

## Chapter-1 State of Finances

This chapter provides a broad perspective of the finances of the Indian Railways (IR) during 2013-14 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<sup>1</sup> have also been used to compare actual performance of IR during 2013-14 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 2013-14 vis-à-vis the previous year and budget estimates for 2013-14. It broadly provides perspective of the finances of the IR during the year 2013-14, 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 2012-13	Budget Estimates 2013-14	Revised Estimates 2013-14	Actual 2013-14
1	Passenger Earnings	31,322.61 (10.89)	42,210.00	37,500.00	36,532.00 (16.63)
2	Freight Earnings	85,262.58 (22.60)	93,554.00	94,000.00	93,905.63 (10.14)
3	Other Coaching Earnings <sup>2</sup>	3,054.46 (12.43)	3,422.00	3,665.00	3,678.78 (20.44)
4	Sundry Earnings <sup>3</sup>	4,261.36 (16.97)	4,506.00	5,284.82	5,721.29 (34.26)
5	Suspense	-168.42 (289.95)	50.00	50.00	-279.52 (65.97)
6	Gross Traffic Receipts <sup>4</sup> (Item No.1 to 5)	123,732.59 (18.85)	143,742.00	140,499.82	139,558.18 (12.79)
7	Ordinary Working Expenditure <sup>5</sup>	84,012.04 (12.71)	96,500.00	97,060.00	97,570.75 (16.14)
8	Appropriation to				
	Depreciation Reserve Fund	6,850.00 (5.06)	7,500.00	6,500.00	7,900.00 (15.33)
	Pension Fund	20,710.00 (17.60)	22,000.00	23,700.00	24,850.00 (19.99)
9	Total Working Expenditure (Item No.7 and Item No. 8)	111,572.04 (13.08)	126,000.00	127,260.00	130,320.75 (16.80)
10	Net Traffic Receipts (Item No.6 – Item No. 9)	12,160.55 (123.42)	17,742.00	13,239.82	9,237.43 (-24.04)

<sup>1</sup> Budget documents, Annual Statistical Statements of Indian Railways.

<sup>2</sup> Other coaching earnings from transportation of parcels, luggage and post office mail etc.

<sup>3</sup> Sundry Earnings from renting, leasing of building, catering services, advertisements, maintenance of sidings and level crossing, re-imburement of loss on strategic lines etc.

<sup>4</sup> Gross Traffic Receipts-Operational receipts from freight, passenger, other coaching traffic and sundry earnings of IR.

<sup>5</sup> Operating Expenses of IR.

11	Miscellaneous Receipts <sup>6</sup>	2,447.84 (14.66)	2,884.00	3,668.00	3,655.69 (49.34)
12	Miscellaneous Expenditure <sup>7</sup>	993.20 (24.73)	1,230.00	1,125.00	1,144.05 (15.19)
13	Net Miscellaneous Receipt (Item No. 11 – Item No. 12)	1,454.64 (8.66)	1,654.00	2,543.00	2,511.64 (72.66)
14	Net Revenue (Item No.10 and Item No.13)	13,615.19 (100.77)	19,396.00	15,782.82	11,749.07 (-13.71)
15	Dividend Payable to General Revenues-Current year	5,348.94 (-5.43)	6,249.20	7,839.87	8,008.67 (49.72)
	Deferred Dividend of previous year	0.00	0.00	0.00	0.00
	Total Dividend Payable in Current year	5,348.94 (-5.43)	6,249.20	7,839.87	8,008.67 (49.72)
16	Net Surplus (Item No. 14 – Item No.15)	8,266.25 (634.41)	13,146.80	7,942.95	3,740.40 (-54.75)
17	Surplus available for appropriation				
	Development Fund	7,815.00 (1181.15)	3,550.00	2,675.00	3,075.00 (-60.65)
	Capital Fund	451.25 (-12.48)	5,433.80	0.00	500.00 (10.80)
	Debt Service Fund	Nil*	4,163.00	5,267.95	165.40

Source: Explanatory Memorandum on Railway Budgets and Accounts for 2013-14 and 2014-15.

Note: Figures in brackets represent the increase/decrease in percentage over previous year.

\*Being a newly created fund in 2013-14, the balance for 2012-13 is 'Nil'.

## 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 in passenger earnings. Anticipated Gross Traffic Receipts (GTR) of 2013-14 was not achieved and overall decline of 2.91 per cent (₹ 4,183.82 crore) was recorded as compared to the Budget Estimates of current fiscal year. Ordinary Working Expenditure (OWE) and Total Working Expenditure (TWE) were marginally higher by 1.11 per cent (₹ 1,070.75 crore) and 3.43 per cent (₹ 4,320.75 crore) respectively as compared to the Budget Estimates. There was an increase in appropriation to Depreciation Reserve Fund (DRF) and Pension Fund by around 5.33 per cent and 12.95 per cent respectively when compared to Budget Estimates. The resultant net revenue was below the budget projections by 39.43 per cent, mainly due to shortfall in passenger earning by 13.45 per cent and excess appropriation to Depreciation Reserve Fund (5.33 per cent) and pension fund (12.95 per cent) than as envisaged in the budget 2013-14.

<sup>6</sup>Miscellaneous Receipts comprise of subsidy from Government of India (GoI) towards dividend relief and other concession, receipts by Railway Recruitment Board etc.

<sup>7</sup>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 2013-14-An overview**

#### **1.3.1 Gross Traffic Receipts (GTR)**

GTR increased by 12.79 *per cent* during the current fiscal year (2013-14), this was less than the 18.85 *per cent* growth achieved during 2012-13, which was mainly due to decrease in growth rate of freight earnings during the current year as compared to the previous year. The growth rate for other sources of earnings (passenger earnings, other coaching earnings and sundry earnings) was higher as compared to previous year.

#### **1.3.2 Ordinary Working Expenditure (OWE)**

OWE increased by 16.14 *per cent* in current fiscal year (2013-14) over the previous year which was much higher than the growth rate of 12.71 *per cent* achieved during 2012-13 as compared to 2011-12.

#### **1.3.3 Miscellaneous Receipts and Expenditure**

In the current fiscal year (2013-14), Miscellaneous Receipts as well as Miscellaneous Expenditure increased by 49.34 *per cent* and 15.19 *per cent* respectively over the previous year. Net Miscellaneous Receipts increased by 72.66 *per cent* over previous year. Net Miscellaneous Receipts were higher than the budget projection by 51.85 *per cent*.

#### **1.3.4 Net Revenue**

Net revenue in the current fiscal year decreased by 13.71 *per cent*, which was significantly lower than the 100.77 *per cent* growth achieved during previous year. This was mainly due to decrease in growth rate of Gross Traffic Receipts (12.79 *per cent*) during the current year as compared to the 18.85 *per cent* growth rate for the previous year. The increase in Total Working Expenditure (TWE) was 16.80 *per cent* during the current year as compared to 13.08 *per cent* 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 2013-14 was fixed at five *per cent* by the Railway Convention Committee (RCC). Payment of dividend to general revenues in the current fiscal year increased by 49.72 *per cent* over the previous year 2012-13. IR paid dividend of ₹ 8,008.67 crore in 2013-14. This was higher than the budget projection by 28.16 *per cent*.

#### **1.3.6 Net Surplus available for Appropriation**

Generation of Net surplus after meeting all revenue liabilities including payment of dividend decreased by 54.75 *per cent* in current fiscal year. Net Surplus decreased to ₹ 3,740.40 crore as compared to ₹ 8,266.25 crore in 2012-13.

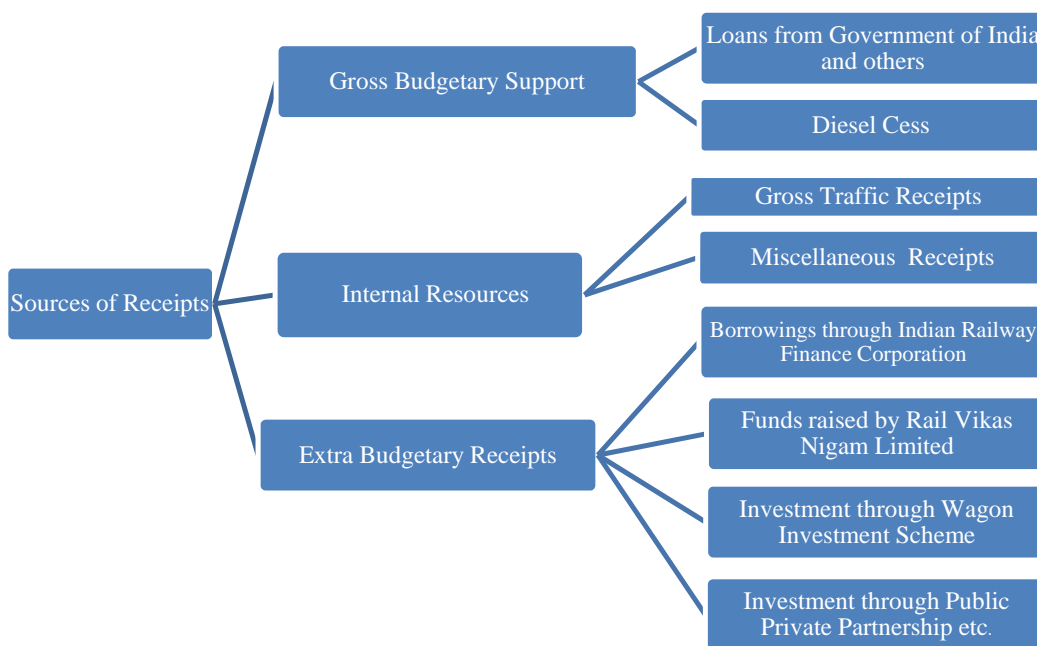
Net Surplus was below the budget estimates by 71.55 per cent. The shortfall in the Budgeted Net Surplus was due to decrease in Net Traffic Receipt (excess of Gross Traffic Receipts over Total Working Expenditure) by 47.93 per cent and excess payment of dividend by 28.16 per cent over the budget estimates. The increase in dividend payment was on account of payment of dividend at five per cent against four per cent as envisaged in the Budget.

