RAILWAY CONVENTION COMMITTEE (1999)

(THIRTEENTH LOK SABHA)

FIRST REPORT

ON

RATE OF DIVIDEND FOR 2000-2001 AND OTHER ANCILLARY MATTERS

LOK SABHA SECRETARIAT
NEW DELHI
August 2000 / Sravana 1922 (S)

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RAILWAY CONVENTION COMMITTEE
(1999)

Smt. Bhavnaben Chikhalia - Chairperson

MEMBERS

LOK SABHA

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2 Shri Adhir Chowdhary
3. Shri Gurcharan Singh Galib
4. Shri Anant Gangaram Geete
5. Shri R.L. Jalappa
6. Shri Raghunath Jha
7. Dr.(Smt.) C. Suguna Kumari
8. Shri Hannan Mollah
9. Shri Ravindra Kumar Pandey
10. Shri Manabendra Shah
11. Shri Saleem Iqbal Shervani
12. Shri Radha Mohan Singh

RAJYA SABHA

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13. Shri Lakhiram Agarwal
14. Shri Maurice Kujur
15. Shri Dina Nath Mishra
16. Shri Suresh Pachouri
17. Shri Solipeta Ramachandra Reddy
18. Shri A. Vijaya Raghavan

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SECRETARIAT

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1. Dr. A.K. Pandey Additional Secretary

2.	Shri Rajgopalan Nair	Joint Secretary
3.	Shri R.C. Gupta	Deputy Secretary
4.	Smt. Abha Singh Yaduvanshi	Assistant Director

INTRODUCTION

I, the Chairperson, Railway Convention Committee (1999), having been authorised by the Committee to present the Report on their behalf, present this First Report on Rate of Dividend payable by the Railway Undertaking to General Revenues and other Ancillary Matters for the financial year 2000-01.

2. Based on an interim Memorandum submitted by the Ministry of Railways, in consultation with the Ministry of Finance, on 17th March, 1999, the Railway Convention Committee (1998), in their Third Report, had recommended, purely as an interim measure, that dividend for the year 1999-2000 to General Revenues be paid at the rate of 7 per cent irrespective of the year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant-in-lieu of passenger fare tax and contribution for assisting the states for financing safety works during the year 1998-99. The Third Report of RCC(1998) was presented to Lok Sabha on 21st April, 1999 and laid in Rajya Sabha on 19th April, 1999. The action taken notes of the Government on the recommendations contained in the Third Report were furnished by the Ministry of Railways on 31st May, 2000 which forms **Appendix – IV** of the Report. The Ministry of Railways have also submitted their action taken replies on the Second Report of RCC (1998) on Rate of Dividend for 1998-99 and other ancillary matters on 1st September, 1999. The recommendations contained in the Second Report of Railway Convention Committee (1998) and the action taken by the Government thereon are at **Appendix – V**. The Ministry of Railways have also furnished their final action taken note on para 43 of the Twelfth Report of Railway Convention Committee (1991) on Rate of Dividend for 1996-97 and other ancillary matters and the same forms **Appendix – VI** of this Report.

3. With the constitution of Thirteenth Lok Sabha, the Railway Convention Committee (1999) was constituted on 21st January, 2000, to review the rate of dividend payable by the Railway Undertaking to General Revenues, as well as other ancillary matters in connection with the Railway Finance vis-à-vis General Finance and to make recommendations thereon. An Interim Memorandum on the subject containing the views of both Ministries of Railways and Finance were furnished by the Ministry of Railways on 25th April, 2000 wherein the Ministry of Finance had proposed that dividend paid by the Railways needs to be gradually increased and that for the year 2000-01, the Railways should pay dividend at the rate of 7.5 per cent on Capital-at-charge irrespective of the year of investment. After considering this Interim Memorandum at their sitting held on 17th May, 2000, the Committee decided to take evidence of the representatives of Ministries of Railways and Finance and the Planning Commission.

4. The Committee took evidence of the Representatives of Ministries of Railways and Finance on 21st June, 2000 and that of Planning Commission on 12th July, 2000. Minutes of the above sittings of the Committee are

appended to this Report in Part – II. The Committee wish to express their thanks to the representatives of both the Ministries and the Planning Commission for placing before them their views and the detailed written notes on the subject and for furnishing whatever information the Committee desired in connection with the examination of the subject. The Committee also appreciate the frankness with which the officials/ representatives shared their views, perceptions and constraints with the Committee.

5. After considering the Interim Memorandum and the oral and written submissions made before them, the Committee have recommended, purely as an interim measure, that dividend to General Revenues for the year 2000-01 may be paid at the rate of 7 per cent on the entire capital invested on Railways from the General Revenues irrespective of the year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the year 1999-2000. All other concessions now available are also allowed to continue on the existing basis for the year 2000-01.

6. While taking a strong exception to the undue delay in submission of Interim Memorandum on Rate of Dividend and other ancillary matters, the Committee had recommended that despite all odds, both Ministries of Railways and Finance should ensure that the Annual Memorandum should be submitted to the Committee latest by the end of December each year so that the Committee could make an in-depth study on the entire gamut of payment of dividend to General Revenues and present their Report well before the presentation of Railway Budget.

7. The Committee have also recommended that the Ministry of Railways should ***de-novo*** examine the entire issue of cross-subsidisation and while agreeing with the views of Planning Commission, they recommended for setting up of a Tariff Regulatory Authority, on the lines of Telecom Regulatory Authority, with the mandate to fix tariffs on a rational basis with automatic adjustment based on the cost inputs including fuel and electricity tariff.

8. The Committee have advised the Ministry of Railways to increase their internal resources and put an end to extravagant expenditure. While cautioning the Ministry of Railways, the Committee have recommended that they will be keeping a strict vigil on the performance of the Railways during the year and the same would be taken into consideration while reviewing the Rate of Dividend for the year 2000-01.

9. While making appropriation to Depreciation Reserve Fund, Pension Fund, Development Fund and Capital Fund, the Committee have recommended for creation of a new Railway Fund with the nomenclature 'Railway Safety Fund' for financing works of converting unmanned level crossings and for construction of Railway over bridges/Railway under bridges at busy level crossings. In regard to the financing of this new fund, the Committee have recommended that the new fund should be funded through the Railway Revenue i.e., out of the 'Excess' left in the financial results ; transfer of funds by the Central Government from the Central Road Fund and the present 20 per cent contribution which is being made by the Ministry of Railways to the existing Railway Safety Works Fund out of the dividend being paid to the General Revenues. The Committee have also accepted the proposal of the Ministry of Finance for merging the present Railway Safety Works Fund with this new fund viz., the Railway Safety Fund.

10. The Committee considered, finalised and adopted this Report at their sitting held on 17th August, 2000. The minutes of the sitting of the Committee are appended to the Report in **Part – II**. For facility of reference, the recommendations and observations of the Committee have been printed in thick type in the body of the Report.

New Delhi ; ***BHAVNABEN***
CHIKHALIA
August 17, 2000
CHAIRPERSON
Sravana 26, 1922 (S) **RAILWAY CONVENTION**
COMMITTEE

REPORT

I. GENESIS OF SEPARATION OF RAILWAY FINANCE

The first Railway in India as also in Asia was opened by the Great Indian Peninsular Railway Company (present Central Railway) formed in England. The Company completed the survey work taken in hand in 1850 in about 3 years. The first train steamed out of Bombay on April 16, 1853 to Thane – a distance of about 33 Kms. A new Chapter in the history of India was thus opened.

2 The growth and development of Indian Railways owes much to Lord Dalhousie, Governor-General of India (1848 – 1856), who suggested a system of trunk lines connecting the hinterland of Bombay, Bengal and Madras Presidencies with their principal ports and also with each other. As the Government had neither the funds nor the technical personnel to undertake the work, the same was entrusted to private companies who were guaranteed a return of 5 per cent on their Capital for a period of 25 years. On their part, the companies were expected to share their surplus profit with the Government and to sell the Railways to the Government after 25 years. As the expected profit failed to materialize and the guaranteed return continued to be a drain on the exchequer, the Government purchased the Railways on the expiry of the period of contract, though the management of the Railways continued to be with the companies. Following the recommendations of the Acworth Committee (1920-21) the Government took over the management of the bulk of the Railways.

3 Originally, Railway Finances were included in the Budget of the Government of India. In order to secure stability for Civil estimates by providing for an assured contribution from Railway Revenues and also to introduce flexibility in the administration of Railway Finance, the Railway Finances were separated from the General Finance by a Resolution of the Central Legislature adopted on September 20, 1924 and was approved by the Secretary of State. The possibility of legislation to separate Railway Finance from General Finance was considered, but 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".

4. Under the 'Separation Convention' the Railways are required to pay dividend at a fixed rate on the Capital, the whole of which was advanced by the Government of India. The 'Rate of Dividend' payable by the Railway Undertaking to the General Revenues as well as other financial matters are determined periodically by the Railway Convention Committee of Parliament. This, in brief, is the genesis of Separate Railway Finance in India.

II. GUIDING PRINCIPLE OF RATE OF DIVIDEND

5. The first Convention Committee was set up after Independence in 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 tax payer is the owner and sole shareholder of the Undertaking. This principle of rate of dividend being higher than the average borrowing rate of interest paid by the Government was followed by the successive Railway Convention Committees up to the year 1981-82. Subsequently, keeping in view the financial health of the Railways the rate of dividend has been lower than the average borrowing rate of interest since then.

III. FINANCIAL STRUCTURE OF INDIAN RAILWAYS

6. 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 administrative and financial set up of the Ministry of Railways has come to acquire a somewhat unique character, in that the Ministry of Railways have been delegated with substantial powers relating to all Railway matters. The Railways have their own independent and integrated financial set up, in that:-

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 not cleared by Public Investment Board as is done for 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. 50 crores, Planning Commission is required to concur before the work can be included in the Budget. For works costing over Rs. 50 crores the Planning Commission prepares an appraisal note which is then considered by an Expanded Board which consists of Members of the Railway Board and Secretaries of the Ministry of Finance (Expenditure), Planning Commission and the Department of Programme Implementation. The proposals for projects are then sent to the Cabinet Committee on Economic Affairs (CCEA) for approval with the recommendations of the Expanded Board, and once CCEA approves, the projects are included in the Railway Budget for seeking the approval of the Parliament.

Although the Railway Finances have been separated from the General Finances, the former continue to be part of the overall Government Finances in that 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.

7. The revenue receipts of the Railways are derived from Gross Traffic Receipts, which include passenger earnings, goods earnings and sundry other earnings. The expenditure of the Railways falls in two categories:-

i) Revenue expenditure or non-Plan expenditure; and

ii) Other expenditure or Plan expenditure.

The revenue 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. The Plan expenditure is financed from budgetary support provided by the General Revenues, and withdrawals from various Railway Funds, including Capital Fund, as also from market borrowings.

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

9. In pursuance of the Resolution adopted by Lok Sabha on 21st December, 1999 and concurred in by Rajya Sabha on 23rd December, 1999, the Railway Convention Committee (1999) was constituted on 21st January, 2000 to review the rate of dividend payable by the Railway Undertaking to General Revenues, as well as other ancillary matters in connection with the Railway Finance vis-à-vis General Finance and to make recommendations thereon.

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

10. The Committee generally present their Report on 'Rate of Dividend' during the Budget Session of Parliament and their recommendations are reflected in the Railway Budget. The Memorandum of the Ministry of Railways on 'Rate of Dividend' payable to General Revenues' is submitted to the Committee only after obtaining the comments/concurrence of the Ministry of Finance. However, Interim Memoranda on Rate of Dividend were submitted to the Committee after presentation of the Railway Budgets for the years 1998-99 and 1999-2000.

11. In this connection, the Railway Convention Committee (1998) had, in para 37 of their Third Report on 'Rate of Dividend for 1999-2000 and other ancillary matters' recommended.

> "The Ministries of Railways and Finance should ensure that the Annual Memorandum on the rate of dividend should be submitted to the Committee latest by the end of December each year so as to enable the Committee to complete their report well ahead of the presentation of the Railway Budget".

12. Giving reasons for the delay in submitting the Interim Memorandum to the Committee, the Ministry of Railways stated as under :

> "Unfortunately, this has not been adhered to in respect of the Memorandum for the year 2000-01 owing to the unprecedented financial difficulties faced by the Railways, which made it necessary for the finalisation of the Memorandum being postponed to a date as close as possible to the date of final formulation of the Railway Budget for the year 2000-01 so that the magnitude of the problem could be assessed more precisely. The combination of various factors leading to the present financial problems of the Railways have been brought out in the Interim Memorandum. The proposals made include two totally new elements – one providing for a part of the requirement under `Capital Fund' being met by means of a loan from the General Exchequer and another relating to the setting up of a new Railway Safety Fund. In so far as the Capital Fund is concerned, conceptually, it represents the surplus from Railway revenues after the full dividend liability has been met. Arising from the combination of various factors in order to find resources for financing the plan for the year 2000-01, it also became necessary to revive the practice which was prevalent until some years back, of partially deferring the payment of dividend with the approval of the Ministry of Finance. All these had to be discussed extensively between the Ministry of Railways and the Ministry of Finance. Under these exceptional circumstances, it is requested that the delay in submission of the memorandum to the RCC may be viewed kindly by the Committee".

