RCC No. 80

RAILWAY CONVENTION COMMITTEE (1991)

(TENTH LOK SABHA)

NINTH REPORT ON RATE OF DIVIDEND FOR 1995-96 AND OTHER ANCILLARY MATTERS

Presented in Lok Sabha on 14 March, 1995
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LOK SABHA SECRETARIAT
NEW DELHI

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RAILWAY CONVENTION COMMITTEE
(1991)

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

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‡ S/Shri Manmohan Singh, Madhavsinh Solanki & Ajit P.K. Jogi, MPs nominated on 18 May, 1994 *vice* S/Shri Ramsinh Rathwa, Dayanand Sahay and Ch. Hari Singh, MPs, ceased to be Members of the Committee consequent upon their retirement from Rajya Sabha on 2 April, 1994.

INTRODUCTION

I, the Chairman of Railway Convention Committee (1991), having been authorised by the Committee to submit the Report on their behalf, present this Ninth Report on the Rate of Dividend payable by the Railway Undertaking to the General Revenues and other ancillary matters for the financial year 1995-96.

2. The Ministry of Railways in consultation with the Ministry of Finance had submitted on 2nd January, 1995 the Fourth Interim Memorandum for the consideration of the Committee. The Committee at their sitting held on 1st February, 1995 considered this Memorandum and decided to take evidence of the representatives of the Planning Commission, the Ministry of Finance and the Ministry of Railways on 2nd February, 1995.

3. After considering the view point put forward by the Planning Commission and the Ministry of Finance alongwith the arguments including the supplementary note given by the Ministry of Railways on the subject and keeping in view the average borrowing rate, the Committee have recommended, purely as an interim measure, that the capital invested on the Railways upto 1952 may be treated as 'dividend free' and the dividend for the year 1995-96 to General Revenues on the remaining capital invested thereafter be paid at the rate of 7% 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 year 1994-95.

4. The Committee have also found that there has been a reverse flow of funds since 1993-94 onwards. The Ministry of Railways had to pay Rs. 1299 crores and Rs. 1372 crores as dividend liability during 1993-94 and 1994-95 respectively against the Budgetary support of Rs. 960 crores and Rs. 1150 crores during the same period. The Ministry of Railways have also to recover an amount of Rs. 1095 crores from the various State Electricity Boards as on 30th November, 1994. Keeping in view the above facts and the resource crunch faced by the Railways and the inability of the Finance Ministry and the Planning Commission to make available the necessary funds, the Committee have recommended that the Railways should decide the quantum of dividend that can be paid during 1995-96 and the balance amount of dividend, if any, be treated as a deferred dividend liability on which no interest shall be charged. The amount of deferred dividend liability may be equal to or less than the amount due to the Railways from the various State Electricity Boards.

The Committee have also recommended that the amount recoverable from State Electricity Boards etc. should be adjusted from their future power tariff bills. They have also desired the Finance Ministry and the Planning Commission to examine whether the outstandings against these State Electricity Boards could be adjusted against the Central assistance to States and the amount so realised could be credited to the Railways.

5. The Committee considered, finalised and adopted this interim report on 'Rate of Dividend for 1995-96 and other ancillary matters' at their sitting held on 6th March, 1995. The minutes of the sittings of the Committee held on 2nd February, 1995 and 6th March, 1995 from Part II* of the Report.

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

7. The Committee would like to express their thanks to the representatives of the Planning Commission, Ministry of Finance (Department of Economic Affairs) and the Ministry of Railways (Railway Board) for the cooperation extended by them in giving information to the committee.

NEW DELHI;
March 13, 1995

Phalguna 22, 1916 (S)

M. BAGA REDDY,
Chairman,
Railway Convention Committee.

*Not printed. A copy of the Minutes laid on the Table of both the Houses and five cyclostyled copies placed in the Parliament House Library.

REPORT

In pursuance of the Resolution adopted by Lok 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 other ancillary matters in connection with the Railway Finance vis-a-vis General Finance and to make recommendations thereon.

2. Dividend to General was paid at 6 per cent on the capital invested in Railways prior to 1980, excluding Metropolitan Transport Projects, upto 31.3.1980 (inclusive of payment to States in lieu of passenger fare tax) and 6.5 per cent on capital invested thereafter. For the year 1993-94, the rate of dividend was paid at the rate of 7% on the entire capital invested on Railways, irrespective of the year of investments (inclusive of payment to States in lieu of passenger fare tax).

3. Based on an interim memorandum submitted by the Ministry of Railways on 12 January 1994, the Railway Convention Committee (1991) had made certain interim recommendations in regard to the rate of dividend for the year 1994-95 and other ancillary matters in their Fifth Report presented to Lok Sabha on 23 February 1994 and laid in Rajya Sabha on the same day. The resolution approving the recommendations made in paragraphs 27, 28, 29, 30, 31 & 34 on the Fifth Report was moved in Lok Sabha on 25 April, 1994 by the Minister of Railways and the same was adopted on 26 April 1994.

4. The Railway Convention Committee (1991), in their Fifth 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 1994-95 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 in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the year 1993-94. The Committee also recommended that the concessions available to Railways viz. dividend on Residential Buildings, New Lines, Subsidies from General Revenues, etc. might also be allowed on the existing basis, provisionally, while framing the Budget Estimates for 1994-95. These interim recommendations were made, pending final recommendations of Railway Convention Committee.

5. The recommendations contained in the Fifth 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. 21,809 crores in 1994-95.

Dividend Paid

8. The annual dividend payable to General Revenues used to be less than Rs. 100 crores till 31.3.1964 but increased to Rs. 1,296 crores by 1993-94 (year-wise details are given in Appendix-II). Thus, in all, the Railways have paid to the General Revenues an amount of Rs. 13,272 crores as dividend from 1950-51 to 1993-94. This forms 60.85 per cent of the Capital-at-charge of Rs. 21,809 crores. The dividend payable for 1994-95 (Revised Estimate) is yet to be finalised.

The Proposal regarding Dividend Payable to General Revenues

9. In their Fourth Interim Memorandum dated 2.1.1995, the Ministry of Railways have made the following submission:

> "The earnings of the Railways in current year have so far fallen short of the budgeted expectations. Approximates to end of September, 1994, show a shortfall of Rs. 291 crores (as compared to proportionate targets) in Goods earnings, mainly due to drop in core sector traffic partly offset by increase of Rs. 151 crores in Passenger earnings.
>
> Besides, the cost of borrowing from the market has also gone up substantially. Instead of the tax-free bonds that used to be floated with a coupon rate of 9%, IRFC now have to issue tax-free bonds at the rate of 10.5% and taxable bonds at a rate, as high as 16%. This involves a payment of around 21% of lease charges to IRFC. In 1994-95, IRFC is required to raise a sum of Rs. 1050 crores. From the market consisting of tax-free bonds of Rs. 500 crores at 10.5% rate of interest and Rs. 550 crores of taxable bonds carrying 16% rate of interest. Obviously, the Railway Finances have been put under heavy strain due to the costly market borrowings. It is needless to say that the Railways have to resort to such costly market borrowings due to the fast dwindling budgetary support. The Budgetary support from General Exchequer to Railways has declined from 75% in the Vth Plan to 58% in the VIth Plan to 42% in the VIIth Plan and to 19.8% in the VIIIth Plan".

10. Appreciating this, the RCC (1991) in para 35 of their Fifth Report had recommended:

> "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 Vth Plan to 14.8 per cent in the current year (1993-94), need to be increased substantially. The Committee, therefore, desire that the Ministry of Finance and the Planning Commission should look into this aspect".

