R. C. C. No. 1

RAILWAY CONVENTION COMMITTEE 1971

FIRST REPORT

Accounting Matters

LOK SABHA SECRETARIAT
NEW DELHI

December, 1972/Agrahayana 1894 (S)

Price: Rs. 1.70

LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA SECRETARIAT PUBLICATIONS

Sl. No.	Name of Agent	Agency No.
	ANDHRA PRADESH	
1.	Andhra University General Cooperative Stores Ltd., Waltair (Visakhapatnam)	8
2.	G.R. Lakshmipathy Chetty and Sons, General Merchants and News Agents, Newpet, Chandragiri, Chittoor District.	94
	ASSAM	
3.	Western Book Depot, Pan Bazar, Gauhati.	7
	BIHAR	
4.	Amar Kitab Ghar, Post Box 78, Diagonal Road, Jamshedpur.	37
	GUJARAT	
5.	Vijay Stores, Station Road, Anand.	35
6.	The New Order Book Company, Eillis Bridge, Ahmedabad-6.	63
	HARYANA	
7.	M/s. Prabhu Book Service, Nai Subzimandi, Gurgaon, (Haryana).	14
	MADHYA PRADESH	
8.	Modern Book House, Shiv Vilas Palace, Indore City.	13
	MAHARASHTRA	
9.	M/s. Sunderdas Gianchand, 601, Girgaum Road, Near Princess Street, Bombay-2.	6
10.	The International Book House (Private) Limited, 9, Ash Lane, Mahatma Gandhi Road, Bombay-1.	22
11.	The International Book Service, Deccan Gymkhana, Poona-4.	26
12.	Charles Lambert & Company, 101, Mahatma Gandhi Road, Opposite Clock Tower, Fort, Bombay.	30
13.	The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-1.	60
14.	Deccan Book Stall, Ferguson College Road, Poona-4.	65
15.	M/s. Usha Book Depot, 585/A, Chira Bazar, Khan House, Girigaum Road, Bombay-2 B.R.	5
	MYSORE	
16.	M/s. Peoples Book House, Opp. Jaganmohan Palace, Mysore-1.	16
	RAJASTHAN	
17.	Information Centre, Government of Rajasthan, Tripolia, Jaipur City.	38
	UTTAR PRADESH	
18.	Swastik Industrial Works, 59, Holi Street, Meerut City.	2
19.	Law Book Company, Sardar Patel Marg, Allahabad-1.	48
	WEST BENGAL	
20	Granthaloka, 5/1, Ambica Mookherjee Road, Belgharia, 24 Parganas.	10
21.	W. Newman & Company Ltd., 3, Old Court House Street, Calcutta.	44
22.	Firma K.L. Mukhopadhyay, 6/1A, Banchharam Akrur Lane, Calcutta-12.	82
23.	M/s. Mukherji Book House, 8-B, Duff Lane, Calcutta-6	4

CORRIGENDA

First Report of the Railway Convention Committee, 1971 (Presented on 15.12.72)

Page	Para	Line	For	Read
(i)	-	14	LIVE	LIEU
(vi)	6	5	"taken"	"taken to"
1	1(ii)	1	"extent"	"extant"
5	2.6	16	"accrue"	"accrued"
5	2.7	6	"ever"	"over"
13	2.32	8	"Committee"	"Committee that"
14	2.33	15	"402* "	"405+402* "
23	2.59	5	"reasons"	"reason"
23	2.59	11	"Railways"	"Railway"
34	2.101	1-2	"average"	"overage"
34	2.102	11	"283"	"138"
35	2.103 (ii)	3-4	"enuip-ment"	"equipment"
35	2.105	1	"stated"	"stated that"
36	2.110	1	"13.1 13.2"	"13.1 and 13.2"
40	2.121	5	"of"	"to"
47	3.19	6-7	"States" in lieu of Passenger Fare Tax"	"States in lieu of Passenger Fare Tax"".
48	3.20	1	"inequitable"	"inequitable"
48	3.21	3 from below	delete "a"	
52	3.22	2 of table	"base"	"basis"
52	3.22	5 of table	"31- -1971"	"31.3.1971"
57	3.35	4	"taken"	"taken up"
60	3.45	1	"added"	"added that"
61	3.47 (2)	3	"bridges"	"/under bridges"

66	4.6	7	"recommendatin"	"recommendation"
66	4.6	4 from below	"expeditue"	"expenditure"
68	4.11	last line	"90.77"	"82.65"
69	4.13	6	"chargable"	"chargeable"
75	5.13	18	"need"	"needs"
89	7.2	24	"rationable"	"rationale"
93	7.15 (iv)	3	"planing"	"planning"
98	7.15 (v)	1	"Computer	"Computer"
98	7.16	3	"operation"	"operational"
98	7.17	4	"enermous"	"enormous"
99	7.19	10	"financial"	"Financial"
99	7.20	9	<u>delete</u> "the"	
100	7.20	7	"Manager"	"Managers"
101	7.24	2	"Master"	"Masters"
101	7.26	5-6	"about Rs.20 lakhs"	"of Rs. 20 lakhs' and above".
102	7.27	7	"The"	"To".
106	7.35	9	"Baroda"	"Hyderabad"
106	7.36	1	<u>delete</u> "to"	
106	7.37	3	"importing"	"imparting"
108	7.43	8	"repair, stores"	"repair stored"
109	7.45 (1)	1	"Suspects"	"Subjects"
114	7.57	1	"nothing"	"noting"
116	7.64	5	"saying"	"saving"
118	7.73	4	<u>delete</u> "not"	
118	7.73	6	"computrisation	"computerisation"
118	7.74	3	"system and ecnomics"	"systems and economies"
120	7.18	14	"urged"	"urge"
127	11	1	"ans"	"fans"
134	S.No.7	8	<u>delete</u> "some"	
145	" 39	1	"extent"	"extant"
148	" 44	7	"due"	"the"

CONTENTS

RAILWAY CONVENTION COMMITTEE
(1971)

1. Shri R. K. Sinha—*Chairman*

MEMBERS

2. Shri Y. B. Chavan
3. Shri S. R. Damani
4. Shri M. Deiveekan
5. Shri K. Hanumanthaiya
6. Shri M. Kalyanasundaram
7. Shri M. K. Krishnan
8. Shri Mohd. Shafi Qureshi*
9. Shri N. K. P. Salve
10. Shri Nawal Kishore Sinha
11. Shri Maddi Sudarsanam
12. Shri Atal Bihari Vajpayee
13. Shri T. V. Anandan
14. Shri Harsh Deo Malaviya**
15. Shri Pitambar Das
16. Shri Nageshwar Prasad Shahi
17. Shri Chakrapani Shukla
18. Shri M. P. Shukla.

SECRETARIAT

Shri Avtar Singh Rikhy—*Joint Secretary*

Shri G. D. Sharma—*Under Secretary.*

---

*Nominated to be a Member of the Committee w. e. f. 18th August, 1972 *vice* Shri S. M. Krishna, resigned from the membership of Lok Sabha.

**Nominated to be a Member of the Committee w. e. f. 24th May, 1972 *vice* Shri Mahitosh Purkayastha resigned from the membership of Rajya Sabha.

INTRODUCTION

I. the Chairman of the Railway Convention Committee, 1971, having been authorised by the Committee to present this First Report on their behalf, present this Report on "Accounting Matters".

2. The Interim Report of the Railway Convention Committee, 1971 was presented to Parliament on the 7th December, 1971 and was adopted by the two Houses on the 16th and 20th December, 1971.

3. The Committee had indicated in para 9 of their Interim Report some important aspects of Railway functioning which have a vital bearing on the financial position of the Railways and would need closer examination. The Committee in particular mentioned remunerativeness of Branch Lines; conversion of gauges; optimum utilisation of existing Railway assets; delays in the turn-round of wagons; measures taken to augment Railway revenue; elimination of pilferage and thefts; reducing the incidence of ticketless travelling; introduction of a system of Cost Analysis and Management Accountancy; alterations, if any, in the allocation of Railway expenditure between Capital, Revenue, Depreciation, Reserve Fund and Development Fund; Social burdens on the Railways; Working of Production Units and Workshops; passenger and staff amenities etc. meriting such examination.

4. The Committee decided at their sitting held on the 28th January, 1972 to call for memoranda from Members of Parliament, non-official organisations, Chambers of Commerce and Industry, Railway Men's Unions, professional organisations (Institutes of Management etc.), retired Railway Officers, Public Undertakings and other eminent individuals having knowledge and experience of the working of Indian Railways. The Chief Secretaries of all State Governments were also requested to furnish memoranda on matters in which the States may be interested. A Press note was also issued on the 7th April, 1972 inviting all those who had any suggestions to offer to furnish memoranda for consideration by the Committee within a month.

5. In response to the above, the Committee have received 70 memoranda from the following:—

(1)	Members of Parliament ..	9
(2)	State Governments ..	8
(3)	Railwaymen's Unions ..	7
(4)	Chambers of Commerce ..	19
(5)	Professional Organisations ..	4
(6)	Retired Railway Officers ..	11
(7)	Public Undertakings (including Bureau of Public Enterprises) ..	9
(8)	Other individuals ..	3

6. The Committee also undertook tours to various Zonal Railways and held informal discussions with the General Managers|Heads of Departments|Divisional Superintendents concerned. They also visited some Railway Workshops, Production Units and Research and Training Establishments. Opportunity was also taken hold informal discussions with the representatives of local Chambers of Commerce and Industry on the working of Railways.

7. At the sitting of the Committee held on the 14th July, 1972, it was decided that Reports on the following subjects may be prepared on a priority basis:—

(1) Accounting Matters;

(2) Suburban Services;

(3) Commercial and allied matters; and

(4) Requirements and availability of wagons.

8. The Committee accordingly called for written replies on the above subjects from the Ministry of Railways to facilitate a thorough examination. The Committee took the evidence of the representatives of the Ministry of Railways on 'Accounting Matters' and 'Suburban Services' on the 23rd, 24th, 25th, and 26th October, 1972. Evidence on "Commercial and allied Matters" was partly completed at the sittings held on the 21st, 22nd and 23rd November, 1972.

9. The Committee have held 24 sittings so far. Their Reports on "Suburban Services", "Commercial and Allied Matters" and "Requirements and availability of wagons" are expected to be finalised during the course of the next 2-3 months.

10. The Committee wish to express their thanks to the Chairman and Members of the Railway Board and the Financial Commissioner for Railways for placing before the Committee the material and information that they wanted in connection with the examination of the subject.

11. The Committee also wish to thank the Members of Parliament, Railwaymen's Unions, Chambers of Commerce, Professional Organisations, Retired Railway Officers, Public Undertakings, State Governments and other individuals who have furnished memoranda to the Committee and given valuable suggestions on the working of the Indian Railways.

12. The Committee also wish to thank the Federation of Indian Chambers of Commerce and Industry, New Delhi; the Federation of Associations of Small Industries of India, New Delhi; the Associated Chambers of Commerce and Industry, Calcutta; National Institute for Training in Industrial Engineering, Bombay, National Federation of Indian Railwaymen, New Delhi and Sarvashri D. V. Reddy, R. P. Srivastava, D. D. Desai, M.P., G. D. Khandelwal and Shri K. B. Mathur for appearing before the Committee and making valuable suggestions.

13. The Interim Report of the Committee covered the period 1971-72 and 1972-73. The present report covers the next financial year *viz.* 1973-74. Other reports of the Committee will be presented after they have completed examination of the various matters referred to in para 3 above.

14. The Report was considered and adopted by the Committee at their sitting held on the 12th December, 1972.

15. Summary of recommendations|conclusions contained in the Report is appended to the Report (Appendix VII).

NEW DELHI;

December 14, 1972.

Agrahayana 23, 1894 (*S*).

R. K. SINHA,

Chairman,

Railway Convention Committee.

CHAPTER I

RATE OF DIVIDEND AND OTHER ANCILLARY MATTERS

The Committee had, in their Interim Report presented to Parliament last year, made *inter-alia* the following recommendations covering the period 1971-72 and 1972-73:—

(i) The existing rate of dividend at 4½ per cent of the capital invested in the Railways upto 1963-64 with an addition of 1 per cent in lieu of passenger fare tax and at 6 per cent of the capital invested after 31st March, 1964 should continue to be paid by the Railways to the General Revenues;

(ii) The extent arrangements for the purpose of dividend in regard to the strategic lines, Kiriburu-Bimalgarh and Sambalpur-Titlagarh ore lines and the Kathua-Jammu line may continue;

(iii) The Capital-at-Charge of the non-strategic portion of the Northeast Frontier Railway and the unremunerative branch lines as also the element of overcapitalisation may be exempted from payment of dividend;

(iv) The existing arrangements of (a) deferring the payment of dividend on the Capital-at-charge of New Lines chargeable at the average borrowing 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 of 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;

(v) Having regard to the long period of construction/gestation of railway investment in general and the time taken by such investments to reach full earning potential, 25 per cent of outlay in a year on works-in-progress (which could otherwise be liable to payment of dividend) may be exempted from payment of dividend for a period of 3 years;

(vi) Consistent with the commercial practice of utilising reserves as internal resources, the Railways should be given the benefit of interest at the current dividend rate on the fund balances by being permitted to take credit for the differences between the dividend rate and the average borrowing rate at which interest accrues at present to the Funds as a set off in the dividend payable from the Railways to the General Revenues.

1.1. The Committee recommend that the above recommendations with regard to the rate of dividend payable by the Railways to General Revenues and other ancillary matters, may be taken to cover the next financial year viz. 1973-74 also.

CHAPTER II

DEPRECIATION RESERVE FUND

A. Procedure for determining appropriations

The Depreciation Fund was instituted for the first time on Indian Railways in 1924-25. Upto 1923-24, the actual expenditure on replacement of assets by like assets was charged to revenue as and when the renewal took place, the improvement element in any replacement being charged to capital.

2.1. The annual contribution to the Depreciation Fund was originally on the straight-line basis *i.e.*, the original capital cost of assets divided by the number of years of their estimated life. Detailed registers were then opened to record the capital cost of each unit of wasting asset, such as a loco, a coach, a wagon, a rail, a sleeper, a building, a bridge etc., for working out the annual contribution. The credit obtained on disposal of the displaced assets as well as the interest on the balances in the Depreciation Fund were credited to Revenue. On the replacement of an asset, the cost of the new asset was debited to capital and the original cost written off from Capital by debit to the Depreciation Fund. Thus, whatever increase there was in the cost of the replacing asset, over the original cost of the replacing asset, was charged to Capital, even when there was no element of improvement. These rules applied in their entirety only to the State-managed Railways.

2.2. These rules of allocation were revised from 1936-37, so that the Depreciation Fund became liable to bear the current cost of replacement of an asset by a like asset instead of only original cost. As withdrawals from the Fund under this principle would inevitably be more than the amounts accumulated in Fund on the 1924-25 basis, *viz.*, the original cost of the assets, it was decided that the value of materials released by replacement should be credited to the Depreciation Fund instead of to Revenue from 1936-37. A change in the method of maintaining the record of depreciation was also made at the same time. The detailed registers, which were maintained from 1924-25 to 1935-36, of the capital cost of each unit of wasting assets for working out the annual contribution were given up, and it was decided to simplify the calculation of the annual appropriation to the Fund by fixing it at 1/60th of the total assets, the rationale being that the actual appropriations on the basis of detailed records had in fact roughly approximated to this percentage over the period 1924-25 to 1933-34.

In 1949, the rules of allocation of the cost of replacements were revised again and the entire cost of replacement of an asset became chargeable to the Depreciation Reserve Fund, including both the elements of improvement and the increase in price over the original cost of the displaced asset.

2.3. From 1950-51, in terms of the recommendations of the Railway Convention Committee, 1949, the annual contribution to the Depreciation Fund was fixed, in effect, at the amount likely to be required for replacements during the year; the interest accruing on the balance in the Depreciation Fund was also credited to the Fund, instead of being taken as a Revenue receipt. (In addition, a contribution is made to the Depreciation Fund by a per contra charge to the cost of production in respect of depreciation on assets of manufacturing units; being of relatively recent origin, these units have no special problem of arrear depreciation as in the case of the older Zonal Railways).

2.4. The original cost basis laid down by 1924 Convention was similar to the basis generally adopted by companies in the private sector in their commercial accounts. This covered what is, in fact, the minimum depreciation provision necessary, based on the original cost of each particular unit and its life. The present basis, *viz.* charging the full cost of replacement of an asset, including the improvement and inflationary elements, to the Depreciation Fund is being followed from 1st April, 1950, in pursuance of the recommendation of the Convention Committee, 1949, reaffirmed by the subsequent Convention Committees of 1954, 1960 and 1965. This represents a more liberal depreciation provision. Under this basis, a view is taken in respect of a forward period so that the total funds required for replacement of assets that will fall due to be retired (taking the full cost at current prices and including the improvement element in the new assets that will replace the old) and adequate provision is made during the forward period to meet the full cost of such replacements as they fall due.

2.5. During evidence of the official representatives of the Ministry of Railways (Railway Board), the Committee drew attention to the observations made in memo. No. III furnished by the Financial Commissioner where it had been stated that a change in the method of maintaining the record of depreciation was made in 1936-37 when the detailed registers which were being maintained since 1924-25 were given up and it was decided to fix appropriations at 1/60th of the total capital-at-charge including the cost of non-wasting as well as wasting assets. The Committee enquired on what basis the appropriations were so determined and why it was decided to take into account the cost of non-wasting assets as well. The Financial Commissioner stated that it was an empirical formula evolved by the then Financial Commissioner, Shri P. R. Rau. It was found that during the years 1924-25 to 1934-35, the actual depreciation meticulously calculated on the basis of the life of individual assets after a lot of clerical labour, came to a percentage varying between 1.63 per cent and 1.75 per cent of the capital-at-charge. He, therefore, proposed that it would be reasonable to adopt the average figure of 1.67 per cent *i.e.* 1|60th of the total capital-at-charge, and thereby save a lot of labour and time.

2.6. The Financial Commissioner added that "strictly speaking, to answer the question, it was not correct to include the non-wastting assets also." However, this method was changed in 1948-49 when, upon the recommendation of the Railway Convention Committee, 1949 it was decided to adopt another method of estimating in advance the likely cost of renewals and replacement of various assets and then providing for it in the budget as a contribution to the Depreciation Reserve Fund. This method took into account not only the increase in the cost of a given asset but also the element of improvement of the assets.

It has been stated in Memorandum No. III furnished by the Financial Commissioner that for taking a comprehensive and sound view in regard to the depreciation to be made during 1969—74, the following aspects are relevant:—

(i) Physical arrears in renewals and replacements;

(ii) Arrear depreciation accrue upto 31st March, 1969;

(iii) Depreciation that would accrue during 1967—74.

2.7. Arrears in renewals and replacements have continued to persist to a very considerable extent in spite of progressively larger expenditure in the earlier convention periods. This is due mainly to the fact that since 1950-51 full cost of replacement including the improvement and inflationary elements is charged to the depreciation Fund. The prices have also been gradually going up ever the years. There is thus still much leeway to be made up in this respect.

2.8. In regard to arrear depreciation, a rough exercise of a tentative character based, in the absence of detailed records, on the prescribed lives of various categories of assets, an *ad hoc* assessment of the number of assets according to various age groups within each category, their current costs and depreciation appropriate to the lives of the asset in each category indicated that the arrear depreciation accrued up to 31st March, 1968, was of the order of Rs. 860 crores. With reference to 31st March, 1969, this figure would have gone up further to about Rs. 950 crores.

2.9. For working out the depreciation accruing during 1969—74, the results of a broad analysis carried out in 1966 have been suitably adopted. Based on the prescribed lives of various assets and their composition in terms of different categories, it was observed in 1966, that the amount of depreciation that accrued annually was of the order of 1/37 of the block value of the wasting assets. On the same reckoning, the depreciation that would accrue during 1969—74 may be placed at Rs. 580 crores. This figure does not, however, take into account—

(a) The element of obsolescence in the existing assets and the higher costs of modern assets which will replace them; and

(b) The possibility of further rise in prices. If due allowance is to be made for these factors also, the contribution to the Depreciation Reserve Fund will have to be much more than Rs. 580 crores.

2.10. The Committee enquired how in the absence of any detailed records, it was possible to ensure that the depreciation provision was kept at a realistic level. In a note on the subject, the Railway Board have stated that the maintenance of detailed records showing the capital cost of each asset, the life, etc., required for working out the annual contributions to the Depreciation Reserve Fund under commercial accounting methods was discontinued from 1935-36, consequent on the introduction of a simplified method of calculating annual contributions to the Fund.

2.11. The Financial Commissioner added during evidence that the forecasts of contributions to the Depreciation Reserve Fund during the Five Year Plans were based on detailed studies for each year of the Plan. It had been found that the actual expenditure on replacement was very close to the annual contribution to Depreciation Reserve Fund.

2.12. The Committee are further informed that after a careful consideration of the system used for accounting of depreciation, a team of consultants deputed by the World Bank concluded (January 1970) that—

"(a) there is ample evidence that depreciation charges in the past have been adequate.

(b) Provided this trend continues, and the Railways do not fall into the trap of under-providing for depreciation, then we consider the present system to be acceptable.

(c) There is obvious awareness of the need to provide both for depreciation of capital cost and for inflation in future costs. It is in the latter provision, making an on-charge to historical depreciation charges to bring them upto current costs, that the danger lies. Here again, however, figures of past charges indicate that allocations have been adequate.

(d) Future policy on Depreciation Reserve Fund within the Five Year Plan period upto 1973-74, confirms continuity of a sound depreciation policy."

2.13. In view of the above, the Ministry of Railways are of the view that "there would seem to be no need for any change in the basis of contribution to the Fund and consequently for maintaining the elaborate records of depreciation for different assets as suggested."

2.14. The Committee enquired if the Railways had instituted a regular system of evaluation of the assets at their current replacement costs and if so, whether they had examined the feasibility of maintaining a Depreciation Deficiency Account to indicate the accumulated depreciation, if any, against which the balances in the Depreciation Reserve Fund have fallen short. The Railway Board have stated in a written reply that:

"The Railways do not have a regular system of revaluation of assets at the current replacement costs. The need for, and the feasibility of maintaing a Depreciation Deficiency account even on proforma basis....has not been examined. Such an account can be only an adjunct to Depreciation Reserve Fund. Unless contributions to Depreciation Reserve Fund itself are made on a strictly commercial accounting basis, the Depreciation Deficiency account will not reflect the correct position and may not, therefore, serve the intended purpose."

2.15. The Financial Commissioner added during evidence that the need for maintaining such an account arose only in cases where provision was made on the basis of historic costs of assets. The Company Law as amended in 1956 provided for such provision to be shown separately in the balance sheet of every company. This did not apply to the Railways as they were already providing for full replacement at current costs.

2.16. The Committee enquired whether the Railway Board were also making provision for obsolescence to meet the loss on disposal of assets and internal insurance to provide against large individual fire, accident etc. as was done by the British Railways Board. The Financial Commissioner stated that so far as the question of making provision for general obsolescence was concerned, actual experience showed that the decpreciation provision fully took care of losses on the disposal of assets. In regard to the question of insuring the goods, he stated that goods in transit within the country were not insured. Only the imported goods and stores were insured through the L.I.C. to guard against marine losses. Losses due to other factors such as fire etc. were taken care of by the Depreciation Reserve Fund. It was not necessary for Indian Railways to follow the example of British Railways as the latter were getting a subsidy of £71 million a year from the Exchequer and were still running at a loss.

2.17. **The Committte note that contribution to the Depreciation Reserve Fund is at present related not to the amount of depreciation calculated as accruing on the wasting assets of the Railways year by year but to the amounts that are expected to be withdrawn from the Fund during each five year period. In the absence of any detailed record as to the prescribed lives of various assets, the Ministry of Railways have been able to prepare only "rough" estimates of accrued depreciation—arrear as well as current—based on an ad hoc assessment made some years ago. The Committee consider that in order to keep the appropriations to Depreciation Reserve Fund at a realistic level and as pointed out by the World Bank Team, to avoid the risk of any future under-provision, it is necessary for the Ministry of Railways to further refine the technique of assessing the depreciation requirements. For this, it is essential that not only the data with regard to the number of various types of assets requiring replacement and their distribution in recognised age-groups is readily available but also their current replacement costs are known and depreciation appropriate to the lives of assets in question, is precisely determined.**

2.18. **The Committee are given to understand that it would involve very heavy clerical labour to prepare the detailed records at** this late stage. In the circumstances, the Committee have no objection to the existing method of providing for depreciation in respect of assets created upto 1969-70 i.e., the commencement of the Fourth Plan. But, for the assets created during the Fourth Plan period, they feel that it is desirable that full data in respect of such assets is maintained by the Railways and provision for depreciation thereof is made on a scientific and rational basis taking into account the cost and life of such assets. The Committee recommend that Government should constitute without delay a Working Group consisting of experts from Finance, Accounts, Audit and technical disciplines to examine the matter fully so that detailed instructions may be issued in this regard. The Committee expect that the requirements of Depreciation Reserve Fund for the next five year plan would be worked out on the above basis and placed before the next Railway Convention Committee.

2.19. The Committee also recommend that the requisite information about the total assets of Railways and Depreciation implications of those assets should be specifically mentioned in the Budget papers for information of Parliament.

2.20. The Committee further consider that the Railway Board should undertake a critical study to determine whether, in conformity with accepted principles of accounting, a separate Renewal Reserve Fund should be created out of their profits, if any, to provide for inflationary and improvement elements in the cost of assets. The intention is, that the net revenue surplus/deficit of the Railways should be ascertained with greater precision and on accepted accounting principles and procedures. The result of such a study may be placed before the next Convention Committee for their consideration.

B. Annual Accretions to Depreciation Reserve Fund

2.21. The actual accretions to the Depreciation Reserve Fund and withdrawals therefrom *vis-a-vis* the contributions proposed by the Financial Commissioner during the first three years of the Fourth Five Year Plan are shown in the table below:

Year	Contribution suggested by Financial Commissioner	Accretion to the Fund (including interest)	Withdrawals	Closing Balance
1969-70	95·00	102·34	73·78	126·38
1970-71	100·00	108·54	90·68	144·41
1971-72	105 00	114·36	90·87	167·61
1972-73	110·00	120·20	120·00	163·98 (B E)
1973-74	115·00	—	—	—
Total for 4th Plan	525·00			

2.22. In a note on the subject, the Ministry of Railways have stated that during the inter-plan period of three years viz. 1966-67, 1967-68 and 1968-69, on the basis of 1965 Convention the appropriation to Depreciation Reserve Fund should have been Rs. 345 crores and withdrawal also of about the same order. Since it was noticed during 1966-67 that the originating traffic was not coming up to the anticipated level on account of the recession in the general economy of the country, the pace of works in progress was adjusted and acquisition of rolling stock cut back from time to time.

2.23. As the revenue of the Railways did not also admit of a higher level of appropriation to Depreciation Reserve Fund as originally envisaged, this was reduced to about Rs. 290 crores. The actual withdrawal was lower than the appropriation on account of the sluggish industrial activity, labour unrest and the deterioration in the law and order situation in the eastern region which affected the supply of materials, (sleepers and other track fittings required for renewal of tracks, components for wagons and coaches, signalling equipment etc.) to the Railways necessitating in turn further slowing down of the renewal programmes. This position continued for some time even during the earlier part of the Fourth Plan period, but the situation has improved somewhat since 1971-72. The appropriations to the Depreciation Reserve Fund are being regulated according to the Plan provisions and the withdrawals have sizeably increased.

2.24. During evidence, the Committee enquired how the actual accretions to the Depreciation Reserve Fund compared with the position in this regard in some of the foreign railways such as U.K. and Japan. The Financial Commissioner has furnished the following information in this regard:

	U.K.			JAPAN		
Year	Fixed Assets million £	Deprecia-tion-million £	% age	Capital liabilities (1000 million yen)	Deprecia-tion (1000 million yen)	% age
1966	1934·2	63·3	3·3	2685·5	157·7	5·8
1967	1945·6	64·7	3·3	3055·3	153·0	5.0
1968	1940·7	68·9	3·6	3376·5	161·2	4·8
1969	847·9	43·8	5·2	3740·3	170·2	4·6
1970	878·6	45·2	5·1	4131·5	175·3	4·2

(Note: Above percentages relate to actual value of asests in U.K. and capital liabilities in Japan. Figures in U.K. are not very relevant as there was a large write-off of capital in 1968-69. Capital liabilities of £ 1557 millions as on December 31, 1968, were brought down to £ 839 million on January 1, 1969. This is in addition to £ 500 million written off in 1963).

2.25. The Committee pointed out that the closing balance to the credit of Depreciation Reserve Fund had shown a progressive increase from Rs. 29.19 crores in 1961-62 (*i.e.* first year of the Third Five Year Plan) to Rs. 126.38 crores in 1969-70 (*i.e.* first year of the Fourth Plan) and Rs. 144.47 crores in 1970-71. They enquired for what reasons the level of expenditure had been kept down despite the fact that there were heavy arrears of replacement both at the commencement of the Third Plan and the Fourth Plan. The Financial Commissioner stated that since 1961-62 to end of 1971-72 accruals to Depreciation Reserve Fund have exceeded the withdrawals by Rs. 155.13 crores. This was however, not due to avoidance or deferment of any expenditure. Any asset which was lost or destroyed was straightway replaced in the interest of safety. However, overage assets which had still life left in them continued to be utilised by the Railways on condition basis so as to make best use of them. The actuals of expenditure were checked with reference to the budget provision each year and any element of over/under estimation was automatically adjusted in the next year. In actual practice it had been seen that the provision slightly exceeded withdrawals. The balance to the credit of Depreciation Reserve Fund was at present Rs. 164 crores which was only 5 per cent of the total capital at charge of over Rs. 3500 crores. This was in accordance wtih the prudent policy of building up reserves to provide for any contingency in future.

2.26. Asked to what extent the shortfalls in expenditure were due to over-estimation of the cost of replacement of various types of assets, shortage of foreign exchange, delays in supplies by foreign suppliers and/or delays in supplies from indigenous sources, the Financial Commissioner stated that it was very difficult to furnish any data showing the effect of the various factors separately. It was, however, a fact that there were shortages and delays in supplies both from foreign and indigenous sources. In particular, the Railways were facing difficulties in getting components for diesel locomotives from the U.S.A. after aid from that country had been cut off.

2.27. The Committee note that as a result of mid-term appraisal of the Fourth Plan, the Planning Commission have approved enhancement in the contribution to Depreciation Reserve Fund from Rs. 525 to Rs. 550 crores. In this connection, they would like to refer to the following observations made by the Public Accounts Committee in para 1.95 of the Eleventh Report (Fifth Lok Sabha):—

"*Para* 1.95.—The Committee note that the Railway Convention Committee, 1965, after having considered the requirements during the period 1966—71 for the purpose of replacement of locomotives, rolling stock and track renewals etc. which were estimated by the Railway Board at Rs. 650 crores, recommended that "the appropriation to Depreciation Reserve Fund from Railway revenues may be increased to an average of Rs. 130 crores per year for the quinquennium 1966—71 or as close thereto as possible, taking account of the financial position." The Committee, therefore, feel that the yearly appropriations to the Depreciation Reserve Fund should have been regulated according to the actual requirements during each year. However, during the four years from 1966-67 to 1969-70, the total appropriations to the Fund amounted to Rs. 408.37 crores while the withdrawals for meeting the expenditure on replacements from the Fund were of the order of Rs. 327.68 crores only. There was a net accretion of Rs. 80.69 crores to the Fund during these four years even when the Railways suffered a deficit of Rs. 67.49 crores over these years. The Committee consider that in years when the Railways run at a loss, the contribution to the Fund should be related as far as possible to the actual requirements."

2.28. In a note showing action taken on the above recommendation of the Public Accounts Committee, the Ministry of Railways have stated that appropriations to the Depreciation Reserve Fund require to be regulated on three considerations *viz.*:

(i) withdrawals to meet the expenditure on renewals and replacements, as planned in a Plan period of five years;

(ii) need to maintain the Fund balances at a reasonable level commensurate with the capital-at-charge; and

(iii) financial position of the Railways.

2.29. The Ministry of Railways have added that despite the increase in outlay of the order of Rs. 25 crores sanctioned by the Planning Commission, appropriation to the fund is still proposed to be kept at Rs. 525 crores during the Fourth Plan period.

