NVENTION COMMITTEE (2009)

(FIFTEENTH LOK SABHA)

SECOND REPORT

ON

RATE OF DIVIDEND FOR 2011-12 AND OTHER ANCILLARY MATTERS

LOK SABHA SECRETARIAT
NEW DELHI

August, 2011/ Sravana 1933 (saka)

RCC No.117

RAILWAY CONVENTION COMMITTEE (2009)

(FIFTEENTH LOK SABHA)

SECOND REPORT

ON

RATE OF DIVIDEND FOR 2011-12 AND OTHER ANCILLARY MATTERS

Presented in Lok Sabha on 30.08.2011

Laid in Rajya Sabha on 30.08.2011

LOK SABHA SECRETARIAT
NEW DELHI

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CONVENTION COMMITTEE
(2009)

Shri Arjun Charan Sethi, MP - *Chairman*

MEMBERS

Lok Sabha

2. Shri Hansraj Gangaram Ahir
3. Dr. Baliram
4. Shri Marotrao Sainuji Kowase
5. Shri P. Balram Naik
6. Shri R. K. Singh Patel
7. Shri Ramsinh Rathwa
8. Shri Arjun Roy
9. Shri C. L. Ruala
10. Shri Radha Mohan Singh (Purvi Champaran)
11. Shri K. C. Venugopal
12. Dr. Girija Vyas

Rajya Sabha

13. Shri Shyamal Chakraborty
14. Shri A. Elavarasan
15. Shri Parvez Hashmi
16. Shri Rama Chandra Khuntia
17. Shri Ranjitsinh Vijaysinh Mohite-Patil
18. Shri Shreegopal Vyas

SECRETARIAT

1.	Shri Brahm Dutt	-	Joint Secretary
2.	Smt Abha Singh Yaduvanshi	-	Director
3.	Smt Usha Gupta	-	Under Secretary

INTRODUCTION

[illegible]ay Convention Committee (2009), having been authorized by the Committee to present the Report on their behalf, present this Second Report on Rate of Dividend payable by the Railway Undertaking to General Revenues and Other Ancillary Matters for the financial year 2011-12.

2. The Railway Convention Committee (2009) presented their First Report on Rate of Dividend for the years 2009-10 and 2010-11 and other Ancillary Matters to Lok Sabha on 10th December 2010 and laid in Rajya Sabha on 10th December 2010. The action taken notes of the Government on the recommendations contained in the First Report of RCC (2009) are given in Appendix-**III** to this Report.

3. Interim Memorandum on 'Rate of Dividend for the year 2011-12 and other Ancillary Matters' containing the views of both the Ministry of Railways and the Ministry of Finance were furnished by the Ministry of Railways on 4th February 2011 . The Committee took evidence of both the Ministry of Railways and the Ministry of Finance on 10th June 2011 and further evidence of the Ministry of Railways was taken on 29th June 2011.

4. After considering the Interim Memorandum and the oral evidence tendered by the officials of the Ministries of Railways and Finance, the Committee have recommended purely as an interim measure, that dividend to General Revenue for the year 2011-12 may be paid at the rate of 5% 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 2011-12. All other concessions now available are also allowed to continue on the existing basis for the year 2011-12.

5. The Committee considered and adopted this Report at their sitting held on 10th August 2011. The Minutes of the sittings of the Committee are appended to the Report in **Part – II**.

6. The Committee express their thanks to the representatives of the Ministry of Railways and of the Ministry of Finance for placing before them their views and for furnishing information desired by the Committee.

New Delhi ;
10th August, 2011
19 Sravana, 1933 (Saka)

ARJUN CHARAN SETHI,
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 óSeparation Conventionô.

2. Under the óSeparation Conventionô, the Railways are required to pay dividend at a fixed rate on the Capital advanced by the Government of India. The óRate of Dividendô payable by the Railway Undertaking to the General Revenues as well as other financial matters are reviewed periodically by the Railway Convention Committee of Parliament.

II. Guiding Principle of Rate of Dividend

3. The first Convention Committee was set up after independence in April 1949. One of the basic principles enunciated by this Committee was the

nd which included an element of contribution to the ve 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 Railwaysô own accounting cadres.

(iv) Railway projects are also free from clearance by Public Investment Board as is not the case 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. 300 crore, Planning Commission is required to concur before the work can be included in the Budget. For works costing over Rs. 300 crore, the Planning Commission prepares an it which is then considered by an Expanded Board …bers of the Railway Board and Secretaries of the …ce (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 Railwaysô 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

s amended by the successive Railway Convention

8. In pursuance of the Resolution adopted by the 15th Lok Sabha on 15th December, 2009 and concurred in by Rajya Sabha on 17th December, 2009, the Railway Convention Committee (2009) was constituted on 15th March, 2010 to review the ñRate of Dividendò 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 óRate of Dividendô payable by the Railways to the General Revenue is based on the recommendations of the Committee. The Interim Memorandum for the year 2011-12 on óRate of Dividend payable to General Revenuesô was submitted to the Committee by the Ministry of Railways on 04.02.2011 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. 1,16, 134 in 2011-12 (BE). This is 11.9% higher than the capital charge of Rs.1,03,744 crore for the year 2010-11 (RE).

nd payable to General Revenues used to be less than Rs. 100 crore till 31 March 1964. This has increased over the years. As against Dividend of Rs.4,941 crore paid for the year 2010-11, provision of Rs.6,735 crore has been made for the year 2011-12.

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

(D) Payment of Dividend to General Revenues

13. The Railway Convention Committee (2009) in their First Report at Para No.55 had *inter-alia* recommended that having carefully considered the view points of the Ministry of Railways and the Ministry of Finance, the Committee accede to the request of the Railways for reduction in rate of dividend as an interim measure for the years 2009-10 and 2010-11, rate of dividend payable by the Indian Railways to the General Revenues at 6%. The Committee had also desired that the Railways should explore the ways of raising their revenue and avenues for resource mobilization while curbing wasteful expenditure and enforcing financial discipline. The Railway Convention Committee (2009) had also recommended in the same Report at Para 56 that all other concessions, as already available on residential buildings, new lines, subsidies from General Revenues, etc. to be allowed to continue on the existing rate of dividend / reliefs in dividends for the years 2009-10 and 2010-11.

14. Apart from above, the Railway Convention Committee (2004) *vide* Para No. 23 of their Third Report (2004) had also extended the concession in payment of dividend as available on new lines on strategic consideration to on-going

rks taken up on strategic consideration. The basis yable to General Revenues as also the subsidy available in payment of dividend, based on recommendations of Railway Convention Committee (2009) applicable for 2010-11 has been brought out in **Appendix-II.**

(E) Present Status of Railway Finances

15. With regard to the financial position of Railways as explained by the Ministry of Railways, in their Second interim Memorandum on ñRate of Dividend for 2011-12 and other ancillary matters submitted to the Committee on 04.02.2011 is detailed in the succeeding paragraphs.

16. As a result of multifarious efforts, financial position of the Railways showed considerable improvement during the period from 2003-04 to 2007-08. Besides discharging the full dividend liability from 2002-03 onwards, the Railways also successfully cleared the entire deferred dividend liability of Rs.2,823 crore by 2007-08. However after 2007-08, the buoyant trend in earnings could not be sustained particularly under freight traffic due to impact of global recession on the national economy since 2008-09 and sharp increase in expenditure consequent upon implementation of the recommendations of the VI Central Pay Commission.

Performance of the Railways during the year 2009-10 :-

17. The Performance of the Railways during the year 2009-10 is as under:

> ñAn incremental loading of 49 mt (million tones) was required to achieve the target of 882 mt. The target was increased to 890 mt at the Revised Estimate stage with corresponding increase in freight earnings from Rs.58,525 crore to Rs.58,716 crore. However, the loading fell short by 2 mt of the revised target. Unit realization was Rs. 65.88 crore per million tones for the year, which was short of the revised target of Rs. 66.35 cr. Resultantly the freight earnings fell short of the R.E. target by Rs. 214 cr.

nger side was also below expectations from the very passenger earnings target of Rs.24,309 crore was e in the Revised Estimates. Actuals were still lower at Rs.23,488 crore short of the revised target by Rs.569 crore. The total earnings from other coaching and sundry also fell short of the Revised Estimates by Rs.291 crore and Rs.102 crore respectively.

The overall drop in earnings and the accretion to Traffic Suspense reduced the budgeted Gross Traffic Receipts of Rs. 88,419 crore to Rs.88,356 crore in the Revised Estimates, and further to Rs.86,964 crore in actuals.

With implementation of the recommendations of the VI CPC for the full year, the Ordinary Working Expenses increased to Rs.65,810 crore in 2009-10 registering a growth of 21% over the previous year. The pensionary liabilities on account of the enhanced benefits conferred upon pensioners, far exceeded the expected outgo and came to Rs.16,603 crore as against Rs.11,265 booked in 2009-10 registering a growth of 47%. ñ

Reduction in receipts and increase in expenditure resulted in substantial drop in internal generation of resources. Railways have had to draw down from the Fund balances, leaving the closing balances in various Railway Funds viz DRF, DF, CF & Pension Fund at Rs.2450 crore as on 31.03.2010 compared to the opening balance of Rs.13,339 crore as on 01.04.2009.

As a result of reduced earnings, higher operating expenses and pensionary liabilities, Railways generated an õExcessô of only Rs.1 crore.