11. The above matter was taken up by the Ministry of Railways with Planning Commission and Ministry of Finance. The following views of Planning Commission, which also have been endorsed by the Ministry of Finance, were furnished by the Ministry of Railways in their Interim Memorandum:

> "The Budgetary support approved for 1994-95 at Rs. 1,150 cr. is about 20% higher than the amount (Rs. 960 crores) approved for 1993-94. The quantum of Budgetary support depends on the overall resource position of the Central Government; and allocations to individual Ministries is made keeping in view their needs and relative priorities."

12. In this connection, the Adviser (SP), Planning Commission, stated during evidence as under:

> "It is a fact that the budgetary support for the Railways has been declining. I was looking at the old figures from 1985-86 to 1994-95 and I found that except for three years, that is, 1989-90, 1990-91 and 1993-94, every year the budgetary support has been increased year to year. As compared to other Ministries, the budgetary support to the Railways has not gone down as substantially as in the case of other public sector undertakings. I would like to submit before the august Committee to consider this point. However, I know the Committee is fully aware of the tight resource position as also the change in the position so far as the commercial undertakings are concerned.
>
> In the Eighth Plan document of the Railways, emphasis has been given on higher level of productivity, so that higher internal resource generation could be improved. I have indicated to you the actual results."

13. Elaborating the point further, the Adviser (State Plan), Planning Commission, submitted the following during evidence:

> "The Railways' Eighth Plan for 1992-97 was fixed at Rs. 27,202 crores at 1991-92 prices. At that time the budgetary support was fixed at Rs. 5375 crores and the internal budgetary resources, extra budgetary resources were Rs. 21,827 crores. If you take the Budget Estimates for 1992-93, 1993-94 and 1994-95, you will see that internal

resources for those three years were at Rs. 18,725 crores which is 68.8 per cent of their Plan outlay, which is somewhat higher than the normal rate of 60 per cent. In real terms at 1991-92 prices it comes to Rs. 15726 crores, that is, 57.8 per cent, which is little less than 60%.

If you come to budgetary support, out of Rs. 5375 crores in the first three years they have got Rs. 4045 crores which is as high as 75.3 per cent. In normal terms, it is much more than the requirement. In real terms, for these three years 1992-95, it comes to Rs. 3465 crores, that is, 64.5 per cent. In other words, whereas in real terms the Railways have got a Plan of 57.8 per cent of the total Eighth Plan outlay for the first three years, so far as the budgetary support is concerned, they have consumed as much as 64.5 percent. So, this could indicate that what was anticipated at the time of finalisation of the Eighth Plan, regarding Railways' share of budgetary support, as also extra budgetary resources, the Railways have drawn more on budgetary support than what was anticipated."

The witness added:

"We are aware of the recommendations of the hon. Committee about the Planning Commission providing higher budgetary support to the Railways. This recommendation was received at a time when the 1994-95 Plan discussions were already over. So, for the Annual Plan for 1995-96 for which discussions are yet to take place at Member-Secretary's level, they will certainly take note of the observations of the Committee for this. But I would like to mention here that the reduction of budgetary support in the Eighth Plan has been a part of the general Government policy. The budgetary support to the Plan outlay of Central Public Sector Undertakings, taken as a whole, was around 50 per cent at the beginning of the Seventh Plan and now it has come down to 14 percent in 1994-95. So, this is a part of the overall picture and on the basis of the figures which I have mentioned to you just now, it does not appear to us that the Railways on this account have been more unfairly treated than the others."

In this connection, the Ministry of Railways stated:

"Various Committees *viz.* RFFC, Consultative Committee of Members of Parliament attached to the Ministry of Railways and RCC have recommended higher budgetary support to Railways keeping in view the high cost of market borrowings. But the Ministry of Finance and Planning Commission have not indicated any proportional increase in the budgetary support to Railways. The Ministry of Railways feels that there is a case for higher budgetary support from the General Revenues keeping in view the high cost of market borrowings and non-payment of Railways' dues by the State Electricity Boards and NTPC. As on 31.8.94, Rs. 1093 cr. are recoverable [illegible] the [illegible] Electricity Boards. The Railway finances are thus under great strain. The percentages of components of Railways' Annual Plan 1994-95 are: Railways' internal resources (66%), bonds raised by Indian Railway Finance Corporation (16%) and budgetary support provided by General Revenues (about 18%). There does not seem to be any more scope in the Railway system to raise the level of internal resources. Unless the budgetary support is substantially enhanced, Railways may not be able to invest adequately for the development of infrastructure, which, in turn, will result in constraints to higher economic growth."

14. On the issue of budgetary support, the Chairman, Railway Board, deposed as follows before the Committee:

"This year we have formulated a Plan which would cost about Rs. 7,500 crores. We have presented this Plan to the Planning Commission and perhaps tomorrow when we are scheduled to meet the Chairman, Planning Commission we will come to a conclusion on this. We have presented to the Planning Commission that through the internal resources we can generate funds to the extent of Rs. 5,000 cr. This would leave us with a resource gap of Rs. 2,500 cr. The issues which are to be addressed today are as to how we are going to bridge this gap. If the budgetary support is not forthcoming and if we are not able to raise the resources other than from the traditional resource areas, then there will be not other alternative but to prune this plan. This would not be desirable because whatever we do today, would ultimately have an adverse reaction on the economy as a whole after three years. Keeping 1997-98 in view such pruning of the Plan would not be desirable. The economy is in upswing. We have felt the pressure of economic growth during the current busy season we are in, and I for myself, feel that this is a very momentous hour when we have to see very seriously as to how much investment should be made in infrastructure and its development so that the future transport requirement of the country could be met.

We have gone through this particular feature of reduced budgetary support. We could sustain that because in the earlier years we had built up that capacity to deal with the traffic requirements. We felt that even though we were surplus in our capacity in the last two years yet we have totally sustained the growth by eating into the surplus capacity which was generated three years ago. Now, if this situation is allowed to perpetuate for another two years, then we would be lef with no surplus".

15. As per Allocation of Business Rules, only the Ministry of Financ can raise money on behalf of the Government. Because of that in 1986 th Railways went to the Cabinet and created Indian Railway Financ Corporation (IRFC) for raising resources which could not be provided b the Government to them from the open market.

16. In this connection, the Secretary, Ministry of Finance clarified the position further as under:—

"They were allowed as a device recognizing the very special character of the Railways and also recognizing that it was the only way the Government could give finance to the Railways. It was mechanism to cover non-budgeted need for funds. It is not case where the Railways will borrow and use the funds for paying salaries and covering current expenditure. The IRFC can be used to fund the railways investment programme and also procure and pass on equipment to railways on payment of a leasing charge given the statutory difficulty in railways raising funds directly. Recognising that the railways need investment funding unlike Government departments which do not require investment funding, this is, to my mind, a compromise and it does not hurt or endanger the system. Therefore, we have no objection to it. If the railways wish to offer direct railway bonds and if it were felt desirable to convert it into a corporation, this can be possible otherwise, it is not going to be possible. Finance can raise money on behalf of the Government. Because of that in 1986 we went to the Cabinet and created this Indian Railway Finance Corporation for raising resources which could not be provided by the Government to us from the open market. So, the steps have already been taken."

17. In this connection, the witness pointed out the following disadvantages faced by the Ministry of Railways:

"The Government gives at 7 per cent. But, whatever we raise through IRFC is in the market at an overall rate of 16.5 per cent to 17 per cent. So this is really high cost finance compared to the other. Therefore, there is a limit to the amount of money we can raise. Market conditions are good in certain years and not so good in certain others. For example, in October and November, we can raise any amount of funds."

