R. C. C. No. 33

RAILWAY CONVENTION COMMITTEE (1980)

(SEVENTH LOK SABHA)

FOURTH REPORT

Rate of Dividend for 1982-83 and other Ancillar Matters

Presented in Lok Sabha on 19 FEB 1982
Laid in Rajya Sabha on 19

LOK SABHA SECRETARIAT
NEW DELHI

February, 1982/Magha, 1903 (Saka)

Price : Rs. 2.80 P.

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RAILWAY CONVENTION COMMITTEE
(1980)

Shri D. L. Baitha—*Chairman.*

MEMBERS

Lok Sabha

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3. Shri K. Mayathevar
4. Shri Arun Kumar Nehru
5. Dr. Vasant Kumar Pandit
6. Shri Chintamani Panigrahi
7. Prof. Narain Chand Parashar
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*10. Vacant

@11. Vacant

@12. Vacant

Rajya Sabha

13. Shri Sadashive Bagaitker
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15. Shri Ram Lakhan Prasad Gupta
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18. Shri Santosh Kumar Sahu

SECRETARIAT

Shri H. G. Paranjpe—*Joint Secretary.*

Shri Bipin Behari—*Senior Financial Committee Officer.*

**Vice* Shri Jyotirmoy Bosu died on 12-1-1982.

@ Resigned from Membership of the Committee w.e.f. 2-2-1982.

INTRODUCTION

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

2. The Fifth Report of the Railway Convention Committee (1977) was presented to both Houses of Parliament on the 19 February, 1979 and was adopted by Lok Sabha and Rajya Sabha on the 19 and 27 March, 1979, respectively. It contained recommendations regarding the Rate of Dividend payable by the Railway Undertaking to the General Revenues and other Ancillary Matters for the financial years 1978-79 and 1979-80. These were adopted by Lok Sabha on the 19 March and by the Rajya Sabha on 27 March, 1979. A statement showing the Action Taken by Government on the various recommendations contained in the Fifth Report of Railway Convention Committee (1977), is given in Appendix I.

3. The First Report of the Railway Convention Committee, 1980 which was presented to both the Houses of Parliament on the 25 February, 1981 contained recommendations with regard to the Rate of Dividend payable by the Railways to the General Revenues and other Ancillary Matters for the years 1980-81 and 1981-82. The recommendations contained in this Report were adopted by Lok Sabha and Rajya Sabha on the 17 and 24 March, 1981, respectively. A statement showing the Action Taken by Government on the recommendations contained in this Report is given in Appendix II.

4. The Ministry of Railways had submitted to the Committee the Second Interim Memorandum regarding the Rate of Dividend payable by the Railway Undertaking to the General Revenues during the year 1982-83 and other Ancillary Matters on 19 January, 1982.

5. The Committee took evidence of the representatives of the Ministry of Railways on the 6 February, 1982 on the proposals contained in the Second Interim Memorandum and other Ancillary Matters.

6. The Committee considered and adopted the Report at their Sitting held on the 12 February, 1982.

7. The Committee wish to express their thanks to the Ministry of Railways for placing before them the material and information they desire in connection with the subject and to the Chairman, Railway Board, the Financial Commissioner, Railways and other Officers of the Ministry who gave evidence before the Committee.

8. The Minutes of the Sitting of the Committee held on the 27 January, 6 and 12 February, 1982 form Part II of the Report and are being presented alongwith the Report.

9. The statement showing the summary of the recommendations of the Committee is in Appendix III.

NEW DELHI;
February 12, 1982
Magha 23, 1903 *(Saka)*

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

REPORT

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."

2. The Committee have selected some subjects* having a close bearing on the finances of the Railways for examination and report in a phased manner.

3. The Ministry of Railways had, in an Interim Memorandum furnished to the Committee on the 30th January, 1981, pleaded that they would take time to submit memoranda to the Committee on all the subjects selected by the Committee and had submitted that "in view of the fact that the final recommendations of the Committee may not become 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".

4. Accordingly, the Railway Convention Committee (1980) had, in their First Report presented to the Houses of Parliament in February, 1981, observed that "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".

5. The concessions agreed to by the Railway Convention Committee (1977) for the year 1979-80 which were provisionally made

*RCC (1980) I.R. PARA 5.

applicable to the years 1980-81 and 1981-82 with the agreement of the Railway Convention Committee (1980) are summarised below:

I. The following elements of capital are fully exempted from payment of dividend:—

(a) Strategic Lines

(b) 28 New Lines (detailed in Annexure 11 to the Report of the Expert Group on the Capital Structure of Indian Railways—October, 1978) taken up on or after 1-4-1955 on other than financial considerations; dividend becomes payable if any line becoming remunerative adopting the marginal-cost principle. The arrangement to be applied also to the two National Investments *viz.*, Jammu-Kathua & Tirunelveli-Kanyakumari-Trivandrum Lines as recommended in para 59 of the Committee's 3rd Report (September, 1981).

(c) North-east Frontier Railway (non-strategic portion).

(d) Unremunerative Branch Lines—the exemption of a particular unremunerative branch line from payment of dividend on capital being based on annual review of the unremunerativeness of the line, and the unremunerativeness determined adopting the marginal-cost principle.

(e) Ore lines (full capital outlay on Bimalgarh-Kiriburu line and 50% of the capital outlay on Sambalpur-Titlagarh line).

(f) Ferries and welfare buildings.

(g) 50% of capital on works-in-progress other than those pertaining to strategic lines, North-east Frontier Railway (Commercial), Ore Lines, Jammu-Kathua & Tirunelveli-Kanyakumari-Trivandrum lines, new lines, P & T wires, ferries, welfare buildings, for a period of 3 years.

II. A concessional dividend of 3.5% is payable on the capital cost of residential buildings.

I (a) RCC (1977), 5R, Para 88. 1 read with the Para 88. 2(i)
(b) Ibid, Paras 71 and 73 and RCC (1980) 3R Para 59.
(c) RCC (1977), 5R, Para 61.
(d) RCC (1977), 5R, Para 61.
(e) Ibid, Para 88·1.
(f) Ibid, Paras 78 & 81.
(g) Ibid, Para 88·2 (iv).
II RCC (1977) 5R, Para 87

III. New Lines other than those mentioned at I(b) above:

Dividend payable on capital of such lines at the average borrowing rate of interest is deferred during the period of construction and the first 5 years after opening of the line for traffic. The deferred liability is to be paid out of the future surpluses of the line after payment of current dividend. The account of deferred dividend on new lines will be closed after a period of 20 years from the date of their opening, extinguishing any liability liquidated within that period.

IV. Losses in the working of strategic lines are borne by the General Revenues. Earnings of such lines, if any, after meeting working expenses, depreciation and other charges are paid to General Revenues to the level of normal dividend.

V. Shortfalls, if any, in the payment of dividend on account of inadequacy of surplus are treated as a deferred liability on which no interest is charged.

6. In their Second Interim Memorandum furnished to the Committee on 19th January, 1982, the Ministry of Railways have submitted that the preparation of memoranda on the subject of Review of the Rate of Dividend Payable by the Railways to General Revenues and certain other related matters "has been taken on hand recently" as memorandum on Tentative Forecast of the Financial Prospects of the Railways during the Sixth Plan period (1980—85) "has recently been cleared by the Ministry of Finance". They have further stated:

> "The work in connection with framing of the Railway Budget for 1982-83 will be taken on hand very soon. In view of the position explained in the foregoing paragraphs, it may not be possible to finalise all the memoranda dealing with the financial subjects in consultation with the Ministry of Finance before presentation of the Railway Budget for 1982-83 in February 1982. Even if the memoranda on these financial subjects could be finalised, the Railway Convention Committee would need sufficient time for their deliberations and may not be able to crystallise their recommendations well before February, 1982".

7. The Ministry of Railways have, accordingly submitted for the consideration of the Convention Committee whether, pending

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III. Ibid, Para 88·2 (iii).
IV. RCC(1977) 5R, para 88.2(i).
V. Ibid, Para 103.

their final recommendation, the recommendations which were the basis for the preparation of the Budget for 1981-82, may generally be made applicable for the year 1982-83 also, subject to the changes proposed in paras 6 and 7 of the memorandum (dealt with in succeeding paragraphs).

Depreciation Reserve Fund

8. In the second Interim Memorandum, the Ministry of Railways have, while proposing a contribution to the Depreciation Reserve Fund for 1982-83 of Rs. 500 crores, stated:—

> "The need for contribution to DRF on a substantially larger scale has already been highlighted by the Ministry of Railways in their Interim Memorandum submitted earlier*. The detailed Memorandum on this subject is likely to be finalised soon in consultation with the Ministry of Finance. Over the Plan period, as a whole, a total appropriation of Rs. 2100 crores to DRF is envisaged. An appropriation of Rs. 350 crores will be provided in 1981-82 to take care of the immediate needs. This was approved by the Railway Convention Committee, 1980**. The Railways look upon the Sixth Plan as a "Rehabilitation Plan" and the investments during the Plan period are being directed principally to pull up the backlog in rehabilitation/renewal of the overaged rolling stock and track which is an inescapable necessity in the long term interests of the Railways.
>
> Appropriation to DRF cumulatively in the first two years of the Plan has been of the order of only Rs. 570 crores against the projected annual average of Rs. 420 crores or Rs. 840 crores for these two years. This shortfall of Rs. 270 crores has necessarily to be made up during the remaining three years of the Sixth Plan. In the circumstances, it is proposed to step up the contribution to DRF to Rs. 500 crores in the Railway Budget for 1982-83. This would still leave a balance of Rs. 1030 crores to be appropriated to the fund during the last two years of the Plan *viz*. 1983-84 and 1984-85".

Temporary Borrowings from General Revenuas

9. According to the present practice, when the balance in the Development Fund is inadequate to meet the expenditure chargeable to that Fund, the Railways temporarily borrow from general

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*of para 12 of First Report of RCC (1980)

**of para 14 Ibid.

revenues. The interest on such loans taken on or after 1.4.1978 as also the loan outstanding as on that date is charged at the rate applicable to loans given to State Governments (currently 6.25% with a rebate of 0.25% for prompt repayment). The Ministry of Railways have desired that the Committee might agree to this arrangement being continued.

It may be mentioned that the Railway Convention Committee, 1977 had, in paragraph 110 of their Fifth Report presented to the Houses of Parliament in February, 1979, already recommended the continuance of this arrangement.

Pension Fund

10. The Ministry of Railways have also proposed that "having regard to the increasing withdrawals from the Pension Fund from year to year", a higher contribution of Rs. 150 crores may be made to the Pension Fund for 1982-83.

11. The position in regard to Railway Pension Fund during the last 5 years has been as follows:

(Figures in crores of Ruppes)

Year	Appropriations to the Fund from Revenue	Total Appropriation from all sources	Withdrawal from the Fund	Closing Balance
1977-78 . .	40	57·04	50·35	216·34
1978-79 .	50	70·41	62·96	241·52
1979-80 .	65	94·77	75·35	291·17
1980-81 (RE) .	85	120·57	92·86	323·17
1981-82 (BE) .	100	122·10	98·70	346·57

(Source: Explanatory Memorandum on the Railway Budget 1981-82, p. 95)

12. It is observed from the above Table that the contribution to the Pension Fund proposed for the year 1982-83 is sizeably larger than the contribution in the previous years and is hardly justified by the rate of increase in the annual withdrawals from the Fund. Besides, in the Memorandum on "Tentative forecasts during the Sixth Plan period (1980—85)" submitted by the Ministry of Railways to the Committee on January 7, 1982, the Ministry had themselves projected the increase in the contribution to the Pension Fund from Rs. 84 crores in 1980-81 to Rs. 143 crores in 1984-85.

