RCC No. 76

RAILWAY CONVENTION COMMITTEE (1991)

(TENTH LOK SABHA)

FIFTH REPORT
ON
RATE OF DIVIDEND FOR 1994-95 AND OTHER ANCILLARY MATTERS

Presented in Lok Sabha on 23.2.1994
Laid in Rajya Sabha on 23.2.1994

LOK SABHA SECRETARIAT
NEW DELHI

February 1994/Phalguna 1915(S)

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CORRIGENDA TO FIFTH REPORT OF RAILWAY CONVENTION COMMITTE (1991)

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RAILWAY CONVENTION COMMITTEE
(1991)

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@ Shri Lokanath Choudhury, MP nominated on 30 January, 1992 *vice* Shri Surya Narayan Singh, resigned w.e.f. 28 January, 1992.

$ Shri Pramod Mahajan, MP re-nominated on 21 July, 1992.

INTRODUCTION

I, the Chairman of Railway Convention Committee (1991), having been authorised by the Committee to submit the Report on their behalf, present this Fifth Report on the Rate of Dividend payable by the Railway Undertaking to the General Revenues and other ancillary matters for the financial year 1994-95.

2. Dividend to General Revenues upto 1992-93 was paid at 6 per cent on the capital invested in Railways excluding Metropolitan Transport Projects upto 31.3.80 (inclusive of payment to States in lieu of passenger fare tax) and 6.5 per cent on capital invested thereafter.

3. Based on an interim memorandum submitted by the Ministry of Railways on 24.12.92, the Railway Convention Committee (1991) had, in their Third Report, recommended that dividend to General Revenues and the subsidy from the General Revenues to the Railways may be computed for the year 1993-94 at the rate of 7 per cent on the entire capital invested on Railways from the General Revenues irrespective of the year of investments, inclusive of the amount that was payable by the Railways to General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing Safety Works during the year 1992-93.

4. The Ministry of Railways in consultation with the Ministry of Finance have submitted the Third Interim Memorandum on 12.1.1994 for the consideration of the Committee. The Committee at their sitting held on 31st January, 1994 considered this Memorandum and recommended that the dividend during the year 1994-95 may also be paid to the General Revenues at the rate of 7 percent as an interim measure. The draft Report was considered, finalised and adopted at the sitting of the Committee held on 10th February, 1994. The Minutes of the sitting form Part II of the Report.

5. A statement containing recommendations and conclusions of the Committee is appended to this Report at Appendix-IV*. For facility of reference these have been printed in thick type in the body of the Report.

NEW DELHI;
February 21, 1994
Phalguna 2, 1915*(S)*

M. BAGA REDDY
Chairman
Railway Convention Committee

REPORT

In pursuance of the Resolution adopted by Lok Sabha on 16 September, 1991 and concurred in by Rajya Sabha on 17 September, 1991, the Railway Convention Committee (1991) was constituted on 25 November, 1991 to review the rate of dividend which is at present payable by the Railway Undertaking to General Revenues as well as the other ancillary matters in connection with the Railway Finance vis-a-vis General Finance and to make recommendations thereon.

2. Dividend to General Revenues upto 1992-93 was paid at 6 percent on the capital invested in Railways excluding Metropolitan Transport Projects upto 31.3.80 (inclusive of payment to States in lieu of passenger fare tax) and 6.5 percent on capital invested thereafter.

3. Based on an interim memorandum submitted by the Ministry of Railways on 24.12.92, the Railway Convention Committee (1991) had made certain interim recommendations in regard to rate of Dividend for the year 1993-94 and other ancillary matters in their Third Report presented to Lok Sabha on 23 February, 1993 and laid in Rajya Sabha on the same day. The Resolution approving the recommendations made in paragraphs 44 to 52 on the Third Report was moved in Lok Sabha on 30 March, 1993 by the Minister of Railways and was adopted on 31 March, 1993.

4. The Railway Convention Committee (1991), in their Third Report, gave an interim recommendation that dividend to General Revenues and the subsidy from the General Revenues to the Railways may be computed for the year 1993-94 at the rate of 7 percent on the entire capital invested on Railways from the General Revenues irrespective of the year of investments, inclusive of the amount that was payable by the Railways to General Revenues for payment to states as grant in lieu of passenger fare tax and contribution for assisting the States for financing Safety Works during the year 1992-93. The Committee also recommended that the concessions available to Railways viz. dividend on Residential Buildings, New Lines, Subsidies from General Revenues etc. may also be allowed on the existing basis provisionally while framing the Budget Estimates, 1993-94. These interim recommendations were made, pending final recommendations of Railway Convention Committee on the detailed Memoramdum submitted by Ministry of Railways on the subject.

5. The recommendations contained in the Third Report of the Railway Convention Committee (1991) and action taken by Government thereon are at Appendix-I.

Guiding Principle of Rate of Dividend

6. The first convention Committee was set up after independence in April, 1949. One of the basic principles enunciated by this Committee was the fixation of definite rate of dividend which included an element of contribution to the General Revenues over and above the bare interest paid by the Government on the capital provided for Railways. This principle was enunciated on the consideration that in essence the general tax payer is the owner and sole share holder of the undertaking.