Performance of the Railways during the year 2010-11

18. Brining out the financial performance of the Ministry of Railways during the year 2010-11, the Ministry in their Interim Memorandum mentioned as follows:

ñThe trend of loading and earnings for the first seven months of the current financial year is better than the last year though still short of the budgeted expectations. As against the loading target of 944 mt for the full year, Railways have achieved loading of 516.9 mt to end of October 2010, which is short of proportionate target by 9.9 mt but 15.3 mt more than the loading achieved during the corresponding period of previous year. Taking into account earnings from Passenger and other segments, the total earnings of the Railways up to October 2010 in the current year are short of the proportionate target by about Rs.1,192 crore. The growth achieved so far in the total earnings works out to 7.4% as against the budgeted growth of 8.6%. The growth achieved during the corresponding period of the previous year was 8.9%.ò her, the Chairman, Railway Board, Ministry of e stated:

> ñ The 6^{th} Pay Commission put in a lot of burden on us. But our traffic is growing. In the first two months the freight traffic has grown at about 7.46% slightly less than we planned for 7.8% . Passenger traffic is also growing
>
> Due to uncertainties associated with the impact of VI Central Pay Commission, the expenditure on salaries and allowances continues to be higher than budgeted, thus leaving lesser provisions for non-staff expenditure and also lower internal generation of resources for plan expenditure.
>
> The ordinary working expenses have exceeded the Budget Proportions up to October 2010 by Rs.1080 crore. While, the Railways is making efforts to reverse the downtrend in the earnings and control expenditure, these will be supported by expected increase in loading in the remaining period of the current financial year. The financial performance at the end of the year will determine the ability of the Indian Railways to meet its dividend obligations.ò

20. The Ministry explaining about the capacity augmentation stated as follows:

> ñDue to enhanced demands of growing domestic economy there is a need to augment capacity requirement. The Ministry has taken up ambitious mega projects, dedicated freight corridors for rapid modernization and expansion of the Railways besides completion of certain critical and throughput enhancement works, prioritization in funding of the remunerative and last mile projects etc. Railway expects to carry more than 1020 MT of revenue earnings, freight traffic and nearly 8400 milliom passengers by the end of XI Five Year Plan. It needs no reiteration that the Railways need substantially higher resources to meet development expenditure and capacity augmentation to match the demand for transport infrastructure in Indiaôs growing economy.ò

21. The Ministry has further submitted that since there was decline in internal generation, other options such as market borrowings and Public-Private-Partnership are being resorted to with prudence. While the Ministry of Finance and the Planning Commission are being approached for higher GBS, relief in rate of dividend will enable Indian Railways to generate more resources.

vays

e current liabilities of Ministry of Railways, the Ministry in their Interim Memorandum stated as follows:

> ñRailway is required to extend financial assistance to Konkan Rail Corporation Ltd (KRCL). The KRCL was set-up with an investment of Rs.3555 crore out of which Rs.2755 crore was borrowed from the market on the strength of letter of comfort issued by Ministry of Railways. While KRCL has been able to generate revenue sufficient only to cover its operating expenses it has not been able to service the interest and debt liabilities. As a result, Ministry of Railways had to extend support to KRCL by way of loans. Up to March 2008, the loans extended to KRCL amounted to Rs.2731.40 crore with an accrued interest of Rs.491.06 crore. As a part of the financial restructuring package recommended by Board of Re-construction of Public Sector Enterprises (BRPSE), this liability was converted into fully paid up Non-cumulative Preferential Shares redeemable at par at the end of 20 years and the dividend rate payable on these Non-cumulative Redeemable Preferential Shares would be the same as being paid by Ministry of Railways to the General Exchequer. In 2008-09 and 2009-10, Ministry of Railways has again extended Rs.251.50 crore and Rs.297 crore, respectively to KRCL which along with accrued interest has again been converted into fully paid non-cumulative preferential shares, redeemable at par at the end of 15 years carrying the same dividend liability payable by Ministry of Railways to the General Exchequer. As per the recommendations, Ministry of Railways will have to provide financial assistance to KRCL to cover up full interest servicing and 50% of the Bonds up to 2010-11 wherein Rs.308.15 crore has been provided by the Railways. Though this arrangement will further be reviewed by end of the current year, a further requirement of Rs.1869.32 crore has been projected by KRCL towards this end of the next five years. Until KRCL is debt free, it will not provide any relief to Indian Railways resource.ò

Dedicated Freight Corridors

23. The Ministry of Railways, explaining about mega project for constructing Dedicated Freight Corridor stated as follows:

> ñWith a view to reduce saturation and facilitate smooth traffic in the high density Golden Quadrilateral route, mega projects for construction of two Dedicated Freight Corridors from Ludhiana to Sonenagar (Eastern Corridor) and extended upto Dankuni and other from Tughlakabad to Jawaharlal Nehru Port (Western Coridor) have been taken up in the XI Five Year Plan involving cost of Rs.1 lakh crore. Four more Dedicated Freight Corridors are being planned viz North-South, East-West, East Coast and Southern. All these Freight Corridors would enable the movement of cargo at a higher

nd heavier trains, thereby improving the overall ration and providing assured transit time for freight litional Freight Corridors alongwith accelerated zation would contribute towards increasing the share of Railways in non bulk traffic and create capacities to meet the exponential demand for container movement to and from ports.ò

24. **Vision 2020**

The Ministry of Railways stated that they have a high growth strategy and would require massive investments in capacity creation, network expansion and upgradation. In the Vision document it has been tentatively estimated that around Rs.14 lakh crore investment would be required over the next ten years. Out of this, it is expected that Rs.9 lakh crore (64%) of the investment required would be through internal generation and extra budgetary resources. The gap of Rs.5 lakh crore (36%) would have to be bridged by Gross Budgetary Support from the Central Government.

25. **Backlog of Projects**

Regarding the backlog of projects and financing the same, the Ministry of Railways in their Interim Memorandum stated as follows:

> ñThe target of carrying 1020 MT by the terminal year of the XI Plan would be difficult to achieve until and unless the capacity of the system is augmented and also new connecting routes are opened for traffic. The Budgetary Support for the current financial year is Rs. 15,875 crore (excluding National Projects) constituting 38 percent of the total plan outlay of the railways. The budgetary support received so far constitutes 84 percent i.e Rs. 53,645 crore which include Rs 1165 crore as contribution to SRSF and Rs 4832 crore as additional budgetary support for the National Projects in Jammu and Kashmir and NE Region of the total committed GBS i.e Rs.63,635 crore for the XI Five Year Plan. The Budgetary Support is primarily used for financing construction of new lines, works for gauge conversion, doubling, traffic facilities, railway electrification and workshops. All these projects are vital and very critical for augmenting the carrying capacity of the system which otherwise is now reaching a plateau.ò

...ss on the extent of backlog of projects and the ... Ministry of Railways in their Interim Memorandum submitted as follows:

ñ The throw forward on new lines is about Rs. 60,000 crores. With an outlay of around Rs. 4387 crores on new lines (including land acquisition for Dedicated Freight Corridor) in the year 2010-11 it would take around 14 years to complete the projects on hand with the current level of funding. The situation is likely to get worse with addition of new projects every year based on socio economic considerations and with cost escalation in the projects having long completion periods due to the funds getting thinly distributed among the projects. Besides this, the throw forward in plan heads of doubling and gauge conversion as mentioned above is around Rs. 38,000 crore. Apart from the above, modernization of the Railway infrastructure has been identified as one of the high priority areas by the Government.

Though some of the new line projects are being funded separately as National Projects as those in Jammu and Kashmir and NE Region most of the other projects under new lines are funded entirely through Budgetary Support.

Most of the new line projects have low or negative rate of return. Thus taking these projects on PPP basis may not be feasible. It is also not possible to execute these projects against debts. Railwaysô internal resource generation are not enough to fully take care of the capacity augmentation works after providing for replacement and renewal requirements. Besides, the funding of Dedicated Freight Corridor would also require massive infusion of funds in the future.ò

27. The Ministry of Railways further stated:

ñContrary to the increased requirement of funds through GBS, their share as a percentage of the plan outlay still works out to 38 percent (excluding support for National Projects) in 2010-11. Further with the implementation of the 6th Pay Commission the expenditure of railways has increased substantially squeezing the internal resource generation. The external borrowing is becoming increasingly costly and will put additional strain on the railways finances in terms of increased interest liability.ò

28. The Railways have also absorbed a significant burden of liabilities as explained below:-

1. Lease hire charges on borrowings - Rs.6400 crore
2. Impact of Central Pay Commission - Rs.55,000 crore
3. Expenditure on replacement and renewal- Rs.10,000 crore
4. Dividend Liability - Rs.6,735 crore (B.E 2011-12)

d for the year 2011-12

29. On the issue of rate of dividend for the year 2011-12, the Ministry of Railways submitted following proposals for consideration of the Committee:

(i) Considering the need for substantial resources required for capacity augmentation, modernization, expansion, renewal and replacement of rail infrastructure as well as keeping in view the financial position of Railways, the rate of dividend may be halved for the year 2011-12 from existing 6% to 3%:

(ii) Other modalities for determining the dividend as brought out in *Appendix 'II'* may continue to be adopted for the year 2011-12. All concessions now available as listed therein may be allowed to continue for the year 2011-12.

(iii) Transferring of balances between Development Fund and Capital Fund may be made in case not enough óExcessô is generated before taking loan from General Revenues as both the funds are seeded from the same source.

(iv) The contribution to Depreciation Reserve Fund in 2011-12 may be allowed to be made at Rs.7,100 crore consisting of Rs.7,000 crore from Revenue and Rs.100 crore from Production Units as has been appropriated to DRF in the BE 2011-12.

(v) The contribution to Pension Fund in 2011-12 may be allowed to be made at Rs.16,010 crore consisting of Rs.15,810 crore from Revenue and Rs.200 crore from Production Units as has been appropriated to the PF in Budget Eastmates 2011-12.

(vi) The principles governing interest on various Railway Reserve Funds and Development Fund may remain as at present.

