

## Chapter-1 State of Finances

This chapter provides a broad perspective of the finances of the Indian Railways (IR) during 2010-11 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 the IR, which is a document that is compiled annually for incorporation in the Union Government Finance Accounts. In addition, data from authentic government reports<sup>2</sup> have been used to compare actual performance of IR in 2010-11 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 2010-11 vis-à-vis the previous year and budget estimates for 2010-11. It provides a broad perspective of the finances of the Railways during the year 2010-11, its comparison with actual of the previous year and deviation of actual receipts and expenditure of this year from the budget estimates.

**Table 1.1 Summary of Receipts and Expenditure of IR**

(₹ in crore)

Sl. No.	Details	Actual 2009-10	Budget Estimates 2010-11	Revised Estimates 2010-11	Actual 2010-11
1	Passenger Earnings	23,488.17 (7.10)	26,126.47	26,126.47	25,792.63 (9.81)
2	Freight Earnings	58,501.68 (9.49)	62,489.33	62,489.33	62,844.72 (7.42)
3	Other Coaching Earnings <sup>3</sup>	2,235.12 (13.36)	2,778.34	2,596.30	2,469.84 (10.50)
4	Sundry Earnings <sup>4</sup>	2,879.68 (15.16)	3,170.81	3,530.34	3,418.27 (18.70)
5	Suspense	-140.68	200.00	98.00	10.17 (-107.23)
6	Gross Traffic Receipts <sup>5</sup> (Item no.1 to 5)	86,963.97 (8.89)	94,764.95	94,840.44	94,535.63 (8.71)
7	Ordinary Working Expenditure <sup>6</sup>	65,810.35 (21.09)	65,000.00	67,000.00	68,139.22 (3.54)
8	Appropriation to				
	Depreciation Reserve Fund	2,187.00 (-68.76)	7,600.00	5,700.00	5,515.00 (152.17)

<sup>2</sup> Budget documents, Annual Statistical Statements of Indian Railways.

<sup>3</sup> Other coaching earnings from transportation of parcels, luggage and post office mail etc

<sup>4</sup> Sundry Earnings from renting, leasing of building, catering services, advertisements, interest, maintenance of sidings and level crossing, re-imburement of loss on strategic lines etc

<sup>5</sup> Gross Traffic Receipts-Operational receipts from freight, passenger, other coaching traffic and sundry earnings of IR

<sup>6</sup> Operating Expenses of IR.

	<i>Pension Fund</i>	14,918.00 (42.21)	14,500.00	14,500.00	15,820.00 (6.05)
9	<i>Total Working Expenditure (Item no.7 and 8)</i>	82,915.35 (15.42)	87,100.00	87,200.00	89,474.22 (7.91)
10	<i>Net Traffic Receipts (Item no.6 – 9)</i>	4,048.62 (-49.53)	7,664.95	7,640.44	5,061.41 (25.02)
11	<i>Miscellaneous Receipts<sup>7</sup></i>	2,265.32 (26.05)	2,956.60	2,310.76	2,145.39 (-5.30)
12	<i>Miscellaneous Expenditure<sup>8</sup></i>	769.85 (19.31)	840.00	929.34	860.66 (11.80)
13	<i>Net Miscellaneous Receipt (Item no. 11 – 12)</i>	1,495.48 (29.83)	2,116.60	1,381.42	1,284.73 (-14.09)
14	<i>Net Revenue (Item No.10 and 13)</i>	5,544.09 (-39.57)	9,781.55	9,021.86	6,346.14 (14.47)
15	<i>Dividend Payable to General Revenues</i>				
	<i>Current year</i>	5,543.34 (17.50)	6,608.46	4,917.36	4,941.25 (-10.86)
	<i>Deferred Dividend of previous year</i>	0.00			0.00
	<i>Total Dividend Payment</i>	5,543.35 (17.50)			4,941.25 (-10.86)
16	<i>Net Surplus (Item no. 14 – 15)</i>	0.75 (-99.98)	3,173.09	4,104.50	1,404.89 (187220)
17	<i>Surplus available for appropriation</i>				
	<i>Development Fund</i>	0.75 (-99.95)	2,800.00	2,358.00	1,404.89
	<i>Capital Fund</i>	0.00 (-100.00)	373.09	1,746.50	-----

Source: Explanatory Memorandum on Railway Budgets and Accounts for 2010-11

Note: Figures in brackets represents the increase/decrease in percentage over previous year

## 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. Anticipated Gross Traffic Receipts (GTR) of 2010-11, in all the segments except for passenger and other coaching earnings was achieved. With the higher achievement (0.57 per cent) than anticipated/budgeted, in freight earning, the GTR achieved by IR was marginally less than the Budget Estimates of 2011-12 by 0.24 per cent. Ordinary working expenditure increased by around five per cent (₹3,139 crore) whereas the total working expenditure increased by three per cent over the Budgeted Estimates. There was a reduction in appropriation to DRF by around 27 per cent when

<sup>7</sup> Miscellaneous Receipts comprise of subsidy from GoI towards dividend receipt and other concession, receipts by Railway Recruitment Board etc.

<sup>8</sup> 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.

compared to Budget Estimate which resulted into the increase of only three *per cent* in total working expenditure than budgeted/targeted figure. The resultant net revenue was also below the budget projections (35.12 *per cent*), mainly due to increased ordinary working expenditure (5 *per cent*) and more appropriation to pension fund (9.10 *per cent*) than envisaged in the budget 2010-11.

### **1.3 Fiscal Transactions in 2010-11- An overview**

#### **1.3.1 Gross Traffic Receipts (GTR)**

GTR grew in the current year (2010-11) by 8.71 *per cent*, which was slightly lower than the 8.89 *per cent* growth achieved in 2009-10. This was due to decline in growth rate of freight and other coaching earnings in the current year compared to the rate at which they grew in the previous year. This was compensated by the higher growth rates achieved in passenger earnings and sundry earnings as compared to that achieved in previous year.

#### **1.3.2 Ordinary Working Expenditure (OWE)**

Ordinary working expenditure grew by 3.54 *per cent* in 2010-11 over the previous year which was lower than increase of 21.09 *per cent* achieved in 2009-10 as compared to 2008-09. The substantially higher increase in OWE during 2009-10 was due to the implementation of the 6th CPC.

#### **1.3.3 Miscellaneous Receipts and Expenditure**

In the current year (2010-11), miscellaneous receipts declined by 5.30 *per cent* over the previous year whereas miscellaneous expenditure grew by 11.80 percent. As a result, there was overall decline in the net miscellaneous receipts by 14.09 *per cent* over previous year. Net misc. receipts were also significantly below the budget projection by nearly 39 *per cent*.

#### **1.3.4 Net Revenue**

Net revenue in the current year grew by 14.47 *per cent* compared to the decline of 39.57 percent in previous year. Despite increase in Net Revenue, it was below the Budget projections by 35.12 percent mainly on account of lower than targeted growth rate in freight receipts and a decline in the growth rate of miscellaneous receipts.

#### **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. IR, in 2009-10, paid dividend at the rate of seven *per cent* as the report of Railway Convention Committee (RCC) on the rate of dividend for 2009-10 was finalized only in December 2010. The report recommended a lower rate of six *per cent* for the year 2009-10. Adjustment due to reduction in dividend rate was carried out in

2010-11. Thus dividend payout in 2010-11 appears to be around 11 *per cent* less than the previous year. However, after taking into consideration the impact of adjustment of a reduction in dividend rate (from seven *per cent* to six *per cent* for the year 2009-10) carried out in 2010-11, the actual dividend due for the year 2010-11 amounted to ₹ 5,725.61 crore (after the adjustment of ₹ 784.36 crore paid in excess in the previous year). This was 20 percent higher than paid in the previous year indicating a higher capital investment.