2.30. The Committee also note that while agreeing with the existing policy of financing the Depreciation Reserve Fund, the World Bank team have recommended a build up of the Fund, which can only take place if the annual contribution to Depreciation Reserve Fund is more than the withdrawal.

2.31. The Committee consider that keeping in view the fact that the actual withdrawals from the Fund have been less than the budgetary provisions over a number of years, the closing balance to

the credit of Depreciation Reserve Fund having consequently gone up from Rs. 29.19 crores at the commencement of the Third Plan to Rs. 164 crores at present, the contribution to the Depreciation Reserve Fund during 1973-74 may, as proposed by the Financial Commissioner, be of the order of Rs. 115 crores, or as close thereto as possible, taking into account the financial position of the Railways.

C. **Replacement/Renewal Programme During the Fourth Plan**

(i) *Replacement of Rolling Stock.*

2.32. The Committee enquired what efforts had been made since the advent of planning (1950-51) to overtake the heavy arrears of replacement which had accumulated over about two earlier decades, the extent to which these arrears had since been over-taken and whether planning in this regard was made on the basis of detailed assessment of assets of each category that were required to be retired at the beginning of each Plan period. The Railway Board have informed the Committee the detailed assessment of the rolling stock of each category that were required to be replaced had been made at the beginning of each plan period. The figures regarding first three plan periods are at present not readily available. Details regarding Fourth Plan period are, however, given below:

Replacement of Rolling Stock in Fourth Plan

	Stock (includin gau thorised replaced) requiring replacement during IVth Plan	Cost of Replacement (In crores of Rupees)	Replacement planned in IVth Plan	Cost of Replacement planned in IVth Plan (In crores of Rs.)
	(1)	(2)	(3)	(4)
Locos (in steam Units	2654	220·79	1188	67·32
Electric Locos	57	10·79	53	10·03
Coaches i vehicle U iits	5835	107·30	3200	61·36
EMU Coabees	318	12.71	300	12.43
Wagons (in four-wheelers)	51097*	141.53	27628**	69.86

(*On the basis of 40, 45 and 50 years age basis for BG, MG and NG wagons respectively).

(** Excludes 8000 wagons provided for at the time of Mid term Appraisal, due to enhancement of the outlay to Rs. 550 crores from Rs. 525 crores on Depreciation Rescue Fund approved by Government in consultation with the Planning Commission which may be thrown forward to the Fifth Plan.)

2.33. The stock actually placed on line on replacement account during the First three years of the Fourth Plan *i.e.* 1969-70, 1970-71 and 1971-72 the number programmed to be replaced during 1972-73 and 1973-74 and the likely shortage in each category, is stated to be as under:

	Stock placed on line replacement account during 1969-70 to 1971-72				Stock programme to be replaced during 1972-73 1973-74	Replacements planned in IVth Plan	Likely shortfall
	1969-70	1970-71	1971-72	Total			
Locos (in steam units)	192	234	278	704	484	1188	Nil
Electric locos	—	2	1	3	36	53	14
Coaches	488	523	402*	1818	1352	3200	30
EMU Coaches	43	48	48	129	171	300	Nil
Wagons	8391	5709·5	3759	1759·5	9768·5	27628**	Nil

2.34. The Railway Board have explained in this connection that while the provisioning of stock is done on a five year plan basis, the provision for production in the Production Units, Railway Workshops|Private Builders is done through Rolling Stock Programmes every year. The actual planning of production is, however, done clubbing together orders for similar types of stock both on additional and replacement accounts so that it contributes to economy in bulk procurement of materials and speed in outturn. It will not, therefore, be correct to check up the progress and achievement on replacement account only on a year to year basis. It is expected that the original plan targets for procurement of locos, coaches and wagons on replacement account will be achieved at the end of the plan period.

2.35. The Committee enquired about the criteria followed while making the annual allocations under the replacement programme and the steps taken to ensure that the prescribed targets are fully achieved. The Ministry of Railways have stated that the criterion of making the allocation has been mainly on the basis of indigenous manufacturing capacity and also on the basis of providing an even load on the production units on replacement account so that the manufacture of rolling stock is not unduly upset by the fluctuations in the arising of overage rolling stock. There is an adequate organisation for follow up of production targets in the Railway Board and

(*Allocation of 402 MG Coaches revised in January, 1972 from additional account to Replacement account as a result of mid-term appraisal of the Fourth Plan.)

**Excludes 8000 wagons provided for at the time of mid-term appraisal.

the progress is reviewed frequently to ensure that there is no shortfall. Shortfalls, however, occur at times due to causes not often within the control of the Railways.

2.36. The Committee enquired about the arrears in the replacement of rolling stock at the beginning of the Fifth Five Year Plan and the amount that would be required for their replacement. In reply, the Ministry have furnished the following information:—

Steam Locomotives

B.G.	844
M.G.	473
N.G.	227
	1544

Electric Locomotives——18

Coaches

	PCVs	OCVs	Total
B.G.	562	566	1128
M.G.	946	459	1405
N.G.	343	98	441
	1851	1123	2974

EMU Coaches

B. G. 18

Wagons

(In terms of 4-wheelers)

B. G.	16996	(on the basis of code life of 40 years).
M. G.	4948	(on the basis of code life of 40 years + 5 years).
N. G.	1525	(on the basis of code life of 40 years + 10 years).
Total ...	23469	

2.37. The estimated amount required for replacement of the entire overaged content of locomotives, carriages and wagons is given below:—

Steam Locomotives	Rs. 154·40 crores
Electric Locos	Rs. 3·13 crores
Carriages	Rs. 60·71 crores
EMU coaches	Rs. 0·28 crores
Wagons	Rs. 71·67 crores
Total :	Rs. 290·19 crores

2.38. In addition to the above, 186 locos, 713 coaches and 14,666 wagons would become due for replacement during the Fifth Plan period. The total stock requiring replacement during the Fifth Plan would therefore be as follows:

Locos	1730
Coaches	3687
Wagons	38135

(ii) *Replacement of Overage Locos*

2.39. It has been stated in Financial Commissioner's memorandum (No. III) to the Committee that on the basis of the available funds, it is expected that 419 Main Line Diesel Locomotives, 23 Diesel Shunters, 53 Electric Locomotives and 124 steam locomotives will be placed in service on replacement account, leaving 844 locomotives on Broad Gauge, 473 on the Metre Gauge and 227 on the Narrow Gauge (all steam loco equivalents) to be continued in service overage at the end of the Fourth Plan period.

2.40. Referring to the statement in the Financial Commissioner's memo. (No. III) that "actual replacements have been and will continue to be, regulated according to the availability of internal and external resources, indigenous capacity to manufacture rolling stock with the minimum import content and other relevant factors", the Committee enquired what the constraints in this regard were and what steps were being taken to meet the anticipated replacement requirements.

2.41. In a note on the subject, the Ministry of Railways have stated that so far as locomotives are concerned, the details of replacement targets and the steps taken to meet the same are as under:

TABLE—I

	BG	MG	NG	Total
Steam +	37	87	—	124
Diesel main line Locos	279	110	30	419
Diesel Shunters +	23	—	—	23
Electric Locos @	53	—	—	53

2.42. The above represents only the planned replacement targets of locomotives which will still leave unreplaced 844 BG, 473 MG and 227 NG overaged steam locomotives as a throw forward into the Fifth Plan.

+ For replacement of steam locomotives.

@For replacement of DC Electric locomotives.

2.43. The capacity available for the manufacture of locomotives in the production units of the Indian Railways viz., Chittaranjan Locomotive Works and Diesel Locomotive Works in the Fourth Plan period to meet the requirements of both replacements and additions, is given below:

TABLE—II

Year	Steam		Electric	Diesel Locos (Main Line)			Shunters	Total
	BG	MG	BG	BG	GM	NG	BG	
**1969-70	32	13	31	58	24	..	31	189
**1970-71	5	28	50	57	11	5	35	191
**1971-72	—	19	46	70	35	5	35	210
1972-73	—	—	51	90	45	—	56	242
1973-74	—	—	74	100	60	—	56	290
Total	37	60	252	375	175	10	213	1122

**Figures for 1969-70, 1970-71 and 1971-72 are actuals

2.44. The total production capacity hence available during the Fourth Plan is of the order of:

TABLE III

	B.G.	M.G.	N.G.	Total
Steam	37	60	—	97
Diseal main line	375	175	10	560
Diseal Shunters	213	—	—	213**
Electric Locos	252	—	—	252

(**Inclusive of 80 being manufactured for public sector undertakings.)

2.45. While, therefore, against the planned replacement target of locomotives indicated in Table I, production capacity is adequate, the total replacement figure is correctly reflected only by including the throw-forwards of overaged stock from the Fourth Plan to the Fifth Plan as given in para above.

2.46. The replacement during the Fourth Plan has been restricted to the Planned target indicated in Table I, as the balance of the production capacity has to be utilised for the production of locomotives on additional account to meet the requirements of additional traffic. It was also considered neither feasible nor necessary to meet in full the requirements of steam loco replacements in the Fourth Plan period itself, due to reasons enumerated below:

(i) The production of electric and diesel locos in the Production Units is restricted by the availability of indigenous bought-out, as well as imported components, as the capacity for manufacturing these has yet to be developed fully in our country. Also, too heavy an outlay would have been necessary for a complete replacement of all overaged locomotive stock.

(ii) A too rapid and a speedier expansion, and development of Production shops to meet in full the entire needs of replacements within the Fourth Plan period would have ultimately resulted in over-provision of production capacity in the Chittaranjan Locomotive Works and Diesel Locomotive Works which may not be required boyond the Fifth and Sixth Plan periods. Hence, the replacements of steam locomotives were planned to be spread over the Fourth and Fifth Plans, so as to avoid over-capitalisation and over development of facilities in the Production Units which later on may be rendered surplus.

(iii) The quantum of import of hardcore items and specialised components for the manufacture of electric and diesel locos has to be regulated by the availability of foreign exchange and loans from the foreign credit agencies.

(iv) It was necessary to convert and modify available steam loco manufacturing facilities in the Production Units and to retain the artisans and supervisors to increase the tempo of manufacture of diesel and electric locos. This change-over had to be planned in a systematic manner whereby, as the steam loco manufacture was tapered down and ultimately closed, man-power could be re-trained in stages, and increasingly drafted to the line of production of diesel and electric locomotives. Simultaneously, equipment and specialised machinery and plant had to be obtained for augmenting to the required extent, the diesel and electric locomotive manufacturing capacity.

(v) A certain time-period was required for steadily indigenising the imported components and hard-core materials of the diesel and electric locos. Some gestation period was necessary for placement of developmental orders and for the indigenous manufacturers to measure up to the rigid standards of specification, accuracy and quality and also to enable them to build up their capacity to meet the increasing load.

(vi) These sophisticated modern locomotives (diesel and electric) also need trained running staff and maintenance mechanics in the open line loco sheds on the Railways where they operate. A minimum time-period is required for the running staff and the maintenance staff in the Divisions to be given conversion training so that with the gradual increase in the modern diesel and electric locomotives fleet, the steam locomotives could be set aside. Any undue hastening of this process could have resulted in a break-down of the diesel and electric locos in service due to lack of trained staff.

2.47. By judicious planning of replacement of steam locos not merely on age basis, but on age-*cum*-condition basis, this gradual change-over to modern modes of traction was planned to be effected at the minimum cost. Such a process is expected to be continued in the ensuing plan period.

2.48. During the Fifth Plan the outturn is expected to be of the order of some 400 BG electric locos, 800 BG and MG main line diesel locos and 300 BG diesel shunters and NG main line locos etc. in the production units of Diesel Locomotive Works and Chittaranjan Locomotive Works. The equivalents of these electric and Diesel locos in terms of steam locos being 2.5 steam locos per main line diesel and electric loco, and 1.25 steam loco for every diesel shunting loco, the production capacity of these units will not only meet in full the total requirements of replacement including the overage steam loco stock thrown forward from the Fourth into the Fifth Plan, but also simultaneously meet in full the arising of replacement locomotives of the Fifth Plan period itself which totals only to 54 BG, 123 MG and 9 NG locos. Besides this, there will be adequate capacity available for putting on line a substantial number of diesel and electric locos on additional account.

2.49. In reply to a further question, the Ministry have furnished the following information regarding the age groups of overaged steam locomotives which will be continued in service at the end of the Fourth Plan:—

Age Group	B.G.	M.G.	N.G.	Total
41-45	261	369	44	674
46-50	356	83	62	501
51-55	227	21	24	272
Above 55 years	—	—	97	97
	844	473	227	1544

2.50. During evidence, the Committee drew the attention of the representatives of the Ministry to the fact that as many as 1544 steam locomotives and 18 electric locomotives would be awaiting replacement at the end of the Fourth Plan and enquired to what extent use of the overage locos had affected the traffic carrying capacity and operational efficiency of the Railways. The representative of the Ministry stated that the overage locomotive were being downgraded for utilisation on inferior services such as for shunting, mill pilots and departmental trains. The total requirement of shunting engines for such services was about 3,000 for both B.G. and M.G. The total stock of steam engines with the Railways was 9500 of which 1544, that is to say, roughly half the number required for shunting purposes, were overage. The use of such locos in shunting did not affect the traffic carrying capacity of the Railways. Overage electric locos were used for pushing trains up the Ghats.

2.51. The Committee enquired if the Railways had made any efforts to see that the useful life of locomotives could be extended from 40 to 45 years so that some saving in capital investment could be affected. The witness stated that the Railways had at present as many as 272 steam locomotives which were between 51 to 55 years old which indicated that the locomotives which could be used for longer periods, were in fact being used. The code life of the rolling stock was only a guide and an indication for thorough examination of the locomotive to see whether it could be further used economically or not. The locomotives were programmed for replacement on condition basis.

2.52. In reply to a further question as to the broad line of approach of the Railway Board to the question of phasing out average locomotives, the Railway Board explained that while the Railways were anxious to switch over to modern modes of traction on grounds of economy and efficiency, they had also to keep in mind the fact that being a poor country, they could not scrap old locos which had still some life in them and replace them by newer type for which some foreign exchange also might be required. Moreover, replacement of steam locos by diesel or electric locos also implied reduction in the number of running and maintenance staff by as many as 30 persons per engine. The staff were being trained on a phased basis for manning the diesel and electric locos. It was, however, difficult to provide alternative jobs to the large number of unskilled staff employed for loading and unloading the coal as the operation of diesel and electric locos required more skilled staff. The Railways had, therefore, perforce to proceed slowly in this matter.

2.53. To a question by what time it would be possible to replace all the overage locos, the representative of the Ministry stated that it would be possible to phase out all the overage steam locomotives by the end of the Sixth Plan depending upon the availability of diesel oil.

2.54. In reply to a further question, the Financial Commissioner stated that in view of the fact that two thirds of the country's requirements of crude oil were being met through imports, the Railways had been advised to go slow with their programme of dieselisation. Moreover, the price of crude oil imported from Middle East countries had gone up by 20 per cent during the last three years. It had, therefore, been suggested at an inter-ministerial meeting that the Indian Railways should not go in for any further dieselisation. A paper prepared by the Railways about the economics of using diesel oil had shown that the Railways had still an edge over other users of diesel oil and that the Railways will have to spend a lot more both on Capital and Revenue Accounts if they stopped further dieselisation. The fact however remained that supplies of diesel oil could be cut off during national emergency as happened during the course of recent hostilities with Pakistan. It was, therefore, necessary for the Railways to continue to use steam locomotives.

2.55. The Committee enquired if it was not a fact that the overage locos consumed much more coal and whether it would not be desirable to accelerate the process of phasing them out. The witness stated that although it was true that fuel consumption on such locos was high, it had to be borne in mind that they were purchased 40 years back at a very low price *i.e.*, between Rs. 75,000|- and Rs. 90,000|- whereas a diesel loco now cost as much as Rs. 15 to 16 lakhs. That was why the Railways had adopted the policy of downgrading them for shunting services. In order to economise on fuel, the size of the grate of the bigger engines was cut down when they were required for light shunting work.

2.56. Asked if the Railways Board had worked out the economics of using overage locos, the representative of the Railway Board stated "No, Sir, we do not have exact cost figures but for some years now we have followed this policy of downgrading the old light engines for shunting purposes because it was found to be cheaper to do this."

2.57. To a question if the Railways had developed a light diesel engine for shunting purposes, the witness replied that diesel hydraulic locos manufactured in Chittaranjan were meant to be used for light shunting work. On the other hand, the diesel|electric locomotives manufactured in Varanasi were being utilised for heavy duty hump shunting in classification yards.

2.58. In this connection, the Committee would like to draw the attention of the Ministry of Railways to the following observations made by the Indian Railways Electrical Engineers' Association, Calcutta in their memorandum submitted to the Committee:

"The effect of the poor performance of the steam locomotives on the coal consumption will be revealed from the following facts:

Coal consumption on BG by classes of service [Statement No. 27 (b)].

(In tonnes)

Period	Passenger	Mixed	Goods	Shunting & Siding	Deptt.	Misc.	Total
1960-61	3034865	133728	5488819	1572882	422031	306187	10958582
1965-66	3795536	123878	4644096	2052351	562763	333345	11511969
1969-70	3587887	204309	3967455	2252782	506413	247887	10756733
1970-71	3420651	208266	3472506	2247104	450238	202658	10001423

(i) Though the passenger tonne kilometres rose from 44,988 million to only 46,507 million *i.e.* by about 3 per cent, the total consumption for these services increased from 3,034,865 tonnes to 3,420,651 *i.e.* more than 11 per cent increase.

(ii) The consumption for goods services dropped from 5,488,809 tonnes to 3,472,506 tonnes *i.e.* by 37 per cent, even though the gross tonne kilometres carried on steam goods service dropped from 118,182 million tonnes kilometres to 49,940 tonne kilometres *i.e.* by 58 per cent.

(iii) Similarly, for shunting and siding services, the coal consumption has also shown a steep rise from 1,572,882 tonnes to 2,247,104 tonnes. This increase is not accounted for either by increase in the locomotives allotted for this purpose and in used (from 1425 Nos. in 1960-61 to 1566 Nos. in 1970-71) nor in the engine kilometres per locomotive in use, which remained almost at the same level. This shows that compared to the performance of 1960-61 on fuel account alone, in 1970-71 on a pro rata basis, additional 2.1 million tonnes of coal has been consumed.

During the year 1971-72, the coal consumption has been higher by about 16.01 million tonnes. It is seen that while the volume of traffic handled by steam has considerably come down, the consumption of coal continues to remain almost at the same level. It would be necessary to reduce coal consumption by Railways by accelerated condemnation of surplus steam locos and replacement of steam operated services by electric/diesel traction."

2.59. The Committee note that out of 2654 locos (in steam units) requiring replacement during the Fourth Plan, as many as 1544 locos will have to be continued in service at the end of the Plan. Of these, as many as 870 locos will be over 46 years old. The main reasons for keeping the over-aged locomotives in service is stated to be paucity of foreign exchange required for replacing them by diesel and electric locos. Their replacement will also result in reduction in the number of running and maintenance staff by 30 persons per engine for whom it is difficult to provide alternative jobs. The Committee regret to note that the economics of continuing the over-aged steam locos has not been worked out by the Railways Board so far. They feel that the continuance of over-aged steam locos results in:

(i) Excessive expenditure on their annual maintenance;

(ii) Continued dispersal of maintenance facilities for these locos over the entire Railway net-work;

(iii) Continuance of antequated skill in labour force;

(iv) Lower output potential of steam locos compared to diesel and electric locos; and

(v) Continued blocking up and under-utilisation of much needed line capacity.

2.60. The Committee would like the Ministry of Railways to examine the matter in depth with a view to ascertain the precise effect of using over-aged steam locomotives on the various types of services and the economics thereof. They would also like the Railway Board to work out whether the use of diesel shunters is more economical than steam locos for such work. The Committee urge that this matter may be examined by the Efficiency Bureau of the Railway Board urgently. Based on such a study, the Railway Board may examine if the policy of using steam locos rather than diesel shunters for shunting work and continuing

the use of over-aged steam locos calls for a review and whether the programme of replacement of such locos needs to be accelerated. The Committee need hardly stress that a time bound programme for the replacement of steam locos may be drawn up by the Railway Board.

2.61 The Committee would like to emphasise that man-power rendered surplus, as a result of the replacement of steam locomotives, should not be retrenched but may be gainfully employed for other types of operational and productive work on the Railway/Public Undertakings.

Replacement of Over-age Electric Locos

2.62 The Committee pointed out during the evidence that the programme of replacement of electric locomotives during the Fourth Plan had been lagging behind in so far as only 3 out of 53 locomotives programmed to be replaced during the Plan, had been actually replaced during the first three years of the Plan and enquired about the reasons for shortfall in this respect. The Financial Commissioner stated that the HEIL, Bhopal had been able to deliver only 7 sets of electrical equipment upto 1970-71 and 16 incomplete sets during 1971-72 as against the railways' requirements of 27 sets for which orders were placed in June 1967 and 30 additional sets ordered in July 1969. The shortfall was due to certain difficulties faced by HEIL, Bhopal in obtaining the imported equipment from U.K. The Railway Board were in touch with the Ministry of Industrial Development in this matter.

2.63. The up-to-date position of delivery of electric locos was stated to be as under:

1970-71	3 Nos.	
1971-72	6 Nos.	
1972-73	4 Nos.	(against 14 programmed)

2.64. In a further note on the subject, the Ministry of Railways have stated that replacement of over-aged DC locos (57 Nos.) was included in the Rolling Stock Programme of the Railways as under:—

Years	Nos.
1965-66	10
1966-67	17
1968-69	30

Orders were placed on Chittaranjan Locomotive Works by 1968. Orders for the manufacture of Electrical equipments for these locos were placed by Chittaranjan Locomotive Works on HEIL in the year 1968-69.

2.65. Chittaranjan Locomotive Works had initially programmed to manufacture and supply all the 57 locos during the Fourth Plan but the programme had to be revised to 45 locos subsequently mainly due to shortage in supply of equipment by HEIL.

2.66. The supply of equipments from HEIL during the Fourth Plan period has been as under:

1970-71 7 sets (excluding transformer transductor).

1971-72 9 sets (includes only 1 set of transformer/transductor).

1972-73 8 sets (includes only 1 set of transformer/transductor).*

*upto 31-10-1972

2.67. To a question when and at what level the question of shortfall in supplies of Electric components was last taken up with the Ministry of Industrial Development/Heavy Electricals and with what results, the Ministry of Railways have replied that supply of traction equipments from HEIL is being continuously watched and frequent meetings are being held at all levels with the HEIL to discuss shortfall in supply, future programme and other allied problems in the supply of equipment.

2.68. Officers of Railway Board, HEIL and CLW had discussions in Board's Office in this regard in June, 1969, February, 1970, April, 1970, April, 1971, November, 1971 and August, 1972. In addition to discussions at Board's level, General Manager, Chittaranjan Locomotive Works has been regularly holding discussions with General Manager HEIL, Bhopal.

2.69. Difficulties due to shortage in supply of equipments were also brought to the notice of the Ministry of Industrial Development and the Cabinet in the early part of this year.

2.70. In spite of all these efforts and constant follow up made by the Railways at all levels, HEIL have not been able to honour their promises about the rate of supply of traction equipments; HEIL made downward revision of the promised supplies at least 3 times during the period June 1969 to November, 1971.

2.71. The Committee are concerned to note that the programme of replacement of overaged electric locos has been lagging very much behind the targets in so far as out of 53 locos to be replaced during the Fourth Plan, only 13 have been so far delivered to the Zonal Railways. This is stated to be due to the inability of HEIL, Bhopal to supply the requisite sets of components according to schedule. At the present pace of delivery, it is hardly likely that the planned programme of replacement of 36 overage DC locos during 1972-73 and 1973-74 will be fully achieved. .. ..

2.72. The Committee regret to note that although replacement of overage D.C. electric locos was introduced in the Rolling Stock Programme for the years 1965-66, 1966-67 and 1968-69 orders were placed by the Railway Board on Chittaranjan Locomotive Works in 1968 only. The Chittaranjan Locomotive Works placed orders on HEIL for manufacture of electric equipments for these locos in 1968-69. It is thus evident that not to speak of advance action, even concurrent action for the manufacture of electric equipment for the locos by HEIL which takes time, was not taken by the Railway authorities.

2.73. It is also regrettable that even after the placement of orders by Chittaranjan Locomotive Works in 1968-69 for manufacture of electric equipment there was not only downward revision of the promised supply four times during the period June, 1969 to November, 1971 but also failure to honour even the reduced supplies.

2.74. The Committee need hardly emphasise that the inadequacy of electric locos results in under-utilisation of the electrified sections of the Railways on which heavy capital expenditure has been incurred. In the interest of optimum utilisation of the electrified sections of the Railways' it is very necessary that there should be integrated planning for the production of electric equipment by the HEIL and the electric locomotives by the Chittaranjan Locomotives Works. The Committee would like the Ministry of Railways to take up the matter again with the Ministry of Industrial Development at a high level to prepare an integrated plan for the supply of electric equipment by the HEIL to the Chittaranjan Locomotive Works so that the targets of production of electric locomotives not only on replacement account but to meet additional requirements are fully met. The Committee need hardly point out that the Railways should place orders for the manufacture of electric equipments on HEIL well in advance to enable them to take necessary action in the matter and plan their production programme and delivery schedule accordingly. ..

(b) Replacement of Overage Wagons

2.75. It has been stated in Financial Commissioner's memorandum (No. FIP) that during the Fourth Plan 27,628 wagons (in terms of four-wheelers) will be replaced as under:

Broad Gauge	17,450.
Metre Gauge	7,816.
Narrow Gauge	2,362.
	Total: 27,628.

By the end of the new Fourth Five Year Plan, all wagons which have outlived their normal life of 40 years on Broad Gauge, 45 years (i.e. 5 years more than normal life) on metre gauge and 50 years (i.e., 10 years more than normal life) on narrow gauge, would be replaced. This would, however, still leave 16,996 on the Broad Gauge, 4,948 on the Metre Gauge and 1,525 on the Narrow Gauge overaged wagons (all in terms of four-wheelers) at the end of Fourth Plan.

2.76. The Ministry of Railways have informed the Committee that the planned replacement of wagons during the Fourth Plan has been re-assessed approximately at around 36,000 wagons (including 8000 wagons provided for as a result of mid term appraisal due to enhancement of the outlay to Rs. 550 crores from Rs. 525 crores on Depreciation Reserve fund approved by Government in consultation with the Planning Commission) of all gauges. There is capacity developed in 11 private and public sector wagon construction units to the extent of 26,000 wagons per year and 2,000 units per year in the three Railway wagon manufacturing workshops (which capacity is proposed to be increased to 3,000 immediately and in another year's time upto 4,000 per year).

2.77. While there is, therefore, ample capacity available for meeting the entire replacement needs of wagons, there is also steady increase in demands for wagons on additional account for moving additional traffic. On a rough assessment, there is need for approximately 26,000 to 27,000 wagons per year on replacement and additional account during the Fifth Plan period, excluding the export demand.

2.78. Based on the actual performance of the private public sector wagon manufacturing units where it had been noticed in the past to fall short of the targeted production, a proposal to put up a wagon manufacturing unit with capacity of approximately 4,000 wagons annually to provide a cushion for meeting such shortfalls in the wagon manufacturing programme by existing manufacturing units and simultaneously enabling to meet the export demands for wagons is under consideration.

2.79. The Committee enquired about the age groupings of the overage wagon stock. The Ministry of Railways have stated in a written reply that "it is very difficult to give with any degree of accuracy their age-wise distribution as the wagons are taken off the line by the Railways not purely on the age basis but on age-cum-condition basis."

2.80. It was clarified during evidence that the Railways were required not only to replace wagons which were overage and dates of purchase of which were known, they were also required to replace underage wagons which were involved in accidents etc. As such, it was difficult to predict with accuracy as to how many wagons the Railways would have to replace during a particular plan period.

2.81. In a further note on the subject, the Ministry of Railways have stated that the number of overage wagons (gauge-wise) in 5 year's age groups as on 1-4-1969 (commencement of the Fourth Plan), 1-4-70, 1-4-71 and 1-4-72 is as below:

	Age groups					
	41—45	46—50	51—55	56—60	61—65	Total
As on 1-4-69						
BG	6342	4459	2558	931	1409	15,699
MG	6618	3386	2402	549	537	13,492
NG	683	565	1076	573	763	3,660
As on 1-4-70						
BG	5412	4541	2065	872	1601	14,491
MG	5406	4332	2300	287	730	13,055
NG	816	542	740	653	951	3,702
As on 1-4-71						
BG	3947	4822	2018	1050	1590	13,427
MG	5388	3842	2539	198	545	12,512
NG	843	524	816	631	1008	3,822
As on 1-4-72						
BG	3455	4298	2073	885	1514	12,225
MG	4582	4170	2407	227	510	11,896
NG	684	570	888	510	1126	3,728

2.82. The number of new wagons placed on line on "Replacement" account during the years 1969-70, 1970-71 and 1971-72, year wise and gauge-wise, is as below:

(in terms of 4-wheelers)

During the Year	BG	MG	NG	Total
1969-70	4719	3672	—	8391
1970-71	4253·5	1456	—	5709·5
1971-72 .	2699	1014	46	3759
Total . . .	11,671·5	6,142	46	17,859·5

2.83. The number of wagons that would become overage during the Fifth Plan on the basis of code life of 40 years is as follows:

B.G. .	10,752
M.G.	3,795
NG	119
Total :	14,666

(Note: Since wagons are condemned and taken off the line on an age-cum-condition basis, there will be a variation in the figures of wagons placed on line on replacement account and wagons taken off the line after condemnation at any one point of time. For the same reason, only estimates of overage wagons can be given which are nevertheless close proximations for any future period and replacement requirements are formulated on such estimates.)

2.84. The Committee note that the Public Accounts Committee have repeatedly been expressing the view that the Railways have surplus wagon stock. This view was also shared by the ARC who have pointed out that the inventories of wagon stock with the Railways "should be drastically cut down" as "excessive stocks lead to slackness in utilisation and poor outturn. Besides, as wagon procure-

ment for future requirements is based on indices of current performance, the slackness in utilisation of wagons, by depressing the indices, leads to inflated estimates of future wagon requirements, with corresponding over-investment."

2.85. The Committee note that the revised forecast of originating **traffic by the end of the Fourth Plan is of the order of 240.5 million tonnes as against the original forecast of 264.7 million tonnes. The actual traffic** materialisation during the first three years of the Plan *vis-a-vis* the anticipations has been of the following order:—

(in Million tonnes)

	1969-70	1970-71	1971-72
Original anticipation	211·9	224·6	237·2
Revised forecast	211·9	217·0*	210·0
ACTUAL	207·90	199·0	208·0

*further reduced to 211.5 million tonnes in July, 1970

2.86. As compared to the actual originating traffic of the order of 204.8 million tonnes in 1968-69, *i.e.*, at the end of the 3rd Plan the increase during 1969-70 and 1971-72 is only of the order of about 4 million tonnes whereas there was a shortfall of as many as 5 million tonnes during 1970-71.

2.87. The Committee observe from the Mid-Term Appraisal of the Fourth Plan that the original and revised programme for procurement of wagons (in terms of 4 wheelers) on additional and replacement accounts is as follows:—

	On additional account	On replacement account.	Total.
As in the 4th Plan	76,192	25,340	1,01,532
Revised	33,148	35,628	68,776

2.88. In view of the above data and the findings of the Public Accounts Committee and the Administrative Reforms Commission, the Committee consider that the Railways have to exercise extreme circumspection in making further investments for augmenting their capacity for manufacture of wagons during the Fifth Plan. The

Committee consider that the estimated requirement of the order of 26,000 to 27,000 wagons a year on replacement as well as additional account, during the Fifth Plan period (excluding the export demand)' indicated by the Ministry of Railways needs a very careful scrutiny before any proposal for expansion of the existing manufacturing capacity or setting up of a new wagon building unit is sanctioned.

2.89. So far as the figures of replacement of wagons during the 4th Plan period are concerned, the Committee note that these have gone up by about 8,000 as a result of the mid-term appraisal and the availability of resources. These wagons would, however, materialise during the Fifth Plan period.