13. It is further observed that the Comptroller and Auditor General of India has in Paragraph 4.3 (iv) of his Report on Union Government (Railways) for the year 1979-80, pointed out that "Constituted to provide for pensionary liabilities in respect of Railway employees, this Fund was to be funded on the basis of actuarial calculations......(and that) there has been no post-1974 actuarial calculation despite substantial liberalisations of the pension scheme in recent years."

14. The Ministry of Railways were therefore, on January 21, 1982, asked to indicate in details the reasons for proposing allocation to Pension Fund at a rate higher than what was *prima facie* justified. They were also asked to state the action taken in pursuance of the observations of the C&AG mentioned above. In a written note furnished to the Committee on January 25, 1982 the Ministry of Railways have stated as follows:

> "The Pension Scheme was introduced on Indian Railways in November, 1957 and all staff appointed after the nominated date are compulsorily covered by the Pension Rules. Those who joined prior to that date have been given the option to opt for the pension rules and a large number of them have done so. At the end of 1977-78, over 11 lakhs railway employees were covered by the Pension Scheme. Upto 1964, pension payments were shown as an item of working expenses according to the actual disbursement of that year. In that year, however, a separate Pension Fund was created. The rationale behind establishing this Fund is explained in the following extract taken from the memorandum submitted by the then Additional Member, Finance in January, 1964 to ADAI (Rlys.) for introduction of a new Demand for Pension Fund.
>
> '2. There has since been an important development due to the substantial liberalisation of the Family Pension Scheme for Central Government servants...... A fresh opportunity is, therefore, being given to Railway Staff to opt for pension. The impact of this on Railway finances is expected to be substantial. Pensions paid now to the relatively few railway servants who retired on the pension scheme, were being charged currently in the accounts of the year in which they were paid, in the same way that Government contribution to the Provident Fund accounts of non-pensionable railway servants is being charged to railway revenues from year to year. But if, as is expected, the improvements in the provision

for family pension and the increases in pension for lower paid staff result in much larger numbers of pre-1957 Railway staff opting for pension, not only will the amount payable as pension from 1964-65 onwards increase, but there will be substantial variations in the amount from year to year for the next 30 or 40 years before the burden of pensions stabilises when the new entrants from November, 1957 retire after some thirty years from now. Non-Railway departments, whose employees unlike Railway-men have always been pensionable, are in a different position, and the burden of pensions paid by them from year to year is not likely to vary as widely. In order that the Railways' revenues may not suffer from heavy fluctuations on this account, it has been decided to set up a Pension Fund, to which contributions will be made from Railway revenues every year. Such a measure is essential for the Railways as a commercial undertaking as the cost of staff each year should continue to reflect not only the amount paid but also the potential cumulative liability for the pension benefits earned by each year of service. It is desirable, therefore, that the burden of the expenditure should be evened out from year to year'.

(ii) On the basis of the sample data of staff analysed by the Government Actuary in 1964, it was suggested that a contribution of about Rs. 29 crores per annum exclusive of interest on balance in the fund should be made towards the Pension Fund to build adequate resource for meeting future pensionary liability of the Railways. The actual contributions to the fund during the period 1964—70 were, however, much less as can be seen from the following figures:

(Ruppes in crores)

Year	Annual contribution (excluding interest on balance)
1964-65	14·97
1965-66	12·79
1966-67	20·13
1967-68	10·83
1968-69	15·03
1969-70	12·43
1970-71	16·37
1971-72	12·37
1972-73	21·67
1973-74	17·89
1974-75	20·31
Average	15·89

A revised actuarial assessment was made by the Controller of Insurance in 1974 and they recommended as under:—

(a) The Pension Fund should be self-sustaining. For this purpose it should have a balance of nearly Rs. 332 crores as on 3-2-70 in order to meet anticipated future pensionary liability in respect of railway pensionable employees as on that date.

(b) An annual contribution should be made to the fund at the rate of 13.7 per cent of the salaries and allowances counted towards pension of the pensionable employees.

(iii) Owing to the unsatisfactory financial position it was not feasible to contribute to the Fund to the extent recommended by the first Actuary. The shortfall in the Fund balances would not have been so substantial if contributions of the order of Rs. 29 crores per annum had been made upto 1974-75 the year when report of the second Actuary became available. In fact, the balance as on 31-3-1975 would then have been Rs. 231 crores excluding interest on balance against actual balance of nearly Rs. 160 crores including Rs. 38 crores as interest on balance. The desired balance on 31-3-75 as per second Actuary's recommendation was to be Rs. 469 crores.

(iv) The contributions to Pension Fund after receipt of the second Actuarial Report have been as follows:

Year	Annual Contribution on the basis suggested by Actuary @ 13·7% of pay	Annual contributions made/ proposed (excluding interest on Balance)	Withdrawal from Fund
1975-76	40·52	30·53	30·10
1976-77	46·44	39·71	40·25
1977-78	47·26	45·64	50·35
1978-79	61·59	57·39	62·96
1979-80	67·19	78·85	75·35
1980-81	73·30	98·26	105·57
1981-82	81·34	101·80	125·00
1982-83 (Proposed)	*	150·00	135·00

*Not readily available.

(v) The actual closing balance in the Fund at the end of 1980-81 was Rs. 333.75 crores while the balance should have stood at Rs. 536 crores according to actuarial calculations. Thus the Fund stands short contributed to the extent of about Rs. 203 crores. Even this shortfall appears to be substantially under-estimated because of the following factors which have intervened between the calculations made by the Government Actuary in 1974 and the position obtaining now:

(a) Liberalisation in pension rates.

(b) Treatment of portion of DA as pay for pensionary benefits.

(c) Increase in the emoluments of railway employees consequent upon upgradation and restructuring of cadres;

(d) Increase in the number of pension optees;

(e) Increased payments of additional pension relief due to increases in the consumer price index.

(vi) The Rail Tariff Enquiry Committee in their report have also commented on the inadequacy of contribution to the Pension Fund. In the context of the recommendations of RETC the issue of fresh actuarial evaluation for making contribution to the Pension Fund has been referred to the Ministry of Finance, Insurance Division and their revised formula is awaited.

(vii) Controller & Auditor General of India, in para 4(iv) of his report on Railways for the year 1979-80 has pointed out as under:—

"Pension Fund constituted to provide for pensionary liabilities in respect of Railway employees was to be funded on the basis of actuarial calculations. According to the second actuarial assessment made available in December, 1974 based on the statistics of staff etc., in 1969-70 the Pension Fund should have had a minimum balance of Rs. 332 crores at the end of 31st March, 1970 and received annual contribution at the rate of 13.7 per cent of the emoluments qualifying for pension of the pensionable staff against which the actual balance was Rs. 160 crores even at the end of 1974-75. The annual contributions were also short of the above stipulation. While the balance in Pension Fund improved to Rs. 291 crores at the end of 1979-80, there has been no post-1974 actuarial calculation despite substantial liberalisations of the pension scheme in recent years."

(viii) By way of corrective|remedial action taken on the above, Railway Ministry has explained as under:—

"The issue of fresh actuarial evaluation for making contributions to Pension Fund in the context of liberalisation of the Pension Scheme has been referred to the Controller of Insurance, Simla. Pending finalisation of this valuation, contribution to the fund has been stepped up keeping in view the anticipated withdrawals from the Fund and the overall resources position of the Railways."

Pending finalisation of the actuarial evaluation and keeping in view the anticipated increased withdrawals from the Fund, the contribution to the Fund has been stepped up.

(ix) To sum up, it will be observed from the above that over the years, the annual contribution to the Fund (excluding interest on balances) has fallen short of the suggested contribution based on actuarial evaluation. This has resulted in growing gap between the actual balance in the Fund and the required balance to meet "potential cumulative liability" based on actuarial advice. Apart from this, it is also seen that the earlier actuarial evaluation itself has become out-of-date due to various changes that have taken place in regard to liberalisation of pension rules, increase in number of pension optees, treatment of a portion of D.A. as pay for purpose of pensionary benefits, increases in D.A. due to rise in consumer price index, etc.

(x) In 1980-81, the actual withdrawal from the Fund was of the order of Rs. 105.57 crores against an appropriation of Rs. 98.26 crores. In 1981-82, the withdrawal is expected to be of the order of Rs. 125.00 crores against an appropriation of Rs. 101.80 crores. Similarly, in the budget year 1982-83, against the proposed contribution of Rs. 150 crores to the Fund, withdrawals are likely to be around Rs. 135.00 crores. Thus the net difference between the annual contribution and withdrawal is marginal.

(xi) With reference to para 3 of the Office Memorandum No. 12|3|RCC-80 dated 21-1-82, it is clarified that the figure of "Total Appropriation from all sources" shown therein includes interest on balances in the Pension Fund apart from the write-back adjustments of Railways' contribution to the Provident Fund in the case of new optees. In view of the increasing annual withdrawal from the Fund as also the "potential cumulative liability", the rate of direct contribution to the Fund from Revenue (and Capital in the case of Production Units) exclusive of the other two elements, viz., interest and write-back adjustments, is required to be stepped up. The desired balance in the Fund should have been Rs. 469 crores even as on 31st March, 1975 [vide para (iii) above]. As against this, the balance, based on 1981-82 (Budget) was anticipated as Rs. 346.57

crores. Based on latest estimates, which indicate that withdrawals may increase to Rs. 125 crores in 1981-82 [*vide* para (iv)], the closing balance is likely to be lower than even Rs. 346.57 crores.

(xii) With reference to para 4 of the above office Memorandum, it is stated that the proposed appropriation of Rs. 150 crores to the Pension Fund is based on the latest available data in regard to annual expenditure for 1982-83 and also keeping in view the "potential cumulative liability". With the increase in annual withdrawals necessitated, among other things, by increases in Dearness Allowance etc. and the growing "potential cumulative liability" of the fund, it has been found necessary to increase the direct contribution from Revenue. The projections made in the Memorandum on Tentative Forecasts were on the basis of "Constant" prices and as already brought out in para 10.2 and 10.3 of the Memorandum the calculations would vary from time to time with reference to variations in the prices and fares and freights etc."

15. During evidence, the representative of the Ministry of Railways was asked to indicate the reasons for submitting the Second Interim Memorandum on the Rate of Dividend payable by the Railways during 1982-83 so late (19.1.1982) as to leave little time for the Committee to consider the matter in detail. Besides, it was pointed out, the Committee was being called upon to consider the question of payment of dividend in an *ad hoc* manner which was undesirable. The Financial Commissioner, Railways in reply stated:

> "The Sixth Plan was finalized in January 1981. After that, we made our projections for the Sixth Plan as a whole. This was sent to the Finance Ministry. Then there was a good deal of discussion between the Finance Ministry and the Railway Ministry and it was only in October 1981 that we could come to some agreed conclusion as to what would be the capability of the railways by the end of the Plan period, how much traffic they would be able to carry, what would be the wagon turn-round, what would be the net tonne km. and so on. In October we sent our memorandum. But the Finance Ministry took some time over it. It was only in December that they could return it to us with their comments. In the meanwhile, we kept on reminding them. It is only towards the end of December they sent it. On the 7th February we gave memoranda on the tentative forecast for the Sixth Plan as a whole....