18. As loans used to be raised by the Government previously for specific purpose of railways and at present, borrowing through Indian Railway Finance Corporation (IRFC) has created complicated problems relating to lease charges, taxation, accounting, etc., the Committee asked whether it was not desirable that the Ministry of Finance should themselves act as the fund raising agency to attract more resources for the railways and railways should, in turn, be responsible for servicing these loans including repayment.

The Finance Secretary replied:

"As far as the IRFC is concerned, the whole purpose of creating as a vehicle was to enable the Railways to get away from having budgetary support. What the Corporation is to do is that they borrow and then service the loan. It is a form of financing from the market.

Essentially what it means is that the Railways have to pay instead of interest charges, lease financing charges to the IRFC. It is a mechanism that enables the Railways to tap the market. The alternative would be for us to bear the cost and pass it on to the Railways at 7% dividend rate, which means subsidy. We do not feel that the budget can bear any additional subsidy on this count. The point whether the Finance Ministry should act as a fund raising agency, I would respectfully submit that it should not".

19. As regards raising funds directly by the Railways, the Finance Secretary deposed:

The real issue is that railways are not able to directly borrow from the market. But, as I mentioned earlier, the IRFC is a legal device to enable them to achieve this objective. I think there are statutory problems on whether the railways can borrow directly or not. There is a way of letting the railways borrow directly from the market. This can be done by following the example of MTNL. MTNL is a corporation. If the railways convert themselves into a corporation they can raise bonds on their own. Our view is that within the Government there should be one centralized source of borrowing. We are not in favour of Government departments doing their own borrowings. In many countries the railways are run as corporations. I think that one of the benefits would be the ability to raise loans directly. This is an issue on which we have not taken any view so far."

20. Clarifying the position on the issue, the Financial Commissioner (Railway Board) stated:

"The ability of IRFC to raise resources depends upon the market conditions, for example, this year upto October-November, the market was very good and we were able to generate Rs. 700 crores without any development. But right now the market condition has become very tight and there are not many subscribers from banks coming forward. So, the sanctity of IRFC being able to raise the resources every year is not there. It depends upon year to year market condition. In 1992-93 after the Security Scam the market condition was so bad that they were not able to raise even Rs. 10 crores. So, our submission is that the source of funding is uncertain."

21. To a question as to how far it was justified for the Railways to pay a rate of dividend much closer to the average borrowing rate, particularly when the budgetary support is dwindling, the Finance Secretary, replied:

"As far as internal generation of surplus in the central budget is concerned, we are running a revenue deficit. In fact since 1980-81 the Central Government has been running a revenue deficit, though before that we used to have a revenue surplus. In the first place we are borrowing in order to meet our revenue expenditure; beyond that we are borrowing in order to meet our capital expenditure. Any support that the budget gives to the Railways is to come out of the borrowed funds. Our feeling therefore is, whether they get it from the budget or they go and borrow this, on the whole a better arrangement that the Railways are encouraged either to raise their own resources or to borrow from the market. But they must so conduct themselves that they can generate from their own revenues, the ability to service the borrowing and this is really what we have been doing. It is true that we are diminishing the budgetary support. Given the circumstances of the budget and given that there are many heavy social responsibilities on the budget, the only immediate financing strategy for the Railways is to withdraw budgetary support from the Railways."

If you look at the Railways' finances, there is no reason to believe that the Railways cannot raise the funds internally themselves. Our analysis of the Railway finances shows that there has been a persistent subsidisation of passenger traffic compared to freight traffic. The growth in the index of passenger fares is much less than the general price level and what they have been doing is they have been loading very high on the freight side while keeping passenger fares low. We have to simply decide whether we can afford it. I don't think it is justifiable to subsidise passenger travel through budget, given the other demands on the budget."

22. The Ministry of Railways furnished the following figures regarding the flow of funds in their interim Memorandum:

Year	Payment of Dividend to General Revenues	Budgetary support from General Revenues
1993-94	Rs. 1299 cr.	Rs. 960 cr.
1994-95	Rs. 1372 cr.	Rs. 1150 cr.

23. In this connection, the Committee asked the Finance Secretary, to justify the reasons for this reverse flow of funds, he submitted:

"I think there is no law or principle of good accounting which says that the flow of funds should be only one way. We have borrowed every time to invest in the railways. It is not as if we have been able to return that borrowing. Our national debt keeps continuously growing. This is because we borrowed, and when that borrowing fell due for repayment, we borrowed again. We should sell off the assets which are available in the public sector bodies when we privatize. If we do not sell them off, then whoever is using these assets should pay dividends so that it covers to some extent the cost of borrowing. I think the financial condition of the railways is extremely favourable as far as access to budgetary funds and concessionality in these funds are concerned. If there is a fund problem in the railway finances, that can be solved by greater efficiency in railway operations."

24. Asked about the comments of Ministry of Finance on the rate of dividend, the Finance Secretary submitted the following for the consideration of the Committee:

"We do feel that as far as dividends are concerned, at a time when the budget is under pressure, all areas where the Government has invested in the past should be yielding a significant return to that investment and it should be perfectly possible to finance that return by charging an economic price. To my mind 7% is an extremely low rate of dividend. In fact, our internal view, we have communicated this also — that the dividend rate should be increased in stages to 9% over a few years. I think that can be economic dividend which will lead to a greater amount of financial discipline within the Railways."

25. In this context, the Ministry of Railways, in their interim Memorandum, submitted the following for the consideration of the Committee:

"In view of the heavy strain on Railway Finances the Ministry of Railways may find it difficult even to pay the dividend at the prevailing rate. It is submitted for the consideration of the Committee that the existing rate of dividend may provisionally be adopted for the year 1995-96 also, till final recommendations on the proposals submitted by the Ministry of Railways are received. All the other concessions now available, as listed in the Appendix-III may also be allowed to continue."

26. Thereafter, the Ministry of Railways have furnished on 3rd February, 1995 a Supplementary note (Appendix-IV) on the rate of dividend for consideration of the Committee.

Arrears to be recovered

27. The Ministry of Railways have also submitted that as on 30.11.94 an amount of Rs. 1095.92 crores is recoverable from the State Electricity Boards. The year-wise outstanding figures are as under:

As on	Rs. in cr.
30.11.1994	1095.92
30.3.1994	914.29
31.3.1993	617.92
31.3.1992	351.76
31.3.1991	256.78
31.3.1990	243.83
31.3.1989	133.42

28. The Ministry of Railways have brought to the notice of the Committee that while on one hand, Railways have to borrow money from the market at a much higher cost, no return is available on the above-mentioned outstandings. Rather the Railways' resources are being used by State Electricity Boards to meet their working capital needs. In addition, recent increases in the power tariff have resulted in additional burden on Railway revenues.

When the Committee asked as to why these amounts could not be adjusted against the bills which the Railways have to pay to the State Electricity Boards, the Financial Commissioner, (Railway Board) during evidence, submitted the following:

> "We have taken a number of steps to realise this amount. This amount was only about Rs. 240 crores four years ago. This has gone up to Rs. 1096 crores as on date. The major defaulters are NTPC Badarpur, DESU, Haryana Electricity Board and Uttar Pradesh Electricity Board. We have taken steps in this regard. We have already tried to raise the differential between the freight and fare from 5 percent to 15 percent. We have written to the Chief Secretaries of the States. The Railway Minister has written to the Chief Ministers of the States concerned. We can say that we cannot carry bulk coal but that will have its effect on the economy. We have not come to that stage yet. We have not been able to follow the cash and carry scheme of the Coal India. We have also sent a paper to the Cabinet. Some of the steps proposed will come to our help. The fact is that this year alone the outstandings have increased to Rs. 280 crores. This affects our net surplus and our ability to fund our developmental activities."