13. Clarifying the issue further, the Financial Commissioner (Railways), during evidence submitted the following:

> "In the last year, the financial situation was very uncertain. We have to plan for a certain reasonable level of Plan outlay for the next year. We had Rs.9,700 crore in the previous year. Our effort was to build up Plan outlay, which is reasonable, which can carry forward the progress of the project. So, we had to

examine every possibility of getting the revenues. We have to make an assessment of the traffic. There were questions as to what we should do with the tariff rates, freight, passenger, etc. They were under discussion.

We had also submitted a Memorandum to the Cabinet seeking social burden compensation to the extent of Rs.1,500 crore in the current year and about Rs.1,300 crore for the previous year because the situation was very bad. The Planning Commission advised us to take strict measures to control the expenditure. All this was going on. The decision of the Cabinet has not yet come. We have also made a proposal that we will have to borrow money from the Capital support. There was also proposal for creation of Railway Safety Works Fund.

So, unavoidably there were frequent discussions. So, we have to make a reasonable proposal. That is why, we have to take it as close to the finalisation of the Budget figures before we submitted the Memorandum".

14. About delay in submission of Memorandum, the Ministry of Finance submitted to the Committee that the Memorandum on Rate of Dividend for 2000-01 was mainly on account of the Ministry's engagement in the review of Railway Finances while the Railway Budget 2000-01 was passed by Parliament.

In this connection, Secretary (Expenditure) admitted during evidence as follows:

"I readily concede that there is certainly an error on the part of the Ministry. It should have been sent much earlier. The only mitigating factor is that this year the finances of the Railways were in a stressful position. They were not in a position to raise sufficient resources for the projected Plan for the year 2000-01. They were seeking various forms of relief from the General Budget and also additional Budgetary support for the Plan. Therefore, there was some discussion with the Railways almost till the last day of finalisation of the Railway Budget about allowing the Railways to defer the payment of dividend of Rs.1500 crore or so for the current year. This was the background of the discussions that were taking place till the last day. Therefore, the finalisation of the views of the Ministry on the Memorandum was delayed. But this is not a reason. I readily concede that there has been an error and delay, and the Ministry should have sent this Memorandum earlier".

B. Capital-At-Charge Of The Indian Railways

15. Capital-at-charge means Capital contributed to the Indian Railways by General Revenues. The Capital-at-charge on the Railways is in form of interest bearing loan capital, except that part of it on which no dividend is payable on the basis of reliefs recommended by successive Convention Committees and approved by Parliament. The Capital-at-charge of the Indian Railways has increased from Rs.827 crore in 1950-51 to Rs.29609.57 crore in 1999-2000 (RE). This amount excludes Capital outlay on Metropolitan Transport Projects and Circular Railway (Calcutta).

C. Dividend Paid

16. The annual dividend payable to General Revenues used to be less than Rs.100 crore till 31 March, 1964 but increased to Rs.1889.78 crore by 1999-2000. In all, the Railways have paid so far to the General Revenues an amount of Rs.23,054 crore as Dividend. It comes to 77.74 per cent of the Capital-at-charge on Indian Railways.

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

D. Payment Of Dividend To General Revenues

18. In regard to Rate of Dividend, the Railway Convention Committee (1999) had, in paras 40 & 41 of their Third Report recommended that the Dividend for the year 1999-2000 to General Revenues on the entire capital be paid at the rate of 7 per cent irrespective of the year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting States for financing safety works during the financial year 1998-99. All other concessions as already available on residential buildings, new lines, subsidies from General Revenues, etc. were also allowed to continue on the existing basis for 1999-2000.

The dividend and the reliefs and concessions were computed and adopted by the Ministry of Railways in both Budget Estimates and Revised Estimates for the year 1999-2000.

E. Present State Of Railway Finances

19. In regard to the financial position of Railways for the year 1999-2000, the Ministry of Railways, in their Memorandum submitted to the Committee on 25th April, 2000, stated that Indian Railways finances are at present passing through an extremely difficult phase. The major factor for this is the substantially increased wage bills and pensionary liabilities, arising from implementation of the Fifth Central Pay Commission's recommendations and Government's decisions thereon; they are estimated in RE 1999-2000 at Rs.16530 crore as compared to the 1996-97 level of Rs.10,145 cr. Further, a tremendous drop in freight loading occurred in 1998-99,due to external factors by nearly 29 million tonnes from the target of 450 million tonnes and 9 million tonnes below the 1997-98 level, resulting in a crippling effect on the Railways' resources in 1998-99. Outstanding dues from major customers, increased by over Rs.200 crore.

20. The combined effect of the above factors was reduction of internal generation of resources from Rs.4101.86 crore estimated in the Budget Estimates of 1998-99 to Rs.1865.39 at the RE stage and still further to Rs.879.37 crore in the actuals'. Consequently, a heavy drawdown of Rs.2313 cr from Railway Reserve Fund balances became necessary. The fund balances which stood at Rs.3565.62 cr as on 1.4.98 reduced to Rs.1253.37 cr as on 31.3.99.

21. In this regard, the Railway Board further stated in the Memorandum as follows:

> "In Budget Estimates for 1999-2000, freight traffic projection had again been kept at 450 Million Tonnes, assuming that the growth of economy would accelerate during the year. For passenger traffic also, a higher growth of 8.5% had been assumed. Even with this, the internal generation of resources was found to be insufficient to fund the plan for 1999-2000 and a drawdown of Rs.1000 cr had to be budgeted for.
>
> Due to the cumulative effect of the shortfall in internal resource generation in 1998-99 and the drawdown in that year and in 1999-2000, Railways are likely to end the year, 1999-2000, with a meagre balance of less than Rs.300 cr in the Railway Reserve Funds.
>
> As a measure of precaution against a decline in the resources during the year, Railways had to scale down their Plan outlay by Rs.735 cr, which was also reflected in the Revised Estimates".

22. An important development in 1999-2000 was the post-budgetary factors of levy of cess and increase in price of HSD oil, increase in electricity tariffs, upward revision in the rate of incentive bonus and the family planning allowance, damage to Railway property by the Orissa cyclone, etc. which put an additional financial burden of

around Rs.900 cr on the Railways. The pension liability on the Railways also increased from Rs.3300 cr in BE to Rs.4094 cr in RE due to delayed implementation of the recommendations of the V Central Pay Commission. While the Railways have largely contained the post-budgetary impacts within the existing allotments by implementation of various economy and austerity measures, the additional liability of pension had to be provided over and above BE. The earnings position has been much better this year, but the Railways has considered it prudent to make a small downward revision in the RE. As regards outstanding dues, a clearance target of Rs.200 cr was kept in BE which, in view of the trend of accretion during the year, had to be scaled down to Rs.75 cr in the RE.

23. The Railways had also to extend financial assistance to Konkan Railway Corporation in the form of long term loan in order to help Konkan Railway Corporation meet its financial obligations. The provision of Rs.60 cr in Budget Estimates had to be increased to Rs.260 cr in Revised Estimate by adjustment within the Capital from the General Exchequer as provided in the Budget.

24. The recent report of the Railway Safety Review Committee (1998) has identified further the need for substantial expenditure on replacements and renewals of important railway assets. That committee has estimated that Rs.15000 cr would be required to clear arrears in this area in the next 5 to 7 years over and above the current arising which means that every year Rs.3000 cr will be additionally required, on an average. That committee has recommended a grant to that extent from the Government.

25. In this connection, the Ministry of Railways submitted the following projection for the year 2000-01:

> "Assuming an incremental loading of around 4%, which has been the general trend in the previous years (except 1998-99 when there was a negative growth), the Railways have projected 475 million tonnes of freight traffic during 2000-01 which is 5.5.% more than the previous year's target. This, together with a 7% growth assumed for passenger earnings, mobilisation of Rs.750cr from non-traditional avenues, normal growth of Other Coaching and other Sundry earnings and a substantial clearance of dues, does not leave sufficient net revenue, after meeting various items of revenue expenditure to meet the dividend liability in full. As a result, out of Rs.2115.38 crore of dividend payable, Rs.1500 cr has been transferred to the Deferred Dividend Liability Account and only Rs.615.38 cr is proposed to be paid to General Revenues.
>
> As a result of implementation of Fifth Central Pay Commission's recommendations and Government's decisions thereon, expenditure on pension has been increasing rapidly. From a level of Rs.2509 cr in 1996-97, it has gone up to Rs.3509 cr in 1997-98, Rs.4144 cr in 1998-99 and is likely to be of the same order in the year 1999-2000 also. In the year 2000-01,due to resumption of retirements, the expenditure on pension is likely to rise still further to around Rs.5300 cr".

26. The Operating Ratio of the Railways has deteriorated in the recent years for the reasons brought out in the preceding paras. It has reached its most adverse level of 98.8% in BE 2000-01. Any post-budgetary developments of shortfall in receipts or increase in expenditure may raise the Operating Ratio to more than 100%. Such a situation would tend to cause a reduction in appropriation to Depreciation Reserve Fund, thus, affecting replacement and renewals of the over-aged assets. Ordinary Working Expenses may also have to be curtailed which would adversely affect the operations and day to day maintenance of assets.

F. <u>Issue Of Rate Of Dividend</u>

27. Keeping in view the above facts, the Ministry of Railways have proposed to the Committee that ;

> "Given the financial position, any upward revision of the dividend rate at this juncture is ruled out. It is, therefore, submitted that the existing rates and modalities for determining the dividend as brought out in

Appendix - II may be adopted for the year 2000-2001 also. All concessions now available, as listed therein may also be allowed to continue for the year 2000-2001".

28. Pleading their case for not increasing the rate of dividend, the Financial Commissioner (Railways) submitted the following during evidence:

"Our financial position is very bad for the current year. It has been bad for the last two years. After the Central Pay Commission recommendations were received in 1998-99 and 1999-2000, our wage bill including pension has gone up from Rs. 10,000 crore to Rs. 16,000 crore and further in the current year, it has come to about Rs. 18,000 crore. This has made a very big dent in our financial position. Staff expenditure is uncontrollable. We are bound by the Government's pay scales. But on the other hand, we are having a policy of not filling up the vacancies after retirements as there is a preception of over staffing in some areas because of technological development. About one per cent reduction of staff takes place. This has been halted in the two years because of no retirements. That is one big component in our expenditure. It accounts for 46 per cent of our receipts. Then we have Fuel accounting for 17 per cent, Material 7 per cent, lease charges 8 per cent that we pay to IRFC, it also includes the repayment of capital so that the assets come under our ownership. Our internal generation capacity has been reduced.

In these circumstances, we feel so much short of sources that we have to request the Ministry of Finance to agree to postponement of dividend payment. The dividend has been fixed as a standing financial arrangement with the Central Government. The taxpayer's money is invested in Railways so we pay a fixed dividend to them. The rate was four per cent at one time. Then gradually it has been increasing. Up to the year 1980-81, the dividend payment was even more than the rate at which the Government was borrowing money.

Subsequently, on account of market interest rate going up, the Railway's dividend is lower. The Committee has been kind enough to fix the rate at a reasonable level. Except for some few years when the Railways could not pay the dividend, we have been paying it regularly".

29. The witness further added :

"In the last two or three years, the Ministry of Finance (no doubt they are borrowing at a higher rate) has been allowing us this subsidy which has been fixed by the RCC. Thus we work out a net dividend rate of only four per cent. The total calculation is now at seven per cent. Our submission is that the plan outlay in the current year, which is fixed at 11,000 crore relies more heavily on market borrowing and capital support from the general Exchequer which has been increased but we face a need for internal sources. This has not come sufficiently by our own receipts, minus expenditure.

Consequently, we are not left with enough money to pay for staff, plan expenditure, developmental works, etc. which are financed from our Development and Capital Fund because from the net revenue, we have to take a lot of money for the Depreciation Reserve Fund. Pension expenditure has gone up and all this has left us with a net revenue of only Rs. 1791.69 crore. We have to seek deferment of the dividend to the extent of Rs. 1500 crore so that we are left with something with which we can support the development plan and Capital Fund. We have to borrow the dividend money from the general revenue.

In these circumstances, any increase in dividend rate even by half per cent will impose an additional burden which the Railways cannot afford. So, we have proposed that the same rate should continue and the same subsidy

should continue."

30. In this connection, the Ministry of Finance have stated in the Interim Memorandum as under :

"Budget 2000-01 assumes dividend from Railways at 7% on the entire capital invested on Railways from the General Revenues, inclusive of the amount that is payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax. A statement showing rate of dividend paid by the Railways and average borrowing rate from the year 1951 up to 1999-2000 (BE) is at **Appendix - III**. It can be seen therefrom that up to the year 1979-80, the rate of dividend paid by the Railways to General revenues was more or less equal to average borrowing rate of the Government. But since 1980-81, the gap has been widening and currently the average borrowing rate is considerably higher than the rate of dividend paid by the Railways.

