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RAILWAY CONVENTION COMMITTEE 1960

REPORT

LOK SABHA SECRETARIAT
NEW DELHI

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RAILWAY CONVENTION COMMITTEE, 1960

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SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

Shri Y. P. Passi—*Under Secretary.*

INTRODUCTION

I, the Chairman of the Railway Convention Committee, 1960, having been authorised by the Committee to present the Report on their behalf, present this Report.

2. The recommendations of the Convention Committee, 1954, which were approved by the Lok Sabha on 16th December, 1954 and the Rajya Sabha on 21st December, 1954, *inter alia*, laid down that a Parliamentary Committee should review the rate of dividend towards the end of the quinquennium 1955—1960 and suggest for the years following it, any adjustment considered necessary, in the light of the situation obtaining then. The 1954 Convention covered the period up to 31st March, 1960. This period was, however, extended by one year, *i.e.*, up to 31st March, 1961, with the approval of the Parliament through a Resolution passed in the Lok Sabha on 28th April, 1959 and in the Rajya Sabha on 8th May, 1959, as it was considered by the Railway Ministry that it would facilitate a more accurate appraisal of the Railways' financial position, obligations and surplus resources in the context of the Plan if future Conventions synchronised with each Plan period. A Committee of both Houses of Parliament was therefore constituted this year in pursuance of the following Resolution adopted by the Lok Sabha on the 22nd April, 1960 and concurred in by the Rajya Sabha on the 28th April, 1960:

"That this House resolves that:

(i) A Parliamentary Committee consisting of 12 Members of this House to be nominated by the Speaker be appointed to review the rate of dividend which is at present payable by the Railway undertaking to the General Revenues as well as other ancillary matters in connection with the Railway Finance *vis-a-vis* the General Finance and make recommendations thereon by the 30th November, 1960; and

(ii) that this House recommends to the Rajya Sabha to agree to associate six Members from that Sabha with the Committee and to communicate the names of the Members so appointed to this House."

3. At their first sitting held on the 14th September, 1960, the Committee drew up the undermentioned list of subjects for examination with reference to the above Resolution and asked the Railway Board to furnish detailed memoranda thereon:

(i) A review of the working of the Indian Railways during the six years 1955-56 to 1960-61, that is, the five year period covered by the Railway Convention Committee, 1954 (1955-56 to 1959-60) plus the one year of extension approved in Resolutions of the two Houses of the Parliament in April-May, 1959.

(ii) The financial prospects of the Railway undertaking for the five year period 1961—66, on the basis of the present rates and fares and the anticipated increase in traffic during the Third Five Year Plan, and whether the anticipated net revenue would be sufficient—

(a) to meet the increased appropriation to Depreciation Fund annually which is becoming necessary;

(b) to pay the dividend to General Revenues at 4 per cent on the steadily increasing capital-at-charge; and

(c) to leave sufficient net surplus for credit to the Development Fund from which are financed certain works which are essential but not remunerative.

(iii) Assuming that the present method of contribution to General Revenues in the shape of a fixed dividend—expressed as a percentage inclusive of the element of interest—on the loan capital invested in the railway undertaking as computed annually, is to be preferred to any other method, whether this rate of 4 per cent on the Railways' capital-at-charge payable to General Revenues requires to be revised; if so, what should be the revised rate and how should it be met by the Railways?

Having regard to the rate of growth of the Railways' capital-at-charge, what adjustments, if any, are called for in order to eliminate the element of over-capitalisation for the purpose of working out the dividend payable to the General Revenues, further to those which were recommended by the Railway Convention Committee, 1954.

(iv) The rate at which contribution to the Depreciation Reserve Fund should be made, in order to ensure that adequate funds are available for renewals and replacements of railway assets.

(v) Whether any alterations in the existing rules of allocation of railway expenditure between Capital, Revenue, Depreciation Reserve

Fund and Development Fund, are considered necessary in the light of actual working?

(vi) In particular, having regard to the fact that, during the period of the present Convention, the railway surplus has been inadequate to permit appropriations to the Development Fund sufficient to meet the charges to such Fund—with the result that existing balances have been wholly liquidated and a further sum has had to be borrowed from General Revenues—and the unlikelihood of the surplus materially improving in the Third Five Year Plan period, what change is called for in regard to the incidence of works at present charged to the Development Fund and the method of financing them?