2.90. The Committee cannot help feeling that the records showing dates of purchase of wagons and their age groups etc., are not uptodate and accurate. The Committee would, therefore, like the Ministry of Railways to look into the matter so that the system of keeping such records is streamlined and the replacement programme is drawn up on the basis of actual requirements.

(c) *Replacement of Overage Coaches*

2.91. The Committee are informed that the total replacement needs in the Fourth Plan stand at 6,174 made up of targeted Fourth Plan replacements of 1,500 BG and 1700 MG and NG during this Plan period and throw-forward of 2,974 over-age coaches from the Fourth Plan into the Fifth Plan period. Against these requirements of replacement of coaches, the production units in the country consisting of Integral Coach Factory, BEML, JESSOPS and the Railway Workshops among them have a capacity for the production of 7054 coaches in the Fourth Plan period. Hence, the capacity available in the country for replacement of coaching stock is adequate.

2.92. But with the increase in the number of trains planned to relieve over-crowding and to provide modern amenities to the passengers, there is also an increasingly large demand for additional coaches. Hence, nearly 50 per cent of the available manufacturing capacity for coaches in the country has been planned to be utilised for coaches on additional account. It has been proposed to replace only half the total number of arisings on replacement account during the Fourth Plan period. This decision had been taken to enable additional coaches being added to the fleet for the reason mentioned above. Moreover, on check it was noticed that replacements could be spread over a longer period, on age-cum-condition and not merely on over-age basis.

2.93. Hence in the Fifth Plan period, the throw-forward of over-aged coaches is 2,974 and the total arisings of coaches on replacement account over the entire Fifth Plan period is only 713. There would, therefore, be no difficulty to provide for all the replacement coaches with the capacity available in the production units.

2.94. But to cater for 14 per cent to 15 per cent increase in passenger carrying figures in the Fifth Plan period, as indicated by the present trends and to take up construction of additional coaches for the Metropolitan Transport Services to meet the urban needs in the major cities in this country and to meet export needs, it is necessary to augment the existing available capacity by about 400 to 500 coaches per year for which purpose besides the expansion of capacity already in hand in the Integral Coach Factory and BEML, a new coach construction unit needs to be commissioned which should start functioning fully before the end of 1975. To that end planning is already on hand.

2.95. The Committee enquired about the age-wise break-up of coaching stock that would be awaiting replacement at the beginning of the 5th Plan as well as of the fresh arisings during the Plan period itself. The Ministry of Railways have furnished the following information in this regard:—

	No. of overage coaching stock at the beginning of the 5th Plan			No. of coaching stock which will fall due for replacement during the 5th Plan.			
	PCV	OCV	Total	PCV	CCV	Total	Total (i) & (ii)
	(i)			(ii)			
BG	562	566	1128*	249	49	298	1426
MG	946	459	1405*	340	43	383	1788
NG	343	98	441**	32	—	32	473
[illegible]	1851	1123	2974	621	92	713	3687

*These will be between the ages 31 to 35 years.
**Over 35 years of age.

2.96. So far as EMU coaches are concerned, the Committee are informed that as against the plan programme of replacement of 300 EMU coaches, the number actually replaced during the first 3 years of the Plan was 129 units. The replacement programme during 1972-73 and 1973-74 envisages replacement of the remaining 171 EMUs.

2.97. The Committee enquired about the details of overage EMU coaches as at the beginning of the 4th Plan and the cost of replacement thereof. The information furnished by the Ministry is tabulated below:—

Particulars		No.	Age	cost (At present day prices)
1500 DC EMU	(BG)	246	44 yrs.	Rs 13·70 crores.
25 KV AC EMU	(MG)	54	42 yrs.	Rs. 1·44 ,,
				Rs 15·14 ,,

2.98. The Committee were informed during evidence that the total indigenous capacity for manufacture of coaches was of the order of about 1350 per annum as under:—

ICF Madras	750 per annum
*M/s. Jessops & Co.	300 per annum.
Bharat Earth Movers, Bangalore	300 per annum.

(*The actual delivery was only of the order of 190 coaches per annum).

2.99. The witness added that there was no shortfall in supply either from Integral Coach Factory, Madras or the Bharat Earth Movers, Bangalore. The shortfall of about 100 coaches per year from M/s. Jessops was due to their internal difficulties.

2.100. The mid-term appraisal made by the Railway Board had indicated that it would be possible to make good the shortfall by March 1974. Some adjustments had also to be made in the programme for replacement of overaged metre gauge coaches in the mid-term appraisal. It was felt that due to the proposed programme of gauge conversion, the Railways should not go in for accelerated replacement of overage MG stock. The replacement requirements had, therefore, been revised slightly downward.

2.101. To a question why the programme of replacement of average EMU coaches was lagging behind, the witness stated that in this case also, the main reason was shortfall in supply of electric equipment from HEIL, Bhopal and labour trouble in Jessops. It had been proposed to place 841 EMU coaches on line during the Fourth Plan out of which 300 were on replacement account and 541 on additional account. The Railways had drawn up plans for building some more coaches next year in the ICF if M|s. Jessops failed to supply the requisite number. It was proposed to manufacture 48 four car sets instead of 36 in the ICF but this again was dependant on successful delivery of the electrical equipment by HEIL, Bhopal.

2.102. In a further note on the subject the Ministry have furnished the following figures of the production programme of EMU coaches and the reasons for the shortfall in this regard:—

Production Programme of EMUs.
(during 4th Plan).

	B.G.		M.G.	TOTAL	PER YEAR
	AC	DC			
ICF	138	251	54	443	90
Jessops	—	347	—	347	70
W.Rly.(by conversion) . .	—	51	—	51	—
	283	649	54	841	—

2.103. Actual production at these units during last 3 years viz. 1969-70, 1970-71 and 1971-72 has been as under:—

	B.G.		M.G.	TOTAL	Production per year.
	AC	DC			
ICF	110	61	—	171	57
Jessops	—	122	—	122	40
W.Rly.	—	45	—	45	
	110	228	—	338	

The reasons for shortfall are:—

(i) There was a set back in Jessops due to labour problems and increased cost demanded by the firm which could not be met.

(ii) Shortfall in production in ICF has been due to inadequate supply of traction equipment from the Public Sector Factory of HEIL/Bhopal as well as other indigenous enuipment such as EP brake equipments, etc.

2.104. Action has been taken to augment the supply of traction equipment by procurement of balancing requirements from foreign sources and outstanding issue of prices has since been settled with Jessops. Capacity of ICF is also being fully diverted towards increased production of EMU coaches by reducing producing of conventional coaches to the extent necessary.

2.105. In a further note on the subject, the Ministry has stated although orders were placed well in advance on HEIL, Bhopal for supply of traction equipments, the supplies actually effected have been far behind the stipulated dates. The supplies received so far are as follows: —

1969-70	..	12 sets.
1970-71	..	20 „
1971-72	..	25 „
1972-73	..	8 „ (Upto 31st October, 1972).

2.106. The Committee are glad to note that the Ministry of Railways (Railway Board) are alive to the need to augment the existing capacity for the construction of coaches. They trust that advance action will be taken by the Ministry to ensure that not only the arrears of replacement of coaching stock are cleared but full requirements of additional coaches for non-suburban services as well as for Metropolitan Transport Services are fully catered to at the earliest.

The Committee have no doubt that while planning for additional coaches, the Railway Board will take into account not only the growing requirements of 3rd Class Sleeper accommodation on the Railways but the need to eliminate over-crowding with the utmost expedition.

2.107. The Committee regret to note that out of 300 overaged EMU coaches, programmed to be replaced during the Fourth Plan, only 129 units were replaced during the first three years of the Plan. As these units are more than 40 years old (as against their normal life of 25 years), it is necessary that the replacement programme is accelerated. The Committee would also like to emphasise that the Railway Board

should assess the requirements of EMU coaches on additional account on a realistic basis considering the acute over-crowding on the Suburban Services and inter-city services where they are used and programme for their production accordingly.

2.108. In this connection, the Committee regret to note that against the planned production of 443 and 347 EMU coaches by the ICF and JESSOPS respectively during the 4th Plan period, actual production during the three years has been 171 and 122 respectively. In view of the poor production performance of these Units, particularly, JESSOPS, the Committee would strongly urge that concerted measures should be taken by the Railway Board to ensure that not only the production programme of EMU coaches during the remaining two years is fulfilled by these Units but the earlier shortfall in prodution is made up, so as to meet the requirements of EMU coaches for the suburban trains.

2.109. The Committee have suggested in an earlier paragraph that the question of timely and adequate supply of electric components by HEIL, Bhopal needs to be taken up at a high level. The Committee need hardly point out that concerted measures will have to be taken by the Railways and the Public Undertakings and other organisations concerned if the targets in this regard are to be achieved.

(ii) *Track Renewal Programme*

2.110. It has been stated in paras 13.1 13.2 of Financial Commissioner's memorandum (No. III) that "Major arrears in Track renewals had been made up by 1968-69. In the new Fourth Plan (1969—74) the policy is to make a careful selection of sections to fix priority on the basis of the latest trend of traffic and to match the renewals with indigenous production of rails, sleepers, fish plates etc. Accordingly, the Plan provides for 6,363 Kms. of primary rail renewals (cost Rs. 59 crores), 9,072 Kms. of primary sleeper renewals (cost Rs. 90 crores), 1,948 Kms. secondary rail renewals (cost Rs. 8 crores) 2,110 Kms. of secondary sleeper renewals (cost Rs 9 crores) and other casual renewals expected to cost Rs. 14 crores. This track renewal programme would require a provision of Rs. 180 crores.

2.111. The Committee enquired about the actual progress made so far in the matter of track renewal. The Railway Board have stated that the revised targets and the progress achieved till July, 1972 are as under:—

	Revised Target (Kms.)	Achievement till July 72 (Kms.)
Primary Rails Renewals	7,070	4,051
Primary Sleeper Renewals	10,080	4,584
Secondary Rail Renewals	1,815	1,319
Secondary Sleeper Renewals	1,800	1,059

2.112. The Committee enquired whether the supplies of rails, sleepers, fish plates etc. were adequate to the requirements of the replacement programme. The Ministry of Railways have stated that the position regarding supplies of rails and steel sleepers has not been satisfactory as can be seen from the figures given below:—

	1969-70		1970-71		1971-72	
	Quantities Indented	Supplies received	Quantities Indented	Supplies received	Quantities Indented	Supplies received
I. Rails 52 Kg.	105364 M/T	69540 M/T (66·2%)	145300 M/T	114240 M/T (78·7%)	113800 M/T	111[illegible]18 M/T (98%)
90 R	46551 M/T	27593 M/T (59·4%)	64520 M/T	24376 M/T (37·8%)	65200 M/T	18452 M/T (28·[illegible]%)
75 R	14953 M/T	11604 M/T (77·8%)	11660 M/T	4439 M/T (38%)	18800 M/T	12600 M/T (67%)
60 R	21760 M/T	17170 M/T (78·8%)	17007 M/T	8801 M/T (51·8%)	35880 M/T	12993 M/T (36%)
II. Steel Trough Sleepers	8·40 lakh Nos.	5·33 Lakh Nos. (63·4%)	8·43 lakh Nos.	4·74 lakh Nos. (56·2%)	7·7 lakh Nos.	6·19 lakh Nos. (80%)

2.113. The position of track fittings has also not been satisfactory. Against the requirement of about 25,000 tonnes of track fittings every year, the quantities received in 1969-70 and 1970-71 were about 7,000 tonnes and 12,000 tonnes respectively. The position during 1971-72 was slightly better in that 17,000 tonnes of track fittings were received. As a result of strenuous efforts made with D.G.S. & D., during the first four months of the current year about 8,000 tonnes of track fittings have been received. The supply of fish plates was by and large satisfactory except in the case of the 75 lb. section. From the figures given above, it will be seen that the position became indeed critical during 1969-70 and 1970-71. This was mainly due to the general shortage of steel in the country. The matter was taken up at the highest level with the Steel Ministry and Supply Ministry. A special meeting was held in Secy./Steel's room on 22nd September, 1971 when the requirements of rails by Railways was discussed and the following decision taken:

> "8. Shri H. R. S. Rao pointed out that the exports were likely to go down considerably if the Railways' demands as indicated for 1972-73 were to be met. Shri Sarin said that, since the Bhilai Rail Mil was primarily intended to cater to the needs of the Railways, their requirements will have to be given first preference, provided the demands were projected in time and, if in the process, exports had to diminish, it could not be helped. It was also represented on behalf of HSL that at the prevalent price level, production of rails, particuarly 90 lbs. rails, was proving uneconomic. It was suggested that this matter regarding revision of price may be raised in the J.P.C."

As a result, the markedly deteriorating trend which had set in during 1970-71 was arrested and reversed. The supply position has started improving from January, 1972, and is expected to improve further in 1972-73 and 1973-74. Against 1.38 lakh tonnes of rails on an average supplied during the first three years of the Fourth Plan, the supplies in the remaining two years of the Plan are expected to reach the figure of about 2.5 lakh tonnes per year. In the first five months of the current year i.e. from April to August, 1972, about one lakh tonnes of rails have already been despatched by the Steel Plants.

2.114. In reply to a question as to the expenditure actually incurred on the track renewal programme during the first three years of the Fourth Plan, the Ministry have furnished the following figures:—

1969-70	Rs. 21·18 crores
1970-71	Rs. 26·14 crores
1971-72	Rs. 31·80 crores
Total :	Rs. 79·12 crores

2.115. The Committee further enquired about the arrears in track renewals at the end of the Fourth Plan after completion of the above programme. The Ministry of Railways have stated that "the arrears of track renewals were by and large cleared by the end of the Third Plan period. Therefore, the arrears of track renewals by the end of Fourth Plan would only be the shortfall during the Fourth Plan period, which is not likely to exceed 500 Kms. of rail renewals and 1000 Kms. of sleeper renewals. No difficulty is anticipated in clearing this spillover during the Fifth Five Year Plan period."

2.116. During evidence, the Committee enquired whether it would be possible to attain the revised targets in view of the continuing shortfalls in supplies of rails and sleepers. The representative of the Ministry stated that due to continued shortage of 60 pound and 70 pound rails as well as BG steel sleepers, there may be further shortfalls which it would not be possible to anticipate at this stage. The matter had been taken up with the Steel Ministry. The present estimated cost of track renewal programme during the Fourth Plan was Rs. 193 crores as against the original estimate of Rs. 180 crores due to rise in prices by about 10 per cent during the Fourth Plan period.

2.117. Asked what efforts the Railways were making to make good the shortfall in supply of sleepers through alternative sources, the Chairman, Railway Board stated that they were taking all the durable hardwood species of sleepers that were offered to them. It was, however, not possible for them to take soft wood sleepers because of acute shortage of creosote in the country. He further stated that the Railways were seeking foreign collaboration for manufacturing concrete sleepers and it was hoped that the production of such sleepers will pick up soon. The witness added that for main tracks where heavy and fast traffic moved, they would prefer steel sleepers. Supplies from the Durgapur Steel Plant had been of the order of about 42,000 tonnes only on an average per year as against the average of about 65,000 tonnes which the Plant was supposed to supply during the last 3 years.

2.118. In a further note on the subject, the Ministry of Railways have stated that although Railways' requirements for steel sleepers each year are about 1 lakh tonnes, the indents placed on Durgapur Steel Plant which is the only source of supply, are kept to the extent of their performance. On this basis, the requirements advised to the Durgapur Steel Plant during the last five years are as under:

Year	Requirements
1968—69	65,600 tonnes
1969—70	64,600 „
1970—71	64,800 „
1971—72	65,000 „
1972—73	60,000 „

2.119. The installed annual capacity in Durgapur Steel Plant is 75,000 tonnes on the basis of 3 shift operation and 60,000 tonnes on 2 shift basis. The Plant has, however, never been able to produce steel sleepers to the extent of the installed capacity inasmuch as the supplies by them during the last 5 years have been as under:—

Year	Requirement
1968-69	56,200 tonnes
1969-70	40,900 "
1970-71	36,500 "
1971-72	47,600 "
1972-73	14,500 " (upto end of Sept. 72).

2.120. The reason advised by the Durgapur Steel Plant for the shortfall in production is generally continuous labour trouble.

2.121. According to the policy for utilisation of Sleepers, steel sleepers are utilised on trunk routes. Due to the shortfall in the supply of steel sleepers by Durgapur Steel Plant, the relayings were affected. This shortage has, however, been made up by using C.S.T.-9 sleepers in lieu, of the extent possible. In some cases the works have to be deferred too.

2.122. As indicated above, the Railways' requirements of steel sleepers are very substantial and the Railway Ministry has been urging the Ministry of Steel to step up production in Durgapur Steel Plant to the maximum extent possible by three shift operation.

2.123. A new design of steel sleepers has also been made out and the question of its production by Bhilai Steel Plant is under consideration. When this is finalised and the supplies start from Bhilai

Steel Plant, the Railways' requirement of steel sleepers will be met to a great extent.

2.124. The Committee are glad to note that the arrears of track renewals were, by and large, cleared by the Railways by the end of the Third Plan period. They, however, observe that the track renewal programme of the Railways during the Fourth Plan has suffered a set-back due to shortfalls in supplies of rails and sleepers from Hindustan Steel Ltd., and track fittings from indigenous suppliers. The supply position in respect of steel sleepers from the Durgapur Steel Plant appears to be particularly unsatisfactory. The Committee would like the Ministry of Railways to pursue energetically their efforts in procuring the requisite quantities of rails, sleepers and track fittings with the Ministries concerned. They would also like the Ministry to ensure that the track renewal programme is phased out in such a manner that the operational efficiency of the Railways on trunk routes which carry bulk of the traffic as well as safe running of trains is in no way affected.

CHAPTER III

A. Payment in lieu of Passenger Fare Tax.

3.1. A passenger fare tax was levied with effect from 15th September, 1957 under the Passenger Fare Tax Act, 1957. Up to 31st March, 1961 the actual collection made was passed on to the State Governments concerned, less 0.6 per cent retained by the Railways as the cost of collection. It was suggested to the Railway Convention Committee of 1960 that in view, on the one hand, of the need for the Railways to have some flexibility in adjusting passenger fares to meet their growing commitments, and on the other, of the needs of the States for funds from this source to meet their developmental obligations, it would be an advantage for the tax to be merged with the existing fares, and the Railways might make every year a lump-sum payment for transfer to the States, equal to the average collection of passenger tax during the preceding years. The Convention Committee of 1960 accepted this suggestion as reasonable and recommended that the amount payable by the Railways may be fixed at Rs. 12.50 crores per year for the quinquennium 1961-66 which was the average of the actual payments for the years 1958-59 and 1959-60.

3.2. It was reported to the Railway Convention Committee, 1965 that under the system of such fixed payments there is no provision for an increase in the amount available for distribution to the States corresponding to growth in the volume of Railway passenger traffic. It was added that this question also came up before the Finance Commission, 1965, when the States had expressed the view that the fixation of a grant at a particular level had deprived them of a potentially elastic source of revenue. They had urged that the grant should be raised in proportion in which Railway passenger earning had increased since the merger of the passenger tax.

3.3. In order to augment the contribution being made to the States, the Railway Board had suggested that keeping in view the rate of increase in traffic during the last five years and the expected increase in subsequent years, the annual payment of Rs. 12.5 crores may be increased to Rs. 16.25 crores. It had also been suggested that in order to cover the extra payment of Rs. 3.75 crores per year and also to make available to General Revenues a further sum which could be earmarked to assist the States to provide their portion of the resources required for financing railway safety works, the need for which has been stressed by the Railway Accidents Enquiry Committee, an increase of 1 per cent should be made on the dividend of 4½ per cent now payable on the Capital-at-charge of the Indian Railways as on 31st March, 1964, raising it to 5½ per cent. Agreeing with this suggestion, the Railway Convention Committee, 1965 recommended that in respect of payment in lieu of passenger tax, instead of a fixed amount of Rs. 12.50 crores per year, an additional 1 per cent on the capital invested upto 31st March, 1964 should be paid to General Revenues. Out of this amount, a sum of Rs. 16.25 crores should be passed on to the States as payment in lieu of passenger fare tax and the balance utilised to assist the States (in the same proportion as their shares of the passenger fare tax) to provide their portion of the resources required for financing safety works such as manned level crossings, over bridges and under bridges.

3.4. According to the anticipations in 1965, the payment to General Revenues for distribution amongst State Governments was expected to amount to Rs. 90.68 crores during the five year period 1966—71. Against this, an amount of Rs. 89.77 crores was actually made available by the Railways for the purpose during that period. Out of this, a sum of Rs. 8.52 crores was made available to the various State Governments during 1966—71 for meeting their share of the cost of Railway Safety Works. A further sum of Rs. 2.28 crores was made available to them for this purpose in 1971-72.

3.5. The Committee observe from the Report of the Fifth Finance Commission that a number of States again represented to the Commission that either the tax on passenger fares should be re-introduced or the quantum of the grant in lieu should be increased. In the memoranda submitted to the Committee, some of the State Governments have reiterated these suggestions.

3.6. Relevant extracts from the Report of the Fifth Finance Commission are reproduced below:

> "It appears to us that the quantum of the grant would have been higher than Rs. 12.50 crores if it had been fixed on the basis of actual tax collection during the three full years in which the tax was in existence. The subsequent revision in 1965 also was not related to the increase in total passenger earnings but it took into account the increase in passenger traffic. Due to the substitution of the tax by a fixed grant, the States do not get a benefit proportionate to what they would have expected from the tax which was levied under Article 269 the proceeds of which

are wholly assignable to States. In view of this, their desire for reimposition of the tax can be regarded as legitimate. Nevertheless, we have also to consider the implications of an increase in passenger fares at the present juncture and its adverse effect on the economy. We consider that in view of what has been represented to us regarding the unsatisfactory state of Railway finances during the last few years and their increased expenditure commitments, there is no scope for the reimposition of the tax on railway passenger fares in the present circumstances. We suggest, however, that this question may be reviewed by the Government of India if and when the railway finances show sufficient improvement.

As regards the States' suggestion for increase in the quantum of the grant as an alternative to the reimposition of the tax, we had intended to consider the matter while examining the question of scope for raising revenue from this source under item (h) of the terms of reference. However, as stated above, we have taken the view that in the present circumstances there is no scope for reimposition of the tax. The question of determining the quantum of the grant does not also, strictly, fall within the purview of item (h) of our terms of reference. We have no doubt that the Railway Convention Committee will take into account the views of the States as well as the representations of the Railways in this regard."

3.7. The Committee enquired for what reasons continuation of the present arrangement of a fixed contribution was desirable and why this was pegged to the capital-at-charge of the Railways as on 31st March, 1964. In a written reply, the Ministry of Railways have stated that in order that the Railways should have a measure of flexibility in adjusting the passenger fare levels to the steadily rising costs, it was considered that the railways' contribution in lieu of the repealed passenger fare tax should continue to be in the form of a special limited payment and not be related to the passenger fares.

3.8. The amount of the payment proposed to be made was found to be roughly equal to 1 per cent of the capital invested upto 31st March, 1964.

3.9. It was considered that the inclusion of this payment from the railways in the dividend rate would be in keeping with the character of the payment—that it is a contribution to General Revenues—though it will be passed on to the States as one of the items of Central Revenue shared with the States.

3.10. In reply to a further question as to what would have been the actual collection during 1969-70, 1970-71 and 1971-72 on account of the Passenger Fare Tax, if it had not been repealed and how much contribution was actually made by the Railways during this period, the Ministry have stated that it has been roughly estimated, on the basis of a statistical analysis, that the collection on account of the Passenger Fare Tax Act, 1957, if it had not been repealed, would have amounted to about Rs. 24.46 crores in 1969-70 and Rs. 26.17 crores in 1970-71. Roughly half the increase over the level of 1958-59 and 1959-60 tax collection is due to increase in volume of traffic and the other half is due to increase in the level of fares which has been made from time to time to compensate partly for the steadily increasing cost of materials and wages.

3.11. The payments actually made during 1969-70 and 1970-71 were of the order of Rs. 18.10 crores and Rs. 18.42 crores respectively. Figures for 1971-72 are stated to be still under compilation.

3.12. Explaining the position in this regard the Financial Commissioner stated during evidence that the basic fact was that the Railways were losing about Rs. 49 crores annually on non-suburban passenger traffic and coaching services. The increases made in passenger fares in recent years had not been able even to neutralise the rising cost of operation particularly increase in cost of staff, prices of fuel and other materials. Any increases in passenger fares should in the first instance, go to meet this deficiency or loss. The Fifth Finance Commission had accepted this position.

3.13. The Financial Commissioner added that if the passenger fare tax had not been there, the Railways would have had an edge over the roads in competition and would have got more traffic particularly on branch lines where such competition was the keenest between 30 and 500 kilometres. The Railways had lost that edge over road transport and along with it, the opportunity of getting more traffic particularly on branch lines and short-distance traffic.

3.14. It has also been pointed by the Railways that "the Railways bear many social burdens which indirectly assist the State Governments. The unremunerative branch lines continue to be operated as the State Governments are against their closure; the Railways also suffer losses on uneconomic lines constructed after 1950-51 at the instance of the State Governments. The suburban services in Metropolitan cities run at a loss. The Railways maintain the Railway Protection Force some of whose duties are usually expected to be performed by the State Police."

3.15. During evidence, the Financial Commissioner added that although the reliefs given by the Committee in the interim report were welcome, the additional burdens since cast on the Railways by the Miabhoy award (Rs. 12.5 crores per annum in revenue expenditure and Rs. 12 crores in capital expenditure), the additional interim relief granted by the Pay Commission (Rs. 14 crores per annum) and the further burdens likely to be placed by the Pay Commission in their final report would all result in making the Railways "go deeply into the red". In this context, any increase in the contribution to the States, could be only at the cost of Railway Finances or at the cost of the finances available to the Central Government. The Railways could increase the contribution only by increasing the passenger fares which would not be welcome and would have an adverse effect on the economy. The Financial Commissioner, therefore, thought that considering the unsatisfactory position of railway finances, there was no scope for any increase in the contribution to State Governments at present.

3.16. The Committee enquired whether it would not be more appropriate if the payments made to the States in lieu of the passenger tax were shown separately in the railway accounts instead of being included in the dividend payable by the Railways to the general revenues so as to present a correct picture of the position. The Financial Commissioner replied that the present practice was based on the recommendation of the Railway Convention Committee, 1965. The matter had, however, been referred to the Ministry of Finance and their views in this regard would be communicated to the Committee. He added that his personal view was that advantage appeared to lie in continuing the existing position. There was no possibility of any misunderstanding on this account since the position was clearly explained in the Explanatory Memorandum to the Railway Budget as well as in the Demands for Grants. In essence these payments were really a contribution from the Railways to the General Revenues.

3.17. The Ministry of Railways have since informed the Committee as follows:—

"The Ministry of Finance (Department of Economic Affairs—Budget Division) who were referred to in the matter have advised as under:

The position is that 1 per cent on capital investment upto 31st March, 1964, is passed on to the States in lieu of tax on Railway passenger fares and also for Railway Safety

Works. It will, therefore, be more appropriate to show this element distinct from the dividend i.e. 4½ per cent upto 31st March, 1964 and 6 per cent thereafter paid to General Revenues. The nomenclature of the Demand "Dividend to General Revenues" may be changed to "Dividend to General Revenues and contributions for Grants to States".

It has also been added by the Ministry of Railways that:

"The amounts transferable to States in lieu of the tax on passenger fares and for assisting the States for financing the safety works are clearly indicated in the 'Explanatory Note' appended to the Railway Demand No. 12 in the Book of Demands for Grants. However, the Ministry of Railways have no objection to the adoption of proposal of the Ministry of Finance."

3.18. **In view of the foregoing, the Committee would reiterate the recommendation made by them in their Interim Report that there is hardly any scope at present for increasing the payment to the States in lieu of passenger fare tax in proportion to the growth of passenger traffic or earnings. The Committee, therefore, recommend that the existing arrangements whereby additional 1 per cent on the capital invested upto 31st March, 1964 is paid to the General Revenues for payment to States of a fixed amount of Rs. 16.25 crores in lieu of passenger fare tax and utilisation of the balance to assist the States (in the same proportion as their shares of the passenger fare tax) to provide their portion of the resources required for financing safety works such as manned level crossings, over-bridges and under bridges, may be continued during 1973-74.**

3.19. **The Committee consider that in view of the fact that the additional 1 per cent dividend on Capital invested upto 31st March, 1964 is passed on to State Governments in lieu of the passenger fare tax, it would be more appropriate if the nomenclature of the Demand "Dividend to General Revenues" is changed to "Dividend to General Revenues and contribution for Grants to States" in lieu of Passenger Fare Tax.**

B. Railway Safety Works Fund

(a) *Criteria of making allocations to States*

3.20. It has been represented to the Committee by the Government of Kerala that "the existing principles for allocation of assistance from the Railway Safety Works Fund are inequitable and unjust" as they bear no relationship to the objectives of the Fund and have to be reformulated for they do not take into account factors like density of population/traffic, the terrain, length of roads etc., in a State.

3.21. In a note on the subject, the Ministry of Railways have stated as follows:

"The Railway Safety Works Fund was set up on the 1st April, 1966, to assist the States 'to provide their portion of the resources required for financing safety works such as manned level crossings, over-bridges and under-bridges.' The amounts, credited to the Fund are allocated to different States "in the same proportion as their shares of Passenger Fare Tax", which is distributed in the ratio of the average of the State-wise earnings from non-suburban passenger traffic.

"The Fund was constituted as a result of Recommendation No. 3 of the Railway Convention Committee, 1965, as approved by the Parliament. The constitution of the Fund had been proposed earlier by the Railway Accidents Enquiry Committee, 1962.

"The problem of providing protection against accidents at level crossings depends on the location of the level crossings and the density of rail and road traffic passing over them.

"The existing method of distribution of the contribution to the Fund amongst the beneficiaries, does not fully reflect all the relevant factors mentioned above. Distribution based on the number of appropriate types of level crossings may prove to be more equitable.

Level crossings are classified as below:

Special 'A' Class 'B' Class	For National/State Highways. Roads within municipal and non-municipal towns, other surfaced roads.
'C' Class (manned) 'C' Class (un-manned)	For Earth-roads and cart tracks.
'D' Class	For cattle crossings and foot paths.

"The classification of a rail-road level crossings is settled mutually by the Railway and Road Authorities keeping in view the class of the road, visibility condition, the volume of road traffic and the number of trains passing over the level crossing.

"Gates are provided at each 'Special', 'A' and 'B' class crossing in the interests of safety. Gates or chains are provided at 'C' and 'D' class level-crossings only in the following cases:

(i) When the line is on a curve and the road and rail view is not clear.

(ii) When speed of trains and volume of traffic are great.

(iii) When the level crossing is, within those limits at a station between which shunting is normally likely to be carried out.

(iv) On portions of the line which are fenced throughout on one or both sides, except when efficient cattle guards are provided".

3.22. The number of level crossings of each class as on 31st March, 1971 is as shown alongside:—

Number of level crossings on Indian Railways (Statewise)

S. No.	Description	Special.	'A'	'B'	C Manned	C Unmanned	Total	'D'	Grand-Total
1	2	3	4	5	6	7	8	9	10
1	ANDHRA PRADESH	21	102	336	381	1858	2239	86	2784
2	ASSAM	..	29	116	258	642	900	303	1348
3	BIHAR	20	90	309	1000	1375	2375	584	3378
4	GUJRAT	50	64	273	938	3722	4660	9	5056
5	HARYANA	—	17	56	361	447	808	64	945
6	HIMACHAL PRADESH	..	11	..	10	24	34	310	355
7	JAMMU & KASHMIR	..	..	..	2	1	3	3	6
8	KERALA	8	32	118	92	225	317	446	921
9	MADHYA PRADESH	5	100	231	721	1666	2387	120	2843
10	MAHARASHTRA	15	127	229	733	1234	1967	209	2547
11	MYSORE	5	67	233	276	1123	1399	15	1719
12	NAGALAND	—	1	..	1	1	2	—	3
13	ORISSA	..	21	153	18	1006	1024	11	1209
14	PUNJAB	6	53	120	465	1232	1696	117	1992
15	RAJASTHAN	6	14	109	1113	1519	2632	766	3527

16 TAMIL NADU . . .	41	156	464	485	1,726	2,210	461	3,332
17 UTTAR PRADESH	62	226	499	2,058	2,198	4,256	1,210	6,253
18 WEST BENGAL . . .	15	127	351	740	1,422	2,162	190	2,845
TOTAL . .	254	1,237	3,597	9,651	21,420	31,071	4,904	41,063

UNION TERRITORIES

Description	Special	A'	'B'	'C'		Total	'D'	Grand Total
				Manned	Unmanned			
PONDICHERY	..	1	5	4	6	10	..	16
DELHI .	7	9	16	45	9	54	..	86
CHANDIGARH .	..	..	..	..	3	3	..	3
GOA . . .	..	..	1	1	11	12	..	13
TOTAL .	7	10	22	50	29	79	..	118
In Union Territories Total in States	254	1,237	3,597	9,651	21,420	31,071	4,904	41,063
GRAND TOTAL . . .	261	1,247	3,619	9,701	21,449	31,150	4,904	41,181

"It would appear that 'Special', 'A' and 'B' class level crossings would reflect more or less correctly the actual needs and requirements of protection against accidents taking into account location of the level crossings and the density of rail and road traffic passing over them.

