R.C.C. No. 25

RAILWAY CONVENTION COMMITTEE (1977)

FIFTH REPORT

RATE OF DIVIDEND FOR 1978-79 AND 1979-80 AND OTHER ANCILLARY MATTERS

[Presented in Lok Sabha on 19 February, 1979]
[Laid in Rajya Sabha on 19 February, 1979]

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Page	Para	Line	For	Read
6	15	7	other	others
9	item 7	3	Reserves	Reserve
11	Foot note	-	stated	treated
13	-	13	tender	render
15	27	10	5.30	5.63
15	27	25	Add 'on' after 'and'	
19	19	6	radio	ratio
23	54	3	conveyed	covered
27	item 2	7	year	year to year
28	69	7	Delete the word 'up'	
35	91	4	subsedy	subsidy
40	104	-	(i) In item 2 of column 7 of Table, for the figure '6.68' read '8.68' (ii) In item 4 of column 10 of Table for the figure '356.40' read '256.40'.	
41	105	9	'Corprompt'	'for prompt'
43	110	last line	'6.25 per cent.	'0.25 per cent'
45	-	Under column 3, line 2 from bottom	'1977-79'	'1977-78'
49	-	Under column 3, line 13	'projcts'	'projects'
	-	line 4 (from bottom)	'play'	'pay'
59	-	Line 15	'the present mode of payment of a fixed dividend'	'the commanding heights of the economy, it is'

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RAILWAY CONVENTION COMMITTEE

(1977)

Shri Krishan Kant—*Chairman*.

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SECRETARIAT

Shri H. G. Paranjpe—*Joint Secretary*.

Shri K. C. Rastogi—*Senior Financial Committee Officer*.

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*With effect from 17-5-78 in the vacancies caused by the retirement from Rajya Sabha of Sarvashri Gulab Rao Patil, Harsh Deo Malaviya, V. V. Swaminathan and Veerendra Patil.

INTRODUCTION

I, the Chairman, Railway Convention Committee, 1977 having been authorised by the Committee to present the Fifth Report on their behalf, present this Report.

2. The Committee considered and finalised the draft Report at their sitting held on 14 February, 1979. A statement showing the summary of the principal recommendations of the Committee is appended (Appendix IV).

3. The Committee wish to place on record their appreciation for the valuable assistance rendered to them by the Chairman and Members of the Railway Board, the Financial Commissioner of Railways and their officers and staff.

NEW DELHI;
February 16, 1979.
Magha 27, 1900 (*S*).

KRISHAN KANT,
Chairman
Railway Convention Committee.

REPORT

INTRODUCTORY

The 1973 Convention covered the first three years of the Fifth Plan *viz.* 1974-75, 1975-76 and 1976-77. The First Report of the Railway Convention Committee 1977 which was presented to both Houses of Parliament on 17 November, 1978 contained their recommendations regarding Rate of Dividend payable by the Railway Undertaking to the General Revenues and other ancillary matters for the financial years 1977-78 and 1978-79 i.e. the last two years of the original Fifth Plan. However, the Fifth Plan was terminated a year earlier and the Sixth Five Year Plan began with 1978-79. The recommendations of the Committee contained in their First Report were adopted by the Lok Sabha on 22 December, 1977 and by the Rajya Sabha on 6 December, 1977. A statement showing the action taken by Government on the various recommendations contained in the above Report is at Appendix I.

2. The Ministry of Railways informed the Committee that they would be submitting Memoranda on 10 subjects to enable the Committee to frame their recommendations in regard to the Rate of Dividend payable by the Railway Undertaking to the General Revenues and other ancillary matters in respect of the Sixth Plan period 1978—83. The list of subjects on which the Ministry of Railways promised to submit Memoranda and which was approved by the Committee at their sitting held on 28 July, 1978, is at Appendix II.

3. The Ministry of Railways have submitted to the Committee on January 20, 1979 an Interim Memorandum containing proposals, some of which incorporate the existing arrangements regarding Rate of Dividend etc. while some others are altogether fresh proposals. Explaining the reasons for delay in submission of the Memoranda, the Ministry have stated that the recommendations of the Expert Group on Capital Structure of Indian Railways which submitted its Report on 30 October, 1978 had necessitated re-examination of the aspects proposed to be covered by the various Memoranda. The recommendations of the Expert Group involved many changes in the existing pattern of inter-relationship between Railway Finance and General Finance. It had, therefore, become necessary to formualte fresh proposals for the consideration of the Railway Convention Committee, the extent of which could not be envisaged at the time the Memoranda were being prepared on the subjects approved by the Committee.

4. The Ministry of Railways have further stated that since the preparation of fresh Memoranda on the ten subjects incorporating proposals arising from the Report of the Expert Group on Capital Structure would take some more time and as it is essential to have the recommendations of the Committee to enable preparation of the revised estimates for 1978-79 and formulation of budget proposals for 1979-80, they have decided to submit an Interim Memorandum to the Committee dealing with proposals arising from the recommendations of the Expert Group which have been accepted both by the Ministry of Railways and the Ministry of Finance and for the continuance of the existing arrangements to the extent they have not undergone any change in the light of the accepted recommendations of the Expert Group. The Ministry of Railways have further stated that the detailed Memoranda on the various subjects approved by the Committee would be formulated separately and submitted for their final consideration in due course.

5. The Committee considered the various proposals contained in the Interim Memorandum at their sitting held on February 1, 1979 in the context of the recommendations of the Expert Group on Capital Structure of Railways and the existing arrangements as earlier recommended by the Railway Convention Committee. The Committee also examined the representatives of the Ministry of Railways on 2 and 3 February, 1979 on certain points arising out of the Interim Memorandum.

6. The present Report which is an outcome of these deliberations is, therefore, only an Interim Report and their recommendations in regard to the Rate of Dividend etc., for the Sixth Plan period as a whole will have to wait till Memoranda on all the ten subjects are placed before the Committee for consideration and report.

A. Review of Financial Results of working of the Railways during the Fifth Plan and the prospects during the Sixth Plan.

7. The Ministry of Railways had promised to submit Memoranda *inter alia* on (i) a review of the working and financial results of the Indian Railways during the four years 1974—78 covering the Fifth Plan and (ii) tentative forecast of the financial prospects of the Indian Railways during the Sixth Plan period (1978—83) on the basis of the present freight rates and fares, price levels and anticipated traffic.

8. While the Memoranda on the above two subjects are yet to be received, the Ministry of Railways have furnished the following Table showing forecast of financial results of the Railways during the Sixth

Plan (1978—83) taking into account the proposals contained in the Interim Memorandum:—

Tentative forecast of financial results for the Sixth Plan Period (1978—83).

(In crores of rupees)

	1978-79	1979-80	1980-81	1981-82	1982-83
1. **Gross Traffic Receipts** .	2219·86	2309·00	2408·00	2505·00	2607·00
2. (a) Ordinary Working Expenses	1700·90	1771·00	1846·00	1920.00	1997·00
(b) Appropriation to Depreciation Reserve Fund . .	145.00	200·00	220·00	235·00	250·00
(c) Appropriation to Pension Fund .	50·00	60·00	70·00	80·00	90.00
TOTAL 2 . .	1895.90	2031.00	2136·00	2235·00	2337·00
3. Net Receipts	323·96	278.00	272.00	270·00	270·00
4. (a) Misc. Railway Expenditure	15·41	16·00	17.00	18·00	19·00
(b) Open Line Works—Revenue	10·30	10·00	10·00	10·00	10·00
TOTAL 4	25·71	26·00	27·00	28·00	29·00
5. Net Revenue	298·25	252·00	245·00	242·00	241·00
6. *Dividend to General Revenues*					
(a) Dividend . .	271·96	293·24	314·00	338·00	362·00
(b) Subsidy from General Revenue	—50·52*	—55·63	—61·00	—67·00	—74·00
Dividend payable (a—b)	221·44	237·61	253·00	271·00	288·00

*For 1978-79 the element of subsidy would be taken credit for under the existing procedure.

	1978-79	1979-80	1980-81	1981-82	1982-83
7. Surplus (+)/Shortfall (—) after payment of Dividend (5—6) .	76·81	14·39	—8·00	—29·00	—47·00
8. *Appropriation to Development Fund for*					
(a) Payment of Interest on loans in Development Fund	8·39	8·68			
(b) Works chargeable to the Fund	23·65	5·71			
9. Payment of arrear dividend treated as deferred liability . .	44·77				
10. Amount transferred to arrear Dividend Account			8·00	29·00	47·00

9. The Ministry have stated that the above financial forecast is based on the existing levels of fares and freight and also on the basis that the existing rates of dividend would continue. Besides, these projections take into account only the performance targets initially envisaged in the formulation of the Sixth Five Year Plan of the Railways. The Railways' Plan projections for the year 1979-80 as also the total outlay and the traffic targets for the Sixth Plan period are under reassessment taking into account the likely levels of achievement in the year 1978-79. The projections given are, therefore, somewhat tentative.

10. The Committee are unable to go into the performance of the Railways, both physical and financial, during the Fifth Five Year Plan period (1974-78) in the absence of the review which was promised to be furnished by the Ministry of Railways. As regards the Sixth Plan, the Plan outlay and the projections of traffic are yet to be finalised and what is available before the Committee is only a tentative financial forecast based on the existing levels of fares and freight and the projections which take into account only the performance targets initially envisaged in the formulation of the Sixth Five Year Plan of the Railways. These targets are stated to be under reassessment.

11. In view of the above limitations from which the Sixth Plan financial forecast suffer, the Committee would not like to go into details at this stage. However, the tentative estimates show that at the current level of fares and freight, the Railways would be incurring deficits from the third year onwards of the Sixth Plan of the order of Rs. 8 crores in 1980-81, Rs. 29 crores in 1981-82 and Rs. 47 crores in 1982-83 even after taking into account the various reliefs granted earlier and the additional reliefs proposed in the Interim Memorandum. The Committee have discussed the fresh proposals in the succeeding paragraphs. The emerging picture is indeed quite disturbing and is indicative of the fact that the Railway finances are still in a delicate stage—contrary to what the surpluses earned during the last few years might suggest. This the Committee consider, points to the fact that the Railways, in spite of carrying a huge investment amounting to Rs. 5572 crores as on 31-3-1978 and in spite of their operations spreading over a period of 125 years, are still not organised in a manner they could be looked upon as a sound public enterprise which is economically viable and self-generating in resources that could be adequate to sustain the growth of the system so as to keep pace with the demands of a developing economy such as ours.

12. The Committee are well aware that the Railways do carry certain social burdens arising out of a few uneconomic services and also of the more familiar explanation of the Railways that the fares and freight

are not fully aligned to the costs of operation. The Committee would deal with the question of social burdens when the Memorandum on this subject is received from the Railways. As regards fares and freight, a Committee known as Rail Tariff Enquiry Committee is already examining the matter.

13. The future of Indian economy is closely linked with the development of Railways and a great responsibility lies on the Railways in the economic resurgence of the country. The Railways have a key role to play in this effort and, therefore, they should organise the management in such a way that they stand out as a model of efficiency, economy and dedication in the service of the nation. This is possible only if the top echelons of management are constantly at the task of better management of the Railways through modernisation, cutting out waste, generating a sense of cost-consciousness at all levels, etc., rather than allow themselves to be tied down to the routine of day-to-day administration. The Committee trust that the warning signals given by the tentative financial forecast (for the Sixth Plan Period) would act as a spur for better and more sustained effort in the years to come so that the gains of the last few years are consolidated and the Railways are able to play their due role as a catalyst for the economic development of the country.

B. Review of the Capital Structure of Railways

14. In paragraphs 5.16 and 5.17 of their First Report on Accounting Matters, the Railway Convention Committee 1971 had recommended in December, 1972 that the question of precisely determining the element of over-capitalisation on the Indian Railways, the amortisation thereof and in the alternative, the question of reviewing the capital structure of the Indian Railways may be remitted to an Expert Group consisting of representatives of the Ministries of Finance, Railways and some independent economic experts, etc., and their recommendations made available to the next Railway Convention Committee for consideration and report. In implementation of this recommendation, an Expert Group consisting of the then Additional Member Finance, Railway Board, the then Adviser (Transport & Communications), Planning Commission and the then Joint Secrteary, Ministry of Finance, was set up. The Report of this Expert Group was submitted in September 1977. The Ministry of Railways considered this report and decided to set up a new Expert Group to make an indepth study of all the aspects of the problem and make their recommendations. The second Expert Group consisted of Shri H. K. Bhalla, then Adviser (Finance), Railway Board, as the Convener, Dr. M. Q. Dalvi, UNDP Adviser (Transport Policy), Planning Commission and Shri K. N. Row, Joint Secretary (Budget), Ministry of Finance, as Members and Shri A. V. Poulose, Director Accounts, Railway Board, as Member Secretary.

15. In this Report, while Shri H. K. Bhalla, Dr. M. Q. Dalvi and Shri A. V. Poulose have made certain recommendations jointly, Shri K. N. Row, representative of the Ministry of Finance has explained his approach separately and has given his specific observations on the recommendations of the other Members of the Group. It is seen from the Report that the Finance Ministry's representative has agreed to some recommendations fully, partially to some and has disagreed with the other.

16. As stated earlier *vide* para 4 of Report the Interim Memorandum submitted to the Committee on 20 January 1979 deals with only those recommendations of the Expert Group which have been either fully or partially accepted by the representative of the Ministry of Finance in the Expert Group and have also been finally accepted by the Ministry of Finance. In regard to those recommendations of the Expert Group with which the representative of the Ministry of Finance has not been able to agree, the Ministry of Railways have informed the Committee that separate action will be taken by them for formulating proposals in consultation with the Ministry of Finance for consideration of the Committee.

17. The Committee observe that it has taken nearly six years for the Ministry of Railways to take conclusive action on the recommendation made by the Railway Convention Committee, 1971 with regard to the question of revamping the Capital structure of the Railways. Now that the matter has been gone into in depth by two expert bodies during this period, the Committee trust that speedy action will be taken by the Ministries of Finance and Railways to formulate specific proposals on such of the recommendations of the Expert Group on Capital Structure as are still under consideration.

C. Rate of Dividend etc.

18. As a follow up of the recommendations of the Expert Group on the Capital Structure of Indian Railways agreed to both by the Ministries of Finance and Railways, the Ministry of Railways have submitted for consideration and approval of the Committee, on an interim basis, the following proposals for the years 1978-79|1979-80 (wherever indicated):—

(1) The present mode of payment of a fixed dividend on the capital invested in the Railways as computed annually in lieu of the interest charges plus a small element of contribution to General Revenues, may continue in the interest of financial discipline.

