

## **Chapter 2 Appropriation Accounts**

This Chapter outlines IR financial accountability and budgetary practices through audit of Appropriation Accounts.

Railway Budget is an instrument of Parliamentary Financial Control and at the same time, an important management tool. Parliamentary Financial Control is secured not only by the fact that all 'voted' expenditure receives Parliament's prior approval, but also by the system of reporting back to it, the actual expenditure incurred against the Grants/Appropriations voted/approved by Parliament. The statements, which are prepared for presentation to Parliament, comparing the amount of actual expenditure with the amount of Grants voted by Parliament and, Appropriations sanctioned by the President, are called the **“Appropriation Accounts”**.

The Appropriation Accounts are signed both by the Chairman, Railway Board and by the Financial Commissioner, Railways and transmitted to the Comptroller and Auditor General of India for audit. Audit by the Comptroller and Auditor General of India seeks to ascertain whether the expenditure actually incurred under various grants is within the authorization given under the Appropriation Act and also whether the expenditure so incurred is in conformity with the law, relevant rules, regulations and instructions.

Appropriation Accounts detail the accounts related to expenditure of IR for a particular year as compared to the appropriations for different purposes as specified in the schedules appended to the Appropriation Act passed by Parliament. These Accounts list the original budget allocation, supplementary grants, surrenders and re-appropriations distinctly and indicate the actual capital and revenue expenditure on various specified services vis-à-vis those authorized by the Appropriation Act in respect of both charged and voted items of budget. Appropriation Accounts thus facilitate management of finances and monitoring of budgetary provisions and are therefore complementary to Finance Accounts.

### **2.1 Summary of Appropriation Accounts**

IR authorized its expenditure through operation of 16 Grants comprised of 15 Revenue Grants<sup>17</sup> (Grants number 1 to 15) and one Capital Grant<sup>18</sup> (Grant No. 16). Revenue grants were financed through internal resources generated by IR through its earnings, the Capital grant was funded from general budgetary support, internal resources and share of diesel cess from Central Road Fund.

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<sup>17</sup>Grants detailing working expenses and other revenue expenditure as voted by Parliament..

<sup>18</sup> Grant detailing expenditure on Assets Acquisition, Construction and Replacement voted by Parliament

Appropriation Accounts (Railways) for the sums expended during the year ended 31 March 2011, compared with the sums authorized in the Original and Supplementary Demands for Grants for expenditure and passed under Article 114 and 115 of the Constitution of India are summarized below:

**Table 2.1- Summary of Appropriation Accounts 2010-11**

(₹ in crore)

	Original Grant/ Appropriation	Supplementary Grant	Total Sanctioned Grant	Actual Expenditure	Saving (-) / Excess (+)
<b>Voted</b>					
Revenue	1,12,680.13	3,109.21	1,15,789.34	1,14,559.15	(-)1,230.19
Capital	63,360.36	2,391.11	65,751.47	63,528.77	(-)2,222.70
<b>Total Voted</b>	<b>1,76,040.49</b>	<b>5,500.32</b>	<b>1,81,540.81</b>	<b>1,78,087.92</b>	<b>(-)3,452.89</b>
<b>Charged</b>					
Revenue	119.69	178.43	298.12	303.91	5.79
Capital	56.32	80.00	136.32	113.96	(-)22.36
<b>Total Charged</b>	<b>176.01</b>	<b>258.43</b>	<b>434.44</b>	<b>417.87</b>	<b>(-)16.57</b>
<b>Grand Total</b>	<b>1,76,216.50</b>	<b>5,758.75</b>	<b>1,81,975.25</b>	<b>1,78,505.79</b>	<b>(-)3,469.46</b>

The above table indicates that out of the total expenditure of IR at ₹1,78,505.79 crore during the financial year 2010-11, nearly 64 per cent was spent on revenue grants which constituted working expenses on administrative, operational and maintenance activities and 36 per cent was spent on capital grant dealing with creation and augmentation of infrastructure facilities through Assets Acquisition, Construction and their Replacement/Renewal. The table also indicates a savings of 1.05 per cent (₹1,224.40 crore) in revenue grants and 3.41 per cent (₹2,245.06 crore) in capital grant against the sanctioned provisions available in 2010-11.

An analysis of grant wise expenditure revealed that the net saving of ₹3,469.46 crore was a result of savings of ₹6,522.24 crore under five revenue grants, five revenue appropriations<sup>19</sup> and four segments of capital grant, four segments of capital appropriation, adjusted by an excess of ₹3,052.78 crore in ten revenue grants and five revenue appropriations.

