R. C. C. No. 21

135

RAILWAY CONVENTION COMMITTEE (1977)

FIRST REPORT

Rate of Dividend for 1977-78 and 1978-79 and other Ancillary Matters

Presented in Lok Sabha on
Laid in Rajya Sabha on

17 NOV 1977

17 NOV 1977

LOK SABHA SECRETARIAT
NEW DELHI

October, 1977/Asvina, 1899 (Saka)

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CORRIGENDA

First Report of the Railway Convention Committee, 1977 on 'Rate of Dividend for 1977-78 & 1978-79 and other Ancillary Matters'

Page	Para	Line	For	Read
(vi)	6	3	"Subsequent"	"subsequent"
5	5(2)	6	"May"	"may"
9	18	Heading	"(d) Other Ancilary Matters"	" D Other Ancillary Matters"
11	-	24	"and"	"had"
12	(iii)	1	delete "is"	
13	1	5	"inflationery"	"inflationary"
13	4	7	"workidg"	"working"
14	8	7	"a option"	"adoption"
14	8	9	"und r"	"under"
16	-	Sl.N .33	"(Aluminimu)"	"(Aluminium)"
17	Sl.No.2	12	"Rs. 417."	"Rs. 417 Crores".
22	Col. 1	3	Add "7"	
22	-	17	Add "8" and "14" in Cols. 1 and 2 respectively.	
22	-	4 from bottom	Add "9" in Col. 1	
23	-	8	Add "10" in Col. 1	
23	-	8-9	"18 10"	"18"

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RAILWAY CONVENTION COMMITTEE
(1977)

Shri Krishan Kant—*Chairman*

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SECRETARIAT

Shri B. K. Mukherjee—*Joint Secretary.*

INTRODUCTION

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

2. The 1973 Convention covered the first three years of the Fifth Plan, viz., 1974-75, 1975-76 and 1976-77. The Report of the Convention Committee, 1973 on Rate of Dividend for 1977-78 and other Ancillary Matters was adopted by the Committee on the 3rd December, 1976 but could not be presented due to dissolution of Fifth Lok Sabha on the 18th January, 1977.

3. In pursuance of the Resolution adopted by Lok Sabha on 2nd August, 1977, and concurred in by Rajya Sabha on the 4th August, 1977, the Railway Convention Committee, 1977 has been constituted "to review the rate of dividend which is at present payable by the Railway Undertaking to General Revenues as well as other ancillary matters in connection with Railway Finance *vis-a-vis* the General Finance and make recommendations thereon."

4. At their first sitting held on the 20th September, 1977 the Committee decided to take up the following subjects for detailed examination:—

1. Personnel Policy and its Administration on Indian Railways.
2. Role of Railways in Indian economy—perspective for the future.
3. Corruption and Malpractices in Indian Railways.
4. Passenger Booking and Reservation.

5. The Committee propose to call for memoranda from leading non-official organisations as well as from eminent persons having first hand knowledge and experience of working of the Railways on the above subjects. They would also examine the representatives of the Ministry of Railways before finalising their reports. These would be presented to both the Houses as expeditiously as possible.

6. In this Report, the Committee have given their recommendations with regard to the dividend payable by the Railways during the years 1977-78 and 1978-79 and other ancillary matters so as to enable

the Ministry of Railways to prepare the revised estimates for the current year and the budget estimates for the next financial year. Their Reports on Rate of Dividend etc. for Subsequent years will be presented in due course.

7. The Committee considered and finalised the Report at their sitting held on the 5th October, 1977. A statement showing the summary of the principal/recommendations of the Committee is appended (Appendix-II).

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

NEW DELHI;

October 14, 1977

Asvina 22, 1899 (*S*)

KRISHAN KANT,

Chairman,

Railway Convention Committee.

REPORT

A. Review of the financial results of working of the Railways during 1974-75, 1975-76 and 1976-77 together with the budgetary forecasts for 1977-78.

A summary of the financial results of working of the Railways since the commencement of the Fifth Plan is given below (figures in the first column indicate the position as at the conclusion of the Fourth Plan, *i.e.* in the year 1973-74):—

(Rs. in Crores)