I was hoping that we would be able to send the final memorandum on dividend in good time, rather than giving an interim memorandum. But the main memorandum on the Sixth Plan got delayed. So, I had no alternative, except to request the Committee to allow us to continue the existing arrangement for one more year, subject to any adjustment which can be made on the recommendations of the Committee, after the receipt and consideration of the memorandum".

16. The Sixth Five Year Plan for the Railways was finalised in January, 1981. Although, the Ministry of Railways were then aware of the resources available for the Plan period, it took them nearly ten months to work out and prepare the tentative forecasts of the financial prospects of the Railways during the Sixth Plan Period. The Committee are unhappy over this delay on the part of the Ministry of Railways.

17. The Ministry of Railways should have known in October-November, 1981 that it would not be possible for them to submit to this Committee before the presentation of the Railway Budget for 1982-83 their final memorandum on payment of Dividend by the Railways for the Sixth Five Year Plan Period as a whole. However, it was only in the middle of January this year (1982) that they could send their Second Interim Memorandum containing their suggestion in regard to the payment of Dividend for the year 1982-83. This left little time for the Committee to properly consider the Memorandum and submit a report to Parliament well before the presentation of the Railway Budget. The Committee recall that last year also the Interim Memorandum was received very late and they were obliged to face a similar situation. The Committee regret this lapse on the part of the Ministry of Railways and hope that it would not be repeated hereafter.

18. The Committee have no objection to Dividend being paid by the Railways during 1982-83 at the Rates and with the conditions and concessions recommended by the Railway Convention Committee (1977) for the year 1979-80 in their Fifth Report to Parliament and adopted by the Lok Sabha and Rajya Sabha on the 19th and 27th March, 1979 respectively, subject to the following special provision for the year 1982-83, namely:

(a) the contribution to the Depreciation Reserve Fund and Pension Fund during 1982-83 may be Rs. 500 crores and Rs. 150 crores respectively;

(b) in the case of temporary borrowings from the General Revenues for meeting the expenditure chargeable to Development Fund the rate of interest may continue to be the same, as recommended by the RCC (1977) in paragraph 110 of their Fifth Report, namely, "the rate applicable to loans given to State Governments" (currently 6.25 per cent with a rebate of 0.25 per cent for prompt payment); and

(c) the Rate of Dividend, conditions and concessions and the rates of contribution to DRF and PF hereby made applicable to the year 1982-83 are of an interim nature and subject to such alterations as may be recommended by the Committee in their final report for the Sixth Five Year Plan period (1980-85) as a whole.

NEW DELHI;
February 12, 1982
Magha 23, 1903 (*Saka*)

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

APPENDIX I

[*Vide* para 2 of Introduction]

Statement showing the action taken by Government on the recommendations contained in the Fifth Report of Railway Convention Committee, 1977—Rate of Dividend for 1978-79 and 1979-80 and other Ancillary Matters

Sl. No.	Recommendations/Observations	Action taken by Government
(1)	(2)	(3)
1.	The Committee are unable to go into the performance of the Railways, both physical and financial, during the Fifth Five Year Plan (1974—78) in the absence of the review which was promised to be furnished by the Ministry of Railways. As regards the Sixth Plan the Plan outlay and the projections of traffic are yet to be finalised and what is available before the Committee is only a tentative financial forecast based on the existing levels of fares and freight and	Noted. However, with the revision in the fares and freight in the Budget for 1979-80, it is now estimated that the Railways will earn a net profit of about Rs. 300 crores during the Sixth Plan period. But for the Indian Railways, having to bear social burdens to the tune of Rs. 174 crores per year, the Railway finances would have been in a much better position.

the projection which take into account only the performance targets initially envisaged in the formulation of the Sixth Five Year Plan of the Railways. These targets are stated to be under reassessment.

In view of the above limitations from which the Sixth Plan financial forecasts suffer, the Committee would not like to go into details at this stage. However the tentative estimates show that at the current level of fares and freight, the Railways would be incurring deficits from the third year onwards of the Sixth Plan of the order of Rs. 8 crores in 1980-81, Rs. 29 crores in 1981-82 and Rs. 47 crores in 1982-83 even after taking into account the various reliefs granted earlier and the additional reliefs proposed in the interim Memorandum. The Committee have discussed the fresh proposals in the succeeding paragraphs. The emerging picture is indeed quite disturbing and is indicative of the fact that the Railways finances are still in a delicate stage contrary to what the surpluses earned during the last few years might suggest. This, the Committee consider, points to the fact that the Railways, inspite of carrying a huge investment amounting to Rs. 5372 crores as on 31-3-1978 and inspite of their operations spreading over a period of 125 years, are still not organised in a manner they could be looked upon as a sound pulic enterprise which is economical yviable and self-generating in resources that could be adequate to sustain the growth of the system so as to keep pace with the demands of a developing economy such as ours.

2. The Committee are well aware that the Railways do carry certain social burdens arising out of a few uneconomic services and also of the more familiar explanation of the Railways

The report submitted by the Committee on Social Burdens is under consideration of the Government and a Memorandum in regard to the various

(1)	(2)	(3)
	that the fares and freight are not fully aligned to the costs of operation. The Committee would deal with the question of social burdens when the Memorandum on this subject is received from the Railways. As regards fares and freight, a Committee known as Rail Tariff Enquiry Committee is already examining the matter.	recommendations of the Committee is currently under preparation for submission to the Board and the Minister for Railways, with a view to obtain their approval to the acceptance of the recommendations made by the Committee on Social Burdens. In reply to the further information sought, the Ministry of Railways have stated : (1) The Rail Tariff Enquiry Committee was appointed on 19th September, 1977. The High Level Committee on Social Burdens on Indian Railways was appointed on 11th January, 1978 in pursuance of Recommendation No. 20 (Para 2.68) of the 9th Report of the Railway Convention Committee, 1973 on 'Social Burdens on Indian Railways.' (2) The Rail Traiff Enquiry Committe presented its Interim Report on 27-11-1978, Main Report on 21-4-1980 and Final Report on 29-6-1980. The High Level Committee on 'Social Burdens on Indian Railways' presented its report to the Government in January, 1979.

(3) The Intrim Report of the Rail Tariff Enquiry Committee was laid on the Table of the Lok Sabha along with the Railway's Budget for 1979-80. A summary of its Main Report was also laid on the table of the House along with the Railway Budget for 1980-81 on 16-6-1980. Copies of the Main Report have also been kept in the Library of the Lok Sabha. The detailed Main Report and the Final Report are presently under print and will be laid on the Table of the Lok Sabha & Rajya Sabha as soon as printed copies are available.

Copies of the Report of the High Level Committee on Social Burdens have also been kept in the Library of the Lok Sabha.

(4) The examination of the Main and Final Reports of the Rail Tariff Enquiry Committee vis-a-vis that of the Report of the Committee on Social Burdens on Indian Railways has not yet been completed because of the following factors :—

(i) The recommendations dealing with the main issue of fare and freight structures call for careful detailed examination in view of far reaching implications on the national economy.

(ii) The reports are voluminous and require cross reference to other reports, like that of the National Transport Policy Committee.

Incidentally, it may be mentioned that the recommendations of the Committee on Social Burdens on Indian

(1)	(2)	(3)
		Railways were considered by Government and it was decided to forward the report of this Committee to the Rail Tariff Enquiry Committee which had been entrusted with the task of restructuring the freight and fare system on the Indian Railways in keeping with the objectives of financial viability, operational efficiency and development of the economy. As both, the Committee on Social Burdens on Indian Railways and the Rail Tariff Enquiry Committee, essentially covered similar grounds, it was thought necessary to obtain the considered views of the Rail Tariff Enquiry Committee before taking decisions on the various recommendations of the Committee on Social Burdens. Accordingly, the Report presented to the Government by the Committee on Social Burdens on Indian Railways was forwarded to the Rail Tariff Enquiry Committee for consideration on 9-11-1979. The Rail Tariff Enquiry Committee have considered the recommendations of the Committee on Social Burdens on Indian Railways while formulating their Main and Final Reports, as would be observed from para 6.144 of their Main Report reproduced below :— "6.144. In this connection, one of the points that is frequently mentioned is regarding the social burdens

which the Railways have to carry. It may be recalled that the Government had appointed a Committee to examine this matter. The Committee's Report which was submitted in January, 1979 has been referred to us for consideration. We have studied this Report and taken into consideration the facts mentioned in it, and the views expressed by the majority in the Committee as well as by some individual members. As we have stated in Chapter II, we do not agree that some of the so called social burdens are in any way special to the Railways and that any special consideration needs to be shown to them on that account. This is broadly in keeping with what that Committee had recommended. Regarding the Committee's view that where the Railways were carrying certain goods below cost, the freight Rates should be suitably enhanced, we have taken note of this matter and, in recommending our freight rates structure, attempted to ensure that no commodities are carried below their direct costs. A certain degree of cross subsidisation among commodities, from the point of view of their contribution to surpluses to be made by the Railways, is inevitable in a public utility organisation. On the passenger side, in making our recommendations regarding suburban fares and season tickets we have taken into account the views expressed by that Committee. Broadly, the recommendations made by us are in line with the approach taken by that Committee. The views expressed by the Committee on various kinds of concessions to persons

(1)	(2)	(3)
		have been kept in view by us when making our recommendations. It will thus be seen that in most matters relating to the fare and freight structure and the overall financial policy to be pursued by the Railways, the Committee has given thought to the recommendations made by the Committee on Social Burdens; and we find that, in many respects, the recommendations that we are making are similar in the view taken by that Committee, There are some aspects of the work of the Railways such as the question of uneconomic branch lines, charges for military and postal traffic, and miscellaneous services such as ferries which our Committee will deal with in the Final Report. The various views expressed by the Committee on Social Burdens on these and related matters will also be considered by our Committee at that time." It is difficult to indicate a definite time frame within which the report of Rail Tariff Enquiry Committee would be examined and Government orders on the various recommendations would be obtained. Sustained efforts are, however, being made for early completion of this work. [Ministry of Railways OM No. 78-B (RCC) 4202 dated 27-1-1981]
3	The future of Indian economy is closely linked with the development of Railways and a great responsibility lies on the	The Government are aware of the importance of the role of the railways in the economic development

	Railways in the economic resurgence of the country. The Railways have a key role to play in this effort and, therefore, they should organise the management in such a way that they stand out as a model of efficiency, economy and dedication in the service of the nation. This is possible only if the top echelons of management are constantly at the task of better management of the Railways through modernisation, cutting out waste, generating a sense of cost consciousness at all levels, etc. rather than allow themselves to be tied down to the routine of day-to-day administration. The Committee trust that the warning signals given by the tentative financial forecast (for the Sixth Plan Period) would act as a spur for better and more sustained effort in the years to come so that the gains of the last few years are consolidated and the Railways are able to play their due role as a catalyst for the economic develoopment of the country.	of the country and the managerial asksi nvolved. Constant endeavours are being made to make the Railway working smooth and to instil a sense of cost consciousness at various levels. With a view to improving the financial position, a number of steps including introduction of Reviseda ccounting classification (with effect from 1-4-1979), performance budgetting, etc. have been taken.
4	The Committee observe that it has taken nearly six years for the Ministry of Railways to take conclusive action on the recommendation made by the Railway Convention Committee, 1971 with regard to the question of revamping the Capital structure of the Railways. Now that the matter has been gone into in depth by two expert bodies during this period, the Committee trust that speedy action will be taken by the Ministries of Finance and Railways to formulate specific proposals on such of the recommenidations of the Expert Group on Capital Structure as are still under consideration.	The observation of the Committee are noted for expeditious action. In reply to the further information sought, the Ministry of Rlys stated: The latest position regarding action taken on the recommendations of the Expert Group is given in the statement enclosed (Anenexure—1). It will be observed the refrom that action in respect of most of the items has been completed and for the remaining the matter is under consideration. [Ministry of Rlys. (RCC.)—4202, dt. 9-11-1979.] O.M. No. 78—B

