R. C. C. No. 39

RAILWAY CONVENTION COMMITTEE

SEVENTH LOK SABHA

SEVENTH REPORT

RATE OF DIVIDEND FOR THE YEARS 1980-81 TO 1983-84 AND OTHER ANCILLARY MATTERS

Presented in Lok Sabha on 5.11.1982
Laid in Rajya Sabha on 5.11.1982

LOK SABHA SECRETARIAT
NEW DELHI

November, 1982/Kartika 1904 (Saka)

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Page	Para	Line	For	Read
15	22	24	Delete 'in' before 'cost'	
18	28	1	th's	this
19	31	11	th s	this
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CONTENTS

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(1980)

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**Nominated w.e.f. 19-2-1982 *Vice* Shri R. Venkataraman resigned from the Committee.

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£Nominated w.e.f. 21-10-1982 *Vice* Shri J.K.P.N. Singh resigned from the Committee.

INTRODUCTION

I, the Chairman of Railway Convention Committee (1980) having been authorised by the Committee to present the Report on their behalf present this Seventh Report on the Rate of Dividend payable by the Railway Undertaking to the General Revenue and other Ancillary Matters for the financial years 1980-81 to 1983-84.

2. The Committee took evidence of the representatives of the Ministries of Railways and Finance on the subject on 22nd October, 1982. The Committee considered and adopted this Report at their sitting held on the 2nd November, 1982. Minutes of these sittings form Part II of the Report.

3. The Committee wish to express their thanks to the Ministry of Railways and the Ministry of Finance for placing before them the material and information they desired in connection with the examination of the subject. The Committee also wish to thank the Chairman, Railway Board, Financial Commissioner, Railways, and other officers of the Ministry of Railways and the Ministry of Finance for giving evidence before the Committee.

4. A statement showing the action taken by the Government on the recommendations contained in the Fourth Report of this Committee on the Rate of Dividend for 1982-83 and other Ancillary Matters is given at Appendix—I.

5. A statement showing the summary of recommendations of the Committee contained in this Report is at Appendix II.

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

NEW DELHI;
November 4, 1982
Kartika 13, 1904 (*S*)

REPORT

In pursuance of Resolutions adopted by Lok Sabha on the 4th August, 1980 and by 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 Ministry of Railways, in their memorandum furnished to the Committee have sought the continuance of all the items of equitable dividend concessions as approved by the Railway Convention Committee (1977) for the duration of the current Sixth Plan Period. The proposals made by the Ministry of Railways with regard to the rate of dividend payable by the Railways to General Revenues and other allied matters are discussed in the succeeding paragraphs.

A. Dividend to General Revenues

3. Pending their final recommendations covering the Sixth Plan period (1980—85) as a whole and subject to such adjustment in the remaining years of Sixth Plan as may be necessary in the light of their final recommendations, the Railway Convention Committee had in their First and Fourth Reports presented to Parliament on the 20th February, 1981 and 19th February, 1982 respectively, agreed that the various equitable concessions on payment of dividend, as agreed to by the Railway Convention Committee (1977) for the year 1979-80 be made applicable to the years 1980-81, 1981-82. These reliefs are summarised below:—

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

(a) Strategic Lines

(b) 28 New Lines 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 per cent of the capital outlay on Sambalpur-Titlagarh line).

(f) Ferries and welfare buildings.

(g) 50 per cent 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 per cent is payable on the capital cost of residential buildings.

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 unliquidated deferred dividend liability on new lines is to be closed after a period of 20 years from the date of their opening extinguishing any liability not liquidated within that period.

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.

4. The rates of dividend applicable are—5.5 per cent in respect of pre—31.3.1964 capital and 6 per cent on capital invested thereafter The former rate includes an element of 1 per cent on the pre-1964 Capital earmarked to finance payments to State Governments in lieu of the Passenger Fare Tax and also to assist the States in execution of certain items of safety works.

The following statement shows the annual and average borrowing rates of Govt. and rate of Dividend payable by Railways to General Revenues

Year	Annual Borrowing rate	Average borrowing rate	Rate of Dividend
1	2	3	4
1950-51	3.25	3.16	4.00
1951-52	3.25	3.12	4.00
1952-53	3.50	3.11	4.00
1953-54	3.75	3.14	4.00
1954-55	3.75	3.19	4.00
1955-56	3.75	3.25	4.00
1956-57	3.75	3.29	4.00
1957-58	4.00	3.36	4.00
1958-59	4.00	3.45	4.00
1959-60	3.75	3.55	4.00
1960-61	4.00	3.57	4.00
1961-62	4.00	3.59	4.25
1962-63	4.25	3.66	4.25
1963-64	4.25	3.75	4.50
1964-65	4.50	3.84	4.50
1965-66	5.00	3.93	
1966-67	5.25	4.05	4.50% on Capital upto 1963-64 and 5.75% on fresh capital is the rate of dividend for 1965-66 only.
1967-68	5.25 Average rate for 6 years 4.96 %	4.22	
1968-69	5.00	4.33	
1969-70	5.00	4.43	

1	2	3	4
1970-71 . .	5.50	4.53	
1971-72 . .	5.50	4.65	
1972-73 .	5.50	4.77	
1973-74 .	5.50	4.92	
1974-75 . .	6·00	5·15	5·50 % on capital upto 1963-64 and 6% on fresh capital applied to years 1966-67 onwards.
1975-76 .	6·50 Average rate for 10 years 6·1 %	5·30	
1976-77 . .	6·50	5·40	
1977-78 . .	6·50	5·50	
1978-79 . .	6·75	5·63	
1979-80 . .	6·75	5·82	
1980-81 . .	7·00	6·10	
1981-82 (RE) .		6·30	
1982-83 (BE) .			

5. It is thus seen that up to the year 1969-70 the average borrowing rate of Government representing the cumulative cost of raising resources through market loans was lower than both the rate of dividend in respect of the Capital-at-charge upto 1963-64 and the rate of dividend on Capital invested subsequently. After 1969-70, however, owing to the steady increase in rates of current Government borrowings, the average borrowing rate of Government registered a progressive increase with the result that, at present, the rate of dividend paid by the Railways is less than even the average borrowing rate of Government.

6. The Ministry of Railways have pleaded in their memorandum submitted to the Committee that if any increase in the existing rate of Dividend is made, the net effect will be that the meagre amount of the net revenue generated in the context of a Capital-at-charge of about Rs. 6000 crores will be wiped out and the Railways would not be left with any surplus for discharging the arrear dividend liability or even taking up and progressing the essential on-going works chargeable to Development Fund. As a result, the railways

will be again caught up in a vicious circle and compelled once more to resort to taking of heavy loans from general revenues to meet expenditure chargeable to 'Development Fund and the railways' indebtedness will consequently increase which in turn will cause violent fluctuation in resource mobilisation of the Central Government Therefore, if any change is contemplated in the rate of dividend payable to the General Revenue to restore the relationship between the dividend rates and the average borrowing rate of General Revenues, which has been disturbed over the years through steady increase in the latter, such increase will have to meet the following criteria:—

(i) It should ensure that after discharging the dividend liability, sufficient amount of net revenues is available to meet the Railways' inescapable liablities relating to the Development fund, and

(ii) it should leave a balance amount after meeting item (i) above, to ensure at least part repayment of the arrear dividend liability during the Sixth Plan period.

7. The Ministry of Railways have further stated that the sole justification for increase in the dividend rate is the principle of providing for a net "contribution" on Railway investments, over and above the bare interest rates. Right upto the year 1979-80, the average borrowing rate, though progressively increasing from year to year remained below the dividend rate of 6 per cent. It is only in 1980-81, *i.e.*, the first year of the current Sixth Plan that the average borrowing rate crossed the dividend rate of 6 per cent. On the same principle of relating the dividend rate for a segment of Railway capital to the average borrowing rates of Government for the relevant period there is no justification for increasing the rate of dividend on capital invested upto 1979-80, beyond the existing level of 6 per cent.

8. Accordingly, Ministry of Railways have suggested that the rate of dividend payable in respect of the capital invested during the Sixth Plan Period may be fixed at the average borrowing rates applicable for the period. This will remove any anomalies arising from the difference between the average borrowing rate and dividend rate during the Plan period. The proposal also involves a temporary suspension of the principle of the dividend rate including an element of 'Contribution'. In view of the existing state of Railway finances,

this concept cannot strictly be enforced presently on an organisation like the Railways which has to meet several social obligations apart from playing a supporting role to economic growth of the Country. Besides, in the context of the accumulated indebtedness to General Revenues by way of—

(a) arrear dividend liability, and

(b) loans under Development Fund,

such enhancements in dividend rate will not result in any real increase in the total payments by Railways to General Revenues during the Plan period. The Ministry of Railways have further stated that the question of restoring the principle of 'contribution' will, therefore, have to be considered afresh for the next quinquennium, by which time, there is reasonable prospect of Railway finances being in a healthier state.