1973-74 (Actual)		1974-75 B.E.	1974-75 Actuals	Variation	1975-76 B.E.	1975-76 Actuals	Variation
	TRAFFIC RECEIPTS						
1137·80	Gross traffic Receipts.	1427·15	1408·19	—18·96	1670·86	1767·01	+96·15
	WORKING EXPENSES						
935·33	Ordinary working expenses	1148·37	1186·28	+37·91	1298·28	1470·17	+171·89
115·00	Appropriation to Depreciation Reserve Fund	115·00	115·00	...	115·00	115·00	..
15·85	Appropriation to Pension Fund	15·85	15·85		16·80	24·25	+7·45
0·15	Payments to worked Lines	0·15	0·15	..	0·17	0·20	0·03
1066·33	TOTAL WORKING EXPENSES	1279·37	1317·28	+37·91	1430·25	1609·62	+179·37
71·56	NET TRAFFIC RECEIPTS	147·78	90·91	—56·87	240·61	157·39	—83·22
16·15	Net Miscellaneous Expenditure	18·90	17·26	—1·64	19·70	20·36	+0·66
1082·48	Total expenditure	1298·27	1334·54	+36·27	1449·95	1629·98	+180·03
55·41	Net Railway Revenue	128·88	73·65	—55·23	220·91	137·03	—83·88
170·92	Dividend to General Revenues	181·67	187·47	+5·80	197·88	198·14	+0·26
115·51	Net Surplus (+)/Shortfall (—)	—52·79	—113·82	..	+23·03	—61·11	..
93·7 %	Operating Ratio	89·7%	93·5%		85·6%	91·1%	..

(*Source* :—Explanatory Memoranda to Railway Budget . . . 1974-75—p. 15; 1975-76—P. 1.
1976-77—pp. 1 and 8
1977-78—pp. 1 and 7)

Supplement to Explanatory Memorandum (1977-78)—p.1.

	1976-77		Variation	1977-78		Variation
	B.E.	Latest actuals		Budget Estimates* March, 1977	Budget Estimates* June, 1977	
TRAFFIC RECEIPTS						
Gross Traffic Receipts.	1955 82	2036·11	+80 29	2091 44	2110·24	+18·80
WORKING EXPENSES						
Ordinary working expenses	1551·42	1548 96	—2 46	1635 75	1648 74	+12·99
Appropriation o Depreciation Reserve Fund	135·00	135·00		140·00	140·00	
Appropriation to Pension Fund .	29 50	34·40	+4 90	39·35	39·35	
Payments to worked Lines .	0·17	0·21	+0·04	0·21	0·21	..
TOTAL WORKING EXPENSES	1716·09	1718 57	+2·48	1815·31	1828·30	+12·99
NET TRAFFIC RECEIPTS	239 73	317·54	+77·81	276 13	281 94	+5·81
Net Miscellaneous Expenditure .	23·15	21·27	—1 88	24 12	24·12	..
Total expenditure	1739 24	1739 84	+0·60	1839·43	1852·42	+12·99
Net Railway Revenue	216·58	296·27	+79·69	252·01	257·82	+5·81
Dividend to General Revenues	1207·60	208·94	+1 34	225 56	225 32	—0·24
Net Surplus (+)/Shortfall (—) .	+8 98	+87 33	..	+26·45	+32 50	..
Operating Ratio . . .	87·7%	84 4%	..	86 8%	86 6%	..

*Supplement to Explanatory Memorandum (1977-78)—P. 1.

2. The Committee observe that during 1976-77 the financial performance of the Railways registered a marked improvement over the previous two years. As against a nominal surplus of Rs. 8.98 crores anticipated in the budget, the latest actuals indicate a net surplus of the order of Rs. 87.33 crores during the year. On the other hand, the Railways had closed the financial years 1974-75 and 1975-76 with a net deficit of Rs. 113.82 crores and Rs. 61.11 crores respectively. The Committee note with gratification that the budget estimates for 1977-78 presented in June, 1977 envisage a net surplus of Rs. 32.50 crores as against Rs. 26.45 crores projected in the Interim Budget presented in March, 1977.

3. The Committee further note that Railways' indebtedness to General Revenues under Development Fund and Revenue Reserve Fund has increased from Rs. 208.01 crores at the end of 1973-74 (i.e. the last year of the Fourth Plan) to Rs. 462 crores (approx) to the end of 1976-77. So far as the current year (1977-78) is concerned, the Committee note that in view of the increased surplus expected to be achieved, the Railways' indebtedness to the General Revenues would go down from Rs. 477 crores mentioned in the Interim Budget to about Rs. 417 crores.

4. The Committee thus find that in spite of the Railways having earned a handsome surplus of about Rs. 87.3 crores during 1976-77 and an anticipated surplus of Rs. 32.5 crores in 1977-78, Railways' indebtedness to General Revenues continues to be a matter of great concern. Needless to say, it would need several years of sustained efforts on the part of the Railways to wipe off the liabilities that they have accumulated. The Committee have no doubt that the measures taken to augment the earnings and to keep the working expenses under strict check would continue to be pursued with vigour so that the Railways may no longer have to look to General Finances for budgetary support and they are able to pay back the loans taken from the general exchequer as quickly as possible.

