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RAILWAY CONVENTION COMMITTEE (2004)

(FOURTEENTH LOK SABHA)

FIRST REPORT
ON
RATE OF DIVIDEND FOR 2004-05 AND OTHER ANCILLARY MATTERS

Presented in Lok Sabha on 21.12.2004

Laid in Rajya Sabha on 21.12.2004

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LOK SABHA SECRETARIAT
NEW DELHI

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RAILWAY CONVENTION COMMITTEE (2004)

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INTRODUCTION

I, the Chairman, Railway Convention Committee (2004), having been authorised by the Committee to present the Report on their behalf, present this First Report on Rate of Dividend payable by the Railway Undertaking to General Revenues and Other Ancillary Matters for the financial year 2004-05.

2. Based on an interim Memorandum submitted by the Ministry of Railways, in consultation with the Ministry of Finance, the Railway Convention Committee (1999), in their Eighth Report, had recommended, purely as an interim measure, that dividend for the year 2003-04 to General Revenues be paid at the rate of 7 per cent irrespective of the year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant-in-lieu of passenger fare tax and contribution for assisting the States for financing safety works during the year 2002-03. The Eighth Report of Railway Convention Committee (1999) was presented to Lok Sabha on 24th July, 2003 and laid in Rajya Sabha the same day. The action taken notes of the Government on the recommendations contained in the Eighth Report were furnished by the Ministry of Railways in January, 2004, which forms Appendix-III to this Report.

3. Another interim Memorandum on Rate of Dividend for the year 2004-05 containing the views of both the Ministries of Railways and Finance was furnished by the Ministry of Railways on 26th December, 2003. Consequent upon early dissolution of 13th Lok Sabha, the Railway Convention Committee (1999) could not take up the Memorandum. With the Constitution of 14th Lok Sabha, the Railway Convention Committee (2004) was constituted on 17th September, 2004. The Committee took up for examination the said Memorandum,

wherein the Ministry of Finance had stated that the existing rates and modalities for determining the dividend payable by the Railways on the investment from General Revenues and subsidy from General Revenues to Railways may continue to be adopted for the year 2004-05. The Ministry of Railways, had however, pleaded for reducing the rate of dividend to 6 percent. Consequently, the Committee took evidence of the Representatives of the Ministry of Finance on 29th October, 2004 and that of the Ministry of Railways on 16th November, 2004. The Committee wish to express their thanks to the Representatives of both the Ministries for placing before them their views and for furnishing information the Committee desired in connection with the examination of the subject.

4. After considering the Interim Memorandum and the oral and written submissions made before them by the Ministries, the Committee have recommended, purely as an interim measure, that dividend to General Revenues for the year 2004-05 may be paid at the rate of 6.5 per cent on the entire capital invested on Railways from the General Revenues irrespective of the year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the year 2003-04. All other concessions now available are also allowed to continue on the existing basis for the year 2004-05.

5. The Committee considered and adopted this Report at their sitting held on 16th December, 2004. The Minutes of the sittings of the Committee are appended to the Report in Part – II.

New Delhi ;
16th December, 2003
25 Agrahayana, 1926 (S)

Gingee N Ramachandran
CHAIRMAN
RAILWAY CONVENTION COMMITTEE

REPORT

I. GENESIS OF SEPARATION OF RAILWAY FINANCE

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

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

II. GUIDING PRINCIPLE OF RATE OF DIVIDEND

3. One of the basic principles enunciated by the first Convention Committee set up in April, 1949 after Independence was the fixation of a definite rate of dividend which included an element of contribution to the General Revenues over and above the bare interest paid by the Government on the Capital provided for Railways. This principle was enunciated on the consideration that, in essence, the general tax payer is the owner and sole shareholder of the

Undertaking. This principle of the rate of dividend being higher than the average borrowing rate of interest paid by the Government was followed by the successive Railway Convention Committees up to the year 1981-82. From 1981-82 onwards keeping in view the financial health of the Railways, the rate of dividend has been fixed by the Convention Committee at a level lower than the average borrowing rate of interest.

III. FINANCIAL STRUCTURE OF INDIAN RAILWAYS

4. The financial arrangements between the Railways and the General Revenues have been reviewed from time to time and modifications/changes carried out to meet the requirements of the changing times. As a result, the Ministry of Railways have been delegated with substantial administrative and financial powers relating to all Railway matters. The Railways have their own independent and integrated financial set up, viz ;

i) Railway Budget is presented and voted by the Parliament separately, independent of General Budget.

ii) Railway Ministry enjoy substantial powers of financial sanction to incur expenditure.

iii) Accounts are maintained by the Railways' own accounting cadres.

iv) Railway projects are also free from clearance by Public Investment Board as it is not for the projects of other Ministries. Once the survey reports become available, these are thoroughly scrutinised in the Railway Board and those which show some potential are recommended to the Planning Commission for consideration. For projects costing up to Rs. 100 crore, Planning Commission is required to concur before the work can be included in the Budget. For works costing over Rs. 100 crore the Planning Commission prepares an appraisal note which is then considered by an Expanded Board consisting of Members of the Railway Board and Secretaries of the Ministry of Finance (Expenditure), Planning Commission and the Department of Programme Implementation. The proposals for projects are then sent to the Cabinet Committee on Economic Affairs (CCEA) for approval with the recommendations of the Expanded Board, and once CCEA approves, the projects are included in the Railway Budget for seeking the approval of the Parliament.

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

5. The Railways' revenue receipts are derived from the Gross Traffic Receipts, viz., passenger earnings, goods earnings and sundry other earnings. The expenditure of the Railways falls in the following two categories:-

i) Revenue expenditure or non-Plan expenditure : This expenditure is met out of the revenue receipts of the Railways. It consists of ordinary working expenses of Railways, -- appropriations to the various reserve funds and other miscellaneous expenditure like subsidy/rebate to worked lines, expenditure on miscellaneous establishments, etc.

ii) Other expenditure or Plan expenditure : The Plan expenditure is financed from budgetary support provided by the General Revenues, and withdrawals from various Railway Funds, including Capital Fund, and the market borrowings.

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

7. In pursuance of the Resolution adopted by both the Houses of Parliament, the Railway Convention Committee was constituted on 17th September, 2004 to review the rate of dividend payable by the Railway Undertaking to General Revenues, as well as other ancillary matters in

connection with the Railway Finance *vis-à-vis* General Finance and to make recommendations thereon.

(A). Determining The Rate Of Dividend Prior To Presentation Of Railway Budget

8. The Committee generally present their Report on 'Rate of Dividend' during the Budget Session of Parliament and their recommendations are reflected in the Railway Budget. The Memorandum on 'Rate of Dividend' payable to General Revenues' is submitted to the Committee by the Ministry of Railways after obtaining the comments/concurrence of the Ministry of Finance. However, due to early dissolution of 13th Lok Sabha in February, 2004 the Report on Rate of Dividend for 2004-05 could not be presented.

(B) Capital-At-Charge Of The Indian Railways

9. Capital-at-charge means Capital contributed to the Indian Railways by General Revenues in the form of interest bearing loan capital, except that part of it on which no dividend is payable on the basis of reliefs recommended by successive Convention Committees and approved by Parliament. The Capital-at-charge of the Indian Railways has increased from Rs.827 crore in 1950-51 to Rs.45701.91 crore in 2003-04 (RE)and Rs.50161.13 crore in 2004-05(BE). This amount excludes Capital outlay on Metropolitan Transport Projects (MTP) and Circular Railway (Calcutta). The Capital outlay on MTP at Mumbai, Kolkata, Delhi, Secunderabad and Chennai is Rs.3494.18 crore in 2003-04 (RE) and that of Circular Railway (Kolkata) is Rs.450.00 crore in 2003-04(RE).

