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 20 September, 1924 and was approved by the Secretary of State. The possibility of legislation to separate the Railway Finances from the General Finance was considered and it was decided that it would be preferable to ask the House to agree to a Convention. The advantage in a Convention being that it can be adjusted from time to time to varying needs and difficulties. This Convention is commonly known as 'Separation Convention'.

2. Under the 'Separation Convention', the Railways are required to pay dividend at a fixed rate on the Capital advanced by the Government of India. The 'Rate of Dividend' payable by the Railways 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 the month of April, 1949. One of the basic principles enunciated by this Committee was the fixation of definite rate of dividend which included an element of contribution to the General Revenues over and above the bare interest paid by the

Government on the Capital provided for Railways. This principle was enunciated on the consideration that, in essence, the general taxpayer is the owner and sole shareholder of the Railways. 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 the year 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 matters of the Railways. The Railways have their own independent and integrated financial set up, *viz;*

(i) Railway Budget is presented and voted by the Parliament separately, independent of General Budget.
(ii) Railway Ministry enjoy substantial powers of financial sanction to incur expenditure.
(iii) Accounts are maintained by the Railways' own accounting cadres.
(iv) Railway projects are also free from clearance by Public Investment Board as is not the case for the projects of other Ministries. Once the survey reports become available, these are thoroughly scrutinized in the Railway Board and those which show some potential are recommended to the Planning Commission for consideration. For Projects costing up to ₹ 300 crore, Planning Commission is required to concur before the work can be included in the Budget. For works costing over ₹ 300 crore, the Planning Commission prepares an appraisal note on it which is then considered by an

Expanded Board consisting of Members of the Railway Board and Secretaries of the Ministry of Finance (Expenditure), Planning Commission and the Ministry of Statistics and Programme Implementation. The proposals for projects are then sent to the Cabinet Committee on Economic Affairs (CCEA) for approval with the recommendations of the Expanded Board and once CCEA approves, the projects are included in the Railway Budget for seeking the approval of the Parliament.

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

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

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

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

7. The allocation of Railway expenditure to one or the other of the above mentioned categories is governed by the Rules of allocation based on the principles introduced by the Railway Convention Committee, 1949, as amended by the successive Railway Convention Committees from time to time.

8. In pursuance of the Resolution adopted by the 15th Lok Sabha on 15 December, 2009 and concurred in by the Rajya Sabha on 17 December, 2009, the Railway Convention Committee (2009) was constituted on 15 March, 2010 to review the "Rate of Dividend" payable by the Railway undertaking to General Revenues, as well as other ancillary matters in connection with the Railway Finance *vis-a-vis* General Finance and to make recommendations thereon.

IV. Payment of Dividend to General Revenues

9. The 'Rate of Dividend' payable by the Railways to the General Revenues is based on the recommendations of the Committee. The Interim Memorandum for the year 2012-13 on 'Rate of Dividend payable to General Revenues' was submitted to the Committee by the Ministry of Railways on 28 February, 2012 after incorporating the comments of the Ministry of Finance.

10. Capital-at-charge indicates 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 ₹ 827 crore in 1950-51 to ₹ 1,40,852 (BE) crore in 2012-13. This is 14.9% higher than the capital charge of ₹1,22,583 (RE) crore for the year 2011-12.

11. The annual dividend payable to General Revenues used to be less than ₹ 100 crore till 31 March 1964. This has increased over the years. As against Dividend of ₹5,652 crore paid for the year 2011-12, provision of ₹6,676 crore has been made for the year 2012-13.

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

13. The Railway Convention Committee (2009) after considering the overall financial position of the Railways prevalent at that time as also the need to urgently develop the railway infrastructure including modernization and safety related works, in their Second Report at Para No.77 had *inter-alia* recommended purely as an interim measure, that for the year 2011-12, the rate of dividend payable by the Railways to the General Revenues be determined 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. The Railway Convention Committee (2009) also recommend that all concessions on rate of dividend/ reliefs in dividend available on residential buildings, new lines, subsidies from General Revenues, etc., be allowed to continue on the existing basis for the year 2011-12.

14. Also, 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 and future gauge conversion works taken up on strategic consideration. The basis for

calculation of dividend payable to General Revenues as also the subsidy available in payment of dividend, based on recommendations of Railway Convention Committee (2009) applicable for 2011-12 has been brought out in **Appendix-II.**

V. Present Status of Railway Finances

15. The financial position of the Railways as explained by the Ministry of Railways, in their Third interim Memorandum on "Rate of Dividend for the year 2012-13 and other ancillary matters' 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 ₹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.

17. The Performance of the Railways during the year 2010-11 was as under:

> "An incremental loading of 56 mt was required to achieve the target of 944 mt. Constraints resulting out of ban on illegal mining of iron ore in states, as also bandhs and rail-roko movements in certain parts of the country led to the loading target being scaled down to 924 mt at the Revised Estimate stage. The budgeted freight earnings of ₹62,489 crore were, however, retained in the Revised Estimates. In actual performance, the loading fell marginally short by 2 mt of the revised target but the unit realization at ₹68.20 crore per million tones for the year could be managed at a level higher

than the revised target of ₹67.63 crore per million tonnes. Resultantly the freight earnings increased over the R.E. target by ₹ 355 cr.

The budgeted passenger earnings target of ₹26,126 crore, was retained in the Revised Estimates. Actuals at ₹25,792 crore, however, fell short of the revised target by ₹334 crore. The total earnings from other coaching and sundry also fell short of the Revised Estimates by ₹238 crore.

The overall drop in earnings and accretion to Traffic Suspense reduced the revised Gross Traffic Receipts of ₹ 94,840 crore to ₹94,535 crore in the actuals.

With implementation of the recommendations of the VI CPC for the full year and impact of modified assured career progression scheme, the Ordinary Working Expenses increased to ₹68,139 crore in 2010-11 as against ₹65,810 crore in the previous year. The pensionary liabilities on account of the enhanced benefits conferred upon pensioners, far exceeded the expected outgo and came to ₹16,018 crore as against ₹14,500 crore provided in the Revised Estimates.

Reduction in receipts and increase in expenditure resulted in substantial drop in internal generation of resources and the railways had to draw down from the Fund balances, depleting the balances in DRF and Pension Fund almost to the bottom.

Combined effect of reduced earnings, higher operating expenses and pensionary liabilities led to the 'Excess' left after payment of dividend worked out to ₹1405 crore, which was outstripped by expenditure for financing the works from Development Fund and Capital Fund. As a result, the closing balances under these funds became negative to the extent of about ₹2,100 crore.

In order to bridge the gap in fund balances under Development Fund and Capital Fund, Ministry of Finance was requested to extend a temporary loan. As per the extant RCC recommendation, Ministry of Finance is expected to extend temporary loan in case the 'Excess' is not sufficient to finance the works. Ministry of Finance, however, did not agree to this request and railways were forced to close the accounts of 2010-11 with a negative balance in both these Funds."

18. Bringing out the financial performance of the Ministry of Railways during the year 2011-12, the Ministry in their Interim Memorandum stated as follows:

> "The trend of loading and earnings for the first seven months of the current financial year has been better than the last year though still short of the budgeted expectations. As against the loading target of 993 mt for the full year, Railways have achieved loading of 704.81 mt to end of December, 2011, which though higher by 31.50 mt compared to COPPY, but short of budget proportion by 26.14mt. Taking into account earnings from Passenger and other segments, the total earnings of the Railways up to December, 2011 in the current year are short of the proportionate target by about ₹1,961 crore. The growth achieved so far in the total earnings works out to 10.1% as against the budgeted growth of 12.2%. The growth achieved during the corresponding period of the previous year was 8.5%.
>
> Due to continued impact of implementation of the VI Central Pay Commission, the expenditure on salaries and allowances has increased substantially thus leaving lesser provisions for expenditure on other than staff and also for plan expenditure.
>
> The ordinary working expenses, which have exceeded the Budget Proportions up to December, 2011 by ₹517 crore, may have to be increased in the Revised Estimates for providing the essential safety and operations requirements including higher allocations for fuel due to hike in price of HSD oil and electricity tariff during the year. While the Railways are making efforts to reverse the downtrend in loading and earnings and control expenditure, it may find it difficult to meet its loading target of 993 million tonnes. The financial performance at the end of the year will determine the ability of the Indian Railways to meet its dividend obligations."