B. Rate of Dividend etc.

5. Keeping in view the present state of Railway finances, the Committee consider that the reliefs recommended by the Railway Convention Committee, 1973 in their Interim, Sixth and Eleventh Reports may continue during the financial years 1977-78 and 1978-79. The Committee accordingly recommend as follows:

(1) The present mode of payment of a fixed dividend on the capital invested in the Railways as computed annually

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

(2) The present manner of fixing the payment of dividend to General Revenues, viz. at fixed percentage of the Capital-at-charge of the Railways excluding the capital of strategic lines and making special provision for certain ore lines, Jammu-Kathua section and Tirunelveli-Kanya Kumari-Trivandrum line etc. May continue during the financial years 1977-78 and 1978-79.

(3) The present arrangement of adopting different rates of dividend on Capital invested in the Railways upto 31st March, 1964 and that invested thereafter, may continue during 1977-78 and 1978-79. The existing rates of dividend at 4.5 per cent of the Capital invested in the Railways upto 31st March, 1964 with an addition of 1 per cent in lieu of the tax on passenger fares and to assist the State Governments in financing the Railway Safety Works and 6 per cent on Capital invested on Railways after 31st March, 1964 may also be retained with the following ancillary provisions, including equitable concessions to the Railways, as below:—

(i) Out of the amount of additional 1 per cent dividend on the Capital invested in the Railways upto 31st March, 1964 a sum of Rs. 16.25 crores may be passed on to the States as payment in lieu of passenger fare tax and the balance utilised to assist the States in providing their portion of the resources required for financing safety works as at present.

(ii) The present arrangement of deducting losses in the working of strategic lines from the payment to General Revenues may also continue during the financial years 1977-78 and 1978-79 with the complementary arrangement that the earnings of such lines, if any, after meeting working expenses, depreciation and other charges may be paid to the General Revenues to the level of normal dividend.

(iii) The present arrangement of exempting the Capital-at-charge of the non-strategic portions of the North-east Frontier Railway, unremunerative branch lines and the element of over-capitalisation from the payment of dividend may continue during 1977-78 and 1978-79.

(iv) The present arrangement of permitting the Railways to take credit for the difference between the dividend rate of 6 per cent and the average borrowing rate at which interest would actually accrue, in respect of their various Fund balances banked with the General Revenues may also be continued during 1977-78 and 1978-79.

(v) The existing arrangement of:

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

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

may be continued during the financial years 1977-78 and 1978-79.

6. In paragraphs 5.79 and 5.80 of their Ninth Report, the Railway Convention Committee, 1973 had observed as follows:—

"In paragraph 16 of their Sixth Report, the Railway Convention Committee had recommended that 50 per cent (instead of 25 per cent as hithertofore) of the capital outlay in the years 1974-75 and 1975-76 on works-in-progress other than those pertaining to strategic lines, North-east Frontier Railway (Commercial), over-capitalisation, ore lines, Jammu-Kathua and Tirunelveli-Kanyakumari-Trivandrum lines, New Lines and P & T line wires, may be exempted from payment of dividend for a period of three years. This recommendation has since been approved by Parliament.

Having regard to the difficult financial position of the Railways and also taking into consideration the long period of construction/gestation of Railway investment in general, the Committee recommend that 50 per cent of the outlay on capital works-in-progress, other than those specified above, may continue to remain exempted from payment of dividend for a period of three years in each case, during the entire period of the Fifth Plan i.e. 1974—79."

7. While reiterating the above recommendations, the Committee would like to observe that the exemption from dividend liability

allowed in respect of 50 per cent of the outlay on capital-works in-progress should on no account be taken as a cover for delaying completion of the various projects. The Committee would strongly urge that all on-going capital works schemes should be completed with expedition according to the prescribed schedules.

C. Railway Funds

(a) *Depreciation Reserve Fund*

8. In pursuance of the recommendation made by the Railway Convention Committee 1971 in their First Report on Accounting Matters, Government appointed a Working Group to examine the basis for making provision for depreciation in respect of Railway assets created during the Fourth Plan period and to determine whether it is necessary to create a separate Renewal Reserve Fund to provide for inflationary and improvement elements in the cost of assets. The Working Group have since completed their study and their recommendations have been examined by Government. A statement showing Government's decisions on the Report of the Working Group is given in Appendix I.

9. It will be observed that of the three alternative systems recommended by the Working Group, Government have decided to adopt System II according to which the depreciation requirement in the Fifth Plan would be of the order of Rs. 658 crores. The actual provision of Rs. 650 crores made in the Plan more or less corresponds to this figure.