30. While disagreeing with some of the proposals of the Ministry of Railways on Rate of Dividend for the year 2011-12 made out in the memorandum submitted to the Committee, the Ministry of Finance submitted that the reporting of the past performance by Railways requires to be made more comprehensive and transparent for better appraisal of the Committee. The Ministry of Finance, however submitted counter views on the proposals of the Ministry of Railways as follows:

(a) The oft-repeated contention of Ministry of Railways to reduce rate of dividend on the grounds of additional expenditure arising out of the implementation of the recommendations of 6th Central Pay Commission, is not agreeable, as the same commitments on a much larger scale for the entire Government has to be met from the General Revenues;

d average cost of market borrowings was 7.69% ear 2008-09. This became 7.23% in the year 2009-10. In the current year, the weighted average cost of market borrowings is 7.87% upto 13th December 2010.

(c) Railways have been getting a number of reliefs and concessions from Government. One of the important concessions, in the form of dividend relief, is subsidy from General Revenues on capital invested in respect of certain specific items like strategic lines, gauge conversion work were taken up on strategic consideration, 28 New Lines taken up on or after 01.04.1955 on other than financial considerations, North-Eastern Railways (Non-Strategic portion), ore Lines etc.

(d) After taking into account the concessions in the form of subsidies (Rs.2155.66 crore) and other losses (Rs.654.66 crore) that are reimbursed, the effective rate of dividend in 2009-10 (Rs.5517.61 crore minus Rs.2810.34 crore) works out to much lower percentage of the total capital-at-charge upto 2008-09 (Rs.79877 crore).

(e) The rate of interest on the investment in the form of loans to Public Sector Enterprises for the current year stands at 11.5%. As against this, investment made in Railways, being treated as ó loan in perpetuityô, is highly concessional even at 7% though in practice it translates into much lower rate of dividend payment of 3-4% after taking into account the concessions and reliefs allowed;

(f) The surplus of Railways, which stood at a peak of Rs.10669.68 crore in 2006-07 and at Rs.13431 crore in 2007-08 has come down to Rs 1 crore in 2009-10 (Actuals). This has more to do with the rationalization of tariff by Ministry of Railways than its own performance. Especially Railways being a departmentally run commercial undertaking, Railways should endeavor to recover the cost fully from its services keeping in view the fact that staff cost has gone up considerably after implementation of the recommendations of the 6th CPC, in order to generate sufficient surplus to finance its capital requirements.

(g) The Budget Support (excluding contribution towards Special Railway Safety Fund but including additional budget support towards projects of national importance and) being provided to Ministry of Railways has already been increasing over the recent past years as may be seen from the table given below:

Rs in crore

	GBS	SRSF	GBS Net of SRSF	%age Growth (net of SESF)
2004-05	8467.99	2975.00	5492.99	3.35
2005-06	7811.46	2499.00	5312.46	-3.29
2006-07	7554.21	1365.00	6189.21	16.50
2007-08	8134.55	1165.00	6969.55	12.61
2008-09	9545.35		9545.35	36.96
2009-10	16910.84		16910.84	77.16
2010-11 (BE)*	17297.61		17297.61	2.29

*In BE 2010-11, Budget Support to MoR through GBS was Rs.15875 crore (excluding Railways share of diesel cess). In addition, amounts of Rs.398 crore through 1st Batch of Supplementary Demands and Rs.1024.61 crore through 2nd batch of Supplementary Demands were provided in the current year as additional budget support towards projects of national importance.

(h) Ministry of Railways are getting committed additional budgetary support during the course of the financial year over and above Gross Budgetary Support provided by the Planning Commission towards the projects of national importance such as Udhampur-Srinagar-Baramulla new line and other projects in North Eastern Areas. The following amounts were provided to these projects of ónational importanceô over the recent years:

(Rs. in crore)

Year	Additional Budget Support
2004-05	700
2005-06	665
2006-07	1050
2007-08	1235
2008-09	1299
2009-10	1900
2010-11^	1423

^ Upto Second batch of Supplementary Demands for Grants in the current financial year.

(i) Given the fact that the budget support provided to MoR is growing substantially in the recent years and that the Railways are being compensated through subsidy and reimbursement of losses on operation of óstrategicô lines, there is no ground for Ministry of g reduction in the applicable rate for payment of ral Revenues. In fact, Railways should endeavor to lend to General Revenues and in turn get higher investments from General Revenues.

31. In regard to proposal of the Ministry of Railways to transfer of balances between Development Fund and Capital Fund for utilizing the balances from Capital Fund to Development Works and *vice-versa* to avoid the loan from General Revenues, the Ministry of Finance stated

> ñThe procedure for withdrawal from development fund and taking a loan from General Revenues if sufficient balances are not available ï is approved by Railway Convention Committee. Though both the funds are seeded from the same source, diversion of balances from one to another will dilute the purposes for which these funds were created and therefore is not recommended.ò

32. In view of the Governmentôs commitment towards higher public expenditure on social sector programmes in the areas of education (Right to Education Act), food subsidy, health, rural development and for increased subsidy claims, the Ministry of Finance proposed to maintain the rate of dividend payment by Railways at the rate of 7% for 2011-12 as the desired relief of lower dividend of 6% has already been provided to Ministry of Railways for last 2 years which actually works out to 2-3% if all concessions and reliefs given to Railways are taken into account. The Ministry of Finance also proposed that they have no objection in accepting proposals of the Ministry of Railways relating to modalities for calculation of dividend, accretion / withdrawal to / from various fund balances as they are procedural in nature.

33. Reacting to the views of the Ministry of Finance and reiterating the constraints on the Railways finance, the Ministry of Railways have put forth further arguments emphasizing that the Rate of Dividend may be halved for the year 2011-12 from 6% to 3% as follows:

(a) The impact of implementation has been enormous and there has been an additional outgo of Rs.55000 crore in three years and a recurring annual expenditure of Rs.18000 crore. This has impacted the resource generation capacity of the railways in an unprecedented manner and adversely affecting the plan investment hrough internal generation. Railways are in a dire ource to meet the requirement of expansion & of the system.

(b) Railways pay dividend in perpetuity whereas the borrowings of the Government have a fixed tenure. Further, 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 un-remunerative 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 RCC. While it is true that losses on strategic lines are compensated, but investments in Railways newlines take a much longer period to generate profit and the system has to incur operating losses year after year.

(c) The Railways also carry social service obligation of around Rs.13500 crore by carrying certain passenger and goods services below cost in the larger interest of society on socio-politico considerations, without being compensated. This is in addition to the dividend being paid by the Railways.

(d) Inadequate plan investment in the rail infrastructure will lead to stunted growth thereby creating bottleneck in the progress of the nation. A steep increase in the overall Gross Budgetary Support to the Railways is the need of the hour. 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) Over the years, Railways have been increasing the market borrowings to fund its rolling stock acquisition that was earlier being funded through Capital. The level of market borrowings has increased tremendously from Rs.2897 crore in 2000-01 to Rs.9120 crore in 2010-11. This has of course suppressed the resource generation capacity as the quantum of payment of lease charges continues to grow and it now stands at Rs.6338 crore as against Rs.3041 in the year 2000-01.

(f) Railways have, over the past few years, consistently improved operational efficiency to generate more revenues for development expenditure. However, in the years of implementation of pay commissions, Railways always face this problem of resource crunch. It is worth mentioning that all internal generations of the Railways are ploughed back for renewals, replacement, and

...nd modernization projects thereby affording ...elief to the general exchequer.

(g) The several new initiatives like the heavy haul Dedicated Freight Corridors, projects for strengthening the Golden Quadrilateral and the diagonals, Freight and passenger terminal up-gradation, 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. Railways also have a considerable shelf of sanctioned projects that are inadequately funded. The debt servicing liability of Konkan Railway Corporation is also being borne by the Railways. In view of the above, this Ministry requests the Committee to kindly reduce the rate of dividend to 3% for the year 2011-12 from the existing 6%.

(h) Regarding transferring of balances in Capital Fund to Development Fund in 2009-10, this Ministry feels that since both the Development fund and the Capital Fund receive appropriations from “Excess”, taking loan from General Exchequer for one Fund when the other is having sufficient balance may not be considered financially prudent. Also, even after transferring funds from the Capital Fund to the Development Fund, the general ways and means position of the Government will remain the same. Hence, the Railways, contention on transferring of balances between Development Fund and Capital Fund in case not enough “Excess” is generated before taking loan from General Revenues, may be considered favourably.

34. The Ministry of Railways submitted that the revenues of the railways are utilized for plan investment after meeting the requirement of operating expenditure and pension liabilities. With the implementation of VI Pay Commission recommendations, the availability of resources for plan investment has not been up to the expectations. Considering the limited budgetary support, the plan investment has been lesser than projected in the Vision 2020 although it is increasing every year. The financial position of the Railways will improve and stabilize in due course. Till such time, relief in the form of higher budgetary support from the General Exchequer and reduction in the rate of dividend will help the Railways to tide over this difficult phase. It will ensure that essential modernization and expansion plans of the Railways continue unhindered.

evidence on 10th June, 2011, the Financial l) made a power point presentation before the Committee about the financial status of Indian Railways highlighting briefly financial performance, balances available different funds of the MoR, impact of VI Pay Commission recommendations, overall liability of the Ministry of Railways etc.