VI. Capacity Augmentation requirements

(i) XI Plan

19. Highlighting the need for relief in rate of dividend for providing resources for investments in important works, the Ministry of Railways in their Memorandum stated:

" In keeping with the demands of the growing national economy, the Railways will have to implement long term measures to augment carrying capacity of the system in both passenger and freight segments. The loading target of 1020 mt set for the terminal year of the XIth Plan was scaled down to 993 mt. The process for formulation of the 12th Five Year Plan has started. The Vision 2020 of the Indian Railways will guide the investment levels necessary to achieve much higher rail transport requirements during the plan period, both for freight and passenger segments. The growth scenario would warrant not only speedy completion of certain critical and throughput enhancement works but also taking up of ambitious mega projects for rapid modernization and expansion of the Railway network. While there had been steady growth in internal generation of resources till 2007-08, the same suffered a declining growth thereafter. The other options of funding like market borrowings and Public Private Partnerships will have to be resorted to with prudence, in view of the heavy cost of debt and intrinsic long-gestation nature of railway projects. As a result of fall in internal generation due to reasons mentioned earlier, Railways have not been able to meet the target of internal resources as set in the XIth Plan. While the Ministry of Finance and the Planning Commission have been approached for higher Gross Budgetary Support as also recommended by the Committee in its Second Report, relief in rate of dividend will enable Indian Railways to provide correspondingly higher growth of resources critically required for investment in safety related and other important works.

(ii) Dedicated Freight Corridors

20. While explaining about the mega projects for constructing Dedicated Freight Corridors, the Ministry of Railways stated as follows:

"With a view to reduce saturation in the high density Golden Quadrilateral route, mega projects for construction of Eastern and Western Dedicated Freight Corridors from Dankuni to Ludhiana (Eastern Corridor) and from Rewari to Jawaharlal Nehru Port (Western Corridor) have been taken up in the XIth Five Year Plan. Four more Dedicated Freight Corridors being planned are viz. North-South, East-West, East Coast and Southern. All these Freight Corridors would enable the movement of cargo at a higher speed through longer and heavier trains, thereby improving the overall efficiency in

Railway operation and providing assured transit time for freight movement. These additional Freight Corridors along with accelerated programme of containerization 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. Beside increasing the average speed of the goods train, it will result in smooth flow of traffic and thus contributes immensely to the national economy. As per the present estimate, the two freight corridors may cost nearly upto ₹1 lakh crore."

(iii) Vision 2020

21. 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 2020 document, it has been tentatively estimated that about ₹14 lakh crore investment would be required upto the year 2020. Out of this, it is expected that ₹9 lakh crore (64%) of the investment required would be through internal generation and extra budgetary resources. The gap of ₹5 lakh crore (36%) would have to be bridged by Gross Budgetary Support from the Central Government.

(iv) Backlog of Projects

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

> "The aims to carry 1499 MT by the terminal year of the XIIth 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. This would require investment at an accelerated pace. The capacity of railways for generating internal resources being limited, there is bound to be a greater dependence on GBS from government to meet the resource requirement. While as an absolute amount,

the quantum of GBS has been increasing, as a percentage of total annual plan investment, it has come down from 45% in last year to 35% in the current year.

The Budgetary Support is primarily used for financing construction of new lines, works for gauge conversion, doubling, traffic facilities, railway electrification and investments in new workshops. All these projects are vital and very critical for augmenting the carrying capacity of the system which otherwise is now reaching a plateau."

23. While laying stress on the extent of backlog of projects and the concern to finance the same, the Ministry of Railways in their Interim Memorandum submitted as follows:

" The throw forward on new lines is about ₹ 54,964 crores. With an outlay of around ₹ 7,180 crores on new lines (including land acquisition for Dedicated Freight Corridor) in the year 2011-12 it would take around 7-8 years to complete the projects on hand with the current level of funding. The situation is likely to get even more challenging with addition of new projects every year based on the Railways' operational needs as also socio economic considerations with funds getting thinly distributed over a large shelf of projects, time overruns and cost escalation are bound to happen leading to further pressure on limited resources. Besides this, the throw forward in plan heads of doubling and gauge conversion is around ₹ 50,662 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.

As many of the new line projects have low or negative rate of return, it would be only prudent not to expect substantial investment through the public private partnership route. Further, the flagship project of Dedicated Freight Corridors, both Eastern and Western, will require huge counterpart funding, during the XII Plan period. For the timely completion of new lines and projects under other plan heads taken up through funds from GBS or internal and external resource it is felt that it would become inescapable to substantially increase the Gross Budgetary Support and internal resource generation so that railways are able to expand their capacity in line with the growth of economy."

24. The Ministry of Railways further stated:

"Contrary to the increased requirement of funds through GBS, its share as a percentage of the plan outlay still works out to 34 percent (excluding support for National Projects) in 2011-12. Further with the implementation of the 6th Pay Commission recommendation, the expenditure of railways has increased substantially squeezing the internal resource generation. The market borrowing is becoming increasingly costly and will put additional strain on the railways finances in terms of increased interest liability. For the first time, railways were advised to raise ₹10,000 crore through issue of tax-free bonds for projects. However, railway projects being capital intensive with a long gestation period, the debt servicing cost of market borrowings may prove detrimental to the long term financial interest of the organization."

VII. Current Liabilities of the Railways

25. Elaborating on the current liabilities of Ministry of Railways, the Ministry in their Interim Memorandum stated as follows:

"Railway has extended financial assistance to Konkan Rail Corporation Ltd. (KRCL). The KRCL was set-up with an investment of ₹3,555 crore out of which ₹2,755 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 ₹2,731.40 crore with an accrued interest of ₹491.06 crore. As a part of the financial restructuring package recommended by Board of Reconstruction 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 ₹251.50 crore and ₹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. Ministry of Railways has provided financial assistance to KRCL of ₹308.18 crore to cover up full interest servicing and 50% of the Bonds in 2010-11.

Due to reduction in the internal resource generation and inadequate budgetary support, Railways had to resort to costly market borrowings. The Railways have to pay more than ₹7,562 crore of lease hire charges on these borrowings in the current year.

The impact of the recommendations of the Central Pay Commission for railway employees and pensioners is also to be borne by the Railway Revenues. With implementation of the recommendations of the VI Central Pay Commission, the Railways have so far paid more than ₹73,000 crore additionally on staff cost and pension liability.

With the expansion of Indian Railways infrastructure, the requirement of resources for maintenance and renewal also increases. The expenditure on replacement and renewal, being met out of Depreciation Reserve Fund, is required to be stepped up to ₹10,000 crore in the coming years. The contribution to DRF is to be made from internal resources. Timely renewal of track and rolling stock is extremely critical for safe operations of the trains.

Government provides additional BGS for taking up construction of national projects in Kashmir and Northeast region. Further, railways also undertake several newline projects on socio economic considerations that the not financially remunerative. While relief in payment of dividend may be available, the operating losses incurred on the national projects as well as other projects are quite substantial which are being borne by the railways. In addition, the losses on passenger services operations are estimated at about ₹13,300 crore in 2010-11. These have a crippling effect on the internal resources, and limit the railways’ ability to generate enough surplus for undertaking investments in passenger amenities, safety related works and for expansion."

VIII. Issues related to Rate of Dividend for the year 2012-13

26. On the issue of rate of dividend for the year 2012-13, the Ministry of Railways submitted following proposals for consideration of the Committee:

(i) In view of the present difficult financial position, the rate of dividend for 2012-13 may be reduced to 3% from the present 5% and a moratorium of five years on payment of dividend i.e during the XII Five Year Plan period.

(ii) Other modalities for determining the dividend as brought out in **Appendix-II** may continue to be adopted for the year 2012-13. All concessions now available as listed therein may be allowed to continue for the year 2012-13.

