RCC No. 115

RAILWAY CONVENTION COMMITTEE
(2004)

(FOURTEENTH LOK SABHA)

NINTH REPORT
ON
RATE OF DIVIDEND FOR 2008-09 AND OTHER ANCILLARY MATTERS

Presented in Lok Sabha on

Laid in Rajya Sabha on

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LOK SABHA SECRETARIAT
NEW DELHI

May, 2008/ Vaisakha, 1930 (Saka)

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RAILWAY CONVENTION COMMITTEE (2004)

Shri Gingee N. Ramachandran, MP - Chairman

MEMBERS
LOK SABHA

2. Shri Atique Ahamad
*3. Prof. Rasa Singh Rawat
@4. Vacant
5. Shri Kailash Joshi
&6. Shri Sartaj Singh Chhatwal
7. Shri G. Nizamoddin
8. Shri M. Rajamohan Reddy
9. Shri Madan Lal Sharma
10. Shri D. Venugopal
11. Shri Rajesh Verma
$12 Shri P. Rajendran

RAJYA SABHA

13. Shri Vijay J. Darda
**14. Vacant
15. Dr. Narayan Singh Manaklao
#16. Shri Mahendra Mohan
$$17. Vacant
18. Shri A. Vijayaraghavan

SECRETARIAT

1.	Smt. Paramjeet Kaur Sandhu	-	Additional Secretary
2.	Shri Brahm Dutt	-	Joint Secretary
3.	Shri T.K. Mukherjee	-	Director

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* Nominated vide Bulletin dated 29.3.2005 as Member of RCC *vice* Shri S. Bangarappa, who resigned from Lok Sabha on 10th March, 2005.

Nominated vide Bulletin dated 28.04.2006 as Member of RCC vice Shri K. Rama Mohana Rao, MP, retired from Rajya Sabha w.e.f 02.04.2006.

$ Nominated vide Bulletin dated 23.5.2006 as Member of RCC vice Late Shri Mahboob Zahedi, MP, Lok Sabha (died on 8 April, 2006).

& Shri Babu Lal Marandi,MP, Lok Sabha has resigned w.e.f. 22 May, 2006.

** Shri Surendra Lath, MP, retired from Rajya Sabha w.e.f. 09.04.2008 vide RSS.U.O. No. 1(2)/2007-Coord. Dated the 28th March, 2008.

$$ Shri Dwijendra Nath Sharmah, MP, retired from Rajya Sabha w.e.f. 09.04.2008 vide RSS.U.O. No. 1(2)/2007-Coord. Dated the 28th March, 2008.

@ Shri Raghunath Jha resigned from the Membership of RCC, on 6th April, 2008 on his appointment as a Minister.

INTRODUCTION

I, the Chairman, Railway Convention Committee (2004), having been authorized by the Committee to present the Report on their behalf, present this Nineth Report on Rate of Dividend payable by the Railway Undertaking to General Revenues and Other Ancillary Matters for the financial year 2008-09.

2. The Railway Convention Committee (2004) presented their Sixth Report on Rate of Dividend for the year 2007-08 and other Ancillary Matters to Lok Sabha on 26th April, 2007 and laid in Rajya Sabha on the same day. The action taken notes of the Government on the recommendations contained in the Sixth Report are given in Appendix-**III** to this Report.

3. An interim Memorandum on 'Rate of Dividend for the year 2008-09 and Other Ancillary Matters' containing the views of both the Ministry of Railways and the Ministry of Finance was furnished by the Ministry of Railways on 16th January, 2008. The Committee took evidence of both the Ministry of Railways and the Ministry of Finance together on 24th April, 2008.

4. After considering the Interim Memorandum and the oral evidence made before them by the Ministries, the Committee have recommended purely as an interim measure, that dividend to General Revenue for the year 2008-09 may be paid at the rate of 7% on the entire capital (excluding dividend free 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 2007-08. All other concessions now available are also allowed to continue on the existing basis for the year 2008-09.

5. The Committee considered and adopted this Report at their sitting held on 5th May, 2008. The Minutes of the sittings of the Committee are appended to the Report in **Part – II**.

6. The Committee wish to express their thanks to the Representatives of both the Ministry of Railways as well as the Ministry of Finance for placing before them their views and for furnishing information required by the Committee.

New Delhi ;
5th May, 2008
15 Vaisakha, 1930 (S)

GINGEE N. RAMACHANDRAN
CHAIRMAN
RAILWAY CONVENTION COMMITTEE

PART - I

REPORT

I. Genesis of Separation of Railway Finance

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 20th September, 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 Railway 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 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 taxpayer 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 upto 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 successive Railway Convention Committees 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 on it 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.

5. 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.

6. The Railways' revenue receipts are derived from the Gross Traffic Receipts, *viz.,* passenger earnings, other coaching earnings, goods earnings and other sundry 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.

7. 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 Railway Convention Committees from time to time.

8. In pursuance of the Resolution adopted by both the Houses of Parliament, the Railway Convention Committee (2004) 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

9. The 'Rate of Dividend' payable by the Railways to the General Revenue is based on the recommendations of the Committee. 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.

(B) Capital-at-Charge of Indian Railways

10. 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 the Parliament. The capital-at-charge of the

Indian Railways has increased from Rs. 827 crore in 1950-51 to Rs. 69,830.36 crore in 2008-09 (BE). This amount excludes Capital outlay of Rs. 5,864.12 crore (BE 2008-09 on Metropolitan Transport projects (MTP) at Mumbai, Kolkata, Delhi, Secunderabad, Chennai and Circular Railway (Kolkata) and also excludes the capital invested in Udhampur-Srinagar-baramullah National Project and the amount received from General Revenues for the Special Railway Safety Fund, which as per 2008-09 BE cumulatively stand at Rs. 4972.75 crore and Rs. 11,954 crore respectively.

(C) Dividend Paid

11. It is observed from the Budgetary documents that the annual dividend payable to General Revenues used to be less than Rs. 100 crore till 31 March 1964. This, over a period of time, has increased to Rs. 4,635.88 crore by 2008-09 (BE) excluding payment of deferred dividend. In all, the Railways would have paid to the General Revenues an amount of Rs. 52,374 crore as Dividend which comes to 75% of the Capital-at-charge on Indian Railways upto end of 2008-09 (BE). The Ministry of Finance had also permitted deferment of payment of dividend to the tune of Rs. 1,000 crore in 2001-02 together with Rs. 1,823 crore deferred in 2000-01 i.e., the total outstanding liability works out to Rs. 2823 crore by the end of 2001-02. On account of improved financial position, the railways have been able to clear the entire deferred dividend liability of Rs. 2823 crore by 2007-08.