9. The Committee are informed that average borrowing rate for 1980-81 was 6.1 per cent and the rate for 1981-82 was 6.30 per cent. The rate advised for 1982-83 is 6.50 per cent (provisional). On this reckoning, the average borrowing rate for the remaining two years may be assumed at 6.70 per cent for 1983-84 and 6.90 per cent for 1984-85, or a mean percentage of 6.50 per cent for the entire period. The following table, sets out the financial position emerging from the proposed adjustment in dividend rates as compared to the existing rates:—

(in crores of rupees)

Year	1980-81	1981-82	1982-83	1983-84	1984-85	Total
1	2	3	4	5	6	7
	(Actuals)					
Net Revenue at existing level.	127·49	399·80	368·20	324·78	240·42	1460·69
Net revenue at targetted level (1982-83 to 1984-85) to achieve 7·5% return in 1984-85 . .	127·49	399·80	479·20	548·78	58[illegible]·42	2135·69
Dividend at present rates . .	325·36	359·40	392·32	401·11	439·08	19[illegible]
Dividend payable at proposed rates (@ 6% upto 31-3-80 and 6·1% thereafter)	336·73	373·19	408·27	439·03	458·20	[illegible]

1	2	3	4	5	6	7
Balance available .	−209·24	+26·61	+70·93	+107·75	+124·22	120·27
Appropriation to Development Fund from surplus .	..	26·61	53·34	56·33	53·32	189·60
Balance available to liquidate DDL (Deferred Dividend Liability) . .		..	17·59	51·42	70·90	139·91
Balance DDL due .	379·29	379·29	361·70	310·28	239·38	..

At the proposed revised rates, the Railways will be enable to reduce the deferred dividend liability during the Plan period from Rs. 379.29 crores to Rs. 239.38 crores as on 31-3-1985.

10. The Ministry of Railways have accordingly, submitted the following for the consideration of the Committee:

(i) That the present mode of payment of a fixed dividend on the capital invested on Railways as computed annually may continue in the interest of financial discipline;

(ii) that the present arrangement of adopting differencial rates of dividend on capital invested on railways upto 31st March 1964 and thereafter may continue the rates applicable being as mentioned at (iii) below.

(iii) (a) that a rate of 6 per cent may be adopted for payment of dividend on capital invested upto 31-3-80 (inclusive of 1.5 per cent on capital invested upto 31-3-1964 for payment to States in lieu of Passenger Fare Tax etc.)

(b) that a mean percentage of 6.5 per cent may be adopted for payment of dividend on the capital invested on Railways during the quinquennium 1980—85, or, in lieu, at the average borrowing rate as computed for each year.

11. During oral evidence of the representatives of the Ministry of Railways, the Committee enquired whether the Ministry had worked out the average rate of dividend for the entire capital-at-charge and compared it with the average borrowing rate for each year and since when the average rate of dividend fell below the average borrowing rate. The Financial Commissioner of Railways stated that upto 1976-77, the average dividend rate was slightly higher than the average borrowing rate and thereafter the dividend

rate fell short of the average borrowing rate as may be seen from the following figures:

Year	Average rate of dividend (%)	Average borrowing rate (%)
1973-74	5·04	4·92
1974-75	5·28	5·15
1975-76	5·36	5·30
1976-77	5·41	5·40
1977-78	5·48	5·50
1978-79	5·18	5·63
1979-80	5·32	5·82
1980-81	5·34	6.10
1981-82	5·32	6.30

To another query, the witness added:—

> "It is true that, as far as contribution is concerned, we are not able to make the financial contribution. Our contribution is very much in kind because the social burden we carry is over Rs. 500/- crores a year. That is the contribution to the nation—the Exchequer. If we are made free from it, we will pay the moiety of the contribution that we are expected to pay. We could have paid much more also. As you correctly said since the *ad hoc* one per cent dividend on the passenger fare tax is also accepted as a contribution that we are supposed to have made in the past or that would have been supposed to have been made by us that should be reduced to that extent."

12. Asked whether the enhancement of the rate of dividend on pre-1964 capital by 1 per cent for payment to State in lieu of passenger fare tax and credit to the Railway safety works fund could be viewed as part of discharging dividend liability and if so, how was it justified as the money did not ultimately go to the general revenues, the witness stated:

> "It is, of course paid to the States....The Passenger Fare Tax Act was introduced in the year 1957 and it was abolished in the year 1961... This goes to the States."

The witness added that the contribution should be reduced to the extent of this payment to the States in lieu of passenger fare tax etc. He clarified:

> "The dividend is 4.5 per cent and 1 per cent additional is paid by the Railways in lieu of repealed passenger fare tax. The total comes to 5.5 per cent. But 1 per cent is distributed to the States for compensating them for the repealed passenger fare tax. Strictly speaking 1 per cent is not part of the revenue which accrues to the General Revenue."

13. The Committee desired the Ministry of Railways to furnish a written statement showing:

(i) the average rate of dividend paid on the entire capital-at-charge since 1973-74 as compared with the average borrowing rate; and

(ii) what would be the position if the one per cent dividend paid to the States in lieu of passenger fare tax, is excluded.

14. Accordingly, the Ministry have furnished the following Statement:—

(Rs. in crores)

Year	Capital-at-charge	Total Dividend Payable (i.e. including Subsidy) Including 1% in lieu of passenger fare tax)	Excluding 1%	Average %age of dividend to Capital-at-Charge Including 1%	Excluding 1% (1.5%)	Average Borrowing Rate
1973-74	3893.30	196.09	178.10	5.04	4.57	4.92
1974-75	4105.56	216.93	199.34	5.28	4.86	5.15
1975-76	4354.78	233.37	215.39	5.36	4.95	5.30
1976-77	4533.69	245.16	226.91	5.41	5.00	5.40
1977-78	4797.12	262.78	244.54	5.48	5.10	5.50
1978-79	5023.92	260.41	242.73	5.18	4.83	5.63
1979-80	5484.64	293.15	275.85	5.35	5.03	5.82
1980-81	6096.35	325.36 (336.73)	307.84 (310.19)	5.34 (5.52)	5.05 (5.09)	6.10
1981-82	6693.05	356.47 (384.17)	338.30 (356.91)	5.32 (5.74)	5.05 (5.33)	6.30
1982-83 (BE)	7144.41	405.12	387.59	5.67	5.43	6.50
1982-83 B.E. (incl. Supplementary)	7278.41	424.98	(398.70)	(5.84)	(5.48)	6.60

Note 1 : Figures in brackets indicate the dividend payable at the proposed higher rate of 6 per cent on pre-1980 capital and @ 6.5 per cent on capital invested thereafter.

Note 2 : The average dividend rate indicated in brackets for 1980-81 onwards works out lower than even 6 per cent mainly due to:

(a) a lower dividend rate of 3.5 per cent on capital cost of staff quarters;

(b) the losses incurred on working of strategic lines are set off against dividend payable;

(c) in any year only 50 per cent of the capital cost of works-in-progress during that year is taken into account for calculation of dividend payable.

13. At the instance of the Committee, the Ministry of Railways have furnished the following figures of the net contribution per annum since 1973-74 including 1 per cent for payment to States in lieu of passenger fare tax and excluding such payment to the States:

(Rs. in crores)

Year	Contribution: Excluding 1% for payment to States in lieu of passenger fare tax	Contribution: Including 1% for payment to States in lieu of passenger fare tax
1973-74		15.62
1974-75		9.89
1975-76		6.49
1976-77		3.39
1977-78	'A'	1.20
1978-79		
1979-80		
1980-81		'B'
1981-82		

'A' There has been no net contribution during the period in question.

'B' No net contribution from 1978-79 onwards.

(Note: It is seen from the memorandum of the Financial Commissioner for Railways submitted to the Railway

Convention Committee (1973) that the element of contribution to General Revenues, excluding payment to the States was a negative figure in 1972-73 also).

16. The Committee pointed out that according to the proposals submitted by the Ministry of Railways in regard to the payment of dividend during the quinquennium 1980—85, there would be three different rates on which dividend will be paid by the Railways to the General Revenues, *viz.* 4.5 *per cent* on pre-1964 capital; 6 per cent on capital invested during 1964—80; and the average borrowing rate for the capital invested thereafter (the average borrowing rate for the period 1980—85 is estimated to be around 6.5 per cent). On a rough reckoning, the shortfall in paying even the bare interest charges on the entire capital at-chage would be of the order of Rs. 300 crores during the periord 1980—85. Asked whether this aspect was studied in depth by the Ministries of Railways and Finance and if so, how could the shortfall in the payment of dividend be justified even after grant of considerable dividend reliefs, the witness explained:

"The proposals which we have submitted are the joint proposals fully cleared by the Finance Ministry. We have struck an average between 6.1 and 6.9. We expect that the mean of these two figures for the Sixth Five Year Plan will be 6.5 per cent. That is the average figure arrived at. Now, you have raised the point regarding the differential rates being applied. It has already been accepted in principle that whatever money has been borrowed earlier when the capital was cheaper will have the same rate of interest. It is only an extension of the same principle. In 1980-81, the gap between the average borrowing rate and the dividend rate became widened...the interest rate applied by the Central Government for developmental loans to the State Governments carries an interest of 6.25 per cent. Even out of this 6.25 per cent they have given a rebate of 0.25 per cent if they repay the loan in time. So, in effect it is only 6 per cent interest rate that is applicable to the State Governments."