(C). Dividend Paid

10. The annual dividend payable to General Revenues used to be less than Rs.100 crore till 31 March, 1964 but increased to Rs.3087 crore by 2003-04 In all, the Railways have paid so

far to the General Revenues an amount of Rs. 36709 crore as Dividend. It comes to 80.38 per cent of the Capital-at-charge on Indian Railways. However, the Ministry of Finance had permitted deferment of payment of dividend to the tune of Rs.1000 crore in 2001-02 together with Rs.1823 crore deferred in 2000-01 i.e., the total outstanding liability works out to Rs.2823 crore by the end of 2001-02. The Ministry of Railways (Railway Board) have repaid Rs.300 crore by end of 2003-04.

Statement showing important financial figures in respect of Indian Railways is at Appendix – I.

(D). Payment Of Dividend To General Revenues

11. The Railway Convention Committee (1999) had, in paras 49 & 50 of their Eighth Report had recommended that as a purely interim measure, the Dividend for the year 2003-04 to General Revenues on the entire capital be paid at the rate of 7 per cent irrespective of the year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting States for financing safety works during the financial year 2002-03. All other concessions as already available on residential buildings, new lines, subsidies from General Revenues, etc. were also allowed to continue on the existing basis for the year 2003-04.

(E) Present State of Railway Finances

12. With regard to the financial position of Railways, the Ministry of Railways, in their interim Memorandum submitted to the Committee (1999) on 26th December 2003 and a statement showing updation of figure contained in the Memorandum submitted to the Committee (2004) on 11th November, 2004, stated as under:-

> " Due to vigorous efforts made, financial position of the Railways has begun to show some signs of improvement. As a result, the Railways repaid the loan of Rs.249 crore in 2001-02 that was taken from the General Exchequer in

2000-01 for Plan needs. Besides paying the full dividend for 2002-03, the Railways have also cleared the deferred dividend liability to the extent of Rs.50 crore in 2002-03. The position, however, is far from satisfactory and the Railways are striving hard to come out of the financial crisis faced in the previous years.

While the Railways have been able to arrest the growth rate of working expenditure in the recent years, they are finding it difficult to augment the earnings to the desired level due to stiff competition from the road sector. The Railways at present are making all out efforts to find adequate resources to take care of its modernization, developmental and expansion programme, which may cost over Rs.30000 crore to retain its status as the prime mover of the country. Resources are also, required for safety related renewals of over-aged assets. Despite the recommendations of an inter-Ministerial group, the Railways are yet to be compensated for their social service obligations.

There has also been increase in non-payment of Railways' dues by the Railway users, particularly the State Electricity Boards. The balance of outstanding payments is approx. Rs.2979 crore as on 30.9.2004 Railways' resources become an interest-free working capital resource for the cash strapped State Electricity Boards. Persistent accumulation to the Railways' outstanding dues has adversely affected the Railways' financial performance. This also reduces the internal resources generated leading to reduced availability for Railways Plan expenditure. The shortfall then has to be met through market borrowings or by augmented budgetary support. The annual financial projections of the Railways also go awry as clearance of outstanding dues anticipated in the Budget Estimates do not materialise.

Besides carrying a liability of Rs.2773 crore towards General Exchequer on account of dividend deferred in 2000-01 and 2001-02, the Railways are also required to extend financial assistance to the Konkan Railway Corporation (KRCL). KRCL has been set up with an investment of Rs.3500 crore. Out of this, about Rs.2500 crore was borrowed from market on the strength of letters of comfort issued by the Ministry of Railways. After commissioning, while KRCL has been able to generate revenue just sufficient to cover its operating expenses, it has not been able to service the interest and debt liability. As a result, Ministry of Railways has had to extend support to KRCL by way of loans. As of 31.3.2004 this Ministry has lent Rs.1950 on this account. Though the need for financial restructuring has been admitted by Ministry of Finance, no workable solution has been evolved so far."

13. With regard to the performance of the Railways for the year 2003-04, the Ministry of Railways further submitted as follows:

"The earnings of the Railways in the current year have so far fallen short of the budgeted expectations. The shortfall is seen in all stream of traffic. Approximates to end of March, 2004 show a shortfall of Rs. 603 crore in the overall earnings position as compared to the proportionate target. The freight loading target for the current fiscal has been kept at 540 mt. To end of March, 2004 Railways have been able to achieve a freight loading of 557.39 mt which is 17.39 mt more than the target for the year. Despite achieving higher loading the freight earnings, however, are lower than the proportionate target to end of March, 2004 by Rs. 197 crore due to decrease in yield per million tonnes. The passenger earnings are short of the target by Rs. 322 crore to end of March, 2004. The other coaching earnings and sundry earnings have also registered an overall shortfall of Rs.84 crore. The working expenses on the other hand, are showing a savings of around Rs. 1824 crore making the net position favourable by Rs. 12.21 crore. But, with the normal end of the year adjustments and possible post-budgetary factors like increase in rate of HSD oil and electricity tariffs etc., it is doubtful that this present position will be sustained.".

(F). Issue of Rate Of Dividend for the year 2004-05

14. Keeping in view the financial position of Railways as indicated in aforesaid paragraphs the Ministry of Railways have proposed as under :

"The budgetary support provided to the Railways from the General Exchequer is sourced from the borrowings of the Government of India. Over the last few years the average cost of such borrowings has been decreasing consistently. The Government of India's average cost of borrowings, which was around 12% for 1998-99, has reduced to about 7% for 2002-03. In the current financial year also, this low rate of interest continues to prevail.

Given this and the fact that Railways have to keep investing for improving infrastructure, it is submitted for the consideration of the Committee that the rate of dividend, which at present is 7% on the entire capital invested on the Railways (excluding Metropolitan projects) irrespective of the year of investment, may be brought down to 6% for the year 2004-05. Other modalities for determining the dividend as brought out in Appendix-II may continue to be adopted for the year 2004-05. All concession now available, as listed therein may also be allowed to continue for the year 2004-05".

15. In this connection, while pleading in favour of reduction in the rate of dividend, the Chairman (Railway Board), during evidence submitted as under:

"….huge funds are required for replacement and renewal. Whatever is our internal generation, out of that only, we appropriate to the Depreciation Reserve Fund (DRF). ……in October, 2001 we approached the Honble Prime Minister and informed him that, by that time, we had accumulated heavy arrears of the replacement of over-aged assets. Here assets mean the tracks, bridges, signals, rolling-stocks, etc. That was the arrear of more than 12 years. A Special Railway Safety Fund (SRFS) of Rs.17000 crore was created for that purpose. Rs.12000 crore of it is coming as a grant, and Rs.5000 crore we have to raise by way of safety surcharge. Our progress in the first four years, including the year

2004-05, has been very good. We have been able to wipe out a lot of arrears of tracks and bridges. We will be getting funds from the SRSF for two more years. But after that, we have given a commitment that we will clear it through our DRF, For that, DRF will have to apportion money out of our internal generation and unless we are able to generate enough internal generation, it will not be possible to meet the requirements of the DRF."

