

**RAILWAY CONVENTION
COMMITTEE
(1980)**

(SEVENTH LOK SABHA)

FIRST REPORT

**RATE OF DIVIDEND FOR 1980-81 AND 1981-82
AND OTHER ANCILLARY MATTERS**



Presented in Lok Sabha on 25-2-1981

Laid in Rajya Sabha on 25-2-1981

**LOK SABHA SECRETARIAT
NEW DELHI**

February 1981/Phalguna 1902 (Saka)

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PART II*

Minutes of the sittings of the Railway Convention Committee (1980) held on the 20th, 23rd and 24th February, 1981.

*Not Printed (One copy laid on the Table of the House and five copies placed in Parliament Library).

**RAILWAY CONVENTION COMMITTEE
(1980)**

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3. Shri K. B. Chaudhari
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SECRETARIAT

Shri H. G. Paranjpe—Joint Secretary

Shri Bipin Behari—Senior Financial Committee Officer

*w.e.f. 26-11-1980 vice Pandit Kamlapati Tripathi resigned from the membership of Committee.

INTRODUCTION

1. The Chairman, Railway Convention Committee (1980), having been authorised by the Committee to present the Report on their behalf, present this their First Report.

2. The Ministry of Railways had submitted to the Committee an Interim Memorandum regarding Rate of Dividend payable by the Railway Undertaking to the General Revenue during 1980-81 and 1981-82 and other Ancillary Matters.

3. The Committee considered the Interim Memorandum at their sittings held on the 20th and 23rd February, 1981. The Report of the Committee was considered and finalised at their sitting held on the 24th February, 1981. The minutes of the sittings of the Committee held on the 20th, 23rd and 24th February, 1981 form Part II of the Report and are being presented alongwith the Report. A statement showing the summary of the recommendations of the Committee is appended.

4. The Committee wish to place on record their appreciation of the valuable assistance rendered to them by the Chairman and Members of the Railway Board, the Financial Commissioner of Railways and their officers and Staff.

NEW DELHI;

D. L. BAITHA,

February 24, 1981

Chairman,

Phalgun 5, 1902 (S)

Railway Convention Committee.

REPORT

The Railway Convention Committee (1977) had, in their First Report presented to the Houses of Parliament in November 1977, made recommendations regarding the Rate of Dividend payable by the Railway Undertaking to the General Revenues and other Ancillary Matters covering the financial years 1977-78 and 1978-79 i.e. the last two years of the original Fifth Five Year Plan. This was in the nature of an Interim Report "so as to enable the Ministry of Railways to prepare revised estimates for the current year (1977-78) and the budget estimates for the next financial year (1978-79)". The Fifth Plan was terminated a year earlier i.e. at the end of 1977-78.

2. The Sixth Five Year Plan was proposed to commence from the financial year 1978-79. The Ministry of Railways had accordingly promised to submit to the Committee Memoranda *inter alia* on (i) Review of the working and financial results of the Indian Railways during the four years 1974-78 covering the Fifth Plan, and (ii) tentative forecast of the financial prospects of the Indian Railways during the Sixth Plan period (1978-83) on the basis of the present freight rates and fares, price levels and anticipated traffic, in order to enable the Committee to formulate their views and make recommendation regarding Rate of Dividend and other Ancillary Matters for the duration of the proposed Sixth Five Year Plan (1978-83). However, all that the Ministry of Railways could do was to submit to the Committee on January 20, 1979 an Interim Memorandum containing, for the consideration and approval of the Committee on interim basis, proposals for the financial years 1978-79 and 1979-80. Some of these proposals incorporated the existing arrangements regarding Rate of Dividend etc. while some other were altogether fresh proposals. These proposals were accompanied by a tentative forecast of financial results for the proposed Sixth Five Year Plan (1978-83), based on the existing levels of fares and freights and projections which were then "under reassessment". Accordingly, the Fifth Report of the Railway Convention Committee (1977), presented to both Houses of Parliament on the 19th February, 1979, contained their recommendations regarding the Rate of Dividend payable by the Railway Undertakings to General Revenues and other Ancillary Matters for the years 1978-79 and 1979-80 only "pending formulation of the detailed proposals applicable to the Sixth Plan period as a whole". The Report was adopted by Lok Sabha on the 19th March, 1979 and by the Rajya Sabha on the 27th March, 1979. Subsequently, the concept of Five Year Plan was given up

and development expenditure during the years 1978-79 and 1979-80 was according to what came to be known as a "Rolling Plan".

3. The Railway Convention Committee (1977) became *functus officio* with the dissolution of the Lok Sabha in August, 1979.