The Net Surplus to the tune of ₹ 3,075.00 crore, ₹ 500.00 crore and ₹ 165.40 crore was appropriated to Development Fund, Capital Fund and Debt Service 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 13.50 per cent during 2013-14 against the Compound Annual Growth Rate (CAGR)<sup>8</sup> of 12.24 per cent during 2009-13. The General Budgetary Support increased by 12.19 per cent during 2013-14 against CAGR of 12.58 per cent during 2009-13, while extra budgetary receipts (market borrowings) increased by 0.55 per cent during 2013-14 against CAGR of 15.77 per cent during 2009-13. Thus, General Budgetary Support (GBS)<sup>9</sup> and internal resources of IR increased at a higher rate, than the extra budgetary receipts (market borrowings). However, it could be seen that there

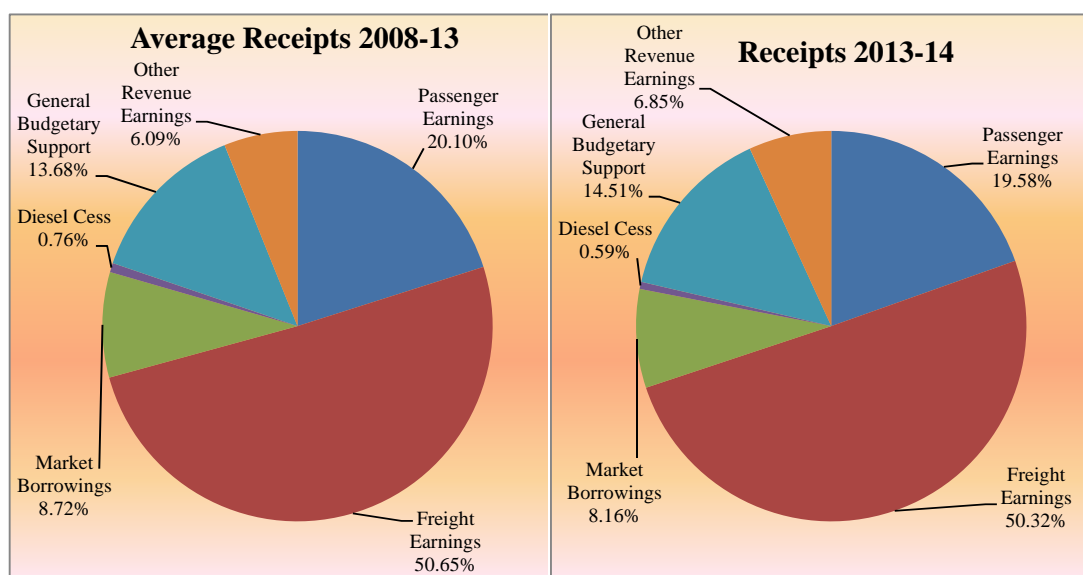
<sup>8</sup> Rate of growth over a period of years taking into account the effect of annual compounding.

<sup>9</sup> General Budgetary Support represents amount advanced by the Government of India to Ministry of Railways to finance capital expenditure.

has been negligible growth in the extra budgetary receipts indicating that IR is not exploring any means to raise the market funds through Rail Vikas Nigam Limited (RVNL) despite being recommended in the para 7.2.7 of chapter 7 of the Report of the Comptroller and Auditor General of India (No.34 of 2010-11) -Union Government (Railways).

The internal resources of IR comprises of receipts from passenger earnings, freight earnings and other revenue earnings. Share of each of these sources of funds during the current year 2013-14 as well as over the average of past five years ended 31 March 2013 are given in pie diagram in Figure 1.2:

**Figure 1.2: Relative Share of various Resources of IR**



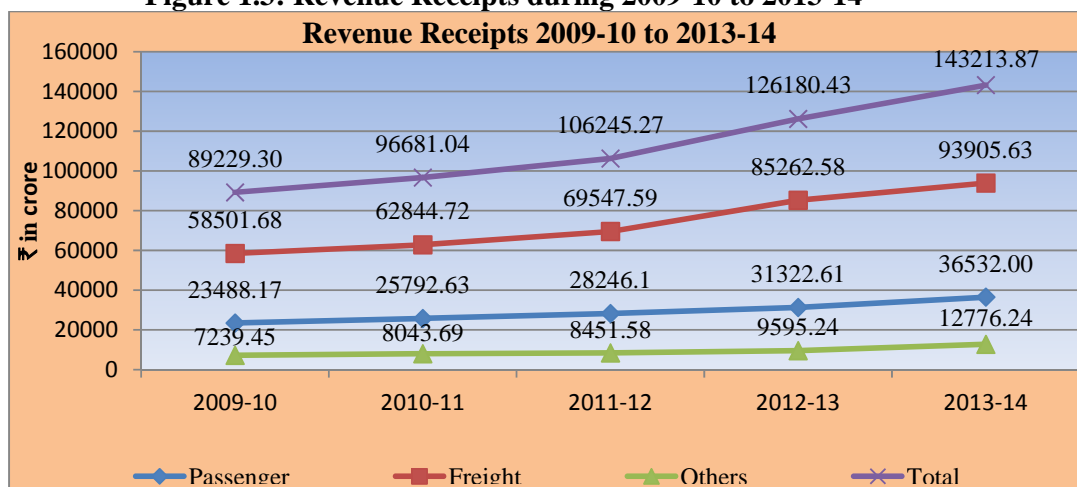
*Note: Other Revenue Earnings include Other Coaching Earnings, Sundry Other Earnings and Miscellaneous Receipts*

Diagram at 1.2 shows that the largest resource earnings of IR was 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, freight earnings, market borrowings and diesel cess decreased slightly whereas share of General Budgetary Support and other revenue earnings increased slightly in the current year as compared to average figures of receipts during 2008-13.

#### **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 2009-10 to 2013-14



Note: Others include Other Coaching, Sundry Others, Suspense and Miscellaneous Receipts  
 Figures of Others and Total Receipts for 2012-13 are revised figures.

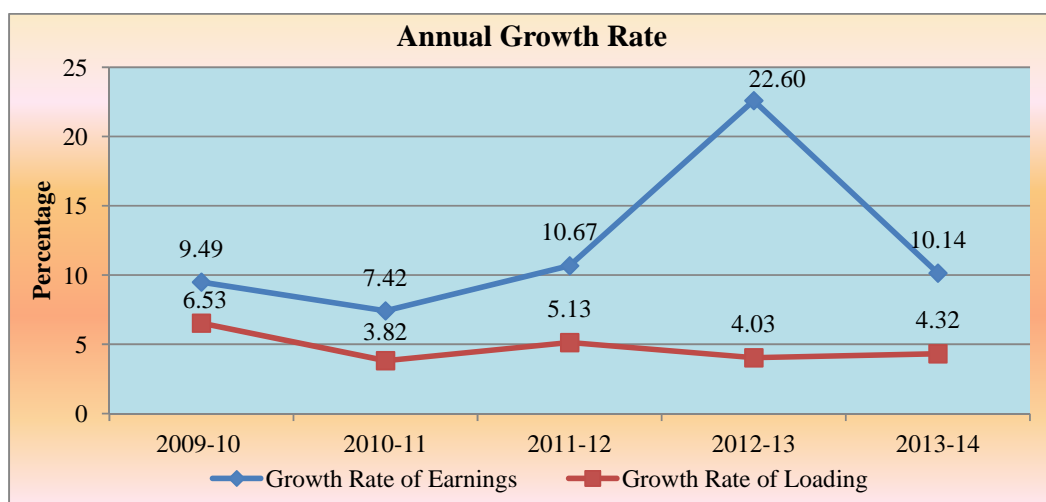
Total Revenue Receipts increased at a CAGR of 12.24 per cent during 2009-13, however, the increase in the Total Revenue Receipts during year 2013-14 was 13.50 per cent. The annual inflation of all commodities on an average during 2013-14 was around 6 per cent<sup>10</sup>, which implies that the real increase in revenue receipts was 7.50 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 2014 are shown in the graph below:

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



<sup>10</sup> (Source –Economic Survey, Ministry of Commerce and Industry)

Figure 1.4 indicates an increase in the annual growth of freight loading in the current fiscal year. The annual incremental increase in loading (in absolute terms) ranged between 54.40 Million Tonne (2009-10) and 43.55 Million Tonne (2013-14) during the last five years. Increase in freight loading by 4.32 *per cent* during 2013-14 was slightly less than the CAGR of 4.33 *per cent* achieved during 2009-13. The growth in freight earnings has sharply declined to 10.14 *per cent* as compared to previous years' growth of 22.60 *per cent*. This is due to decrease in growth rate of NTKM by 3.74 *per cent*. (Refer Table No.1.2 in the succeeding paragraph)

In 2013-14, freight earnings increased by 10.14 *per cent* over the previous year against the CAGR of 13.38 *per cent* achieved during 2009-13. The status of freight services statistics are given in the Table No. 1.2:

**Table 1.2 Freight Services Statistics**

Year	Loading (Million Tonne)	NTKM <sup>11</sup> (in million) (Revenue Freight Traffic only)	Earning (₹ in crore)	Average lead (in kilometre)	Rate per tonne per km (in paise)
2009-10	887.79	600548 (8.90)	58,501.68 (9.49)	676	97.41
2010-11	921.73	625723 (4.19)	62,844.72 (7.42)	679	100.44
2011-12	969.05	667607 (6.69)	69,547.59 (10.67)	689	104.17
2012-13	1008.09	691658 (3.60)	85,262.58 (22.60)	686	123.27
2013-14	1051.64	665810 (-3.74)	93,905.63 (10.14)	633	141.04

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

Note: Figures in bracket represent percentage increase over previous year.