10. In paragraph 15 of their Eleventh Report, the Railway Convention Committee, 1973 had observed as under:

> "The Committee note that Railways are obliged under a covenant recently entered into with the International Development Association, to make a minimum contribution of Rs. 130 crores per annum to the Depreciation Reserve Fund during the quinquennium 1974-79. Keeping in view the depreciation requirements for 1976-77, the requirements as assessed by the Working Group on Depreciation and the commitment made to the International Development Association, the Committee have no objection to the contribution to the Depreciation Reserve Fund being raised to Rs. 135 crores in 1976-77 as against Rs. 115 crores during each of the first two years of the Fifth Plan."

11. **The Committee note that the Railways will have to make a contribution of Rs. 285 crores towards Depreciation Reserve Fund**

during 1977-78 and 1978-79 in fulfilment of a covenant entered into with the World Bank so as to arrive at an average of Rs. 130 crores per annum during the Fifth Plan period. This would also be in line with the requirements assessed by the Working Group on Depreciation. The Committee have, therefore, no objection to the contribution to the Depreciation Reserve Fund being raised to Rs. 140 crores during 1977-78 and Rs. 145 crores during 1978-79.

(b) *Development Fund*

12. The Development Fund owed a loan liability of Rs. 108.3 crores to the General Revenues as on 31st March, 1974. With further loans of Rs. 21.9 crores in 1974-75 and Rs. 22.3 crores in 1975-76, the loan liability of the Fund at the end of 1975-76 was Rs. 152.5 crores. During the years 1976-77 and 1977-78 withdrawals from the Fund for financing works of development nature are estimated at Rs. 17.5 crores and Rs. 19 crores respectively. As no loans from General Revenues are required, the total loan liability is expected to remain at the level of Rs. 152.5 crores *i.e.*, the same at the end of the preceding two years.

13. In addition to taking loans for financing the works chargeable to the Development Fund, the Railways have been obliged to take loans to pay the interest on these loans, as the Fund did not have resources of its own to meet the interest liability. In accordance with the recommendations of the Railway Convention Committee, 1954, the Railways pay interest at the average borrowing rate chargeable to commercial departments both in respect of the principal and the interest due thereon.

14. The Committee recommend that:

(i) the present provision for temporary borrowing from Central Revenues when the balance in the Development Fund is inadequate to meet its obligations for meeting the expenditure chargeable to the Fund and to pay the interest on loans may be continued in 1977-78 and 1978-79; and

(ii) interest on loans, whether taken to finance the expenditure on development works or to pay the interest on the principal of such loans, should continue to be levied at the average borrowing rate chargeable to Commercial Departments.

(c) *Revenue Reserve Fund*

15. The loan liability of the Revenue Reserve Fund rose from Rs. 249.5 crores at the end of 1974-75 to Rs. 307.5 crores at the end of 1975-76 and Rs. 309.5 crores at the end of 1976-77. The total

liability of the fund to the General Revenues as on 1st March, 1978 is estimated to be of the order of Rs. 264.2 crores.

16. The Railway Convention Committee, 1971 had recommended that when the Railways' net revenue was not adequate to pay dividend to the General Revenues in full to make good the shortfall, the Railways may be permitted to take temporary loans from the General Revenues to meet the full dividend liability and that the interest on such loans to the Revenue Reserve Fund (including the loans for repayment of original loans, or paying interest thereon) should be paid by the Railways at the current borrowing rate which is normally one per cent higher than the average borrowing rate. The Railway Convention Committee, 1973 recommended continuance of these provisions for the years 1974-75, 1975-76 and 1976-77 in their Interim, Sixth and Eleventh Reports respectively.

17. The Committee recommend that the Railways may be permitted to take temporary loans as at present from the General Revenues to meet the full dividend liability when the Railways' net revenue is not adequate to pay the dividend to General Revenues and the Revenue Reserve Fund has no or insufficient balance to make good the shortfall. The interest on such loans may be paid by the Railways at the current borrowing rate during 1977-78 and 1978-79.

(d) *Other Ancilary Matters*

Financing the construction of Staff Quarters

18. In paragraph 6.47 of their Ninth Report on Social Burdens on Indian Railways, the Railway Convention Committee, 1973, had observed as under:

> "So far as the question of financing the Staff Quarters is concerned, the Committee agree with the Railways' suggestion concurred in by the Ministry of Finance, that the cost of construction of staff quarters may be charged to 'Capital' during the Fifth Plan period, dividend on such capital being payable only if the Railways have a surplus after discharging other dividend obligations."

The Committee note that this arrangement has been approved by Parliament for the period 1974—79.

