Chapter-1 State of Finances

This chapter provides a broad perspective of the finances of the Indian Railways (IR) during 2012-13 and analyses critical changes in the major financial indicators with reference to the previous year as well as the overall trend analysis. 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[1] has also been used to compare actual performance of IR during 2012-13 vis-à-vis targets set by it.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of IR's fiscal transactions during 2012-13 vis-à-vis the previous year and budget estimates for 2012-13. It broadly provides perspective of the finances of the IR during the year 2012-13, along with its comparison with actual of the previous year including deviations 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 2011-12	Budget Estimates 2012-13	Revised Estimates 2012-13	Actual 2012-13
1	Passenger Earnings	28,246.10 (9.51)	36,073.00	32,500.00	31,322.61 (10.89)
2	Freight Earnings	69,547.59 (10.67)	89,339.00	85,956.00	85,262.58 (22.60)
3	Other Coaching Earnings[2]	2,716.85 (10.00)	2,994.00	3,083.00	3,054.46 (12.43)
4	Sundry Earnings[3]	3,643.00 (6.57)	4,096.00	4,096.00	4,261.36 (16.97)
5	Suspense	-43.19 (524.68)	50.00	45.00	-168.42 (289.95)
6	Gross Traffic Receipts[4] (Item no.1 to 5)	104,110.35 (10.13)	132,552.00	125,680.00	123,732.59 (18.85)
7	Ordinary Working Expenditure[5]	74,537.41 (9.39)	84,400.00	84,400.00	84,012.04 (12.71)
8	Appropriation to				
	Depreciation Reserve Fund	6,520.00 (18.22)	9,500.00	7,000.00	6,850.00 (5.06)
	Pension Fund	17,610.00 (11.31)	18,500.00	20,000.00	20,710.00 (17.60)
9	Total Working Expenditure (Item no.7 and 8)	98,667.41 (10.27)	112,400.00	111,400.00	111,572.04 (13.08)
10	Net Traffic Receipts (Item no.6 – 9)	5,442.94 (7.54)	20,152.00	14,280.00	12,160.55 (123.42)

[1] Budget documents, Annual Statistical Statements of Indian Railways.
[2] Other coaching earnings from transportation of parcels, luggage and post office mail etc
[3] Sundry Earnings from renting, leasing of building, catering services, advertisements, maintenance of sidings and level crossing, re-imbursement of loss on strategic lines etc
[4] Gross Traffic Receipts-Operational receipts from freight, passenger, other coaching traffic and sundry earnings of IR
[5] Operating Expenses of IR

11	Miscellaneous Receipts[6]	2,134.92 (-0.49)	3,141.89	2,522.23	2,447.84 (14.66)
12	Miscellaneous Expenditure[7]	796.26 (-7.48)	1,060.82	1,053.32	993.20 (24.73)
13	Net Miscellaneous Receipt (Item no. 11 – 12)	1,338.66 (4.20)	2,081.07	1,468.91	1,454.64 (8.66)
14	Net Revenue (Item no.10 and 13)	6,781.60 (6.86)	22,233.07	15,748.91	13,615.19 (100.77)
15	Dividend Payable to General Revenues-Current year	5,656.03 (14.47)	6,676.07	5,339.78	5,348.94 (-5.43)
	Deferred Dividend of previous year	0.00	0.00	0.00	0.00
	Total Dividend Payable in Current year	5,656.03 (14.47)	6,676.07	5,339.78	5,348.94 (-5.43)
16	Net Surplus (Item no. 14 – 15)	1,125.57 (-19.88)	15,557.00	10,409.13	8,266.25 (634.41)
17	Surplus available for appropriation				
	Development Fund	610.00 (-56.58)	10,557.00	9,984.00	7,815.00 (1181.15)
	Capital Fund	515.57	5,000.00	425.13	451.25 (-12.48)

***Source:** Explanatory Memorandum on Railway Budgets and Accounts for 2012-13 and 2013-14*
***Note:** Figures in brackets represent 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. During the current fiscal year IR could not achieve the projected performance. Anticipated Gross Traffic Receipts (GTR) of 2012-13, in all the segments except for Other Coaching earnings and Sundry earnings, was not achieved and overall decline of 6.65 *per cent* (₹ 8,819.41 crore) was recorded as compared to the Budget Estimates of current fiscal year. Ordinary Working Expenditure (OWE) and Total Working Expenditure (TWE) was marginally less by 0.46 *per cent* (₹ 387.96 crore) and 0.74 *per cent* (₹ 827.96 crore) as compared to the Budget Estimates. There was a reduction in appropriation to Depreciation Reserve Fund (DRF) by around 28 *per cent* with an increase in appropriation to Pension Fund by around 12 *per cent* when compared to Budget Estimates. The resultant net revenue was below the budget projections by 38.76 *per cent***,** mainly due to shortfall in passenger earning by 13.17 *per cent* and additional appropriation to pension fund (11.95 *per cent*) than as envisaged in the budget 2012-13.

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

1.3 Fiscal Transactions in 2012-13-An overview

1.3.1 Gross Traffic Receipts (GTR)

GTR increased by 18.85 *per cent* during the current fiscal year (2012-13), this was higher than the 10.13 *per cent* growth achieved during 2011-12, which was mainly due to increase in freight earnings during the current year as compared to the previous year. The growth rate for all other sources of earnings was slightly higher as compared to previous year.

1.3.2 Ordinary Working Expenditure (OWE)

OWE increased by 12.71 *per cent* in current fiscal year (2012-13) over the previous year which was higher than the growth rate of 9.39 *per cent* achieved during 2011-12 as compared to 2010-11.

1.3.3 Miscellaneous Receipts and Expenditure

In the current fiscal year (2012-13), Miscellaneous Receipts as well as Miscellaneous Expenditure increased by 14.66 *per cent* and 24.73 *per cent* respectively over the previous year. The increase in the growth rate of Miscellaneous Expenditure was high, Net Miscellaneous Receipts increased by 8.66 *per cent* over previous year. Net Miscellaneous Receipts were significantly below the budget projection by nearly 30.10 *per cent*.

1.3.4 Net Revenue

Net revenue in the current fiscal year increased by 100.77 *per cent*, which was significantly higher than the 6.86 *per cent* growth achieved during previous year. This was mainly due to increase in Gross Traffic Receipts (18.85 *per cent*) during the current year as compared to the 10.13 *per cent* rate for the previous year. The increase in Total Working Expenditure (TWE) was 13.08 *per cent* during the current year as compared to 10.27 *per cent* rate for the previous year.

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. The rate of dividend for 2012-13 was fixed at four *per cent* by the Railway Convention Committee (RCC). Payment of dividend to general revenues in the current fiscal year decreased by 5.43 *per cent* over the previous year 2011-12. IR paid dividend of ₹ 5,348.94 crore in 2012-13. However, this was lower than the budget projection by nearly 19.88 *per cent*.

1.3.6 Net Surplus available for Appropriation

Generation of Net surplus after meeting all revenue liabilities including payment of dividend increased by 634.41 *per cent* in current fiscal year. Net Surplus increased to ₹ 8,266.25 crore as compared to ₹ 1,125.57 crore in 2011-12.

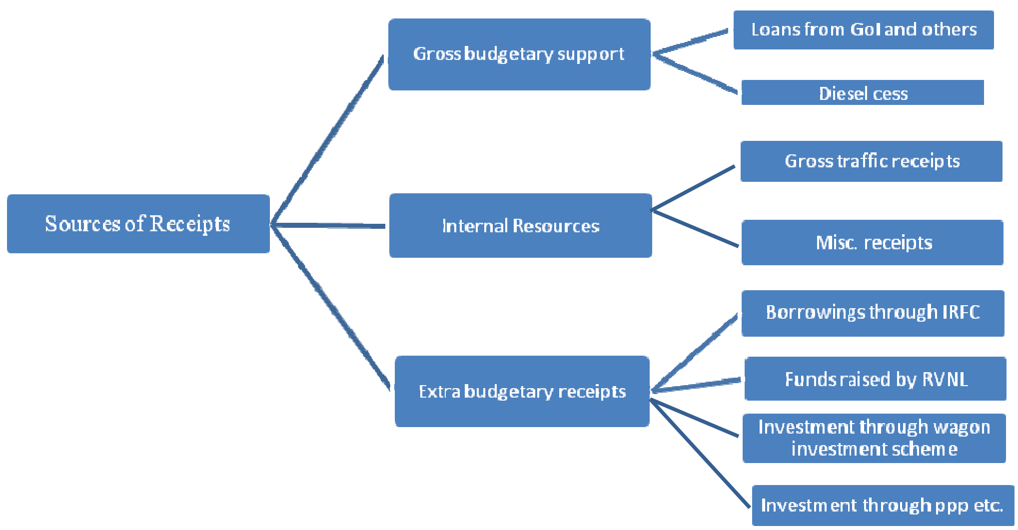
Net Surplus was 46.86 *per cent* less than the budget estimates, the reason of decrease in the net surplus was due to decrease in Net Traffic Receipt (excess of Gross Traffic Receipts over Total Working Expenditure) and Net Miscellaneous Receipt (excess of Miscellaneous Receipts over Miscellaneous Expenditure) by 39.66 *per cent* and 30.10 *per cent* respectively.

