Chapter 1 State of Finances

This chapter provides a broad perspective of the finances of the Indian Railways (IR) during 2009-10 and analyses critical changes in the major financial indicators relative to the previous year as well as the overall trend. The base data for this analysis is the Finance Accounts of IR, which is a document that is compiled annually for incorporation in the Union Government Finance Accounts. In addition, data from authentic government reports[1] have been used to compare actual performance of IR in 2009-10 vis-à-vis targets set by it.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of IR fiscal transactions during 2009-10 vis-à-vis the previous years and budget estimates for 2009-10. IR finances had been adversely affected since 2008-09 on account of the combined effect of the slowdown of the economy as well as rise in expenses on salaries and pensions on account of the 6th Central Pay Commission (CPC) recommendations.

Table 1.1 Summary of Receipts and Expenditure of IR

(₹ in crore)

Sl. No.	Details	Actual 2007-08	Actual 2008-09	Budget Estimates 2009-10 (Feb. 2009)	Budget Estimates 2009-10 (July 2009)	Revised Estimates 2009-10	Actual 2009-10
1	***Passenger Earnings***	***19,844.17***	***21,931.32*** (10.52)	***25,000.00***	***24,309.00***	***24,057.03***	*23488.17* (7.10)
2	***Freight Earnings***	***47,434.90***	***53,433.42*** (12.65)	***59,059.00***	***58,525.00***	***58,715.66***	*58,501.68* (9.49)
3	***Other Coaching Earnings***[2]	***1,800.30***	***1,971.67*** (9.52)	***3,000.00***	***2,750.00***	***2,526.23***	*2,235.12* (13.36)
4	***Sundry Earnings***[3]	***2,565.29***	***2,500.66*** (-2.52)	***6,000.00***	***2,760.00***	***2,981.99***	*2,879.68* (15.16)
5	***Suspense***	***75.40***	***24.78***	***100.00***	***75.00***	***75.00***	*-140.68*
6	***Gross Traffic Receipts***[4] ***(Item no.1 to 5)***	***71,720.06***	***79,861.85*** (11.35)	***93,159.00***	***88,419.00***	***88,355.91***	*86,963.97* (8.89)
7	***Ordinary Working Expenditure***[5]	***41,033.17***	***54,349.30*** (32.45)	***62,900.00***	***62,900.00***	***65,500.00***	*65,810.35* (21.09)

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[1] *Budget documents, Eleventh Plan Working Group on Railway Programmes, Annual Statistical Statements of Indian Railways and Indian Railways Year Books etc.*

[2] *Other coaching earnings from transportation of parcels, luggage and post office mail etc*

[3] *Sundry Earnings from renting, leasing of building, catering services, advertisements, interest, maintenance of sidings and level crossing, re-imbursement of loss on strategic lines etc*

[4] *Gross Traffic Receipts-Operational receipts from freight, passenger, other coaching traffic and sundry earnings of IR*

[5] *Operating Expenses of IR.*

Sl. No.	Details	Actual 2007-08	Actual 2008-09	Budget Estimates 2009-10 (Feb. 2009)	Budget Estimates 2009-10 (July 2009)	Revised Estimates 2009-10	Actual 2009-10
8	*Appropriation to*						
	Depreciation Reserve Fund	5,450.00	7,000.00 (28.44)	7,000.00	5,325.00	4,500.00	2,187.00 (-68.76)
	Pension Fund	7,979.00	10,490.00 (31.47)	13,690.00	13,440.00	13,440.00	14,918.00 (42.21)
9	*Total Working Expenditure (Item no.7 and 8)*	54,462.17	71,839.30 (31.91)	83,590.00	81,665.00	83,440.00	82,915.35 (15.42)
10	*Net Traffic Receipts (Item no.6 – 9)*	17,257.89	8,022.55 (-53.51)	9,569.00	6,754.00	4,915.91	4,048.62 (-49.53)
11	*Miscellaneous Receipts*[6]	1,556.51	1,797.13 (15.46)	2,147.22	2,207.22	2,357.16	2,265.33 (26.05)
12	*Miscellaneous Expenditure*[7]	480.38	645.23 (34.32)	839.74	839.74	783.21	769.85 (19.31)
13	*Net Miscellaneous Receipt (Item no. 11 – 12)*	1,.076.13	1,151.90 (7.04)	1,307.48	1,367.48	1,573.95	1,495.48 (29.83)
14	*Net Revenue (Item No.10 and 13)*	18,334.02	9,174.45 (49.96)	10,876.48	8,121.48	6,489.86	5,544.10 (-39.57)
15	*Dividend Payable to General Revenues*						
	Current year	4,238.93	4,717.67	5,304.22	5,479.22	5,538.83	5,543.35
	Deferred Dividend of previous year	664.00	0.00	0.00	0.00	0.00	0.00
	Total Dividend Payment	4,902.93	4,717.67 (-3.78)	5,304.22	5,479.22	5,538.83	5,543.35 (17.50)
16	*Net Surplus (Item no. 14 – 15)*	13,431.09	4,456.78 (-66.82)	5,572.26	2,642.26	951.03	0.75 (-99.98)
17	*Surplus available for appropriation*						
	Development Fund	2,359.00	1,391.00 (-41.03)	5,572.26	2,000.00	951.03	0.75 (-99.95)
	Capital Fund	11.072.09	3,065.78 (-72.31)	0.00	642.26	0.00	0.00 (-100.00)

Source: Explanatory Memorandum on Railway Budgets and Accounts for 2009-10
Note : Figures in brackets represents the increase/decrease in percentage over previous year

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6 *Miscellaneous Receipts comprise of subsidy from GoI towards dividend receipt and other concession, receipts by Railway Recruitment Board etc.*
7 *Miscellaneous Expenditure comprised of expenditure on Railway Board, Surveys, Research, Designs and Standards Organization, Other Miscellaneous Establishments of IR, Statutory Audit, Expenditure on Open Line Works (Revenue) etc.*

1.2 Reliability of Budget Estimates

Accurate forecast of budget is critical to an organization's financial and operational performance. Assessment of how well the financial targets are met depends on how realistic the financial estimates were from the outset.

The Interim Budget presented in Parliament in February 2009 was optimistic as it projected a 16.65 *per cent* increase in gross traffic receipts (GTR) over 2008-09. Net revenue surplus after meeting all revenue liabilities including dividend was estimated to be 25 *per cent* more than the surplus achieved in 2008-09.

However, when the full budget was presented in July 2009, the estimates were moderated - increase in GTR was kept at around 11 *per cent* more than that of 2008-09. The major reduction was under sundry earnings, which were estimated at 54 *per cent* lower than the projections made in the interim budget of February 2009 (lower realization was estimated from Rail Land Development Authority). Net surplus in the budget estimates of July 2009 was estimated to be about 41 *per cent* less than the actual surplus of 2008-09.

Despite the moderated estimates, IR could not achieve the projected performance. Anticipated GTR of 2009-10, in all the segments except for sundry earnings was not achieved and overall decline of around 2 *per cent* (₹1,455 crore) was recorded when compared to the budget estimates of 2009-10 (July 2009). Total working expenditure increased by around 2 *per cent* (₹1,250 crore) despite a reduction in appropriation to Depreciation Reserve Fund (DRF) by around 59 *per cent* (₹3,138 crore) in June 2010, after close of the year. The resultant net surplus also recorded a decline of almost 100 *per cent* against the budget estimates of 2009-10 presented in Parliament in July 2009.

1.3 Fiscal Transactions in 2009 10 An overview

1.3.1. Gross Traffic Receipts (GTR)

GTR grew in the current year (2009-10) by 8.89 *per cent*, which was significantly lower than the 11.35 *per cent* growth achieved in 2008-09. This was due to a decline in growth rate of freight and passenger earnings. The growth rates of other coaching earnings and sundry earnings were higher in the current year compared to the rate at which they grew in the previous year. However, these earnings form only around six *per cent* of GTR. Hence, their compensating effect was minimal on the overall GTR. The lower growth of passenger and freight earnings impacted the growth of GTR in the current year. The above growth rates have to be seen in the context of a rate of inflation above five *per cent* per annum on an average.

1.3.2 Ordinary Working Expenditure (OWE)

Ordinary working expenditure grew by a substantial 32.45 *per cent* in 2008-09 over the previous year. This was primarily due to the impact of 6th CPC's recommendations, which involved payment of arrears as well as increased salaries and pension. The impact continued in 2009-10 due to balance payment of pay arrears (60 *per cent*) and OWE increased by 21.09 *per cent* over the previous year. The total impact of 6th CPC recommendations (both arrears and salary/pension) during 2009-10 was ₹24,794 crore[8], which accounted for about 37.67 *per cent* of OWE.

1.3.3 Miscellaneous Receipts and Expenditure

In the current year (2009-10), miscellaneous receipts grew by 26.05 *per cent* largely on account of receipt of subsidy on dividend payment and other concessions. The growth of miscellaneous expenditure was contained at 19.31 *per cent* (mainly because the expenditure on this head was very high in the previous year and hence the base was high). As a result, net miscellaneous receipts grew by 29.83 *per cent*, in the current year (2009-10). As it formed less than one *per cent* of the GTR, its impact on total revenue collection is marginal.

1.3.4 Net Revenue

Net revenue in the current year fell by 39.57 *per cent* compared to the previous year primarily because of increase in working expenses as already indicated. This was an alarming signal since the net revenue in 2008-09 was already 49.96 *per cent* lower than what it was in 2007-08.

1.3.5 Dividend Payment

Dividend payable to the Government of India (GoI) is based on the Capital-at-charge advanced through general budgetary support. Since the deferred dividend liability[9] was extinguished in 2007-08, payment of dividend to general revenues was lower in 2008-09 as compared to 2007-08. However, dividend payout in 2009-10 was 17.50 *per cent* more than the previous year. IR, in 2009-10, paid dividend at the rate of 2008-09 i.e. seven *per cent* as report of Railway Convention Committee (RCC) on the rate of dividend for 2009-10 was not finalized till closure of the year. The report of RCC on rate of

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8 *Figures of 2009-10 are provisional.*

9 *In 2000-01 and 2001-02, IR could not pay the entire dividend to general revenues and ₹2,823.30 crore was deferred.*

dividend on 2009-10, presented to Parliament in December 2010, recommended a lower rate of six *per cent* for the year 2009-10. Adjustment due to reduction in dividend rate would be carried in 2010-11.