Capital-at-Charge of the Indian Railways

7. The Capital-at-charge of the Indian Railways has increased from Rs. 850 crores in 1951-52 to Rs. ~~20,267.47~~ 21,809 crores in ~~1993-94~~ 1994-95 (Budget Estimates).

Dividend Paid

8. The Annual dividend payable to General Revenues used to be less than Rs. 100 crores till 31.3.1964 but upto Rs. ~~1253~~ crores in 1993-94 (~~Budget Estimates~~), year-wise details are given in Appendix-II. Thus, in all, the Railways have paid to the General Revenues on amount of Rs. ~~13229~~ crores (~~including proposed payments in 1993-94~~) from 1950-51 onwards. This forms ~~65.27~~ 60.55 of the Capital-at-charge of Rs. ~~20,267.47~~ 21,809 crores.

The proposal regarding Dividend Payable to General Revenues

9. In their Third Interim Memorandum dated 12.1.1994, the Ministry of Railways have made the following proposals for the consideration of the Committee:

> "The financial performance of the Railways in current year has not been as per the budgeted expectations.

Upto the end of September, 1993, there has been a shortfall of Rs. 482 crores in earnings due to drop in core sector traffic and the passenger growth being below the expected level.

Besides, the cost of borrowing from the market will go up. Earlier, tax-free bonds used to be floated with a coupon rate of 9% and this involved payment of 14.5% of lease charges to Indian Railway Finance Corporation. In 1993-94, IRFC as per the allocations given by the Planning Commission, have to raise resources from the market both through tax-free bonds and taxable bonds. Out of Rs. 900 crores of market borrowings, the amount through tax-free bonds constitutes Rs. 550 crores which will be at 10.5% rate of interest. The remaining Rs. 350 crores will be by way of taxable bonds, carrying 16% rate of interest. Increase in the rate of interest will result in increase in the lease charges to about 20% putting additional strain on the finances of the Railways.

The Plan size of Rs. 6500 crores has, in view of the above financial performance been tentatively reduced to Rs. 6200 crores.

In the context of the above situation and dwindling budgetary support, it is necessary tnat the internal resource generation capacity of the system is not jeopardised by a high rate of dividend. Till final recommendations on the proposals submitted by the Ministry of Railways are received, it is submitted for the consideration of the Committee whether the rate of dividend of 7% can be reduced in 1993-94 to the same rate as obtained in 1992-93. All the other concessions now available, as listed in the Annexure III may also be allowed to continue. So far as 1994-95 is concerned, keeping in view the fact that market borrowings can be resorted to only up to a limit, being a very costly proposition and that the budgetary support may not be forthcoming to the extent needed to sustain an adequate plan size, it is for the consideration of the Committee as to whether the Ministry of Railways be exempted from payment of any dividend".

10. In this context, the Ministry of Railways have forwarded the following views of Ministry of Finance (Department of Economic Affairs):

> "This Ministry does not agree to the proposal of the Railway Board that revised rate of 7% dividend on entire Capital invested as recommended by the Railway Convention Committee should not be implemented during the current year. This Ministry does not also agree that Railways need not pay any divident next year. Centre's budgetary provision does not permit these luxuries. Railways should, be increasing their operational efficiency and also making suitable adjustments of fares and frieghts, pay dividend at least at 7 per cent. This rate itself is quite low compared to our current borrowing rates.
>
> The recommendations made by the RCC(1991) in the third report on rate of dividend for 1993-94 and other ancillary matters should be accepted by the Ministry of Railways".

11. Commenting on the observations made by the Ministry of Finance, the Ministry of Railways have given the following reasons for reduction of existing dividend rate of 7% for 1993-94 to the same rates obtained for 1992-93 alonwith existing concessions available and exemption from payment of any dividend for the year 1994-95:

> "The submission made by the Railways in regard to the dividend payable to General Exchequer were made keeping in view the financial performance, the social obligations which the Railways have to render and the declining budgetary support provided by the General Exchequer. The budgetary support which used to be 75% of the Plan in the Fifth Plan has gradually declined to 14.8% in the current year. The Parliamentary, Sub-Committees appointed have recommended the restoration of budgetary support to the level of 75%. The Fare and Freight Committee, in their report, recently submitted, have also indicated that the budgetary support should not be less than 1/3rd of the Plan requirements.
>
> *Average rate of Borrowing*
>
> 12. The following table compares the average rate of borrowing with the rate of dividend:

Year	Current Annual borrowing rate of interest of the Central Government		Average rate of interest on Government borrowing			Divident rate actually applicable
	Provisional	Final	Budget Estimate	Revised Estimate	Actuals	
1	2	3	4	5	6	7
1949-50	3.00	3.00	3.20	3.20	3.18	—
1950-51	3.00	3.25	3.20	3.17	3.16	4.00
1951-52	3.25	3.25	3.13	3.12	3.12	4.00
1952-53	3.25	3.50	3.10	3.10	3.11	4.00
1953-54	3.75	3.75	3.12	3.13	3.14	4.00
1954-55	3.75	3.75	3.17	3.19	3.19	4.00
1955-56	3.75	3.75	3.25	3.25	3.25	4.00
1956-57	3.75	3.75	3.28	3.30	3.29	4.00
1957-58	4.00	4.00	3.34	3.38	3.36	4.00
1958-59	4.00	4.00	3.39	3.45	3.45	4.00
1959-60	4.00	3.75	3.53	3.55	3.55	4.00
1960-61	4.00	4.00	3.58	3.57	3.57	4.00
1961-62	4.00	4.00	3.60	3.59	3.59	4.25
1962-63	4.25	4.25	3.65	3.67	3.66	4.25
1963-64	4.25	4.25	3.77	3.75	3.75	4.50
1964-65	4.50	4.50	3.82	3.84	3.84	
1965-66	5.00	5.00	3.90	3.93	3.93	4.50% on capital

1966-67	5.00	5.00	4.05	4.06	4.05	upto 1963-64 & 5.75% on fresh capital. 5.50% on capital upto 1963-64 & 7 5.57% on fresh
1967-68	5.25	5.25	4.15	4.23	4.22	
1968-69	5.00	5.00	4.25	4.35	4.33	5.75% on fresh Capital. Pre 1964 capital
1969-70	5.00	5.00	4.40	4.43	4.43	
1970-71	5.50	5.50	4.52	4.54	4.53	
1971-72	5.50	5.50	4.65	4.63	4.65	included 1.0% as payment in lieu of passenger fare tax.
1972-73	5.50	5.50	4.76	4.77	4.77	
1973-74	5.50	5.50	4.90	4.92	4.92	
1974-75	6.00	6.00'	5.01	5.15	5.15	
1975-76	6.50	6.50	5.20	5.30	5.30	
1976-77	6.50	6.50	5.40	5.40	5.40	
1977-78	6.50	6.50	5.50	5.50	5.50	
1978-79	6.75	6.75	5.60	5.63	5.63	
1979-80	6.75	6.75	5.80	5.82	5.82	
1980-81	7.00	7.00	6.00	6.10	6.10	Divident Net 1.4.1980 on capital upto 1979-80
1981-82	7.50	7.50	6.25	6.30	6.30	
1982-83	8.50	8.50	6.50	6.60	6.60	

1	2	3	4	5	6	7
1983-84	9.50	9.50	6.90	7.00	7.00	6.0% and on
1984-85	10.00	10.00	7.30	7.40	7.40	capital thereafter @6.5% Pre-80
1985-86	11.00	11.00	7.80	8.00	8.00	
1986-87	11.40	11.40	8.50	8.50	8.50	capital includes
1987-88	11.30	11.30	8.80	9.00	9.00	1.5% on capital upto 1963 for payment in lieu of passenger fare tax.
1988-89		11.40	9.30	9.30	9.30	upto 1963-64 for
1989-90		11.50	9.60	9.60	9.60	payment in lieu of
1990-91	(		9.85	10.00	10.00	Passenger fare-tax.
1991-92			10.20	10.20	10.30	
1992-93			10.40	10.50	10.50	
1993-94			10.70	10.70	10.90	7% on the entire

... [illegible] ... in the RlyS

13. The Committee find from the above table that:

(i) the rate of dividend rates both for pre- 1964 and post-1964 were higher than the average borrowing rates of the Government upto 1969-70.

(ii) From 1970 onwards the average borrowing rates became higher than the rate of dividend rate of pre-1964 capital but remained below the dividend rate of 6% for post-1964 capital till 31st March, 1980.

(iii) From 1980-81 the average borrowing rate crossed the limit of 6 per cent and from 1982-83 the average borrowing rate became much higher than the present rate of dividend of 7 per cent.

(iv) The average rate of borrowing for the year 1983-84 was 7% and since then it has gone upto ~~10.6~~ 11.10 (RE) for the year 1994-95

Depreciation Reserve Fund

14. Appropriation to the Depreciation Reserve Fund has been progressively stepped up during the last few years with a view to accelerate the pace of replacements/renewals of overaged assets. While approving the recommendations of the Railway Ministry regarding Contribution to Depreciation Reserve Fund, in the Budget for 1993-94, the Railway Convention Committee (1991) had, in their Third Report, observed as under:—

> "The Committee note that the balance in the Depreciation Reserve Fund is expected to be about Rs. 1,163 cr. at the end of the current year (1992-93). The Working Group of the Ministry of Railways is reassessing and revaluing the cost of assets held by the Railways for reviewing the amount of contribution to the Depreciation Reserve Fund for subsequent years. However, it is considered essential that the increasing levels of contribution to the fund be maintained as hithertofore so that the Railways may have an adequate financial base for meeting the substantial volume of replacements and renewals that are to be carried out during the VIII Plan period. The Committee, therefore, agree with the proposals of the Ministry of Railways that the contribution to Depreciation Reserve Fund from General Revenues to stepped up to Rs. 2,400 cr. in 1993-94 subject to adjustments keeping in view the size of the Annual Plan, that may be finally fixed and the capacity of the system of generate internal resources."