(vii) Whether the operating loss incurred by the Railways on strategic lines should be deducted from the contribution calculated for payment to General Revenues?

(viii) The desirability of creating an amortisation fund.

(ix) Whether the existing practice of expressing the rate of dividend in terms of a percentage on the capital-at-charge and the amount being paid annually through a fixed rate should continue?

4. The Committee also directed the Financial Commissioner (Railways) to furnish the following information:

(i) The capital invested on strategic lines.

(ii) The capital invested on the construction of quarters for the Railway staff and the return (house rent, etc.) therefrom during the last 5 years.

(iii) Statement showing concessions given by the Railways to other Government Departments and Public Undertakings *e.g.*, Military Tariff Rates, Reduced Tariff on Industrial Raw Materials, etc.

(iv) The floating assets (stores) of the Railways.

(v) The amount of loan received from the World Bank, the rate of interest payable thereon and terms and conditions of repayment.

(vi) The extent of over-capitalisation on the Railways.

(vii) The amount of passenger tax collected by the Railways during the years 1958-59 and 1959-60.

The Committee also desired to be furnished with a note on the financial working of Nationalised Railways in some of the Western countries like U.K., Belgium, France, etc. with special reference to the mode of their contribution to the Exchequer.

5. At their sittings held on the 7th and 9th November, 1960, the Committee considered the memoranda and information (referred to in paras 3 and 4 above) submitted to them by the Railway Board and the Financial Commissioner's Review. After reviewing the financial prospects of the Railways and the pattern of relationship between the Railways and General Finance for the next five years the Committee formulated their conclusions which are set forth in Part II of this Report.

6. The Committee have also examined two points as regards interpretation of certain matters arising out of recommendations made in the reports of previous Convention Committees *vide* Part III of this Report.

7. A statement showing the summary of the principal recommendations of the Committee is also appended to the Report (Appendix III).

8. The Committee wish to place on record their great appreciation of the valuable assistance rendered to them in the course of their deliberations by the Railway Board, the Financial Commissioner, (Railways) and their staff.

II
REPORT

Review of the working of Railways during the period 1955-56 to 1960-61 and the Financial Prospects in the next quinquennium

9. The financial results of the working of the Railways during the period 1955-56 to 1959-60 as furnished by the Railway Board are summarised below:

(Figures in crores of rupees)

1954-55		1955-56	1956-57	1957-58	1958-59	1959-60
286·78	(*i*) Gross Traffic receipts	316·29	347·57	379·78	390·21	422·33
*242·72	(*ii*) Total expenses including contribution to Depreciation Reserve Fund @ *Rs. 45* crores per annum	265·95	289·19	322·00	330·89	347·78
44·06	(*iii*) Net Railway Revenue	50·34	58·38	57·78	59·32	74·55
34·96	(*iv*) Dividend payable at 4%	36·12	38·16	44·40	50·39	54·43
9·10	(*v*) Net Surplus	14·22	20·22	13·38	8·93	20·12
12·78	(*vi*) Expenditure met out of Development Fund	12·14	19·84	25·53	28·06	25·54
901·58	(*vii*) Capital-at-charge at the end of each year	968·98	1071·71	1222·44	1356·59	1432·88

*Annual contribution .o Depreciation Reserve Fund was at Rs. 30 crores per annum prior to 1955-56.

The Railways have met their obligations of payment of dividend to the General Revenues at the rate of 4 per cent prescribed by the Railway Convention Committee of 1954. They have also made a contribution at the rate of Rs. 45* crores per annum to the Depreciation Reserve Fund since 1955-56. To meet these obligations and to balance the steadily rising working expenses, the Railways had to raise the freight rates in this period. Even so, the net surpluses earned and credited to the Development Fund have proved inadequate to meet the expenditure to be met from this Fund and it became necessary to take temporary loans from General Revenues† aggregating to about Rs. 33 crores in the three years 1958-59 to 1960-61.

10. According to a statement (Appendix I) furnished by the Railways showing the Financial forecast of the working of the Railways during the next quinquennium 1961—66 which synchronises with the Third Five Year Plan, the position is as follows:

From the gross surplus of about Rs. 808 crores for the five year period (*viz.*, gross traffic receipts—Rs. 2701 crores less working expenses Rs. 1893 crores) the Railways will have to meet—

(i) the dividend to General Revenues, which would amount approximately to Rs. 364 crores if the rate of dividend is continued at 4% and to Rs. 387 crores if it is raised to 4¼ per cent.;

(ii) expenditure of Rs. 60 crores on Open Line Works Revenue; and

(iii) Rs. 350 crores as appropriation to the Depreciation Reserve Fund to cope with the anticipated level of withdrawals from this Fund in the Third Plan period.