Elucidating the óFinancial Performanceô of Railways, the Financial Commissioner (Railway Board) stated as under:

> ñAs far as the growth in the Railways is concerned, the total increase in the earnings at the rate of about 15 per cent, 11 per cent, 9% and 8.5 per cent for the years 2007-08, 2008-09, 2009-10, 2010-11 (provisional) respectively and we have projected it to be at 12 percent (BE) for the year 2011-12. This rate of growth that we have been able to project is more than the GDP growth. Our capital at charge has also increased. We have also increased our capital assets from year to year which has been at the rate of 10 per cent, 12 per cent, 21 per cent, 18.4 per cent for the year 2007-08, 2008-09, 2009-10, 2010-11 respectively and now projected to be at 11 per cent (BE) for the year 2011-12. This increase in our capital charge and the growth in our asset base that we have made is with reference to the new lines that we have gone in for, for the doubling, various other projects pertaining to electrification and other areas.
>
> We are registering growth in our earnings. We are registering growth in our capital assets. But at the same time, we also incurred growth in our expenditure. The main increase that we had was mainly because of the Pay Commission recommendations. We have registered an increase of an unanticipated amount of Rs. 73,000 crore in terms of increase in salaries as well as in pension.
>
> We are probably going to reach a plateau because we had paid the arrears and salaries, but that is not really so because the increase in our salaries is going to continue because our DA rates have increased by 51 per cent which means that our allowances will also increase simultaneously. We will be facing the impact in the current year. Although we thought that there would be a complete plateau in the years to come, it would not be really so. Our expenditure levels have gone up very high.ò

36. The Chairman (Railway Board) deposing before the Committee added as under:

wayôs growth is inter-linked with the growth of the pleôs aspirations are that Railways must reach the actually increased the volume of traffic. We have embarked on some very optimistic and very capital intensive projects like the dedicated freight corridor. We have been talking about having world class stations and new projects of locomotive factories.

We would like investments to come from outside through PPP etc, .We have taken loans for the western corridor from Japanese Bank, Jica. I am happy to report to you that for the eastern corridor also the World Bank has cleared the loan on 31st May in Washington. So these two loans have already been taken by us. Along with that we have agreed for enhanced tax-free bonds of Rs.10000 crore in the current financial year. We are having a plan outlay of more than Rs.57000 crore for the current year. If we have to match the growth of the GDP of more than 8% we need infusion of funds in the railway system. If we see the Chinese growth system or European growth system, the funds for the railways growth has never been internally generated anywhere in the world. If we ask for that, then we will have to indirectly tax the people of the nation and tell them ódo not travel by train because we charge more which will be higher than the air fareô. Railways is one organization which is very inclusive with the population of the country. Anybody can travel and we have provided one of the cheapest modes of transport. I would like to bring to your notice that even if we increase our fare ï I think the time has come to do that and we are working on it, which is an inflationary kind of decision ï which can be to the extent of ten or fifteen percent it will give us about Rs.2000 or Rs.2500 crore if we able to increase the fare all across the people who are travelling. If we exclude some, then it will come down to that extent.ò

37. Presenting the views of the Ministry of Finance the Secretary, Department of Expenditure submitted before the Committee as follows:-

ñ We are all proud of our railways. It plays a very important role in the national economy. That is a given. Within that, the railways are required to function as a Department and commercial undertaking on commercial principles. In the Indian context, this responsibility lies heavy on the railways, perhaps more than for some of the countries, which the Chairman, Railway Board has mentioned. It is because in some of the countries to which he has referred to primarily the western European ones, there are some times independent railway regulators. We do not have an independent railway regulator. Therefore, the onus lies on the railways themselves to function with a sense of discipline keeping in mind the overall needs of the national economy.

…ave sought as dividend, which is seven percent for …n there in the past except in the last two years. This …ly with the 11.5 percent interest paid by the public sector enterprises on government loans. As you are aware, the stipulation for payment of dividend for the Central PSEs is a minimum of twenty per cent of equity or a minimum dividend pay-out of twenty percent of post-tax profits, whichever is higher. In the case of some of the sectors this dividend is even higher at thirty percent of the post tax profits.

The Railways have made a case that they have suffered due to the Pay Commission to the extent of forty per cent of the pay liability of the Government. This perhaps is overstated. It may be mentioned that if we include the pay liability of the defence services, which after all the Government has to bear, that alone is estimated at Rs.61545 crore in the BE of the current year that is 2011-12. Similarly, the liability amounting to Rs.60660 crore is on account of other Ministries and Departments of the Government. On this basis, the railways liability of Rs.39951 crore in 25 percent of the total Government expenditure, not forty percent. The railways salary expenditure of Rs.39951 crore includes provision of Rs. 11260 crore for other staff. This includes a very high portion of allowances at 28.18 percent, which includes the performance linked bonus, night duty allowance, DA etc.ò

38. On the performance linked bonus, the witness stated:-

ñNow when they come to us for PLB, they say they have done so marvelously well and we must increase the number of days for which they are giving PLB. At that time, they do not tell us that we have borne all these losses and we should not be giving any PLB or to at least keep it static. Last year, they made us give it for 76 days, actually it is 75. They went to the Cabinet and had the Ministry of Finance overruled. So, we want certain disciplineò. Let us see what happened since then. The PLB actually has been increased from 75 days to 77 days. This is quite in contrast to two other Departments which are also Government-run Departments, which also give performance linked bonus, the Department of Posts and the Ordnance Factory Board. The Ordnance Factory Board has maintained that their performance-linked bonus fixed at forty days since 2006-07 and the Department of Posts has kept it at sixty. I am not saying whether it is warranted or not. I am saying here has to be some amount of discipline which has to be maintained.

When the allowances are pushed up, you cannot say that you will push down the dividend. I think the Chairman, Railway Board has acknowledged that the Railways need to rationalize and revise passenger fares, which has not been done for almost a decade, which is required in view of the huge losses that they incur on cross subsidization. This Committee in its Report has recommended that the railways should explore the ways and means of raising the revenue and avenues of resource mobilization.ò artment of Expenditure, Ministry of Finance further

ñThe Budgetary support (for Railways) has been of the order of Rs.68473 crore for the Eleventh Plan against a plan outlay of Rs.50063 crore. This excludes the additional Budgetary Support for the national projects which is another Rs.8692 crore. On the other hand, the IBER generated by the railways during the 11th Plan period amounting to Rs.1.27 lakh crore fell short of the targeted RS.1.69 lakh crore. So, the Government has been providing full support to the railways.

The Governmentôs borrowings over this period have increased and for 2011-12 the borrowing is at Rs.447000 crore. The Government borrowings do not get extinguished. This is the point made by the railways earlier. They said that they are paying loan in perpetuity and that they are paying for the old loans also. That is also true of the Government borrowings. I will draw your attention to the cost of Government borrowings. That has constantly been going up. In 2009-10 it was 7.23 percent, it went up to 7.92 percent in 2010-11; this year so far the Government securities it is at 8.30 percent. If we look at the trend it is expected to further go up to 8.5 percent.

The proposal to reduce the rate of dividend will have a very deep impact on non-tax revenues which will have a knocks-on effect on the ability of the Government to stick to its fiscal deficit target which is 4.6 percent and missing that would have all round impact on inflation and send a wrong signal.ò

40. When enquired about the total financial impact in case rate of dividend is reduced to 3% from 6%, the Chairman, Railway Board replied as under:

ñThe Government will be deprived of Rs. 1856 crore revenue.ò

41. In this connection Secretary, Department of Expenditure, Ministry of Finance stated as under:

ñThe budget document as well as the Budget document of the Railways, show the dividend at Rs.6734.72 crore, including subsidy payable from the General Revenues on various concessions and un-remunerative lines. Rs.3054 crore is what we will currently get as from the dividendò.

42. The Chairman, Railway Board stated :

ñOur calculation shows Rs.3712 crore to be paidò

43. The Secretary, Department of Expenditure, Ministry of Finance stated:

cent, then it becomes negative pay out from the ply and earnestly request this Committee to bear in r fiscal discipline, the need for the Government to adhere to its fiscal deficit targets in the overall interests of the economy and controlling inflation. In that context, kindly allow a rate of dividend payable by the Ministry of Railways to the General Revenues at seven per cent.ò

44. Reacting to the views of the Secretary, Department of Expenditure, the Finance Commissioner, Ministry of Railways stated as under:-

> ñWe do function as a commercial undertaking. We have more than that role to play, if it was a commercial organizations, I would straightaway increase the fares like the fuel prices can be increased by five rupees. We can also increase the fares. We are carrying out several developmental works, several welfare projects for the staff which we continue. As a commercial undertaking, if I had any financial problem, I would immediately stop all my training activities, research activities, welfare activities and developmental works which as a Government organizations I cannot do and I am not doing that. Therefore, I cannot be treated as any other commercial organization or any other PSU. This is what I want to be taken into account.ò

45. When inquired about the views of the Ministry of Railways on discipline in budget making as suggested by the Ministry of Finance, the Chairman (Railway Board) replied as under:

> ñRegarding the fiscal discipline, I would like to mention that Indian Railways work with great discipline on its various financial matters. We have a very, very vibrant financial organization. We have an Indian Railways Accounts Service which has been functioning even before the Independence. It is one of the oldest Group ïA Services of the Central Government. We examine each and every proposal in great depth and are very alert to all our expenses required or increases which are coming. I would like to assure you that we are working with great amount of discipline. What has actually created problem is the increase in the Salaries and Pension Fund. If you see the figures of the Pension Fund in the last five years, my Pension Fund requirement has gone up by nearly Rs.10000 crore or slightly more than that in a year. We have one of the largest retired populations of Government servants and we really look after them. So, some assistance is needed to discharge that responsibility.ò

46. Explaining the Performance Linked Bonuss issue raised by the Secretary (Expenditure), the Chairman, Railway Board stated:

n which has not lost even one hour of working of e country. We have had not a single loss of man- financial year. We are very sanguine that this year also, we will not have situation like that. PLB is a decision taken by the Government of India.ò

47. In reply to query about exercising financial prudence and discipline in Railways, the Chairman (Railway Board) stated:

> ñWe have achieved a very good performance last year on new lines, gauge conversion and doubling. This year, we have a more ambitious target. I am sure, the way Member (Engineering) is monitoring it, we would give you better results than last yearôs record performance the way we are completing the works. The project cost was going up because of the delays. That is what we are constantly working on to ensure that delays should be reduced to the minimum. If we are able to achieve the target of more than 1,000 kilometres, it would be a very good performance. The target for gauge conversion and doubling is 800-odd kilometres and the total target is more than 2,500 kilometres. It is 709 kilometres. New lines, we should do 1,075 kilometres. The project cost should come under control with this pace of working and we hope to raise our funds through the IRFCôs tax-free bonds. Regarding passenger amenities and safety we spent 800 odd crore last year.ò