4. In view of the fact that no recommendations of the Railway Convention Committee were available for the year 1980-81, the Railway Budget for that year was framed on the basis of the recommendations which were applicable for the year 1979-80, and was approved by Parliament.

5. In pursuance of the Resolution adopted by Lok Sabha on the 4th August, 1980 and in the Rajya Sabha on the 11th August, 1980 the Railway Convention Committee, 1980, was constituted on the 10th October, 1980 "to review the rate of dividend which is at present payable by the Railway Undertaking to General Revenues as well as other Ancillary Matters in connection with the Railway Finance *vis-a-vis* the General Finance and make recommendations thereon.

At their sitting held on the 18th December, 1980, the Committee selected the following subjects for examination and report in a phased manner:

Group I:

1. Review of the working and financial results of the Railways during the Fifth Plan. Period (1974—78) and during 1978—80
2. Tentative forecasts of the financial prospects of the Railways during the Sixth Plan Period (1980—85).
3. Review of the rate of Dividend payable by the Railways to General Revenues.
4. Cost of borrowing by the Railways.
5. Cost of operation of the Railways.
6. Need for utilising the surplus revenue of the Railways for expansion of Railways.
7. Rate of contribution to the Depreciation Reserve Fund.
8. Accrual to and expenditure from the Development Fund.
9. Accrual to and expenditure from the Accident Compensation Safety and Passenger Amenities Fund.

10. Review of the existing rules of allocation of Railway expenditure to Capital and Revenue Account, Depreciation Reserve Fund, Development Fund and Accident Compensation, Safety and Passenger Amenities Fund.

Group II.

11. Targets and achievements with regard to the freight and passenger traffic.
12. Tariff structure of the Railways.

Group III.

13. Track Expansion Programme.

[To cover expansion of route mileage, construction of new railway lines, conversion of lines, proposals sanctioned, proposals, on which surveys have been made, Railway Services in backward areas, Railway bridges sanctioned and those under construction, target of completion of works and their progress].

Group IV.

14. Fuel consumption by Railways.

Group V.

15. Rolling Stock Programme.

[To include utilisation of the existing stock, frequency and extent of sickness, turn-round, idle stock, repair and replacement programme].

Group VI.

16. Inventory Management in the Railways.

6. As these subjects have a vital bearing on the economy of the Railways it is only proper that the final report of the Committee on the Rate of Dividend etc. should take into account the findings and conclusions of the Committee in these areas.

7. The Ministry of Railways have pleaded that they would take time to submit Memoranda to the Committee on all the subjects selected by the Committee. On receipt of the Memoranda, the Committee may have to call for evidence, written and/or oral, as may be necessary before finalising their report.

8. In an Interim Memorandum furnished to the Committee on 30th January, 1981, the Ministry of Railways have submitted for the consideration of the Committee, whether, in view of the fact that the final recommendations of the Committee may not be available for some considerable time, the (earlier) recommendations (of the Committee) which were the basis for the preparation of the Railway Budget for 1980-81 may generally be made applicable for the years 1980-81 and 1981-82.

9. The Ministry of Finance have expressed the following views on the proposals regarding rate of dividend by the Railways and the interest on balances in the Railway Funds during 1980-81 and 1981-82:

“The average borrowing rate of the Government (after including small savings, provident funds etc.) works out 6.10 per cent for the current year (1980-81) and 6.25 per cent (provisional during the next year (1981-82). If small savings, provident funds and the special deposits are also included, the average borrowing rate will be substantially higher. It would thus be only reasonable that the Railways should pay to General Revenues the capital-at-charge at at least interest rates which, as mentioned above, on the basis of market borrowing alone, are 6.10 per cent in the current year and 6.25 per cent (provisional) in 1981-82.

Loans to Railway Development Fund now carry a lower rate of interest viz. 5½ per cent whereas the balances in that Fund effectively earn interest at the dividend rate (presently 6 per cent). So long as the Development Fund continues to be indebted to General Revenues balance any in that Fund should not earn interest at a rate higher than 5½ per cent.

So long as the rate of dividend does not exceed the interest rate, the balances in the other four Funds should carry interest only at the dividend rates, without any further adjustment on account of any difference between the dividend rate and the interest rate.”