KRISHAN KANT,
Chairman,
Railway Convention Committee.

NEW DELHI;
October 14, 1977.
Asvina 22, 1899 (Saka).

APPENDIX I

(*Vide* para 8)

Note showing Government's decisions on the recommendations of the Working Group on Depreciation.

The Railway Convention Committee (1971), in their recommendations No. 2, 3 and 5 dealing with the Depreciation Reserve Fund, contained in their First Report entitled "Accounting Matters", had suggested that the technique of assessing the depreciation requirements should be refined to avoid the risk of any future under-provision. The Convention Committee had further recommended that Government should constitute a Working Group consisting of experts from Finance, Accounts, Audit and technical disciplines to examine the maintenance of data in respect of assets created in the Fourth Plan and provision of depreciation for the same on a scientific and rational basis. The Committee had also desired that a critical study should be made to determine whether a separate Renewal Reserve Fund should be created out of profits to provide for inflationary and improvement elements in the cost of assets.

In pursuance of these recommendations of the Railway Convention Committee (1971), a Working Group was constituted with the following terms of reference:—

(a) Collection of full details in respect of the assets created during the 4th Plan both with regard to the various types of assets requiring replacement and their distribution in recognised age groups.

(b) Determination of economic life of each type of asset so created taking full account of present day usage and wear and tear.

(c) Nature of records and registers to be maintained in the Railway headquarters for determining depreciation implications in respect of all railway assets during each year.

(d) To determine whether in conformity with accepted principles of accounting, a separate Renewal Reserve Fund should be created out of the profits, if any, to provide for inflationary and improvement elements in the cost of assets.

The Working Group has submitted its report. In brief, the main recommendations of the Working Group are as under:—

(i) The current replacement cost approach should be followed in Railways for purpose of charging depreciation considering the permanent character of Railways and their crucial role in providing infra-structure for development;

(ii) There is no need to create a separate Renewal Reserve Fund in view of recommendation at (i) above;

(iii) There is no fundamental necessity to change the present system of working out the depreciation provision; and

(iv) The Working Group have considered three alternative systems for working out depreciation. They have discarded System I, *i.e.*, maintenance of registers by individual assets or by groups, for reasons of being expensive and cumbersome. They have recommended that if a departure from the existing system is considered essential, either System II or System III may be adopted.

The Ministry of Railways have carefully considered the recommendations and conclusions of the Working Group. The summary of these recommendations and Government's decision thereon is contained in Annexure. Though the Working Group and recommended that the present system of working out the D.R.F. provision need not be altered, yet the Ministry of Railways have decided to adopt System II indicated by the Working Group. The salient features of this system are that the depreciation provision is calculated on the basis of the already available data on wasting railway assets contained in the Block Account. This provision is worked out separately on account of the three constituent elements, viz., (i) the provision based on original cost of the assets, (ii) the provision on account of inflation, and (iii) the provision on account of improvement element. The sum total of these provisions would be the current replacement cost. The Group has also worked out the inflationary element and the improvement proportions applicable for the Fifth Plan. The reasons which have weighed with the Government in accepting the above system are:

(i) It comes closest to the object expressed by the Convention Committee;

(ii) It breaks up the contribution to the Depreciation Fund on a rational and scientific basis into three constituents, namely, depreciation proper, inflationary element and the cost of improvement;

(iii) While the depreciation is proper could be a standing charge related as it is to the lives of assets, the inflationary element and the improvement cost could be up-dated periodically, thereby maintaining the rational and scientific character of the system on a long term basis; and

(iv) It has the added advantage of being the most economical way of working out the cost of renewals and replacement in a given period and its adequacy can be reviewed to coincide with the Plan period.

The amount of contribution to the Depreciation Reserve Fund, as projected in the Fifth Plan, is Rs. 650 crores. The Working Group's assessment for depreciation under System II is Rs. 658 crores which is quite close to the earlier provision.

The Working Group's recommendation that at least 5 per cent of the block value of wasting assets should be maintained as the balance in the Depreciation Reserve Fund to meet the unforeseen exigencies that may be caused by the unpredictable inflationary situation and also due to the rapid strides in the field of technological advancement, has been accepted in principle. The balance in the Fund, from time to time, will, however, depend on the financial position of the Railways.