(1)	(2)	(3)
5	The Committee observe from the statement given in para 22 of Report that the element of contribution in the annual dividend paid by the Railways (as distinct from the interest component) has been going down steadily from the year 1969-70. The net contribution (excluding payments to States stood at Rs. 10 crores in 1969-70 whereas in 1977-78, it came down to (—)Rs. 17.04 crores.	Again on the 29th July, 1980, the Ministry of Railways further informed that the "current position regarding action taken on the residual recommendtions of the Expert Group is given in the statement enclosed (Annexure 2)" Observations of the Committee will be kept in view while formulating proposals for the remaining period of the VIth Plan. [Miny. of Rlys. O.M. No. 98—B (RCC)—1202, dated 29-7-1980.]
	The Committee do not see any reason why any departure should be made from the salutary principle of the Railways making a positive contribution to General Revenues over and above the interest payable on the capital-at-charge at the average borrowing rate of Government of India. The Committee are, therefore, distressed to note that despite substantial growth in the volume of both passenger and goods traffic, the modernisation plans undertaken by the Railways and the considerable increases in freights and fares, the net contribution of the Railways to the Nation's kitty has shown a declining trend over the years. The question whether the hardening of interest rates and as a consequence the increase in cost of Government borrowing would justify increase in the dividend rate during the Sixth Plan is matter on which the Committee would reserve their opinion till the views of the Minisry of Railways get crystalised in the final Memorandum proposed to be submitted by them.	

	The Committee would only like to point out at this stage that if the public sector has to attain commanding heights of the economy it is inescapable that the Nation's largest public undertaking spares no effort to generate adequate resources for its development and expansion.	
6.	The Committee accordingly recommend that the present mode of payment of fixed dividend on the capital invested in the Railways as computed annually in lieu of the interest charges plus a small element of contribution to General Revenues, may continue in the interest of financial discipline.	Noted
7.	"The Committee note that for long time now the amount assessed as "over-capitalisation " has been exempt from payment of dividend following the recommendations of Railway Convention Committees in the past. The amount of over-capitalisation hitherto exempt from dividend liability was about Rs. 118.25 crores. As per the latest assessment made by the Expert Group on Capital Structure of Indian Railways, this figure now stands at Rs. 122.54 crores. The Expert Group have suggested that this amount should be written off the Railways' books without financial adjustment as it does not represent any tangible assets and merely indicates some accounting transaction. According to the Expert Group amoritization of this amount by setting apart amounts from revenue surplus from year to year 'would remain a laudable but unattainable proposition in the forseeable future."	The Railways have been asked to write-off an amount of Rs. 119.39 crores without financial adjustment. This amount has been vetted by the Audit. Any further amount will be written-off after getting the same vetted by the Comptroller and Auditor General of India. In reply to the further information sought the Ministry of Railways stated :
	As the element of over-capitalisation has for a long time now been exemp from dividend liability and it is most unlikely, looking at the financial position of the Railways, that such amount could be amortized from the revenue surpluses for many years	"The additional amount of over-capitalisation has been found to be Rss. 5,95,531 and not Rs. 3.15 crores. This figure of Rs. 5,95,531 has been vetted by the Comptroller and Auditor General of India and has also been

1	2	3
	to come, the Committee have no objection for the amount assessed by the Expert Group as overcapitalisation (Rs. 122.54 crores) being written off the Railways' books without financial adjustment subject to the condition that the additional amount of Rs. 4.29 crores over the earlier assessment of Rs. 118.25 crores is vetted by the Comptroller and Auditor General of India."	seen by the Ministry of Finance. Chittranjan Locomotive Workes to which this amount pertains has been asked to write it off without financial adjustment. [Ministry of Railway or No. 78—B (Rcc)—4202, dated 9-11-1979].
8.	Pending formulation of the detailed proposals appicable to the Sixth Plan period as a whole, the Committee have no objection to the continuance of the existing rates of dividend during 1978-79 and 1979-80 as already concurred in by the Ministry of Finance.	Noted
9.	The Committee would like to examine in depth the question of the adequacy of grants paid to the States in lieu of the tax on passenger fares in the light of the observations of the Seventh Finance Commission and the final Memorandum to be received from the Ministry of Railways on the subject. Till then the existing arrangements may continue.	The subject of grants in aid to States in lieu of tax on railway passenger fares, has been examined by the 7th Finance Commission. The Commission have recommended that the question of increasing the quantum of this grant be referred to the appropriate Railway Convention Committee. This subject is still under active consideration of the Ministry of Railways in consultation with the Ministry of Finance. Recently, this subject was discussed inter-alia in the Chief Minister's Conference held in Delhi on 19th and 20th May, 1979. The memorandum expected to be submitted shortly.

The arrangement of exempting the capital-at-charge of the non-strategic portion of the Northeast Frontier Railway and unremunerative branch lines from the payment of dividend has been in existence for many years now. The Committee note that the suggestion made by the representative of the Ministry of Finance in the Expert Group on Capital Structure of Railways that the economics of the branch lines should be determined by adopting the marginal cost principle has been accepted by the Ministry of Railways. The Committee recommend for the years 1978-79 and 1979-80 the continuance of the present arrangement of exempting the capital at charge of the non-strategic portions of the Northeast Frontier Railways and unremunerative branch lines from the payment of dividend. In regard to the unremunerative branch lines, the capital cost thereof to be exempted from dividend should be based on annual reviews, the unremunerativeness of a particular branch line being determined by adopting the marginal cost principle.

The observations of the Committee have been noted for compliance. The marginal cost principle is already being followed and the position reiterated to the Railways asking them to ensur that the fixed cost which would continue to be incurred even if lines are closed, are not taken into account for the purpose of working out the returns. The position has also been suitably explained to the Ministry of Finance.

11. The Committee regret to note that precise evaluation of the working results of the Jammu-Kathua line has not been made even after more than six years of the opening to traffic. The Committee desire that this task should be undertaken without further delay for the information of Parliament and the Public.

The valuation of working results of Jammu-Kathua line has since been made. The line which was showing losses earlier, has shown profits in the years 1976-77 and 1977-78. Year-wise losses and profits are as under:

Years	Profit(+)/Loss(—)
	Rs.
1973-74	(—) 95,36,000
1974-75	(—) 78,65,000
1975-76	(—) 44,10,000
1976-77	(+) 40,47,000
1977-78	(+) 36,51,000

(1)	(2)	(3)
12.	The Committee note that twentyeight lines have been listed by the Expert Group on Capital Structure of Railways as having been constructed since 1-4-1955 as developmental lines (non providing the usual return on capital) whose capital cost was initially allocable to Development Fund but which came to be allocated to capital on the basis of the recommentions of the 1954 Convention Committee. The Committee have been further informed that these lines were operational necessities and when the financial results of their working, were assessed they turned out to be unremunerative.	The observations of the Committee have been noted compliance. The Railways have been asked to make special arrangements for keeping individual accounts of all the 28 lines listed in Appendix III of the Committees Report. Though, as mentioned in reply to recommendation No. 10, the marginal cost principle is already being adopted on the Railways, they have again been told to work out the returns strictly on the marginal cost principle ignoring fixed cost which would continue to be incurred even if the lines are closed.
	The Committee would like to go into the question of what criteria should be adopted for construction of new lines in the light of the recommendations that might be made by the National Committee on Transport Planning (Pande Committee) which is presently studying the matter.	
	Meanwhile, the Committee have no objection to the suggestion of the Ministry of Railways, concurred in by the Ministry of Finance, that the capital cost of new lines which have been taken up on or after 1-4-1955 on other than financial considerations as indicated in Appendix III of this Report might be exempted from dividend, provided that if any such line becomes remunerative, adopting the marginal cost principle, during the years 1978-79 and 1979-80, dividend on the capital cost of such lines shall be paid to the General Revenues	

13.	As the ferry services run by the Railways have been unremunerative with no likelihood of their financial results improving, the Committee recommend that the capital cost of ferries (Rs. 5.05 crores) may be exempted from payment of dividend during 1978-79 and 1979-80.	Noted
14.	The Committee, considering the nature of building, such as hospitals, dispensaries, health units, clubs, institutes schools and colleges, hostels and other welfare centres, agree with the suggestion of the Ministry of Railways that the capital cost of these buildings might be exempted from dividend liability during the years 1978-79 and 1979-80.	Noted
15.	The Committee note that the annual return from staff quarters is around 3 to 3.5 per cent of the cost of construction of such quarters. The Committee also observe that in the case of public sector undertakings, Government finance for colonies and townships is provided in the form of equity. The Committee consider the suggestion of the Ministry of Railways that on the capital cost of residential buildings, dividend may be paid at the rate of 3.5 per cent as reasonable and recommend its adoption for the years 1978-79 and 1979-80. The existing arrangements under which the cost of construction of staff quarters is charged to 'Capital' may also continue.	Noted
16.	In the preceding paragraphs, the Committee have examined the new proposals arising out of the recommendations of the Expert Group on Capital Structure of Indian Railways as have been agreed to by the Ministries of Railways and Finance and have given their recommendation with regard to each of them. The Committee further recommend that the following extant provisions with regard to payment of dividend etc. may continue during 1979-80:—	Noted

(1)	(2)	(3)
	1. The present manner of fixing the payment of dividend to General Revenues, viz. at fixed percentage of the capital-at-charge of the Railways excluding the capital of strategic lines and making special provisions for certain ore lines, Jammu-Kathua section and Tirunelveli-Kanyakumari-Trivandrum line, etc. may continue.	
	2. The present arrangement of adopting differential rates of dividend on capital invested in the Railways upto 31st March, 1964 and that invested thereafter, many continue. The existing rates of dividend at 4.5 per cent of the capital invested in the Railways upto 31st March, 1964 with an addition of 1 per cent in lieu of the tax on passenger fares and to assist the State Governments in financing the Railway Safety Works and 6 per cent on capital invested in Railways after 31st March, 1964 may also be retained with the following ancillary provisions, including equitable concessions to the Railways, as below:—	
	(i) The present arrangement of deducting losses in working of strategic lines from the payment to General Revenues may also continue with the complementary arrangement that the earnings of such lines, if any after meeting working expenses, depreciation and other charges may be paid to the General Revenues to the level of normal dividend.	
	(ii) The present arrangement of permitting the Railways to take credit for the difference between the dividend	

rate of 6 per cent and the average borrowing rate at which interest would actually accrue, in respect of their various Fund balances banked with the General Revenues may also be continued.