### 2.1.1 Revenue Grants

IR operated 15 Revenue Grants. These are functionally clubbed under six distinct groups as listed on the next page:

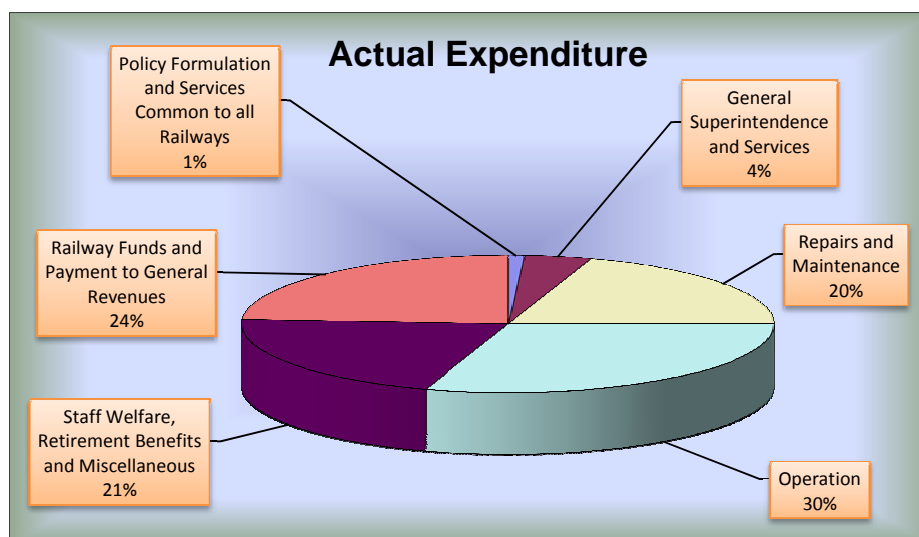
<sup>19</sup> Appropriation refer to expenditure charged on Consolidated Fund of India

**Table 2.2- Grants operated by Railways**

No.	Particulars	Group
1	Railway Board	Policy Formulation and Services Common to all Railways
2	Miscellaneous Expenditure	
3	General Superintendence and Service on Railways	General Superintendence and Service on Railways
4	Repairs and Maintenance of Permanent Way and Works	Repairs and Maintenance
5	Repairs and Maintenance of Motive Power	
6	Repairs and Maintenance of Carriages and Wagons	
7	Repairs and Maintenance of Plant and Equipment	
8	Operating Expenses-Rolling Stock and Equipment	Operation
9	Operating Expenses-Traffic	
10	Operating Expenses-Fuel	
11	Staff Welfare and Amenities	
12	Miscellaneous Working Expenditure	Staff Welfare, Retirement Benefits and Miscellaneous
13	Provident Fund, Pension and Other Retirement Benefits	
14	Appropriation to Fund	
15	Dividend to General Revenues, Repayment of loans taken from General Revenues and Amortization of over Capitalization	Railway Funds and Payment to General Revenues

The weightage of group-wise expenditure, in 2010-11, is shown in the Figure given below:

**Figure-2.1 Group wise Revenue Expenditure (2010-11)**



Group-wise estimates, expenditure and variation under revenue grants are tabulated below:

**Table- 2.3 Group wise Estimates, expenditure and Variation (2010-11)**  
(₹ in crore)

Particulars	Original Grant/ Appropriation	Supplementary Provision	Total Sanctioned Grant	Actual Expenditure	Variation w.r.t. Sanctioned Grant	Percentage variation
Policy Formulation and Services Common to all Railways	770.00	109.01	879.01	816.62	-62.39	-7.09
General Superintendence and Service on Railways	4,203.74	148.65	4,352.39	4,357.81	5.42	0.12
Repairs and Maintenance	22,093.83	340.58	22,434.41	22,777.17	342.76	1.53
Operation	32,895.55	1,537.96	34,433.51	35,008.31	574.80	1.67
Staff Welfare, Retirement Benefits and Miscellaneous	20,945.15	1,151.44	22,096.59	24,212.01	2,115.42	9.57
Railway Funds and Payment to General Revenues	31,891.55	0.00	31,891.55	27,691.15	-4,200.40	-13.17

Broad reasons for variations with reference to sanctioned provisions were as under:

- **Indian Railways Policy Formulation**

Savings were due to lower expenditure towards foreign travel expenses, hospitality & entertainment, non-execution/slow progress of survey works, non-finalisation of tender of some works, incurrence of lower expenditure towards training cost and conducting lesser number of examinations by Railway Recruitment Board, Non commencement of world class station work etc.

- **General Superintendence and Service on Railways**

Excess were due to staff cost and arrears on implementation of Modified Assure Career Progression (MACP), higher payments of advertisement bills and materialisation of decretal payments.

- **Repairs and Maintenance**

Excess were due to staff cost and arrears on implementation of Modified Assure Career Progression, higher contractual payments, and direct purchases, more drawal of stores from stock, more Periodical Overhaul (POH) debits, more expenses on running repairs and maintenance of

power cars, more expenditure towards running repairs in workshops for sick lines.