In addition, an expenditure of about Rs. 115 crores is contemplated on works chargeable to the Development Fund which will have to be found from the net surplus. To the extent the net surplus available is found to be inadequate, it will be necessary to resort to the expedient of taking temporary loans from General Revenues.

11. The Financial Commissioner (Railways) made the following specific suggestions in his Review which he placed before the Committee:

(i) The annual loss in the working of strategic lines may be borne by General Revenues, as was being done from

*The Convention Committee of 1954 recommended a contribution at the rate of Rs. 35 crores per annum to this Fund on the basis of the forecast furnished to them by the Railways.

†This expedient had been suggested by the Convention Committee of 1954 in para 30 of their Report.

1924, until partition resulted in all the then existing strategic Railways going to Pakistan;

(ii) In computing the Capital-at-charge, after making adjustments for over-capitalisation and for new lines as recommended by the Railway Convention Committee, 1954, the Capital-at-charge of the North-East Frontier Railway, other than the clearly strategic portions thereof, may be taken also as being unproductive capital on which interest at the average borrowing rate chargeable to the Commercial Departments may be paid and not the full rate of dividend;

(iii) The appropriation to the Depreciation Reserve Fund from Railway Revenues may be increased from Rs. 45 crores per year as at present to an *average* of Rs. 70 crores per year for the 5 years 1961—66;

(iv) (a) The present rules for allocation of Railway expenditure between Capital, Revenue, Depreciation Reserve Fund and Development Fund may be maintained without alteration in the period 1960-61;

(b) The existing provision for temporary loans from General Revenues to finance the Railway Development Fund may continue in the next quinquennium, where-ever the net Railway surplus is not sufficient to meet the cost of works chargeable to the Railway Development Fund;

(c) The Development Fund, besides meeting the cost of Labour Welfare Works and works of operating improvement the remunerativeness of which cannot precisely be determined, may include an allocation of Rs. 3 crores per annum for Users' amenities as hitherto; and

(v) The existing Passenger Tax may be merged with fares while requiring the Railways to make a fixed contribution for the benefit of the States in the next quinquennial period 1961—66 based on past collections.

The Financial Commissioner (Railways) also pointed out that, under the 1954 Convention Committee's Report, only the cost of such new lines as were taken up for construction from 1.4.55 is charged to capital; the cost of new lines under construction on that date is allocated under the earlier provisions of the 1949 Convention Committee's Report, in terms of which unremunerative new lines were financed from the Development Fund. The Financial Commissioner (Railways) suggested that, in order to liquidate the loans taken from General Finance for the Development Fund upto 31.3.1961, an *ad hoc* adjustment may be made from Development Fund to capital of the cost of *all* new lines under construction on 1.4.55 hitherto charged to Development Fund; any liability still remaining could be repaid from out of the balances in the Revenue Reserve Fund.

12. The Committee deal below with the various issues raised in the above suggestions made by the Financial Commissioner (Railways) and the Memoranda furnished by the Railway Board.

Rate of Dividend

13. The task primarily before the Committee was to determine the form and quantum of the annual contribution to be made by the Railways to General Revenues for the next quinquennium 1961—66. The experience during the 11-year period from 1.4.1950 to 31.3.1961 has shown that the payment to General Revenues of an annual dividend at a fixed rate, which includes an element of contribution over and above interest charges has worked satisfactorily on the whole. Any other arrangement will mean indefiniteness in regard to the annual contribution which the Civil estimates could expect from the Railways which will not be advantageous to the Railways and General Revenues alike. *Therefore, in the opinion of the Committee, the present mode of contribution by the Railways to General Revenues does not call for any change in the next five years.*

14. As regards the rate of dividend, the rate of four per cent recommended by the Railway Convention Committee, 1949, was continued by the 1954 Convention Committee for the next quinquennium also having regard to the average rate of interest prevailing in 1954-55, *viz.*, 3·17% as compared to 3·18% obtaining in 1949-50.