Social Burden

29. With regard to social burden being borne by the Railways the Railway Convention Committee (1991) in their Fifth Report had recommended the following:

> "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".

30. In this context, the Ministry of Finance made the following observation:

> "Regarding compensation to Railways for carrying social burden it is stated that Railways already enjoy substantial exemption in dividend payment on capital investment by the general revenues. The concessions in respect of dividend granted by the RCC are shown as subsidy from the general revenues which has increased from Rs. 128 crores from 1985-86 to Rs. 403 crores in 1994-95. The Railways pay dividend at the rate of 7% to general revenues based on the RCC's

recommendation which is lower than the cost of capital borrowed by the general revenues for investment in the Railways. However, Ministry of Railways may carry out a fresh study regarding compensation to be paid to the Railways for carrying out social burden."

31. The Ministry of Railways have expressed the following views on this issue:

"Regarding the Ministry of Finance's contention that the Railways are compensated for the social burden by charging a lower rate of dividend and by giving subsidy on dividend payment, this Ministry is to submit that the prevalent rates of dividend have not resulted from the fact that the Railways carry some social burdens, also nor are they on a lower side. Earlier, dividend used to be charged at different rates depending upon the year of investment but from the year 1993-94 dividend is being charged at a flat rate of 7% on the Capital-at-Charge irrespective of the year of investment. As the payment of dividend is in perpetuity on the entire Capital, it may be appreciated that the latest average borrowing rate cannot be applied on the entire capital invested on Railways over a period of time. Thus, the rate at which the Railways at present are paying the dividend, is considered reasonable.

Similarly, regarding the exemptions/reliefs called subsidy, being granted in the payment of dividend, it is to be submitted that these reliefs are granted to Railways in dividend payment on certain well balanced considerations, consolidated over a period of time and are part and parcel of Railway investment policy. The list of items qualifying for such reliefs is given in Appendix-III. As these concessions are available on investments made for the strategic needs of the country and socio-economic development of the backward regions, it is also not possible to do away with these concessions. Thus, the relief being given as subsidy on dividend payment should not be considered on par with direct/indirect subsidy being given by Central Government for various other matters either for making good a loss incurred by other Departments or for subsidising the prices.

No compensation, thus, is being given to the Railways for carrying the social burden on account of loss in coaching services and transportation of low-rated commodities which are used by the common man. The suburban transport, which subject is under the Ministry of Urban Development, incurs heavy losses which is at present borne by the Railways.

Thus, on the recommendation made in para 35 and 36 of their V Report by the RCC (1991) that the Budgetary support for Railways should be increased substantially and that they should be suitably reimbursed for the social burden being borne by them, this

Ministry feels that the Ministry of Finance has not taken a favourable view."

32. Elaborating the point of social burden the Chairman, Railway Board, submitted as follows:

"Now, we have very limited means from which resources can be generated and the primary source is freight and fare, and the second feature of raising the resources through freight and fare with the relevance of social burdens is that to a certain extent, social objectives and national objectives have to be fulfilled and it is a duty which the railways must perform, but the question does come in that we must get compensation to that extent through budgetary support. If not, we must be allowed to look at the fare structure once again".

The Financial Commissioner, Railway Board, added:

"About the point of social burden to the railways, as our Chairman, Railway Board, has explained, we have certain commodities which we are carrying below costs like passenger services etc. When we take the final outlay of earnings and expenditure we find that these services are not able to make total expenditure and we have worked out the total social burden roughly in the region of about Rs. 2,000 crores. This prevents the railways from taking these resources for the developmental activities."

33. Elaborating the point during evidence, the Finance Secretary stated as follows:

"On the question of compensation for carrying social burdens they do get dividend relief and I feel that if there are certain areas where they are undercharging, I would say that there is no case for budgetary subsidy. There is a case for cross-subsidisation and that is really up to the Railway finances to look at what is possible. I think they are doing quite a lot of it. My only point here is that it is not correct, I think, to attribute all the subsidy burden to the essential commodities carriage. Really it is on the passenger side that the burden is there and I do not know how socially essential it is to get those fares low."

34. Asked to comment on the observations made by the Finance Secretary, the Chairman, Railway Board, stated as follows:

"As submitted earlier, as a mandate, we have a commitment towards certain social obligations. Certain amount of consideration is always being shown to the weaker sections of the society and the second class passenger travel largely serves the weaker sections of the society. This is one of the reasons why the fares in this class have not been raised to the same extent as is done for AC and First Class services. The point made by the FS is a clinical one. The increase in second class fares is not commensurate to the cost of inputs and it has to be balanced and he has pointed out an area where if we increase the rates, some additional resources will be generated. Now, it is a moot point whether we change our total perspective either once for all in a gradual way. The fact remains that it depends on the customers' ability to pay. That is where the welfare aspect or social burden comes in. The same thing applies with regard to the freight charges of certain commodities which are used by the weaker sections for which certain exemptions are given. To that extent, the fares are less than the cost of the inputs. I would not disagree with the Finance Secretary because conceptually, the cost of inputs have to be balanced. In this type of fare structure, cross subsidisation has to be there. We will have to finally see the end use. We have to see what cross-sections of society make use of these transportation services. But we look at it from the perspective of policies as to what we should do and what we should not do. Perhaps, the viewpoint expressed by the Finance Secretary would be in conflict with the present concept of sharing the social burden. If you want to reduce cross subsidisation and bring them altogether on par, it will mean a total re-look at the overall fare and freight structure."

35. When it was pointed out that the Ministry of Railways have asked to reimburse an amount of Rs. 2,000 crores for carrying social burden by them, the Finance Secretary stated:

"I do not know what is the basis of the calculation, that the essential commodities are being carried below the cost. If you are merely comparing the rate of essential commodities with that of the non-essential commodities, then that difference is not a subsidy because the rate for non-essential commodities is very high. The first thing in my view is that, what is the extent of subsidy on essential commodities should be based not on comparison of the essential commodity rate with that of the non-essential commodity rate.

If there are some social or other obligations, - I accept that there are and there should be - then, we feel that the total size of that should be fitted within the cross subsidisation that the railways are doing; and there is ample scope for raising more resources from the passenger segment of the railways because if you look at the index of what happened to freight rates and the passenger rates, then you will find that the growth over the last five or six year is over 100 percent more than the others. The freight rates are not borne by the people. There is no particular justification for subsidising the passenger traffic and putting the whole lot of burden on the freight traffic. In one way or the other, in order to reflect the costs, you are raising a little from the passenger side of the operation. It is affecting the competitiveness of the industry. This is a distortion which should be removed. If there is a political support for this, a small adjustment can be made. That adjustment has to be gradual.

If that is done, there will be a huge increase in the resources that will accrue to the railways which will take care of a lot of the problems."

36. Commenting on the Committee's observations that a substantial chunk of Railways' resources were being spent on operation of uneconomic branch lines, the Chairman, Railway Board, submitted as follows:

"Various Committees in the past have commented on it. We were able to close some of the uneconomic lines. But the fact remains that there is an emotional attachment to the lines. If the line is there, there would be some means of transportation and even though some loss is incurred, it does serve a social purpose. Because of the socio-political factor, some of the State Governments have been absolutely reluctant to permit us to close the lines in spite of the fact that we have even offered an alternative of bus services. This again is a point which has to be dealt with at the socio-political levels. In my opinion, it is no longer a subject which could be handled from a purely commercial or financial angle. We, on our part, have taken all steps required to be taken in order to reduce the cost of operations. It has been possible at some places even to close down the stations which were in existence earlier. But here also we have come across public demand to keep the services running and to keep the stations intact. Inspite of being an economical branchline, it still gives some status to that place which means a lot to the local people. It is one of the main reasons why it has not been possible to close down certain economically non-viable lines. In fact, it is a reality which has to be understood. We have, on our part, tried to handle the problem by providing some alternative services. I would like to inform the Committee that we have made an experiment during this year in Merta City and Merta Road where we have introduced a railways' bus. The response is extremely encouraging and we have to increase this type of services further in those areas where there are uneconomic branchlines. If we can provide certain alternatives, which can be comparable, if not better, this would solve our problem while the status of that area too remains intact."