He further added:

"We had gone in for the Corporate Safety Plan for ten years. The total expenditure for this Plan is Rs.31,800 crore. For that, we are getting something from the SRSF, something from the normal budgetary support and internal generation. But, still, there is an unbridged gap of nearly Rs.10,000 crore. That we are trying to make up only by internal generation."

16. In this connection, the Ministry of Railways have also forwarded the following views of the Ministry of Finance:-

"While it is correct that the average cost of borrowings of the Government of India, which was around 11.86 per cent in 1998-99 has came down to 7.34 per cent in 2002-03, the weighted average cost of all outstanding debt of the Government continues to be 10.84 per cent. Although Railways pay a dividend of 7 per cent on entire capital at charge if the subsidies and concessions extended to Railways on strategic lines, unremunerative Railway lines, link lines taken up on other than financial consideration, Metropolitan Projects etc. are taken into account, the effective rate of dividend works out to only about 3.8 per cent, which is much lower than Government of India's cost of borrowing. In addition, not only do the Railways enjoy tax free concessional capital, they do not return the capital invested from General Revenues.

In view of this and the fact that reduction in rate of dividend will have adverse impact on revenue receipts of the Government and consequently revenue deficit, which the Government is committed to eliminate by 2008, it is essential that Railways continue to pay dividend at the rate of 7 per cent on capital invested from General Revenues."

17. The Secretary (Expenditure), Ministry of Finance, while deposing before the Committee, submitted as under:-

"In the last 5 years, average cost of borrowing has declined from an average of 12 per cent to an average of 9.4 per cent in the current year. The Railways have mentioned that our rate of interest on borrowings has declined to 6.5. per cent, which is not correct. What they are mentioning is about the market borrowings. We have also borrowed from the public accounts and that rate is much higher. Therefore, the average cost of borrowing of the Government of India is 9.4 per cent. It is not what the Railways have mentioned in their memorandum".

He further added:

> "The dividend which the Railways pay to the Government of India on the budgetary support which we provide to them is not on the entire budgetary support which we give to them. There is certain capital expenditure which is exempted from payment of dividend. The entire capital expenditure incurred on lines, ferries, new lines, and strategic lines is excluded from payment of dividend. The total capital charge is of the order of Rs.59,000 crore in the current year. If we calculate at 7 per cent, which the RCC approved last year, the total dividend will work out to about Rs.3500 crore. If we exclude those lines, it works out to Rs.2241 crore. On the total capital charge of Rs.59000 crore, the dividend which they ultimately pay to the Government of India is about Rs.2241 crore, which works out to only 3.8 per cent of the total expenditure which has been incurred by the Railways on the money provided by the Government of India."

18. With regard to the budgetary support provided to the Ministry of Railways, the Secretary (Expenditure), Ministry of Finance, submitted the following:-

> "The dividend in 1999-2000, I am talking of a five-year figure, has doubled from about Rs.1100 crore to about Rs.2200 crore. It has increased 100 per cent. However, during the same time, the budgetary support to the Railways for capital expenditure has increased by 300 per cent. The budgetary support which we provided to the Railways in 1999-2000 was Rs.2788 crore and, in the current year, the estimated capital expenditure by the Railways from the budgetary support provided by us is Rs.8457 crore.."

19. Asked to give his suggestions for improving the financial performance of Indian Railways, the Secretary (Expenditure), Ministry of Finance stated as follows:-

> "The Railways is a commercial organisation. Most of its capital expenditure should normally met from its own earnings like any other PSU does, but we have been providing this support from time to time because we realise that this is an important infrastructural area and, therefore, the Government must provide support to the Railways. It is for this reason that we have been increasing the budgetary support to the Railways from time to time. We have been requesting repeatedly that the Railways must index the fares and freight rates to staff and fuel costs. They have not been able to increase fares taking into account the staff and fuel costs. If they do that, their financial performance will improve from time to time. But they have not been indexing the staff and fuel costs as far as their fares and freight rates are concerned. This suggestion we have been making from time to time to the Railway Ministry but the Ministry has not accepted it so far."

20. The Ministry of Railways (Railway Board) while commenting on the above views of Ministry of Finance have submitted the following for consideration of the Committee :

> "With regard to the observations made by the Ministry of Finance, this Ministry still feels that there is a case for lowering the existing rate of dividend in view of the Railway's financial position, in adequacy of Budgetary Support in fully meeting the Railway's plan needs, non-clearance of Railways dues of over Rs.3030 crore (as on 30.09.03) by the Railway users, particularly, the State Electricity Boards and the social burden of more than Rs.2100 crore per annum which the Railways has to bear without any compensation from the General Exchequer. When the overall interest rates are on the decline, the benefit of the same should be passed on to the Railways also. Thus, the rate of dividend be reduced from the existing 7% to 6%.."

Funds of Railways

(A) Depreciation Reserve Fund (DRF)

21. Depreciation Reserve Fund (DRF) has been created to meet the expenditure on replacement and renewal of over aged assets including inflationary and improvement elements. Appropriation to this fund is met from out of revenues.

22. While approving the proposal of the Ministry of Railways regarding appropriation to be made to the Depreciation Reserve Fund in 2003-04, the Railway Convention Committee (1999) in their Eight Report, had recommended as under:

> "The contribution to DRF may be allowed to be made in consonance with the capacity of the system to generate internal resources and they desire to be kept informed of the actual amount of contribution made to DRF in the fiscal year 2003-04".

23. In this connection, the Ministry of Railways have submitted the following:-

> "An amount of Rs. 2976 crore consisting of Rs. 2868 crore from Revenues and Rs. 100 crore from Production Units were appropriated to the DRF in 2003-04 . In the Budget Estimates 2004-05, the appropriation to DRF has been kept at Rs. 2267 crore and Rs. 100 crore respectively, from the Revenue and Production Units. The balance in the DRF is estimated to be Rs. 2587 crore at the end of the financial year 2004-05". The actual amount of contribution made to DRF in the fiscal 2004-05 will be intimated to the Committee in due course.

24. On this proposal of Railways, the Ministry of Finance have observed that appropriation to the DRF may be made in consonance with the capacity to generate internal resources and Plan requirement.

(B) Pension Fund (PF)

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

26. The Railway Convention Committee (1999) in their Eighth Report, while approving the proposal of the Ministry of Railways regarding contribution to be made to Pension Fund in 2003-04, had recommended as under :

> "The appropriation to Pension Fund from revenues may be enhanced to Rs. 6300 crore in 2003-04, subject to adjustments keeping in view any variations of the estimated withdrawal during the course of the year. This, together with appropriation of Rs. 200 crore from Production Units will enable the Railways to meet the pension requirement of Rs. 6500 crore during the year".

27. Regarding the Pension Fund, the Ministry of Railways in their interim Memorandum, have submitted the following for consideration of the Committee :

> "An amount of Rs.6500 crore consisting of Rs.6400 crore from Revenues and Rs.100 crore from Production Unit was appropriated to the Pension Fund in 2003-04. In the Budget Estimates 2004-05, the appropriation to the Pension Fund have been kept at Rs.6300 crore and Rs.100 crore respectively from Revenues and production units. The balance in the Pension Fund is estimated to be Rs.1262 crore at the end of the financial year 2004-05.
>
> Pension liability is likely to be around Rs. 6400 crore in the year 2004-05. It is, therefore, submitted for the consideration of the Committee that the appropriation to Pension Fund from revenues may be kept to Rs. 6400 crore in 2004-05, subject to adjustments. This, together with appropriation of Rs. 100 crore from Production Units will enable the Railways to meet the Pension requirement during the year."