- **Operations**

Under this group, there was excess under Grant no. 8 and 10 mainly due to higher expenditure on staff cost, more contractual payments, more expenditure on procurement of linen and bed rolls, High Speed Diesel oil, electricity for traction services etc.

- **Staff Welfare, Retirement Benefits and Miscellaneous**

Excess were due to higher claims of Tuition fee and educational assistance to railway employees, higher contribution to Staff Benefit Fund, more expenditure on ex-gratia pension, more expenditure on leave encashment for pension optees etc.

- **Railway Funds and Payment to General Revenues**

Savings in grant no. 14 – Appropriation to Funds was restricted in view of decline in the internal resource generation and lesser outgo from fund. In grant no. 15 saving occurred as Dividend payable was reduced due to lowering of rate of dividend from seven *per cent* to six *per cent*, as recommended by the RCC for the year 2009-10 & 2010-11.

Grant wise authorisation and expenditure under the revenue and capital grants and appropriations are detailed in *Appendix-2.1*.

Analysis of Capital grant is discussed in paragraph 2.6.

## 2.2 Financial Accountability and Budget Management

### 2.2.1 Excess over Budget Provision

The table below gives the grants and appropriations where expenditure was incurred in excess of authorization:

**Table 2.4 Excess Expenditure**

(₹ in crore)

S.No.	Particulars	Original Provision	Supplementary provision	Actual Expenditure	Excess
<b>Revenue- Voted</b>					
1	Grant No. 3-General and Superintendence Services	4,203.68	148.55	4,357.44	5.21
2	Grant No. 4- Repair and Maintenance – Permanent way and Works	7,156.51	222.29	7,386.56	7.76
3	Grant No. 5 – Repairs and Maintenance – Motive Power	3,348.54	0.00	3,423.60	75.06

S.No.	Particulars	Original Provision	Supplementary provision	Actual Expenditure	Excess
4	Grant No. 6- Repairs and Maintenance of Carriage and Wagons	7,525.22	53.28	7,799.59	221.09
5	Grant No. 7- Working Expenses- Repairs and Maintenance of Plant and Equipment	4,063.05	64.07	4,166.91	39.79
6	Grant No. 8 -Operating Expenses - Rolling Stock and Equipment	5,604.51	362.43	6,156.82	189.88
7	Grant No. 10- Working Expenses - Operating Expenses- Fuel	15,778.12	594.84	16,771.04	398.08
8	Grant No. 11 - Working Expenses- Staff Welfare and Amenities.	3,315.55	185.46	3,554.96	53.95
9	Grant No. 12 - Working Expenses- Miscellaneous Working Expenses	3,093.25	260.81	4,002.50	648.44
10	Grant No. 13 - Working Expenses - Provident fund, Pension and Other Retirement Benefits	14,417.50	531.24	16,352.71	1,403.97
<b>Revenue- Charged</b>					
11	Appropriation No. 3-General Superintendence and Services	0.05	0.10	0.36	0.21
12	Appropriation No. 6- Repairs and Maintenance of Carriage and Wagons	0.06	0.04	0.14	0.04
13	Appropriation No. 7- Working Expenses- Repairs and Maintenance of Plant and Equipment	0.03	0.00	0.05	0.02
14	Appropriation No. 8 - Operating Expenses - Rolling Stock and Equipment	0.00	0.08	0.09	0.01
15	Appropriation No. 12 - Working Expenses- Miscellaneous Working Expenses	118.21	173.73	301.21	9.27
	<b>Total</b>				<b>3,052.78</b>

Of the ten grants and five appropriations where excess occurred, supplementary provisions were obtained in all except one grant and one appropriation. Incurrence of excess expenditure despite obtaining supplementary grants indicated poor budgetary forecasting.

Reasons for excess expenditure have been discussed in succeeding Paragraph 2.2.2.

Public Accounts Committee (PAC) in its Fortieth Report (15<sup>th</sup> Lok Sabha) on 'Excess over Voted Grants and Charged Appropriations (2009-10) observed that while anticipating the requirements of funds by the Ministry of Railways, estimations could have been projected more realistically by analysing properly the monetary effects of various subheads of expenditure. The indolent Ministry of Railways have not taken any timely corrective measures to improve their budgeting mechanism with a view to avoiding such a huge unauthorised expenditure. Ministry of Railways reply on PAC's observations is still awaited.

The excesses over the budgetary sanctions require regularization by Parliament under Article 115(1) (b) of the Constitution of India.