(iii) The contribution to Depreciation Reserve Fund from Revenue in 2012-13 may be allowed to be made in consonance with the Railway plan for 2012-13 to be finalized later during the year.

(iv) The contribution to Pension Fund from Revenues in 2012-13 may be allowed to be made in keeping with the requirement submitted by the Railways in their Budget Estimates Projections (₹ 18810 crore).

(v) The Ministry of Finance to extend temporary loan to Ministry of Railways to cover the negative balance in Development Fund and Capital Fund whenever the 'Excess' is not found sufficient to finance expenditure from these funds.

(vi) The Capital Fund to be the first charge on the 'Excess' remaining after payment of dividend.

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

27. The Development Fund and Capital Fund are both sourced from the 'Excess' left after payment of dividend and therefore are the 'end funds' in so far as Railway finances are concerned. Development Fund and Capital Fund closed with negative balances of ₹1,213 crore and ₹886 crore respectively, as on 31.03.2011. In the past on few occasions, the Ministry of

Finance has been extending loans to cover the negative balances in the end funds in the event of not enough 'Excess' being generated. As per the policy recommendation of the Railway Convention Committee for e.g. Ministry of Finance extended loan of ₹249 crore for the Capital Fund in 2000-01 since 'Excess' in that year was not adequate to meet the requirement of both Capital Fund and Development Fund. However, this year, when approached to extend loan of ₹2,101 crore to cover negative balance of Capital Fund and Development Fund, the Ministry of Finance while disagreeing to grant loan stated:

> "The recommendation of Railway Convention Committee (1954) for bridging the gap between appropriation to the Railway Development Fund and the expenditure by a loan from General Revenues cannot be maintained at this stage as the same has not been reiterated by the Committee recently. There has been no specific recommendation by the Railway Convention Committee for the shortfall in the Railway Capital Fund."

28. The Ministry of Railways while explaining about their liabilities in regard to Development Fund and Capital Fund in their written replies stated that throwforward liability of ₹16,574 crore of work has been charged to Development Fund (as on 01.04.2012) and total liability under Capital Fund stands at ₹4,915 crore in 2012-13. The Ministry of Railways were, therefore, requested by Ministry of Finance to meet this liability by raising their resources suitably in the current year.

29. On the issue of the financing of Development Fund and Capital Fund, the Ministry of Railways submitted the following proposals for consideration of the Committee:

> "The Committee is requested to consider and direct the Ministry of Finance to extend temporary loans to Ministry of Railways to cover the negative balances in Development

Fund and Capital Fund whenever the 'Excess' is not found sufficient to finance expenditure from these Funds.

30. However, subsequently the Ministry of Finance have granted a loan of ₹3000 crore from General Revenues to Development Fund. In his budget speech (2012-13), the then Railway Minister assuring the repayment of entire loan of ₹3000 crore and interest thereon to General Revenues stated as follows:

"The 'Excess' being inadequate to meet requirements of safety related works financed through Development Fund, a loan of ₹3000 crore has been extended by Ministry of Finance. The loan is repayable in two equal installments and carries an interest of 8.55% . I propose to return the full amount of ₹3000 crore alongwith interest in the year 2012-13 itself".

31. In this connection, the Ministry of Railways have proposed:

"At present, the 'Excess' is first appropriated to Development Fund (DF). The amount left after meeting the requirement of Development Fund is appropriated to the Capital Fund (CF). Since the liability of 'principal payment of lease charges' payable to the Indian Railway Finance Corporation and debt repayment of Rail Vikas Nigam Limited is obligatory in nature and is discharged from the Capital Fund, it is necessary that Capital Fund should get priority over the Development Fund in getting appropriation from the 'Excess'. Accordingly, the Capital Fund needs to be treated as the first charge on the 'Excess' henceforth."

32. On being asked as to whether the change in the priority for getting appropriation from excess from Development Fund to Capital Fund will not adversely affect the projects being funded from Development Fund, the Ministry in their written reply stated as under:

"While the change in order of appropriation may not affect the projects funded from DF if adequate resources are available. However, there is a possibility of lesser appropriation to DF in financially difficult years To address this concern, Railways have proposed to build balances in this Fund in 2012-13. The estimated closing balance in 2012-13 under DF stands at ₹3,842.65 crore after fully discharging the loan liability to General Revenues."

33. While disagreeing with some of the proposals of the Ministry of Railways on Rate of Dividend for the year 2012-13 made out in the memorandum submitted to the Committee, the Ministry of Finance stated that : -

"it does not support the proposal of the Ministry either for waiver of dividend for a period of 5 years or for payment of dividend on capital invested from General Revenues at 3%. The proposal relating to temporary loan to cover the negative balances in Development Funds and Capital Funds is also not favoured. They also do not agree with the proposal of the Ministry of Railways to allow the Capital Fund to be the first charge on the 'Excess' remaining after payment of dividend".

34. The comments of the Ministry of Finance on the suggestions of the Railways made in the Memorandum submitted to the Railway Convention Committee are as follows:

(a) The Ministry recommends that rate of dividend on investments made in Railways may be increased from 5% in 2010-11 to 7% in 2012-13.

(b) The relief, in the form of reduction in the rate of dividend from 5% to 3% as proposed by the Ministry of Railways translates into approximate reduction of dividend by about ₹1236 crore (₹ 618 crore is assessed as financial impact when the rate of dividend is reduced from 6% to 5% for the year 2011-12). A reasonable rate of dividend on the investments made from General Revenue not only ensures better financial discipline and management of resources by the Government, but would also support the cause of Railways to get higher investments from the General Revenues. Further, payment of dividend is a performance indicator and Railways, being a commercial organization, should pay minimum of 7% dividend as in the past.

(c) The Government borrowing rate is showing an upward trend. The weighted average cost of market borrowings for the Government was 7.69% during the year 2008-09. This became 7.92% in the year 2010-11. In the current year, the weighted average cost of market borrowings is 8.56% (upto 23th December 2011). When the borrowing rates are moving up it is financially very imprudent to reduce the rate of dividend. Further, this is adding to the indirect subsidy on the investment made in Railways from several revenues as these are in addition to the direct subsidy being provided for various items of capital works based on recommendation of Railway Convention Committee.

(d) 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 works were taken up on strategic consideration, 28 new lines taken up on or after 01.04.1955 on other than financial consideration North-Eastern Railways (Non-strategic portion), ore Lines etc. After taking into account concessions in the form of subsidies (₹2190.87 crore) and reimbursement of losses on operation of strategic lines (₹ 648.97 crore) in 2010-11 that were provided to Railways, the effective rate of dividend in RE 2010-11 works out to only 3.2%.

(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 'loan in perpetuity', is highly concessional even at 7% though in practice it translates into much lower rate of dividend payment of 3.2% after taking into account the concessions and reliefs allowed;

(f) The budget support provided to Ministry of Railways is growing substantially in the recent years and that the Railways are being compensated through subsidy and reimbursement of losses on operation of 'strategic' line as well as issue of tax free bonds, there is no ground for Ministry of Railways to seek lower rate of dividend to General Revenues. The higher rates of borrowing costs further make it necessary that the Railways pay dividend at least at the rate of 7% which was being paid in 2008-09, when the RCC allowed this rate on account of higher cost of borrowings (7.69%) by the Government which are now substantially higher than even the 2008-09 levels.

(g) The Budget Support (excluding contribution towards Special Railway Safety Fund but including additional budget support towards projects of national importance) being provided to Ministry of Railways has increased substantially from ₹5493 crore in 2004-05 to ₹9545 crore in 2008-09 and ₹20000 crore in 2011-12. Further, this Ministry has allowed issue of tax free bonds to Railways for an amount of ₹10000 crore in 2011-12 for the capacity enhancement works of Railways.

