

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 comprising of 15 Revenue Grants²³ (Grants number 1 to 15) and one Capital Grant²⁴ (Grant No. 16). Revenue grants were financed through the internal resources generated by IR through its earnings during the year, the Capital grant was funded mainly through the budget, internal resources and share of diesel cess from Central Road Fund.

Appropriation Accounts (Railways) for the sums expended during the year ended 31 March 2013, 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 in Table 2.1.

²³ Grants detailing working expenses and other revenue expenditure as voted by Parliament..

²⁴ Grant detailing expenditure on Assets Acquisition, Construction and Replacement voted by Parliament

Table 2.1- Summary of Appropriation Accounts 2012-13

(₹ in crore)

	Original Grant/ Appropriation	Supplementary Grant	Total Sanctioned Grant	Actual Expenditure	Saving (-) / Excess (+)
Voted					
Revenue	1,58,758.32	2,466.92	16,1225.24	1,51,871.76	(-),353.48
Capital	83,058.56	265.00	83,323.56	74,183.18	(-),140.38
Total Voted	2,41,816.89	2,731.92	2,44,548.80	2,26,054.94	(-),18,493.86
Charged					
Revenue	163.54	30.44	193.98	150.76	(-),43.22
Capital	95.70	51.00	146.70	133.60	(-),13.10
Total Charged	259.24	81.44	340.68	284.36	(-),56.32
Grand Total	2,42,076.13	2,813.35	2,44,889.48	2,26,339.30	(-),18,550.18

The above Table lists out the total expenditure of IR as ₹ 2,26,339.30 crore during the financial year 2012-13, of which nearly 67.17 per cent was spent on revenue grants which include working expenses on administrative, operational and maintenance activities while 32.83 per cent was spent on capital grant dealing with creation and augmentation of infrastructure facilities through Assets Acquisition, Construction and their Replacement/Renewal. The above Table also indicates savings of 5.81 per cent (₹ 9,396.70 crore) under revenue grants and 10.97 per cent (₹ 9,153.48 crore) under capital grant against the sanctioned provisions available in 2012-13.

An analysis of grant-wise expenditure revealed that the net saving of ₹18,550.18 crore was a result of savings of ₹ 20,220.42 crore under twelve revenue grants, four segments of capital grant, five revenue appropriations²⁵ and four segments of capital appropriation, adjusted by an excess of ₹ 1,670.24 crore in three revenue grants, seven revenue appropriations as are shown in Appendix-2.1.

2.1.1 Revenue Grants

IR operates 15 Revenue Grants. These are functionally clubbed under six distinct groups as listed in Table 2.2:-

Table 2.2- Grants operated by Railways

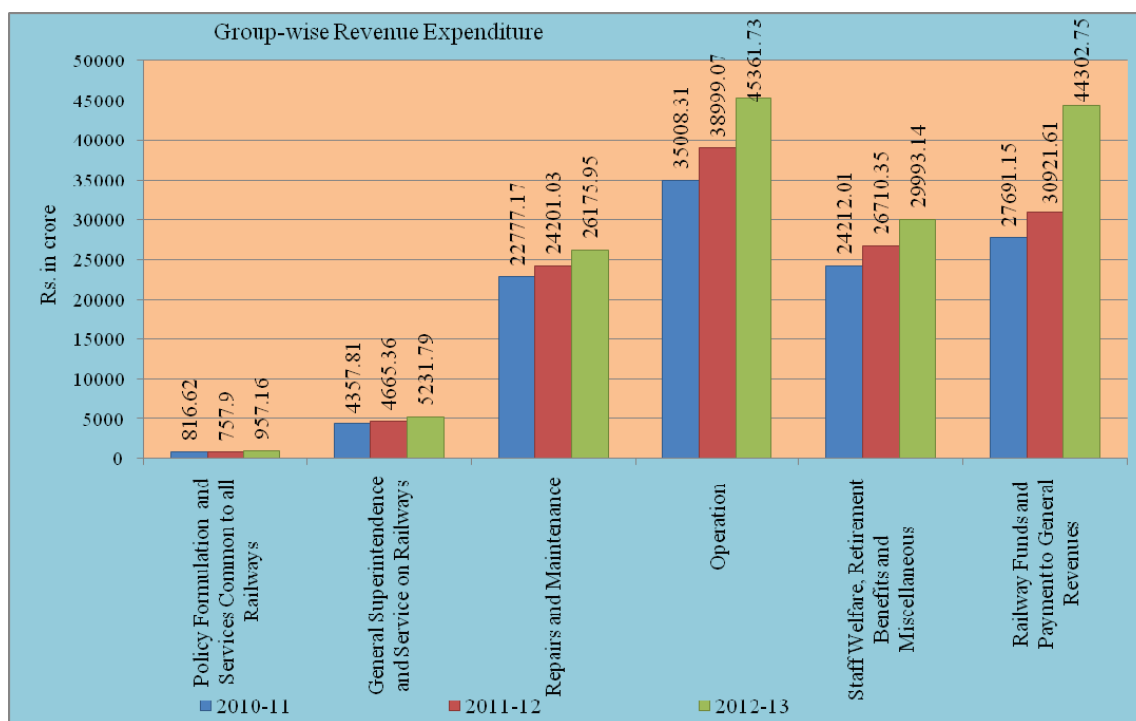
No.	Particulars	Six Distinct Group
1	Railway Board	Policy Formulation and Services Common to all Railways
2	Miscellaneous Expenditure (General)	
3	General Superintendence and Service on Railways	General Superintendence and Service on Railways
4	Repairs and Maintenance of Permanent Way and Works	Repairs 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	