(2) The present manner of fixing the payment of dividend to General Revenue, *viz.*, at fixed percentage of the capital-at-charge of the Railways excluding the capital of strategic lines and making special provision for certain ore lines, Jammu-Kathua section and Tirunelveli-Kanyakumari-Trivandrum line, etc., may continue.

(3) From the existing capital-at-charge of the Indian Railways as on 1-4-1978, a sum of Rs. 122,53,59,583 representing the element of over-capitalisation as assessed by the Expert Group on capital structure of Indian Railways should be written off without financial adjustment.

(4) The present arrangement of adopting differential rates of dividend on capital invested in the Railways upto 31st March, 1964 and that invested thereafter, may continue. The existing rates of dividend at 4.5 per cent of the capital invested in the Railways upto 31st March, 1964 with an addition of 1 per cent in lieu of the tax on passenger fares and to assist the State Governments in financing the Railway Safety Works and 6 per cent on capital invested in Railways after 31st March, 1964 may also be retained with the following ancillary provisions, including equitable concessions to the Railways, as below:

(i) Out of the amount of additional one per cent dividend on the capital invested in the Railways upto 31st March, 1964 a sum of Rs. 16.25 crores may be passed on to the States as payment in lieu of passenger fare tax and the balance utilised to assist the States in providing their portion of the resources required for financing safety works as at present.

(ii) The present arrangement of deducting losses in working of strategic lines from the payment to General Revenues may also continue with the complementary arrangement that the earnings of such lines, if any, after meeting working expenses, depreciation and other charges may be paid to the General Revenues to the level of normal dividend.

(iii) The present arrangement of exempting the Capital-at-charge of the non-strategic portions of the North-east Frontier Railway, and unremunerative branch lines from the payment of dividend may continue. In regard to unremunerative branch lines, the capital cost thereof to be exempted from dividend shall be based on annual reviews, the unremunerativeness of a particular branch line being determined by adopting the marginal cost principle.

(iv) In addition to the above elements of capital-at-charge, the following elements of capital-at-charge, shall also become exempt from the payment of dividend during the years 1978-79 and 1979-80:—

(a) The capital cost of new lines which have been taken up on or after 1-4-1955 on other than financial considerations as indicated in Annexure 11 to the Report of the Expert Group on Capital Structure of Indian Railways, provided that if any such line becomes remunerative, adopting the marginal cost principle, during the years 1978-79 and 1979-80, dividend on the capital cost of such line shall be payable to the General Revenues.

(b) The capital cost of ferries.

(c) The capital cost of welfare buildings like hospitals, dispensaries, health units, clubs, institutes; schools and colleges, hostels and other welfare centres.

(v) On the capital cost of residential buildings dividend shall be paid at the rate of 3.5 per cent, the existing arrangements under which the cost of construction of staff quarters are charged to capital being continued.

(vi) The present arrangement of permitting the Railways to take credit for the difference between the dividend rate of 6 per cent and the average borrowing rate at which interest would actually accrue, in respect of their various Fund balances banked with the General Revenues may also be continued.

(vii) On new lines other than those taken up on or after 1-4-1955 on other than financial considerations and referred to in sub-para (iv) above, the existing arrangement of—

(a) deferring the payment of dividend on the capital-at-charge of New Lines chargeable at the average rate of interest during the period of their construction as well as for the first 5 years after their opening; and

(b) closing the account of deferred dividend on New Lines after a period of 20 years from the date of their opening extinguishing any liability for deferred dividend not liquidated within that period;

may be continued.

(viii) 50 per cent of the outlay on capital works-in-progress other than those pertaining to strategic lines, Northeast Frontier Railway (Commercial), ore lines, Jammu-Kathua and Tirunelveli-Kanyakumari-Trivandrum lines, New Lines, P&T wires, ferries, welfare buildings and residential buildings, may continue to remain exempted from payment of dividend for a period of 3 years in each case during the period 1979-80.

(5) In respect of the year 1979-80, the equitable concessions in the payment of dividend referred to in sub-para (2) and items (iii), (iv), (vii) and (viii) of sub-para (4) above will be paid from the General Revenues as a specific subsidy to the Railways. These equitable concessions in respect of the year 1978-79, however, will be availed of in accordance with the existing practice *viz.* by excluding them from the amount of dividend payable.

(6) The existing arrangement of the Railways taking temporary loans from the General Revenues to meet shortfalls in dividend payment may be discontinued with effect from 1-4-1978. In years in which the Net Revenue of the Railways is not adequate to meet the current dividend liability, the shortfall in the payment of the current dividend liability shall be treated as a deferred liability on which no interest will be charged. The deferred dividend liability shall be paid from out of the surplus available with the Railways *after* meeting the following:—

(i) Interest due on the outstanding Development Fund loan.

(ii) Meeting the expenditure on works chargeable to Development Fund.

(7) Subject to verification by Audit, out of the sum of Rs. 216.14 crores outstanding as loan due from Railway Revenues to the General Revenues in respect of the Revenue Reserves Fund a sum of Rs. 93.95 crores should be written off and the balance amount of Rs. 122.19 crores transferred to the deferred dividend liability account mentioned in the previous sub-para.

(8) The present provision for temporary borrowing from General Revenues when the balance in the Development Fund is inadequate to meet the expenditure chargeable to that Fund, may be continued, the interest on such loans taken on or after 1-4-1978 as also the loan outstanding as on that date being

charged at the rate applicable to loans given to State Governments (currently 5.5 per cent with a rebate of 0.25 per cent for prompt repayment).

(9) For the year 1979-1980, the contribution to the Depreciation Reserve Fund being provisionally fixed at Rs. 200 crores.

19. The Committee desired to know:

(i) the total amount of dividend the Railways would have to pay to General Revenues under the existing arrangements during the current year and what would be the amount of dividend under the proposed revised arrangements.

(ii) the quantum of relief that the Railways are obtaining under each of the concessions granted to them under the existing arrangements regarding payment of dividend etc. during the current year (i.e. 1978-79).

(iii) the quantum of relief that the Railways would obtain under the proposed arrangements during the current year in regard to payment of dividend etc.

20. The Ministry have accordingly furnished the following statements:—

(a) Dividend to General Revenues — 1978-79

Under existing arrangements	Rs. 232·82 crores (Budget Estimates)
Under the proposed revised arrangements	Rs. 221·44 crores (Net dividend)

(b) Quantum of relief in dividend liability under each of the concessions granted under the existing arrangements for 1978-79 :

		(Latest estimate) (Rs. in crores)
(i)	Dividend on capital cost of strategic lines	4·81
(ii)	Dividend on capital cost of commercial portion of N.F. Railway	8·90
(iii)	Dividend on capital cost of unremunerative Branch lines	2·92
(iv)	Dividend on capital cost of Kiriburu-Bimalgarh (full) and 50% of Sambalpur Titagarh ore lines	0·65
(v)	Dividend on capital cost of Kathua-Jammu and Tirunelveli-Kanyakumari-Trivandrum lines treated as National Investment	1·91

(vi) Deferred dividend on the capital cost of new lines during the period of their constructions as well as for the first five years after their opening . .	4·30
(vii) Dividend on capital works-in-progress for a period of three years	16·08
TOTAL (b) .	39·57

NOTE :—The following adjustments are also made in computing the amount of dividend in addition to the reliefs in dividend liability mentioned above—The figures indicated under (a) also include these adjustments :—

	(in crores)
1. Losses in the working of strategic lines	(—)7·4
2. Credit for the dividend rate of 6% and the average borrowing rate at which interest would accrue on fund balances	(—)1·8
3. Deferred dividend payable on new lines completing the moratorium period	(+)2·46
4. Profit in the working of Kathua-Jammu line treated as National Investment	(+)0·59
TOTAL .	(—)6·30

(c) Details of reliefs under the proposed arrangements (1978-79) :

	(Rupees in crores
I. Relief in dividend liability	
(a) Dividend on capital cost of new lines taken up on other than financial considerations	10·48*
(b) Dividend on capital cost of ferries	0·28
(c) Dividend on capital cost of welfare buildings	0·19
	10·95
II. (a) Difference due to lower rate of dividend on capital cost of residential buildings	2·14
(b) Additional dividend relief due to difference between the amount of over-capitalisation now determined (Rs. 122·54 crores) and the earlier assessment (Rs. 118·25 crores)	0·24
	2·38
TOTAL I + II	13·33*

* Out of this Rs. 3·03 crores which was treated as a deferred liability under the existing arrangement would be extinguished completely.

(a) *Rate of Dividend* vis-a-vis *Element of Contribution to General Revenues*

21. Through the first proposal, the Ministry of Railways have suggested the continuance of the existing mode of payment of a fixed dividend on the capital invested in the Railways as computed annually in

lieu of the interest charges plus a small element of contribution to General Revenues, in the interest of financial discipline.

22. It is observed that adoption of a rate of dividend applicable to the capital investment on the Railways which includes an element of contribution to General Revenues over and above the bare interest paid by Government on this capital, has been favoured by successive Convention Committees from 1949 onwards. The annual contribution made by the Railways during the Fourth and Fifth Plan periods are given below:—

(In crores of rupees)

Year	DIVIDEND Including payments to States	DIVIDEND Excluding payments to States	Element of interest at the average borrowing rate	Element of Contribution to General Revenues: Including payments to States	Element of Contribution to General Revenues: Excluding payments to States	Average contribution per annum during the Plan period: Including payments to States	Average contribution per annum during the Plan period: Excluding payments to States
1969-70	156·39	138·29	128·29	28·10	10·00		
1970-71	164·58	146·15	138·22	26·36	7·93		
1971-72	151·24	133·13	131·46	19·78	1·67		
1972-73	161·51	143·35	143·53	17·98	—0·18		
1973-74	170·92	152·77	155·30	15·62	—2·53		
				107·84	16·89	21·57	3·38
FIFTH PLAN PERIOD							
1974-75	187·47	169·48	177·57	9·90	—8·09		
1975-76	198·14	180·16	191·66	6·48	—11·50		
1976-77	209·05	190·80	205·37	3·32	—14·93		
1977-78	226·56	208·32	225·36	1·20	—17·04		
				20·90	—51·56	5·22	—12·89

23. The Expert Group on Capital Structure of the Railways have recommended that the capital-at-charge to the extent of Rs. 475 crores, representing the element of contribution as distinct from the dividend paid by the Railways to General Revenues since 1924 should be written

off to provide some relief to the Railways. Their argument for the above recommendation was:—

> "When the concept of a contribution in addition to the fixed interest charge was evolved for the Railways there was no comparable public sector organisation in the field. There is some logical inconsistency in claiming an interest charge, which is the price for the use of capital funds provided by the Exchequer, as also a contribution from the railway surplus to the exchequer. It may be argued that the "contribution" element is only a share of the surplus, and if it was not provided for in that form, it could have been mopped up through a higher interest rate. This argument, however, is somewhat fallacious as the tender can legitimately claim only the stipulated price (interest) for the use of the money provided by him so long as the moneys provided are treated as loans and no risk, in the ordinary commercial sense, is assumed by the lender of capital. Railways have paid to General Revenues Rs. 474.86 crores by way of contributions, over and above the dividend, from 1924-25 to 1973-74... If the Railways had been a real commercial undertaking, which they are expected to be, this money would have been utilised for the purpose of reducing capital, or, which comes to the same thing, re-investment in the undertaking, instead of which it was loaned back to the Railways as dividend bearing capital. In taking a view on this, it is also to be borne in mind that since there is no provision for repayment of the capital-at-charge, which is a perpetually loan-bearing capital the interest payments over the years add up to many times more than the principal amount. Thus the interest payments on the Capital-at-charge upto, the end, of 1950 (Rs. 699.76 crores) have added up to 350 per cent of the Capital....Keeping all these aspects in view the Expert Group recommend that capital-at-charge to the extent of Rs. 475 crores representing the element of contribution as distinct from the dividend, paid by the Railways to General Revenues should be written off, to provide some relief to the Railways."

24. This recommendation was not agreed to by the representative of the Ministry of Finance in the Expert Group for the following reasons:—

(i) Payment of contribution was a part of the scheme of separation of Railway finance and the rate of contribution was all along fixed by the Railway Convention Committees having regard to the ability of the Railways to pay and the cost of borrowing.

The system of contribution to General Revenues was not confined to Railways alone. Under the Meston Award, provincial Governments were also required to make contribution to the Federal Government. In more recent times P&T, since the proforma separation of its balances in 1960, is required to pay contribution in a like manner as the Railways.

(ii) The financial arrangements of Government of India have all along been made in the expectation of certain receipts and expenditures. There is no justification to go back on the past arrangements.

(iii) This does not represent over-capitalisation; it represents allocation of income between Railways and General Revenues over the years. The present indebtedness of the Railways may have some connection with this but the indebtedness is of recent origin.

(iv) Such write off would have repercussions in other sectors. The spectrum of Government lending rates has been fixed with reference to the ability of the borrower to pay and not with reference to the cost of borrowing alone. For example, industrial and commercial undertakings in the public sector are currently charged interest at 10.5 per cent on investment loans of 15-year maturity. If a principle is established that the borrower is to be refunded the difference between the basic borrowing cost and interest actually charged, similar claims can be made by all those who have paid higher rates of interest. The financing pattern of Electricity Boards is also similar to that of Railways and the bulk of their investment is met out of non-repayable loans from the Exchequer and that too on harder terms as compared to Railways' loan capital.

25. The Ministry of Railways have stated that the recommendation of the Expert Group will be examined separately.

26. The Ministry of Railways have brought to the notice of the Committee through the Interim Memorandum the following views of the Ministry of Finance in regard to the rate of dividend:

"*Dividend rate*: Considering the financial position of the railways, the Ministry of Finance agree to the continuance of the existing rates of dividend upto 1979-80. It may, however, be specifically brought to the notice of the Convention Committee that in recent years there has been a hardening of interest rates and as a consequence the average cost of Government borrowing from the various domestic sources has gone up

appreciably (7.5 per cent in 1974-75, 7.44 per cent in 1975-76 and 8.24 per cent in 1976-77) as against only 6 per cent paid by Railways." .. ..