(h) Ministry of Railways have proposed to the Committee to direct this Ministry to extend the loans to Ministry of Railways to cover the negative balances in Development Fund (DF) and Capital Fund (CF) whenever the 'Excess' is not found sufficient to finance expenditure from these funds. This Ministry has strong reservations and does not support this proposal primarily for the reasons that less appropriation to these funds makes an adverse impact on the cash balance of the Government and more importantly causes an unplanned under projection of the Fiscal Deficit of the Government. The above proposal of the Railways amounts to an automatic debit mechanism from the General Revenues of sums of money which the Railways should actually be generating from their internal resources. Such a provision may act as an incentive for not mobilizing additional resources through tariff revision in the face of rising costs. The previous example of ₹249 crore provided as loan to the Capital Fund in 2000-01 is not comparable as the same was anticipated and provided for in the budget.

(i) In regard to the present proposal of Ministry of Railways for provision of ₹2,099 crore due to excess withdrawal from the Development and Capital Funds cannot be supported for the reasons mentioned above, apart from the fact that these were not based on the extant recommendations of RCC as communicated earlier. Further, this Ministry finds it against the constitutional provisions and cannot support any proposal for consciously incurring any kind of anticipated excess expenditure without appropriation, for 2010-11 or in the subsequent years.

(j) 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 tenable. Railways cannot continue to take this plea year after year, 2012-13 will be the seventh year of the implementation of the Report. Being a commercial department when the cost of services have gone up, Railways should concomitantly take steps for generation of additional revenues rather than depend upon support from General Revenues to cover the gap in their resource generation and pass on their operational liabilities.

Finally in view of the current economic scenario where the Government is committed to support the economic growth through higher public expenditure despite severe fiscal stress and in view of Government's committed liability for higher outlays on social sector programmes in the areas of education, health, rural development, impending implementation of National Food Security Act 2011 and for increased subsidy claims this Ministry recommends the rate of dividend payment by Railways at 7% for the year 2012-13."

35. The Ministry of Finance have agreed to the following proposals of the Ministry of Railways:

(i) Other modalities for determining the dividend as brought out in **Appendix-II** may continue to be adopted for the year 2012-13. All concessions now available as listed therein may be allowed to continue for the year 2012-13.
(ii) The contribution to Depreciation Reserve Fund from Revenue in 2012-13 may be allowed to be made in consonance with the Railway plan for 2012-13 to be finalized later during the year.
(iii) The contribution to Pension Fund from Revenues in 2012-13 may be allowed to be made in keeping with the requirement submitted by the Railways in their Budget Estimates Projections (₹ 18810 crore).
(iv) The principles governing interest on various Railway Reserve Funds and Development Fund may remain as at present.

36. Responding to the views of the Ministry of Finance and reiterating the constraints on the Railways finance, the Ministry of Railways putforth further arguments emphasizing that the Rate of Dividend for the year 2012-13 may be reduced from 5% to 3% and waiver of 5 years on payment of dividend i.e during the XII Five year Plan as follows:

(a) Railways being part of the Government should also receive its appropriate share in the revenues of the Government and the rate of dividend should not be linked purely with the current borrowing rate of the Ministry of Finance. Railways have no control over the salary structure of the employees and are striving hard to move beyond the impact of VI Pay Commission and gradually the position of internal resources will improve. As the concerns of safety have to be addressed and plan investment through internal resources needs to be stepped up, the reduction in rate of dividend and deferring the payment for five years will help such initiative.

(b) Railways is the only Ministry that has to meet its entire staff cost and pension liabilities from its own resources. The total employee strength of the railways is nearly 14 lakh and in fact with the expansion of the network and increase in activity, the number is likely to go up to ensure safe operations. The Railways also have more than 12 lakh pensioners. Owing to enormous increase in staff and pension expenses from about ₹26000 crore in 2007-08 to ₹57000 crore in 2011-12, there is a pressure on internal resources. While sustained efforts to increase earnings have resulted in growth of about 48% in earnings during this period, there is much less scope in reduction of working expenses as 85% of the costs are in the nature of fixed costs (Such as staff cost, fuel, lease charges, etc. and pension)

(c) 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 resources crunch, which persists for a few years It is worth mentioning that all internal generations of the Railways are ploughed back for renewals, replacement, and expansion and modernization projects, thereby affording considerable relief to the general exchequer.

(d) 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 on projects 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 Railway Convention Committee. 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. In fact, the operating losses on account of operations of many new lines are being absorbed currently by Railways.

(e) The Railways also carry social service obligation of around ₹13500 crore by carrying certain passenger and good 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 and thus Railways should not be treated as pure commercial undertaking.

(f) Railways are in a dire need for resources to meet the requirement of expansion and modernization of the system. The proposed rate of dividend if accepted would provide a relief of about ₹ 1200 crore in 2012-13, which will immensely help Railways in taking up urgent renewal and replacement works including those affecting safety.

(g) The growing economy has placed unprecedented demands for expansion on the Railways. Inadequate plan investment in the rail infrastructure will lead to stunted growth thereby creating bottleneck in the progress of the nation. It therefore, needs maximum state support in national interest as also reducing overall fuel consumption and carbon emission.

(h) 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 borrowing has increased tremendously from ₹2,897 crore in 2000-01 to ₹14,800 crore in 2011-12. 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 ₹7591 crore as against ₹3041 crore in the year 2000-01. Reducing the rate of dividend will provide some relief to Railways and help in reducing the market borrowings. Further, the issue of tax free bonds worth ₹10,000 crore, though welcome leads to higher debt servicing cost of additional borrowings due to long gestation period of the Railways infrastructure projects and this would further strain the internal resources.

(i) Regarding extending the loan to Ministry of Railways to cover the negative balances in the Development Fund and Capital Fund whenever the 'Excess' is not found sufficient to finance expenditure from these two funds, it is submitted that the Railways is a part of the Government and to the extent there is gap in resource generation, the Government needs to finance the Railways. It is for this reason that the RCC (1954) recommended that money should be advanced to the Railways for utilization on the projects to be financed from Development Fund which used to be the end fund those days. Going by the same convention, Ministry of Finance has extended such loans to Development Fund many a times in the past till 1989-90 and this arrangement may be continued for stability of Railway finances. Railways on its part will certainly take measures to avoid building of negative balances in the funds. The Ministry of Railways have requested that the Committee may kindly confirm the existing arrangement of loan in case of shortfall in resources. The repayment of such loans will be carried out in consultation with Ministry of Finance.

37. During the evidence, the Chairman, Railway Board briefly apprised the Committee about the present difficult financial position of the Railways as under:

“The rail sector is a very critical transport sector and it is also very critical for the growth of the Indian economy. Wherever we have built new railway lines or we have been penetrating into the hinterland areas, growth has followed the progress of any railway facility. We have a very large shelf of work to be completed. Apart from that, we also have a requirement for removing existing bottlenecks, taking up much needed safety related works, to modernise the system, to address safety related issues, although our accident record has been improving over the last decade considerably. When the Special Railway Safety Fund (SRSF) was given to us in 2003, we had made a commitment that we would achieve an accident ratio of 0.17 per million train kilometres. We today stand at 0.15 and we are hopeful that we will improve upon this further. Notwithstanding that, we do need a very large number of inputs still to move towards a zero accident regime which is the requirement of the country also. That can be done. It goes hand in hand with de-bottlenecking our major routes where we are running the majority of our traffic. So, for both these activities, for the safety related activities as well as the development related activities, we need funds. We have made efforts to garner funds over the years In fact, our earnings have increased substantially over a period of the last decade, over the last five years also. But, our expenditures likewise have gone up considerably.”

38. The Chairman, Railway Board deposing before the Committee further stated as follows:

“For the VIth Pay Commission, we had to make additional pay out of ₹ 73,000 crore upto 2011-12. So, whereas in the initial stages, our fund balances were becoming healthy and we had garnered enough traffic, but progressively due to the VI Pay Commission additional expenditure as well as the increase in the cost of fuel oil, diesel oil and other inputs, materials etc. - which almost amounts to 85 per cent of our total expenditures and therefore, we cannot really do anything about reducing them because they are almost like fixed expenditures - we have been under financial strain and we have been able to allocate lesser and lesser amounts towards our development activity as well as safety-related activity.’