"The recommendation of the Railway Convention Committee, 1965, referred to above, envisaged distribution of the contributions to the Fund among only the States. Accordingly, no share is at present given to Union Territories. The problem of safety at level crossings would arise in the case of level crossings in Union Territories also. It is, therefore, for consideration whether the Union Territories should also be given a share in future.

"The following Table shows the likely percentage share that each State and Union Territory would get if the amounts credited to the Fund are distributed among them in proportion to the number of 'Special', 'A' and 'B' class level crossings; the corresponding percentage in which the contribution to the Fund is now being distributed to the States is also shown below:

Statement showing the percentage share of the different States of the Railways' contribution to the Railway Safety Works Fund.

Description	*Percentage Share*	
	On the base No. of "special" 'A' & 'B' Class level crossings as on 31- -1971	On existing basis (1969 Finance Commission's Report).
1	2	3
Shares.		
1. Andhra Pradesh	8·95	8·56
2· Assam	2·83	2·88
3. Bihar	8·17	10·86
4. Gujarat	7·55	6·91
5. Haryana	1·42	2·46
6. Himachal Pradesh	0·21	—@
7. Jammu & Kashmir	..	0·91
8. Kerala	3·08	1·78
9· Madhya Pradesh	6·55	9·92
10. Maharashtra	7·24	9·12

@Union Territory at the time the percentages were worked out by the Finane Commission '69. Since it is now a State proportionate share (not yet determined is to be given.

1		2	3
11.	Mysore	5·95	3·83
12.	Nagaland	0·02	0·01
13.	Orissa	3·30	2·36
14.	Punjab	3·49	4·76
15.	Rajasthan	2·52	6·43
16.	Tamil Nadu	12·80	5·54
17.	Uttar Pradesh	15·35	19·06
18.	West Bengal	9·62	5·51
Union Territories			
19.	Pondicherry	0·13	
20.	Delhi	0·62	
21.	Chandigarh	..	
22.	Goa	0·02	..
		100·00	100·00

"It is for the Convention Committee's consideration whether any change in the existing basis of distribution of the contribution to the Fund needs to be made and, if so, whether (a) the contribution to the Fund may be distributed among the beneficiaries in the proportion of the number of 'Special', 'A' and 'B' Class level crossings and (b) the Union Territories should also be given their proportionate shares."

3.23. During evidence, the Committee enquired whether the proposed change in the system of allocation of funds would be acceptable to all the States. The Financial Commissioner stated that the suggestion in question had been made in the context of the memorandum furnished by the Government of Kerala for consideration of the Committee. The revised system of allocation had the merit of providing funds to the States on "need based" principle, that is to say, the funds to be allocated would be related to the number of level crossings which were required to be bridged in a particular State. The Financial Commissioner, however, submitted that in case the revised scheme of distribution of funds was acceptable to the Committee, it should have effect only in respect of future contributions and that the contributions already made to the States may not be effected.

3.24. The Committee enquired how funds were at present made available to the administrations of Union Territories for carrying out Railway Safety Works and whether the question of earmarking funds for the purpose from the Railway Safety Works Fund had been taken up with the Ministry of Transport and if so, what their views were in this regard. The Financial Commissioner stated that at present no funds were being made available to Union Territories from the Safety Works Fund. It was only a suggestion made by the Railway Board and he was not aware how far it would be acceptable to the Convention Committee. No Union Territory had asked the Ministry of Railways to take up the matter on their behalf.

3.25. To a question to what extent the allocations presently being made to the States would be reduced if the suggestion was agreed to, the Financial Commissioner replied that allocations to the States would be reduced by about 0.77 per cent if the funds were distributed in proportion to the number of Special, 'A' and 'B' Class level crossings to all the States and Union Territories.

3.26. The Ministry of Railways have subsequently informed the Committee that references are being made to the Ministry of Finance, Ministry of Shipping and Transport and the Planning Commission in regard to the above proposal.

3.27. The Committee note that the amounts credited to the Railway Safety Works Fund are allocated to different States in the same proportion as their share of passenger fare tax which is distributed in the ratio of the average of the State-wise earnings from non-suburban passenger traffic. The Government of Kerala have suggested changes in the existing principles of allocations from this Fund to take into account factors like density of population|traffic, the terrain, and length of roads etc., in a State. The Ministry of Railways have also hinted that the method of distribution of the Fund may take into account factors like location of the level crossings and density of rail and road traffic passing over them.

3.28. While all these factors need careful consideration, the Committee feel that any change in the existing method should not be made without ascertaining the views of the State Governments in this regard. The Committee suggest that this matter should be got examined by Government in consultation with the Planning Commission and the State Governments. They recommend that the existing method of distribution of the fund to the States may be followed for the whole of the Fourth Plan period and the matter may be re-examined by the next Railway Convention Committee.

(b) *Utilisation of the Fund*

3.29. Referring to the statement made in Memo. No. V submitted by the Financial Commissioner that for various reasons the State Governments had not utilised any part of the contribution (Rs. 8.52 crores during 1966—71 and Rs. 2.28 crores during 1971-72) made available to them for meeting their share of the cost of Railway Safety Works, the Committee enquired about the reasons for non-utilisation and the present position in the matter. The Ministry have stated in a note on the subject that on a review of the position by the Ministry of Railways and the Ministry of Finance it was found that the non-utilisation of the Fund was due mainly to the fact that the various steps required to be taken by the State Governments before they could claim reimbursement had not been taken by them.

3.30. Asked if any representations had been received from any State Government in regard to the difficulties in getting reimbursement, the Ministry have stated that "on the whole, there were no complaints from the State Governments regarding any difficulty in claiming reimbursement from the Fund. The Ministry of Railways felt concerned about the non-utilisation of the allotted amounts by the State Governments, especially as the speedy execution of railway safety works is in the interests of both the Railways and Road authorities, and therefore took the initiative streamlining the procedure. It may be mentioned here that the Minister for Railways referred to this matter in his Budget Speech for 1971-72. The Railway Minister also addressed the Chief Ministers of all the States in July, 1971 on the subject requesting them to direct the State officials to contact the concerned Railway Administrations to finalise plans and estimates quickly, to accelerate the pace of construction of road over|under bridges."

3.31. In reply to a further question, the Ministry of Railways have stated that the procedure was streamlined in 1970-71 and the State Governments were advised of the revised procedure in March, 1971. Further modification was advised in May, 1971. Briefly summarised, the latest procedure is as under:—

(1) Each State should compile the list of 'New Works' in consultation with the concerned Railway Administration by the 1st November of the year preceding the financial year during which the works are proposed to be taken up. The list should, *inter-alia*, show reference to the Railway Administration's letter, the sanctioned total estimated cost, share of the cost chargeable to the State Gov-

ernment as per extant rules and the expenditure proposed to be met out of the Safety Works Fund. This list should be submitted to the Ministry of Finance and the Ministry of Railways in the prescribed Proforma.

(2) After examination of the above list, the Ministry of Railways would issue sanctions showing the amounts upto which the State Government can claim reimbursement in respect of each work. The State Government will indicate the annual provision proposed to be made by them in the annual Budget statement to be submitted to Finance Ministry *vide* sub-para 3 below. Copies of these sanctions will be sent also to Finance Ministry by the Railway Ministry.

(3) On the basis of the sanctions, the State Governments will request that provision may be made in the Central Government's Budget, for the expenditure likely to be incurred by the State Government *as assistance from the Railway Safety Works Fund,* for both "Works-in-progress" and "New Works". To enable the Ministry of Finance to make necessary provision in the Budget, the revised and Budget estimates of assistance required from the Fund should be submitted to the Ministry of Finance, with copy to the Ministry of Railways, by 10th January every year indicating the expenditure likely to be incurred in respect of each of the works sanctioned as per (2) above.

(4) The State Government may subsequently claim reimbursement from their Accountant General by submission of Monthly Audited Accounts as prescribed in the Ministry of Finance's letter No. F. 14(42)-B/65, dated 8-2-1967.

3.32. The Committee enquired about the position with regard to utilisation of the Funds since the coming into force of the revised procedure. They have been advised as follows:—

"Since the introduction of revised procedure in March, 1971, the Ministry of Railways have issued sanction for reimbursement to State Governments upto Rs. 119.09 lakhs in all in respect of certain specified works. Details of the sanction are given below. The amount actually drawn by the State Governments against this sanction is being 'ascertained from the Accountant General, Central Revenues.'

State	No. of Works	Amount upto which reimbursement sanctioned (Rs. in lakhs)	Date of sanction
Kerala	6	15·13	6-1-1972
Andhra Pradesh	8	25·93	6-7-1972
Gujarat	25	78·03	30-7-1972
Total		119·09	

3.33. Further sanction for Rs. 4.69 lakhs in respect of last named Government of Gujarat is also under issue.

3.34. A statement showing the State-wise break-up of the funds (totalling Rs. 10.80 crores) placed at the disposal of the State Governments during the years 1966-67 to 1971-72, is given in Appendix I.

3.35. During evidence, the Committee pointed out that although funds were being allocated to the State Government since 1966-67 for the execution of Railway Safety Works, these had remained unutilised and the matter was taken with the State Governments only as late as March, 1971. The Committee enquired why difficulties in this regard could not be sorted out earlier. The Financial Commissioner stated that the matter was pursued repeatedly with State Governments and also with the Ministry of Finance. Due to lack of response, the matter was taken up at ministerial level. In July, 1971, the Minister of Railways himself wrote to the various Chief Ministers in this regard.

3.36. The Financial Commissioner added that there had been some minor procedural problems with which the Ministry of Finance were concerned. These had since been sorted out and the procedure for claiming reimbursements had been streamlined. The main reason for non-utilisation of the allocations to the State Governments was that most of the over|under bridges were in crowded urban localities and there were delays in acquiring the land. In a number of cases, the parties had gone to the High Courts on writ petition and had obtained injunctions. The State Governments also took time to understand the new scheme and the procedure. The scheme, had, however, now gathered momentum and a few States namely Andhra Pradesh, Gujarat and Kerala had made good progress in this regard.

3.37. To a question if the non-utilisation of the funds was due to the requirement of some matching grants by the State Government, the Financial Commissioner stated that so far as the total cost of construction of an over-bridge or under-bridge was concerned, the share of the State Governments and the Railways in respect of a 24 ft. wide bridge was in equal proportion. The States were, however, reimbursed their portion of the total expenditure out of the Railway Safety Works Fund. Therefore, they were not required to find any matching funds so long as their share in the Railway Safety Works Fund was adequate to meet their portion of the expenditure.

3.38. To a further question for what reasons sanctions to States other than Andhra Pradesh, Kerala and Gujarat had been held up, the Financial Commissioner stated that there was at present no case pending with the Ministry for sanction. The amount of Rs. 4.69 lakhs stated to be outstanding had also since been cleared and sanction issued to the Government of Gujarat. The Chief Engineers of the Zonal Railways had been asked to get in touch with their counterparts in the State Governments so that the utilisation of funds earmarked for the purpose was accelerated.

3.39. In a reply to a further question how the programme for construction of over/under bridges was finalised, the representative of the Ministry of Railways stated that these matters were settled by asking the State Governments in writing about the works which they would like to include in the budget for the next financial year. Co-ordination on behalf of the Zonal Railways concerned in respect of projects within a State was done by the Railway which had the largest amount of net-work in that particular State. After the priorities were settled, plans and estimates were prepared and the approximate cost of the work was intimated to the State Governments. On receipt of the concurrence of the State Government concerned, detailed plans were made out of the approaches to the bridges and sanctions were issued. As the work progressed, the question of payment and reimbursement was arranged through the Accountant General concerned who regulated the expenditure with reference to the budget provision. Any overdrawal on this account was adjusted in the next financial year.

3.40. The Committee enquired whether it would be useful to release in advance the entire anticipated expenditure on under/over-bridges to the State Governments so that the latter may budget only for funds to cover land acquisition. The Financial Commissioner stated that this matter was specifically considered in consultation with the Ministry of Finance and the Ministry of Shipping and

Transport. It was pointed out that even in respect of construction of National Highways where the amount involved was much higher, the State Governments were given funds only on reimbursement basis. Both the Planning Commission and the Ministry of Finance were of the view that in order to ensure that the funds were spent only for the purpose intended, it was necessary that the amounts were released only after the expenditure had been actually incurred. The fund was non-lapsable and reimbursement had been agreed to on the basis of expenditure from month to month.

3.41. The Committee enquired for what reasons it had not been found possible to implement the recommendation of the Administrative Reforms Commission regarding the creation of a "Road Fund" contributions to which should be made not only from Railway Finances but from the Central and State Finances as well. The Financial Commissioner stated that the Railway Safety Works Fund, as already constituted, served to some extent the purpose which the Administrative Reforms Commission had in view. The fund was fully financed by the Railways but they could not afford in the present state of their finances, to make any further contributions or start a new fund. The Ministry of Transport and Shipping had also been consulted in the matter. They had stated that the funds for over/under-bridges were already being provided out of the allocations made for development of national highways. That Ministry had no specific fund for central financial assistance. If a specific provision was required it would have to be discussed with and cleared by the Planning Commission. The Ministry of Transport and Shipping had also indicated that the Central Road Fund which had been created in 1929 on the recommendations of the Road Development Committee was a non-lapsing Fund to which contributions were made through a custom excise levy of 3.5 paise per litre on motor spirit. 80 per cent of the amount was distributed to the States on the basis of actual petrol consumption and the balance was credited to the Central Road Fund for schemes for research and grants-in-aid. The total revenue to the credit of the fund was of the order of about Rs. 7 crores per annum. The Ministry of Transport and Shipping were therefore, of the view that the States could meet their share of road over and under-bridges from this source.

3.42. To a question if the responsibility for construction of road over and under bridges could be taken up by the Railways and the expenditure incurred out of the proceeds of the Central Road Fund, the Chairman, Railway Board stated, "If no land acquisition is involved, and if it is not in a built up area, we can do the work. For new lines we do it sometimes".

3.43. The Committee enquired whether the Ministry of Railways had considered the feasibility of executing the necessary works themselves and then asking the State Governments for their share of the particular project, which could later be recouped from their allocations under the Railway Safety Works Fund. The representative of the Ministry stated that the principal difficulty in this regard was that the land required for the purpose could only be acquired by the State Governments through the local authorities and the Railways could do little about it.

3.44. The Financial Commissioner further stated that in highly urbanised areas and at the crossings of the National Highways, the need for conversion of level crossings into over|under-bridges was most urgent. The Railways were, therefore, anxious that all such level crossings were eliminated as early as possible. It had, therefore, been suggested by the Ministry of Railways that funds should be specially earmarked for construction of over/under-bridges to the State Governments out of the allocations made for the National Highway Plan during the Fifth Plan.

3.45. The representative of the Ministry added so far as he was aware, there may be a shortfall of approximately Rs. 60 crores in the funds earmarked for development of roads during the Fourth Plan. This money could be utilised for construction of over/under-bridges if all concerned agreed to the proposal. This would also relieve the problem of unemployment to some extent.

3.46. Asked whether the matter had been taken up with the Planning Commission, the representative of the Ministry stated that it had been brought to the notice of the Planning Commission last year, but was not considered as meriting assistance from funds allotted for relief of unemployment.

3.47. From a note on the subject subsequently furnished to them, the Committee observe that the Ministry of Railways have suggested to the Planning Commission and the concerned Ministries that a special pattern of financing the construction of road over|under-bridges outside the normal plan of the Railways and the State Governments Road authorities is required during the Fifth Plan. The estimated outlay on this account would be of the order of Rs. 50 crores. Salient points made in the note are given below:—

(1) There are 257 special class, 1215 'A' Class and 3675 'B' Class level crossings as on 31-3-1972. Most of these are situated in important urban areas and on National Highways. A review of the progress made in the 20 years

commencing from 1951-52 shows that only 172 level crossings have been replaced by road over|under-bridges. The average number of level crossings replaced per year comes to only 8 or 9. Recent analysis of such works shows that about 15 to 16 bridges are being constructed per year. The progress is no where near the mark and leaves much to be done.

(2) There are about 400 level crossings on National Highways. Practically all these qualify for replacement by road over-bridges. In course of time, many more level crossings would be added to this list as State Highways are being taken over as National Highways. Only about 10 level crossings on National Highways were replaced by road over|under-bridges during the Third Plan period. There is a proposal to replace about 50 level crossings on National Highways during the Fourth Plan period. Serious problems of road movement impeding National growth are likely to arise unless a crash programme is made out to replace all the level crossings on the National Highways within the next two Plan periods, or so.

(3) Metropolitan towns are the worst hit. The cost of schemes in important towns is generally very high, firstly because the bridges are to cater for the extra width of roadways to suit the existing road system and secondly because the approaches have to be specially designed to suit the built-up areas in the vicinity. The Road Authorities, therefore, have to bear a much larger share of the cost of the scheme as the extant rules provide sharing on 50 : 50 basis only for a bridge of 24 ft. width. It has not been possible for the Railways to enlarge their liability in this regard because of their difficult financial position.

(4) The problem of detention as also safety hazards at the level crossings would aggravate sharply with further developmental activity in the country in the light of growth oriented Fifth Plan and further plans in times to come. It is high time to gear up the activity and to speed up the progress on elimination of level crossings. A modest programme for replacement of at least 250 level crossings in the Fifth Plan over National Highways and in urban areas (and a much larger number in the plans

following next) is the least that is required. The special programme should be over and above the normal plan of conversion of about 15 level crossings every year by the railways and the road authorities over State Highways. The proposed arrangement would thus enable elimination of about 325 level crossings in the Fifth Plan period.

(5) The programme of construction of over and under-bridges fulfils, also the general objectives of providing additional employment opportunities to educated as also to uneducated workers. The labour employing potential of such schemes is fairly large. Roughly about 50 per cent of the cost of the work consists of labour employed directly and indirectly while about 8 to 10 per cent is the cost of educated workers including engineers and technicians. A scheme costing Rs. 20 lakhs has the potential to provide employment to about 500 uneducated workers and about 50 educated workers including engineers and technicians for a period of about one year. Such works would be distributed all over the country and, therefore, their impact on employment would be scattered all over and not concentrated in any one particular State.

(6) Unless a real effort is made to achieve a break-through in the matter of replacement of level crossings by grade separated crossings by providing special funds, the road movement would be adversely affected at many of the busy level crossings, particularly in the metropolitan towns, other important urban areas, suburban areas as also on National Highways.

3.48. Referring to the recommendation made by the Railway Accidents Enquiry Committee, 1968 that upto 10 per cent of the amount in the Railway Safety Works Fund should be earmarked for manning/upgrading of unmanned level crossings and that the Zonal Railway Administrations should be authorised to draw directly the amount so earmarked, the Committee enquired if the same had been implemented. The Ministry of Railways have informed the Committee that for implementing the recommendation of the Railway Accidents Enquiry Committee, 1968, the Ministry of Railways had sought the concurrence of the Ministry of Finance. The latter, while agreeing to the recommendation, suggested that the Railway Convention Committee may be kept informed about it.

3.49. Pending acceptance of this recommendation by the Railway Convention Committee, and authorisation to the Railway Administrations to draw directly from this Fund upto 10 per cent of the total grant to each State Government, the Ministry of Railways have already advised the State Governments to reserve 10 per cent of the grants for the purpose of manning of un-manned level crossings and upgradation of existing level crossings.

3.50. The Committee enquired whether the Railway Board were in touch with the experiments being made in safety devices on road-rail crossings in foreign countries such as automatic half barrier level crossings and closed circuit television surveillance equipment introduced in U.K. on an experimental basis. The Financial Commissioner replied that Indian Railways were also experimenting with these devices. The reaction of road users under the conditions obtaining in our country was being watched.

3.51. The Committee observe that out of a total contribution of about Rs. 10.80 crores made by the Railways to the Safety Works Fund during the years 1966-67 to 1971-72, the sanctions actually issued so far for reimbursement to State Governments are of the order of about Rs. 1.24 crores only. The Funds actually remained unutilised till as late as last year due partly to the cumbersome procedure involved in claiming reimbursement and partly due to the difficult resources position of the States and delays in acquisition of land.

3.52. The Committee note that the procedure has since been simplified and that all pending cases have been cleared by the Ministry of Railways. The Committee consider that construction of over/under-bridges at busy level crossings is as much in the interest of the Railways as it is in the interest of the State Governments. It is a paradoxical situation that while the needs are urgent, the funds should have remained unutilised for as many as five years. Apart from the safety aspect, the very purpose of widening and improving the roads and highways is defeated if traffic is held up at the level crossings. Now that the procedure has been streamlined, the Committee hope that the State Governments will be in a position to utilise the funds expeditiously.

3.53. The Committee suggest that the availability of funds for the construction of over/under-bridges in respect of each State should be adequately publicised by the Railways and specifically

brought to the notice of the State Governments concerned at the highest level. They would also like the Railway Administration to take initiative in this matter and draw up long term perspective plans as well as 5 years and annual Plans in consultation with the State Governments for construction of over|under-bridges in their areas, having regard to the density of rail and road traffic as well as location of the level crossings. The progress made in providing over|under-bridges against the agreed programmes should be watched and mentioned in detail in the Budget papers and other documents presented to Parliament by the Railways.

3.54. The Committee further consider that in view of the need for wider bridges over level crossings on account of density of traffic, the extant rules providing the sharing of expenditure on 50:50 basis by the Railways only for a bridge of 24 feet width, need modification.

3.55. The Committee further note that the Ministry of Railways have suggested to the Planning Commission and the concerned Ministries that a special allocation of Rs. 50 crores may be made for construction of over|under-bridges at 250 level crossings during the Fifth Plan. This outlay should be besides the Plan outlay of the Railways and the States/Road authorities. In view of the ever increasing traffic on account of growth of the national economy, the Committee are in agreement with the Ministry of Railways that a crash programme has to be launched for eliminating the level crossings in areas of high traffic density as quickly as possible. The Committee, therefore, trust that a decision in this regard will be taken expeditiously. In the meanwhile, the Committee recommend that the Planning Commission may consider the feasibility of diverting part of the funds allocated for development of national highways during the Fourth Plan which are likely to remain unutilised for construction of over/under-bridges. As stated by the Railway Minister in his letter of 2nd July, 1971 to Chief Ministers of all States "these proposals generate immediate employment opportunities to unemployed graduate engineers. Government of India schemes of providing employment will also get added potential".

3.56. The Committee further recommend that up to 10 per cent of the amount in the Railway Safety Works Fund should be earmarked for manning|upgrading of unmanned level crossings and that the Zonal Railway Administrations should be authorised to draw directly the amount so authorised.

CHAPTER IV

DEVELOPMENT FUND

4.1. The Develpment Fund bears (i) the cost of all works relating to amenities for passengers and other railway users including additions to existing or new works falling within one or more of the categories listed for the purpose, irrespective of any monetary limit; (ii) the cost of all labour welfare works, falling within one or more of the categories listed for the purpose, including additions to the existing or new works, estimated to cost individually above Rs. 25,000; and (iii) the entire cost of works costing more than Rs. 3 lakhs each, falling within one or more of the categories listed for the purpose, which are unremunerative, but necessary for the improvement of operational efficiency, including additions to the existing or new works.

4.2. Considering that the Development Fund is fed from the revenue surpluses of the Railways, the Committee asked the Ministry of Railways to furnish revised figures of the likely surplus during 1971-72 and 1972-73 as well as of the likely accretions to and withdrawals from ths Development Fund during each year of the Fourth Five Year Plan after taking into consideration the financial effect of the reliefs provided by the Committee *vide* their Interim Report to Parliament. The Ministry have stated in a note on the subject that in 1971-72 the actual earnings amounted to Rs. 1096 crores as against the budget anticipation of Rs. 1070 crores and revised estimate of Rs. 1078 crores. The revised Estimates for 1971-72 envisaged a surplus of Rs. 9.08 crores against the budgeted deficit of Rs. 6.87 crores. This improvement in the financial position was largely due to relief of Rs. 21:53 crores in the dividend liability recommended in the Interim Report of the Railway Convention Committee, 1971, and accepted by the Parliament. The position has further improved owing to buoyant earnings in the closing months of the financial year. The final figures for the year now being worked out indicate that the Railways would probably close the year with an increased surplus of about Rs. 17.75 crores against that of Rs. 9.08 crores anticipated in the Revised Estimates. This improvement has occurred inspite of the expenditure on account of the additional Interim Relief given by the Pay Commission during the year (Rs. 6.5 crores), flood damage (Rs. 3.1 crores), and other miscellaneous items (Rs. 9 crores).

4.3. The higher surplus would result in a larger allocation to the Development Fund than envisaged earlier in the Budget Estimates or the Revised Estimates. At the Revised Estimates stage, it was assessed that Rs. 0.45 crore will be available out of surplus of Rs. 9.08 crores for allocation to the Development Fund. This allocation is now expected to increase by about Rs. 8.7 crores.

4.4. The Budget Estimates for 1972-73 as approved by Parliament project a surplus of Rs. 32.53 crores. Of this surplus, an amount of Rs. 20.50 crores has been allocated to the Development Fund. The earnings so far (*i.e.* upto end of July 1972) are Rs. 382.51 crores against the budget proportion of Rs. 374.68 crores.

4.5. In regard to earlier financial forecast of revenue surplus during the Five Year Plan period (1969—74) as projected in Memo. No. IV (a) furnished to the Committee, the Ministry have stated that the position in this regard (after taking into account the reliefs proposed by the Financial Commissioner) was as follows:

(Rs. in crores)

Actuals			*Anticipated*		
1969-70	1970-71	1971-72	1972-73	1973-74	Total
—10	—20	31	52	66	119

The figures of the last three years include adjustment of arrears of relief for the first two years the accounts of which had been closed.

4.6. The Ministry of Railways has further stated:

Certain additional burdens have been thrown on the Railways since the above financial forecast was presented to the Convention Committee. Some of the important items of expenditure are—

(Financial effect in crores of rupees for a full year)

(i)	Grant of second instalment of Interim Relief sanctioned by Government in September. 1972 on the recommendatin of the Pay Commission	14·00
(ii)	Implementation of Miabhoy Award (Revenue portion only) . . .	13·00
(iii)	Increased cost of steel	9·00
(iv)	Increase in the price of coal during 72.	2·00
(v)	Increase in cost of diesel oil	1·20
(vi)	Misc. arbitration awards, such as, Night Duty Allowance , Casual Leave to workshop staff etc.	3·00
(vii)	Increase in the rates of running allowance part of which not taken into account in the earlier forecast.	3·00
(viii)	Increase repair and maintenance expeditue on Track, buildings, locomotives, wagons, carriages, Signalling and Telcommunication equipment, Electrical assets due to increase in the cost of stores and materials	7·00
		52·20

"The earlier forecasts will, therefore, undergo a complete change. A financial forecast for 1973-74 was recently made in consultation with the Planning Commission keeping in view the traffic anticipations during the relevant year. After taking into account the above factors, the financial forecast taking into account the reliefs suggested (by the Railway Convention Committee) should stand as under. Details are given in Appendix II.

(In Crores)

Actuals	Anticipated				
1969-70	1970-71	1971-72	1972-73	1973-74	Total
—10	—20	18	44	18*	50

"As the accounts for 1971-72 have also since been closed the adjustment of arrears of relief for the first two years has been included in the figures of only the last two years.

"Based on the above forecast, the position of accretions to and withdrawals from the Development Fund, taking into account the suggested reliefs, has been updated as shown in Appendix III."

4.7. The Committee enquired whether any investments were made by the Railways under 'Capital' which did not increase earnings but resulted in economy in working expenses and if so, what were the reasons for not charging them to Development Fund. The Ministry of Railways have stated that investments of this nature are made by the Railways and shown in the Capital Account provided the savings in working expenses expected to be realised as a result of the proposed outlay are on a scale that, after meeting the annual cost of service of the assets, they yield the minimum prescribed return on the total estimated investment. Where the return expected is less than the prescribed minimum, the cost of the project would be charged to the Development Fund or Open Line Works (Revenue) as the case may be. The cost of construction of all new lines is, however, charged to Capital.

4.8. Except in the case of New Lines, the general principle is that all remunerative projects are charged to Capital and other projects which are necessary but not remunerative are charged to the Development Fund or Open Line Works (Revenue). In this context, no distinction is made whether the project is remunerative because of additional earnings or savings in the working expenses. The Development Fund has been set up to enable the Railways to undertake

*Assuming that the reliefs provided for 1971-72 and 1972-73 were to continue.

such unremunerative works, without adding to their capital debt, as have to be undertaken to improve their operational efficiency or to provide amenities to railway users, or to cater to Staff Welfare. Charging of a "remunerative" project to the Development Fund would not, therefore, be in consonance with the objectives of the Fund.

4.9. During evidence, the Committee enquired about the rationale of charging the cost of unremunerative operating improvements and safety works costing not more than Rs. 3 lakhs to revenue and those costing more than Rs. 3 lakhs to Development Fund. The representative of the Ministry stated that with the inception of Betterment Fund in 1946 the principle of allocation of unremunerative operating improvements costing not more than Rs. 3 lakhs each to that fund which was financed from revenue was accepted but such works costing more than Rs. 3 lakhs each continued to be charged to Capital.

4.10. Since it was considered financially indefensible to burden the capital with works costing less than Rs. 3 lakhs, the Railway Convention Committee, 1949 while accepting the need for constitution of a new Fund called "Development Fund" recommended that expenditure on unremunerative operating improvements costing more than Rs. 3 lakhs should be allocated to Development Fund. Thenceforth the expenditure on such works costing less than Rs. 3 lakhs each was to be charged to Open Line Works Revenue. This position had been accepted by the sucessive Convention Committees.

4.11. The Committee pointed out that loans had been taken for payment of interest on loans taken earlier to finance the expenditure from Development Fund. They enquired what the total liability of the Fund was as on date both in respect of the loans taken and interest accruing thereon. The Financial Commissioner stated that the total liability of the Development Fund in respect of loans taken and interest accruing thereon as on 31-3-1972 and 31-3-1973 was| would be as under:

(Rs. in crores)

	1971-72	1972-73 (BE)	1972-73 (present assessment)
Principal . .	86·65	90·24	86·65 (as on 31-3-72) —8·12 (repayment)
Interest .	3·52	4·19	4·12
Total :	90·17	94·43	90·77

4.12. The Committee are glad to observe that the improved financial position of the Railways has enabled them to increase the allocations to the Development Fund out of their revenue surpluses during 1971-72 and 1972-73 and also to pay off part of the loans taken in earlier years to finance the expenditure from this fund.

4.13. The Committee note that the total liability of the fund as on 31st March, 1972, in respect of loans taken from General Revenues was of the order of Rs. 86.65 crores by way of principal and Rs. 3.52 crores as interest. Regarding the question whether the loans obtained by the Railways for payment of interest on the principal should bear interest at the average borrowing rate chargable to commercial departments or the current borrowing rate which is about 1 per cent higher, the Committee reiterate the recommendation made by them in the Interim Report submitted to Parliament last year that interest on loans whether taken to finance the expenditure on Development Works or to pay the interest on the principal of such loans, be levied at the average borrowing rate chargeable to the Commercial Departments.