Current year's budget assumes Rs. 1914 crore as dividend to be paid by the Railways. This figure includes an amount of Rs. 710 crore of subsidy paid to the Railways from the General Revenues. Thus, although dividend rate is calculated at 7% on capital-at-charge, effective rate of dividend after excluding the subsidy element is only 4.07% as compared to the average borrowing rate of Government (12.20%). While Railways do not return the Capital contributed from General Revenues, the General Revenue has to return the earlier borrowing through fresh borrowing at progressively higher rate of interest. Over and above this, Tenth Finance Commission had recommended grants to the States of the order of Rs. 380 crore per annum as payment to States in lieu of tax on passenger fare during 1995-2000. For 2000-2001, this has been enhanced by 50% as per interim recommendations of the Eleventh Finance Commission. However, Railways pay only Rs. 23 crore for passing the amount to the States. Even this amount is included in dividend paid by Railways. Such a situation is costing every year the General Revenue an additional expenditure of Rs. 357 crore. In such a situation, the rate of dividend paid by the Railways needs to be increased both in absolute and relative terms.

It is, therefore, proposed that Railways should pay flat rate of 7.5 % dividend on Capital-at-charge for the year 2000-01. Further, in order to align the dividend rate closer to the average borrowing rate of the Government, the rate of dividend may be stepped up by 0.5% each year. The above gradual increase is suggested as a measure of relief to Railways".

31. Keeping in view the observation made by the Ministry of Finance, the Committee asked the Ministry of Railways to justify their case for not increasing the rate of dividend from 7 to 7.5% as demanded by the Ministry of Finance and particularly when it is a fact that for the year 1999-2000 they have already availed a subsidy amounting to Rs. 1067 crore. In reply, the Ministry of Railways explained that the financial position of the Railways presently does not permit any increase in the rate of dividend. Even a half per cent increase of the Dividend Rate will impose a net additional outgo of about Rs. 100 crore on this account. Any increase in the rate of dividend will not be justified considering the fact that they themselves are in need of resources and have to get additional Capital from the General Exchequer, have had to defer dividend to the extent of Rs. 1500 crore while also taking a loan of Rs. 249 crore from the General Exchequer.

32. In the past, this issue of increasing the rate of dividend so as to bring it at par with the average cost of borrowing has been raised by Ministry of Finance. However, keeping in view the Railways' financial position, the declining capital from General Exchequer and the social burden which the Railways have to bear without any compensation from the General Exchequer, the RCC had considered it appropriate not to increase the rate of dividend paid by the Railways. It is further submitted that the RCC (1998) in their Third report (Recommendation No. 38) had linked the issue of payment of dividend with the reimbursement of cost of Social Service Obligations

being carried by the Railways. The Social Service Obligations works out to Rs. 1,500 crore in 1998-99 as per the methodology of the Working Group set up in compliance of the recommendation of RCC.

33. Justifying their case for increasing the rate of dividend, the Secretary (Expenditure) stated during evidence :

> "Railways is also a Ministry of the Government of India. It is not a separate body. The Railway Budget in that sense is a part of the General Budget, But it is treated as a commercial department in the sense that a lot of investments which have been made on construction of various railway assets have been funded by the Central Government and as part of the pattern which was invoked right from the beginning, there was a requirement of payment of certain dividend to the general revenues. All the investments made by the Central Government are being treated as loans in perpetuity. Since the investments for the creation of these assets are made by the Central Government after borrowing resources from the market and those resources are borrowed at a certain rate of interest, there was a certain linkage at the rate at which the Government of India is borrowing for meeting its investments made and the rate of returns in the form of dividends. Till 1970s and 1980s, the Railways have been paying dividend which is more or less in line with the cost of borrowing of the Central Government. But from early 1990s onwards, divergence had started. Today, the cost of the borrowing of the Central Government for meeting its funding needs is 12 per cent and therefore, this dividend of seven per cent is considered to be out of line and has also been considered by experts to be a form of subsidisation of the Railways.
>
> In that background, in 1999, the Ministry of Finance had suggested to the hon. Committee that the rate of dividend should be increased by 0.5 per cent per annum so that it reaches 9 per cent by the end of the Ninth Plan period. The proposal which has been made for the year 2000-01 that the dividend should be increased from 7 to 7.5 per cent has been made in this background".

34. Commenting on the above view of the Ministry of Finance, the Railway Board stated that the Ministry of Finance had made similar observations for the year 1998-99 and 1999-2000. In response to these observations, the Ministry of Railways had submitted that in view of the difficult financial position of the Railways and the fact that the Railways are not being compensated for their social service obligations, it would not be possible to pay an enhanced rate of dividend. The Committee accepted the viewpoint of the Ministry of Railways and allowed the rate of dividend and other concessions to continue without change.

35. With increasing strain on resources, Railways are also borrowing from the market through the Indian Railway Finance Corporation to finance as much as 30% of the Plan outlay at higher cost. Even a half percent increase of the dividend rate will impose a net additional outgo of about Rs.100 cr on this account. The Committee are, therefore, requested to recommend continuance of the existing rate of dividend of 7% on capital invested on Railways from General Revenues, together with all other reliefs and concessions earlier recommended.

36. During evidence, the Financial Commissioner (Railways) also made the following submission:

> "While I concede that there is a case for revision of dividend rate from the standpoint of the borrowing rate of the Government, the Railways are just not in a position to make that kind of an adjustment in the dividend without seriously jeopardising their Plan efforts. After all, we are faced with a very large backlog of arrears of track renewal and various replacements etc. We have also got to cater to the increasing traffic needs and we have also to make improvements. But the Budget is very limited. We have to borrow substantially from the market, to the extent of Rs. 3668 crore under different schemes and that imposes a lease charges obligation which tends to depress our resource capacity. We have got some restriction in raising the passenger fare and freight rates. It is generally perceived that we have reached a

point where we cannot go in for further increase without the risk of losing the market share".

37. He further added:

"About passenger fares, there are some limitations. Actually, earnings through passenger fares are of the order of 30 per cent of the total receipts. The freight earnings account for 70 per cent and we have reached a plateau for the present. Not much will come from passenger earnings and there are limitations. In this situation, our ability to generate resources for the Plan depends upon other aspects. That is why this year we have to go in for a request for deferral of dividend. The Ministry of Finance had sympathised with us. It deferred the payment to the extent of Rs. 1500 crore. How far we are going to need it in the future years is a matter for consideration and it depends upon future traffic earnings and our ability to control the expenditure. The Ninth Plan target that was fixed for us was around Rs. 45,000 crore or so at the prices of 1996-97. In the first three years of the Plan, we have spent just about half of that. Once again, it is a matter of limitation of resources. Secondly, the Budgetary support is not sufficiently hiked; the market borrowings are also limited and the internal resource generation is also limited. In the remaining two years, we reach nowhere near the target fixed by the Planning Commission. We need to have some Rs. 13,000 crore for the Plan in the current year and equally a higher amount for the next year. But we are not able to reach the target. We are reaching the figure of Rs. 11,000 crore in the current year. The effect of half a per cent increase would imply an additional out go of Rs. 150 crore for us, it would mean that my ability to execute a certain number of projects would be affected. So, that is why we feel that at this point of time it is rather inopportune to raise the rate of dividend paid by the Railways. But I concede, in principle, it should move up".

38. He also added :

"Railways have been contributing to the General Revenues over and above the dividend which they were enjoined to pay. That has gone into the General Revenues. It was not set off against any of the earlier loans taken from the Central Government by the Railways and it has just gone into the revenues of the Central Government. Now, we are facing the reverse situation because the rate of borrowing has gone up in the market. Until such time as Railways are able to stabilise the financial position, it would not be advisable from the stand point of the national economy to ask Railways to pay more. After all Railways are an environment friendly, and energy efficient transport mode. I think, they should be enabled to perform a little better".

39. Reacting to the submission made by the Financial Commissioner (Railways), the Secretary (Expenditure) made the following submission during evidence:

"Railways also get the share of the Budget support from the Plan as it is provided to all other Ministries. The Finance Ministry places at the disposal of the Planning Commission a certain amount, which in current year is Rs. 88,100 crore as gross budgetary support for the Plan. Then depending on the Planning Commission's assessment of the needs of different sectors it allocates budgetary supports to various ministries. This year the Planning Commission has allocated Rs. 3540 crore to the Railway Ministry as part of the Budgetary support for the Plan. The Railway Ministry is supported by the General Budget. An amount of Rs. 795 crore in the form of dividend reliefs has been given. Then, under the Constitution, States normally should be in a position to levy the passenger fare tax, in the form of sales tax. To prevent different States levying different forms of passenger fare taxes, central tax was levied. Since the tax has been abolished grants are given to States in lieu of the passenger fare tax so that they are compensated. The Eleventh Finance Commission which computes the tax receipts of various States has allocated Rs. 570 crore to be given as grants to the States in lieu of the foregone share in passenger fare tax. But as against Rs. 570 crore, Railways are paying only Rs. 23 crore as part of the General dividend. So, there is a

subsidy of the Central Government to the States by giving them grants in lieu of passenger fare tax of almost Rs. 550 core”

40. On being pointed out that with the declining Capital support from General Exchequer and no subsidy being provided to the Railways for carrying a huge social burden of Rs. 2916 cr in 1999-2000, how far it is justified on the part of Ministry of Finance to ask the Ministry of Railways to pay a dividend to keep it at par with the average borrowing rate. In reply the Ministry of Finance submitted the details as under:

“While Railways do not return capital contributed from General Revenues, the Central Government have to return their earlier borrowing at a progressively higher rate of interest. Hence the rational way of calculating dividend is that, on the entire block, dividend is fixed with reference to present average cost of borrowing of Government which takes into account interest paid in the year on all current loans. Railways already enjoy considerable exemption in dividend payments on capital invested by General Revenues. The concessions in respect of dividend are shown as subsidy from General Revenues. Besides dividend concessions, the rate at which the dividend is payable, is considerably lower than prevailing market rates and is concessional per-se. Capital employed from the General Revenues on strategic lines, uneconomical branch lines, residential buildings, North East Frontier Railways, Ferries and welfare buildings, a few ore lines etc. qualifies for subsidy from General Revenue. Apart from payment of subsidies, losses incurred by the Railways while operating strategic lines are borne by the General Revenues. Current year’s budget assumes loss on working of strategic lines at Rs. 210 crore. The quantum of subsidy from General Revenues to Railways in the form of dividend relief and other concessions which was Rs. 312 crore in 1991-92 has been budgeted at Rs. 795 crore in 2000-01. Thus current year’s budget has absorbed an amount of (about) Rs. 1000 crore as subsidy and working losses of Railways.

General Revenue are incurring an additional expenditure of Rs. 357 crore due to the difference between General Revenues passing out an amount to State Governments as payment in lieu of passenger fares and Railway passing the amount to the States. On earlier occasions, financial resources approved by the National Development Council had assumed increased contribution by Public Sector Enterprises, including Railways. Accordingly, the rate of dividend paid by the Railways needs to be increased both in absolute and relative terms”.

41. The witness added:

“In addition, this year there has been an imposition of cess of Rs. 1 per litre of diesel for the highway projects, etc. Out of that, Rs. 300 crore has been given to the Railways for safety works, over bridges and unmanned crossings. The total transfers to the Railway Ministry from the General Budget is more than Rs. 5200 crore as against Rs. 3800 crore last year where the flow of funds to the General Revenues via dividend is Rs. 615 crore in the current year because of the deferment of Rs. 1500 crore.

There are certain structural problems in the Railways finances, namely, their capacity to pay dividends or to earn returns on investment, and earnings from return of commercial investment. Certain investments have been made by the Central Government and those investments have been handed over to a Ministry which is a commercial Department and it is supposed to run or use those investments in a commercial manner and get some returns on those investments. For various reasons structural imbalances have crept into the Railway finances.”

42. Asked to state the basis on which the Railways were allowed to defer the payment of dividend liability, the

Ministry of Finance stated as under:

"The proposal of the Ministry of Railways for partial deferment of the total dividend liability of the year 2000-01 was accepted by the Finance Ministry taking into account the financial position of Railways. The deferment was agreed to by this Ministry to enable the Ministry of Railways to take necessary measures to improve the finances of the Railways. This support has been extended as a one time measure despite serious pressure on fiscal deficit".

43. The Secretary (Expenditure) further clarified during evidence :

> "This is not even a one-time relief. It is a deferral of dividend, which has to be made, It is not a waiver. They have to make it up in subsequent years It is not a write-off".

44. To stabilise and improve the financial position, the Railways have been taken measures such as to control expenditure by improving staff productivity, asset utilisation, inventory management, fuel consumption, austerity in areas such as travel, publicity, hospitality etc. are being implemented. In earnings, healthy growth is expected from the improved economic scenario and a new freight policy which aims at increasing Railways' market share in freight traffic by 1% every year. Non-traditional sources of revenue such as utilisation of right of way for laying of Optic Fibre Cable, commercial utilisation of land and air space, advertising rights at stations and on rolling stock etc. are also expected to improve the revenues of the Railways. All these measures are expected to gradually stabilise the financial position of the Railways and, as the position improves, Railways will discharge the deferred dividend liability.