15. One view put forward was that keeping in view the forecast of the financial position of Railways for the next five years (Appendix I) the rate of dividend should be maintained at the existing figure of 4%, if not reduced. In support, it was urged that with the existing level of fares and freights the anticipated net railway surplus after paying dividend at the rate of 4% would be about Rs. 34 crores only which would leave a big gap to be bridged in order to meet the cost of works to be charged to Development Fund. Any increase in the rate of dividend will aggravate the situation.

Further, in addition to paying dividend, the Railways as a public utility concern, are making indirectly sizeable contributions to General Revenues by way of concessions in tariff rates to the P. & T. and Defence Departments and to the national economy by charging comparatively low tariff rates for the haulage of coal, foodgrains, industrial raw materials, etc. which should not be lost sight of. The other view was that the average rate of interest has hardened since 1954-55 and now stands at 3·58%. It is likely to go up still. Besides the interest, the dividend paid by Railways included an element of contribution to General Revenues of about 0·8% in the past decade. General Revenues will certainly expect this contribution in the next quinquennium also inasmuch as the contribution by Railways has been assigned a specific place in the raising of the resources for the Third Plan. Further, in respect of loans obtained specifically for the Railways from the World Bank since 1957 (amounting to Rs. 140·5 crores) the rate of interest varied from 5-5/8% to 6% (Appendix II). This has to be taken note of, even though technically the loans are to the Government of India and not to the Railways, and the Railways' liability to the General Finance of the Government of India is determined by the general rate of dividend fixed for each quinquennium. There was, therefore, a strong case for increasing the rate of dividend to 4¼% if not to 4½%. *Taking into account both the view-points, the Committee consider that the rate of dividend to be paid by the Railways to General Revenues should be fixed at 4·25% during the five years 1961—66. They also feel that certain concessions are necessary for easing the ways and means position of the Railways, as indicated in the paras that follow.*

(i) *Loss on strategic lines*—

16. Prior to 1-4-1949 the interest on Capital-at-charge and the loss in the working of these lines was borne by General Revenues. The Capital-at-charge of strategic lines is at present also exempt from payment of dividend as accepted by the Convention Committees of 1949 and 1954. The 1949 Committee did not touch upon the question of operating loss on strategic lines as there was only one such line under construction then. The 1954 Committee deferred their recommendations on this issue in view of the fact that the annual loss on such lines, then existing, was insignificant. It has been urged that the matter has now assumed importance as the operating losses on such lines are anticipated to be about Rs. 1·15 crores per annum during the next Plan period. *The Committee accept the suggestion as reasonable and recommend that the annual loss on the working of the strategic lines should be borne by the General Revenues.*

(ii) *North-East Frontier Railway*—

17. It has been urged by the Railways that the North-East Frontier Railway, which was created as a separate zonal administration in 1958 and was not being operated entirely on commercial considerations merits a special treatment in the matter of payment of dividend on the capital outlay thereon. On the lines of the principle accepted by the Railway Convention Committee, 1954 according to which only the interest equal to the average borrowing rate of the Government should be charged on the portion of the capital structure computed as representing the extent of over-capitalisation (which is not strictly revenue-earning capital), it has been suggested that the capital-at-charge of the North-East Frontier Railway, other than the clearly strategic portion thereof, should be regarded as not wholly productive and only the interest at the average rate of borrowing of the Government should be paid thereon by the Railways to General Revenues. *The Committee accept this suggestion and recommend that till such time as the line becomes productive or the next Convention Committee review the position, whichever is earlier, the rate of dividend payable on the capital-at-charge of the North-East Frontier Railway should be at the average borrowing rate of Government.*

Contribution to the Depreciation Reserve Fund

18. Having regard to the expansion of the Railway undertaking and the then anticipated requirements of maintenance and replacement and renewal of assets the Convention Committee, 1954 had recommended an increase in the rate of contribution to the Depreciation Reserve Fund from Rs. 30 to Rs. 35 crores per annum as suggested by the Railways on the basis of financial forecast for the years 1955—60. The Second Plan was formulated in 1955 and it was realised by the Railways that, considering the extent of arrears of rehabilitation, the expenditure from the Fund would be of the order of Rs. 293 crores in the Second Five Year Plan period as against the contribution of Rs. 175 crores suggested to the Convention Committee 1954. The contribution to the Fund was, therefore, raised from Rs. 35 to Rs. 45 crores per annum at the beginning of 1955-56, after obtaining the approval of Parliament. The actual withdrawal from the Fund is, however, likely to be about Rs. 319 crores, *i.e.*, 8 to 9 per cent higher than the amount originally anticipated. This difference, it has been stated, is due to the steady increase in wages and in the prices of materials.