(a) *Railway Users' Amenities*

4.14. In accordance with the recommendation of the Railway Convention Committee, 1965, a sum of Rs. 4 crores per annum is allocated out of the Development Fund for provision of Railway Users Amenities. A list of items classified as amenities for passengers and other Railway users is given in Appendix IV. The amount budgeted and actually spent during the Fourth Plan period so far is as follows:—

(Rs. in crores)

	1969-70	1970-71	1971-72	1972-73	1973-74
Budget Estimates	3·99	3·91	4·08	3·80	4·00 (Tentative)
Actuals . .	4·46	3·74	3·83	—	—

4.15. The Committee are glad to note that the expenditure on Railway Users' amenities during the three years of the Fourth Plan has been Rs. 12:03 crores i.e., on an average of Rs. 4 crores per year as recommended by the Railway Convention Committee, 1965. The Committee would, however, like to emphasise that the Railways should give top priority to provide clean and cool drinking water and improved types of latrines for the use of passengers at the platforms. They also expect that electricity will be provided at all stations where it is available in the vicinity.

4.16. The Committee note that Railways have provided water coolers at great expense at various Railway stations, but it has been

the experience of the Committee during their tours that they do not give trouble free service. The Committee would urge the Railway Administration to ensure that water coolers are maintained in working condition particularly during summer and are so situated as to be of maximum service to the travelling public. The Committee would also like to impress that the arrangements for washing of glasses should be hygienic.

4.17. The Committee have noticed that the taps for drinking water provided at the stations are of antiquated designs. The Committee feel that high priority should be given to evolve a suitable design so that the taps are convenient to use and there is no wastage of water.

(b) *Staff Amenities*

4.18. Staff Amenities Works broadly cover expenditure on:

(a) New Hospitals, dispensaries and additions and improvements to existing ones.

(b) New Schools and additions, alterations and improvements to existing ones.

(c) New institutes, rest houses, sports grounds and reading rooms and improvements and additions to existing ones.

(d) Provision and improvement of health and welfare works, child welfare and maternity centres.

(e) Cooling arrangements for workshops, canteens and rest rooms for workmen.

(f) Provision and improvement of sanitation, water supply, road lighting and marketing facilities in Railway colonies.

(g) Quarters for Class III and Class IV staff and improvements to existing quarters etc.

4.19. The expenditure on staff amenities *vis-a-vis* the budget estimates during the last three years was as follows:—

(Rs. in crores)

Years	Budget Estimates	Actuals	Shortfall
1969-70	7·69	6·87	0·82
1970-71	9·05	8·26	0·79
1971-72	9·26	8·97	0·29
1972-73	8·84	—	—
1973-74 (Tentative)	9·70	—	—

4.20. The Committee regret to note that there has been persistent shortfall in expenditure on staff amenities in spite of the fact that there is great shortage of quarters for Class III and Class IV staff. the expenditure on which is met from the Development Fund. In view of the acute shortage of housing and their high rents, particularly in big towns and metropolitan cities a large number of Railway employees, who are waiting for Railway accommodation and have to pay high market rent, are suffering serious hardships. It is very essential that the Railways should give due priority to the provision of quarters particularly to non-gazetted and other essential staff. ..

4.21. Now that the Government are thinking of social housing, the Committee would like the Railways to evolve a suitable scheme to enable the Railway employees to build houses for themselves before they retire. ..

CHAPTER V

REVENUE RESERVE FUND

(a) *Objects of the fund*

5.1. The Railway Reserve Fund was a creation of the Separation Convention, 1924, under which Railway finances were initially separated from General Finance. The main object of constituting this Fund were:

(i) to secure the payment of the annual contribution to the General Revenues;

(ii) to provide, if necessary, for arrears of depreciation;

(iii) to provide, if necessary, for writing down or writing off Capital; and

(iv) to strengthen the financial position of Railways in order that the services rendered to the public could be improved and rates of fares and freights reduced.

5.2. The Convention Committee, 1949, recommended that the Railway Reserve Fund should be renamed Revenue Reserve Fund and that it should be utilised primarily for:

(i) dividend equalisation, *i.e.* ensuring payment of the dividend;

(ii) making up any deficit in the working of the railways.

5.3. They also recommended that the interest accruing on the balance in the Fund should be credited to the Fund and not to Railway receipts.

5.4. The Railway Convention Committee, 1954 and 1960, did not make any change in the purposes for which the Fund could be used.

5.5. The Convention Committee, 1965 however, extended the scope of the fund to amortisation of the element of over-capitalisation on the Railways. It recommended that "amortisation of unproductive capital may be commenced with the interest earned on the balances in the Revenue Reserve Fund being taken in reduction of the element of over-capitalisation supplemented by such appropriations from Railway Revenue, from year to year, as may be possible on the financial results of each year."

5.6. The Fund had a balance of Rs. 62.89* crores on 1st April, 1966. Continuing deficit from 1966-67 onwards compelled the Railways to withdraw a total sum of about Rs. 58 crores upto 1968-69 for the purpose of equalisation of dividend. The interest of Rs. 5.72 crores earned during this period was utilised for amortisation of part of the element of over-capitalisation. The balance in the Fund stood at a nominal amount of Rs. 3.18* crores on 31st March, 1969. The closing balance as at the end of the year 1971-72 was Rs. 31 lakhs only representing investments in shares of and loans to Branch Line Companies.

(b) *Accretions to and Withdrawals from the Fund*

5.7. With reference to the data furnished by the Financial Commissioner *i.e.* accretions to and withdrawals from the Revenue Reserve Fund during the Fourth Plan period taking into account the reliefs proposed by him, the Committee called for a revised statement of the transactions from the fund in the light of the reliefs provided by them in their Interim Report presented to Parliament last year.

5.8. The Ministry have informed the Committee that the earlier forecasts have undergone a complete change (c.f. para 4.6 above). The position of accretions to and withdrawals from the Fund taking into account the reliefs recommended by the Committee for 1971-72 and 1972-73 has been updated and is as shown in Appendix V.

5.9. In their Interim Report, the Committee had recommended that the interest on loans taken from General Revenues (including further loans for repayment of the original loans or paying interest charges on the loans) should be paid by the Railways at the current borrowing rate. The following figures of the current and average borrowing rates since the commencement of the Plan have been furnished to the Committee:—

	Current Borrowing rate	Average borrowing rate
1968-69	5·00%	4·33%
1969-70	5·00%	4·43%
1970-71	5·50%	4·53%
1971-72	5·50%	4·65%
1972-73	Not yet intimated by the Ministry of Finance.	4·76%

*excludes. Rs. 0 31 crores representing investments in Branch Line Companies.

5.10. The reason for making a distinction in the interest liability on loans taken for financing expenditure from the Development Fund and the Revenue Reserve Fund is that the loans for Development Fund are assumed to be taken from month to month to finance the development works while the loans for Revenue Reserve Fund are on a different footing in asmuch as it is a single transaction at the end of the year to meet the liability of the fund towards shortfall in dividend payable to General Revenues.

5.11. The Committee, therefore, recommend that the extant arrangement whereunder loans taken from General Revenues to finance the expenditure from Revenue Reserve Fund, including further loans for repayment of the Principal or interest charges thereon are charged at the current borrowing rate, should continue.

(c) *Amortisation/Restructuring of Railway Capital*

5.12. In regard to the question of amortisation of the element of over-capitalisation in the Railway undertaking, the Financial Commissioner has stated in his Memorandum (No. VI) that "in accordance with the recommendations of the 1965 Committee, the amount of interest earned on the balances in the Revenue Reserve Fund have been utilised for amortisation of part of the element of over-capitalisation. However, only a sum of Rs. 5.72 crores could be written off Capital in the period 1966-69 in this way. In view of the losses incurred in these years, it was not found possible to supplement the amount of interest by appropriation from Railway Revenues."

5.13. So far as the Fourth Plan is concerned, the Financial Commissioner has stated that "it will not be possible to build up any balance in the Fund in subsequent years of the Fourth Plan, as the net surplus will not be adequate to meet fully the requirements of even the Development Fund even if the reliefs sought in the payment of dividend are granted. It will not be practicable or desirable to approriate any amount directly from the revenue for the purpose of amortisation, as such appropriation will only go to reduce the net surplus, inadequate even as it is expected to be. There is, therefore, no prospect of any further part of the remaining element of over-capitalisation (Rs. 118.25 crores) being amortised in the remaining period of the Fourth Plan".

"As amortisation in the orthodox manner by setting apart appropriate amounts from Revenue is not feasible, the alternative of restructuring of capital will have to be considered. Such a course is however an important and fundamental step having far reaching repercussions and hence it cannot be considered until a comprehensive study is made of the whole structure of Capital, the profiability of the different elements included therein, the technical justification for any scheme of restructuring the Capital as well as a rational and acceptable method of doing so, the general policy of Government in such matters, and the repercussions it will have on others sectors of the infra structure. Perhaps, if the tempo of traffic picks up sufficiently in the years to come, the viability of the Railways could be maintained without resorting to any such drastic remedies as restructuring of Capital which are justified only in extra-ordinary situations.

"To summarise, even the modest scheme of amortisation which was found feasible in the three year period 1966-67 to 1968-69, on the basis of the recommendations of the Railway Convention Committee, 1965 would not be possible in the present quinquennium. While it must always be kept in view that it is desirable to amortise particularly the relatively unproductive elements of capital, the matter has to await better times. The more drastic step of restructuring of the Capital need be taken up only as a very last resort and, in any case, a detailed and careful technical examination must precede such a step. The question whether orthodox amortisation will be feasible in due course, or whether a drastic restructuring is inevitable, may be taken up for consideration at the time of the next review of the Convention."

5.14. During the course of evidence, the Committee enquired whether in view of the reliefs provided by them in their interim report it would be possible to set aside a part of the surplus funds for the purpose of amortisation. The Financial Commissioner stated that as per the recommendation of the Railway Convention Committee, 1965, a sum of Rs. 5.72 crores was written off during the period 1966-69. As the Revenue Reserve Fund has since been depleted, no interest was being earned thereon now. Due to the difficult financial position of the Railways, it would not be possible to build up any balance in the Revenue Reserve Fund. The likely surplus of Rs. 50 crores at the end of the Fourth Plan would not be sufficient to meet the loan and interest liabilities of the Revenue Reserve Fund and the Development Fund. The Finance Ministry had already been informed that the Railways would first like to liquidate the loans so that they could save the interest charges thereon.

5.15. In this connection, the Committee were also informed by the Financial Commissioner that the Capital structure of the British Railways was re-organised in 1963 when it was written down by

£ 500 million. Again in 1969, the Capital was written down by £ 1088 million. Thus during the course of the last few years the capital of the British Railways had been reduced by more than half of the original capital.

5.16. The Committee observe that the Capital-at-Charge of the Railways includes a fairly large element of over-capitalisation (Rs. 118.25 crores) which needs to be amortised. It has not been possible to make any substantial dent into the problem due to the difficult ways and means position of the Railways. The Committee also understand that the British Railways have been permitted to reduce their capital liabilities drastically in recent years.

5.17. The Committee feel that the question whether over-capitalisation of the Indian Railways should be amortised and if so, during what period or whether the capital structure of the Railways should be restructured is a complex one and will have wide repercussions on other sectors of the infra-structure needs a comprehensive study into all its ramifications. They suggest that this matter may be examined in all its aspects by an expert group consisting of the representatives of 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.

CHAPTER VI

PENSION FUND

6.1. The Committee enquired on what considerations the Pension Fund was instituted and how far these had been realised. In a note on the subject, the Ministry of Railways have stated that the pension scheme was extended to railway employees in 1957. The employees who joined service after 16th November, 1957 compulsorily came under the Pension Scheme. An option was given to the serving employees to change over from the Contributory Provident Fund benefits to the Pension Scheme. In the initial stages, when relatively few railway employees had opted for Pension Scheme, the pension payments were directly debited to Revenue. When the terms of lower-rated pensions and Family Pension were improved in 1963-64, a large number of staff under various age groups were expected to opt for Pension and this was expected to give rise to widely fluctuating expenditure from year to year on account of pensions. A Pension Fund was created in 1964 in consultation with the Comptroller and Auditor General and the Ministry of Finance to cover this situation.

6.2. As a commercial organisation, it is necessary that Railways should provide, from their revenues each year, not only the amounts actually paid as pension during the year, but also the potential cumulative liability for the pension benefits earned for each year of service by all the pensionable staff. If due provision is not made concurrently, the current Revenue will be relieved of bearing its accrued liability. But the deferred liability will throw disproportionate and unduly heavy burden on Revenue in future years. If pensionary liability is not found out of yearly contributions from Revenue, there would be violent fluctuations in the financial results of the Railways when the payments assume substantial proportions in later years as more and more pensionable employees retire from service.

6.3. In the non-railway departments where the employees have always been pensionable, the burden of pension is not likely to vary so widely from year to year as in the case of Railways where a number of non-pensionable employees in different age groups came under Pension Scheme within a short period of time. The pension payments on the Railways will stabilise after some 25 years hence when the 'post-November 1957' entrants who are all pensionable begin to retire from year to year in more or less regular numbers.

6.4. It was on the basis of this principle of evening out the burden of both the current and accrued liabilities, that the Pension Fund was created and the annual rate of contribution to Pension Fund determined.

6.5. The Committee enquired whether, in view of the fact that the annual expenditure on pensions amounted to a bare ½ per cent of the total Railway Budget, there was sufficient justification in having a separate fund for the purpose. The Ministry of Railways have informed the Committee that the annual contribution to the Pension Fund was determined on an Actuarial basis by the Government Actuary in 1964-65 after collecting the necessary sample data from major Railways. On this basis it was foreseen that pensionary payments will ultimately rise to Rs. 30 crores a year.

6.6. It was also assessed that in respect of 80,000 railway employees who had opted for pension by that time, the outstanding pensionary liability for this population alone amounted to Rs. 75.60 crores. Bearing this assessment in mind, the Government Actuary recommended an annual contribution ranging from Rs. 12.27 crores to Rs. 14.41 crores for the next few years. The annual contribution to the Pension Fund made from year to year compares with the scale of annual contribution suggested by the Government Actuary as under:

(In crores of Rs.)

Year	Contribution estimated by the Actuary	Actual Contribution
1964-65	12·27	12·00
1965-66	12·50	12·50
1966-67	12·73	14·00
1967-68	12·97	10·30
1968-69	13·21	10·30
1969-70	13·43	10·30
1970-71	13·67	15·50
1971-72	13·91	12·00
1972-73 (B·E.)	14·16	16·60
	118·85	113·50

6.7. It will be seen from the above table that the total amount actually contributed to the Pension Fund from Railway revenues over the years has been more or less what the Government Actuary had recommended.

6.8. There have, however, been variances from year to year in the amount actually contributed and the one recommended for the relevant year by the Government Actuary for the following factors:

(i) The population of pensionable employees has gone up from 3.77 lakh in 1965 to about 6.0 lakhs in 1971-72;

(ii) Liberalisation in the Family Pension Rules; increase in emoluments due to merger of a portion of dearness allowance with pay; and grant of *ex-gratia* pension to retired railway employees;

(iii) Unfavourable revenue position of the Railways during the particular years; and

(iv) Making up of the arrears of pensionary liability in respect of those years when lesser annual contribution was made due to financial position.

6.9. The contribution to Pension Fund thus represents the accretion relating to pensionary liability of the employees governed by the scheme, while the payments which are made out of the Fund relate to such pensionable staff as have retired from service. In the initial stages, the payments will naturally be lower in magnitude than the contribution made to the Fund. It will be seen, however, that the trend of actual pension payments shows a substantial rise from Rs. 2.21 crores in 1964-65 to nearly Rs. 10 crores in 1972-73. This growth is bound to increase as years go by.

6.10. A re-assessment of the rate of annual contribution to the Pension Fund has become necessary as a result of merger of a portion of the Dearness Allowance with pay in 1969-70 and increases in the number of pensionable employees, etc. This re-assessment has also been recommended by the Public Accounts Committee in their 'Hundred and Sixteenth Report' (1969-70)—Fourth Lok Sabha—Recommendation No. 14—reproduced below:—

"The Committee note that in view of the liberalisation of rules governing the Railway Pension Fund, the liability of the Railways for payment of pension has increased and a re-assessment of the contribution to the Fund has become necessary. The Committee would like the necessary data in this regard to be collected and processed expeditiously and appropriate action taken thereafter."

"Action has been taken to have another actuarial exercise. The scale of annual contribution to the Pension Fund will be regulated bearing in mind the amount re-worked by the Government Actuary.

"It will thus be observed that the considerations which led to the institution of the Pension Fund have more or less been achieved. It is essential that the contribution to this Fund should continue to be made because:

(i) With more and more staff having come over to the Pension Scheme, both the current and the accrued liability will considerably increase in years to come;

(ii) The continued increases in pensionable emoluments and liberalisation in pension rules including liberalisation expected as a result of recommendation of Third Pay Commission are bound to throw larger burden on the Pension Fund."

6.11. A statement showing the annual accretions to and withdrawals from the fund since 1964-65, giving reasons for variations between the budget estimates and actuals, is given in Appendix VI.

6.12. The Committee pointed out that the closing balance to the credit of the Pension Fund had been rising steadily—from Rs. 44.09 crores in 1966-67 to Rs. 110.99 crores (Budget Estimates) in 1972-73 and enquired whether the annual appropriations were based on actuarial assessment made from time to time and if so, when such assessment was last carried out The Railway Board have explained that the steadily rising balance in the Fund is not only to cover for the current payments but also the deferred liability. The pensionary payments will assume substantial proportions in later years as more and more pensionable employees retire from service. The pension payments on Railways will stabilise after nearly 30 years when the post-November, 1957 entrants begin to retire from year to year in more or less regular numbers.

6.13. In 1963, when the creation of Railway Pension Fund was under contemplation, the Government Actuary was asked to advise about his estimates of the amounts to be set aside annually for credit to the proposed fund for meeting the cost of retirement pensions and family pensions of railway employees.

6.14. The first actuarial evaluation was made in 1964-65 based on the sample data. The assessment indicated that the stationary population of 10 lakhs railway employees who will come under the pensionary scheme of retirement benefits in different pay groups, would eventually cost the fund an annual drain of nearly Rs. 30 crores.

6.15. The Railway Board have already accepted in principle the need to have actuarial assessments made periodically. They have already collected relevant data from some Railways and are in correspondence with the Government Actuary in regard to expeditious assessment of the adequacy or otherwise of annual contributions to the Fund taking into account the changes that have since taken place in the number of pension optees and in their salary structure. In fact, a provision of Rs. 20,000 exists in the current year's budget to meet the cost of this service. Recently, another option for Pension has been allowed to the staff. The recommendations of the Third Pay Commission which are expected shortly will perhaps necessitate another option. The periodic actuarial reviews will be made in the context of the changed situations.

6.16. During evidence, the Financial Commissioner informed the Committee that the Report of the Government Actuary was likely to be received within the next six months when the scale of annual contribution to the fund will be regulated bearing in mind the amount worked by the Government Actuary.

6.17. The Committee pointed out that actual withdrawals from the Pension Fund during the years 1968-69, 1969-70 and 1970-71 had exceeded the budget provision by Rs. 1.20 crores, Rs. 1.40 crores and Rs. 0.76 crores respectively. The Committee enquired why it had not been possible to frame more realistic estimates of the pension liability. The Financial Commissioner stated that the actual withdrawals during those three years had exceeded the budget provision due mainly to more employees retiring under Pensionary benefits than anticipated. The Ministry had been impressing upon the Railways the need for making more realistic assessment taking into account the latest figures of retirements etc. As a result, the difference between the budget provision and actual withdrawal had come down in 1970-71.

6.18. Referring to the variations between the budget estimates and actual expenditure under this head during 1967-68 and 1971-72, the Financial Commissioner stated that the reduced appropriations during these years were due to the difficult ways and means position of the Railways during the respective periods. The variations were with reference to the annual contributions made to the Pension Fund and not with reference to the budget estimates and the actual withdrawals.

6.19. The Committee note that the balance to the credit of the Pension Fund has risen from Rs. 44:09 crores in 1966-67 to Rs. 110.99 crores (budget estimates) in 1972-73. The Committee recognise the need for making an adequate provision for the present and future liabilities of the Railways on this account and to make adequate provision therefor from year to year without causing any violent fluctuations in the budgetary position. They nevertheless consider that it is necessary for the Railways to have an accurate assessment, of their liabilities from time to time. They hope that the Report of the Government Actuary expected to be received in about six months' time will help the Railways to frame more realistic estimates of expenditure from the Pension Fund.

6.20. The Committee would also like the Ministry of Railways to issue necessary instructions to the Zonal Railways to frame more realistic estimates under this head taking due note of the actual number of persons retiring during the course of the year.

CHAPTER VII

BUDGET & ACCOUNTS

A. Improvements in Budgetary Procedure

7.1. The Committee enquired what improvements had been affected or were proposed to be effected in the form of Railway Budget presented to Parliament with a view to make it more concise, self-explanatory and meaningful.

7.2. In a note the Ministry have stated as follows:—

"The structure of the Railway Budget and the method of its compilation are periodically reviewed and changes introduced, whenever necessary, so as to conform to the changed conditions. Before 1924-25, all Railway expenditure was divided into two demands, Capital and Revenue. With the separation of Railway Finance and General Revenues in 1924-25, the demand heads for Railways' working expenses corresponded to the departments of the Railways. This arrangement suffered from the disadvantage that each demand covered groups of expenditure made up of hetrogenous elements. In 1947, the demand heads were revised so that each new demand could divide the expenditure of individual Railway Administration under well defined groups.

"For purposes of budgeting, ordinary working expenses are now spread over seven demands, namely, Administration of all Departments, Repairs and Maintenance of all Departments, Operating Staff, Fuel, Other Operating Expenses, Labour Welfare and Miscellaneous. In round figures, Administration accounts for about 11 per cent of Ordinary Working Expenses, Repairs and Maintenance 35 per cent, Operating Staff 22 per cent, Fuel 20 per cent, Other Operating Expenses 5 per cent, Miscellaneous 4 per cent and Labour Welfare 3 per cent

"Each of the above demands is sub-divided Railwaywise and into suitable blocks of expenditure. Under the existing arrangements, the Working Expenses are divided into a number of groups and each group comprises expenditure of the same character and is, therefore, well-defined. For example, under each Railway, the Repairs and maintenance Demand is divided into repairs and maintenance of track and structures, Locomotives, Carriage and Wagon, Ferries, Electrical Services, Signal and Tele-communication Services and other Expenses. Similarly, Operating Staff under each Zonal Railway is divided into Locomotive Staff, Carriage and Wagon Staff, Steamer Staff, Traffic Staff including staff at stations, Electric traction staff and Signal and Telecommunication staff. Likewise, 'Fuel' under each Railway is divided into 'Coal', 'Other Fuel' *i.e.*, Diesel and Electric current for traction. Other Operating Expenses comprise expenditure on stationery and forms and tickets, handling and delivery charges, compensation for goods lost or damaged, general electrical services, clothing and stores, etc. Miscellaneous expenses include Contribution to Provident Fund, other contributions and grants, compensation for accidents, catering expenses, etc. Labour Welfare is distributed over Medical Department, Health & Welfare Services, Education, Canteen and other staff amenities.

"It may be relevant to point out here that as the Indian Railways are a commercial concern, owned and managed by the Government, the accounts of the Railways follow the essential requirements of commercial accounts and at the same time conform to the formalities of government accounting. Under Article 150 of the Constitution, the form in which the Railway Accounts are maintained is to be prescribed by the Comptroller and Auditor General of India.

"For the purpose of maintenance of accounts and day to day control of expenditure, 'Ordinary Working Expenses' are traditionally classified by Departments, namely, Civil Engineering, Locomotive Traction, Carriage & Wagon, Ferries, Traffic, General Departments, Signal and Telecommunication, Electrical and Miscellaneous. Expenditure of each of these is further broadly sub-divided into Administration, Repairs and Maintenance and Operation. These classifications are known as "Abstracts of Accounts".

"The precise classification in accounts of expenditure which goes into each of these demands is specified so that there is coordination and a close link maintained between the accounting classification and the Budget format.

"The existing arrangements of the units under which the Working Expenses have been divided are of a reasonable size. These secure a reasonable efficiency of control over Railway expenditure and at the same time provide a limited latitude to Railway Administrations to re-appropriate funds within each unit.

"The works expenditure was divided into three demands in 1947 as against two in the past. These three demands were for (i) Construction of new lines (Demand No. 15), (ii) Open Line Works—Additions (Demand No. 16) and (iii) Open Line Works—Replacements (Demand No. 17).

"In 1949-50, two more works demands were added; Demand No. 12 -Open Line Works to cover expenditure on 'minor works' costing not more than Rs. 10 thousand each and Demand No. 18—Betterment Fund (Passenger Amenities) to provide for expenditure met out of the Betterment Fund on 'Passenger Amenities'.

"In 1950-51, a separate demand (Demand No. 9-A—Labour Welfare), later renumbered as Demand No. 10, was introduced for dealing with expenditure on Medical facilities, Health and Maternity Services, Education, Canteens and other amenities provided for railway staff. The expenditure on these facilities was earlier included under Demand No. 4 (Administration) and Demand No. 9 (Miscellaneous).

"In terms of the Recommendations of the 1949 Railway Convention Committee, a Development Fund was constituted for financing expenditure on 'Passenger Amenities, Labour Welfare and Railway Projects which were unremunerative'. This involved the merger of the then existing Betterment Fund with the Development Fund and necessitated changing the nomenclature of Demand No. 18—Betterment Fund (Passenger Amenities) to Open Line Works—Development Fund. The Demand No. 18 now in effect covers expenditure on all 'Passenger Amenity' works' irrespective of any monetary limit, 'Labour Welfare Works' costing over Rs. 25 thousand each and 'Unremunerative Operating Improvements' costing over Rs. 3 lakhs. Consequently, Demand No. 12 was also split into two parts—Demand No. 12-A (Open Line Works—Revenue—Labour Welfare) and 12-B (Open Line Works—Revenue--

Other than Labour Welfare). The former was to cover the cost of 'Labour Amenity Works' costing not more than Rs. 25 thousand each; while the latter to provide for the expenditure on 'Unremunerative Operating Improvements' costing not more than Rs. 3 lakhs. These demands were subsequently re-numbered as Demand No. 13 and Demand No. 14 respectively.

"The Railway Convention Committee of 1949 also recommended guarantee of an annual dividend at a fixed rate to the General Finances. This resulted in opening up a new Demand No. 20 for the 'Payment of Dividend to General Revenues'.

"From the financial year commencing from 1st April, 1963, certain further changes in the structure of the Demands for Works Grants were made. These in brief were:

(a) The former Demand No. 13—Open Line Works—Labour Welfare and the former Demand No. 14—Open Line Works—Revenue—Other than Labour Welfare, both being chargeable to the same Revenue head, were combined into a single demand, referred to now as Demand No. 13—Open Line Works—Revenue, with the following detailed heads:

(a) Labour Welfare Works—

(i) Staff Amenities; (ii) Staff Quarters

(b) Other Works.

The works hitherto charged to Demand No. 13 were shown against the detailed head 'Labour Welfare Works' and those charged to Demand No. 14—Open Line Works—Revenue—Other than Labour Welfare, included under the detailed head 'Other Works' in the new Demand referred to.

(b) The former Demands No. 16 & 17—Open Line Works—Additions—and Open Line Works—Replacements—respectively, were merged into a single demand and referred to now as Demand No. 15—Open Line Works—Additions and Replacements.

(c) In order that multiple budgeting for the same item in the system of gross budgeting was reduced to the minimum, and inflation of the gross demand obviated to the extent possible, issues from 'Manufacture Suspense' to Works and Services, funds for which were provided within the same Demand as the 'Manufacture Suspense', head, were taken as a reduction of 'Debit' for the purposes of Gross Budgeting (as was done in the case of 'Stores Suspense' with effect from 1-4-1960) and not as a 'Credit' outside the gross demand, as in the earlier years. In the case of 'Stores Suspense' also, issues for fabrication etc., *viz.*, to 'Miscellaneous Advances Capital' within the same demand, were taken in reduction of 'Debit' for the purposes of Gross Budgeting.

"In 1964-65, consequent upon the introduction of Pension Scheme on the Railways, two new demands were created in this connection (Nos. 11-A and 11-B) to operate as "contributions to, and withdrawals from, the Railway Pension Fund."

"In 1965-66, another important change was made in the structure of demands for grants for works expenditure. The Demand No. 15—Open Line Works—Additions and Replacements and Demand No. 16—Open Line Works—Development Fund was merged into a single demand which was thereafter referred to as Demand No. 15—Open Line Works—Capital, Depreciation Reserve Fund and Development Fund. In addition to reducing the number of demands the merger of the two demands was sought to eliminate some more of the multiple budgeting for some items which inflated the gross demand. Issues from 'Stores Suspense' and 'Manufacture Suspense' to works and services chargeable to Development Fund were to be taken as reduction of debit for the purposes of gross budgeting within the same demand, instead of as 'credits', which were to figure outside the gross demand. In its place, Demand 11-B—Withdrawal from Pension Fund was renumbered as Demand No. 16—Pensionary Charges—Pension Fund.

"Over a period of years separate Demand heads have been provided for appropriation to Depreciation Fund, Pension Fund and to Development Fund; for payments towards Amortization of over capitalisation, repayment of loans from General Revenues etc.

"All in all, there are 21 Demands for Grants. Considering the magnitude of Railway expenditure, these are not too many in number. This arrangement of Demands is intended to provide an adequate machinery. Further, grants are now obtained from Parliament for the gross expenditure and not for 'net' expenditure, after taking into account the credits and recoveries. This has enabled better managerial and financial control on the total expenditure without being influenced by fluctuations in credits and recoveries.

"From the foregoing, it will be observed that the structure of the demands has been periodically reviewed to meet the changing requirements of Parliamentary Control and commercial methods of control so that it may be possible both for the legislature and the Government to see how far the variations from the original estimate of expenditure are justified and also to relate variations in expenditure to variations in traffic. These changes in the Demand structure, it may be mentioned are made in consultation with the Comptroller and Auditor General of India and the Ministry of Finance. These changes are also brought to the notice of the Parliament through the budget documents as and when made.

"In conclusion, it may be submitted that the existing arrangements have stood the test of time and have provided meaningful and precise information on important aspects of Railway expenditure to the Parliament and in turn to the public at large. Each demand for grant now has an explanatory note appended which explains the nature of expenditure covered by the Demand. This feature was introduced from the year 1953-54. In addition, an Explanatory Memorandum on the Railway Budget is also circulated as a part of the Railway Budget documents giving in detail the financial position of the Railways, the progress of expenditure against sanctioned budget, demand for additional expenditure both for the current year and the new year and any other feature necessitating detailed exposition.

"Financial statistics are also now maintained by the Railways to enable the administration to watch regularly the trends of traffic on the one hand and the trends of working expenses on the other. The structure of the statistics is also reviewed and changes introduced to enable better control being exercised. Of late, a pamphlet containing "A Review of the Performance of the Indian Government Railways" is brought out annually and circulated along with the Budget documents. This pamphlet reviews Railway performance against the background of national economy, the growth of freight and passenger traffic, analyses the utilization of railway assets and describes the quantitative and qualitative improvements made to handle the growing volume of traffic. Another publication "Indian Railways" is also made out every year and circulated along with the Budget papers giving the general reader salient facts and figures about the Indian Railways and their working during the year and the progress made by them during the Plan Periods. Recently another booklet called "The Central Facts and Major Problems" of the Indian Railways is being circulated after presentation of the Railway Budget to enable the Members of the Parliament to have a first hand background knowledge and information about the problems of the Railways in their true perspective and their achievements during the period. These background pamphlets considerably help the Members of the Parliament in better understanding of the Railway Budget.

"Likewise, whenever any adjustments are made in the fare and freight structure of the Railways, a separate Memorandum is included in the Budget documents explaining the rationable of the proposals and their likely effect on the important commodities involved and their price structure.

"It will thus be noted that every possible effort is made to make the presentation of the Railway budget as informative and meaningful as possible and this is a continuing process."

Programme, Planning and Budgeting System

7.3. The Committee enquired if the Railway Board had considered the question of introducing the Programme, Planning and Budgeting (PPB) system so as to ensure that the budgeting activity is linked up with the planning and deciding activity in general management and that costs are properly analysed and interpreted with a view to making available purposeful financial statements to managements at different levels.