48. Asked about the concrete measures taken /being taken to improve the finances of Railways, the Financial Commissioner stated as under:-

> ñWith the increase in our capital base and construction of the new lines, there has been two-fold impact on our finances. On the one hand, we are running several lines which may not be remunerative and we are operating them on losses and on the other hand, there are many excesses (in project costs) and variations which are taking place in our projects when we were carrying out works. A scale has been laid down where the variations in works would be personally monitored by the Minister to see that they are logical and correct. This itself would have a deterrent effect and all officers would be very conscious of the fact that any variations they incur will require Ministerôs approval.
>
> We have also taken steps to restrict the power of reappropriation at the local levels and kept the power of reappropriation entirely with the Board so that it is applied only where it is genuinely needed, the Board Members will intervene to ensure that the monies are properly spent.

g about prioritization in our funding for the works. eps to ensure that we give more attention to the d to the last mile projects. In the Budget that we have received from the Parliament with a sanction of the Appropriation Bills, we have put certain restrictions and reserves and issued only spending limits to the zonal railways so that even if there is an incurrence of expenditure, we have some buffer at the Railway Boardôs level to equalise that. We have also been very actively trying to see how we can raise our resources either by funding of the projects from the State Governments or the IRFC. The IRFC borrowings we have also enhanced by nearly three folds from Rs.8000 to Rs.9000 crore, this year we are planning to borrow about Rs.20,000 crore. So, we have tried to build in certain areas where we can perhaps bring in some fiscal discipline into our system. At the zonal levels, we have already called them once to the Railway Board for one to one discussion to see which are the main areas where the expenditures are taking place and ensuring that financial discipline is ensured at all levels.ò

49. The Chairman, Railway Board pleaded for the relief in the dividend rate and stated as follows:

ñIn the first two months, the freight traffic has grown at about 7.46 per cent, slightly less than that we planned for 7.7 per cent growth in our freight. We hope that we will maintain the trend of about 7.5 per cent to 7.7 per cent growth in freight traffic. Our passenger traffic is also growing very well. We are growing at a rate of more than six per cent and as the figures show you, in the first two months, our gross earnings are up by about 11 per cent, it is slightly more than 11 per cent over the last year. We have to do even better than that to generate more internal revenue. But we are putting lot of pressure on the control on expenditure. To match that kind of growth, we have to get some support and that is why we have come to you that if you can give us some relief in the dividend rates. This money can be used for Railwayôs growth; nowhere else we will use it.ò

<u>Funds of Railways</u>

(A) Depreciation Reserve Fund (DRF)

50. 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.

roposal of the Ministry of Railways regarding Depreciation Reserve fund in 2009-10 and 2010-11, the Committee in their First Report, had recommended as under: -

> ñContribution 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 2009-10 and 2010-11.ò

52. Due to reduction in the internal resource generation, the appropriation to the DRF in 2009-10 has been kept at Rs.2187 crore from Revenue and Rs.100 crore from Production Units. The Fund had closing balance of Rs.5 crore at the end of the financial year 2009-10. While the appropriation to the DRF for 2010-11was kept up Rs.7600 crore in the Budget Estimates, at Revised Estimate stage it has been Rs.5700 crore and Rs. 100 crore respectively from Revenue & Production Units in consonance with the capacity to generate internal resources and Plan requirements.

53. The appropriation to the DRF for 2011-12 (BE) has been budgeted to be Rs. 7,000 crore and Rs. 100 crore from revenue and production units respectively. On the proposal of the Ministry of Railways, the Ministry of Finance have observed that the appropriation to DRF for the year 2011-12 may be allowed to be made in consonance with the Railway Plan for 2011-12 to be finalized later during the year.

(B) Pension Fund (PF)

54. 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, 12 lakh Railway Pensioners will be benefitting due to implementation of 6th Pay Commission.

55. The Committee in their First Report (15th Lok Sabha), while approving the proposal of the Ministry of Railways regarding contribution to be made to Pension Fund in 2009-10 and 2010-11, had recommended as under: -

> ...timates as well as Revised Estimates for the year ...ropriation to the Pension Fund has been kept ...rom Revenues and Rs.100 crore from Production Units (subject to adjustments). The appropriation to the Pension Fund in 2010-11 has been budgeted to be Rs.14,510 crore from Revenues and Rs.100 crore from Production Units. The Committee agree that the contribution to Pension Fund may be made in keeping with the requirement submitted by the Railways in their projections.ò

56. In their Explanatory Memorandum on Rail Budget for 2011-12, the Ministry of Railways have submitted the following:

> ñFor the year 2010-11, the appropriation to the Pension Fund has been placed at Rs. 14,710 crore in the Revised Estimates comprising Rs. 14510 crore from revenue and Rs. 200 crore from Production Units. While the closing balance in this fund for the year is Rs.217.61 crore.ò

57. The appropriation to the Pension Fund in BE 2011-12 has been kept at Rs. 15810 crore from revenue and Rs. 200 crore from Production Units. It has been stated that the actual amount of contribution in Pension Fund in the fiscal year 2011-12 will be intimated to the Committee in due course.

58. In regard to the proposal of the Ministry of Railways, the Ministry of Finance have observed that contribution to Pension Funds in 2011-12 may be allowed to be made in keeping with the actual requirement submitted by the Railways in their BE projections especially the impact of the recommendation of the 6th Central Pay Commission.

(C) Development Fund (DF)

59. This fund has four segments and is used for meeting expenditure on :-

(i)	Passengers and usersô amenities	:	DF I
(ii)	Labour Welfare Works	:	DF II
(iii)	Unremunerative operating improvements	:	DF III, and
(iv)	Safety Works	:	DF IV

to the Fund is made out of the ôExcessô left after meeting the dividend liability.

60. The DF receives appropriation from ôExcessô generated by the Railways after meeting the Dividend liability, which was estimated to reduce from Rs.2642 crore in BE 2009-10 to Rs.951 crore in RE 2009-10. Whenever, the ôExcessô is not sufficient, the Railways may borrow money from the General Revenues as per the recommendation of RCC. The money borrowed in this manner has to be repaid together with the interest thereon in subsequent years. In fact, the actual ôExcessô at the end of 2009-10 was only Rs.75 lakh and as a result Railways had to transfer Rs.725 crore to DF from the available balances in the Capital Fund. The main reason for budgeting reduced appropriation to Development Fund (DF) at RE stage in 2009-10 was severe impact on the internal resource generation due to the implementation of the 6^{th} Central Pay Commission.

61. The appropriation to this Fund was kept at Rs.2,358 crore in the Revised Estimates 2010-11. In Budget Estimates 2011-12, the appropriation to this Fund has been kept at Rs.2,400 crore. The Committee will be informed of the actual amount of contribution that would be made to the DF keeping in view the plan outlay and overall resource available in the fiscal year 2010-11, at the appropriate stage.

62. The Ministry of Finance are not in agreement with the diversion of funds from Capital Fund to Development Fund on their own without following the procedure for such diversion. According to the Ministry though both the funds are seeded from same source diversion of balances from one to another will dilute the purposes for which these funds were created.

)

e 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.

64. As per the Interim Memorandum submitted by Ministry of Railways, it has been mentioned that in2009-10, no amount could be appropriated to this fund. The expenditure of Rs.3282 crore has been incurred by drawing from the balances available in fund. Closing balance in the fund was Rs.2,438 crore in 2009-10. In Budget Estimate 2010-11, the appropriation to this fund was kept at Rs.373 crore. This along with the balance in the fund was considered sufficient to take care of expenditure of Rs.2787 crore for payment of principal component of lease charges and throughput enhancement works planned for the year.

65. Due to shortfall in the Internal resources in previous year, balances in Capital Fund has reduced drastically due to which the appropriation of fund was increased to Rs.1747 crore in the revised estimates for the year 2010-11.

66. The appropriation to fund for 2011-12 (BE) is Rs.2,858 crore. The gap in Development Fund in 2009-10 has been bridged by transferring Rs.725 crore from opening balance of Capital Fund to Development Fund in 2009-10. Since, both the Development Fund and Capital fund receive appropriation from “Excess”, taking loan from general revenue from one fund where the other is having sufficient balance is not considered financially prudent as it would mean an additional interest

t rates. The Ministry have requested to confirm this ance between Development Fund and Capital Fund as and when required before resorting to loan from General Revenue.

(E) Railway Safety Fund (RSF)

67. 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 óExcessô left after payment of dividend to General Revenues.

68. The Ministry of Railways in their Interim Memorandum have submitted as follows:

> ñIn BE 2010-11, an appropriation of Rs.879 crore has been made to the Fund consisting of Rs 876 transferred by the Central Government from the Central Road Fund. Rs.3 crore worked out as contribution for the erstwhile RSWF out of the dividend. While the Revised estimates appropriation is Rs.935 crore for the year 2010-11. For 2011-12 (BE) Rs. 1,043 crore has been appropriated to this Fundò.

ing accidents and utility of Railway Safety Fund, way crossings, the Chairman, Railways Board stated during evidence:

> ñIn the first two month and twenty days we have had a reduction of about 32% on accidents as compared to last yearé In fact unmanned level crossing gate is definitely a problem. About 45% of our accidents were taking place in unmanned level crossing gatesò

70. When enquired by the Committee about the steps taken by the Ministry about unmanned level crossing gates, the representative from the Ministry of Finance stated as follows:

> ñ Last year we have reduced a number of unmanned level crossing by more than 1200 in one year. About 400 plus level crossings have been reduced by manning, about 200 plus by construction of road over bridge, about 200 plus by road under bridge and about 300 plus by diversions or closingsò

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

71. The Ministry of Railways in their Interim Memorandum 2011 have proposed as follows:

> ñThe recommendations of Railway Convention Committee (2009) in respect of interest on the balances in the various Railway Funds as contained in their First Report for the year 2010-11, may be made applicable for 2011-12 also. According to this, the balances in the various Railway Reserve Funds (other than Development Fund and 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 is óinterest freeô fund.ò

72. In response to the proposals of the Ministry of Railways, regarding accretion / withdrawal from Depreciation Reserve Fund, Pension Fund, interest on various Railway Reserve Fund and other modalities for calculation of dividend, the Ministry of Finance mentioned that these are procedural in nature and there is óNo Objectionô thereagainst.