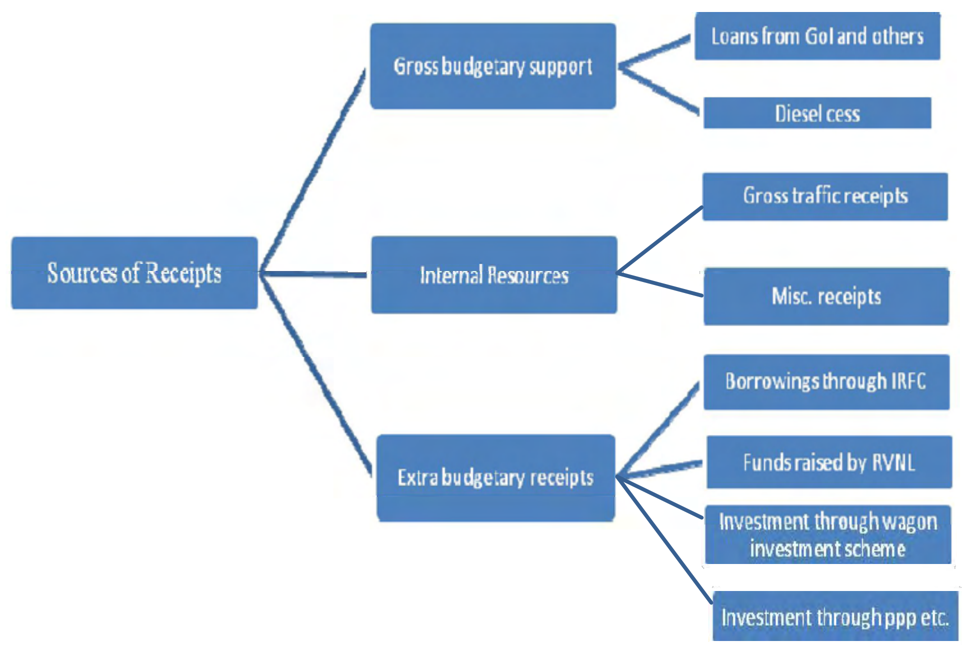
1.3.6 Net Surplus Available for Appropriation

Due to the reasons cited above, generation of net surplus after meeting all revenue liabilities including payment of dividend had fallen by a massive 99.98 *per cent* during the current year compared to the previous year. IR could generate only ₹75 lakh in 2009-10 which was appropriated to Development Fund, as against ₹1,391 crore and ₹3,066 crore appropriated to Development Fund and Capital Fund respectively in 2008-09. Over the period 2008-10, while GTR increased by 21 *per cent*, the total expenditure rose by 52 *per cent*. Thus, the net revenue surplus fell by ₹13,430 crore - a *cent per cent* erosion in two years from a figure of ₹13,431 crore at the end of 2007-08.

1.4 Resources of IR

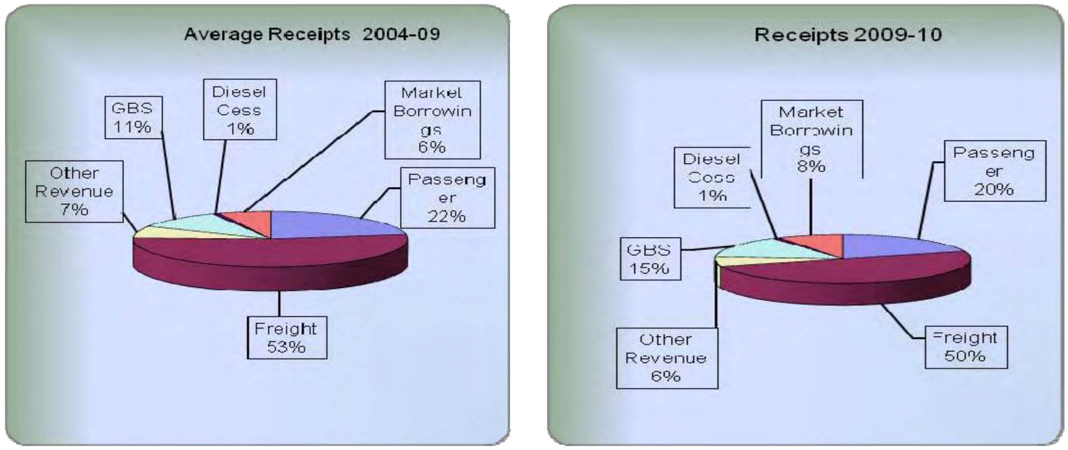
The main sources of IR receipts were as follows:

Figure 1.1 : Sources of Receipts



During the past decade 2000-10, the compound annual growth rate (CAGR) of revenue receipts was only around 10.61 *per cent*, while general budgetary support grew by 20.03 *per cent* and extra budgetary support (market borrowings) by 14.40 *per cent* annually. The share of each of these sources of funds during the current year as well as over the past five years average (2004-09) is given below:

Figure 1.2 : Relative Share of various Resources of IR



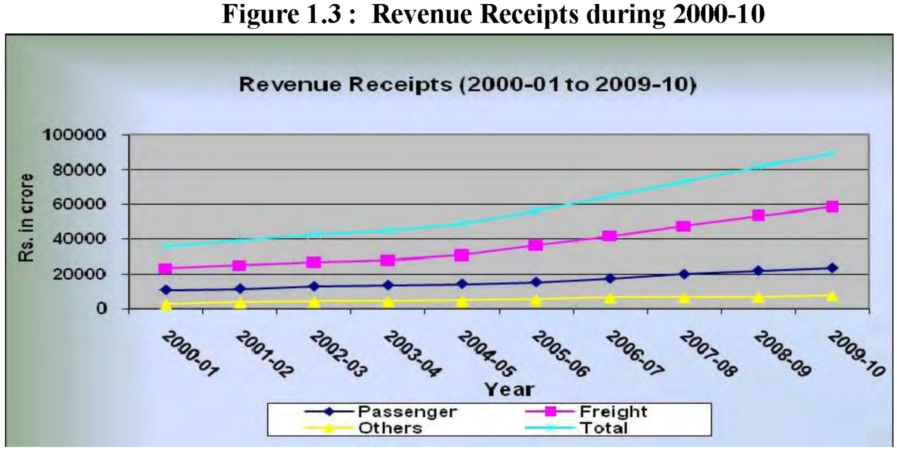
Note: Other Revenue Earnings include Other Coaching Earnings, Sundry Other Earnings and Miscellaneous Receipts; GBS- General Budgetary Support

Figure 1.2 indicates that on an average, the largest resource of IR was earnings on goods, followed by passenger earnings. While these two resources continued to be the largest sources of IR receipts for the current year also, their relative share reduced in the current year and had to be compensated for by a significant increase in the share of budgetary support.

1.4.1 Revenue Receipts

The trend of total revenue receipts during the past ten years is given in the graph below:

Figure 1.3 : Revenue Receipts during 2000-10



Note: Others include Other Coaching, Sundry Others, Suspense and Miscellaneous Receipts

Total Revenue Receipts increased at a CAGR of 10.61 *per cent* during the period 2000-10. The annual inflation during this period was around five *per cent*.[10] This meant that the real increase in revenue receipts (after discounting for inflation) was only around six *per cent*. The trend of increase in annual growth rate of receipts started in 2004-05 and continued till 2006-07, thereafter it started declining. The increased trend was primarily due to rationalization of freight.

The increase of 9.27 *per cent* in total revenue receipts in 2009-10 over the previous year was lower than the CAGR of 10.77 *per cent* achieved during 2000-09. The trend of growth rates of different segments of revenue receipts are discussed in the succeeding paragraphs.

1.4.1.1 Freight Earnings

Trend of freight loading and earnings of IR as a whole during the last decade (2000-10) is shown in the graph below:

Figure 1.4 : Annual Rate of Growth of Freight Earnings and Freight Loading

The annual growth rate of loading in the last decade consistently showed an upward trend till 2005-06 after which, there was a decline. The annual increase in loading (in absolute terms) ranged between 17.08 MT (2000-01) to 66.14 MT (2007-08) during the decade. There was a continuous increase of over 66 MT during 2005-06 to 2007-08 which was mainly due to gradual increase in permissible carrying capacity of wagons. The increase in freight

10 *Wholesale Price Index rose from 155.7 in 2000-01 to 242.9 in 2009-10 (Source -0/o The Economic Adviser, Ministry of Industry and Commerce)*

loading by 6.53 *per cent* in 2009-10 over the previous year was below the CAGR of 7.32 per cent achieved during 2000-09.

Growth of freight earnings was on an average higher than the growth of loading[11]. In 2009-10, freight earnings increased by 9.49 *per cent* over the previous year, though it was below the CAGR of 10.93 *per cent* achieved during 2000-09.

Box-1 Factors that affected freight earnings during the last decade

Annual growth rate of over 10 per cent in freight earnings since 2004-05 was possible partly on account of higher growth rate of the Indian economic and partly on account of rationalization of freight structure by IR in 2002-03 and continued thereafter. Rationalization inter-alia includes.

- ***Reduction in number of classes of commodities and reducing the ratio between the highest and the lowest class***
- ***Gradual increase in permissible loading capacity of wagons from November 2004 onwards***
- ***Abolishment of minimum weight condition i.e. wagon charged with reference to its capacity irrespective of nature of goods loaded in it.***
- ***Levy/revision of supplementary surcharge and upward revision of classes of certain commodities***

Key performance indicators of freight traffic are tabulated below:

Table 1.2 Freight Services Statistics

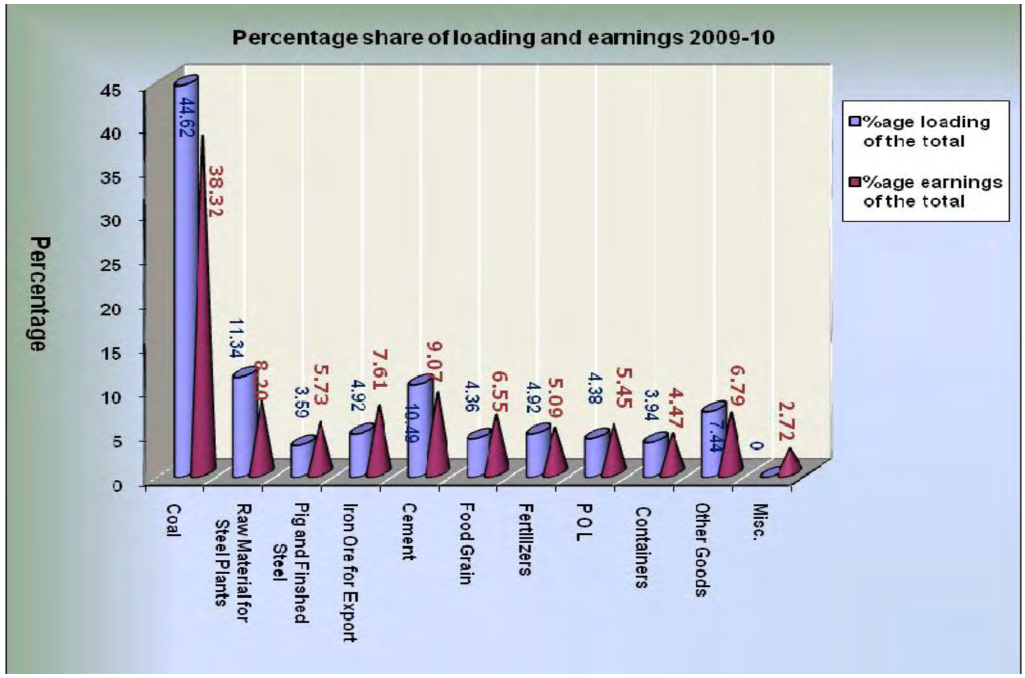
Year	Loading (MT)	NTKM (in billion)	Earning (₹ in crore)	Average lead (in kilometre)	Rate per tonne per km (in paise)
2005-06	666.51	439596	36286.97	660	80.83
2006-07	727.75	480993	41716.50	661	85.39
2007-08	793.89	521372	47434.90	657	89.04
2008-09	833.39	551448	53433.42	662	93.84
2009-10	887.79	600548	58501.68	676	94.77

In 2009-10, it was seen that despite increase in loading and NTKM, the rate per tonne per km increased by less than one paise over the previous year. Average lead of 676 km in 2009-10, though more than the previous years, was still less than the average lead of 677 km achieved in 2004-05.