27. The Committee enquired during evidence whether, in view of the above, it was not necessary to revise the dividend rate upwards to keep pace with the economic situation obtaining in the country. The Financial Commissioner for Railways stated:—

"The average borrowing rates of the Government of India were as follows: 1975-76, 5.30 per cent; 1976-77, 5.40 per cent; 1977-78, 5.50 per cent; 1978-79 that is, the current year, 5.30 per cent. Sir, it is going up. For this year the average borrowing rate of the Government of India has been taken into account. Also, on the same rate they give it to the State Government. Incidentally, when the Railway Convention Committee took up this point some years ago, at that time, the rate of 4.50 per cent was fixed for us and the average borrowing rate was about 3.80 per cent. The average borrowing rate of the Government of India has been the criterion throughout from the beginning. In this figure, they have taken the cost of interest that they have to pay on savings. They have not taken the foreign borrowing, for example. If the total borrowing is taken into account, this rate may go down still further. They say here about the average cost on Government borrowing from the various domestic sources. The savings have also been treated as borrowing and that basis, this figure has been indicated. The real average borrowing rate of the Government of India at present is 5.63 per cent."

28. The Financial Commissioner for Railways further stated:—

"The Convention Committee has fixed a principle for paying dividend on the basis of the annual average borrowing rate of Government. It is a salutary principle. Mixing up of savings rate with the borrowing rate is not correct."

29. The Committee observe from the statement given in para 22 above that the element of contribution in the annual dividend paid by the Railways (as distinct from the interest component) has been going down steadily from the year 1969-70. The net contribution excluding payments to States) stood at Rs. 10 crores in 1969-70 whereas in 1977-78, it came down to Rs. (—) 17.04 crores.

30. The Committee donot see any reason why any departure should be made from the salutary principle of the Railways making a positive contribution to General Revenues over and above the interest payable on the capital-at-charge at the average borrowing rate of Government of India. The Committee are, therefore, distressed to note that despite substantial growth in the volume of both passenger and goods traffic, the modernisation plans undertaken by the Railways and the considerable increases in freights and fares, the net contribution of the Railways to the nation's kitty has shown a declining trend over the years. The question whether the hardening of interest rates and as a consequence the increase in cost of Government borrowing would justify increase in the dividend rate during the Sixth Plan is a matter on which the Committee would reserve their opinion till the views of the Ministry of Railways get crystalised in the final Memorandum proposed to be submitted by them. The Committee would only like to point out at this stage that if the public sector has to attain the commanding heights of the economy, it is inescapable that the nation's largest public undertaking spares no effort to generate adequate resources for its development and expansion.

31. The Committee accordingly recommend that the present mode of payment of a fixed dividend on the capital invested in the Railways as computed annually in lieu of the interest charges plus a small element of contribution to General Revenues, may continue in the interst of financial discipline.

(b) *Over-capitalisation*

32. The terms of reference of the Expert Group on Capital Structure of Indian Railways included:

(a) to determine more precisely the extent of over-capitalisation in the Railways which was earlier assessed as Rs. 1118.25 crores;

(b) to examine the question whether this element of over-capitalisation should be amortised and if so what should be the period over which it should be so done.

The Expert Group have stated in their Report—

"With reference to the principles settled in consultation with the Ministry of Finance, and after verification of the figures partaining to the individual units by the concerned Chief Auditors and the overall summary by the Additional Deputy Comproller and Auditor Central of India (Railways), the extent of

over-capitalisation has been assessed as Rs. 124,30,36,302, out of which an amount of Rs. 6,06,12,000 has been amortised during 1966-67 to 1969-70, leaving a balance of Rs. 118,24,24,302."

33. The Expert Group have further stated that subsequent to the assessment, the Southern Railway pointed out (November, 1968) that there was a sum of Rs. 1,15,43,281 appearing under "Over drawn Capital-Purchase of Railway Line" in the Finance Accounts of the Southern Railway for 1965-66 which should be legitimately treated as over-capitalisation.

34. Similarly, in the Chittaranjan Locomotive Works, an amount of Rs. 3,13,92,000 has remained charged to "General charges" under Capital-account representing loss in supply of rations from grainshops. This should be treated as over-capitalisation, and included in the total amount of over-captalisation on the Railways.

35. The Expert Group have accordingly recommended that Rs. 122,53,59,583 (Rs. 118,24,24,302+Rs. 1,15,43,281+Rs. 3,13,92,000) be deemed to be the identified realistic amount of over-capitalisation on the Indian Railways.

36. On the question of amortisation of the element of over-capitalisation, the Expert Group have stated that they are convinced that the suggestion that the element of over-capitalisation should be amortised by setting apart amounts from revenue surpluses from year to year would remain a laudable but unattainable proposition in the foreseeable future.

37. The Expert Group has recommended'—

"The amount representing the element of over-capitalisation Rs. 122,53,59,583.00 (Rs. 122.54 crores) should be written off the railways books without financial adjustment, as already recommended by the earlier Expert Group. Out of this amount no dividend in any case is being paid on Rs. 118.25 crores and it is only a logical step to drop this amount from, the books. The balance of Rs. 4.29 crores also represents intangible assets and therefore, that should also be removed from the capital account. These amounts in the Railway Capital structure do not represent any tangible assets. They merely indicate accounting transactions which should, therefore, be written off. Such a procedure is also followed on other Railway systems in the more developed countries as has been included in Report of the Railway Convention Committee, 1971."

38. The representative of the Ministry of Finance in the Expert Group has agreed with the recommendation of the other Members of the Expert Group that the amount assessed as "over-capitalisation" may be written off.

39. The Ministry of Railways have therefore suggested (*vide* item 3 of para 18), that from the existing Capital-at-charge of the Indian Railways as on 1-4-1978, a sum of Rs. 122,53,59,583 representing the element of over-capitalisation as assessed by the Expert Group on Capital structure of Indian Railways should be written off without financial adjustment.

40. The Committee enquired during evidence whether the views of the Comptroller and Auditor General of India in the matter had been ascertained. The Financial Commissioner for Railways stated that out of Rs. 122.54 crores more than Rs. 118 crores have already been accepted by the C&AG and the remaining amount would also be got cleared from the C&AG.

41. The Committee note that for long time now the amount assessed as "over-capitalisation" has been exempt from payment of dividend following the recommendations of Railway Convention Committees in the past. The amount of over-capitalisation hitherto exempt from dividend liability was about Rs. 118.25 crores. As per the latest assessment made by the Expert Group on Capital Structure of Indian Railways, this figure now stands at Rs. 122.54 crores. The Expert Group have suggested that this amount should be written off the Railways' books without financial adjustment as it does not represent any tangible assets and merely indicates some accounting transaction. According to the Expert Group, amortization of this amount by setting apart amounts from revenue surplus from year to year 'would remain a laudable but unattainable proposition in the forseeable future'.

42. As the element of over-capitalisation has for a long time now been exempt from dividend liability and it is most unlikely, looking at the financial position of the Railways, that such amount could be amortized from the revenue surpluses for many years to come, the Committee have no objection for the amount assessed by the Expert Group as over-capitalisation (Rs. 122.54 crores) being written off the Railways' books without financial adjustment subject to the condition that the additional amount of Rs. 4.29 crores over the earlier assessment of Rs. 118.25 crores is vetted by the Comptroller and Auditor General of India.

(c) *Differential Rates of Dividend and Ancillary provisions/Equitable Concessions to Railways.*

43. The Ministry of Railways have suggested (*vide* item 4 of para 18), that the present arrangement of adopting differential rates of dividend on capital invested in the Railways upto 31st March, 1964 and that invested thereafter, may continue. The existing rates of dividend at 4.5 per cent of the capital invested in the Railways upto 31st March, 1964 with an addition of 1 per cent in lieu of the tax on passenger fares and to assist the State Governments in financing the Railway Safety Works and 6 per cent on capital invested in Railways after 31st March, 1964 may also be retained with certain ancillary provisions, including equitable concessions to the Railways as discussed in the succeeding paragraphs.

44. The representative of the Ministry of Finance in the Expert Group on Capital Structure has stated as follows in his separate note appended to the Report:

> "A number of concessions have been granted to the Railways by the Railway Convention Committee from time to time. Capital exempted from payment of dividend rose from Rs. 64 crores in 1960-61 to Rs. 397 crores, Rs. 573 crores and Rs. 895 crores respectively in 1965-66, 1969-70 and 1976-77. The exempted capital represented 19.8 per cent of the capital-at-charge in 1976-77 as compared to 4.2 per cent in 1960-61. In 1976-77, the latest year for which the actuals are available on the capital of Rs. 3638 crores which attracted dividend liability, the average rate of dividend paid was about 5.25 per cent, as a little over half of this capital was pre-1964 capital which paid 4.50 per cent. The dividend of Rs. 191 crores paid in 1976-77 worked out to only 4.2 per cent of the total capital advanced to the Railways upto that year (in addition the Railways paid Rs. 18.25 crores which is passed on to the States as grant in lieu of passenger fare tax and for safety works). The concessions which the Railways enjoy are shown as off sets in an intricate calculation which only an expert can follow."

45. Explaining the position the representative of the Ministry of Railways stated during evidence:

> "The dividend paying capital, if divided into these 2 groups of pre-1964 and post-1964, would be Rs. 1824 crores relating to pre-1964 period and Rs. 2210 crores relating to post-1964 period. This is as per the 1978-79 figures. The radio of post-1964 figure to the pre-1964 figure is 55 : 45. For pre-1964 we are paying 5.5 per cent dividend, and for post-1964, 6 per cent. The

weighted average works out to 5.775 per cent. This is higher than even the borrowing rate of 5.6 per cent. So we are paying on the weighted average also an excess of about 0.175 per cent. He has excluded the passenger tax at 1 per cent. He has calculated 4.5 per cent. The out-go of cash from us is 5.775 per cent."

46. Pending formulation of the detailed proposals applicable to the Sixth Plan period as a whole, the Committee have no objection to the continuance of the existing rates of dividend during 1978-79 and 1979-80 as already concurred in by the Ministry of Finance.

(i) Payment to States in lieu of Passenger Fare-Tax

47. The Ministry of Railways have suggested that out of the amount of additional one per cent dividend on the capital invested in the Railways upto 31st March, 1964 a sum of Rs. 16.25 crores may as hitherto, be passed on to the States as payment in lieu of Passenger Fare Tax and the balance utilised to assist the States in providing their portion of the resources required for financing safety works as at present.

48. The Seventh Finance Commission in Chapter 7 of their Report (1978) has given a brief background of the tax on the railway passenger fares. It has stated that the tax on railway passenger fares is one among the taxes which is to be levied and collected by the Government of India but is assigned to the States under Article 269 of the Constitution. The tax was levied for the first time under the Railway Passenger Fares Tax Act 1957. The Second Finance Commission, which was then at work, was requested to make recommendations as to the principles which should govern the distribution of the net proceeds in any financial year of the tax, among the States. The Commission took the view that the principles for distribution should be such as to secure for each State, as nearly as possible, the share of the net proceeds on account of actual passenger travel on railways within its limits. That share was determined by allocating the passenger earnings among the States on the basis of the route mileage within each State, making due allowance for the wide variations in the density of traffic between the various railway zones and as between the different gauges in each zone. Accordingly, that Commission allocated the non-suburban earnings of each railway by the route mileage located in each State, separately for each gauge and distributed the proceeds of the tax among the States in the same ratio, after setting aside a quarter of one per cent as the share attributable to the Union territories. The Second Finance Commission made its recommendations for the five-year period ending with 1961-62.

49. The Railway Passenger Fare Tax Act, 1957, was, however, repealed and the tax was merged in the passenger fares with effect from 1st

April 1961. This step was taken by the Government of India in pursuance of the recommendations of the Railway Convention Committee 1960, which was persuaded by the Railway Board's contention that the levy of the passenger fare tax had limited the scope for raising passenger fares. The Railway Board had at the same time conceded that the States, which would have taken their receipts from this source in computing their resources for the Third Five Year Plan, should not be put into difficulties. The Board had, therefore, suggested that the States should continue to get from the Railways, through the General Revenues, a fixed amount in the following five years. The Convention Committee accepted this suggestion and recommended that Rs. 12.50 crores should be paid annually by the Railways for distribution to the States in the five-year-period ending 1961—66, in lieu of the tax.

50. The Fourth Finance Commission had placed on record the almost unanimous view of the States that the fixation of the grant at a specific level had deprived them of a potential elastic source of revenue and had urged that the level of the grant should be raised in the proportion in which the railway passenger earnings had increased since the merger of the tax with the fares. Subsequently, it was suggested to the Railway Convention Committee 1965, by the Railway Board that in view of the growth in passenger traffic from 1960-61 to 1964-65 and the further growth anticipated in the subsequent years, the amount of the annual grant to the States in lieu of the tax might be increase to Rs. 16.25 crores for the period from 1966-67 to 1970-71. The Railways suggested(as a part of this proposal, that they might pay an additional dividend to the General Revenues at 1 per cent on the capital invested upto 31st March, 1964. The additional dividend was estimated at Rs. 18 crores per annum; out of which Rs. 16.25 crores would be paid to the States as grant in lieu of the tax and the balance would be utilised to assist the States in providing their portion of the resources required for financial Railway safety works. The Convention Committee accepted these suggestions and in pursuance of its recommendations, the annual grant to the States was raised to Rs. 16.25 crores from 1966-67.

51. The Railway Convention Committees of 1971, 1973 and 1977 left the quantum of the annual grant unchanged. The amount of this grant is, therefore, Rs. 16.25 crores till the end of the current year. The amount of the grant from 1979-30 onwards is yet to be decided.

52. The Third, Fourth and Fifth Finance Commissions, which had been asked to deal with the distribution of this *ad hoc* grant to the States, considered that the principle of distribution should be such that the States were generally in the same position in this mattter as they were before the repeal of the Act. The Sixth Commission also was of

the same view and accordingly worked out the percentage shares of the different States on the basis of the statistics of gaugewise route lengths of railways in each State and the actual passenger earnings from non-suburban traffic for each zonal railway for the four years ending 1971-72.

53. The Seventh Finance Commission has further observed:

"The Finance Commission may not be the competent body to advise whether it would be appropriate to re-impose the railway passenger fare tax as has been urged by at least one State Government. Nevertheless, we do appreciate the force of the argument put forward by almost all State Governments that a fixed grant is not an adequate replacement of a tax on railway fares, since it does not take into account the considerable buoyancy in the earnings of the Indian Railways caused by the rapid increase in passenger traffic. The increase in average earnings per passenger kilometre from 2.01 paise to 4.03 paise mentioned earlier may have come about because of fare increases necessitated by higher working expenses in the form of increased fuel charges, payment of higher emoluments to Railway personnel, increased costs of stores and spares etc. As such, it may be difficult to insist on a corresponding increase in the grant payable to the States. Even so, we cannot ignore the substantial increase that has taken place in the extent of passenger traffic since 1961-62 as reflected by the figures of non-suburban passenger kilometres. We feel that the States are entitled to their due share arising from the growth in non-suburban passenger traffic by a factor of 1.85 since 1961-62 as it is a major element responsible for the overall increase in passenger earnings from this traffic by a factor as high as 3.8 since 1961-62. The factor of 1.85 would represent a grant of about Rs. 30 crores a year. ..