Annexure

SUMMARY OF CONCLUSIONS & RECOMMENDATIONS

Sl. No.	Conclusions & Recommendations	Government decision
1	The current Replacement Cost approach should be followed in the Railways for the purpose of charging depreciation considering the permanent character of Railways and their crucial role in providing infra-structure for economic development. Accordingly, the estimated inflationery and improvement element will form part of this Replacement Cost.	Accepted.
2	There is no need to create a separate Renewal Reserve Fund in view of (1) above.	Accepted.
3	In the context of above, there is no fundamental necessity to change the present system of working out the provision to DRF based on current Replacement needs.	This is only an observation.
4	However, since the Convention Committee have desired that a separate system should be outlined, the following alternatives were considered :—	
	(*i*) *System I*—Calculation of depreciation provision based on asset registers for each individual asset. Another refinement of the same system would be the adoption of Group Plan System of workidg out depreciation for a given recognised group of assets.	System II as out-lined by the Group should be adopted to work out the contribution to D.R.F.
	(*ii*) *System II*—Calculation of depreciation provision based on the already available data on wasting railway assets contained in the Block Account i. e. working out separately the provision on account of the three elements viz. the provision based on original cost of the assets, the provision on account of inflation, and the provision on account of the improvement element. The sum total of these three provisions would automatically meet the requirements of current replacement cost approach.	
	(*iii*) *System III*—Calculation of depreciation provision based on available data of Railways' wasting assets in terms of physical units under clearly assignable asset groups and estimating their current replacement cost by evaluating them and thus arriving at the provisions for Depreciation Reserve Fund.	
5.	In view of the cumbersomeness of the procedure, as will as substantial recurring expenditure of about Rs. 57 lakhs per annum involved, the Working Group do not recommend the adoption of System I.	Accepted.

Sl. No.	Conclusions & Recommendations	Government's decision
6	The Working Group accordingly recommend the adoption of either System II or System III, if at all it is considered necessary to change the existing procedure.	System II is accepted.
7	The depreciation on assets created between 1969-70 and 1973-74 works out to Rs. 99 crores for the 4th Plan and Rs. 205 crores for the 5th Plan based on current replacement cost approach and applying the factors of inflationary and improvement elements as worked out under System I.	Noted.
8	The total provision to the Depreciation Reserve Fund during the Fifth Plan under the three systems would be as follows :— System I Rs. 730 crores System II Rs. 658 crores System III Rs. 750 crores It is felt that a option of either of the two systems recommended by the Working Group will ensure that there is no serious und r-provisioning or over-provisioning.	The provision for depreciation of Rs. 658 crores under System II is in line with the provision for depreciation made in the 5th Plan of Rs. 650 crores.
9	The Working Group recommends the review of the quantum of provision during the middle of the Fifth Plan in case the rate of inflation warrants it but in any case after every five years.	The provision for depreciation during the Fifth Plan has been worked out by the Working Group recently. The next review of quantum of provision will be made before the beginning of the Sixth Plan.
10.	Considering the importance of the Railway system as an inherent part of infra-structure of the economy as also due to its vast area, volume and complexity of operations, in the interest of prudent financial management, if the financial situation permits, the Working Group recommend maintenance of at least 5% of the block value of wasting assets as the balance in the Depreciation Reserve Fund to meet the unforeseen exigencies which may be caused by the unpredictable inflationary situation as also due to the rapid strides in the field of technological advancement.	Accepted in principle. The balance in the Fund will depend on the financial position of the Railways.
11	The summary of recommendations pertaining to determination of the life of various categories of assets according to the regrouping of assets as recommended by the Working Group is as under :— 1. Bridge works—Steel 80 years. 2. Bridge works—Masonry and cement concrete 100 "	The recommendation wil be examined in all its aspects where after a decision will be taken.

Sl. No.	Conclusions & Recommendations		Government's decision
	3. Structures—Steel	75 Years	
	4. Structures—Masonry and cement concrete	80 ,,	
	5. Rails .	60 ,,	
	6. Points & Crossings .	40 ,,	
	7. Wooden Sleepers . .	16 ,,	
	8. C. I. Sleepers & Fastenings	40 ,,	
	9. Steel trough sleepers and fastenings	40 ,,	
10.	*Plant and Machinery* :		
	I. Machines and Shop Plants :		Years
	(a) Tool Room and Testing Lab. Equipment .		20
	(b) Lathe Planers, drilling boring etc. (2 shifts) .		20
	(c) High precision & special purpose machines (2 shifts) .		20
	(d) Foundry and forge equipment (2 shifts)		25
	(e) Heat Treatment Equipment (3 shifts)		20
	(f) Power Generating Machinery and Switches .		35
	(g) General purpose light Machinery (one shift)		20
	(h) Other Misc. machines		20
	II. (a) Cranes-Steam & Gantry .		30
	(b) Cranes-Diesel & Light mobile		20
	III. Light Mobile Machinery		10
	IV. Construction Machines and Track Maintenance Equipment		15
	V. Station Machinery . .		25
	VI. Misc. Machinery & Equipment		10
11.	Steel Body Coaches . .		25
12.	Light Utilisation Categories of coaches		40
13.	IRS Coaches .		30
14.	EMUs		25
15.	Wagons (4-wheelers)		40
16.	Bogie Wagons		45