11 *In 2003-04, percentage growth of earnings was lower than the growth of loading as classification of commodities such as petroleum products, iron & steel, cement, clinker, soda ash etc was reduced thereby reducing the freight rates. Further, graded concessions for all traffic up to 100 kilometer and reduction in the highest class from 300 to 250 also impacted the earnings of IR.*

Share of major commodities in loading and earnings are given in the bar chart below:

Figure 1.5: Major Commodity wise share of loading and earnings (2009-10)



Note: Raw material for steel plants includes iron ore for steel plants & for other users.

Coal, being a captive commodity, was the major component both in loading and earnings for IR. The above major commodities (excluding 'Other Goods' and miscellaneous earnings) contributed about 90 *per cent* of the total freight earnings of IR. Iron ore for export constituted five *per cent* of the total loading and earned eight *per cent* of the total freight earnings due to levy of high supplementary charges.

In 2009-10, IR lost more than ₹900 crore due to less loading of iron ore for export. Further, haulage charges recovered from container operators for the traffic hauled were at suboptimal rates resulting in short-recovery of operational cost. A comment in this regard is made in paragraph 2.1 of Report (No. 34 of 2010-11) of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2010. As far as zonal performance was concerned, nine zones[12] fell short of their freight earning targets for the current year (2009-10), as compared to the budgeted estimates of 2009-10 (July 2009). North Eastern, South Western and Southern Railways

12 ***East Central, North Eastern, Northeast Frontier, Southern, South Central, South Eastern, Southeast Central, South Western and Western Railways***

fell short of their goods earning target by 25 *per cent*, 18 *per cent* and 17 *per cent* respectively.

1.4.1.2 Market Share of IR in Freight Transportation

White Paper on working of IR, presented to Parliament in December 2009, had brought out that growth of IR Gross Domestic Product (GDP) was not commensurate with the national GDP growth. It remained below the expected railway elasticity of 1.25 over national GDP. White Paper also highlighted issues of falling market share, decline in high rated non-bulk traffic, non-availability of time-tabled freight services, absence of multi-modal logistics parks, high pricing of freight transport and subsidy for passenger transport.

Figure below shows the percentage of total output (production and import) of major items carried by IR during 2000-10[13].

Figure 1.6 : Major Commodity wise IR Share of Freight Traffic

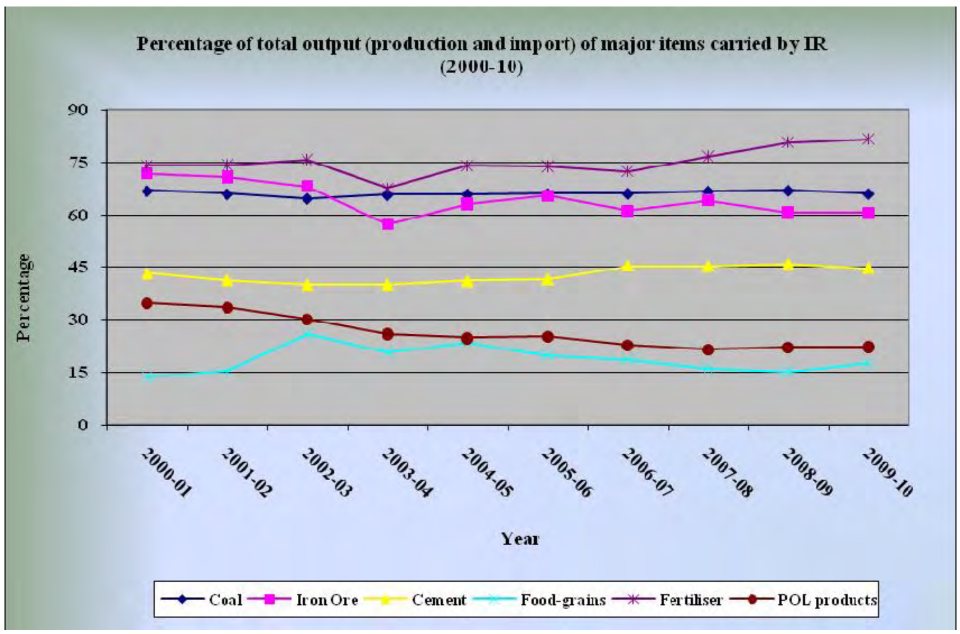


Figure above indicates that share of coal carried by IR remained almost static during the last ten years (2000-10). However, IR lost its share of food grains by 42 *per cent* over 2002-03, iron ore by 15 *per cent* and POL by 36 *per cent* over 2000-01. Share of loading of fertiliser and cement, however, increased in 2009-10.

Performance audit of Freight Services in IR conducted by Audit for Report (No. 8 of 2010-11) of Comptroller and Auditor General of India –Union Government (Railways) for the year ended 31 March 2009 had brought out

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13 ***Source- Year Book of Indian Railways.***

that incentive schemes introduced and modified in the 10th Five Year Plan (FYP) (2002-07) were only operating sporadically in some zones. These schemes at best contributed to retain the market share and were not successful in improving market share. IR, in September 2010, in response to the audit observation, stated that schemes were yet to be popularised. It was for the rail users to avail the schemes as per their demands.

In the 11th FYP period industrial growth in the country has been projected at 10-11 *per cent*. Report of the Working Group on Railway Programme for the 11th FYP plan (2007-12) envisaged CAGR of 8.80 *per cent* for originating loading of freight traffic. However, in the first three year, IR could achieve a CAGR of only 6.85 *per cent*. Subsequently, in the mid-term appraisal of the plan, IR reduced its target for the entire plan period from 1110 MT to 1020 MT.

To improve receipts IR should focus on (i) maintaining and increasing the market share of bulk traffic where it has an inherent competitive advantage, (ii) increasing rates to cover operating costs (inflation indexing is an option) as well as to generate a sufficient surplus for maintenance and augmentation of infrastructure and (iii) capacity enhancement to sustain the enhanced loading strategy in the long run.

1.4.1.3 Passenger Earnings

The growth in earnings from Passenger traffic and in Passengers Originating in the last decade (2000-10) is given in the graph given below:

Figure 1.7: Growth Rate of Passenger Originating and Passenger Earnings

In the last decade both the growth rate of earnings from passenger traffic and number of passengers originating fluctuated erratically. The percentage increase in earnings from passenger traffic in 2009-10 over the previous year was 7.10 *per cent* which was much below the CAGR of 9.62 *per cent* for the period 2000-09. The percentage increase in passengers originating in 2009-10 over the previous year was 4.77 *per cent* which was below the CAGR of 4.81 *per cent* during 2000-09.

In 2009-10, passenger earnings fell short of budget estimates in the case of 10[14] out of the 16 zones. The shortfall in passenger earning targets was more pronounced in Southern Railway and South Central Railway where the shortfall was 13 and 10 *per cent* respectively, compared to what was estimated in the budget of 2009-10 (July 2009).

Box-2 Factors that affected passenger earnings during the last decade

- ***Steep increase in growth rate of passenger earnings in 2002-03, despite decline in passenger originating, was due to rationalization of passenger fare structure wherein the base class for all passenger services and relativity index for the fares of different classes was increased***
- ***In 2006-07, there was another spurt in earnings due to***
  - ✓ ***Introduction of new trains with new fare structure (Garib Rath)***
  - ✓ ***Increase in number of coaches in passenger trains***
  - ✓ ***Increase in reservation fee, cancellation and tatkal charges***
  - ✓ ***Conversion of mail/express trains into super-fast trains which attracts super-fast charges.***
- ***Subsuming of safety surcharge into passenger fare from April 2007***

Key performance indicators of passenger services are tabulated below:

Table : 1.3 Passenger Services Statistics

Year	No. of Passenger (in millions)	Passenger Kilometre (in million)	Earnings (`₹ in crore)	Average lead (in kilometre)	Average earnings per passenger Per kilometre (in paise)
2005-06	*5832.39*	*616632* (7.13)	*15126.00*	*105.73*	*24.53* (0.04)
2006-07	*6333.73*	*695821* (12.84)	*17224.56*	*109.86*	*24.75* (0.90)
2007-08	*6536.44*	*771070* (10.81)	*19844.18*	*117.96*	*25.74* (4.00)
2008-09	*7046.91*	*839203* (8.84)	*21931.32*	*119.09*	*26.13* (1.52)
2009-10	*7382.77*	*904761* (7.81)	*23488.17*	*122.55*	*25.96* (-0.65)

Note: Figure in bracket represent percentage increase over previous year.

Both growth rate of passengers originating and passenger earnings declined in 2009-10 over the previous year. In 2009-10, it was seen that average earnings per passenger per kilometre declined to 25.96 paise from 26.13 paise in 2008-09. IR had been incurring a loss every year on passenger and other coaching

14 ***Central, Eastern, East Central, Northern, North Central, North Eastern, Southern, South Central, South Western and Western Railways.***

services. This loss almost doubled in 2008-09 and crossed ₹15,000 crore. During 2009-10[15], this loss was likely to be much higher.

1.4.1.4 Sundry Earnings and Other Coaching Earnings

Sundry and other coaching earnings constituted six *per cent* of the Gross Traffic Receipts in the current year (2009-10). It grew at around 14 *per cent* in the current year (2009-10) over the previous year.