The figures of Rate per tonne per km for 2009-10 and 2010-11 are revised figures.

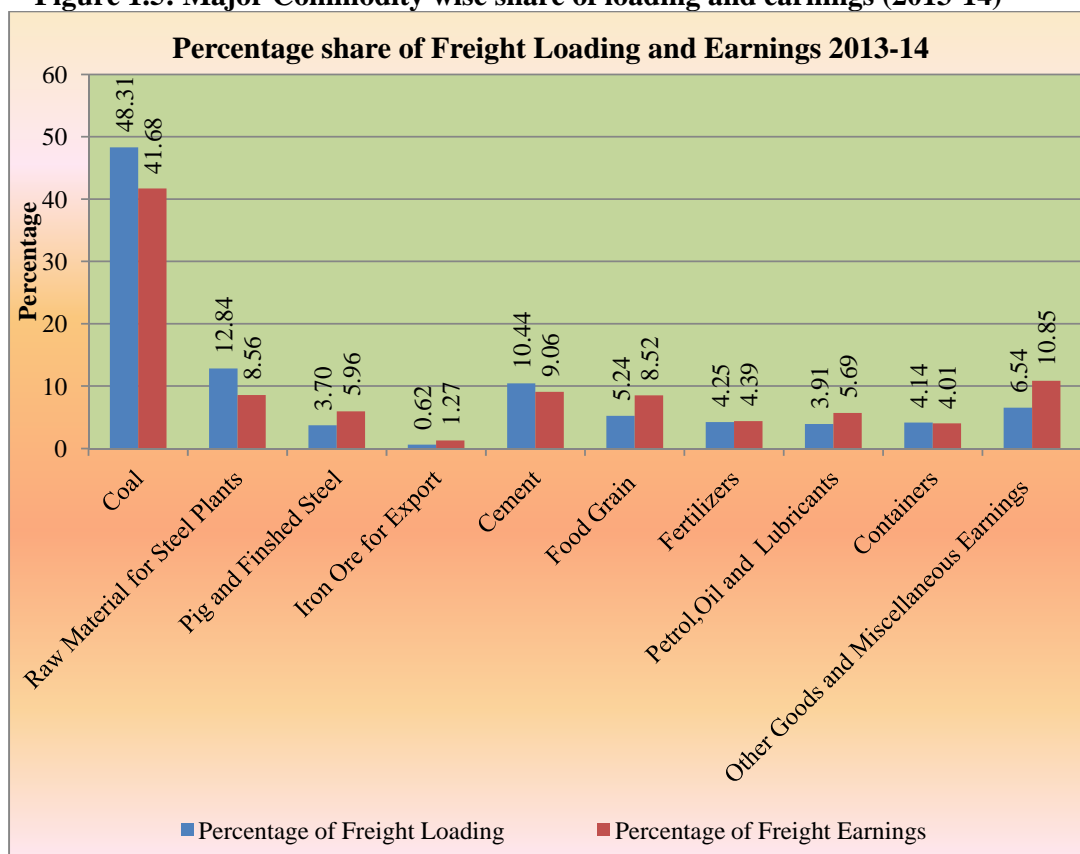
During 2013-14, it was seen that the annual growth rate of freight loading was 4.32 *per cent*, while the Net Tonne Kilometre (NTKM) decreased at the rate of 3.74 *per cent*. The growth rate of Rate per tonne per kilometer and Freight earning over the previous year was 14.41 *per cent* and 10.14 *per cent* respectively; even though the average lead (average haul of a tonne of freight) declined from 686 km in 2012-13 to 633 km in 2013-14.

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

<sup>11</sup> 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 kilometer.



Figure 1.5: Major Commodity wise share of loading and earnings (2013-14)



Coal, being a captive commodity, was the major component both in loading and earnings for IR. The above major commodities (excluding 'Other Goods' and Miscellaneous earnings) contributed 89.15 per cent of the total freight earnings of IR. Iron ore for export constituted 0.62 per cent of the total loading and earned 1.27 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)
2009-10	7245.80	903465 (7.81)	23,488.17 (7.10)	124.69	26.00 (-0.66)
2010-11	7651.09	978508 (8.31)	25,792.63 (9.81)	127.89	26.36 (1.39)
2011-12	8224.38	1046522 (6.95)	28,246.10 (9.51)	127.25	26.99 (2.40)
2012-13	8420.71	1098103 (4.93)	31,322.68 (10.89)	130.41	28.52 (5.68)
2013-14	8397.06	1158742 (5.52)	36,532.00 (16.63)	137.99	31.53 (10.53)

Note: Figures in bracket represent percentage increase over previous year.

Figures for the years 2009-10 and 2010-11 in the above Table are revised figures based on Indian Railway Annual Statistical Statement (No. 12-Passenger Revenue Statistics).



Despite decrease in number of originating passengers, it was seen that average earnings per passenger per kilometer increased from 28.52 paise in 2012-13 to 31.53 paise in 2013-14, which was mainly due to increase in passenger tariff and increase in passenger kilometer. IR had been incurring a loss<sup>12</sup> every year on passenger and other coaching services.

The growth in earnings from Passenger traffic and in Passengers Originating during the last five years (2009-14) is shown in Figure 1.6.

**Figure 1.6: Growth Rate of Passenger Originating and Passenger Earnings**



*Note-The growth rate of passenger originating in the years 2009-10 to 2011-12 are revised figures based on Statement No. 12-Passenger Revenue Statistics*

The percentage increase in earnings from passenger traffic in 2013-14 over the previous year was 16.63 per cent which was above the CAGR of 10.07 per cent for the period 2009-13. The growth in passengers originating in 2013-14 over the previous year was negative (-0.28 per cent) which was below the CAGR of 5.14 per cent during 2009-13.

Audit observed that passenger earnings fell short of budget estimates in all zonal railways except Metro Railway/Kolkata during 2013-14. The shortfall in passenger earnings targets was up to 20.62 per cent in East Central Railway and 16.58 per cent in Central Railway.

#### **1.4.1.3 Sundry Earnings and Other Coaching Earnings**

Sundries and other coaching earnings constituted around seven per cent of the Gross Traffic Receipts in the current fiscal year (2013-14). It grew at around 28.49 per cent in 2013-14 as against 15.03 per cent in the year 2012-13. Analysis in audit revealed that earnings from rent, license fee, interest and maintenance charges and advertisements increased in the current year as compared to the previous year. Though there was considerable scope for increasing revenue

<sup>12</sup> As per Summary of End Results Coaching Services Profitability/Unit Costs prepared by Ministry of Railways

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<sup>13</sup>

Against the target for recovery of ₹ 50 crore during 2013-14 under unrealized earnings, IR accumulated ₹ 279.52 crore as unrealized earnings. The unrealized earnings rose from ₹ 1,569.45 crore in 2012-13 to ₹ 1,848.98 crore in 2013-14. At the end of the financial year unrealized earnings were ₹ 1,848.98 crore, of which ₹ 1,592.37 crore was under Traffic Suspense and ₹ 256.61 crore under Demand Recoverable. During the current fiscal year Central Railway was the major contributor to the accumulation of unrealized earnings with ₹ 91.70 crore. This was followed by East Central Railway with ₹ 62.48 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 ₹ 847.67 crore which constituted 52.23 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 2013	Outstanding dues as of 31 March 2014	Increase/decrease (-) during the year
1.	Punjab State Electricity Board (PSEB)	448.39	448.58	0.19
2.	Delhi Vidyut Board (DVB)	175.88	114.28	(-) 61.60
3.	Rajasthan State Electricity Board (RSEB)	36.93	38.06	1.13
4.	Maharashtra State Electricity Board (MSEB)	0.48	143.17	142.69
5.	National Thermal Power Corporation (NTPC)	7.35	64.42	57.07

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

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 46.12 per cent<sup>14</sup> during the last five years as of 31 March 2013, however, the expenditure under this head increased by 55.31 per cent during the same period.

<sup>13</sup>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'.

<sup>14</sup>Excluding Narrow Gauge (2011-12)

The Summary of End Results-Freight Services Unit Costs and Coaching Services Profitability/Unit Costs for the year 2012-13 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 ₹ 15,268.41 crore in 2008-09 to ₹ 26,025.46 crore in 2012-13<sup>15</sup>. The gap in percentage of expenditure on passengers and other coaching services left unrecovered during the period of five years as of 31 March 2013 are shown in Figure 1.7.