The witness added:

"Our dividend relief takes care of only the investment portion, that is, the interest payable on the capital investment. But from year to year, we incur operating loss which is not reimbursed to us by anybody. For instance, in the suburban services and the uneconomic branch lines, if left to ourselves, we will like to close them down. The State Governments are not allowing to close them down. So, operating losses are much more than the dividend relief. For example, the capital investment in the suburban services on a rough basis is about Rs. 100 crores and on that we are not getting the dividend relief today... Similar thing applied to the uneconomic branch lines where capital cost is around Rs. 50 crores. The relief that we get will be Rs. 3.5 crores, whereas the loss is Rs. 32—35 crores. So, dividend relief is certainly welcome, but it takes care only of a small portion of the losses we incur."

17. Asked whether the Ministry of Finance had analysed the implications of the proposals submitted by the Railway Board, the witness stated:

"Yes. We examined the issue and the matter was placed even upto the level of the Finance Minister. As the Committee is aware, there are two differential rates of dividend, which are already prevailing, *i.e.* for capital invested up to 1963-64 and post-1964 on Capital. This is an extension of the principle that for capital beyond 1979-80 there should be yet another rate of dividend. We realised that in agreeing to these rates of interest there will be loss of dividend or revenue to the General Budget, but the main factor which weighed the Ministry of Finance in agreeing to this proposal was the past financial performance of the railways and the projected performance of the Railways for 1984-85. The past performance showed that as on 31st March, 1981 the Railways were indebted to the General Revenues to the extent of Rs. 603 crores comprising of a deferred dividend liability of Rs. 379.29 crores and a liability to Development Fund of Rs. 224.16 crores. In fact, even before 1978-79, the Railways have not been able to give the rate of dividend which was earlier recommended by the Railway Convention Committee and which was an agreed rate because of their inability to generate enough resources. In 1980-81 there was a shortfall of over Rs. 197 crores in the dividend liabilities by the Railways. So, this indebtedness of the Railways has been of a very high order despite various concessions which the past Convention Committees have given to the Railways. The projection for 1980—85 also showed that the Railways will be generating for paying at the existing rate of dividend a deficit of over Rs. 475 crores and if this proposed rate of dividend which is 6.5 per cent is to be discharged alongwith slightly higher rate for compensation to States, then they will have to resort to an additional resource mobilisation of Rs. 675 crores from 1983-84 to 1984-85. Looking at this kind of prospect we thought that it will not be a practical approach to insist on one uniform rate of dividend for the entire capital and even to insist on the fact that apart from the interest rate, there should be an element of contribution.

We felt that strictly speaking, if we would take a commercial view, then certainly there should be a uniform rate of dividend for the entire capital at charge and there should be an element of contribution also. But we realised the Railways will not be in a position to generate enough resources to give this rate of dividend and they will not be able to discharge their past liabilities which are of a fairly high order, *i.e.*, Rs. 600 crores."

18. The Committee pointed out that by agreeing to the payment of dividend at 3 rates, the Finance Ministry virtually allowed the average dividend rate to fall below the average borrowing rate of the Central Government. The witness stated:

"The average borrowing rate is 6.5 per cent. If you take weighted average rate of three segments, it will fall below the average borrowing rate."

19. When asked about the justification for the Railways, for not paying even the bare interest charges on the entire capital-at-charge even after grant of considerable dividend reliefs, the witness stated:

"The justification can best be furnished by the Railways. Apart from various concessions which have been given, they have certain other obligations which they call as social burden. The main among them are:

1. The loss which the Railways incur on the suburban railways.
2. The loss which they incur on certain unremunerative branch lines.

Despite all these concessions, they have not been able to pay the full dividend liability. As I mentioned earlier, as on 31-3-1981, it was Rs. 603 crores. Now, it will be slightly less than this. They have paid some amount of arrears of dividend, say about Rs. 6 crores or 7 crores. The account for the year 1981-82 have not been closed finally."

20. The Committee enquired whether it would not be proper to fix a single rate of dividend for the entire capital, at least equal to the average borrowing rate, for the period 1980-85. The Financial Commissioner of Railways stated:

"I would submit to the Committee that firstly the capital comes in blocks of years, year after year. There are certain periods when the capital is very cheap and in other period it is costlier. On the capital that we had invested, say in 1853, we are paying interest continuously. It is interest in perpetuity. There is no repayment of the capital invested. So on certain segments of the capital, we have paid even more than twice the capital invested in the form of dividend. Even in the commercial practice, each loan carries a different rate of interest. There is no retrospective revision of the rate of interest. Therefore, upto 1964, it is up to a certain level. Then on the comparison of the average borrowings and dividend rate, we have paid upto 1980 the same rate can continue except in lieu of passenger fare tax, where we have proposed half a per cent rise from 1980 onwadrs, we will step up by another half per cent".

21. The witness explained that the system of payment of differential rates of dividend had been accepted in principle by the successive Railway Convention Committees. Therefore, the application of a uniform rate of dividend based on the average borrowing rate of the Government of India would result in a tremendous load on the revenues of the Railways. The Financial Commissioner, however, agreed that in the present situation dividend was a misnomer since there was no contribution to the General Revenues over and above the average borrowing rate. It was in fact a concessional rate of interest.

22. According to the information furnished to the Committee, the net return on capital-at-charge in 1951-52 was 7.3 per cent when the average borrowing rate was as low as 3.12 per cent. During 1981-82 the net return was 6.12 per cent compared to the average borrowing rate of 6.3 per cent and was expected to rise to 7.5 per cent in 1984-85 against the average borrowing rate of 6.9. Judged strictly

from a commercial point of view *i.e.* relating the return to the cost of borrowing, the performance of the Railways has not shown any improvement. The Committee enquired whether it would not be desirable to have a more reliable comparison in terms of the return relative to the average borrowing rate rather than the return in percentage terms which could be misleading. The Financial Commissioner then explained:

> "The railway operations are very complex. We have to regulate the investment. We must try to invest on productive ventures. From time to time, we keep on changing the ultimate return, as a result of total operation of the railways. That will be the test of whether we have attained that rate of return also. Progressively, they are coming up... From 1966-67 onwards, the railways passed through decade of deficits. Various factors are there, one is the social burden. The other is that the revision of freight rates and fares have not kept pace with the increase in in cost. We have always lagged behind. Even the revisions that were made were inadequate. Even today after the successive revisions that we have made during the last two years, we are still far behind the cost level. The earnings will get reduced. The expenses are mounting up. With the improvement in performance in the last two years, we are catching up. The end return is also going up".

23. Asked about the possibilities of attaining a rate of return of 10 per cent on the capital invested in Railways as referred to by the Rail Tariff Enquiry Committee, the Financial Commissioner stated:

> "We hope that by the end of the Seventh Plan we should be able to attain this level. A rate of return of 7.8 per cent is already there; another 2.2 per cent we will make up."

24. To a question whether they were sure that their cost of operations would not rise, the witness replied:

> "We have to tackle it in two ways. One is increasing revenues. Another is cutting down the operational costs. Operational costs can be cut down by innovations in traffic movement, use of better technology, by changing over from diesel to electric traction. We have a large programme for that. By this way we should be able to

reduce the impact of the run-away costs increase on the earnings over this time gap of another seven to eight years we should be able to bring the revenue in line with the costs. Our efforts would be to attain this 10 per cent by the end of the Seventh Plan".

25. Asked about the criterion of investment in regard to minimum financial return on capital from time to time and whether it has increased with the increase in current/average borrowing rate of interest, the Financial Commissioner of Railways stated:—

"With the increase in the dividend rate, progressively we have increased the percentage return, expected from the projects, that is the criterion for determining the remunerativeness of the project. Prior to 1-4-1950, the criterion was that if the earnings or savings in expenses were more than the expenditure, it was treated as unremunerative. It was not quantified. It could be anything, even a difference of Re. 1/-. So long as the savings exceeded the expenses, it was considered remunerative. From 1-4-1950 the dividend rate was 4 per cent. On that date, the percentage return expected on each project was fixed at 4.25 per cent, subsequently stepped up to 5 per cent from 1-4-1955, and then raised to 5.75, and again to 6.75 per cent from 1-4-1964. So, all along, a small margin over and above the dividend rate was kept, to determine the remunerativeness of a project. Subsequently, it was decided that we should have the discounted cash flow method. Under that method, we wanted over 10 per cent, for a project to be considered remunerative. Thus, with the progressive increase in the dividend rate, we have increased the percentage return expected from each project, for determining its remunerativeness....but we have a large proportion of investment which does not give us any return. In fact, some of them give negative returns; but still, those projects are accepted for implementation, on account of other considerations like economic development, development of backward areas etc.".

26. The Ministry of Railways have informed the Committee that while retaining the existing concessions there is some scope for rationalising the concessions involved so as to bring about some degree of uniformity in the various concessions granted from time to time. Accordingly, certain proposals have been made. When

asked about the quantum of extra relief on account of the proposed rationalisation, the ministry of railways furnished the following note after evidence:

"The rationalisation suggested is more for bringing about uniformity and simplicity rather than with a view to gaining reliefs in dividend.....At present, the ore lines stand on a different footing in that full capital outlay on Bimlagarh-Kiriburu line and 50 per cent of the capital outlay on Sambalpur-Titlagarh line are fully exempted from payment of dividend. As per rationalisation proposed by this Ministry, the capital cost of these lines will be liable to payment of dividend if the lines are found to be remunerative applying the marginal cost principle. With this, the unremunerative branch lines. New Lines constructed on or after 1-4-1955 on other than financial considerations (including National Investment lines), and the two ore lines will now be governed by a uniform criterion *viz.* that dividend in respect of these lines will become payable if they become remunerative adopting the marginal cost principle. The dividend reliefs available under the present arrangement works out to Rs. 65 lakhs on these two lines. With the proposed change, this will increase to Rs. 98 lakhs provided the lines continue to be unremunerative even adopting the marginal cost principle. The net additional relief will be around Rs. 33 lakhs. However, if the lines become remunerative then there will be additional liability to pay dividend which is not there at present.