### 2.2.2 Persistent Excess

There had been persistent excess during 2009-10 and 2010-11 in the grants dealing with repairs and maintenance, operating expenses and Staff Welfare, Retirement Benefits and Miscellaneous as tabulated below:

Table 2.5 Persistent Excess Expenditure

(₹ in crore)

S.No.	Particulars	2009-10	2010-11
1	Grant No. 5- Repairs and Maintenance of Motive Power	90.87	75.06
2	Grant No.6 - Repairs and Maintenance of Carriage and Wagons	164.57	221.09
3	Grant No. 8 - Operating Expenses - Rolling Stock and Equipment	36.31	189.88
4	Grant No. 13 - Provident Fund, Pension and Other Retirement Benefits	1,512.39	1,403.97

IR attributed the excess mainly due to incurrence of more expenditure towards staff cost, more drawal of stores from stock, more direct purchases, more contractual payment, receipts of more debits from pension disbursing authorities on account of implementation of 6<sup>th</sup> pay commission, finalisation of more number of death cum retirement gratuity cases during the year etc.

*The persistent excess in the last two years indicated the failure of IR to properly estimate budgetary requirements and enforce fiscal discipline.*

### 2.2.3 Savings

There were an aggregate savings of ₹6,522.24 crore. However, the savings exceeded ₹100 crore in five cases, as detailed below:

Table 2.6: Savings over ₹100 crore

(₹ in crore)

S. No.	Particulars	Original Provision	Supplementary provision	Actual Expenditure	Saving
1	Grant No. 14 – Appropriation to Funds	25,283.09	0.00	22,749.89	2,533.20
2	Grant No. 15 – Dividend to General Revenues.	6,608.46	0.00	4,941.25	1,667.21
3	Grant No. 16 – Capital	46,136.98	2,391.10	47,782.50	745.58
4	Grant No. 16 – Railway Funds	15,465.18	0.01	14,608.99	856.20
5	Grant No. 16 – Railway Safety Fund	1,698.40	0.00	1,101.43	596.97

Reasons for these savings were attributed to reductions in funds due to decline in the internal resource generation and lesser outgo from the fund (Grant no.14), Dividend payable was reduced due to lowering of rate of dividend from 7 per cent to 6 per cent recommended by the RCC (Grant no. 15), less materialisation of decretal payment, than anticipated (Grant no. 16- Capital, Railway funds and Railway Safety fund).

#### 2.2.4 Persistent Savings

There had been persistent savings of over ₹100 crore in each of the grants as tabulated below:

Table 2.7 Persistent Savings

(₹ in crore)

S.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1	Grant No. 14 – Appropriation to Funds	556.55	373.99	6,429.96	4,301.51	2,533.20
2	Grant No. 16 – Capital	997.99	789.47	537.20	2,020.71	745.58
3	Grant No. 16 – Railway Funds		1,634.35	1,723.38	2,815.59	856.20
4	Grant No. 16 – Railway Safety Fund	350.66	517.44	734.56	649.98	596.97

- Savings, during 2006-08, in grant no.14 had occurred because appropriation to Depreciation Reserve Fund and Pension Fund had been reduced due to lower requirement of funds. However, in 2008-11, saving in this grant was attributed to lower generation of internal resources. In 2008-09, savings occurred due to reduction in contribution to CF by ₹7,773.96 crore. In 2009-10, contribution to DRF and DF was curtailed by ₹5,137 crore and no contribution to CF was made as internal generations of resources had decreased substantially. In 2010-11, DRF has been curtailed by ₹ 2,085 crore due to reduced internal resource generation and no contribution to CF made as no money was left for appropriation during the year.



- Savings in grant no.16-Capital and Railway Funds were mainly attributed to slow progress of works, delay in settlement of contractual claims, delay in land acquisition, less booking of expenditure than anticipated, lower expenditure in acquisition of rolling stock etc.
- Slow progress of works, delay in contractual payments, non-finalization of tenders/proposals and delay in land acquisition were the main reason for persistent savings under RSF.

*Instances of huge persistent savings were indicative of poor budgetary estimation by IR.*

### 2.3 Supplementary Provisions

Supplementary provisions amounting to ₹ 5,500.32 crore were taken during 2010-11 in twelve revenue voted grants and three Capital voted grants. Under Revenue grant, these were obtained mainly for higher payment of salary, dearness allowance and other staff cost. Under capital grant, supplementary provisions were obtained as additional support from Central Government for National Projects in Northern and Northeast Frontier Railways. However, budgeting of supplementary provisions proved deficient as expenditure in nine revenue grants still exceeded the sanctioned allocation (Table 2.4 above). In grant no. 2 supplementary provisions of 62 per cent remained unutilized.

Supplementary provisions of ₹ 258.43 crore were obtained under charged appropriations to meet higher decretal payments than anticipated. However, the assessment of supplementary provisions under charged appropriations no. 3, 4, 6 and 9 were either inadequate or excessive by more than 100 per cent. The reasons of such huge variation were explained due to higher/lower materialization of decretal payment than anticipated.