Sl. No.	Conclusions & Recommendations	Government's decision
		years
17.	Tank Wagons	45
18.	Steam Locomotives	40
19.	Steam Loco Boilers and Tenders	20
20.	Diesel Locos (Electric/Hydraulic)	36
21.	Diesel Engines	18
22.	Electric Locomotives	36
23.	Shunting Locomotivess	40
24.	Signal Equipment Electrical	25
25.	Signal Equipment Mechanical	25
26.	Control & Telephonic Equipment including Teleprinters	15
27.	Land, Lines and Cables	35
28.	Wireless etc.	15
29.	Overhead Power lines	60
30.	Overhead Traction Lines-contact wires	40
31.	Overhead Traction Lines-Others	60
32.	Underground Cables (Copper)	35
33.	Underground Cables (Aluminimum)	30
34.	Sub-stations	25
35.	Elec. Machinery-Power Plants	20
36.	Elec. Machinery-Others	30

APPENDIX II

(*Vide* para 7 of Introduction)

Summary of the Recommendations of the Railway Convention Committee, 1977

Sl. No	Reference to para No. of Report	Recommendation
1	2	3
1.	2	The Committee observe that during 1976-77 the financial performance of the Railways registered a marked improvement over the previous two years. As against a nominal surplus of Rs. 8.98 crores anticipated in the budget, the latest actuals indicate a net surplus of the order of Rs. 87:33 crores during the year. On the other hand, the Railways had closed the financial years 1974-75 and 1975-76 with a net deficit of Rs. 113.82 crores and Rs. 61.11 crores respectively. The Committee note with gratification that the budget estimates for 1977-78 presented in June, 1977 envisage a net surplus of Rs. 32.50 crores as against Rs. 26.45 crores projected in the Interim Budget presented in March, 1977.
2.	3	The Committee further note that Railways' indebtedness to General Revenues under Development Fund and Revenue Reserve Fund has increased from Rs. 208.01 crores at the end of 1973-74 (*i.e.* the last year of the Fourth Plan) to Rs. 462 crores (approx.) to the end of 1976-77. So far as the current year (1977-78) is concerned, the Committee note that in view of the increased surplus expected to be achieved, the Railways' indebtedness to the General Revenues would go down from Rs. 477 crores mentioned in the Interim Budget to about Rs 417.

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3.	4	The Committee thus find that in spite of the Railways having earned a handsome surplus of about Rs. 87.3 crores during 1976-77 and an anticipated surplus of Rs. 32.5 crores in 1977-78, Railways' indebtedness to General Revenues continues to be a matter of great concern. Needless to say, it would need several years of sustained efforts on the part of the Railways to wipe off the liabilities that they have accumulated. The Committee have no doubt that the measures taken to augment the earnings and to keep the working expenses under strict check would continue to be pursued with vigour so that the Railways may no longer have to look to General Finances for budgetary support and they are able to pay back the loans taken from the general exchequer as quickly as possible.
4.	5	Keeping in view the present state of Railway finances, the Committee consider that the reliefs recommended by the Railway Convention Committee, 1973 in their Interim, Sixth and Eleventh Reports may continue during the financial years 1977-78 and 1978-79. The Committee accordingly recommend as follows: (1) The present mode of payment of a fixed dividend on the capital invested in the Railways as computed annually in lieu of the interest charges plus a small element of contribution to General Revenues, may continue in the interest of financial discipline. (2) The present manner of fixing the payment of dividend to General Revenues, *viz.* at fixed percentage of the Capital at-charge of the Railways excluding the capital of strategic lines and making

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		special provision for certain ore lines, Jammu-Kathua section and Tirunelveli-Kanyakumari Trivandrum line etc. may continue during the financial years 1977-78 and 1978-79.
		(3) The present arrangement of adopting differential rates of dividend on Capital invested in the Railways upto 31st March, 1964 and that invested thereafter, may continue during 1977-78 and 1978-79. The existing rates of dividend at 4.5 per cent of the Capital invested in the Railways upto 31st March, 1964 with an addition of 1 per cent in lieu of the tax on passenger fares and to assist the State Governments in financing the Railway Safety works and 6 per cent on Capital invested on Railways after 31st March, 1964 may also be retained with the following ancillary provisions, including equitable concessions to the Railways, as below:—
		(i) Out of the amount of additional 1 per cent dividend on the Capital invested in the Railways upto 31st March, 1964 a sum of Rs. 16.25 crores may be passed on to the States as payment in lieu of passenger fare tax and the balance utilised to assist the States in providing their portion of the resources required for financing safety works as at present.
		(ii) The present arrangement of deducting losses in the working of strategic lines from the payment to General Revenues may also continue during the financial years 1977-78 and 1978-79 with the complementary arrangement that the earnings of such lines,