Another rationalisation proposed is that balances in the various Reserve Funds (excluding Development Fund) should be credited with interest at the same rate at which dividend is paid. Hitherto, due to the dividend rate being higher than the average borrowing rate, the difference between the two was being set off against dividend payable. Effectively, therefore the rate of interest was at the dividend rate. With the average borrowing rate being higher than the proposed dividend rate, it has now been suggested that the balances in the funds may carry the same rate of interest as the dividend rate which was effectively what was happening even under the existing arrangement. This proposal will not bring any relief to the Railways as it is essentially in the nature of an accounting adjustment."

B. Payment to States in lieu of Passengar Fare Tax:

27. Payment to States in lieu of passenger fare tax was initially fixed at Rs. 12.5 crores per annum as a lump sum. This lump sum payment was in force for the five year period 1961-66. With effect from 1966-67 the payment was enhanced to Rs. 16.25 crores per annum. This payment was incorporated into the dividend calculation through the methodology of enhancing the rate of dividend on pre-1964 capital by 1 per cent. Currently, this 1 per cent levy on pre-1964 capital less subsidy works out to Rs. 17.68 crores, of which, after setting apart the payment to States @ Rs. 16.25 crores, the balance amount is credited to the Railway Safety Works Fund.

28. The subject of adequacy of this payment to States has been gone into by successive Finance Commissions. The Seventh Finance Commission found some justification for the claims of the State Governments for enhancement of the existing rate of payment and worked out a figure of Rs. 30 crores per annum by enhancing the amount of Rs. 16.25 crores (paid from 1966-67 onwards) by the factor of 1.85 which represents the quantum of increase in non-suburban passenger traffic over the period from 1961-62 to 1976-77.

29. In this connection, the Ministry of Railways have stated that while the justification for some increase is acknowledged, the increase in the quantum of traffic from 1961-62 to 1976-77 should be correctly related not to the rate of payment in force from 1966-67 onwards but to that applicable to 1961-62. In other words, by enhancing the lumpsum payment of Rs. 12.5 crores applicable in 1961-62 by the factor of 1.85, the amount that will become payable, will be Rs. 23.12 crores per annum and not Rs. 30 crores as estimated by the Finance Commission. If, however, the increase in the quantum of traffic upto 1979-80 is taken into account, the enhancement factor would be 2.44 yielding a figure of Rs. 30.5 crores.

30. Accordingly, the Ministry of Railways have suggested that effective from 1980-81 the rate of payment for this five year period may be fixed at Rs. 23.12 crores per annum. To generate the required amount, the Ministry of Railways have further suggested that w.e.f. 1-4-1980, the 1 per cent levy on pre-1964 capital less subsidy element may be increased to 1.5 per cent. After setting apart Rs. 23.12 crores for payment to States as proposed above, the balance amount totalling approximately Rs. 3.40 crores per annum will be credited to the Railway Safety Works fund for the same purpose as recognised by the previous Railway Convention Committee. With this adjustment, the rate of dividend payable on

Capital invested upto 31-3-1964 will be 6 per cent inclusive of element of 1.5 per cent year-marked for payment to States.

31. During evidence, the Committee enquired whether it would be justified to reduce the payment from Rs. 30.5 crores to Rs. 23.12 crores. The Financial Commissioner of Railways stated:

"We have accepted the basis suggested by the Finance Commission. What happened was that they arrived at a factor of 1.85 as the increase in the volume of passenger traffic on the non-suburban section from 1962 to a relevant year. They applied that to the increased amount of Rs. 16.25 crores which came into existance later. If this factor is applied to what was payable in a perticular year, then it should Rs. 12.5 crores of rupees and if this is multiplied by 1.85, it gives the figures of Rs. 22.13 crores. If we extend it still further, the factor also increases. Rs. 30 crores would become justifiable. We have accepted the Finance Commission's basis and now another Finance Commission has been set up. So, further relief will be on the basis of their recommendation. This is the maximum that had given with reference to the financial capability. It is not only Rs. 23.12 crores but the State Governments will also get a little extra. Another Rs. 3.4 crores will go to them to cover the accidental compensation and safety fund which will be Rs. 26.5 crores in total. It will mean that there will be fifty per cent increase over the present level."

32. The representative of the Ministry of Finance stated:—

"The reaction of the States is well known, they will not be happy with this figure. In fact, the States would like the figure to be higher than Rs. 30 crores, if it is permissible or possible. But our contention was and that is the Railway's point of view also that while the States have a claim that they should get more money on account of repeal of passenger fare tax, they should also keep in mind that they are running a lot of branch lines at the instance of the State Governments where the loss to be incurred by them is over Rs. 32 crores. If the Railways are rendering this kind of services to the State, then they should not be particular to press for more and more amount of repeal of passenger fare tax.

The view in the Ministry of Finance was that if 1.85 factor has to be applied and if the growth has to be compared with 1961-62, it should be multiplied by 1.85. In any case, whatever the recommendation of the present RCC regarding the quantum of grant, this matter will again go to the Finance Commission and it will take into account how much is the amount which is being received by the States on account of this and it will be taken into the account in the total resources available with the States."

C. Contribution to the Depreciation Reserve Fund

33. The Sixth Plan provides for a considerable stepping up in the appropriations from Railway Revenues to the Depreciation Reserve Fund. The appropriation to the Fund during the current Plan period is proposed at Rs. 2100 crores as compared to only Rs. 650 crores during the five years 1974—79 (four years of the curtailed Fifth Plan and 1978-79) and Rs. 525 crores during the Fourth Plan (1969—74).

34. The significant feature of the proposed level of appropriation is the considerable stepping up in the annual appropriation to the Fund during the Sixth Plan period. As against an appropriation Rs. 220 crores in the first year of the Plan, the amount budgetted for during 1981-82 is Rs. 350 crores and that forecast for the final year 1984-85 is as high as Rs. 610 crores. The annual level of Depreciation Reserve Fund appropriation is thus envisaged to rise by nearly 2.8 times during the Fifth Year of this Plan (13.8 per cent share of total working expenses).

35. This massive increase, according to the Ministry of Railways, can be financed only by generation of adequate revenues through the proposed resources mobilisation so as to realise the increased earnings of about Rs. 225 crores per annum on an average from 1982-83 onwards. The position of opening balance of the fund on 1-4-1980, the proposed appropriation and withdrawals in the Plan period and anticipated closing balance at the end of the Plan is indicated as under:—

(Rs. in crores)

		1980-81	1981-82	1982-83	1983-84	1984-85
Opening Balance		313.58	275.59	193.41	127.51	132.31
Appropriation to the Fund	Rev.	220.00	350.00	420.00	500.00	610.00
	Cap.	3.20	3.50	4.00	4.50	5.00
Interest on Balances		17.44	14.32	10.10	8.30	12.28
Withdrawal from the Fund		278.63	450.00	500.00	508.00	513.00
Closing Balance		275.59	193.41	127.51	132.31	246.59

The Ministry of Railways have intimated that the figures for the year 1981-82 and 1982-83 have since undergone a change and the latest figures are as under:

(Rs. in crores)

		1981-82 (RE)	1982-83 (BE)
Opening Balance		275.59	152.70
Appropriation to the Fund	Rev.	350.00	500.00
	Cap.	3.30	3.31
Interest on Balances		13.08	9.29
Withdrawal from the Fund.		489.27	523.00
Closing Balance.		152.70	142.30

36. The Ministry have further stated that the proposed increase in expenditure is fully justified in view of the serious situation arising out of the heavy accumulated arrears in renewal and replacement of railway assets. Indeed, as explained by the Minister of Railways in his speech presenting the Railway Budget for 1981-82 to Parliament, the main thrust of the Railways' Sixth Plan is towards rehabilitation of Railway assets.

37. The Ministry have accordingly submitted the following for the consideration of the Committee that:

(i) Expenditure on replacements and renewals, met out of the DRF is estimated to form 44 per cent of the total plan outlay and constitutes the main part of Railways internal resource mobilisation for the Sixth Plan. To finance this level of expenditure, an appropriation of Rs. 2,100 crores to the Fund out of Railways' finance is the minimum necessity. This level of appropriation is higher than the recommendations of the Rail Tariff Enquiry Committee which assessed the desired level to appropriate Rs. 1635 crores at 4.7 per cent of the Block Value of wasting assets.

(ii) Despite the increased provision, the arrears in replacements and renewals will by no means, be overtaken during the plan period. On the contrary, overaged rolling stock will continue in use and arrears in track renewals will actually increase.

(iii) In order to finance the proposed apropriation, it will be essential to generate additional revenue through resource mobilisation.