15. For 1994-95, the Ministry of Railways have suggested to the Committee as under:—

> "The shortfall in earnings due to less than anticipated growth of passenger traffic and traffic from core sectors not materialising, has necessitated downward revision in the Plan size from Rs. 6,500 crores to Rs. 6,200 crores. Out of this reduction of Rs. 300 crores, the reduction in withdrawals from DRF is of the order of Rs. 235

crores. It is accordingly propose to appropriate to DRF only Rs. 2100 crores instead of the budgeted figure of Rs. 2400 crores in the year 1993-94. The balance in the Depreciation Reserve Fund at the end of 1993-94 will still be more than Rs. 1,100 crores. In case there is a further reduction in withdrawals from DRF, a corresponding reduction in appropriation to DRF will be made.

The contribution to DRF for the year 1994-95, will have to be higher than that for 1993-94 on account of the new assets added and the element of inflation. It is suggested that the contribution to the Fund in 1994-95 may be kept at Rs. 2,700 cr., subject to minor adjustments keeping in view the size of the Annual Plan finally fixed and the capacity of the system to generate internal resources. For subsequent years, the recommendations of RCC (1991) may await the results of the review by the Working Group referred above."

16. In this regard, the Ministry of Finance (Department of Economic Affairs) have made the following observations:—

"As regards Depreciation Reserve Fund and Pension Fund, Railways need not obtain approval for any specific amounts from the RCC. RCC may be informed that contributions will be made depending on the actual expenditure requirements from these funds in 1994-95."

17. Commenting on the observations made by the Ministry of Finance, the Ministry of Railways have stated:—

"Ministry of Railways are, however, in agreement with the views of the Ministry of Finance that Railways need not obtain RCC's approval for any specific amount to be contributed to Depreciation Reserve Fund and Pension Fund during 1994-95."

18. However, in regard to Contribution to DRF, RCC (1991) in their First Report on Rate of Dividend for 1992-93 and other ancillary matters had recommended that 'in view of escalation of cost of assets held by the Railways, the same must be reassessed and revalued by an Expert Committee and results submitted to this Committee as early as possible.'

19. On this issue, the Ministry of Railways in their Action Taken Notes on the First Report of RCC (1991), had submitted the following:—

"A working group comprising 6 Executive Directors of the Railway Board, drawn from various Railway Disciplines such as Finance/Accounts, Civil, Electrical, Mechanical, Signal and Telecommunications, Engineering has been constituted to reassess and revalue the cost of assets held by the Railways as on 1st April, 1992.

The Working Group is expected to submit its Report by June, 1993. The Report of the Working Group will be examined and submitted for Committee's consideration."

Pension Fund

20. The Railway Convention Committee (1991), in their Third Report, approving the recommendation of the Railway Ministry regarding contribution to be made to Pension Fund in 1993-94, had recommended as under:—

> "The Committee note that the balance in the Pension Fund is expected to be about Rs. 382 cr. at the end of the current financial year. The Committee agree with the proposal of Ministry of Railways that the contribution to Pension Fund may, as part of the working expenses, be enhanced to Rs. 1,500 cr. in 1993-94 subject to minor adjustments keeping in view the likely increase in the number of pensioners and additional Dearness Relief. Any excess of contribution to and over withdrawals from the Pension Fund may be reckoned towards internal resource generation for the Railway Plan."

21. In this regard, the Ministry of Railways have submitted:—

> "Keeping in view the above recommendations, the appropriation to Pension Fund has been kept at Rs. 1,500 cr. in 1993-94. The appropriation to Pension Fund in the year 1992-93 was Rs. 1200 cr. The balance in the Fund at the end of the current year is expected to be around Rs. 276 cr.
>
> It is submitted for the consideration of the Committee that the contribution to Pension Fund may be enhanced to Rs. 1,690 cr. in 1994-95, keeping in view the increase in the number of pensioners, the pensions being increased with each DA instalment and merger of part of DA with pay for the purpose of DCRG. This contribution to the fund will be subject to minor adjustments, keeping in view the likely withdrawals and the financial position of the Railways."

Development Fund (DF)

22. The Ministry of Railways in their Interim Memorandum stated as follows:—

> "This fund is used for meeting expenditure on
>
> i) Passengers and users' amenities; DF I
>
> ii) Labour welfare works; DF II
>
> iii) Unremunerative operating improvements; DF III
>
> iv) Safety Works DF IV
>
> From out of the excess of revenue over the total working expenses after clearing in full the dividend liability, the amount required for the above is credited to this Fund.
>
> In a year where the amount is not sufficient, the Railways borrow money from the General Revenues. This money together with the interest thereon has to be repaid."