*The above instances of inadequate/excessive supplementary provisions indicated that requirement of funds was not assessed realistically at the time of seeking supplementary provisions. Incurring of excess expenditure despite obtaining supplementary grants was indicative of ineffective budgeting.*

### 2.4 Surrenders

Savings in a grant or appropriation are required to be surrendered as soon as these are foreseen without waiting for the end of the financial year. However, it was seen that the capital segment of grant no. 16 had savings of ₹745.58 crore in 2010-11, out of which ₹356.46 crore was surrendered on 31 March 2011, depriving Government of India of the opportunity of utilising these funds for other departments by correspondingly reducing gross budgetary

support for IR. In two grants (15 and 16-Railway Funds) surrenders exceeded the savings.

In grant no. 5 despite amount exceeding the authorisation by ₹ 75.07 crore, an amount of ₹ 66.72 crore was surrendered.

### **2.5 Budgetary Control by Spending Units**

Budget estimates are usually formulated by IR after taking into account zonal railways requirements which are analyzed and moderated. Rules provide<sup>20</sup> that any fund, during the course of the fiscal year, unlikely to be utilized for a particular purpose for which it was obtained could be re-appropriated, within the provisions of the rules, for some other purpose, or for other spending units (zonal railways). Re-appropriation of funds is done through Final Modification Statement<sup>21</sup> (FMS). Summary of railway-wise grant accounts (grant no.3 to 13) is given in *Appendix-2.2*.

Audit review of the grant accounts of grant no. 3 to 13 of zonal railways revealed the following:

- In 31 cases, funds were surrendered through FMS by zonal railways in excess of availability.
- In 27 cases, zonal railways surrendered funds through FMS despite expenditure exceeding the sanctioned allocations.
- In 23 cases, zonal railways, through FMS, surrendered 50 *per cent* or more of the supplementary provisions allocated to them. It included 15 cases, where 100 *per cent* of the supplementary provisions allocated to them were surrendered.
- In 70 cases expenditure exceeded the sanctioned allocation despite receiving the additional fund. It included 37 cases in which the excess expenditure was more than 100 *per cent* as compared to additional fund which they received, which implies that allotment of additional funds was not done appropriately.
- In 10 cases, Zones did not require the additional funds as expenditure in these cases were less than the sanctioned allocation. Out of these cases it was seen that in seven cases saving was even more than the additional fund re-appropriated to them.

### **2.6 Grant no. 16- Assets, Acquisition, Construction and Replacement**

IR operates one grant for capital expenditure. Grant no. 16 i.e. Works Grant is the largest grant in terms of allocation and area of activities in the field. It

<sup>20</sup>Paragraph 376 of Indian Railways Finance Code enumerates the powers of re-appropriation of funds

<sup>21</sup>Final Modification Statement referred to final re-appropriation of fund from one unit to other or from one work to other within the frame work of rules. It is usually done at the fag end of the year.

deals with expenditure on construction, acquisition and replacement of assets of IR. Entire Plan expenditure was formulated, budgeted and incurred through this grant. This grant has four segments and draws its funding from four distinct sources:

- **Capital**-Budgetary support advanced by general budget of GoI,
- **Railway Funds**-Internal resources kept under three different reserves<sup>22</sup>,
- **Railway Safety Fund**-Financed by Railways' share of diesel cess from Central Road Fund and
- **Open Line Works (Revenue)** - New or additional improvement/ replacement works costing less than ₹ one lakh financed from revenue.

Segment wise allocation and expenditure is given below:

**Table 2.8 Segment wise Expenditure under Grant No. 16**

(₹ in crore)

Particulars	Original Provision	Supplementary provision	Total sanctioned provisions	Actual Expenditure	Saving (-)/ Excess (+)
<b>Voted Portion</b>					
Capital	46,136.98	2,391.10	48,528.08	47,782.50	(-)745.58
Railway Fund	15465.18	0.01	15465.19	14,608.99	(-) 856.20
Railway Safety Fund	1,698.40	0.00	1,698.40	1,101.44	(-)596.96
Open Line Works – Revenue	59.80	0.00	59.80	35.84	(-) 23.96
<b>Total Voted</b>	<b>63,360.36</b>	<b>2,391.11</b>	<b>65,751.47</b>	<b>63,528.77</b>	<b>(-) 2,222.70</b>
<b>Charged Portion</b>					
Capital	46.50	80.00	126.50	111.68	(-)14.82
Railway Fund	8.02	0.00	8.02	2.27	(-) 5.75
Railway Safety Fund	1.60	0.00	1.60	0.01	(-) 1.59
Open Line Works – Revenue	0.20	0.00	0.20	0.00	(-) 0.20
<b>Total Charged</b>	<b>56.32</b>	<b>80.00</b>	<b>136.32</b>	<b>113.96</b>	<b>(-)22.36</b>

• **Capital**

In 2010-11, provision of ₹46,136.98 crore was made for acquisition and construction of assets. Additional budgetary support of ₹ 2,391.10 crore was received through supplementary grant for execution of National Projects in Northern and Northeast Frontier Railways.