Analysis in audit revealed that earnings from rent, license fee and advertisements increased in the current year when compared to the previous year. There was considerable scope to increase revenue from these components of sundry earnings provided bills for realization of rent of buildings, license fee were raised and realised in a timely manner with proper revision wherever due. A comment on non-recovery of license fee from RailTel Corporation of India Limited is made in paragraph 7.1 of the Report (No. 34 of 2010-11) of Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2010.

1.5 Unrealized Earnings[16]

Against the target for recovery of ₹75 crore during 2009-10 from un-realised earnings, IR went on to accumulate ₹140.68 crore more and the year closed at ₹1,368.01 crore as unrealised earnings. This consisted of ₹1,151.11 crore under Traffic Suspense and ₹216.90 crore under Demand Recoverable. South Eastern Railway was the major contributor to the accumulation of unrealised earnings with ₹205.60 crore (₹183.55 crore on account of freight charges and ₹22.05 crore for demands recoverable during 2009-10. This was followed by Northern Railway where ₹24.42 crore was accumulated under Demands Recoverable.

The major portion of outstanding under Traffic Suspense was on account of un-recovered freight charges from Power Houses and State Electricity Boards as ₹687.25 crore freight and other charges (constituting 59.70 *per cent* of the total Traffic Suspense) was yet to be recovered. Major defaulters are tabulated on next page:

15 *Profitability/unit cost of coaching services for 2009-10 was still not compiled (January 2011).*

16 *Unrealized earnings on account of movement of traffic was classified as 'Traffic Suspense' whereas on account of rent/lease of building/land, interest and maintenance charges of sidings etc as 'Demand Recoverable'.*

Table 1.4- Outstanding dues against State Electricity Board

(₹ in crore)

Sl. No	State Electricity Board/ Power House	Outstanding dues as of 31 March 2009	Outstanding dues as of 31 March 2010	Increase (+)/ decrease (-) during the year
1.	***Punjab State Electricity Board (PSEB)***	***456.11***	***444.05***	***(-) 12.06***
2.	***Delhi Vidyut Board (DVB)*** @	***177.20***	***177.15***	***(-) 0.05***
3.	***Rajasthan State Electricity Board (RSEB)*** @	***38.14***	***37.10***	***(-) 1.04***

@ Now unbundled into Companies as a result of Power Sector Reforms

1.6 Social burden of IR

IR has been bearing the burden of expanding its network and operating its facilities in uneconomic routes to cater to the socio-economic development of the concerned area. The social obligations of IR had impacted its revenues in an adverse manner as discussed below:

1.6.1 Operation of uneconomic branch lines

IR sustained losses of ₹3,228 crore in operation of un-economic branch lines during 2005-10. A comment on inadequate monitoring, cost reduction measures and initiatives for closure of uneconomic branch lines was made in paragraph 2.5.1 of Report of the Comptroller and Auditor General of India for the year ended 31 March 2008 (CA No. 19 of 2008-09)-Union Government (Railways). In response, IR stated that there was reluctance on the part of the State Governments to close down such lines. Meanwhile measures were being taken to reduce the working expenses on such lines. However, the loss on operation of such lines increased to ₹ 1,198 crore in 2009-10.

1.6.2 New lines opened for traffic

A periodic review by IR, in 2008-09, of 6 New Lines (including 5 lines constructed as a part of social service obligation for development of backward areas) revealed that four lines had negative returns[17]. Further, in its Vision 2020 document, IR stated that there were 109 ongoing New Line projects covering a route length of 11,985 kms., of which, only 12 were financially viable, 8 were national projects with assured funding and the remaining were unviable but sanctioned on socio-economic considerations.

IR needs to review all the projects taken up on socio-economic grounds and pursue adequately with the concerned State Governments for firm commitments regarding provision of the requisite land and funds.

17 Reference Year-Books of Indian Railways for 2008-09

1.6.3 Essential Commodities Carried Below Cost

As part of IR's social service obligation, commodities of mass consumption like sugarcane, food and vegetables, edible oil, live-stock, paper, bamboo etc were carried below the cost of operation in order to contain their market prices. The total loss on the movement of such commodities was ₹305.81 crore during 2005-10[18]. The financial loss to IR on this account could be considered an economic gain to the country as it was a conscious policy taken by the Government to reduce transaction costs of essential commodities.

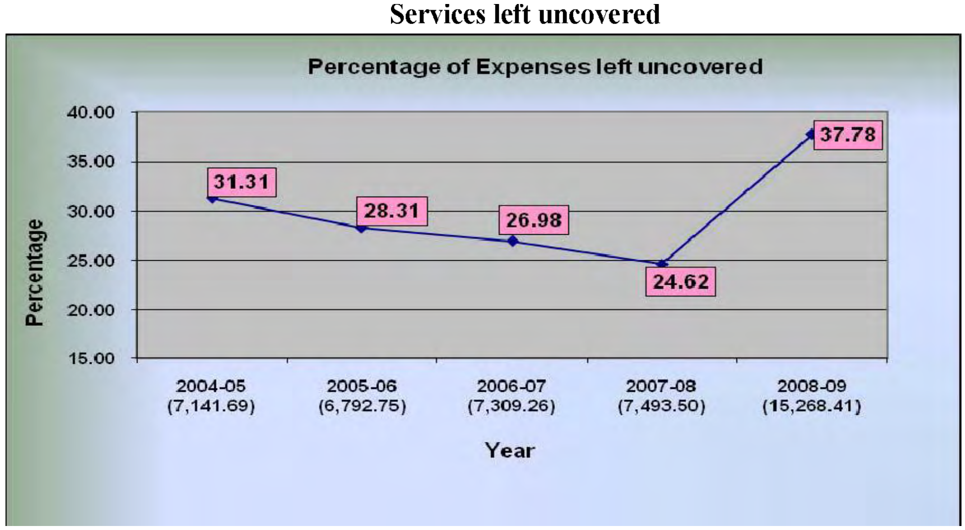
1.6.4 Cross Subsidization

1.6.4.1 Subsidy towards Passenger and other Coaching Services

IR was unable to meet its operational cost of passenger services and other coaching services. Revenue from passengers had increased by 60 *per cent* [19] during the last five years (2004-09), but expenditure on this head increased by 77 *per cent* during the same period.

The Summary of End Results- Freight Services Unit Costs and Coaching Services Profitability/Unit Costs published by IR indicate that there was cross subsidisation from freight earnings to passenger and other coaching earnings. Loss incurred by passenger and other coaching services increased from ₹7,141.69 crore in 2004-05 to ₹15,268.41 crore in 2008-09. The gap in percentage of expenditure on passengers and other coaching services left uncovered during the last five years is shown in Figure 1.8 below:

Figure 1.8 : Percentage of expenditure on Passenger and Other Coaching Services left uncovered



Note: Figures in brackets depict expenses left uncovered in crore of ₹

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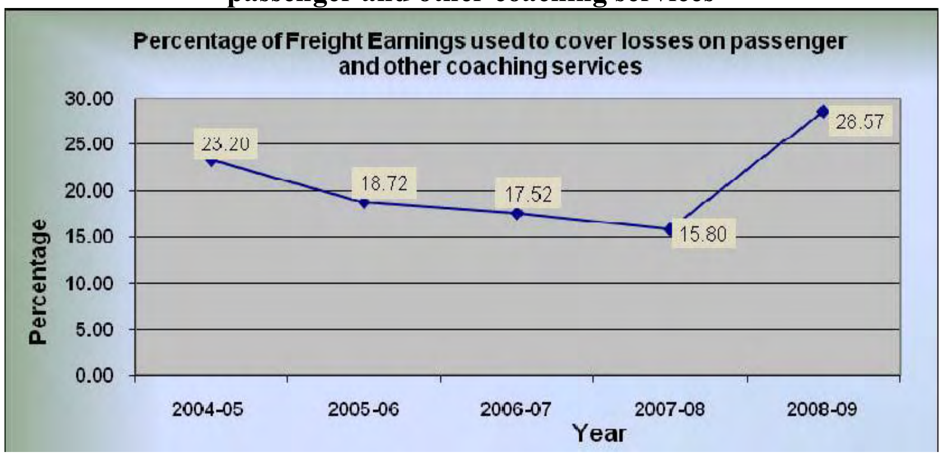
18 Figures of 2009-10 are of estimates

19 *Excluding Narrow Gauge and Metro Railway/ Kolkata*

The steep increase in cross subsidy during 2008-09 was a result of increase in cost of operations due to implementation of the 6^{th} CPC's recommendations.

Figure below depicts the percentage of freight earnings utilized to make up the loss on passenger and other coaching services:

Figure 1.9 : Percentage of freight earnings used to subsidize the passenger and other coaching services



It would be seen that around 29 *per cent* of the earnings (2008-09) from freight traffic were utilized to compensate the loss on operation of passenger and other coaching services of IR.

1.6.4.2 Operational losses of various Classes of Passenger Services

Table below gives the operational losses of various classes of passenger services during 2004-05 to 2008-09:

Table 1.5 Operational losses of various Classes of Passenger Services

(₹ in crore)

Class of Passenger	2004-05	2005-06	2006-07	2007-08	2008-09
AC-Ist class	-19.11	-32.55	-19.76	-14.77	-59.37
Ist class	-4.28	14.14	-13.84	-6.30	-69.67
AC sleeper	22.40	79.12	72.92	123.09	-176.91
AC 3 Tier	43.56	94.95	423.99	547.60	540.57
AC Chair car	60.43	89.32	-4.94	114.68	5.45
Sleeper Class	-1,862.36	-1,926.59	-1,888.27	-2,384.08	-3,175.24
Second class	-923.81	-762.98	-1,215.61	-993.22	-2,933.09
Ordinary (All Class)	-2,751.39	-2,770.96	-2,912.58	-3,541.28	-6,381.77
EMU suburban services	-724.85	-807.11	-891.13	-922.39	-1,651.19

As can be seen from the above table, only two classes' viz-AC-3-tier and AC chair car (except 2006-07) covered their operational cost. The subsidy provided to both Ordinary Class and suburban services increased continuously in the last five years with subsidy on Ordinary Class being the maximum.