10. In this regard, the Ministry of Railways have submitted that

“the subject matters of revision of the existing dividend rate can more appropriately be considered by the Railway Convention Committee (1980) after the detailed Memoranda containing the views of the Government in this matter are submitted to them. Any adjustments that may

be required to be made in regard to payment of dividend etc. to General Revenues in accordance with the recommendations of the Railway Convention Committee, for the Sixth Plan Period can be carried out during the remaining years of the Sixth Plan. For the limited purpose of framing the Budget for 1981-82, the Committee may kindly agree to the continuance of the basis adopted for formulating the Budget for 1980-81 for the ensuing Budget 1981-82, pending their final recommendations for the Sixth Plan Period as a whole i.e., for the period 1980—85”

11. The Railway Convention Committee (1977) had, in paragraph 94 of their Fifth Report, recommended contribution of Rs. 200 crores to the Depreciation Reserve Fund during 1979-80. The Railway Budget for the year 1980-81 approved by Parliament made a provision of Rs. 220 crores for contribution to this Fund during that year.

12. Highlighting the need for contribution to Depreciation Reserve Fund on a substantially larger scale, the Ministry of Railways have in their Interim Memorandum stated:—

“As regards contribution to Depreciation Reserve Fund, it is estimated that to catch up with the arrears in renewals and replacements to some significant extent, Railways would have to spend around Rs. 2500 crores during the Sixth Plan Period. Recently, provision for depreciation has been a subject of detailed examination by the Railway Tariff Enquiry Committee. They have recommended that contribution to Depreciation Reserve Fund should be made at 4.7 per cent of the wasting assets in the Block Account.....Since the subject is to receive detailed attention by Railway Convention Committee, 1980, it will be some time before finality is reached about the provision of depreciation to be credited to Depreciation Reserve Fund annually in the Sixth Five Year Plan Period. On account of the heavy backlog in the replacement of assets viz. rolling stock, track, bridges and plant and machinery, it is essential to provide adequate resources for this purpose. As against an expenditure of Rs. 480 crores during the Fifth Plan (1974—78), it is proposed to spend Rs. 2500 crores during the Sixth Five Year Plan, which essentially would be a rehabilitation Plan. Out of this Rs. 220 crores have been provided through the Budget

for 1980-81, leaving a balance of Rs. 2280 crores to be raised through the subsequent four years; in other words, an average of Rs. 570 crores per annum will have to be raised. Under these circumstances, it has been proposed to step up the contribution of Rs. 220 crores to Depreciation Reserve Fund made in the Budget 1980-81 to Rs. 350 crores provisionally in the budget of 1981-82 to take care of the immediate needs. If for any reason the Railways are not in a position to generate enough revenue to pay even the interest on the capital at charge during the year, in full, this amount of contribution may have to be suitably reduced."

13. In the absence of the detailed memoranda promised by the Ministry of Railways, the Committee are unable to formulate their views in regard to the Rate of Dividend payable by the Railway Undertaking to the General Revenues and other Ancillary Matters. Pending their final recommendations covering the Sixth Five Year Plan Period (1980—85) as a whole and subject to such adjustments in the remaining years of the Sixth Plan as may be necessary in the light of these final recommendations, the Committee have no objection to the recommendations of the Railway Convention Committee (1977) for 1979-80 being generally made applicable to the years 1980-81 and 1981-82.

14. The Committee propose to examine in depth the subject of allocation to the Depreciation Reserve Fund. Pending their final recommendations on this matter covering the Sixth Five Year Plan Period (1980—85) as a whole and subject to such adjustments in the remaining years of the Sixth Plan as may be necessary in the light of these final recommendations, the Committee have no objection to the allocation of Rs. 220 crores and Rs. 350 crores to the Depreciation Reserve Fund for the years 1980-81 and 1981-82 respectively.

NEW DELHI;
February 24, 1981
Phalgun 5, 1902 (S)

D. L. BAITHA,
Chairman,
Railway Convention Committee.

APPENDIX

APPENDIX

(Vide para 3 of Introduction)

Summary of Recommendations/Observations

Sl. No.	Reference to para of Report	Recommendations/Observations
1	2	3
1.	13	In the absence of the detailed memoranda promised by the Ministry of Railways, the Committee are unable to formulate their views in regard to the Rate of Dividend payable by the Railway Undertaking to the General Revenues and other Ancillary Matters. Pending their final recommendations covering the Sixth Five Year Plan Period (1980-85) as a whole and subject to such adjustments in the remaining years of the Sixth Plan as may necessary in the light of these final recommendations, the Committee have no objection to the recommendations of the Railway Convention Committee (1977) for 1979-80 being generally made applicable to the years 1980-81 and 1981-82.
2.	14	The Committee propose to examine in depth the subject of allocation to the Depreciation Reserve Fund. Pending their final recommendations on this matter covering the Sixth Five Year Plan Period (1980-85) as a whole and subject to such adjustments in the remaining years of the Sixth Plan as may be necessary in the light of these final recommendations, the Committee have no objection to the allocation of Rs. 220 crores and Rs. 350 crores to the Depreciation Reserve Fund for the years 1980-81 and 1981-82 respectively.