²⁵ Appropriation refers to expenditure charged on Consolidated Fund of India

8	Operating Expenses-Rolling Stock and Equipment	Operation
9	Operating Expenses-Traffic	
10	Operating Expenses-Fuel	
11	Staff Welfare and Amenities	Staff Welfare, Retirement Benefits and Miscellaneous
12	Miscellaneous Working Expenses	
13	Provident Fund, Pension and Other Retirement Benefits	
14	Appropriation to Funds	Railway Funds and Payment to General Revenues
15	Dividend to General Revenues, Repayment of loans taken from General Revenues and Amortization of over Capitalization	

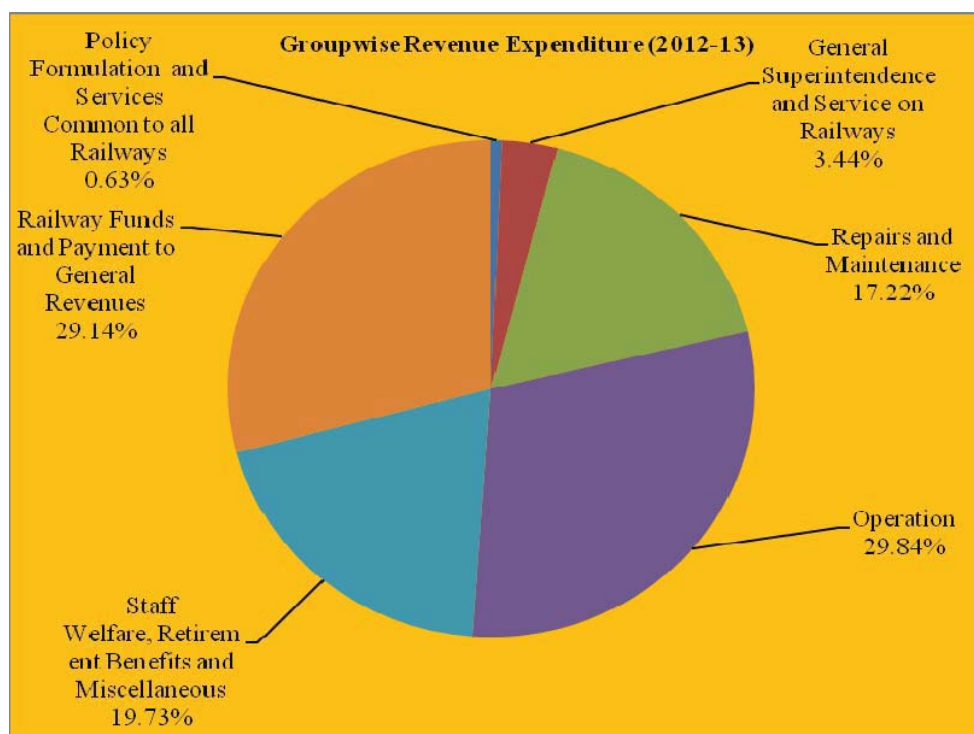
The following diagram depicts group-wise expenditure for last three years which shows an increasing trend in expenditure over Indian Railways:

Diagram 2.1 Trend of Revenue Expenditure-Group-wise during 2010-11 to 2012-13



The group-wise expenditure, in 2012-13, would appear as pie diagram 2.2 as following:

Diagram-2.2 Group wise Revenue Expenditure (2012-13)



Group-wise estimates, expenditure and variation under the revenue grants are detailed in Table 2.3.

Table- 2.3 Group wise Estimates, Expenditure and Variation (2012-13)

(₹ in crore)

Particulars	Original Grant/ Appropriation	Supplementary Provision	Total Sanctioned Grant	Actual Expenditure	Variation w.r.t. Sanctioned Grant (-) Saving/ (+) Excess	Percentage variation
Policy Formulation and Services Common to all Railways	990.82	2.82	993.64	957.16	(-)36.48	(-)3.67
General Superintendence and Service on Railways	5,312.57	30.94	5,343.51	5,231.79	(-)111.72	(-)2.09
Repairs and Maintenance	27,176.20	0.18	27,176.38	26,175.95	(-)1,000.43	(-)3.68
Operation	43,839.85	980.99	44,820.84	45,361.73	540.89	1.21
Staff Welfare, Retirement Benefits and Miscellaneous	28,231.11	1,482.42	2,9713.53	29,993.14	279.61	0.94
Railway Funds and Payment to General Revenues	53,371.32	0.00	53,371.32	44,302.75	(-)9,068.57	(-)16.99

The main reason for variations with reference to sanctioned provisions are as under:

- **Indian Railways Policy Formulation**

Decrease in expenditure towards foreign travel expenses, non-execution/slow progress of certain survey works, non-finalization of tenders, reduction in materialization of contractual payments, non-materialization of direct purchases, incurrence of less expenditure towards training cost, and conducting of less number of examinations by Railway Recruitment Boards.

- **General Superintendence and Service on Railways**

Reduction in expenditure towards staff cost, contingencies and cost of material from stock, less receipt of legal bills.

- **Repairs and Maintenance**

Reduction in expenditure on salary and wages, decrease in expenditure on procurement of non-stock items, reduction in drawal of stores from stock, decrease in number of sanitation works undertaken, decrease in contractual payments, less adjustment of wages and material on periodical overhaul, decrease in expenditure on cost of materials from direct purchase, reduction in adjustment of debits, decrease in expenditure towards freight charges, decrease in expenditure towards contingent expenses, decrease in workshop debits, adjustment of less debits towards special repair than anticipated, decrease in payment on fuel other than traction during the year than anticipated, decrease in materialization of decretal payments than anticipated.