### 1.3.6 Net Surplus available for Appropriation

Generation of net surplus after meeting all revenue liabilities including payment of dividend had fallen by a massive 99.98 *per cent* during 2009-10 compared to the previous year. IR could generate only a Net Surplus of only ₹75 lakh in 2009-10. However, in the current year the Net Surplus increased to ₹1,404.89 crore.

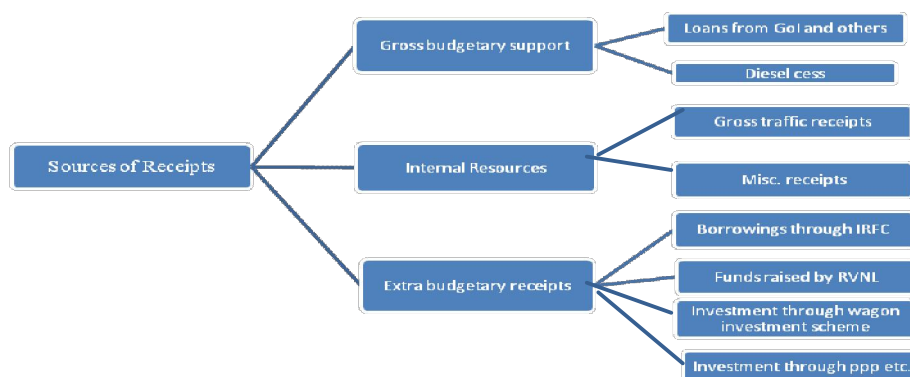
Despite the increase, Net Surplus was 56 percent less than the budget estimates. The main reason of increase in the net surplus is the adjustment of one percent dividend amounting to ₹ 784.36 relating to previous year. Thus, the actual surplus pertaining to current year is only ₹ 620.54 crore. During the year 2010-11, while GTR increased by 8.71 *per cent*, the total working expenditure rose by only 7.91 *per cent* leading to an increase in Net Surplus.

The entire Net Surplus to the tune of ₹ 1,404.89 crore was appropriated to Development Fund.

### 1.4 Resources of IR

The main sources of IR receipts were as follows:

Figure 1.1: Sources of Receipts

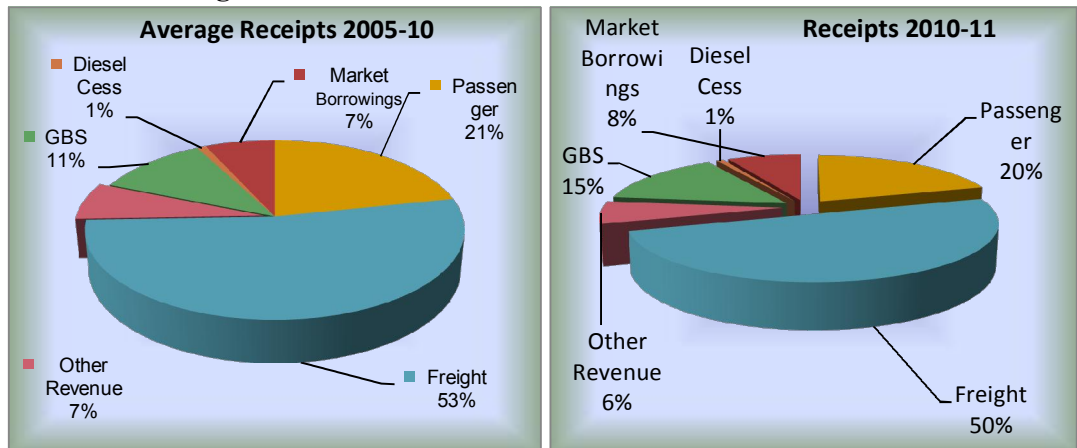


During a period 2006-10 the compound annual growth rate (CAGR) of revenue receipts was only around 10.53 *per cent*, while general budgetary support grew by 24.90 *per cent* and extra budgetary support (market

borrowings) by 19.04 per cent annually. Thus both GBS and Market Borrowings increased at a higher rate than internal resources of the IR.

The share of each of these sources of funds during the current year as well as over the average of past five years ended 31March 2010 is given below:

**Figure 1.2: Relative Share of various Resources of IR**



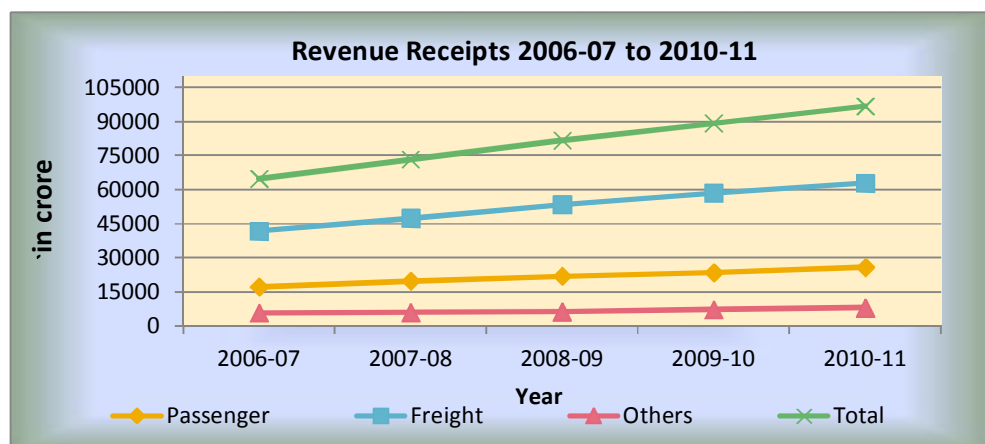
*Note: Other Revenue Earnings include Other Coaching Earnings, Sundry Other Earnings and Miscellaneous Receipts; GBS- General Budgetary Support*

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 general budgetary support.

**1.4.1 Revenue Receipts**

The trend of total revenue receipts for the last five years is given in the graph below:

**Figure 1.3: Revenue Receipts during 2006-11**



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

Total Revenue Receipts increased at a CAGR of 10.53 per cent during the period 2006-10. However the increase in the Total Revenue Receipts in the

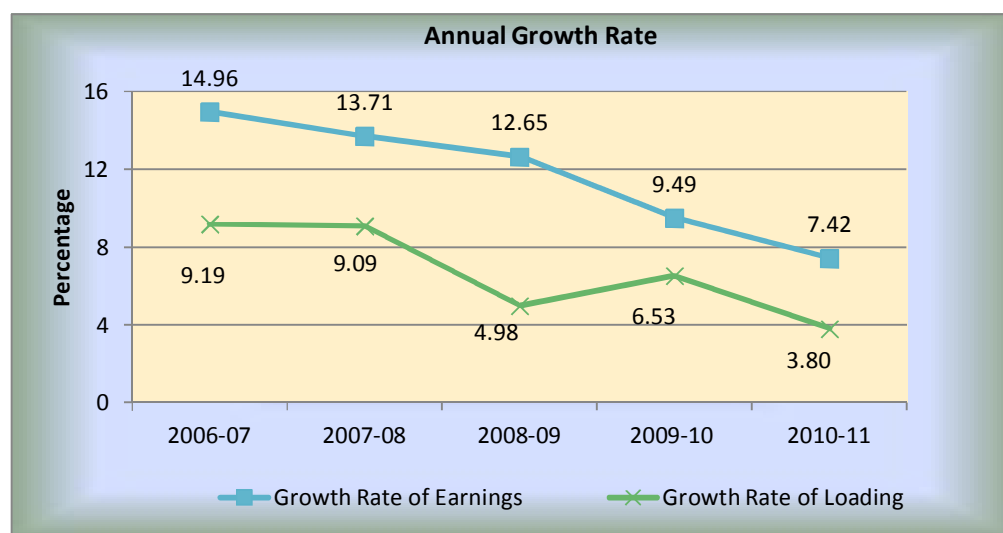
year 2010-11 was 8.35 percent which was below CAGR of 2006-10. The annual inflation of all commodities on an average during 2010-11 was around 9.56 *per cent*.<sup>9</sup> This meant that the real increase in revenue receipts (after discounting for inflation) was negative by 1.21 *per cent*.