7.4. In a note, the Ministry of Railways have stated as under:—

"Programming, planning and budgeting implies that the budget should be prepared in the context of activities/

programmes for which spending decisions have to be taken. What is intended is that the budgeting exercise for internal management should show each activity/programme separately in the budget and the provision therefor should be split up by its components. It is believed that this would enable more effective control to be exercised on the expenditure than the present system.

"So far as expenditure of capital nature is concerned, each work or each item of machinery and rolling stock is shown separately in the budget and the split-up of the cost by its components is shown in the detailed estimate therefor. Control is exercised both against the financial provision in the budget and against detailed estimate.

"In the case of revenue expense budget, the expenses under detailed and sub-detailed heads of accounts are regrouped in such a manner as to indicate the expenditure incurred on distinct functions or activities.

"The main functions are General Administration, Repairs and Maintenance and Operation. The expenses under each Demand are split and shown separately for each Department which is held responsible for the budget allocations.

"Budget estimates of expenditure under fuel (Demand No. 7) and workshop repairs in rolling stock (Demand No.5) are framed by correlating the expenses with the appropriate units of performance. For instance, expenditure under fuel is linked with gross tonne kilometers and engine kilometers and workshop repairs costs are related to the number of locomotives coaches and wagons periodically overhauled in workshops. The expenditure on permanent way maintenance is predominantly dependent on gang strength which is fixed on the basis of work studies taking into account the density of traffic, terrain, gradient, curves, etc. hese three items of expenditure, *i.e.*, operation, fuel and repairs and maintenance, account for about 40 per cent of the total ordinary working expenses of the Indian Railways.

"Other items of expenditure include General Administration (Demand No. 4). Ordinary repairs and maintenance of rolling stock and other assets (Demand No. 5 other than workshop repairs of rolling stock and maintenance of track and structural works), Operation (Demand No. 6 and 8), Miscellaneous Expenses (Demand No. 9) and staff welfare expenses (Demand No. 10). Not all these items of expenditure could be correlated with any units of physical performance for purposes of short-term projection. The budget in respect of these items is not fixed *de novo* every year but only on marginal or inoremental basis, *i.e.*, an assessment made of the additional amount that would be required or savings that may be expected to result in the ensuing year on the basis of the various factors like increases in the costs of stores and materials and wages of staff, non-occurrence of unusual event and general increase in traffic. Provision for additional staff is allowed only when the anticipated activities justify the same and there is no cushion in the existing staff strength. This provision of additional amount in the budget based on detailed justification is itself a kind of financial control.

"At the divisional level, the Divisional Superintendents and the divisional officers-Divisional Mechanical Signal and Telecommunication, Electrical and Civil Engineers, etc., —are made responsible for budget allocations. Monthly reviews are made and discussed in the divisional officers' meeting, Costs or expenses are pyramided. General Managers of Zonal Railways have details of expenditure Department-wise and function-wise compared to budget allocations. General Managers are accountable to the Board for ensuring that the respective budsetary allotments are adhered to.

"The fundamental issue is whether control in monetary terms could be made effective at all levels. At the operating level, the immediate control which involves knowing what is happening and acting quickly to make changes, when necessary, does not require financial control. For example, the rate of consumption of fuel could be controlled engine-wise, driver-wise in each shed. Detention of wagons in yards and performance of shunting engines could be controlled separately in each yard. Control on these physical performances would automatically be reflected in the financial picture.

"Further, it is not apparent that redefining these work units in monetary terms would add to their effectiveness at the operating level. Even if it is done, because of data processing time involved, they will not be available in time. But knowledge of certain standard unit costs, such as cost of shunting engine hour, cost of provision of a wagon or locomotive, would induce cost consciousness amongst staff at the operating level. These unit costs updated periodically are proposed to be exhibited prominently at the works sites to attract attention of the staff.

"At the higher echelons of management hierarchy, financial control is exercised through review of statistical results and work units of physical performance as well as by watching the progress of earnings and expenditure under the various heads and sub-heads. The main function of higher management is to monitor the effectiveness of supervision and control at the lower operating levels. The management report in financial terms will indicate the broad areas of functions where expenditure is out of tune with the anticipated performance. In this direction, the statistical results and work units of physical performance as well as the periodical financial statements and reports assist the management and trigger a series of probes into physical performance. In other words, the financial control mechanism is not an end in itself but is only a means to an end."

7.5. The Committee would also like to draw attention of the Ministry of Railways to the following observations made in the Report of the Team of World Bank experts (1970) in this regard:

"The budgeting procedure in no way measures management performance or allocates financial responsibility....We do not consider that the present system of budgetary control is effective in the encouragement of sound financial management."

7.6. The Team further observed:

"Budgeting by Indian Railways is actually the preparation of a series of Parliamentary estimates for approval by Government and an allocation of public funds for the coming year's operations indeed, at whatever level, we examined the budgeting procedure, the process of budget preparation is one of meeting a Parliamentary procedural need rather than to provide a control mechanism of financial management."

7.7. The Team had recommended that "It is our view that the first step should be to cut back on the volume of data produced by the Indian Railways' system rather than add to the amount of data produced". They had further pointed out that the preparation of the budget was not to be seen so much "the fulfilment of a part of the system to enable headquarters to fill in the right forms in the right time but rather a realistic forecast of proposed activity expressed in cost terms."

7.8. The Committee note that there are 21 Demands for Grants in regard to the Railways and that the structure of the Demands has been periodically reviewed to meet the growing requirements of accountability to Parliament and changes in accounting systems. The Ministry have also stated that the existing arrangements have stood the test of time and have provided meaningful and precise information on important aspects of Railway expenditure to the Parliament and in turn to the public at large. It is pertinent to note in this connection that the World Bank Team did not consider the present system of budgetary control on the Railways to be effective for the purposes of "sound financial management" and had emphasised the need to cut back on the volume of data produced by the Indian Railways System". They had desired that the preparation of the budget should aim at "a realistic forecast of proposed activity expressed in cost terms". The Committee have also seen the annual Reports of the British Railways Board and are impressed by the concise manner of presentation of the financial results of the working of the British Railways and their activities during the course of the year. While the Committee appreciate the anxiety of the Railway Board to keep Parliament and public informed of the various facets of their activities, the mass of data given in the Railway Budget papers would not appear to greatly subserve the purpose in view. What is needed is that meaningful data corelating costs to results should be presented in a simple and lucid manner so as to be easily understandable by a layman. This is all the more important as massive investments are being made on the Railways and the Capital-at Charge of the Railways in 1971-72 has already risen to about Rs. 3500 crores and is bound to increase substantially in the Fifth and subsequent Plan periods. It is necessary that the Railways, as

a premier public undertaking should keep Parliament fully informed about its performance in all vital aspects of working in a manner easy and intelligible, so that the future investments may be judged in their proper perspective.

7.9. The Committee would therefore like Government to undertake a comprehensive review of the form and content of the Railway Budget and the number of Demands for Grants as well as the various documents accompanying it, with a view to rationalising and simplifying their contents in the interest of proper accountability to Parliament and the public.

7.10. The Committee suggest that in view of the complexity of the task, the review may be entrusted to a small Task Force consisting of financial experts drawn from the Ministry of Finance, the Railways and the Comptroller and Auditor General of India. This Task Force may also co-opt eminent experts in the field from the Institutes of Management, Institutes of Chartered Accountants and Cost Accountants.

7.11. The Committee note that the Estimates Committee have, in their 24th Report (1972-73) pointed out that the technique of performance budgeting has yet to be perfected. They have emphasised the need for an integration of the Performance Budget with the Demands for Grants. As stated by the Committee, Parliament would be more interested in the prescription of norms and standards which would enable them to evaluate and critically review the work of every Ministry.

7.12. The Committee recommend that the terms of reference of the proposed Task Force may also include the question of preparation of a performance budget by the Railways as an integrated part of the Demands for Grants.

7.13. The Committee would like the Railways which are the oldest undertaking, to introduce Performance Budget according to a time bound programme so that it can act as a model to other public utilities.

B. Modernisation of Accounting Procedures

7.14. The Committee enquired when the existing system of accounting on the Railways was introduced and what improvements had been made therein in recent years in the light of present day management needs. In a note on the subject, the Ministry of Railways have stated as under:

"(1) The existing system of accounting on the Railways was introduced in their basic form in 1927 based on a report submitted by Sir A. Lowes Dickinson, M.A. F.C.A. assisted by M/s Price, Waterhourse and Co. on a specific assignment from Government of India.

"(2) The following are the principal changes which were introduced then to place railway accounting on a sound commercial basis: —

(a) Accounts are to be kept on the basis of work done and services rendered by the Railways and of work done for the railways, both expressed in money values and entered in the books as at the time when the services are performed or the work done, and whether paid for or not.

(b) The accuracy of accounting is secured by basing them on a system of control accounts with which all the detail accounts must automatically balance, the detail accounts being written up from the original documents while the control accounts are written up from summaries of those documents. The system of control extends throughout the Accounting system over Stores, Workshops, Traffic and Expenditure. It ensures that at least two and frequently more independent persons are involved in the figures which ultimately reach the first books of accounts and that those in the subsidiary books and records balance automatically with those reaching the general books from the same original sources but by different channels. This system coupled with the payment of wages and bills by the Chief Cashier or his representatives, ensures as far as practicable the accuracy of the accounts and the prevention of errors and frauds. The system also ensures that the loss of or alteration in any of the original documents after they have once been prepared and certified must be found out through disagreement with the control account. The new system with the assistance of mechanical methods was to avoid a great deal of the detail work and duplication that existed earlier, was to ensure greater accuracy and conduce to greater speed in the preparation of final accounts.

(c) The Railways should prepare Profit & Loss account and a balance sheet, at the end of each year.

"(3) The system closely followed the pattern laid down for the American Railroads by the Inter State Commerce Commission.

"(4) The basic aims of the system are:

(a) better presentation of commerical results;

(b) earlier prepartion of accounts, and

(c) compilation in various details in forms that will best assist the executive and Administration to secure efficiency and economy in working.

"(5) A number of changes have been introduced during the years since. These changes have not affected the general structure of the accounts but have enabled us to achieve the three basic aims of the system indicated in para 4 above to a progressively larger extent.

(a) *Better presentation of commercial results*

"(i) The final accounts of the Railways now include a Block Account. Expenditure of a capital nature incurred on railway assets is classified under four heads *viz.* Capital, Depreciation Reserve Fund, Development Fund and Open Iine Works—Revenue. To give an overall picture of the expenditure of a capital nature as distinguished from the expenditure actually charged to Capital (loan account), a separate account is compiled namely, a Block Account giving the entire expenditure of a capital nature irrespective of the head of account to which it has actually been charged. The Loan Account will give only the extent of expenditure actually charged to loan capital. The balance sheet reflect all the fixed and floating assets as in the block account.

(ii) In addition, the Railways also now prepare statements of funds and their utilisation bringing out the extent to which the requirements of capital nature have been financed from internal sources.

(b) *Refinements in the method of preparation of Accounts.*

7.15. The accounting system has been refined and advantage has been taken of the introduction of computers to speed up accounting and thus make the information available to management earlier.

(i) Change in the basis of accountal of freight traffic from 'received' to 'forwarded' basis has speeded up accountal. The 'received' basis in vogue earlier had the draw-back that it delayed the accountal until the invoice was received at the destination station. The 'forwarded' basis captures all transactions in account at the earlier point of time which is when the invoice is booked at the forwarding station. Further, the invoices are now brought from the stations to the Electronic Data Processing Centre by couriers on the following day in case of large stations and within a few days in the case of smaller stations.

(ii) The accounts of the Railways are now being closed quarterly generally in the same way as they are closed annually. This will curb the tendency to carry out large adjustments such as freight on loco coal only towards the end of the year and hence speed up the accountal resulting in accounts reflecting more correctly their actual performance.

(c) *Compilation details in the form that will assist the management*

"(i) A great deal is being done to enable the managemnt to use the figures pertaining to past operations as reflected in accounts as a guide to the future. This is being achieved by the progressively greater use of management accounting techniques. Effort is being made to present purposeful, upto-date, figures, in the form required by the management, for controlling day-today operations and creating policy.

"(ii) The Railways now compile information on the movement of 500 commodity groups. The information required by Marketing and Sales Staff in this connection is made available to them within 20 days.

"(iii) The activities of the Electrical and Signalling Departments have been expanding. They have also been utilising more modern and sophisticated equipment. In order to enable better control to be exercised on the operating and maintenance expenses of these assets, the expenditure thereon has been segregated into separate abstracts viz. Abstract J (Expenses of Signal & Telecommunication Department), H (Expenses of Electrical Department) Similarly, with the introduction of diesel and electric Tractions in replacement of steam, the expenses relating to steam, diesel and electric tractions are being recorded separately. Further changes in accounting classification are under consideration in order to reorient the classification to bring in functional break-down of costs as opposed to merely listing cost under various headings.

"(iv) The accounts are also being analysed to cost various operations. Traffic costing has been introduced *inter alia* to assist the management in rate making and in project profit planing. It may be mentioned here that the Railways are now using Discounted Cash Flow technique, using only incremental revenues and expenses, for assessing the investment worth of a project.

"(v) Computor assisted inventory control is being introduced to avoid hold-ups due to run out of stock as well as to adjust the level and timings of procurement and stock taking. The Stores Officers are regularly supplied with upto-date reports of stock status on an exception basis.

7.16. To a question whether the Railway Board were considering any further restructuring of the accounting system with a view to making it an important managerial tool for effecting operation improvement and to achieve economy consistent with efficiency, the Ministry of Railways have replied that "No restructuring of the accounting system is comtemplated. Nor would any such change appear to be necessary. As far as we are aware the essence of the structure of Railway Accounts in India is similar to that of railway accounts in other developed countries. The present structure has also stood the test of time. This does not mean that the railway accounting has not responded to a need for change in the past or will not keep abreast of modern developments in the future. The programme includes computerisation of larger fields of accounting and statistical activities and use of accounting as a tool of management to a greater extent."

7.17. Referring to the written reply given by the Ministry that the existing system of accounting on the Railways was introduced as far back as in 1927, the Committee enquired during evidence whether in view of the enermous increase in the Railway operations and their complexity as well as in the development of accounting skills, the Railway Board had considered the feasibility of a thorough everhaul of railway accounts so as to ensure that the accounts were maintained in such a manner as to aid management decisions. The Financial Commissioner stated that the basic principles of accounting *i.e.* double entry book-keeping, accountal on accrued basis, internal controls etc. remained the same. Although the existing system of accounts was patterned on the British model, the process of refinement to aid management decisions, was a constant one. Changes were being made from time to time, so as to keep pace with change of traction, modernisation etc. Complete information was available to the Railways about the sections and gauges on which they were incurring loss or making profit. The operation of uneconomic railway lines was being constantly watched. The efficiency indices for each Zonal Railway were being watched from month to month and year to year.

7.18. In regard to a question how the efficient working of the Divisions was watched, the Financial Commissioner stated that the Zonal Railways were given targets for additional goods traffic to be achieved during the year. The same were distributed by the General Managers to the Divisions. So far as the financial results were concerned, the earnings were watched over every 10 day period *i.e.* thrice a month at the Zonal level. If a similar exercise had to be carried out in respect of each division, it may not serve any purpose. On the other hand, it might cost the railways a lot of more expenditure. He added that since the traffic targets were given, the earnings targets were also automatically fixed since loadings were ultimately converted into earnings.

7.19. In regard to a question why production units were not maintaining any profit and loss account, the Financial Commissioner stated that all the products from these units were transferred to the Indian Railways at cost. The production accounts were being maintained. Norms had been fixed for each operation both in regard to man-hours and materials required to complete a job. Careful watch was kept over the execution of the works, supply of stores, and utilisation of manpower. It was also seen that there was no loss, waste of manpower or resources and that there were no delays. Each production unit had its own financial Adviser and Chief Accounts Officer to go into these matters. There was also a representative of the Comptroller and Auditor General *viz.*, the Chief Auditor to examine the accounts. Besides, the Railway Board also saw to it that the cost of production was always comparable to international levels.

7.20. In reply to a question whether any significant features had come to notice in the accounts for 1971-72 which were compiled on the basis of a new procedure of apportioning earnings and expenditure among the Zonal Railways devised to ensure that these were correctly related to the workload performed, the Financial Commissioner replied that in the first instance, full credit was now being given to the Railways for doing transhipment and terminal operations. Secondly, expenditure incurred by one Railway on behalf of the another was adjusted through debits/credits for services rendered. For instance, previously the Southern Railway was not getting full credit for the expenditure on maintenance of G.T. and Deluxe rakes. Under the revised procedure, due credit was being given to the Southern Railway for the services rendered. As the procedure had been introduced with effect from 1st April, 1971, the system was expected to stabilise during the current financial year. Some complaints had been received from the Zonal Railways that they were not getting credits etc. The matter was proposed to be discussed with all the General Manager and it would be ensured that instructions in this regard were fully complied with during the current financial year viz., 1972-73.

7.21. So far as the question of apportioning the earnings between Divisions were concerned the Financial Commissioner stated that this had to be done only railwaywise and Gauge-wise. The General Managers had been given discretion to quote station to station rates. If the same discretion was given to the Divisions it would result in confusion and "there will be any amount of litigation".

7.22. The Committee pointed out that the Study Team of the Administrative Reforms Commission had stressed the need for setting up a Committee of expert railway officers to review the various provisions contained in the Accounts, General and Engineering Codes and modify them to suit the efficient functioning of the Railways. The Committee enquired about the reasons for delay in taking a decision in this regard. The Financial Commissioner stated:

> "I confess there has been some delay in implementing this recommendation of Administrative Reforms Commission Personally I feet that we should accept this recommendation and should take action to implement it."

7.23. To a question whether it was not desirable to have a continuous review of the whole problem, the Financial Commissioner stated that "continuous review is done by the various agencies and by the various Directorates, but apart from the continuous review, there must be a periodical wholesale review because in a continuous review, we come to amend matters only as they come to our notice. What the Administrative Reforms Commission has suggested is to sit and review all the codes at one stretch and I think we should do it."

7.24. To a further question whether any economies had been actually effected during the last 5 years as a result of simplification of accounting procedures and consequent reduction in the clerical workload in different formations, the Financial Commissioner stated that on the traffic accounts side, simplification of the procedure had given relief to the Station Master who were very hard-worked. Secondly, computerisation had enabled the Railways to keep cent per cent check of all invoices and had helped reduction of cases of underinvoicing etc., which itself came to serval lakhs in a year. So far as the clerical workload was concerned, 1423 posts were rendered surplus when mechanisation of accounts was introduced. After computerisation another 315 clerical posts were rendered surplus. By stopping fresh recruitment and by filling up of retirement vacancies from the staff rendered surplus all such staff had been absorbed.

7.25. The Financial Commissioner added that the Railways were large borrowers of foreign exchange from the International Development Association (IDA). The accounting procedures of the Railways were therefore, examined not only by their own teams but by outside experts also who were specifically asked by the International Development Association to look into these matters. In 1969 a team of two experienced and well known British Accountants was sent by the IDA to examine the Accounting System of the Railways. The report submitted by the team indicated that they were satisfied with the Accounting system of the railways.

7.26. The Financial Commissioner added that one of the major improvements recently made was adoption of the discounted cash flow method of examination of a project which was considered everwhere to be the most modern and best method of financial analysis. This system had been adopted for all projects about Rs. 20 lakhs. The Railways had also started using various refined statistical methods like regression analysis, exponential smoothing etc.

7.27. In this connection, the Committee would like to reproduce the following observations of the World Bank Team which examined the accounting procedures of the Railways in 1969-70:—

"The overriding characteristic of the accounting and statistical system is on the one hand, a vast amount of detailed information, recurrent breakdown of data and the calculation and presentation of ratios of both operations and costs throughout the system. On the other hand, the volume of information, the way in which it is presented and the purpose for which it is presented, has made statistical and budgetary control a routine and dogged exercise undertaken and produced by a bureaucratic elite. The effect is the growth of a reporting procedure and allocation of responsibility in retrospect. What is required is a simple, brief but meaningful presentation of data and which is topical."

"The information should be appropriate to the performance being measured. The produce fringe or only indirectly related information is to confuse the issue."

"What must be avoided is the need for a reallocation of expenses after the accounts are produced so as to produce "functional" or "responsibility" accounts. ..... Our view, in common with many senior officers of the Indian Railways, is that many Railwaymen are excessively orientated to operating a railway as opposed to operating a railway at a profit."

7.28. The Committee are glad to observe that the Railways are alive to the need for refining the accounting procedures to keep pace with the development of accounting skills and with the increasing range and variety of Railway operations due to changes in the mode of traction and modernisation in several spheres. Changeover of accountal basis from 'received' to 'forwarded' basis for freight traffic, processing of invoices received from stations at the Electronic Data Processing Centre and quarterly closing of accounts are some of the important refinements stated to have been introduced by the Railways in recent years.. Adoption of the Discounted Cash Flow Technique for examination of the financial viability of all projects costing Rs. 20 lakhs and above is another welcome step taken by the Railways. The need for compiling data in a form as to assist the management in controlling day-to-day operations as well as in taking decisions has also been recognised.

7.29. While due credit must be given to the Railways in this regard, the Committee would like to impress upon the Ministry the need for evolving a fully developed system of 'Responsibility Accounting" as emphasised by the World Bank Team in their Report. Railway Management at all levels have to realise their individual responsibility for their sectors of the costs. As stated by the World Bank Team "Many Railwaymen are excessively oriented to operating a Railway as opposed to operating a Railway at a profit."

7.30. The Committee hope that the Railway Board will take immediate purposeful steps to reorient the accounting procedures so as to subserve the above objectives.

7.31. The Committee further observe that the World Bank Team had underlined the need for eliminating superfluous classifications which are now out of date and irrelevant to contemporary needs. In order to meet this criticism, the Railways are now contemplating further changes in accounting classification so as to reorient the classification to bring in functional break-down of costs as opposed to merely listing of costs under various headings. The Committee desire that this task should be completed with expedition.

7.32. The Committee, however, regret to note that the Ministry of Railways have not so far been able to implement the recommendation of the Study Team of the Administrative Reforms Commission that a committee of expert Railway Officers may be appointed to review the various provisions contained in the Accounts, General and Engineering Codes and modify them to suit present day needs. They expect that action in this regard would now be expedited and a comprehensive review of the accounting procedures would be undertaken immediately.

7.33. The Committee would like the Ministry of Railways to report to the next Convention Committee the progress made in further refining the accounting procedures in the directions mentioned above.

C. Management Accountancy

7.34. The Committee enquired if the system of management accountancy had been introduced on the Railways and whether the services of any specialised institution were obtained in this regard. The Railway Board have stated in a note that "Modern Management Accounting" practices are being adopted increasingly on the Railways. While keeping a historical record of financial transactions continues to remain a basic accounting function, greater emphasis is now being placed upon making accumulated experience a more useful guide to actions which would affect financial results in the future. It is recognised that the modern view of accounting service as a management tool demands that figures relating to the past operations should be presented and used primarily as guides to the future; Railway Accounts Officers are endeavouring to submit purposeful, uptodate, information, in the form required, as a means of controlling current operations and projections of the probable future as a guide to planning.

> "Operating Managers had formerly relied upon intuition and personal observations to supplement the limited financial

data available from the accounts. Now, however, the functions of gathering, analysing and inter-preting a broad range of economic information is gradually becoming the responsibility of the Accounts Officers.

"The Railways have not obtained the services of any specialised institutions for this purpose. Management accounting practices are being progressively introduced by the Railway Accounts Officers themselves who are developing their functions beyond the traditional bounds of financial accountants. The emerging breed of Management accountants on the railways is a product of their own competent exercise of the financial accounting function.

"Railway Accounts Officers are undertaking specific additional functions which are the growing edge" of the work of management accountants and account for their management view-point and participation. They are designing forms of financial and cost control reports that provide each managerial level with the most useful data at the most appropriate time. They are educating executives in the need for control information and in the ways of using it. They are working closely with top management on long range programmes and policies. They combine their training and experience in both management and accounting.

"The underlying service that the management accountant provides, and that is basic to the services that go beyond it, is the operation and improvement, as may be necessary, of an accounting system that provides vital information to management. It needs to be mentioned here, therefore, that a great deal is being done to improve the existing system of accounting taking full use of the introduction of computers. The objectives are to:

(a) speed up accounting and production of figures; and

(b) present the figures in the form that is best to assist the executives and administration to secure efficiency and economy in working.

The changes concern accounts of both income and expenditure and embrace informational material relating to cost and inventory control.

"The present limited classification of accounts is not best suited for giving meaningful information. It is being revised to provide a functional break-down of cost as opposed to merely listing costs under various headings. At the same time, steps are being taken to evaluate the cost behaviour characteristics of the functions or activities of the major spending departments. These studies would define units of work against classification of accounting and break-up elements of costs into controllable and non-controllable items so that co-relation between output and cost could be established. These steps would enable the Railway Accounts Officers to provide data which measures upto the requirements of facts for problem solving and decision-making without the need for special studies at every time.

"Somewhere ahead in the future, it would have to be considered whether standard costs can be used for budgetting. Well designed standards could normally be converted into perspective costs. However, changes in the prices in our country and variations in operating conditions resulting from, say, unexpected floods, the deterioration in law and order position may render such standards of little practical utility, their use may end up only in officers concerned having to render more and more explanations for variances over which they have little or no control.

"When fully developed, management accounting on railways would be a service phase of management proper rather than a service to management from the outside of the management group. This does not imply dominance or direction from the accountant but a sharing in the overall process to which he would contribute at almost at all points. The effectiveness of this contribution, however, would depend entirely upon providing a range of information that is comprehensive and, also, for any particular purpose, sufficiently condensed and pointed. The effort is to develop the potentialities of accounting fully to be able to provide information in this manner and thus serve as an effective management tool."

7.36. During evidence, the Committee enquired why the Railways had not considered it proper to procure the services of management experts with a view to develop fully management accountancy on the Railways and whether they had exposed their own staff to modern methods of management accountancy. The Financial Commissioner stated that about 45 Accounts Officers had been sent abroad under the various technical training schemes. Apart from seminars and symposia organised by the Railways from time to time, management accountancy had been introduced as a regular course in the Staff College at Baroda. The Financial Commissioner added " I had personally felt that we should get some outside consultancy also. We have approached the Administrative Staff College, Baroda, the Indian Institute of Management and some private consultants and various other people, and referred to them specific problems. After studying the whole problem we have found that they do not have anything very material to suggest; theirs are only marginal or fringe suggestions. Even then, we have not given up hope. Recently we have asked the Indian Statistical Institute to undertake a thorough study of coal movement, because there has been criticism about this matter. In fact, the ISI wanted a high fee of nearly Rs. 2½ lakhs, but even so we have agreed to it, as we thought a new look at the problem from the operations research angle will be useful."

7.36. The Committee enquired about the facilities available to to the supervisory staff of the railways for training in management techniques and whether these were adequate. The representative of the Railway Board stated that the supervisory staff in the non-gazetted cadre of the Railways were imparted training in management at the Zonal Training School of each railway and at a slightly higher level in the Centralised Training Institute at Chandausi. The content, duration and periodicity of the training courses organised in the Zonal Schools were decided by the concerned Railways to suit their local needs. Guest Speakers from professional and leading organisations like the Productivity Councils, industrial concerns etc., were invited to deliver lectures on various management problems.

7.37. The representative eof the Ministry added that in connection with one of the recommendations of the Railway Accidents Enquiry Committee 1968, the question of importing training to supervisory staff in management techniques was reviewed in consultation with the Railway Administrations and the Board decided that the existing arrangements for the purpose were adequate. The Railway Staff College at Baroda provided initial training course to probationary officers and refreshers, short term and special courses for senior officers. In addition, facilities for training in management had been developed at the college which served the needs of the railways in relation to safety measures and railway operations.

During the last three years, 138 Administrative Officers had been trained in management courses at the College.

7.38. It was further stated that 5 officers had also been deputed for training in non-railway institutions like the Indian Institute of Management, Calcutta and Ahemdabad and the All India Management Association, New Delhi. The Board's policy in regard to training in non-railway institutions was that railway personnel should be sent for training in such institutions only when considered absolutely essential and not as a matter of course. Training of railway officers in non-railway institutions had equipped the concerned officers with the requisite knowledge for tackling management problems.

7.39. The Committee enquired whether the Railway Board had taken advantage of the training courses organised by the National Institute for Training in Industrial Engineering, Bombay. The representative of the Ministry stated that a few officers had been sent there for dealing with specific problems. The services of the Institute had also been obtained for dealing with some of the problems of Suburban Traffic in Bombay. The question of utilising services of the Institute in a greater measure was under consideration.

7.40. To a question about the main functions of the Efficiency Bureau in the Railway Board, the representative of the Ministry replied that the Bureau was required to undertake investigation into specific problems of Railway working in the fields of operations workshop outturn, repairs and maintenance etc. with a view to systematising practices, securing economy and improving performance in the various departments of the Railways. The object of assigning these investigations to the Efficiency Bureau was to enable the Railway Board to take major decisions in regard to management, operations, practices and procedures on the Railways.

7.41. The representative of the Ministry added that apart from undertaking the above types of investigations, the Efficiency Bureau was also entrusted with varying items of work which were more or less of a continuous nature. There were:

(i) Working out and maintaining the Zonal and Divisional workload and operating-*cum*-efficiency indices of individual Zonal Railways and Divisions with a view to enabling the Railway Board to arrive at decisions with regard to the requirements of personnel and organisational set-up of the Zonal Railways and Divisions.

(ii) Reviewing the trends of staff strength in individual departments of the Zonal Railways with a view to maintaining control on the growth of staff *vis-a-vis* the workload.

(iii) Reviewing the working of the Railways in the context of the operating ratio. (This work had just been assigned to the Bureau).

(iv) Engaging and keeping liaison with the outside consultants as specifically directed by the Board in cases where outside consultancy was considered desirable.

7.42. The Committee observed that the reports brought out by the Efficiency Bureau during the last three years appeared to indicate that they were dealing with specific matters of sectional nature only. They enquired whether it was not necessary that the services of the Bureau should be utilised for studying major problems which would help the Railway Board to reach management decisions and to effect economy and efficiency in their work. The representative of the Ministry stated that the very large size of the Indian Railways and the different conditions varying not only from Railway to Railway but from Division to Division, clearly limited the usefulness of any investigation undertaken by the Efficiency Bureau on all India basis excepting those which were of a general nature. In cases where the applicability, feasibility or superiority of specific practices or policies had to be investigated, it was necessary to select several representative sections in different parts of the country for study. The findings of such studies could always be used for taking dcisions on a wider scale and in areas where conditions were more or less similar.

7.43. The representative of the Ministry assured the Committee that while undertaking individual studies, they did not lose sight of the broader canvas. For example, a study of the utilisation of steam locomotives on the Northern Railway had enabled the Board to apply the result to all other railways. Thereby about 563 steam locos (BG 256 and MG 307) were found surplus. Up to 4th July, 1970 as a result of this study, 297 steam locos were condemned and 137 kept in good repair, stores thus accounting for 434 locos.

7.44. The representative of the Ministry further stated that as a result of an intensive study of Southern Railway it was found that the fall in the operating ratio was mainly due to the formation of the South Central Railway which took away from the Southern Railway the paying portions of some of the sections. It was also found that some of the services rendered by the Southern Railway to other railways were not given full credit. A change was accordingly made in the Accounting System as a result of which the working results of the Southern Railway had shown distinct improvement during the last three years. This was also true about the North-Eastern Railway.

7.45. To a question to what extent the work study units of the Zonal Railways and the Efficiency Bureau of the Railway Board had succeeded in employing modern techniques like operations research, linear programme, queueing system of planning and scheduling etc. in respect of various operations with a view to improve productivity, increase efficiency and effect substantial economies, the representative of the Ministry replied that these techniques were being progressively introduced on the Railways. The following steps were being taken in this regard:—

(1) Suspects like linear programming, queueing theory etc. were being taught in the Railway Staff College at Baroda regularly.

(2) Various study courses were attended by Officers and other personnel of different Departments to acquaint them with sound basic knowledge of modern theory of operations research.

