

EXECUTIVE SUMMARY

Background

IR is a departmental commercial undertaking of the Government of India. It consists of 64,460 route kms¹ on which more than 19,186 trains ply, carrying about 21 million passengers and hauling nearly 2.5 million tonne of freight everyday. Policy formulation and overall control of the Railways is vested in Railway Board comprising of the Chairman, Financial Commissioner and other functional Members. The IR system is managed through 17 zones having 68 operating divisions. Apart from the zonal railways representing the operational part of the system, there are six production units engaged in manufacturing of rolling stock and other related items.

From 1 April 1950, a separate Railway Budget is being presented to the Parliament prior to presentation of the General Budget every year. Though the Railway Budget is presented to Parliament separately, the figures relating to the receipts and expenditure of IR are also shown in the General Budget, as Railway Budget forms part of the total budget of the Government of India.

Summary of Conclusions

Report of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2010 (Report No. 33 of 2010-11) highlighted that during 2009-10, the gross traffic receipts fell short of budgetary projections by two *per cent* (₹ 1,455 crore). On the other hand, total working expenditure exceeded the budgetary provisions by two *per cent* (by ₹ 1,250 crore), despite a reduction in appropriation to Depreciation Reserve Fund (DRF) by around 59 *per cent* (₹ 3,138 crore). The net surplus after meeting dividend liability declined in 2009-10 by cent per cent (by ₹ 4,456.03 crore) over the previous year. Consequently, the operating ratio of IR declined from 90.46 *per cent* in 2008-09 to 95.28 *per cent* in 2009-10. The Report also highlighted the declining balances in reserve funds of IR. Total reserve balances, declined by 68 *per cent* (by ₹ 10,623 crore) by the end of 2009-10 as compared to 2008-09. The financial performance of IR continued to be poor in 2010-11.

During 2010-11, the gross traffic receipts increased by 8.71 *per cent* over the previous year. However, total revenue receipts, increased by 8.35 *per cent* which was below the Compound Annual Growth Rate (CAGR) of 10.53 *per*

¹ *Route-kilometre- The distance between two points on the railway irrespective of the number of lines connecting them viz., single line, double line, etc.*

cent during the period 2006-10. The growth rate of freight earnings and passenger earnings was 7.42 *per cent* and 9.81 *per cent* respectively over the previous year. However, these were again below the CAGR achieved during 2006-10. The Operating Ratio was almost static as compared to the previous year.

Net surplus after meeting dividend liability stood at ₹ 1,404.89 crore in 2010-11. It was less than the budget estimates by 56 per cent despite a reduction in the appropriation to DRF by 27 *per cent* and a growth of revenue expenditure at 6.78 *per cent* which was well below the CAGR of 17.80 *per cent* achieved during the period 2006-10.

Depreciation Reserve Fund and Pension Fund closed in 2010-11 with negligible balances of ₹ 18.9 crore and ₹5.33 crore respectively. Development Fund and Capital Fund closed in 2010-11 with negative balances of ₹ 1,213.34 crore and ₹ 885.71 crore respectively. Balances in the reserve funds stood at ₹ 342.52 crore at close of the year 2010-11. These balances declined by 93 *per cent* (₹4,690 crore) over the previous year. Thus, despite ending the year with a higher net surplus over the previous year, total fund balances deteriorated substantially, indicating a continued poor financial performance by IR in the current year and risk for future sustainability.

Ministry of Finance refused to extend a loan to fund the negative balances in Development and Capital Funds. The meager/negative balances in reserve funds will adversely impact the safety aspects and future expansion of IR's existing services.

IR was unable to meet its operational cost of passenger and other coaching services. During 2009-10, there was a loss on passenger and other coaching services of ₹ 20,080.47 crore. However, freight services earned a profit of ₹ 18,986.89 crore which indicated that IR is actually incurring a loss on its core activities. The above issues have been regularly highlighted in the preceding Reports of Comptroller and Auditor General of India-Union Government (Railways).

IR incurred ₹ 3,052.78 crore more than the authorization given by Parliament in 10 revenue grants and five appropriation, despite obtaining supplementary provisions in nine of these grants and four appropriations.

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 passed by an act of Parliament on August 26, 2003 provides that Central Government shall lay in each financial year before both houses of Parliament the statements of fiscal policy along with the annual financial statement and demands for grants namely Medium Term Fiscal Policy Statement, Fiscal Policy Strategy Statement and Macro-economic Framework Statement. Ministry of Railways

do not present any such statements. No midterm assessment of receipts and expenditure is placed by Minister-in-charge of Railways before Parliament as required under the FRBM Act.

The follow up action on the announcements made in the Railway Minister's budget speech were weak. No proper monitoring system appears to have been set in place as seen from the gaps in the Outcome Budget. Further, the status of implementation of Railway Minister's budget announcements does not form part of the budgetary documents.

Part of the plan expenditure of IR is financed through extra budgetary resources. Further, IR has also made a number of implicit commitments to its PSUs. The budgetary documents failed to disclose these aspects transparently.

Major Recommendations

Recommendations on various aspects of Railway finances are given in the relevant chapters of this report; some of the major recommendations are summarized below:

- 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.
- It is important for the IR to review all 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 valid. There is a need to focus more on viable projects.
- 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 ensure that the FRBM Act is implemented. This would include presenting the following statements along with the budget
 - Medium-Term Fiscal Policy Statement indicating three-year rolling targets and policy regarding key fiscal indicators like revenue surplus i.e. balance between receipts and expenditure;
 - Fiscal Policy strategy Statement for the current year indicating the policies relating to the prices of services provided , investment strategy for achieving the targeted growth rate

- Macro-economic Framework Statement containing assessment of growth and revenue strategy and the amount of balances available under various Funds for maintaining/replacement of assets and achieving the targeted growth rate.
 - A mid-term review of receipts and expenditure incurred needs to be placed in parliament.
- Follow up action on Railway Minister's speech on the budget needs to be strengthened. Further, the status of implementation of Railway Minister's budget announcements should form part of the Budgetary Documents.