It would be relevant to mention here that in the past too Railways had to defer a part of the dividend payable but this was repaid in better years. Thus, dividend which was deferred in the year 1979-80, 1980-81 and 1984-85, was fully discharged by 1992-93.

45. When the Committee pointed out that by allowing the Ministry of Railways to defer Rs. 1500 crore from their dividend liability the Government have indirectly given an interest-free loan capital, the Ministry of Finance admitted this fact and stated in a written reply as follows :

"Had it been given in addition to budget support, it would have not been dividend free. It will be better for the Railways to return the implied loans in the form of 'deferred dividend' than paying dividend on perpetual loan".

46. On being pointed out by the Committee that on one hand the Ministry of Finance have deferred an amount of Rs. 1500 crore of the Railway's dividend liability and on the other they are asking to increase the rate of dividend from the present rate of 7% to 7.5%, the Secretary (Expenditure) submitted the following;

> "What you are saying is absolutely correct. On the one hand, we have considered it expedient to give financial relief to the Railways by deferring the dividend payable, even seven per cent for the current year and on the other hand, we are saying that we should increase. But we are talking about a change in the trend. This is a one-time facility, which the Finance Minister has agreed to give to the Railways, because, otherwise their Annual Plan would have to be cut drastically. There was an increase in the budgetary support in the Plan by almost Rs.1,000 crore or so and this amount of Rs. 1,500 crore. Without that, there would have been a steep decline in investment. It is a stopgap arrangement. It is not a write-off. They have to make up this amount of Rs. 1,500 crore in the subsequent years.
>
> So, what we want is that a positive signal should be given, We want the Railways to think on those lines. Once they do that, they will start thinking of finding ways and means to meet all the obligations. It is only 7 to 7.5% per cent and we are not talking of a very large sum of money. It is a mere signal, to the Railways that this is also an important aspect. So, whenever they improve their finances, they must think in terms of return on the investments and find ways and means to increase their return in such a manner that

not only they will be able to increase their investment, but they will also be able to show better returns on the past investment".

47. The witness added:

" The Railways is a very important infrastructure sector and any setback in the investment needs of the Railways has a cascading effect on the other sectors of the economy. So, its infrastructure needs and investments on infrastructure have an effect on the performance of the economy as a whole. Therefore, we need to protect a bare minimum level of investment and so this one-time relief was given. We do hope that because of the present situation and the various structural imbalances which are there in the Railway finances, the Railways would be taking up the required measures so that in the next few years, their finances are in a better shape and at least there is a change in course, in the sense that they will be in a position to pay 0.5 per cent higher dividend also.

It is a commercial Department. Investments have been made by the Government of India which had been given as interest free loans in perpetuity to the Railways for running on commercial lines. On that standpoint, if Railways are to run on commercial lines, then, a reasonable return should be available to the Government of India. And if a token increase is made (in regard to dividend), it will just put a little pressure on the Railway's performance so that they earn a little more. It is really a token change of direction that we have proposed".

48. Asked to give a categorical reply whether the present Rate of Dividend should be increased from 7% to 7.5% as suggested the Ministry of Finance, the Secretary, Planning Commission during evidence stated as under:

"The Planning Commission is of the view that the present rate of 7 per cent should be maintained and should not be increased because the financial position of the Railways is not such that they can bear any increase in the dividend"

IV. COMPENSATION FOR SOCIAL BURDEN ON RAILWAYS

49. On the suggestion of the Committee that Ministry of Finance should first compensate the Ministry of Railways for discharging social obligation and then ask for a rate of dividend which is much closer to the average borrowing rate of the Government, the Ministry of Finance commented as follows:

"This Ministry does not consider the Railways' claim of compensation for social obligations as tenable on the following grounds:

(i) The Railways do not pay dividend on capital invested in

(a) Strategic lines:- Annual losses in respect of working of such lines are borne by general revenues.

(b) Unremunerative branch lines

(c) Ferries, welfare buildings (hospitals, dispensaries, schools, colleges, health clubs, welfare centres, etc.)

(d) Non-strategic portion of the Northeast Frontier Railway

(e) 28 new lines taken up on or after 1st April 1955, on other than financial consideration

(f) Metro Railways

(ii) The existing arrangements of treating the investments as concessional capital is merely an accounting mechanism and nothing should be imported into this which vitiates the prime fact of the Railways being an integral part of the Government. The 'Railway Budget' is an adjunct of the 'General Budget' in as much as the Annual Financial Statement presented along with the General Budget includes the receipts and expenditure of the Ministry of Railways. Therefore, any loss

arising out of decisions taken in public interest by the Ministry of Railways cannot be claimed as compensation, as if these were to be paid to a body corporate outside the Government. The so called losses appearing in the Railway Budget are in no way different from similar subsidies appearing in the General Budget as a result of conscious Government decisions.

(iii) While it is a fact that the fares for second class ordinary and freight for certain essential goods is priced below economic cost, in respect of other services the fares and freight are over priced. Ideally, the cross subsidisation of fares and freights should take care of the 'Social Obligations'.

(iv) Total quantum of concessions and subsidies from the General Exchequer to Railways has been steadily increasing over the years viz., Rs. 312 crore in 1991-92 has increased to Rs. 796 crore in 2000-01.

In regard to subsidisation the Secretary (Expenditure) during the oral evidence stated :

"If second class passengers have to be subsidised, then, there should be cross-subsidisation. Surely, the argument cannot be that to subsidise the second-class passengers, the rest of the society should pay, including those who are not travelling by Railways. The question is, should the rest of the society not using the Railways subsidise the second-class passenger fare traffic. That is also an argument which needs to be kept in mind. But certainly, if it is cross-subsidisation between railway-users, the higher class passenger who pays a little bit more, the second-class passengers travel at a lower cost. The burden is expected to fall on the rest of the society"

50. The Ministry of finance in their written replies further stated that

"the return on investment in Railways is not commensurate with cost of Government borrowing. As a commercial undertaking, Railways have tax-free concessional capital. The rate at which the 'dividend' is paid by the Railways is considerably lower than cost of borrowing by Government. Although dividend is to be calculated at 7% on capital-at-charge for the current year, effective rate of dividend after excluding subsidy element is only 4.21 % as compared to 12.20% of the average borrowing rate of Government in the current year on a capital base which does not cover all investments. Railways do not return capital contributed from General Revenues as it is treated as loan in perpetuity. On the other hand, the General Revenues have to return earlier borrowings through fresh borrowings at higher rate of interest.

Central Government has been giving grants to the States in lieu of repealed tax on Railway passenger fares. Currently, the level of these transfers is Rs. 380 crore per annum since 1995-96, as recommended by the Tenth Finance Commission. However, the Railways contribute only Rs. 23 crore to General Revenues on this account. Even this amount is included in the dividend paid by the Railways. This itself is costing the General Revenues an additional expenditure of Rs. 357 crore, year after year".

51. The Committee pointed out that the Railway Convention Committee (1998), in their Third Report on Rate of Dividend for 1999-2000 had recommended that any further increase in the Rate of Dividend cannot be taken up in isolation without compensating the Railways for carrying social obligation and wanted to know whether the Ministry of Finance have taken any action in regard to the recommendation given by the Inter-Ministerial Working

Group, constituted to look into the social burden obligation borne by the Railways. The Ministry of Finance replied as under:

> "The Inter-Ministerial Working Group is only a recommendatory body and its views are not binding on the Government. For reasons explained above, the Ministry of Finance finds it difficult to accept the recommendations of the Working Group"

52. During evidence, Secretary (Expenditure) made the following submission on this issue :

> "This is a prerogative of the Hon'ble Committee to make a recommendation. But as far as the social burden, was concerned, there had been a committee which made an attempt to compute the social burden. It had worked out under some policy or a scenario that in a year, it would be around Rs. 886 crore or so. If the components of that social burden are analysed, we find that almost 60 per cent, that is, Rs. 541 crore or so, are being sought as a social burden because the railways are making a loss on second-class fares.

53. With regard to social burden obligation, the Chairman (Railway Board) deposed before the Committee as under :

> "As I can understand, it is public service obligation of Rs. 1,500 crore. As a matter of fact, we have been discussing with the Ministry of Finance but they have not been accepting our plea. Up-till now, the concept of public service obligation has not been accepted. Therefore, a Cabinet Note was sent. They have further queries in that. If we are viewed as a commercial organisation and if we are also asked to take care of social aspects, -- if both the things are taken together – then it will be difficult for us to work on the commercial lines.
>
> I will like to bring to the notice of the august Committee one specific area, that because of the Pay Commission, our expenditure on staff went up suddenly from Rs. 10,000 crore to Rs. 16,000 crore, about Rs. 6,000 crore extra. Then due to depression in the traffic in the year before last, we had lost a sum of over Rs. 1,700 crore on permanent basis because that traffic did not materialise. Then, Justice Khanna, in his Interim Report on Safety, has said that a sum of Rs. 15,000 crore is needed for alteration of assets because they have not been properly rehabilitated. All this has been happening. The argument generally given is that our freight rates are very high and passenger rates are low and there is a cross subsidy. In spite of the fact that our traffic has increased five to six times, we have lost market share both in freight and traffic".

54. The witness further stated :

> " In 1950-51, our freight traffic share was 90 per cent but now it is 40 per cent. In the case of passenger traffic, it was 70 per cent in 1950-51 but it is 20 per cent now. What I was trying to mention is that the rates for carrying freight or the passenger are not related to the traffic. Where the rates are supposed to be high, we have lost the market share and where the rates are supposed to be low, we have also lost the market share. According to our own assessment, we have not been able to create adequate capacity to carry traffic. This has happened primarily because we have not adequately invested in the system. Most of the new line projects are now waiting. After Independence we have added only 17 per cent to our network. This means, our construction rate has been roughly one-third of what was there in the British times."

55. The Chairman, Railway Board apprised the Committee:

"If you compare Railways with any other organisation and see its performance during emergency or Orissa cyclone, you will find that this is one of the better managed Departments as far as Indian conditions are concerned. The main problem is that we have not been given the level playing field in service. In the case of road, construction of road is done at the Government's cost whereas in the case of Railways, we construct our lines at our cost. Therefore, in spite of the fact that we are six times fuel efficient, we have been suffering.

Now, there is an urgent need to look into this aspect of public service obligation and there is also a need to have a greater consideration because the money which is going to road is with zero per cent interest as they are not paying any dividend to the Government. In the case of Railways, we are paying dividend and the amount of dividend is running in the order of about Rs. 2,000 crore".

56. Asked to state as to how there can be any increase in the fare structure without providing a level playing field to the Indian Railways vis-à-vis the road transport, the Secretary, Planning Commission gave the following views:

"As I submitted the user-charges, especially passenger fare is certainly much lower in the Railways as compared to road. If you travel by bus, you pay much more than when you travel by train. If the Railways have to run on commercial standard basis then of course, whatever social obligation they have to bear, Government must come to their help. Government has been able to give them, as I said, 40 per cent increase. But in the Transport Policy and also elsewhere in our Plan documents and mid-term review, we have felt that time has come when the fare that the Railways charge from passengers needs to be increased."

57. When the Committee wanted to know whether the Planning Commission is thinking of shifting the Railways from a public utility service to a totally commercial one, the Secretary, Planning Commission responded :

"It cannot be totally commercial. It should not be totally commercial. That does not mean that the Railways should be running at a loss and that they should not be able to generate sufficient resources on their own. Therefore, it is a mixture of both. There has to be social obligation. They should be funded from the Government of India. But their own resources should also be sufficient. If the railways run professionally, then, they would also be able to attract a lot of money either from the market or from external donors. That is also an important thing. But other similar donors who are in a position to invest in railways would do so only when they feel that the morale of railways is high, that their capacity is growing, and that their overall performance is also satisfactory. Therefore, we have to take into account all these factors in order to put railways on a sound footing."

V. STRUCTURAL IMBALANCES IN RAILWAY FINANCES

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58. (A) <u>Uneven Passenger Fares and Freights</u>

On the present state of Railway Finance, the Secretary (Expenditure) submitted his views before the Committee:

"In the field of passenger services, Railways carry about 59 per cent of the traffic but it amounts to

30 per cent of the revenue. The freight on various items has been placed at a level where Railways are getting out priced. For example, in the movement of coal for power houses, they are getting out priced by road transport. Many coastal States import coal, They find it much more economical to import coal because of the high freight charges for movement of domestic coal. There is a gap between the cost of providing services and the recovery of those cost from the user. For example, fuel and diesel costs are increasing much faster than the price at which the user of those services are paying for those services".

59. In this regard the Secretary, Planning Commission suggested:

"One point is that the Railways must increase the user charges and must improve both the passenger fare and the freight rate. The passenger fare for second-class is very very low and this needs to be not only increased but it should also be linked to the fuel cost so that there is no necessity of going to Parliament and taking the approval. This should be automatic. This is one recommendation that we have made.

The other recommendation is that there should be the Railway Tariff Regulatory Authority which should decide the railway tariff. It should be done professionally and the mix between the passenger fare and the freight charge should be decided by the Authority".