28. In regard to this proposal of the Ministry of Railways, the Ministry of Finance have observed that appropriation to Pension Fund in 2004-05 could be based on the trends of actual expenditure in last few years.

(C). Development Fund (DF)

29. This fund has four segments and is used for meeting expenditure on

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

The appropriation to the Fund is made out of the 'Excess' left after meeting the dividend liability. Whenever the 'Excess' is not sufficient, the Railways may borrow money from the General Revenues as per the recommendation of the Railway Convention Committee, 1954. The money borrowed, together with the interest thereon, has to be repaid in subsequent years.

30. The Ministry of Railways in their Memorandum, have apprised the Committee that in the Budget Estimates 2004-05, the appropriation to this fund has been kept at Rs. 715 crore.

31. The Ministry of Finance have also agreed that appropriation to Development Fund may be made out of excess left after meeting the dividend liability.

(D). Capital Fund (CF)

32. As approved by the Railway Conventin Committee (1991) vide their Third Report, the Capital Fund was created with effect from 1992-93, with the express prupose of financing part of the requirement for works of a capital nature. After

providing for appropriation to Development Fund, the balance of 'Excess' is appropriated to the Capital Fund. Since the Railways are not able to generate enough internal resources for being appropriated to the Capital Fund, the same has been kept inoperative. No appropriation of funds is proposed for 2004-05.

(E) Railway Safety Fund (RSF)

33. As recommended by the Railway Convention Committee (1999) vide their Second Report, the Railway Safety Fund has been created with effect from 1.4.2001. This fund has been created for financing works relating to conversion of unmanned level crossings and for construction of Railway over/under bridges at busy level crossings. The Fund is currently financed through transfer of funds by the Central Government from the Central Road Fund (out of diesel cess), as well as the contribution that was being made to the Railway Safety Works Fund(RSWF) out of the dividend being paid by the Ministry of Railways to the General Revenues. Apart from this amounts can also be appropriated out of Railway revenues, i.e., out of the 'Excess' left after payment of dividend to General Revenues.

34. The Ministry of Railways, in their interim Memorandum, submitted the following :-

> "In BE 2003-04, an appropriation of Rs. 436 crore has been made to the Fund, consisting of Rs. 433 crore transferred by the Central Government from the Central Road Fund and Rs. 2.74 crore worked out as contribution that was supposed to be made for the RSWF out of the Dividend.
>
> The appropriation to this Fund in 2004-05 will consist of the amount of transfer from the Central Road Fund to be intimated by the Central Government later while finalizing the Budget Estimates for 2004-05, and the amount that was being credited to the RSWF until 2000-01, calculated as part of the dividend. However, for 2004-05(BE), the appropriation to RSF is Rs.404 crore."

(F) Special Railway Safety Fund :

35. Regarding Special Railway Safety Fund, the Ministry of Railways, in their interim Memorandum have submitted as follows:

> "In pursuance of the Railway Safety Review Committee (1998)'s recommendation that the Central Government should provide a one time grant to the Railways so that arrears in the renewal of vital safety equipment are wiped out within a fixed time frame of 5 to 7 years, the Government has decided to set up a non-lapsable Special Railway Safety Fund w.e.f., 1.10.2001. The cost of replacement of the over-aged assets to be replaced from the fund has been assessed as Rs,. 17000 crore inclusive of provision for inflation for the period of execution. The Special Railway Safety Fund is funded mainly through two sources viz., (1) Railways' contribution through the levy of Safety Surcharge on passenger traffic and (2) through additional financial assistance to be given by the Ministry of Finance.
>
> It was expected that with the levy of the Safety Surcharge, the Railways would be able to raise Rs. 5000 crore over a period of 6 years starting from 2001-02, which will be credited to the newly created non-lapsable Special Railway Safety Fund. The remaining Rs. 12000 crore would be provided by the Ministry of Finance. So far, the annual contribution from the General Exchequer as also the surcharge collection have been less than what was envisaged when the fund was planned. The expenditure however has been more than was initially budgeted. The shortfalls have been made good from Railway revenues.
>
> An amount of Rs. 2594 crore consisting of Rs. 1600 crore contributed by the Ministry of Finance and Rs. 994 crore being the Railways' share, has been appropriated to the fund in 2003-04.
>
> As per BE 2004-05, the appropriation to this fund would be Rs. 2933 crore, consisting of Rs. 2075 crore contributed by the Ministry of Finance and Rs. 858 crore being the expected surcharge on passenger fares".

(G) Other Issues

36. In regard to **Udhampur-Srinagar-Baramullah, new line project,** the Ministry of Railways, in their interim memorandum submitted as follows:-

> "Government has since decided to finance certain national railway projects by providing budgetary support outside the Railway Plan. The capital so employed from the General Revenue on these projects would be free from dividend payment. The first such project is Udhampur-Srinagar-Baramullah, New Line Project that has been taken up at a cost of around Rs.3600 crore to be completed by 15.8.2007. The Government has extended additional budgetary

support of Rs.350 crore and Rs.500 crore in 2002-03 and 2003-04 (BE), respectively, for this project."

37. With regard to **computation of rate of dividend on Capital-at-Charge of the New Lines,** the Ministry of Railways have submitted the following in their interim memorandum :-

> "With a view to encouraging the Railways to undertake construction of new lines, the RCC of 1954, upheld by the successive RCCs, recommended that the dividend on the Capital-at-Charge of these new lines should be computed at a lesser rate viz., the average borrowing rate charged to the commercial departments, and a moratorium should be granted in respect of the dividend payable on the capital invested on the new lines during the period of construction and up to the end of the Fifth year of their opening for traffic. The deferred amount is to be repaid from the Sixth year onwards, only if the net income of the new lines left a surplus after payment of the current dividend. The account of deferred dividend on new lines is closed after a period of 20 years from the date of their opening, extinguishing any liability for deferred dividend not liquidated within that period. The dividend on new lines is worked out accordingly.
>
> The above provision was made by the RCC (1954) with a view to helping the Railways by extending concessional rate of dividend on 'investment in new lines' as the average borrowing rate during that period used to be lesser than the rate of dividend. However, the position now is reverse. The average borrowing rate has exceeded the rate of dividend and the very purpose of the recommendation is not being served. It is, therefore, requested that the dividend on the capital at charge of the new lines may be allowed to be computed at the least of the rate of dividend or average borrowing rate charged to the commercial departments."

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

> "We have no objection to the proposal of Railways that dividend on the capital-at-charge of the new lines may be allowed to be computed at the least of the rate of dividend or average borrowing rate charged to the commercial departments. However, the monetary benefit likely to accrue to Railways on this account may be quantified and incorporated in the Memorandum to the RCC."

39. The Ministry of Railways (Railway Board) while commenting on the above views on Ministry of Finance have submitted the following:-

“The total capital-at-charge employed in new lines to end of 2002-03 was Rs.4948 crore. The dividend on it works out to around Rs.533 crore at the average borrowing rate of 12.14%. If the normal rate of dividend of 7% were applied, the dividend on it would have worked out to around Rs.307 crore i.e. a reduction of Rs.226 crore. However, it may be mentioned that on a new basis there would not be any effect, as the subsidy available in payment of dividend on investment in new lines would be reduced by an equal amount, as is presently the case.