RECOMMENDATIONS OF THE COMMITTEE

73. The Committee note that there is an upward trend in the financial position of railways in the current year. In the year 2010-11 various significant areas have shown growth over previous year *e.g* Capital-at-Charge has increased to Rs.1,03,774 crore (18.4% over previous year), Freight loading has increased to 922 (million tones) (3.8% over previous year), passenger earnings have increased to Rs.25,792 crore (9.8% over previous year), total earnings have increased to Rs.94,525 crore (8.5% over previous year), total receipts have increased to Rs.96,681 crore (8.4% over previous year) and Internal Resource Generation to Rs.6,956 crore (212.2% over previous year). Also the Asset base has increased from Rs.1,55,523 crore in 2007-08 to Rs. 2,66,199 crore at the end of 2010-11. The Committee are aware that the demand for transport is directly or positively co-related with GDP growth. They find that the elasticity of transport to GDP is 1.25% and a 9% growth in GDP would translate into increase in demand for transport to the tune of 11%. The Committee also aware that the expenditure side has also increased such as the ordinary working expenses have increased to Rs.68,138 crore (3.5% over previous year) and the total working expenses have increased to Rs.89,473 crore (7.9% over previous year).

74. The Committee have considered the arguments putforth by both the Ministries of Railways and Finance on the issue of rate of dividend payable by the Railways to the General Revenues. The Committee note the submission of the Ministry of Railways for the reduction of rate of dividend on the capital invested on the Railways from the existing 6% to 3% for the years 2011-12 in view of the huge throw forward that the Railways have on account of various projects including New Line projects and adverse impact of 6th Central Pay Commission recommendations. The Committee find that Railways have a huge backlog of on-going new-line projects, gauge conversion projects and doubling

...ay electrification workshops are at various stages ...delay in execution of most of these projects is a cause of concern as these became like the Non-Performing Assets of the Railways. It has been stated that the Railways would require Rs.1,30,000 crore to complete these projects. The flagship project of Indian Railways - the dedicated freight corridors requires huge investments of the order of Rs.1,00,000 crore. The Committee note that the recent law and order problems including naxal menace, which the Railways face in quite a number of pockets have also made a dent in the finances of the Ministry of Railways. The Committee further note that there is a need for higher Gross Budgetary Support for timely completion of projects as also to meet the requirement of capacity augmentation in line with the growth in economy especially the ambitious dedicated freight corridors and vision 2020 targets.

75. The Committee strongly recommend that the Railways should observe greater financial discipline and lay greater stress on the performance of Railways for reducing their working expenses and project costs. They also recommend that Railways should not spread their scarce resources among the projects rather greater emphasis should be laid on prioritization of projects. Besides, the Committee stress that higher GBS be provided to the Railway for funding the pending and on-going projects.

(Rec Sr. No.1)

76. The Committee find that the budget provisions for dividend payable for the year 2011-12 is Rs.6734.72 crore and according to the Ministry of Finance, the effective rate would be only 2-3% if concessions and reliefs given to Railways are taken into account. The Ministry of Finance also submitted before the Committee that in case dividend is reduced from 6% to 3% there would be a negative pay out from the Railways.

77. Considering the present overall financial position of the Railways as also the need to urgently develop the railway infrastructure including modernization and safety related works, the Committee recommend purely as

... the year 2011-12, the rate of dividend to the ...d at 5% 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 2011-12.

(Rec Sr. No.2)

78. The Committee also recommend that all concessions on rate of dividend/ reliefs in dividend now available on residential buildings, new lines, subsidies from General Revenues, etc., be allowed to continue on the existing basis for the year 2011-12.

(Rec Sr. No.3)

79. The Committee note that the appropriation to the Depreciation Reserve Fund (DRF) in 2009-10 kept at Rs.2,187 crore from Revenue and Rs. 100 crore from Production Units. The closing balance in DRF was Rs. 4.99 crore at the end of the year 2009-10. They further note that for the year 2010-11 an amount of Rs. 5,800 crore (RE) consisting of Rs. 5,700 crore from Revenues and Rs. 100 crore from Production Units has been appropriated to DRF in the revised estimates. The appropriation to the DRF for 2011-12 has been budgeted to be Rs. 7,000 crore and Rs. 100 crore respectively from Revenue and Production Units. The Committee recommend that the contribution to the DRF may be allowed to be made in consonance with the capacity of the system to generate internal resources. The Committee desire to be informed of the actual amount of contribution made to DRF in the year 2011-12.

(Rec Sr. No.4)

80. The Committee find that there are 12 lakh Railway Pensioners. They observe that the appropriation to the Pension Fund (PF) in 2009-10 was kept at Rs.15,028 crore, cons isting of Rs.14,928 crore and Rs.100 crore respectively from Revenue and Production Units. The closing balance in the Fund was Rs.1.24 crore at the end of the 2009-10. In the Revised Estimates for

...opriation to the Pension Fund has been kept ...,510 crore from Revenues and Rs. 200 crore from Production Units. The appropriation to the Pension Fund in 2011-12 (Budget Estimates) has been budgeted to be Rs. 16,010 crore consisting of Rs.15,810 crore from Revenues and Rs. 200 crore from Production Units. The Committee agree that the contribution to Pension Fund may be made in keeping with the requirement submitted by the Railways in their projections especially with regard to increase in number of pensioners, rate of dearness relief and impact of the recommendations of the 6th Central Pay Commission (CPC)

(Rec Sr. No.5)

81. The Committee observe that the appropriation to the Development Fund for the year 2009-10 budgeted at Rs. 2,642 crore was reduced to Rs. 951 crore at RE stage. Though this fund covers the important areas like passenger amenities and safety works, the actual 'Excess' at the end of 2009-10 was only Rs.75 lakh and as a result Railways had to transfer Rs.725 crore to Development Fund from the available balances in the Capital Fund. The Ministry of Railways informed that the appropriation to Development Fund was kept at Rs. 2358 crore (RE) in 2010-11. In Budget Estimates 2011-12, the appropriation to this Fund has been kept at Rs.2,400 crore. As per the recommendation of the Railway Convention Committee-1992 two Funds – Development and Capital Fund were created and the appropriation to both the Funds are provided out of 'Excess' from internal generation after to payment of Dividend. Both these Funds are two distinct Funds with dedicated purposes. While the Development Fund finances the expenditure on passenger and user amenities, labour welfare works, unremunerative, operating improvements and safety works etc., the Capital Fund goes towards building of infrastructure of Railways. The Committee feel that though both the Funds have seeded from same source, any diversion of balances from one fund to another fund should be avoided with a view to ensure that the purpose for which the funds have been created are not diluted. However they find that in the instant case, Rs.

... transferred from Capital Fund to Development ... the Ministry of Railways had reduced due to unpredictably high expenditure on the Pensions of Railway employees. The Ministry of Railways have submitted before the Committee that their contention of transferring of balances between Development Fund and Capital Fund, in case, not enough 'Excess' is generated before taking loan from General Revenues may be considered favorably. The Committee while understanding the unavoidable compulsions of the Ministry of Railways, as a one-time measure, approve the transfer of aforesaid funds from the Capital Fund to the Development Fund.

(Rec Sr. No.6)

82. The Committee find that the Capital Fund goes towards building up the infrastructure of the Railways. The financial position of Railways was impacted during 2009-10, leaving no amount for appropriation to the Capital Fund in that year. For the year 2010-11, the appropriation to Capital Fund was budgeted at Rs. 373 crore (BE) and it was revised to Rs.1,747 crore. For the year 2011-12, the appropriation to Capital Fund has been kept at Rs.2,858 crore (BE). In keeping with the plan outlay and the overall resource availability, the Committee endorse the allocation. However, they would like to be apprised of the actual amount that was credited to this Fund at the end of the financial year 2011-12.

(Rec Sr. No.7)

83. The Committee find that the Railway Safety Fund was created for financing the works relating to conversion of unmanned level crossings and for construction of Railway over/ under bridges to ensure the safety of the people. The Committee note that budgetary provision made for the Railway Safety Fund has come down from Rs. 1071.36 crore during the year 2009-10 to Rs. 935 crore for the year 2010-11 (RE). For the year 2011-12, the appropriation to this Fund has been budgeted to be Rs.1,043 crore in BE. While endorsing the proposed allocations, the Committee feel that reduction in budgetary allocation to this Fund will hamper the safety works. The Committee would like to be

that would be appropriated to this Fund at the ... 1-12 as this is a vital aspect of Railway where adequate fund have to be ensured.

(Rec Sr. No.8)

84. The Committee agree with the principles governing interest on various Railway Funds and therefore, recommend that the balance in various Railway Reserve Funds (other than Development Fund) may carry the same rate of interest as the rate of dividend payable by the Railways to the General Revenues. 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 and the balances in Railway Safety Funds may be treated as interest free since the fund has been constituted with the contribution from General Revenues.