There was a net savings of ₹ 745.58 crore, against the sanctioned provision, in this segment of the grant. Savings were attributed to slow progress of works,

<sup>22</sup> Reserve Funds were Depreciation Reserve Fund (DRF), Development Fund (DF) and Capital Fund (CF).

non materialisation of contractual liabilities, delay in land acquisition, non execution of works, non finalisation of estimates etc.

### • **Railway Funds**

Appropriation Accounts for 'Railway Funds' under grant no. 16, is financed through three sources of funds viz Depreciation Reserve Fund (DRF), Development Fund (DF) and Capital Fund (CF).

- DRF - for replacement/renewal of existing assets
- DF - for all passenger and other users, works including addition and replacement, labour welfare works not exceeding ₹1 lakh each and Safety Works
- CF - for meeting requirement of capital expenditure on construction and acquisition of new assets.

All these funds are financed from the internal resources of IR either by charging to 'Working Expenses' (DRF) or from 'Net Revenue Surplus' (DF and CF). Thus, performance of IR and availability of balances in the fund accounts impacts planning of expenditure under this segment of the grant. Though appropriation between these sources of funds is not permissible, a combined Appropriation Accounts for these funds is prepared. Source-wise break-up of sanctioned allocation and expenditure under Railway Funds is tabulated below:

**Table- 2.9- Component of Railway Funds**

(₹ in crore)

Particulars	Original Provision	Supplementary provision	Total sanctioned provisions	Actual Expenditure	Saving (-)/ Excess (+)
<b>Voted Portion</b>					
Depreciation Reserve Fund	9,426.48	0.00	9,426.48	8,698.23	(-) 728.25
Development Fund	2,698.70	0.01	2,698.71	2,580.91	(-) 117.80
Capital Fund	3,340.00	0.00	3,340.00	3,329.85	(-) 10.15
<b>Total Voted</b>	<b>15,465.18</b>	<b>0.01</b>	<b>15,465.19</b>	<b>14,608.99</b>	<b>(-) 856.20</b>
<b>Charged Portion</b>					
Depreciation Reserve Fund	5.42	0.00	5.42	1.86	(-) 3.56
Development Fund	2.60	0.00	2.60	0.41	(-) 2.19
Capital Fund	0.00	0.00	0.00	0.00	0.00
<b>Total Charged</b>	<b>8.02</b>	<b>0.00</b>	<b>8.02</b>	<b>2.27</b>	<b>(-) 5.75</b>
<b>Total Voted and Charged</b>	<b>15,473.20</b>	<b>0.01</b>	<b>15,473.21</b>	<b>14,611.26</b>	<b>(-) 861.95</b>

Analysis of this segment of grant revealed there were net savings of ₹861.95 crore. Against this savings, account of this segment of grant depicted surrender of ₹1,741.69 crore.

Further examination of source wise allocation and expenditure revealed the following:

- **DRF-** Savings of ₹728.25 crore (eight *per cent*) occurred against the sanctioned provisions of ₹9,426.48 crore. This indicated that IR did not carry out renewal/replacement expenditure as planned.
- **DF-** Expenditure of ₹2,580.91 crore was incurred against the provision of ₹2,698.71 crore resulting in savings of ₹117.80 crore.
- **CF-** There was a saving of ₹10.15 crore against the sanctioned grant of ₹3,340 crore.

- ***Railway Safety Fund***

This source of capital expenditure is funded by IR's share of diesel cess in Central Road Fund. Available fund is utilized for road safety works like manning of un-manned railway crossing and construction of road over/under bridges. It was seen that proposed allocations had never been fully utilized in the last five years as there were continuous savings in this segment of the grant as discussed in Paragraph 2.2.4 above. In 2010-11, 35 *per cent* of the originally allocated funds of ₹ 1,698.40 crore were not utilized. Despite availability of funds there were delays in execution of road safety works. The saving were attributed to slow progress of works, less contractual payments, non/less finalization of tenders, delay in land acquisition etc.

- ***Open Line Works (Revenue)***

This segment of the grant was financed from the revenue of IR. Cost of all works (other than passenger amenities works) whether new or additional improvement/replacement, where cost is less than ₹1 lakh, is chargeable to this segment of grant. An amount of ₹23.96 crore constituting 40 *per cent* of the originally allocated funds remained unutilized. The savings were attributed to slow progress of works, non/less finalization of contracts, less materialization of contractual payment etc.

