.22	0.00	8435.25	7802.95	723.15	638.86	84.29	92.5
1988-89		12987.51	0.00	9259.29	8632.99	737.33	715.66	21.67	93.0
1989-90		14629.45	0.00	20739.41	9887.73	982.07	808.81	173.26	91.5
1990-91		16125.80	0.00	12096.49	11153.86	1113.78	938.11	175.67	92.0
1991-92		17620.02	0.00	13729.74	12389.19	1540.95	1105.95	435.00	89.5
1992-93		20123.20	0.00	15688.44	13980.08	1955.43	1514.38	441.05	87.4
1993-94		20373.58	1746.99	17946.02	15134.54	3102.13	1296.05	1806.08	82.9
1994-95		21762.92	3161.88	20100.99	16590.12	3808.11	1361.71	2446.40	82.6
1995-96		22249.82	5020.52	22417.85	18524.90	4136.07	1264.44	2871.63	82.45
1996-97		23474.67	7437.10	24319.41	21000.80	3624.52	1507.46	2117.06	86.2
1997-98		25323.86	8537.10	28655.00	25922.00	3015.62	1545.62	1470.00	91.0
1998-99		27273.61	9812.10	31472.0	28411.0	3433.12	1777.26	1655.86	91.2
(BE)									

*Dividend paid inclusive of payment of defened dividend also.

TABLE-B

The position in regard to Capital invested on Railways prior to 1950-51 is as under:

		(Rs. in Cr.)
1946-47		807.76
1947-48	Add Capital invested from 1.4.1947 to 14.8.1947	6.21
	Less Capital transferred to Pakistan & Bangla Desh Rlys.	238.40
	Add Capital transferred from Ex-Bengal Assam Rly.	88.74
	Capital as on 15.8.1947.	664.31
	Add Capital invested from 15.8.1947 to 31.3.1948	3.19
	Capital as on 31.3.1948.	667.50
1948-49		775.87
1949-50		813.07

APPENDIX II

(Vide Para 16)

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 (1996) applicable for 1997-98 are as under:—

I. Dividend

- (a) The rate of dividend is 7 per cent on the entire Capital invested on the Railways irrespective of the year of investment including 1.5% on the Capital invested upto 31.3.1964 (less Capital qualifying for Subsidy) for contribution for grants to the States in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the financial year 1996-97.
- (b) A concessional dividend of 3.5 per cent is payable on the Capital cost of residential buildings.
- (c) In respect of the Capital invested on New Lines, excluding the 28 New Lines taken up on or after 1.4.1955 on other than financial considerations, the dividend payable is to be calculated at the average borrowing rate for each year but deferred during the period of construction and the first five years after opening of the lines for traffic, the deferred liability is to be paid out of the future surpluses of the line 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.
- (d) 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.
- (e) 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.

II. Subsidy from General Revenues

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

- (a) Strategic lines.
- (b) 28 New Lines taken up on or after 1.4.1955 on other than financial considerations. Dividend becomes payable if any line becomes remunerative adopting the marginal cost principle. The arrangement is to be applied also to the two National Investments viz. Jammu-Kathua and Tirunelveli-Kanya Kumari-Trivandrum line.

- (c) **Northeast Frontier Railway (Non strategic portion).**
- (d) **Unremunerative Branch lines subject to their unremunerativeness being established on the marginal cost principle in each case through an annual review of their financial results.**
- (e) **The Ore Lines between Bimalgarh-Kiriburu and Sambalpur-Titlagar.**
- (f) **Ferries and Welfare buildings.**
- (g) **50% of the capital invested on all works in the current year and in the two previous years, excluding capital invested in strategic lines, Northeast Frontier Railway (Commercial), Ore Lines, Jammu-Kathua and Tirunelveli-Kanya Kumari-Trivandrum Lines, Ferries and Welfare buildings and unremunerative branch lines which qualify in full for subsidy, capital invested in New Lines on which the dividend payable is deferred during the period of construction and the first five years after opening of the lines for traffic, and the capital cost of line wires taken over from the P&T Department.**