Further, analysis of cross subsidization of sub-urban and 2nd class ordinary trains during 2005-09 revealed the following:

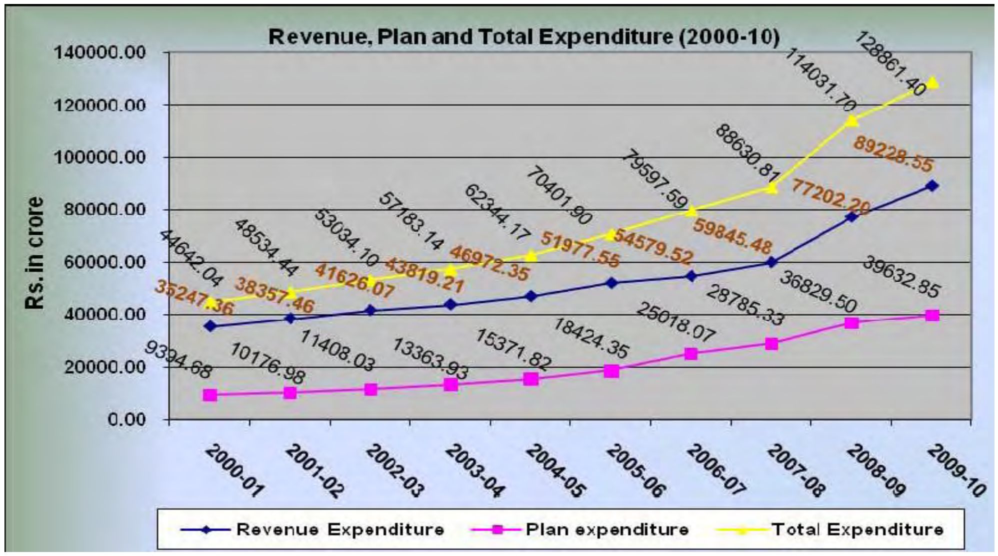
- The number of passengers travelling in 2nd class suburban trains constituted more than 50 *per cent* of the total passengers on IR whereas the earnings from this segment declined to six *per cent* in 2008-09 from eight *per cent* in 2005-06. The fares for second class suburban passengers, which (for distances up to 55 kms) ranged from ₹4 to ₹12 in 2006-07 decreased to a range of ₹3 to ₹11 in 2008-09.
- Together, the number of passengers in second class ordinary suburban and non-suburban class segments on an average during 2005-09 constituted around 84 *per cent* of the total passengers while the earnings from this segment declined from 14.08 paise per passenger per kilometer (2005-06) to 13.88 paise per passenger per kilometer (2008-09) despite inflation.

The Railway Fare and Freight Committee Report of 1993 recognized the need for IR to function as a commercial enterprise and the social burden imposed by cross subsidization within IR resources should make way for explicit grants from general exchequer. While pointing out that scope for mobilizing huge internal surpluses through revision of tariffs might be limited, the Report underscored the need to adopt an optimum pricing policy for both passengers and freight customers having regard to the productivity of IR assets, quality of service and other allied matters. ***There is a need to review the passenger fare structure to ensure that the pricing does not result in a below the cost return. Inflation indexing may be factored in to make the costing realistic.***

1.7 Application of Resources

The two main components of expenditure in IR are ‘Ordinary Working Expenses’ (OWE) and ‘Plan Expenditure’. The total expenditure of IR and its composition under revenue and plan for the past ten years is given on next page

Figure 1.10 : Plan and Revenue Expenditure in the last decade

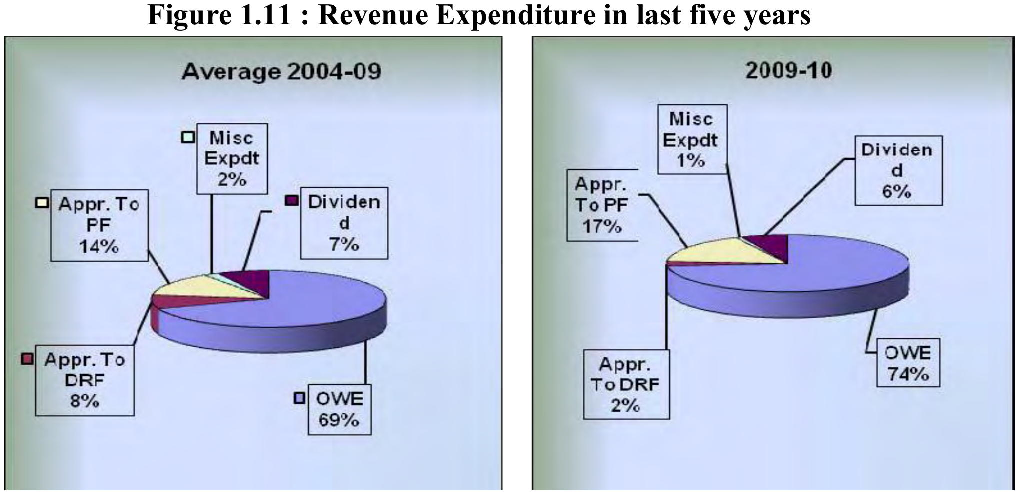


In the last decade, the share of revenue expenditure to total expenditure came down from 79 *per cent* (2000-01) to 69 *per cent* in 2009-10 whereas the share of plan expenditure increased from 21 *per cent* (2000-01) to 31 *per cent* in 2009-10, indicating a more productive shift in expenditure. The major shift towards plan expenditure occurred in 2006-07 as IR generated 135 *per cent* more revenue surplus (compared to the previous year) for appropriating to reserve funds. A detailed analysis of plan expenditure is discussed in paragraph 1.10.

1.7.1 Revenue Expenditure

Composition of revenue expenditure during the current year and an average of the past five years are given below:

Figure 1.11 : Revenue Expenditure in last five years

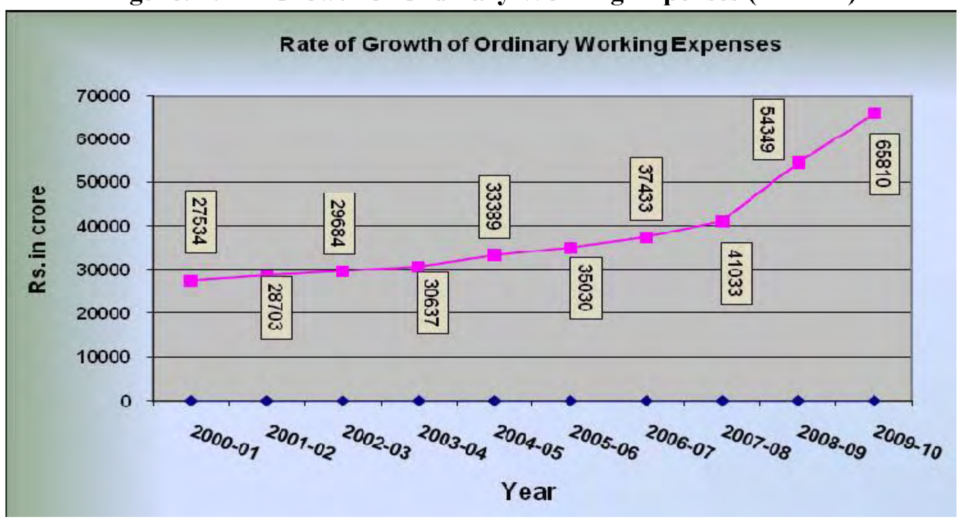


The main components of expenditure was OWE which constituted about 69 *per cent* of the total revenue expenditure on an average during 2004-09. This had increased to 74 *per cent* in 2009-10.

Appropriation to DRF was reduced to 2 *per cent* in 2009-10 as compared to 8 *per cent* on an average during the last five years (2004-09). Due to implementation of the 6th CPC recommendations, appropriation to Pension Fund increased to 17 *per cent* in 2009-10 as compared to 14 *per cent* on an average during 2004-09 to meet the increased pension liabilities.

OWE comprised expenditure on day-to-day maintenance and operation of IR i.e. expenditure on office administration, repairs and maintenance of track and bridges, locomotives, carriage and wagons, plant and equipment, operating expenses on crew, fuel, miscellaneous expenditure, pension liabilities etc. The trend in OWE over the last ten years is depicted below:

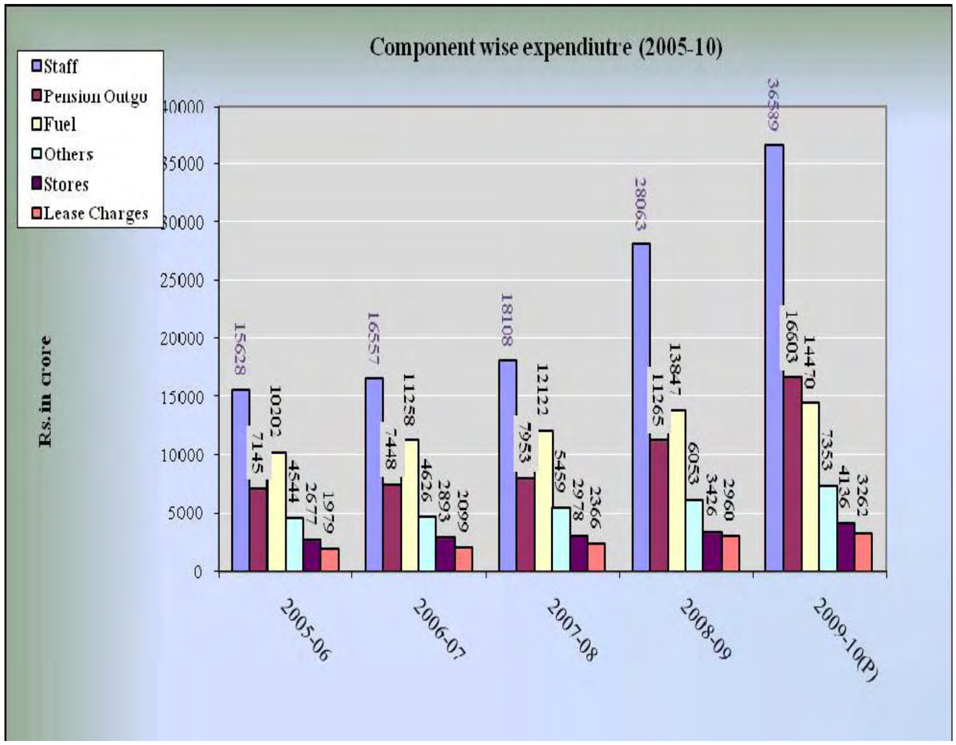
Figure: 1.12 - Growth of Ordinary Working Expenses (2000-10)



The steep increase in OWE during 2008-10 was on account of implementation of 6th CPC's recommendations. OWE increased at a rate of 21 *per cent* during 2009-10 over the previous year against a CAGR of nine *per cent* during 2000-09.