### ***2.6.1 Withdrawal/Utilization of Railway Funds***

The table below depicts the status of Budget Estimate and Actual with regard to 'Appropriation to funds' and 'Amount utilized' from the funds during the last three years:

**Table 2.10 - Appropriation to Railway Funds and withdrawal there from during the last three years ended 31 March 2011**

(₹ in crore)

<i>Fund</i>	<i>Particulars</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>
<i>DRF</i>	Appropriation to Fund(BE)	7,100.00	5,425.00	7,700.00
	Appropriation to Fund(Actual)	7,100.00	2,287.00	5,615.00
	Excess/Shortage	-	(-)3,138.00	(-)2,085.00
	Expenditure/withdrawal from fund	8,371.56	5,731.19	5,585.12
<i>DF</i>	Appropriation to Fund(BE)	947.00	2,000.00	2,800.00
	Appropriation to Fund(Actual)	1,391.00	0.75	1,404.90
	Excess/Shortage	444.00	(-)1,999.25	(-)1,395.10
	Expenditure/withdrawal from fund	2,998.24	3,141.48	2,576.59
<i>CF</i>	Appropriation to Fund(BE)	10,839.74	642.26	373.09
	Appropriation to Fund(Actual)	3,065.78	-	-
	Excess/Shortage	(-)7,773.96	(-)642.26	(-)373.09
	Expenditure/withdrawal from fund	7,522.97	3,282.74	3,329.85
<i>Total (Railway Funds)</i>	Appropriation to Fund(BE)	18,886.74	8,067.26	10,873.09
	Appropriation to Fund(Actual)	11,556.78	2,287.75	7,019.90
	Excess/Shortage	(-)7,329.96	(-)5,779.51	(-)3,853.19
	Expenditure/withdrawal from fund	18,892.77	12,155.41	1,1491.56

From the above, it is seen that the appropriation to the funds (except DRF in 2008-09) was not made as per budget projections due to lower availability of funds during the last three years. The DRF, which is created to meet the requirement of funds needed for renewal/replacement of existing over aged assets, is not being appropriated as per the life of the assets but the appropriation in the fund was made to extent the working expenses could bear.

Further, due to less generation of revenue surplus, the appropriation to DF and CF also could not be made as per the budget estimates.

Withdrawal from the funds in almost all the three years was more than the amount appropriated to the funds.

### **2.6.2 Re-appropriation within Grant no. 16**

Works/activities under each segment of the grant were grouped under 33 number of Plan Heads (Minor Heads of Account) like Construction of New Lines, Doubling, Gauge Conversion, Rolling Stock etc. Investment decisions which form the budget estimates for construction, acquisition and replacement of assets (Works Budget) were processed through the annual "Work, Machinery and Rolling Stock Programme" prepared on the basis of advance and continuous planning process.

Despite detailed exercise in formulation of Works Budget of capital grant, non-utilization of sanctioned grant besides large scale re-appropriation of original allocated funds as mentioned below, had been noticed.

- In Capital segment of the grant, the following was observed:

Estimates for requirement of funds proved incorrect as additional funds from other plan heads were provided through re-appropriation for Gauge Conversion (₹1,012 crore- 46 per cent<sup>23</sup>), Rolling Stock (₹1,519 crore- 101 per cent), Doubling (₹288 crore-16 per cent), Miscellaneous Advance (₹228 crore- 49 per cent) and Dividend Free Projects (₹320 crore- 51 per cent).

Non-utilization and surrender of funds ranging from ₹0.31 crore to ₹2,239 crore were noticed in the plan heads. However, the substantial variation was noticed in the sub head viz., Traffic facilities – Yard Remodeling and others (₹287 crore- 44 per cent), Signal and Telecommunication (₹138 crore- 76 per cent), Other Electric Works (₹90 crore- 69 per cent), Manufacturing Suspense (₹2,239 crore- 12 per cent), Investments in Non-Government Undertakings including JVs/SPVs (₹647 crore- 50 per cent) and Metropolitan Transport Projects (₹453 crore- 45 per cent).

It was also noticed that in 2010-11, Metropolitan Transport Projects surrendered ₹453 crore and MTP/Kolkata alone surrendered ₹414 crore. This prevented scarce funding for use elsewhere.

It was noticed that there was surrender in the Manufacturing Suspense amounting to ₹1,741.96 crore and ₹2,239.07 crore in 2009-10 and 2010-11 respectively.