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 freight earnings of IR for the last five years (2006-11) 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 five years ended 31 March 2011 showed a declining trend from 2006-07 (except for the year 2009-10). The annual incremental increase in loading (in absolute terms) ranged between 66.14 Million Tonne (2007-08) to 33.72 Million Tonne (2010-11) during the last five years. The increase in freight loading by 3.82 *per cent* in 2010-11 over the previous year was far below the CAGR of 6.85 *per cent* achieved during 2006-10.

In 2010-11, freight earnings increased by 7.42 *per cent* over the previous year, but it was again below the CAGR of 11.93 *per cent* achieved during 2006-10.

<sup>9</sup> (Source -/o The Economic Adviser, Ministry of commerce and Industry)

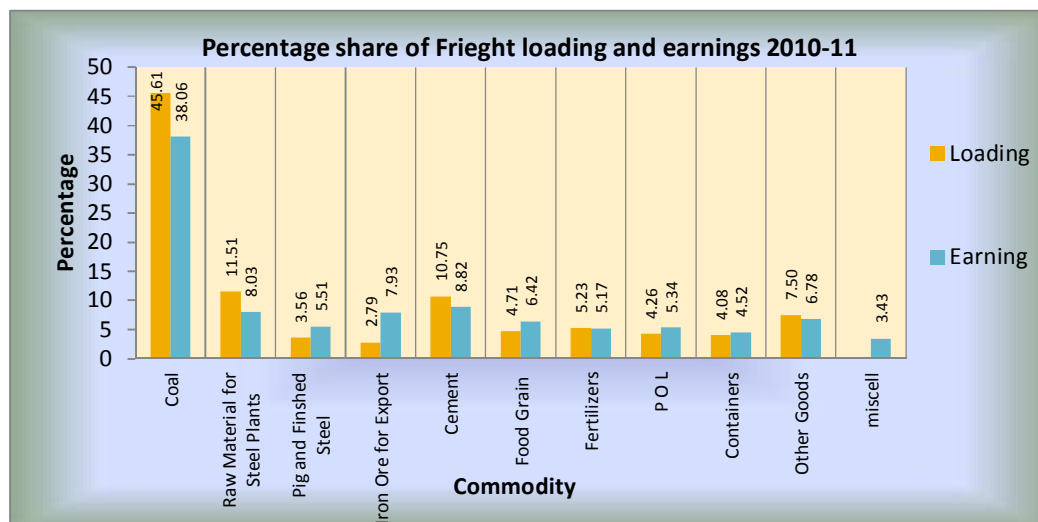
Table 1.2 Freight Services Statistics

Year	Loading (MT)	NTKM (in million)	Earning (₹ in crore)	Average lead (in kilometre)	Rate per tonne per km (in paise)
2006-07	727.75	480993	41,716.50	661	85.39
2007-08	793.89	521372	47,434.90	657	89.04
2008-09	833.39	551448	53,433.42	662	93.84
2009-10	887.79	600548	58,501.68	676	94.77
2010-11	921.73	625723	62,844.72	679	100.00

In 2010-11, it was seen that the annual growth rate of freight loading was 3.82 percent, whereas the NTKM increased at the rate of 4.12 *per cent*. Despite this, there was an annual increase of 5.52 *per cent* and 7.42 *per cent* in rate per tonne per kilometer and freight earning respectively. Average lead of 679 km in 2010-11 was higher than the previous year.

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 (2010-11)



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 92 *per cent* of the total freight earnings of IR. Iron ore for export constituted three *per cent* of the total loading and earned eight *per cent* of the total freight earnings due to levy of high supplementary charges.

**1.4.1.2 Passenger Earnings**

The growth in earnings from Passenger traffic and in Passengers Originating in the last five year period (2006-11) is given below:

**Figure 1.6: Growth Rate of Passenger Originating and Passenger Earnings**



In the period of last five years the growth rate of earnings from passenger traffic and number of passengers travelled fluctuated erratically. The percentage increase in earnings from passenger traffic in 2010-11 over the previous year was 9.81 per cent which was below the CAGR of 10.89 per cent for the period 2006-10. The percentage increase in passengers originating in 2010-11 over the previous year was 5.78 per cent which was slightly above the CAGR of 5.24 per cent during 2006-10.

In 2010-11, passenger earnings fell short of budget estimates in the case of 10 out of the 16 zones. The shortfall in passenger earning targets was most pronounced in Southern Railway and Southeast Central Railway where the shortfall was 2.86 per cent and 2.54 per cent respectively.

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)
2006-07	6333.73	695821 (12.84)	17,224.56 (13.87)	109.86	24.75 (0.90)
2007-08	6536.44	771070 (10.81)	19,844.18 (15.21)	117.96	25.74 (4.00)
2008-09	7046.91	839203 (8.84)	21,931.32 (10.52)	119.09	26.13 (1.52)
2009-10	7382.77	904761 (7.81)	23,488.17 (7.10)	122.55	25.96 (-0.65)
2010-11	7810.15	980131 (8.33)	25,792.63 (9.81)	125.50	26.32 (1.39)

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



Both growth rate of passengers originating and passenger earnings improved in 2010-11 over the previous year. In 2010-11, it was seen that average earnings per passenger per kilometer also increased to 26.32 paise from 25.96 paise in 2009-10.

IR had been incurring a loss every year on passenger and other coaching services. During 2009-10<sup>10</sup>, this loss was ` 20,080 crore.

#### **1.4.1.3 Sundry Earnings and Other Coaching Earnings**

Sundries and other coaching earnings constituted around six *per cent* of the Gross Traffic Receipts in the current year (2010-11). It grew at around 15 *per cent* in the current year (2010-11) 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 for increasing 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 in this regard has been made on Non recovery of License Fee amounting to ₹ 823 crore from licensing/leasing of vacant land in paragraph 3.1 of Audit Report (No.32 of 2011-12) of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2011.

#### **1.5 Unrealized Earnings<sup>11</sup>**

Against the target for recovery of ₹200.00 crore during 2010-11 from unrealised earnings, IR could realise only ₹10.17 crore and the year closed at ₹1,357.84 crore as unrealised earnings. This consisted of ₹1,169.28 crore under Traffic Suspense and ₹188.56 crore under Demand Recoverable. Western Railway was the major contributor to the realisation of unrealised earnings with ₹41.20 crore. This was followed by South Railway with ₹ 4.83 crore. The major portion of outstanding under Traffic Suspense was on account of un-recovered freight and other charges from Power Houses and State Electricity Boards as ₹ 678.27 crore (constituting 58 *per cent* of the total Traffic Suspense) was yet to be recovered. Major defaulters are tabulated on next page:

<sup>10</sup> Profitability/unit cost of coaching services for 2010-11 was still not compiled (January 2012).