APPENDIX III
(Vide Para 17)

Comparison of Average borrowing rates with Dividend rates

Year	Average borrowing rate	Dividend rate actually applicable
1	2	3
1950-51	3.16	4.00
1951-52	3.12	4.00
1952-53	3.11	4.00
1953-54	3.14	4.00
1954-55	3.19	4.00
1955-56	3.25	4.00
1956-57	3.29	4.00
1957-58	3.36	4.00
1958-59	3.45	4.00
1959-60	3.55	4.00
1960-61	3.57	4.00
1961-62	3.59	4.25
1962-63	3.66	4.25
1963-64	3.75	4.50
1964-65	3.84	4.50% on capital upto
1965-66	3.93	1963-64 & 5.75% on
1966-67	4.05	fresh capital
1967-68	4.22	
1968-69	4.33	
1969-70	4.43	5.50% on capital upto
1970-71	4.53	1963-64 & 5.75% on
1971-72	4.65	fresh capital
1972-73	4.77	
1973-74	4.92	
1974-75	5.15	
1975-76	5.30	
1976-77	5.40	

1	2	3
1977-78	5.50	
1978-79	5.63	
1979-80	5.80	
1980-81	6.10	6.00% on capital upto
1981-82	6.30	1979-80 & 6.50% on
1982-83	6.60	fresh capital
1983-84	7.00	
1984-85	7.40	
1985-86	8.00	
1986-87	8.50	
1987-88	9.00	
1988-89	9.50	
1989-90	9.50	
1990-91	10.00	
1991-92	10.30	
1992-93	10.50	
1993-94	10.90	7.00% on entire capital
1994-95	11.20	irrespective of year of
1995-96	12.20	Investment.
1996-97	12.00	
1997-98(RE)	12.20	
1998-99(BE)	12.20	

APPENDIX IV

(Vide Para 2 of Introduction)

Statement showing the recommendations contained in the Third Report of the Railway Convention Committee (1996) on Rate of Dividend for 1997-98 and other Ancillary Matters and action taken thereon.

Sl. No.	Para No.	Recommendation	Action taken by Government
1	2	3	4
1.	60	In order to secure stability for Civil estimates by providing for an assured contribution from Railway Revenues and to introduce flexibility in the administration of Railway Finance, the Railway Finance was formally separated from the General Finance in 1924. As per convention, both Ministers of Railways and Finance used to be nominated as Members of Railway Convention Committee. However, this time, only Minister of Railways has been nominated as a member of the Committee. The Committee are constrained to observe the lack of interest being shown by the Minister of Railways in the working of the Committee as is evident from the fact that he did not attend any of the nine sittings of the Committee held so far.	The observations of the Hon'ble Committee were put up to the then Hon'ble Minister of Railways. However, soon after the Railway Convention Committee submitted its Third Report, the Lok Sabha was dissolved and the Committee, thus, became functus-officio. Thus, the Minister of Railways had no further opportunity to attend meetings of the Committee.
2.	61	The Committee note that the Memorandum of Rate of Dividend is submitted to the Committee well before the presentation of annual Railway Budget to Parliament to enable the committee to give their recommendations on Rate of Dividend and other ancillary matters in time so that the same could be reflected in that year's Railways Budget. While presenting the Railways Budget 1997-98, the Railways Minister in his Budget speech stated that a Memorandum of Rate of Dividend payable to General Revenue has been submitted to the Railway Convention Committee.	Committee's concern is noted to ensure that such lapses do not recur in future.

1	2	3	4
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The dividend for 1997-98 has been provided at the same rate as adopted for 1996-97 subject to suitable adjustments on receipt of recommendations of Railway Convention Committee. On this basis, the divided liability for 1997-98 works out to Rs. 1630 crore. As the Memorandum was not received in the Secretariat, the Chairman, RCC pointed out the same to the Railway Minister in writing on 26 February, 1997 itself. Thereafter the Ministry of Railways furnished advance copies of the Interim Memorandum (without the concurrence of the Ministry of Finance) the same day. The Committee conclude that it is a clear case of negligence in the Ministry. The Committee desire that the Ministry of Railways should in future verify the facts mentioned in the Budget Speech before the same are communicated to the House.