(Rec Sr. No. 9)

New Delhi:
10th August, 2011
19 Sravana, 1933 (Saka)

ARJUN CHARAN SETHI
Chairman
Railway Convention Committee

APPENDIX - I

(Vide Para 12 of the Report)

STATEMENT SHOWING IMPORTANT FINANCIAL FIGURES IN RESPECT OF INDIAN RAILWAYS FOR THE PERIOD 1950-51 TO 2011-12

(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
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

1	2	3	4	5	6	7	8	9
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	78.7
2007-08	63380.36	24794.15	72755.00	55421.00	18416.20	4218.12	13534.08	76.3
2008-09	72045.34	32496.33	82393.00	72490.00	11066.52	4717.67	6355.56	88.3
2009-10	87455.21	35442.26	88355.91	83440.00	6489.86	5538.83	951.03	94.7
2010-11 (RE)	103774.39	38694.20	94840.44	87200.00	9021.86	4917.36	4104.50	92.1
2011-12 (BE)	116133.52	42394.20	106239.00	96450.00	11993.13	6734.72	5258.41	91.1

* Dividend paid inclusive of payment of deferred dividend also.

APPENDIX - II

ras 14 and 29 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 (2009) applicable for 2010-11 are as under: -

I. DIVIDEND

(a) The rate of dividend is 6 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 crore 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.

ENERAL REVENUES

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

Para 2 of Introduction)

STATEMENT SHOWING THE RECOMMENDATIONS CONTAINED IN THE SECOND REPORT OF THE RAILWAY CONVENTION COMMITTEE (2009) ON RATE OF DIVIDEND FOR 2009-10 AND 2010-11 AND OTHER ANCILLARY MATTERS AND ACTION TAKEN THEREON

Sl. No.	**Para No.**	**Recommendation**	**Action Taken by Government**
1	2	3	4
1.	54&55	The Committee note the request of the Ministry of Railways for waiver of dividend for a period of 5 years from the year 2009-10 or alternatively the rate of dividend on the capital invested on the Railways may be reduced from the existing 7% to 6% for the years 2009-10 and 2010-11 in view of the huge throw forward that the Railways has on account of various projects including New Line projects and adverse impact of 6th Central Pay Commission. The Committee hold that the request of the Ministry if Railways for waiver of the rate of dividend is not acceptable, as it would be contrary to the guiding principle set by the Railway Convention Committee (1949), which requires fixation of definite rate of dividend payable to the General Revenues. The Ministry of Finance has argued that in so far as adverse impact of 6th Central Pay Commission is concerned, its impact on a much larger scale has to be met by the entire Government. The Expenditure Secretary also pointed out during evidence that the Ministry of Railways have not done any thing to raise its revenue. The Committee note that Railways have a huge	The recommendation of the Committee for reducing the rate of dividend to 6 percent for the years 2009-10 and 2010-11 has been given effect while finalizing the Revised Estimates for 2010-11. In keeping with the Committee's observation, it will be the endeavour of the Railways to explore ways of raising revenues and avenues for resource mobilization while curbing the wasteful expenditure and enforcing financial discipline.

		3	4
		…n-going projects (327 in …ncludes 122 new lines projects, 45 gauge conversion projects (327 in all which includes 122 new lines projects, 45 gauge conversion projects and doubling of 160 lines at various states of tendency). The inordinate delay in execution of most of these projects is a cause of concern. It has been stated that the Railways would require as on 01.04.2010 Rs.98352.00 crore to complete these projects. The flagship project of Indian Railways ï the dedicated freight corridors requires huge investments of the order of Rs.1,50,000 crore. The Committee note that the recent law and order problems including naxal menace, which the Railways face in quite a number of pockets have also made a dent in the coffers of the Ministry of Railways. The Committee further note that in view of the shrinking gross budgetary support, the Railways is forced to resort to higher level of market borrowings. Having carefully considered the view points of the Ministry of Finance, the Committee accede to the request of the Railways for reduction in rate of dividend and recommend as an interim measure that for the years 2009-10 and 2010-11 rate of dividend payable by the Indian Railways to the General Revenues may be brought down and fixed at 6%. The Committee desire that the Railways should explore the ways for raising their revenue and avenues for resource mobilization while curbing wasteful expenditure and enforcing financial discipline.	

		3	4
		[illegible]ons on rate of dividend / [illegible]idend now available on residential buildings, new lines, subsidies from General Revenues etc be allowed to continue on the existing basis for the year 2009-10 & 2010-11.	The recommendations of the Committee has been given effect while finalizing the Revised Estimates for 2010-11.
3.	57	The Committee note that for the year 2008-09 an amount of RS.7100 crore consisting of Rs.7000 crore from Revenues and Rs.100 crore from Production Units has been appropriated to Depreciation Reserve Fund (DRF). The closing balance in DRF wa Rs.3336 crore at the end of the year 2008-09. As per the revised estimates, the appropriation to the DRF for 2009-10 would be RS.4500 crore and Rs100 crore respectively from Revenue and Production Units. The appropriation to the DRF for 2010-11 has been budgeted to be Rs.7600 crore and Rs.100 crore respectively from Revenue and Production Units. The Committee recommend that the contribution to the DRF may be allowed to be made in consonance with the capacity of the system to generate internal resources and desire that they should be informed of the actual amount of contribution made to DRF in the year 2009-10 and 2010-11.	Due to reduction in the internal resource generation, the appropriation to the Depreciation Reserve Fund (DRF) in 2009-10 has been reduced to Rs.2187 crore from Revenue and Rs 100 crore from Production Units. The Fund has closed with the balance of Rs.4.99 crore to the end of the financial year 2009-10. An amount of R.5800 crore consisting of Rs.5700 crore from Revenue and Rs.100 crore from Production Units, has been appropriated to DRF in the Revised Estimates 2010-11. An amount of Rs.7100 crore consisting of RS.7000 crore from Revenue and Rs100 crore from Production Units, has been appropriated to DRF in the Budget Estimates 2011-12. The Committee will be informed of the actual amount of contribution that would be made to DRF in the fiscal year 2010-11, at the appropriate stage.

		3	4
		[illegible] ittee observe that the [illegible] n to the Development fund for the year 209-10 budgeted to be at Rs.2000 crore has been reduced to Rs.951 crore at RE stage. The Ministry of Railways have, however, budgeted that the appropriation to Development Fun would be Rs.2800 crore in 2010-11. The Committee desire that in keeping with the plan outlay and the overall resource availability, the appropriation may be enhanced. The Committee would like to be apprised of the actual amount that was credited to this Fund at the end of the financial year 2009-10 and that would be credited at the end of the year 2010-11.	The main reason for budgeting reduced appropriation to Development Fund (DF) at RE stage in 2009-10 was severe impact on the internal resource generation due to the implementation of 6th Central Pay Commission. The DF receives appropriation from ôExcessô generated by the Railways after meeting the Dividend liability, which was estimated to reduce from Rs.2642 crore in BE 2009-10 to Rs.951 crore in RE 2009-10. In fact, the actual ôExcessô at the end of 2009-10 was only Rs.75 lakh and as a result Railways had to transfer Rs.725 crore to DF from the available balances in the Capital Fund. The appropriate to this Fund has been kept at Rs.2358 crore in the Revised Estimates 2010-11. In Budget Estimates 2011-12, the appropriation to this Fund has been kept at Rs.2400 crore. The Committee will be informed of the actual amount of contribution that would be made to the DF in the fiscal year 2010-11 at the appropriate stage.
5	60	The Committee note that an amount of Rs.3066 crore has been appropriated to the Capital Fund during 2008-09. The Committee regret to note that for the year 2009-10 though the budgetary proposal for appropriation to Capital Fund was Rs.642 crore, at the Revised	Due to implementation of the recommendation of the 6th Centrla Pay Commission, the Ordinary Working Expenses and the pension payments increased sharply i.e from Rs.76900 crore in BE 2009-10 to Rs.80000 crore in RE 2009-

		3	4
		tage, the appropriation hown as “NIL”. The Committee would like to know how the budgetary projection for the year 2009-10 went wrong. For the year 2010-11, the appropriation to capital Fund has been budgeted to be Rs.373 crore. The Committee would await the details of actual appropriation for the years 2009-10 and 2010-11 and the efforts made to augment appropriation to this Fund.	10 and Rs.82413 crore in Actuals 2009-10. As a result, the financial position of Railways was impacted adversely during 2009-10, leaving no amount for appropriation to the Capital Fund in that year. The appropriation to the Capital Fund has been kept at Rs.1747 crore and Rs.2858 crore in the Revised Estimates for 2010-11 and the Budget Estimates for 2011-12, respectively. The Committee will be informed of the actual amount of contribution that would be made to the Capital Fund in the fiscal year 2010-11 at the appropriate stage.
6.	61	The Committee note that budgetary provision made for the Railway Safety Fund has come down from Rs.960 crore during the year 2009-10 to Rs.879 crore for the year 2010-1 (BE). The Railway Safety Fund was created for financing the works relating to conversion of unmanned level crossing and for construction of Railway over / under bridges to ensure the safety of the people. The Committee feel that reduction in budgetary allocation to this Fund will cause the above mentioned works to suffer badly. Consequently, the safety of the public will be compromised. In the action taken reply to the recommendations made in the Ninth Report of RCC (2004) the railways have stated that they are confident to take care of any rise in	The appropriation to Railway Safety Fund is mainly the Railways share of Diesel Cess transferred from the Central Road Fund by the Ministry of Finance every year. Based on the Railways share from the Central Fund, Rs.935 crore and Rs.1043 crore have been appropriated to this Fund in Revised Estimates 2010-11 and Budget Estimates 2011-12 respectively.

		3	4
		from this Fund to raise f safety standard. The Committee urge that the Railways should explore the ways and means to ensure adequate provision to this Fund with a view to completing aforesaid works throughout the country within a time frame.	.
7.	62	The Committee see no reason to modify the principles governing interest on various Railway Funds and therefore recommend that the balance in various Railway Reserve Funds (other than Development 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 recommendation of the Committee has been given effect while finalizing the Revised Estimates for 2010-11.