<sup>11</sup> 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 2010	Outstanding dues as of 31 March 2011	Increase / decrease (-) during the year
1.	Punjab State Electricity Board (PSEB)	444.05	448.07	4.02
2.	Delhi Vidyut Board (DVB) <sup>@</sup>	177.15	176.36	(-)0.79
3.	Rajasthan State Electricity Board (RSEB) <sup>@</sup>	37.10	38.58	1.48

<sup>@</sup> Now unbundled into Companies as a result of Power Sector Reforms

## 1.6 Cross-Subsidization

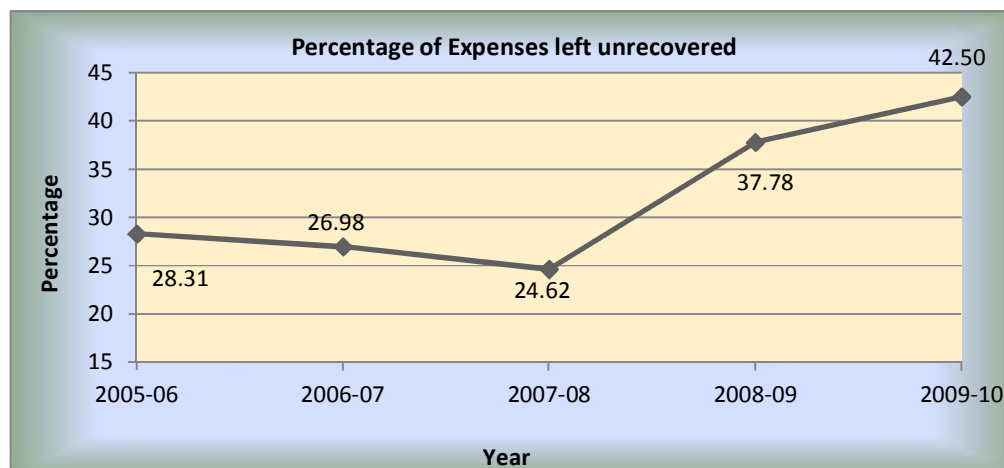
### 1.6.1 Subsidy towards Passenger and other Coaching Services

IR was unable to meet its operational cost of passenger services and other coaching services. Revenue from passenger services has increased by 58 per cent<sup>12</sup> during the last five years ended 31 March 2010, but expenditure on this head increased by 97 per cent during the same period.

The Summary of End Results- Freight Services Unit Costs and Coaching Services Profitability/Unit Costs for the year 2009-10 published by the IR indicate that there was cross subsidization from freight earnings to passenger and other coaching earnings. Loss incurred by passenger and other coaching services increased from ₹ 6,792.75 crore in 2005-06 to ₹ 20,080.47 crore in 2009-10. The gap in percentage of expenditure on passengers and other coaching services left unrecovered during the period of five years ended 31 March 2010, is shown in Figure 1.7 given on next page:

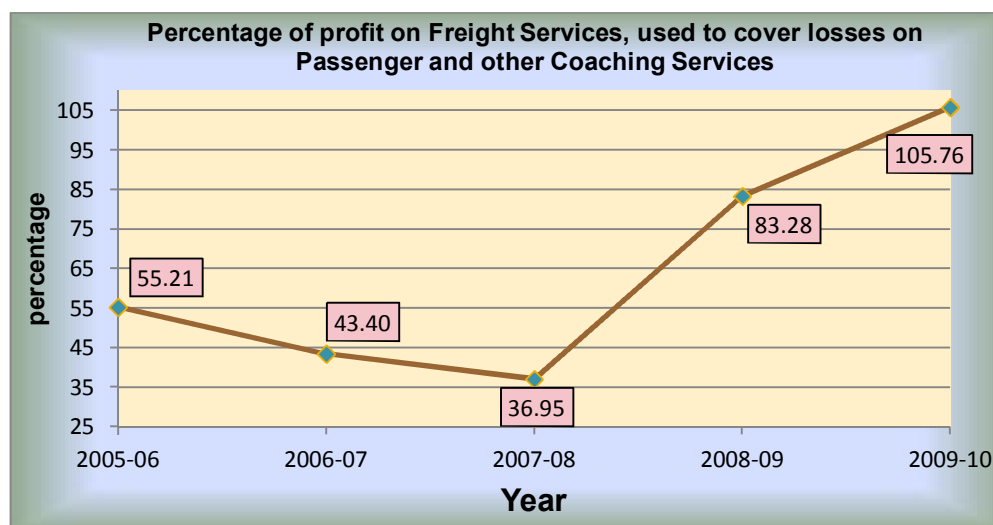
<sup>12</sup> Excluding Narrow Gauge and Metro Railway/ Kolkata

**Figure 1.7: Percentage of expenditure on Passenger and Other Coaching Services left uncovered**



The steep increase in cross subsidy during 2009-10 was a result of increase in cost of operations due to implementation of the 6<sup>th</sup> CPC's recommendations. Figure 1.8 below depicts the percentage of profit on freight services, utilized to make up the loss on passenger and other coaching services:

**Figure 1.8: Percentage of profit on freight earnings used to subsidize the passenger and other coaching services**



It would be seen that the entire profit (amounting to ₹ 18,986.89 crore) from freight traffic were utilized to compensate the loss (₹ 20,080.47 crore) on operation of passenger and other coaching services of IR.

### **1.6.2 Operational losses of various Classes of Passenger Services**

Table on next page gives the operational losses of various classes of passenger services during 2005-06 to 2009-10:

**Table 1.5 Operational losses of various Classes of Passenger Services**  
(₹ in crore)

Class of Passenger	2005-06	2006-07	2007-08	2008-09	2009-10
AC-Ist class	-32.55	-19.76	-14.77	-59.37	-53.14
Ist class	14.14	-13.84	-6.30	-69.67	-32.67
AC sleeper	79.12	72.92	123.09	-176.91	-372.32
AC 3 Tier	94.95	423.99	547.60	540.57	212.14
AC Chair car	89.32	-4.94	114.68	5.45	-2.11
Sleeper Class	-1,926.59	-1,888.27	-2,384.08	-3,175.24	-5,333.90
Second class	-762.98	-1,215.61	-993.22	-2,933.09	-3,401.25
Ordinary (All Class)	-2,770.96	-2,912.58	-3,541.28	-6,381.77	-7,763.36
EMU suburban services	-807.11	-891.13	-922.39	-1,651.19	-2,214.06

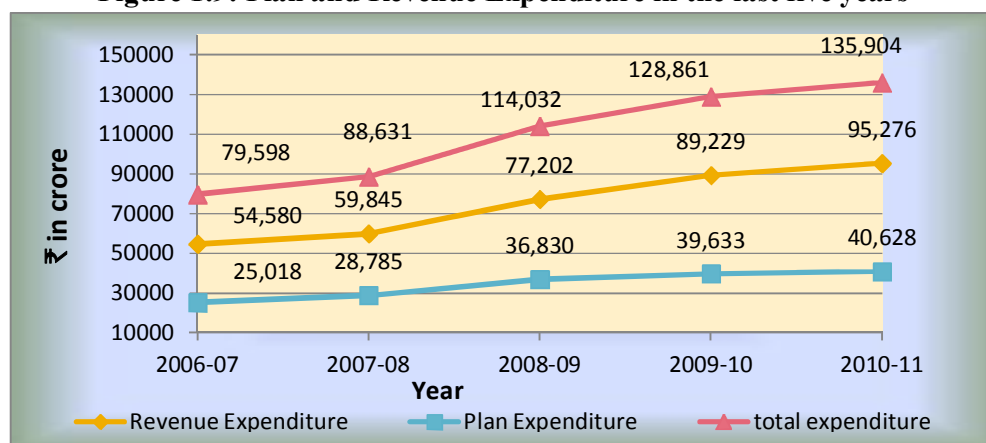
As can be seen from the above table, only AC-3-tier covered their operational cost in 2009-10. However, there is a declining trend in the profitability of this service from 2007-08. The profit on this service has declined by 61 per cent in 2009-10 when compared to 2008-09.