(iii) On new lines other than those taken up on or after 1-4-1955 on other than financial considerations, the existing arrangement of :—

(a) deferring the payment of dividend on the capital-at-charge of New Lines chargeable at the average rate of interest during the period of their construction as well as for the first 5 years after their opening; and

(b) closing the account of deferred dividend on New Lines after a period of 20 years from the date of their opening, extinguishing any liability for deferred dividend not liquidated within that period;

may be continued.

(iv) 50 per cent of the outlay on capital works in-progress other than those pertaining to strategic lines, Northeast Frontiers Railway (Commercial), ore lines, Jammu-Kathua and Tirunelveli-Kanya-kumari-Trivandrum lines, New Lines, P & T Wires, ferries, welfare buildings and residential buildings, may continue to remain exempted from paymetns of dividend for a period of 3 years in each case during the period 1979-80.

(1)	(2)	(3)
17	The Committee welcome the suggestion of the Ministry of Finance that the reliefs in dividend liability should be shown in the Civil Estimates as specific subsidy from General Revenues to Railway Revenues. The Committee consider that this would enable Parliament to appreciate the type of operations of Railways which carry subsidy, and to decide on the continuance thereof from year to year.	Noted. The modalities of payment of subsidy by the Central Government are being worked out in consultation with the Ministry of Finance.
	The Committee recommend that in respect of the year 1979-80, the equitable concessions in the payment of dividend (vide sub-para (2) of para 18 and items iii, iv, vii and viii of sub-para (4) of para 18 of this Report), may be paid from the General Revenues as a specific subsidy to the Railways. These equitable concessions in respect of the year 1978-79 may, however, be availed of in accordance with the existing practice viz. by excluding them from the amount of dividend payable.	In reply to the further information sought, the Ministry of Railways stated: "The modalities of payment of subsidy have been worked out in consultation with the Ministry of Finance and are at present under vetting of the ADAI (Railways), and the Controller General of Accounts. A copy of the proposal, as referred to the ADAI (Railways)/Controller General of Accounts is enclosed (Annexure—3) [Miny. of Railways O.M. No. 78—B (Rec.) 4202, dated 9-11-1979.] Again on 29th July, 1980, the Ministry of Railways informed that the matter was still under correspondence with I.D.A.I. (Rlys). [Ministry of Rly. O.M. No. 78-B (Rec.)—4202, dated 29-7-1981)
18	The Committee would like to be apprised of the allocations made for the Depreciation Reserve Fund and their actual utilisation during the Fifth Plan period. Pending receipt of detailed Memorandum on the subject, the Committee	Noted

	have no objection to the contribution to the Depreciation Reserve Fund being fixed at Rs. 200 crores during 1979-80.	
19	The Committee are in agreement with the view expressed by the representative of the Ministry of Finance in the Expert Group on Capital Structure of Indian Railways that the loans outstanding against the Revenue Reserve Fund represent unpaid dividend and the accumulated interest. Consistent with the dispensation for the future, the balance outstanding may therefore, be carried forward after writing off of accumulated interest and paid out of future surpluses in the next 10 years after which the position can be reviewed.	Noted. Action has been initiated in consultation with the Ministry of Finance for the write off of Rs. 93.95 crores from the outstanding loans in the RRF and opening a new head for the Deferred Dividend Liability Account.
	The Committee accordingly recommend:— (a) The existing arrangement of the Railways taking temporary loans from the General Revenues to meet shortfalls in dividend payment may be discontinued with effect from 1-4-1978. In years in which the Net Revenue of the Rlys. is not adequate to meet the current dividend liability, the shortfall in the payment of the current dividend liability shall be treated as a deferred liability on which no interest shall be charged. The deferred dividend liability shall be paid from out of the surplus available with the Railways after meeting the following:— (i) Interest due on the outstanding Development Fund loan. (ii) Meeting the expenditure on works chargable to Development Fund. (b) Subejct to verification by Audit, out of the sum of Rs. 216.14 crores outstanding as loan due from Railway	In reply to the further information sought, the Ministry of Rlys. stated: "The proposal for write-off of Rs. 93·95 crores representing the interest element in the Revenue Reserve Fund and opening of a new head 'Deferred Dividend Liability Account' has been cleared by the Ministry of Finance and is at present under vetting of the ADAI (Railways). A copy of the proposal as sent to the ADAI (Railways) is enclosed (Annuexure—4) (Miny. of Rlys. O.M. No. 78—B (Rec.) 4202, dt. 9-11-1979. Again in July, 1980, the Ministry of Rly. further informed: "The proposal for write-off of an amount of Rs. 56.48 crores (Rs. 93·95 crores— Rs. 37·47 crores, being the balance in the Revenue Reserve Fund) has since been vetted by ADAI (Rlys.) Opening of a new minor head of Account to record payments

(1)	(2)	(3)
	Revenues to the General Revenues in respect of the Revenue Reserve Fund a sum of Rs. 93.95 crores should be written off and the balance amount of Rs. 122·19 crores transferred to the deferred dividend liability account mentioned in the previous sub-para.	towards Deferred Dividend liability in respect of the period prior to 1978-79 has also been vetted by ADAI (Rlys) vide their U.O.I. No. RAII/23—7/79 dated 23-8-79 (copy enclosed). (Annexure 5) (Miny. of Rly. O.M. No. 78—B(Rec) —4202, dt. 29-7-1980)
20	The committee are inclined to agree with the views of the Ministry of Finance that since the system of the temporary borrowings for meeting the expenditure chargeable to the Development Fund is proposed to be continued, there is no justification for writing off the loan liability of Rs. 153 crores accumulated over the years. Repayments should, therefore, be made by the Railways out of future surpluses.	Noted. Interest payable from 1978-79 at the revised rate.
	The Committee recognise that certain essential but unremunerative items of expenditure have to be met from the Development Fund and it is only proper that a concessional rate of interest is charged on loans obtained from General Revenues for financing such works. The Committee are, therefore, in agreement with the suggestion of the Ministry of Finance that the rate of interest on such loans may be the same as charged on loans to State Governments.	
	The Committee accordingly recommend that the present provision for temporary borrowing from General Revenues when balance in the Development Fund is inadequate to meet the expenditure chargeable to that Fund. may be	

continued, the interest on such loans taken on or after 1-4-1978 as also the loan outstanding as on that date being charged at the rate applicable to loans given to State Governments (currently 5.5 per cent with a rebate of 0.25 per cent for prompt repayment).

The Committee note that certain proposals for reclassification of expenditure chargeable to the Development Fund so as to reduce the burden on this fund are under consideration of Government. The Committee propose to deal with these matters on receipt of the final Memorandum on the subject.

ANNEXURE—I

(Vide reply to recommendations at Sl. No. 4 of Appendix I)

Statement showing the action taken on the recommendations made in the Report of the Expert Group on Capital Structure (Figures in brackets refer to the paragraph number of the Report of Group)

Details of recommendation	Paragraph No.	Action taken by the Ministry of Railways
(1)	(2)	(3)
10.01 The historical evolution of the capital charge of the Indian Railways point to the conclusion that over-capitalisation, at least in the initial stages, was inherent in the scheme of things (2.12.). 10.02 Rs. 122,53,59,583 may be deemed to be the identified realistic amount of over-capitalisation on the Indian Railways (3.06). 10.03 The Expert Group are convinced that the suggestion that the element of over-capitalisation should be amortized by felling a part amounts from revenue surpluses from year to year would remain a laudable but unattainable proposition (4.11).	10.02 to 10.04	The element of over-capitalisation has been assessed, in consultation with the Comptroller and Auditor General of India, at Rs. 119,45, 63,377. This has been seen by the Ministry of Finance. Necessary instructions have been issued to the zonal Railways and the Production Units to write-off the element of over-capitalisation without financial adjustment.

10.04 The Expert Group recommend that the amount representing the element of over-capitalisation (Rs. 122.54 crores) should be written off without financial adjustment. (4.12)		
10.05 The Expert Group are of the view that the restructuring of capital to bring in an element of equity capital as in the case of Public Sector Corporations is not appropriate for a departmental undertaking like the Railways, but adequate reliefs within the existing framework of the Capital structure of the Railways should be provided to them to improve their financial viability (5.05)	10.55	These are general observations.
10.06 The Expert Group recommend that capital-at-charge to the extent of Rs. 475 crores, representing the element of contribution, as distinct from the dividend, paid by the Railways to General Revenues should be written off. (5.13)	10.06 and 10.07	These were not agreed to by the representative of the Ministry of Finance. The Ministrys of Railways have, therefore, decided not to pursue these.
10.07 The Expert Group do not think that the writing off proposed by them would have any repercussions in other sectors. (5.14)		
10.08 The Expert Group would draw attention to the imperative need for stepping up allocation to the Depreciation Reserve Fund to enable this vital means of transport to play its due part in the national economy (6.07).	10.08 & 10.09	The proposals for the VIth Plan envisage the stepping up of appropriations to the Depreciation Reserve Fund. In the current year (1979-80) itself, the appropriation has been raised to Rs. 200 crores as against Rs. 145 crores in 1978-79.
10.09 The liabilities of the Railways in respect of their unremunerative asets should be identified separately		Based on the recommendations of the 'Expert Group', the principle of dividend relief on

(1)	(2)	(3)
and relief therefore provided by the National Exchequer so that interest-bearing short term loans are not unnecessarily accumulated on the Railways account for a long period of time. In this framework, then, the profitable part of the Railway business should generate enough resources not only to pay the normal dividend to the Exchequer on what would be the really productive part of the Railway assets but also to finance the various Funds (Depreciation Reserve Fund & Development Fund) from which allocation can be made to replace, modernise and also, if so desired, expand the Railway productive capacity (6.09)		capital of unremunerative assets has already been accepted by the Railway Convention Committee for the years 1978-79 and 1979-80. This arrangement is proposed to be continued for the remaining years of the VIth Plan.
10.10 The more important components of capital costs relating to unproductive assets should be made eligible for dividend concessions, as an extension of the concesssions already granted by the successive Railway Convention Committees. These are:—		
(i) Capital cost of all new lines taken up after 1-4-1950 on other than financial considerations. The capital cost is about Rs. 182.13 crores and it should be exempted from payment of dividend. If any such line becomes remunerative for a period of 5 years the capital cost of such a line should attract dividend liability.	10.10 (i)	Accepted and implemented with effect from 1978-79 as approved by the Railway Convention Committee (1977).