- **Operation**

Increase in expenditure towards staff cost, increase in contractual payments, additional expenditure due to increase in prime cost of High Speed Diesel Oil (HSD Oil) and increase in consumption of HSD oil, increase in rate of energy (electric traction) purchased from outside source, materialization of decretal payments (payments made in satisfaction of court decrees) which could not be anticipated earlier.

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

Increase in receipt of debits from pension disbursing authorities on account of implementation of Modified Assured Career Progression (MACP) and increase in Dearness Allowance (DA), receipt of more debits towards family pension due to revision of family pension on account of implementation of MACP and increase in DA, finalization of more cases of death-cum-retirement-gratuity, more expenditure towards leave encashment for pension optees, more government contribution for newly defined contribution pension scheme, materialization of more decretal payments than anticipated

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

Decrease in generation of internal resources during the year than anticipated, lowering of rate of dividend from five per cent to four per cent

Chapter 2 Appropriation Accounts

recommended by the Railway Convention Committee for 2012-13 and payment of lesser amount of interest on loan taken from General Revenues due to prepayment of loan.

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 2.2.4 and 2.6.

2.2 Financial Accountability and Budget Management

2.2.1 Excess over Budget Provision

The Table No. 2.4 gives the grants and appropriations wherein expenditure was incurred in excess of authorized expenditure.

Table 2.4 Excess Expenditure

(₹ in crore)

S. No.	Particulars	Original Provision	Supplementary provision	Actual Expenditure	Excess
Revenue-Voted					
1	Grant No. 8- Working Expenses – Operating Expenses – Rolling Stock and Equipment	7,360.75	500.03	7,888.95	28.17
2	Grant No. 10 - Working Expenses – Operating Expenses - Fuel	21,346.72	382.62	22,388.16	658.82
3	Grant No. 13 - Working Expenses – Provident Fund, Pension and Other Retirement Benefits	19,120.66	1,456.06	21,558.67	981.95
Revenue-Charged					
1	Appropriation No.3 – Working Expenses – General Superintendence and Services	0.00	0.01	0.43	0.42
2	Appropriation No.4 – Working Expenses – Repairs and Maintenance of Permanent Way and Works	0.33	0.18	0.97	0.46
3	Appropriation No.5 – Working Expenses – Repairs and Maintenance of Motive Power	0.00	0.00	0.04	0.04
4	Appropriation No.7 - Working Expenses – Repairs and Maintenance of Plant and Equipment	0.00	0.0017	0.02	0.0183
5	Appropriation No.8 - Working Expenses – Operating Expenses – Rolling Stock and Equipment	0.00	0.00	0.05	0.05
6	Appropriation No.11- Working Expenses – Staff Welfare and Amenities	0.00	0.05	0.19	0.15
7	Appropriation No.13- Working Expenses – Provident Fund, Pension and Other Retirement Benefits	0.58	0.00	0.74	0.16
	<i>Total</i>	47,829.04	2,338.9517	51,838.23	1,670.2383

The above mentioned grants and appropriations where excess expenditure occurred, supplementary provisions were obtained in all except three appropriations. In two appropriations, expenditure incurred without obtaining original provisions and supplementary provisions. Incurrence of excess expenditure despite obtaining supplementary grants indicated poor budgetary forecasting.

The reason for excess expenditure during 2012-13 were attributed to incurrence of more expenditure towards staff cost, more contractual payments, excess expenditure due to increase in prime cost of HSD Oil and more consumption of HSD oil, increase in rate of energy purchased from outside source, receipt of more debits from pension disbursing authorities on account of implementation of MACP and increase in DA, receipt of more debits towards family pension due to revision of family pension on account of implementation of MACP and increase in DA, finalization of more cases of death-cum-retirement-gratuity, more expenditure towards leave encashment for pension optees, more government contribution for newly defined contribution pension scheme, Materialization of more decretal payments than anticipated.

Public Accounts Committee (PAC) in its Sixty-fourth Report (15th Lok Sabha) on 'Excess over Voted Grants and Charged Appropriations (2010-11) recommended that the Ministry of Railways should strive earnestly for ensuring realistic estimation of their budgetary requirements under Grants /Appropriation operated by them so that the existing lapses/loopholes are identified and excess expenditure eliminated. Apparently, the Ministry of Railways have not made serious efforts to bring about the desired results. While taking a serious view of such a laxity on the part of the Ministry of Railways, the PAC recommended that the Ministry should look into the recurrent lapses on this count, with a view to fixing responsibility at the appropriate level so that the existing deficiencies and short comings in the prevailing expenditure review system are rectified and recurrence of excess expenditure is either avoided altogether or minimized to greater extent in future. Ministry of Railways replies on PAC's observations are 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 Expenditure

There were persistent excess during 2009-10, 2010-11, 2011-12 and 2012-13 in the Grant No. 13- Provident Fund, Pension and Other Retirement Benefits dealing with Staff Welfare, Retirement Benefits etc and Appropriation No. 3 (Charged) - Working Expenses-General Superintendence and Services as in the Table 2.5.