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

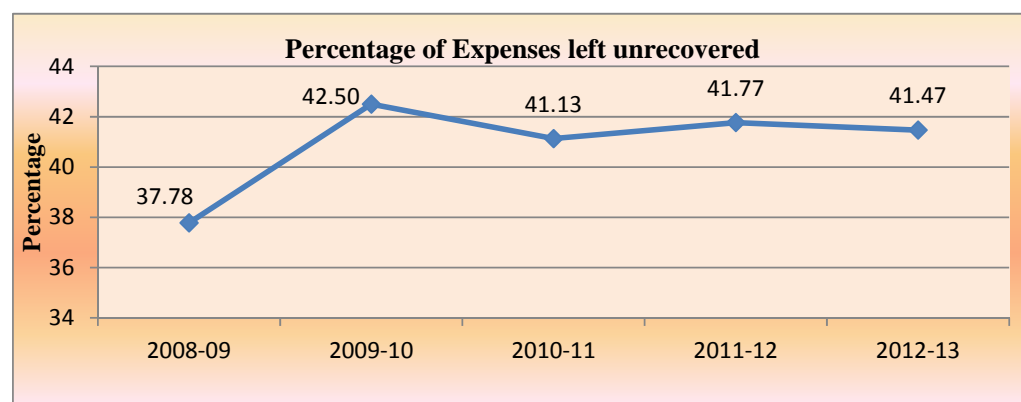
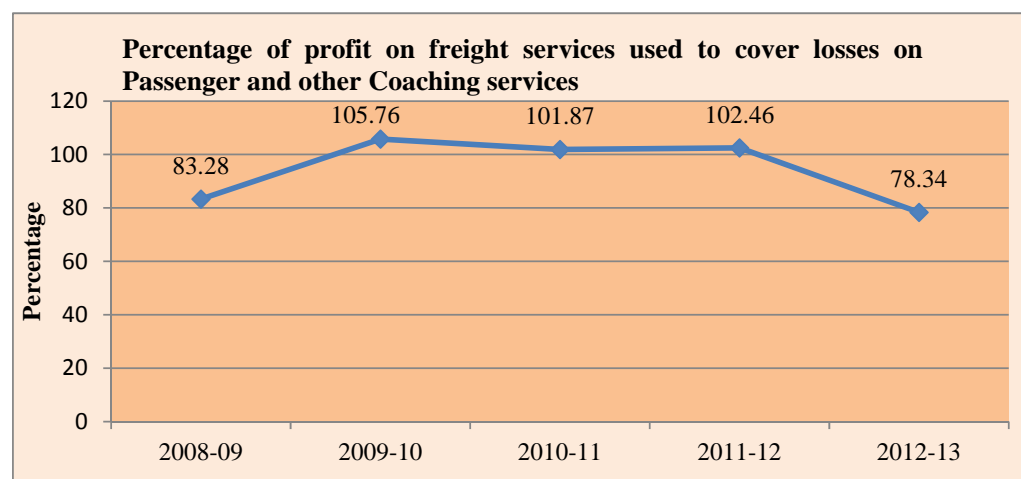


Figure 1.8 shows the percentage of profit on freight services, utilized to make up the loss on passenger and other coaching services:

**Figure 1.8: Percentage of profit on freight earnings used to subsidize the passenger and other coaching services**



It would be seen that the 78.34 per cent profit from freight traffic during 2012-13 (profit from freight traffic in 2012-13 ₹ 33,221.24 crore) was utilized to compensate the loss of ₹ 26,025.46 crore on operation of passenger and other

<sup>15</sup> Summary of End Results-Coaching Services-Profitability/Unit Costs for 2013-14 not compiled (February 2015).

coaching services of IR. Thus despite increase in the loss on passenger services from ₹ 23,643.68 crore in 2011-12 to ₹ 26,025.46 crore in 2012-13, the cross subsidy from freight earnings towards passenger and other coaching services has decreased in 2012-13 as compared to previous year. IR has been able to retain 21.66 per cent of the profit on freight earning after subsidizing the loss on passenger services in 2012-13 as compared to (-) 2.46 per cent in the previous year showing an improvement in the operational profit.

**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 2008-09 to 2012-13:

**Table 1.5 Operational losses of various Classes of Passenger Services**  
(₹ in crore)

Class of Passenger services	2008-09	2009-10	2010-11	2011-12	2012-13
AC-Ist class	-59.37	-53.14	-46.61	-38.78	-40.86
Ist class	-69.67	-32.67	16.47	-39.13	-61.36
AC 2 Tier	-176.91	-372.32	-407.93	-438.83	-348.09
AC 3 Tier	540.57	212.14	266.31	499.33	494.99
AC Chair car	5.45	-2.11	33.62	-13.29	-38.12
Sleeper Class	-3,175.24	-5,333.90	-6,070.58	-6531.75	-6852.72
Second class	-2,933.09	-3,401.25	-3,998.08	-4237.60	-5167.53
Ordinary (All Class)	-6,381.77	-7,763.36	-7,437.00	-8893.12	-9783.80
EMU suburban services	-1,651.19	-2,214.06	-2,320.23	-2813.95	-3365.47

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

It 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, 2013 which means that AC-3-Tier only has covered its operational cost in 2012-13.

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<sup>16</sup> to the earning of the various classes of passenger services ranged from 4.16 per cent (AC Chair) to 210.37 per cent (Ordinary class) with 161.11 per cent on EMU Suburban train services.

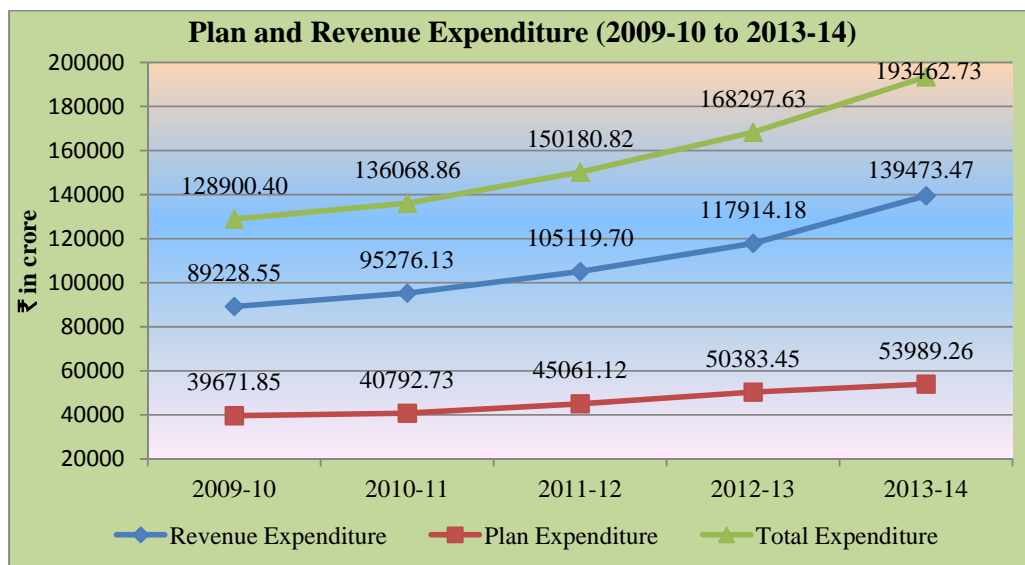
**1.7 Application of Resources**

The two main components of expenditure in IR are ‘Revenue Expenditure’ and ‘Plan Expenditure’. Revenue expenditure includes ordinary working expenditure,

<sup>16</sup> Loss worked out on the basis of figures of Expenses and Earnings given in Summary of the End Results-Coaching Services Profitability/Unit Costs (2012-13).

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**



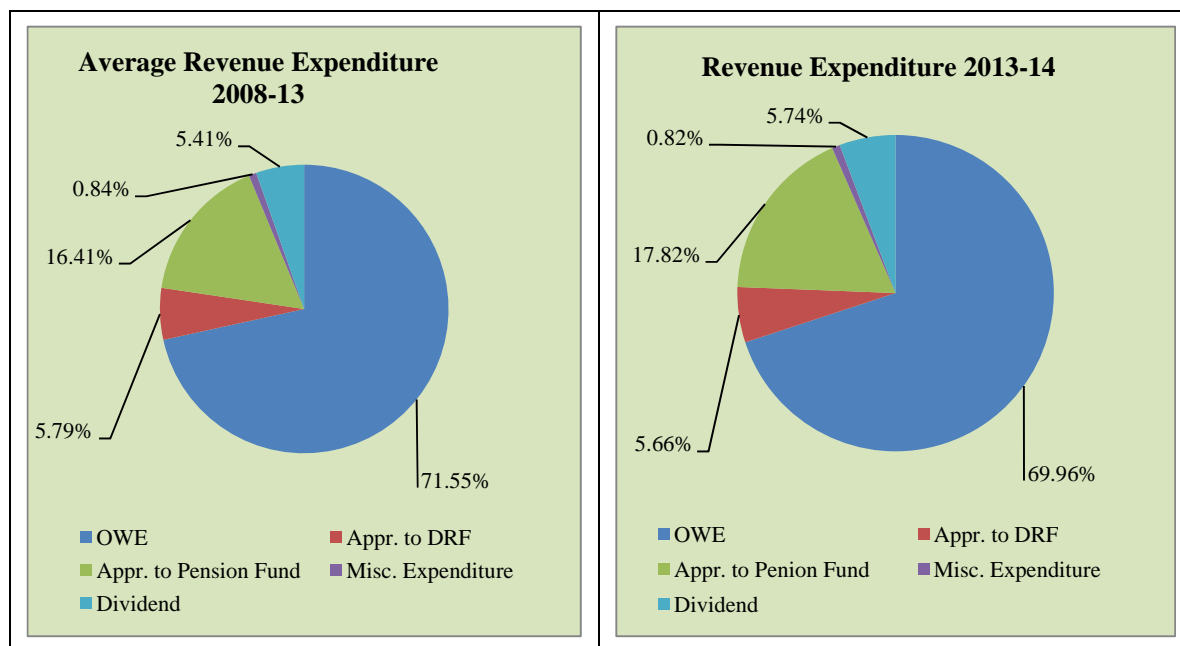
*Note-Figures of Plan Expenditure and Total Expenditure for 2009-10 are revised figures.*

During last five years, the share of revenue expenditure and plan expenditure to total expenditure remained almost static within the range of 69 per cent to 72 per cent and 31 per cent to 28 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 2013 are given in Figure 1.10:

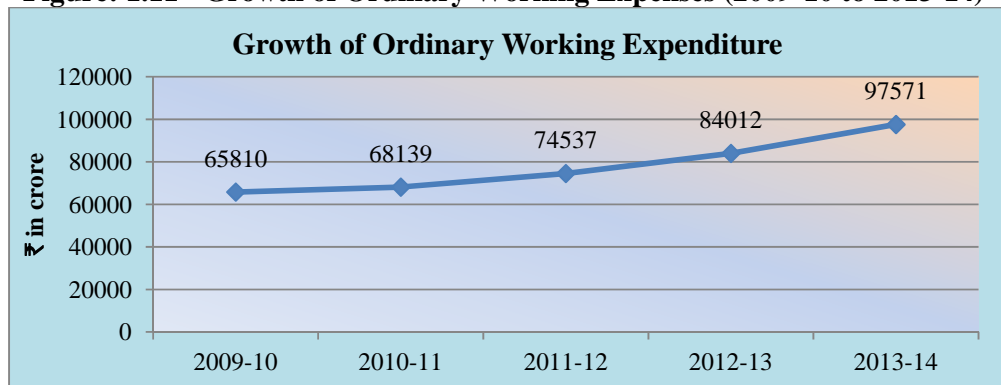
Figure 1.10: Revenue Expenditure in last five years



OWE- Ordinary Working Expenditure,  
DRF- Depreciation Reserve Fund

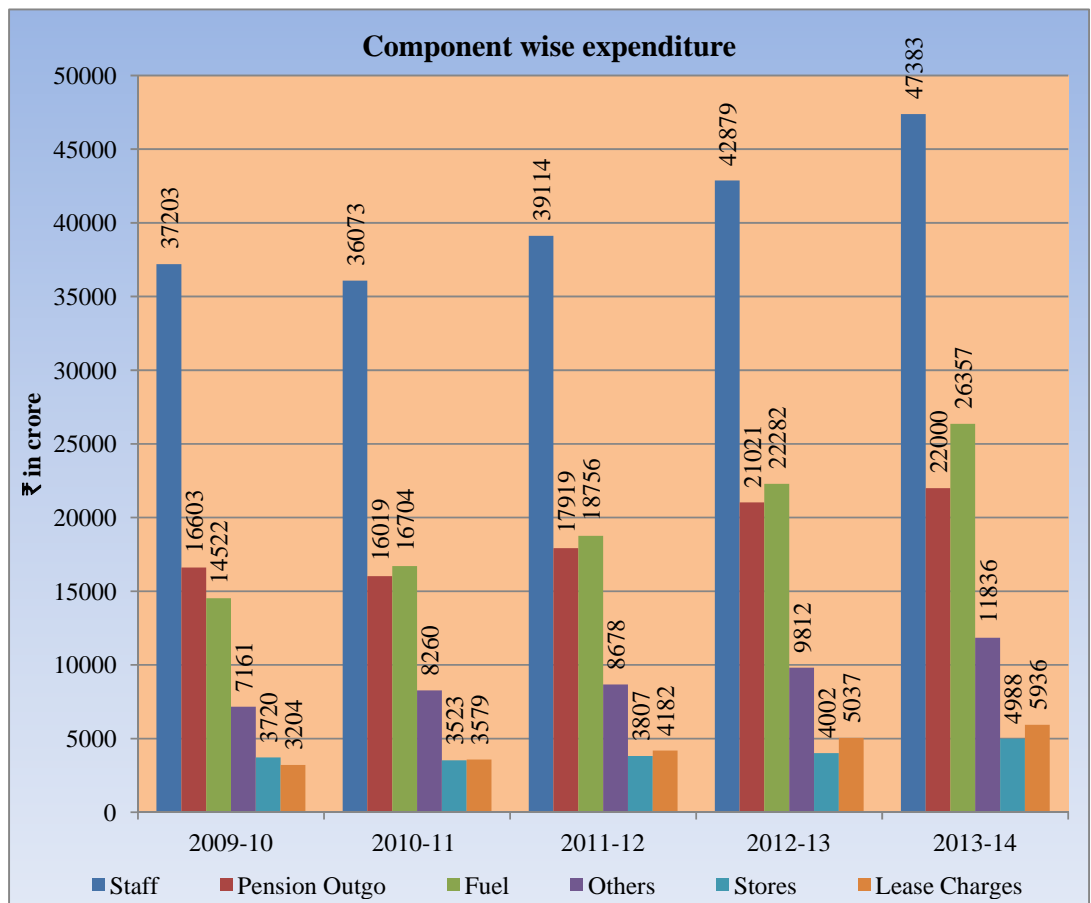
The main components of expenditure was Ordinary Working Expenditure (OWE) which constituted 71.55 per cent of the total revenue expenditure on an average during 2008-13 and 69.96 per cent during 2013-14. Appropriation to Depreciation Reserve Fund (DRF) was reduced to 5.66 per cent in 2013-14 as compared to 5.79 per cent on an average during 2008-13. Appropriation to Pension Fund increased to 17.82 per cent in 2013-14 as compared to 16.41 per cent on an average during 2008-13 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 (2009-10 to 2013-14)**

OWE increased at a rate of 16.14 *per cent* during 2013-14 over the previous year as compared to growth rate of 12.71 *per cent* in the previous year. The increase in OWE was due to increase in operating expenses on fuel by 30.94 *per cent*, repairs and maintenance of carriage and wagons by 12.11 *per cent* and operating expenses on traffic by 10.97 *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**

Note-Figures for 2013-14 as per budget estimate.

Figure of expenditure on Staff for 2012-13 is revised figure.

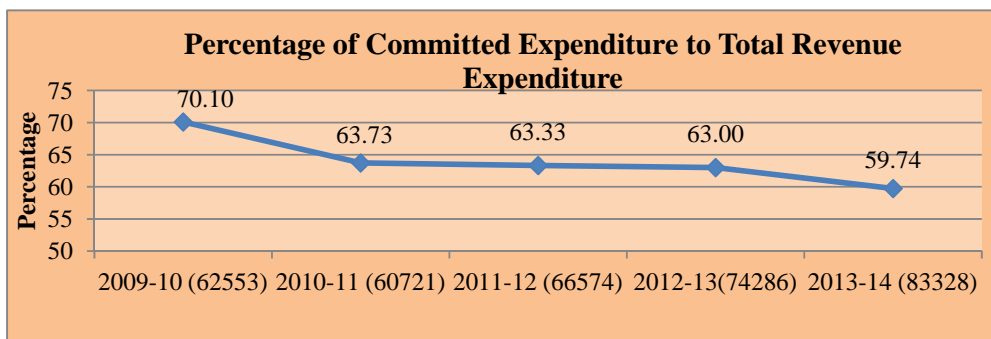


Staff cost (including pension outgo) constituted around 59 per cent of the working expenses of the IR during the current year.

### 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 2009-14:

**Figure 1.13: Committed Expenditure as a percentage of Total Revenue Expenditure**



Note-Figures shown in bracket indicate total committed expenditure in crore of rupees.

Figures for 2013-14 are as per budget estimate.

The percentage of Committed Expenditure to Total Revenue Expenditure for 2012-13 is revised figure.

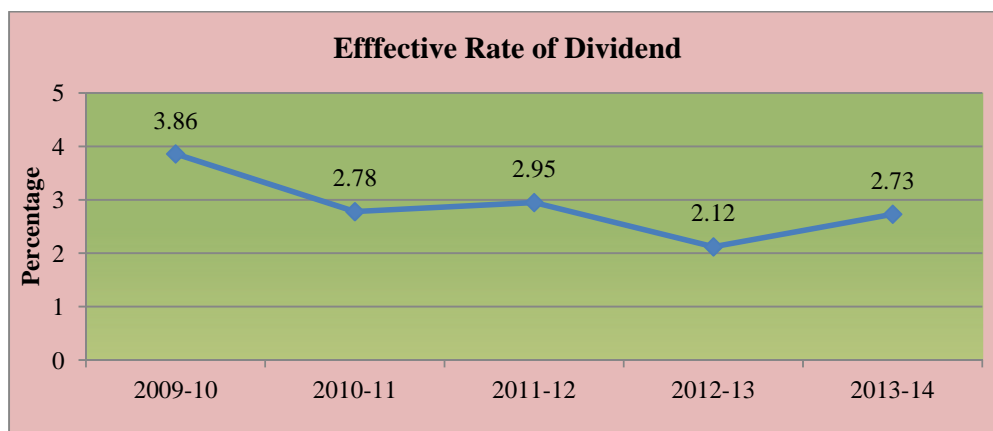
Percentage of committed expenditure to total revenue expenditure was 59.74 per cent in 2013-14. IR was left with 40.26 per cent of the total revenue expenditure to run their operations.

### 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). The rate of dividend for 2013-14 was fixed at five per cent by the 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<sup>17</sup>. Dividend paid on such capital is received back as subsidy to IR. The subsidy increased from ₹ 2,286.14 crore in 2012-13 to ₹ 3,370.56 crore in 2013-14. The net effective rate of dividend after adjusting the subsidy received, increased from 2.12 per cent in the 2012-13 to 2.73 per cent in 2013-14.

<sup>17</sup>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

Figure: 1.14 Effective Rate of Dividend



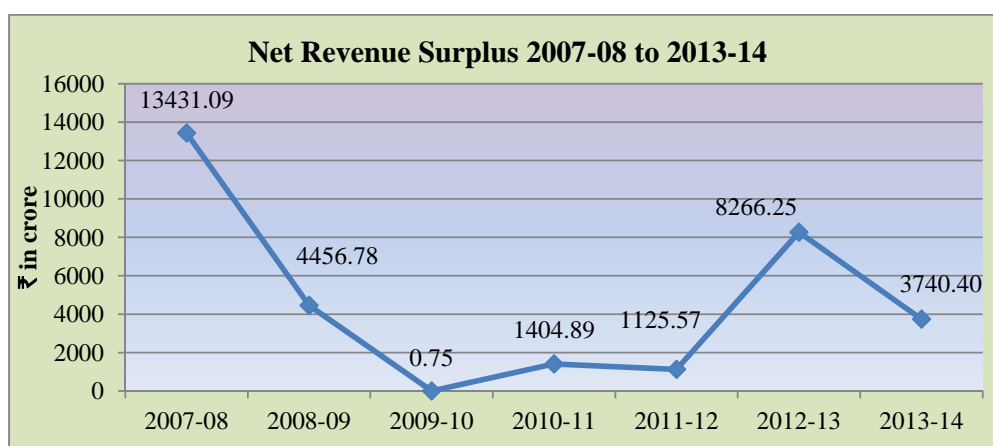
#### 1.7.4 Un-discharged Liability

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 ₹ 10,119.91 crore at the close of 2012-13 increased to ₹ 11,231.45 crore as of March 2014.