(ii) Capital cost of uneconomic branch lines which is already exempted from payment of dividend should be on the basis of annual reviews and not on the basis of the figure determined in one of the earlier years.	10.10 (ii)	Accepted and implemented as approved by the Railway Convention Committee, 1977.
(iii) The provision about making over of surpluses, if any, to General Revenues in respect of National Investments (losses being absorbed by Railways) may be deleted or alternatively there should be a provision for losses also being passed on the two General Revenues.	10.10 (iii)	According to the financial arrangements that were agreed to by the Cabinet for Kathua to Jammu, the Railways will bear the working losses, if any, but will be exempted for a period of 20 years from payment of dividend till the net income of this line is sufficient to meet the current dividend. The Railways will, however, be required to make over to the General Revenues the gross earnings less working expenses of this line Subsequently this arrangement was also made applicable to the line from Trivandrum to Kanyakumari with a branch line to Tirunelvelli with the approval of the Ministry of Finance. Since the recommendations of the Expert Group area a deviation from the arrangement aleady approved by the Cabinet Ministry of Finance, the matter was referred to the Ministry of Finance to formally accept the recommendation and is still under consideration of both the Ministries.
(iv) The capital cost of suburban services (Rs. 114.64 crores) should be exempted from payment of dividend.	/10.10 (iv)	Certain adjustments in the suburban fares has been effected with effect from 1979-80. The position will be reviewed at a later date,

(1)	(2)	(3)
		to see if there is justification for seeking exemption from payment of dividend.
(v) The capital cost of ferries (Rs. 5.05 crores) should also be exempted from dividend liability.	10.10 (v) & (vi)	Accepted and implemented from 1978-79.
(vi) The capital cost of welfare buildings like hospitals, dispensaries, health units, clubs, institutes, schools and colleges, hostels and other welfare centres (Rs. 3.43 crores) should also be exempted from dividend liability (6.12.).		Accepted and implemented from 1978-79.
10.11 On the capital cost of residential buildings (Rs. 96.21 crores) dividend should be charged only at 3.5% (6.13).	10.11	Accepted and implemented from 1978-79.
10.12 The Expert Group do not favour the suggestion that the existing indebtedness should be capitalised as that will lead to overcapitalisation with perpetual dividend liability (7.02).	10.12	This is a general observation.
10.13 All the existing indebtedness to-date should be written off (7.03). This would be in line with what has been done in other parts of the world (7.04).	10.13	This recommendation has not been agreed to by the representative of Ministry of Finance. Action has been taken for writing off part of the loan outstanding under Revenue Reserve Fund as agreed to by Railway Convention Committee (1977).

10.14 In future temporary borrowings should be confined to making up the short-fall in Development Fund, and such loans should be repayable over a period of 10 years, and should carry interest at a subsidised rate of 3%. There should be no system of temporary borrowings for making up shortfalls in dividend payments. Any shortfalls in dividend should be carried over for 20 years, at the end of which unliquidated liabilities should be extinguished (7.05).	10.14	As suggested by the representative of the Ministry of Finance, this recommendation has been modified to the extent that interest rate chargeable is that applicable to loans to State Governments and the position of dividend liability remaining unpaid is to be reviewed after a period of ten years. The modified recommendations have been accepted by the Railway Convention Committee (1977).
10·15 10% of the dividend reliefs accuruing from the recommendations of the Expert Group should be set apart every year in a separate amortisation fund which when built up to a respectable size over a period of 10 years should be utilised to amortise that portion of capital which has been proposed for exemption from payment of dividend. If after 30 years of operation of the fund there is still a balance of the capital to be amortised, that should droped from the books without financial adjustment as has been recommended in the case of elements of over-capitalisation (7·06)	10·15	Having regard to the overall financial position of the Railways, it is proposed to pend this recommendation for the present.
10·16 The expert Group recommend that	10·16	The Expert Group on the Capital Structure has suggested 18 changes in the Allocation Rules. As these changes were not discussed by the Expert Group, the representative of the Ministry of Finance mentioned that all these proposals should be processed in the normal course. The two major recommendations—Items (ii) & (iii)—made by the expert
(i) the cost of new lines, considered necessary but are unremunerative, should be charged to Development Fund as was the case prior to 1-4-1955. This would mean reversing the recommendation of the Convention Committee 1954. The Group do not, however, recommend the reversal of	Not accepted.	

(1)	(2)	(3)
the adjustments already carried out. This recommendation about change in allocation may be made applicable from 1-4-1979 in respect of the on-going projects as also new projects taken from that date.		Group were to raise the limit of Rs. 25,000 for New Minor Works chargeable to Revenue to Rs. 1 lakh and to raise the limit from Rs. 3 lakhs to Rs. 5 lakhs for charging the unremunerative operating improvements to Open Line Works Revenue. Keeping in view the manifold increases in costs since these limits of Rs. 25 thousands and Rs. 3 lakhs were initially fixed, the Ministry of Railways felt that the revised limits should be Rs. 1 lakh and Rs. 10 lakhs (instead of Rs. 5 lakhs proposed by the Expert Group). The concurrence of Comptroller and Auditor General to these revised limits has been obtained and a separate Memorandum is being submitted to Railway Convention Committee. Besides these two recommendations, decisions on 10 more changes suggested by the Group have been taken. The remaining six suggestions are under consideration. The decision taken in each of the items is also shown.
(ii) The limit of Rs. 25,000 for new minor works chargeable to revenue may be raised to Rs. 1 lakh.	Accepted.	
(iii) The limit of Rs. 3 lakhs for charging the cost of unremunerative operating improvements to Open Line Works Revenue may be raised to Rs. 5 lakhs.	It is proposed to raise the limit to Rs. 10 lakhs.	
(iv) At present the cost of all land is charged to Capital. This may be changed. The allocation of the cost of land should follow the allocation of the work for which land is acquired.	Not accepted,	
(v) Capital cost of works charged to Capital initially on the basis of their remunerativeness should be written back to DF/OLWR, etc. if on the basis of productivity tests they become unremunerative.	Not accepted.	
(vi) At present all costs of Gauge conversions and Electrifications are charged to Capital. Whenever such projects are in view replacements of	Not accepted.	

signalling equipment, track renewals etc. are postponed. But for the Gauge conversion or Electrification, such equipment could have been replaced or track renewed in the normal course by charge to DRF. In cases where such replacement are deferred in view of the impending gauge conversion or Electrification on the basis of deliberate decisions the cost of such items of works should be estimated and charged to DRF instead of Capital.	
(vii) Production Units should also be allowed to operate DF/OLWR/Revenue to avoid every item of expenditure in those units going to Capital and subsequently getting transferred as part of cost of Rolling Stock.	Under Consideration.
(viii) Inventory balances and balances in Workshop Manufacture Suspense should be split up into 'Capital' and 'Revenue' and two sets of balances under these classifications should be maintained.	Under consideration.
(ix) Over burdening Capital through transfer prices of Rolling Stock (all in-costs) manufactured in the Production Units should be avoided (Pro forma on-cost, including depreciation and is an interest, instance in point).	Under Consideration.
(x) At present losses of cash and stores relating to capital transactions are adjusted to Capital 6800. This should be charged to Revenue to avoid double debit to Capital.	Not accepted.

(1)	(2)	(3)
(xi) Restoration of assets lost/damaged due to natural calamities, during construction, should be adjusted to Revenue Account.	Not Accepted.	
(xii) Adjustments to Capital of cost of maintenance and operation and earnings in respect of line not opened for traffic may be given up. These may be charged to revenue.	Not Accepted.	
(xiii) Para 903 (5) —GI provides that the original cost at debit of Captial (estimated if not known) of an asset falling with in the categories mentioned in note 2 to paragraah 910) replaced at the cost of DRF be transferred to DF in terms of item 6 of para 910-GI. The said note 2 under para 910-GI, however, restricts that Capital be relieved only when such works are undertaken "by themselves". The words "by themselves" may be deleted so that Capital can be relieved while replacing such of these works even though they formed part of a sheme when they were created.	Not Accepted.	
(xiv) Para 902(5)—GI provides that full cost of replacement of an asset where original cost was charged to revenue, being within the new minor works limit but is now more than Rs. 25,000	Not Accepted.	

provided it is not chargeable to DF or OLWR be charged to Capital. In these cases also the cost of replacement may be charged to DRF instead of Capital as the assets were originally created from revenue.	
(xv) For works of yard remodelling etc. the return on investment is worked out reckoning savings in detention which are not suseptible of precise determination. The return on such projects to be deemed as remunerative may be raised from 10% to 15% under DCF techniques.	Under Consideration.
(xvi) Provision of over-head electric traction equipment for Private/Assisted siding is an item of Railway Capital even for portion falling within private land in terms of para 2010-E. Such costs may be debited to the siding owner or DF.	Under Consideration.
(xvii) Expenditure on Surveys is initially charged to Revenue, but when the projects are taken up, these costs are capitalised. Such costs may not be written back from Revenue.	Accepted except where surveys (like Final Location Surveys) are conducted after the works have been included in the Budget. Concurrence of Comptroller and Auditor General is being obtained.
(xviii) At present spares, beyond certain monetary values in diesel sheds, steam sheds, and Electric sheds are capitalised. Since these spares are primarily meant for maintenance purposes and are actually used for repairs, the same need not be allocated to Capital (8.03)	Under Consideration.

(1)	(2)	(3)
10.17 Railways would get no additional advantage by earmarking surpluses for developmental activities as in a centrally planned economy resources of all sectors are taken into account and allocations made with reference to priorities determined by the Planning process (9.01) .	10.17 10.18 10.19 10.20 10.21	These are general observations.
10.18 Raising of Resources through separate surcharges also will not give any special significant advantage to the Railways (9.02)		
10.19 Existing procedures have built-in safeguards. If by some means railways are allowed to use their surpluses for developing backward areas pressures will be mounted on them. Social burdens will increase. Lines started in years of surplus may not be continued if surpluses are inadequate or non-existent in subsequent years (9.03)		
10:20 It will not be feasible to ask State Governments to share capital cost and working costs in respect of developmental lines as their finances are already over-stretched (9.04).		
10.21 The recommendations of the Pande Committee in regard to New Lines policy may be awaited. (9.05) .		

10.22 The recommendations made by the Expert Group in regard to writing off of the existing indebtedness, dividend concessions and changes in allocation rules, however, will increase the leverage of the Railways to obtain higher allocations for their developmental and replacement requirements without having the effect of over burdening capital-at-charge (9.06).	10.22	Action has already been taken, in line with the recommendations of the Railway Convention Committee (1977), for writing off part of the outstanding loan liability and obtaining additional dividend concessions.

ANNEXURE—2

[*Vide* reply to the recommendation at Sl. No. 4, Appendix I]

Statement showing the action taken on recommendations made in the Report of the Expert Group on Capital Structure.

Details of recommendation	Paragraph No.	Action taken by the Ministry of Railways
(1)	(2)	(3)
10.10 (iii) The provision about making over of surpluses, if any, to General Revenues in respect of National Investments (losses being absorbed by Railways) may be deleted or alternatively there should be a provision for losses also being passed on to the General Revenues.	10.10 (iii)	It is proposed to apply financial arrangements accepted by RCC (1977) for new lines constructed after 1-4-55 on other than financial considerations to the two National investment also. This has been agreed to by the Min. of Finance. The matter is being placed separately before RCC for their recommendations.
10.16 (vii) Production units should also be allowed to operate DF/QLWR/Revenue to avoid every item of expenditure in those units going to Capital and subsequently getting transferred as part of cost of Rolling Stock.	10.16 (vii)	Not accepted.
10.16 (viii) Inventory balances in Workshop manufacture Suspense should be split up into 'Capital'	10.16 (viii)	Under Consideration.

and 'Revenue' and two sets of balances under these classifications should be maintained.		
10.16 (ix) Over burdening Capital through transfer prices of Rolling Stock (all-in-costs) manufactured in the Production Units should be avoided (Proforma on-cost, including depreciation and interest, is an instance in point.)	10.16 (ix)	Not accepted.
10.16 (xv) For Works of yard remodelling etc. the return on investment is worked out reckoning savings in detention which are not susceptible of precise determination. The return on such projects to be deemed as remunerative may be raised from 10% to 15% under DCF techniques.	10.16 (xv)	Not accepted.
10.16 (xvi) Provision of overhead electric traction equipment for Private/Assistted siding is an item of Railway Capital even for portion falling within private land in terms of para 2010-E. Such costs may be debited to the siding owner or DF.	10.16 (xvi)	Under consideration.
10.16 (xviii) At present spares. beyond certain monetary values in diesel sheds, steam sheds, and Electric sheds are capitalised. Since these spares are primarily meant for maintenance purposes and are actually used for repairs, the same need not be allocated to Capital.	10.16 (xviii)	Not accepted.