➤ In Railway Funds segment of the grant, the following was observed:

Under-estimation of the requirement of funds resulted in provision of additional funds for Doubling (₹23 crore -765 per cent) and Workshops including production units (₹94 crore - 50 per cent)

Heavy surrenders and non-utilization of funds were noticed in plan heads dealing with Gauge Conversion (₹29 crore- 59 per cent), Computerization (₹128 crore- 55 per cent), Traffic facilities – Yard – Remodeling and other (₹135 crore – 24 per cent), Railway Research (₹34 crore- 44 per cent) and Passenger and other Railway User Amenities (₹389 crore- 30 per cent)

Further, in 17 number of plan heads<sup>24</sup> injudicious surrender/re-appropriation of un-utilized funds to activities under other plan heads was much more than the net savings resulting in excess expenditure with reference to final grants.

***Large scale changes in priorities and re-appropriation of originally allocated resources from one plan head to another or from one railway to***

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<sup>23</sup> Percentage was with reference to sanctioned grant.

<sup>24</sup> Eight under Capital segment, eight under Railway Funds segment and one under Open Line Works (Revenue) segment,

*another were indicative of the lack of reliability in preparation of budgetary estimates for assets acquisition, construction and replacement/renewal. This not only had affected the long term advance planning of construction and acquisition of assets but also schedules of completion of works/projects.*

To sum up the analysis of the capital grant revealed

- **Poor planning and estimating**
- **Weak links between policy making, planning and budgeting**
- **Inadequate relationship between budget as formulated and budget as executed**

### **2.7 Defects in Budgeting**

A large number of instances of defective budgeting (384 cases) involving excess/savings beyond the prescribed limits<sup>25</sup> were noticed. Western (58 cases), North Central (59 cases), Northern (32 cases) and Eastern (32 cases) were the railways with most number of cases on defective budgeting.

IR need to take a comprehensive relook at its budgeting process and make the projections more realistic, so as to ensure that funds are fully utilised for the purposes sanctioned by Parliament.

### **2.8 Misclassification of Expenditure**

Instances of misclassification of expenditure and other accounting mistakes had been noticed while verifying the Accounts of the Zonal Railways. Cases of misclassification of expenditure and important accounting mistakes have been listed in the "Appropriation Accounts of IR 2010-11 – Detailed Accounts – Part II". These cases included misclassification of expenditure from one revenue grant to another and also from revenue to capital grant and vice-versa. Cases on misclassification of expenditure from capital to deposit heads of accounts were also identified in audit. Misclassification of expenditure from revenue to capital head of accounts or capital to deposit heads understated the revenue and capital expenditure in the accounts. A few of such misclassifications are listed in Appendix – 2.3.

Test audit revealed that expenditure of ₹ 15.49 crore pertaining to revenue heads of account was misclassified to capital heads of account and ₹10.01 crore from capital heads of account to revenue heads of account thereby understating the revenue expenditure to the extent of ₹5.48 crore. Further, expenditure under grant no. 16 - Railway Funds was understated by ₹3.85 crore as it was misclassified to grant no. 16 - Capital.

<sup>25</sup>Paragraph 409 & 410 of Indian Railways Finance Code prescribed limit for permissible variations which is 5 per cent or ` 50 lakh whichever is less and for grant no.16- it is 10 per cent or ` 100 lakh whichever is less.



*Despite being pointed out by Audit and the Public Accounts Committee repeatedly, adequate attention was not paid at various levels to eliminate/cases of misclassification of expenditure.*

### **2.9 Unsanctioned Expenditure**

All items of irregular expenditure incurred by IR, such as expenditure incurred in excess of sanctioned estimates, expenditure incurred without detailed estimates and miscellaneous overpayments etc. are noted in objection books by the zonal railways administration and treated as unsanctioned expenditure.

A review of such expenditure held under objection disclosed an increasing trend from ₹5,297 crore as of March 2009 to ₹6,205 crore as of March 2010 and ₹6,272 crore as of March 2011. Unsanctioned expenditure as of 31 March 2011, included ₹4,498 (71 per cent) related to items which were more than two years old.

Increasing trend of unsanctioned expenditure indicated the inaction on the part of the administration to get the unsanctioned expenditure regularised besides poor internal check mechanism.

### **2.10 Conclusion and Recommendations**

IR had continuously been incurring expenditure over and above the budgetary provisions sanctioned by Parliament. Instances of misclassification of expenditure continued to occur regularly in the railways accounting system. Public Accounts Committee (PAC) had time and again expressed its displeasure over incurring expenditure in excess of the sanctioned grants which was a clear indication of poor budgeting by IR. The Committee had also repeatedly taken a serious view of the recurring instances of misclassification of expenditure.

#### **Recommendations**

- *IR should strengthen its budgetary mechanism and system of expenditure control so that instances of huge savings, expenditure over and above authorization are minimized.*
- *IR should also explore a mechanism of estimating supplementary grants more realistically so that fiscal discipline is maintained.*
- *IR should fortify its internal controls to effectively reduce the instances of misclassification of expenditure. Deterrent sanctions should be put in place to foster greater responsibility at the level of key controlling officers.*