37. When the representative of the Planning Commission was asked to comment on the Railways' plea for reimbursement of the cost of carrying social burden which no other Public Undertakings are carrying, the Adviser (State Plan), submitted the following:

"It is true that the Railways have to carry social obligations/burdens. The principle which you just now mentioned that to charge rates which the traffic can bear that itself is a commercial principle. But the fact of the matter is that if there is a case of increase in the budgetary support, that is a matter which we will discuss as a part of our mid-term appraisal exercise and we have had some discussion with the Railways as a part of mid-term appraisal. We have not done that quantitative assessment. So, it is not possible for me to say that there will be any increase in that. But going by the present position of resource availability, it does not appear very likely that there will be a very substantial increase."

38. The Committee wanted to know whether the Planning Commission agree to the suggestion that Ministry of Railways should directly be compensated by respective Ministries for carrying social burden, the witness added:

"As far as carrying the social burden is concerned, the point is whether they should be compensated by the Ministry of Finance directly or by the respective Ministries. It does appear reasonable that if a particular line is taken up exclusively to cater to the needs of a particular Ministry, then that Ministry should compensate the Railways."

39. The Committee drew the attention of the Ministry of Railways that RCC (1991) had, in their 5th Report, recommended that a fresh study should be made on the issue of social burden and wanted to know from the Chairman, Railway Board, whether any progress has been made in this regard.

The Chairman, Railway Board submitted as follows:

"We had done that study and as a result of that we have taken a decision that certain costs may be taken out of social burden and we can absorb it as railway welfare activity. I am meaning something like security, that is, the cost of GRP and RPF. Welfare activities of staff have also been taken out. It would be our burden rather than social burden. Even then, the activities are such where the local bodies have to provide necessary facilities and infrastructure. Considering our size of operation and our size of staff we have taken on to this and our estimate is that about 200 crores would be less from the social burden as such."

Average Rate of Borrowing

40. The following table compares the average rate of borrowing with the rate of dividend:

Year	Current Annual borrowing rate of interest of the Central Govt.		Average rate of interest on Government borrowings			Dividend 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	4.50% on capital upto 1963-64 &
1965-66	5.00	5.00	3.90	3.93	3.93	5.75% on fresh capital.

1966-67	5.00	5.00	4.05	4.06	4.05	
1967-68	5.25	5.25	4.15	4.23	4.22	
1968-69	5.00	5.00	4.25	4.35	4.33	
1969-70	5.00	5.00	4.40	4.43	4.43	5.50% on capital upto 1963-64 & 5.75% on fresh capital. Pre-1964 capital included 1.0% as payment in lieu of passenger fare tax.
1970-71	5.50	5.50	4.52	4.54	4.53	
1971-72	5.50	5.50	4.65	4.65	4.65	
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	
1981-82	7.50	7.50	6.25	6.30	6.30	
1982-83	8.50	8.50	6.50	6.60	6.60	Dividend net 1.4.1980 on capital upto 1979-80 @6.0% and on capital thereafter a 6.5%. Pre-80 capital includes 1.5% on capital upto 1963-64 for payment in lieu of passenger fare-tax.
1983-84	9.50	9.50	6.90	7.00	7.00	
1984-85	10.00	10.00	7.30	7.40	7.40	
1985-86	11.00	11.00	7.80	8.00	8.00	
1986-87	11.40	11.40	8.50	8.50	8.50	
1987-88	11.30	11.30	8.80	9.00	9.00	
1988-89		11.40	9.30	9.30	9.30	
1989-90		11.50	9.60	9.60	9.60	
1990-91			9.85	10.00	10.00	
1991-92			10.20	10.20	10.30	
1992-93			10.40	10.40	10.10	
1993-94			10.70	10.70	10.90	
1994-95			10.95	11.10		

41. The Committee find from the above table that:

(i) the rate of dividend 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 percent and from 1982-83 the average borrowing rate became much higher than the present rate of dividend of 6.5 percent.

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

Depreciation Reserve Fund

42. 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 1994-95, the Railway Convention Committee (1991) had, in para 30 of their Fifth Report, observed as under:

> "The Committee note that the balance in the Depreciation Reserve Fund (DRF) is expected to be more than Rs. 1,100 crores, at the end of the current year (1993-94). Though the Ministry is 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. 2,700 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."

43. For 1995-96, the Ministry of Railways have suggested to the Committee as under:

"The draft Report by the Working Group on DRF has been prepared and the same is likely to be finalised and presented early.

Though the Committee had recommended for an appropriation of Rs. 2,700 crores to the DRF, as warranted by the plan needs for 1994-95 and the overall financial position of Railways, the final appropriation to DRF has been kept at Rs. 2,300 crores in the Budget Estimates. This reduction became necessary due to an overall reduction in the size of the Plan by Rs. 500 crores. The balance in the Fund at the end of 1994-95 is expected to be Rs. 1,100 crores. The appropriation to DRF in the year 1993-94 was Rs. 1,850 crores.

The contribution to the fund for the year 1995-96 will have to be higher than that for 1994-95 on account of the new assets added and the element of inflation. It is suggested that the contribution to the Fund in 1995-96 may be kept at Rs. 2,650 crores, 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".

44. Regarding the Depreciation Reserve Fund, the Financial Commissioner, Railway Board, deposed the following before the Committee:

"Upto the Fourth Plan, we submitted our total outlay to the Planning Commission which included the developmental cost plus the replacement cost but the Planning Commission was taking only "other than the replacement cost as part of the plan outlay. But from the Fifth Plan, they were including the replacement of assets also in the total plan outlay. The impression that we have got is that there is a substantial fund available in the Depreciation Reserve Fund but we have no freedom to use the money available in the DRF. We are allowed to use whatever we were contributing then, every year, with marginal variations. DRF is under the control of the Government. They give only 7 percent interest on that."

45. When the Committee wanted to know whether any difficulty was being faced by the Railways after the DRF went into the control of Ministry of Finance, the witness added:

"For example, in a good year, we are able to make certian contribution to DRF but in a particular year because of our inability to raise the fare we were not able to contribute in that, then we are not allowed to draw down from that Fund. Before the Fifth Plan, we had that kind of freedom. Now, we have to got to the Planning Commission for approval of the total money that we want to withdraw from the Fund."

46. Asked as to why the Depreciation Reserve Fund has been included in the Plan outlay since Fifth Five Year Plan, the Adviser (SP), Planning Commission Stated as follows:

"By definition the depreciation is a part of internal resources. It is the same in the case of other public sector undertakings and there is no reason why in the case of Railways it should be taken out of their resources as plan resources."

47. In this connection, the Adviser (FR), Planning Commission added the following:

"As in the case of all Central Public Sector Undertakings, in the case of Railways also, depreciation provision is treated as part of the internal resources, when we give the figures, this is included in the Budget. As reards the problem of resource mobilisation in respect of Railways, the Eighth Plan Document which has been approved by the National Development Council, lays down the overall approach to the budgetary support. It has been stated in the document that adequate budgetary support is needed for social sector, comprising education, health, family welfare, welfare of the weaker sections, as well as other sectors like irrigation, rural development, agriculture, etc. This has to depend exclusively on budgetary support. In the case of commercial enterprises, they are expected to meet the gap between budgetary support and plan outlay through internal and external budgetary resources. So, in the case of internal resources also we take into account both depreciation and this retained profit."