PART - II

MINUTES OF THE NINTH SITTING OF THE COMMITTEE HELD ON
FRIDAY, THE 10 JUNE, 2011

The Committee sat from 1100 hrs. to 1245 hrs. in Committee Room No. 'D', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Shri Arjun Charan Sethi - Chairman

Members

Lok Sabha

2. Shri Hansraj Gangaram Ahir
3. Dr. Baliram
4. Shri Marotrao Sainuji Kowase
5. Shri P. Balram Naik
6. Shri R.K.Singh Patel
7. Shri Ramsinh Rathwa
8. Dr. Arjun Roy
9. Shri C.L.Raula
10. Shri Radha Mohan Singh
11. Dr. Girija Vyas

Rajya Sabha

12. Shri Shyamal Chakraborty
13. Shri Ram Chandra Khuntia
14. Shri Shreegopal Vyas

Secretariat

1.	Smt. Abha Singh Yaduvanshi	-	Director
2.	Shri A.K.Shah	-	Additional Director

Ministry of Railways (Railway Board)

		Chairman, Railway Board & Ex-officio Principal Secretary to the Government of India
2	Ms Pompa Babbar	Financial Commissioner, Railways & Ex-officio Secretary to the Government of India
3	Shri A.P.Mishra	Member Engineering, Railway Board & Ex-officio Secretary to Government of India
4	Shri Sudesh Kumar	Member Electrical Railway Board & Ex-officio Secretary to the Government of India
5	Shri V.N.Tripathi	Member Staff & Ex-officio Secretary to the Government of India
6	Shri B.N. Rajasekharan	Additional Member, Planning
	Representatives of the Ministry of Finance	
7	Shri Sumit Bose	Secretary, Department of Expenditure
8	Shri Shaktikanta Das	Additional Secretary (Budget), Department of Economic Affairs
9	Shri N.M.Jha	Director (Budget), Department of Economic Affairs

2. At the outset, the Chairman on behalf of the Committee welcomed the representatives of the Ministry of Railways (Railway Board) and the Ministry of Finance (Department of Expenditure and Department of Economic Affairs) to the sitting of the Committee conveyed for taking oral evidence on 'Rate of Dividend payable by the Railways to General Revenue'for the year 2011-12 and other Ancillary Matters.

[The witnesses were then called in]

3. The Chairman drew the attention of the witnesses to direction 55 and 58 of 'Directions by the Speaker' regarding confidentiality of proceedings. Thereafter, with permission of the Chair, the Financial Commissioner, Railway Board made a power point presentation before the Committee highlighting briefly financial performance, balances available in different funds of the Ministry of Railways, impact of VI Pay Commission recommendations on overall liability of the Ministry of Railways etc. Subsequently, the Committee heard the representatives of the Ministry of Railways, Railway Board and representatives of the Ministry of Finance, Department of Expenditure. The representatives of the Ministry of Railways outlined a brief resume of the financial performance of Railways in previous years. The officers of the Railway Board pleaded before the Committee for

able by the Ministry of Railways, Railway Board to General

4. The Committee also heard the submissions of the Ministry of Finance, Department of Economic Affairs in the lines incorporated in the memorandum on the issue underlining the need for transparent reporting of performance of the Ministry of Railways for better appraisal by the Ministry of Finance and by the Railway Convention Committee. The representatives of Ministry of Finance *inter-alia* underlined the need for observing financial discipline by the Ministry of Railways, Railway Board.

5. Thereafter, the Members sought clarifications on various aspects for and against reduction of rate of dividend payable during 2011-12 by the Railways to General Revenue of the Government of India. The representatives of the Ministry of Railways and the Ministry of Finance replied the queries of the Members. The Chairman desired that whatever information was sought by Members and the replies which were not readily available may be sent to the Secretariat by the Ministry of Railways (Railway Board) and the Ministry of Finance subsequently.

6. The Committee decided to hold next sitting of the Committee on 27 June, 2011 with a view to have an in depth discussion on over-all financial performance of the Ministry of Railways (Railway Board).

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

The Committee then adjourned.

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NTH SITTING OF THE COMMITTEE HELD ON

MONDAY, THE 27 JUNE, 2011

The Committee sat from 1500 hrs. to 1700 hrs. in Committee Room No. 'C', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Shri Arjun Charan Sethi - Chairman

Members

Lok Sabha

1. Shri Hansraj Gangaram Ahir
2. Dr. Baliram
3. Shri R.K.Singh Patel
4. Shri Ramsinh Rathwa
5. Shri C.L.Raula
6. Dr. Girija Vyas

Rajya Sabha

7. Shri A.Elavarasan
8. Shri Ram Chandra Khuntia
9. Shri Shreegopal Vyas

Secretariat

1.	Shri Brahm Dutt	-	Joint Secretary
2.	Smt Abha Singh Yaduvanshi	-	Director

LIST OF WITNESSES

istry of Railways (Railway Board)

1.	Shri Vivek Sahai	Chairman, Railway Board & Ex-officio Principal Secretary to the Government of India
2.	Ms Pompa Babbar	Financial Commissioner, Railways & Ex-officio Secretary to the Government of India
3.	Shri A.P.Mishra	Member Engineering, Railway Board & Ex-officio Secretary to Government of India
4.	Shri Sanjiv Handa	Member Mechanical, Railway Board & Ex-officio Secretary to the Government of India
5.	Shri Sudesh Kumar	Member Electrical Railway Board & Ex-officio Secretary to the Government of India
6.	Shri V.N.Tripathi	Member Staff & Ex-officio Secretary to the Government of India
7.	Shri Braj Mohan	Additional Member (Commercial)
8.	Shri B.N. Rajasekharan	Additional Member, Planning

2. At the outset, the Chairman welcomed the representatives of the Ministry of Railways (Railway Board) to the Sitting of the Committee conveyed for taking oval evidence on the subject 'Overall financial performance of the Ministry of Railways, Railway Board' with a view to seeking clarifications / elucidations on the subject rate of dividend payable by the Ministry of Railways (Railway Board) to the General revenue and on other ancillary matters'. He drew the attention of the witnesses to direction 55 (1) & (58) of 'Directions by the Speaker' regarding confidentiality of proceedings before the Committee. The main issues that came up for discussion were factors responsible for poor financial performance of Indian Railways during 2004-2005 to 2008-2009 as

the Ministry of Railways like decline in growth of traffic, under ...d to other developing countries like China, underutilization of ... freight earnings, decline in internal resource generation, non-revision of passenger fares during the last eight years etc. Besides twin problems of un-remunerative lines and increase in cost escalation of projects were also outlined by Chairman, Railway Board as a reason for poor financial performance of Indian Railways. The Chairman, Railway Board also outlines series of measures taken for improving the financial performance of Indian Railways like restricting re-appropriations, giving more emphasis on remunerative projects, enhancing growth through investment by loan, budget and internal resource generation, enhancing gross earnings of Railways, raising of tax free Bonds etc. In addition to these issues, exploring the option of increasing the rail fares, need for restricting and then eliminating the non-performing assets of Railways arising out of announcing new lines with prohibitive costs, addressing the issue of deputation of official within different Corporations and the Ministry of Railways, enhancing number of coaches in passenger trains on the pattern of goods trains, leasing out unused Railways land for commercial purposes etc were some of the suggestions given for improving the financial performance of Indian Railways. Besides, the issue of uniform distribution of rail network among the States especially in North-East region and ex-gratia compensation being given by Railways on the occasion of rail accidents were also discussed.

[The witnesses then withdrew]

3. The Committee then decided to discuss the issue of rate of dividend for 2011-12 payable by Ministry of Railways (Railway Board) to General Revenue of Government of India and ancillary matters at one of their subsequent sittings.

A verbatim record of the proceedings has been kept.

The Committee then adjourned.

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EVENTH SITTING OF THE COMMITTEE HELD ON
WEDNESDAY, THE 10 AUGUST, 2011

The Committee sat from 1530 hrs. to 1720 hrs. in Committee Room No. 'C', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Shri Arjun Charan Sethi - Chairman

Members

Lok Sabha

1. Shri Hansraj Gangaram Ahir
2. Shri Marotrao Sainuji Kowase
3. Shri R.K.Singh Patel
4. Shri Arjun Roy
5. Shri C.L.Raula

Rajya Sabha

6. Shri Ram Chandra Khuntia
7. Shri Ranjitsingh Vijaysinh Mohite-Patil
8. Shri Shreegopal Vyas

Secretariat

1.	Shri Brahm Dutt	-	Joint Secretary
2.	Smt. Abha Singh Yaduvanshi	-	Director
3.	Smt. Usha Gupta	-	Under Secretary

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of Railways (Railway Board)

1.	Shri Vinay Mittal	Chairman, Railway Board & Ex-officio Principal Secretary to the Government of India.
2.	Mrs Pompa Babbar	Financial Commissioner, Railways (Railway Board)
3.	Shri Sanjiv Handa	Member Mechanical, Railway Board & Ex-officio Secretary to the Govt of India
4.	Shri A.P.Mishra	Member Engineering, Railway Board & Ex-officio Secretary to the Govt of India
5.	Shri B.N.Rajasekhar	Additional Member, Planning
6.	Shri Ranjan Jain	Adviser (Infrastructure)
7.	Shri M.K.Jain	Adviser, Railway (Electrification)
8.	Shri S. Mookerjee	Adviser, Finance (Expenditure)
9.	Shri P.B. Murthy	General Manager
10.	Shri R.K. Kulshreshtha	DRM, Kharagpur
11.	Shri Satish Agnihotri	Managing Director

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 2011-12 and other Ancillary Matters' wherein they decided that for the year 2011-12 the rate of dividend payable by Railways to the General Revenue be determined at 5% on the entire capital (excluding dividend free capital).

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

(The witnesses were called-in)

xx xx xx

The Committee then adjourned.

A verbatim record of the proceedings has been kept.

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