#### 1.8 Revenue Surplus

Trend of net revenue surplus after meeting all revenue expenditure including payment of dividend, during the years 2007-08 to 2013-14 are shown in the Figure 1.15.

Figure: 1.15 Revenue Surplus



The net surplus which increased to ₹ 8,266.25 crore in 2012-13 declined to ₹ 3,740.40 crore during 2013-14. The decline in net surplus was due to growth rate of freight earning (10.14 per cent) being less than that of 2012-13 (22.60 per cent) and growth rate of total working expenditure (16.80 per cent) being more

than that of 2012-13 (13.08 per cent). The payment of dividend was also at five per cent as against four per cent during 2012-13.

During 2013-14, there was a shortfall of ₹ 9,406.40 crore in the net surplus as against the budget estimate of ₹13,146.80 crore. The shortfall in revenue surplus was due to decrease in total revenue earnings by ₹ 3,412.12 crore and increase in total expenditure and dividend expenditure by ₹ 4,234.80 crore and ₹ 1,759.47 crore respectively.

## 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 90.19 per cent in 2012-13, deteriorated to 93.60 per cent in 2013-14 for IR. This was primarily due to the reason that working expenditure grew at higher rate (17.13 per cent) as compared to previous year (13.11 per cent), while the total earnings grew at rate (12.86 per cent) less than the previous year (18.96 per cent). Operating ratio of zonal railways during the last five years ended on 31 March 2014 is shown in the Table 1.6.

Table 1.6 Operating Ratio of Zonal Railways

S. No.	Zonal Railway	2009-10	2010-11	2011-12	2012-13	2013-14
1	Central	106.47	107.31	105.68	97.82	100.23
2	Eastern	186.25	178.52	182.10	178.86	176.76
3	East Central	107.94	109.06	103.58	92.19	99.58
4	East Coast	48.25	42.82	44.68	44.50	48.34
5	Northern	112.74	112.20	121.00	113.15	110.12
6	North Central	61.55	63.12	61.80	59.68	64.04
7	North Eastern	216.19	201.78	202.06	200.01	207.49
8	Northeast Frontier	161.28	167.25	166.40	178.39	193.08
9	North Western	110.29	106.41	99.99	88.97	98.58
10	Southern	137.47	135.55	122.58	130.59	132.18
11	South Central	80.66	85.76	85.90	79.63	84.13
12	South Eastern	69.18	66.98	72.74	70.50	72.54
13	South East Central	60.43	58.01	55.24	49.14	52.53
14	South Western	88.43	98.69	109.01	104.85	115.41
15	Western	97.88	97.96	94.61	89.84	91.74
16	West Central	74.07	74.93	70.13	68.18	71.06
17	Metro Railway/Kolkata	248.00	226.35	310.89	328.26	302.63
Overall IR		95.28	94.59	94.85	90.19	93.60

Source-Indian Railways Appropriation Accounts –Part-I Review

There were improvement in the Operating Ratio of Eastern, Northern Railways and Metro Railway/Kolkata whereas the same deteriorated in other zonal railways during the current year as compared to the previous year. Operating Ratio of Central, Eastern, Northern, North Eastern, Northeast Frontier, Southern, South Western Railways and Metro Railway/Kolkata was more than 100 *per cent* during 2013-14 implying that their working expenditure was more than their traffic earnings. Operating ratio of the railways namely Eastern, Northern, North Eastern, Northeast Frontier, Southern Railways and Metro Railway/Kolkata was more than 100 *per cent* in the last five years.

### 1.9.2 Capital-Output Ratio

Capital Output Ratio indicates the amount of capital employed to produce one unit of output. Total Traffic in terms of Net Tonne Kilometres (NTKMs) and Passenger Kilometres (PKMs) is considered 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 2014:

**Table 1.7 Capital Output Ratio of IR**

As on	Total Capital including investment from Capital Fund (₹ in Million)	Goods Traffic (NTKM) (in Million) (Revenue Freight Traffic only)	Passenger Traffic		Total Traffic (in Million NTKMs)	Capital at charge (in Paise) per NTKM
			Passenger Kilometres (in Millions)	Million NTKMs		
31-Mar-10	1,230,007	600,548	903,465	64,146	664,694	185
31-Mar-11	1,432,205	625,723	978,508	69,474	695,197	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
31-Mar-14	2,088,443	665,810	1,158,742	82,271	748,081	279

Source-Indian Railways Annual Statistical Statements

Note-Figures of NTKMs as on 31 March 2010 and 31 March 2011 are revised figures based on Statement No. 13-Goods Revenue Statistics

Capital Output ratio had increased from 185 paise (2009-10) to 279 paise (2013-14) 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<sup>18</sup> in case of IR is measured in terms of volume of traffic handled (in terms of NTKM in Million) per thousand employees. It increased by 21 *per cent* during the period 2009-10 (525) to 2013-14 (636) of Open Line staff of all zonal railways (excluding Metro Railway/Kolkata).

<sup>18</sup> Annual Statistical Statements of Indian Railways

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 12.72 lakh (2009-10) to 11.38 lakh (2013-14).

Zone wise analysis of staff productivity revealed that during 2013-14, highest Staff Productivity of 1,711.15 Million NTKM per thousand employees was achieved by North Central Railway whereas Staff Productivity of 208.02 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 budgetary support, internal resources<sup>19</sup> and extra budgetary support i.e. market borrowing through Indian Railway Finance Corporation Limited (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 11<sup>th</sup> Five Year Plan period (2007-08 to 2011-12) and 1<sup>st</sup> and 2<sup>nd</sup> year of the 12<sup>th</sup> Five year Plan period (2012-13 to 2016-17):

**Table 1.8 Sources of Plan Expenditure**

(₹ in crore)

Source of Plan Expenditure	11 <sup>th</sup> Five Year Plan	12 <sup>th</sup> Five Year Plan		
	(2007-08 to 2011-12)	2012-13	2013-14	
	Actual	Actual	Budget Estimates	Actual
General Budgetary Support <sup>20</sup>	77,316.28 (40.46)	25,710.21 (51.03)	28,000 (44.19)	29,055.38 (53.82)
Internal Resources	66,546.08 (34.82)	9,531.31 (18.92)	14,260 (22.51)	9,709.00 (17.98)
Extra Budgetary Resources	47,238.94 (24.72)	15,141.93 (30.05)	21,103 (33.30)	15,224.88 (28.20)
<b>Total</b>	<b>1,91,101.30</b>	<b>50,383.45</b>	<b>63,363</b>	<b>53,989.26</b>

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

<sup>19</sup> Reserve Funds such as Depreciation Reserve Fund, Capital Fund, Development Fund

<sup>20</sup> Includes expenditure from RSF

Due to non-availability of sufficient internal resources, the dependency of Plan Expenditure on General Budgetary Support increased substantially in 2013-14. The share of General Budgetary Support to the total plan expenditure increased from 51.03 per cent in 2012-13 to 53.82 per cent in 2013-14. The share of internal resources was 17.98 per cent against 22.51 per cent envisaged in the Budget Estimate (2013-14) and was indicative of shortfall in generation of internal resources of IR to meet the plan expenditure. Share of Extra Budgetary Resources (market borrowings) reduced from 30.05 per cent in 2012-13 to 28.20 per cent in current year. During 2013-14, Ministry of Railways obtained extra budgetary support of ₹ 15,224.88 crore from IRFC for rolling stock and doubling projects being executed by RVNL.

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 11<sup>th</sup> Five Year Plan period and first two years of 12<sup>th</sup> Five Year Plan period:

**Table 1.9 Category-wise Plan Expenditure**  
(₹ in crore)

Plan Heads	11 <sup>th</sup> Five Year Plan	12 <sup>th</sup> Five Year Plan	
	(2007-08 to 2011-12)	2012-13	2013-14
New Lines, Gauge Conversion, Yard Remodelling, Doubling, Traffic Facilities, Track Renewal, Bridge Work, Signalling and Telecommunication	73,276.21 (38.34)	16,721.19 (33.19)	18,532.34 (34.33)
Rolling Stock and Payment of Capital Component of Lease charges	76,686.36 (40.13)	22,403.29 (44.47)	22,267.49 (41.24)
Workshop and Production Units and Plant & Machinery	6,762.29 (3.54)	1,917.00 (3.80)	2,264.42 (4.19)
Investments in Government Undertaking	10,108.19 (5.29)	3,372.74 (6.69)	4,289.58 (7.95)
Others	24,268.25 (12.70)	5,969.23 (11.85)	6,635.43 (12.29)
<b>Total</b>	<b>1,91,101.30</b>	<b>50,383.45</b>	<b>53,989.26</b>

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.

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)

slightly increased from 33.19 per cent in 2012-13 to 34.33 per cent in 2013-14. The share of Plan Expenditure on 'Rolling Stock and Payment of Capital Component of Lease charges' decreased from 44.47 per cent in 2012-13 to 41.24 per cent in 2013-14.