The Net Surplus to the tune of ₹ 7,815.00 crore and ₹ 451.25 crore was appropriated to Development Fund and Capital Fund respectively.

1.4 Resources of IR

The main sources of IR receipts were as follows:

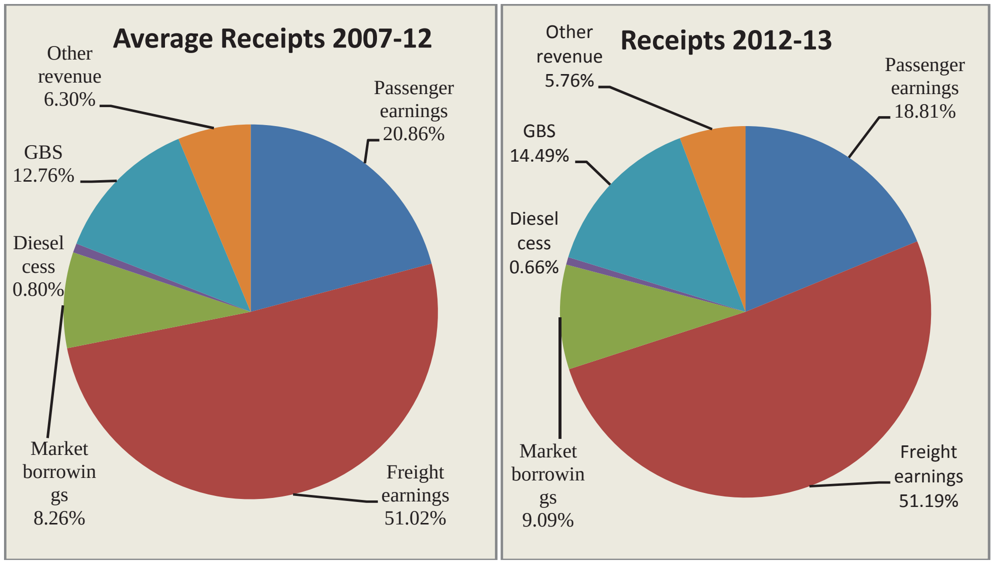
Figure 1.1: Sources of Receipts



The revenue receipt from internal resources increased by 18.76 *per cent* during 2012-13 against the Compound Annual Growth Rate (CAGR)[8] of 9.17 *per cent* during 2008-12. The General Budgetary Support increased by 20.58 *per cent* during 2012-13 against CAGR of 27.99 *per cent* during 2008-12, while extra budgetary receipts (market borrowings) increased by 2.38 *per cent* during 2012-13 against CAGR of 23.89 *per cent* during 2008-12. Thus, General Budgetary Support and internal resources of IR increased at a higher rate than the extra budgetary receipts (market borrowings).
Share of each of these sources of funds during the current year 2012-13 as well as over the average of past five years ended 31 March 2012 are given in pie diagram in Figure 1.2:

[8] *Rate of growth over a period of years taking into account the effect of annual compounding*

Figure 1.2: Relative Share of various Resources of IR



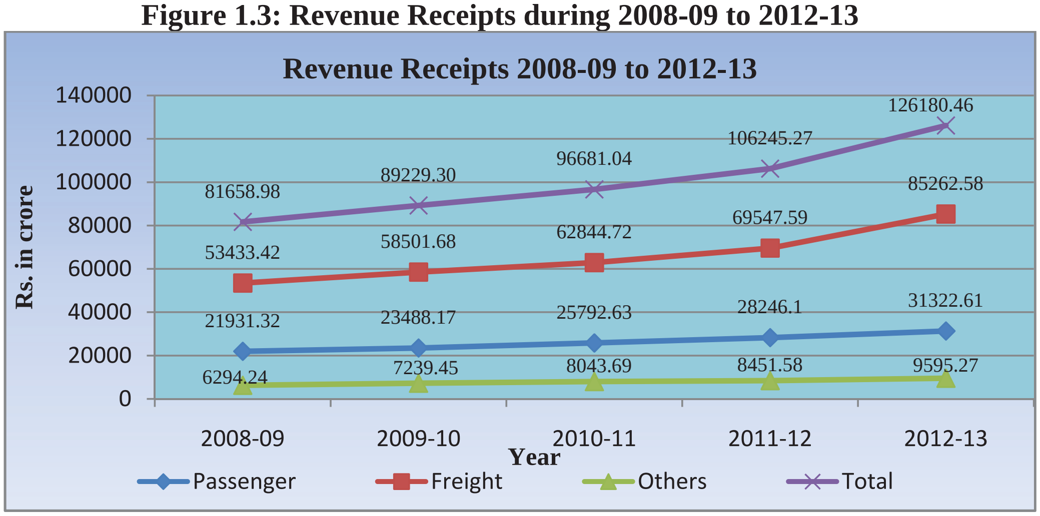
Note: Other Revenue Earnings include Other Coaching Earnings, Sundry Other Earnings and Miscellaneous Receipts; GBS- General Budgetary Support

Diagram at 1.2 shows that the single largest resource earnings of IR was mainly from freight sector, followed by passenger earnings. These two factors continued to be the largest sources of IR receipts for the current year also. The share of passenger earnings, diesel cess and other revenue decreased slightly whereas share of freight earnings, market borrowings and General Budgetary Support increased in the current year as compared to average figures of receipts during 2007-12.

1.4.1 Revenue Receipts

The trend of total revenue receipts for the last five years are given in the Figure 1.3.

Figure 1.3: Revenue Receipts during 2008-09 to 2012-13



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

Total Revenue Receipts increased at a CAGR of 9.17 *per cent* during 2008-12, however, the increase in the Total Revenue Receipts during year 2012-13 was 18.76 *per cent*. The annual inflation of all commodities on an average during 2012-13 was around 7.4 *per cent*[9], which implies that the real increase in revenue receipts was 11.36 *per cent* (after discounting for inflation).

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 ended 31 March 2013 are shown in the graph below:

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

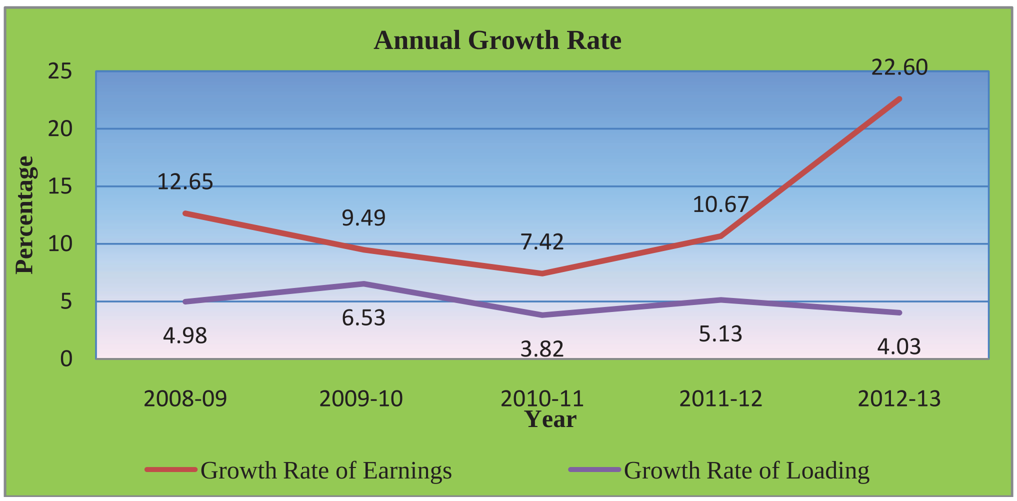


Figure 1.4 indicates a decline in the annual growth of freight loading in the current fiscal year. The annual incremental increase in loading (in absolute terms) ranged between 39.50 Million Tonne (2008-09) to 39.04 Million Tonne (2012-13) during the last five years. Increase in freight loading by 4.03 *per cent* during 2012-13 was less than the CAGR of 5.16 *per cent* achieved during 2008-12.This implies that the growth in freight receipts has been mainly achieved through increased freight rates.