However, we also appreciate that the Indian Railways as the largest departmental undertaking should be enabled to operate at a profit and should be in a sufficiently strong financial position to service the loans granted for their developmental projects, including the construction of new lines, for which State Governments themselves make repeated demands. We also appreciate the social obligations of the Railways *e.g.* carriage of suburban traffic and of essential commodities, sometimes at a loss. On the other hand, there is also force in the point urged upon us by one of the State Governments that they also have to bear substantial financial burdens on account of the operations of the Railways, for instance, for the dispersal of traffic carried by the Railways at the destinations.

We would suggest that having regard to the various factors mentioned above, the Government of India should specifically refer the question of increasing the quantum of the grant in lieu of the railway passenger fares tax to the appropriate Rail way Convention Committee. Since this Committee carefully examines the overall financial position of the Railways, the dividend payments that should be made to General Revenues, as also the contributions of the Railways to the Depreciation, Development, Pension and other Funds, we can reasonably expect that the Committee would judiciously consider, in the light of the facts stated above, the question of increasing the grant payable to the States."

54. The Ministry of Railways have stated that the recommendations of the Seventh Finance Commission are under examination and would be conveyed in the memorandum on the relevant subject to be submitted to the Committee in due course.

55. The Committee would like to examine in depth the question of the adequacy of grants paid to the States in lieu of the tax on passenger fares in the light of the observations of the Seventh Finance Commission and the final Memorandum to be received from the Ministry of Railways on the subject. Till then the existing arrangements may continue.

(ii) Exemption of the capital-at-charge of unremunerative Branch lines from payment of dividend

56. The Ministry of Railways have suggested (*vide* item 4(iii) of para 18), that the present arrangement of exempting the Capital-at-charge of the non-strategic portions of the Northeast Frontier Railway and Unremunerative branch lines from the payment of dividend may continue. In regard to unremunerative branch lines, the capital cost thereof to be exempted from dividend shall be based on annual reviews, the unremunerativeness of a particular branch line being determined by adopting the marginal cost principle.

57. The representative of the Ministry of Railways stated during evidence that the number of unremunerative branch lines had been varying from year to year as could be seen from the following figures:—

1969-70	—	145
1974-75	—	142
1975-76	—	132
1976-77	—	121
1977-78	—	126

58. He added that in 1969-70, the capital on unremunerative lines was Rs. 92.49 crores while the latest figure was Rs. 63.11 crores.

59. The Expert Group on Capital Structure had recommended that the capital cost of uneconomic branch lines already exempted from dividend should be determined on the basis of annual reviews, the branch lines to be treated as uneconomic being determined by adopting the marginal cost principle. The Ministry of Railways have stated that the methodology of evaluating the results of the branch lines adopting the marginal cost principle would be worked out and capital cost of such uneconomic branch lines would be determined on the basis of such annual reviews. In the meantime, the capital cost of uneconomic branch lines as assessed from time to time might continue to be exempted from dividend liability provisionally.

60. Explaining the marginal cost principle, the Ministry of Railways in a note furnished to the Committee have stated as follows:—

"In marginal cost analysis, the operating expenses are split into variable and fixed costs. Variable costs are those costs that vary in direct proportion to changes in the volume of output. Fixed costs, on the other hand, are constant and do not vary with the level of output. The difference between the total earnings and total variable cost is the profit available to cover fixed costs and interest etc. If the level of fixed cost is high, sufficient earnings must be generated to cover them. If the level is low, there is difficulty in covering the fixed cost. The marginal cost usually refers to the variable cost, *i.e.*, cost which would be saved in case the activity is not undertaken.

In assessing the final results of the remunerativeness of branch lines it is this principle that is even now being adopted. It may be mentioned here that the working expenses of a branch line can be broadly split up into two parts—

(i) Directly charged expenditure—this represents expenditure which can *ab-initio* be identified as pertaining to a branch line *e.g.* station staff and engineering staff; and

(ii) Indirectly charged expenditure—this represents those elements of expenditure which are not booked in the Railway accounts distinctly as pertaining to a branch line but are booked for the Division as a whole. For example, the expenditure on wagon maintenance, loco repairs, fuel costs, etc. are booked for the Division as a whole and naturally a proportion of

this expenditure arises from the operation of a branch line and, therefore, in order to determine the quantum of such expenditure pertaining to a branch line *pro-rata* distribution is made adopting the appropriate statistical unit.

Besides the directly charged and indirectly charged expenditure pertaining to a branch line, no other element of expenditure is taken into account for assessing the remunerativeness of a branch line. For example, the expenditure on the headquarters of the zonal railway would, in any case, be incurred irrespective of the operation of a small branch line. Therefore, no portion of such expenditure is taken into account for assessing the remunerativeness of a branch line. Thus the principle of marginal costing is already being applied."

61. The arrangement of exempting the capital-at-charge of the non-strategic portion of the Northeast Frontier Railway and unremunerative branch lines from the payment of dividend has been in existence for many years now. The Committee note that the suggestion made by the representative of the Ministry of Finance in the Expert Group on Capital Structure of Railways that the economics of the branch lines should be determined by adopting the marginal cost principle has been accepted by the Ministry of Railways. The Committee recommend for the years 1978-79 and 1979-80 the continuance of the present arrangement of exempting the capital-at-charge of the non-strategic portions of the Northeast Frontier Railway and unremunerative branch lines from the payment of dividend. In regard to the unremunerative branch lines, the capital cost thereof to be exempted from dividend should be based on annual reviews, the unremunerativeness of a particular branch line being determined by adopting the marginal cost principle.

(iii) National Investments:

62. It will be seen from item 2 of para 18 that the Ministry of Railways have sought the continuance of the existing arrangement of excluding from the capital-at-charge, the capital cost of new lines *viz.* Jammu—Kathua Section and Tirunelveli—Kanyakumari—Trivandrum line, as they are national investments.

63. Explaining how these lines came to be treated as national investments, the Chairman Railway Board stated during evidence:—

"About Jammu-Kathua line, originally it was decided that it should be a strategic line. Then the Cabinet decided not to call it a strategic line but a national line to connect Jammu and Kashmir State and put it at that. This is how the national line came up; otherwise it was a strategic line......

"There was a feeling that by connecting Kanyakumari with Kashmir, it was a national thing."

64. It is seen from the Interim Memorandum that the Jammu-Kathua line was opened to traffic on 2-10-72. The Tirunelveli—Trivandrum line is still under construction. A precise evaluation of the working results of the Jammu-Kathua line has not yet been made. The representative of the Ministry of Railways, however, informed the Committee during evidence that the line was at present giving very good results and had become remunerative.

65. The Committee regret to note that a precise evaluation of the working results of the Jammu-Kathua line has not been made even after more than six years of its opening to traffic. The Committee desire that this task should be undertaken without further delay for the information of Parliament and the public.

(iv) *Exemption from dividend on (i) the capital cost of new lines which have been taken up on or after 1-4-1955 on other than financial considerations (ii) capital cost of ferries and (iii) capital cost of welfare buildings.*

66. The Expert Group on Capital Structure of Indian Railways have stated:

"It has been suggested that only the productive assets should be retained as capital of the Railways and that the remaining capital cost should be written off. The Expert Group do not favour this suggestion. They would, however, recommend that, as an extension of the concessions already granted by the successive Convention Committees, the more important components of capital costs relating to unproductive assets should be identified and made eligible for dividend concessions. To enable the policy makers to know about the total subsidies given to the railways, the dividend reliefs recommended by the Expert Group on the capital components of assets in respect of which social burdens arise should also be separately included in the documents through which subsidies are sought for and granted in respect of the operating costs of such services. The following items are accordingly suggested for being considered for dividend relief:—

(i) The capital cost of all new lines taken up as developmental lines (not providing the usual return on capital), which were initially allocable to Development Fund but which

came to be allocated to Capital on the basis of the recommendations of the 1954 Convention Committee should be exempted from Dividend (This was earlier assessed as Rs. 185 crores). This is in modification of the existing concessions of a moratorium for the first 5 years and the facility of extinguishing the deferred dividend liability at the end of 20 years of their opening. There is a procedure of conducting a Productivity Test on the Railways in respect of new projects to ascertain whether the expectation regarding the financial return at the time of undertaking the construction of the project has actually materialised. According to the orders in force until recently, financial results of each new line opened for traffic were to be reported to the Railway Board from the year of opening upto the 11th year from the date of opening. On the basis of recommendation No. 52 (Para 5.74) of the 9th Report of the Railway Convention Committee, 1973, instructions have been issued to the Railways to work out the financial results for a period of 15 years from the date of opening. Available information about the financial results of the new lines taken up for construction after 1.4.1955 on other than financial considerations is scanty and is summarised in the statement at Annexure 11. As may be seen from the statement, the capital cost of these lines is Rs. 182.13 crores. The Expert Group recommend that this amount should be exempted from the calculation of dividend payable to General Revenues. This statement may be updated to ascertain the upto-date capital cost of all new lines taken up on other than financial considerations for being exempted from dividend liability. The capital cost of such of those lines which over a period of say five years remain remunerative should be treated as productive capital on which dividend should be paid.

(ii) The capital cost of uneconomic branch lines not taken into account for dividend exemption is Rs. 42.21 crores which was indicated to the Railway Convention Committee. 1971. This cost has been changing from year to year, but the Comptroller and Auditor General of India has not agreed to the cost being varied from year to year. Since a detailed review is made from year, the capital cost that should be taken into account should be on the basis of each annual review and not as a fixed amount indicated several years ago. The capital cost of these lines at the end of 1977-78 was Rs. 63.11 crores.

(iii) On the National investments, the existing concessions are that while they are exempted from payment of Dividend, surpluses, if any, are required to be made over to General Revenues while losses are to be borne by the Railways. The provisions about making over surpluses, if any, to General Revenues may be deleted or alternatively there should be provision to pass on the losses also to General Revenues, on the same lines as losses on strategic lines are allowed to be deducted from the Dividend payable.

(iv) The suburban services have been identified as one of the major social burdens of the Indian Railways. In a sense these services have been necessitated on account of the inability of the State Governments and employees in the private and public sectors to provide residential accommodation to the work force near their places of work. The practice elsewhere in the world is to absolve the Railway finances from the disabilities arising out of the maintenance of suburban services. The capital cost of suburban services (Rs. 114.64 crores as on 31-3-74) should be exempted from payment of dividend.

(v) The capital cost of ferries (Rs. 5.05 crores) should also be exempted from the payment of dividend.

(vi) The capital cost of welfare buildings like hospitals, dispensaries, health units, clubs, institutions, schools and colleges, hostels and other welfare centres (Rs. 3.43 crores to the end of 1976-77) should also be exempted from payment of dividend.

67. In their Interim Memorandum, the Ministry of Railways have stated that in regard to capital cost of suburban services, the representative of the Ministry of Finance has suggested that the dividend payable on this element of capital may also be taken into account in working out the subsidy on social burdens. The Committee which has been constituted to examine the social burdens on Indian Railways is expected to present its report shortly. The question of exempting from dividend liability the capital-at-charge in respect of suburban services would be examined separately and proposals, if any, would be made in consultation with the Ministry of Finance.

68. Pursuant to the recommendation of the Expert Group as agreed to by the Ministry of Finance, the Ministry of Railways have suggested

that the following elements of capital-at-charge may be exempted from the payment of dividend during the years 1978-79 and 1979-80:—

(a) The capital cost of new lines which have been taken up on or after 1-4-55 on other than financial considerations as indicated in Annexure 11 to the Report of the Expert Group on Capital Structure of Indian Railways (Copy enclosed as Appendix III) provided that if any such line becomes remunerative, adopting the marginal cost principle, during the years 1978-79 and 1979-80 dividend on the capital cost of such line shall be payable to the General Revenues.

(b) The capital cost of ferries.

(c) The capital cost of welfare buildings like hospitals, dispensaries, health units, clubs, institutes, schools and colleges, hostels and other welfare centres.

(a) New Lines

69. The Committee enquired from the representatives of the Ministry of Railways that as out of the 28 new lines taken up after 1-4-55, several lines have been constructed for carrying coal, iron ore, etc., would it not be desirable to treat them as project-oriented lines on which normal dividend should be paid after five years of their opening. The Financial Commissioner for Railways stated:

"A line which is remunerative, we call it up project-oriented, not necessary for minerals, etc. Project oriented and unremunerative—that is a term we used with the Planning Commission. In these cases also these were operational necessities to carry coal, iron ore and other things but when the financial working was done, they were unremunerative. So, as such, these have been treated an unremunerative investment and not project-oriented. Project-oriented is a very definite definition that the line is remunerative."

70. The Ministry of Railways have stated that exemption of capital cost of new lines from 1-4-1955 on other than financial considerations would give a relief of Rs. 10.48 crores from dividend liability during 1978-79.

71. The Committee note that twenty-eight lines have been listed by the Expert Group on Capital Structure of Railways as having been constructed since 1-4-1955 as development lines (not providing the usual return on capital) whose capital cost was initially allocable to Development Fund but which came to be allocated to capital on the basis of the recommendations of the 1954 Convention Committee. The Committee

have been further informed that these lines were operational necessities and when the financial results of their working, were assessed they turned out to be unremunerative.

72. The Committee would like to go into the question of what criteria should be adopted for construction of new lines in the light of the recommendations that might be made by the National Committee on Transport Planning (Pande Committee) which is presently studying the matter.

73. Meanwhile, the Committee have no objection to the suggestion of the Ministry of Railways, concurred in by the Ministry of Finance, that the capital cost of new lines which have been taken up on or after 1-4-1955 on other than financial considerations as indicated in Appendix III of this Report might be exempted from dividend, provided that if any such line becomes remunerative, adopting the marginal cost principle, during the years 1978-79 and 1979-80, dividend on the capital cost of such lines shall be paid to the General Revenues.