12. Statement showing important financial parameters in respect of Indian Railways is a **Appendix-I.**

(D) Payment of dividend to General Revenues

13. The Railway Convention Committee (2004) had, in paras 54 and 55 of their Sixth Report had recommended that as a purely interim measure, the Dividend for the year 2007-08 to General Revenues on the entire capital (excluding dividend

free capital) invested on Railways from the General Revenues be paid at the rate of 7 per cent irrespective of the year of investment, inclusive of the amount that was payable to States as grant *in lieu* of passenger fare tax and contribution for assisting States for safety works during the year 2006-07. 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 2007-08.

14. Apart from above, the Committee *vide* Para No. 23 of their Third Report had also extended the concession in payment of dividend as available on new lines on strategic consideration to on-going and future gauge conversion works taken up on strategic consideration.

(E) Present State of Railway Finances

15. With regard to the financial position of Railways, the Ministry of Railways, in their interim Memorandum submitted to the Committee on 17th January, 2008 stated as under: -

> "As a result of vigorous efforts made, financial position of the Railways has shown considerable improvement in the recent years. Besides paying the full current dividend from 2002-03 onwards, the Railways has also been able to clear the entire deferred dividend liability of Rs. 2823 cr by 2007-08."

16. As regards performance of the Railways during the year 2006-07, the Ministry of Railways further submitted as follows: -

> "Railways ended the fiscal 2006-07 with a freight loading of 728.41 million tones (mt), which is slightly higher than the budgeted target, thereby achieving an impressive incremental loading of 61.90 mt by registering a growth rate of 9.3% over the previous year. In the passenger traffic also, the growth registered was 9%. As a result, the total traffic earnings at Rs. 62, 368 cr for the fiscal was higher than the previous year by 14.6%. The internal resource generation for financing of Railways' Plan stood at Rs. 15, 269 cr compared to the budgeted internal resources of Rs. 11,500 cr and the revised estimate of Rs. 15, 173 cr. As per revised estimated of 2006-07, the fund balances were expected to close at Rs. 15,909 cr. Due to improved financial results, the actual closing balances are at Rs. 16,511 cr

indicating an improvement of Rs. 602 cr over RE. Railway also cleared the deferred dividend liability to the extent of Rs. 663 cr."

17. Regarding the performance of the Railways during the year 2007-08, the Ministry of Railways submitted as follows: -

> "The trend of loading and earnings as seen from the figures available for the first seven months of the current financial year is encouraging though not exactly up to the budgeted expectations. As against the loading target of 785 mt for the full year, Railway has achieved loading of 435.66 mt to end of October 2007, which is 32.33 mt more than the loading achieved during the corresponding period of previous year, although short of the budget proportion by about 9 mt. As against the budgeted growth of 7.8% in freight traffic, the performance during April to October in the current year reflects a growth of about 7.4%. Passenger traffic is showing a growth of 5.6%. Accordingly, earnings of the Railways up to October (Approximates) in the current year are higher than the corresponding period of the previous year by 10.3% although short of the proportionate target by about Rs. 1906 cr. Railways are taking various measures to increase loading and earnings to cover up the shortfall in the remaining months of the year.
>
> Railway is required to extend financial assistance to the Konkan Railway Corporation (KRCL). The KRCL was set up with an investment of Rs. 3555 cr. Out of this, about Rs. 2755 cr was borrowed from market on the strength of letters of comfort issued by the Ministry of Railways. While KRCL is now able to generate revenues 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 31.3.2007, this Ministry has lent around Rs. 2540 cr on this account on which an interest of Rs. 307 cr would be due in 2008-09, which the Corporation is unlikely to pay. In the previous year this was Rs. 226 cr. A proposal on financial restructuring is being proposed to the Ministry of Finance but will not provide any relief to Indian Railways' resources."

(F) Issue of Rate of Dividend for the year 2008-09

18. Pointing out the need for substantial resources required for modernization, expansion and renewal and replacement of rail infrastructure, the Ministry of Railways submitted for consideration of the Committee that the rate of dividend may be reduced by at least half a per cent to 6.5% for the year 2008-09 from the present 7%.

The Ministry of Railways also requested that other modalities for determining the dividend as brought out in **Appendix-II** may continue to be adopted for the year 2008-09 and that all concessions now available as listed therein may also be allowed to continue for the year 2008-09.

19. The Ministry of Finance have, however, not supported the proposal of Ministry of Railways for payment of dividend on capital invested at 6.5% for the year 2008-09, for the following reasons: -

"(a) The weighted average cost of Government borrowings is 7.61% up to December, 2007.

(b) After factoring in the various subsidies/concessions to the Ministry of Railways, the effective rate of dividend on total capital at charge comes to barely 2.72% in 2006-07.

(c) Surplus earnings of Ministry of Railways have increased five-fold in three years between 2004-05 to 2006-07 from Rs. 2,074 cr in 2004-05 to Rs. 10,670 cr in 2006-07. These surpluses are appropriated to the various Railway Funds after meeting dividend liabilities.

(d) Ministry of Railways are increasingly provided with higher additional budgetary support from General Revenues on projects of 'national importance'. General Revenues provided an amount of Rs. 2,415 cr as additional budget support to Railways towards projects of national importance upto 2006-07. During 2007-08, an amount of Rs. 870 cr has additionally been provided upto December 2007 to these projects.

(e) Railways have been getting number of reliefs and concessions from Government. One of the important concessions, in the form of dividend relief, is in the form of subsidy from General Revenues on capital invested in respect of certain specific items. During the year 2006-07, the net dividend that general revenues received from Railways was Rs. 2,041 cr (after setting off Rs. 1,517.45 cr paid by General Revenues to Railways towards 'subsidy' and excluding an amount of Rs. 663 cr towards deferred dividend), which effectively translates into about 2.72% of the total capital-at-charge upto 2006-07.

(f) Dividend from Ministry of Railways forms an important constituent of the non-tax revenues of the Central Government.

Keeping the above points in view and given the higher expenditure commitments of the XI Plan including the need to adhere to FRBM targets while ensuring implementation of various social sector programmes, Ministry of Finance is of the considered view that the rate of dividend payable by the

Ministry of Railways to the General Revenues for the year 2008-09 be maintained at 7%."

20. Reacting to the view of the Ministry of Finance, and reiterating the constraints on the railway finances the Ministry of Railways have held that while the interest rates have marginally softened and the trend is now downward. It has also to be kept in mind that: -

"(a) Railways pay dividend in perpetuity whereas the borrowings of the Government have a fixed tenor.