Table 2.5 Persistent Excess Expenditure

(₹ in crore)

S. No.	Name and Grant No.	Financial Year	Original Provision	Supplementary provision	Actual Expenditure	Excess
1	Grant No. 13 (Voted) – Provident Fund, Pension and Other Retirement Benefits	2009-10	14,265.29	1,133.52	16,911.20	1,512.39
		2010-11	14,417.50	531.24	16,352.71	1,403.97
		2011-12	16,479.74	1,077.61	18,326.97	769.62
		2012-13	19,120.66	1,456.06	21,558.67	981.95
2	Appropriation No. 3 (Charged) – Working Expenses- General Superintendence and Services	2009-10	0.01	0.09	0.35	0.24
		2010-11	0.05	0.10	0.36	0.21
		2011-12	0.00	0.03	0.30	0.27
		2012-13	0.00	0.01	0.43	0.42

IR attributed the excess mainly due to receipt of more debits from pension disbursing authorities on account of implementation of MACP and increase in DA, receipt of more debits towards family pension due to revision of family pension on account of implementation of MACP and increase in DA, finalization of more cases of death-cum-retirement-gratuity, more expenditure towards leave encashment for pension optees, more government contribution for newly defined contribution pension scheme, More materialization of decretal payments than anticipated.

The persistent excess during last four years indicate the failure of IR to accurately estimate budgetary requirements in order to enforce fiscal discipline.

2.2.3 Savings

There were aggregate savings (revenue and capital grants) of ₹ 20,220.42 crore. In 11 cases, as detailed in Table 2.6, the savings exceeded ₹ 100 crore:

Table 2.6: Savings over ₹100 crore

(₹ in crore)

S. No.	Particulars	Original Provision	Supplementary provision	Actual Expenditure	Saving
1	Grant No. 3 – Working Expenses – General Superintendence and Services	5,312.57	30.93	5,231.37	(-)112.13
2	Grant No. 4– Working Expenses – Repairs and Maintenance of Permanent Way and Works	8,786.79	0	8,233.41	(-)553.38
3	Grant No. 7- Working Expenses – Repairs and Maintenance of Plant and Equipment	5,062.24	0	4,805.31	(-)256.93
4	Grant No. 9 - Working Expenses – Operating Expenses – Traffic	15,132.21	97.27	15,084.03	(-)145.45

5	Grant No. 11 – Working Expenses – Staff Welfare and Amenities	4,342.68	0	4,064.83	(-)277.85
6	Grant No. 12 - Working Expenses – Miscellaneous Working Expenses	4,605.46	0	4,223.06	(-)382.40
7	Grant No. 14 Appropriation to Funds – Depreciation Reserve Fund, Development Fund, Pension Fund, Capital Fund	43,567.00	0	35,836.25	(-)7,730.75
8	Grant No. 15 Dividend to General Revenues, Repayment of Loans taken from General Revenues and Amortisation of Over-Capitalisation	9,804.32	0	8,466.51	(-)1,337.81
9	Grant No. 16-Capital	60,974.51	265.00	60,762.83	(-)476.68
10	Grant No. 16-Railway Fund	20,025.75	0.00	11,808.25	(-)8,217.50
11	Grant No. 16-Railway Safety Fund	1,998.40	0.00	1,584.08	(-)414.32

Reasons for savings were attributed to decrease in expenditure towards staff cost, reduction in receipt of legal bills, reduction in expenditure on procurement of non-stock items, decrease in drawal of stores from stock, reduction in sanitation work undertaken, materialization of less contractual payments, decrease in direct purchases, decrease in payment on fuel other than traction than anticipated, reduction in expenditure towards procurement of stores, less expenditure towards publicity charges and contingencies than anticipated, decrease in payment of leasing charges other than Indian Railway Finance Corporation (IRFC), decrease in receipt of claims for reimbursement of tuition fees than anticipated, non-filling up of vacancies, less adjustment of debits relating to Railway Protection Special Force (RPSF), materialization of less payment on account of Government Railway Police (GRP) due to non/less receipt of bills than anticipated, decrease in expenditure towards workmen's compensation claim during the year, decrease in expenditure towards contractual payments to private caterers and less payments made to Indian Railway Catering and Tourism Corporation (IRCTC) towards contract, lesser generation of internal resources during the year than anticipated, lowering of dividend rate from five per cent to four per cent etc.

Reasons for saving in "Appropriation to Funds" were attributed mainly to less appropriation to DRF. Further, due to less availability of revenue surplus the appropriation under Development Fund and Capital Fund were not made as per Budget Estimate.

Grant No. 16-Capital, Railway Funds and Railway Safety Fund (RSF) – Reasons for savings under these funds are given in succeeding para.

2.2.4 Persistent Savings

There were persistent savings of over ₹100 crore in following grants as shown in the Table 2.7.

Table 2.7 Persistent Savings

		(₹ in crore)					
S.No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
1	Grant No. 14 – Appropriation to Funds	373.99	6,429.96	4,301.51	2,533.20	2,802.84	7,730.75
2	Grant No. 16 – Capital	789.47	537.20	2,020.71	760.50	1,510.81	476.68
3	Grant No. 16 – Railway Funds	1,634.35	1,723.38	2,815.59	861.94	3,565.24	8,217.50
4	Grant No. 16 – Railway Safety Fund	517.44	734.56	649.98	598.56	669.87	414.32

Reasons for persistent savings in the Grant No. 14-Appropriation to Funds and three segments of Capital Grant No.16 are as under:

- **Grant No. 14 – Appropriation to Funds**

In 2012-13, Appropriation to DRF has been curtailed by ₹2,650 crore (i.e.27.89 per cent of BE) due to reduced internal resource generation. Contribution to DF and CF also reduced to ₹ 7,815 crore and ₹ 451.25 crore respectively which accounted for 74.03 per cent and 9.03 per cent of the BE respectively as net surplus available for appropriation was only ₹8,266.25 crore against ₹ 15,557 crore projected in BE.