60. **(B) Non Plan Expenditure Mismanaged**

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The Secretary, Expenditure has also stated that :

"Staff cost as a percentage of gross traffic receipt was 42 per cent in 1996-97 and it went up to 53 per cent in 1998-99 and it would have gone up much higher now. It has been estimated that to maintain staff cost at 40 per cent of the gross traffic receipts which is considered to be a prudent level, even to reach that level by 2010 the staff in the Railways is to be rationalised to around 12 lakh from the current 16 lakh or so. Zero based budgeting and better plan expenditure management could address this aspect of structural imbalances. I will just give an example. In the Central Government and other Ministries, we have a health scheme. Every employee of the Central Government pays a monthly contribution for medical care but in Railways it is all free . No employee pays anything".

61. **(C) New, Incomplete and Uneconomic Projects**

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In regard to new and uneconomic projects the witness stated :

"There are large number of projects which are lying incomplete. We have spent Rs. 30000 or Rs.40000 crore on them. Small amounts are allocated to different schemes every year. Large investment of the Government is blocked and no return is coming on that investment. If that investment were to be made on a concentrated form or prioritised form, some return will start flowing which will increase the means of the Railways to earn better commercial return.

Leverage of assets is another area. They have got number of units and workshops. A number of suggestions have been made by various expert committees in this regard. If they could corporatise them they could raise money from various financial institutions.

So, there area host of issues, which need to be addressed. If this Hon'ble Committee could make some suggestions in these areas it could enable the Railways to increase the commercial return on the investments and they will have more money for making more investments and Government of India, which made these investments, will be getting a better return so that they will be able to finance various other developmental needs. So, unless there is a return on these investments, the whole process of economic development also gets a set back".

62. During the oral evidence explaining their suggestions in the Mid-Term Appraisal, the Secretary, Planning Commission stated:

"We have suggested that the new programmes which are being undertaken by the Railways, whether they are new lines or guage conversions, need to be re-assessed because most of these programmes are not economic. They take a lot of resources but the kind of return that is expected from them is not commensurate with the investment which is being made".

63. **(D) <u>Declining Markets Share of Railways</u>**

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When the Committee pointed out that one of the reasons, the Railways are losing to the road sector in freight business in higher price rate and poor service, the Member (Traffic) submitted:

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"Whenever we found that our charges are higher, we did take steps to reduce the tariff. We did take immediate action. If we take the last three years, in the first year we did not increase the freight rates at all, in the second year it was only four per cent increase and in the current year the increase is only two to three per cent. So, we have corrected that aberration and that has given us the results. It is because of the certain steps taken by us the incremental loading has increased. It used to be in the range of 15 to 20 million tonnes and in one year it has increased to 35 million tonnes.

So, we have taken steps to ensure that we get back traffic from road. We have also taken a major step to see that we provide door-to-door service which is one very major advantage that the roads provide. We have also created a new corporation by the name Containers Corporation of India which brings in containers and these can be picked up from the godowns of various parties and deliver at the other end directly at their doorstep. This particularly is growing at a very fast rate and as against an average growth of 5 per cent that we have been achieving, this increase is in the range of 15-20 per cent. These are some of the steps that we have taken to see that we remain in the market".

64. He added in this regard :

"The Railways share in freight business was as high as 81 per cent in 1951. Now it is 40 per cent. Certain reduction is inherent in any developing economy. So, the share automatically comes down in a developing economy. 88 per cent was an unusually high figure. In a primitive economy it does come down. But from 40 per cent, we should go slightly above around 45-50 per cent and for that we have taken a basic decision. Instead of the historical growth of 4-5 per cent annually, we would try to get a figure of 7-8 per cent. Last year we did more than 8 per cent. This year also we want to do that. We do want to come up in our share of the market and we are trying to see that we take care of the competition that we have on the road. Fortunately, there is no real competition. Both the sectors have to grow and

we will have to more or less complement each other. We are doing that".

65. **(E) Raising of More Resources by the Ministry of Finance instead of IRFC**

The Committee pointed out that loans used to be raised by the Government previously for specific purpose for Railways but borrowing through Indian Railway Finance Corporation (IRFC) at present has created complicated problems relating to lease charges, taxation, accounting, etc. and hence it is desirable that the Ministry of Finance should themselves act as the fund raising agency to attract more resources for the Railways who in turn should be responsible for servicing these loans including repayment and thereby IRFC be abolished. To this, the Comments of Ministry of Finance are as under:

"The borrowing through Indian Railway Finance Corporation are treated as Internal and Extra Budgetary Resources (IEBR) of the Railways for financing Railway Plan Outlay. The Internal and Extra Budgetary Resources do not enter into the Central Government account and Budget. If the recommendations regarding abolishing IRFC and raising money by the Ministry of Finance to attract more resources for the Railways is accepted, it would imply larger borrowing on Government account. As a matter of policy, this Ministry is not in favour of enlarging borrowing on Government account. The borrowing through IRFC is intended to improve capital market discipline on the financing of commercially viable projects. Thus, this Ministry is not in favour of abolishing Indian Railway Finance Corporation".

(F) Increase in Operating Ratio

66. While expressing their concern over the increasing trend of operating ratio of Indian Railways, the Ministry of Railways apprised the Committee as follows:

> "The Operating Ratio denotes the percentage of Total Working Expenses (sum of Ordinary Working Expenses and appropriation to Pension Fund and Depreciation Reserve Fund) to gross earnings of the Railways. It has a direct effect on the Net Revenue. Dividend payable to General Revenues is not a part of Working Expenses, but is met out of the Net revenue. Thus, the operating Ratio would have remained the same viz., 98.8% regardless of the deferral of dividend which had to be resorted to in order to have an adequate 'excess' to finance the Development Fund and Capital Fund.
>
> The Operating Ratio has been affected adversely in the last three years mainly from implementation of the recommendations of V Central Pay Commission and Government's decisions thereon relating to wages and allowances of staff and higher benefits to pensioners. This has resulted in increase in the working expenses. Further, in 1998-99 earnings were severely affected due to a reduction in freight loading as a result of economic slowdown.
>
> The effect of the spurt in staff costs and pension liabilities is likely to smoothen in the coming years and with the measures being taken to control expenditure and increase revenue, it is expected that the Operating Ratio will gradually improve. Incidentally, the operating ratio has fluctuated widely and in certain past years also, touched very high figures as, for instance, in 1980-81 and 1984-85 it worked out to 96.1 and 96.3 respectively, but has improved thereafter."

67. During evidence, Chairman, Railway Board elaborated the steps being taken for systems improvement as follows:

"This is a very important aspect in our consideration. The idea is to increase the revenues and to reduce the working expenditure. We have given a lot of thrust in this area. I wish to inform that in the year which ended on 31st March, 2000, the incremental loading *vis-à-vis* last year has been 36 million tonnes, which is the best ever figure. Freight is our main source of earning because there is a cross subsidy in passenger traffic. So, I can say that the revenue was on the positive side.

Another thing is that in this current year's Budget, we have provided for roughly about Rs. 750 crore of earnings through non-conventional sources – Rs. 500 crore through the Optic Fibre Cable route; about Rs. 150 crore through the commercial utilisation of land and air space; about Rs. 100 crore through the advertising rights at stations and on rolling stock etc. Now, all these things will mean that we will also be increasing our earnings through these sources, which were not being tapped earlier. So, this is one way of doing it. All these measures are expected to gradually stabilise the financial position of the Railways and, as the position improves the Railways will discharge the deferred dividend liability. So, we are taking a number of steps like system improvements, etc. to reduce the expenditure. But the main effort is towards the control of staff. We are not calling it reduction of staff. Actually, there are three per cent retirements in the Railways. We will be inducting about one per cent and two per cent will be reducing and induction will be to areas where the requirement is there like safety, drivers' post and things like that. However, during the last two years the impact was not felt as there were not any retirements. Now we expect that roughly we could reduce about eight to nine per cent of the expenditure through some new initiatives like reduction of staff and improving in certain areas. We expect to increase our revenues through non-conventional sources. Of course, austerity measures are there. Last year, there was a saving of Rs. 850 crore through the austerity measures."

68. In this regard the Secretary, Planning Commission suggested during evidence:

"Lastly, we have suggested that the Railways must reduce their staff strength because the expenditure on staff is increasing. It was 42 per cent of their total gross traffic receipts in 1996-97 and it had increased to 53 per cent in 1998-99. There is a lot of increase in expenditure because of the recommendation of the Fifth Pay Commission. Therefore, there has to be a programme for redeployment, down-sizing and reduction in the staff strength so that the expenditure on salaries and wage bill is contained.

We have also given suggestions on how to reduce the expenditure on various other items, especially on civil servants. Therefore, we have to make a reduction, but the position is that in the Government of India today, if you take the bureaucracy as a whole, the Class I staff comes to only 1 per cent, Class II comes to 4 per cent and the rest 95 percent staff are from Class III and Class IV. Since the bulk 95 per cent staff are there in Class III and Class IV, any meaningful reduction in our expenditure would certainly entail some degree of reduction which will affect Class III and Class IV staff".

69. In this connection, the Financial Commissioner (Railways) drew the attention of the Committee towards this important issue and stated:

"We have taken a number of steps including austerity measures. We have instructed all the Zonal Railways to keep the expenditure under control below Budget levels. The effect of the spurt in staff costs and pension liabilities is likely to smoothen in the coming years. Measure to control expenditure by improving staff productivity, asset utilisation, inventory management, fuel consumption, austerity in areas such as travel, publicity, hospitality, etc. are being implemented. In earnings, healthy growth is expected from the improved economic scenario and a new freight policy, which aims at increasing Railways' market

share in freight traffic by one per cent every year. So, I wish to inform that we were able to offset the entire last Budget increase and ultimately we effected a saving of Rs. 120 crore in the working expenses of the Railways. In the current year, we have provided only a very modest increase of 9.63 per cent in the working expenses. So, it is going on as it is a continuous process, and, on the other side, we are trying to increase the earnings through freight and through parcel business. Passenger traffic increase is also showing a healthy trend and nearly ten per cent increase took place. So, with all these initiatives, we expect that the operating ratio will definitely improve. However, I wish to point out that there are certain difficulties, which we face unexpectedly. In the year, 1988-89, there has been a shortfall. So it is a question of ups and downs and we expect that we will be able to bring down the Operating Ratio in future".

70. In this connection, the Member (Traffic) added :

"We are trying to cut costs and increase revenues. But the basic structural problem remains and that is that we are asked to perform two functions, on as a commercial organisation and the second as a social organisation. If these two things are to be done from the same revenue stream these functions cannot be discharged satisfactorily. We are competent to discharge the commercial obligations. But the so-called social obligations cannot be met by the Railways. This problem is becoming increasingly intractable. Public service compensation is a major requirement now. There are two ways in which we are being hit. By taking up these social projects, which are required in the overall national interests, we are being made to invest in capital account on financially non-viable projects. We have no objection to carry out those projects. But on such projects we cannot spend from the Railway Budget".

71. Take the case of the Konkan Railway. On this project we have spent Rs. 2,500 crore. Our internal generation has been hit by Rs. 300 to 350 crore annually. For the last two to three years it has been going up. We have been thus hit on the capital and revenue account. Our ability to generate internal resources has been seriously impaired.

72. There is another project which links Jammu with Srinagar. At no time will we be able to recover our cost of operations on this project. It is indeed a strategic railway. But it cannot become viable in the near future. The same thing is the case of the North-Eastern region. The highway development fund created by the Central Government provide a model for meeting this dilemma of the Indian Railways. We will need the support of this august Committee to get us some support from the Central Government on the same lines.

VI. MID-TERM APPRAISAL OF NINTH PLAN

73. In regard to the Mid-Term Appraisal to Railway's Ninth Plan, the Ministry of Railways submitted the following in their Memorandum:

"As against a projected requirement of Rs. 65,000 crore, the IX plan for Railways was approved with an outlay of Rs. 45,413 crore including Rs. 11,791 crore of Capital from the General Exchequer. For the first three years of the IX Plan, the plan expenditure at 1996-97 prices is likely to be around Rs. 23,145 crore or 51% of the total plan outlay. Despite Railway's efforts to improve the resources there would still be a substantial shortfall with respect to the Plan size of Rs. 45,413 crore as approved".