Pension Fund

48. The Railway Convention Committee (1991), in their Fifth Report, approving the recommendation of the Railway Ministry regarding contribution to be made to Pension Fund in 1994-95, had recommended as under:

"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 Ministry of Railways that the contribution to Pension Fund may be enhanced to Rs. 1,690 crores in 1994-95 subject to minor adjustments keeping in view the likely 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 will be subject to minor adjustments keeping in view the likely withdrawals and the financial position of the Railways."

49. In this regard, the Ministry of Railways have submitted the following:

"Keeping in view the above recommendations, the appropriation to Pension Fund has been kept at Rs. 1,700 crores in 1994-95. The appropriation to Pension Fund in the year 1993-94 was Rs. 1,500 crores. The balance in the Fund at the end of the current year is expected to be around Rs. 380 crores.

It is submitted for the consideration of the Committee that the contribution to Pension Fund may be enchanced to Rs. 1,900 crores in 1995-96, keeping in view the increase in the number of pensioners and the pensions being increased with each DA instalment. 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

50. The Railway Convention Committee (1991) had, in para 32 of their Fifth Report, observed as under:

"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."

51. In this connection, the Ministry of Railways, in their Interim Memorandum, have submitted as under:

"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.

Budget Estimates 1994-95 provide for appropriation of Rs. 290 crores to this Fund."

Capital Fund

52. As approved by the RCC (1991), *vide* their Third Report, the Capital Fund was created with effect from 1992-93. This Fund is used to finance part of the capital works on the railways.

The Capital Fund is credited with all the "Excess", earlier referred to as "surplus" left after payment of dividend and Appropriation to Development Fund etc.

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

> "In 1994-95 this Fund is estimated to be credited with Rs. 1,680 crores being the balance of "Excess" left after appropriation to Development Fund."

Interest on Railway Funds and Loan to Development Fund

54. In para of their Fifth Report, the Railway Convention Committee (1991) had recommended as under:

> "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."

55. 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 1995-96 as well."

Recommendations

56. After considering the view point put forward by the Planning Commission and Ministry of Finance alongwith the arguments including the supplementary note given by the Ministry of Railways on the subject and keeping in view the average borrowing rate, the Committee recommend, purely as an interim measure, that the capital invested on the Railways upto 1952 may be treated as 'Dividend free' and the dividend for the year 1995-96 to General Revenues on the remaining capital invested thereafter be paid at the rate of 7% 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 1994-95.

57. From the Interim Memorandum, the Committee find that there has been a reverse flow of funds since 1993-94 onwards. The Ministry of Railways had to pay Rs. 1299 crores and Rs. 1372 crores as dividend liability during 1993-94 and 1994-95 respectively, against the Budgetary support of Rs. 960 crores and Rs. 1150 crores during the same period. The Committee feel that it is a clear case in which the Railways had to pay dividend on that Budgetary support which is to be adjusted against their dividend liability. Keeping in view the above facts and the resource crunch faced by the Railways and the inability of the Finance Ministry and the Planning Commission to make available the necessary funds, the Committee

recommend that the Railways should decide the quantum of dividend that can be paid during 1995-96 and the balance amount of dividend, if any, be treated as a deferred dividend liability on which no interest shall be charged. The amount of deferred dividend liability may be equal to or less than the amount due to the Railways from the various State Electricity Boards. The Committee, while making this recommendation have taken into account the system of deferred dividend liability that was prevalent from 1.4.1978 till 1992-93.

58. 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 1995-96.

59. The Committee do not see any reason as to why the present policy of the Government applicable to Public Sector Undertakings for mobilising their own resources and not to depend on plan outlay should also be made applicable to the Indian Railways for they carry huge social burdens amounting to Rs. 2,000 crores which runs counter to the basic principle of a commercial undertaking. When the Ministry of Railways are themselves facing acute resource crunch, the Committee are in agreement with their contention that they should adequately be compensated for carrying social burdens. In this connection, the Committee had in their 5th Report (10th Lok Sabha) recommended that the Railways should carry out a fresh study regarding compensation to be paid to the Railways for carrying social burdens. However, the Committee regret to note that whereas the Railways, as stated by the Chairman, Railway Board during evidence, have made the necessary study on the subject, the details of the said study were neither furnished to them nor to the Ministry of Finance. They, therefore, stress that the Ministry of Railways should furnish the details of the study to the Committee and the Ministry of Finance expeditiously.

60. The Committee feel distressed to note that a staggering amount of Rs. 1095 crores was outstanding against the various State Electricity Boards as on 30.11.1994. The Committee are not convinced with the routine reply given by the Ministry of Railways about the steps taken by them to recover the dues. They need hardly point out that had the Ministry taken certain drastic steps the outstanding amount would not have mounted from a mere sum of Rs. 133.42 crores in March, 1989 to an alarming figure of Rs. 1096 crores as on 30.11.1994. The Committee feel that the scarcity of resources being acutely felt by the Ministry of Railways could be lessened to some extent, if they had recovered the outstandings. They are, therefore, constrained to recommend that the amount recoverable from State Electricity Boards etc. should be adjusted from the future power tariff bills of SEBs, etc. At the same time they also desire the Finance Ministry and the Planning Commission to examine whether the outstandings against various State Electricity Boards could be adjusted against the Central assistance to States and the amount so realised is credited to the Railways. The

Committee further recommend that the Ministry of Railways should also follow the cash and carry scheme for all consignments to be booked in future.

61. The Committee note that though they had recommended for an appropriation of Rs. 2700 crores to the Depreciation Reserve Fund (DRF) but the final appropriation to DRF was kept at Rs. 2,300 crores in the Budget Estimate due to an overall reduction in the size of the Plan by Rs. 500 crores. The Committee find that at the end of the current financial year the balance in the DRF is expected to be Rs. 1,100 crore. The Ministry of Railways have informed the Committee that the draft Report by the Working Group on DRF has been prepared and the same is likely to be finalised and presented early. The Committee expect that the above report shall be furnished to them without any further delay. 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 in 1995-96 may be kept at Rs. 2,650 crores, 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.

62. The Committee note that the balance in the Pension Fund is expected to be around Rs. 380 crores 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 be enhanced to Rs. 1,900 crore in 1995-96, keeping in view the increase in the number of pensioners and the pensions being increased with each DA instalment. However, the contribution to the fund will be subject to minor adjustment keeping in view the likely withdrawals and the financial position of the Railways.

63. With regard to Development Fund (DF) the Committee note that out of the excess of revenue over the total working expenses and after clearing in full the dividend liability, the amount required for the passengers and users' amenities (DF—I), labour welfare works (DF—II), Unremunerative operating improvements (DF—III) and Safety Works (DF—IV) is credited to this Fund. The Ministry of Railways have stated that the Budget Estimates 1994-95 provide for appropriation of Rs. 290 crores to this Fund. The Committee desire that the Ministry of Railways should, in their action taken notes, apprise them about the actual amount that will be credited to this Fund at the end of the current financial year.

64. The Committee also note that in 1994-95 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, is estimated to be Rs. 1680 crores. The Committee expect the Ministry of Railways to apprise the Committee, in their action taken note, about the amount that has actually been credited to this Fund at the end of the current financial year.

65. Lastly, the Committee do not see any logic in modifying the principles governing interest on 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 1995-96.