On the basis of forecast of the estimates of expenditure from the Fund during the Third Five Year Plan, the Railways expect that the expenditure on replacement of assets would be about Rs. 350 crores which on the basis of the annual average during the next quinquennium works out to about 3.8 per cent of the average capital-at-charge. The Railways have accordingly suggested that the contribution to the Depreciation Reserve Fund should be Rs. 350 crores, *i.e.*, at the average rate of Rs. 70 crores per year. *The Committee consider this estimate based on a realistic forecast of requirements as reasonable and recommend that the total contribution to the Depreciation Reserve Fund may be Rs. 350 crores during the next quinqunnium.*

Rules of Allocation of Railway Expenditure

19. It has been stated by the Railways that the existing rules of allocation of Railway expenditure between Capital, Revenue, Depreciation Reserve Fund and Development Fund based largely on the recommendations of the Railway Convention Committee, 1949 as amended by the Convention Committee 1954 in paras 24 to 28 of their Report were satisfactory and be retained without any modification during the next five years.

The Committee are inclined to accept this suggestion.

Financing of the Development Fund by means of temporary loans from General Revenues

20. The Railway Convention Committee, 1954 had recommended in para 30 of the Report that in the event of the Development Fund not being in a position to meet the programme of expenditure from its resources, monies should be advanced from General Revenues as temporary loans on which the Railway should be required to pay interest at the average borrowing rate chargeable to commercial Departments. The Committee note that expenditure from the Fund has generally exceeded the accretion thereto and that it is expected to close with a deficit of Rs. 33·46 crores at the end of 1960-61. Temporary loans have, therefore, been taken during the years 1958-59 to 1960-61 to wipe off this deficit. The position will continue to be so in the next five year period.

It was brought to the notice of the Committee that the Comptroller and Auditor General had questioned the advisability of financing the Development Fund by temporary loans from General Revenues. He had suggested that the Fund should rely only on Revenue surpluses and that, therefore, the expenditure therefrom should be restricted to amounts available and for purposes for which the Fund was originally created. While the Committee appreciate the views of the Auditor General they doubt whether during a period of developing economy it will be practicable to implement his suggestion.

The Committee are averse to the curtailment or limiting of expenditure on works met out of the Development Fund which in their opinion are as important as additions financed from Capital. They, therefore, see no alternative but to continue this facility to the Railways during the next five years also unless the net surplus is able to meet in full the requirements of the Development Fund. (See paras 22 & 23).

The Committee, however, endorse the proposal of the Financial Commissioner (Railways) that the outstanding liability of the Development Fund to the General Finance as on 31-3-1961 *should be liquidated in the* ad hoc *manner indicated in the last sub-para of para* 11 *above, so that the Railways could start on the Third Plan period with a clean slate in regard to this liability.*

21. *They also recommend that the Railway Development Fund, besides meeting the cost of Labour Welfare Works, etc., should include a minimum allocation of Rs.* 3 *crores per annum for Users' amenities as hitherto.*

Merger of Passenger Fare Tax in Railway Fares

22. The Committee have recommended in paras 16 & 17 above that the annual loss in the working of the strategic lines may be borne by the General Revenues and that the capital-at-charge of the North-East Frontier Railway, other than the clearly strategic portions thereof, may be considered as unproductive capital on which interest at the average borrowing rate chargeable to Commercial Departments may be paid in place of the full rate of dividend. The Financial Commissioner (Railways) has pointed out in his Review that even with this relief the increase in the net Railway surplus will not be appreciable. In his opinion, any substantial bridging of the gap between the net Railway surplus and the needs of the Development Fund in the next quinquennium so as to reduce the quantum of temporary loans from General Revenues will be feasible only if the entire proceeds of the passenger tax collection in the period 1961—66—expected to be about Rs. 70 crores—can be made available to the Railways. In support of his contention, he has stated that the tax was introduced in September, 1957, when the results of the year 1956-57 showed a sizeable net Railway surplus (Rs. 20.22 crores) which had not been maintained in subsequent years and could not also be anticipated during the next quinquennium. This levy has limited the scope for raising passenger fares and there has, therefore, been no increase in passenger fares during the period 1955-61. He has, however, recognised that the State