Plan Outlay/Expenditure of Railways during Ninth Plan (1997-2002)

(Rs. Crores)

		Budgetary Support	Borrowings	Internal Resources	Total
9th Plan		11791	33622*		45413
1997-98	Outlay	1831	3050	3419	8300
	Expenditure	1992	2795	3452	8239
1998-99	Outlay	2200	2900	4400	9500
	Expenditure	2185	3217	3455	8857
1999-2000	Outlay	2540	3000	4160	9700
	RE	2540	3000	3425	8965
2000-01	Outlay	3540 @	3668	3792 **	11000

* Includes internal resources
@ Includes Rs. 249 crore loan for Capital Fund
** Excludes Rs. 249 crore loan from General Exchequer for Capital Fund

74. Asked about the performance of Railways during the course of mid-term appraisal of the 9th Plan, Secretary, Planning Commission appraised the Committee:

> "Let me also point out that the overall financial position of the Railways is not very sound. They require more resources, more investment. Otherwise, Railways would not be able to maintain the standards that are expected of them. Therefore, we have to improve the revenues of the Railways by increasing the fare structure. That is the most important recommendation we have made.
>
> If you permit me, let me point out that Railways – although it is a commercial organisation – get some allocation from the Gross Budgetary support that we provide and this year we have been able to increase their allocation by 40 per cent , although, our own allocation has been increased only by about six per cent. On the whole, I also point out that the Gross Budgetary support that we get is not in tune with what we had projected in the Ninth Plan. Therefore, in the Ninth Plan we had thought that the total Gross Budgetary Support for all the Departments, Ministries and State Governments would be Rs. 3,74,000 crore against that we have been able to get only 49 per cent in the first three years. It should have been 58 or 60 per cent. That is because our revenues are not increasing at the rate at which we had projected. The GDP tax ratio should have been 10.5 per cent but it has been only about 9.8 per cent. Therefore, there is a crisis situation for all the Government departments and for the country as a whole.
>
> If I may again use some figures, the total net revenues are about Rs. 1,80,000 crore in 1999-2000. But our Non-plan expenditure itself was Rs. 2,20,000 crore. Therefore, there is a gap. There is a balance from current revenues of about Rs. 39,000 crore This Rs. 39,000 crore and the entire Plan fund is being met only from deficit financing, which means that our revenues are not even sufficient to meet our salaries, debt burden, interest, etc. Therefore, there is no money at all today in the country for development. Entire money for development is being funded from borrowings. It is not a very sustainable situation. That is why the Gross Budgetary Support has not been funded adequately. We get 50 per cent. In fact, we should have got 60 per cent in the first three years. That is why, we have not been able to give to the Railways. When we have limited funds, we have to assess and reassess our priorities. There we thought that Railways do deserve higher allocation and so we increased their allocation by 40 per cent despite the fact that our own increase is only 6 per cent."

75. Asked to state about the down-sizing of the staff strength of Indian Railways as a measure to improve the

state of finance, the Secretary, Planning Commission deposed as follows:

"On that also, we did a study and we did say that at all levels whether it is Class I or Class II and even at the level of Secretaries, we have given suggestions."

76. When the Committee wanted to know whether the Planning Commission think that Railways could not align their growth strategy with the growth of the national economy, the witness stated as under:

"It is very difficult to give a categorical answer because it is not easy to quantify the progress of growth of our economy or of the Railways in just numbers. On the whole, you will find that our economic growth has certainly improved. There has been a time when our GDP grew at the rate of three to four per cent in the 70's. It became five per cent in the 80's and 6.5 per cent in the 90's. Hopefully, it may be better. It should be seven per cent or more than that in this decade. Therefore, there has been an overall economic growth. The other sectors are doing quite well. As compared to that, we want to see similar kind of progress in the Railways. We find there that the kind of services which they should have provided to the people have not been provided or the kind of expansion which should have taken place is not taking place. In fact, their share in goods traffic has come down very hopefully because of their very structure. Therefore, we feel that the Railways need to consider certain fundamental points. We have given them a paper on that and we have suggested changes. We feel that a time has come that we must radically change some of the things so that they are run in other development fields".

77. The Committee pointed out that the Ministry of Railways have deferred an amount of Rs. 1500 crore towards their dividend liability for the year 2000-01 and asked the Planning Commission as to what is the guarantee that the Ministry of Railways will not default in the next year also, the Secretary, Planning Commission submitted that whatever suggestions given by the Planning Commission is accepted then there can be some improvement in the situation. He, further, informed that if it is thought that no unpopular step will be taken, there will be a general decline and whatever suggestion we have given that will increase the revenue along with general economic development.

VII. OUTSTANDING DUES FROM THE THERMAL POWER HOUSES

78. The Committee pointed out that the Indian Railways' finances are at present passing through an extremely difficult phase. The major factor for this is the substantially increased wage bills and pensionary liabilities, arising from implementation of the Fifth Central Pay Commission's recommendations and Governments decisions thereon; that are estimated in RE 1999-2000 at Rs. 16530 crore as compared to the 1996-97 level of Rs. 10145 crore. Further, a tremendous drop in freight loading of nearly 29 million tonnes from the target of 450 million tonnes and 9 million tonnes below the 1997-98 level occurred in 1998-99, due to external factors, resulting in a crippling effect on the Railways' resources in 1998-99. Outstanding dues from major customers, increased by over Rs. 200 crore. The Committee wanted to know about the steps taken/ being taken by the Ministry of Railways to recover the outstanding dues from the major customers. The Ministry of Railways submitted as under:

"The outstandings of Indian Railways amount to Rs. 1476.26 crore on 31-3-1999 of which 77.22 % consist of dues outstandings from Power Houses. The principal defaulters are Badarpur Thermal Power Station, Delhi Vidyut Board, Haryana Power Generation Corporation (formerly known as Haryana State Electricity Board).

The initiatives taken to reduce the outstanding dues of State Electricity Boards (SEBs) / Power Houses (PHs) are outlined below:-

(i) At the instance of the Railways, the Cabinet Committee in its meeting held on 13-8-96 decided that movement of coal for all State Electricity Boards/Power Houses would be on 'Cash and Carry' basis, in order to arrest the fresh accural in outstanding dues. This decision was implemented for all State Electricity Boards/Power Houses w.e.f. 1-10-96 except BTPS, where it was, introduced w.e.f. 1-1-97. Though the scheme proved somewhat successful, it failed to check the position of Badarpur Thermal Power Station, where the outstanding dues have risen from Rs. 743.43 crore on 1-1-1997 to Rs. 965.96 crore in March-2000. However, the progress of BTPS which is the major contributor to outstandings is being closely monitored.

(ii) The same Committee in its meeting held on 7-2-97 decided that past outstanding dues from SEBs be adjusted by effecting a cut in the Central Plan Assistance (CPA) of the concerned States, subject to the maximum of 15%. This was to be distributed among the major agencies that had owed large amounts like the Railways, Coal Companies etc. Pursuant to the Governments decision to recover amounts from Central Plan Assistance, an amount of Rs. 116.93 crore has been received by Railways up to 31-3-2000.

(iii) Instructions have also been issued to all Zonal Railways to adjust the outstanding dues against traction bills raised by State Electricity Board/Power Houses.

(iv) The issue has been taken up by the Ministry of Railways at the level of the Secretary/Ministry of Power and by the Minister for Railways with the Minister for Power for Badarpur Thermal Power Station, Delhi Vidyut Board and Haryana Power Generation Corporation Limited.

(v) Ministry of Railways are also approaching the Cabinet with full justification for recovery of outstandings, particularly against Badarpur Thermal Power Station, Delhi Vidyut Board and Haryana Power Generation Corporation Limited by introducing a suitable mechanism which is under finalisation.

Efforts will be continued till the outstanding dues are brought to the barest minimum level"

79. During evidence, Member (Traffic) elaborated the issue as follows:

"We have taken three or four steps in this regard. The major chunk of outstanding is from the Badarpur Thermal Power Station. We had taken up the matter at the highest level. Two former Prime Ministers intervened in this issue. They had suggested that out of these funds that are given for development to the State Government, 15 per cent of that amount would be directly deducted and paid to the Department of Coal and the Ministry of Railways to set off their outstanding dues. Despite this assistance, instead of the figure going down, the outstanding dues are continued to go up. The main reason is that the Delhi State Electricity Board has not been able to make the payments for the cost of generation to the NTPC that is managing this fund and they in turn are not paying. Whenever we tried to reduce, we have been asked to sustain this generation cost, because it is affecting the overall generation in the National Capital Region. So, our problem is that we are neither able to get enough amount paid up fully nor are we allowed to restrict the movement of coal to these power stations. The result is that in the last

two years, instead of the amount coming down, it has gone up. We have taken up this matter with the Ministry of Power and suggested to them that just as they are trying to do securitisation, they should also give us the same relief. This matter is still under discussion with the Ministry of Power. We are trying at all the Government levels, namely the Ministry of Power, the Cabinet Secretariat and the PMO. Unfortunately, we have not been able to make any headway……… Dates were fixed in the Cabinet Committee meeting held in 1996. It was decided that cash carry method would be the basis. The date for introduction of this scheme was fixed as 1-1-1997. Simultaneously, it was also decided that 15 per cent of the Central Plan assistance of the concerned State would also be directed to pay back the existing arrears. Neither the target date was adhered nor have they maintained this cash and carry method. As a result of this, both the decisions of the Cabinet Committee have been disregarded. We have now therefore suggested that either the Central Government should pay the entire amount to us through adjustment of the dividend liability or they should increase this 15 per cent Central Plan assistance amount so that at least this amount would come".

80. In this connection, the Chairman, Railway Board also made the following submission:

"Our main problem is powerhouses. We have been pressing for it. This accrues because firstly they do not pay the transportation charges, demurrage charges, etc. So, we tried to implement a scheme that before the goods are carried if advance payments are made we give them some subsidy on that. That is why, it becomes beneficial to them to adopt this system for carrying the goods. We have also made efforts to see that some of the dues are recovered. One way is that we do not suffer, that means, that the whole area will affect the power sector. It is because of what they say they do not do. The Minister of Railways had a detailed discussion with the Minister of Power also. They have promised but I do not know how that will come true. They have promised that they will clear this year at least Rs. 500crore.

We roughly pay about Rs. 2,900 crore every year as the cost of the electricity to them. Many a times, the rate which is being charged from us is four or five times higher than the rates which they charge from any other consumer. This is resulting in extra payment from us. We cannot take any action. Now we have put pressure on the various State Electricity Boards and also on the Central Government agencies that the rate should be reasonable. In case the rate is not reasonable, the electrification work will get affected. Electrification will not be a viable proposition. We are also trying to take some power from NTPC to reduce the cost. That is also another area. At least, 20 to 30 reduction is definitely warranted and that will give us another Rs. 600 crore or 700 crore additional money which we will invest in the development of the infrastructure".

81. Highlighting the various efforts being made by the Ministry of Railways to recover the dues, the Financial Commercial (Railways) stated the following during evidence:

"For instance, UP Electricity Board. We adjust their power dues with our freight dues. We are having this arrangement with some other Electricity Boards also. But some of the Electricity Boards are now divided into two units; one for transmission and one for generation. The dues to the Railways are coming from the Generation Unit whereas the dues of Railways are to the Transmission Unit. That is also giving a little problem".

82. In this connection, Member (Traffic) added:

"I would like to reiterate that whatever is justifiable is being recovered. The traction bill adjustment with freight bill is done and we ensure that the traction bill is fully paid. It is not in this year we are being favoured. In the case of the Delhi Vidyut Board the total electricity bill is heavy ; the total traction bill is miniscule as compared to the freight bill. This is something which cannot be adjusted"

83. Further, the Chairman, Railway Board deposed as follows:

"The dues to be recovered from power houses up to the 31st March 1996 were to the tune of RS. 900 crore. Today up to the 31st March 2000 , I do not have the latest figures – the dues to be recovered come to Rs. 1306 crore. In this four year period there has been an increase. Every year Rs. 3000 crore of electricity is purchased. Now the instructions are that the traction bill should be adjusted against the freight bill., Whenever they are not paid they should be adjusted. Sometimes there are some defects because of which the power houses do not generate. But then there are certain power houses whose direct power supply to us is very small. So,. The money due is very small. To that extent, it is adjusted. If you see, the dues from NTPC, Badarpur are about Rs. 1,000 crore. Another Rs. 114 crore are from the DVB. Dues from Haryana are Rs. 86 crore. Dues from Punjab are Rs. 60 crore. These are three or four power houses which constitute major dues"

VIII FUNDS OF RAILWAYS

(A) Depreciation Reserve Fund (DRF)

84. This fund has been created to meet the expenditure on replacement and renewal, including inflationary and improvement elements. Appropriation to this fund is met from out of revenues.

85. While approving the proposal of the Ministry of Railways regarding appropriation to be made to Depreciation Reserve Fund in 1999-2000, the Railway Convention Committee (1998) in Para 42 of their Third Report, had observed as under:

"The Committee agree with the proposal of Ministry of Railways that the Appropriation from the Revenue to the DRF for the Budget Estimates of 1999-2000 may be kept at Rs. 1589 crore, which together with contribution of Rs. 100 crore from Production Units and Rs. 61 crore by way of interest in the fund and a draw down of Rs. 600 crore from the balance in the fund, will enable the Railways to meet the outgo of Rs. 2350 crore required to meet the plan needs".

86. In this connection, the Ministry of Railways have submitted the following in their Memorandum:

"As recommended by the Committee above, the Appropriation to DRF was kept at Rs. 1589 crore in BE 1999-2000. However, this was reduced to Rs. 1550 crore in RE 1999-2000, keeping with the reassessed Plan requirement.