- **Savings in Grant No.16-Capital**

Saving occurred in Capital were due to termination of the contract mid way, project in preliminary stage hence saving, detailed estimates under sanction, less booking of expenditure than anticipated, non-materialization of anticipated debits and contractual liabilities due to delay in finalization of tenders, slow progress of work, less execution of computerization work, decrease in activities under construction/acquisition of rolling Stock, less procurement of Machinery and Plants items, slow progress of staff amenity works, less investment under Government Commercial undertaking, reduction in the number of three phase locos and revision in production programme.

- **Savings in Grant No.16-Railway Funds**

Saving occurred in Railway Funds were due to change of source of fund from CF to Capital in revised estimate stage for making payments of capital component charges of lease charges to Indian Railway Finance Corporation (IRFC). The other reasons for saving under Railway Funds were attributed to slow progress of works, less store debits, delay in finalization of tender, less materialization of contractual liabilities, slow progress of work, work in planning stage, Plans/Estimates under approval,

slow progress in modernization of loco works, slow progress of works in respect of staff quarters and staff amenities etc.

- **Savings in Grant no.16- Railway Safety Fund**

Reasons for saving under RSF attributed to slow progress of works, materialization of less contractual payments, less/non-finalization of tenders/proposal, slow progress of works, non-completion of detailed estimates and formalities before making payment to State Government towards the cost of Road approaches in respect of various Road Over Bridge/Road Under Bridge (ROBs/RUBs).

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

2.3 Supplementary Provisions

Supplementary provisions amounting to ₹ 2,466.92 crore were taken during 2012-13 in five revenue voted grants (Grant nos.3, 8, 9, 10, 13). These were obtained on account of higher expenditure mainly under staff cost, contingency expenses, computer and their consumables, materials, contractual payments, cost of fuel, pensionary charges etc. In grant no. 3 and 9 the whole supplementary provisions remained unutilized.

Supplementary provisions of ₹ 30.44 crore were obtained under charged appropriations (Appropriation nos.2, 3, 4, 7, 9,11and 12) on account of more payments anticipated in satisfaction of court decrees. However, the assessment of supplementary provisions under charged appropriation nos. 3, 4, 7, 11 and 12 were either inadequate (Appropriation no.12) or excessive (Appropriation nos. 3, 4, 7, 11) by more than 100 *per cent*. The reasons of such huge variation were attributed to more/less materialization of decretal payment than anticipated.

The Supplementary demand of ₹ 265 crore was taken during 2012-13 in Grant No. 16 (Capital) under 'Voted' as additional budgetary support to meet additional requirement to accelerate progress of various National projects²⁶ extended by Central Government but the supplementary provisions of ₹ 50 crore remained unutilized.

The Supplementary provisions of ₹ 51.00 crore was obtained under charged appropriations (Grant No.16-Capital) on account of more payments than anticipated in satisfaction of court decrees. However, the assessment of supplementary provisions under charged appropriations was not realistic as there was saving of ₹ 8.66 crore.

²⁶ *Udhampur-Srinagar-Baramula New Line, Bogibeel bridge with linking lines between Dibrugarh and North Bank line and Jiribam and Imphal New Line, Lumding-Silchar including Migrendisa-Dittockchera extension from Badarpur-Bairagram and new material modification for Gauge Conversion of Bairagram-Dulabchera with bypass at Karimganj and Karimganj-Maishashan and Rangia-Murkongselek alongwith linked fingers.*

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 financial year. There were a number of cases of surrender as shown in the Table 2.8:-

Table 2.8 Surrenders under various Grants

(₹ in crore)

Grant No.	Voted/ Charged (V/C)	Original	Supplementary	Actual expenditure	Net variation	Surrender
2	V	764.29	0	729.99	(-)34.30	-29.76
4	V	8,786.79	0	8,233.413	(-)553.38	-479.99
5	V	4,015.69	0	3,923.63	(-)92.06	-83.38
6	V	9,311.13	0	9,212.56	(-)98.57	-172.38
7	V	5,062.23	0	4,805.31	(-)256.93	-250.32
8	V	7,360.75	500.03	7,888.95	28.17	-.22
11	V	4,342.68	0	4,064.83	(-)277.85	-197.42
12	V	4,605.46	0	4,223.06	(-)382.40	-264.98
14	V	43,567.00	0	35,836.25	(-)7,730.75	-6,147.87
15	V	9,804.32	0	8,466.51	(-)1,337.81	-1,346.98
16 (Railway Funds)	V	20,025.75	0	11,808.25	(-)8,217.50	-8,322.13
RSF	V	1998.40	0	1584.08	414.32	335.47
RSF	C	1.60	0	0.0048	1.60	0.58

2.5 Budgetary Control by Spending Units

Budget estimates are usually calculated by IR after taking into account zonal railways requirements which are analyzed and moderated. Rules provide²⁷ 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 Statement²⁸ (FMS). Summary of railway-wise grant accounts (grant nos.3 to 13) is given in **Appendix-2.2**.

Audit review of the grant accounts (voted) of grant nos. 3 to 13 of zonal railways revealed the following:

- In 108 cases, funds were surrendered through FMS by zonal railways in excess of availability.
- In 11 cases (Voted) and 3 cases (Charged), zonal railways surrendered funds through FMS despite expenditure exceeding the sanctioned allocations.
- In 7 cases, zonal railways, through FMS, surrendered 50 *per cent* or more of the supplementary provisions allocated to them. It included 5 cases, where

²⁷ Paragraph 376 of Indian Railways Finance Code enumerates the powers of re-appropriation of funds

²⁸ 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.

100 per cent of the supplementary provisions allocated to them were surrendered.