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		if any, after meeting working expenses, depreciation and other charges may be paid to the General Revenues to the level of normal dividend.
		(iii) The present arrangement of exempting the Capital-at-charge of the non-strategic portions of the Northeast Frontier Railway, unremunerative branch lines and the element of over-capitalisation from the payment of dividend may continue during 1977-78 and 1978-79.
		(iv) The present arrangement of permitting the Railways to take credit for the difference between the dividend rate of 6 per cent and the average borrowing rate at which interest would actually accrue, in respect of their various Fund balances banked with the General Revenues may also be continued during 1977-78 and 1978-79.
		(v) The existing arrangement of:
		(a) deferring the payment of dividend on the Capital-at-charge of New Lines chargeable at the average rate of interest during the period of their construction as well as for the first five years after their opening; and
		(b) closing the account of deferred dividend on New Lines after a period of 20 years from the date of their opening, extinguishing any liability for deferred dividend not liquidated within that period;
		may be continued during the financial years 1977-78 and 1978-79.

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5.	6	In paragraphs 5.79 and 5.80 of their Ninth Report, the Railway Convention Committee, 1973 had observed as follows:— "In paragraph 16 of their Sixth Report, the Railway Convention Committee had recommended that 50 per cent (instead of 25 per cent as hithertofore) of the capital outlay in the years 1974-75 and 1975-76 on works-in-progress other than those pertaining to strategic lines, north-east Frontier Railway (Commercial), over-capitalisation, ore lines, Jammu-Kathua and Tirunelveli-Kanyakumari-Trivandrum lines, New Lines and P & T line wires, may be exempted from payment of dividend for a period of three years. This recommendation has since been approved by Parliament. Having regard to the difficult financial position of the Railways and also taking into consideration the long period of construction/gestation of Railway investment in general, the Committee recommend that 50 per cent of the outlay on capital works-in-progress, other than those specified above, may continue to remain exempted from payment of dividend for a period of three years in each case, during the entire period of the Fifth Plan, *i.e.*, 1974—79."
6.		While reiterating the above recommendations, the Committee would like to observe that the exemption from dividend liability allowed in respect of 50 per cent of the outlay on capital-works-in-progress should on no account be taken as a cover for delaying completion of the various projects. The Committee would strongly urge that all on-going capital works schemes should

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		be completed with expedition according to the prescribed schedules.
	15	The Committee note that the Railways will have to make a contribution of Rs. 285 crores towards Depreciation Reserve Fund during 1977-78 and 1978-79 in fulfilment of a covenant entered into with the World Bank so as to arrive at an average of Rs. 130 crores per annum during the Fifth Plan period. This would also be in line with the requirements assessed by the Working Group on Depreciation. The Committee have, therefore, no objection to the contribution to the Depreciation Reserve Fund being raised to Rs. 140 crores during 1977-78 and Rs. 145 crores during 1978-79.
		The Committee recommend that:
		(i) the present provision for temporary borrowing from Central Revenues when the balance in the Development Fund is inadequate to meet its obligations for meeting the expenditure chargeable to the Fund and to pay the interest on loans may be continued in 1977-78 and 1978-79; and
		(ii) interest on loans, whether taken to finance the expenditure on development works or to pay the interest on the principal of such loans; should continue to be levied at the average borrowing rate chargeable to Commercial Departments.
	17	The Committee recommend that the Railways may be permitted to take temporary loans as at present from the General Revenues to meet the full dividend liability when the Railways' net

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		revenue is not adequate to pay the dividend to General Revenues and the Revenue Reserve Fund has no or insufficient balance to made good the shortfall. The interest on such loans may be paid by the Railways at the current borrowing rate during 1977-78 and 1978-79.
18 10		In paragraph 6:47 of their Ninth Report on Social Burdens on Indian Railways, the Railway Convention Committee, 1973, had observed as under: "So far as the question of financing the Staff Quarters is concerned, the Committee agree with the Railways' suggestion concurred in by the Ministry of Finance, that the cost of construction of staff quarters may be charged to 'Capital' during the Fifth Plan period, dividend on such capital being payable only if the Railways have a surplus after discharging other dividend obligations." The Committee note that this arrangement has been approved by Parliament for the period 1974—79.

GMGIPMRND—LS I—2052 LS—31-10-77—1600.