The capital-at-charge on new lines that completed the moratorium period in 2002-03 was Rs.170 crore, the dividend on which worked out to around Rs.21 crore at the average borrowing rate. If the normal rate of dividend of 7% were applied, the dividend would have worked out to around Rs.12 crore, thereby reducing the dividend liability by Rs.9 crore. Thus, the real monetary benefit that would have accrued to the Railways in 2002-03 would have been Rs.9 crore had the Railways computed the dividend on new lines at the lesser rate of 7%. The extent of benefit likely to accrue to Railways on this account in further years will depend upon the capital-at-charge on new lines completing the moratorium period on a year-to-year basis.”

40. Regarding Mumbai Urban Transport Project (MUTP), the Ministry of Railways submitted the following for consideration of the Committee:-

“This project envisages upgradation of the rail infrastructure in the city of Mumbai so as to increase its transport capacity and reduce the overcrowding in the suburban rail system. The project is to be executed at an estimated cost of Rs.3125 crore to be shared equally between the Railways and the Govt. of Maharashtra. The World Bank would provide funds to the extent of 50% of the cost partly as a loan and partly as credit. The repayment period for the loan and credit, along with interest and service charge, is 20 years and 35 years respectively. The cost of the project will be recovered by levy of MUTP surcharge, which has been imposed w.e.f. 15.9.2003, from the public using the Mumbai suburban rail system. The proceeds of the revenue generated from the levy of this surcharge will also be shared on a 50:50 basis between Mnistry of Railways and Government of Maharashtra. The Railways’ share of the proceeds from MUTP surcharge will be passed on to the Ministry of Finance towards World Bank loan repayment charges. In the event of slippage/shortfall in any particular year, Ministry of Railways is required to service the loan through its own budgetary resources. For keeping proper accountal of surcharge and payment to Ministry of Finance towards servicing of the loan a ‘Loan Repayment Reserve Fund – Mumbai Suburban Rail System’ is proposed to be created. The proposal has been sent to CGA, Ministry of Finance.”

41. Regarding Rail Vikas Nigam Limited, constituted to execute bankable projects primarily relating to National Rail Vikas Yojana, the Ministry of Railways, in their interim memorandum, furnished the following :

> "National Rail Vikas Yojana, announced on 15th August, 2002 at an estimated cost of Rs.15000 crore has been formally launched on 26th December, 2002. A company named 'Rail Vikas Nigam Limited' has been incorporated under the Companies Act for implementation of various railway projects, and for raising of resources for completion of the same. Strengthening of the Golden Quadrilateral and its diagonals through identified sub-projects costing about Rs.8000 crore will form the major part of this yojana. A part loan of US$ 313.6 million has been approved by ADB. It will be utilized, mainly, for execution of projects covered under the initiative of 'stregthening of Golden Quadrilateral'. Projects under the initiative 'port connectivity' have been identified and resource mobilization for the same is being organised through various public-private partnership initiatives and budgetary support. A debt-servicing/repayment mechanism similar to that of loan for the Mumbai Suburban System is being contemplated. The Committee would be apprised as soon as the modalities are worked out.

42. The Ministry of Railways submitted that the proposal seeking Dividend concession on capital employed in case of gauge conversion works taken up on strategic considerations is still being examined by Ministry of Finance. The same will be submitted to the Committee along with the comments of Ministry of Finance.

(H) Principle governing the rate of interest on the Railway Reserve Funds

43. The Ministry of Railways in their Memorandum have submitted for consideration as under :

> "It is submitted that the recommendations of Railway Convention Committee (1999) in their Eighth Report for the year 2003-04 may be made applicable for 2004-05 also in respect of interest on the balances in the various Railway Funds. According to this, the balances in the various Railway Reserve Funds (other than Development Fund, Railway Safety Fund and Special Railway Safety Fund) may carry the same rate of interest as the rate of dividend. The rate of interest on the balance in Development Fund may be the same as the rate of interest on loan from General Revenues for Development Works. The Railway Safety Fund and the Special Railway Safety Fund are 'interest free' funds".

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

“The existing principle governing interest on various Railway Fund balances placed in the Public Account of India may be allowed to continue during the year 2004-05 also.”

Recommendations

45. Keeping in view the arguments put forth by both the Ministries of Railways and Finance on the issue of rate of dividend, the Committee recommend purely as an interim measure, that for the year 2004-05 dividend to General Revenues be paid at 6.5% on the entire capital invested on Railways from the General Revenues irrespective of the year of investment inclusive of the amount that was payable to States as grants in lieu of the passenger fare tax and contribution for assisting States for safety works during the year 2003-04.

46. All other concessions now available on residential buildings, new lines, subsidies from General Revenues, etc., be allowed to continue on the existing basis for the year 2004-05. The Committee also recommend that the Ministry of Railways should also intimate them in monetary terms these concessions, head-wise, henceforth.

47. The Committee note that for the year 2003-04 an amount of Rs.2976 crore consisting of Rs.2868 crore from revenues and Rs.100 crore from Production Units has been appropriated to Depreciation Reserve Fund (DRF) and in the Budget Estimates 2004-05 the appropriation to DRF has been kept at Rs. 2267 crore and Rs. 100 crore respectively from the Revenue and Production Units. The balance in the DRF is estimated to be Rs. 2587 crore at the end of the financial year 2004-05. The Committee, therefore, recommend that the contribution to DRF may be allowed to be made in consonance with the capacity of the system to generate internal resources and they desire to be kept informed of the actual amount of contribution made to DRF in the fiscal year 2004-05.

48. The Committee observe that the appropriation to the Pension Fund (PF) in 2003-04 was kept at Rs. 6400 crore and Rs. 100 crore respectively from Revenues and Production Units. The balance in the Pension Fund is Rs. 1598 crore at the end of the financial year 2003-04. The Ministry of Railways have now proposed that the appropriation to Pension Fund from revenues may be kept at Rs.6300 crore in 2004-05 subject to adjustments. The Committee, while agreeing with the proposal of the Ministry of Railways, recommend that the appropriation to Pension Fund from Revenues be kept at Rs.6300 crore in 2004-05, subject to adjustments and keeping in view any variations of the estimated withdrawal during the course of the year. This, together with the appropriation of Rs.100 crore from Production Units will enable the Railways to meet the pension requirement of Rs. 6400 crore during the year.

49. The Committee find that during the year 2003-04, the appropriation to Development Fund was kept at Rs. 730 crore. However, for the year 2004-05, the Ministry of Railways have proposed that the appropriation to Development Fund be made out of the excess left after meeting the dividend liability and is kept at Rs.715 crore (BE). Though the Committee approve the proposal of the Ministry of Railways, they desire that the Ministry of Railways should, in their action taken notes, apprise the Committee about the actual amount that will be credited to this Fund at the end of the financial year 2004-05.

50. In regard to the Capital Fund (CF) the Committee agree with the proposal of the Ministry of Railways that since the Railways cannot generate enough internal resources for being appropriated to Capital Fund, they, therefore, recommend that the Fund may not be operated for the present.