(b) Concessions in payment of Dividend termed subsidy are in fact mostly a legitimate grant due to the Railways, recognizing investments undertaken by Railways in projects and development expenditures that are unremunerative and economically unviable and yet important for national development. Most of these works were taken up only at the instance of the Government itself and the exemption in payment of dividend on them is available after due deliberations as per the recommendation of Railway Convention Committee.

(c) It may also be worth mentioning here that the Railways also carry social service obligation of around Rs. 6,000 cr by carrying certain passenger and goods services below cost in the larger interest of society on socio-politico considerations, without being compensated. Taking together the dividend being paid to the General Exchequer, the Railways in a way is returning around 16% of the capital invested by the nation in it; 10% in form of the social service obligations and 6% in form of dividend to the Ministry of Finance. In fact, on the total dividend bearing capital-at-charge, which stood at Rs. 58,244 cr as on 31.3.2007, Railways have paid a total Rs. 42,856 cr as dividend, which works out to about 74% of the former. Thus, in a way, earlier investments have already been doubly or trebly paid back.

(d) The growing economy has placed unprecedented demands for expansion on the Railways. Further, the overall Gross Budgetary Support to the Railways is not increasing to match the growing plan size of Railways. Thus Railways are increasingly resorting to Market Borrowings and internal generation for financing investment on capacity expansion. This affects the sustainability of the Railways. Carrying more than 6400 million passengers at low cost tariffs, the Railways are rendering national service. The current focus on global warming also mandates that the fuel & energy efficient mode of transport receives maximum state support in national interest reducing overall fuel consumption and carbon emission.

(e) Railways have, over the past few years, consistently improved operational efficiency to generate more revenues for development expenditure. All internal generations of the Railways arising from this improvement in performance are ploughed back into expansion and modernization projects, thereby affording considerable relief to the general exchequer. In the absence of this improved performance of the Railways and buoyant internal generation, the Railways would be imposing further burden on the budgetary support.

As has already been submitted, even with this improved internal generation, the funds available for investments in rail infrastructure are very inadequate. The Railways expect to carry 1100 million tones per annum and 8400 million passengers per annum by the end of the 11^{th} Plan. Thus several new initiatives like the Heavy haul Dedicated Freight Corridors, projects for strengthening the General Quadrilateral and the diagonals, Freight and passenger terminal upgradation, 25 T axle load freight movement on identified routes, Port connectivity projects, locomotives and coaches with latest technology and improved performance are being planned for. This apart, the Railway also has a considerable shelf of sanctioned projects with a throw forward liability of more than Rs. 50,000 crore. The debt servicing liability in respect of Konkan Railway corporation is also being borne by the Railways.

In view of the above, this Ministry requests the Committee to kindly lower the rate of dividend to 6.5% for 2008-09."

21. Pleading for reduction of the rate of dividend by half a percent to 6.5%, the Member Traffic The Ministry of Railways (Railway Board) while deposing before the Committee submitted as under:

"The Railways, during the last four years, have done extremely well.

During the last year, we have lifted 794 million tones of originating freight; we have transported 6.8 billion passengers; and we have a cash surplus of Rs. 25,000 crore. So, we have performed well in practically all aspects of operations.

The issue of growth is very important because the Indian economy has been doing extremely well, and what we foresee during the next few years is further growth. Sustaining the level of growth, freight is our major business and we have been sustaining about 9 per cent per annum growth in the freight sector. It has now become extremely difficult for us to continue to sustain this level of growth because of constraints that are developing both in terms of line capacity as well as in terms of terminal capacity. This applies both to passengers as well as to freight. Therefore, we have to make very major investments in capacity augmentation projects.

For the 11^{th} Five Year Plan Period, we are targeting something like 8.4 billion passengers for the final year and 1,100 million tones of freight traffic. We will only be able to carry this traffic if this capacity is developed. As you are aware, infrastructure projects, in general and railway construction projects, in particular are very capital intensive and have extremely long gestation period. They take a very long time to give back returns. Now, it is in that context that we have made this submission to you for a half per cent reduction in dividend.

Another phenomenon, which has been taking place over the last few years is that we used to get a substantial proportion of gross budgetary support from the Ministry of Finance for meeting our capital budget requirements; this, over a period of time, has been reducing. We had envisaged, when we drew up our basic document for the 11th Five Year Plan, receiving Rs. 10,000 crore per annum to meet our plan requirement. That has been reduced during the first and second year of plan period has been reduced to Rs. 7,500 crore. So, we have to find the money. Everybody is talking about that the Railways is doing excellently well and we are generating a lot of surpluses. But we need that surplus to plough back into creating this capacity, and with this declining Governmental support for our projects, I think, any relief that can be given to the Ministry of Railways will be of tremendous benefit to us.

We also have to make investments, which are not directly related to the profitability or the viability of the system. We have a socio-economic responsibility, which has been given to us. We are restrained from increasing our passenger fares. We make a loss on our passenger traffic, which, as per last year assessment of coach business, is of the order of Rs. 6,600 crore. We have to carry certain commodities at low cost. For example, salt for human consumption and other commodities. We are, therefore, making losses on those commodities. We have to invest in developing lines in various parts of the country. We have a shelf of projects amounting to Rs. 70,000 crore or more for new lines, for gauge conversions. Many of these new lines and gauge conversion projections do not give us a positive return.

We are doing it so that we can provide better services to the people of this country. But it does not necessarily convert it into better viability or profitability for the organization. In fact, the bulk of our new line projects are non-viable projects. I think we do require some relief on those things because we are making investment in a project which is not so viable. Plus, we have to bear the recurring loss. Once the line becomes operational, we have constant losses and we have to bear that loss. Therefore, there is this need for any support that we can get from the Convention Committee in fulfilling our commitment. The IRFC's borrowing rate, I think, had come down to a level of nine per cent, and now it is again going up. We were able to borrow abroad at much less than the rate of nine per cent because of the facility of ECB. We are asking for half a per cent. Rs. 200 crore converts into Rs. 206 crore. I think all the Members are aware that there is a need for improving facilities for passenger amenities at stations, providing covered shed, providing foot-over-bridges, providing waiting halls, water facilities and all that. So, it will facilitate us in providing additional facilities to the passengers who travel over our system.