Capital Fund

23. This is a new Fund created with effect from 1992-93.

The Railway Convention Committee (1991), in their Third Report, approving the proposal of the Railway Ministry to create a new fund *i.e.*, Capital Fund, had recommended as under:—

> "The Committee note the Ministry of Railways now propose to create a new fund, the Capital Fund, to which all surplus left after payment of dividend and appropriation to Development Fund etc. are to be credited and this Fund would be used to finance capital works on the Railways.
>
> The Committee further note that in Budget Estimates for 1992-93, an excess of Rs. 563.54 crores has been projected and with the creation of Capital Fund, the amount of Rs. 136.72 crores kept for Plan Finance will be put into Capital Fund. Agreeing with the proposal of Ministry of Railways for creating the new Capital Fund, the Ministry of Finance have stated that this Fund may be financed only from internally generated resources of the Railways and not from budgetary support provided by the General Exchequer. The Committee endorse the views expressed by the Ministry of Finance and advised of Railways that this fund should be used to finance capital works only and not for improving the general ways and means position of the Government."

24. In this context, the Ministry of Railways have now submitted as follows:—

> "The balance of excess after meeting Development Fund requirement will be credited to the Capital Fund."

Interest on Railway Funds and Loan to Development Fund

25. In para 50 of their Third Report, the Railway Convention Committee (1991) had recommended as under:—

> "The Committee recommend that the balances in the various Railway Funds (other than Development Fund) may carry the same rate of interest as the rate of dividend, and the rate of interest on the balance in Development Fund may be the same as the rate of interest on loan from General Revenues for Development Fund works for the purpose of Budget Estimates for 1993-94."

26. In this regard, the Ministry of Railways have submitted the following for consideration of the Committee:—

> "It is suggested that these recommendations of RCC may be made applicable for 1994-95 as well."

RECOMMENDATIONS

27. The Committee have duly considered the view point put forward by the Ministry of Railways in support of their contention that the rate of dividend of 7 percent for the current year be reduced to the same rate as obtained in the year 1992-93. Since this rate is already lower than the current rate of borrowing, they see no justification in revising their earlier recommendation. The Committee recommend that the dividend to the General Revenues for the current year i.e. 1993-94 may be paid at the rate of 7 percent as already recommended by them in their 3rd Report (10th LS). The Committee are surprised to note that for the year 1994-95, the Railways have pleaded total exemption from the payment of dividend on the grounds of dwindling budgetary support and difficulties being experienced in raising market borrowings. They are, however, convinced that the Railways have not taken due care in the previous years to economize in various areas; with the result that there is still sufficient scope left to effect further economy and improve their operational efficiency. They, therefore, recommend that dividend during the year 1994-95 may also be paid to the General Revenues at the rate of 7 percent as an interim measure on the entire capital invested on the Railways, irrespective of year of investment, inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the financial year 1993-94.

28. All other concessions now available viz. dividend on residential buildings, new lines, subsidies from General Revenues etc. may provisionally be allowed to continue on the existing basis while framing Budget Estimates for 1994-95.

29. The Committee note that an observation has been made by the Ministry of Finance and Railways that as regards Depreciation Reserve Fund and Pension Fund, Railways need not obtain approval for any specific amount from the Railway Convention Committee. In view of the very fact that the function of the Committee is not only to review the rate of dividend which is at present payable to General Revenues but also suggest the level of appreciation in various funds of Railways, they, therefore, do not agree with the contention of the Ministry of Railways and Finance.

30. The Committee note that the balance in the Depreciation Reserve Fund (DRF) is expected to be more than Rs. 1,100 cr. at the end of the current year (1993-94). Though the Ministry of Railways have submitted that for subsequent years, the recommendations of RCC (1991) may await the results of the review by the Working Group constituted to reassess and revalue the costs of assets held by the Railways, the Committee are surprised to note that in their Action Taken notes on the recommendations contained in the First Report of RCC(1991) on Rate of Dividend for 1992-93 and other ancillary matters, the Ministry of Railways had stated that the

above 'Working Group is expected to submit its Report by June 1993'. Though more than six months have elapsed, the Committee are yet to receive any communication on the same. The Committee, therefore, desire that the Ministry of Railways should ask the Working Group to expedite their Report. However, keeping in view the new assets added and the element of inflation, the Committee agree with the proposal of Ministry of Railways that the contribution to the DRF may be stepped upto Rs. 2700 crores, subject to minor adjustments in view of the size of the annual Plan finally fixed and the capacity of the system to generate internal resources.

31. The Committee note that the balance in the Pension Fund is expected to be about Rs. 276 crores at the end of the current financial year. The Committee agree with the proposal of the Ministry of Railways that the contribution to Pension Fund may be enhanced to Rs. 1,690 cr. in 1994-95 keeping in view the increase in the number of pensioners, the pensions being increased with each DA instalments and merger of part of DA with pay for the purpose of DCRG. However, the contribution to the fund will be subject to minor adjustments keeping in view the likely withdrawals and the financial position of the Railways.

32. The Committee note that with the abolition of RRF and ACSPF in 1993-94, the scope and purview of Development Fund has been enlarged. Therefore, the Committee feel that in their action taken note, the Ministry of Railways should have apprised them about the amount that will be credited to this Fund at the end of the current financial year.