Governments to whom the proceeds from this tax are distributed, are likely to have reckoned this source of income in computing their resources for the purpose of the Third Plan and has therefore, suggested a way out *viz.*, that the tax at the existing rates, might be merged with the passenger fare from 1-4-1961 and the State Governments might continue to get from the Railways, through the General Revenues, a fixed amount in the nature of a subvention in the next five years based on the average annual collection in the period 1957—61 or on the highest collections in any of these years, as may be decided. The suggestion is also claimed to have the merit of simplifying the existing arrangement for collection and accountal of the tax and the cost thereof—about Rs. 8 lakhs per year—will also be saved to General Revenues.

23. *The Committee after careful examination, considered the above suggestion as reasonable. They therefore, recommend that the fixed amount payable by the Railways may be Rs.* 12·50 *crores per year during the quinquennium* 1961—66 *representing the average of the figures Rs.* 12·24 *crores and Rs.* 12·77 *crores which were the actual collections for the years* 1958-59 *and* 1959-60 *respectively which are the completed years immediately after the introduction of the tax during* 1957-58.

Creation of an Amortisation Fund

24. The need for creating an Amortisation Fund and the extent to which the capital-at-charge of the Railways should be written down was considered by the Railway Convention Committee, 1954. While that Committee agreed that amortisation would eventually be of benefit to the Railways, they were of the view that having regard to the tight financial position of the Railways the time was not yet ripe for amortisation. They suggested that this question might be taken up at the time of the following revision of the Convention. The financial forecast for the next five years shows that the position remains essentially the same. According to the Railways the net surplus will be insufficient even to meet the needs of the Development Fund during that period.

While the Committee appreciate that the financial position of the Railways during the next quinquennium will not be favourable for the creation of an Amortisation Fund, they nevertheless feel that this question should not be lost sight of inasmuch as in the context of the repatriation of all the dollar loans, it will assume importance,

III

Miscellaneous

25. Two points of interpretation arising out of recommendations of earlier Convention Committees were referred to this Committee for clarification.

(i) *Moratorium on new lines—*

26. The Railway Convention Committee, 1954 had recommended in para 19 of their Report that the dividend payable to the General Revenues on the *capital-at-charge* of the new lines should be computed at the average borrowing rate charged to the commercial Departments and also that a moratorium be granted in respect of dividend payable on the capital invested on the new lines during the period of construction and up to the end of fifth year of their opening for traffic, the deferred amount being paid from the sixth year onwards in addition to the current dividend out of the net income of the new lines. At the instance of the Comptroller & Auditor General the Railway Board have asked for clarification by the Committee of the precise scope of the recommendation so as to indicate—

(a) Whether the deferred dividend should be paid from the sixth year onwards irrespective of the availability of a surplus net income from the new lines, in the same way as the current dividend on these lines is now being paid without reference to the net income from those lines;

or

(b) whether the deferred dividend should be paid only if the net income of these new lines leaves a surplus after the payment of the current dividend, in which case there may be a possibility of the period of moratorium being extended indefinitely depending on the remunerativeness of the lines.

The Committee are of the view that the deferred dividend should be paid from the sixth year onwards only if the net income of the new lines leaves a surplus after the payment of the current dividend.

(ii) *Revenue Reserve Fund—*

27. The Revenue Reserve Fund was credited with Rs. 2·08 lakhs in the accounts for 1955-56 in accordance with the rules of allocation of expenditure in force during the war years. The Public Accounts Committee raised a doubt as to whether allocation of expenditure to Revenue Reserve Fund under the old rules was in

order even after the Railway Convention Committee, 1949 had indicated the allocation of expenditure to and from this Fund (*Vide* para 6 of 15th Report of the Public Accounts Committee 1958-59). They suggested that Government should place the matter before the next Convention Committee so that they could indicate the precise scope of their recommendation *vis-a-vis* works in progress on 1-4-50 from which date the 1949 Committee's recommendation came into force. The Committee have examined this matter carefully. They find that in the past, as a rule, for the sake of convenience, changes in the rules of allocation have not been applied to works in progress. The Railway Board have also pointed out that, in the case under consideration the adjustments had originated prior to 1-4-46 and with the supplementary adjustments made after 1-4-50, the position of the Funds would be the same as if the expenditure thereon had been fully and correctly adjusted in the earlier years. The financial effect of the supplementary adjustment has also not been substantial and such cases will be rare.