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. The percentage of loss to the earning of the various classes of passenger services ranged from 17 per cent (AC-Ist class) to 181 per cent (EMU Suburban Services).

### 1.7 Application of Resources

The two main components of expenditure in IR are ‘Revenue Expenditure’ and ‘Plan Expenditure’. Revenue expenditure includes ordinary working expenditure, miscellaneous expenditure and dividend Payout. The total expenditure of IR and its composition under revenue and plan for the last five years is given below:

**Figure 1.9: Plan and Revenue Expenditure in the last five years**



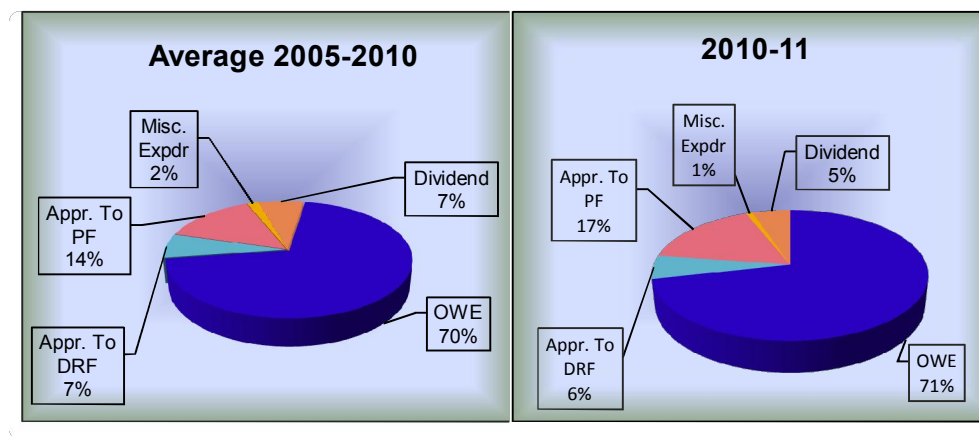
Total expenditure increased at the rate of 5.47 *per cent* in 2010-11 over the previous year. This was far below the CAGR of 12.18 *per cent* for the period 2006-10. Revenue expenditure grew at the rate of 6.78 *per cent* as compared to CAGR of 17.80 *per cent* over the period 2006-10. This was mainly because impact of implementation of 6<sup>th</sup> CPC had already been taken into account. Plan expenditure grew at the rate of 2.51 *per cent* in 2010-11 as compared to CAGR of 16.57 *per cent* over the period 2006-10. This indicates a substantial reduction in the availability of resources for capital creation.

In the period of last five years, the share of revenue expenditure and plan expenditure to total expenditure remained almost static ranging from 68 *per cent* (2007-08 and 2008-09) to 70 *per cent* in 2010-11 and from 30 *per cent* (2010-11) to 32 *per cent* (2007-08 and 2008-09) respectively. 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 ended on 31 March 2010 are given below:

**Figure 1.10: Revenue Expenditure in last five years**



The main components of expenditure was OWE which constituted about 70 *per cent* of the total revenue expenditure on an average during 2005-10. This has increased to 71 *per cent* in 2010-11.

Appropriation to DRF was reduced to six *per cent* in 2010-11 as compared to seven *per cent* on an average during 2005-10. Due to implementation of the 6<sup>th</sup> CPC recommendations, appropriation to Pension Fund increased to 17 *per cent* in 2010-11 as compared to 14 *per cent* on an average during 2005-10 to meet the increased pension liabilities.

OWE comprises expenditure on day-to-day maintenance and operation of the 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 five years is depicted below:

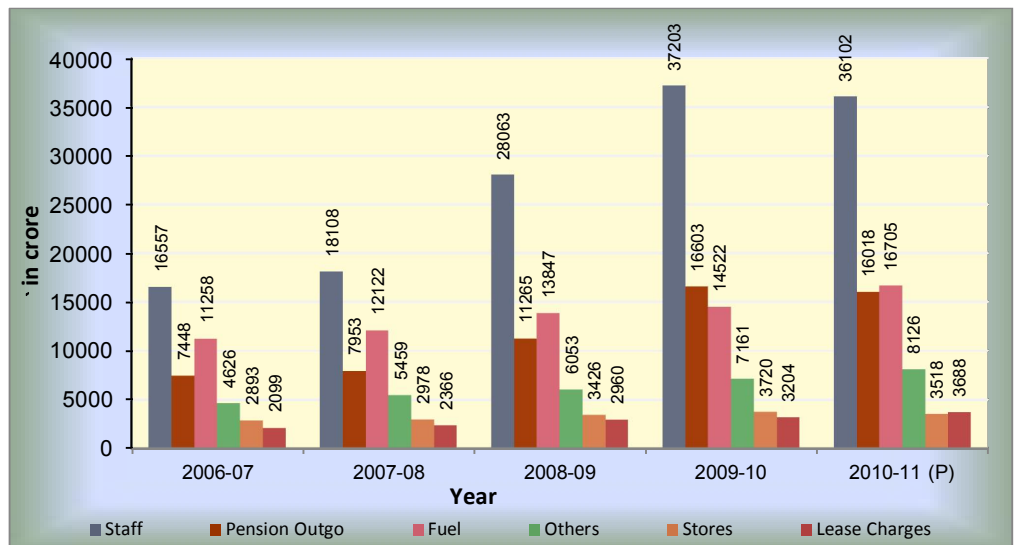
Figure: 1.11 - Growth of Ordinary Working Expenses (2006-07 to 2010-11)



The steep increase in OWE during 2008-11 was on account of implementation of 6<sup>th</sup> CPC's recommendations. OWE increased at a rate of 3.54 per cent during 2010-11 over the previous year against a CAGR of 20.69 per cent during 2006-10.

The break-up of working expenditure on IR under staff, fuel, lease charges, stores, other and pension outgo for the last five years is shown in the figure below:

Figure: 1.12 - Component wise expenditure



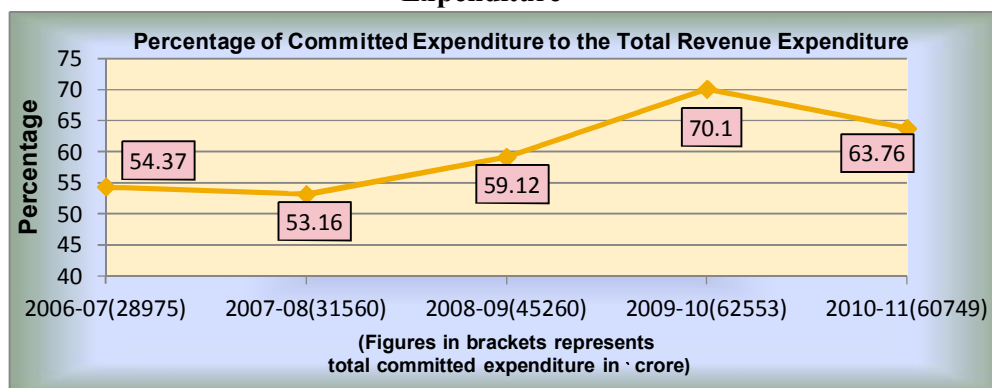
Staff cost (including pension outgo) constituted 62 per cent of the working expenses of the IR during the current year.