In 2012-13, freight earnings increased by 22.60 *per cent* over the previous year against the CAGR of 9.18 *per cent* achieved during 2008-12. The status of freight services statistics are given in the Table No. 1.2:

9 *(Source –Economic Survey, Ministry of Commerce and Industry)*

Table 1.2 Freight Services Statistics

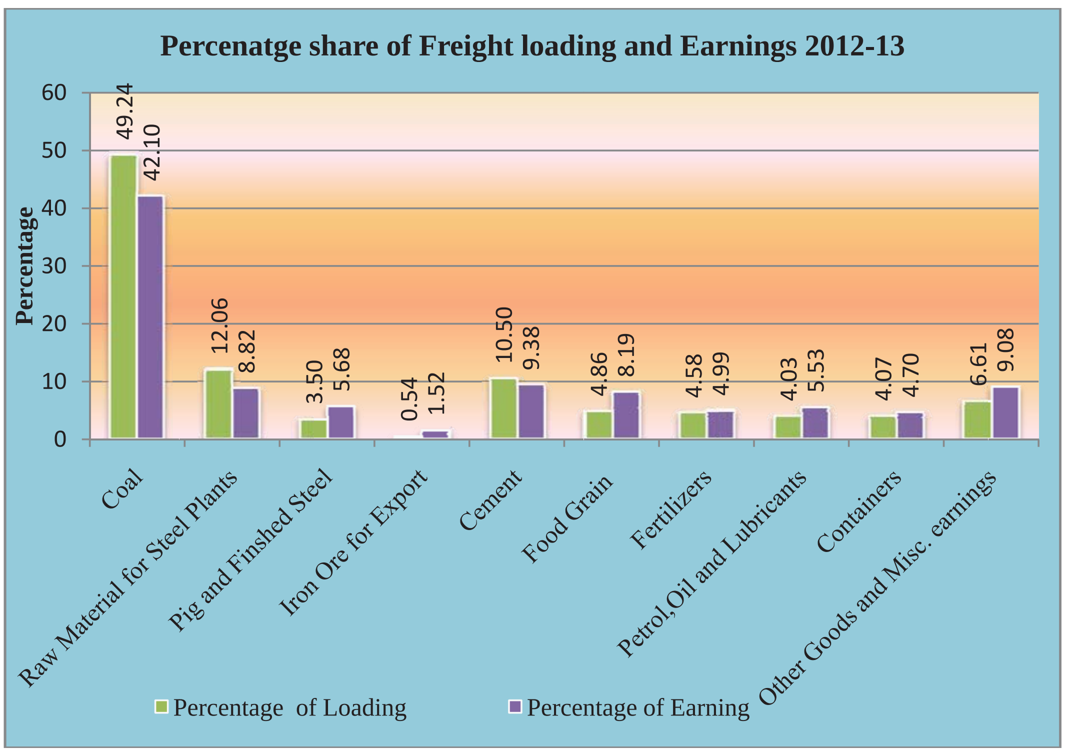
Year	Loading (Million Tonne)	NTKM[10] (in million)	Earning (₹in crore)	Average lead (in kilometre)	Rate per tonne per km (in paise)
2008-09	833.39	551448	53,433.42	662	93.84
2009-10	887.79	600548	58,501.68	676	94.77
2010-11	921.73	625723	62,844.72	679	100.00
2011-12	969.05	667607	69,547.59	689	104.17
2012-13	1008.09	691658	85,262.58	686	123.27

(Source-Indian Railways Annual Statistical Statements (Statement No.13-Goods Revenue Statistics)

During 2012-13, it was seen that the annual growth rate of freight loading was 4.03 per cent, while the Net Tonne Kilometre (NTKM) increased at the rate of 3.60 per cent. The growth rate of Rate per tonne per kilometer and Freight earning over the previous year was 18.34 per cent and 22.60 per cent respectively; even though the average lead (average haul of a tonne of freight) declined from 689 km in 2011-12 to 686 km in 2012-13.

Share of major commodities in loading and earnings are given in the bar chart (Figure 1.5).

Figure 1.5: Major Commodity wise share of loading and earnings (2012-13)



Coal, being a captive commodity, was the major component both in loading and earnings for IR. The above major commodities (excluding 'Other Goods' and

[10] NTKM-Net Tonne Kilometre-Unit of measure of freight traffic which represent the transport of one tonne goods (including the weight of any packing but excluding the weight of the vehicle used for transport)over a distance of one kilometre

Miscellaneous earnings) contributed about 91 *per cent* of the total freight earnings of IR. Iron ore for export constituted 0.54 *per cent* of the total loading and earned 1.52 *per cent* of the total freight earnings.

1.4.1.2 Passenger Earnings

Key performance indicators of passenger services are tabulated below:

Table 1.3 Passenger Services Statistics

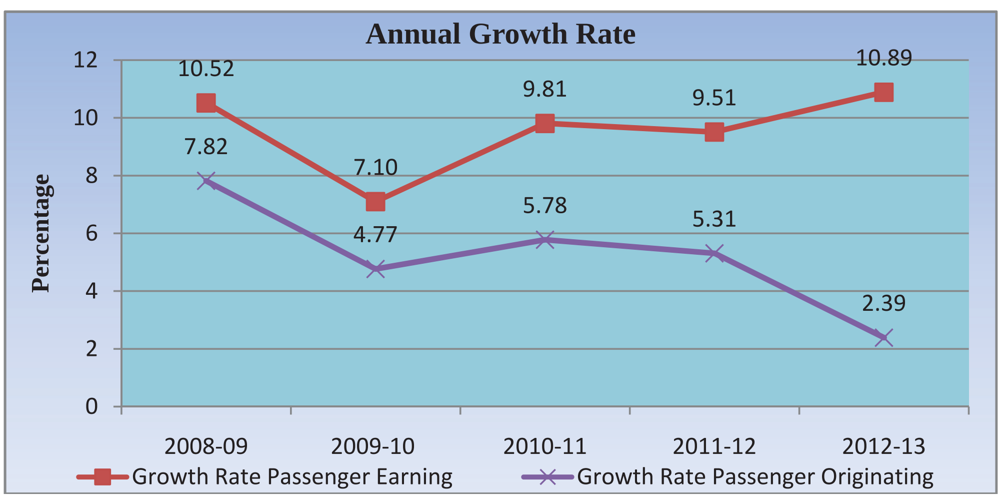
Year	No. of Passenger (in millions)	Passenger Kilometre (in million)	Earnings (₹ in crore)	Average lead (in kilometre)	Average earnings per passenger per kilometre (in paise)
2008-09	7046.91	839203 (8.84)	21,931.32 (10.52)	119.09	26.13 (1.52)
2009-10	7382.77	904761 (7.81)	23,488.17 (7.10)	122.55	25.96 (-0.65)
2010-11	7810.15	980131 (8.33)	25,792.63 (9.81)	125.50	26.32 (1.39)
2011-12	8224.38	1046522 (6.77)	28,246.10 (9.51)	127.25	26.99 (2.55)
2012-13	8420.71	1098103 (4.93)	31,322.68 (10.89)	130.40	28.52 (5.67)

Note: Figures in bracket represent percentage increase over previous year.
Source-Indian Railways Annual Statistical Statements (Statement No.12- Passenger Revenue Statistics)

Despite decrease in growth rate of originating passengers it was seen that average earnings per passenger per kilometer increased from 26.99 paise in 2011-12 to 28.52 paise in 2012-13, which was mainly due to increase in passenger tariff. IR had been incurring a loss[11] every year on passenger and other coaching services.

The growth in earnings from Passenger traffic and in Passengers Originating during the last five year (2008-13) is shown in Figure 1.6.

Figure 1.6: Growth Rate of Passenger Originating and Passenger Earnings



[11] *As per Summary of End Results Coaching Services Profitability/Unit Costs prepared by Ministry of Railways*

The percentage increase in earnings from passenger traffic in 2012-13 over the previous year was 10.89 *per cent* which was above the CAGR of 8.80 *per cent* for the period 2008-12. The percentage increase in passengers originating in 2012-13 over the previous year was 2.39 *per cent* which was below the CAGR of 5.28 *per cent* during 2008-12.

Audit observed that passenger earnings fell short of budget estimates in all zonal railways during 2012-13. The shortfall in passenger earnings targets was up to 18 *per cent* in Metro Railway/Kolkata and 17 *per cent* in North Eastern Railway.

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 fiscal year (2012-13). It grew at around 15.03 *per cent* in 2012-13 as against eight *per cent* in the year 2011-12. Analysis in audit revealed that earnings from rent, license fee and advertisements increased in the current year as compared to the previous year. Though there was considerable scope for increasing revenue generation from the components of sundry earnings provided bills for realization of rent of buildings, license fee (wherever due) were raised and realized in a time bound manner.

1.5 *Unrealized Earnings*[12]

Against the target for recovery of ₹ 50 crore during 2012-13 under un-realized earnings, IR accumulated ₹ 168.42 crore as unrealized earnings. The unrealized earnings rose from ₹ 1,401.03 crore in 2011-12 to ₹ 1,569.45 crore in 2012-13. At the end of the financial year unrealized earnings were ₹ 1,569.45 crore, of which ₹ 1,352.29 crore under Traffic Suspense and ₹ 217.16 crore under Demand Recoverable. During the current fiscal year North East Frontier Railway was the major contributor to the accumulation of unrealized earnings with ₹ 75.79 crore. This was followed by East Central Railway with ₹ 26.16 crore. The major portion of outstandings under Traffic Suspense was on account of un-recovered freight and other charges from Power Houses and State Electricity Boards amounting to ₹ 695.48 crore which constituted 51.43 *per cent* of the total Traffic Suspense, yet to be recovered. Major defaulters are shown in the Table below:

Table 1.4-Outstanding dues against State Electricity Board

(₹ in crore)

Sl. No.	*State Electricity Board/Power House*	*Outstanding dues as of 31 March 2012*	*Outstanding dues as of 31 March 2013*	*Increase/decrease (-) during the year*
1.	*Punjab State Electricity Board (PSEB)*	*447.47*	*448.39*	*0.92*
2.	*Delhi Vidyut Board (DVB)*	*175.88*	*175.88*	*-*
3.	*Rajasthan State Electricity Board (RSEB)*	*36.89*	*36.93*	*0.04*

Source-Statement of dues recoverable from State Electricity Board/Power Houses

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

The Ministry of Railways needs to speed up the efforts to realize the old outstanding dues from SEB's.