The Committee consider the explanation of the Railway Board as satisfactory.

HUKAM SINGH,

Chairman,

Railway Convention Committee.

The 25*th November*, 1960.

Agrahayana 4, 1882 (*Saka*).

APPENDICES

APPENDIX I

Third Five Year Plan—Financial Forecast

(Figures in crores of rupees)

Head	1960-61 Budget Estimate	1961-62	1962-63	1963-64	1964-65	1965-66	Total
1	2	3	4	5	6	7	8
I. Capital-at-charge at the end of each year .	1563	1660	1841	2033	2186	2313	..
II. *Gross Traffic Receipts*							
Passengers	125·20	128·95	132·81	136·79	140·89	145·12	684·56
Other coaching	24·95	25·32	25·45	25·70	26·08	26·47	129·02
Goods	304·35	320·28	340·84	361·77	383·82	429·13	1835·84
Sundry	10·00	10·10	10·20	10·30	10·40	10·50	51·50
TOTAL	464·50	484·65	509·30	534·56	561·19	611·22	2700·92

1	2	3	4	5	6	7	8
III. Working Expenses—							
Payment to worked lines and net Miscellaneous Expenditure	329·80	339·00	356·04	374·84	394·54	428·37	1892·79
IV. Open Line Works—Revenue	14·00	12·00	12·00	12·00	12·00	12·00	60·00
V. Net Revenue	120·70	133·65	141·26	147·72	154·65	170·85	748·13
VI. Dividend payable to General Revenues—							
(i) @ 4% (the present rate)	57·27	60·83	65·83	73·03	79·53	84·73	363·95
(ii) @ 4¼%		64·63	69·94	77·59	84·50	90·03	386·69
(iii) @ 4½%		68·43	74·06	82·16	89·47	95·32	409·44
VII. Gross Surplus from which is met Appropriation to Depreciation Reserve Fund—							
(i) @ 4%	63·43	72·82	75·43	74·69	75·12	86·12	384·18
(ii) @ 4¼%		69·02	71·32	70·13	70·15	80·82	361·44
(iii) @ 4½%		65·22	67·20	65·56	65·18	75·53	338·69
VIII. Appropriation to Depreciation Reserve Fund	45·00	65·00	67·00	70·00	73·00	75·00	350·00

IX. Net Surplus—							
(i) Dividend @ 4% . .	18·43	7·82	8·43	4·69	2·12	11·12	34·18
(ii) Do. @ 4¼% . . .		4·02	4·32	0·13	—2·85	5·82	11·44
(iii) Do. @ 4½% . . .		0·22	0·20	—4·44	—7·82	0·53	—11·31
X. Average annual contribution that would be necessary to make from the final net surplus to the Development Fund in order to fulfil Third Plan objectives. .		23*	23*	23*	23*	23*	115·00†

NOTES:—*†(*a*) Includes Rs. 13 crores on the average annualy—or Rs. 65 crores in the five year period as a whole—to meet the cost of Users' amenities and Labour Welfare Works only.

(*b*) The Dividend is calculated on an assumed pattern of year-wise increase in the Capital-at-charge—with reference to the Capital-at-charge at the end of each year after making adjustments therein for the element of overcapitalisation etc. as per the 1954 Railway Convention Committee's Report.

(*c*) The figures of earnings and expenses as in the Budget Estimates for 1960-61 have been shown as a basis for comparison, even though these would be affected substantially by various post-budget developments namely the general strike, unprecedented and widespread floods, further increase in coal price from 1-4-1960 and the Government's decision to give effect to the Pay Commission's essential recommendations in regard to pay and allowances in full from 1-7-1959 (instead of from 1-11-1959) which affects the arrears payable to staff in 1960-61 in respect of 1959-60.

(*d*) The stepping up of the annual contribution to Depreciation Reserve Fund from Rs. 45 crores in 1960-61 to Rs. 65 crores in 1961-62 has led to the net surplus for 1961-62 dwindling to a very small figure. The real net surplus for 1960-61 in the Budget Estimates as pertaining strictly to that year would have been Rs. 26·43 crores if the arrear payments made in 1960-61 but pertaining to 1959-60 resulting from Pay Commissions recommendations is allowed for ; and this surplus is more or less absorbed in 1961-62 by the additional appropriation of Rs. 20 crores to the Depreciation Reserve Fund.