51. Keeping in view the fact that the average borrowing rate of Government of India has now exceeded the rate of dividend paid by the Ministry of Railways, the Committee recommend that the dividend on the capital-at-charge of the new lines may be computed

at the least of the rate of dividend or average borrowing rate charged to the commercial departments. Further the Committee desire that the Ministry of Railways should inform them about the exact monetary benefit likely to accrue to Railways on this account, although the extent of such benefit in future years will depend upon the capital-at-charge on the new lines completing the moratorium period.

52. The Committee note that in order to upgrade the rail infrastructure in the city of Mumbai so as to increase its transport capacity and reduce overcrowding suburban rail system, a joint venture project viz. between the Indian Railways and the Government of Maharashtra, Mumbai Urban Transport Project (MUTP) at an estimated cost of Rs.3125 crore has come into existence and the World Bank would also provide to the extent of 50% of the cost partly as a loan and partly as credit. The loan and credit, alongwith interest and service charges will be repaid in 20 years and 35 years respectively. The cost of the project will be recovered from a levy of MUTP surcharge, already imposed w.e.f. 15.9.2003 from the public using Mumbai Suburban Rail System and the revenue generated from this levy would be shared on a 50:50 basis between the Ministry of Railways and Government of Maharashtra. However, the Railways' share from the MUTP surcharge will be passed on to Ministry of Finance towards World Bank loan repayment charges. In order to keep a proper account of surcharge and payment to Ministry of Finance towards the servicing of loan, the Ministry of Railways have now requested the Committee for creation of a new Fund viz. 'Loan Repayment Reserve Fund- Mumbai Suburban Rail System' and proposal for the same has been sent to Ministry of Finance. Keeping in view the above fact, the Committee reserve their views on the matter and desire to have the comments of the Ministry of Finance in this regard.

53. The existing principle governing interest on various Railway Fund balances placed in the Public Accounts of India may be allowed to continue during the year 2004-05 also. The Committee also agree that the balances in the Railway Safety Fund and the Special Railway Safety Fund may be treated as interest free since both these funds have been constituted with the contribution from the General Revenue only.

New Delhi;
16 December, 2004
25 Agrahayana 1926 (S)

Shri Gingee N Ramachandran
Chairman
Railway Convention Committee

APPENDIX I

(Vide Para 12)

STATEMENT SHOWING IMPORTANT FINANCIAL FIGURES IN RESPECT OF INDIAN RAILWAYS FOR THE PERIOD 1950-51 TO 2002-03

(Rs. In Crores)

Year	*Capital at Charge	Investment from Capital Fund	Gross Traffic Receipts	Total working Expenses	Net Revenue	Dividend Paid *	Excess (+) Shortfall (-)	Operating Ratio
1950-51	827.00	0.00	263.01	210.23	47.56	32.51	15.05	81.0
1951-52	850.11	0.00	290.82	224.35	61.75	33.41	28.34	77.0
1952-53	857.38	0.00	270.56	218.17	47.18	33.99	13.19	80.6
1953-54	869.30	0.00	274.29	231.75	86.92	84.36	2.56	84.4
1954-55	901.58	0.00	286.78	236.09	44.06	84.96	9.10	82.3
1955-56	968.98	0.00	316.29	258.22	50.34	36.12	14.22	81.6
1956-57	1071.71	0.00	347.57	279.27	58.38	38.16	20.22	80.3
1957-58	1222.44	0.00	379.78	309.44	57.78	44.40	13.38	81.5
1958-59	1856.69	0.00	390.21	321.44	59.32	50.89	8.93	82.4
1959-60	1432.28	0.00	422.33	334.62	74.55	54.43	20.12	79.2
1960-61	1520.87	0.00	456.80	358.24	87.87	55.86	32.01	78.4
1961-62	1682.98	0.00	500.50	390.51	99.75	75.85	24.40	78.0
1962-63	1896.81	0.00	566.79	429.52	123.32	81.26	42.06	75.8
1963-64	2159.63	0.00	632.21	472.27	145.19	95.95	49.24	74.7
1964-65	2135.12	0.00	660.85	528.11	118.11	101.93	13.18	79.9
1965-66	2680.82	0.00	733.57	583.04	134.84	116.20	18.56	79.5
1966-67	2841.57	0.00	768.78	639.25	114.12	182.39	318.27	83.2
1967-68	2978.03	0.00	818.14	693.80	110.12	141.53	-31.53	84.7
1968-69	3101.27	0.00	898.84	741.93	142.81	150.67	-7.86	82.5
1969-70	3195.51	0.00	951.28	790.02	146.56	156.39	-9.83	83.0
1970-71	3330.78	0.00	1006.69	847.34	144.73	164.58	-19.84	84.2
1971-72	3520.99	0.00	1096.59	911.85	169.08	151.24	17.84	83.1
1972-73	3725.81	0.00	1162.42	982.62	164.43	161.51	2.92	84.5

1973-74	3893.38	0.00	1137.89	1066.88	55.41	170.91	-115.51	93.7
1974-75	4105.56	0.00	1408.19	1317.29	73.64	187.47	-113.83	93.5
1975-76	4354.78	0.00	1767.01	1609.62	137.03	198.14	-61.11	91.1
1976-77	4533.70	0.00	2036.11	1718.56	296.29	209.05	87.24	84.4
1977-78	4797.12	0.00	2123.42	1750.12	352.79	226.56	126.23	83.0
1978-79	5023.92	0.00	2151.04	1867.55	260.82	224.16	86.66	87.5
1979-80.	5484.64	0.00	2337.84	2142.38	227.29	293.53	-66.24	91.5
1980-81	6096.35	0.00	2624.02	2536.46	127.49	325.36	-197.87	96.1
1981-82	6698.05	0.00	3538.24	3182.05	408.06	356.47	46.59	89.4
1982-83	7251.09	0.00	43.76.21	3883.35	554.29	485.98	118.31	88.3
1983-84	7567.80	0.00	4986.24	4661.46	378.95	423.70	-44.75	93.9
1984-85	8285.65	0.00	5358.77	4142.17	270.10	465.69	-195.59	96.3
1985-86	9078.07	0.00	2084.16	5828.14	685.87	507.04	178.83	90.6
1986-87	10373.10	0.00	7505.66	6900.56	680.84	578.85	101.99	92.2
1987-88	11622.22	0.00	8435.25	7802.95	723.15	638.86	84.29	92.5
1988-89	12987.51	0.00	9259.29	8632.99	737.33	715.66	21.67	93.0
1989-90	14629.45	0.00	20739.41	9887.73	982.07	808.81	173.26	91.5
1990-91	16125.80	0.00	12096.49	11153.86	1113.78	938.11	175.67	92.0
1991-92	17620.02	0.00	13729.74	12389.19	1540.95	1105.95	435.00	89.5
1992-93	20123.20	0.00	15688.44	13980.08	1955.43	1514.38	441.05	87.4
1993-94	20373.58	1746.99	17946.02	15134.54	3102.13	1296.05	1806.08	82.9
1994-95	21762.92	3161.88	20100.99	16590.12	3808.11	1361.71	2446.40	82.6
1995-96	22247.85	5465.04	22417.85	18524.90	4135.07	1264.44	2870.63	82.5
1996-97	23474.67	7437.10	24319.41	21000.80	3624.46	1507.46	2117.06	86.2
1997-98	25320.28	8526.05	28589.03	25876.03	3024.43	1489.21	1535.22	90.9
1998-99	27312.84	9516.50	29619.46	27834.60	2141.16	1742.08	399.08	93.3
1999-2000	29655.31	10116.75	32938.81	30843.99	2735.67	1889.78	845.89	93.3
2000-2001	32661.88	10390.00	34880.48	34667.34	1071.23	2130.94	763.59	98.3
2001-2002	36757.52	10389.83	37837.59	36293.21	2337.53	2337.18	1000.35	96.0
2002-03	40709.26	10389.83	41068.22	38025.75	3830.23	2587.40	1115.40	92.3
2003-04(RE)	45701.91	10389.83	42605.00	39327.00	4147.91	2967.91	880.00	92.6

* Dividend paid inclusive of payment of deferred dividend also.