(iv) Increase in prices could seriously undermine the planned replacements and renewals, unless suitably compensated by unward revision in the plan outlay; and

(v) there is urgent need to accelerate the pace of clearance of arrears of replacement and reduce the throw forward arrears to Seventh Plan.

38. In the supplement to the memorandum on Depreciation Reserve Fund, the Ministry of Railways have informed that the Railways Reforms Committee appointed by the Government of India to examine and report on various aspect of railways working have, pending submission of a full report, made the following recommendations for augmentation of contribution to the Depreciation Reserve Fund:—

"(i) The Committee have broadly assessed that an additional amount of Rs. 309 crores (Net) will be needed during the year 1982-83 under DRF. This would need stepping up of the appropriation to DRF for the year 1982-83 from Rs. 500 crores to Rs. 809 crores. With this additional allotment, primary renewals to an extent of 3,300 kms. secondary renewals of 1,500 kms. replacement of 16,000 wagons and 1,350 coaches should be possible.

(ii) Additional funds required for track renewal and replacement of overaged coaches and wagons during the last two years of the Sixth Five Year Plan should also be taken note of while asking for (a) additional allotments for the Sixth Five Year Plan and (b) contribution to DRF.

(iii) The Ministry of Railways should immediately approach the Railway Convention Committee for enhancing the contribution to the DRF for the year 1982-83 from Rs. 500 crores to Rs. 809 crores. For the subsequent years of the Sixth Five Year Plan, the assessment made by the Committee of the Funds required for track renewals and replacements of coaches and wagons should be taken note of and appropriation to DRF fixed accordingly."

39. In this context the following note of dissent recorded by Dr. Manmohan Singh, former Member, Planning Commission (now Governor, Reserve Bank of India) is relevant:

"While I agree that resources for replacement and renewal of Railway assets have to be provided on a priority basis, I am unable to endorse the specific outlays recommended by the Committee under different heads for the years 1982-83 to 1984-85. In my view, the Committee having indicated broad dimensions of the physical programme of replacement and renewal the matter should thereafter be left to the Ministry of Railways to work out the annual phasing and the requirement of funds year-wise. While replacement and renewal of existing assets must be given high priority, the actual phasing of expenditure must take into account not only the physical capacity to implement a programme of a given size but also the availability of financial resources and competing claims thereof."

40. The Ministry of Railways have stated that in so far as the current year is concerned they have already raised the contribution to Depreciation Reserve Fund from Rs. 350 crores in 1981-82 to Rs. 500 crores in the current year. This has been possible by increasing revenue arising out of Railways moving increased traffic, substantial revision in freight and fares during the last two years and stricter measures taken to control the expenditure. That being the position, there is hardly any scope left for improving the generation of internal resources during the current year.

41. The Ministry of Railways have further stated that since there is no possibility of raising freights and fares during the current year, the other alternatives could be:

(a) depressing the payment of Dividend to General Revenue correspondingly; or

(b) making available additional resources by the Central Government from their own Funds for meeting this requirement under Depreciation Reserve Fund.

42. The Ministry of Finance have, however, not agreed to any of the above alternatives proposed by the Ministry of Railways. Their comments in this regard are reproduced below:—

"In a memorandum to the Railway Convention Committee, 1980 on 'Tentative forecasts of the financial prospects of the Railways during the Sixth Plan period (1980-85)' finalised after consultation with this Ministry, a total contribution of Rs. 2100 crores to the DRF during the Sixth Plan period was envisaged. The Railways have so far contributed Rs. 220 crores to DRF during 1980-81 and

Rs. 350 crores during 1981-82, the current year's budget provides Rs. 500 crores on this account, leaving a balance of Rs. 1030 crores to be contributed during the next two years.

Implementation of the interim recommendations of the Railway Reforms Committee would mean an additional contribution of Rs. 625 crores during the last three years of the Plan, commencing from the current year. As the operational cost of the Railways is going up steadily, it is by no means certain that the Railways would be able to contribute even Rs. 2100 crores to the DRF during the Sixth Plan period, as presently envisaged without going in for additional resource mobilisation over and above what has already been done. Stepping up of the contribution to the DRF further as recommended by the Railway Reforms Committee may result in Railway defaulting in payment of full dividend to General Revenues even at the existing rates; and this would, in effect, mean transfer of larger resources from General Revenues to Railways at the expense of other plan sectors.

An additional Plan outlay of Rs. 190 crores for Railways in the current year has already been agreed to. Since the Central Budget is already under a severe strain, it is not possible for this Ministry to agree to its bearing any further burden on this account......"

43. Asked whether in view of the need for steep increase in the provision for Depreciation Reserve Fund during the Sixth Plan, a part of the expenditure on renewal could be met out of Capital, the representatives of the Ministry of Finance stated:

"This is for replacement and renewals. So normally, according to any commercial principles, they should come out within the current earnings of the enterprise and it does not look appropriate that the Government should give capital for this. Of course, for the General Budget it does not make much difference".

44. The Financial Commissioner for Railways stated:—

"If we incur additional liability by way of interest for renewing the assets, it does not give you additional earnings. Although there is an improvement in the efficiency of performance, some additional earnings will come, but it may not be to the same extent as a new additional asset would bring in. Therefore, normal practice is that renewals and replacement should go to Revenue".

45. Asked whether it would not be proper to revert to the system of charging only the historic cost of assets to the Depreciation Reserve Fund, the Financial Commissioner for Railways stated:

"In 1924 we introduced the Depreciation Reserve Fund. Originally it was up to the historical cost of the asset that the charge went to the Depreciation Reserve Fund. The improvement element was to capital. Later on when the question of over-capitalisation was taken up, it was declared that whether it is improvement or inflationary element, every thing should be charged to revenue. The contribution from the revenue to the depreciation reserve fund should meet all the cost. One thing to be borne in mind is that this capital is permanent on our books. These are interest bearing loans in perpetuity. In a situation like that if we keep on adding to the capital, the interest liability goes on increasing and it becomes a very big burden".

46. The Financial Commissioner added that over 10-12 years the provision for depreciation had been totally inadequate with the result that the Railways were saddled with a large percentage of overaged rolling stock and there were huge arrears of track renewal. It would thus not be possible for the Railways to finance such a high level of expenditure and some unorthodox methods would need to be adopted to meet the situation. He suggested that either the Planning Commission should agree to a Plan Grant of an additional Rs. 500 crores from the General Revenues or a moratorium on dividend agreed to for the remaining years of the Sixth Plan.

47. Asked if any expert Committee was set up to go into the basis for appropriation to Depreciation Reserve Fund, the witness stated that the Railway Reforms Committee were considering the matter.

48. In a subsequent note on the subject the Ministry of Railways have stated:

"In Recommendation No. 3 contained in their Fourth Report the Railway Convention Committee have agreed to a contribution to Depreciation Reserve Fund of Rs. 500 crores being made during 1982-83. Accordingly a provision of this amount was made in the Budget Estimates for 1982-83. Subsequently, a Supplementary Demand for Grants for Rs. 190 crores (net) was presented to and voted by Parliament to enable making a start on two new lines and to expedite progress on certain important works during the current year to increase Railways' capacity to move additional traffic in 1982-83 and in subsequent years.

The expenditure of Rs. 190 crores is to be met partially by budgetary support from the Central Government (Rs. 134 crores) in the form of Capital and balance to be met from generation of additional internal resources by the Railways (Rs. 56 crores). Out of the additional internal resources to be generated by the Railways, expenditure of Rs. 55.30 crores is out of the Depreciation Reserve Fund and Rs. 0.70 crores is from the Development Fund.

In view of the heavy withdrawal from the Depreciation Reserve Fund during the Sixth Plan period, the sizeable balance that was available at the beginning of the Plan period under this fund has dwindled considerably. The opening balance of Rs. 313.58 crores as on 1-4-1980 is expected to come down sharply to Rs. 69.49 crores taking into account the additional expenditure necessitated by the Supplementary Grant.

The level of this balance is considered to be on the very low side.

During the current year (1982-83) the trend of earnings is better than what was expected. This may make it possible to increase the contribution to the Depreciation Reserve Fund to the extent of Rs. 56 crores to meet the additional expenditure out of the fund as a result of the Supplementary Grant, Without adversely affecting the quantum of dividend payable.

The expenditure from Depreciation Reserve Fund will have to be at a considerably higher level than in 1982-83, as also pointed out by the Railway Reforms Committee keeping in view the dire need for speeding up the rehabilitation of critical railway assets. The exact amount can be assessed only when budget exercises are gone through.

In view of the above, it is for the consideration of the Committee whether the contribution to Depreciation Reserve Fund:—

(a) be increased from Rs. 500 crores to Rs. 556 crores in 1982-83; and

(b) for 1983-84, it may be stepped up suitably keeping in view the recommendations of the Railway Reforms Committee.

D. Development fund

49. The Railway Convention Committee (1977) in para 11 of their Fifth Report had endorsed the recommendation of earlier Committees for continuance of the arrangements to obtain temporary loans from General Revenues to finance expenditure works chargeable to Development Fund in case the fund is not able to meet the expenditure from its own resources.