(b) Ferries

74. The Committee enquired from the representative of the Ministry of Railways during evidence the details of ferry services run by the Railways their financial results of working and the justification for their continuance. The representative of the Ministry stated:

> "Most of the ferries are in the Bihar area. At present we have got only three ferry services working—Sakrigalighat—Maniharighat. Mahendrughat—Palezaghat and Boverighat—Madhopurghat. We have been making frantic efforts either to stop the ferry service or to hand it over to the State Government. We have not so far succeeded in either. The loss is about Rs. 3 crores from all the three, because there is a lot of private ferry services, which are able to ply much cheaper. At one stage, the Bihar Government agreed that they should not licence private ferries. They ply from ghat to ghat."

75. When asked to state whether the Railways have any proposals to make them remunerative, the Financial Commissioner for Railways stated:—

> "It will require acquiring completely new vessels; it will be a completely new business, and I do not think it is needed. Further, when the new Patna road bridge comes, it would not be necessary. Here we have got a lot of staff problem also. We have tried to hand it over to the Inland Water Transport authorities. They have not been able to take up this particular route. We have tried all the methods."

76. The Financial Commissioner for Railways further stated:—

> "The State Government is not allowing us to close down the ferry service. We are willing to give all the vessels at the depreciated value, which would be almost nil, to the State Government, because we have operational problems and we are losing every year."

77. The dividend relief on the capital cost of ferries is stated to be Rs. 0.28 crores during 1978-79.

78. As the ferry services run by the Railways have been unremunerative with no likelihood of their financial results improving, the Committee recommend that the capital cost of ferries (Rs. 5.05 crores) may be exempted from payment of dividend during 1978-79 and 1979-80.

(c) Welfare Buildings

79. The Ministry of Railways has proposed that the capital cost of welfare buildings like hospitals, dispensaries, health units, clubs, institutions, schools, and colleges, hostels and other welfare centres (Rs. 3.43 crores to the end of 1976-77) should also be exempted from payment of dividend, as recommended by the Expert Group.

80. During evidence, the Committee were informed that in the case of public sector undertakings, the cost of construction of such buildings was being treated as part of equity capital.

81. The Committee, considering the nature of buildings, such as hospitals, dispensaries, health units, clubs, institutes, schools and colleges, hostels and other welfare centres, agree with the suggestion of the Ministry of Railways that the capital cost of these buildings might be exempted from dividend liability during the years 1978-79 and 1979-80.

(v) Concessional rate of dividend on the capital cost of residential Buildings

82. The Expert Group on Capital Structure of Indian Railways have stated:—

> "The capital cost of residential buildings (Rs. 96.21 crores) need a special treatment. In the case of Public Sector Undertakings the costs of townships and residential buildings are excluded while judging the financial performance on the ground that they are social overheads. In the case of Central Government, the cost of quarters is provided by the Government and

no interest is charged. The licence fee(rent) no doubt accrues to the Government. Policy in respect of housing of railway personnel and recovery of rent is exactly the same as for Central Government employees. Against over 40 per cent of the other Central Government employees provided with Government quarters in Delhi, only about 15 per cent of railway staff are housed in the metropolitan cities of Bombay, Calcutta, Delhi and Madras. The overall percentage of housing for Railway staff is only 38. The Railway Accidents Enquiry Committee 1968 (Justice Wanchoo Committee) in para 74 of their Report Part II had made a specific recommendation that larger provision for housing of the Railway employees is necessary and this amount should come from Central sources free of interest liability. Since the return on Railway houses is around 3 to 3.5 per cent and since the railway retain the rent recovered, it is recommended that while the allocation of staff quarters may remain "Capital", the dividend payable should not exceed 3. 5 per cent."

83. The representative of the Ministry of Finance in the Expert Group, referring to the above recommendation of the other members of the Group stated:

"Considering the practice in regard to public sector undertakings, where Government finance for colonies and townships is provided in the form of equity, I agree with the recommendation."

84. The Ministry of Railways have proposed that on the capital cost of residential buildings, dividend may be paid at the rate of 3.5 per cent. the existing arrangements under which the cost of construction of staff quarters are charged to "Capital" being continued.

85. Referring to the above proposal, the Committee enquired during evidence whether it would not be desirable for Government to follow a uniform policy in this regard and that only the licence fee received from the allottees should be credited instead of charging dividend very nearly equal to the licence fee received. The representative of the Ministry of Railways stated that the arrangement proposed by them was administratively convenient. It might lead to accounting problems if the data regarding recovery of actual licence fee were to be collected from the entire railway system and then credited to General Revenues. In any case, it will not make any difference to the overall financial position.

86. The Ministry of Railways have stated that the proposal, if accepted, would give them a dividend relief of Rs. 2.14 crores a year.

87. The Committee note that the annual return from Railway staff quarters is around 3 to 3.5 per cent of the cost of construction of such quarters. The Committee also observe that in the case of public sector undertakings, Government finance for colonies and townships is provided in the form of equity. The Committee consider the suggestion of the Ministry of Railways that on the capital cost of residential buildings, dividend may be paid at the rate of 3.5 per cent as reasonable and recommend its adoption for the years 1978-79 and 1979-80. The existing arrangements under which the cost of construction of staff quarters is charged to 'Capital' may also continue.

(vi) Extant provisions with regard to rate of dividend and equitable concessions

88. In the preceding paragraphs, the Committee have examined the new proposals arising out of the recommendations of the Expert Group on Capital Structure of Indian Railways as have been agreed to by the Ministries of Railways and Finance and have given their recommendations with regard to each of them. The Committee further recommend that the following extant provisions with regard to payment of dividend, etc. may continued during 1979-80:—

1. The present manner of fixing the payment of dividend to General Revenues, viz., at fixed percentage of the capital-at-charge of the Railways excluding the capital of strategic lines and making special provisions for certain ore lines, Jammu-Kathua section and Tirunelveli-Kanyakumari-Trivendrum line, etc., may continue.

2. The present arrangement of adopting differential rates of dividend on capital invested in the Railways upto 31st March, 1964 and that invested thereafter, may continue. The existing rates of dividend at 4.5 per cent of the capital invested in the Railways upto 31st March, 1964 with an addition of 1 per cent in lieu of the tax on passenger fares and to assist the State Governments in financing the Railway Safety Works and 6 per cent on capital invested in Railways after 31st March, 1964 may also be retained with the following ancillary provisions, including equitable concessions to the Railways, as below:—

(i) The present arrangement of deducting losses in working of strategic lines from the payment to General Revenues may also continue with the complementary arrangement that the earnings of such lines, if any, after meeting working expenses, depreciation and other charges may be paid to the General Revenues to the level of normal dividend.

(ii) **The present arrangement of permitting the Railways to take credit for the difference between the dividend rate of 6 per cent and the average borrowing rate at which interest would actually accrue, in respect of their various Fund balances banked with the General Revenues may also be continued.**

(iii) **On new lines other than those taken up on or after 1-4-1955 on other than financial considerations, the existing arrangement of:—**

(a) **deferring the payment of dividend on the capital-at-charge of New Lines chargeable at the average rate of interest during the period of their construction as well as for the first 5 years after their opening; and**

(b) **closing the account of deferred dividend on New Lines after a period of 20 years from the date of their opening, extinguishing any liability for deferred dividend not liquidated within that period;**

may be continued.

(iv) **50 per cent of the outlay on capital works-in-progress other than those pertaining to strategic lines, Northeast Frontier Railway (Commercial), ore lines, Jammu-Kathua and Tirunelveli-Kanyakumari-Trivandrum lines, New Lines, P & T Wires, ferries, welfare buildings and residential buildings, may continue to remain exempted from payment of dividend for a period of 3 years in each case during the period 1979-80.**

(vii) Dividend concessions to be shown as subsidy

89. A suggestion was made by the representative of the Ministry of Finance, a Member of the Expert Group, that reliefs by way of exemption from dividend envisaged in these proposals should be in the form of a specific subsidy and provided for in the Civil Estimates so that it gives an opportunity to the decision makers and Parliament to examine the relevance and justification of continuing to allow or reducing the subsidy. The Ministry of Railways have stated that the above suggestion had been examined in consultation with the Ministry of Finance and it is considered that the subsidy suggested by the representative of the Ministry of Finance in the Expert Group should cover not only the new reliefs proposed in this memorandum on the basis of the Expert Group's report but also other reliefs in regard to dividend payments which had been allowed to the Railways earlier and which are proposed to be continued. This will facilitate a better understanding and control over the operations of the Railways by Parliament. It is, therefore, proposed that the existing reliefs in dividend liability which are proposed to be continued and the additional

reliefs arising from the recommendations of the Expert Group may be provided as a specific subsidy from General Revenues to Railway Revenues.

90. The Committee welcome the suggestion of the Ministry of Finance that the reliefs in dividend liability should be shown in the Civil Estimates as specific subsidy from General Revenues to Railway Revenues. The Committee consider that this would enable Parliament to appreciate the type of operations of Railways which carry subsidy, and to decide on the continuance thereof from year to year.

91. The Committee recommend that in respect of the year 1979-80, the equitable concessions in the payment of dividend [vide sub para (2) of para 18 and items iii, iv, vii and viii of sub-para (4) of para 18 of this Report] may be paid from the General Revenues as a specific subsedy to the Railways. These equitable concessions in respect of the year 1978-79 may however, be availed of in accordance with the existing practice, viz by excluding them from the amount of dividend payable.

D. **Railway Funds**

(a) *Depreciation Reserve Fund*

92. The Expert Group on Capital Structure have stated.—

"The Expert Group do not wish to dilate on this problem as a Working Group set up by the Government in pursuance of a recommendation of the Railway Convention Committee, 1971 have already gone into this in detail and made their recommendations which have also been endorsed by the World Bank and accepted by the Government. For the purpose of this Report the Expert Group would only draw attention to the imperative need for stepping up the allocations to the Depreciation Reserve Fund for enabling the Railways to overtake the arrears in replacements. According to the projections made by the Ministry of Railways (Railway Board) the requirements of funds for replacement are as under during the Sixth Five-Year Plan—

(i) For meeting the current replacements —Rs. 1030 crores

(ii) For meeting the current replacements as also overtaking the arrears in replacements during the Sixth Plan itself —Rs. 1630 crores.

If the arrears of replacements are spread over two Plan periods (Sixth and Seventh) the requirements for the Sixth Plan would be Rs. 1330 crores. It will be seen that the requirements of

funds for replacements will be at a much higher level than the annual contribution of Rs. 145 crores made in recent years. This is perhaps the most glaring aspect of the Railways' financial problem that needs to be resolved in a rational manner if this vital means of transport is to play its due part in the national economy.

Shri Row, while agreeing entirely with the view that there should be no stinting of funds required for adequate and proper maintenance of Railway assets, felt that if the maintenance had been inadequate in recent years it could not be attributed solely to lack of funds in the Depreciation Reserve Fund, as the balance in the Fund has been rising in recent years from Rs. 98 crores at the end of 1968-69 to an estimated level of Rs. 236 crores at the end of 1978-79"

93. Keeping in view the above observations of the Expert Group, the Ministry of Railways have proposed that contribution to the Depreciation Reserve Fund may be provisionally fixed at Rs. 200 crores for the year 1979-80.

94. The Committee would like to be apprised of the allocations made for the Depreciation Reserve Fund and their actual utilisation during the Fifth Plan period. Pending receipt of a detailed Memorandum on the subject, the Committee have no objection to the contribution to the Depreciation Reserve Fund being fixed at Rs. 200 crores during 1979-80.

(b) *Revenue Reserve Fund*

95. The following is a proforma account of shortfalls in payment of dividend to General Revenues since 1969-70. The statement shows *inter alia* the loans obtained from General Revenues against the Revenue Reserve Fund for dividend equalisation and for payment of interest on such loans.

Proforma account of shortfalls in payment of dividend to General Revenues

(In crores)

Year	Net Revenue	Amount of dividend due		Surplus/ Shortfall	Net Arrears	Net Surplus
1	2	3		4	5	6
1969-70	146·56	156·39		—9·83	—9·83	..
1970-71	144·73	164·58		—19·85	—29·68	..
1971-72	169·08	*114·95		54·13	..	15·24
			TO/DF	—9·21		
				44·92		

1	2	3		4	5	6
				2·92		
1972-73	164·43	161·51	TO/DF	—2·92	..	15·24
1973-74	55·41	170·92		—115·51	—100·27	
1974-75	73·65	187·47		—113·82	—214·09	
1975-76	137·03	198·14		—61·11	—275·20	
1976-77	296·29	209·05		87·24	—213·81	
			TO/DF	—25·85		
				61·39		
				126·23		
1977-78	352·79	226·56	TO/DF	—34·61	—122·19	
				91·62		

*J*Includes payments to States in lieu of passenger fare tax etc.

*Excluding arrears dividend relief of Rs. 36·29 crores pertaining to 1969-70 and 1970-71 i.e.

	Rs. crores
Dividend due for 1970-71	151·24
Less Arrears of dividend relief of 1969-70 and 1970-71 .	(—)36·29
	114·95

96. The following statement shows the anticipations with regard to appropriations to and withdrawals from the Revenue Reserve Fund during the Sixth Plan period:—

REVENUE RESERVE FUND

(In crores of rupees)

ANTICIPATIONS DURING THE SIXTH PLAN

	1978-79	1979-80	1980-81	1981-82	1982-83
Opening balance					
—Cash	37·47		0·02	0·04	0·06
—Investment	0·32	0·32	0·32	0·32	0·32
Appropriation to Fund from Revenue .	..		..	..	..
Surplus Loan from General Revenues .	..	..	..	..	..
Interest on Balance	2·10	0·02	0·02	0·02	0·02
TOTAL	39·89	0·34	0·36	0·38	0·40
Withdrawal from Fund for					
—Dividend .	39·57			..	
—Repayment of loan	..			..	
—Interest on loan				..	
Closing balance .	0·32	0·34	0·36	0·38	0·40
TOTAL .	39·89	0·34	0·36	0·38	0·40

Loan liability on 1-41978 : Rs. 216·14 crores of which Rs. 122·19 crores is for dividend equilisedtion and the balance of Rs. 93·95 crores respresents accumulated interest.

97. It will be seen from the above statement that out of the loan liability of Rs. 216.14 crores against the Revenue Reserve Fund outstanding as on 1-4-1978. Rs. 122.19 crores represents loans obtained for meeting shortfalls in dividend payment.