33. Similarly, with regard to the new Fund created with effect from 1992-93—the Capital Fund, to which all surplus left after payment of dividend and appropriation to Development Fund, etc. are to be credited and which in turn would be used to finance Capital Works on the Railways, the Committee feel that the Ministry of Railways, in their Action Taken Note, should have also apprised them about the amount that has been credited to this Fund after the current financial year.

34. Lastly, the Committee do not see any logic in modifying the principles governing interest in various Railway Funds and therefore recommend that the balances in the various Railway Reserve Funds (other than Development Fund) may carry the same rate of interest as the rate of Dividend. The rate of interest on the balance in Development Fund may be the same as the rate of interest on loan from General Revenues for Development Fund Works for the purpose of Budget Estimates for 1994-95.

35. Keeping in view the high interest rate, the Committee feel that it would not be possible for the Railways to resort to market borrowings during 1994-95. They, therefore, recommend that the budgetary support which has come down from 75 per cent in the V Plan to 14.8 per cent in the current year need to be increased substantially. The Committee, therefore, desire that the Ministry of Finance and the Planning Commission should look into this aspect.

36. The Committee further recommend that the Railways should also be properly compensated for carrying the social burdens on the basis of fresh study carried out in this regard.

NEW DELHI;
February 21, 1994

Phalguna 2, 1915(S)

M. BAGA REDDY
Chairman,
Railway Convention Committee.

APPENDICES

APPENDIX I

(*Vide* para 5)

Statement showing the recommendations contained in the third report of the Railway Convention Committee (1991) on rate of dividend for 1993-94 and other ancillary matters and action taken thereon

Recommendation No. 1 (Para 44)

After considering the arguments given by the Ministry of Railways and the Ministry of Finance and also keeping in view the average borrowing rate the Committee recommend, purely as an interim measure, that for the year 1993-94, dividend to General Revenues may be paid at 7% on the entire capital invested on Railways from the General Revenues, irrespective of year of investments, inclusive of the amount that was payable by the Railways to General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the financial year 1992-93.

Reply of the Government

The Recommendation of the Committee has been accepted for implementation in the Railway Budget for 1993-94(RE).

Recommendation No. 2 (Para 45)

All other concessions now available *viz.* dividend on residential buildings, new lines, subsidies from General Revenues, etc. may provisionally be allowed to continue on the existing basis while framing Budget Estimates for 1993-94.

Reply of the Government

The Recommendation of the Committee has been accepted for implementation in the Railway Budget for 1993-94(RE).

Recommendation No. 3 (Para 46)

The Committee note that the balance in the Depreciation Reserve Fund is expected to be about Rs.1163 crores at the end of the current year (1992-93). The Working Group of the Ministry of Railways is reassessing and revaluing the cost of assets held by the Railways for reviewing the amount of contribution to the Depreciation Reserve Fund for subsequent years. However, it is considered essential that the increasing levels of contribution to the Fund be maintained as hithertofore so that the Railways may have an adequate financial base for meeting the substantial volume of replacements and renewals that are to be carried out during the Eighth Plan period. The Committee, therefore, agree with the proposals of the Ministry of Railways that the contribution to Depreciation Reserve

Fund from General Revenues be stepped up to Rs. 2400 crores in 1993-94 subject to adjustments keeping in view the size of the Annual Plan, that may be finally fixed and the capacity of the system to generate internal resources.

Reply of the Government

The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1993-94.

Recommendation No. 4 (Para 47)

The Committee note that the balance in the Pension Fund is expected to be about Rs. 382 crores at the end of the current financial year. The Committee agree with the proposal of the Ministry of Railways that the contribution to Pension Fund may as part of the working expenses, be enhanced to Rs. 1500 crores in 1993-94 subject to minor adjustments keeping in view the likely increase in the number of pensioners and additional Dearness Relief. Any excess of contribution to and over withdrawals from the Pension Fund may be reckoned towards internal resource generation for the Railway Plan.

Reply of the Government

The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1993-94.

Recommendation No. 5 (Para 48)

The Committee note that the balance in Revenue Reserve Fund as on 31.3.1992 was Rs. 67 lakhs and that there has been a steady accretion of Rs. 3 lakhs annually to this fund. Most of the accretion is on account of interest on balance in the Fund. As with the introduction of the Deferred Dividend Liability the system of borrowing money from the General Revenues to meet the Dividend liability in full has been dispensed with since 1978, the Revenue Reserve Fund seems to have lost its utility. The Committee, therefore, agree with the suggestion of Ministry of Railways, as also concurred in by the Ministry of Finance, that the Revenue Reserve Fund may be abolished immediately and balance may be credited to Development Fund.

Reply of the Government

The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1993-94.

Recommendation No. 6 (Para 49)

Similarly, with regard to Accident Compensation, Safety and Passenger Amenities Fund (ACSPF), the Committee feel that by charging the incidence of accident compensation directly to revenue and by clubbing the portion of expenditure of certain specific amenities for users of Railway transport under ACSPF with Passengers and users' Amenities under Development Fund 9 (DF-I), the basic purpose of creating this fund can still be fulfilled. These amendments will help the Railways in accumulating all the expenditure on passenger and other amenities under single head of allocation and shall also result in avoiding overlapping. However, the Committee are of the view that the expenditure on Safety works which is generally of unremunerative nature, can be allocated to a separate new head under Development Fund as DF-IV, DF-II and DF-III are created to meet the expenditure on labour welfare works and unremunerative operating improvements respectively. The Committee hope that with the abolition of RRF and ACSPF the scope and purview of Development Fund will automatically get enlarged.