We also have to build houses for our staff and we have a number of welfare activities that we do. The additional money that we would get would go towards providing better facilities to our customers and staff. I would like to sum up and say that we have a tremendous responsibility of providing additional facilities to meet future growth. The costs of the railway project are shooting up. Our budgetary support is coming down. We are not only planning for East-West Freight Corridor but also North-South Freight Corridor. It is on the anvil. We require the support of Government in being able to execute these works, even if it is a little bit of support."

22. Reacting to the views of the Ministry of Railways and pleading for retention of rate of dividend at 7%, the Secretary (Expenditure), Ministry of Finance stated as follows: -

"Sir, if you recall the Railway Convention Committee had last year weighted on the point that the average cost of borrowing of the Centre has been increasing and the fact that the Railways have been performing very well, in an outstanding manner. So, it had agreed to raise the dividend to seven per cent compared to 6.5 per cent the previous year.

During 2007-08 the Railways performed even better. They performed better than their own expectations. Their net surpluses have also increased to Rs. 13,000 crore and all. In this context, the view of the Ministry of finance is that since the cost of borrowing for Government has gone up so much, it has increased further this year, the dividend rate should be maintained at seven per cent. As the Member (Traffic) himself has said, the effect of lowering it by 0.5 per cent to 6.5 per cent only gives them about Rs. 300 crore. As far as the Government of India is concerned and the other Ministries are concerned, Rs. 300 crore, if you say even Rs. 260 crore, it goes a very long way in social schemes. It is our point that seven per cent should be maintained. As far as the gross budgetary support is concerned, the whole envelope, for example, Rs. 2,43,386 crore figure of gross budgetary support was indicated to the Planning Commission. Out of that, as Mr. Mathur has said, they have got about Rs. 7,874 crore. But there is a commitment from the Ministry of Finance that for the national importance projects, the Government would give additional GPS support to the Railways.

In 2007-2008, an amount of Rs. 1,235 crore was provided in addition to the Railways and the commitment of Finance is that this year not less than that figure would be provided. This would be of national importance and during the course of the year."

23. Regarding commitment of additional funds to The Ministry of Railways, the Secretary (Expenditure) submitted as under: -

> "Sir, point which the Ministry of Finance would like to put across is that in case more funds are required by the Railways, it is better that it is given with parliamentary approval through the Budget rather than saying that 7 per cent divided should be reduced to 6.5 per cent. There is a commitment that for projects like that, the Government would provide budgetary support. The level would not be less than what was given last year. In fact, it might be more."

Funds of Railways

(A) Depreciation Reserve Fund (DRF)

24. 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.

25. While approving the proposal of the Ministry of Railways regarding appropriation to be made to the Depreciation Reserve fund in 2007-08, the Committee in their Sixth Report, had recommended as under: -

"Contribution to DRF be made in consonance with the capacity of the system to generate internal resources. The Committee would like to be informed of the actual amount of contribution made to DRF in the financial year 2007-08."

26. While intimating the action taken on the recommendation of the Committee, the Ministry of Railways have submitted the following:

"An amount of Rs. 5450 crore consisting of Rs. 5350 crore from Revenues and Rs. 100 crore from Production Units were appropriated to the DRF in 2007-08 (BE)."

27. In this regard, it is observed from the Explanatory Memorandum on the Railway Budget for 2008-09 that in the Budget Estimates 2008-09, the appropriation to DRF has been kept at Rs. 7,000 crore and Rs. 100 crore respectively from the Revenue and Production Units. The balance in the DRF is estimated to be Rs. 2225.52 crore at the end of the financial year 2008-09.

28. On this proposal of Railways, the Ministry of Finance have observed that the appropriation to the DRF for 2008-09 may be made in consonance with the capacity to generate internal resources and Plan requirements. These observations made by the Ministry of Finance are acceptable to the Ministry of Railways.

(B) Pension Fund (PF)

29. 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.

30. The Committee in their Sixth Report, while approving the proposal of the Ministry of Railways regarding contribution to be made to Pension Fund in 2007-08, had recommended as under: -

> "The appropriation to Pension Fund from revenues be kept at Rs. 8660 cr in 2007-088 in view of a possible higher requirement than expected on account of merger of 50% DA with the basic pension subject to adjustments and also any variations of the estimated withdrawal during the course of the year. This, together with the appropriation of Rs. 100

> cr from Production Units will enable the Railways to meet the pension requirement of Rs. 8160 cr during the year."

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

> "As per the trend of pension expenditure seen in the current year so far, the appropriation envisaged in the budget estimates may have to be scaled down by Rs. 200 to 300 crore in the revised estimates for 2007-08."
>
> Keeping in view the increase in number of pensioners, rate of dearness relief and the likely impact of the recommendations of the VIth Central Pay Commission (CPC), pension liability is likely to increase substantially during the next year. The tentative requirement from the Pension Fund has been assessed at around Rs. 11,800 cr in 2008-09. A realistic assessment will however, be possible only after the recommendations of the VIth CPC become available. It is, therefore, submitted for the consideration of the Committee that the appropriation to Pension Fund from revenues may be allowed to be kept in the range of Rs. 11,000 cr to Rs. 12,000 cr in 2008-09, subject to adjustments.

32. In regard to this proposal of the Ministry of Railways, the Ministry of Finance have observed that contribution to Pension Funds in 2008-09 could be keeping with the actual requirement in view of the likely impact of the recommendation of the Sixth Central Pay Commission.

(C) Development Fund (DF)

33. 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	:	DF III and
(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.

34. The Ministry of Railways in their Memorandum, have apprised the Committee that in the Budget Estimates 2007-08, the appropriation to this Fund was kept at Rs. 2,359 crore. However, it is observed from the Explanatory memorandum on the Railway Budget for 2008-09 that in the Budget Estimates 2008-09, the appropriation to this fund has been kept at Rs. 947 crore.

(D) Capital Fund (CF)

35. As approved by the Railway Convention Committee (1991) *vide* their Third Report, the Capital Fund was created with effect from 1992-93, with the expressed purpose 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 were not able to generate enough internal resources for being appropriated to the Capital Fund, the same was kept inoperative till the year 2005-06. The Committee in 2005-06 *vide* their Fourth Report had recommended for Revival of Capital Fund from 2005-06 onwards for utilizing available resources to complete critical throughput enhancement and traffic facility works.

36. With regard to the amount appropriated to the Capital Fund during 2007-08, the Ministry of Railways have submitted the following: -

> "An amount of Rs. 8,396 crore has been appropriated to the Capital Fund in 2007-08 (BE). Out of this Rs. 1,677 crore has been

appropriated for payment of the principal component of the lease hire charges on the assets leased to the Railways by IRFC. The balance amount of Rs. 6,719 crore was for financing the throughput enhancement works of capital nature."