50. The present position in regard to financing expenditure out of the Development Fund is as under:—

(i) the cost of all works relating to amenities for passengers and other Railway users including additions to existing or new works falling within one or more of the categories listed for the purpose, irrespective of any monetary limit;

(ii) the cost of all labour welfare works, falling within one or more of the categories listed for the purpose, including additions to the existing or new works, estimated to cost individually above Rs. 25,000; and

(iii) the entire cost of works costing more than Rs. 3 lakhs each, falling within one or more of the eategories listed for the purpose, which are unremunerative, but necessary for the improvement of operational efficiency, including additions to the existing or new works.

51. The Railway Convention Committee (1980) in their Third Report presented to Parliament on 18th September, 1981 recommended for raising the limits of Rs. 25,000/- and Rs. 3 lakhs mentioned in sub-paras (ii) and (iii) above, to Rs. 1 lakh and Rs. 10 lakhs respectively. The Committee have further recommended that the expenditure now being incurred on provision of fans and other amenities in Types I and II Railway Quarters costructed before

1-4-1974, amounting to about Rs. 14 crores, be charged to Capital, treating it as a new scheme.

52. The Ministry of Railways have suggested that the present arrangement of obtaining loan from General Revenues to meet expenditure chargeable to Development Fund in case of inadequate or no surplus, may be continued; the interest on such loans being charged at the rate applicable to loans given to State Governments as recommended by the RCC, 1977.

53. During oral evidence, the Committee desired to know the interest rate at present chargeable to State Governments; and whether loans to Development Fund should also be treated on the same footing. The Financial Commissioner stated that the current rate of interest charged on loans advanced to the State Governments from the General Revenues was 6.25 per cent with a rebate of 0.25 per cent on timely repayment. The Railways are also required to pay interest on the same rates on loans taken from the General Revenues for meeting expenditure chargeable to the Development Fund. He suggested that 50 per cent of the Revenue Surplus in a year should be earmarked to offset the liability of the Development Fund to the General Revenues and the remaining 50 per cent should be set off against the deferred dividend liability.

54. A further note on the subject furnished by the Ministry of Railways is reproduced below:—

> "In terms of recommendation No. 19 of the 5th Report of the Railway Convention Committee 1977 the net surplus available with the Railways after meeting the following:—
>
> (i) interest due on outstanding Development Fund loan; and
>
> (ii) expenditure on works chargeable to Development Fund, shall be used for paying Deferred Dividend Liability.

The Railways' indebtedness to the General Revenues was approximately of the order of Rs. 600.94 crores at the end of 1981-82. In the Budget Estimates for 1982-83, it is anticipated that this indebtedness would be Rs. 536.99 crores, comprising:—

(a) Loans for Development Fund—Rs. 224.17 crores; and

(b) Deferred Dividend Liability—Rs. 312.82 crores.

Considering the magnitude of the outstanding balance on account of Deferred Dividend Liability and the extent of surpluses that have been generated, it will take quite a long time for the Deferred Dividend Liability to be extinguished. It is only then that surpluses, if any can be allocated for reducing the outstanding loans on Development Fund Account. In the meantime, in the years in which the surpluses are not adequate to meet even the interest liability on Development Fund Account and the expenditure from the Development Fund, further loans will have to be obtained for the Development Fund thereby increasing the indebtedness on this account and the Railways continuing to pay interest thereon year after year without any liquidation of the principal amount.

The arrangements as outlined above, besides affecting Railways' finances adversely, do not provide adequate incentive for generation of surpluses as there is no immediate financial relief available in the form of reduction in interest burdens.

Considering that the Deferred Dividend Liability is non-interest bearing, the Central Government Revenues would stand to gain by the present arrangement in as much as the non-interest bearing liabilities are liquidated first. However, as pointed out above, this arrangement does not in the long run work out favourably for the Railways. To meet the needs of the situation in all fairness it is proposed that the net surplus available after meeting the expenditure on works chargeable to Development Fund and *interest* due on outstanding loans under Development Fund, may be apportioned as follows in the ratio of 50:50 for liquidation of:—

(a) Principal amount of outstanding Development Fund loan (50 per cent),

(b) Deferred Dividend Liability (50 per cent).

The above proposals have been discussed informally with the Ministry of Finance who have no objection to the adoption of this procedure.

It is for consideration of the Committee whether the net surplus available with the Railways after meeting the expenditure on works chargeable to Development Fund and *interest* due on outstanding loan under Development Fund shall be appropriated as follows for payment of:—

(a) Outstanding amount of loan under Development Fund (50 per cent), and

(b) Deferred Dividend Liability (50 per cent)."

55. The successive Convention Committees from 1949 onwards have been insisting on adoption of a rate of dividend applicable to the capital invested on the Railways to include an element of contribution to General Revenues over and above the average interest paid by Government on its borrowings.

56. Reiterating this view the Railway Convention Committee (1977) observed as follows (February, 79):—

"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 contributions 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 a matter on which the Committee would reserve their opinion till the views of the Ministry 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 the 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.

The Committee accordingly recommend that the present mode of payment of a 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".

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*Note:—The matter could not be finalised by the Committee due to dissolution of Lok Sabha in August, 1979.

57. The differential rates of dividend fixed as 4.5 per cent for pre-1964 capital and 5.75 per cent for the capital invested thereafter were revised later as 5.5 per cent (inclusive of 1 per cent for payments to the States in lieu of passenger fare tax etc.) and 6 per cent respectively. Alluding to the need for upward revision of the dividend rate again stressed by the Ministry of Finance, the Ministry of Railways have stated that "the sole justification for such increase is the principle of providing for a net contribution on Railway investments over and above the bare interest rates. But it may be observed...that right upto 1979-80 the average borrowing rate, though progressively increasing from year to year, remained below the dividend rate of 6 per cent. It is only in 1980-81, i.e., first year of the current Sixth Plan that the average borrowing rate crossed the dividend rate of 6 per cent. On the same principle of relating the dividend rate for a segment of Railway capital to the average borrowing rate of Government for the relevant period, which has been accepted by the previous Railway Convention Committees, there is therefore, no justification for increasing the rate of dividend on capital invested upto 1979-80 beyond the existing level of 6 per cent.

58. The Committee are unable to agree to the position as analysed by the Financial Commissioner for Railways in the foregoing paragraph. The Committee would like to point out that the dividend rate of 6 per cent is applicable only to captial invested after 31st March, 1964—it is the average of the rates of dividend paid on the entire capital which has to be compared with the average borrowing rate of the Government of India. The Committee find that the average rate of dividend has consistently fallen short of the average borrowing rate since 1977-78. The Committee would further like to point out that the one per cent extra dividend paid over and above 4.5 per cent on capital invested upto 31st March, 1964 represents payments to the States in lieu of the passenger fare tax etc. This, on no account can be considered to be part of the dividend liability of the Railways. As such the average rate of dividend paid by the Railways has fallen short of the average borrowing rate from the year 1972-73. In other words, the contribution of the Railways to General Revenues has been a negative figure from that year.

59. The Committee have carefully considered the proposal of the Ministry of Railways that in respect of capital invested during the Sixth Plan the rate of dividend may be fixed at the average borrowing rates applicable for the period. According to the Ministry of Railways, "this suggestion is made in order to remove any anomalies arising from the difference between the average borrowing rate and

dividend rate during the Plan period". The Ministry have further stated that the question of restoring the principle of "contribution" may be considered for the next quinquennium by which time there is reasonable prospect of Railway finances being in a smoother state.

60. The proposal thus involves payment of dividend at three different rates during the quinquennium 1980—85, viz. 4.5 per cent on pre-1964 capital, 6 per cent on capital invested during 1964—80 and the average borrowing rate for the capital invested thereafter (the mean average borrowing rate for the period 1980—85 is estimated to be around 6.5 per cent).

61. The Committee observe that the Ministry's suggestion for temporary suspension of the principle of dividend rate including an element of contribution would in effect mean going below the average interest rate on the capital so far invested in the Railways. The data furnished to the Committee shows that if the Ministry's proposals were to be accepted, the Railways would pay dividend (excluding payment to States) at an average rate of 5.09 per cent in 1980-81, 5.33 per cent in 1981-82 and 5.48 per cent in 1982-83 (BE) as against the average borrowing rate of 6.1 per cent, 6.3 per cent, 6.5 per cent and 6.6 per cent in the respective years. On a rough reckoning, the shortfall in paying even the bare interest charges on the entire capital-at-charge (Rs. 6096 crores as on 31-3-1981) would be of the order of Rs. 300 crores during the period 1980—85. The Committee are sorry to point out that neither the Ministry of Railways nor the Ministry of Finance have brought out this fact clearly in the memorandum placed before the Committee. It was left to the Committee to probe and bring out the implications. The Committee expect that in future, due caution will be observed in working out the financial implications of the proposals submitted to them.

62. The Railway's indebtedness to General Revenues stood at Rs. 603.54 crores as on 31st March, 1981 of which over Rs. 197 crores represents deferred dividend liability and the balance loans to the Development Fund. As at the end of 1981-82 it stood at Rs. 600.94 crores. Considering the unhappy state of Railway finances, and pending further consideration of the matter, the Committee suggest that purely as an interim measure the actual payment of dividend for the period 1980—84 be restricted to the amount worked out applying differential rates proposed by the Ministry of Railways and agreed to by the Ministry of Finance.

Rates of Dividend for 1980—84.