Railways' Plan layout for 2000-2001 provides for an expenditure of Rs. 2582 crore from the Depreciation Reserve Fund. The BE 2000-01 proposes an appropriation of Rs. 2441 crore to the Fund from revenue. This, together with appropriation of Rs. 136 crore from Capital (Production Units of Railways) and Rs. 5 crore by way of interest will enable the Railways to meet the Plan needs. The Committee may kindly approve the appropriation made to DRF in BE 2000-01, subject to adjustments keeping in view any variations of the estimated withdrawals

and the financial position of the Railways during the course of the year".

87. Asked to state the criteria adopted by the Ministry of Railways for both appropriation to and withdrawal from the DRF, the Ministry of Railways replied as under:

"The Railway Reforms Committee, 1982 had recommended that 2.6 % of the current value of Railways assets should be appropriated to DRF for meeting the replacement and renewal requirements of the Railways. This was initially followed for a few years. Later, due to constraint of resources and the need to balance important requirements of other Funds too, this percentage could not be strictly adhered to. The appropriation to Depreciation Reserve Fund was made closer to withdrawal, allowing in the process a small accretion to the fund. This led to the build up of some balances in the Fund reaching a high of Rs. 1434.27 crore in 1997-98. However, in the next two years i.e., 1998-99 and 1999-2000, due to severe shortfall in internal resources, Railways had to drawdown these

balances in order to meet the plan requirements, leaving a small balance of Rs. 76.72 crore."

88. When asked how the Ministry of Railways will be able to replace all the assets due for replacement with the present allocation of Rs. 2582 crore, the Ministry of Railways stated that the actual expenditure that would be possible on replacement of renewals takes into account the credits expected to be realised from the disposal of the replaced assets. This works out to a figure of Rs. 865 crore. Accordingly the gross expenditure to be incurred on replacements and renewals has been budgeted at Rs. 3447 crore for which vote of Parliament has been taken. Besides, market borrowing by Indian Railway Finance Corporation, which is fixed at Rs. 3400 crore would cater not only for additional assets but also replacement of existing rolling stock. The amount provided for replacement is approximately Rs. 1700 crore. Thus, in the current year the amount to be expended on replacement of assets would be approximately Rs. 5147 core.

89. The Committee were further informed that the amount required for replacement of over-aged assets of Railways has been estimated to be in the region of Rs. 15000 crore by the Justice Khanna Committee in their interim report made out in August 1999.

90. When the Committee pointed out as to how the Ministry of Railways propose to meet their future expenditure from DRF with a meager balance amount of Rs. 76.72 crore, at the end of the current financial year the Railway Board stated that the expenditure from DRF i.e., withdrawal, is met mainly through equivalent appropriation to the Fund. In the current year also, the Railways have appropriated adequately to meet a withdrawal of Rs. 2582 crore. Meagre balances only means that Railways do not have the option of drawing down the Fund balance. As the financial position of the Railways improves, efforts will be made to build up balances in this Fund.

(B) Pension Fund (PF)

91. 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 from out of revenue.

92. The Railway Convention Committee(1998) in Para 43 of their Third Report, approving the

recommendation of the Ministry of Railways regarding contribution to be made to Pension Fund in 1999-2000, had observed as under :

"Agreeing with the proposal of Ministry of Railways, the Committee recommend that the appropriation to Pension Fund from revenue be kept at Rs. 2954 crore for the year 1999-2000, which together with appropriation of Rs. 10 crore under Miscellaneous Expenditure, Rs. 100 crore as contribution from Production Units and Rs. 36 crore by way of interest in the fund and a draw down of Rs. 200 crore from the balance in the fund, will meet the estimated outgo of Rs.3300 crore".

93. In this connection, the Ministry of Railways made the following submission in their Memorandum:

"As recommended by the Committee above, the Appropriation to the Pension was kept at Rs.2954 crore in BE 1999-2000. However, to meet the recent estimate of higher pension liability, the appropriation to the Fund was enhanced to Rs. 3569 core in RE 1999-2000.

Pensionary liability is likely to go up to around Rs.5,300 crore in 2000-01. Appropriation to Pension Fund has, therefore, been proposed at Rs. 5006 crore in BE 2000-01 from out of revenue, including Rs. 10 crore for Miscellaneous Establishments. This, together with appropriation of Rs. 300 crore from Capital (Production Units of Railways) and Rs. 8 crore by way of interest will enable the Railways to meet the Pension requirement during the year".

(C). Development Fund (DF)

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

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

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

95. The Railway Convention Committee (1998) had, in para 44 of their Third Report had recommended the following;

"In regard to Development Fund (DF), the Committee find that an amount of Rs. 426 crore was finally appropriated in 1998-99 under this Head and a sum of Rs. 600 crore has been projected in the Budget Estimate 1999-2000. The Committee, agreeing with the proposal of the Ministry of Railways, desire that they should, in their action taken note, apprise the Committee about the actual amount that will be credited to this Fund at the end of the current financial year".

96. In this connection, the Ministry of Railways submitted the following in their Memorandum:

" In BE 1999-2000, the appropriation to this Fund was kept at Rs. 600 crore as recommended by the Committee. This appropriation was revised to Rs. 519 crore in RE 1999-2000 in keeping with the re-assessed Plan requirement for the year.

The appropriation to this Fund has been placed at Rs. 831 crore in BE 2000-2001, in keeping with the Plan requirements".

(D). Capital Fund (CF)

97. The Capital component of Railways Plan expenditure was earlier being financed from out of the budgetary support received from the general exchequer. With the budgetary support declining over the years and market borrowings being expensive and uncertain, a new Fund named Capital Fund has been created w.e.f., 1 April 1992 with the approval of RCC (1991). This Fund is used to finance part of the capital works requirements on the Railways after appropriation to Development Fund and the 'Excess' is appropriated to the Capital Fund.

98. The Railway Convention Committee (1998) had, in para 45 of their Third Report made the following recommendation:

> "The Committee note that in 1998-99, Capital Fund was to be credited with Rs. 1181 crore. However, due to reduction in earnings and consequent reduction in excess an appropriation of Rs. 193 crore to this fund would be made in 1998-99. The appropriation of Rs.193 crore along with Rs. 55 crore as interest in the Fund and a drawdown of Rs. 785 core from the Fund balance would enable the Railways to withdraw Rs. 1033 crore for the purpose of Plan expenditure for the year 1998-99. The Committee agree with the proposal of the Ministry of Railways to appropriate to the Fund Rs. 944 crore for the year 1999-2000 which together with interest of Rs. 21 crore in the Fund and a drawdown of Rs. 200 crore from the Fund balance will enable the Railways to meet the outgo estimated at Rs. 1165 crore. However, the Committee desire the Ministry of Railways to apprise them about the actual amount that would be credited to this Fund at the end of the current financial year".

99. While appropriating to this fund during 1999-2000 and 2000-2001 the Ministry of Railways stated that in BE 1999-2000, the appropriation to this Fund was kept at Rs. 944 crore as recommended by the Committee. This appropriation was revised to Rs. 380 crore in RE 1999-2000 in keeping with the re-assessed Plan requirement for the year.

100. Asked to state the reasons as to why the appropriation to Capital Fund had to be curtailed by almost 2/3rd in the revised estimates for 1999-2000, and whether realistic target was set at the time of Budgeting, the Ministry of Railways submitted the following;

The appropriation to the Capital Fund had to be reduced in RE 1999-2000 over BE due to reduction in 'Excess' from Rs. 1543.65 crore in BE to Rs. 899 crore in RE. The reduction took place mainly due to higher appropriation to Pension fund because of delayed implementation of recommendations of V Central Pay Commission, fall in earnings and less clearance of outstanding dues. With reduction in internal generation, expenditure had also to be reduced in that year.

101. In BE 2000-01, the 'Excess' being insufficient to meet the requirement of both Capital Fund and Development Fund, a loan of Rs. 249 crore from General Exchequer has been proposed for the Capital Fund, in consultation with Ministry of Finance . Apart from this, Rs. 345 crore have been appropriated from revenue to the Capital Fund, making a total of Rs. 594 crore.

102. The Railway's proposal to Ministry of Finance was that the loan of Rs. 249 crore to Capital Fund from the 'Capital support from General Exchequer' will be repaid when the Railways are in a position to do so. Ministry of Finance has, however, not agreed to this and proposed that the Railways should repay the loan within a period of ten years with a three year moratorium.

103. The Ministry of Railways have agreed to the proposal made by the Ministry of Finance for allowing a part of the Capital from the General Exchequer in the Capital Fund and treating the same as a loan carrying interest at the same rate as the rate of dividend is agreed to. The Ministry have also agreed to repay the loan within a period of 10 years with a 3 years moratorium.

(E). Railway Safety Fund (RSF)

104. The Ministry of Railways have made the following submission in their Memorandum for creation of a new Railway Fund viz., Railway Safety Fund:

> "A large number of accidents take place at level crossings. Out of a total of 40,445 level crossings on Railways, 24,313 level crossings are unmanned. The then Minister for Railways, in his Budget Speech for the year 1999-2000 announced in Parliament the creation of a Fund for converting unmanned level crossings as manned level crossings and for construction of road over bridges (RUB) at busy level crossings in order to ensure adequate funding and to focus greater attention to such works. So as to reduce accidents at level crossings, he also proposed creation of a separate Plan Head for these works.
>
> Accordingly, two new minor heads of account (plan heads) have since been introduced in Grant No. 16 (Assets-Acquisition, Construction and Replacement) in consultation with Controller General of Accounts and Comptroller & Auditor General of India . These minor heads are;
>
> (1) 2900-Road Safety Works-Conversion of Unmanned Level Crossing into Manned Level Crossings.
>
> (2) 3000-Road Safety Works-Conversion of Level Crossing into road over bridge/road under bridge.
>
> It is now proposed to create with immediate effect a new Fund for financing expenditure on the above minor heads which hitherto were financed through Development Fund – IV. The new Fund will be called 'Railway Safety Fund' and will be funded mainly through Railway revenues and transfer of funds by the Central Government from the Central Road Fund. The modalities of transfer of funds from the Central Government are yet to be finalised.
>
> The contribution of railway revenues to the proposed Railway Safety Fund will be from the 'Excess' left in financial results after payment of dividend to General Revenues. In order of priority, it may

be placed between the Development Fund and the Capital Fund. Other types of safety works, like track circuiting, provision of axle counters, panel interlocking, automatic warning system, mobile communication etc. will continue to be financed from the Development Fund.

Presently, there is another Fund called the Railway Safety Works Fund (as distinct from the proposed new Railway Safety Fund) which is maintained by Ministry of Finance, created in accordance with the recommendation of the Railway Accidents Committee, 1962 with the approval of RCC (1965) to assist the States to provide their portion of the resources required for financing Railway Safety Works at track crossings. The Railway contributes around Rs. 2.50 crore every year to this Fund as part of the dividend to the General Revenues. As per the existing arrangements, 80% of the accruals to this fund are provided towards the States' share of expenditure on such works while 20% are to be utilised by the Ministry of Railways. The purpose of both the Funds being the same, it was proposed to the Ministry of Finance that the Railways' share of the Railway Safety Works Fund (around Rs. 50 lakh per year) may also be transferred to the 'Railway Safety Fund' now being considered. Ministry of Finance has further proposed that the existing Railway Safety Works Fund, being maintained by them for assisting the States in financing Railway Safety Works at track crossing, may be merged with the new Railway Safety Fund. This will mean that the entire contribution of about Rs. 2.5 crore to the existing Railway Safety Works Fund will form a part of the new 'Railway Safety Fund'. It is felt that this will require further consideration; meanwhile, the 20% share of the Railways only may be transferred to the Railway Safety Fund".

105. While requesting the Committee to approve setting up of Railway Safety Funds as proposed and the Ministry in their Memorandum explained the way in which it will be funded viz., (i)Railway Revenues i.e., out of the 'Excess' left in financial results after payment of dividend to General Revenues, (ii) Transfer of Funds by the Central Government from the Central Road Fund and (iii) 20% of the contribution which at present is made to the existing Railway Safety Works Fund out of the dividend being paid to the General Revenues. In this connection, the Ministry of Railways have also forwarded the following views of Ministry of Finance :

"The proposal of the Ministry of Railways for creation of a new Railway fund with the nomenclature "Railway Safety Fund" for financing works of converting unmanned level crossings to manned level crossings and for construction of Railway Over Bridges/Railway Under Bridges at busy level crossings is agreed to 'in principle'. However, approval of the Railway Convention Committee may also be sought for the merger of the existing Railway Safety Works Fund with the proposed new Fund so that the old arrangements are superseded by new arrangements".

106. On the above comments of the Ministry of Finance, the Ministry of Railways have submitted as under to the Committee:

"The suggestion of Ministry of Finance for merging the existing Railway Safety Works Fund with the proposed "Railway Safety Fund" requires further consideration. Meanwhile, 20% of the Railway Safety Works Fund, which is the Railways' share, may alone be transferred to the 'Railway Safety Fund".