APPENDIX II

Loans received by the Government of India from the World Bank for the Indian Railways

Serial No.	Loan No.	Date of Agreement	Amount in million $	Date upto which loan was current/is current	Rate of interest	No. of half yearly instalments in which repayable	Date on which repayment begins	Date on which repayment ends	Amount withdrawn in million dollars
1.	17 IN	18th August, 1949	34 Subsequently reduced to 32·8	31st March, 1951	4%	29	15th August, 1950	15th August, 1964	32·8
2.	167IN 168IN 169IN 170IN	12th July, 1957	90	31st December, 1958	5-5/8%	23	1st July, 1961	1st July, 1972	90·0
3.	207IN	16th September, 1958	85	31st March, 1959	5-3/4%	33	15th January, 1963	15th January, 1979	85·0
4.	233IN	15th July, 1959	50	30th June, 1960	6%	34	15th January, 1963	15th July, 1979	50·0
5.	262IN	29th July, 1960	70	30th September, 1961	5-3/4%	34	15th January, 1964	15th July, 1980	Operation not yet started.

The loans in 1957, 1958, 1959 and 1960 have been given by the world Bank to meet a part of the foreign exchange requirements of the Indian Railways, during the Second Plan period.

APPENDIX III

Summary of the principal recommendations of the Railway Convention Committee, 1960

S. No.	Para of the Report	Recommendations
1	2	3
1	13	In the opinion of the Committee the present mode of contribution *viz.* a fixed rate of dividend by the Railways to General Revenues does not call for any change in the next five years.
2	15	The rate of dividend to be paid by the Railways to General Revenues should be fixed at 4·25% during the five years 1961-66.
3	16	The annual loss in the working of strategic lines should be borne by General Revenues.
4	17	The Committee accept the suggestion of the Railway Board that the Capital-at-charge of the North-East Frontier Railway, other than the clearly strategic portion thereof, should be regarded as unproductive and recommend that till such time as the line becomes productive or the next Convention Committee review the position, whichever is earlier, the rate of dividend payable on the Capital-at-charge should be at the average borrowing rate of Government.
5	18	The total contribution to the Depreciation Reserve Fund should be Rs. 350 crores during the next quinquennium.
6	19	The Committee are inclined to accept the suggestion that the existing rules of allocation of Railway expenditure between Capital, Revenue, Depreciation Reserve Fund and Development Fund might be retained without any modification during the next five years.
7	20	The Committee are averse to the curtailment or limiting of expenditure on works met out of the Development

1	2	3
		Fund which in their opinion are as important as additions financed from Capital. They, therefore, see no alternative but to continue the facility of providing temporary loans from General Revenues to finance the Railway Development Fund during the next five years, unless the net surplus is able to meet in full the requirements of the Fund.
		The Committee endorse the proposal of the Financial Commissioner (Railways) that the outstanding liability of the Development Fund to the General Finance as on 31-3-1961 should be liquidated in the *ad hoc* manner indicated in the last sub-para of para 11 of this Report so that the Railways could start on the Third Plan period with a clean slate in regard to this liability.
8	21	The Committee recommend that the Railway Development Fund, besides meeting the cost of Labour Welfare Works etc., should include a minimum allocation of Rs. 3 crores per annum for Users' amenities as hitherto.
9	23	The suggestion made by the Railway Board that the passenger tax at the existing rate might be merged with passenger fare from 1st April, 1961 and that the State Governments might be paid a fixed amount based on the average collections in the period 1957-61 is reasonable. The Committee recommend that the fixed amount payable by the Railways may be Rs. 12·50 crores per year during the quinquennium 1961-66 representing the average of the actual collections for the years 1958-59 and 1959-60.
10	24	While the Committee appreciate that the financial position of the Railways during the next quinquennium will not be favourable for the creation of an Amortisation Fund, they nevertheless feel that this question should not be lost sight of inasmuch as in the context of the repatriation of all the dollar loans, it will assume importance.
11	26	With reference to the recommendation of the Railway Convention Committee, 1954, contained in para 19 of their Report, the Committee are of the view that the deferred dividend on new lines should be paid from the sixth year onwards only if the net income of the new lines leaves a surplus after payment of the current dividend.

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