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 increased by 43.68 *per cent*[13]during the last five years as of 31 March 2012, however, the expenditure under this head increased by 86 *per cent* during the same period.

The Summary of End Results-Freight Services Unit Costs and Coaching Services Profitability/Unit Costs for the year 2011-12 published by the IR indicates that there was cross subsidization from freight earnings to passenger and other coaching earnings. Loss incurred by passenger and other coaching services increased from ₹ 7,493.50 crore in 2007-08 to ₹ 23,643.68 crore in 2011-12[14]. The gap in percentage of expenditure on passengers and other coaching services left unrecovered during the period of five years as of 31 March 2012 are shown in Figure 1.7.

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

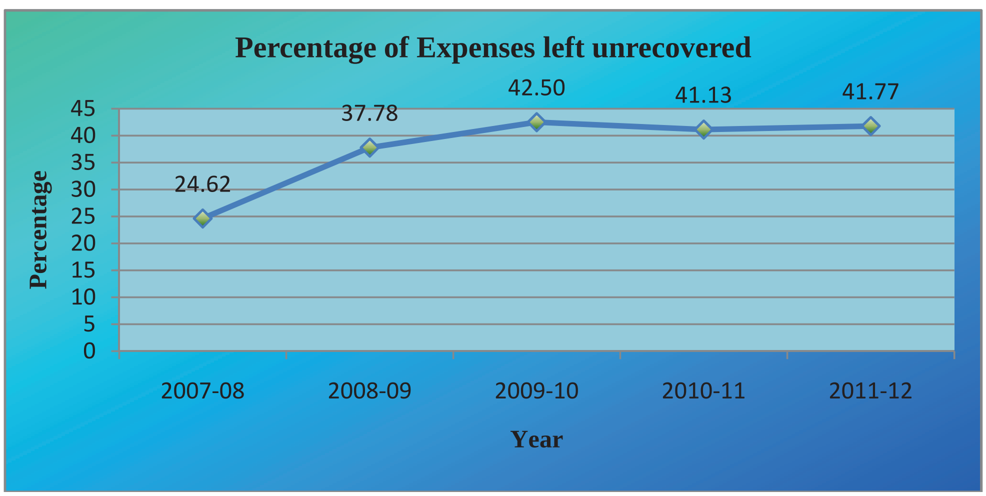
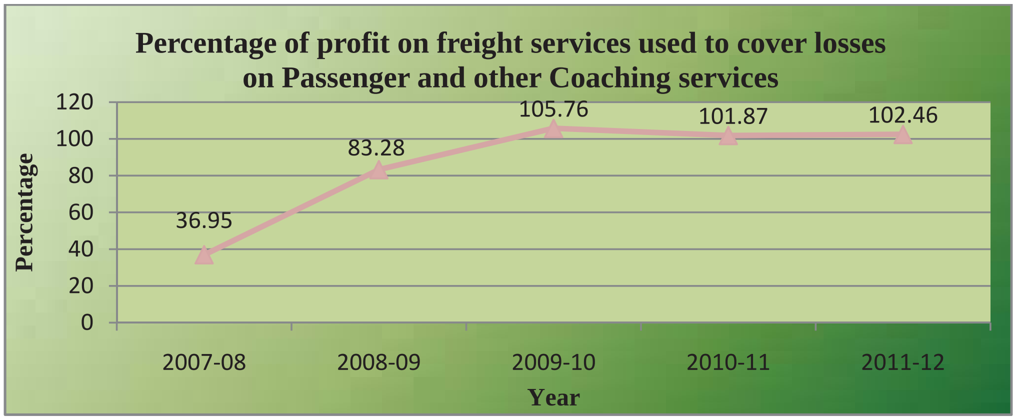


Figure 1.8 shows the percentage of profit on freight services, utilized to make up the loss on passenger and other coaching services:

13. *Excluding Narrow Gauge and Metro Railway/Kolkata (2007-08), excluding Narrow Gauge (2011-12)*

14 *Summary of End Results-Coaching Services-Profitability/Unit Costs for 2012-13 not compiled (May 2014)*

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 ₹ 23,076.70 crore from freight traffic was utilized to compensate the loss of ₹ 23,643.68 crore on operation of passenger and other coaching services of IR.

1.6.2 Operational losses of various Classes of Passenger Services

Table 1.5 gives the operational losses of various classes of passenger services during 2007-08 to 2011-12:

Table 1.5 Operational losses of various Classes of Passenger Services

(₹ in crore)

Class of Passenger services	*2007-08*	*2008-09*	*2009-10*	*2010-11*	*2011-12*
AC-Ist class	*-14.77*	*-59.37*	*-53.14*	*-46.61*	*-38.78*
Ist class	*-6.30*	*-69.67*	*-32.67*	*16.47*	*-39.13*
AC sleeper	*123.09*	*-176.91*	*-372.32*	*-407.93*	*-438.83*
AC 3 Tier	*547.60*	*540.57*	*212.14*	*266.31*	*499.33*
AC Chair car	*114.68*	*5.45*	*-2.11*	*33.62*	*-13.29*
Sleeper Class	*-2,384.08*	*-3,175.24*	*-5,333.90*	*-6,070.58*	*-6531.75*
Second class	*-993.22*	*-2,933.09*	*-3,401.25*	*-3,998.08*	*-4237.60*
Ordinary (All Class)	*-3,541.28*	*-6,381.77*	*-7,763.36*	*-7,437.00*	*-8893.12*
EMU suburban services	*-922.39*	*-1,651.19*	*-2,214.06*	*-2,320.23*	*-2813.95*

Source-Summary of the End Results Coaching Services Profitability/Unit Costs

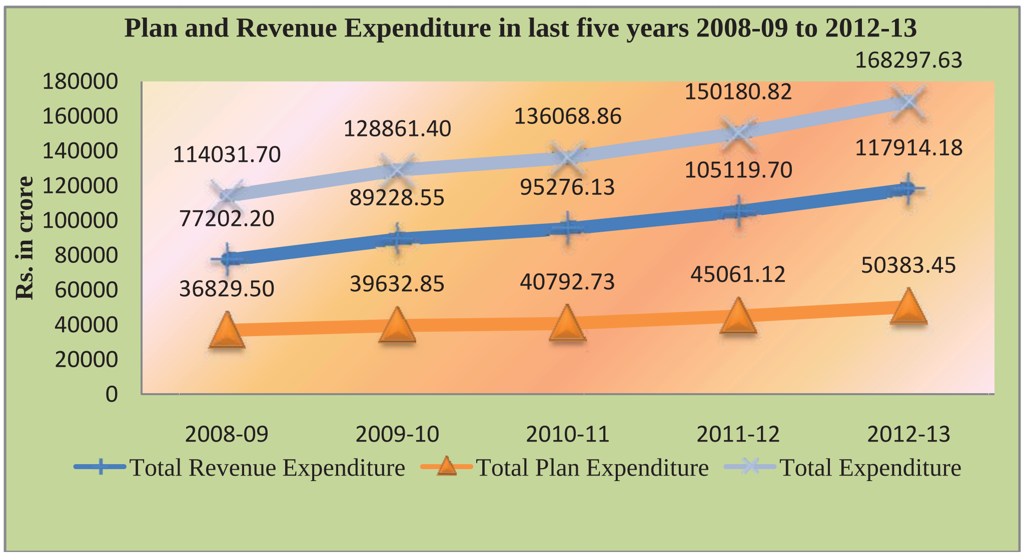
As is clear in the above table that, except AC-3-Tier, all classes of train services have incurred losses during the year ended March 31, 2012 which means that AC-3-Tier only has covered its operational cost in 2011-12.

The subsidy provided to both ordinary class and suburban services increased almost continuously in the last five years with subsidy on Ordinary Class being the maximum. The percentage of loss[15] to the earning of the various classes of passenger services ranged from 2 *per cent* (AC Chair) to 203 *per cent* (Ordinary class) with 139 *per cent* on EMU Suburban train 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 are given in Figure 1.9.

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



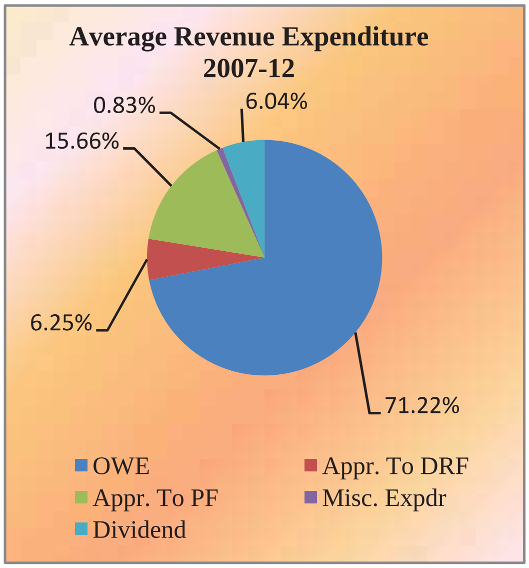
During last five years, the share of revenue expenditure and plan expenditure to total expenditure remained almost static within the range of 68 *per cent* to 70 *per cent* and 32 *per cent* to 30 *per cent* respectively. A detailed analysis of plan expenditure is discussed in paragraph 1.10.