APPENDIX II
(Vide Para 17)

Basis for calculation of Dividend payable to General Revenues as also the subsidy available in payment of Dividend

The rate of dividend on the Capital-at-charge of the Railways and reliefs in dividend and by way of subsidy, based on the recommendations of the Railway Convention Committee (1999) applicable for 2003-04 are as under :-

I. DIVIDEND

(a) The rate of dividend is 7 per cent on the entire Capital invested on the Railways (excl. Metropolitan Projects) irrespective of the year of investment including 1.5% on the Capital invested upto 31.3.1964 (less Capital qualifying for Subsidy) which is to be used for making a contribution of Rs.23.11 cr. for grants to States in lieu of passenger fare tax and the balance amount, if any, to be contributed to the Railway Safety Fund.

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(b) A concessional dividend of 3.5 per cent is payable on the Capital cost of residential buildings.

(c) In respect of the Capital invested on New Lines, excluding the 28 New Lines taken up on or after 1.4.1955 on other than financial considerations, the dividend payable is to be calculated at the average borrowing rate for each year but deferred during the period of construction and the first five years after opening of the lines for traffic, the deferred liability is to be paid out of the future surpluses of the line after payment of current dividend. The account of unliquidated deferred dividend liability on New Lines is to be closed after a period of 20 years from the date of their opening, extinguishing any liability not liquidated within that period.

(d) Losses in the working of strategic lines are borne by the General Revenues. Surplus, if any, of such lines, after meeting working expenses, depreciation and other charges are paid to General Revenues upto the level of normal dividend.

(e) Shortfall, if any, in the payment of dividend on account of inadequacy of net revenue is treated as a deferred liability on which no interest is charged.

II. SUBSIDY FROM GENERAL REVENUES

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

(a) Strategic lines.

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

(c) Northeast Frontier Railway (Non-strategic portion).

(d) Unremunerative Branch Lines subject to their unremunerativeness being established on the marginal cost principle in each case through an annual review of their financial results.

(e) The Ore Lines between Bimalgarh-Kiriburu and Sambalpur-Titlagarh.

(f) Ferries and Welfare buildings.

(g) 50% of the capital invested on all works in the current year and in the two previous years, excluding capital invested in strategic lines, Northeast Frontier Railway (Commercial), Ore Lines, Jammu-Kathua and Tirunelveli-Kanya Kumari-Trivandrum Lines, Ferries and Welfare buildings and unremunerative branch lines which qualify in full for subsidy, capital invested in New Lines on which the dividend payable is deferred during the period of construction and the first five years after opening of the lines for traffic, and the capital cost of lines wires taken over from the P&T Department.

APPENDIX - III

(Vide Para 2 of Introduction)

Statement showing the recommendations contained in the Eighth Report of the Railway Convention Committee (1999) on Rate of Dividend for 2003 - 2004 and other Ancillary Matters and action taken thereon

Sl. No.	Para No.	Recommendation	Action Taken by Government
1	2	3	4
1.	49	The Committee find that the financial position of the Railways during the preceding years have slightly improved and they are of the opinion that the Railways ought to pay a dividend at an enhanced rate but at the same time more financial assistance be given to the Railways for safety improvement of Rail operations particularly in view of increase in number of Rail Accidents. However, after considering the views put forth by both the Ministries of Railways and Finance on the issue of rate of dividend during the evidence and also keeping in view the increased operational cost and due to certaino other factors beyond the control of Railways, the Committee recommend as a purely interim measure, that for the year 2003-04 dividend to General Revenues be paid at 7% on the entire capital invested on Railways from the General Revenues irrespective of the year of investment inclusive of the amount that was payable to States as grants in lieu of the passenger fare tax and contribution for assisting States for safety works during the year 2002-03.	The recommendation has been given effect to while working out the Budget Estimates of dividend payable for 2003-04.
2.	50	All other concessions now available on residential buildings, new lines, subsidies from General Revenues, etc., be allowed to	The recommendation has been given effect to while working out the Budget Estimates of dividend payable for 2003-04.

		continue on the existing basis for the year 2003-04.	
3.	51	The Committee find that Dividend for the years 2000-01 and 2001-02 to the tune of Rs.2823 crore was deferred for payment and the Ministry of Railways have made a provision of marginal Rs.50 cr. in their Budget to discharge their liability during this year. The Committee desire that the Ministry of Railways should make all possible efforts to pay back the balance amount of their deferred dividend liability within three years period.	The Parliament has since approved the above recommendation with modification of three years' This Ministry will make every endeavour to extnguish this liability within the above time frame. In the Revised Estimates for the current year i.e. 2003-04, the Ministry has made provision of Rs.300 cr. towards payment of deferred dividend liability.
4.	52	The Committee note that an amount of Rs. 2100 crore consisting of Rs. 2000 crore from Revenues and Rs. 100 crore from Production Units were appropriated to the Depreciation Reserve Fund (DRF) in 2001-02. In the Budget Estimates 2002-03, the appropriation to DRF has been kept at Rs. 1978 crore and Rs. 100 crore respectively from the Revenue and Production Units. The balance in the DRF is estimated to be Rs. 465 crore at the end of the financial year 2002-03. They, however, find that for the year 2003-04 (BE), an amount of Rs.2005 crore has been appropriated to this Fund. The Committee, therefore, recommend that the contribution to DRF may be allowed to be made in consonance with the capacity of the system to generate internal resources and they desire to be kept informed of the actual amount of contribution made to DRF in the fiscal 2003-04.	The actual appropriation to the Depreciation Reserve Fund (DRF) in 2002-03 was Rs.2504.60 crore and the balance in DRF to end of the financial year 2002-03 came to Rs.1753.44 crore. In the Budget Estimates 2003-04, the appropriation to DRF has been kept at Rs.2005 crore and Rs.100 crore respectively, from Revenues and production Units.
5.	53.	The Committee observe that the appropriation to the Pension Fund (PF) in the Budget Estimates 2002-03 have been kept at Rs.	The balance in Pension Fund to end of the financial year 2002-03 came to Rs.1006 crore. In the Budget Estimates 2003-04, the appropriations

		6000 crore and Rs. 200 crore respectively, from Revenues and Production Units. The balance in the Pension Fund is estimated to be Rs. 465 crore at the end of the financial year 2002-03. The Ministry of Railways have now proposed that as the Pension Liability is likely to go upto around Rs.6500 crore in the year 2003-04 due to an increase in the number of pensioners and the sanction of higher dearness relief to pensioners, the appropriation to Pension Fund from revenues may be enhanced to Rs.6300 crore in 2003-04 subject to adjustments. The Committee, while agreeing with the proposal of the Ministry of Railways, recommend that the appropriation to Pension Fund from revenues may be enhanced to Rs.6300 crore in 2003-04, subject to adjustments and keeping in view any variations of the estimated withdrawal during the course of the year. This, together with the appropriation of Rs.200 crore from Production Units will enable the Railways to meet the pension requirement of Rs. 6500 crore during the year.	to the Pension Fund have been kept at Rs.6385 crore and Rs.100 crore respectively, from revenues and Production Units.
6.	54	The Committee find that in the Budget Estimate 2002-03, the appropriation to Development Fund has been kept at Rs. 550 crore. However, for the year 2003-04, the Ministry of Railways have proposed that the appropriation to Development Fund be made out of the excess left after meeting the dividend liability. Though the Committee approve the proposal of the Ministry of Railways, they desire that the Ministry of Railways should, in their action taken notes, apprise the Committee about the actual amount that will be credited to this Fund at the end of the financial year 2003-04.	The balance in the Development Fund to the end of the financial year 2002-03 stands at Rs.70.60 crore. In the Budget Estimates 2003-04, the appropriation to this fund has been kept at Rs.600 crore.