The break-up of working expenditure on IR under staff, fuel, lease charges, stores, other and pension outgo is shown in the figure on next page:

Figure: 1.13 - Component wise expenditure



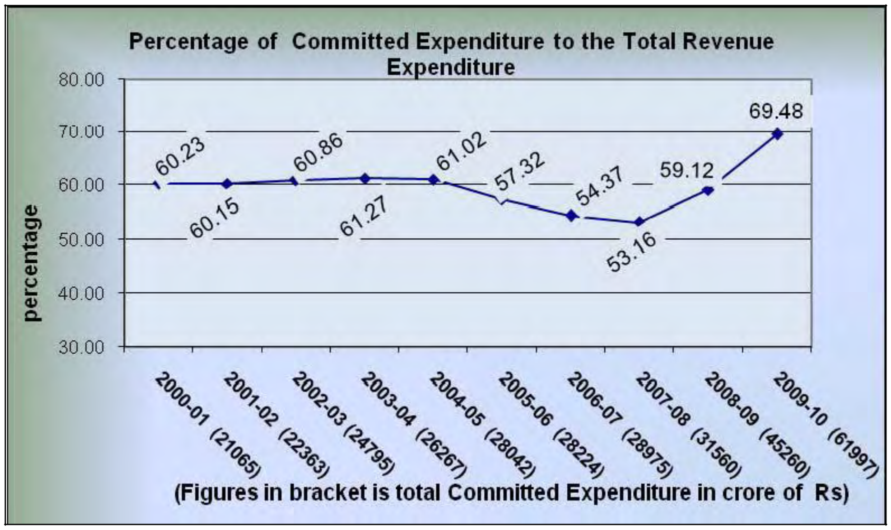
Staff cost constituted on an average 58 *per cent* of the working expenses of IR during the last five years (2005-10). There was, however, a steep increase in staff cost during 2008-10 due to implementation of 6th CPC recommendations.

1.7.2 Committed Expenditure

The committed expenditure of IR consisted of dividend payment to general revenues, staff cost, pension payments and lease hire charges on rolling stock.

Figure 1.14 shows the percentage of committed expenditure to the total revenue expenditure of IR during the last decade (2000-10)

Figure 1.14 : Committed Expenditure as a percentage of total Revenue Expenditure



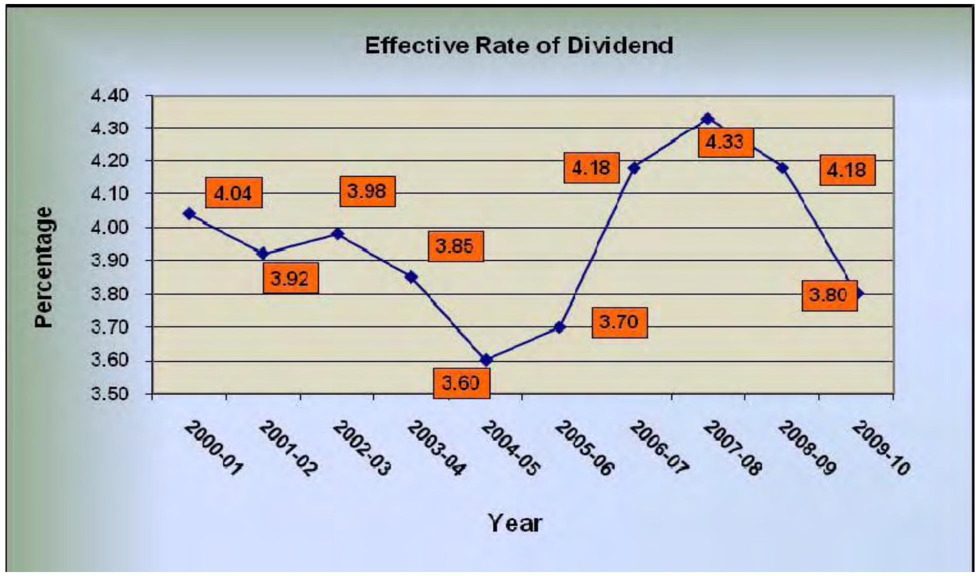
Committed expenditure to the total expenditure declined till 2007-08 as the growth rate of total revenue expenditure was much more than the growth rate of committed expenditure. In 2009-10, committed expenditure increased to 70 *per cent* due to impact of the recommendations of the 6th CPC. With the increase in percentage of committed expenditure, in proportion to the total revenue expenditure, IR was left with only 30 *per cent* of the total revenue expenditure to run their operations. Of this, fuel alone comprised 53 *per cent*. This impacted IR's contribution to DRF.

1.7.3 Dividend and Subsidy

Under the 'Separation Convention' IR is required to pay dividend to the general revenues on the capital advanced by the GoI at a rate determined periodically by RCC. Further, in terms of the recommendations of the RCC, IR is given concessions towards payment of dividend in respect of capital invested in the larger national interest[20]. Dividend paid on such capital is received back as subsidy to IR. This subsidy had increased from ₹812.26 crore (2000-01) to ₹2,155.87 crore (2009-10) over the last ten years (an increase of 165 *per cent*). Taking into account the subsidy received, the net effective rate of dividend in the last ten years was around four *per cent*.

20 ***Strategic Lines, 28 New Lines taken up on other than financial consideration, non-strategic capital of Northeast Frontier Railway, Un-remunerative branch lines, Ore lines, 50 per cent of work-in-progress***

Figure: 1.15 Effective Rate of Dividend (2000-10)



Note: Dividend liability was taken on accrual basis without referring to deferring dividend liability (2000-01 to 2001-02) and payment of deferred dividend liability (2002-03 to 2007-08)

1.7.4 Un-discharged Liability

The RCC allows a moratorium on payment of dividend on investments in New Lines during the period of construction and the first five years after opening of the line for traffic. Cumulative dividend is payable when the line shows surplus after meeting current liability. The account of dividend liability is closed after 20 years, extinguishing all such un-liquidated liability. The liability on this account which was ₹6,667.69 crore at the close of 2008-09, had increased to ₹7,511.79 crore as of March 2010.

1.8 Revenue Surplus

Trend of net revenue surplus after meeting all revenue expenditure including payment of dividend, during the last decade is shown in the graph on the next page

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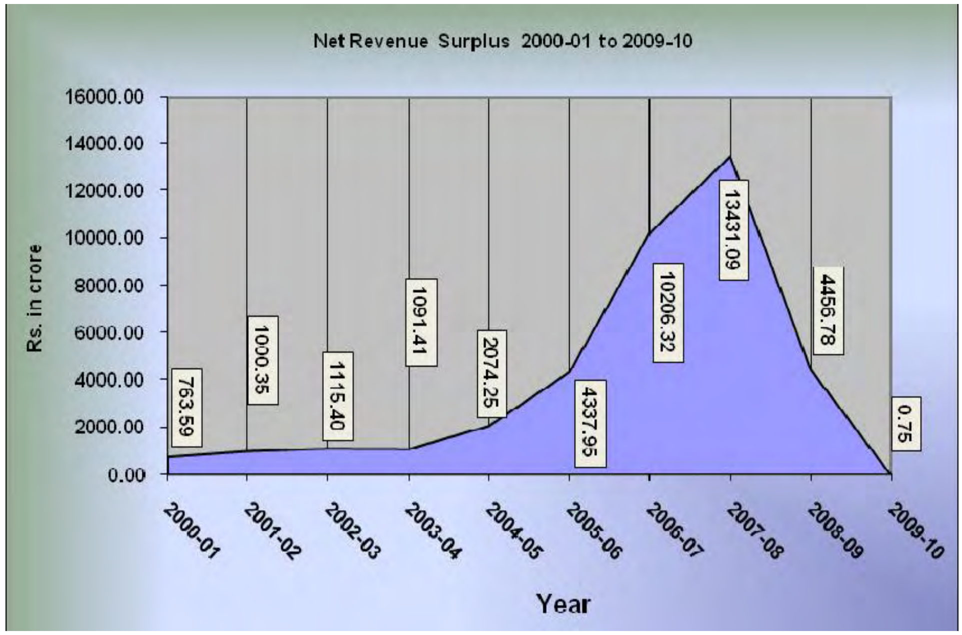
Figure: 1.16 Revenue Surplus (2000-10)



The upward trend in net revenue surplus from 2004-05 onwards up to 2007-08 was due to a higher growth rate of revenue receipts (from 9.21 *per cent* to 13.11 *per cent*) as compared to the growth rate of revenue expenditure (from 7.20 *per cent* to 9.65 *per cent*) as discussed in the preceding paragraphs. Thereafter in 2008-09 and 2009-10, there was a steep decline in generation of net revenue surplus due to decline in the growth rate of traffic receipts and increase in committed liabilities.

IR generated ₹13,431 crore as net revenue surplus in 2007-08. Thereafter generation of net revenue surplus sharply declined to ₹ 4,457 crore in 2008-09 and ₹75 lakh in 2009-10. Besides decline in rate of growth of GTR, recommendations of the 6th CPC had severely impacted the generation of net revenue surplus during 2008-10. The total impact of 6th CPC, during these two years was ₹37,472 crore which included ₹22,244 crore as permanent increase in staff cost and pension. IR had borne the impact of the 6th CPC from its own resources.

1.8.1 Change in presentation of Financial Performance

In 2007-08, a new statement titled 'Statement of Cash and Investible surplus' was introduced in the Explanatory Memorandum[21] on IR budget. This was not an accounting change but more in the nature of presentation of financial projections from a different perspective. The cash surplus before dividend

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21 ***Explanatory Memorandum is one of the document on the railways budget presented along with the railways budget to the Parliament***

indicated the cash generated by IR from operations and other activities including interest on fund balances, reflecting the cash available for making payment to dividend, appropriation to DRF and other funds for investment purposes. The investible surplus was expected to indicate resources generated annually for capital expenditure purposes after fulfilling the dividend liability. These aspects were also discussed in the 'White Paper' presented to Parliament in December 2009.

The White paper brought out that cash surplus before dividend had increased from ₹11,051 crore (2004-05) to ₹25,006 crore (2007-08). A cumulative amount of ₹88,669 crore of cash and investible surplus before dividend accrued during the period 2004-05 to 2008-09. After adjusting ₹21,308 crore as gross dividend to general exchequer, IR's investible surplus worked out to ₹66,804 crore.

As mentioned above, presentation of financial projections in such a manner was not an accounting change. The net revenue surplus, as per the accounts of IR, after meeting all revenue expenditure including payment of dividend and appropriation to DRF worked out to ₹34,506 crore for the same period of 2004-05 to 2008-09. Presentation of Statement of Cash and Investible Surplus was discontinued from the budget year 2010-11.

1.9 *Efficiency Indices*

The financial performance and efficiency in operations of an enterprise can best be measured from its financial and performance ratios. The relevant ratios in this regard for IR were 'Operating Ratio', 'Capital-Output Ratio' and 'Staff Productivity', which are discussed below:

1.9.1 *Operating Ratio*

Operating ratio represents the percentage of working expenses to traffic earnings. The operating ratio, which was 75.94 *per cent* in 2007-08, deteriorated to 90.46 *per cent* in 2008-09 for IR as a whole and was 95.28 *per cent* during the current year (2009-10). This was primarily because of increase in total working expenses from ₹71,839 crore in 2008-09 to ₹82,915 crore in 2009-10, i.e., an increase of 15.42 *per cent*. By contrast, the gross earnings increased only by 8.89 *per cent* from ₹79,862 crore in 2008-09 to ₹ 86,964 crore in 2009-10.