98. The Expert Group have recommended in para 7.03 of their Report that all the accumulated indebtedness of the Railways to date should be written off. They have further recommended that the present system of borrowing loans by Railway Revenues from General Revenues for the purpose of dividend equalisation may be discontinued. They have suggested that shortfalls in dividend payments may be treated as deferred liability not carrying interest. Under this arrangement, a separate account would be maintained of shortfalls in payments of dividend, which will be paid by Railway Revenues to General Revenues from future surpluses.

99. In regard to the write off of the existing loan liability (Rs. 216.14 crores as on 1-4-1978), the representative of the Ministry of Finance has suggested that while the accumulated interest portion of the loan liability (Rs. 93.95 crores) under the Revenue Reserve Fund may be written off, the balance outstanding (Rs. 122.19 crores) should be carried forward and paid out of future surplus in the next 10 years at the end of which the position can be reviewed.

100. The Ministry of Railways have accordingly proposed that pending verification of the figures by Audit, out of the loan liability of Rs. 216.14 crores outstanding against Revenue Reserve Fund as on 1-4-1978, the amount of Rs. 93.95 crores representing the accumulated interest protion may be written off and the amount of Rs. 122.19 crores transferred to the account of arrear dividend liability on which no interest will be leviable hereafter. Similarly, on future shortfalls in dividend payments, no loans will be taken from General Revenues and no interest will be levied. The repayment of the outstanding loans will be made as and when surpluses accrue.

101. Having regard to the changes in the matter of treating shortfalls in dividend payments as a deferred liability on the basis of the Expert Group recommendations, the Ministry of Railways have proposed that from the Net Revenue of the Railways in respect of any year, allocations will be made in the following order:—

(i) Payment of current dividend.

(ii) Payment of interest on outstanding Development Fund loan.

(iii) Appropriation to meet expenditure on Development Fund works.

(iv) Payment of arrear dividend treated as a deferred liability.

102. The Committee are in agreement with the view expressed by the representative of the Ministry of Finance in the Expert Group on Capital Structure of Indian Railways that the loans outstanding against the Revenue Reserve Fund represent unpaid dividend and the accumulated interest. Consistent with the dispensation for the future, the balance outstanding may, therefore, be carried forward after writing off the accumulated interest and paid out of future surpluses in the next 10 years after which the position can be reviewed.

103. The Committee accordingly recommend:—

(a) the existing arrangement of the Railways taking temporary loans from the General Revenues to meet shortfalls in dividend payment may be discontinued with effect from 1-4-1978. In years in which the net Revenue of the Railways is not adequate to meet the current dividend liability, the shortfall in the payment of the current dividend liability shall be treated as a deferred liability on which no interest shall be charged. The deferred dividend liability shall be paid from out of the surplus available with the Railways after meeting the following:—

(i) Interest due on the outstanding Development Fund loan.

(ii) Meeting the expenditure on works chargeable to Development Fund.

(b) Subject to verification by Audit, out of the sum of Rs. 216.14 crores oustanding as loan due from Railway Revenues to the General Revenues in respect of the Revenue Reserve Fund a sum of Rs. 93.95 crores should be written off and the balance amount of Rs. 122.19 crores transferred to the deferred dividend liability account mentioned in the previous sub-para.

(C) *Development Fund*

104. The following table shows the anticipations with regard to appropriations to and withdrawals from the Development Fund during the Sixth Plan (Year-wise) :—

(In crores of Rupees)

Year	Appropriation to fund from				Withdrawals from Fund for			Net accretion	Closing balance	Loan Liability
	Rev. surplus	Loan from Genl Revenues	Interest on balance	Total	Works	Interest on loans	Total			
1978-79 .	32·04	—	0.24	32.28	24.13	8.39	32·52	—0·24	—	152·54
1979-80 .	14·39	19·29	—	33·68	25·00	6·68	33·68	—	—	171·83
1980-81 .	—	36·17	—	36·17	26·00	10·17	36·17	—	—	208·00
1981-82 .	—	48·40	—	48·40	35·00	13·40	48·40	—	—	356·40
1982-83	—	55·20	—	55·20	40·00	15·20	55·20	—	—	311·60

Outstanding loan liability on 1-4-1978 : Rs. 152·54 crores.

Outstanding loan liability on 31-3-1983 : Rs. 311·60 crores.

Opening balance on 1-4-1978 : Rs. 0·24 crores.

105. In regard to the financing of expenditure chargeable to Development Fund, the Expert Group have recommended that temporary loans may continue to be obtained from the General Revenues, such loans being repayable over a period of 10 years and carry interest at a subsidised rate of 3 per cent. While the representative of the Ministry of Finance has agreed with the above recommendation, he has suggested that the interest on such loans should be charged at the rate applicable to the State Governments (currently 5.5 per cent with a rebate of 0.25 per cent corprompt repayment). He has further suggested that the position can be reviewed after 10 years. In regard to the existing loan liability under Development Fund, the suggestion to write-off the same has not been acceptable by the representative of the Ministry of Finance.

106. The Ministry of Railways have suggested that the recommendation of the Expert Group as modified by the representative of the Ministry of Finance in regard to the rate of interest to be charged on loans taken against the Development Fund may be accepted. In regard to the recommendation of the Expert Group that loans taken against the Development Fund should be repaid over a period of 10 years, the Ministry of Railways have stated that while they accept the spirit of this recommendation, they would submit that the Financial results of the Railways may not generate enough surplus for making repayments f loans taken under the Development Fund after liquidating the arrears in dividend liability and meeting payments of interest on outstanding Development Fund loans. The Ministry have proposed that the loans for financing Development Fund works may continue to be provided as under the existing arrangement without any condition of repayment. Repayments would, no doubt be attempted in more prosperous years.

107. During evidence of the official representatives of the Ministry of Railways, the Committee pointed out that the loan liability of the Railways under the Development Fund was expected to increase from Rs. 152.54 crores in 1978-79 to Rs. 311.6 crores in 1982-83. Since the Railways did not expect to generate enough surpluses during the Sixth Plan, the Committee desired to know if Government had under consideration any alternative methods of financing expenditure at present chargeable to the Development Fund. The Financial Commissioner for Railways stated:

"The expenditure which is chargeable to the Development Fund is to be met by the Railways from their own resources. The Development Fund was first created in 1946 and was termed at that time as "Betterment Fund". Then the RCC in 1949 changed it into Development Fund and enlarged its scope, the idea being that we should not go to the General Revenues for capital expenditure so that the General Revenue is not

loaded and we should be able to meet the maximum expenditure from our own resources. There are three types of expenditure which are met from the Development Fund: (i) Users amenities—that is chargeable 100 per cent to Development Fund, that is under RCC's direction; (ii) Staff Welfare is also charged to Development Fund; (iii) Small, minor uneconomic operational improvements which are not otherwise remunerative, like small improvements in the yard. These are also charged to the Development Fund. Now these three items are charged to the Development Fund and in the over-all Plan if any of the expenditure is of this nature, it is necessarily to be charged to Development Fund and the General Revenues does not give us any money for this purpose. They give us only for capital expenditure which means new lines or gauge conversion and those which are remunerative. That is called capital expenditure, and they finance us by way of capital only to that extent ......Basically, the Development Fund is supposed to be created from the surpluses generated by the railways. We did not have the surplus, and we went to the General Revenues for loan, and it is now Rs. 152.54 crores. The figure of Rs. 311 crores is based on the projections of the Sixth Plan, *i.e.* if this is the quantum of the Sixth Plan, about this much expenditure would be debitable to the Development Fund, and thereby we will have to increase our ...n liability to Rs. 311.6 crores.

"Coming to the second part of the question which is operative as to what we are doing to reduce our burden on the Development Fund, one of the things which the Expert Group has said is that the classification of expenditure which is debitable to the Development Fund should be considered, and some of the items which are not of this nature or which are not properly chargeable to this Fund should be charged elsewhere. With that in mind, we have already reconsidered the classification, and some of the items which were previously charged to the Development Fund are now being charged to other funds. I will give you one or two examples. Provision of road over and under bridges in lieu of existing level crossings, which is an operational improvement of a minor nature, was being charged to the Development; it is now charged to the Accident Compensation & Safety Fund (ACSF), which is being provided under the directions of the RCC from passenger earnings. We started this on 1-4-75. Raising, extending, widening, surfacing, covering and other improvements to platforms do not give any economic return. They were also charged to the Development Fund before, now they are charged to ACSF. Like that there are one or two other items like provision of additional foot and overbridges, maintaining of level-crossings etc. So, the Development Fund will now get some relief."

Secondly, at present there is a category of expenditure called Open Line Works Revenue Expenditure (OLWR) consisting mainly of small little things which need not go to the Plan. Up to Rs. 3 lakhs it goes to the OLWER, and more than Rs. 3 lakhs it goes to the Development Fund. Similarly, up to Rs. 25,000 for the Staff Welfare Fund goes to revenue, and more than Rs. 25,000 to the Development Fund. These limits of Rs. 25,000 and Rs. 3 lakhs were fixed in 1949. The Expert Group has suggested that they should be increased to Rs. 1 lakh and Rs. 5 lakhs respectively. We are considering all these items.

There is another major point. For about 20 years, from 1-4-1950 to 1-4-1974, all the expenditure on staff quarters was charged to the Devolepment Fund. This is also one of the major reasons why it was burdened with all these loans. After 1-4-74, with the approval of the RCC it is being charged to capital. If this can be written back from the Development Fund, then the loan liability comes down. Capital will increase and on that we will continue to give dividend. This is one of the items we are thinking of. This is how we can relieve the Development Fund. Of course, the surpluses should be generated by the Railways."

108. The Committee are inclined to agree with the views of the Ministry of Finance that since the system of the temporary borrowings for meeting the expenditure chargeable to the Development Fund is proposed to be continued, there is no justification for writing off the loan liability of Rs. 153 crores accumulated over the years. Repayment should, therefore, be made by the Railways out of future surpluses.

109. The Committee recognise that certain essential but unremunerative items of expenditure have to be met from the Development Fund and it is only proper that a concessional rate of interest is charged on loans obtained from General Revenues for financing such works. The Committee are, therefore, in agreement with the suggestion of the Ministry of Finance that the rate of interest on such loans may be the same as charged on loans to State Governments.

110. The Committee accordingly recommend that the present provision for temporary borrowing from General Revenues when the balance in the Development Fund is inadequate to meet the expenditure chargeable to that Fund, may be continued, the interest on such loans taken on or after 1-4-1978 as also the loan outstanding as on that date being charged at the rate applicable to loans given to State Governments (currently 5.5 per cent with a rebate of 0.25 per cent for prompt repayment).

111. The Committee note that certain proposals for reclassification of expenditure chargeable to the Development Fund so as to reduce the burden on this fund are under consideration of Government. The Committee propose to deal with these matters on receipt of the final Memorandum on the subject.

NEW DELHI;
February 16, 1979
Magha 27, 1900 (*S*).

KRISHAN KANT,
Chairman,
Railway Convention Committee.

APPENDIX I

(*Vide* para 1 of Report)

Statement showing the action taken by Government on the recommendations contained in the First Report of Railway Convention Committee, 1977—Rate of dividend for 1977-78 and 1978-79 and other Ancillary Matters.

Sl. No.	Recommendations/Observations	Action taken by Govt.
1	2	3
1.	The Committee observe that during 1976-77 the financial performance of the Railways registered a marked improvement over the previous two years. As against a nominal surplus of Rs. 8·98 crores anticipated in the budget, the latest actuals indicates a net surplus of the order of Rs. 87·33 crores during the year. On the other hand, the Railways had closed the financial years 1974-75 and 1975-76 with a net deficit of Rs. 113·82 crores and Rs. 61·11 crores respectively. The Committee note with gratification that the budget estimates for 1977-78 presented in June, 1977 envisage a net surplus of Rs. 82·50 crores as against Rs. 26·45 crores projected in the Interim Budget presented in March, 1977.	Noted. It may be pointed out that the actual surplus for 1976-77 was Rs. 87·24 crores.
2.	The Committee further note that Railways' indebtedness to General Revenues under Development Fund and Revenues Reserve Fund has increased from Rs. 208·01 crores at the end of 1973-74 (i.e. that last year of the Fourth Plan) to Rs. 462 crores (approx.) to the end of 1976-77. So far as the current year (1977-78) is concerned, the Committee note that in view of the increased surplus expected to be achieved, the Railways' indebtedness to the General Revenues would go down from Rs. 477 crores mentioned in the Interim Budget to about Rs. 417 crores."	Noted. It may be pointed out that the Railways indebtedness to the General Revenues is expected to come down to Rs. 369 crores in the Revised Estimates for 1977-78.
3.	The Committee thus find that in spite of the Railways having earned a handsome surplus of about Rs. 87·3 crores during 1976-77 and an anticipated surplus of Rs. 32·5 crores in 1977-78, Railways' indebtedness to General Revenues continues to be a matter of great concern. Needless to say, it would need several years of sustained efforts on the part of that Railways to wipe off the liabilities that they have accumulated. The Committee have no doubt that the measures taken to augment the earnings and to keep the working expenses under strict check would continue to be a pursued with vigour so that the Railways may no longer have to look to General Finances for budgetary support and they are able to pay back the loans taken from the general exchequer as quickly as possible.	Noted.
4.	Keeping in view the present state of Railway finances, the Committee consider that the reliefs recommended by the Railway Convention Committee, 1973 in their Interim, Sixth and Eleventh Reports may continue during the financial years 1977-78 and 1978-79. The Committee accordingly recommend as follows :	Implemented in the Revised Estimates 1977-79 and Budget Estimat 1978-79.

1	2	3
	(1) The present mode of payment of a fixed dividend on the capial invested in the Railways as computed annually in lieu of the interest charges plus a small element of contribution to General Revenues, may continue in the interest of financial discipline.	
	(2) The present manner of fixing the payment of dividend to General Revenues, viz. at fixed percentage of the Capital-at-charge of the Railways excluding the capital of strategic lines and making special provision for certain ore lines, Jammu-Kathua section and Tirunelveli-Kanyakumari-Trivandrum line etc. may continue during the financial year 1977-78 and 1978-79.	
	(3) The present arrangement of adopting differential rates of dividend on Capital invested in the Railways upto 31st March, 1964 and that invested thereafter, may continue during 1977-78 and 1978-79. The existing rates of dividend at 4·5 per cent of the Capital invested in the Railways upto 31st March, 1964 with an addition of 1 per cent of the Capital in lieu of tax on passenger fares and to assist the State Governments in financing the Railway Safety works and 6 per cent on Capital invested on Railways after 31st March, 1964 may also be retained with the following ancillary provisions, including equitable concessions to the Railways, as below :—	
	(*i*) Out of the amount of additional 1 per cent dividend on the Capital invested in the Railways upto 31st March, 1964 a sum of Rs. 16·25 crores may be passed on to the States as payment in lieu of passenger fare tax and the balance utilised to assist the States in providing their portion of the resources required for financing safety works as at present.	
	(*ii*) The present arrangement of deducting losses in the working of strategic lines from the payment to General Revenues may also continue during the financial years 1977-78 and 1978-79 with the complementary arrangement that the earning of such lines, if any, after meeting working expenses, depreciation and other charges may be paid to the General Revenues to the level of normal dividend.	
	(*iii*) The present arrangement of exempting the Capital-at-charge of the non-strategic portions of the Northeast Frontier Railway, unremunerative branch lines and the element of over-capitalisation from the payment of dividend may continue during 1977-78 and 1978-79.	