7.	55	In regard to the Capital Fund (CF) the Committee note that due to better financial results than was initially expected in the year 2001-02, the Ministry of Railways have since repaid the loan of Rs. 249 crore along with the interest due thereon in 2001-02 itself. They further note that the Ministry are neither contemplating to appropriate to this fund for the year 2002-03 nor do they propose to operate the fund for the present. The Committee while agreeing with the views put forth by the Ministry of Railways desire that the Fund may not be operated for the present.	The recommendation of the Committee has been given effect to while working out the Budget Estimates for 2003-04.
8.	56	The existing principle governing interest on various Railway Fund balances placed in the Public Accounts of India may be allowed to continue during the 2003-04 also. The Committee also agree that the balances in the Railway Safety Fund and the Special Railway Safety Fund may be treated as interest free since both these funds have been constituted with the contribution from the General Revenue only.	The recommendation of the Committee has been given effect to while working out the Budget Estimates for 2003-04.

PART – II

MINUTES OF THE SECOND SITTING OF THE RAILWAY CONVENTION COMMITTEE (2004) HELD ON 29TH OCTOBER, 2004.

* * *

The Committee sat on Friday, the 29th October, 2004 in Committee Room 53, Parliament House from 1130 hrs to 1230 hrs.

PRESENT

Shri Gingee N. Ramachandran - Chairman

MEMBERS

LOK SABHA

2. Shri Nizamoddin
3. Shri Mahboob Zahedi

RAJYA SABHA

4. Shri Vijay J. Darda
5. Shri Surendra Lath
6. Shri Narayan Singh Manklao
7. Shri K.Rama Mohana Rao
8. Shr Dwijendra Nath Sharmah

SECRETARIAT

(1)	Smt. Paramjeet Kaur Sandhu	-	Joint Secretary
(2)	Shri V.S. Negi	-	Deputy Secretary
(3)	Shri O.P. Shokeen	-	Assistant Director

REPRESENTATIVES OF MINISTRY OF FINANCE

(i)	Shri D. Swarup	-	Secretary, Department of Expenditure, Ministry of Finance
(ii)	Shri P.R. Das	-	Additional Budget Officer, Department of Economic Affairs, Ministry of Finance

2. At the outset, the Chairman welcomed the Members and the representatives of the Ministry of Finance and invited the attention to the Direction 58 of the Directions by the Speaker, Lok Sabha. Thereafter the Committee took the oral evidence of the representatives of the Ministry of Finance on 'Rate of Dividend for 2004-2005 and Other Ancillary Matters'. The evidence then concluded and the witnesses withdrew.

3. The Chairman informed the Members about the postponement of the oral evidence with the representatives of the Ministry of Railways which was also scheduled to be held on

that day. The Committee decided that the evidence of the representatives of the Ministry of Railways may now be taken on 16th November, 2004. xxxxxxxxxxxxxxxxxxx.

4. A verbatim record of the proceedings has been kept.

The Committee then adjourned.

MINUTES OF THE THIRD SITTING OF THE RAILWAY CONVENTION COMMITTEE (2004) HELD ON 16TH NOVEMBER, 2004.

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The Committee sat on Tuesday, the 16th November, 2004 in Committee Room, K Block, Parliament Library Building from 1500 hrs to 1630 hrs.

PRESENT

Shri Gingee N. Ramachandran - Chairman

MEMBERS

LOK SABHA

2. Shri Raghunath Jha
3. Shri Babu Lal Marandi
4. Shri D. Venugopal
5. Shri Rajesh Verma
6. Shri Mahboob Zahedi

RAJYA SABHA

7. Shri Vijay J. Darda
8. Shr Dwijendra Nath Sharmah

SECRETARIAT

(1)	Shri V.S. Negi	-	Deputy Secretary
(2)	Shri O.P. Shokeen	-	Assistant Director

REPRESENTATIVES OF MINISTRY OF RAILWAYS

(i)	Shri R.K. Singh	-	Chairman, Railway Board and ex-officio Principal Secretary to the Government of India.
(ii)	Smt. Vijayalakshmi Viswanathan	-	Financial Commissioner, Railways and ex-officio Secretary to the Government of India
(ii)	Shri S.P.S. Jain	-	Member Engineering, Railway Board and ex-officio Secretary to the Government of India.
(iv)	Shri R.N. Aga	-	Member Traffic, Railway Board and ex-officio Secretary to the Government of India.
(v)	Smt. Sunita Awasthi	-	Additional Member (Budget)
(vi)	Shri Sumant Chak	-	Additional Member (Planning)
(vii)	Shri S. Balanchandran	-	Adviser (Finance)
(viii)	Smt. Meena Agarwal	-	Executive Director, Finance (Budget)

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2. At the outset, the Chairman welcomed the Members and the representatives of the Ministry of Railways to the sitting of the Committee and invited their attention to Direction 58 of the Directions by the Speaker, Lok Sabha. Thereafter the Committee took the oral evidence of the representatives of the Ministry of Railways on the subject 'Rate of Dividend for 2004-2005 and Other Ancillary Matters'. The evidence concluded.

3. A verbatim record of the proceedings has been kept.

The Committee then adjourned.

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MINUTES OF THE FOURTH SITTING OF THE RAILWAY CONVENTION COMMITTEE (2004) HELD ON 16TH DECEMBER, 2004.

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The Committee sat on Thursday, the 16th December, 2004 in Committee Room 'C', Parliament House Annexe, from 1500 hrs to 1600 hrs.

PRESENT

Shri Gingee N. Ramachandran - Chairman

MEMBERS

LOK SABHA

2. Shri Nizamoddin
3. Shri M Rajamohan Reddy
4. Shri Madan Lal Sharma
5. Shri Mahboob Zahedi

RAJYA SABHA

6. Shri Vijay J. Darda

SECRETARIAT

(1) Smt. Paramjeet Kaur Sandhu - Joint Secretary
(2) Shri V.S. Negi - Deputy Secretary
(3) Shri O.P. Shokeen - Assistant Director

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee. xxxxxxxxxxxxxxxxxxxxxxxxx. Thereafter, the Committee considered and adopted the Draft Report on 'Rate of Dividend for 2004-2005 and Other Ancillary Matters' without any amendment/modifications.

3. The Committee also authorized the Chairman to finalise the Report and present the same to both the House of Parliament after making consequential changes, if any, arising out of the factual verification by the Ministry of Railways or otherwise.

The Committee then adjourned.