3. 62 It is intriguing to the Committee that the Interim Memorandum on Rate of Dividend for the year 1997-98 containing the views of both the Ministries of Railways and Finance could only be submitted to the Committee on 16 October, 1997 as the Ministry of Finance raised on objection to the recommendation of the RCC (1991) made in para 56 of their 9th Report treating the pre-1952 Capital as 'dividend free'. Ironically, the-then Finance Minister who was also a member of the above Committee did not raise any objection when the draft Report was sent to him. He also did not attend the sitting of the Committee in which the draft Report was considered and adopted. Not only this, the Ministry of Finance did not raise any objection when a Resolu-
- Government of India has since issued instructions that no Resolution be moved in Parliament by any Ministry except with the prior approval of the Cabinet vide Cabinet Secretariat D.O. No. 571/296-Cab, dt. 5.9.97.
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1	2	3	4
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tion accepting the above recommendation of that Committee was moved in the House by the Minister of Railways. This is for the first time that an undesirable controversy in regard to the declaration of Rate of Dividend by the Railway Convention Committee has been created and that too after the Resolution was adopted in Parliament. This is a glaring example of inaction and apathy on the part of the Ministry of Finance which is highly deplorable.

4. 63. The Committee note that when the Ministry of Finance raised their objection in treating the pre-1952 Capital as dividend free, the matter was taken up at the Minister's level on 28 June, 1996. thereafter, on the suggestion of Finance Minister, the matter was placed before the Cabinet who considered the same on 25 September, 1996 and directed that the issues involved in the matter may be examined by the Committee of Secretaries. Going by the case history as mentioned elsewhere in the Report, the Committee feel that had the Chairman, RCC, on behalf of the Committee, not pursued the matter vigorously with the Cabinet Secretary, Finance Secretary, Chairman, Railway Board and Financial Commissioner (Railways), the Report of the Secretaries' Committee would not have seen the light of day. The Committee are of the considered view that such cases should be dealt with expeditiously in future.
- The observations of the Hon'ble Committee have been noted for future guidance.
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1	2	3	4
5. 64	<p>Pending finalisation of the Railways' Ninth Five Year Plan and submission of detailed memorandum in consultation with the Ministry of Finance on the rate of dividend and other ancillary matters, the Committee have considered the present proposals given by the Ministry of Railways and recommend, purely as an interim measure, that for the year 1997-98, dividend to General Revenues may be paid at 7% on the entire Capital invested on Railways from the General Revenues, irrespective of year of investment, 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 1996-97.</p>	<p>The recommendation has been made applicable for working out the estimates of dividend payable in 1997-98.</p>	
6. 65	<p>All other concessions now available on residential buildings, new lines, subsidies from General Revenues, etc. may provisionally be allowed to continue on the existing basis for the year 1997-98.</p>	<p>The recommendation has been made applicable for working out the estimates of dividend payable in 1977-98.</p>	
7. 66	<p>Although the Committee in their Twelfth Report had recommended for an appropriation of Rs. 2000 crore to the Depreciation Reserve Fund (DRF) subject to suitable need based adjustment, yet the final appropriation to DRF was kept at Rs. 2200 crore as warranted by the Plan needs a for 1996-97. However, the Committee find that at the end of the current financial year the balance in the DRF is expected to be Rs. 1561 crore. the Committee agree with the proposal of the</p>	<p>The Appropriation to the Depreciation Reserve Fund was kept at Rs. 2000 cr. in BE 1997-98 but as warranted by the Plan needs, this has been scaled down to Rs. 1904 cr. in the Revised Estimates for 1997-98. The balance in the Depreciation Reserve Fund, however, is estimated to</p>	