**1.11 Railway Funds**

**Table 1.10 Status of Railway Funds**

<i>Fund</i>	<i>Description</i>
<i>Depreciation Reserve Fund</i>	<i>The opening balance in this fund account as on 1 April 2013 was ₹9.80 crore. Appropriation to this fund is met out of the revenues earned by IR. This fund receives interest at the rate of dividend payable to general revenues. This fund is meant for replacement and renewal of over-aged assets. An amount of ₹ 8,100 crore<sup>21</sup> was appropriated to this fund. The fund closed at ₹ 1,021.38 crore at the end of 2013-14 by expending an amount of ₹7,119.91 crore on replacement and renewal of assets. The Appropriation to DRF was made more than Budgeted provision by 5.19 per cent.</i>
<i>Pension Fund</i>	<i>The opening balance in this fund account as on 1 April 2013 was ₹5.42 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 2013-14 was slightly more than the withdrawals. The available balance under the fund at the close of the year was ₹419.04 crore as on 31 March 2014.</i>
<i>Development Fund</i>	<i>The fund account as on April 1, 2013 stood at ₹2,332.61 crore. Appropriation to this fund is met as a first charge on revenue surplus available with IR after meeting out the total working expenditure and dividend. In 2013-14, the revenue surplus to the tune of ₹ 3,075 crore was appropriated to it. The capital expenditure amounting to ₹ 2,561.43 crore was incurred out of this fund during 2013-14. The fund closed at ₹3,053.02 crore at the end of 2013-14.</i>
<i>Capital Fund</i>	<i>The opening balance in this fund account as on April 1, 2013 was ₹ 42.68 crore. This fund receives interest at the rate of dividend payable to general revenues. Against the budget estimate of ₹ 5,433.80 crore, only ₹500 crore was appropriated to this fund in 2013-14. No expenditure was incurred from this fund during the year. The fund closed at ₹557.32 crore as on 31 March 2014.</i>
<i>Railway Safety Fund</i>	<i>The opening balance in this fund account as on April 1, 2013 was ₹1,682.90 crore. An amount of ₹ 1,982.98 crore was utilized in 2013-14 as against an amount of ₹1,105.06 crore credited to it. The fund account closed at ₹ 804.98 crore at the end of 2013-14.</i>
<i>Debt Service Fund</i>	<i>The fund was opened in year 2013-14 for making repayment of loans and debt servicing i.e. loans taken by the Ministry of Railways from World Bank and other multilateral agencies, supplement payment of pay and allowances and pension due to implementation of recommendations of Pay Commission. Against the budget estimate of ₹ 4,163 crore, only ₹ 165.40 crore was appropriated to this fund in 2013-14. No expenditure was incurred from this fund during the year. The fund closed at ₹169.54 crore as on 31 March 2014.</i>

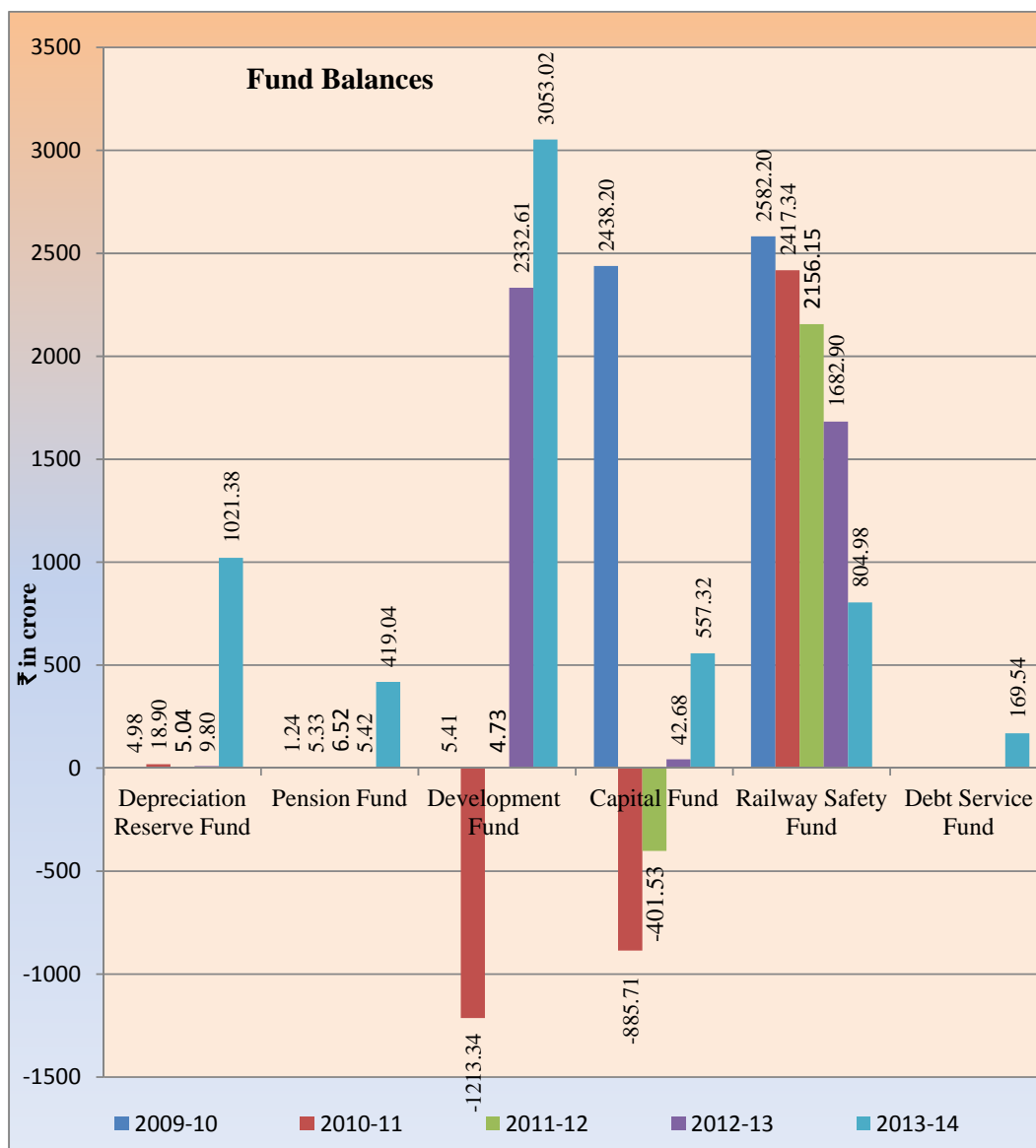
Source – Indian Railways Appropriation Accounts-Part-II-Detailed Appropriation Accounts

<sup>21</sup> Appropriation to DRF includes ₹ 200 crore appropriated for production units during 2013-14.



The funds 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, Capital Fund and Debt Service Fund were closed with balances of ₹ 3,053.02 crore, ₹ 557.32 crore and ₹ 169.54 crore respectively.

**Figure 1.16-Fund Balances at the close of the years (2009-10 to 2013-14)**



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

The balance available in the railway funds increased from ₹ 4,073.41 crore in 2012-13 to ₹ 6,025.28 crore at the end of the year 2013-14. However, it was seen that the fund balances had declined from ₹ 15,654.68 crore in 2008-09 to ₹ 6,025.28 crore in 2013-14. Depreciation Reserve Fund and Capital Fund closed with balance of ₹ 1,021.38 crore and ₹ 557.32 crore respectively. Even the fund balance of ₹ 6,025.28 crore at the end of the year 2013-14 has been achieved by

not making payment of capital component of lease charges to IRFC<sup>22</sup> amounting to ₹ 12,629.49 crore during the period 2011-14, from Capital Fund. Further, contribution to Depreciation Reserve Fund was not made as per requirement.

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

1. Indian Railways borrows 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-Operating Expenses-Traffic). However, from the year 2005-06 the Accounting policy in respect of account of lease charges payable to IRFC was modified. As per new accounting system, Capital component was to be charged to Capital Fund (Grant No. 16) and interest component was to be charged to Revenue Grant No. 9. Audit observed that Ministry of Railways made payment of principal component of lease charges to IRFC from 2005-06 to 2010-11 from Capital Fund. However, thereafter due to negative balance/insufficient balance under the Capital Fund, this payment was made from 'Capital'<sup>23</sup> by the Ministry of Railways. This was in violation of their accounting policy. Ministry of Railways made payment of ₹ 12,629.49 crore to IRFC from Capital instead of Capital Fund during 2011-12 to 2013-14. 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. Due to payment of principal component of lease charges to IRFC (₹ 4,970.87 crore) during 2013-14 from Capital, IR paid ₹ 248.54 crore 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 2013-14, an amount of ₹ 8,100 crore was appropriated to DRF against the Budget Estimate of ₹ 7,700 crore. Audit observed that against throw forward value of ₹ 47,310.94 crore, the Ministry of Railways had spent ₹ 7,119.91 crore (15.05 per cent of the throw forward value) on replacement of the assets, from DRF during 2013-14. 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

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<sup>22</sup> *Payment of Principal component of lease charges to IRFC is being paid from Capital Fund from 2005-06 onwards.*

<sup>23</sup> *Capital represents the amount advanced by the Government of India to Ministry of Railways as General Budgetary Support to finance Capital Expenditure and Ministry of Railways pays dividend thereon at the rate fixed by the Railway Convention Committee.*

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 2013-14 in respect of Central, Eastern, North Central, North Eastern, North Western, South Central, South Eastern, South East Central, South Western, Western, West Central Railways, Integral Coach Factory (ICF), Central Organization for Railway Electrification (CORE) and MTP/Chennai.

### 1.12 Comments on Accounts

#### Persistent deficiencies

- **Re-imbusement of operating losses to Railways on Strategic Lines-**  
The losses on operation of Strategic lines by the Railways is reimbursed by the Ministry of Finance. Audit observed that though five sections of Northeast Frontier Railway viz-Rangapara-Tezpur, Balipara-Bhalukpong, Samuktala-New Bongaigaon (Double line), New Jalpaiguri-Ambari Falakata (Double line) and Siliguri Jn-New Jalpaiguri had not been notified as Strategic Lines, the Ministry of Railways is getting reimbursement of losses on these sections.