37. It is, however, observed from the Explanatory Memorandum on the Railway Budget for 2008-09 that in the Budget Estimates 2008-09 the appropriation to this fund has been kept at Rs. 10,839.74 crore and the balance in the fund is likely to be Rs. 12,316.19 crore at the end of the financial year 2008-09.

(E) Railway Safety Fund (RSF)

38. 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.

39. The Ministry of Railways, in their interim Memorandum, have submitted as follows: -

> "An appropriation of Rs. 727.26 crore consisting of Rs. 724.70 crore from the Central Road Fund and Rs. 2.56 crore as contribution for RSWF has been made in Revised Estimates 2007-08 in the Railway Safety Fund."

40. It is observed from the Explanatory memorandum on the Railway Budget for 2008-09 that railways have made in Budget estimates 2008-09, an appropriation of Rs. 776.46 crore to the Fund.

(F) Special Railway Safety Fund:

41. 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 Railway so that arrears in the renewal of vital safety equipment are wiped out with in a fixed time frame of five to seven years, the Government 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 cr, 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."
>
> "The SRSF was accordingly to get Rs. 5,035 cr from the Railway through the levy of the safety surcharge and Rs. 11,965 cr from MoF as dividend free budgetary support, over a period of six years starting from 2001-02. Set up in the fiscal 2001-02, the SRSF will come to an end on 31.3.2008, having served the purpose for which it has been created."

42. In this connection, however, it is observed from the Explanatory memorandum on the Railway Budget for 2008-09 that the appropriation to this fund has been kept at Rs. 1,217.52 crore in 2007-08 (BE), consisting of Rs. 1,165 crore contributed by the Ministry of Finance and Rs. 52.52 crore as Railway contribution, being the expected surcharge on passenger fares. An amount of Rs. 168.54 crore was the balance which was transferred to DRF as on 01-04-2008 consequent upon closure of SRSF.

43. During evidence the Committee pointed out that the Special Railway Safety Fund (SRSF) ceased to exist after 31st March, 2008. Asked about the utilization of this fund, the representatives of the Ministry of Railways stated:-

"As far as safety is concerned, there were two aspects. One is, our assets whether it is track, wagon or signalling equipment. They need replacement after a particular period. That process of replacement had fallen into arrears. The Special Safety Fund, which was sanctioned about eight to nine years back provided us with Rs. 17,000 crore with the help of which we have been able to clear the entire backlog of arrears of track, signalling and rolling stock."

44. In reply to a question about completion of track replacement, the witness stated that it has been replaced upto 97 to 98 per cent.

45. On being asked about the steps taken for ensuring safety of the railway assets as also passenger safety, the representative of the Ministry of Railways replied:-

"We have done it through special railway safety fund which was created through our depreciation reserve fund for our future replacements. In addition to that, we are doing modernization exercise of introducing the better signalling system, anti-collusion device, manning unmanned level crossings, and a number of technological have been introduced with a view to enhance safety. We are also paying a lot of emphasis on training of our staff by acquiring simulators for training of drivers, improving our training institutes by improving the training modules and by using computer guided methodology for avoiding human failure. So, we are concentrating on reducing this element of human failure as well as putting in new technological inputs which are felt safe".

46. When further enquired about abolition of unmanned level crossings which has been a major factor for accidents, the witness replied:

"Sir, we have about 18,000 unmanned level crossings. We are manning about 300 level crossings on an average per year. We have decided in the current budget to many more. We have liberalized the norms for manning the unmanned level crossings which will increase the existing number to about 1600 level crossings and our total target will also become almost double in the current year and not from the next year. We have discovered where most accidents take place what kind of rail traffic or what kind of road traffic causes accidents, whether there is a problem of visibility for the road user or for the driver. Therefore, we have enlarged this requirement of visibility also if it is less than that it will be manned. We are moving in that direction but certainly we are away from eliminating all level crossings which are unmanned because those numbers are, as you know, are very high and that is not yet on the agenda".

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

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

> "The recommendations of Railway Convention Committee (2004) in respect of interest on the balances in the various Railway Funds as contained in their Sixth Report for the year 2007-08, may be made applicable for 2008-09 also. 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."

48. On the question of the Ministry of Finance response to the proposal of the Ministry of Railways on Depreciation Reserve Fund, Pension Fund, Development Fund and other funds, the Secretary (Expenditure) stated during evidence:

> "We agree to those things since they are normal and routine ones."

RECOMMENDATIONS OF THE COMMITTEE

49. The Committee are happy to note the improved financial performance of Railways over the last few years and particularly during 2007-08. The Committee have considered the arguments put forth by both the Ministries of Railways and Finance on the issue of rate of dividend. The Committee observe that the Government's social service obligation as a whole is much larger. Railways being a part of the Government is bound to carry these social costs and obligations. In view of the numerous commitments in the form of fiscal targets set under FRBM Act, impending implementation of the recommendations of 6th Central Pay Commission, financing of various social and infrastructure schemes announced, including the waiver of farmers' loans, the reduction in the rate of dividend from 7% to 6.5% is only going to further stress the resources of the Government. Railways on the other hand are performing well and returning higher profits and can contribute towards social obligations, without seeking to reduce the dividends payable to Government. Besides, the Ministry of Finance have assured to provide requisite funds for uneconomic and strategic lines. The Committee therefore, recommend purely as an interim measure, that for the year 2008-09, the rate of dividend to the General Revenues be maintained at 7% on the entire capital (excluding dividend free 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 2007-08. (Rec.Sr.No.1)

50. **All other concessions now available to the Railways on residential buildings, new lines, subsidies from the General Revenues, etc., be allowed to continue on the existing basis for the year 2008-09.**

(Rec. Sr. No. 2)

51. **The Committee note that for the year 2007-08 an amount of Rs. 5,450 crore consisting of Rs. 5,350 crore from Revenues and Rs. 100 crore from Production Units has been appropriated to Depreciation Reserve Fund (DRF) and in the Budget Estimates for the year 2008-09 the appropriation to DRF has been kept at Rs. 7,000 crore and Rs. 100 crore from the Revenue and Production Units respectively. The balance in the DRF is estimated to be Rs. 3,265.59 crore at the end of the financial year 2007-08. The Committee recommend that the contribution to DRF be made in consonance with the capacity of the system to generate internal resources. The Committee would like to be informed of the actual amount of contribution made to DRF in the financial year 2008-09.**

(Rec Sr. No. 3)

52. **The Committee observe that the appropriation to the Pension Fund (PF) in 2007-08 has been kept at Rs. 8,660 crore and Rs. 100 crore from Revenues and Production Units respectively. The Ministry of Railways have now proposed that the appropriation during 2008-09 to Pension Fund from Revenues may be kept in the range of Rs. 11,000 crore to Rs. 12,000 crore in 2008-09 subject to adjustments. The balance in the Pension Fund would be Rs. 2,165.22 crore at the end of the financial year 2007-08. While agreeing with the proposal of the Ministry of Railways, the Committee recommend that the appropriation**

to Pension Fund from Revenues be kept at Rs. 11,000 crore to 12,000 crore in 2008-09 in view of the increase in number of pensioners, rate of dearness relief and likely impact of the recommendations of the 6th Central Pay Commission (CPC) subject to adjustments.