39. He further added:

‘”Our market borrowing has increased progressively from ₹ 2,510 crore in 2002-03 to ₹ 14,800 crore in 2011-12. The quantum of our lease charges on these market borrowings has gone up from ₹ 3,019 crore to about ₹ 7,500 crore in the current financial year. So, the GBS that we have received from the Government of India has remained more or less at about 40 per cent of our Plan size. In fact, it had dipped to as low as 26 per cent in 2008-09, but now in the current financial year, 2011-12, it stands at 43 per cent.

In the current financial year, we had to take a loan of ₹ 3,000 crore to overcome the expenditures that we had incurred, essential expenditures to balance our Budget in the current financial year. We have now attempted to rationalise our freight structures and we will attempt to pay back that amount in the year 2012-13. The two Committees were appointed by our hon. former Railway Minister – Dr. Anil Kakodkar Committee on Safety and Sam Pitroda Committee on modernisation of the railways. Both have very clearly indicated the need to support the Railways’ efforts for improving the transportation infrastructure in the country and they have indicated a huge investment plan. We have, in fact, indicated to the Planning Commission an investment plan of ₹ 7.35 lakh crore for the 12th Plan period, of which we have planned almost ₹ 2.85 lakh crore from GBS and the balance we have planned from our internal resource generation as well as borrowing, but to make this internal resource generation viable, we do need full support from the Finance Ministry as well as from the Committee.”

40. The Chairman, Railway Board further stated:

“The funds that can be deployed for certain activities, like renewal of assets, replacement of assets and developmental activity, they can only be deployed from internal resource generation. We cannot use GBS for these activities. So, even if GBS is given to us, we have to deploy it for the national projects and for other projects, which will add to the railway infrastructure. That is why, our internal resource generation becomes very critical and very important and one of the ways in which we have requested the hon. Committee is that if the dividend liability is kept at three per cent, and perhaps a moratorium for five years during the 12th Plan period, we would be able to garner some funds to improve and bolster up our Development Fund, Depreciation Reserve Fund as well as Capital Fund and improve our infrastructure over the next four to five years.”

41. When the Committee enquired whether any steps have been taken by the Ministry of Railways for generating more internal resources to meet the development needs in the coming years especially keeping in view their ambitious plan, the Ministry stated as follows:

> “The 12th Plan outlay for the Railways has been proposed at ₹7.35 lakh crore. The required resources for the plan are proposed to be met by:

i.	Gross Budgetary Support	₹2.5 lakh crore
Ii	Government support for national projects	₹30,000 crore
Iii	Ploughing back of dividend	₹20,000 crore
Iv	Internal resources	Rs 1,99,805 crore
V	Extra Budgetary Resources	₹2,18,775 crore
vi	Railway Safety Fund	₹16,842 crore

> The internal resource component of the proposed XII Plan is about ₹2 lakh crore. As freight and passenger business are the two main segments of earnings, internal resources are largely dependent on these two streams. Considering the requirement of internal resources, freight and fare structure has been rationalized recently and it is expected to generate additional revenue of more than ₹16000 crore. The growth in traffic and further necessary adjustment in tariff structure during the 12th Plan period will help the railways to generate internal resources supported by strict control over expenditure. Efforts are also being made to raise additional resources through non-traditional sources such as land, advertisement and station development. It is also proposed to pursue with government the need to plough back dividend paid in rail infrastructure.

> It is correct that compulsions of commercial operations mandates periodic adjustment in tariff rates to cover the cost of operations. But railways have traditionally

been discharging its social responsibility keeping in view the socio-economic conditions and market conditions. Consequently, the tariff structure of the Railways has traditionally been constrained by abilities of the users to pay. Further, railways being a part of government and a capital intensive infrastructure sector, internal resources alone cannot meet the resource requirement in full and government support is mandatory. While internal resources are used primarily for renewals, replacement and development expenditure, funds for expansion of infrastructure for New Lines, Gauge Conversion, Doubling, MTPs, Electrification, Traffic Facilities, Workshops etc have to come from General Revenues. In fact the government support needs to be substantially stepped up in coming years."

42. The Chairman, Ministry of Railways while enumerating the measures to garner the revenue amount of ₹4,200 crore lost due to roll back of passenger fare submitted before the Committee:

"We have set a target of almost ₹ 1050 crore for 2012-13 through austerity measures in the railway system so that we can control our wasteful expenditure to the extent possible and also mop up revenue through other means like increasing our advertisement and land revenues.

Unfortunately, our efforts for increasing the land revenues have met with roadblock. We are going to the Cabinet with a Cabinet Note to allow the Railways to utilize the land for commercial exploitation. We have a huge land bank. We have got schemes for which this land can be utilised for commercial exploitation. In fact, 23 Multi Functional Complexes are already ready for being leased out. They are ready; buildings are ready; in every way, they are all ready. We are still to get the Cabinet nod for going ahead with the commercial exploitation. We have not been able to realise revenues from this. A total of 167 such Multi functional Complexes have been announced which will finally be commercially exploited through RLDA and our PSUs like IRCON, RVNL etc. It will enable us to garner revenues of close to ₹350 crore to ₹ 400 crore. Apart from that, we have also other avenues of land through which we can garner revenue.

We have set a very ambitious target of almost ₹ 800 crore to ₹ 850 crore from land resources for the current financial year. We are making all efforts through very close monitoring to try and increase the revenue.

43. When asked about the steps being taken to curtail their expenditure to make more funds available to meet operational and developmental expenditure, the Ministry in their written replies submitted as follows:

1) Railways are given spending limits lower than the sanctioned budget. They are also repeatedly instructed to effect savings in revenue expenditure to compensate for unavoidable post-budgetary increases such as revision of diesel prices, hike in power tariff, increase in rates of certain allowances/incentive bonus etc. The expenditure is monitored strictly according to the spending limits through monthly financial reviews.

2) Tight control over expenditure in areas such as fuel / power consumption, contractual payments, purchase of material etc is maintained.

3) Prioritization of expenditure on works/activities for better use of available resources.

4) Improvement in Manpower productivity.

5) Improvement in asset utilization.

6) Improvement in inventory management.

7) Maximum realization from sale of scrap etc

8) Reducing the cost of operation and maintenance of rolling stock.

Besides above, austerity is being exercised in the following areas of expenditure:

(i)	Hospitality	(ii)	Commercial Advertisement and Publicity
(iii)	Air Travel	(iv)	Other travelling expenses
(v)	Postage /	(vi)	Overtime allowances in offices

	Courier Services		
(vii)	Fees & Honoraria	(viii)	Petrol /Diesel for road vehicles
(ix)	Telephone charges especially STDs	(x)	Seminar/Workshops/Training
(xi)	Photo-copiers, fax machines	(xii)	Procurement of furniture and fixtures
(ix)	Stationery etc.		

44. When asked about the financial implications on Railways towards filling up 2 lakh existing vacancies, the Ministry of Railways submitted as follows:

> "The total financial implication in the Financial year 2011-12 was approximately ₹1165 crores for 75,000 candidates recruited. In Financial Year 2012-13, the financial implication would be approximately ₹2716 crores for 1,62,000 notified vacancies, comprising of 1,20,000 erstwhile Group D categories with a financial implication of about ₹1,859 crores and 42,000 Group C categories including supervisors and RPF personnel with a financial implication of about ₹857 crores."

45. Presenting the views of the Ministry of Finance, the Secretary, Expenditure deposed before the Committee as follows:

> "We are all proud of our Railways. It plays a very important and critical role in the national economy. The question here is about the support which the Railways is seeking from the general revenues, and it has to be seen in the context of the overall fiscal situation of the country.
>
> In the current financial year 2011-12, we began the year hoping to achieve a fiscal deficit of 4.6 per cent. Regrettably because of the loss of momentum in our growth, we have ended the year with a fiscal deficit of 5.9 per cent. In the coming year, through various measures taken to raise general revenues and in restricting expenditure, we hope to reach a fiscal deficit of 5.1 per cent. This fiscal consolidation is needed again in the interests of the economy. Otherwise, both inflation and growth are getting affected."