NEW DELHI;
March 13, 1995
Phalguna 22, 1916 (S)

M. BAGA REDDY,
Chairman,
Railway Convention Committee.

APPENDICES

APPENDIX I

(*Vide* Para 5)

Statement showing the recommendations contained in the Fifth Report of the Railway Convention Committee (1991) on Rate of Dividend for 1994-95 and other ancillary matters and action taken thereon

Sl. No.	Para No.	Recommendation	Action Taken by Government
1.	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 ground 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 paid to the General Revenues at the rate of 7 percent as an	The recommendation has been accepted and made applicable in framing 1993-94 (RE) and 1994-95 (BE).

Sl. No.	Para No.	Recommendation	Action Taken by Government
		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.	
2.	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.	The recommendation has been accepted and made applicable from 1994-95 (BE).
3.	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.	Accepted. Our proposals for appropriation to DRF and Pension Fund will continue to be incorporated as usual in the interim and final memorandums on "Rate of Dividend and Other Ancillary Matters", being submitted to RCC.

Sl. No.	Para No.	Recommendation	Action Taken by Government
4.	30	The Committee note that the balance in the Depreciation Reserve Fund (DRF) is expected to be more than Rs. 1,100 crores 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 stopped 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.	(i) The draft Report by the Working Group on DRF has been prepared and the Report is likely to be finalised and presented early. (ii) As warranted by the plan needs for 1994-95 and the overall financial position of Railways, the appropriation to DRF has been kept at Rs. 2300 crores as against Rs. 2700 crores informed to RCC. Change, if any, in this will be brought to the notice of RCC while submitting the next interim memorandum.

Sl. No.	Para No.	Recommendation	Action Taken by Government
5.	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 crores 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.	In line with the above recommendation of RCC, appropriation to Pension Fund in BE 1994-95 has been kept at Rs. 1700 crores.
6.	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.	Noted. During 1993-94 (RE) and 1994-95 (BE) appropriation to Development Fund has been kept at Rs. 220 crores and Rs. 290 crores respectively.
7	33	Similarly, with regard to the new Fund created with effect from 1992-93 the Capital Fund, to which all surplus left after payament 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, 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.	Noted. During 1993-94 (RE) and 1994-95 (BE) appropriation to Capital Fund has been kept at Rs. 1975 crores and Rs. 1680 crores respectively.

Sl. No.	Para No.	Recommendation	Action Taken by Government
8.	34	Lastly, the Committee do not see any logic in modiflying 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 Divided. 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.	The recommendation has been accepted and made applicable from 1994-95 (BE)
9.	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 percent in the V Plan to 14.8 percent 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.	The recommendation is subject to approval from Ministry of Finance and Planning Commission with whom the matter is being taken up. Their views will be brought before the RCC in the due course.
10.	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.	A study in this regard has recently been carried out by Railway Fare and Freight Committee, Action Taken Note on which is under the process of being finalised. Views of Ministry of Finance on the above recommendations of RCC and of RFFC are being called for which will be apprised to RCC in due course.

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 dividend 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	—	—

1	2	3	4	5
1969-70	156.39	156.39	—	—
1970-71	164.57	164.57	—	—
1971-72	151.24	151.24	—	—
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	—
Total	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	295.00	1296.00	—	—
Total	9097.86	9338.20	240.34	619.63
Grand Total:	12649.60	13271.64	622.04	622.04

@ This includes also Rs. 117.59 crores in respett 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 21)

The rate of dividend on the Capital-at-charge of the Railways and reliefs in dividend and by way of subsidy, based on the interim recommendations of the Railway Convention Committee (1991) applicable for 1994-95 are as under:

I. Dividend

The rate of dividend is 7 per cent of the entire Capital invested on the Railways irrespective of the year of investment and inclusive of the amount that is payable by the Railways to the General Revenues for payment to States as grant in lieu of passenger fare tax and contribution for assisting the States for financing safety works during the financial year 1993-94. The amount payable on this account to the General Revenues was Rs. 23.12 cores in 1993-94.

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 brone 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 arrange is to be applied also to the two National Invetments *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 view 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 years after opening of the lines for traffic, and the capital cost of line wires taken over from the P&T Department.

APPENDIX IV

(*Vide* para 26)

Note in Continuation of Fourth Interim Memorandum to the Railway Convention Committee (1991) on Dividend Payable by Railways to the General Revenues, Contribution to the Railway Depreciation Reserve Fund and Railway Pension Fund

The Railway Convention Committee (1991) has considered the Memorandum submitted to it by the Railways in connection with the rate of dividend payable to General Revenues and other ancillary matters on 2.2.1995. In continuation Railways submit as under.

2. The Railway Convention Committee (1991) 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% on the entire capital invested on Railways from the General Revenues irrespective of the year of investment and inclusive of the other reliefs as were available to Railways prior to this recommendation.

2.1 Railways have now to pay about Rs. 102 cr. more to the General Revenues on account of increase in rate of dividend to 7%. The detailed calculations in this regard are enclosed in Annexure. This has placed a considerable burden on the railway finances.

3. The Budgetary Support from General Revenues has declined steeply. It is only 18% in 1994-95 as compared to 75% during the Fifth Five Year Plan period.

3.1 Since 1992-93, the materialisation of freight traffic has not come up as per the budgetted expectations due to the failure of the core sector to offer traffic as per projections. Railways have also been meeting the persistent demands of both long distance passenger and suburban streams of traffic. We have been making efforts to improve the passenger amenities, quality of travel and other services like computerised reservation system. The returns on such expensions are not commensurate with the input costs.

3.2 Many of the State Electricity Boards and Power Houses are not making timely payment of railway dues. As on 31.3.90 an amount of Rs. 244 cr. was outstanding against the State Electricity Boards and Power Houses. These outstandings have now gone up to Rs. 1096 cr. at the end of Nov. '94. Railways on their part have made efforts to realise the outstanding dues by making contacts with the concerned State Governments, etc. But till now no fruitful results have been achieved in this regard. Another factor which is important is that the State Electricity Boards are continuously increasing their tariff. The total payment on account of electricity for traction is Rs. 1600 cr. SEBs have also started asking for advance security deposits from Railways equal to two to three month's traction bills.

3.3 Railways are alive to their responsbilities for providing adequate linkages to J&K and NE Region. While some exemptions are given in the form of relief on dividend payments, the Railways do incur losses on operating services in these sections and loss of capacity which cause an additional burden.

4. The above details would highlight that while the support from the General Revenues is shrinking, the ability of Railways to generate adequate resources for the operation is getting restricted. The cost of funds borrowed through IRFC is expensive. At the same time demand on Railways for development and maintenance of infrastructure are on the rise. The Railways have necessarily to follow a policy of restraint in the matter of revision of fare and freight rates. Railways have to face an unfair competition from other modes of transport in as much as the Government provides the fixed infrastructure to such modes.

4.1 The Railways have also undertaken in-house measures to reduce the costs and increase productivity. The concepts of leasing and BOLT are being explored to spread the capital requirements over longer periods. Even the off-line activities are being considered to be farmed out by private sector to exploit the potential now available in the liberalised set up. Despite this, Railways continue to face a severe financial strain for meeting its obligations for expending/upgrading infrastructure.

5. It is requested that the Committee may kindly consider to revise the rate of dividend to 6% on the capital invested on Railways prior to 1980 and 6.5% on the capital invested after 1980 and continue all the reliefs and subsidies available to Railways so far. The Committee may also kindly consider making the capital invested upto 1952 as 'Dividend free'. These will provide a relief of *Rs. 153 cr. This amount will be marginal for the General Revenues though significiant for Railways. In case the Committee feels that a rate of 7% needs to be maintained, it can consider the same to be made applicable on the capital invested on Railways from 1993-94 onwards.