- In 22 cases(19-voted, 3- charged), zonal railways received additional funds through re-appropriation at the fag end of the year despite expenditure already incurred was less than the sanctioned grant.

Such instances indicate defective budgetary control and resulted in consequent issue of injudicious re-appropriation orders.

2.6 In-depth Study of 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 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 reserves²⁹,
- **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 ₹1 lakh financed from revenue.

Re-appropriation of funds from one segment to another is not permissible.

Segment wise allocation and expenditure is given below:

Table 2.9 Segment wise Expenditure under Grant No. 16

(₹ in crore)

Particulars	Original Provision	Supplementary provision	Total sanctioned provisions	Actual Expenditure	Saving (-)/ Excess (+)
Voted Portion					
Capital	60,974.51	265.00	61,239.51	60,762.83	(-) 476.68
Railway Fund	20,025.75	0.00	20,025.75	11,808.25	(-) 8,217.50
Railway Safety Fund	1,998.40	0.00	1,998.40	1,584.08	(-) 414.32
Open Line Works - Revenue	59.90	0.00	59.90	28.02	(-)31.88
Total Voted	83,058.56	265.00	83,323.56	74,183.18	(-) 9,140.38
Charged Portion					
Capital	89.00	51.00	140.00	131.34	(-) 8.66
Railway Fund	5.00	0.00	5.00	2.26	(-) 2.74
Railway Safety Fund	1.60	0.00	1.60	0.00	(-) 1.60
Open Line Works – Revenue	0.10	0.00	0.10	0.00	(-) 0.10
Total Charged	95.70	51.00	146.70	133.60	(-) 13.10

²⁹ Reserve Funds were Depreciation Reserve Fund (DRF), Development Fund (DF) and Capital Fund (CF).

➤ **Capital**

In 2012-13, provision of ₹ 60,974.51 crore was made for acquisition and construction of assets. Additional budgetary support of ₹ 265.00 crore was received through supplementary grant under Capital (Voted).

There was a net savings of ₹ 476.68 crore, against the sanctioned provision, in this segment of the grant. Reasons for savings attributed are discussed in Para 2.2.4-Persistent Savings.

➤ **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 (fund financed from internal resources by charging to working expenses).
- DF-for all passenger and other users, works including addition and replacement, labour welfare works not exceeding ₹1 lakh each and Safety Works (fund fed from net revenue surplus).
- CF-for meeting requirement of capital expenditure on construction and acquisition of new assets (fund fed from net revenue surplus).

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 in Table no. 2.10.

Table-2.10-Component of Railway Funds

(₹ in crore)

Particulars	Original Provision	Supplementary provision	Total sanctioned provisions	Actual Expenditure	Saving (-)/ Excess (+)
Voted Portion					
Depreciation Reserve Fund	11,335.00	0.00	11,335.00	9,348.17	(-)1,986.83
Development Fund	3,775.75	0.00	3,775.75	2,460.08	(-)1,315.67
Capital Fund	4,915.00	0.00	4,915.00	0.00	(-)4,915.00
Total Voted	20,025.75	0.00	20,025.75	11,808.25	(-)8,217.50
Charged Portion					
Depreciation Reserve Fund	4.00	0.00	4.00	0.49	(-)3.51
Development Fund	1.00	0.00	1.00	1.76	0.76
Total Charged	5.00	0.00	5.00	2.25	(-)2.75
Total Voted and Charged	20,030.75	0.00	20,030.75	11,810.50	(-) 8,220.25

Analysis of this segment of grant revealed that there were net savings (under voted) of ₹ 8,217.50 crore (41.03 per cent of the sanctioned grant).

Further examination of source wise allocation and expenditure under voted portion of funds revealed the following:

- **DRF**-There were savings of ₹ 1,986.83 crore constituting 17.53 per cent of the sanctioned provisions.
- **DF**- There were savings of ₹ 1,315.67 crore constituting 34.85 per cent of the sanctioned provisions.
- **CF**-There was a saving of ₹ 4,915.00 crore (100 per cent) of the sanctioned grant of ₹ 4,915.00 crore as no expenditure was met from this fund. The expenditure towards payment of capital component of lease charges to IRFC to be met from this fund was finally met from source of fund 'Capital'.

- **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 six years as there were continuous savings in this segment of the grant as discussed in Paragraph 2.2.4 above. Despite availability of funds there were delays in execution of road safety works.

- **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. Under this segment 53.22 per cent (₹ 31.88 crore) of the originally allocated funds of ₹59.90 crore was not utilized. The savings were attributed to slow progress of works, delay in finalization/non- finalization of tenders, materialization of less contractual payments, non/delayed finalization of tenders and adjustment of less store debits etc.

2.6.1 Withdrawal/Utilization of 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 2.11-Appropriation to Railway Funds and withdrawal there from during the last three years ended 31 March 2013

		(₹ in crore)		
<i>Fund</i>	<i>Particulars</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
DRF	Appropriation to Fund(BE)	7,700.00	7,100.00	9,700.00
	Appropriation to Fund(Actual)	5,615.00	6,720.00	7,050.00
	Excess/Shortage	(-)2,085.00	(-)380.00	(-)2,650.00
	Expenditure/withdrawal from fund	5,585.12	6,680.72	7,045.47
DF	Appropriation to Fund(BE)	2,800.00	2,400.00	10,557.00
	Appropriation to Fund(Actual)	1,404.90	610.00	7,815.00
	Excess/Shortage	(-)1,395.10	(-)1,790.00	(-)2,742.00

	Expenditure/withdrawal from fund	2,576.59	2,222.56	2,457.82
CF	Appropriation to Fund (BE)	373.09	2858.41	5,000.00
	Appropriation to Fund (Actual)	-	515.57	451.25
	Excess/Shortage	(-)373.09	(-)2,342.84	(-)4,548.75
	Expenditure/withdrawal from fund	3,329.85	0	0
Total (Railway Funds)	Appropriation to Fund (BE)	10,873.09	12,358.41	25,257.00
	Appropriation to Fund (Actual)	7,019.90	7,845.57	15,316.25
	Excess/Shortage	(-)3,853.19	(-)4,513.04	(-)9,940.75
	Expenditure/withdrawal from fund	1,1491.56	8,903.28	9,503.29

From the above, it is seen that the appropriation to the funds 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 railway 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 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 had been noticed. Some of the cases of re-appropriation of funds are given in the Table 2.12.