### 1.7.2 Committed Expenditure

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

Figure 1.13 shows the percentage of committed expenditure to the total revenue expenditure of IR during the last five years 2006-07 to 2010-2011:

**Figure 1.13: Committed Expenditure as a percentage of total Revenue Expenditure**



Committed expenditure to the total expenditure declined marginally in 2007-08 as the growth rate of total revenue expenditure was more than the growth rate of committed expenditure. However it increased in 2008-10 due to payment of arrears of salary w.e.f. 01.01.2006 (as a result of sixth pay commission recommendation). In 2010-11, committed expenditure decreased to 63.76 per cent but it was still higher as compared to previous years. With the increase in percentage of committed expenditure, in proportion to the total revenue expenditure, IR was left with only 36 per cent of the total revenue expenditure to run their operations. Of this, fuel alone comprised 48 per cent. This impacted IR's contribution to DRF.

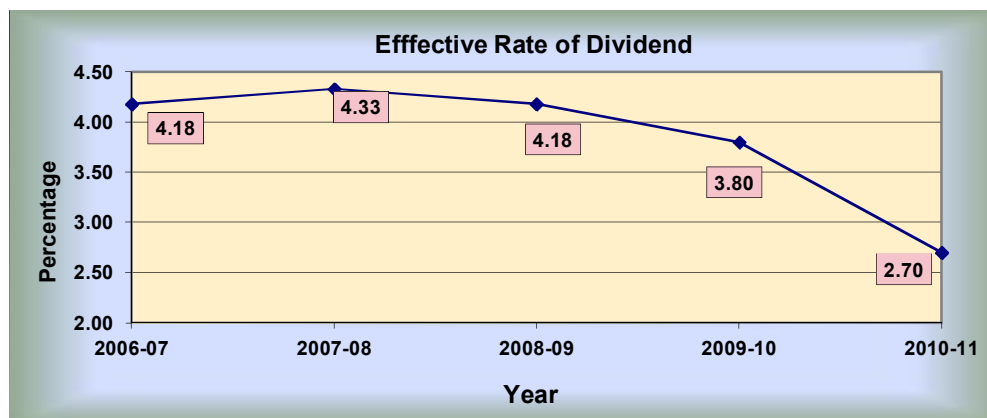
### 1.7.3 Dividend and Subsidy

Under the 'Separation Convention' the 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<sup>13</sup>. Dividend paid on such capital is

<sup>13</sup> 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

received back as subsidy to IR. This subsidy had decreased from ₹ 2,155.87 crore (2009-10) to ₹ 2,037.64 crore (2010-11). Taking into account the subsidy received, the net effective rate of dividend decreased to three *per cent* as compared to four *per cent* in the previous year. However, this was due to carrying out adjustment of one *per cent* of dividend amounting to ₹ 784.36 crore in current year, which was paid in excess during previous year.

Figure: 1.14 Effective Rate of Dividend



#### 1.7.4 Un-discharged Liability

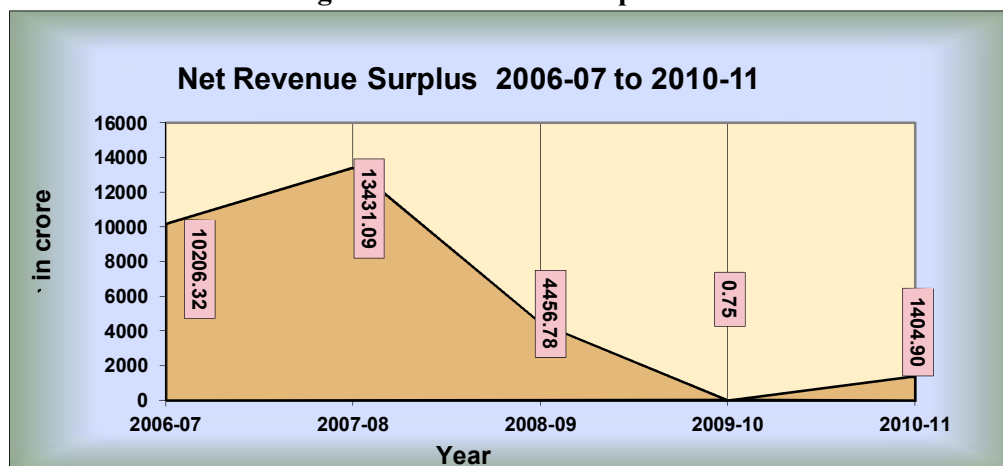
The RCC allowed a moratorium on payment of dividend on investments in New Lines during the period of construction and the first five years after opening of the line for traffic. Cumulative dividend was payable when the line showed surplus after meeting current liability. The account of dividend liability is closed after 20 years, extinguishing all such un-liquidated liability. The liability on this account which was ₹7,511.79 crore at the close of 2009-10, had increased to ₹ 8,322.65 crore as of March 2011.

#### 1.8 Revenue Surplus

Trend of net revenue surplus after meeting all revenue expenditure including payment of dividend, during the last five years ended on 31 March 2011 is shown in the graph on next page:



Figure: 1.15 Revenue Surplus



The downward trend in net revenue surplus from 2007-08 to 2009-10 was due to declining trend of growth rate of revenue receipts (from 13 *per cent* to nine *per cent*) and higher growth rate of revenue expenditure (from 10 *per cent* to 16 *per cent*) as discussed in the preceding paragraphs. Thereafter in 2010-11, there is slight increase in generation of net revenue surplus due to decline in the growth rate of revenue expenditure (from 16 *per cent* to seven *per cent*).

IR generated ₹13,431 crore as net surplus in 2007-08. Thereafter generation of net surplus sharply declined to ₹75 lakh in 2009-10 and again rose to ₹1,405 crore in 2010-11 which was partly due to carrying out the adjustment of dividend amounting to ₹784.36 pertaining to last year.

## 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 95.28 *per cent* in 2009-10, improved negligibly to 94.59 *per cent* in current year for IR as a whole. This was primarily because of decrease in growth rate of total working expenses from 15 *per cent* in 2009-10 to eight *per cent* in 2010-11.