The operating ratio of zonal railways and Metro Railway, Kolkata during the last three years is shown in the table on the next page :

Table 1.6 Operating Ratio of Zonal Railways

S.No	Zonal Railway	2007-08	2008-09	2009-10
1	*Central*	*75.92*	*97.64*	*106.47*
2	*Eastern*	*143.61*	*173.45*	*186.25*
3	*East Central*	*87.46*	*99.48*	*107.94*
4	*East Coast*	*48.22*	*49.3*	*48.25*
5	*Northern*	*92.53*	*115.26*	*112.74*
6	*North Central*	*53.44*	*60.59*	*61.55*
7	*North Eastern*	*131.74*	*197.32*	*216.19*
8	*Northeast Frontier*	*108.35*	*148.69*	*161.28*
9	*North Western*	*88.91*	*120.23*	*110.29*
10	*Southern*	*105.07*	*126.06*	*137.47*
11	*South Central*	*66.99*	*77.23*	*80.66*
12	*South Eastern*	*53.84*	*62.24*	*69.18*
13	*South East Central*	*45.74*	*53.23*	*60.43*
14	*South Western*	*69.24*	*77.11*	*88.43*
15	*Western*	*76.92*	*93.25*	*97.88*
16	*West Central*	*66.33*	*73.95*	*74.07*
17	*Metro Railway Kolkata*	*196.33*	*252.96*	*248.00*
Overall IR		*75.94*	*90.46*	*95.28*

Operating Ratio of all the zonal railways, except three[22], had deteriorated during the current year compared to the previous year. Operating Ratio of Central, Eastern, East Central, Northern, North Eastern, Northeast Frontier, North Western, Southern Railways and Metro Railway, Kolkata was more than 100 *per cent* during 2009-10, implying that their working expenditure was more than their traffic earnings.

1.9.2 Capital Output Ratio

Capital Output Ratio indicates the amount of capital employed to produce one unit of output (Total Traffic in NTKMs could be seen as the output in the case of IR). The table on the next page shows the Capital-output ratio for total traffic (in NTKMs), carried by IR during 2005-06 to 2009-10.

22 ***East Coast, Northern and North Western Railways***

Table 1.7 Capital Output Ratio of IR (2005-10)

As on	Total Capital including investment from Capital Fund (₹ in Million)	Goods Traffic (NTKMS)	Passenger Traffic		Total Traffic (in Million NTKMs)	Capital at charge (in Paise) per NTKM
			Passenger Kilometres (in millions)	*Million NTKMs*		
31-Mar-06	*658,783*	*441,762*	*615,614*	*43,709*	*485,471*	*136*
31-Mar-07	*760,307*	*483,422*	*694,764*	*49,328*	*532,750*	*143*
31-Mar-08	*885,211*	*523,196*	*769,956*	*54,667*	*577,863*	*153*
31-Mar-09	*1,043,012*	*552,002*	*838,032*	*59,500*	*611,502*	*171*
31-Mar-10	*1,230,007*	*601,290*	*903,463*	*64,146*	*665,436*	*185*

Capital Output ratio had increased from 136 paise (2005-06) to 185 paise (2009-10) indicating deteriorating physical performance of IR compared to capital employed. Higher cost overruns due to non-completion of projects in time and investment in financially unviable projects were some of the reasons contributing to higher Capital Output ratio.

1.9.3 Staff Productivity

Staff productivity on IR is measured in terms of volume of traffic handled (in terms of NTKM) per thousand employees. It had increased over the years for IR as a whole by over 42 *per cent* during the period 2005-06 (369) to 2009-10 (523).

The improvement in staff productivity over the last five years was a result of two distinct factors:

- Increase in freight carried in terms of tonnage and passenger originating in relation to total distances carried/travelled.
- Decline in workforce from 13.24 lakh (2005-06) to 12.68 lakh (2009-10).

Zone wise analysis of staff productivity revealed that on an average during 2005-10, highest staff productivity of 1109 NTKM per thousand employees was achieved by East Coast Railway. Staff productivity of 148 NTKM per thousand employees of Eastern Railway was the lowest during the same period.

1.10 Plan Expenditure

IR plays a crucial role in augmenting infrastructure for sustainable economic growth. To keep pace with the transport sector in general and to respond to the pressures of a buoyant economy, it is essential that its plan resources are used effectively. Creation of new assets, timely replacement and renewal of depleted assets which had outlived its usage, augmentation of network capacity were the activities carried out by IR through its plan expenditure.

IR plan expenditure was financed from the general exchequer extended as general budgetary support, internal resources[23] and extra budgetary support i.e market borrowing through IRFC for rolling stock and new network links by RVNL.

The table below gives the sources of funds for the plan expenditure during 10th FYP period and first three years of 11th FYP period

Table 1.8 Source-wise Plan Expenditure

(₹ in crore)

Source of Plan Expenditure	10th FYP	11th FYP			
	(2002-07)	*2007-08*	*2008-09*	*2009-10*	
	Actual	*Actual*	*Actual*	*Budget Estimates*	*Actual*
General Budgetary Support[24] (%age to the total)	***37516.06*** *(44.88)*	***8667.90*** *(29.82)*	***10110.43*** *(27.45)*	***16300.00*** *(40.00)*	***17716.09*** *(44.70)*
Internal Resources (%age to the total)	***29567.99*** *(35.37)*	***14948.00*** *(51.43)*	***18941.23*** *(51.43)*	***15175.00*** *(37.24)*	***12195.68*** *(30.77)*
Extra Budgetary Support (%age to the total)	***16502.15*** *(19.75)*	***5169.43*** *(18.75)*	***7777.84*** *(21.12)*	***9270.00*** *(22.76)*	***9720.79*** *(24.53)*

Note: Figures in brackets represent percentage to the total

Due to generation of more internal resources, dependency of plan expenditure on general budget support decreased substantially in the first two years of the 11th FYP period. In the third year of the 11th FYP period, non-availability of sufficient internal resources, dependency on general budget again increased with corresponding decrease in plan expenditure from internal resources.

Plan expenditure is broadly categorized under various plan heads. Table 1.9 gives the share of expenditure grouped under various categories of Plan Heads during the 10th FYP Period and first three years of the 11th - FYP period:

Table 1.9 Category-wise Plan Expenditure

(₹ in crore)

Plan Heads	***10th FYP (2002-07)***	***2007-08***	***2008-09***	***2009-10***
New Lines, Gauge Conversion, Doubling, Traffic Facilities, Track Renewal, Bridge Work, S & T	***42391.07***	***13056.99***	***15094.45***	***15386.09***

23 ***Reserve Funds such as Depreciation Reserve Fund, Capital Fund, Development Fund***
24 ***Includes expenditure from RSF***

Plan Heads	*10th FYP (2002-07)*	*2007-08*	*2008-09*	*2009-10*
Rolling Stock and Payment of Capital Component of Lease charges	***26556.21***	***9611.16***	***13043.34***	***15141.94***
	(31.77)	(33.39)	(35.42)	(38.21)
Workshop and Production Units and Plant and Machinery	***1962.67***	***686.82***	***1343.45***	***1682.5***
	(2.35)	(2.39)	(3.65)	(4.25)
Investments in Government Undertaking	***2886.59***	***1581.74***	***2095***	***2041.99***
	(3.45)	(5.49)	(5.69)	(5.15)
Others	***9789.65***	***3848.66***	***5253.27***	***5380.33***
	(11.71)	(13.37)	(14.26)	(13.57)
Total	***83586.19***	***28785.37***	***36829.51***	***39632.85***

Note : 1 ***Figures in brackets represent percentage to the total***

Note : 2 ***Others include Road Safety Works, Electrification Projects, Computerization, Other Electric Works, Railway Research, Other Specified Works, Stores Suspense, Manufacturing Suspense and Miscellaneous Advance, Staff Quarters, Passenger Amenities, Metropolitan Projects.***

Note : 3 ***Since IRFC, WIS and RVNL are also contributing to Plan Expenditure (i.e. Extra Budgetary Support), these were also including under Rolling Stock- (₹16,052 crore for 10th -FYP and ₹21,765 crore for first three year of 11th FYP and Investments- ₹450 crore in 10th -FYP and ₹1,183 crore for first three years of 11th -FYP)***

The above table reveals increase in expenditure on rolling stock. There was, however, a decline in the share of plan expenditure on track related works (construction of New Lines, Doubling, Gauge Conversion, Yard Remodelling and Traffic Facilities, Bridge Works and Signal and Telecommunication Works) which contributes towards expansion and renewal of existing track structure.

Performance audit of Freight Services in IR conducted by Audit for the Report (No. 8 of 2010-11) of Comptroller and Auditor General of India- Union Government (Railways) for the year ended 31 March 2009 had commented that the current infrastructure was overstretched and capacity enhancement was essential to sustain the enhanced loading strategy in the long run. Augmentation of rolling stock and network was not commensurate with the projected growth.

Table on next page gives the throw forward (both physical and financial) for 11th Five Year Plan (2007-12), requirements laid down for the 11th plan period and actuals under New Lines construction, Gauge Conversion and Doubling.

Table 1.10 : Status of Network Augmentation Works

Activity	Throw forward for 11th FYP		11th FYP		Targets fixed for (2007-10)	Achievements (2007-10)	
	Physical (in kms)	*Financial (₹ in crore)*	*Physical Targets (in kms)*	*Financial Requirements (₹ in crore)*	*Physical (proportionate) (in kms)*	*Physical (in kms)*	*Financial (₹ in crore)*
New Lines Construction	8,300	27,200	2,000	9,000	1,200	771	7,949
Gauge Conversion	6,700	11,500	10,000	18,000	6,000	4,128	9,331
Doubling	2,800	6,000	6,000	19,000	3,600	1,237	5,874

Keeping in view the trend of progress, IR, in mid-term review of the Plan, reduced the target of New Lines to 1,500 kms, Gauge Conversion to 6,000 kms and Doubling to 3,000 kms.

IR, in its Action Taken Note to the audit comment made in paragraph no. 1.9 of the Report of Comptroller and Auditor General of India-Union Government (Railways) Report no.CA-11 of 2009-10 for year ended 31 March 2009, on the slow progress of works in the first two years of the 11th FYP period, stated that targets of New Lines would be fully met. However, there would be a shortfall in Doubling and Gauge Conversion works due to abnormal increase in price of cement and steel and adverse law and order conditions, unprecedented floods in various areas and constraints of funds etc.