ANNEXURE—3

(*Vide* reply to the recommendation at Sl. No. 17, Appendix I)12

Ministry of Finance

Department of Economic Affairs

Budget Division

The office of the Controller General of Accounts may kindly see the enclosed copy of the Railway Board, Shri S.K.N. Nair, Joint Director's D.O. letter No. 79-B-241 dated 5th July 1979, and of the note enclosed therewith, regarding the accounting of subsidy payable to Railways in terms of the recommendations of the 'Expert Group on the Capital Structure on Indian Railways' as endorsed by the Railway Convention Committee, 1977 in their 5th Report (6th Lok Sabha). The subsidy represents the dividend concession and other concessions which, under the existing arrangements, are deducted by Railways from the contribution payable by them to General Revenues on the capital at charge.

2. The Railways have proposed that subsidy should be accounted for in their books under *a sub-head only*, of the major and minor heads 145-A. Commercial—Indian Railways—Miscellaneous Receipts. We feel that there should be a minor head for the purpose of the nomenclature "Subsidy from General Revenues towards dividend relief and other concessions", and this minor head may have the under-mentioned sub-heads (to be explained in a note below the major head), so that a clear picture could emerge from the accounts about the quantum of relief in respect of each category of investment :—

(1) Strategic lines.

(2) National Investments.

(3) Ore Lines.

(4) Non-strategic portion of North East Frontier Railway.

(5) Unremunerative branch lines.

(6) New lines taken up on or after 1-4-1955 on 'other than financial' considerations.

(7) Other new lines during the period of moratorium.

(8) Works in progress.

(9) Ferries.

(10) Welfare Buildings.

3. In so far as the Civil books are concerned, subsidy could be accounte for under a new minor head 'Subsidy to Railways towards dividend relief an other concessions' to be opened under the major head '344-Other Transport and Communication Services'. This would necessitate restructuring of the existing sub-major and minor heads of this major head, which could be as follows.-

Major Head	Minor Heads
344—Other Transport and Communication Services	Overseas Communication Service (1)
	Wireless Planning and Coordination Monitoring Services
	Subsidy to Railways towards dividend relief andother concessions (2)

4. Abolition of the existing sub-major head 'A. Overseas Communication Service' and reducing it to the level of a minor head of the major head '344' as shown above (and also the abolition of the sub-major head 'B-Other Services'), is suggested for the sake of uniformity, since even in the capital section under the major head '544', OCS exists only as a minor head. The existing minor heads under the aforesaid sub-major head *Viz.* (i) Management (ii) Operation and maintenance (iii) Development, production and training and (iv) other expenditure, can appropriately go as sub-heads below the proposed minor head 'Overseas Communication Service' and can be explained suitably as note (1) below the major head '344'.

5. Based on the pattern suggested for the accounting of the subsidy under the major head '145' in the accounts of Railways, the minor head 'Subsidy to Railways towards dividend relief and other concessions' under the major head '344' may also have sub-heads referred to in para 2 *supra* : the proposed sub-heads may be explained as note (2) below the major head '344'.

6. As regards the suggestion made by the Railway Board in para 7 of their note, it is felt that no physical transfer of cash through RBI is necessary in the payment of subsidy by the Ministry of Finance (through the Controller of Accounts) to the Railways. It would suffice if upon a sanction to be issued by the Budget Division (dealing with the Grant 'Other Expenditure of the Ministry of Finance' in which provision of funds for subsidy will be made), the Controller of Accounts carries out an accounting adjustment by credit to the major head "050--Dividends and profits--Contributions from Railways by debit to the subsidy head proposed above. Similarly" Railways can also simultaneously carry out adjustment by debit of the amount to '351-Payments to General Revenues—Dividend to General Revenues' by credit to the subsidy head as proposed above. The difference in the amount of relief based on revised estimates and actual amount of reliefs can be similarly adjusted.

7. The above suggestions may kindly be examined and approval of the ADAI (Railways) also obtained under article 150 of the Constitution. A copy of the Fifth Report of the Railway Convention Committee, 1977 (6th Lok Sbha) is enclosed, para 91 of which refers in this connection. Any further

information required may be had directly from the Railway Board (Shri S.K.N. Nair, Joint Director) to whom a copy of this note is being forwarded.

Sd/-
(M. K. Jain),
Deputy Secretary (B-II)
Telephone : 374045

Office of the Controller General of Accounts

Shrimati Tarabai S.Kutty, Jt. Controller General of Accts., Min. of Finance (DEA) U.O. No. FI (30)—B(AC)/79 Dt : 26-7-1979.

Copy forwarded for information to Sh. S.K.N. Nair, Joint Director (Finance), Ministry of Railways (Railway Board), New Delhi. We discussed this on 26th instant.

Sd/-
(M. K. Jain),
Deputy Secretary (B-II)

GOVERNMENT OF INDIA
MINISTRY OF RAILWAYS
(RAILWAY BOARD)

S.K.N. NAIR

JOINT DIRECTOR, FINANCE (BUDGET)

D.O.No. 79-B-241. New Delhi, dated 5-7-1979.

My dear Jain,

As you are aware, the Railway Convention Committee in Para 18 of their 5th Report (1977) has recommended that w. e.f. the year 1979-80, the procedure of deducting reliefs to the Indian Railways from the dividend payable to the General Revenue be discontinued and instead an equivalent amount of subsidy should be paid by the Ministry of Finance to the Railways.

In this connection, a memorandum containing the modalities for adjustment of subsidy including the head of account under which the subsidy to be given by the General revenues, should be booked has been prepared and is sent herewith for consideration and concurrence of the Ministry of Finance to give effect to the recommendations of the Railway Convnetion Committee as approved by Parliament.

Yours sincerely,

Sd/-

(S.K.N. Nair)

Shri M.K. Jain
Deputy Secretary,
Ministry of Finance,
New Delhi.

Enclosure to Rly.Bd's *letter No.* 79-B-241 dated 5.7.1979.

Reg :—Subsidy to be paid by the General Revenues on account of various dividend reliefs recommended by the Railway Convention Committee-1977.

The Railway Convention Committee-1977 vide para 18 of their fifth report, recommended reliefs for the following items of capital at charge for the first two years of the sixth plan i. e. 1978-79 and 1979-80. These reliefs included those items of reliefs, which were already available to the Indian Railways up to the year 1977-78 :—

(a) Reliefs already available to the Indian Railways upto 1977-78.

Particular of items	(Rs. in crores) Approximate amount of relief as mentioned in Railway Convention Committee Report.
(i) Capital cost of strategic lines.	4.81
(ii) Capital cost of national highways namely Jammu Kathua Section and Tirunelveli-Kanyakumari-Trivandrum line.	1.91
(iii) Full capital cost of Kiriburu-Bimalagarh and 50% of capital cost of Sambhalpur-Titagarh Ore lines.	0.65
(iv) Capital at charge of non-strategic portion of North East Frontier Railway.	8.90
(v) Capital at charge of unremunerative branchlines, other than those new lines which have been taken up on or after 1-4-1955 on other than financial considerations.	2.92
(vi) Deferred dividend on capital cost of new lines during the period of their construction as well as for five years after their opening.	4.30
(vii) Dividend on capital works-in-progress for a period three years	16.08
Total :—	39.57

(b) *Fresh reliefs*

(viii) Capital cost of new lines taken up on other than financial considerations on or after 1-4-1955	10.48
(ix) Capital cost of ferries	0.28
(x) Capital cost of welfare buildings . .	0.19
Total :—	10.95
GRAND TOTAL	50.52

2. The total estimated amount of the dividend reliefs, for the year 1978-79 as mentioned in the Railway Convention Committee report-1977 is Rs. 50.52 crores.

3. Upto the year 1977-78 the amount of the existing reliefs as mentioned at items (i) to (vii) above was deducted from the dividend payable from the General Revenues. The Railway Convention Committee vide paras 18 (5) and 91 have recommended that for the year 1978-79 also the total amount of the dividend reliefs, now recommended in all the above ten items, should be deducted from the dividend which would be payable to the general revenues. This will be complied with accordingly.

4. For the year 1979-80, however, the Committee vide paras 90 and 91 of their report have recommended that the amount of reliefs as mentioned above may be paid from the General Revenues as a specific subsidy to the Railway Revenues. This would enable the Parliament to appreciate the type of operations of the Railways, which carry subsidy and to decide on the continuance thereof from year to year.

5. The recommendations of the Committee have been approved by the Parliament through their resolution adopted on 27-3-79.

Opening New head

6. The question for consideration is, the head of account, under which the subsidy to be given by the General Revenues should be allocated in the books of the Indian Railways. It is proposed that this subsidy should be booked under Miscellaneous Receipts and for this purpose a new sub-head (iv) may be opened under major head 145-A-Commercial—Indian Railways—Misc Receipts with the Nomenclature "Subsidy from General Revenues towards the dividend reliefs". This will result in increase the "net revenue" and will offset the effect of increase in payment of dividend to general revenues, as a result of the exclusion of these reliefs from this payment and thereby avoid any effect on the financial position of the Indian Railways. The Ministry of Finance are requested to accord their concurrence to the opening of new sub-head as mentioned above.

Accounting procedure

7. On the basis of the total amount of reliefs, worked out at the Revised estimates stage, the Ministry of Finance would send necessary credit for the subsidy due to the Indian Railways, through Reserve Bank of India, Nagpur. The difference in the amount of the reliefs based on the Revised estimates and the actual amount of reliefs (which would be worked out while closing the account for the year) would be adjusted by the Ministry of Railways with the Ministry of Finance, through proforma adjustments as is being done at present in the case of adjustment of dividend payable to General Revenues, interest on S.R.P.F. balance etc.

ANNEXURE 4

(*Vide* reply to the recommendation a Sl. No. 19, Appendix I.)

MINISTRY OF FINANCE

DEPARTMENT OF ECONOMIC AFFAIRS

BUDGET DIVISION

The Railway Reserve Fund was created under the Separation Convention 1924 under which Railway Finances were separated from general finances. The main objectives of constituting this fund were: (*i*) to secure the payment of annual contribution to General Revenues; (*ii*) to provide if necessary, for writing down or writing off capital; (*iii*) to strengthen the financial position of Railways in order that the service rendered to the public could be improved and rates of fares and freights reduced. The convention Committee, 1949 recommended that the Fund should be renamed 'Revenue Reserve Fund' and that it should be utilised primarily for:—

(*i*) dividend equalisation *i.e.* ensuring payment of dividend; and

(*ii*) making up any deficit in the working of Railways.

They also recommended that the interest accruing on the balance in the Fund should be credited to the Fund and not to Railway Receipts. This position continued under the Railway Convention Committees, 1954 and 1960. The Convention Committee, 1965, however, extended the scope of the Fund to the amortization of the element of over-capitalisation on the Railways to recommend that 'amortization of unproductive capital may be commenced with the interest earned on the balances in the Revenue Reserve Fund being taken in reduction of the element of over-capitalisation supplemented by such appropriations from Railway revenues, from year to year, as may be possible on the financial results of each year'.