1	2	3
	(*iv*) The present arrangement of permitting the Railways to take credit for the difference between the dividend rate of 6 per cent and the average borrowing rate at which interest would actually accrue, in respect of their various Fund balances banked with the General Revenues may also be continued during 1977-78 and 1978-79. (*v*) The existing arrangement of : (*a*) deferring the payment of dividend on the Capital-at-charge of New Lines chargeable at the average rate of interest during the period of their construction as well as for the first five years after their opening ; and (*b*) Closing the account of deferred dividend on New Lines after a period of 20 years from the date of their opening, extinguishing any liability for deferred dividend not liquidated within that period ; may be continued during the financial years 1977-78 and 1978-79.	
5.	In paragraphs 5·79 and 5·80 of their Ninth Report, the Railway Convention Committee, 1973 had observed as follows :— In paragraph 16 of their Sixth Report, the Railway Convention Committee had recommended that 50 per cent (instead of 25 per cent as hithertofore) of the capital outlay in the years 1974-75 and 1975-76 on works-in-progress other than those pertaining to strategic lines, Northeast Frontier Railway (Commercial), over-capitalisation, ore lines, Jammu-Kathua and Tirunelveli-Kanyakumari-Trivandrum lines, New Lines and P. & T. line wires, may be exempted from payment of dividend for a period of three years. This recommendation has since been approved by Parliament. Having regard to the difficult financial position of the Railways and also taking into consideration the long period of construction/gestation of Railway investment in general, the Committee recommend that 50 per cent of the outlay on capital works-in-progress, other than those specified above, may continue to remain exempted from payment of dividend for a period of three years in each case, during the entire period of the Fifth Plan, i.e., 1974—79.	Implemented in revised estimates 1977-78 and Budget Estimates 1978-79.
6.	While reiterating the above recommendations, the Committee would like to observe that the exemption from dividend liability allowed in respect of 50 per cent of the outlay on capital-works in progress should on no account be taken as a cover for delaying completion of the various projects. The Committee would strongly urge that all on going capital works schemes should be completed with expedition according to the prescribed schedules.	The observations of the Committee are noted. In this connection the policy outlines in para 21 of the Budget Speech (1978-79) of the Minister of Railways in Parliament on 21-2-1978 is reproduced below :— "21. Twenty-eight new railway lines and restoration

1	2	3
		schemes, which still require about Rs. 180 crores for their completion, are in hand in the current financial year. On account of severe limitations on resources, it has been my endeavour to concentrate on some of the schemes with a view to completing them instead of spreading the outlay thinly on a large number of projcts. As a result of this policy, it has been possible to complete 7 projects, in all respects, during the current financial year and these will not find place in the Budget for the next year. It has also been possible to commission three more lines partially. The same policy will be continued in the next financial year also and it will be possible to complete another four projects next year. Even in cases where funds cannot be provided for completing the entire project, we are planning to take up the work in suitable phases so that sections of projects can be commissioned and become productive progressively as more funds become available."
7	The Committee note that the Railways will have to make a contribution of Rs. 285 crores towards Depreciation Reserve Fund during 1977-78 and 1978-79 in fulfilment of a covenant entered into with the World Bank so as to arrive at an average of Rs. 130 crores per annum during the Fitth Plan period. This would also be in line with the requirements assessed by the Working Group on Depreciation. The Committee have therefore no objection to the contribution to the Depreciation Reserve Fund being raised to Rs. 140 crores during 1977-78 and Rs. 145 crores during 1978-79.	Implemented in revised Estimates 1977-78 and Budget Estimates 1978-79.
8	The Committee recommend that :	
	(i) the present provision for temporary borrowing from Central Revenues when the balance in the Development Fund is inadequate to meet its obligations for meeting the expenditure chargeable to the Fund and to play the interest on loans may be continued in 1977-78 and 1978-79 ; and	Ditto
	(ii) interest on loans, whether taken to finance the expenditure on development works or to pay the	

1	2	3
	interest on the principal of such loans should continue to be levied at the average borrowing rate chargeable to Commercial Departments.	
9.	The Committee recommend that the Railways may be permitted to take temporary loans as at present from the General Revenues to meet the full dividend liability when the Railways' net revenue is not adequate to pay the dividend to General Revenues and the Revenues Reserve Fund has no or insufficient balance to make good the shortfall. The interest on such loans may be paid by the Railways at the current borrowing rate during 1977-78 and 1978-79.	Implemented in Revised Estimates 1977-78 and Budget Estimates 1978-79. It may be pointed out that as the Financial results in the Working of Railways for both revised estimates 1977-78 and Budget estimates 1978-79 yielded surplus, the question of taking temporary loans from the General Revenues to meet the full dividend liability is not expected to arise. However, loans were required for repayment of outstanding loans and interest on loans as per extant rules.
10.	In paragraph 6.47 of their Ninth Report on Social Burdens on Indian Railways, the Railway Convention Committee, 1973 had observed as under : "So far as the question of financing the Staff Quarters is concerned, the Committee agree with the Railways' suggestion concurred in by the Ministry of Finance, that the cost of construction of staff quarters may be charged to 'Capital' during the Fifth Plan period. Dividend on such capital being payable only if the Railways have a surplus after discharging other dividend obligations" The Committee note that this arrangemen has been approved by Parliament for the period 1974—79.	Implemented in Revised Estimates 1977-78 and Budget Estimates, 1978-79.

APPENDIX II

(*Vide* para 2 of Report)

List of subjects on which Memoranda are to be submitted by the Ministry of Railways to Railway Convention Committee, 1977.

Review of the Fifth Plan

1. A review of the working and financial results of the Indian Railways during the four years 1974—78 covering the Fifth Plan.

Sixth Plan Prospects

II. Tentative forecasts of the financial prospects of the Indian Railways during the Sixth Five Year Plan period (1978—83) on the basis of the present freight rates and fares, price levels and the anticipated traffic.

Capital Structure

III. Consideration of proposals, if any, in respect of Railways' capital structure.

Dividend

IV. A review of the reasonableness of the present rates of dividend payable to General Revenues taking into account reliefs granted by earlier Convention Committees on certain special elements of capital and the proposals included in Memorandum III, above.

V. Review of the annual payment to the States, in lieu of the repealed passenger Fare Tax and the basis of determining the amount and its distribution during the Sixth Plan period.

Railway Funds

VI. The rate at which contribution should be made to the Depreciation Reserve Fund during the Sixth Plan period to meet the cost of renewal/ replacement of railway assets.

VII & VIII. Review of the Development Fund and Revenue Reserve Fund.

IX. Accruals to and expenditure from the Accident Compensation, Safety and Passenger Amenities Fund.

Social Burdens

X. A high powered Committee has been set up to examine the question of Social burdens on the Railways and to recommend workable methods of compensating the Railways for carrying these burdens. A memorandum on these matters will be submitted to the Convention Committee as soon as the report of the high powered Committee is received.

Waint. . ...

APPEN

(*Vide* para 68

List of New Lines constructed after 1-4-1955 on other

S. No.	Name of New Line	Railway	Purpose for which constructed	Cost (Rs. crores)
1	2	3	4	5
1.	Khandwa-Hingoli	C. Ry.	To provide North South MG link.	12·49
2.	Bhuktiarpur-Rajgir	E. Ry.	To increase tourist facilities in that area and also to serve the historical and religious places like Nalanda and Rajgir.	2·56
3.	Barasat-Hasanbad	E. Ry.	To meet transport needs of the area previously served by Barasat-Basirhat Rly. which was closed on 1-7-65.	2·56
4.	Kalkalighat-Dharmanagar	N. F. Ry.	For connecting Tripura with the rest of the country as the previous connection was severed with the partition of the country.	2·30
5.	Pathankot-Madhopur	N. Ry.	With a view to extending the line in J. & K. State and also to expedite movement of goods into the State.	0·41
6.	Barhan-Etah	N. Ry.	To help in the general development of the area.	1·34
7.	Quilon-Ernakulam (MG)	S. Ry.	To help trade and industry in the area and to attract tourist traffic.	6·39
8.	Fatehpur-Churu	W. Ry.	To provide quickest and shortest route between Jaipur and Churu Ratangarh and Sardarshahr.	0·55
9.	Ramwara-Bhildi	W. Ry.	As a famine relief work and for providing alternative M. G. route from Kandla Port to Northern India.	1·60
10.	Gandhidham-New Kandla	W. Ry.	To provide an alternative main line connection between Kandla and Delhi and other important points on MG section and also a shorter connection from Kandla to its hinterland.	0·80

DIX III

of Report).

than financial considerations

Estimated return		Date of opening of line.	Actual return			Remarks.
6th yr.	11th yr.		1st yr.	6th yr.	11th yr.	
6	7	8	9	10	11	12
2·76	NA	21-1-1961	Loss	(—)2·35	NA	
1·51	2·72	8-2-1962	(—)0·93	(—)1·19	+2·23	
	3·97	9-2-1962	(—)3·3	(—)4·69	(—)2·98	
(—)1·7		1-4-1964	(—)1·46	(—)2·11	(—)3·76	
1·7		11-11-1955	+3·83	+9·86	NA	
3·98		18-1-1959	NA	NA	(—)46·38	(1976-77)
3·75	NA	7-1-1958	loss	7·42	NA	Since converted into BG
3·85	NA	1-3-1957	(—)2·66	0·95	NA	
5·18	NA	24-4-1958	NA	1·58	NA	
NA		9-2-1962	NA	NA	(—)51·47	(1976-77)

1	2	3	4	5
11.	Sabarmati-Gandhinagar	W. Ry.	To connect the new capital of Gujarat and also Thermal Power House and Fertilizer Plant.	2·85
12.	Dabla-Singhana	W. Ry.	To serve the Copper Smelting Plant.	2·80
13.	Tornagallu-Mudukelapenta	S. C. Ry.	Movement of Iron Ore	3·30
14.	Rail Link to Haldia Port	S.E. Ry.	Export of Iron ore etc. via Haldia Port.	8·25
15.	Bangalore-Salem	S. Ry.	Development of the area	8·50
16.	Ghaziabad-Tughlakabad including second Yanum Bridge.	N. Ry.	To reduce congestion in Delhi area.	6·90
17.	Delhi-Avoiding Line	N. Ry.	To reduce congestion in Delhi area.	6·25
18.	Singrauli-Katni	C. Ry.	Movement of coal	24·37
19.	Madhopur-Kathua	N. Ry.	To provide rail facilities to J. & K. State.	1·77
20.	Hasan-Mangalore	S. Rly	To develop the hinterland of new Mangalore Port and to export about 2 million tonne of iron ore per annum.	23·73
21.	Guna-Maksi	W. Ry.	To Provide an alternative route for movement of increased coal traffic from Central India to Western India and to develop new area.	9·60
22.	Udaipur-Himmatnagar	W. Ry.	Movement of lime stone	10·56
23.	Barabil-Panposh	S.E. Ry.	Iron ore movement	1·08
24.	Champa-Korba	SE Ry.	For development of coal	0·88
25.	Champa-Korea Extension	SE Ry.	For movement of coal	2·04
26.	Robertsganj-Garwa Road	N. Ry.	Movement of coal	21·34
27.	Hatia-Nawagaon	SE Ry	Movement of iron ore	13·91
28.	Khojuriaghat-Malda	N. E Ry.	Movement of coal	3·91
			Rs.	182·13 crores

6	7	8	9	10	11	12
6·75		28-4-1976	NA	NA	NA	
		31-3-1974	NA	NA	NA	
10—15 under DCF as per assessment.		April/76				
8·25		16-1-1969				
5·54	6·9	14-11-1968	..	0·40(75-76)	..	
18·4		15-11-1966		3·94(75-76)	—	
6·76		16-2-1969		2·41(75-76)	..	
1·85	..	7-2-1972	(—)5·96	(—)1·94	Not due yet	
0·03	0·06	20-1-1966	1·54	32·52	5·58	
1·5	2·60	in progress				
(—)4·23	(—)13·99	June 76	NA	NA	NA	Recently opened
4·79	6·46	12-4-66	(—)0·04	0·68	0·74(76-77)	
25·00		20-4-1960			(—)0·09(72-73)	
17·4		20-12-1956			(—)14·33(72-73)	
9·72	15·1	Dec. 65			1·60(72-73)	
4·68	8·09	19-10-1963	..		(+)0·08(71-72)	
9·27	49·85	27-12-1964	2·06(66-67)			
16·77		10-4-1961	..		(—)1·48(75-76)	

APPENDIX—IV

(*Vide* para 2 of Introduction)

Summary of Recommendations/Observations

Sl. No.	Reference to para of report	Recommendations/ Observations
1	2	3
1	10-11	The Committee are unable to go into the performance of the Railways, both physical and financial, during the Fifth Five Year Plan (1974—78) in the absence of the review which was promised to be furnished by the Ministry of Railways. As regards the Sixth Plan the Plan outlay and the projections of traffic are yet to be finalised and what is available before the Committee is only a tentative financial forecast based on the existing levels of fares and freight and the projection which take into account only the performance targets initially envisaged in the formulation of the Sixth Five Year Plan of the Railways. These targets are stated to be under reassessment. In view of the above limitations from which the Sixth Plan financial forecasts suffer, the Committee would not like to go into details at this stage. However the tentative estimates show that at the current level of fares and freight, the Railways would be incurring deficits from the third year onwards of the Sixth Plan of the order of Rs. 8 crores in 1980-81, Rs. 29 crores in 1981-82 and Rs. 47 crores in 1982-83 even after taking into occount the various reliefs granted earlier and the additional reliefs proposed in the Interim Memorandum. The Committee have discussed the fresh proposals in the succeeding paragraphs. The emerging picture is indeed quite disturbing and is indicative of the fact that the Railways finances are still in a delicate stage contrary to