46. He further added:

"In 2011-12, our net market borrowings is ₹ 4.36 lakh crores and the weighted average rate of interest has gone up to 8.52 per cent. The net market borrowing is ₹4.79 lakh crore for the year 2012-13. And recently the bond yields, in fact, have hardened. So, we are committed to adhering to the path of fiscal consolidation apart from the goal of fiscal deficit of 5.1 per cent. We have also laid in Parliament our three year goals of reaching 4.5 and 3.9 per cent fiscal deficit in the forthcoming two years Along with that, an amendment to the Fiscal Responsibility and Budget Management Act has also been proposed which commits us to adhere to these targets and also now proposes that the C&AG will review the performance of Government in this format"

47. Explaining the support by the Ministry of Finance to the Ministry of Railways in terms of Gross Budgetary Support (GBS) and allowing issue of tax free bonds vis-a-vis Internal and Extra Budgetary Resources (IEBR) to the Ministry of Railways, the Secretary, Expenditure stated as follows:

" the resolve is to achieve fiscal consolidation. Within this resolve, we have been doing our best to support the Railways. One evidence of that as the Chairman, Railway Board acknowledged was the ₹3,000 crore loan which was given despite the loan having an impact on the fiscal deficit of the General revenues but the loan nonetheless was given for ₹3000 crores during the course of the current fiscal year. Another measure of how support to the Railways has been maintained is the Gross Budgetary Support(GBS) to the Railways over the Ninth Plan Period and the Tenth Plan Period. The actual GBS in the Ninth Plan Period was 32 per cent over the projected GBS of that plan and GBS for the Tenth Plan actually achieved was 36 per cent over the projected GBS. In the Eleventh Plan as against the approved GBS of ₹50,063 crore which exclude support for the national projects, an amount of ₹71,492 crore has been provided which is 43 per cent more than the approved GBS for the Eleventh Plan. That means despite the fiscal constraints, the GBS to the Railways has been increasing.

On the other hand, the Railways Internal and Extra Budgetary Resources (IEBR) during the Eleventh Plan Period, was projected at 1.69 lakh crore to begin with. The actual realisation has been only ₹1.16 lakh crore. So, there is actually a shortfall of about 31 per cent in the IEBR. Apart from the GBS, the Ministry of Finance has also allowed IRFC to issue tax free bonds worth ₹5000 crore rupees in 2009-10 and ₹10,000 crore rupees in 2011-12 and the Finance Minister in his Budget Speech has announced another ₹10,000 crore for IRFC for the 2012-13. Even this year (2012-13), the total Budgetary Support has gone up to ₹25,102 crore rupees. This is over about ₹21,060 crore Budgetary Support in 2011-12 if we exclude the ₹3,000 crore rupees of additional loans given during the current year. Overall the point I am making is that we continue to support the Railways. We are also trying to provide additional support to Railways".

48. The Secretary, Department of Expenditure, Ministry of Finance added:

"But support to the Railways, which has to adhere to basic principle of departmentally run commercial undertaking, has to be seen in the overall context of our fiscal constraints. Right now, the Government is under heavy fiscal stress which is reflected in the cost of borrowing. Anything additional that we waive by way of giving dividend relief or any other support to railways from now over and above what is projected in the Budget, will mean adding to our fiscal deficit which will mean higher borrowings, which will mean that the cost of borrowing will remain high. The borrowing has been so critical that in 2011-12 some auction of Government bonds actually devolved indicating very clearly that in 2012-13, markets would not support borrowings at very high level. We have to do everything we can to adhere to this fiscal path. Within these constraints, regrettably it will not be possible to support the railways through lowering the dividend rate. In fact, we have made a humble request that the Committee may consider restoring the dividend rate which was prevalent earlier, a higher dividend rate of seven per cent. This is also essential in order to instill fiscal discipline in the railways because we are borrowing money and that is actually going into the railway's gross budgetary support. That is true of other Departments also. The expectation of seven per cent is not high keeping in view that our cost of borrowing is 8.52 per cent.”

49. Pleading for lowering the rate of dividend for the year 2012-13, the Chairman, Railway Board submitted before the Committee during the evidence: -

> “If the dividend is restricted to three per cent in the current financial year, then we would be gaining about ₹ 1,200 crore to ₹ 1,400 crore, which we would like to deploy in much needed safety-related activity and, if necessary, it can be ring-fenced to ensure that this amount goes into the activity for which it is actually required.”

50. He further added: -

> “Rs 1400 crore can finance my entire safety related signalling infrastructure over a period of one year. I spend about ₹1400 crore to ₹1500 crore in a year on improving signalling infrastructure. It is a much needed safety related as well as augmentation related infrastructure and it will help in improving our throughput and improving the safety features. If on a year-to-year basis we keep getting this assistance from the Ministry of Finance and the Government of India, then I am sure that we will be able to overcome the debacles that we have faced in the last couple of years because of paucity of funds and move ahead to a new situation and new improvements in the Railway facilities”

51. Explaining it further, a representative of the Ministry of Railways added:

> “It would finance an entire plan head of track renewal, signalling and telecom, which would go towards safety and security of the passengers in a year. The Ministry of Finance if I may say, ₹1450 crore means a negligible impact of 0.09% but for us it means significant impact”.

IX. Funds of Railways

A. Depreciation Reserve Fund (DRF)

52. 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 revenues.

53. While approving the proposal of the Ministry of Railways regarding appropriation to be made to the Depreciation Reserve fund in 2011-12, the Committee in their Second Report, had inter-alia recommended as under: -

> "Contribution to DRF 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 financial year 2011-12."

54. The appropriation to the DRF in 2010-11 was kept at ₹5,515 crore from Revenue and ₹100 crore from Production Units. The Fund had closing balance of ₹5 crore at the end of the fiscal year 2010-11.

55. In the Budget Estimates 2011-12, the appropriation to DRF was kept at ₹7,000 crore and Rs 100 crore from the Revenue and Production Units, respectively. This was revised to ₹6,360 crore at Revised Estimates stage. The closing balance in this fund for the year is Rs.19.70 crore (RE). The contribution to Depreciation Reserve Fund has been proposed at ₹9,700 (BE) for the year 2012-13 comprising of ₹ 9,500 (BE) from Revenues and ₹ 200 crore from Production units.

B. Pension Fund (PF)

56. 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. At present, there are about 12 lakh Railway Pensioners.

57. The Committee in their Second Report (15th Lok Sabha), while approving the proposal of the Ministry of Railways regarding contribution to be made to Pension Fund in 2011-12, had recommended as under: -

> "The appropriation to the Pension Fund in 2011-12 (Budget Estimates) has been budgeted to be ₹16,010 crore consisting of ₹15,810 crore from Revenues and ₹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). "

58. In their Explanatory Memorandum on Rail Budget for 2012-13, the Ministry of Railways have submitted the following:

> "In the revised estimate for the year 2010-11, the appropriation to the Pension Fund has been kept at ₹14,710 crore consisting of ₹ 14,510 crore from Revenues and ₹ 200 crore from Production Units for the year.
>
> For the year 2011-12, the appropriation to the Pension Fund was placed at ₹ 16,010 crore in the Budget Estimates comprising ₹ 15,810 crore from revenue and ₹200 crore from Production Units. The RE for the year 2011-12 was kept at ₹ 17,110 crore comprising ₹ 16,810 crore from revenue and 300 crore from production units. The closing balance in this fund for the year was ₹118.35 crore.
>
> The appropriation to the Pension Fund in BE 2012-13 has been kept at ₹18,810 comprising ₹18,510 crore

from revenue and ₹300 crore from Production Units. The actual amount of contribution in Pension Fund in the fiscal year 2012-13 will be determined in keeping with the Plan outlay for that year and the overall resource availability."

59. In regard to the proposal of the Ministry of Railways, the Ministry of Finance have observed that contribution to Pension Funds in 2012-13 may be allowed to be made in keeping with the actual requirement submitted by the Railways in their BE projections.