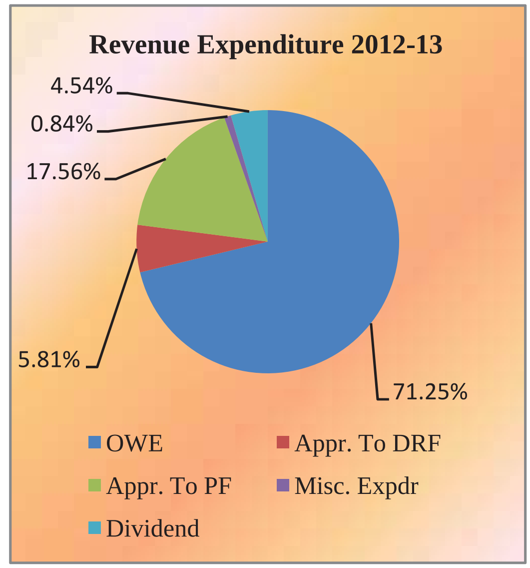
1.7.1 Revenue Expenditure

Composition of revenue expenditure during the current year and an average of past five years ended on 31 March 2012 are given in Figure 1.10:

[15] *Loss worked out on the basis of figures of Expenses and Earnings given in Summary of the End Results-Coaching Services Profitability/Unit Costs (2011-12)*

Figure 1.10: Revenue Expenditure in last five years

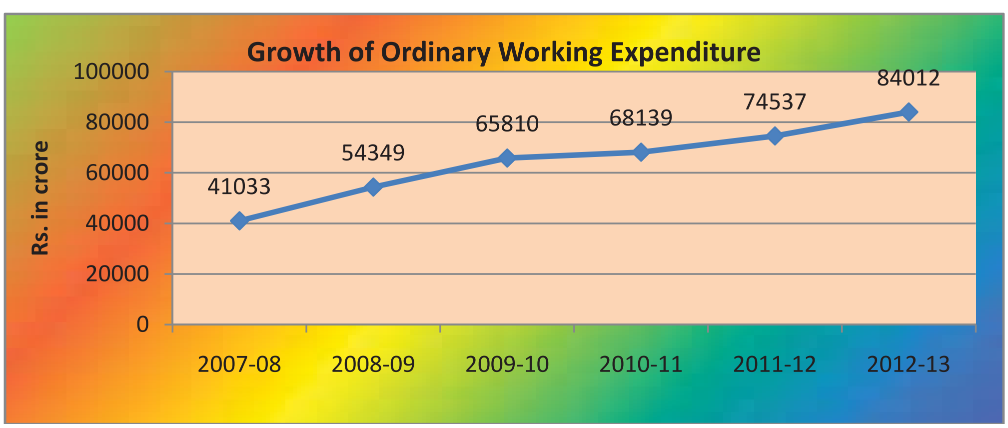




The main components of expenditure was OWE which constituted about 71 *per cent* of the total revenue expenditure on an average during 2007-12, which remained 71 *per cent* during 2012-13. Appropriation to DRF was reduced to 5.81 *per cent* in 2012-13 as compared to 6.25 *per cent* on an average during 2007-12. Appropriation to Pension Fund increased to 17.56 *per cent* in 2012-13 as compared to 15.66 *per cent* on an average during 2007-12 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 shown in Figure 1.11:

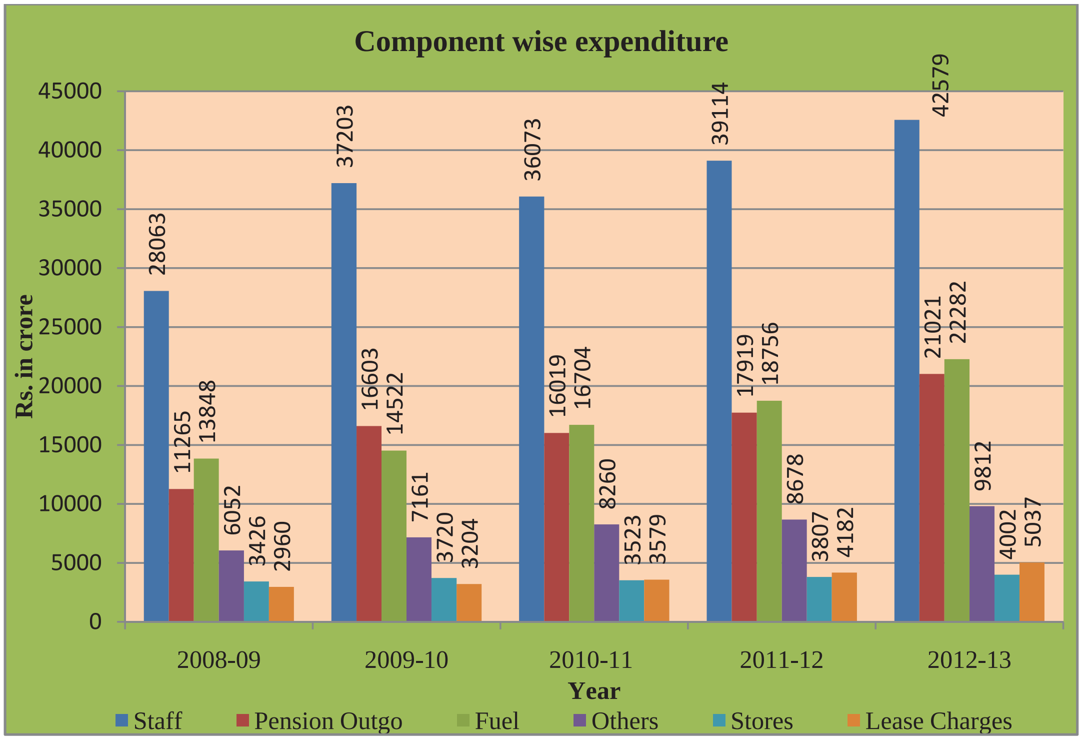
Figure: 1.11 - Growth of Ordinary Working Expenses (2008-09 to 2012-13)



OWE increased at a rate of 12.71 *per cent* during 2012-13 over the previous year against a CAGR of 11.10 *per cent* during 2008-12. The main reasons for increase in OWE during 2012-13 over previous year were incurrence of more expenditure on pensionary charges (31 *per cent*), fuel expenses (19 *per cent*) and repairs and maintenance of rolling stock and equipments (15 *per cent*).

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 1.12.

Figure: 1.12 -Component wise expenditure

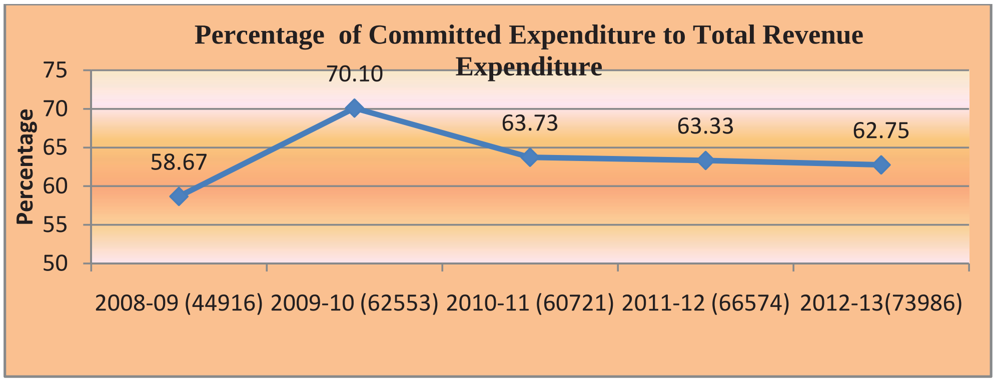


Staff cost (including pension outgo) constituted 61 *per cent* of the working expenses of the IR during the current year.

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 2008-13:

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



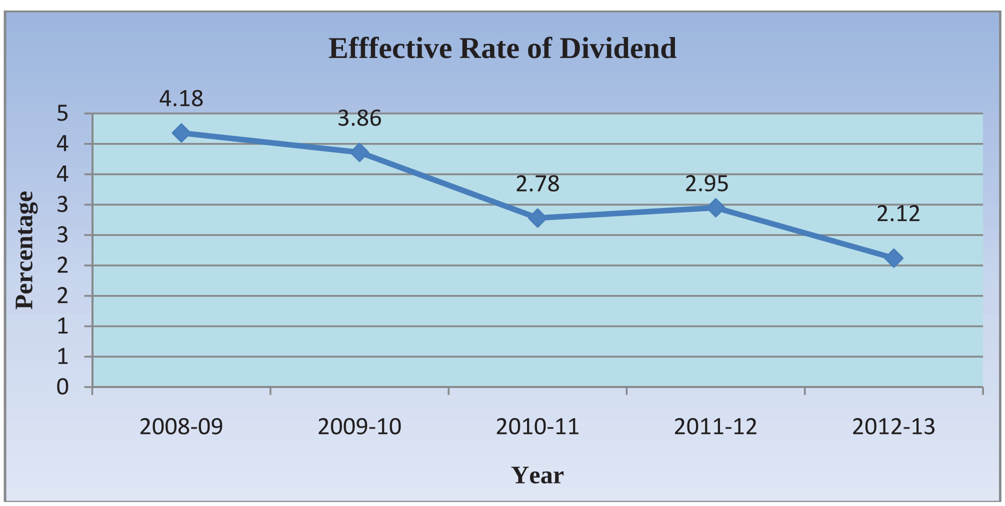
(Figures shown in bracket indicate total committed expenditure)

Percentage of committed expenditure to total revenue expenditure was 62.75 *per cent* in 2012-13. IR was left with 37.25 *per cent* of the total revenue expenditure to run their operations.