* (i) Rs. 102 Cr. on account of reverting back to 6% on pre-80 Capital and 6.5% on post-80 capital.

(ii) Rs. 51 Cr. on account of exemption on upto 1952 Capital for payment of dividend at the rate of 6%.

Dividend				Subsidy		
Calculation of Dividend & Subsidy with the latest input except the Loss on Strategic Lines and Outlay for current year for which the B.G. outlay has been adopted						
Capital qualfying 7% rate of Dividend	18980	7.0%	1329	3186	7.0%	223
Capital qualifying 3.5% rate of Dividend (Residential Bldgs.)	577	3.5%	20	60	3.5%	2
Capital qualifying 11.1% rate of Dividend (New Lines)	1777	11.1%	197	1777	11.1%	197
Total			1546			422
Net Dividend			1124			
If calculation of Dividend is reverted to 6% & 6.5% for pre-80 & post-80 capitals						
Pre-80 Capital	5028	6.0%	302	476	6.0%	29
Post-80 Capital	13952	6.5%	907	2710	6.5%	176
Capital qualifying 3.5% rate of Dividend (Residential Bldgs.)	577	3.5%	20	60	3.5%	2

Dividend				Subsidy		
Capital qualifying rate of Dividend (New Lines)	11.1%	1777	11.1%	197	1777	11.1%	197
Total				1426			404
Net Dividend							1022

NET IMPACT OF DECREASE IN RATE
-102

On capital of about Rs. 850 cr. invested on Railways until 1952, dividend 87% works to Rs. 60 cr. and 86% Rs. 51 cr.

A Statement showing the total outstanding dues recoverable from the State Electricity Boards

(In Crores)

As on	Amount
30.11.1994	1095.92
31.3.1994	914.29
31.3.1993	617.92
31.3.1992	351.76
31.3.1991	256.78
31.3.1990	243.83
31.3.1989	133.42

APPENDIX V

Statement of Recommendations/Conclusions

Sl. No.	Para No.	Page No.	Recommendations/Conclusions
1	2	3	4
1.	56		After considering the view point put forward by the Planning Commission and Ministry of Finance alongwith the arguments including the supplementary note given by the Ministry of Railways on the subject and keeping in view the average borrowing rate, the Committee recommend, purely as an interim measure, that the capital invested on the Railways upto 1952 may be treated as 'Dividend free' and the dividend for the year 1995-96 to General Revenues on the remaining capital invested thereafter be paid at the rate of 7% 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 1994-95.
2.	57		From the Interim Memorandum, the Committee find that there has been a reverse flow of funds since 1993-94 onwards. The Ministry of Railways had to pay Rs. 1299 crores and Rs. 1372 crores as dividend liability during 1993-94 and 1994-95 respectively, against the Budgetary support of Rs. 960 crores and Rs. 1150 crores during the same period. The Committee feel that it is a clear case in which the Railways had to pay dividend on that Budgetary support which is to be adjusted against their dividend liability. Keeping in view the above facts and the resource crunch faced by the Railways and the inability of the Finance Ministry and the Planning Commission to make available the necessary funds, the Committee recommend that the Railways should decide the quantum of dividend that can be paid

1	2	3	4
			during 1995-96 and the balance amount of dividend, if any, be treated as a deferred dividend liability on which no interest shall be charged. The amount of deferred dividend liability may be equal to or less than the amount due to the Railways from the various State Electricity Boards. The Committee, while making this recommendation have taken into account the system of deferred dividend liability that was prevalent from 1.4.1978 till 1992-93.
3.	58		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 1995-96.
4.	59		The Committee do not see any reason as to why the present policy of the Government applicable to Public Sector Undertakings for mobilising their own resources and not to depend on plan outlay should also be made applicable to the Indian Railways for they carry huge social burdens amounting to Rs. 2,000 crores which runs counter to the basic principle of a commercial undertaking. When the Ministry of Railways are themselves facing acute resource crunch, the Committee are in agreement with their contention that they should adequately be compensated for carrying social burdens. In this connection, the Committee had in their 5th Report (10th Lok Sabha) recommended that the Railways should carry out a fresh study regarding compensation to be paid to the Railways for carrying social burdens. However, the Committee regret to note that whereas the Railways, as stated by the Chairman, Railway Board during evidence, have made the necessary study on the subject, the details of the said study were neither furnished to them nor to the Ministry of Finance. They, therefore, stress that the Ministry of Railways should furnish the details of the study to the Committee and the Ministry of Finance expeditiously.

1	2	3	4
5.	60		The Committee feel distressed to note that a staggering amount of Rs. 10.95 crores was outstanding against the various State Electricity Boards as on 30.11.1994. The Committee are not convinced with the routine reply given by the Ministry of Railways about the Steps taken by them to recover the dues. They need hardly point out that had the Ministry taken certain drastic steps the outstanding amount would not have mounted from a mere sum of Rs. 133.42 crores in March, 1989 to an alarming figure of Rs. 1096 crores as on 30.11.1994. The Committee feel that the scarcity of resources being acutely felt by the Ministry of Railways could be lessened to some extent, if they had recovered the outstandings. They are, therefore, constrained to recommend that the amount recoverable from State Electricity Boards etc. should be adjusted from the future power tariff bills of SEBs, etc. At the same time they also desire the Finance Ministry and the Planning Commission to examine whether the outstandings against various State Electricity Boards could be adjusted against the Central assistance to States and the amount so realised is credited to the Railways. The Committee further recommend that the Ministry of Railways should also follow the cash and carry scheme for all consignment to be booked in future.
6.	61		The Committee note that though they had recommended for an appropriation of Rs. 2700 crores to the Depreciation Reserve Fund (DRF) but the final appropriation to DRF was kept at Rs. 2,300 crores in the Budget Estimate due to an overall reduction in the size of the Plan by Rs. 500 crores. The Committee find that at the end of the current financial year the balance in the DRF is expected to be Rs. 1,100 crore. The Ministry of Railways have informed the Committee that the draft Report by the Working Group on DRF has been prepared and the same is likely to be finalised and presented early. The Committee expect that the above report shall be furnished to them without any further delay. However, keeping in view the new assets added and the element of inflation, the Committee agree with the

1	2	3	4
			proposal of Ministry of Railways that the contribution to the DRF in 1995-96 may be kept at Rs. 2,650 crores, 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.
7.	62		The Committee note that the balance in the Pension Fund is expected to be around Rs. 380 crores 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 be enhanced to Rs. 1,900 cr. in 1995-96, keeping in view the increase in the number of pensioners and the pensions being increased with each DA instalment. However, the contribution to the fund will be subject to minor adjustment keeping in view the likely withdrawals and the financial position of the Railways.
8.	63		With regard to Development Fund (DF) the Committee note that out of the excess of revenue over the total working expenses and after clearing in full the dividend liability, the amount required for the passengers and users' amenities (DF-I), Labour Welfare Works (DF-II), Unremunerative operating improvements (DF-III) and Saftey Works (DF-IV) is credited to this Fund. The Ministry of Railways have stated that the Budget Estimates 1994-95 provide for appropriation of Rs. 290 crores to this Fund. The Committee desire that the Ministry of Railways should, in their action taken notes, apprise them about the actual amount that will be credited to this Fund at the end of the current financial year.
9.	64		The Committee also note that in 1994-95 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, is estimated to be Rs. 1680 crores. The Committee expect the Ministry of Railways to apprise the Committee, in their action taken note, about the amount that has actually been credited to this Fund at the end of the current financial year.

1	2	3	4
10.	65		Lastly, the Committee do not see any logic in modifying the principles governing interest on 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 1995-96.