C Development Fund (DF)

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

(i) Passengers and users' amenities : DF I

(ii) Labour Welfare Works : DF II

(iii) Unremunerative operating improvements: DF III, and

(iv) Safety Works : DF IV

The appropriation to the Fund is made out of the 'Excess' left after meeting the dividend liability.

61. The Ministry of Railways submitted to the Committee as follows:

"Due to sharp reduction in internal resource generation, the Excess in 2010-11 decreased from the Revised Estimates of ₹4,105 crore to ₹1,405 crore in the actuals, entire of which has been appropriated to the Development Fund. Since the Development Fund had a meager opening balance of ₹6 crore (BE), the amount available in the Fund proved inadequate and the Development Fund closed with a negative balance of ₹1,213 crore (RE).

In BE 2011-12, the appropriation to the Fund was kept at ₹2,400 crore. The appropriation to this Fund was kept at ₹ 3,550 crore in the Revised Estimates 2011-12 (includes appropriation of ₹3,000 crore from General Revenues to Development Fund).

The appropriation to the Fund for 2012-13 has been kept at ₹10,557 crore in keeping with the plan outlay for that year and the overall resource availability."

D Capital Fund (CF)

62. As approved by the Railway Convention Committee (1991) *vide* their Third Report, the Capital Fund was created with effect from 1992-93, with the expressed purpose of financing part of the requirement for works of a capital nature. After providing for appropriation to Development Fund, the balance of 'Excess' is appropriated to the Capital Fund.

63. As per the Interim Memorandum submitted by Ministry of Railways, it has been mentioned that in 2010-11, no amount could be appropriated to this fund. The Capital Fund opened with a balance of ₹2,438 crore in 2010-11, which proved to be inadequate in covering the expenditure of ₹3,330 crore from the Fund. The Fund was closed with a negative balance of ₹886 crore in 2010-11.

64. The appropriation to this Fund for BE 2011-12 was ₹2,858 crore, which was suitably readjusted to ₹ 942.15 crore (Revised Estimate stage) in 2011-12 in view of the negative closing balance in 2010-11 and overall ways and means position. The appropriation to the Fund for 2012-13 has been kept at ₹5,000 crore (BE).

E. Railway Safety Fund (RSF)

65. As recommended by the Railway Convention Committee (1999) *vide* their Second Report, the Railway Safety Fund has been created with effect from 1.4.2001. This fund has been

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

66. The Ministry of Railways in their Action Taken Replies to the recommendations contained in 2nd Report have submitted as follows:

> "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 Road Fund, ₹1062 crore and ₹1105 crore have been appropriated to this Fund in Revised Estimates 2011-12 and the Budget Estimates 2012-13 respectively."

F. Rate of interest on the Railway Reserve Funds

67. The Ministry of Railways in their Interim Memorandum 2012 have proposed as follows:

> "The recommendations of Railway Convention Committee (2009) in respect of interest on the balances in the various Railway Funds as contained in their Second Report for the year 2011-12, may be made applicable for 2012-13 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 'interest free' fund."

68. 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 ‘No Objection’ there against.

RECOMMENDATIONS OF THE COMMITTEE

69. The Committee note that in the year 2011-12 various areas have shown significant growth over previous year at the revised estimates stage *e.g* Capital-at-Charge has increased to ₹1,22,583 crore (17.3% over previous year). Total receipts have increased to ₹1,06,647 crore (10.3% over previous year) and Internal Resource Generation to ₹7,708 crore (10.8% over previous year). The Committee also note that the expenditure side has also increased considerably such as the ordinary working expenses have increased to ₹75,650 crore (11.0% over previous year) and the total working expenses have increased to ₹98,610 crore (10.2% over previous year). The Committee are aware that the demand for transportation is directly co-related with GDP growth. However, the share of rail in the overall transport business in the country has come down over the years. On a long term basis the market share of rail transport has reduced from 89% in 1950-51 to 30% in 2007-08. The road sector has been the biggest gainer and pipelines also have gained share by 4.5% during same period. The railways, have, however, maintained their traditional dominance in the carriage of bulk commodities such as coal (69.83%), iron ore (56.44%), cement (45.64%) and fertilizers (81.36%) in 2010-11.

70. The Committee have carefully 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. They note the submission of the Ministry of Railways for moratorium of 5 years on payment of dividend starting from financial year 2012-13 i.e during XIIth Five Year Plan and reduction in the rate of dividend on the capital invested on the Railways from the existing 5% to 3% for the year 2012-13 in view of the huge throw forward that the Railways have on account of

various projects including mega projects for dedicated corridors and capacity augmentation programmes 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 of lines, traffic facilities, railway electrification workshops and are at various stages of pendency. The inordinate delay in execution of most of these projects is a cause of concern as these become as huge funds have been blocked without any timely use. It has been stated that the Railways would require ₹1,25,000 crore to complete these projects. The flagship project of Indian Railways - the dedicated freight corridors require huge investments of the order of ₹1,00,000 crore. The Ministry of Finance have informed the Committee that the Budget support (excluding contribution towards special Railways Safety Funds but including additional budget support towards projects of national importance) being provided to the Ministry of Railways has increased substantially from ₹5,493 crore in 2004-05 to ₹9,545 crore in 2008-09 and ₹21,060 crore in 2011-12 and further to ₹25,102 crore in 2012-13. The Ministry of Railways has been allowed to issue of tax free bonds worth ₹10,000 crores for capacity enhancement works of Railways. They also informed the Committee that since Railways are carrying social service obligations, they are being compensated through subsidies (₹2190.87 crore in 2010-11) and reimbursements of strategic lines to the extent of ₹648.97 crore in 2010-11. According to the Ministry of Finance rate of dividend in 2010-11 worked out to only 3.2%. The Ministry of Finance have also informed the Committee that rate of interest on investments in forms of loans to Public Sector Enterprises for the current year stands at 11.5% and as against this even a 7% rate is high concession, as it translates into 3.2% after grant of concessions and reliefs by the Ministry of Finance. They have also brought out before the Committee that the Ministry of Finance is supporting Railways within their own resolve for financial consolidation such as grant of loan worth ₹3000 crore in 2011-12 for Development Fund to meet requirements of safety related works. The Ministry of Finance have also put forth their request of 7% rate of dividend payment by Railways during the current year in view of current economic scenario where the Government is committed to economic growth through higher public expenditure despite severe fiscal stress and Government's committed liability for higher outlays on social sector programmes in areas of education, health, rural development impending implementation of National Food Security Act, 2011 etc. The Committee are of the opinion that there is a need for higher support from the Ministry of Finance to the Railways for timely completion of projects as also to meet the requirement of capacity augmentation in line with the growth in economy especially in view of the ambitious dedicated freight corridors and vision 2020 targets. At the same time, they also feel that there is an urgent need for the Railways to put their own house in order.

71. The Committee find that the Railways had proposed rationalization of freight and fare structure recently in the Railway Budget 2012-13 in view of the rising costs besides non-revision of passenger fares for almost ten years. However, subsequently there was a partial roll back of about ₹4000 crore. They find that the partial rationalization of freight and fare structure is expected to generate additional revenue of more than ₹ 16000 crore. The Committee hold that the request of the Ministry of Railways for moratorium of the payment of dividend for five years i.e during XII Five Year Plan is not acceptable instead the Railways should observe greater financial discipline and mobilize additional resources through tariff revision (especially in view of rising operational costs, fuel costs, human resource costs etc), rationalization of freight fares

and also make sincere efforts to raise additional revenues through non-traditional resources such as usage of surplus land, advertisements and station developments etc . The Committee desire that railways should explore the ways of raising their revenues and avenues for resource mobilization while curbing wasteful expenditure.