Table 2.12-Re-appropriation of funds in Grant No. 16

Source of Fund	Plan Head No. and Subject	(+) Re-appropriation through additional fund/ (-) Re-appropriation through non-utilization/surrender of fund
Capital	1400 - Gauge Conversion	₹ 298 crore (13.07 per cent)
Capital	4200-Workshop including Production unit	₹ 465.63 crore (62.05 per cent)

Capital	2200-Payment of capital component of lease charges to IRFC	₹ 4,230.00 crore ³⁰
Capital	1700 - Computerization	(-) ₹ 34.75 crore (57.91 per cent)
Capital	3200 - Bridge Work	(-) ₹ 39.39 crore (78.78 per cent)
Capital	3600 -Other Electrical works	(-) ₹ 117.49 crore (77.8 per cent)
Capital	5200 - Amenities for Staff	(-) ₹ 30.38 crore (60.76 per cent)
Capital	6200 - Investment in Government Commercial Undertaking	(-) ₹ 844 crore (57.57 per cent)
Capital	8100 - Metropolitan Transport Project	(-) ₹ 3,538.625 crore (74.81 per cent)
Railway Funds	1400 - Gauge Conversion	(-) ₹ 30.00 crore (54.55 per cent)
Railway Funds	1700 - Computerization	(-) ₹ 209.67 crore (75.17 per cent)
Railway Funds	3300 - Signal and Telecommunication	(-) ₹ 100.67 crore (54.29 per cent)
Railway Funds	3600 - Other Electrical works	(-) ₹ 255.25 crore (72.71 per cent)
Railway Funds	5100 - Staff Quarters	(-) ₹ 104.36 crore (50.92 per cent)
Railway Funds	2200-Payment of capital component of lease charges to IRFC	(-) ₹ 4,230.00 crore (100 per cent)
Railway Safety Fund	3000 - Road Safety Works – Conversion of Level crossings into Road over Bridges/Road under Bridges	(-) ₹ 309.78 crore (22.15 per cent)

Note-Figures in bracket represent percentage to the sanctioned grant

Payment of capital component of lease charges to Indian Railway Finance Corporation (IRFC) is being made from 'Capital Fund' since 2005-06 onwards as per the policy decision taken while introducing the accounting change (i.e. charging of capital component of lease charges to IRFC from Capital Fund under Capital Grant and interest component to Revenue Grant No.9). During 2012-13, Ministry of Railways made payment of capital component of lease charges to IRFC amounting to ₹ 4,204.29 crore from source of fund Capital (General Budgetary Support) by re-appropriation of ₹ 4,230 crore from other plan heads under 'Capital'. Though the original provision for this expenditure was made in Capital Fund in Budget Estimate (2012-13), the Ministry of Railways while placing the Budget Estimate of 2013-14 through Demands for Grants for 2013-14, made re-appropriation for this expenditure from 'Capital' (General Budgetary Support) in the Revised Estimate. Since no original budget provisions/supplementary provisions were made for this expenditure from

³⁰ No original/supplementary provisions were made for this expenditure from Capital (General Budgetary Support)

‘Capital’ (General Budgetary Support), the re-appropriation in ‘Capital’ was irregular re-appropriation. Ministry of Railways’ contention that position of Revised Estimate (2012-13) for the subject plan head having been financed from ‘Capital’ has been printed in the Demands for Grants (2013-14) and thus not an irregular re-appropriation is not tenable.

Large scale changes in priorities and re-appropriation of originally allocated resources from one plan head to another or from one Zonal railway to another Zonal railway were indicative of the lack of reliability in preparation of budgetary estimates for assets acquisition, construction and replacement/renewal. This affected the long term advance planning of construction and acquisition of assets and also schedules of completion of works/projects.

To sum up analysis of the Capital Grant (No. 16) revealed the following:

- **Inadequate planning**
- **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 (446 cases) resulting in excess/savings beyond the prescribed limits³¹ were noticed. Northern (65 cases), North Central (45 cases), Western (41cases) and South Central (38 cases) were the railways with most number of cases on defective budgeting. A few instances of defects in budgeting are given in the table below:

Table 2.13-Cases of Defects in Budgeting

Zonal Railway	Grant No.	Minor Head/Plan Head	Excess/Short Provision	Rs. in crore	Percentage
WCR	10-Operating Expenses-Fuel	200	Short	84.71	14.6
WCR	7-Repairs and Maintenance of Plant and Equipment	800	Short	1.62	29.57
WR	4-Repairs and Maintenance of Permanent Way and Works	100	Short	1.4	2.01
CR	13-Provident Fund, Pension and Other Retirement Benefits	500	Short	49.06	24.55
CR	9-Operating Expenses-Traffic	100	Short	2.08	32.85
CR	7-Repairs and Maintenance of Plant and Equipment	700	Short	1.72	53.89
CR	16-Assets, Acquisition, Construction and Replacement-DRF	Plan Head-3600	Short	3.72	144.24
WR	3- General Superintendence and Services	300	Excess	33.94	3.57

³¹Paragraph 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.