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 Government of India at a rate determined periodically by Railway Convention Committee (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[16]. Dividend paid on such capital is received back as subsidy to IR. The subsidy increased from ₹ 2,034.37 crore in 2011-12 to ₹ 2,286.14 crore in 2012-13. Thus, the net effective rate of dividend decreased from 2.95 *per cent* in the 2011-12 to 2.12 *per cent* in 2012-13.

Figure: 1.14 Effective Rate of Dividend



16*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*

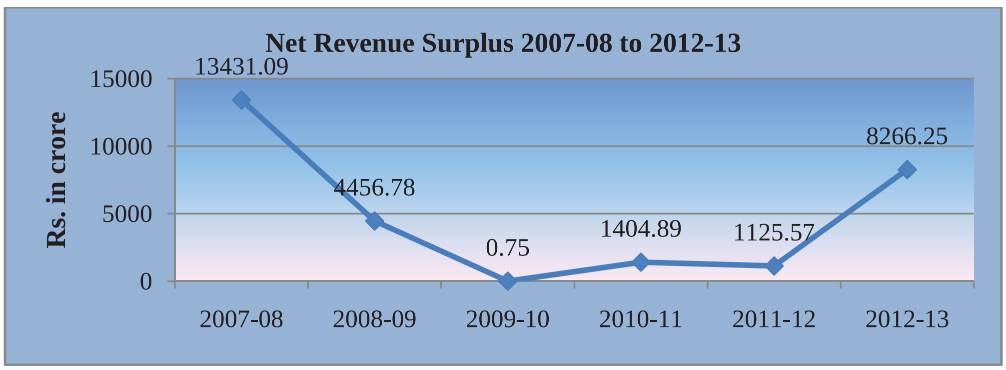
1.7.4 Un-discharged Liability

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 discharging 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 ₹ 9,246.98 crore at the close of 2011-12 increased to ₹ 10,119.91 crore as of March 2013.

1.8 Revenue Surplus

Trend of net revenue surplus after meeting all revenue expenditure including payment of dividend, during the last five years as on 31 March 2013 are shown in the Figure 1.15.

Figure: 1.15 Revenue Surplus



The net surplus which declined to ₹1,125.57 crore in 2011-12 increased to ₹ 8,266.25 crore during 2012-13. Despite this, there was a shortfall of ₹ 7,290.75 crore in the net surplus as envisaged in the budget estimate of 2012-13. The increased revenue surplus was mainly due to increase in passenger and freight earnings.

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 94.85 *per cent* in 2011-12, improved to 90.19 *per cent* in 2012-13 for IR. This was primarily due to increase in growth rate of total earnings (excluding suspense) (18.96 *per cent*) than the growth rate of working expenses (excluding suspense) (13.11 *per cent*) during 2012-13 over the previous year. Operating ratio of zonal railways during the last three years ended on 31 March 2013 are shown in the Table 1.6.

Table 1.6 Operating Ratio of Zonal Railways

Sr. No.	Zonal Railway	2010-11	2011-12	2012-13
1	Central	107.31	105.68	97.82
2	Eastern	178.52	182.1	178.86
3	East Central	109.06	103.58	92.19
4	East Coast	42.82	44.68	44.50
5	Northern	112.2	121	113.15
6	North Central	63.12	61.8	59.68
7	North Eastern	201.78	202.06	200.01
8	Northeast Frontier	167.25	166.4	178.39
9	North Western	106.41	99.99	88.97
10	Southern	135.55	122.58	130.59
11	South Central	85.76	85.9	79.63
12	South Eastern	66.98	72.74	70.50
13	South East Central	58.01	55.24	49.14
14	South Western	98.69	109.01	104.85
15	Western	97.96	94.61	89.84
16	West Central	74.93	70.13	68.18
17	Metro Railway/Kolkata	226.35	310.89	328.26
Overall IR		94.59	94.85	90.19

Source-Indian Railways Appropriation Accounts –Part-I Review

There were noticeable improvement in the Operating Ratio of East Central, North Western, Central and Northern Railways whereas the same deteriorated noticeably in North East Frontier, Southern and Metro Railway/Kolkata during the current year compared to the previous year. Operating Ratio of Eastern, Northern, North Eastern, Northeast Frontier, Southern, South Western Railways and Metro Railway/Kolkata was more than 100 *per cent* during 2012-13, 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 1.7 shows the Capital-output ratio for total traffic (in NTKMs), carried by the IR during the last five years ended on 31 March 2013:

Table 1.7 Capital Output Ratio of IR (2008-13)

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-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
31-Mar-12	1,614,480	667,607	1,046,522	74,303	741,910	218
31-Mar-13	1,834,880	691,658	1,098,103	77,965	769,623	238

Source-Indian Railways Annual Statistical Statements

Capital Output ratio had increased from 171 paise (2008-09) to 238 paise (2012-13) indicating decrease in physical performance of the IR as compared to capital employed. Higher cost overruns due to non-completion of projects in time coupled with investment in financially unviable projects contributed to higher Capital Output ratio.

1.9.3 Staff Productivity

Staff productivity[17] in case of IR is measured in terms of volume of traffic handled in terms of NTKM in Million per thousand employees, increased by over 34 *per cent* during the period 2008-09 (472) to 2012-13 (632) of Open Line staff.

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 of Open Line staff from 12.96 lakh (2008-09) to12.18 lakh (2012-13).

Zone wise analysis of staff productivity revealed that during 2012-13, highest Staff Productivity of 1612.44 Million NTKM per thousand employees was achieved by North Central Railway whereas Staff Productivity of 206.06 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's plan expenditure was financed from the general exchequer extended as general budgetary support, internal resources[18] and extra budgetary support i.e. market

[17] *Annual Statistical Statements of Indian Railways*

18 *Reserve Funds such as Depreciation Reserve Fund, Capital Fund, Development Fund*

borrowing through Indian Railway Finance Corporation (IRFC) for rolling stock and new network links by Rail Vikas Nigam Limited (RVNL).

The Table 1.8 gives the sources of funds for the plan expenditure during 11th Five Year Plan period (2007-08 to 2011-12) and 1st year of the 12th Five year Plan period (2012-13 to 2016-17):

Table 1.8 Sources of Plan Expenditure

(₹ in crore)

Source of Plan Expenditure	*10th FYP*	*11th FYP*	2011-12	*12th FYP*	
	(2002-03 to 2006-07)	*(2007-08 to 2011-12)*		*2012-13*	
	Actual	*Actual*	*Actual*	*Budget Estimates*	*Actual*
General Budgetary Support [19] (% age to the total)	*37,516.06 (44.88)*	*77,316.28 (40.46)*	*21,336.80 (47.35)*	*26,000 (43.26)*	*25,710.21 (51.03)*
Internal Resources (% age to the total)	*29,567.99 (35.37)*	*66,546.08 (34.82)*	*8,933.73 (19.83)*	*18,050 (30.03)*	*9,531.31 (18.92)*
Extra Budgetary Resources (% age to the total)	*16,502.15 (19.75)*	*47,238.94 (24.72)*	*14,790.59 (32.82)*	*16,050 (26.71)*	*15,141.93 (30.05)*
Total	*83,586.20*	*1,91,101.30*	*45,061.12*	*60,100*	*50,383.45*

Note: Figures in brackets represent percentage to the total plan expenditure
Source-Explanatory Memorandum on Railway Budgets and Appropriation Accounts

Due to non-availability of sufficient internal resources, the dependency of Plan Expenditure on General Budgetary Support increased substantially in 2012-13. The share of General Budgetary Support to the total plan expenditure increased from 47.35 *per cent* in 2011-12 to 51.03 *per cent* in 2012-13. Share of Extra Budgetary Resources (market borrowings) reduced from 32.82 *per cent* in 2011-12 per *cent* to 30.05 *per cent* in current year. During 2012-13, Ministry of Railways obtained extra budgetary support of ₹ 15,141.93 crore from IRFC for rolling stock and new network links etc. For this purpose, IRFC issued Tax free and Taxable bonds of ₹ 8,016 crore. The fund arranged by IRFC through bonds was utilized on rolling stock etc.