(1)	(2)	(3)
		what the surpluses earned during the lost few years might suggest. This, the Committee consider, points to the fact that the Railways, inspite of carrying a huge investment amounting to Rs. 5572 crores as on 31-3-1978 and inspite of their operations spreading over a period of 125 years, are still not organised in a manner they could be looked upon as a sound public enterprise which is economically viable and self-generating in resources that could be adequate to sustain the growth of the system so as to keep pace with the demands of a developing economy such as ours.
2	12	The Committee are well aware that the Railways do carry certain social burdens arising out of a few uneconomic services and also of the more familiar explanation of the Railways that the fares and freight are not fully aligned to the costs of operation. The Committee would deal with the question of social burdens when the Memorandum on this subject is received from the Railways. As regards fares and freight, a Committee known as Rail Tariff Enquiry Committee is already examining the matter.
3	13	The future of Indian economy is closely linked with the development of Railways and a great responsibility lies on the Railways in the economic resurgence of the country. The Railways have a key role to play in this effort and, therefore, they should organise the management in such a way that they stand out as a model of efficiency, economy and dedication in the service of the nation. This is possible only if the top echelons of management are constantly at the task of better management of the Railways through modernisation, cutting out waste, generating a sense of cost-consciousness at all levels. etc. rather than allow themselves to be tied down to the routine of day-to-day administration. The Committee trust that the warning signals given

(1)	(2)	(3)
		by the tentative financial forecast (for the Sixth Plan Period) would act as a spur for better and more sustained effort in the years to come so that the gains of the last few years are consolidated and the Railways are able to play their due role as a catalyst for the economic development of the country.
4	17	The Committee observe that it has taken nearly six years for the Ministry of Railways to take conclusive action on the recommendation made by the Railway Convention Committee, 1971 with regard to the question of revamping the Capital structure of the Railways. Now that the matter has been gone into in depth by two expert bodies during this period, the Committee trust that speedy action will be taken by the Ministries of Finance and Railways to formulate specific proposals on such of the recommendations of the Expert Group on Capital Structure as are still under consideration.
5	29-30	The Committee observe from the statement given in para 22 of Report that the element of contribution in the annual dividend paid by the Railways (as distinct from the interest component) has been going down steadily from the year 1969-70. The net contribution (excluding payments to States stood at Rs. 10 crores in 1969-70 whereas in 1977-78, it came down to (—) Rs. 17.04 crores. The Committee do not see any reason why any departure should be made from the salutary principle of the Railways making a positive contribution to General Revenues over and above the interest payable on the capital-at-charge at the average borrowing rate of Government of India. The Committee are, therefore, distressed to note that despite substantial growth in the volume of both passenger and goods traffic, the

(1)	(2)	(3)
		modernisation plans undertaken by the Railways and the considerable increases in freights and fares, the net contribution of the Railways to the Nation's kitty has shown a declining trend over the years. The question whether the hardening of interest rates and as a consequence the increase in cost of Government borrowing would justify increase in the dividend rate during the Sixth Plan is matter on which the Committee would reserve their opinion till the views of the Ministry of Railways get crystalised in the final Memorandum proposed to be submitted by them.
		The Committee would only like to point out at this stage that if the public sector has to attain the present mode of payment of a fixed dividend inescapable that the Nation's largest public undertaking spares no effort to generate adequate resources for its development and expansion.
6	31	The Committee accordingly recommend that the present mode of payment of a fixed dividend on the capital invested in the Railways as computed annually in lieu of the interest charges plus a small element of contribution to General Revenues, may continue in the interest of financial discipline.
7	41-42	The Committee note that for long time now the amount assessed as "over-capitalisation" has been exempt from payment of dividend following the recommendations of Railway Convention Committees in the past. The amount of over-capitalisation hitherto exempt from dividend liability was about Rs. 118.25 crores. As per the latest assessment made by the Expert Group on Capital Structure of Indian Railways, this figure now stands at Rs. 122.54 crores. The Expert Group have suggested that this amount should be written off the Railways' books without financial adjustment as it does not represent any tangible assets and merely indicates some account-

(1)	(2)	(3)
		ing transaction. According to the Expert Group amortization of this amount by setting apart amounts from revenue surplus from year to year 'would remain a laudable but unattainable proposition in the forseeable future'.
		As the element of over-capitalisation has for a long time now been exempt from dividend liability and it is most unlikely, looking at the financial position of the Railways, that such amount could be amortized from the revenue surpluses for many years to come, the Committee have no objection for the amount assessed by the Expert Group as over-capitalisation (Rs. 122.54 crores) being written off the Railways' books without financial adjustment subject to the condition that the additional amount of Rs. 4.29 crores over the earlier assessment of Rs. 118.25 crores is vetted by the Comptroller and Auditor General of India.
8	46	Pending formulation of the detailed proposals applicable to the Sixth Plan period as a whole, the Committee have no objection to the continuance of the existing rates of dividend during 1978-79 and 1979-80 as already concurred in by the Ministry of Finance.
9	55	The Committee would like to examine in depth the question of the adequacy of grants paid to the States in lieu of the tax on passenger fares in the light of the observations of the Seventh Finance Commission and the final Memorandum to be received from the Ministry of Railways on the subject. Till then the existing arrangements may continue.
10	61	The arrangement of exempting the capital-at-charge of the non-strategic portion of the Northeast Frontier Railway and unremunerative branch lines from the payment of dividend has

(1)	(2)	(3)
		been in existence for many years now. The Committee note that the suggestion made by the representative of the Ministry of Finance in the Expert Group on Capital Structure of Railways that the economics of the branch lines should be determined by adopting the marginal cost principle has been accepted by the Ministry of Railways. The Committee recommend for the years 1978-79 and 1979-80 the continuance of the present arrangement of exempting the caiptal-at-charge of the non-strategic portions of the Northeast Frontier Railway and unremunerative branch lines from the payment of dividend. In regard to the unremunerative branch lines, the capital cost thereof to be exempted from dividend should be based on annual reviews, the unremunerativeness of a particular branch line being determined by adopting the marginal cost principle.
11	65	The Committee regret to note that a precise evaluation of the working results of the Jammu-Kathua line has not been made even after more than six years of its opening to traffic. The Committee desire that this task should be undertaken without further delay for the information of Parliament and the public.
12	71 to 73	The Committee note that twenty eight lines have been listed by the Expert Group on Capital Structure of Railways as having been constructed since 1-4-1955 as developmental lines (not providing the usual return on capital) whose capital cost was initially allocable to Development Fund but which came to be allocated to capital on the basis of the recommendations of the 1954 Convention Committee. The Committee have been further informed that these lines were operational necessities and when the financial results of their working, were assessed they turned out to be unremunerative.

(1)	(2)	(3)
		The Committee would like to go into the question of what criteria should be adopted for construction of new lines in the light of the recommendations that might be made by the National Committee on Transport Planning (Pande Committee) which is presently studying the matter. Meanwhile, the Committee have no objection to the suggestion of the Ministry of Railways, concurred in by the Ministry of Finance, that the capital cost of new lines which have been taken up on or after 1-4-1955 on other than financial considerations as indicated in Appendix III of this Report might be exempted from dividend, provided that if any such line becomes remunerative, adopting the marginal cost principle, during the years 1978-79 and 1979-80, dividend on the capital cost of such lines shall be paid to the General Revenues.
13	78	As the ferry services run by the Railways have been unremunerative with no likelihood of their financial results improving, the Committee recommend that the capital cost of ferries (Rs. 5.05 crores) may be exempted from payment of dividend during 1978-79 and 1979-80.
14	81	The Committee, considering the nature of buildings, such as hospitals, dispensaries, health units, clubs, institutes schools and colleges, hostels and other welfare centres, agree with the suggestion of the Ministry of Railways that the capital cost of these buildings might be exempted from dividend liability during the years 1978-79 and 1979-80.
15	87	The Committee note that the annual return from Railway staff quarters is around 3 to 3.5 per cent of the cost of construction of such quarters. The Committee also observe that in the case of public sector undertakings, Government

(1)	(2)	(3)
		finance for colonies and townships is provided in the form of equity. The Committee consider the suggestion of the Ministry of Railways that on the capital cost of residential buildings, dividend may be paid at the rate of 3.5 per cent as reasonable and recommend its adoption for the years 1978-79 and 1979-80. The existing arrangements under which the cost of construction of staff quarters is charged to 'Capital' may also continue.
16	88	In the preceding paragraphs, the Committee have examined the new proposals arising out of the recommendations of the Expert Group on Capital Structure of Indian Railways as have been agreed to by the Ministries of Railways and Finance and have given their recommendations with regard to each of them. The Committee further recommend that the following extant provisions with regard to payment of dividend etc. may continue during 1979-80:— 1. The present manner of fixing the payment of dividend to General Revenues, *viz.* at fixed percentage of the capital-at-charge of the Railways excluding the capital of strategic lines and making special provisions for certain ore lines, Jammu-Kathua section and Tirunelveli-Kanyakumari-Trivandrum line, etc. may continue. 2. The present arrangement of adopting differential rates of dividend on capital invested in the Railways upto 31st March, 1964 and that invested thereafter, may continue. The existing rates of dividend at 4.5 per cent of the capital invested in the Railways upto 31st March, 1964 with an addition of 1 per cent in

(1)	(2)	(3)
		lieu of the tax on passenger fares and to assist the State Governments in financing the Railway Safety Works and 6 per cent on capital invested in Railways after 31st March, 1964 may also be retained with the following ancillary provisions, including equitable concessions to the Railways, as below:—
		(i) The present arrangement of deducting losses in working of strategic lines from the payment to General Revenues may also continue with the complementary arrangement that the earnings of such lines, if any, after meeting working expenses, depreciation and other charges may be paid to the General Revenues to the level of normal dividend.
		(ii) The present arrangement of permiting the Railways to take credit for the difference between the dividend rate of 6 per cent and the average borrowing rate at which interest would actually accrue, in respect of their various Fund balances banked with the General Revenues may also be continued.
		(iii) On new lines other than those taken up on or after 1-4-1955 on other than financial considerations, the existing arrangement of:—
		(a) deferring the payment of dividend on the capital-at-charge of New Lines chargeable at the average rate of interest during the period of their construction as well as for the first 5 years after their opening; and

(1)	(2)	(3)
		(b) closing the account of deferred dividend on New Lines after a period of 20 years from the date of their opening, extinguishing any liability for deferred dividend not liquidated within that period; may be continued. (iv) 50 per cent of the outlay on capital works in-progress other than those pertaining to strategic lines, North-east Frontier Railway (Commercial), ore lines, Jammu-Kathua and Tirunelveli-Kanyakumari-Trivandrum lines, New Lines, P & T Wires, ferries, welfare buildings and residential buildings, may continue to remain exempted from payment of dividend for a period of 3 years in each case during the period 1979-80
17	90 & 91	The Committee welcome the suggestion of the Ministry of Finance that the reliefs in dividend liability should be shown in the Civil Estimates as specific subsidy from General Revenues to Railway Revenues. The Committee consider that this would enable Parliament to appreciate the type of operations of Railways which carry subsidy, and to decide on the continuance thereof from year to year. The Committee recommend that in respect of the year 1979-80, the equitable concessions in the payment of dividend [*vide* sub-para (2) of para 18 and items iii, iv, vii and viiii of sub-para (4) of para 18 of this Report], may be paid from the General Revenues as a specific subsidy to the Railways. These equitable concessions in respect of the year 1978-79 may, however, be availed of in accordance with the existing practice *viz*. by excluding them from the amount of dividend payable.

(1)	(2)	(3)
18	94	The Committee would like to be apprised of the allocations made for the Depreciation Reserve Fund and their actual utilisation during the Fifth Plan period. Pending receipt of a detailed Memorandum on the subject, the Committee have no objection to the contribution to the Depreciation Reserve Fund being fixed at Rs. 200 crores during 1979-80.
19	102 & 103	The Committee are in agreement with the view expressed by the representative of the Ministry of Finance in the Expert Group on Capital Structure of Indian Railways that the loans outstanding against the Revenue Reserve Fund represent unpaid dividend and the accumulated interest. Consistent with the dispensation for the future. the balance outstanding may therefore, be carried forward after writing off the accumulated interest and paid out of future surpluses in the next 10 years after which the position can be reviewed. The Committee accordingly recommend:— (a) the existing arrangement of the Railways taking temporary loans from the General Revenues to meet shortfalls in dividend payment may be discontinued with effect from 1-4-1978. In years in which the Net Revenue of the Railways is not adequate to meet the current dividend liability, the shortfall in the payment of the current dividend liability shall be treated as a deferred liability on which no interest shall be charged. The deferred dividend liability shall be paid from out of the surplus available with the Railways *after* meeting the following:— (i) Interest due on the outstanding Development Fund loan.

(1)	(2)	(3)
		(ii) Meeting the expenditure on works chargeable to Development Fund. (b) Subject to verification by Audit, out of the sum of Rs. 216.14 crores outstanding as loan due from Railway Revenues to the General Revenues in respect of the Revenue Reserve Fund a sum of Rs. 93.95 crores should be written off and the balance amount of Rs. 122.19 crores transferred to the deferred dividend liability account mentioned in the previous sub-para.
20	108 to 111	The Committee are inclined to agree with the views of the Ministry of Finance that since the system of the temporary borrowings for meeting the expenditure chargeable to the Development Fund is proposed to be continued, there is no justification for writing off the loan liability of Rs. 153 crores accumulated over the years. Repayments should, therefore, be made by the Railways out of future surpluses. The Committee recognise that certain essential but unremunerative items of expenditure have to be met from the Development Fund and it is only proper that a concessional rate of interest is charged on loans obtained from General Revenues for financing such works. The Committee are, therefore, in agreement with the suggestion of the Ministry of Finance that the rate of interest on such loans may be the same as charged on loans to State Governments. The Committee accordingly recommend that the present provision for temporary borrowing from General Revenues when the balance in the Development Fund is inadequate to meet the expenditure chargeable to that Fund, may be continued, the interest on such loans taken on or after 1-4-1978 as also the loan outstanding as

(1)	(2)	(3)
		on that date being charged at the rate applicable to loans given to State Governments (currently 5.5 per cent with a rebate of 0.25 per cent for prompt repayment).
		The Committee note that certain proposals for reclassification of expenditure chargeable to the Development Fund so as to reduce the burden on this fund are under consideration of Government. The Committee propose to deal with these matters on receipt of the final Memorandum on the subject.

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