107. Asked to state the details regarding the points that requires further consideration, the Ministry of Railways submitted that the cost of ROBs/RUBs built in lieu of existing level crossings is normally shared between the Railways and the State Governments on 50:50 basis. The same principle is proposed to be followed in the case of ROBs/RUBs to be financed from the new Fund, i.e., the Railway Safety Fund. However, in terms of existing arrangements, 80% of accruals to the existing Railway Safety Works Fund (RSWF) are earmarked for

reimbursement to the State Governments towards their share of cost of ROBs/RUBs. By merging the whole of RSWF in the new Railway Safety Fund, the 80% share of the States will also get merged in the proposed Railway Safety Fund. Consequently, the State Governments will be deprived of the assistance presently received by them. Ministry of Railways feels that this may not be fair to the State Governments. Since this issue requires consultation with Ministry of Finance, this Ministry is unable to indicate exact time required for its resolution.

108. When the Committee desired to know the total cost for converting all the unmanned level crossings to manned level crossing, the Ministry of Railways stated :

Railways require approximately Rs. 2200 crore as capital cost for manning of all unmanned level crossings. In addition to this, approximately Rs. 500 crore will be required per annum to meet with the maintenance and operational cost.

109. While elaborating the issue the Financial Commissioner (Railways) stated during evidence:

> "The Ministry of Finance is maintaining Railway Safety Works Fund which was created three decades ago on the recommendation of the Accident Inquiry Committee. They felt that level crossings were not receiving sufficient attention. So, in order to give a source of funding to the State Governments and the Railways, they said that some money should be allocated to this Fund. Actually, it is a very small amount. The annual appropriation is something like Rs. 2.50 crore. This amount is divided among many States according to a formula given by the Finance Commission. Eighty per cent of the amount is allocated to the States and twenty per cent of the amount is allocated to the Railways. So, our proposal is that we should not touch what is intended for the States and that we should take only that amount which is intended for the Railways. It is because this was given on the basis of a high powered Committee's recommendation, we felt that the States should not be deprived of that amount.
>
> Eighty per cent (if the amount allocated to the States) should be used for level crossing. It is at the disposal of the State Governments. Some of the States are utilising this fund and some States are not utilising this fund. If it is given to the Railways, it would be well and good".

110. When the Committee enquired how the State Governments are utilisng this Fund, the Financial Commissioner (Railways) submitted that they also spend this fund for upgrading the level crossings. They execute the work through the Railways and it is a complicated process.

Asked about the funds which the Ministry of Finance propose to grant to the Ministry of Railways out of the aggregate amount of Rs. 4591 crore as additional duty of excise and Rs. 363 crore as countervailing duty on domestically produced and imported High Speed Diesel over the year for Railway Safety Works, Unmanned level crossings, etc., the Ministry of Finance stated:

> "Rs. 200 crore was provided in the Revised Estimates of 1999-2000 as contribution for Railway Safety Works against additional levies on motor spirit and high speed diesel. In the current year's Budget an amount of Rs. 300 crore has been provided in the Railway Budget from General Revenue on this account".

(F). Principles Governing the Rate of Interest on the Railway Reserve Funds

111. In para 47 of their Third Report, the Railway Convention Committee(1998) made the following recommendation regarding the principles governing the rate of interest on the various Railway Reserve Funds.

"The Committee do not see any logic in modifying the principles governing interest on various Railway Funds and, therefore, recommend that the balance in the 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 Fund Works for the purpose of Budget Estimates for 1999-2000".

112. In this connection, the Ministry of Railways have stated as under in their Memorandum:

"It is submitted that the recommendations of Railway Convention Committee (1998) in their Third Report for the year 1999-2000 may be made applicable for 2000-2001 also in respect of interest on the balances in the various Railway Funds. According to this, the balances in the various Railway Reserve Funds (other than Development Fund) including the proposed 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".

OBSERVATIONS/RECOMMENDATIONS

113. The Committee observe that in spite of the recommendation of the Railway Convention Committee (1998) in their Third Report on Rate of Dividend for 1999-2000 that both the Ministries of Railways and Finance should ensure that the Annual Memorandum on Rate of Dividend should be submitted to the Committee latest by the end of December each year so that the Committee can make an in-depth study and present their Report well before the presentation of the Railway Budget, the time limit fixed has not been adhered to and the Memorandum on the Rate of Dividend for the year 2000-01 and other ancillary matters was furnished to the Committee on 25th April, 2000 i.e., after presentation of the Railway Budget. While seeking condonation for delayed submission of Memorandum, the Ministry of Railways have submitted that owing to the unprecedented financial difficulties faced by the Railways, the finalisation of Memorandum was postponed to a date close to finalisation of this year's Railway Budget so that the magnitude of the problem could be assessed more precisely. The Committee do not agree with the reasons advanced by the Ministry of Railways and they reiterate their earlier recommendation of 1998 that in spite of all odds, the deadline set by the Railway Convention Committee(1998) should be strictly adhered to. It is all the more necessary as the entire gamut of payment of dividend to General Revenues needs to be finalised well before the Railway Budget is presented to Parliament.

114. With the advent and acceptance of a liberalised economy, the principle of survival of the fittest has come to the fore. In such a situation, it is the market, which as a great leveller, determine the relevance or irrelevance of a particular industry. Hence, in Committee's opinion, the present unprecedented financial crisis faced by the Indian Railways is nothing but a teething problem while adapting itself to this changed scenario. The Committee are absolutely convinced that the Indian Railways will overcome these turbulent times because there has not been an iota of change in the

relevance of Indian Railways *vis-à-vis* the Indian economy as envisaged by the Acworth Committee 79 years ago. In an era when curbing subsidy is the order of the day, the Committee are of the firm opinion that Indian Railways should now strive to explore alternative avenues for resource mobilisation - the 'right of way', utilisation of space at important railway stations, advertising on coaches and wagons, etc., are some of the schemes in this direction.

In this connection, it is pertinent to mention that despite persistent efforts made by successive Railway Convention Committees in the last decade in urging upon the Government to compensate the Indian Railways for carrying social obligation, nothing has materialised so far. Hence, in order to mobilise additional revenues, the Committee consider it necessary that the Ministry of Railways should examine *de-novo* the entire gamut of cross-subsidisation. They are of the considered opinion that the recommendation made by the Planning Commission for setting up of an autonomous Tariff Regulatory Authority on the lines of the Telecom Regulatory Authority in the Mid-Term Appraisal of the 9th Five Year Plan is all the most necessary. The Committee endorse the suggestion of the Planning Commission for setting up of a Rail Tariff Regulatory Authority with the mandate to fix tariffs on a rational basis with automatic adjustment based on the cost inputs including fuel and electricity tariffs. However, for setting up of a Tariff Regulatory Authority for Indian Railways, the Committee want to caution the Government that while initiating any step in undoing the existing system, the Government should take utmost care and ensure that this transition is gradual, smooth and above all with a human face.

115. The Committee find that the twin proposals of the Ministry of Finance that the Railways should pay a flat rate of dividend at the rate of 7.5 per cent on the Capital-at-charge for the year 2000-01 and this rate be gradually increased by 0.5 per cent each year in order to align the rate of dividend closer to the average borrowing rate of the Government is quite amazing particularly because it is the Ministry of Finance, who after analysing the present state of Railway finance, have put their stamp of approval to the suggestion of the Ministry of Railways to defer an amount of Rs. 1500 crore towards the payment of dividend this year. Any further increase in the rate of dividend by 0.5 per cent would cost Railways something around Rs.150 crore. It is incomprehensible to the Committee as to how an organisation which have already defaulted in payment of dividend at a lower rate be asked to pay dividend at an increased rate. Hence, the Committee feel that, it is quite premature to ask the Railways to pay dividend at an increased rate at this juncture.

116. After considering the arguments put forth by the Ministries of Railways and Finance and agreeing to the views expressed by the Planning Commission on the issue of rate of dividend, the Committee, recommend, purely as an interim measure, that for the year 2000-01 dividend to General Revenues may be paid at 7% on the entire capital invested on Railways from the General Revenues, irrespective of year of investment, inclusive of the amount that was payable to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the financial year 1999-2000.

117. All other concessions now available on residential buildings, new lines, subsidies from General Revenues etc. may be allowed to continue on the existing basis for the year 2000-01.

118. Although the Committee have not agreed for any increase in the rate of dividend for the year 2000-01, they want to caution the Ministry of Railways to put their house in order. The need of the hour is to increase generation of their internal resources while putting an end to extravagant

expenditure. The Committee will keep a strict vigil on the financial performance of the Railways during the year and the same would be taken into consideration while reviewing the Rate of Dividend for the year 2001-02.

119. Although the Railway Convention Committee (1998) in their Third Report had recommended for an appropriation of Rs. 1589 crore to the DRF subject to suitable need based adjustment, the final appropriation to DRF was reassessed and scaled down to Rs. 1550 crore in the Revised Estimate for 1999-2000. The Committee find that at the end of 1999-2000, the balance in DRF was Rs. 76.72 crore. Keeping in view the Railways' plan outlay for 2000-2001 which provides for expenditure of Rs. 2582 crore from DRF, the Committee agree with the proposal of the Ministry of Railways that the appropriation from revenues to DRF for the Budget Estimates of 2000-01 may be kept at Rs. 2441 crore, which together with contribution of Rs.136 crore from Production Units and Rs. 5 crore by way of interest in the fund will enable the Railways to meet the Plan needs subject to adjustments keeping in view any variations of the estimated withdrawals of the financial position during the course of the year.

120. The appropriation to the Pension Fund (PF) from revenues was kept at Rs. 2954 crore for the year 1999-2000. However, to meet the higher pension liability, the appropriation to the fund was enhanced to Rs. 3569 crore in the Revised Estimate of 1999-2000. The pensionary liability is likely to go up to around Rs. 5300 crore in 2000-01, due to retirements started taking place from that year. The Committee while agreeing with the proposal of the Ministry of Railways, recommend that appropriation to Pension Fund from revenues be kept at Rs. 5006 crore in the Budget Estimate for 2000-01. This, together with Rs. 10 crore for miscellaneous establishments, Rs. 300 crore from Production Units and Rs. 8 crore by way of interest will enable the Railways to meet the Pension requirement during the year. However, the appropriation made to Pension Fund in 2000-01 (BE) will be subject to adjustments keeping in view any variations of the estimated withdrawal during the course of the year.

121. In regard to Development Fund (DF), the Committee find that an amount of Rs. 519 crore was finally appropriated in 1999-2000 under this Head and a sum of Rs. 831 crore has been projected in the Budget Estimate 2000-01. The Committee, agreeing with the proposal of the Ministry of Railways, desire that they should, in their action taken notes, apprise the Committee about the actual amount that will be credited to this Fund at the end of the current financial year.

122. The Committee note that while the appropriation to Capital Fund was kept at Rs. 944 crore in the Budget Estimate for 1999-2000, the appropriation was revised to Rs. 380 crore in the Revised Estimate keeping in view with the re-assessed plan requirement for the year. For the year 2000-01 (BE), as the 'Excess' being insufficient to meet the requirement of both Capital Fund and Development Fund, the Ministry of Railways in consultation with the Ministry of Finance have proposed to take a loan of Rs. 249 crore from the General Revenues for the Capital Fund besides appropriating a sum of Rs. 345 crore from revenue to the Capital Fund. Thus making a total of Rs. 594 crore available under this Head. The Committee agree with the above proposal of the Ministry of Railways. However, the Committee recommended that the loan of Rs. 249 crore taken from the General Exchequer in the Capital Fund shall be treated as a loan carrying interest at the same rate as the rate of dividend and must be repaid within a period of 10 years with a stipulation of a 3 years moratorium.

123. While approving the proposal of the Ministry of Railways for creation of a new Railway Fund with the nomenclature 'Railway Safety Fund' for financing works of converting unmanned level

crossings and for construction of Railway overbridges/Railway underbridges at busy level crossings, the Committee also agree to the suggestion of the Ministry of Finance for merging the existing Railway Safety Works Fund with the proposed 'Railway Safety Fund'. They, therefore, recommend that the new fund should be funded through the Railway Revenue i.e., out of the 'Excess' left in the financial results after payment of dividend to General Revenues ; transfer of funds by the Central Government from the Central Road Fund and the present 20 per cent contribution which is made by the Ministry of Railways to the existing Railway Safety Works Fund out of the dividend being paid to the General Revenues. The Committee also desire that the entire issue of contribution of about Rs. 2.5 crore to the existing Railway Safety Works Fund which will hitherto form part of the new Railway Safety Fund needs further consideration between the Ministries of Railways and Finance particularly because 80 per cent of the accruals to Railway Safety Works Fund are provided towards the State Governments' share of expenditure on such works. Pending further consideration, meanwhile 20 per cent share of the Railways towards the Railway Safety Works Fund only be transferred to the Railway Safety Fund and the balance 80 per cent share should continue to be given to the States for carrying out Safety Works.

124. The Committee do not see any logic in modifying the principles governing interest on various Railway Funds and, therefore, recommend that the balance in the 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 Fund Works for the purpose of Budget Estimates for 2000-01.

New Delhi; **(*BHAVNABEN CHIKHALIA*)**
10 August, 2000
Chairperson
19 Sravana, 1922 (S)

Railway Convention Committee