A special audit of new line projects costing over ₹. 100 crore which had been pending completion for over 10 years, conducted across IR revealed enormous time and cost overruns. Audit reviewed 50 out of the 109 new line projects listed by the Vision 2020 document of IR and found that in most of these projects, clear timelines were not set for completion, and where timelines were set, these were not adhered to. Preliminary works required to be completed before commencing the projects were not completed, designs/drawings and detailed estimates were not prepared/provided on time, timely action was not taken to acquire the land and to obtain clearances from various authorities for taking up the projects and a number of contracts were foreclosed/terminated. Further details in this regard are given in paragraph no. 3.1 of the Report of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2010 (Report no. 34 of 2010-11).

1.11 Railway Funds

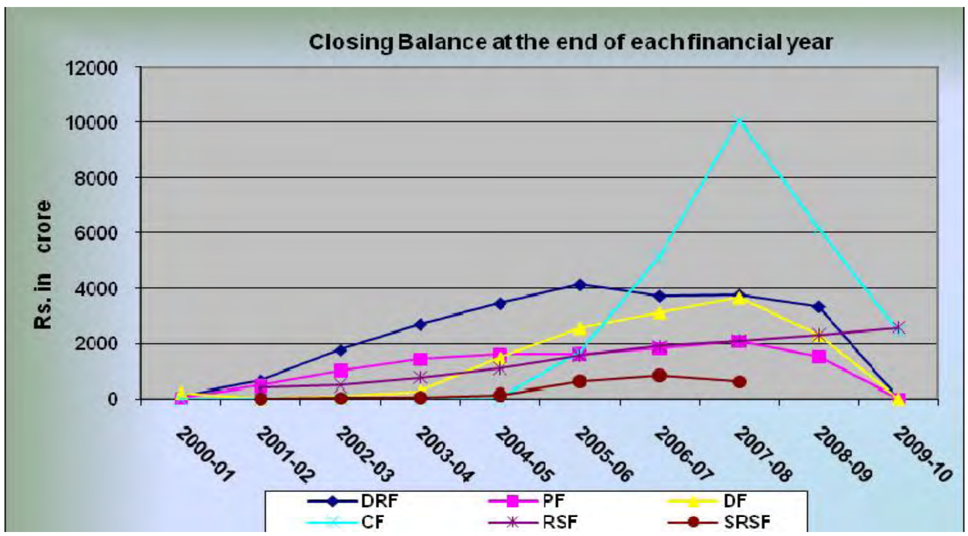
Table 1.11 Status of Railway Funds

Fund	Description
Depreciation Reserve Fund	*This is meant for replacement and renewal of over-aged assets. This fund receives interest at the rate of dividend payable to general revenues. During 2009-10, the rate of interest was seven* per cent *per annum. It was seen that withdrawal from the fund in the last four years (2006-10) was much more than the amount appropriated to it (excluding interest earned) leading to a decrease in the Fund balance at the end of the year. The fund closed at ₹4.98 crore at the end of 2009-10.*
Development Fund	*Due to decrease in revenue surplus after 2007-08, there was a substantial decline in net balances under the fund at the end of each year and in 2009-10, IR could manage a surplus of ₹75 lakh only which was appropriated to it. Against the available fund of ₹2,361.07 crore, IR withdrew ₹3,141.48 crore for works chargeable to DF resulting in a negative balance of ₹780.13 crore at the end of the year 2009-10. IR transferred ₹725 crore from Capital Fund to Development Fund while closing the annual accounts for the year 2009-10 to wipe out this negative balance under the fund. A comment in this regard is made in paragraph 3.6.1 of Chapter-3. With this transfer, Development Fund closed at ₹5.41 crore.*
Capital Fund	*With the increase in generation of revenue surplus since 2005-06, appropriation to this fund increased from ₹4,033.03 crore (2005-06) to ₹11,072.09 crore in 2007-08. Thereafter, net revenue surplus declined steeply reducing appropriation to this fund. IR could not appropriate any amount to this fund in 2009-10. The available balance at the end of the year 2009-10 was reduced to ₹3,213.95 crore, a reduction of 48* per cent *as compared to the previous year (2008-09). Due to lower availability of resources under Capital Fund, dependency of IR on the general budgetary support increased and thereby increasing liability of dividend payment to general revenues. The available balance under fund at the close of the year was further reduced to ₹2,438.20 crore as a sum of ₹725 crore was transferred to Development Fund to wipe out the negative balance under it. This transfer of fund was against the principle of creating Capital Fund which was aimed at financing Capital works only.*
Railway Safety Fund	*Utilization of resources from this fund was poor as withdrawals were always lower than the fund credited to it. The actual utilization of fund, during the last nine years (2001-10), ranged between 36 per cent and 55 per cent of the budget estimates. The shortfall in utilization was mainly due to slow progress of works, slow finalization of tenders/proposals etc. The balance under the fund at the end of the year 2009-10 was ₹2,582.20 crore.*
Pension Fund	*The appropriation to this fund is met out of the revenues earned by IR. The fund receives interest at the rate of dividend payable to general revenues. Appropriation to the fund during 2001-08 was slightly more than the*

Fund	Description
	withdrawals. However, during 2008-09 and 2009-10, IR withdrew more from fund to meet the increased liability of pension on account of implementation of 6th CPC recommendations. This led to decline in the available balance under the fund at the close of the year which stood at a meagre amount of ₹1.24 crore on 31 March 2010.

The five funds[25] shown above were either financed through revenues or surplus except Railway Safety Fund, which received a share of the Diesel Cess. Balance available in the funds at the beginning of the year 2009-10, declined by 68 *per cent* from ₹15,655 crore to ₹5,032 crore at the end of the year as the withdrawals in funds were more than the funds appropriated to them.

Figure 1.17- Fund Balances at the close of the years (2000-10)



There was a steady increase in available balance under DRF till 2005-06 and PF till 2007-08 and thereafter there was a sharp decline.

The contribution to DRF was not made on the basis of historical cost, expected useful life and expected residual life of the asset but was dependent on the amount which the working expenses could bear. Since renewal/replacement of assets should be a high priority item, it is imperative that contribution to DRF should be made in a well-founded and transparent manner.

The annual contribution to DRF is distributed zone-wise in proportion to the Block Account (value of assets held) of each zonal railway. This

25 ***Till 2007-08, IR also operated Special Railway Safety Fund which was created in 2001-02 to wipe out the arrears in renewal/replacement. The fund was closed at the end of 2007-08 and balance remained in the fund was transferred to Depreciation Reserve Fund.***

apportionment is charged to the working expenses of the zone. It was seen that at the zonal level there was no relation between the amount appropriated to DRF and amount expended on replacement and renewal of the assets. There was negative balance at the end of 2009-10 in respect of Central, Eastern, North Central, North Eastern, North Western, South Eastern, Southeast Central, South Western, Western, West Central Railways, Integral Coach Factory (ICF), Central Organization for Railway Electrification (CORE) and Metro Railway, Kolkata and MTP/Chennai.

1.12 *Corporate Social Responsibility*

Besides bearing a social burden of running un-economic lines, carrying essential commodities below cost and subsidizing passenger fare, IR provided welfare schemes covering a wide spectrum of activities in areas of education, medicare, housing, sports, recreation and catering. IR was running schools for wards of staff and providing medical facilities through hospitals and primary health centres to its staff and family members. Besides this, capital grant of IR also had a provision for capital works on staff amenities and staff quarters. IR had also signed a Memorandum of Understanding with the Ministry of Human Resource Development and Ministry of Health and Family Welfare (February 2010) for setting up of educational institutions and hospitals respectively on surplus lands. The idea was to provide education facilities and health care institutions for the wards of IR employees and also for common citizens in and around major hubs of IR activities. These facilities would be created on the surplus land identified by IR through PPP mode or creation of SPVs or any other suitable models as suggested by the High Power Working Group. The proposals were at a very preliminary stage. In July/August 2010, Kendriya Vidyalaya Sangathan had approved opening of six Kendriya Vidyalayas in Civil Sector on the sites identified by IR.

1.13 Conclusions and Recommendations

There was a significant gap between the actual growth of IR and the potential growth of IR based on GDP elasticity of 1.25 for railways. Although IR achieved a turnaround in its financial performance during the years 2005-08, the position deteriorated in 2008-10 with the implementation of the 6th CPC recommendations. IR could not achieve the projected performance as outlined in the budget for both the years. GTR, in 2009-10 grew by 21 *per cent* over 2007-08, at the same time total working expenses grew by 52 *per cent* over 2007-08 primarily on account of rising salaries and pensions consequent to the 6th CPC recommendations.

IR had not been able to meet their operational cost of passenger and other coaching services. There was heavy cross-subsidization from freight services to passenger services. Percentage of freight earnings used to subsidize the losses on passenger and other coaching services ranged between 16 *per cent* and 29 *per cent* during 2004-05 to 2008-09.

The financial and operational efficiency indicators except staff productivity of IR were not encouraging during the year 2008-10.The overall operating ratio deteriorated from 75.94 *per cent* in 2007-08 to 90.46 *per cent* in 2008-09 and further to 95.28 *per cent* in 2009-10. Capital-output ratio had also increased significantly in the last five years (2005-10), indicating deterioration in the physical performance of IR compared to capital employed. Current Infrastructure of IR was overstretched and capacity augmentation of network and rolling stock was not commensurate with the projected growth.

The surplus of just ₹75 lakh during the current financial year (2009-10) reflected an impending financial crisis in IR finances unless it took measures to augment earnings on one hand and control expenditure on the other hand. Funds balances had substantially decreased and would ultimately adversely affect the long term sustainability of IR operations, since IR would be unable to replace old worn out assets and augment network.

Recommendations

- ***As it is unlikely that major cost cutting can be resorted to in the medium term, the way forward for IR to improve its finances is to rationalize both freight and passenger tariffs through some form of pre-determined non-discretionary inflation indexing. Increasing the market share in bulk freight where IR has an inherent competitive advantage is also necessary. Efforts are required to enhance capacity in such a way that the growing demands are satisfactorily met.***
- ***IR may consider approaching GoI for crediting dividend paid by IR to a non-lapsable fund to be used for financing network augmentation projects.***
- ***Other income sources under sundry earnings, especially license fee on land and advertisements need to be targeted. IR needs to review all cases of licensing/renting of its assets for timely revision/raising of bills and realization of dues including arrears.***
- ***It is important for IR to review all the capital works in progress and take expeditious decision with regard to closure of projects where there is road connectivity (especially un-remunerative lines), where the progress over the years is absolutely negligible and the need for going ahead with the project is no longer as valid. There is a need to focus more on viable projects.***