EXECUTIVE SUMMARY

Background

Indian Railways (IR) is a departmental commercial undertaking of the Government of India. It consists of 65,436 route kms* on which 20,038 trains ply, carrying about 23 million passengers and hauling nearly 2.76 million tonne of freight everyday. Policy formulation and overall control of the Railways is vested in Railway Board comprising of the Chairman, Financial Commissioner and other functional Members. The IR system is managed through 17 zones having 68 operating divisions. Apart from the zonal railways representing the operational part of the system, there are six production units engaged in manufacturing of rolling stock and other related items.

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

Summary of Conclusions

Report of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2012 (Report No.12 of 2013) highlighted that during 2011-12, total revenue receipts, increased by 9.89 *per cent* which was slightly above the Compound Annual Growth Rate (CAGR) of 9.68 *per cent* during the period 2007-11. The growth of freight earnings and passenger earnings were 10.67 *per cent* and 9.51 *per cent* respectively, which were above the CAGR achieved during 2007-11. Net surplus after meeting dividend liability was ₹ 1,125.57 crore in 2011-12. The Operating Ratio deteriorated as compared to the previous year.

During 2012-13, total revenue receipts increased by 18.76 *per cent* which was above CAGR of 9.17 *per cent* during the period 2008-12. The growth rate of freight earnings and passenger earnings was 22.60 *per cent* and 10.89 *per cent* respectively over the previous year. These were both above the CAGR achieved during 2008-12.

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

The Operating Ratio improved to 90.19 in 2012-13 from 94.85 in 2011-12. Net surplus after meeting dividend liability stood at ₹ 8,266.25 crore in 2012-13. It was less than the budget estimates by 46.86 *per cent* despite a reduction in the appropriation to Depreciation Reserve Fund by 28 *per cent.*

Depreciation Reserve Fund and Pension Fund closed with negligible balances of ₹ 9.80 crore and ₹ 5.42 crore respectively in 2012-13. Development Fund closed at ₹ 2,332.61 crore and Capital Fund closed with a negligible balance of ₹ 42.68 crore in 2012-13.

A positive balance in Capital Fund was achieved by diverting payment of lease charges to IRFC from Capital Fund to Capital received as General Budgetary Support from Government of India. This 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. Further, the contribution to the Depreciation Reserve Fund was not made as per requirement despite there being a huge backlog of renewal and replacement of over aged assets in the railway system which are required to be replaced for safe running of trains.

IR was unable to meet its operational cost of passenger and other coaching services. During 2011-12, there was a loss on passenger and other coaching services of ₹ 23,643.68 crore. The freight services earned a profit of ₹ 23,076.70 crore which indicated that IR is actually incurring a loss on its core activities. The above issues have been regularly highlighted in the preceding Reports of Comptroller and Auditor General of India-Union Government (Railways)-Railways Finances.

IR incurred ₹ 1,670.24 crore more than the authorization given by Parliament in three revenue grants and seven appropriations despite obtaining supplementary provisions in all except three appropriations. In two appropriations, expenditure was incurred without obtaining original and supplementary provisions. In eight revenue grants and one capital grant (three segments), there were savings of more than ₹ 100 crore.

Indian Railways is in general not following its own rules and regulations laid down in the Financial Code and Engineering Code for efficient execution of projects and for proper accounting of financial transactions. In the absence of proper records it is not possible to ascertain expenditure incurred in executing a project; it indicates a lack of financial discipline and increases risk of losses - both material and financial, in implementation of projects. This assumes significant importance in view of the large number of projects under implementation in the railways. Due to lack of proper project accounting system, the Block Account, which forms an important part of the Balance Sheet of the Indian Railways, does not depict reliable amounts under the plan heads supported by proper documentation.

Major Recommendations

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

- 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 fund balances.
- 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 responsibilities 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.
- Ministry of Railways needs to put in place a monitoring mechanism to ensure that the provisions laid down in the codes and manuals are followed scrupulously to maintain financial discipline. Executives need to be made responsible for ensuring proper project accounting to exercise effective control over expenditure with reference to sanctioned estimates and budget allotments against the projects.
- Cost of assets created under each work by the field units (Divisions, Construction organizations) needs to be correctly accounted for, so as to exhibit the same in the Block Account at correct value.