The operating ratio of zonal railways and Metro Railway, Kolkata during the last three years ended on 31 March 2011 is shown in the table on next page:

Table 1.6 Operating Ratio of Zonal Railways

S.No	Zonal Railway	2008-09	2009-10	2010-11
1	Central	97.64	106.47	107.31
2	Eastern	173.45	186.25	178.52
3	East Central	99.48	107.94	109.06
4	East Coast	49.3	48.25	42.82
5	Northern	115.26	112.74	112.20
6	North Central	60.59	61.55	63.12
7	North Eastern	197.32	216.19	201.78
8	Northeast Frontier	148.69	161.28	167.25
9	North Western	120.23	110.29	106.41
10	Southern	126.06	137.47	135.55
11	South Central	77.23	80.66	85.76
12	South Eastern	62.24	69.18	66.98
13	South East Central	53.23	60.43	58.01
14	South Western	77.11	88.43	98.69
15	Western	93.25	97.88	97.96
16	West Central	73.95	74.07	74.93
17	Metro Railway Kolkata	252.96	248.00	226.35
Overall IR		90.46	95.28	94.59

There was noticeable improvement in the Operating Ratio of Eastern, East Coast, North Eastern, North Western and Metro Railway Kolkata whereas the same has deteriorated noticeably in Northeast Frontier, South Central and South Western 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 2010-11, 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 next page shows the Capital-output ratio for total traffic (in NTKMs), carried by the IR during the last five years ended on 31 March 2011:

**Table 1.7 Capital Output Ratio of IR (2006-11)**

As on	Total Capital including investment from Capital Fund (₹ in Million)	Goods Traffic (NTKMS) (in million)	Passenger Traffic		Total Traffic (in Million NTKMs)	Capital at charge (in Paise) per NTKM
			Passenger Kilometres (in millions)	Million NTKMs		
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
31-Mar-11	1,432,205	626,473	978,508	69,474	695,947	206

Capital Output ratio had increased from 143 paise (2006-07) to 206 paise (2010-11) indicating deteriorating physical performance of the 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 the IR is measured in terms of volume of traffic handled (in terms of NTKM in Million) per thousand employees. It had increased over the years for IR as a whole by over 38 *per cent* during the period 2006-07 (407) to 2010-11 (561).

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 13.09 lakh (2006-07) to 12.40 lakh (2010-11).

Zone wise analysis of staff productivity revealed that during 2010-11, highest staff productivity of 1461 Million NTKM per thousand employees was achieved by East Coast Railway whereas Staff productivity of 190.57 Million 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 the IR through their plan

expenditure. IR plan expenditure was financed from the general exchequer extended as general budgetary support, internal resources<sup>14</sup> 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 10<sup>th</sup> FYP period and first four years of 11<sup>th</sup> FYP period:

**Table 1.8 Source-wise Plan Expenditure**

(₹ in crore)

Source of Plan Expenditure	10 <sup>th</sup> FYP	11 <sup>th</sup> FYP				
	(2002-07)	2007-08	2008-09	2009-10	2010-11	
	Actual	Actual	Actual	Actual	Budget Estimates	Actual
General Budgetary Support <sup>15</sup> (%age to the total)	37,516.06 (44.88)	8,667.90 (29.82)	10,110.43 (27.45)	17,716.09 (44.70)	17,575	19,485.06 (47.77)
Internal Resources (%age to the total)	29,567.99 (35.37)	14,948.00 (51.43)	18,941.23 (51.43)	12,195.68 (30.77)	13,700	11,527.39 (28.26)
Extra Budgetary Support (%age to the total)	16,502.15 (19.75)	5,169.43 (18.75)	7,777.84 (21.12)	9,720.79 (24.53)	10,151	9,780.29 (23.97)

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 11<sup>th</sup> FYP period. In the third and fourth year of the 11<sup>th</sup> FYP period, due to 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 10<sup>th</sup> FYP Period and first three years of the 11<sup>th</sup> FYP period:

**Table 1.9 Category-wise Plan Expenditure**

(₹ in crore)

Plan Heads	10 <sup>th</sup> FYP (2002-07)	2007-08	2008-09	2009-10	2010-11
New Lines, Gauge Conversion, Doubling, Traffic Facilities, Track Renewal, Bridge Work, S & T	42,391.07 (50.72)	13,056.99 (45.36)	15,094.45 (40.98)	15,386.09 (38.82)	15,899.34 (38.98)
Rolling Stock and Payment of Capital Component of Lease charges	26,556.21 (31.77)	9,611.16 (33.39)	13,043.34 (35.42)	15,141.94 (38.21)	17,210.25 (42.19)

<sup>14</sup> Reserve Funds such as Depreciation Reserve Fund, Capital Fund, Development Fund

<sup>15</sup> Includes expenditure from RSF

Plan Heads	10 <sup>th</sup> FYP (2002-07)	2007-08	2008-09	2009-10	2010-11
Workshop and Production Units and Plant and Machinery	1,962.67 (2.35)	686.82 (2.39)	1,343.45 (3.65)	1,682.5 (4.25)	1,435.95 (3.52)
Investments in Government Undertaking	2,886.59 (3.45)	1,581.74 (5.49)	2,095 (5.69)	2,041.99 (5.15)	1,789.58 (4.39)
Others	9,789.65 (11.71)	3,848.66 (13.37)	5,253.27 (14.26)	5,380.33 (13.57)	4,457.93 (10.93)
<b>Total</b>	<b>83,586.19</b>	<b>28,785.37</b>	<b>36,829.51</b>	<b>39,632.85</b>	<b>40,793.05</b>

**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- (₹6,052 crore for 10<sup>th</sup> -FYP and ₹21,765 crore for first three year of 11<sup>th</sup> FYP and Investments- ₹450 crore in 10<sup>th</sup> -FYP and ₹1,183 crore for first three years of 11<sup>th</sup> -FYP)

The above table reveals that 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) declined from a high of 51 per cent in the 10<sup>th</sup> five year plan period to an average of 41 per cent in 11<sup>th</sup> five year plan and there was a commensurate increase in share of Rolling stock during the same period. However, there was a decline in the share of plan expenditure on Workshop and Production Units and Plant and Machinery.

### 1.11 Railway Funds

**Table 1.10 Status of Railway Funds**

Fund	Description
Depreciation Reserve Fund	The appropriation to this fund is met out of the revenues earned by IR. This is meant for replacement and renewal of over-aged assets. This fund receives interest at the rate of dividend payable to general revenues. The opening balance as on April 1, 2010 in this fund account was ₹ 4.93 crore which turned into negative balance of ₹ (11.21) crore after carrying out the interest adjustment of ₹ 16.14 crore due to revision of rate of interest from seven per cent to six percent for 2009-10. (During 2009-10, the tentative rate of interest was seven per cent per annum, which was later revised to six per cent for the year 2009-10 and 2010-11 by RCC.) However, The fund closed at ₹ 18.89 crore at the end of 2010-11 by expending less amount (₹ 5,585.12 crore) on replacement and renewal of assets than appropriated to the fund (₹ 5,615.00 crore). The Appropriation to DRF was made less than Budgeted provision by 27 per cent.