Reply of the Government

The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1993-94.

Recommendation No. 7 (Para 50)

The Committee note that the Ministry of Railways now propose to create a new fund, the Capital fund, to which all surplus left after payment of dividend and appropriation to Development Fund etc. are to se credited and this Fund would be used to finance capital works on the Railways.

Reply of the Government

The Recommendation of the Committee has been accepted and implemented in the Railway Budget for 1992-93(RE) and for 1993-94.

Recommendation No. 8 (Para 51)

The Committee further note that in the Budget Estimates for 1992-93, an excess of Rs. 563.54 crores has been projected and with the creation of the capital fund, the amount of Rs. 136.72 crores kept for Plan Finance will be put into Capital Fund instead of appropriating it to Development Fund. Agreeing with the proposal of Ministry of Railways for creating the new Capital Fund, the Ministry of Finance have stated that this Fund may be financed only from internally generated resources of the Railways and not from budgetary support provided by the General Exchequer. The Committee endorse the views expressed by the Ministry of Finance and advise the Ministry of Railways that these funds should be used to finance capital works only and not for improving the general ways and means position of the Government.

Reply of the Government

The Recommendation of the Committee has been accepted and implemented in the Railway Budget 1992-93(RE) and for 1993-94.

Recommendation No. 9 (Para 52)

The Committee do not see any logic in modifying the principles governing interest on various Railway Reserve Funds and therefore recommend that the balance in the various Railway Reserve Funds (other than Development Fund) may carry the same rate of interest as the rate of

Dividend. The rate of interest on the balance in Development Fund may be the same as the rate of interest on loan from General Revenues for Development Fund Works for the purpose of Budget Estimates for 1993-94.

Reply of the Government

The Recommendation of the Committee has been accepted for implementation in the Railway Budget for 1993-94(RE).

APPENDIX II

(*Vide* para 8)

The table showing dividend paid, dividend payable, shortfall in payment of dividend transferred to deferred dividend liability and payment of deferred dividend:

(in Crores of Rs.)

Year	Dividend paid	Dividend payable	Shortfall in payment of Dividend transferred to deferred divi-end liabilities	Payment of deferred dividend
1	2	3	4	5
1950-51	32.51	32.51	—	—
1951-52	33.41	33.41	—	—
1952-53	33.99	33.99	—	—
1953-54	34.36	34.36	—	—
1954-55	34.96	34.96	—	—
1955-56	36.12	36.12		—
1956-57	38.16	38.16	—	—
1957-58	44.40	44.40	—	—
1958-59	50.39	50.39	—	—
1959-60	54.43	54.43	—	—
1960-61	55.86	55.86	—	—
1961-62	75.35	75.35	—	—
1962-63	81.26	81.26	—	—
1963-64	95.95	95.95	—	—
Total	701.15	701.15		
1964-65	104.93	104.93	—	—
1965-66	116.28	116.28	—	—
1966-67	132.39	132.39	—	—
1967-68	141.53	141.53	—	—
1968-69	150.67	150.67	—	—
1969-70	156.39	156.39	—	—
1970-71	164.57	164.57	—	—
1971-72	151.24	151.24	—	—

1	2	3	4	5
1972-73	161.51	161.51	—	—
1973-74	170.92	170.92	—	—
1974-75	187.47	187.47	—	—
1975-76	198.14	198.14	—	—
1976-77	209.05	209.05	—	—
1977-78	226.56	226.56	—	—
1978-79	224.16	341.75	117.59*	1.98
1979-80	227.29	293.53	66.24	0.43
1980-81	127.49	325.36	197.87	—
	2850.59	3232.20	381.70	2.41
1981-82	356.47	356.47	—	2.52
1982-83	435.98	435.98	—	71.95
1983-84	378.95	423.70	44.75	—
1984-85	270.10	465.69	195.59	—
1985-86	507.04	507.04	—	116.73
1986-87	578.85	578.85	—	—
1987-88	638.86	638.86	—	—
1988-89	715.66	715.66	—	—
1989-90	808.81	808.81	—	—
1990-91	926.14	926.14	—	11.97
1991-92	1031.48	1031.48	—	—
1992-93	1146.00	1146.00	—	74.47
1993-94[redacted]	1246.00 ~~1253.00~~	1246 ~~1253.00~~	—	—
1994-95 (RE)	yet to be finalised			
Total	9054.86	9295.20	240.34	619.63
Grand Total	12606.60	13228.64	622.04	622.04

@. This includes also Rs. 117.59 crores in respect of deferred dividend as explained above.

* Balance of outstanding loan due form Railway Revenues to General Revenues (provisionally assessed Rs. 122.19 crores but later revised to Rs. 117.59 crores as per C&AG's report 1978-79 (Indian Govt. Railways), treated as "Deferred Dividend Liability" in terms of Para 18(7) of 5th Report of RCC (1977).