(3) Separate courses on these subjects were being conducted in the Railway Staff College, Baroda for the benefit of senior officers for a period of six weeks. Such courses were proposed to be conducted regularly.

(4) Direct applications had been made of these theories in the Railway Working.

The representative of the Ministry added:

"At the same time, I say that we are not fully satisfied with what has been done. We are thinking of increasing the scope. One point is that these operational research courses are given to junior officers or middle level officers *i.e.*, officers who have been promoted to the junior administrative grade. We are also thinking of extending these courses to heads of departments, General Managers, Members of the Railway Board etc. so that they could participate in these courses and take advantage of them. We also propose to start a separate Directorate for operational research in the Board. We are also thinking of deputing Officers from that Directorate to the various Zonal Railways so that they will be able to give leetures on the spot, which could be attended by senior officers like Heads of Departments and General Managers. Thereby we can widely diffuse this knowledge. We also will produce some pamphlets with a practical bias in a question and answer form so that we can explain the problems that arise every day in the actual working of the Railways. We are thinking of enlarging this programme and making it applicable to the top levels of management."

7.46. The World Bank Team of Transportation and Distribution Consultants have, in their Report observed as follows in this regards:—

"The enormous Railway organisation, operating under central Government control, is responsible for complex railway operation in a vast country. The task of management is substantial. It is not surprising that a comprehensive and inflexible system of operational and financial controls has developed over the years in an endeavour to meet the need to control and develop rail transport".

"The accounting, statistical and costing controls, with which we are concerned, are extremely elaborate....The data which the control system produces is considerable in volume and comprehensive. The system itself is a relentless development of a system built up many years ago. It has been added to and occasionally substracted from but never fundamentally changed."

"In our view, the need is not only for Railway managers to be persuaded of the need to reappraise the system, but even more important, to examine the fundamental objectives of management and then design a control system to enable those objectives to be fulfilled."

7.47. The Committee note that although the Railways are alive to the need for evolving a system of management accountancy to enable them to take expeditious well-calculated decisions while handling the complex problems of Railway Administration, they have, by and large, relied upon their own personnel to develop the management techniques. Railway Accounts Officers are stated to be "endeavouring to submit purposeful, uptodate information as a means of controlling current operations and projections of the probable future as a guide to planning".

7.48. The Committee consider that no effective system of modern management accountancy has been developed on the Railways and that the operational and financial controls exercised are inadequate and antiquated. Therefore, the achievements in this field, being very slow, are [illegible] far from satisfactory. The Committee consider that with their experience [illegible] of operating a vast net-work for over a hundred years, the Railways s[illegible] would have taken more concrete and purposeful steps in this direction by [illegible] combining it in the system which makes the entire management philosophy very modern and the techniques uptodate. As pointed out by the [illegible] World Bank Team, it is high time for the Railways to reappraise the system [illegible] and examine the fundamental objectives of management so that effective [illegible] control systems could be designed to enable the objectives to be fulfilled. It is of the utmost importance that the Railways set up systematic planning and control system with a view to defining clearly management objectives and strategies and plans to achieve these objectives and evolving norms to monitor performance against the objectives set. For this purpose, there is need to introduce an effective system of management accountancy on the Railways as expeditiously as possible which would act as a tool of management control and provide concurrent and purposeful data at all strategic levels to reach appropriate decisions.

7.49. In this connection, the Committee would like to draw the attention of the Ministry of Railways to the appointment of a high level Action Committee by Government to examine interalia the suitability of systems management and adequacy of administrative, accounting and technical procedures followed in public undertakings and to suggest changes. The Committee consider that the Task Force recommended earlier in paragraph 7.10 may also be entrusted with the responsibility of critically examining the accounting and administrative procedures on Railways with a view to providing management accountancy, as an aid to management decisions at all appropriate levels of control.

7.50. The Committee further consider that it would be useful for the Railways to expose their officers to modern methods of management by sending personnel drawn from different supervisory levels for refresher training courses conducted by the Institutes of Management in the country. A regular system of inviting management experts for delivering lectures in the Railway Staff College, Baroda and other training schools of the Zonal Railways would also be of mutual benefit.

7.51. The Committee note that at present the Railways have a system of internal audit by the Financial Adviser and Chief Accounts Officer on each Railway. The Committee consider that the feasibility of utilising the services of Cost Accountants|Chartered Accountants and Management Accountants, outside the Railways, on payment of moderate fees to examine the working of the various establishments of the Railways and suggest avenues of improvement and earning more revenue may be got examined by the Task Force recommended in paragraph 7.10 in the interest of operational efficiency of the Railways.

D. Traffic costing

7.52. The Committee have been informed that one major development in the sphere of statistical compilation in recent years is in the field of traffic costing. Systematic analysis of cost of operation is being done for goods services and arrangements are under way for costing passenger services. It has been stated by the Railway Board that "cost analysis is a continuous process and takes into account the changing pattern of traffic and improvements in operating techniques and technological improvements. This analysis serves as a potent tool for management in the sphere of investment planning, costing the different segments of rail transport, framing the rate structure with an eye to the costs of transport etc. The costing cell forms the special charge of the Joint Director, Statistics."

7.53. The Committee enquired during evidence about the broad findings of the studies made in regard to traffic costing so far as goods services were concerned and whether it would now be possible for the Railways to quote differential rates for different commodities and for different destinations with a view to increasing the earnings. The Financial Commissioner stated that a number of studies had been made regarding goods services and the freight structure of several commodities. It had been found that the freight rates for nine commodities were so low that they did not pay for the cost of transportation either on the B.G. or on the M.G. for any distance. These commodities were—fire-wood, charcoal, farm yard manure, grass (green or dry), sugarcane, fruits and vegetables, bamboo, fodder (bran) and iron ore for export. Besides, these, 8 commodities were carried at below cost on the MG for all distances *viz.* foodgrains, bonemeal, iron ore, manganese ore, tiles common (roofing), oil-cake (manure or fodder) cotton unpressed and coal. Because of the tapering effect of rates, certain commodities did not pay for their cost beyond specific distances on BG and there were a number of goods which did not pay beyond 1,000 Kms. In fact, some of the commodities did not pay even for the first 100 Kms. on the BG and for any distance on the MG.

7.54. In regard to differential rates, the Financial Commissioner stated that the existing freight classification of goods traffic did provide for differential rates for different commodities varying from category 30 to category 150. Above category 52.5, it could be said that the traffic was profitable. But the commodities falling below category 52.5 did not pay for all distances. Enhanced powers had been given to the Zonal Railways to quote special station-to-station rates without any constraint in order to make rail transport fully competitive with road transport subject, of course, to the condition that the rates quoted were not below cost.

7.55. In regard to a question how long it would take to ascertain the cost of passenger services, the Financial Commissioner stated that the study of coaching costing had just been taken in hand for the first time on the Indian Railways. This study was to be done in different phases like costing for mail, express and ordinary passenger trains, costing for different classes of travel etc. It was hoped that the estimation of cost for mail, express and passenger trains would be possible by about middle of next year.

7.56. In this connection, the Committee would like to draw attention to the following observations made by the Team of World Bank experts:—

> "The need to estimate whether or not a traffic is worth carrying on the railway and if together with all other traffics it makes an improvement in the net operating results is more important when margins are slender than when they are not."

> "The principal objectives of introducing traffic costing as a separate organisation are:
>
> (a) to study the pattern of cost in rail and in competitive transports;
>
> (b) to develop and improve methods of cost assessment;
>
> (c) to carry out studies of the costs of particular operations so as to discover the range of costs in various circumstances and the factors which have an important effect on cost levels;
>
> (d) to explore ways in which the information obtained can best be presented to give a picture of the profitability

of services and so that it can be used for charging purposes;

(e) to increase the understanding of transport costs among those responsible for the commercial and operating sides of the business."

7.57. While nothing the work done by the costing cell, the Team had pointed out that "There are no Traffic Costing, teams in the Zonal Railways..this is an inadequate complement for the work of traffic costing to be done in Indian Railways."

"Our opinion is that the time is fast approaching in India when railway charges will have to be much more closely related to costs.. For this to happen, there must be major changes in the present tariff system and much more flexibility in its application......Our view is that an important part of the research programme of the Railways' traffic costing should be with this possibility in view."

7.58. The Committee note the efforts made by the Costing Cell of the Railway Board to ascertain the cost of carriage of various commodities which has enabled the zonal Railways to quote station-to-station rates in order to make rail transport competitive with road transport.

7.59. The Team of World Bank experts has expressed the need for developing and strengthening the Costing Cell Organisation at the Zonal level so that this work could be done in a more effective and sustained manner.

7.60. The Committee understand that the Railways have not so far worked out the cost of parcel traffic as well as the goods mile cost for each train*. The Committee hope that the Ministry of Railways would take suitable steps to strengthen the Costing Organisation to enable it to work out detailed cost of each operation on the

---

*NOTE: At the time of factual verification, the Ministry of Railways have stated as follows:

"For several years past, the Railways have been working out the average cost of moving a passenger train/a passenger vehicle per km. as well as the average cost of moving a goods train/a goods wagon per km., gauge-wise and Railwaywise. These figures are being published in Statement No. 15 of the Supplement to the Annual Report of the Railway Board. In addition, for management purposes, cost per wagon km. and per tonne km. has been worked out for different types of goods trains (through or shunting), traction-wise (diesel, electric or steam), gauge-wise (BG, MG or NG) and operation-wise (line haul, terminal, marshalling, transhipment, repacking, shunting, documentation, etc.). From these figures, the cost of transporting one tonne of goods for different distance slabs has been worked out for a number of important commodities. Arrangements have also been initiated for working out the detailed costs of similar types of operations for parcels."

Railways with a view to adjust their rates to the extent possible so as to meet successfully the growing competition from Road Services.

7.61. The Committee regret to note that costing of passenger services has not so far been done by the Railways. They note that a beginning in this direction has been made recently. It is important that the Railways should work out the cost of passenger services class-wise for Mail|Express and Passenger Trains separately. The Committee hope that studies in this regard would be planned out and completed expeditiously to enable the Railways to identify the class of services on which they are losing, the extent of such losses and the measures that could be taken to obviate them. Similarly, in working out the cost of suburban services, further refinement should also be made by the Railways to ensure that the costs of such services are realistically assessed.

E. Computerisation

7.62. The Committee are informed that another major development in the sphere of statistical compilation is that accounting applications and compilation of Commercial statistics have been integrated the computer system. 14 computers have been installed on the Railways as under:—

(1)	Railway Board	..	1
(2)	Zonal Railways	..	9
(3)	Production Units		3
(4)	Moghalsarai Marshalling Yard		1

7.63. The Ministry have stated that operating statistics are also by and large, being compiled on the computer. In place of 119 commodities prior to mechanisation, at present information is collected on 527 commodities every month by the second week of the following month and in respect of smalls 100 per cent coverage is ensured in place of 3 per cent sampling earlier. Computerisation of Operating and Fuel Statistics is stated to be contributing substantially towards the growth of a comprehensive Management Information System with facilities for "exception—reporting", and information for managerial control at different levels.

7.64. From a separate note on computerisation of stores accounts and stores functions furnished by the Ministry, the Committee observe that in order to ensure smooth switch over of the work to computers, the programme as drawn up in July 1968 envisaged completion of the work in five phases in the course of a year or 18 months on all the Railways, where computers had been installed. *The handling of stores accounting and stores (recoupment and reorder) functions by the computer was expected "to contribute substantially to better inventory management i.e. lower inventory* levels and higher service efficiency, with a saying on the dividend liability due to a reduction in stores balances."

7.65. During evidence, the Committee enquired about the precise progress made in the completion of various phases of the work and the reasons for delay in adhering to the time schedule laid down. The Financial Commissioner stated that "the time schedule of an year or 18 months stated in the Board's letter of 10th July, 1968 was intended to be a tight target and we wanted to give them a sort of very strict schedule so that they could go ahead and the first Schedule is the most important one and it takes a lot of time."

7.66. Further explaining the position, the Financial Commissioner stated that the preparation of a "Unified All Railway Nomenclature List" for inventory items so as to identify each item by a unique number on the entire Railway system would facilitate easier exchange of information and stocks, standardisation, variety reduction and lay down the foundation for the entire Railway system. This task of preparing all India numbers took considerable time due to the need for collection of data, co-relation of description, specifications, units of accountal etc. Thereafter they had to prepare receipt, issue and transfer documents to conform to the card designing so as to reduce punching errors and ensure better accuracy of the input data. Due to priced ledgers on many railways being in arrears, they had to resort to physical verification of ground stocks. On some railways they had to clear arrears in reconciliation between the priced ledger (PL) and the numerical ledger (NL).

7.67. The Financial Commissioner further stated that the scope of phase II was enlarged to produce various control and Exception Statements and Action Documents to assist the Stores Department.

7.68. In regard to a question about the progress made in completion of the various phases of the programme, the Financial Commissioner stated that Phase-I had been completed to the extent of 90%. The balance 10% pertained to Alco diesel loco items for which code numbers were under finalisation and would be completed soon. Phase-II had been completed for all items on computer as far as Exception Reports were concerned. However, discontinuance of numerical ledgers was being attempted at a slower pace. Phase-III systems and programmes were ready and were expected to be completed by June, 1973. Phase-IV dealing with payment of Vendor Bills had been dropped because of certain difficulties. Phase V would be taken up after June, 1973 and completed a year later subject to expansion of computer hardware, if necessary.

7.69. The Committee enquired what steps had been taken by the Railway Board to ensure quick and smooth transfer of the stores accounting and stores functions to computers. The Financial Commissioner stated that the entire Scheme and its implementation was closely coordinated and supervised by the Railway Board through periodical reports as well as periodical meetings with Computer Officers as well as COS and FA and CAO.

7.70. The Committee enquired whether the Railway Board had reviewed the results achieved consequent on completion of the first two phases of the programme in the context of the objectives laid down and whether it had been possible to bring down the inventories during the last three years. The Financial Commissioner stated that the objectives set for Phases I and II had already been achieved. They were now having prompt, accurate and error-free accountal of stores transactions. Priced ledgers, class ledgers, debit|credit summaries etc. were being issued within 10 days of close of the month. The Stores Department was being furnished with a variety of control and exception statements and Action Documents to assist them in their functioning.

7.71. With regard to the question of reducing the inventories, the Financial Commissioner stated that Phase-I was merely transfer of accountal. Under Phase-II, certain reports and documents were produced to assist the COS in his functions. This included a statement of non-moving items. However, review and liquidation of such items would take some time. Real impact on inventory would come only on completion of Phase III and V and thereafter by progressive introduction of modern concepts. There had also been some external difficulties which had resulted in their inability to reduce the inventories. Not only they had to import more steel but also they had to hold on to used or scrap rails because of the injunction issued by the Delhi Court.

7.72. The Committee enquired about the areas of Railway operation which were at present being monitored through computers and the results achieved thereby. The Financial Commissioner stated that the items taken over by the computer were—traffic accounting and traffic statistics (about 50%), fuel accounting, operative statistics, analysis of claims, workshop accounting, payment of incentive, workshop and general pay roll etc. The areas monitored were—traffic loaded and traffic performance, performance of high rated traffic on ABC basis and operating statistics and performance indices. In the Railway Board, the computer was being utilised for monitoring inter-change movement of wagons from 48 points—specially the POL stock and for annual census of BG and MG wagons. In the production units, the computers were employed for keeping control on inventories, production and cost.

7.73. To a question if any time-bound programme had been drawn up to cover major areas of Railway operations through computers, the Financial Commissioner replied that no such programme had not been drawn up because each application had to be experimented on one Railway before extension to other Railways. The cost benefits had also to be studied before computrisation in all railways was decided upon. Due to uncertainty regarding procurement of third generation computers which had still to be cleared by the Electronic Commission and the procedure laid down in the Automation Committee Report etc. they could not proceed on this project. The final decision of the Government in the matter was still awaited.

7.74. To a question what steps the Railway Board proposed to take to ensure that maximum advantage was derived from these sophisticated system and economics of scale were affected thereby, the Financial Commissioner stated that even in foreign countries 99% of the work done by the computers was data processing. This was an essential work for further sophisticated applications in regard to stores accountal, inventory control etc. Only when third generation computers were available, it would be possible to utilise these systems for more sophisticated items of work and affect economies of scale.

7.75. Asked if any staff had been rendered surplus, the Financial Commissioner stated that the Railway Board had ensured both the All India Federations of Railway employees that there would be no retrenchment or any reduction in emoluments. 315 persons had already been absorbed in existing vacancies. Shadow posts had been created so that promotion prospects of the employees were not adversely affected. Staff had also been assured that those who may be replaced would not be transferred from their existing stations without their consent.

7.76. To a question, if the Railways had examined the feasibility of processing the data with regard to schemes for development of Mass Rapid Transport Systems in Metropolitan cities with the aid of computers so as to expedite the projects reports, the representative of the Ministry of Railways stated that it was not possible to utilise the present type of computers for the purpose the Committee had in view. Only when the Railways actually started operating the Mass

Rapid Transport System, it would be possible to utilise these computers.

7.77. To a question whether Government had considered the feasibility of manufacturing the computers indigenously, the Financial Commissioner stated that all the 14 computers installed in the Zonal Railway Headquarters, Production Units and in the Railway Board had been imported at a time when these were not manufactured within the country. Even now, the Electronic Corporation of India were manufacturing only very small computers. The Government of India had appointed a high level Committee to examine if computers of the type available with the Railways could be manufactured within the country in collaboration between the BEL and a foreign firm the ICL. In regard to third generation computers, the witness stated that these were very complicated instruments installed by some of the foreign airlines.

7.78. Increasing use of computers to handle major sections of the statistical and accounting functions has been welcomed by the World Bank Team as "an excellent development". They have, however, observed:

> "Provided full regard is paid to labour saving and to the fundamental point of whether the system being computerised is in itself right, then we can but endorse present policy to extend computerisation throughout the system."

7.79. The Committee observe that in the matter of taking over stores accounting and stores (recoupment and reorder) functions on computers, there have been delays in adhering to the time schedule laid down for completion of the various phases of the programme due to initial teething troubles. Whereas it was initially hoped (July 1968) to complete the work (five phases) within a year or 18 months i.e., **by end of 1970, only the first two phases of the programme (in case of Phase I the progress is stated to be 90 per cent), have been completed so far. According to the revised programme, Phases III and V (Phase IV has been omitted) will now be completed only by June, 1974. The Committee would like the Ministry of Railways to keep a close watch on the implementation of the programme with a view to ensure that there are no further delays in this regard.**

7.80. The Committee note that economies of scale would be possible with the installation of third generation computers which are still to be developed in the country. They also note that the procurement of these computers is to be cleared by the Electronics Commission and that the final decision of Government in the mat-

ter is still awaited. The Committee would like the Government to expedite their decision having regard to the need for installing these computers by the Railways with a view to better inventory and managerial control and for effecting economies of scale.

7.18. In this connection, the Committee would like to point out that the Railways are holding heavy stocks of stores and spares which amounted to Rs. 146.10 crores including fuel and outstandings in suspense account as on 31-3-1971. They hold about 35,000 items of maintenance stores and the value of their stores and equipment purchased during 1970-71 amounted to Rs. 363.7 crores. The Committee note that since 1968 the Railways have taken initiative to introduce modern techniques of inventory control like codification, standardisation, variety reduction, value analysis, A.B.C. analysis etc. The Committee need hardly emphasise the imperative need of reducing the excessive inventories held by the Railways to the minimum extent possible as a commercial organisation like the Railways can hardly afford to block much-needed capital on this account. With the acquisition of computers, the Committee urged that the Railways should review their system of planning, programming and purchasing of stores and spares with a view to reducing the same particularly when indigenous supplies of stores and spares are readily available in most cases. The Committee would like the Railways to appoint a committee to go into the whole question of planning, programming and holding of stores thoroughly with a view to bring about improvements in the existing systems and procedures so as to streamline them. The Committee would like the Railways to make a specific mention in their Budget documents about the measures taken to rationalise the inventory holdings and economies achieved.

7.82. The Committee appreciate the steps taken by the Railways to ensure that the staff who may have to be replaced on account computerisation are not put to hardship and even their promotion prospects are not affected. The Committee would like the Ministry to further explore what other areas of Railway operation could be monitored with the aid of computers so that maximum advantage is derived from these sophisticated systems.

R. K. SINHA,

December 14, 1972. *Chairman.*

Agrahayana 23, 1894 *(S)* *Railway Convention Committee.*

APPENDICES

APPENDIX I

(*Vide* para 3.34)

Statement showing the approximate amounts made available to the State Governments during the years 1966-67 to 1971-72. For Railway Safety Works.

(*Figures in Rs. of Lakhs*)

Name of State	% age of Share*	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	Total
1. Andhra Pradesh	8·56	12·33	12·67	13·52	15·84	18·58	19·52	92·46
2. Assam	2·88	4·15	4·26	4·55	5·33	6·25	6·57	31·11
3. Bihar	10·86	15·64	16·07	17·16	20·09	23·57	24·76	117·29
4. Gujrat	6·91	9·95	10·23	10·92	12·78	14·99	15·76	74·63
5. Haryana	2·46	3·54	3·64	3·89	4·55	5·34	5·61	26·57
6. Jammu & Kashmir	0·01	0·01	0·01	0·02	0·02	0·02	0·02	00·10
7. Kerala	1·78	2·56	2·63	2·81	3·29	3·86	4·06	19·21
8. Madhya Pradesh	9·92	14·29	14·68	15·67	18·35	21·53	22·62	107·14
9. Maharashtra	9·12	13·13	13·50	14·41	16·87	19·79	20·80	98·50
10. Mysore	3·83	5·52	5·67	6·05	7·09	8·31	8·73	41·37
11. Nagaland	0·01	0·01	0·01	0·02	0·02	0·02	0·02	00·10
12. Orissa	2·36	3·40	3·49	3·73	4·37	5·12	5·38	25·49
13. Punjab	4·76	6·85	7·05	7·52	8·80	10·33	10·85	51·40
14. Rajasthan	6·43	9·26	9·52	10·16	11·90	13·95	14·66	69·45
15. Tamil Nadu	5·54	7·98	8·20	8·75	10·25	12.02	12·62	59·82
16. Uttar Pradesh	19·06	27·45	28·11	30·11	35·26	41·36	43·46	205·85
17. West Bengal	5·51	7·93	8·26	8·71	10·19	11·96	12·56	59·51
TOTAL	100·00	144·00	148·00	158·00	185·00	217·00	228·00	1080·00

* As fixed by the Fifth Finance Commission for the distribution of payments in lieu of Passenger Fare Tax.

APPENDIX II

(Vide para 4·6)

Revised Financial Forecast of the Fourth Five Year Plan

	Actuals		Anticipated							
	1969-70	1970-71	1971-72 earlier Assessment	1971-72 Actuals	1972-73 earlier assessment	1972-73 present assessment	1973-74 earlier assessment	1973-74 present assessment	Total Fourth Plan Earlier assessment	Plan Present assessment
Gross Traffic Receipts .	951	1007	1070	1096	1147	1143	1207	1200	5382	5397
Ordinary Working Expenses .	685	732	765	795	799	816	828	883	3809	3911
Net Revenue	146	145	171	169	201	184	224	168	887	812
Surplus (without relief) . .	—10	—26	—3	—4	+19	+4	+33	—22	+19	—52
Surplus (with relief) . . .	—10	—20	+19	+18	+40	+26	+54	..	+83	+14
Adjustment of arrear relief	..	..	+12	..	+12	+18	+12	+18	+36	+36
Total surplus (with relief) .	—10	—20	+31	+18	+52	+44	+66	+18	+119	+50

APPENDIX III

(*Vide* para 4·6)

Statement showing the accretions to and withdrawals from the Railway Development Fund during the Fourth Plan (taking into account the reliefs recommended by the Railway Convention Committee in the Interim Report).

(*In crores of rupees*)

	ACTUALS			ANTICIPATED		Total 4th Plan
	1969-70	1970-71	1971-72	1972-73	1973-74	
ACCRETIONS						
Opening Balance . .	1·55	0·36	1·34	8·12 (..)	8·52 (..)	
Appropriation to Fund						
(i) From Surplus	..	..	9·21 (22·63)	31·97 (40·10)	9·51 (57·52)	50·69 (120·25)
(ii) Loans from General Revenues	18·14	21·58	21·42 (..)	.. (..)	9·57 (..)	70·71 (39·72)
(iii) Interest on balance . .	0·09	0·09	0·49 (0·10)	0·67 (0·06)	0·09 (0·03)	1·43 (0·31)
	19·78	22·03	32·46	40·76	27·69	
WITHDRAWALS						
Appropriation from Fund						
(i) D.P. Works	17·08	18·23	20·82 (20·00)	20·00 (22·32)	23·87 (22·37)	100·00
(ii) Repayment of loans . .	..		.. (1·07)	8·12 (15·22)	.. (33·70)	8·12 (49·99)
(iii) Interest on loans . .	1·52	2·46	3·52 (3·00)	4·12 (2·62)	3·82 (1·48)	15·44 (11·08)
Closing balance .	1·18	1·34	8·12 (..)	8·52 (..)	.. (..)	
TOTAL . .	19·78	22·03	32·46 (24·07)	40·76 (40·16)	27·69 (57·55)	

NOTE:—Figures in brackets show the position as intimated to the Com. *vide* FC's Memo No. VIII(h)—Annexure "D(ii).

APPENDIX IV

(*Vide* para 4.14)

List of Items Classified as Amenities for Passengers and other Railway Users

1. Water supply at stations for the use of passengers, including not only general water supply arrangements which are used for providing water for use of railway users in carriages, stations, parcel offices and goods shed premises, but also purification plants installed, water coolers, electric or otherwise, water trolies etc. provided for use of railway users.

2. Provision of waiting accommodation including reinforced cement concrete and other types of benches at stations, parcel offices, goods sheds etc., including extensions or improvements to existing waiting arrangements, to meet the requirements of railway users.

3. Refreshment Rooms/Retiring rooms and vendors' stalls of all descriptions at stations, parcel offices, goods sheds etc. provided for catering to railway users, except those which the vendors are required by contract to provide at their own cost.

4. Provision of improvement of latrines provided for railway users at stations, parcel offices, goods sheds etc.

5. Miscellaneous improvements, *viz.* provision of seats, hedges, shady trees on platforms, at stations, parcel offices and goods sheds etc. to cater to the needs of railway users.

6. Raising, extending, widening, surfacing, covering or other improvements on platforms at stations, except when such works are required for other than passenger amenity reasons, e.g. extension of platforms at big stations to accommodate full length trains carrying additional coaches provided to relieve over-crowding, provision of additional platforms to facilitate crossing of trains.

7. Provision of additional foot overbridges, improvements and covering of existing overbridges or subways within station premises to connect platforms or offices at stations, parcel office, goods shed etc., to serve the needs of railway users.

8. Provision of bathing facilities at stations for use of passengers. Provision of washable aprons on passengers' platform lines & provision of overhead and/or ground level arrangements at stations for filling water in carriages.

9. Provision or improvement of approaches and circulating areas at stations, parcel offices, goods sheds etc. including improved lighting, tonga-car-taxi-cycle rickshaw stands, sheds for bullock and other carts, water troughs etc., to cater to the requirements of railway users.

10. Improvement to existing carriages such as provision of fans, improved lighting and lavatories, special insulation in roofs, bigger water tanks in carriages, better fittings etc., intended to provide improved facilities for passengers, cost of additional coaches to compensate the loss in seating capacity when old coaches are replaced by new coaches which have a lower carrying capacity due to provision of better facilities for users.

11. Improved lighting and provision of ans on platforms or in waiting halls and sheds or vendors' stalls at stations, parcel offices, goods sheds etc. to cater to the requirements of railway users.

12. Opening of new flag stations or conversion of halts into flag stations, as a passenger facility where there is no financial justification.

13. Exhibition of sheet time tables in glass fronted frames at stations to serve the requirements of passengers.

*14. Works under all the above heads meant to cater to railway users, provided in connection with Melas and required for periods exceeding 6 months.

15. Any other works considered essential for meeting the requirements of railway users at any station, e.g. provision of Information Office or Kiosks, provision of public announcement systems etc.

---

*NOTE: Works of this nature required for periods less than six months will be treated as temporary and charged to ordinary Revenue under paragraph 937-GI.

APPENDIX V

(*Vide* para 5·8)

Statement showing the accretions to and withdrawals from the Revenue Reserve Fund during the Fourth Plan (taking into account reliefs recommended by the Railway Convention Committee in the Interim Report).

(*In crores of Rs.*)

	Actuals			Anticipated		Total Fourth Plan
	1969-70	1970-71	1971-72	1972-73	1973-74	
ACCRETIONS						
Cash . . .	3·18	2·00	3·93	..	..	
Investment . . .	0·31	0·31	0·31	0·31	0·31	
Appropriation to Fund						
(i) From Surplus	..	..	8·63 (8·37)	12·03 (11·90)	8·49 (8·48)	29·15 (28·75)
(ii) Loans from General Revenue	8·86	24·92	..	..	..	33·78
Interest on Balances	0·12	0·21	0·39	0·30 (0·28)	0·21 (0·21)	1·23 (1·21)
TOTAL . .	12·47	27·44	13·26 (13·00)	12·64 (12·49)	9·01 (9·00)	
WITHDRAWALS						
Appropriation from Fund						
(i) Repayment of loans . . .	..	2·95	11·26	11·26 (11·27)	8·31 (8·39)	33·78
(ii) Interest on loans . .	..	0·41	1·69 (1·43)	1·07 (0·91)	0·39 (0·39)	3·56 (3·14)
(iii) Amortisation of over-capitalisation . . .	0·33	..	..		..	0·33
(iv) For making good Revenue deficits . . .	9·83	19·84	..	..	..	29·67
CLOSING BALANCE						
Cash . . .	2·00	3·93	..	..	..	
Investment .	0·31	0·31	0·31	0·31	0·31	
TOTAL . .	12·47	27·44	13·26 (13·00)	12·64 (12·49)	9·01 (9·00)	

NOTE:—Figures in brackets show the position as intimated to the Com. earlier *vide* F C's Memo. No. IV(h)—Annexure 'B-II'.