(Rec Sr. No. 4)

53. **During the year 2007-08 the appropriation to Development Fund was kept at Rs. 2,359 crore (BE). However, the Committee find that for the year 2008-09, provision under this Fund has been kept at Rs. 947 crore only which is on very lower side considering the fact that this Fund covers the important areas like passenger amenities and safety works. The Committee desire that this should be raised appropriately and they may be apprised about the actual amount that will be credited to this Fund at the end of the financial year 2008-09.**

(Rec Sr. No. 5)

54. **The Committee note that an amount of Rs. 8,396 crore has been appropriated to the Capital Fund during 2007-08. Out of this Rs. 1,677 crore has been appropriated for payment of the principal component of the lease hire charges on the assets leased to the Railways by Indian Railway Finance Corporation (IRFC). The balance amount of Rs. 6,719 crore is for financing the throughput enhancement works of capital nature. For the year 2008-09 an appropriation of Rs. 10,839.74 crore has been made for this Fund. In this regard, the Committee would like to be apprised about the actual amount that has been credited to this Fund vis-à-vis actual amount spent for the purpose.**

(Rec Sr. No. 6)

55. **The Committee note that based on the recommendations of the Railway Safety Review Committee, a Special Safety Fund was created in 2001 wherein a provision of Rs. 17,000 crore was made. The representatives of the Ministry of Railways apprised the Committee during evidence that this Fund was mainly to replace the old tracks and renovation of signalling equipment etc. and the same has been completed upto 97 to 98 per cent. This special Fund ceased to exist w.e.f. 1.04.2008. The Committee find that a provision of Rs. 776.46 crore has been made under the Railway Safety Fund during the year 2008-09. Considering the vast network of the Railways across the country particularly in the context of existence of several old bridges, over 18,000 unmanned railway crossings, the Committee are not very sure that the allocated funds are adequate to raise the safety standards of Indian Railways at par with international standards. The Committee, therefore, would like the Railways to review this vital aspect while ensuring requisite funds for safety. They would await Ministry's response in this regard.**

(Rec Sr. No. 7)

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 year 2008-09 also. The Committee also agree that the balances in the Railway Safety Fund may be treated as interest free since this fund has been constituted with the contribution from the General Revenue only.** **(Rec Sr. No. 8)**

GINGEE N. RAMACHANDRAN,
Chairman,
Railway Convention Committee

New Delhi:
05th May, 2008
15 Vaisakha, 1930 (Saka)

APPENDIX I

(Vide Para 12 of the Report)

STATEMENT SHOWING IMPORTANT FINANCIAL FIGURES IN RESPECT OF INDIAN RAILWAYS FOR THE PERIOD 1950-51 TO 2008-09

(Rs. In Crores)

Year	Capital at Charge	Invest-ment from Capital Fund	Gross Traffic Receipts	Total working Expenses	Net Revenue	Dividend Paid *	Excess (+) Shortfall (-)	Opera-ting Ratio
1	2	3	4	5	6	7	8	9
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
1999-00	29655.31	10116.75	32938.81	30843.99	2735.67	1889.78	845.89	93.3
2000-01	32661.88	10390.00	34880.48	34667.34	1071.23	2130.94	763.59	98.3
2001-02	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	2714.83	1115.40	92.3
2003-04	45671.95	10389.83	42904.94	39482.21	4478.49	3387.08	1091.41	92.1
2004-05	48957.11	10389.83	47370.21	42758.88	5273.54	3199.31	2074.23	91.0
2005-06	53062.43	12815.94	54491.38	45488.34	10143.15	3949.83	6193.32	83.2
2006-07	58145.15	17885.55	62731.50	49046.53	14453.13	3583.81	10206.32	78.70%
2007-08	63380.36	24794.15	72755.00	55421.00	18416.20	4218.12	13534.08	76.3%
2008-09 (BE)	69830.36	33954.15	81901.00	66590.00	16422.62	4635.88	11786.74	81.4%

* Dividend paid inclusive of payment of deferred dividend also.

APPENDIX - II

(Vide Para 18 of the Report)

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 (2004) applicable for 2007-08 are as under: -

I. DIVIDEND

(a) The rate of dividend is 7 per cent on the entire Capital invested on the Railways (excl. dividend free capital) irrespective of the year of investment including 1.5% on the Capital invested up to 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.

(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 least of the rate of dividend or average borrowing rate** charged to the commercial departments 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.

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) Gauge conversion works taken up on strategic consideration.

(c) 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.

(d) Northeast Frontier Railway (Non-strategic Portion)

(e) Un-remunerative Branch Lines subject to their un-remunerativeness being established on the marginal cost principle in each case through an annual review of their financial results.

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

(g) Ferries and Welfare buildings.

(h) 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 Sixth Report of the Railway Convention Committee (2004) on Rate of Dividend for 2007 - 08 and other Ancillary Matters and action taken thereon

Sl. No.	Para No.	Recommendation	Action Taken by Government
1	2	3	4
1.	54	The Committee are glad to note the remarkable performance of Railways which has led to an estimated net revenue of over Rs.14,000 crore during 2006-07. The Committee have considered the arguments put forth by the Ministry of Railways and the Ministry of Finance on the issue of restoring the rate of dividend to 7.0 per cent as fixed for the year 2003-04 and the years before. The Committee, considering the rise in the Government's average cost of borrowing and the improved performance of Railways, recommend purely as an interim measure, that for the year 2007-08, the rate of dividend to General Revenues be restored to 7.0 per cent on the entire capital (excluding dividend free capital) invested on Railways from the General Revenues irrespective of the year of investment inclusive of the amount	In the Budget Estimates for 2007-08, the rate of dividend has been taken as 6.5%. The recommendation of the Committee for increasing the rate of dividend to 7% will be given effect while finalizing the Revised Estimates for 2007-08.