APPENDIX III

(*Vide* para 9)

The rate of dividend on the Capital-at-charge of the Railways and reliefs in dividend and by way of subsidy based the interim recommendations of the Railway Convention Committee (1991) applicable for 1993-94 are as under:—

I. *Dividend*

The rate of dividend is 7 per cent on the entire Capital invested on the Railways irrespective of the year of investment and inclusive of the amount that was payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the financial year 1992-93. The amount payable on this account to the General Revenues was Rs. 23.12 crores in 1992-93.

No dividend is payable on capital expenditure on Metropolitan Transport Projects and unremunerative strategic lines. The annual loss in the working of such lines is to be borne by General Revenues and if the working of these lines leaves a surplus it should be transferred to General Revenues (upto the level of normal dividend).

II. *Subsidy from General Revenues*

Capital invested in the following cases qualifies for subsidy from the General Revenues to the extent of the dividend calculated at the rates specified above:

(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 becomes remunerative adopting the marginal cost principle.

The arrangement is to be applied also to the two National Investments *viz.* Jammu-Kathua and Tirunelveli-Kanyakumari-Trivandrum line.

(c) Northeast frontier Railway (Non-strategic portion).

(d) Unremunerative Branch lines subject to their unremunerativeness being established on the marginal cost principle in each case through an annual review of their financial results.

(e) The Ore Lines between Bimalgarh-Kiriburu and Sambalpur-Titlagar.

(f) Ferries and Welfare buildings.

(g) 50% of the capital invested on all works in the current year and in the two previous years, excluding capital invested in strategic lines, Northeast Frontier Railway (Commercial), Ore Lines, Jammu-Kathua and Tirunelveli-Kanyakumari-Trivandrum Lines, Ferries and Welfare buildings and unremunerative branch lines which qualify in full for subsidy, capital invested in new lines on which the dividend payable is deferred during the period of construction and the first five year after opening of the lines for traffic, and the capital cost of line wires taken over from the P&T Department.

PART II

MINUTES OF THE 43RD SITTING OF THE RAILWAY CONVENTION COMMITTEE HELD ON 10TH FEBRUARY, 1994

Forty-third sitting of the Railway Convention Committee was held on Thursday, the 10th February, 1994 in Committee Room 'C' in Parliament House Annexe from 1500 to 1600 hours.

The following Members were present:—

Shri M. Baga Reddy — *Chairman*

Lok Sabha

2. Shri Saifuddin Choudhury
3. Shri Gurudas Vasant Kamat
4. Shri Ram Naik
5. Shri Rajvir Singh
6. Shri Lokanath Choudhury

Rajya Sabha

7. Shri Pramod Mahajan
8. Shri Ramsinh Rathwa
9. Chowdhry Hari Singh
10. Shri P. Upendra

SECRETARIAT

1. Shri Murari Lal — *Joint Secretary*
2. Smt. P. K. Sandhu — *Deputy Secretary*
3. Shri S. B. Arora — *Committee Officer*

2. The Committee took up for consideration the following draft Reports:—

(i) *** *** ***

(ii) Draft Report on Rate of Dividend for 1994-95 and other ancillary matters.

3. The Report was adopted subject to the amendments/modifications given in Annexure.

4. The Committee also authorised the Chairman to make other consequential changes arising out of factual verification by the Ministry of Railways.

The Committee then adjourned.

AMENDMENTS/MODIFICATIONS MADE BY THE RAILWAY CONVENTION COMMITTEE IN THE DRAFT REPORT ON RATE OF DIVIDEND FOR 1994-95 AND OTHER ANCILLARY MATTERS

Page No.	*Para No.*	*Line*	*For*	*Read*
4	9	3	Rs. 4.82 crores	Rs. 4.82 crores
7	13(iii)	4	6.5 per cent	7 per cent

For the existing paragraph 27 *substitute*

The Committee have duly considered the view point put forward by the Ministry of Railways in support of their contention that the rate of dividend of 7 per cent for the current year be reduced to the same rate as obtained in the year 1992-93. Since this rate is already lower than the current rate of borrowing, they see no justification in revising their earlier recommendation. The Committee recommend that the dividend to the General Revenues for the current year *i.e.* 1993-94 may be paid at the rate of 7 per cent as already recommended by them in their 3rd Report (10th LS). The Committee are surprised to note that for the year 1994-95 the Railways have pleaded total exemption from the payment of dividend on the grounds of dwindling budgetary support and difficulties being experienced in raising market borrowings. They are, however, convinced that Railways have not taken due care in the previous years to economize in various areas; with the result that there is still sufficient scope left to effect further economy and improve their operational efficiency. They, therefore, recommend that dividend during the year 1994-95 may also be paid to the General Revenues at the rate of 7 per cent as an interim measure on the entire capital invested on the Railways, irrespective of year of investment, inclusive of the amount that was

Page No.	*Para No.*	*Line*	*For*	*Read*
		payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the financial year 1993-94.		