APPENDIX VI

(*Vide* para 6·11)

Statement showing appropriations to and withdrawals from the Pension Fund on Revenue and Capital Accounts

(Figures in crores)

Year	Annual contribution to Fund on Revenue and Capital Account		Transfer from contributory Provident Fund of staff opting for pensionary benefits	Interest on Balance	Withdrawal from Fund		Closing Balance		Reasons for variation
	B.E.	Actual			B.E.	Actual	B.E.	Actual	
1964-65	19·30	12·00	3·76	0·27	4·00	2·21	15·59	13·82	The reduced appropriation to Fund was based on the actuarial evaluation against the ad hoc provision proposed in the Budget. Lesser withdrawal was due to lesser number of employees retiring under pension.
1965-66	12·50	12·50	0·64	0·76	3·12	2·55	33·58	25·17	Variations are small.
1966-67	14·00	14·00	7·29	1·40	3·61	3·77	36·56	44·09	-do-
1967-68	15.50	10·30	1·31	2·01	4·10	5·34	56·93	58·37	Reduced appropriation to Fund was made in view of difficult ways and means position.
1968-69	10·30	10·30	8·95	2·65	5·35	6·37	60·81	67·90	The excess in withdrawal over Budget Estimates was due to more railway employees retiring under pensionary benefit than anticipated.
1969-70	10·30	10·30	6·23	3·28	6·29	7·69	69·40	[illegible]	-do-
1970-71	15·50	15·50	2·12	3·87	7·89	8·65	93·27	92·86	-do-
1971-72	15·50	12·00	1·46	4·41	8·80	10·40	107·92	100·33	Reduced appropriation to the Fund was made in view of the difficult ways and means position of the Railways.
1972-73	16·60				10·01		110·99		

APPENDIX VII

(*vide* para 15 of Introduction)

Summary of Recommendations/Conclusions contained in the Report

S. No.	Reference to Para No. of the Report	Summary of Recommendations/Conclusions
1	2	3
1	1 and 1.1	The Committee had, in their Interim Report presented to Parliament last year, made *inter-alia* the following recommendations covering the period 1971-72 and 1972-73:— (i) The existing rate of dividend at 4½ per cent of the capital invested in the Railways upto 1963-64 with an addition of 1 per cent in lieu of passenger fare tax and at 6 per cent of the capital invested after 31st March, 1964 should continue to be paid by the Railways to the General Revenues; (ii) The extant arrangements for the purpose of dividend in regard to the strategic lines, Kiriburu-Bimalgarh and Sambalpur-Titlagarh ore lines and the Kathua-Jammu line may continue; (iii) The Capital-at-Charge of the non-strategic portion of the Northeast Frontier Railway and the unremunerative branch lines as also the element of overcapitalisation may be exempted from payment of dividend; (iv) The existing arrangements of (a) deferring the payment of dividend on the Capital-at-charge of New Lines chargeable at the average borrowing rate of

1	2	3
		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 of 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;
		(v) Having regard to the long period of construction/gestation of railway investment in general and the time taken by such investments to reach full earning potential, 25 per cent of outlay in a year on works-in-progress (which could otherwise be liable to payment of dividend) may be exempted from payment of dividend for a period of 3 years;
		(vi) Consistent with the commercial practice of utilising reserves as internal resources, the Railways should be given the benefit of interest at the current dividend rate on the fund balances by being permitted to take credit for the difference between the dividend rate and the average borrowing rate at which interest accrues at present to the Funds as a set off in the dividend payable from the Railways to the General Revenues.
		The Committee recommend that the above recommendations with regard to the rate of dividend payable by the Railways to General Revenues and other ancillary matters, may be taken to cover the next financial year *viz.* 1973-74 also.
2	2.17.	The Committee note that contribution to the Depreciation Reserve Fund is at present related not to the amount of depreciation calculated as accruing on the wasting assets of the Railways

1	2	3
		year by year but to the amounts that are expected to be withdrawn from the Fund during each Five Year period. In the absence of any detailed record as to the prescribed lives of various assets, the Ministry of Railways have been able to prepare only "rough" estimates of accrued depreciation—arrear as well as current—based on an *ad hoc* assessment made some years ago. The Committee consider that in order to keep the appropriations to DRF at a realistic level and as pointed out by the World Bank Team, to avoid the risk of any future under provision, it is necessary for the Ministry of Railways to further refine the technique of assessing the depreciation requirements. For this, it is essential that not only the data with regard to the number of various types of assets requiring replacement and their distribution in recognised age-groups is readily available but also their current replacement costs are known and depreciation appropriate to the lives of assets, in question, is precisely determined.
3	2.18	The Committee are given to understand that it would involve very heavy clerical labour to prepare the detailed records at this late stage. In the circumstances, the Committee have no objection to the existing method of providing for depreciation in respect of assets created upto 1969-70 i.e., the commencement of the Fourth Plan. But, for the assets created during the Fourth Plan period, they feel that it is desirable that full data in respect of such assets is maintained by the Railways and provision for depreciation thereof is made on a scientific and rational basis taking into account the cost and life of such assets. The Committee recommend that Government should constitute without delay a Working Group consisting of experts from Finance, Accounts, Audit and technical disciplines to examine the matter fully so that detailed instructions may be issued in

1	2	3
		this regard. The Committee expect that the requirements of Depreciation Reserve Fund for the next five year plan would be worked out on the above basis and placed before the next Railway Convention Committee.
4	2.19.	The Committee also recommend that the requisite information about the total assets of Railways and Depreciation implications of these assets should be specifically mentioned in the Budget papers for information of Parliament.
5	2.20.	The Committee further consider that the Railway Board should undertake a critical study to determine whether in conformity with accepted principles of accounting, a separate Renewal Reserve Fund should be created out of their profits, if any, to provide for inflationary and improvement elements in the cost of assets. The intention is, that the net revenue surplus deficit of the Railways should be ascertained with greater precision and on accepted accounting principles and procedures. The result of such a study may be placed before the next Convention Committee for their consideration.
6	2.31.	The Committee consider that keeping in view the fact that the actual withdrawals from the Fund have been less than the budgetary provisions over a number of years, the closing balance to the credit of Depreciation Reserve Fund having consequently gone up from Rs. 29.19 crores at the commencement of the Third Plan to Rs. 164 crores at present, the contribution to the Depreciation Reserve Fund during 1973-74 may, as proposed by the Financial Commissioner, be of the order of Rs. 115 crores, or as close thereto as possible, taking into account the financial position of the Railways.

1	2	3
7	2.59.	The Committee note that out of 2654 locos (in steam units) requiring replacement during the Fourth Plan, as many as 1544 locos will have to be continued in service at the end of the Plan. Of these, as many as 870 locos will be over 46 years old. The main reason for keeping the over-aged locomotive in service is stated to paucity of some foreign exchange required for replacing them by diesel and electric locos. Their replacement will also result in reduction in the number of running and maintenance staff by 30 persons per engine for whom it is difficult to provide alternative jobs. The Committee regret to note that the economics of continuing the overaged steam locos has not been worked out by the Railway Board so far. They feel that the continuance of overaged steam locos results in: (i) Excessive expenditure on their annual maintenance; (ii) Continued dispersal of maintenance facilities for these locos over the entire Railway net-work; (iii) Continuance of antequated skill in labour force; (iv) Lower output potential of steam locos compared to diesel and electric locos; (v) Continued blocking up and under-utilisation of much needed line capacity.
8	2.60.	The Committee would like the Ministry of Railways to examine the matter in depth with a view to ascertain the precise effect of using overaged steam locomotives on the various types of services and the economics thereof. They would also like the Railway Board to work out whether the use

1	2	3
		of diesel shunters is more economical than steam locos for such work. The Committee urge that this matter may be examined by the Efficiency Bureau of the Railway Board urgently. Based on such a study' the Railway Board may examine if the policy of using steam locos rather than diesel shunters for shunting work and continuing the use of overaged steam locos calls for a review and whether the programme of replacement of such locos needs to be accelerated. The Committee need hardly stress that a time bound programme for the replacement of steam locos may be drawn up by the Railway Board.
9	2.61.	The Committee would like to emphasise that man-power rendered surplus, as a result of the replacement of steam locomotives, should not be retrenched but may be gainfully employed for other types of operational and productive work on the Railways/Public Undertakings.
10	2.71.	The Committee are concerned to note that the programme of replacement of overaged electric locos has been lagging very much behind the targets in so far as out of 53 locos to be replaced during the Fourth Plan, only 13 have been so far delivered to the Zonal Railways. This is stated to be due to the inability of HEIL, Bhopal to supply the requisite sets of components according to schedule. At the present pace of delivery, it is hardly likely that the planned programme of replacement of 36 overage DC locos during 1972-73 and 1973-74 will be fully achieved.
11	2.72.	The Committee regret to note that although replacement of overaged D.C. electric locos was included in the Rolling Stock Programme for the years 1965-66, 1966-67 and 1968-69, orders were placed by the Railway Board on Chittaranjan Locomotive Works in 1968 only. The

1	2	3
		Chittaranjan Locomotive Works placed orders on HEIL for manufacture of electric equipments for these locos in 1968-69. It is thus evident that not to speak of advance action, even concurrent action for the manufacture of electric equipment for the locos by HEIL which takes time, was not taken by the Railway authorities.
12	2.73.	It is also regrettable that even after the placement of orders by Chittaranjan Locomotive Works in 1968-69 for manufacture of electric equipment there was not only downward revision of the promised supply four times during the period June, 1969 to November, 1971 but also failure to honour even the reduced supplies.
13	2.74.	The Committee need hardly emphasise that the inadequacy of electric locos results in under-utilisation of the electrified sections of the Railways on which heavy capital expenditure has been incurred. In the interest of optimum utilisation of the electrified sections of the Railways' it is very necessary that there should be integrated planning for the production of electrified equipment by HEIL and the electric locomotives by the Chittaranjan Locomotive Works. The Committee would like the Ministry of Railways to take up the matter again with the Ministry of Industrial Development at a high level to prepare an integrated plan for the supply of electric equipment by the HEIL to the Chittaranjan Locomotive Works so that the targets of production of electric locomotives not only on replacement account but to meet additional requirements are fully met. The Committee need hardly point out that the Railways should place orders for the manufacture of electric equipments on HEIL well in advance to enable them to take necessary action in the matter and plan their production programme and delivery schedule accordingly.

1	2	3
14	2.88.	In view of the above data and the findings of the Public Accounts Committee and the Administrative Reforms Commission, the Committee consider that the Railways have to exercise extreme circumspection in making further investments for augmenting their capacity for manufacture of wagons during the Fifth Plan. The Committee consider that the estimated requirement of the order of 26,000 to 27,000 wagons a year on replacement as well as additional account, during the Fifth Plan period (excluding the export demand), indicated by the Ministry of Railways needs a very careful scrutiny before any proposal for expansion of the existing manufacturing capacity or setting up of a new wagon building unit is sanctioned.
15	2.89.	So far as the figures of replacement of wagons during the 4th Plan period are concerned, the Committee note that these have gone up by about 8,000 as a result of the mid-term appraisal and the availability of resources. These wagons would, however, materialise during the Fifth Plan period.
16	2.90.	The Committee cannot help feeling that the records showing dates of purchase of wagons and their age groups etc., are not uptodate and accurate. The Committee would, therefore, like the Ministry of Railways to look into the matter so that the system of keeping such records is streamlined and the replacement programme is drawn up on the basis of actual requirements.
17	2.106.	The Committee are glad to note that the Ministry of Railways (Railway Board) are alive to the need to augment the existing capacity for the construction of coaches. They trust that advance action will be taken by the Ministry

1	2	3
		to ensure that not only the arrears of replacement of coaching stock are cleared but full requirements of additional coaches for non-suburban services as well as for Metropolitan Transport Services are fully catered to at the earliest.
		The Committee have no doubt that while planning for additional coaches, the Railway Board will take into account not only the growing requirements of 3rd Class Sleeper accommodation on the Railways but the need to eliminate over-crowding with the utmost expedition.
18	2.107.	The Committee regret to note that out of 300 overaged EMU coaches programmed to be replaced during the Fourth Plan, only 129 units were replaced during the first three years of the Plan. As these units are more than 40 years old (as against their normal life of 25 years), it is necessary that the replacement programme is accelerated. The Committee would also like to emphasise that the Railway Board should assess the requirements of EMU coaches on additional account on a realistic basis considering the acute over-crowding on the Suburban Services and inter-city services where they are used and programme for their production accordingly.
19	2.108.	The Committee regret to note that against the planned production of 443 and 347 EMU coaches by the ICF and JESSOPS respectively during the 4th Plan period, actual production during the three years has been 171 and 122 respectively. In view of the poor production performance of these Units, particularly

1	2	3
		JESSOPS, the Committee would strongly urge that concerted measures should be taken by the Railway Board to ensure that not only the production programme of EMU coaches during the remaining two years is fulfilled by these Units but the earlier shortfall in production is made up so as to meet the requirements of EMU coaches for the suburban trains.
20	2.109.	The Committee have suggested in an earlier paragraph, that the question of timely and adequate supply of electric components by HEIL, Bhopal needs to be taken up at a high level. The Committee need hardly point out that concerted measures will have to be taken by the Railways and the Public Undertakings and other organisations concerned if the targets in this regard are to be achieved.
21	2.124.	The Committee are glad to note that the arrears of track renewals were, by and large, cleared by the Railways by the end of the Third Plan period. They, however, observe that the track renewal programme of the Railways during the Fourth Plan has suffered a set-back due to shortfalls in supplies of rails and sleepers from Hindustan Steel Ltd., and track fittings from indigenous suppliers. The supply position in respect of steel sleepers from the Durgapur Steel Plant appears to be particularly unsatisfactory. The Committee would like the Ministry of Railways to pursue energetically their efforts in procuring the requisite quantities of rails, sleepers and track fittings with the Ministries concerned. They would also like the Ministry to ensure that the track renewal programme is phased out in such a manner that the operational efficiency of the Railways on

1	2	3
		trunk routes which carry bulk of the traffic as well as safe running of trains is in no way affected.
22	3.18.	The Committee would reiterate the recommendation made by them in their Interim Report that there is hardly any scope at present for increasing the payment to States in lieu of passenger fare tax in proportion to the growth of passenger traffic or earnings. The Committee, therefore, recommend that the existing arrangements whereby additional 1 per cent on the capital invested upto 31st March, 1964 is paid to the General Revenues for payment to States of a fixed amount of Rs. 16.25 crores in lieu of passenger fare tax and utilisation of the balance to assist the States (in the same proportion as their shares of the passenger fare tax) to provide their portion of the resources required for financing safety works such as manned level crossings, overbridges and under-bridges, may be continued during 1973-74.
23	3.19.	The Committee consider that in view of the fact that the additional 1 per cent dividend on capital invested upto 31st March, 1964 is passed on to State Governments in lieu of the passenger fare tax, it would be more appropriate if the nomenclature of the Demand "Dividend to General Revenues" is changed to "Dividend to General Revenues and contribution for Grants to States in lieu of Passenger Fare Tax."
24	3.27.	The Committee note that the amounts credited to the Railway Safety Works Fund are allocated to different States in the same proportion as their share of passenger fare tax which is distributed in the ratio of the average of the State-wise earnings from non-suburban passenger traffic. The Government of Kerala have suggested

1	2	3
		changes in the existing principles of allocations from this Fund to take into account factors like density of population|traffic, the terrain, and length of roads etc., in a State. The Ministry of Railways have also hinted that the method of distribution of the Fund may take into account factors like location of the level crossings and density of rail and road traffic passing over them.
25	3.28	While all these factors need careful consideration, the Committee feel that any change in the existing method should not be made without ascertaining the views of the State Governments in this regard. The Committee suggest that this matter should be got examined by Government in consultation with the Planning Commission and the State Governments. They recommend that the existing method of distribution of the fund to the States may be followed for the whole of the Fourth Plan period and the matter may be re-examined by the next Railway Convention Committee.
26	3.51.	The Committee observe that out of a total contribution of about Rs. 10.80 crores made by the Railways to the Safety Works Fund during the years 1966-67 to 1971-72, the sanctions actually issued so far for reimbursement to State Governments are of the order of about Rs. 1.24 crores only. The Funds actually remained unutilised till as late as last year due partly to the cumbersome procedure involved in claiming reimbursement and partly due to the difficult resources position of the States and delays in acquisition of land.
27	3.52.	The Committee note that the procedure has since been simplified and that all pending cases have been cleared by the Ministry of Railways. The Committee consider that construction of

1	2	3
		over/underbridges at busy level crossings is as much in the interest of the Railways as it is in the interest of the State Governments. It is a paradoxical situation that while the needs are urgent, the funds should have remained unutilised for as many as five years. Apart from the safety aspect, the very purpose of widening and improving the roads and highways is defeated if traffic is held up at the level crossings. Now that the procedure has been streamlined, the Committee hope that the State Governments will be in a position to utilise the funds expeditiously.
28	3.53.	The Committee suggest that the availability of funds for the construction of over/under-bridges in respect of each State should be adequately publicised by the Railways and specifically brought to the notice of the State Governments concerned at the highest level. They would also like the Railway Administration to take initiative in this matter and draw up long term perspective plans as well as 5 years and annual Plans in consultation with the State Governments for construction of over/under-bridges in their areas, having regard to the density of rail and road traffic as well as location of the level crossings. The progress made in providing over/under-bridges against the agreed programmes should be watched and mentioned in detail in the Budget papers and other documents presented to Parliament by the Railways.
29	3.54.	The Committee further consider that in view of the need for wider bridges over level crossings on account of density of traffic, the extant rules providing the sharing of expenditure on 50:50 basis by the Railways only for a bridge of 24 feet width, need modification.

1	2	3
30	3.55.	The Committee further note that the Ministry of Railways have suggested to the Planning Commission and the concerned Ministries that a special allocation of Rs. 50 crores may be made for construction of over|under-bridges at 250 level crossings during the Fifth Plan. This outlay should be besides the Plan outlay of the Railways and the States|Road authorities. In view of the ever increasing traffic on account of growth of the national economy, the Committee are in agreement with the Ministry of Railways that a crash programme has to be launched for eliminating the level crossings in areas of high traffic density as quickly as possible. The Committee, therefore, trust that a decision in this regard will be taken expeditiously. In the meanwhile, the Committee recommend that the Planning Commission may consider the feasibility of diverting part of the funds allocated for development of national highways during the Fourth Plan which are likely to remain unutilised, for construction of over|under-bridges. As stated by the Railway Minister in his letter of 2nd July, 1971 to Chief Ministers of all States "these proposals generate immediate employment opportunities to unemployed graduate engineers. Government of India schemes of providing employment will also get added potential".
31	3.56.	The Committee further recommend that upto 10 per cent of the amount in the Railway Safety Works Fund should be earmarked for manning| upgrading of unmanned level crossings and that the Zonal Railway Administrations should be authorised to draw directly the amount so authorised.
32	4.12.	The Committee are glad to observe the improved financial position of the Railways has enabled them to increase the allocations to the

1	2	3
		Development Fund out of their revenue surpluses during 1971-72 and 1972-73 and also to pay off part of the loans taken in earlier years to finance the expenditure from this fund.
33	4.13.	The Committee note that the total liability of the fund as on 31.3.1972. in respect of loans taken from General Revenues was of the order of Rs. 86.65 crores by way of principal and Rs. 3.52 crores as interest. Regarding the question whether the loans obtained by the Railways for payment of interest on the principal should bear interest at the average borrowing rate chargeable to commercial departments or the current borrowing rate which is about 1 per cent higher, the Committee reiterate the recommendation made by them in the Interim Report submitted to Parliament last year that interest on loans whether taken to finance the expenditure on Development Works or to pay the interest on the principal of such loans, be levied at the average borrowing rate chargeable to the Commercial Departments.
34	4.15.	The Committee are glad to note that the expenditure on Railway Users' amenities during the three years of the Fourth Plan has been Rs. 12.03 crores *i.e.*, on an averge of Rs. 4 crores per year as recommended by the Railway Convention Committee, 1965. The Committee would, however, like to emphasise that the Railways should give top priority to provide clean and cool drinking water and improved types of latrines for the use of passengers at the platforms. They also expect that electricity will be provided at all stations where it is available in the vicinity.
35	4.16.	The Committee note that Railways have provided water coolers at great expense at various Railway stations, but it has been the experience of the Committee during their tours that they do not

1	2	3
		give trouble free service. The Committee would urge the Railway Administration to ensure that water coolers are maintained in working condition particularly during summer and are so situated as to be of maximum service to the travelling public. The Committee would also like to impress that the arrangements for washing of glasses should be hygienic.
36	4.17.	The Committee have noticed that the taps for drinking water provided at the stations are of antiquated designs. The Committee feel that high priority should be given to evolve a suitable design so that the taps are convenient to use and there is no wastage of water.
37	4.20.	The Committee regret to note that there has been persistent shortfall in expenditure on staff amenities in spite of the fact that there is great shortage of quarters for Class III and Class IV staff, the expenditure on which is met from the Development Fund. In view of the acute shortage of housing and their high rents, particularly in big towns and metropolitan cities, a large number of Railway employees, who are waiting for Railway accommodation and have to pay high market rent, are suffering serious hardships. It is very essential that the Railway should give due priority to the provision of quarters particularly to non-gazetted and other essential staff.
38	4.21.	Now that the Government are thinking of social housing, the Committee would like the Railways to evolve a suitable scheme to enable the Railway employees to build houses for themselves before they retire.
39	5.11.	The Committee recommend that the extent arrangement whereunder loans taken from General Revenues to finance the expenditure from Revenue Reserve Fund, including further loans for repayment of the principal or interest charges

1	2	3
		thereon are charged at the current borrowing rate, should continue.
40	5.16.	The Committee observe that the Capital-at-Charge of the Railways includes a fairly large element of over-capitalisation (Rs. 118.25 crores) which needs to be amortised. It has not been possible to make may substantial dent into the problem due to the difficult ways and means position of the Railways. The Committee also understand that the British Railways have been permitted to reduce their capital liabilities drastically in recent years.
41	5.17.	The Committee feel that the question whether over-capitalisation of the Indian Railways should be amortised and if so, during what period or whether the capital structure of the Railways should be restructured is a complex one and will have wide repercussions on other sectors of the infra-structure needs a comprehensive study into all its ramifications. They suggest that this matter may be examined in all its aspects by an expert group consisting of the representatives of 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.
42	6.19.	The Committee note that the balance to the credit of the Pension Fund has risen from Rs. 44.09 crores in 1966-67 to Rs. 110.99 crores (budget estimates) in 1972-73. The Committee recognise the need for making an adequate provision for the present and future liabilities of the Railways on this account and to make adequate provision therefor from year to year without causing any violent fluctuations in the budgetary position. They nevertheless consider that it is necessary for the Railways to have an accurate assessment of their liabilities from time to time. They hope

1	2	3
		that the Report of the Government Actuary expected to be received in about six months' time will help the Railways to frame more realistic estimates of expenditure from the Pension Fund.
43	6.20.	The Committee would also like the Ministry of Railways to issue necessary instructions to the Zonal Railways to frame more realistic estimates under this head taking due note of the actual number of persons retiring during the course of the year.
44	7.8.	The Committee note that there are 21 Demands for Grants in regard to the Railways and that the structure of the Demands has been periodically reviewed to meet the growing requirements of accountability to Parliament and changes in accounting systems. The Ministry have also stated that the existing arrangements have stood the test of time and have provided meaningful and precise information on important aspects of Railway expenditure to the Parliament and in turn to the public at large. It is pertinent to note in this connection that the World Bank Team did not consider the present system of budgetary control on the Railways to be effective for the purposes of "sound financial management" and had emphasised the need "to cut back on the volume of data produced by the Indian Railways System." They had desired that the preparation of the budget should aim at "a realistic forecast of proposed activity expressed in cost terms". The Committee have also seen the annual Reports of the British Railways Board and are impressed by the concise manner of presentation of the financial results of the working of the British Railways and their activities during the course of the year. While the Committee appreciate the anxiety of the Railway Board to keep Parliament and public informed of the various facets of their activities, the mass of data given in the Railway Budget papers would not appear to

1	2	3
		greatly subserve the purpose in view. What is needed is that meaningful data corelating costs to results should be presented in a simple and lucid manner so as to be easily understandable by a layman. This is all the more important as massive investments are being made on the Railways and due Capital-at-charge of the Railways in 1971-72 has already risen to about Rs. 3500 crores and is bound to increase substantially in the Fifth and subsequent Plan periods. It is necessary that the Railways, as a premier public undertaking, should keep Parliament fully informed about its performance in all vital aspects of working in a manner easy and intelligible, so that the future investments may be judged in their proper perspective.
45	7.9.	The Committee would like Government to undertake a comprehensive review of the form and content of the Railway Budget and the number of Demands for Grants as well as the various documents accompanying it, with a view to rationalising and simplifying their contents in the interest of proper accountability to Parliament and the public.
46	7.10.	The Committee suggest that in view of the complexity of the task, the review may be entrusted to a small Task Force consisting of financial experts drawn from the Ministry of Finance, the Railways and the Comptroller and Auditor General of India. This Task Force may also coopt eminent experts in the field from the Institutes of Mangement, Institutes of Chartered Accountants and Cost Accountants.
47	7.11.	The Committee note that the Estimates Committee have, in their 24th Report (1972-73) pointed out that the technique of performance budgeting has yet to be perfected. They have emphasised the need for an integration of the Performance

1	2	3
		Budget with the Demands for Grants. As stated by the Committee, Parliament would be more interested in the prescription of norms and standards which would enable them to evaluate and critically review the work of every Ministry.
48	7.12	The Committee recommend that the terms of reference of the proposed Task Force may also include the question of preparation of a performance budget by the Railways as an intergrated part of the Demands for Grants.
49	7.13.	The Committee would like the Railways which are the oldest public undertaking, to introduce Performance Budget according to a time bound programme so that it can act as a model to other public utilities.
50	7.28.	The Committee are glad to observe that the Railways are alive to the need for refining the accounting procedures to keep pace with the development of accounting skills and with the increasing range and variety of Railway operations due to changes in the mode of traction and modernisation in several spheres. Changeover of accountal basis from 'received' to 'forwarded' basis for freight traffic, processing of invoices received from stations at the Electronic Data Processing Centre and quarterly closing of accounts are some of the important refinements stated to have been introduced by the Railways in recent years. Adoption of the Discounted Cash Flow Technique for examination of the financial viability of all projects costing Rs. 20 lakhs and above is another welcome step taken by the Railways. The need for compiling data in a form as to assist the management in controlling day-to-day operations as well as in taking decisions has also been recognised.

1	2	3
51	7.29.	While due credit must be given to the Railways in this regard, the Committee would like to impress upon the Ministry the need for evolving a fully developed system of "Responsibility Accounting" as emphasised by the World Bank Team in their Report. Railway Management at all levels have to realise their individual responsibility for their sectors of the costs. As stated by the World Bank Team "Many Railwaymen are excessively oriented to operating a Railway as opposed to operating a Railway at a profit."
52	7.30.	The Committee hope that the Railway Board will take immediate purposeful steps to reorient the accounting procedures so as to subserve the above objectives.
53	7.31.	The Committee further observe that the World Bank Team had underlined the need for eliminating superfluous classifications which are now out of date and irrelevent to contemporary needs. In order to meet this criticism, the Railways are new contemplating further changes in accounting classification so as to reorient the classification to bring in functional break-down of costs as opposed to merely listing of costs under various headings. The Committee desire that this task should be completed with expedition.
54	7.32.	The Committee regret to note that the Ministry of Railways have not so far been able to implement the recommendation of the Study Team of the Administrative Reforms Commission that a committee of expert Railway Officers may be appointed to review the various provisions contained in the Accounts, General and Engineering Codes and modify them to suit present day needs. They expect that action in this regard would now be expedited and a comprehensive

1	2	3
		review of the accounting procedures would be undertaken immediately.
55	7.33.	The Committee would like the Ministry of Railways to report to the next Convention Committee the progress made in further refining the accounting procedures in the directions mentioned above.
56	7.47.	The Committee note that although the Railways are alive to the need for evolving a system of management accountancy to enable them to take expeditious well-calculated decisions while handling the complex problems of Railway Administration, they have, by and large, relied upon their own personnel to develop the management techniques. Railway Accounts Officers are stated to be "endeavouring to submit purposeful, up-to-date information as a means of controlling current operations and projections of the probable future as a guide to planning".
57	7.48.	The Committee consider that no effective system of modern management accountancy has been developed on the Railways and that the operational and financial controls exercised are inadequate and antiquated. Therefore, the achievements in this field, being very slow, are far from satisfactory. The Committee consider that with their experience of operating a vast net-work for over a hundred years, the Railways should have taken more concrete and purposeful steps in this direction by combining it in the system which makes the entire management philosophy very modern and the techniques up-to-date. As pointed out by the World Bank Team, it is high time for the Railways to reappraise the system and examine the fundamental objectives of management so that effective control systems could be designed to enable the objectives to be fulfilled. It is of the utmost importance that the Railways set up systematic planning and control systems with a view to defining

1	2	3
		clearly management objectives and strategies and plans to achieve these objectives and evolving norms to monitor performance against the objectives set. For this purpose, there is need to introduce an effective system of management accountancy on the Railways as expeditiously as possible which would act as a tool of management control and provide concurrent and purposeful data at all strategic levels to reach appropriate decisions.
58.	7.49.	The Committee would like to draw the attention of the Ministry of Railways to the appointment of a high level Action Committee by Government to examine *inter alia* the suitability of systems management and adequacy of administrative, accounting and technical procedures followed in public undertakings and to suggest changes. The Committee consider that the Task Force recommended earlier in paragraph 7.10 may also be entrusted with the responsibility of critically examining the accounting and administrative procedures on Railways with a view to providing management accountancy, as an aid to management decisions, at all appropriate levels of control.
59.	7.50.	The Committee further consider that it would be useful for the Railways to expose their officers to modern methods of management by sending personnel drawn from different supervisory levels for refresher/training courses conducted by the Institutes of Management in the country. A regular system of inviting management experts for delivering lectures in the Railway Staff College, Baroda and other training schools of the Zonal Railways would also be of mutual benefit.
60.	7.51.	The Committee note that at present the Railways have a system of internal audit by the

1	2	3
		Financial Adviser and Chief Accounts Officer on each Railway. The Committee consider that the feasibility of utilising the services of Cost Accountants|Chartered Accountants and Management Accountants, outside the Railways, on payment of moderate fees to examine the working of the various establishments of the Railways and suggest avenues of improvement and earning more revenue may be got examined by the Task Force recommended in paragraph 7.10 in the interest of operational efficiency of the Railways.
61	7.58.	The Committee note the efforts made by the Costing Cell of the Railway Board to ascertain the cost of carriage of various commodities which has enabled the Zonal Railways to quote station-to-station rates in order to make rail transport competitive with road transport.
62	7.59.	The Team of World Bank experts has expressed the need for developing and strengthening the Costing organisation at the Zonal level so that this work could be done in a more effective and sustained manner.
63	7.60.	The Committee understand that the Railways have not so far worked out the cost of parcel traffic as well as the goods mile cost for each train. The Committee hope that the Ministry of Railways would take suitable steps to strengthen the Costing Organisation to enable it to work out detailed costs of each operation on the Railways with a view to adjust their tariff rates to the extent possible so as to meet successfully the growing competition from Road Services.
64	7.61.	The Committee regret to note that costing of passenger services has not so far been done by the Railways. They note that a beginning in

1	2	3
		this direction has been made recently. It is important that the Railways should work out the cost of passenger services class-wise for Mail/ Express and Passenger Trains separately. The Committee hope that studies in this regard would be planned out and completed expeditiously to enable the Railways to identify the class of services on which they are losing, the extent of such losses and the measures that could be taken to obviate them. Similarly, in working out the cost of suburban services, further refinement should also be made by the Railways to ensure that the costs of such services are realistically assessed.
68	7.79.	The Committee observe that in the matter of taking over stores accounting and stores (recoupment and reorder) functions on computers, there have been delays in adhering to the time schedule laid down for completion of the various phases of the programme due to initial teething troubles. Whereas it was initially hoped (July 1968) to complete the work (Five phases) within a year or 18 months *i.e.*, by end of 1970, only the first two phases of the programme (in case of Phase I the progress is stated to be 90 per cent), have been completed so far. According to the revised programme, Phases III and V (Phase IV has been omitted) will now be completed only by June, 1974. The Committee would like the Ministry of Railways to keep a close watch on the implementation of the programme with a view to ensure that there are no further delays in this regard.
69	7.80.	The Committee note that economies of scale would be possible with the installation of third generation computers which are still to be developed in the country. They also note that the procurement of these computers is to be cleared by the Electronics Commission and that the final decision of Government in the matter is still

1	2	3
		awaited. The Committee would like the Government to expedite their decision having regard to the need for installing these computers by the Railways with a view to better inventory and managerial control and for effecting economies of scale.
67	7.81.	The Committee would like to point out that the Railways are holding heavy stocks of stores and spares which amounted to Rs. 146.10 crores including fuel and outstandings in suspense account as on 31-3-1971. They hold about 35,000 items of maintenance stores and the value of their stores and equipment purchased during 1970-71 amounted to Rs. 363.7 crores. The Committee note that since 1968 the Railways have taken initiative to introduce modern techniques of inventory control like codification, standardisation, variety reduction, value analysis, A.B.C. analysis etc. The Committee need hardly emphasise the imperative need of reducing the excessive inventories held by the Railways to the minimum extent possible as a commercial organisation like the Railways can hardly afford to block much-needed capital on this account. With the acquisition of computers, the Committee urge that the Railways should review their system of planning, programming and purchasing of stores and spares with a view to reducing the same particularly when indigenous supplies of stores and spares are readily available in most cases. The Committee would like the Railways to appoint a committee to go into the whole question of planning, programming and holding of stores thoroughly with a view to bring about improvements in the existing systems and procedures so as to streamline them. The Committee would like the Railways to make a specific mention in their Budget documents about the measures taken to rationalise the inventory holdings and economies achieved.

1	2	3
68	7.82.	The Committee appreciate the steps taken by the Railways to ensure that the staff who may have to be replaced on account of computerisation are not put to hardship and even their promotion prospects are not affected. The Committee would like the Ministry to further explore what other areas of Railway operation could be monitored with the aid of computers so that maximum advantage is derived from these sophisticated systems.

GMGIPND—L.S. 2—2778 L.S.—14-12-72—1600.