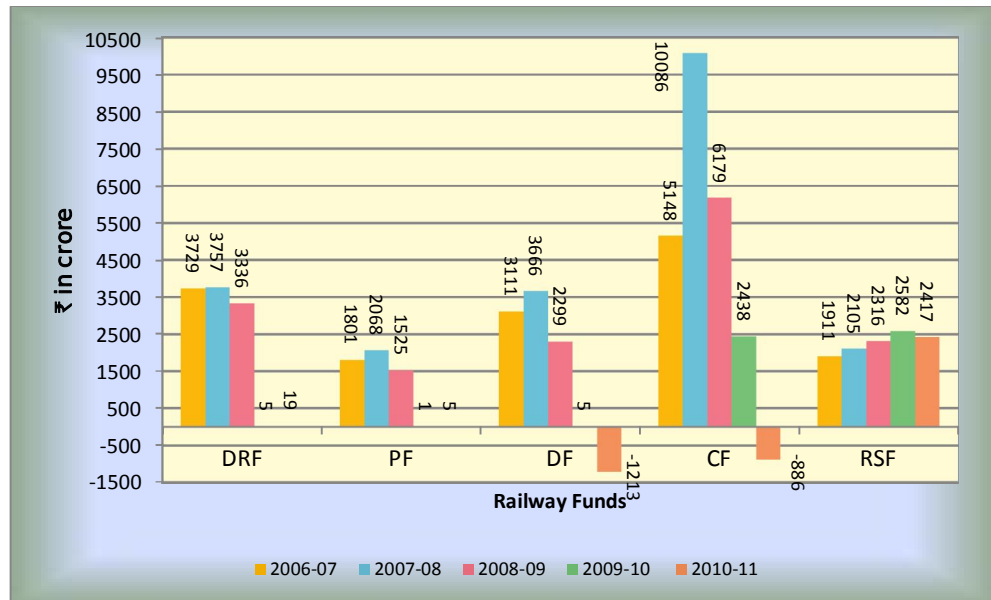
<i>Fund</i>	<i>Description</i>
<i>Pension Fund</i>	<p>The fund account as on April 1, 2010 stood at ₹ 1.24 crore. After carrying out the adjustment of one percent of interest amounting to ₹ 7.37 crore payable back to Govt. of India, the fund balance eroded to negative balance of ₹ (6.13) crore.</p> <p>The appropriation to this fund is also 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 2010-11 was slightly more than the withdrawals. However, due to negative balances appearing in the fund account as discussed above, Ministry had to pay interest of ₹ 2.34 lakh instead of receiving the same from Government. The available balance under the fund at the close of the year was ₹ 5.33 crore on 31 March 2011.</p>
<i>Development Fund</i>	<p>Due to continuous decrease in revenue surplus after 2007-08, there was a substantial decline in net balances under the fund at the end of each year. The fund account as on April 1, 2010 stood at ₹ 5.54 crore. In 2010-11, the entire amount of Revenue surplus to the tune of ₹ 1,404.89 crore was appropriated to it. The fund closed at a negative figure of ₹ 1,213.34 crore due to the following reasons:-</p> <ol style="list-style-type: none"> <li>1. The capital expenditure incurred out of this fund amounting to ₹ 2,576.59 crore was much more than the contribution to the Fund amounting to ₹ 1,404.89 crore;</li> <li>2. Payment of the interest amounting to ₹ 47.19 crore to Government of India due to negative balance in fund account.</li> </ol>
<i>Capital Fund</i>	<p>With the decrease in generation of revenue surplus since 2007-08, appropriation to this fund decreased from ₹ 11,072.09 crore (2007-08) to ₹ 3,065.78 crore in 2008-09. IR could not appropriate any amount to this fund in 2009-10 and 2010-11, whereas an amount of ₹ 3,282.74 crore and ₹ 3,329.85 crore was expended from this fund during 2009-10 and 2010-11 respectively. This resulted into the negative balances of ₹ (885.71) crore as on March 31, 2011 in fund account.</p>
<i>Railway Safety Fund</i>	<p>The opening balance in this fund account as on April 1, 2010 was ₹ 2,582.20 crore. An amount of ₹ 1,100.27 crore was utilized in 2010-11 as against an amount of ₹ 935.42 credited to it. The fund account closed at ₹ 2,417.34 crore at the end of 2010-11.</p>

The five funds<sup>16</sup> 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 2010-11,

<sup>16</sup> 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.

declined by 93 per cent from ₹ 5,032 crore to ₹ 328 crore at the end of the year as the withdrawals in all the funds were more than the funds appropriated to them.

**Figure 1.16- Fund Balances at the close of the years (2006-11)**



The Development Fund and Capital Fund, which are funded out of the railway 'Excess' remaining after payment of dividend, closed with negative balances of ₹ 1,213 crore and ₹ 886 crore, respectively. In order to bridge the gap in fund balances under these two funds Ministry of Finance was requested to extend loan of ₹ 2,101 crore. However the Ministry of Finance did not accede to this request of Railway Ministry and asked them to meet this liability by raising their resources suitably in the year 2011-12 on the plea that less appropriation to the funds than Budgeted had made an adverse impact on Fiscal Deficit of the Government in the year 2010-11.

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. During the last five years ending 31 March, 2011 the expenditure on renewal/replacement of assets to the appropriation made to the fund varied from 99 per cent (2010-11) to 251 per cent in 2009-10. 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 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 2010-11 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 Conclusions and Recommendations**

With the slow-down of the Indian economy and impact of implementation of the 6<sup>th</sup> CPC recommendation the finances of IR were severely impacted during 2008-10, IR thus could not achieve the projected performance as outlined in the budget for both the years. However in 2010-11, GTR was achieved as per projection, but Net Revenue was far below the Budget projections by 35.12 *per cent*. This was mainly due to increased Ordinary Working Expenditure by 5 *per cent* and increased appropriation to pension fund by 9.10 *per cent* than envisaged in the Budget. The achieved Net Revenue was only possible by reducing appropriation to DRF by 27 *per cent* over budgeted projections. This has implication on safety of Railway operations.

IR has 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 15.80 *per cent* and 34.32 *per cent* during 2007-08 to 2009-2010. In fact Railway Convention Committee, in its first report on 'Rate of Dividend for 2009-10 and 2010-11 and other Ancillary matters' desired that the Railways should explore the ways of raising their revenue and avenues for resource mobilization while curbing wasteful expenditure and enforcing financial discipline. From figure 1.8 on cross-subsidization, it is evident that IR is incurring losses on its total earning from Core Activities i.e. Coaching Services and Freight Services and pulling on the profit earned from Sundry earnings and Miscellaneous Receipts.

The surplus of ₹ 1,404.89 crore during the current financial year (2010-11) reflected an improvement in IR finances over the previous year. However, the accumulated fund balances were substantially depleted indicating a continued poor financial performance by IR in the current year and risk for future sustainability. Capital fund and Development fund are funded from the Revenue surplus of IR. However, due to decline in the Revenue surplus from the year 2007-08 onwards, both the Funds closed with negative balances of ₹ 885.71 crore and ₹ 1,213.34 crore respectively. Similarly Depreciation Reserve Fund and Pension Fund, which are funded from the revenue earned by IR also closed with meager balances of ₹ 18.89 crore and ₹ 5.33 crore



respectively. This situation would ultimately adversely affect the long term sustainability of IR operations. IR will be severely handicapped to finance any future capital/developmental expenditure until these funds are recouped over and above the negative amount of ₹ 2,101 crore (approx.) out of Revenue Surplus. Ministry of Finance has also refused to extend a temporary loan to bridge the gap of negative balances of ₹ 2,101 crore appearing in Capital and Development fund on the plea that this liability should be met by IR by raising their resources suitably in the current year.

The financial and operational efficiency indicators except staff productivity of IR were not encouraging during the year 2010-11. The overall operating ratio improved negligibly from 95.28 per cent in 2009-10 to 94.59 per cent in 2010-11. Capital-output ratio had also increased significantly in the last five years (2006-11), indicating deterioration in the physical performance of the 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. There does not seem to have been any policy/strategy formulated to increase Net Revenue despite being pointed out in the last years Audit Report (No. 33 of 2010-11) of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2010.

#### **Recommendations**

- *The IR is facing a severe financial crunch and their accumulated funds have eroded by 93 per cent. The way forward for IR is to improve its finances and rationalize both freight and passenger tariffs. It is essential that IR increases its market share in bulk commodities where it has an inherent competitive advantage.*
- *IR needs to review all cases of licensing/ renting of its assets for timely revision/ raising of bills and realization of dues including arrears.*
- *The dependency on Gross Budgetary support has been increasing due to shrinkage of Internal Resources. IR needs to explore alternate sources to finance its capital expenditure.*
- *It is important for the 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.*