63. The Committee accordingly recommend that dividend at the following rates may be paid by the Railways to General Revenues for the period 1980—84:—

(i) a rate of 6 per cent may be adopted for payment of dividend on capital invested upto 31-3-1980 (inclusive of 1.5 per cent on capital invested up to 31-3-1964 for payment to States in lieu of passenger fare tax etc.)

(ii) a mean percentage of 6.5 may be adopted for payment of dividend on the capital invested in the Railways after 31-3-1980.

(iii) the amounts to cover payments to States in lieu of passenger fare tax etc. may be found by computing dividend at 1.5 per cent instead of the existing 1 per cent of the capital upto 31-3-1964 less subsidy element out of which Rs. 23.12 crores may be passed on to the States in lieu of passenger fare tax and the balance utilised to assist the States in providing their portion of the resources required for financing safety works as at present. Further increase could be considered on the basis of the recommendations of the Eighth Finance Commission.

64. The Committee further recommend that the existing dividend reliefs and other equitable concessions given for calculation of dividend payable by the Railways to the General Revenues may continue. In addition, the Committee agree that entire capital on the ore line (Sambalpur-Titlagarh) instead of 50 per cent thereof may be exempt from the payment of dividend subject to the usual conditions and the balances in the various Railway Reserve Funds (except the Development Fund) may carry the same rate of interest at which dividend is actually paid.

65. In considering the dividend payable for the period 1980—85 the Committee are reluctant to depart from the time-honoured principle of expecting the Railways to make at least a token contribution to the General Revenues over and above the average borrowing rate. The Railway Convention Committee (1977) had suggested that the reliefs in dividend liability should be shown in the Civil estimates as specific subsidy from General Revenues to Railway Revenues in order to enable Parliament to appreciate the type of operations of Railways which carry subsidy and to decide on the continuance thereof from year to year. Keeping this salutary principle in view, the Committee recommend that the shortfall in payment of dividend to the extent of the interest at the average borrowing rate on the entire capital plus a token contribution may be shown as an additional subsidy in

the estimates presented to Parliament. This could be a grant for renewals and replacement of assets of Railways for the present. The Committee await proposals in this regard before making their final recommendation on .the rate(s) of dividend and the quantum of subsidy.

66. According to the information submitted to the Committee, the net return on capital-at-charge was 7.3 per cent in 1951-52 as against 6.12 per cent in 1981-82 expected to rise to 7.5 per cent in 1984-85. While prima-facie, the projected financial performance of the Railways would be better than the earlier performance in absolute terms, the Committee would like to point out that the return relative to cost of capital is very low. Compared to the position in 1951-52 when the rate of return was 7.3 per cent vis-a-vis the then average borrowing rate of 3.16 per cent, the projected return of 7.5 per cent vis-a-vis the anticipated borrowing rate of 6.9 per cent in 1984-85 is not at all a matter of gratification. The Committee would stress that the Railways should substantially augment their earning capacity by subjecting their commercial investment proposals to stricter test of remunerativeness commensurate with the constantly rising cost of capital, otherwise it is doubtful whether the Railways will be in a position to pay dividend even at the bare interest rate in the foreseeable future.

Depreciation Reserve Fund

67. The appropriation to the Depreciation Reserve Fund during the Sixth Plan (1980—85) is proposed at Rs. 2,100 crores as compared to only Rs. 650 crores during the quinquennium 1974—79 According to the Ministry, the steep increase in expenditure is fully justified in view of the serious situation arising out of the heavy accumulated arrears in renewal and replacement of Railway assets. Appropriations of the order of Rs. 220 crores, Rs. 350 crores and Rs. 500 crores were made in the first three years (1980—83), leaving a balance of Rs. 1030 crores required during the remaining two years. The Railway Reforms Committee have, broadly assessed the requirement for the year 1982-83 to be of the order of Rs. 809 crores i.e., Rs. 309 crores more than the amount already budgetted for. The Ministry of Railways however feel that it will be possible to increase the contribution to the Depreciation Reserve Fund to the extent of Rs. 56 crores only. The Committee have. therefore, no objection to the appropriation to the Depreciation Reserve Fund being raised from Rs. 500 crores to Rs. 556 crores in 1982-83. So far as the next financial year, viz: 1983-84, is concerned the Committee have no objection to the contribution being stepped up further keeping in view the assessment of the Railway Reforms Committee and the Railway's capacity to raise additional resources.

68. In view of the increasing incapacity of the Railway to pay dividend even at the bare interest rate and the huge replacement cost to be met out of the Railways own surpluses at present, the Committee would await the results of the study of the basis for appropriation to the Depreciation Reserve Fund before suggesting measures to ensure proper funding for replacement needs without diminishing dividend liability.

Development Fund

69. In a memorandum submitted to the Committee, the Ministry of Railways have stated that considering the magnitude of the Railways' indebtedness to General Revenues Rs. 600.94 crores at the end of 1981-82 and Rs. 536.99 crores in 1982-83 (Budget estimates) and the extent of surpluses that have been generated, it will take quite a long time for the deferred dividend liability to be extinguished. Only the surpluses accruing thereafter can be allocated for reducing the outstanding loans on Development Fund account. In the meantime, in the years in which the surpluses are not adequate to meet even the interest liability on Development Fund account and the expenditure from the Development Fund further loans will have to be obtained for the Development Fund, thereby increasing the indebtedness on this account and the Railways continuing to pay interest thereon year after year without any liquidation of the principal amount. It has therefore been suggested that the net surplus available after meeting the expenditure on works chargeable to Development Fund and interest due on outstanding loans under Development Fund may be apportioned in the ratio of 50:50 for liquidation of the principal amount of outstanding Development Fund loan and deferred dividend liability.. The implication of this in regard to the interest relief that would accrue to the Railways has, however, not been brought out. The Committee would therefore like to consider this matter in their final Report.

70. The Committee however suggest that the present arrangement of obtaining loan from General Revenues to meet expenditure chargeable to Development Fund in case of inadequate or no surplus, may be continued, the interest on such loans being charged at the rate applicable to loans given to State Governments as recommended by the Railway Convention Committee (1977).

NEW DELHI;
November 4, 1982
Kartika 13, 1904 (*S*)

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

APPENDICES

APPENDIX—I

(*Vide* para 4 of Introduction)

Statement showing the action taken by Government on the recommendations contained in the Fourth Report of Railway Convention Committee, 1980—*Rate of Dividend for* 1982-83 *and other Ancillary Matters*

Sl. No.	Recommendations/Observations	Action taken by Government
1.	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.	It is submitted that finalisation of forecasts of the financial prospects needed several discussions with the Ministry of Finance and consequently re-working of the exercises. All these processes were time consuming and hence the delay which is regretted.
2.	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.	The observations of the Committee are noted. All the 16 Memoranda, including the Memorandum on the Review of the rate of Dividend payable by Railways to General Revenues, have since been submitted to the Committee.
3.	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;	

Sl. No.	Recommendations/Obervations	Action taken by Government
	(b) in the case of temporay borrowings from the General Revenues for meeting the expenditure chargeable to development Fund, 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	Accepted and implemented in the Railway Budget for 1982-83.
	(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.	

APPENDIX—II

(*Vide* para 5 of Introduction)

Summary of Recommendations/Observations

Sl. No.	Reference to Para of Report	Recommendations/Observations
1	2	3
1.	55	The successive Commission Committees from 1949 onwards have been insisting on adoption of a rate of dividend applicable to the capital invested on the Railways to include an element of contribution to General Revenue over and above the average interest paid by Government no its borrowings.
2.	56	Reiterating this view the Railway Convention Committee (1977) observed as follows (February, 79):— "The Committee do not see any reason why any departure should be made from the salutary prinicple of the Railways making a positive contribution to General Revenue over and above the interest payable on the capital-at-charge at the average borrowing rate of Government of India. The Committee are, therefore, distrssed 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 increase 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

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		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 a matter on which the Committee would reserve their opinion till the views of the Ministry 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 the 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. The Committee accordingly recommend that the present mode of payment of a 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".
3.	57	The differential rates of dividend fixed as 4.5 per cent for pre-1964 capital and 5.75 per cent for the capital invested thereafter were revised later as 5.5 per cent (inclusive of 1 per cent for payments to the States in lieu of passenger fare tax etc.) and 6 per cent respectively. Alluding to the need for upward revision of the dividend rate again stressed by the Ministry of Finance, the Ministry of Railways have stated that "the

*Note:—The matter could not be finalised by the Committee due to dissolution of Lok Sabha in August, 1979.