2. Neither the 1949 Committee nor the 1965 Committee specifically laid down that the Fund could take temporary loans from General Revenues where it did not have any, or adequate balance for the purpose of dividend equalisation. Continuing deficits from 1966-67 onwards compelled the Railways not only to draw upon the balances from the Fund but also to take temporary loans from the General Revenues for the purpose of dividend equalisation. Later on a proposal submitted by the Financial Commissioner (Railways), the Railway Convention Committee, 1971 recommended that the Railways may be permitted to take temporary loans from general revenues to meet the full dividend liability and the interest on such loans from General Revenues (including further loans for repayment of the original loans or for payment of interest charges on the loans) should be paid by the Railways at the current borrowing rate.

3. On the recommendations of the Convention Committee, 1971 an expert group comprising the representatives of the Ministries of Finance and Railway and Planning Commission was set up in March 1978 to go into the question of restructuring of Railways capital. The group which submitted its Report in October 1978 *inter alia* dealt with the question of outstanding loans under the Revenue Reserve Fund and recommended certain changes in the Financial arrangements with regard to the Fund. Based on the recommendations of the expert Group incorporated in the Convention Committee, 1977, the Committee vide paras 95 to 103 of their 5th Report (February 1979 recommended acceptance of the changes; the recommendations were :—

(*a*) the existing arrangement of the Railways taking temporary loans from General Revenues to meet shortfall in dividend payments may be discontinued with effect from 1st April, 1978, the short fall in the payment of the dividend liability shall be treated as a deferred liability on which no interest shall be charged ; and

(*b*) subject to verification by Audit, out of Rs. 216.14 crores outstanding (as on 31st March 1978) as loan due from Railway Revenues to General Revenues, Rs. 122.19 crores should be transferred to the deferred dividend liability account and the balance representing interest should be written off.

4. Through a Resolution adopted on 27th March, 1979, Parliament have approved these recommendations. The question of effecting the necessary accounting adjustments is now under examination in consultation with the Railways whose proposals are contained in the note (at pages 8-12) enclosed to their D.O. letter dated 19th May, 1979. In our view, a simplified procedure as discussed in the subsequent paragraphs of this note can be followed in this regard.

5. As proposed by the Railways, the balance of Rs. 37,47,06,598 in the Revenue Reserve Fund (hereinafter called the Fund) as on 31st March 1978 (excluding Rs. 31,79,797 investment in shares of loans to branch line companies) may be set off against the total outstanding loan liability of Rs. 216.14 crores of the Fund as on that date. Of the balance of Rs. 178.67 crores, Rs. 122.19 crores may be treated as deferred dividend liability in respect of the period prior to 1978-79 and the rest of Rs. 56.48 crores written off. In so far as the Central books are concerned, the component representing the deferred dividend liability *i.e.* Rs. 122.19 crores may continue to remain under the loan Head "746—Loans to Railways to be transferred to a new minor head 'Deferred Dividend Liability in respect of the period prior to 1978-79; the balance of Rs. 56.48 crores may be written off from the loan head by debit to the head '880—Miscellaneous Government Account etc.' No interest will be chargeable on this balance of the loan of Rs. 122.19 crores.

6. No accounting adjustment in regard to the deferred dividend liability of Rs. 122.19 crores mentioned in the preceding paragraph is necessary in the books of Railways. It would suffice if this amount is shown by the Railways as a foot note in their various accounts including the balance-sheet. While discharging this liability (this is to be done within ten years), the amount paid by Railways to the General Revenues will be debited to the head '353—repayment of Loans taken from General Revenues—payments of Deferred Dividend

Liability in respect of the period prior to 1978-79'. Operation of the head '351' for the purpose is not favoured since in the accounts of the earlier years dividend paid from loan proceeds (adjusted in the accounts of the Fund) had already appeared as dividend paid by Railways under the major head '351' and as dividend received by General Revenue under the major head '050'. This payment will obviously figure as a charge on the profits of the Railways before the surplus of the year is arrived at.

7. In respect of any deferred dividend liability which the Railways may incur from 1978-79 onwards also, it will not be necessary for the Railways to carry out any accounting adjustment; they will merely maintain a *pro forma* account and indicate the liability as a foot-note in the various accounts including the balance-sheet. As and when this liability is discharged, the payment will be debited to the head '351'—payment to General Revenues—Dividend to General Revenues—Deferred Dividend in respect of the period from 1978-79 onwards.

8. As a consequence of the proposals mentioned in paras 5 to 7 Supra, the following additions/alterations will become necessary in the existing heads:—

(*i*) The minor head 'loans to Revenue Reserve Fund under the major head '746—Loans to Railways' will stand deleted and a new minor head 'Deferred Dividend Liability in respect of the period prior to 1978-79' inserted; this new minor head will cease to be in operation after the entire deferred dividend liability for this period is extinguished.

(*ii*) A new minor head 'payment of deferred dividend liability in respect of the period prior to 1978-79' will be opened under the major head '353—payment of loans taken from Generral Revenues'.

(*iii*) The minor head 'Contributions from Railways' (under the major head '050—Dividends and profits' may comprise the following three sub-heads, instead of the existing two, viz:—

(*a*) Gross Contributions—Current.

(*b*) Gross Contributions—Deferred Dividend in respect of the period from 1978-79 onwards.

(*c*) Deduct—Amount transferred to '049—Interest.'

(*iv*) The minor Head 'Dividend to General Revenues' under the Major Head '351—Payments to General Revenues' may comprise two sub heads, viz :—

(*a*) Current Dividend

(*b*) Deferred dividend in respect of the period from 1978-79 onwards.

9. The Railway Board may kindly see before the above proposals are referred to the office of the Controller General of Accounts/Comptroller and Auditor General of India (Railway Wing).

Sd/- (M.K. JAIN)
Deputy Secretary (B-II)
Tele. No. 374045

Ministry of Railways (Railway Board)—Shri S.K.N. Nair, Joint Director (Finance)

Min. of Fin. DEA U.O. No. F7(23)—B(Ac)/79 dt. 28-5-79

MINISTRY OF RAILWAYS (RAIL MANTRALAYA)
(RAILWAY BOARD)

Ministry of Railways agrees with the proposal made by Ministry of Finance. Payment against (*a*) deferred dividend for the period from 1978-79 onwards and (*b*) deferred dividend for the period prior to 1978-79, would be booked, alongwith the current dividend under major head 351—Payment to General Revenues. Vote of Parliament would be obtained by including these two payments specifically under Grant No. 15—Dividend to General Revenues etc. as explained below :—

Grant No. 15 (*a*)—Dividend to General Revenues.

(*i*) Payment from Revenues

(*a*) Current Dividend.

(*b*) Deferred dividend in respect of period 1978-79 onward.

(*c*) Deferred dividend liability in respect of period prior to 1978-79

A.D.A.I. (Railways) may kindly convey their concurrence to these proposals.

Sd/- (S.K.N. NAIR)
Jt. Director. Finance (B),
Railway Board. 19-6-1979

ADAI (Railways), New Delhi

Min. of Rlys. U.O.I. No. 78-B-310 dt. 19-6-79.

ANNEXURE—5

(*Vide* reply to recommendations at Serial No. 19, Appendix I).

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA, NEW DELHI.

Seen. While the proposals in paras 6 to 8 of M.F.'s U.O. at pages 3-5n ante are acceptable, the proposal in para 5 (*vide* portion sidelined 'XX' on page 3n of U.O. file) to debit the write off of the balance of Rs. 56.48 crores under the major head/minor head '746—Loans to Railways—Loans to Railways' to '880 Misc. Government Account' is not clear. In terms of Art. 53 of Account Code Vol. I and all amounts due to government which are found to be irrecoverable shall be written off from the debt head concerned to an expenditure head as a loss to Government.

In the present case, therefore, although the out-standing amount is waived by Government, it is felt that in writing off the balance amount waived the debit should be afforded to an appropriate expenditure head in the civil books and not to "880—Misc. Govt. Account". '880-Misc. Govt. Account" is to be operated either for closing of heads closed to Govt. like Revenue heads, expenditure heads, capital heads etc. for the purpose of review of balances OR for write off of amount from heads closed to balance. The latter course arise in respect of amounts outstanding due to book-keeping errors or cases where it is not possible to establish that unreconciled balances/differences are either due to book-keeping errors or involve loss or receipt.

It is requested that the above aspect may kindly be considered.

Sd/- C. G. VENKATESAN
Administrative Officer (RLYS)

Min. of Rlys. (R. B.) New Delhi.

C.G.A. II-A. Janpath, New Delhi.

A.D.A.I. (RLYS) U.O. No.........RAII/23-7/79 Dt. 23-8-79.

APPENDIX II

(*Vide* para 3 of Report)

Statement showing the action taken by Govt. on the recommendations contained in the first Report of Railway Convention Committee, 1980—Rate of dividend for 1980-81 and 1981-82 and other Ancillary Matters

Sl. No.	Recommendations/Observations	Action taken by Government.
(1)	(2)	(3)
1.	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.	Accepted and implemented.

2.	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.	Accepted and implemented.

APPENDIX III

(*Vide* para 9 of Introduction)

Sl. No.	Reference to para of report	Recommendations/observations
(1)	(2)	(3)
1	16	The Sixth Five Year Plan for the Railways was finalised in January, 1981. Although, the Ministry of Railways were then aware of the resources available for the Plan period, it took them nearly ten months to work out and prepare the tentative forecasts of the financial prospects of the Railways during the Sixth Plan Period. The Committee are unhappy over this delay on the part of the Ministry of Railways.
2.	17	The Ministry of Railways should have known in October-November, 1981 that it would not be possible for them to submit to this Committee before the presentation of the Railway Budget for 1982-83 their final memorandum on payment of Dividend by the Railways for the Sixth Five Year Plan Period as a whole. However, it was only in the middle of January this year (1982) that they could send their Second Interim Memorandum containing their suggestion in regard to the payment of Dividend for the year 1982-83. This left little time for the Committee to properly consider the Memorandum and submit a report to Parliament well before the presentation of the Railway Budget. The Committee recall that last year also the Interim Memorandum was received very late and they were obliged to face a similar situation. The Committee regret this lapse on the part of the Ministry of Railways and hope that it would not be repeated hereafter.

(1)	(2)	(3)
3.	18	The Committeee have no objection to Dividend being paid by the Railway during 1982-83 at the Rates and with the conditions and concessions recommended by the Railway Convention Committee (1977) for the year 1979-80 in their Fifth Report to Parliament and adopted by the Lok Sabha and Rajya Sabha on the 19th and 27th March, 1979 respectively, subject to the following special provision for the year 1982-83, namely: (a) the contribution to the Depreciation Reserve Fund and Pension Fund during 1982-83 may be Rs. 500 crores and Rs. 150 crores respectively; (b) in the case of temporary borrowings from the General Revenues for meeting the expenditure chargeable to Development Fund the rate of interest may continue to be the same, as recommended by the RCC (1977) in paragraph 110 of their Fifth Report, namely, "the rate applicable to loans given to State Governments" (currently 6.25 per cent with a rebate of 0.25 per cent for prompt payment); and (c) the Rate of Dividend, conditions, and concessions and the rates of contribution to DRF and PF hereby made applicable to the year 1982-83 are of an interim nature and subject to such alterations as may be recommended by the Committee in their final report for the Sixth Five Year Plan period (1980—85) as a whole.