		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 2006-07.	
2.	55	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 2007-08.	The existing concessions/dividend reliefs have been adopted while working out the dividend for Budget and the Revised Estimates 2007-08, as recommended by the Committee, except the relief extended by the Committee to be claimed as subsidy in payment of dividend on the 'Gauge Conversion works taken up on strategic consideration'. This could not be accounted for as the Committee's recommendations in this regard contained in the Third Report of RCC (2004) were not yet adopted by the Parliament. As these recommendations have been adopted by Parliament on 5.12.2007, these will be given effect in RE 2007-08 from the period 2005-06 onwards. The subsidy in payment of dividend has been claimed at 6.5% in Budget Estimates 2007-08. This will be recalculated at 7% as recommended by the Committee in the Revised Estimates 2007-08.
3.	56	The Committee note that for the year 2006-07 an amount of Rs.4,407 crore consisting of Rs.4,307 crore from Revenues and Rs.100 crore from Production Units has been appropriated to Depreciation Reserve Fund (DRF) and in the Budget Estimates 2007-08 the appropriation to DRF has been kept at Rs. 5,350 crore and Rs. 100 crore	Appropriation of the Depreciation Reserve Fund (DRF) from Revenue, which in RE 2006-07 was kept at Rs.4,10 crore has been increased in the Actuals to Rs. 4,198 cr. The appropriation of Rs. 100 cr from Production Units has been retained in the actuals. This Fund has closed with a balance of Rs. 3781 cr by end of the financial year 2006-07. An amount of Rs. 5,450 cr, consisting of Rs. 5,350 cr from Revenue and Rs. 100 cr from Production Units, has been

		respectively from the Revenue and Production Units. The balance in the DRF is estimated to be Rs. 3,387.14 crore at the end of the financial year 2006-07. The Committee, therefore, recommend that the contribution to DRF be made in consonance with the capacity of the system to generate internal resources. The Committee would like to be informed of the actual amount of contribution made to DRF in the financial year 2007-08.	appropriated to DRF in Budget Estimates 2007-08. The Committee will be nformed of the actual amount of contribution to DRF 2007-08 at the appropriate stage.
4.	57	The Committee observe that the appropriation to the Pension Fund (PF) in 2006-07 has been kept at Rs. 7,526 crore and Rs. 100 crore respectively from Revenues and Production Units. The Ministry of Railways have now proposed that the appropriation to Pension Fund from Revenues may be kept at Rs.8,660 crore in 2007-08 subject to adjustments. The balance in the Pension Fund would be Rs. 1,592.66 crore at the end of the financial year 2006-07. While agreeing with the proposal of the Ministry of Railways, the Committee recommend that the appropriation to Pension Fund from Revenues be kept at Rs.8,660 crore in 2007-08 in view of possible higher requirement than expected on account of merger of	The appropriation to the Pension Fund in Revised Estimates and Actuals of 2006-07 has actually been kept at Rs. 7,426 crore from Revenue and Rs. 100 crore from Production Units. As the actual outgo from the Fund remained lower than expected, the balance in Pension Fund has increased to Rs.1799 crore as on 31.3.2007. As recommended by the Committee, the appropriation to Pension Fund in Budget Estimates 2007-08 has been kept at Rs. 8,660 cr & Rs. 100 cr from Revenue and Production Units respectively.

		50% DA with the basic pension subject to adjustments and also 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. 8,160 crore during the year.	
5.	58	The Committee find that during the year 2006-07, the appropriation to Development Fund has been kept at Rs.960 crore. However, for the year 2007-08, 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 have budgeted an amount of Rs.2,359 crore (BE). The Committee approve the proposal of the Ministry of Railways and desire the Ministry of Railways to inform them of the actual amount that will be credited to this Fund at the end of the financial year 2007-08.	The appropriation to Development Fund which was kept at Rs.960 crore in BE 2006-07, and has been increased to Rs. 1,880 cr in RE and Actuals of 2006-07. As approved by the Committee, an amount of Rs. 2,359 cr has been appropriated to this Fund in the Budget Estimates 2007-08. The Committee will be kept informed of the actual amount that will be credited to Development Fund in the fiscal year 2007-08 at the appropriate stage.

6.	59	In regard to the Capital Fund (CF), the Committee note that an amount of Rs.5,432.94 crore has been appropriated to the Fund during 2006-07. Out of this Rs.1,720 crore has been appropriated for payment of the principal component of the lease hire charges on the assets leased to the Railways by Indian Railway Finance Corporation (IRFC) as recommended by the Committee in their Fifth Report. The balance amount of Rs.3,713 crore is for financing the throughput enhancement works of capital nature. The Committee in this connection seriously view the failure of the Railway Ministry to communicate to the Committee in time about the C&AG's stand on the proposal of Railways to appropriate funds from the Capital Fund through Major Head 3001 for repayment of principal component of lease charges to IRFC. The communication gap eventually led the Committee to give consent, in their Fifth Report, to the proposal of Railways in this regard. The Committee hope that there will be no recurrence of such lapses in future. The Committee urge the Ministry of Railways to appropriate funds from the Capital Fund through Major Head 3006 as	As has already been brought to the notice of the Committee, it is again submitted in regard to the above that Audit initially observed that prior to charging the appropriation of the principal component of the lease charges to Capital Fund through Major Head 3001, the approval of the Railway Convention Committee be obtained first. Accordingly a supplementary memorandum was submitted to RCC on 4.4.2006, considering which the RCC while conceding the Railways' proposal submitted its report on 18.8.2006. Meanwhile, Audit after further consideration of the matter advised in April' 06 that charging of appropriation to Capital Fund through Major Head 3001 could not be agreed to for subtle reasons. It was also suggested by Audit that the matter be reconsidered in consultation with Ministry of Finance and approval of RCC. Thus, although C&AG's advice to make appropriation through Major Head 3006 was received in April 2006, this position could not be advised to Hon'ble RCC well before finalization of the report because the final view in the matter was taken by the Ministry only in September 2006 i.e. after the presentation of the report by RCC. Thus, it would be seen that the communication gap as referred above was not at all intentional. The Ministry had rightly sought for RCC's recommendation for charging the appropriation of the principal component of the lease charges to Capital Fund through Major Head 3001 based on C&AG's