Plan expenditure is broadly categorized under various Plan Heads. Table 1.9 gives the share of expenditure grouped under various categories of Plan Heads during the 10th FYP Period, 11th FYP period and during 2012-13:

19*Includes expenditure from RSF*

Table 1.9 Category-wise Plan Expenditure

(₹ in crore)

Plan Heads	*10th FYP (2002-03 to 2006-07)*	*11th FYP (2007-08 to 2011-12)*	*2011-12*	*2012-13*
New Lines, Gauge Conversion, Doubling, Traffic Facilities, Track Renewal, Bridge Work, S & T	*42,391.07*	*73,276.21*	**13,839.34**	**16,721.19**
	(50.72)	**(38.34)**	**(30.71)**	**(33.19)**
Rolling Stock and Payment of Capital Component of Lease charges	*26,556.21*	**76,686.36**	**21,679.67**	**22,403.29**
	(31.77)	**(40.13)**	**(48.11)**	**(44.47)**
Workshop and Production Units and Plant & Machinery	*1,962.67*	*6,762.29*	**1,613.57**	**1,917.00**
	(2.35)	**(3.54)**	**(3.58)**	**(3.80)**
Investments in Government Undertaking	*2,886.59*	*10,108.19*	**2,599.88**	**3,372.74**
	(3.45)	**(5.29)**	**(5.77)**	**(6.69)**
Others	*9,789.66*	*24,268.25*	**5,328.66**	**5,969.23**
	(11.71)	**(12.70)**	**(11.83)**	**(11.85)**
Total	*83,586.20*	*1,91,101.30*	**45,061.12**	**50,383.45**

Source – Indian Railways Appropriation Accounts-Grant No.16 and Statement No.10-Statement of Expenditure on Capital Account.

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

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 Resources), these were also included under Plan heads Rolling Stock – (₹ 16,052.25 crore for 10th –FYP, ₹ 46,127.94 crore for 11th FYP and ₹ 15,034.03 crore in 2012-13) and Investment – (₹ 450 crore in 10th – FYP, ₹ 1,111 crore for 11th – FYP and ₹ 107.90 crore in 2012-13***

The Table 1.9 shows 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 51 *per cent* during the 10th Five Year Plan to 38 *per cent* during 11th Five Year Plan whereas the share of Plan Expenditure on Rolling Stock and Payment of Capital Component of Lease charges increased from 32 *per cent* during the 10th Five Year Plan to 40 *per cent* during 11th Five Year Plan.

During 2012-13, the share of plan expenditure on track related works increased to 33.19 *per cent* from previous year's share of 30.71 *per cent*.

1.11 Railway Funds

Table 1.10 Status of Railway Funds

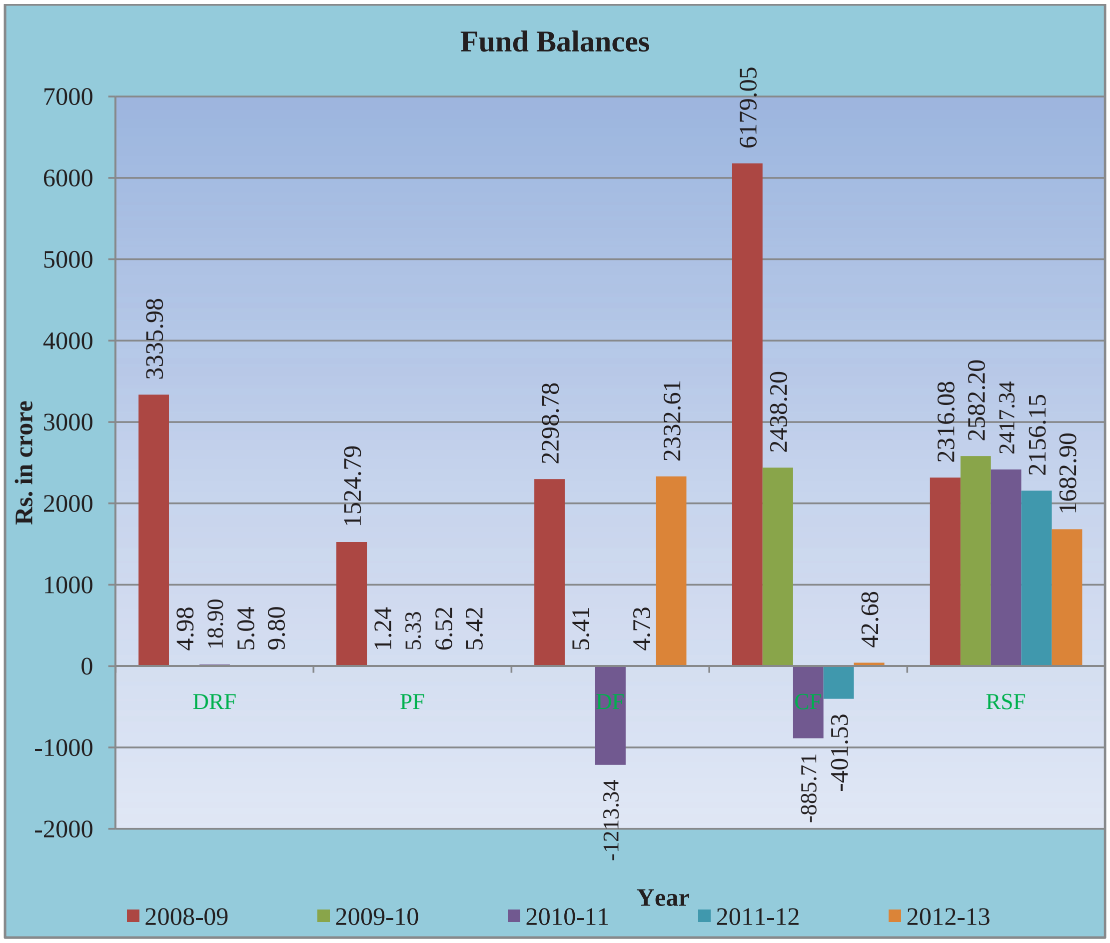
Fund	*Description*
Depreciation Reserve Fund	*The appropriation to this fund is met out of the revenues earned by IR. This is meant for replacement and renewal of over-aged assets. This fund receives interest at the rate of dividend payable to general revenues. The fund closed at ₹ 9.80 crore at the end of 2012-13 by expending less amount (₹7,045.47 crore) on replacement and renewal of assets than appropriated to the fund (₹7,050 crore). The Appropriation to DRF was made less than Budgeted provision by 27.32 per cent.*
Pension Fund	*The opening balance in this fund account as on 1 April 2012 was ₹ 6.52 crore. 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 2012-13 was slightly less than the withdrawals. The available balance under the fund at the close of the year was ₹ 5.42 crore as on 31 March 2013.*
Development Fund	*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, 2012 stood at ₹ 4.73 crore. In 2012-13, the Revenue surplus to the tune of ₹ 7,815 crore was appropriated to it. The fund closed at ₹ 2,332.61 crore due to the following reasons:-* *1. The capital expenditure amounting to ₹ 2,457.82 crore was incurred out of this fund during 2012-13.* *2. Repayment of loan taken from Government of India amounting to ₹ 3,000 crore and interest of ₹ 117.56 crore was made during 2012-13 out of this fund.*
Capital Fund	*The opening balance in this fund account as on April 1, 2012 was ₹ (-) 401.53 crore. Ministry of Railways had to pay interest amounting to ₹ 7.04 crore in 2012-13 due to negative balance. Against the budget estimate of ₹ 5,000 crore, only ₹ 451.25 crore was appropriated to this fund in 2012-13. No expenditure was incurred from this fund during the year. The fund closed at ₹ 42.68 crore as on 31 March 2013.*
Railway Safety Fund	*The opening balance in this fund account as on April 1, 2012 was ₹ 2,156.15 crore. An amount of ₹ 1,578.32 crore was utilized in 2012-13 as against an amount of ₹ 1,105.06 credited to it. The fund account closed at ₹ 1,682.90 crore at the end of 2012-13.*

Source – Indian Railways Appropriation Accounts-Part-II-Detailed Appropriation Accounts

The funds[20] shown in Table No. 1.10 were either financed through revenues or surplus except Railway Safety Fund, which received a share of the Diesel Cess.

The Development Fund and Capital Fund, are funded from the 'Surplus' available after payment of dividend. They closed with balances of ₹ 2,332.61 crore and ₹ 42.68 crore respectively.

Figure 1.16- Fund Balances at the close of the years (2008-09 to 2012-13)



Source-Indian Railways Appropriation Accounts Part-II-Detailed Appropriation Accounts

Analysis by Audit of the fund balances available in Capital Fund and Depreciation Reserve Fund revealed the following:

1. Indian Railways borrow money through the Indian Railway Finance Corporation (IRFC) for acquiring rolling stock by the financial lease route. These lease payment have two components, viz principal components and interest. Prior to 2005-06, these payments were fully met through the Ordinary Working Expenses (Revenue Grant No.9). However, from the year 2005-06 the Accounting policy in respect of accountal of lease charges payable to IRFC was modified. As per new accounting system,

20 ***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.***

Capital component was to be charged to Capital Fund (Grant No. 16) and interest component was to be charged to Revenue Grant No. 9. It was observed that during 2012-13 a budget provision of ₹ 4,230 crore was made under Capital Fund (railways own resources) for 'Payment of principal component of lease charges to IRFC'. However, due to less appropriation to Capital Fund (₹ 451.25 crore) against the Budget Estimate (₹ 5,000 crore), the Ministry of Railways could not pay principal component of lease charges amounting to ₹ 4,204.29 crore from Capital Fund. Consequently, Ministry of Railways had to make payment of this amount from 'Capital[21]' by re-appropriation of funds from other plan heads without obtaining any supplementary grant. This re-appropriation was irregular and has been commented upon in Para No. 2.6.2-'Re-appropriation within Grant No. 16' of Chapter 2. Besides, the payment of capital component of lease charges from 'Capital' made by the Ministry of Railways during 2012-13 was in violation of the accounting policy followed by IR. A similar payment of ₹3,454.33 crore was made in 2011-12.