WR	9-Operating Expenses-Traffic	700	Excess	26.57	9
WR	16-Assets, Acquisition, Construction and Replacement-DRF	Plan Head-3300	Excess	5.55	24.3
CR	16-Assets, Acquisition, Construction and Replacement-DRF	Plan Head-4200	Excess	1.65	57.66

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 2012-13-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. Cases of such misclassifications are listed in *Appendix - 2.3*.

Test audit revealed that expenditure of ₹ 4.77 crore pertaining to revenue heads of account was misclassified to capital heads of account and ₹ 5.49 crore from capital heads of account to revenue heads of account thereby understating the net capital expenditure to the extent of ₹ 0.72 crore. Further, a number of cases of mistake in accounting as well as misclassification under Revenues Grants and Capital Grant were noticed.

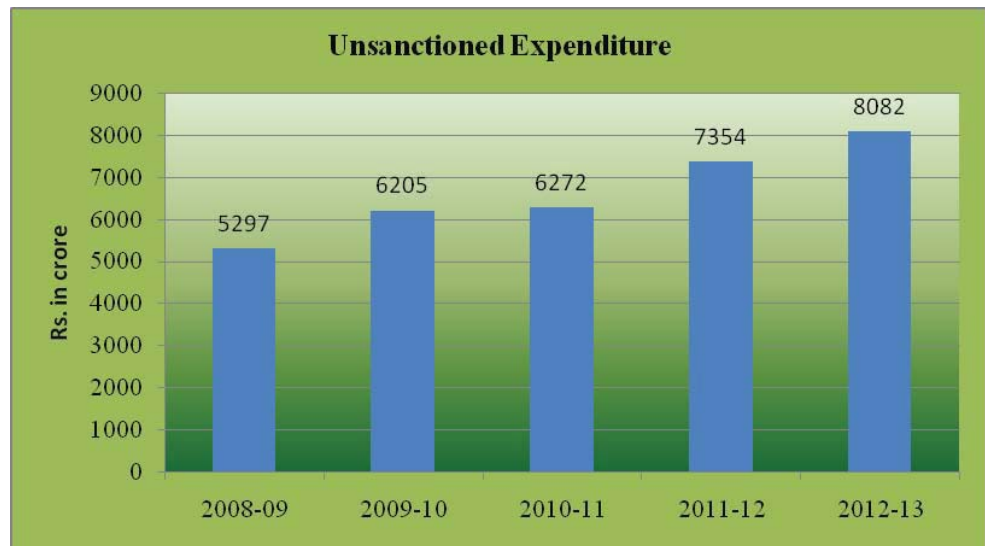
The Public Accounts Committee (PAC) in its Sixty-fourth Report (15th Lok Sabha) deplored that unabated trend of persistent misclassification of expenditure has reached endemic proportion and Railways have repeatedly failed to address and eliminated such fundamental flaw. Apparently, no tangible action has been taken by the Ministry either to fix responsibility for avoidable errors or for rectifying the terminological ambivalence leading to misclassification. Despite PAC’s remarks on misclassification, the instances of Misclassification were noticed during 2012-13 also.

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 (March 2009) to ₹6,205 crore (March 2010), ₹6,272 crore (March 2011), ₹7,354 crore (31 March 2012) and ₹8,082 crore (31 March 2013). Unsanctioned expenditure as of 31 March 2013, included ₹ 6,448 crore (79.78 per cent of total unsanctioned expenditure) related to items which were more than two years old.

Diagram-2.3 Unsanctioned Expenditure



Increasing trend of unsanctioned expenditure was indicative of indifference of the railway administration to the sanctity of the budget.

2.10 Conclusions

As trend of incurring excess expenditure despite obtaining Supplementary Grants is increasing, Ministry of Railways should impress upon their budget controlling authorities to thoroughly examine the proposal for additional funds with due farsightedness and ensure proper review and scrutiny of the proposals for Supplementary demands before presenting the same to Parliament so that additional provisions are commensurable with the actual requirement of funds.

IR had continuously been incurring expenditure over and above the budgetary provisions sanctioned by Parliament. Instances of misclassification of expenditure continue to persist 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. The Committee had also repeatedly taken a serious view of the recurring instances of misclassification of expenditure.

In spite of the concern expressed by the Public Accounts Committee (PAC) in its Sixty-fourth Report (15th Lok Sabha) regarding unabated trend of persistent misclassification of expenditure IR failed to address and eliminated such fundamental flaw. Instances of unsanctioned expenditure continue to increase.

The persisting trends of excesses over Voted Grants and Charged Appropriations indicate that the existing budgetary mechanism of the railways failed to access the requirement of funds realistically. The supplementary grants were also not assessed accurately as cases of excess to supplementary grants and unutilised supplementary grants were noticed in audit

2.11 Recommendations

- *IR should strengthen its budgetary mechanism and system of expenditure monitoring at various levels so that the instances of savings, excesses beyond authorisation are minimised. Cases of defects in budgeting need to be analysed and measures taken to avoid recurrence in future.*
- *IR should explore a mechanism for assessing the supplementary demand of grants realistically so that sums obtained through Supplementary Demands for Grants may not remain unutilised or become short of the requirement.*
- *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.*
- *Increasing trend of unsanctioned expenditure to be controlled; administration to ensure all unsanctioned expenditure is regularised on priority.*