In this connection, a reference is invited to audit observations No. 3.6.2 (a) and 3.5.5 of Report No. 33 of 2010-11 and Report No. 3 of 2012-13 on Railways Finances respectively wherein it was stated that IR has been claiming subsidy on five sections of Northeast Frontier Railway considering those as 'Strategic Lines' without any notification. IR in response to audit observations had stated that necessary action was being taken to get the specific notifications issued for these sections as strategic lines.

However, during audit of accounts of IR for the year 2013-14, it was again observed that the notifications of these lines as strategic lines is still pending despite being pointed out by Audit continuously. Further, the IR was still claiming reimbursement of losses on strategic lines from Ministry of Finance considering these lines as strategic lines. IR in response to audit observations stated (January 2015) that the matter has been taken up with the Ministry of Defence for its notification.

- **Mismatch in balances under different heads shown in the Debt Head Report (Review of Balances) and Balance Sheet**

A report on the balances under the 'Debt Heads' forms part of the Finance Accounts. This report depicts the year end balances under 'Small Savings, Provident Fund', 'Deposits and Advances', 'Loans and Advances' and Remittances Inter-Government Adjustment accounts'. These heads are also depicted in the Balance Sheet of IR which forms part of the Appropriation Accounts.

In this connection, a reference is invited to audit observations No.3.5.4 of Chapter 3 of the Report No.3 of 2012-13-Railways Finances wherein the matter of reconciliation of these heads of account was raised. Ministry of Railway in its ATN stated that the efforts are being made to reconcile the figures.

However during the audit of accounts of IR for the year 2013-14 it was again observed that the balances for the year ended 31 March 2014 shown in the two accounts under the Heads viz Loans and Advances, General Provident Fund, Depreciation Reserve Fund, Railway Development Fund, Railway Pension Fund and Staff Benefit Fund do not tally and therefore need reconciliation. A disclosure to this effect is also required to be made in the accounts of IR.

**Other deficiencies**

➤ **Unauthorized opening of sub-heads and detailed heads of Accounts**

As per the provisions of Rule 6 of Government Accounting Rules, 1990, w.e.f 1982-83, the Ministry of Railways have been delegated functions of the Central Government under Article 150 of the Constitution in so far as such functions relate to the opening of sub-heads and detailed heads of Accounts under various Major and Minor heads of Accounts pertaining to their department subject to the conditions that powers shall be exercised in consultation with the accredited Audit Officer namely ADAI (Railways) and orders so issued should be consistent with the instructions as envisaged in Rule 5. Audit observed that the Ministry of Railways had opened sub-heads and detailed heads<sup>24</sup> of Accounts without consultation of audit. As the power for opening these heads *suo motto* has not been delegated to Ministry of Railways, this action is highly irregular.

➤ **Appropriation of funds under Depreciation Reserve Fund (DRF)**

Railway maintains DRF for replacement and renewal of assets. This fund is financed by transfers from revenues charged to the working expenses of the Railways. In addition, a contribution to this fund is made by a per contra charge to the cost of the production in respect of the depreciation of assets of production units. The annual contribution to the DRF from revenues is an important item of expenditure affecting safety of the running of the trains by replacing the overaged assets timely as discussed in sub para (2) of the preceding paragraph 1.11.

➤ **Appropriation of funds under Pension Fund**

Para 339 of Finance Code-Volume-I, interalia provides that estimate amount of Appropriation to the Pension Fund is based on actuarial calculations to provide for liability arising from pensionable service rendered by railway employees for varying periods. Where such actuarial calculations are not complied, the appropriation is made on an adhoc basis to be suitably reassessed in due course.

However, after 1974, there was no actuarial calculation and contribution to the fund continued to be with reference to the trend of actual withdrawals. Actuarial assessment done in year 2005 placed the accrued liability of pension of ₹ 5,41,947 crore. An audit comment in this regard was made in the Para No.1.8.6 of Report No. CA 19 of 2008-09 (Railways). Ministry in its ATN stated that appropriation to this fund is basically being made on need-cum-availability basis. During 2013-14 also, an amount of ₹ 25,165

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<sup>24</sup> *Sub head 590 and detailed heads 591 and 592 in Grant No.8 opened in November 2010 for Linen Management, detailed head Z-657 opened in April 2011 for Deposit Residual/Depreciated value of Laptop/Notebook.*

crore was appropriated to Pension Fund against the Budget Estimate of ₹ 22,315 crore. The withdrawals from this fund during 2013-14 was to the tune of ₹ 24,761.34 crore and the fund closed at ₹ 419.04 crore at the end of 2013-14. Audit observed that Ministry of Railways has continued with the system of appropriation to fund on need-cum-availability basis in violation of their own codal provisions.

Thus, IR is neither complying with its own codal provision nor disclosing this fact in its Accounts.

➤ **Anomaly in printed figures and audited figures of Zonal Railways included in the printed books of accounts**

Provisions of Rule 18 of Government Accounting Rule 1990 stipulate that the financial results of government undertaking should be expressed in normal commercial form so that the cost of the service or undertaking may be accurately known. Rule 36 provide that department or departmental undertaking of government functioning on commercial lines should observe the essential formalities of commercial accounts to the extent prescribed by the government. In such cases separate commercial account of the department or undertaking should be kept outside the regular government accounts. IR being a departmental commercial undertaking of the Government of India prepares capital and revenue accounts at zonal railways level to facilitate a review of the finances of the railways as a commercial undertaking.

The Balance Sheet, Profit and Loss Accounts and Block Accounts etc. are prepared by the Zonal Railways and Production Units and the same are audited/certified by the respective Principal Directors of Audit. However, audit observed that there are differences in amounts certified by zonal audit offices under various heads of Balance Sheet, Block Account and Profit and Loss Account of zonal railways and the amounts appearing in printed books of Appropriation Accounts of Zonal Railways and production units by the Ministry of Railways. These anomalies in figures have regularly been pointed out by Audit. However, the differences are neither reconciled nor disclosed in the books of accounts of IR.

➤ **Payment of dividend to General Revenues**

Railway Convention Committee allows a moratorium on payment of dividend on investment in New Lines during the period of construction and for the first five year after opening of line for traffic. Cumulative dividend is payable when the line shows surplus after meeting current liability. The account of such deferred dividend liability on New Lines is to be closed after a period of 20 years from their opening, extinguishing any liability not liquidated within that period. The exemption of payment of dividend (deferred dividend) is recorded as 'Subsidy received from General Revenues' under 'Miscellaneous Receipts' in the accounts of Indian Railways.

Audit observed that the zonal railway administrations have not followed the above recommendations in the following cases:

In Eastern Railway, the Lakshmikantapur-Namkhana New Line was completed and opened to traffic in December 2005. However, the dividend

payment on this New Line is still being deferred by the Eastern Railway administration. ER administration in its reply stated that the drawl of Completion Report of the New Line Lakshmikantapur-Namkhana is not feasible as the material modification of Namkhana-Chandranagar New line is in progress. The reply of ER administration is not tenable as the New Line Namkhana-Chandranagar is a separate new section and the New Line Lakshmikantapur-Namkhana has already been opened to traffic and thus the deferred dividend liability on this New line is to required to be paid after payment of current dividend.

- In North Central Railway, two New lines namely Guna-Etawah and Mathura-Alwar were opened to traffic on 31-12-1993 and 2-10-1994 respectively but the dividend was deferred even after five years of opening to traffic.
- In North Western Railway, Kolayat-Phalodi New Line was opened to traffic on 5-7-2007. Payment of dividend become due after five years of opening to traffic but no calculation has been made by the railway administration.

### **1.13 Conclusions**

During 2013-14, Total Working Expenditure increased by 16.80 *per cent* (₹ 18,748.71 crore) as compared to 13.08 *per cent* growth rate of previous year. Gross Traffic Receipt increased by 12.79 *per cent* as compared to 18.85 *per cent rate* of previous year. The Net Surplus decreased by 54.75 *per cent* over the previous year. The Gross Traffic Receipt and Net Surplus were also below the budget projections by 2.91 *per cent* and 71.55 *per cent* respectively.

IR has not been able to meet their operational cost of passenger and other coaching services. There was cross-subsidization from freight services to passenger services. IR earned profit of ₹ 33,221.24 crore from freight traffic on one hand and incurred loss of ₹ 26,025.46 crore on operation of passenger and other coaching services on the other hand during 2012-13. There is an improvement in recovering the cost of passenger services. The percentage of cross subsidization from freight earnings to passenger and coaching services has also decreased in 2012-13, thereby showing an improvement in operational profit.

At the end of the year 2013-14, railway funds closed with balance of ₹ 6,025.28 crore. The fund balances improved by ₹ 1,951.87 crore over the previous year balance of ₹ 4,073.41 crore. Development Fund closed at ₹ 3,053.02 crore and the Capital Fund at a meager balance of ₹ 557.32 crore. A positive balance in the 'Railway Funds' was due to not making the payment of ₹ 12,629.49 crore to IRFC (towards principal component of lease charges) during the period from 2011-2014 from Capital Fund. The payment to IRFC was made from the Capital advanced by the Government of India as General Budgetary support on which five *per cent* dividend is payable to GoI. This arrangement made borrowings from IRFC more expensive.

Ministry of Railways had spent ₹ 7,119.91 crore on replacement of the assets against throw forward value of ₹ 47,310.94 crore from DRF during 2013-14.

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 appropriation to pension fund is also not done on the basis of actuarial valuation. This was in violation of their own codal provision of Para 339 of Finance Code-Volume-I.

The operating ratio deteriorated from 90.19 *per cent* in 2012-13 to 93.60 *per cent* in 2013-14. 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 238 paise in 2012-13 to 279 paise in 2013-14 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 is indicative of poor financial health of IR. Financial Adviser & Chief Accounts Officer (FA&CAO) at Zonal Railways and Financial Commissioner (Railways) in Railway Board should explore ways and means to improve their fund balances.