Further this arrangement of repayment to IRFC from the Capital has resulted in depriving the Railways of the additional investments that could have been made on other capital works. It also made the borrowing from IRFC more expensive as dividend is required to be paid to Government of India on any expenditure incurred from Capital. In this case ₹ 168.17 crore has been paid as dividend.

2. It is seen that the contribution to Depreciation Reserve Fund (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 2012-13, an amount of ₹ 7,050 crore was appropriated to DRF against the Budget Estimate of ₹ 9,700 crore. Ministry of Railways in its reply to Action Taken Note on Para 3.4.1 of Report No.33 of 2010-11 (Railways Finances) had stated that the 'throw forward value of assets to be replaced' during 2011-12 and 2012-13 was ₹ 49,158 crore and ₹ 46,907 crore respectively. Audit observed that against throw forward value of ₹ 46,907 crore, the Ministry of Railways had spent ₹ 7,045.47 crore (15.02 per cent of the throw forward value) on replacement of the assets, from DRF during 2012-13. Thus, there is huge backlog of renewal and replacement of overaged assets in railway system which needs to be replaced timely for safe running of trains.

   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 2012-13 in respect of Central, Eastern, North Eastern, North Western, South Central, South

[21] Capital represents the amount advanced by the Government of India to Ministry of Railways to finance Capital Expenditure and Ministry of Railways pays dividend thereon at the rate fixed by the Railway Convention Committee

Eastern, South East Central, South Western, Western, West Central Railways, Integral Coach Factory (ICF), Central Organization for Railway Electrification (CORE) and MTP/Chennai.

The balance available in the funds increased from ₹ 1,770.91 crore in 2011-12 to ₹ 4,073.41 crore at the end of the year 2012-13. However, it was seen that the fund balances had declined from ₹ 15,654.68 crore in 2008-09 to ₹ 4,073.41 crore in 2012-13. Depreciation Reserve Fund and Capital Fund closed with balance of ₹ 9.80 crore and ₹ 42.68 crore respectively. Even the fund balance of ₹ 4,073.41 crore at the end of the year 2012-13 has been achieved by not making payment of capital component of lease charges to IRFC[22] amounting to ₹ 7,658.62 crore during the period 2011-13, from Capital Fund. Further, contribution to Depreciation Reserve Fund was not made as per requirement.

1.12 Comments on Accounts

Persistent deficiencies not addressed though pointed out in audit

- **Non-accountal of bonus shares**

M/s Rail India Technical and Economic Services Limited (RITES Ltd) and M/s Indian Railway Construction Company Limited (IRCON) issued Bonus Shares of ₹ 60 crore and ₹ 9.87 crore respectively to the Ministry of Railways (MoR) during the year 2012-13. Receipt of these bonus shares is mentioned in Statement No.11-Statement showing Investment made in the Public Sector Undertakings (PSUs) under the administrative control of Ministry of Railways for the year 2012-13. However, these bonus shares are not shown in Statement No.8-Detailed account of Revenue Receipts and Capital Receipts and Statement No. 10-Statement of expenditure on Capital Account for 2012-13. This non-accountal/non-inclusion of bonus shares was taken up with MoR (December 2013). However, no reply was received from MoR. Audit observations on non-accountal of bonus shares issued by the PSUs namely IRCON, RITES and Container Corporation of India (CONCOR) was also highlighted in Para 3.4.1 of the Audit Report No.3 of 2012-13-Union Government-Railways (Railways Finances). However, no specific reply on non-accountal of bonus shares in the accounts was given in the Action Taken Note.

- **Incorrect exhibition of Special Railway Safety Fund (SRSF)**

The SRSF ceased to exist w.e.f 1 April 2008. However, Zonal Railways (Eastern, North Eastern, Southern, South Central, South Eastern, South East Central, West Central) are still showing this fund in their accounts (Balance Sheet and Debt Head Report). The matter was taken up with the MoR regularly during 2009-10 to 2012-13. MoR had issued instructions to the Zonal Railways to take corrective action. However, the irregularity still

[22] *Payment of Principal component of lease charges to IRFC is being paid from Capital Fund from 2005-06 onwards*

continues and thus, the accounts do not exhibit the true and fair view of state of affairs of the Zonal Railways.

- **Incorrect accountal of fee**

Fee collected by railway administration under Right to Information (RTI) Act, 2005 is being credited as Railway's Earnings under Major head 1002-Sundry Earnings (Abstract Z-650) instead of crediting it under Major Head 0070-Administrative Services-Sub-Major Head: 60-Other Services-Minor Head: 118-Receipts under RTI Act, 2005. The matter of incorrect crediting of RTI fee in Railways earnings was taken up with the MoR in March 2012 and July 2013. The MoR in its reply stated (July 2013) that the matter has been referred to Controller General of Accounts in April 2012 and again in July 2013. However, no further reply has been received from MoR. In the meantime the irregular practice is being continued.

Other important deficiency

- **Incorrect accountal of fee**

Fee collected by Railway Claim Tribunal (RCT) is being treated as commercial earnings and credited under Major Head-1002-Indian Railways Earnings-Commercial by the Zonal Railways (ECR, ECoR, WCR and NWR). However, other Zonal Railways are correctly crediting it under Major Head-1001-Miscellaneous Receipts.

- **Public Funds lying outside government accounts**

As per Rule 16 (3) of the Rail Land Development Authority (Constitution) Rules 2007, the Authority shall maintain a separate account to which all earnings including royalties, concession fees and profits out of Authority's projects shall be credited and thereafter they shall be passed in full, on to the Central Government. Scrutiny of Annual Accounts of Rail Land Development Authority (RLDA) for 2012-13 revealed that an amount of ₹ 349.70 crore towards upfront lease charges, interest earned on Term Deposits etc was credited to separate account-Fund transferrable to Ministry of Railways but not transferred to Ministry of Railways in full. Thus, due to non-transferring of the earnings by the RLDA to Ministry of Railways, sundry earnings of the Ministry of Railways was understated by ₹ 349.70 crore during 2012-13.

Audit scrutiny of the Annual Accounts of RLDA for 2012-13 further revealed that an amount of ₹ 48.79 crore towards forfeited sums and interests thereon is also lying with the RLDA and not transferred to the Ministry of Railways. RLDA in its reply stated that as no land is leased out in these cases, it is not clear to which railway/head of account this earning is to be transferred. They had also stated that a proposal for considering such sums to be retained by RLDA has been sent to the Ministry of Railways; no reply has been received from the Ministry of Railways in this regard.

1.13 Conclusions

During 2012-13, Total Working Expenditure decreased by 0.74 *per cent (*₹ 827.96 crore) as compared to budget projections. Gross Traffic Receipt and Net Surplus increased by 18.85 *per cent and 634.41 per cent* respectively over the previous year thereby showing an improvement in the performance of IR. However, Gross

Traffic Receipt and Net Surplus were still below the budget projections by 6.65 *per cent* and 46.86 per cent respectively.

IR has not been able to meet their operational cost of passenger and other coaching services. There was significant cross-subsidization from freight services to passenger services. IR earned profit of ₹ 23,076.70 crore from freight traffic on one hand and incurred loss of ₹ 23,643.68 crore on operation of passenger and other coaching services on the other hand during 2011-12.

At the end of the year 2012-13, railway funds closed with balance of ₹ 4,073.41 crore. The fund balances improved by ₹ 2,302.50 crore over the previous year balance of ₹ 1,770.91 crore. Development Fund closed at ₹ 2,332.61 crore and the Capital Fund at a meager balance of ₹ 42.68 crore. A positive balance in the Capital Fund was due to payment of ₹ 3,454.33 crore and ₹ 4,204.29 crore in 2011-12 and 2012-13 respectively as repayment of principal component of lease charges to IRFC from Capital advanced by the Government of India as General Budgetary support. This was in violation of their accounting policy.

Ministry of Railways had spent ₹ 7,045.47 crore on replacement of the assets against throw forward value of ₹ 46,907 crore from DRF during 2012-13. Thus, there is huge backlog of renewal and replacement of overaged assets in railway system which needs to be replaced timely for safe running of trains.

The operating ratio improved from 94.85 *per cent* in 2011-12 to 90.19 *per cent* in 2012-13. However, the Capital Output ratio (amount of Capital employed to produce one unit of output i.e. Capital at charge per Net Tonne Kilometre) also increased from 218 paise in 2011-12 to 238 paise in 2012-13 indicating decrease in the physical performance of the IR.

1.14 Recommendations

- ***Non-availability of sufficient funds in Depreciation Reserve Fund to replace the overaged assets and, in Capital Fund to meet its liability of payment towards principal component of lease charges to Indian Railway Finance Corporation are indicative of poor financial health of IR. IR should explore ways and means to improve their fund balances.***
- ***Instances of non-accountal of bonus shares, public funds lying outside government accounts, payment of capital component of lease charges to Indian Railway Finance Corporation from Capital advanced by the Government of India's general budgetary support are indicative of poor accounting practices. IR should strictly follow the accounting principles and maintain financial discipline.***