1	2	3	4
		<p>Ministry of Railways that the contribution to the DRF for the Budget Estimates of 1997-98 may be kept at Rs. 2000 crore, subject to minor adjustments as warranted by the Annual Plan for 1997-98 and the capacity of the system to generate internal resources.</p>	<p>be Rs. 1516 cr. at the end of the Financial Year 1997-98.</p>
8.	67	<p>The Committee note that the balance in the Pension Fund is expected to be around Rs. 875 crore which will partly take care of the impact of the Fifth Pay Commission recommendations on pensionary charges. The Committee agree with the proposal of Ministry of Railways that the contribution to the Pension Fund be kept at Rs. 2200 cr. in the Budget Estimates for 1997-98 subject to minor adjustment keeping in view the likely withdrawal anticipated for the year and the financial position of the Railways.</p>	<p>As a result of implementation of V Central Pay Commission recommendations on the pensionary charges, the outgo from the Pension Fund is likely to increase from Rs. 2500 cr. to Rs. 3667 cr. in 1997-98, necessitating stepping up of appropriation to the fund also. Accordingly, the appropriation to the Pension Fund kept at Rs. 2200 cr. in Budget Estimates 1997-98 has been enhanced to Rs. 3367 cr. in Revised Estimates 1997-98.</p>
9.	68	<p>With regard to Development Fund the Committee note that keeping in view the Plan needs, Rs. 314 crore has finally been appropriated in 1996-97 and an amount of Rs. 350 crore has been projected in the Budget Estimates 1997-98. The Committee desire that the Ministry of Railways should, in their action taken notes, apprise them about the actual amount that will be credited to this Fund at the end of the current financial year.</p>	<p>The appropriation of Rs. 350 cr. made in the Development Fund in Budget Estimates 1997-98 has been retained in Revised Estimates 1997-98 also.</p>

1	2	3	4
10.	69	<p>The Committee note that in 1996-97, Capital Fund has been credited with Rs. 1803 crore and it has been estimated by the Ministry of Railways that this Fund will be credited with Rs. 1024 crore in the Budget Estimates 1997-98. The Committee desire the Ministry of Railways to apprise them in their action taken notes about the actual amount that has been credited at the end of the current financial year.</p>	<p>In Budget Estimates 1997-98 the Capital Funds was credited with Rs. 1024 cr. As warranted by the Plan needs and the capacity of the system to generate internal resources, this has slightly been enhanced to Rs. 1120 cr. in Revised Estimates 1997-98.</p>
11.	70	<p>The Committee do not see any logic in modifying the principles governing interest on various Railway Funds and, therefore, recommend that the balances in the various Railway Reserve Funds (other than Development Fund) may carry the same rate of interest as the rate of dividend. The rate of interest on the balance in Development Fund may be the same as the rate of interest on loan from the General Revenues for Development Fund Works for the purpose of Budget Estimates for 1997-98.</p>	<p>The recommendation of the Committee has been made applicable in working out the estimates for 1997-98.</p>

PART-II

MINUTES OF THE SEVENTH SITTING OF THE RAILWAY CONVENTION COMMITTEE (1998) HELD ON 27 JANUARY, 1999

Seventh sitting of the Railway Convention Committee was held on Wednesday, the 27th January, 1999 in Committee Room 'C', Parliament House Annexe from 1100 to 1130 hrs.

The following Members were present:

Shri Bijoy Krishna Handique — *Chairman*

Lok Sabha

2. Shri V. Dhananjaya Kumar
3. Shri Mullappally Ramachandran
4. Shri Bashist Narayan Singh

Rajya Sabha

5. Shri Janardan Yadav
6. Shri Md. Salim
7. Shri Suresh Pachouri

SECRETARIAT

1. Shri R.C. Gupta—*Deputy Secretary*
2. Shri S.S. Kalra—*Assistant Director*

2. The Committee took up for consideration the Memorandum furnished by the Ministry of Railways and the draft Report on 'Rate of Dividend for 1998-99 and other ancillary matters' and adopted the same without any amendment/modification.

3. The Committee also authorised the Chairman to present the Report to both the Houses of Parliament after making consequential changes arising out of factual verification by the Ministry of Railways or otherwise.

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The Committee then adjourned.