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		sole justification for such increase is the principle of providing for a net contribution on Railway investments over and above the bare interest rates. But it may be observed...that right upto 1979-80 the average borrowing rate, though progressively increasing from year to year, remained below the dividend rate of 6 per cent. It is only in 1980-81, i.e. first year of the current Sixth Plan that the average borrowing rate crossed the dividend rate of 6 per cent. On the same principle of relating the dividend rate for a segment if Railway capital to the average borrowing rate of Government for the relevant period, which has been accepted by the previous Railway Convention Committees, there is therefore, no justification for increasing the rate of dividend on capital invested upto 1979-80 beyond the existing level of 6 per cent.
4.	58	The Committee are unable to agree to the position as analysed by the Financial Commissioner for Railways in the foregoing paragraph. The Committee would like to point out that the dividend rate of 6 per cent is applicable only to capital invested after 31st March, 1964—it is the average of the rates of dividend paid on the entire capital which has to be compared with the average borrowing rate of the Government of India. The Committee find that the average rate of dividend has consistently fallen short of the average borrowing rate since 1977-78. The Committee would further like to point out that the one per cent extra dividend paid over and above 4.5 per cent on capital invested upto 31st March, 1964 represents payments to the States in lieu of the passenger fare tax etc. This, on no account can be considered to be part of the dividend liability of the Railways. As such the average rate of dividend paid by the Railways has fallen short of the average borrowing rate from the year 1972-73. In other words, the

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		contribution of the Railways to General Revenues has been a negative figure from that year.
5.	59	The Committee have carefully considered the proposal of the Ministry of Railways that in respect of capital invested during the Sixth Plan the rate of dividend may be fixed at the average borrowing rates applicable for the period. According to the Ministry of Railways, "this suggestion is made in order to remove any anomalies arising from the difference between the average borrowing rate and dividend rate during the Plan period". The Ministry have further stated that the question of restoring the principle of "contribution" may be considered for the next quinquennium by which time there is reasonable prospect of Railway finances being in a smoother state.
6.	60	The proposal thus involves payment of dividend at three different rates during the quinquennium 1980—85, *viz.* 4.5 per cent on pre-1964 capital, 6 per cent on capital invested during 1964—80 and the average borrowing rate for the capital invested thereafter (the mean average borrowing rate for the period 1980--85 is estimated to be around 6.5 per cent).
7.	61	The Committee observe that the Ministry's suggestion for temporary suspension of the principle of dividend rate including an element of contribution would in effect mean going below the average interest rate on the capital so far invested in the Railways. The data furnished to the Committee shows that if the Ministry's proposals were to be accepted, the Railways would pay dividend (excluding payment to States) at an average rate of 5.09 per cent in 1980-81, 5.33 per cent in 1981-82 and 5.48 per cent in 1982-83 (BE) as against the average borrowing rate of 6.1 per cent, 6.3 per cent, 6.5

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		per cent and 6.6 per cent in the respective years. On a rough reckoning, the shortfall in paying even the bare interest charges on the entire capital-at-charge (Rs. 6096 crores as on 31-3-1981) would be of the order of Rs. 300 crores during the period 1980—85. The Committee are sorry to point out that neither the Ministry of Railways nor the Ministry of Finance have brought out this fact clearly in the memorandum placed before the Committee. It was left to the Committee to probe and bring out the implications. The Committee expect that in future, due caution will be observed in working out the financial implications of the proposals submitted to them.
8.	62	The Railway's indebtedness to General Revenues stood at Rs. 603.54 crores as on 31st March, 1981 of which over Rs. 197 crores represents deferred dividend liability and the balance loans to the Development Fund. As at the end of 1981-82 it stood at Rs. 600.94 crores. Considering the unhappy state of Railway finances, and pending further consideration of the matter, the Committee suggest that purely as an interim measure the actual payment of dividend for the period 1980—84 be restricted to the amount worked out applying differential rates proposed by the Ministry of Railways and agreed to by the Ministry of Finance.
		Rates of Dividend for 1980—84
9.	63	The Committee accordingly recommend that dividend at the following rates may be paid by the Railways to General Revenues for the period 1980—84:—
		(i) a rate of 6 per cent may be adopted for payment of dividend on capital invested upto 31-3-80 (inclusive of 1.5 per cent on capital invested upto

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		31-3-64, for payment to States in lieu of passenger fare tax etc.) (ii) a mean percentage of 6.5 may be adopted for payment of dividend on the capital invested in the Railways after 31-3-1980. (iii) the amounts to cover payments to States in lieu of passenger fare tax etc. may be found by computing dividend at 1.5 per cent instead of the existing 1 per cent of the capital upto 31-3-1964 less subsidy element out of which Rs. 23.12 crores may be passed on to the States in lieu of passenger fare tax and the balance utilised to assist the States in providing their portion of the resources required for financing safety works as at present. Further increase could be considered on the basis of the recommendations of the Eighth Finance Commission.
10.	64	The Committee further recommend that the existing dividend reliefs and other equitable concessions given for calculation of dividend payable by the Railways to the General Revenues may continue. In addition, the Committee agree that entire capital on the ore line (Sambalpur-Titlagarh) instead of 50 per cent thereof may be exempt from the payment of dividend subject to the usual conditions and the balances in the various Railway Reserve Funds (except the Development Fund) may carry the same rate of interest at which dividend is actually paid.
11.	65	In considering the dividend payable for period 1980—83 the Committee are reluctant to depart from the time-honoured principle of expecting the Railways to make at least a token

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		contribution to the General Revenues over and above the average borrowing rate. The Railway Convention Committee (1977) had suggested that the reliefs in dividend liability should be shown in the Civil estimates as specific subsidy from General Revenues to Railway Revenues in order to enable Parliament to appreciate the type of operations of Railways which carry subsidy and to decide on the continuance thereof from year to year. Keeping this salutary principle in view, the Committee recommend that the shortfall in payment of dividend to the extent of the interest at the average borrowing rate on the entire capital plus a token contribution may be shown as an additional subsidy in the estimates presented to Parliament. This could be a grant for renewals and replacement of assets of Railways for the present. The Committee await proposals in this regard before making their final recommendation on the rate(s) of dividend and the quantum of subsidy.
12.	66	According to the information submitted to the Committee, the net return on capital-at-charge was 7.3 per cent in 1951-52 as against 6.12 per cent in 1981-82 expected to rise to 7.5 per cent in 1984-85. While *prima-facie*, the projected financial performance of the Railways would be better than the earlier performance in absolute terms, the Committee would like to point out that the return relative to cost of capital is very low. Compared to the position in 1951-52 when the rate of return was 7.3 per cent *vis-a-vis* the then average borrowing rate of 3.16 per cent, the projected return of 7.5 per cent *vis-a-vis* the anticipated borrowing rate of 6.9 per cent in 1984-85 is not at all a matter of gratification. The Committee would stress that the Railways should substantially augment their earning capacity by

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		subjecting their commercial investment proposals to stricter test of remunerativeness commensurate with the constantly rising cost of capital; otherwise it is doubtful whether the Railways will be in a position to pay dividend even at the bare interest rate in the foreseeable future.
13.	67	*Depreciation Reserve Fund* The appropriation to the Depreciation Reserve Fund during the Sixth Plan (1980—85) is proposed at Rs. 2,100 crores as compared to only Rs. 650 crores during the quinquennium 1974—79. According to the Ministry, the steep increase in expenditure is fully justified in view of the serious situation arising out of the heavy accumulated arrears in renewal and replacement of Railway assets. Appropriations of the order of Rs. 220 crores, Rs. 350 crores and Rs. 500 crores were made in the first three years (1980—83), leaving a balance of 1030 crores required during the remaining two years. The Railway Reforms Committee have, broadly assessed the requirement for the year 1982-83 to be of the order of Rs. 809 crores i.e. Rs. 309 crores more than the amount already budgeted for. The Ministry of Railways however feel that it will be possible to increase the contribution to the Depreciation Reserve Fund to the extent of Rs. 56 crores only. The Committee have therefore no objection to the appropriation to the Depreciation Reserve Fund being raised from Rs. 500 crores to Rs. 556 crores in 1982-83. So far as the next financial year, viz. 1983-84, is concerned, the Committee have no objection to the contribution being stepped up further keeping in view the assessment of the Railway Reforms Committee and the Railway's capacity to raise additional resources.

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14.	68	In view of the increasing incapacity of the Railways to pay dividend even at the bare interest rate and the huge replacement cost to be met out of the Railways own surpluses at present, the Committee would await the results of the study of the basis for appropriation to the Depreciation Reserve Fund before suggesting measures to ensure proper funding for replacement needs without diminishing dividend liability.
		Development Fund
15.	69	In a Memorandum submitted to the Committee, the Ministry of Railways have stated that considering the magnitude of the Railways' indebtedness to General Revenue (Rs. 600.94 crores) at the end of 1981-82 and Rs. 536.99 crores in 1982-83 (Budget estimates) and the extent of surpluses that have been generated, it will take quite a long time for the deferred dividend liability to be extinguished. Only the surpluses accruing thereafter can be allocated for reducing the outstanding loans on Development Fund account. In the meantime, in the years in which the surpluses are not adequate to meet even the interest liability on Development Fund Account and the expenditure from the Development Fund, further loans will have to be obtained for the Development Fund, thereby increasing the indebtedness on this account and the Railways continuing to pay interest thereon year after year without any liquidation of the principal amount. It has therefore been suggested that the net surplus available after meeting the expenditure on works chargeable to Development Fund and interest due on outstanding loans under Development Fund may be apportioned in the ratio of 50:50 for liquidation of the principal amount of outstanding Development Fund loan and deferred dividend liability. The implication

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		of this in regard to the interest relief that would accrue to the Railways has however not been brought out. The Committee would therefore like to consider this matter in their final Report.
16.	70	The Committee however suggest that the present arrangement of obtaining loan from General Revenues to meet expenditure chargeable to Development Fund in case of inadequate or no surplus, may be continued, the interest on such loans being charged at the rate applicable to loans given to State Governments as recommended by the Railway Convention Committee (1977).

GMGIPND—L S—I—2512 LS—1-12-1982—1230.