(Rec Sr. No.1)

72. The Committee have been informed that the Railways have a huge land bank which has already been mapped out and the schemes for commercial exploitation of this land has been identified. The Ministry of Railways have also informed that they have 24 multi functional complexes ready in all respect for being leased out. They admitted before the Committee that efforts to garner revenue from the railway land has been totally held up and frustrated because of the new land policy of the Government. They apprised the Committee that in this regard they have already prepared a Note for the Ministry of Finance and Planning Commission who have supported their cause. They submitted that they have gone ahead with the Cabinet Note for their approval for commercial exploitation of the railway land in absence of which the multi functional complexes which are ready for commissioning would remain un-functional. They have mentioned that a total of 167 such multi functional complexes have been announced which are finally to be exploited through Railway Land Development Authority and PSUs like IRCON and RVNL etc and would provide revenues close to ₹ 350-400 crore. Other avenues of land use would provide additional ₹800 to ₹850 crore from their land resources for the current financial year (2012-13). The Committee feel that in view of their difficult financial position it is only prudent to garner revenues by exploring all avenues including use of land for commercial purposes. They, therefore, recommend that the Ministry

of Railways should ardently pursue the matter with the concerned Ministries / Planning Commission to get requisite approval from the Cabinet expeditiously in this regard. They would also like the Ministry to clearly identify their surplus land in a planned way, the proper use of their surplus land and inform the Committee about its status.

(Rec Sr. No.2)

73. The Committee are aware that Railways are performing social obligations such as carrying all sections of society to their destination, developing remote and far flung areas which are not remunerative or follow the commercial principles of operation and becoming catalyst of creation of large scale employment opportunities. It is this mode of transport which gives a spiraling effect to the development of these areas. Further, their projects require huge capital investments with long gestation period leading to locking of their funds without immediate return. Further, with funds required by Railways for the huge backlog of projects and ambitious future plan, it is for the Government to support Railways. Further, the Chairman, Railway Board, has submitted before the Committee that money from reduction in dividend would be deployed in much needed safety related activity and, if necessary, it can be ring fenced to ensure that this amount goes into the activity for which it is actually required. 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 an interim measure, that for the year 2012-13, the rate of dividend to the General Revenue be determined at 4% 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 2012-13.

(Rec Sr. No.3)

74. The Committee 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 2012-13.

(Rec Sr. No.4)

75. The Committee note that the appropriation to the Depreciation Reserve Fund (DRF) in 2010-11 kept at ₹5,515 crore from Revenue and ₹ 100 crore from Production Units. The closing balance in DRF was ₹ 18.89 crore (RE) at the end of the year 2010-11. They further note that for the year 2011-12 an amount of ₹ 6,360 crore (RE) consisting of ₹ 6,160 crore from Revenues and ₹ 200 crore from Production Units has been appropriated to DRF in the revised estimates. The appropriation to the DRF for 2012-13 has been budgeted to be ₹ 9700 crore, consisting of ₹ 9,500 crore and ₹ 200 crore from Revenue and Production Units respectively. 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 2012-13.

(Rec Sr. No.5)

76. The Committee find that there are 12 lakh Railway Pensioners They observe that the appropriation to the Pension Fund (PF) in 2010-11 was kept at ₹16,030 crore, consisting of ₹15,830 crore and ₹200 crore from Revenue and Production Units respectively. The closing balance in the Fund was ₹5.33 crore at the end of the 2010-11. In the Revised Estimates for the year 2011-12, the appropriation to the Pension Fund was kept ₹17,110, consisting of ₹16,810 crore from Revenues and ₹300 crore from Production Units. The appropriation to the Pension Fund in 2012-13 (Budget Estimates) has been budgeted to be ₹ 18,810 crore consisting of ₹18,510 crore from Revenues and ₹ 300 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 etc.

(Rec Sr. No.6)

77. The Committee observe that the appropriation to the Development Fund for the year 2010-11 was kept at ₹2358 crore (RE) which reduced to Rs. 1,405 crore in actual. The appropriation to the Development Fund for the year 2011-12 was kept at ₹2400 crore and the same was reduced to ₹ 550 crore at RE stage. The Ministry of Railways have, however, stated that the appropriation to Development Fund would be ₹10557 crore in 2012-13. The Committee endorse the allocation.

(Rec Sr. No.7)

78. The Committee note that at present the 'Excess' is first appropriated to Development Fund. The amount left after meeting the requirement of Development Fund is appropriated to Capital Fund. The Ministry of Railways have proposed that as the liability of

'Principal payment of the lease charges' payable to the Indian Railway Finance Corporation is obligatory in nature and is discharged from Capital Fund, it becomes necessary that Capital Fund should get priority over Development Fund in getting appropriation from the 'Excess', that is Capital Fund needs to be treated as the first charge on the 'Excess'. The Committee note that both Development Fund and Capital Fund are two distinct funds with dedicated purposes. While the Development Fund finances the expenditure on passenger and user amenities, labour welfare works, un-remunerative operating improvements and safety work etc., the Capital Fund goes towards building of infrastructure of Railways. The Committee were informed that while the change in order of appropriation may not affect the projects funded from Development Fund if adequate resources are available. However, there is a possibility of lesser appropriation to Development Fund in financially difficult years To address this concern, Railways have proposed to build balances in this Fund in 2012-13. The estimated closing balance in 2012-13 under Development Fund now stands at ₹3842.65 crore after fully discharging the loan liability to general revenues. Since, adequate balance is available in Development Fund even after discharge the loan liability to general revenues, the Committee recommend that the status-quo may be maintained for the year 2012-13 and any change in the priority is not warranted at this stage.

(Rec Sr. No.8)

79. The Committee have considered the request of the Ministry of Railways to direct the Ministry of Finance to extend temporary loans to Ministry of Railways to cover the negative balance in Development Fund and Capital Fund whenever the Excess is not found sufficient to finance expenditure from these

funds. The Committee have also noted the reservations of the Ministry of Finance on the proposal of the Ministry of Railways and are of the view that any blanket automatic debit mechanism provision from the General Revenues of sums of money which the Railways should actually be generating from their internal resources will have an adverse impact on the efforts being made by the Railways to generate more funds internally. The Committee also feel that less appropriation to Development Fund and Capital Fund makes an adverse impact on the cash balance of the government and causes an un-planned under projection of the fiscal deficit of the Government. The Committee are of the view that Railways should mobilize additional resources by taking some rational and financially prudent steps and at their own part Railways should take measures to avoid building of nil/negative balance in the funds. The Committee note that the Ministry of Finance finding the difficult financial position of Ministry of Railways *w.r.t.* the Development fund have already granted loan of Rs.3,000 crore under this head in 2011-12. The Committee, therefore, recommend that extending temporary loan to Ministry of Railways to cover the nil/negative balance in Development Fund and Capital Fund whenever the excess is not found sufficient should be purely on case to case and on merit basis keeping in view the overall financial status of the Ministry of Railways in that particular year and the efforts made by the Railways to mobilize additional resources internally and the financial discipline followed.

(Rec Sr. No. 9)

80. The Committee find that the Capital Fund goes towards building up the infrastructure of the Railways. During 2010-11, no amount could be appropriated to the Capital Fund but actual withdrawal was ₹3330 crore. For the year 2011-12, the appropriation to Capital Fund was budgeted at ₹ 2858 crore (BE) and it was

revised to ₹942 crore. For the year 2012-13, the appropriation to Capital Fund has been kept at ₹5,000 crore (BE). In keeping with the plan outlay and the overall resource availability, the Committee endorses the allocation. However, they would like to be apprised of the actual amount that would be credited to this Fund at the end of the financial year 2012-13.

(Rec Sr. No.10)

81. 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 was ₹ 935 crore (actual) for the year 2010-11. For the year 2011-12, the appropriation to this Fund was budgeted at ₹1,043 crore in BE and the same was revised to ₹1062 crore for the financial year 2012-13 the appropriated amount is ₹1105 crore (]B.E). While endorsing the proposed allocation the Committee would like to be apprised of the actual amount that would be appropriated to this Fund at the end of the financial year 2012-13 as this is a vital aspect of Railways where adequate fund have to be ensured.

(Rec Sr. No.11)

82. The Committee agree with the existing 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.12)

New Delhi:	ARJUN CHARAN SETHI
17 May, 2012	*Chairman*
27 Vaishaka, 1934 (Saka)	*Railway Convention Committee*