		suggested by the C&AG.	initial advice. However, by the time RCC submitted their report agreeing to this proposal, the C&AG's revised advice was still under consideration and this Ministry had no occasion to bring the final views of C&AG on the issue to the notice of the Hon'ble Committee before submission of the Report. However, notwithstanding above, concern of the Committee has been noted so as to avoid recurrence of the above incident in future.
7.	60	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 2007-08 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 finalizing the Budget and the Revised Estimates for 2007-08.
8.	61	As regards compensating operating losses on strategic lines through budget and treatment of interest on railway fund	Views of the C&AG have been solicited on the above issues. Accounts for 2006-07 have been finalized by adjusting the reimbursement of 'operating losses

		balances as `Miscellaneous Receipts' of Railways, the Committee feel that the Ministry of Railway should obtain the views of the C&AG on these proposals and the matter be placed before the Committee thereafter.	on account of strategic lines' with the Ordinary Working Expenses instead of the dividend payable to the General Revenues. Audit has cleared the accounts for 2006-07 with this adjustment. However, the C&AG is of the opinion that the above reimbursement should be accounted for as the Railways' traffic earnings and not as a reduction in Working Expenses. This change will accordingly be made, on advice of C&AG, from RE 2007-08. The C&AG has not agreed to the Railways' proposal for treating the 'Interest on Fund Balances' as Miscellaneous Receipts. The accounts for 2006-07 have therefore been cast according to the C&AG's observations and submitted to CGA. However, the consolidated accounts of Government of India, including Ministry of Railways' accounts, have since been approved by C&AG, with interest on fund balances included in Miscellaneous receipts.

PART-II

MINUTES OF THE TWENTY-SEVENTH SITTING OF THE RAILWAY CONVENTION COMMITTEE HELD ON 24TH APRIL, 2008.

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The Committee sat on Thursday, the 24th April, 2008 from 1500 hrs. to 1600 hrs. in Committee Room No.139, Parliament House Annexe, New Delhi.

PRESENT

Shri Gingee N. Ramachandran - Chairman

MEMBERS

LOK SABHA

2. Shri Kailash Joshi
3. Shri G. Nizamuddin
4. Shri M. Raja Mohan Reddy

RAJYA SABHA

5. Dr. Narayan Singh Manaklao
6. Shri Mahendra Mohan
7. Shri A. Vijayaraghavan

SECRETARIAT

1.	Shri Brahm Dutt	-	Joint Secretary
2.	Shri T.K. Mukherjee	-	Director
3.	Smt. Rita Jailkhani	-	Deputy Secretary-II

REPRESENTATIVES OF THE MINISTRY OF RAILWAYS

1.	Ms. Sudha M. Chobe	Financial Commissioner, Railways and ex-officio Secretary to the Government of India
2.	Shri S.K. Vij	Member Engineering, Railway Board & ex-officio Secretary to the Government of India.
3.	Shri V.N. Mathur	Member Traffic, Railway Board & ex-officio Secretary to the Government of India.
4.	Shri R.K. Rao	Member Mechanical, Railway Board & ex-officio Secretary to the Government of India.

5.	Shri S.S. Khurana	Member Staff, Railway Board & ex-officio Secretary to the Government of India.
6.	Shri Shukhbir Singh	Member Electrical, Railway Board & ex-officio Secretary to the Government of India.
7.	Shri R.K. Goyal	Additional Member (Planning)
8.	Ms. P. Babbar	Adviser (Finance)
9.	Shri Pradeep Bhatnagar	Adviser (Infrastructure)
10.	Ms. Anjali Goyal	Executive Director, Finance (Budget)
11.	Shri P.K. Sanghi	Executive Director (Works)
12.	Shri N. Madhusudan Rao	Executive Director (Planning)

REPRESENTATIVES OF THE MINISTRY OF FINANCE

1.	Smt. Sushama Nath	Secretary, Department of Expenditure
2.	Smt. L.M. Vas	Additional Secretary (Budget), Department of Economic Affairs

2. At the outset, the Chairman welcomed the Members, the representatives of the Ministries of Railways and Finance to the sitting of the Committee and invited their attention to Direction 58 of the Directions by the Hon'ble Speaker, Lok Sabha. Thereafter, the Committee took evidence of the representatives of the Ministries of Railways and Finance on the subject 'Rate of Dividend for 2008-09 and other ancillary matters'.

3. After introducing themselves to the Committee the representatives of the Ministry of Railways (Railway Board) briefed the Committee on the subject and pleaded for reducing the Rate of Dividend by atleast half a per cent to 6.5 per cent for the year 2008-09 from the present 7 per cent.

The representatives of the Ministry of Finance, however, re-submitted before the Committee that the Rate of Dividend payable by the Ministry of Railways to the General Revenues for the year 2008-09 be maintained at present level i.e. 7 per cent. The witnesses replied to the clarifications sought by the Members.

4. The following issues also came up for discussion:-

(i) Improved financial position of the Railways

(ii) Budgetary support to the Railways
(iii) Financing of un-economic and strategic lines
(iv) Funds for passenger amenities
(v) Safety measures vis-à-vis closure of Special Safety Fund

(The witnesses then withdrew).

5. Based on the Memorandum/material received from the Ministries of Railways and Finance and on the basis of their deposition before the Committee, the Committee decided that the Rate of Dividend payable by the Railways to the General Revenue may be maintained at current level i.e. 7 per cent and Draft Report may be prepared accordingly for their consideration.

6. A verbatim record of proceedings has been kept.

The Committee then adjourned.

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MINUTES OF THE TWENTY-EIGHTH SITTING OF THE RAILWAY CONVENTION COMMITTEE HELD ON 05TH MAY, 2008.

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The Committee sat on Monday, the 5th May, 2008 from 1500 hrs. to 1535 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Shri Gingee N. Ramachandran - Chairman

MEMBERS

LOK SABHA

2. Prof. Rasa Singh Rawat
3. Shri M. Raja Mohan Reddy
4. Shri P. Rajendran

RAJYA SABHA

5. Dr. Narayan Singh Manaklao
6. Shri Vijay J. Darda

SECRETARIAT

1.	Shri Brahm Dutt	-	Joint Secretary
2.	Shri T.K. Mukherjee	-	Director
3.	Smt. Rita Jailkhani	-	Deputy Secretary-II

2. At the outset the Chairman welcomed the Members to the sitting of the Committee. Thereafter, the Committee considered and after due deliberations adopted the Draft Report on 'Rate of Dividend for 2008-09 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 Houses of Parliament Hon'ble Speaker, Lok Sabha after making consequential changes, if any, arising out of the factual verification by the Ministry of Railways or otherwise.

4. The Committee also decided to undertake a Study Tour in June, 2008.

The Committee then adjourned.

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